TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS

BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED FEBRUARY 29, 2004

TABLE OF CONTENTS

This section of the Toll Road Enterprise Fund of Harris County (the "Authority") financial statements presents management's discussion and analysis ("MD&A") of the financial performance of the Authority during the fiscal year ended February 29, 2004.

The Authority is an enterprise fund of Harris County, Texas (the "County") and is included in the County's financial statements. This analysis presents information about the Authority and the operations and activities of Authority only and is not intended to provide information about the entire County.

FINANCIAL HIGHLIGHTS

- At the end of the current fiscal year, the total net asset of the Authority was $47,667,183, which represents an increase of $10.7 million from the prior year. The increase was a result of toll rate increase on November 1, 2003.

- The $13.5 million loan to General Fund and $15 million loan to Fort Bend County were repaid to the Authority during the current fiscal year.

- During fiscal year 2004, the Authority issued $321,500,000 in refunding tax bonds. Debt service for such bonds is financed through the proceeds from bonds, including the interest earned thereon and through toll revenue. Note 8 to the financial statements provide further details on the new debt issuances.

- On December 17, 2002, Harris County Commissioners Court approved a cooperative agreement between Harris County, the Texas Department of Transportation and the Federal Highway Administration that allows for four managed lanes to be designed, built, operated, monitored, and maintained within the limits of Interstate Highway 10 from west of State Highway 6 to Interstate Highway 610. The total distance is approximately 12 miles and usage will be known as value pricing/congestion pricing or peak period pricing, which will entail fees or tolls for usage in the four managed lanes. Harris County's financial commitment of $237,500,000 will span nine payments over a five-year period. The first installment payment of $37,500,000 was paid to the Texas Department of Transportation ("TxDOT") in May 2003. The next installment of $25,000,000 is due September 1, 2005.

- As of February 29, 2004 the life-to-date capitalized cost related to the Westpark Tollway is $259,123,460. Westpark Tollway construction is in two phases. Phase I extends from IH-610 West to SH6 for a distance of approximately 12 miles and Phase II extends approximately 3 miles from SH6 to FM 1464. Phase 1 construction began in fiscal year 2001 and Phase II construction began in the fall of 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of 1) Financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows and 2) Notes to the basic financial statements.

Financial Statements for the Authority include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. Since the Authority is an enterprise fund, the financial statements of the Authority are presented on the flow of economic resources measurement focus and use the accrual basis of accounting. Funds are a self-balancing set of accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate finance-related legal compliance. The Authority is used to account for the acquisition, operation and maintenance of toll roads within Harris County.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 14 through 30 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year the Authority has applied Governmental Accounting Standard Board ("GASB") Statement No. 34. Net assets may serve over time as useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $47,667,183 as of the fiscal year ended February 29, 2004 and $36,965,294 as of the fiscal year ended February 28, 2003.

Harris County Toll Road Enterprise Fund
Statement of Net Assets
February 29, 2004 and February 28, 2003
(Amounts in thousands)

	2004	2003
Current restricted assets	$ 575,107	$ 673,145
Capital assets, net	1,328,146	1,181,674
Other non-current assets	57,018	19,030
Total assets	1,960,271	1,873,849
Current liabilities - restricted	130,696	130,540
Non-current liabilities	1,781,908	1,706,344
Total liabilities	1,912,604	1,836,884
Net assets:		
Invested in capital assets, net of related debt	(358,531)	(379,121)
Restricted net assets	406,198	416,086
Total net assets	$ 47,667	$ 36,965

The largest portion of the Authority's net assets for fiscal year 2004 represent restricted net assets, which are subject to external restrictions on how they may be used. The Authority's restricted net assets are for capital projects, debt service and other purposes. The restricted net assets for other purposes may be used as follows: (1) payment or provision for payment of senior indebtedness payable as a first charge on revenues; (2) to pay project expenses; (3) to establish and maintain an operating reserve equal to two months' project expenses; (4) to pay any senior indebtedness not a first charge on the revenues; (5) to make transfer to the debt service fund as required by the tax indenture; and (6) the balance, if any, shall be transferred to the surplus fund.

Another portion of the Authority's net assets for fiscal year 2004 reflects its investments in capital assets (e.g. land, improvements, buildings, equipment, infrastructure), net of accumulated depreciation less any outstanding related debt used to construct or acquire those assets. The main use of these capital assets is to provide services to citizens; consequently, these assets are not available for future spending. The net assets invested in capital assets deficit balances indicate that the net capital assets are less than the outstanding related debt. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table indicates changes in net assets for the Authority:

Harris County Toll Road Enterprise Fund
Statement of Activities
(In Thousands)
For the Years Ended February 29, 2004 and February 28, 2003

	2004	2003
Revenues:		
Operating revenues:		
Toll revenue	$ 265,913	$ 244,171
Nonoperating Revenues:		
Interest revenue	10,377	15,928
Other	714	124
Total revenues	277,004	260,223
Expenses:		
Operating Expenses:		
Salaries	23,070	20,457
Materials and supplies	12,322	5,462
Services and fees	24,876	20,925
Utilities	1,518	1,193
Transportation and travel	345	299
Depreciation	42,519	42,376
Nonoperating Expenses:		
Interest expense	101,076	88,161
Amortization expense	1,070	911
Bad debt expense	6,729	943
Loss on disposal of capital assets	466	100
Total expenses	213,991	180,827
Income before contributions and transfers	63,013	79,396
Contributions	15,189	5,048
Transfers out	(67,500)	(20,058)
Change in net assets	10,702	64,386
Net assets (liabilities) - beginning	36,965	(27,421)
Net assets - ending	$ 47,667	$ 36,965

Revenues and Contribution

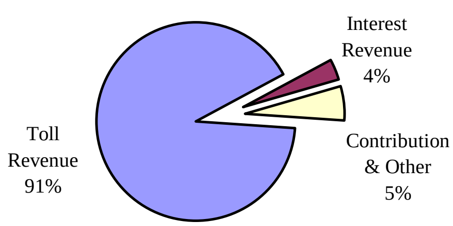
Total revenues and contributions for fiscal year 2004 were $292,193,930, an increase of $26,922,681 (or 10%) in revenues and contribution from fiscal year 2003 of $265,271,249.

The largest revenue source is toll revenue of $265,913,082 or 91% of total revenues and contributions. Although it only shows a 1% increase in total revenues and contributions, toll revenues increased by $21,742,337 (or 9%) from fiscal year 2003. This is due to a toll rate increase.

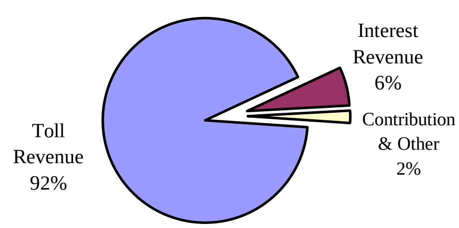
Contributions and other revenues totaled $15,904,096 or 5% of total revenues and contributions. Contributions of $15,189,452 for fiscal year 2004 increased by 201% over fiscal year 2003 contributions of $5,048,100. This is due to a larger portion of Federal and State shares recognized on toll road projects based on the projects' percentages of completion. Other revenues of $714,644 for fiscal year 2004 increased by $590,481 over fiscal year 2003 of $124,163. Other revenues are receipts for building rent and miscellaneous fines and fees other than toll payments.

Interest revenue for fiscal year 2004 totaled $10,376,752 or 4% of total revenues. This is a decrease of $5,551,489 from fiscal year 2003 of $15,928,241. The decrease is attributable to lower interest rates and less money in interest bearing accounts.

REVENUES BY SOURCE
Year ended February 29, 2004



REVENUES BY SOURCE
Year ended February 28, 2003



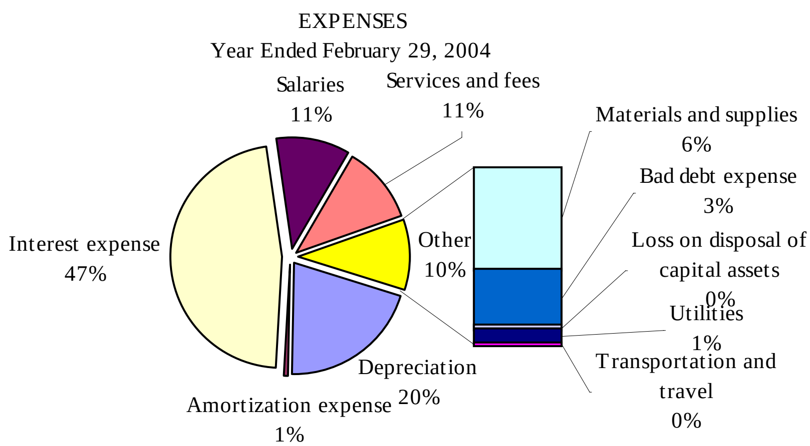
Expenses

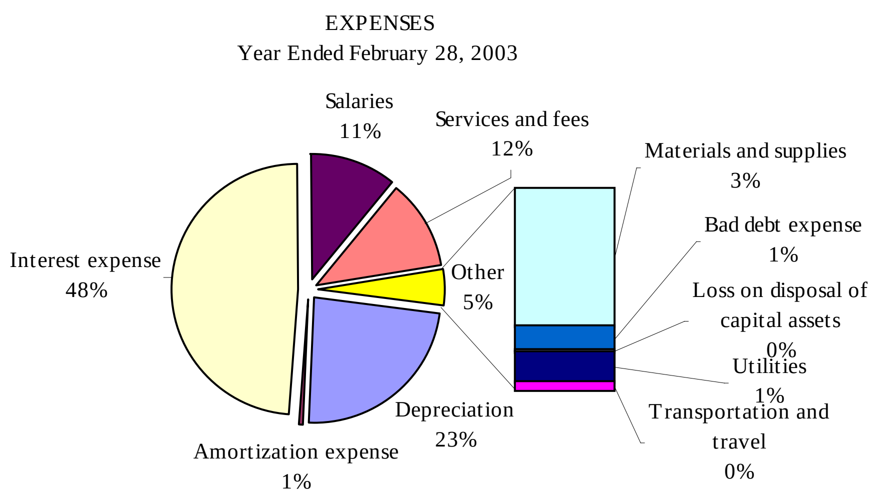
For fiscal year ended February 29, 2004, expenses totaled $213,992,041, an increase of $33,164,510 (or 18.3%) in expenses from fiscal year 2003 of $180,827,531.

Interest expense of $101,075,728 is the Authority's largest expense category at 47% of total expenses. Interest expense reflects the interest and fees on outstanding debt charged in the year.

Other expense of $21,380,709 or 10% of total expenses consists of materials and supplies, bad debt expense, loss on disposal of capital assets, utilities, and transportation and travel. This expense category increased by $13,383,116 from fiscal year 2003 of $7,997,593. The largest amount of the increase, $6,860,045, was in materials and supplies. The increase is due to several purchases of items that did not meet the criteria to be classified as capital assets. Bad debt expense increased by $5,786,647 due to an increase in the allowance for bad debts. The remaining $736,427 increase of the other expense category consists of increases in loss on disposal of capital assets, utilities, and transportation and travel expenses.

The remaining 43% of expenses consisted of salaries (11%), service fees (11%), depreciation (20%) and amortization expense (1%). All of these expense categories were reasonable in comparison to the prior year.





Transfers Out

On April 18, 2001, the Commissioners Court approved a $20 million annual allocation distributed in the amount of $5 million per precinct, for the funding of non-toll County roads that connect or enhance the traffic flow to toll facilities. In fiscal year 2004, the amount per precinct for such purposes was increased to $15 million and an additional $7.5 million was allocated to the Public Infrastructure Department for other toll road project purposes, aggregating a total of $67.5 million. The funding increase was approved by the Commissioners Court on September 9, 2003.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets, net of accumulated depreciation as of February 29, 2004 and February 28, 2003, amounted to $1,328,146,799 and $1,181,674,001, respectively. These capital assets include land, buildings, equipment, and infrastructure. The Authority's capital assets increased $146,472,798 or 12.4% over fiscal year 2003.

Major capital asset events during fiscal years 2004 and 2003 included the following:

- The Authority capitalized $97,663,937 and $114,009,727 costs for fiscal year 2004 and 2003, respectively, for the construction of the Westpark Tollway. Westpark Tollway Phase I was completed in May 2004 and Phase II is expected to be completed in the second quarter of 2005.

- The Authority began several construction projects, including the Barker Cypress, Fort Bend Westpark, IH10 Toll, Hardy Downtown Extension, Fort Bend Parkway Extension, construction of additional lane capacity for Sam Houston Tollway, Riley Fuzzel Road, Sam Houston Tollway South Mainline Toll Plaza and Administration Office parking lots, Hardy Toll Road pavement repair and/or additions from Greens Road to FM 1960, Hardy Screen Wall, and the Dairy Ashford Center renovation. Costs capitalized in 2004 and 2003 for these projects were $21,958,542 and $16,828,967, respectively.

- The Authority recognized construction costs in the amount of $2,943,288 during 2004 and $1,598,823 during 2003 related to the direct connector between Eastbound Beltway 8 and Northbound Hardy Toll Road, and $11,640,086 during 2004 and $7,516,667 during 2003 related to SH 249 Direct Connectors partnered with the Texas Department of Transportation.

For further information regarding capital assets and construction in progress, see Notes 6 and 7 to the financial statements.

	Balance February 29, 2004	Balance February 28, 2003
Business-type Activities:		
Land	$ 366,091	$ 366,091
Right-of-way	233,253,301	202,479,271
Costruction in progress	336,589,620	202,383,769
System integration in progress	8,569,814	4,494,865
Land improvements	694,561	-
Other tangible assets	514,250	-
Buildings	7,886,328	4,823,458
Equipment	8,975,818	9,905,731
Roads and bridges	1,227,607,879	1,212,467,506
	1,824,457,662	1,636,920,691
Less: Accumulated depreciation	(496,310,863)	(455,246,690)
Totals	$ 1,328,146,799	$ 1,181,674,001

Long-term debt

At the end of the fiscal year, the Authority had total outstanding debt (bonds, net of deferred amount on refunding) of $1,843,564,702. This represents a $61,532,012 increase from last fiscal year. During 2004, the Authority issued $321,500,000 Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2003 to refund all of the County's outstanding Toll Road Unlimited Tax and Subordinate Lien Revenue Adjustable/Fixed Rate Bonds, Series 1994 B-H, at a redemption price equal to 100% of the principal amount and to pay certain costs incurred in connection with the issuance of the bonds. Refer to Note 8 to the financial statements for further detail on the Authority's long-term debt.

	Outstanding at February 29, 2004	Outstanding at February 28, 2003
Business-type Activities:		
Bonds payable	$ 1,736,776,059	$ 1,781,309,595
Commercial paper payable	106,270,000	-
Compensatory time payable	518,643	414,378
Totals	$ 1,843,564,702	$ 1,781,723,973

ECONOMIC FACTORS

- Additional non-toll highways, roads and streets, or improvements and expansions to existing free highways, roads and streets that may be constructed by the County, TxDOT, the City of Houston or other public entities may adversely affect the usage of the toll road. TxDOT continues to improve and expand IH-45 and US 59. In particular, IH-45 offers free highway competition to the Hardy Toll Road. Improvements over the past few years to IH-45 from its interchange with Sam Houston Tollway-West/North Section/Sam Houston Parkway to FM 1960 have enhanced mobility along that segment of the highway.

- Metro, a regional transit authority, currently operates an extensive bus fleet serving Harris County and all of the City of Houston. Metro offers "park-and-ride" services, which include free automobile parking at suburban Metro lots and bus service to and from Houston's central business district in competition with the Hardy Toll Road. Metro's "park-and-ride" service from its most distant lot near the intersection of IH-45 and FM 1960 to downtown Houston, utilizing IH-45's free "authorized vehicle lane", competes for a portion of the traffic that could otherwise be expected to utilize the Hardy Toll Road.

- Westpark Tollway Phase I was opened for business on May 16, 2004. This tollway is a four-lane, entirely automated toll road.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor's Office, 1001 Preston, Suite 800, Houston, Texas 77002, telephone (713)755-4832, or visit the County's website at www.co.harris.tx.us.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization **-** The Harris County Toll Road Authority (the "Authority") was created by Harris County, Texas, (the "County") by order of Commissioners Court on September 13, 1983, with the Commissioners Court designated as the governing body and the operating board of the Authority. The Authority is a department and fund of the County and is charged with overseeing the acquisition, construction, improvement, operation and maintenance of the County toll road facilities (the "Toll Road Project"). The Commissioners Court has full oversight responsibility for the Authority, and the Toll Road Project is an integral part of the County's financial statements. Construction of the Hardy Toll Road and the Sam Houston Tollway and acquisition of the Jesse H. Jones Toll Bridge, now referred to as the "Sam Houston Ship Channel Bridge" (the "Toll Roads") have been financed with a combination of unlimited tax and subordinate lien revenue bonds and senior lien revenue bonds. When all of the debt service, as discussed in Note 8, has been paid or provided for in a trust fund, the Toll Roads will become a part of the State of Texas Highway System.

The County purchased the Sam Houston Ship Channel Bridge (the "Bridge") on May 5, 1994. The County issued $232,326,713 Toll Road Unlimited Tax and Subordinate Lien Revenue Bonds to pay the costs of acquiring the Bridge spanning the Houston Ship Channel from the Texas Turnpike Authority and to complete construction of a portion of Beltway 8 East approaching the Bridge. In conjunction with the acquisition of the Bridge, the Texas Department of Transportation ("TxDOT") agreed to fund the lesser of 50% or $90,000,000 of the Authority's total construction costs eligible for Federal Aid reimbursement. As of February 29, 2004, the Authority had been paid $86,221,447 by TxDOT.

During fiscal year 2001, the Authority began construction of the Westpark Tollway, which will allow traffic to flow from State Highway 6 at the western terminus of the project, eleven miles to the intersection of Richmond Avenue and Post Oak Boulevard at the eastern terminus of the project. The total estimated cost of the project is $326,000,000.

Implementation of New Standards **-** In the current year, the County implemented the following new standards:

The Government Accounting Standards Board ("GASB") has issued Statement No. 39 ("GASB 39"), Determining Whether Certain Organizations are Component Units. GASB 39 requires state and local governments to report legally separate, tax exempt organizations as discrete component units if they meet the following criteria:

- The economic resources raised and held by the affiliated organization almost entirely is for the benefit of the Authority.
- The Authority is entitled to or has the ability to access the funds raised by the affiliated organization.
- The funds held by the affiliated organization are material to the Authority's financial statements.

Management of the Authority does not believe that the implementation of this standard has an impact on the Authority's financial statements.

Basis of Presentation and Measurement Focus- The accompanying basic financial statements have been prepared on the full accrual basis of accounting as prescribed by the GASB. Full accrual accounting uses a flow of economic resources measurement focus. Under this measurement focus, the Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Authority presents its financial statements in accordance with GASB 34 guidance for governments engaged in business-type activities. Accordingly, the basic financial statements and required supplementary information ("RSI") of the Authority consist of Management's Discussion and Analysis ("MD&A"), Statement of Net Assets, Statement of Revenues, Expenses and Change in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements.

<u>Enterprise Fund</u> – The financial statements of the Authority are presented on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recognized in the period earned. The Authority's operating revenues are derived from charges to users of the Toll Roads in the County. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources to the extent they are needed.

Expenses are recognized in the period incurred. The Authority's operating expenses consist primarily of direct charges attributable to the operations of the Authority, including depreciation. Interest expense and other similar charges not directly related to the Authority's operations are reported as non-operating expenses.

Deposits and Investments – Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date of 90 days or less from date of purchase. All investments are recorded at fair value based upon quoted market prices as of the Authority's fiscal year end, with the difference between the purchase price and market price being recorded as interest income.

State statutes authorize the Authority to invest in fully collateralized or insured time deposits, direct debt securities of the United States or its Agencies, investment grade commercial paper, money market mutual funds and fully collateralized repurchase agreements. County policy requires that repurchase agreements must be purchased pursuant to a master repurchase agreement which specifies the rights and obligations of both parties and which requires that the securities involved in the transaction be held in a safekeeping account subject to the control and custody of the County. The margin requirement for all repurchase agreements is that market value must be at least 101% of the purchase price. Investments in repurchase agreements may be made only through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in the state of Texas with which the County has signed a master repurchase agreement.

Restricted Assets – Certain assets of the Authority are required to be segregated under terms of various bond indentures. These assets are legally restricted for certain purposes, including operations and maintenance, debt service and construction. The Authority purchased surety policies to satisfy certain reserve fund requirements. During the fiscal year ended February 29, 2004, the Authority was in compliance with these covenants.

In the financial statements, restricted net assets are reported for amounts that are externally restricted by 1) creditors (eg. bond covenants), grantors, contributors, or laws and regulations of other governments or 2) law through constitutional provision or enabling legislation.

Capital Assets – Capital assets include land, buildings, equipment and infrastructure that are used in the Authority's operations and benefit more than a single fiscal year. Infrastructure assets are long-lived assets that are generally stationary in nature and can typically be preserved for a significantly greater number of years than other capital assets. Infrastructure assets of the Authority include roads, bridges and right-of-way.

Capital assets of the Authority are defined as assets with individual costs of $5,000 or more and estimated useful lives in excess of one year. Exceptions to the $5,000 capitalization threshold are as follows: all land is capitalized, regardless of historical cost; the threshold for capitalizing buildings is $100,000 and the threshold for infrastructure ranges from $25,000 to $250,000, depending on the asset.

All capital assets are stated at historical cost or estimated fair market value at the date of purchase. Donated fixed assets are stated at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset ranging from 3 to 45 years. Roads are depreciated over a 30-year useful life. Equipment is depreciated over 3 to 20 years, depending on the type. Buildings are depreciated over 45 years. Prior to fiscal year 2003, buildings were depreciated over 30 years. The change in estimated useful lives of building and equipment resulted from the County's adoption of GASB 34.

The Authority capitalizes, as a cost of its constructed property, the interest expense and certain other costs of bonds issued for construction purposes less the interest earned on the proceeds of those bonds from the date of the borrowing until the date the property is ready for use. All interest expense, interest earnings and the amortization of related bond costs were capitalized until September 1987 when the first of four sections of the Toll Road was opened for operations. Prior to fiscal year 2001, net interest and other bond costs have been capitalized based on the percentage of miles of the uncompleted sections to the total miles of the project. Since fiscal year 2001, interest had been capitalized based on the weighted average accumulated expenses multiplied by the weighted average interest rate. Such capitalization increased the total cost of assets constructed by the Toll Road Project by $764,043 during fiscal year 2004.

Contributions – Federal, State or other government contributions to the Toll Road project are recognized based on the project percentage of completion.

Deferred Charges - Deferred charges consist of bond issuance costs that are amortized on a straight-line basis over the term of the bonds.

Premiums (Discounts) on Bonds Payable - Premiums (discounts) on bonds payable are amortized using the effective interest method over the term of the bonds.

Risk Management - The Authority's risk-of-loss exposures include exposure to liability and accidental loss of real and personal property as well as human resources. Toll Road operations involve a variety of high-risk activities including, but not limited to, cash collections, construction and maintenance activities. The County's Office of Risk Management is responsible for identifying, evaluating and managing the Authority's risk in order to reduce the exposure from liability and accidental loss of property and human resources. The Authority is treated as a County department by the County's Risk Management Office and is assessed premiums and charges similar to those assessed to other County departments.

The Authority is covered by the Harris County workers' compensation program. The County is self-insured for workers' compensation medical and indemnity payments. Claims adjusting services are provided by a third-party administrative claims adjusting service. Interfund premiums on workers' compensation are determined by position class code, at actuarially determined rates.

The County has reinsurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the fiscal year ended February 29, 2004 was $850,000 per occurrence. No claims settled during the last three fiscal years have exceeded this coverage.

Through the County, the Authority provides medical, dental, vision and basic life and disability insurance to eligible employees and retirees. The Authority pays the full cost of employee and retiree coverage and 50% of the cost of dependent premiums. The disability insurance will pay up to 50% of an employee's salary for two years with an employee option to extend the benefits period to age 65 and increase the percentage to 60%.

The Authority's group insurance premiums, as well as employee payroll deductions for premiums for dependents and optional coverages, are paid into the County's Risk Management Internal Service Fund, which in turn makes disbursements to contracted insurance providers based upon monthly enrollment and premium calculations.

Billings to the Authority for property insurance, professional liability insurance and crime and fidelity policies are handled through the County's Risk Management Fund as are payments to the insurance carriers. Claim payments made up to the deductible limit are expensed by the Authority when paid by the Risk Management Fund. Payments for the Authority's general, vehicle and property damage liability claims, for which the County is self-insured, are made through the Risk Management Fund and billed to the Authority.

Compensated Absences - Accumulated compensatory leave, vacation and sick leave are recorded as an expense and liability as the benefit accrues for the employee.

Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 480 sick leave hours. Unused sick leave benefits are not paid at termination. Employees with more than one year of service accrue from two to four weeks of vacation per year, depending on years of service. Unused vacation benefits lapse at calendar year end and upon termination except for exempt employees who may convert such benefits to compensatory time, subject to the 240-hour maximum. A liability for vacation earned, but not taken, has been recorded.

Nonexempt employees earn compensatory time at one-and-a-half times their full pay times the excess of 40 hours worked. The compensatory time balance for nonexempt employees may not exceed 240 hours. Hours in excess of the 240-hour maximum must be paid to the nonexempt employee at the rate of one-and-a-half times the regular rate. Upon termination, compensatory time is calculated at the current rate of pay. Exempt employees earn compensatory time at one times their full pay times the excess of 40 hours worked. Exempt employees can accumulate up to 240 hours of compensatory time. Upon termination, exempt employees are paid one-half of the compensatory time earned at the current wage rate. Compensatory time is carried forward indefinitely. Accordingly, a liability for compensatory time earned has been recorded.

Statements of Cash Flows - All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Bond Refunding Losses - The difference between the reacquisition price and the net carrying amount of refunded debt is deferred and amortized in a manner that is systematic and rational over the remaining life of the old or new debt, whichever is shorter.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. DEPOSITS AND INVESTMENTS

The carrying amount of the Authority's deposits was $5,313,713 as of February 29, 2004. The bank balances as of February 29, 2004 was $1,690 and was covered by federal depository insurance or collateralized with securities held by the County's agent in the County's name.

At fiscal year end, investments consisted of U.S. government securities, commercial paper, municipal bonds and money market mutual funds. The investments are categorized to give an indication of level of risk, with Category 1 being the lowest risk and Category 3 the highest risk. The credit risks are as follows: (1) insured or registered, or securities held by the Authority's agent in the Authority's name; (2) uninsured or unregistered, with securities held in the trust department of the Authority's counterparty in the Authority's name; or (3) uninsured or unregistered, with securities held at the Federal Reserve or other third party in the account of the Authority's counterparty.

The Authority's investments including cash equivalents were categorized by risk level for fiscal year ended February 29, 2004 as follows:

	1	2	3	Fair Value
U.S Government Securities	$ 460,060,033	$ 9,948,378	$ -	$ 470,008,411
Commercial Paper	23,271,371	-	-	23,271,371
Municipals	58,213,453	-	-	58,213,453
Subtotal	$ 541,544,857	$ 9,948,378	$ -	$ 551,493,235
Investments not subject to categorization:				
Money market mutual funds				1,982,676
Total				$ 553,475,911

3. RECEIVABLES

Receivables at February 29, 2004, consist of the following:

Interest	$ 1,913,207
Due from primary government	661,818
Other	32,375
Customers	8,911,394
Allowance for doubtful accounts	(7,872,408)
Total	$ 3,646,386

4. OTHER ASSETS

Other assets as of February 29, 2004 are comprised of the following:

Prepaid surety expense	$ 757,297
Advance funding for Westpark project	1,425,078
Advance funding for SH249 direct connector	2,635,208
Advance funding for Beltway 8 project	4,431,378
EZ tag inventory	3,421,706
Total	$ 12,670,667

Advance payments were given to TxDOT for the Authority's funding participation for these projects. These advances are amortized and transferred to construction in progress based on the project percentage of completion.

EZ tags are recorded as inventory based on the number of tags as of February 29, 2004 multiplied by the weighted average unit price per tag.

5. INTANGIBLE ASSET

On December 17, 2002, the Commissioners Court authorized a tri-party agreement among Harris County, TxDOT and Federal Highway Administration to participate in the reconstruction of IH10 Katy Freeway. Under this agreement, the Authority will provide funding in the amount of $237.5 million, net of $12.5 million credit for design, construction, operation and maintenance of a Toll Facility. The Authority's financial commitment will span nine payments over a five-year period. The first installment payment of $37.5 million was paid to TxDOT in May 2003. The payments pay for the license to the real property within the limits of and for the right to operate the Toll Facility. Toll Revenues from the operation of the Toll Facility will be collected by the Authority until the County is paid in full. The Toll Facility will revert to the State when the County has been fully paid the reimbursement from revenue or upon payment by the State to the County of an amount equal to the difference between the total amount of the reimbursement and the actual amount paid to the County as of the date of such reversion. The Toll Facility may revert to the State at any time after such full payment, subject to the State giving the County 90 days' prior written notice.

6. CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2004 was as follows:

	Balance March 1, 2003	Additions/ Transfers	Adjustments/ Transfers	Balance February 29, 2004
Capital assets not depreciated:				
Land	$ 366,091	$ -	$ -	$ 366,091
Right of way	202,479,271	30,774,030	-	233,253,301
Construction in progress	202,383,769	150,040,784	(15,834,933)	336,589,620
System Integration in progress	4,494,865	4,074,949	-	8,569,814
Total capital assets not depreciated	409,723,996	184,889,763	(15,834,933)	578,778,826
Assets being depreciated:				
Land improvements	-	694,561	-	694,561
Other tangible assets	-	514,250	-	514,250
Buildings	4,823,458	3,062,870	-	7,886,328
Equipment	9,905,731	990,255	(1,920,168)	8,975,818
Roads and bridges	1,212,467,506	15,140,373	-	1,227,607,879
Total capital assets being depreciated	1,227,196,695	20,402,309	(1,920,168)	1,245,678,836
Less accumulated depreciation for:				
Land improvements	-	(10,781)	-	(10,781)
Other tangible assets	-	(34,283)	-	(34,283)
Buildings	(764,354)	(587,760)	-	(1,352,114)
Equipment	(5,637,718)	(856,661)	1,454,579	(5,039,800)
Roads and bridges	(448,844,618)	(41,029,267)	-	(489,873,885)
Total accumulated depreciation	(455,246,690)	(42,518,752)	1,454,579	(496,310,863)
Total capital assets being depreciated, net	771,950,005	(22,116,443)	(465,589)	749,367,973
Total capital assets, net	$ 1,181,674,001	$ 162,773,320	$ (16,300,522)	$ 1,328,146,799

7. CONSTRUCTION IN PROGRESS

Construction in progress as of February 29, 2004 totaled $345,159,434. The major projects are described in the following paragraphs:

Construction of the Westpark Tollway, which will allow traffic to travel from State Highway 6 through the intersection of Richmond Avenue and Post Oak Boulevard, began in fiscal year 2001. The capitalized costs for the project include engineering, design fees and capitalized interest. Capitalized cost related to the Westpark Tollway was $97,663,937 as of February 29, 2004.

The Authority began several construction projects during the prior years. These projects are Hardy Extension, Barker Cypress, Ft Bend Tollway, Beltway 8 Tollway, construction of additional lane capacity for Sam Houston, Riley Fuzzel Road, Pavement repair from Greens Road to FM1960, SH249 Direct Connector, and Westpark Center renovation. During the fiscal year 2004, the Authority began several projects. These projects are Fort Bend Parkway Extension, IH10 managed lanes, SH288 Brazoria, Airport connector enhancement, Ship Channel Bridge plaza, and Fellows Road overpass. The capitalized costs for the projects include engineering, design fees and capitalized interest. As of February 29, 2004 the following are life-to-date capitalized project costs:

Hardy Extension	$ 3,761,572
Barker Cypress thoroughfare	660,169
Fort Bend Tollway	4,602,745
Beltway 8 Tollway	10,864,796
Sam Houston additional lane capacity	26,413,282
Riley Fuzzel Road	3,061,152
Pavement Improvement from Greens Road to FM 1960	287,048
SH249 direct connector	19,156,753
Westpark Center renovation	142,014
Fort Bend Parkway Extension	5,513,667
IH10 managed lanes	925,777
SH288 Brazoria	444,040
Airport connector enhancement	572,900
Toll Bridge plaza modification	818,952
Fiber optic	9,017
Fellows Road overpass	232,277
	$77,466,161

The County entered into several agreement with TxDOT to construct a direct connector between Eastbound Beltway 8 and Northbound Hardy Toll Road, a direct connector between State Highway 249 and the Sam Houston Tollway and a local transportation advance funding project agreement. According to the agreement, TxDOT will contribute \$6,000,000, \$15,000,000 and \$19,772,235 to fund the direct connector project between Eastbound Beltway 8 and Northbound Hardy Toll Road, the direct connector project between State Highway 249 and the Sam Houston Tollway and the local transportation advance funding project, respectively. As of February 29, 2004, the projects' percentages of completion were 100%, 75% and 35%, respectively. Accordingly the Authority has recognized TxDOT's contribution based on the projects' percentages of completion.

8. TAX BONDS, REVENUE BONDS AND COMMERCIAL PAPER

The Authority has financed the Toll Road Projects with a combination of unlimited tax and subordinate lien revenue bonds, senior lien revenue bonds, and commercial paper. The proceeds from such bonds, including the interest earned thereon, are being used to finance the construction costs, the related debt service, and a portion of the maintenance and operating expenses.

A. Long-Term Debt

Changes in the Authority's Long-Term Debt for fiscal years as shown below were as follows:

	Outstanding March 1, 2003	Issued/ Increased	Paid/ Decreased	Principal* Amortization/ Adjustment Net Premium Discount	Outstanding February 29, 2004	Due Within Year
Revenue Bonds	$ 987,038,880	$ -	$ (17,530,000)	$ (914,441)	$ 968,594,439	$ 19,730,000
Tax Bonds	805,644,850	321,500,000	(329,453,831)	(16,236,641)	781,454,378	7,164,679
Deferred Amount on Refunding	(140,996,870)	(1,302,047)	11,020,280	-	(131,278,637)	-
Accrued Interest Payable	129,622,735	106,406,159	(118,023,015)	-	118,005,879	34,346,653
Total Bonds Payable	1,781,309,595	426,604,112	(453,986,566)	(17,151,082)	1,736,776,059	61,241,332
Commercial Paper Payable	-	106,270,000	-	-	106,270,000	-
Compensatory Time Payable	414,378	474,010	(369,745)	-	518,643	414,914
Total-Toll Road Fund Debt	$ 1,781,723,973	$ 533,348,122	$ (454,356,311)	$ (17,151,082)	$ 1,843,564,702	$ 61,656,246

B. Outstanding Bonded Debt – February 29, 2004 – Pertinent Information by Issue

Issue	Interest Rate Range (%)	Term Issue	Maturity	Special Conditions	Outstanding Balance, February 29, 2004
Senior Lien Revenue Bonds					
Series 1994	4.75 - 5.50	1994	2021	Current Interest Bonds, Maturity 1994-2021	$ 503,885,000
Series 1994A (portion refunded in 1997 and 2002)	5.60 - 5.70	1994	2005	Current Interest Bonds, Maturity 1994-2024	3,500,000
Series 1997	4.50 - 5.13	1997	2024	Current Interest Bonds, Maturity 1997-2024	63,900,000
Series 2002	5.00 - 5.38	2002	2032	Current Interest Bonds, Maturity 1997-2032	396,645,000
Total Senior Lien Revenue Bonds					$ 967,930,000
Plus Unamortized Premium, Net					664,439
Net Senior Lien Revenue Bonds					$ 968,594,439

Issue	Interest Rate Range %	Term Issue	Maturity	Special Conditions	Outstanding Balance February 29, 2004
Unlimited Tax and Subordinate Lien Bonds (Tax Bonds)					
Series 1985 (portion refunded in 1988 and 1992)	10.0	1985	2004	Compound Interest Bonds, payable upon maturity 1996-2004	$ 710,246
Refunding Bonds, Series 1991	18.89 - 25.23	1991	2008	Compound Interest Bonds, payable upon maturity 2001-2008	3,695,000
Refunding Bonds, Series 1992A (portion refunded in 1997 and 2002)	11.81 - 14.04	1992	2008	Compound Interest Bonds, payable upon maturity 1997-2008	6,070,000
Refunding Bonds, Series 1992B (portion refunded in 1997 and 2002)	14.95 - 16.07	1992	2008	Compound Interest Bonds, payable upon maturity 1997-2008	1,067,488
Series 1994A (portion refunded in 1997)	6.00 - 6.30	1994	2007	Compound Interest Bonds, payable upon maturity 2001-2007	15,828,994
	6.50 - 8.00	1994	2024	Current Interest Rate Bonds - maturity 2008-2024	59,925,000
Series 1995A	27.59 - 38.11	1995	2012	Compound Interest Bonds, payable upon maturity 2002-2012	1,000,000
Refunding Bonds, Series 1997	17.58 - 33.92	1997	2013	Compound Interest Bonds, payable upon maturity 1998-2013	1,500,000
	5.00 - 5.13	1997	2024	Current Interest Bonds - maturity 2014-2024	150,395,000
Refunding Bonds, Series 2001	6.0	2001	2014	Current Interest Bonds - maturity 2009-2014	120,740,000
Refunding Bonds, Series 2002	4.00 - 5.25	2002	2015	Current Interest Bonds - maturity 2009-2014	42,260,000
Refunding Bonds, Series 2003	4.00 - 5.00	2003	2033	Current Interest Bonds - maturity 2009-2033	321,500,000
Total Tax Bonds					$ 724,691,728
Plus: Unamortized Premium					56,762,650
Net Tax Bonds					$ 781,454,378
Total - Toll Road Bonded Debt					$ 1,750,048,817

C. Covenants and Conditions

The Senior Lien Revenue Bonds are payable from operating revenues generated from the Toll Roads. The Tax Bonds are secured by and payable from a pledge of the County's unlimited ad valorem taxing power and are also secured by a pledge of and lien on the revenues of the Toll Roads, subordinate to the lien of the Senior Lien Revenue Bonds. The Authority has covenanted to assess a maintenance tax to pay project expenses if revenues, after paying debt service, are insufficient. The Authority also has covenanted to collect tolls to produce revenues at the beginning of the third fiscal year following completion of the Toll Roads equal to at least 1.25 times the aggregate debt service on all Senior Lien Revenue Bonds accruing in such fiscal year. The 1.25 revenue coverage covenant went into effect during fiscal year 1994. The revenue coverage ratio was 3.74 of February 29, 2004.

D. Debt Service Requirements

Total interest expense was $90,869,566 for the fiscal year. The following are the debt service requirements for bonds payable:

Fiscal Year	Principal**	Interest	Total
2005	26,894,679	118,601,622	145,496,301
2006	27,165,251	118,248,320	145,413,571
2007	29,367,906	116,315,084	145,682,990
2008	30,693,227	115,448,788	146,142,015
2009	37,960,665	109,643,782	147,604,447
2010-2014	414,690,000	396,447,052	811,137,052
2015-2019	454,770,000	227,567,247	682,337,247
2020-2024	354,010,000	117,922,104	471,932,104
2025-2029	163,955,000	58,137,556	222,092,556
2030-2034	153,115,000	17,425,401	170,540,401
Total	$ 1,692,621,728	$ 1,395,756,956	$ 3,088,378,684

**Does not include unamortized premiums and discounts

E. Unissued Authorized Bonds

In an election held on September 13, 1983, the voters of the County endorsed using toll roads to alleviate the County's traffic problems by authorizing the County to issue up to $900,000,000 of bonds secured by a pledged of its unlimited ad valorem taxing power. As of February 29, 2004, the unissued authorized bonds for the toll road project is $17,673,000.

F. Defeasance of Debt

In the current year and prior years, the Authority has defeased certain bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. As of February 29, 2004, the outstanding principal balance of these defeased bonds was $1,099,352,000.

G. Refunding

On July 30, 2003, the County issued $321,500,000 Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 2003 to refund all of the County's outstanding Toll Road Unlimited Tax and Subordinate Lien Revenue Adjustable/Fixed Rate Bonds, Series 1994B-H, at a redemption price equal to 100% of the principal amount thereof and to pay certain costs incurred in connection with the issuance of the bonds. In connection with this refunding, the Authority deposited $321,721,962 of proceeds in the irrevocable trust to defease the refunded bond.

The refunding of Toll Road Unlimited Tax and Subordinate Lien Revenue Adjustable/Fixed Rate Bonds, Series 1994B-H resulted in the recognition of an accounting loss of $487,930. This loss is reported in the accompanying financial statements as a deduction from bonds payable and is being amortized through the fiscal year 2021. No economic gain or loss resulted from the refunding, because the refunded bond had a variable interest rate determined weekly by Bankers Trust Securities Corporation and J.P. Morgan Securities Inc. and was based upon current yields on short-term tax-exempts obligations. The variable interest rate ranged from 0.90% to 1.45% in fiscal year 2004.

H. Commercial Paper

In addition to the outstanding long-term debt of the Authority, the Commissioners Court has established a Commercial Paper program secured by and payable from the Trust Estate which includes a gross pledge of Revenues of the Toll Road Project. The Commercial Paper program consists of Harris County Toll Road Senior Lien Revenue Notes, Series E in an aggregate principal amount not to exceed $150 million outstanding at any one time. As of February 29, 2004, the Authority has $106,270,000 outstanding Commercial Paper.

The purpose of the Series E Notes is to provide funding for costs of acquiring, constructing and improving Toll Road Project components, funding reserves, paying interest during construction and paying costs of issuance.

The Notes will be offered at par only, will mature in not more than 270 days from the date of issue, and will pay par plus interest at maturity. Interest on the Notes is payable on an actual /365-day basis. The interest on the Notes may not exceed the lesser of 10% per annum or the maximum rate allowed by law. A minimum purchase of $100,000 aggregate principal amount and integral multiples of $1,000 in excess thereof is required.

The Notes will have a maximum maturity date of August 15, 2031 and no Series E Note shall (i) mature after the maximum maturity date, (ii) have a term in excess of 270 days, (iii) have a term beyond the third business day prior to the scheduled expiration date for the credit agreement relating to such Series E Note or (iv) be issue at any time that a “no issuance notice” has been issued by the Credit Provider pursuant to the credit agreement which provides that such Series E Note would not be entitled to the security provided by the credit agreement.

The Toll Road entered into a revolving credit agreement dated as of October 1, 2001 with Dexia Credit Local, whereby Dexia has agreed to advance up to $150 million to the Authority to pay the principal of any or all maturing Series E Notes as necessary for a period through October 27, 2004, which is the date of expiration. The Toll Road anticipates renewal of the credit agreement prior to the expiration date. For this agreement, the County will be assessed a fee of .125% per annum on the aggregate amount of the commitment. Advances received under the line of credit are payable in full no later than the earlier of 60 days after the date of such advance, unless converted to term loans pursuant to the agreement, or the revolving credit maturity date. The principal amount outstanding for Series E shall be paid three years from the date the term loan is made. Interest is payable monthly during the Term Loan Period at a rate equal to the base rate (which is the higher of (i) the Prime Rate or (ii) the Federal Funds Rate plus one-half of one percent) plus two percent per annum.

The following is a schedule of changes in commercial paper for the year ended February 29, 2004:

Balance March 1, 2003	Issued	Retired/ Refunded	Balance February 29, 2004	Due Within One Year
$ -	$ 106,270,000	$ -	$ 106,270,000	$ -

9. COMPENSATED ABSENCES PAYABLE

Changes in long-term compensated absences for the year ended February 29, 2004 were as follows:

Balance March 1, 2003	Earned	Taken/ Paid	Balance February 29, 2004	Due Within One Year
$ 414,378	$ 474,010	$ (369,745)	$ 518,643	$ 414,914

10. OTHER PAYABLES

Other payables are comprised of the following:

Customer deposits	$ 12,000,955
Deferred revenue	14,166,664
Total	$ 26,167,619

Customers who use the EZ tag program are assessed a $15 tag deposit fee and a $40 deposit to be used for toll road fees. The customer deposits represent the EZ tag deposits, and deferred revenues represent the customers' prepaid accounts. Toll charges are deducted from the customers' prepaid accounts when incurred and as the deposit drops below a specified amount, the Authority automatically charges the customer's credit card or direct debit the bank account.

11. RETIREMENT PLAN

***Plan Description* -** The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, defined benefit pension plan in the statewide Texas County and District Retirement System "TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 553 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar-year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCDRS since 1991, the County has had the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective January 1, 1995, the County adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period which began January 1, 1995 using the entry age actuarial cost method. Monthly contributions by the employer are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 2004 is 10.53%. The contribution rates for calendar years 2003 and 2002 were 10.31% and 9.86%, respectively.

The plan provisions are adopted by the Commissioners Court of the County, within the options available in the state statutes governing TCDRS ("TCDRS Act"). Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after eight years but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the County.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the Commissioner's Court of the County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy - The County has elected the annually determine contribution rate ("ACDR") plan provision of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The County contributed using 10.31% for the months of the accounting year in 2003, and 10.53% for the months of the accounting year in 2004.

The contribution rate payable by the employee members for 2004 and 2003 is the rate of 7% as adopted by Commissioner's Court. The employee contribution rate and the employer contribution rate may be changed by Commissioner's Court within the options available in the TCDRS Act.

Annual Pension Cost **-** For the County's accounting year ended February 29, 2004, the annual pension cost for the TCDRS plan for its employees, including the Authority, was $56,659,405 and the actual contributions for the Authority were $1,790,194.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2002 and December 31, 2003, the basis for determining the contribution rates for calendar years 2003 and 2004. The December 31, 2003 report is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/01	12/31/02	12/31/03
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period in years	20	20	20
Asset Valuation Method	Long-term appreciation with adjustments	Long-term appreciation with adjustments	Long-term appreciation with adjustments
Actuarial Assumption: Investment return (1) Projected salary increases (1) Inflation Cost of living adjustments (1) Includes inflation at the stated rate	 8.0% 5.5% 3.5% 0.0%	 8.0% 5.5% 3.5% 0.0%	 8.0% 5.5% 3.5% 0.0%

Harris County Trend Information			
Accounting Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2/29/2004	$56,659,405	100%	0
2/28/2003	$56,254,388	100%	0
2/28/2002	$48,448,052	100%	0

Schedule of Funding Progress			
Actuarial Valuation Date	12/31/01	12/31/02	12/31/03
Actuarial Value of Assets	$1,380,976,806	$1,484,207,932	$1,640,964,686
Actuarial Accrued Liability (AAL)	$1,578,523,738	$1,711,255,341	$1,848,669,873
Unfunded Actuarial Accrued Liability (UAAL)	$197,546,932	$227,047,409	$207,705,187
Funded Ratio	87.48%	86.73%	88.76%
Annual Covered Payroll (Actuarial)	$509,600,340	$537,829,236	$570,304,250
UAAL as Percentage of Covered Payroll	38.77%	42.22%	36.42%

12. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits described herein, the County provides certain retirement health care and life insurance benefits for retired employees. The authority under which the provision and obligation to contribute were established is the Commissioner's Court. County regulations allow all County employees to become eligible for these benefits after meeting the service and retirement age requirements of the County's retirement plan. These requirements, which were modified effective January 1, 1996, require 30 years of service, or 8 years of service and 60 years of age, or years of service plus age equal to 75 or more. The County pays 100% of the cost of medical and life insurance coverage for retirees. The Authority recognizes expenses for retirement benefits as paid, which during the fiscal year approximated $102,724. Presently, 25 retirees qualify for retirement benefits.

13. COMMITMENTS AND CONTINGENCIES

Construction Commitments

The Authority is committed under various contracts in connection with the construction of Authority facilities, buildings, and roads of $213,841,515.

Litigation and Claims

The Authority is involved in lawsuits and other claims in the ordinary course of operations. Although the outcome of such pending lawsuits and other claims are not presently determinable, management of the Authority believes that the resolution of these matters is not expected to have a materially adverse effect on the financial condition of the Authority.

Joint Deposit/Escrow Account

On July 23, 2002, the Commissioners Court approved an agreement for a joint deposit/ escrow account between the Authority and Metro and to deposit $13.8 million in the account. The Authority's construction and operation of toll road facilities within the Westpark Corridor will necessitate Metro's incurring architectural and engineering costs in connection with its future development of its public transit projects in the Westpark Corridor over and above the costs it would otherwise incur if no toll road facilities were constructed in the easements acquired by the Authority. The Authority has agreed to escrow funds to be made available to Metro for payment of such future increased costs.

14. NOTES RECEIVABLE

On April 7, 1998, the Commissioners Court approved an interfund loan from the Toll Road Enterprise Fund to the Harris County General Fund in the amount of $13.5 million to finance the payment of the settlement for a judgment against the County. A promissory note was executed requiring a three-year maturity with principal payable at maturity and an option to extend the note for an additional two years with principal due at the final maturity date. In April 2001, the note was extended for two additional years. The principal shall bear interest at a variable rate equal to the monthly weighted yield of the Authority's investment portfolio. Interest will be based on a 360-day year/simple interest payable on each one-year anniversary date of the note. The $13.5 million was repaid to the Authority in May 2003.

On April 30, 2002, the Commissioners Court approved a $15 million loan to Fort Bend County for the design, engineering, land acquisition and administrative cost related to the Fort Bend Parkway Toll Road project. A tri-party agreement was executed requiring the principal amount and interest on all funds loaned by the Authority to be reimbursed on the earlier (1) 30 days after the issuance of bonds to pay the construction of the Fort Bend Parkway Toll Road if bonds are sold to finance construction of the Fort Bend Parkway Toll

Road, (2) two years from the payment date, or (3) 120 days from the date of termination. The $15 million was repaid to the Authority in June 2003.

15. TRANSFERS

On April 18, 2001, the Commissioners Court approved a $20 million annual allocation for funding of a County thoroughfare program to enhance the traffic flow to current or proposed toll facilities. This allocation is available for each precinct in the equal amount of $5 million.

On September 9, 2003, the Commissioners Court approved an additional $47.5 million allocation for funding a County thoroughfare program.

16. SUBSEQUENT EVENTS

On March 11, 2004, the County issued $168,715,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2004A to refund all of the County's outstanding Toll Road Senior Lien Revenue Commercial Paper Notes, Series E, to provide for the capitalized interest on the Bonds, to satisfy the increase in the Debt Service Reserve Fund requirement and to pay costs incurred in connection with the issuance of the bonds.

On May 18, 2004, the County issued $478,270,000 Toll Road Senior Lien Revenue Refunding Bonds, Series 2004B-1, B-2 to refund and defease a portion of the County's outstanding Toll Road Senior Lien Revenue Bonds, Series 1994, to purchase bond insurance policies for the Bonds and to pay cost of issuance and refunding.

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Toll Road Enterprise Fund of Harris County, Texas

Financial Statements As of February 29, 2004 and for the Year Then Ended and Independent Auditors' Report

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF NET ASSETS
FEBRUARY 29, 2004

ASSETS	
Current restricted assets:	
Cash and cash equivalents (Note 2)	$ 30,478,332
Investments (Note 2)	528,311,292
Receivables, net (Note 3)	3,646,386
Other (Note 4)	12,670,667
Total current restricted assets	575,106,677
Non-current assets:	
Capital Assets: (Note 6)	
Land and rights-of-way	233,619,392
Construction in progress (Note 7)	345,159,434
Roads and bridges	1,227,607,879
Building, equipment and other asset	18,070,957
Accumulated depreciation	(496,310,863)
Intangible (Note 5)	37,500,000
Deferred charges, net of amortization	19,517,919
Total non-current assets	1,385,164,718
Total assets	1,960,271,395
LIABILITIES	
Current liabilities - payable from restricted assets:	
Vouchers payable and accrued liabilities	33,831,716
Retainage payable	8,270,977
Due to primary government	769,198
Bonds payable (Note 8)	26,894,679
Compensatory time payable (Note 9)	414,914
Accrued interest payable	34,346,653
Other (Note 10)	26,167,619
Total current liabilities	130,695,756
Non-current liabilities:	
Bonds payable (Note 8)	1,723,154,138
Commercial paper payable (Note 8)	106,270,000
Deferred amount on refunding loss	(131,278,637)
Compensatory time payable (Note 9)	103,729
Accrued interest payable	83,659,226
Total non-current liabilities	1,781,908,456
Total liabilities	1,912,604,212
NET ASSETS	
Invested in capital assets, net of related debt	(358,530,985)
Restricted for capital projects	27,436,439
Restricted for debt service	68,070,686
Restricted for other purposes	310,691,043
Total net assets	$ 47,667,183

See notes to financial statements.

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED FEBRUARY 29, 2004

OPERATING REVENUE	
Toll revenue	$ 265,913,082
OPERATING EXPENSES	
Salaries	23,070,478
Materials and supplies	12,322,317
Services and fees	24,876,579
Utilities	1,518,091
Transportation and travel	345,382
Depreciation	42,518,752
Total operating expenses	104,651,599
Operating income	161,261,483
NONOPERATING REVENUES	
Interest revenue	10,376,752
Other	714,644
Total nonoperating revenues	11,091,396
NONOPERATING EXPENSES	
Interest expense	101,075,728
Amortization expense	1,069,795
Bad debt expense	6,729,330
Loss on disposal of capital assets	465,589
Total nonoperating expenses	109,340,442
Income before contributions and transfers	63,012,437
Contributions	15,189,452
Transfers out (Note 16)	(67,500,000)
Change in net assets	10,701,889
Net assets, beginning of year	36,965,294
Net assets, end of year	$ 47,667,183

See notes to financial statements.

TOLL ROAD ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 29, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from toll	$ 265,913,082
Payment to Employees	(22,606,118)
Payment to Vendors	(26,050,105)
Internal Activity - Net Payments to Other Funds	(1,652,748)
Other Receipts (Payments)	9,462,162
Net cash provided by operating activities	225,066,273
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Loan to Fort Bend County	28,500,000
Contribution from other entity	267,270
Transfer to other funds	(67,500,000)
Net cash used for noncapital financing activities	(38,732,730)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(212,034,956)
Principal and escrow paid on capital debt	(347,205,792)
Interest paid on capital debt	(117,255,515)
Proceeds from capital debt	423,937,971
Bond issuance cost	(576,004)
Net cash used for capital and related financing activities	(253,134,296)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(588,266,090)
Proceeds from sale and maturity of investments	607,825,509
Interest received	10,002,906
Net cash provided by investing activities	29,562,325
Net change in cash and cash equivalents	(37,238,428)
Cash and cash equivalents, beginning	67,716,760
Cash and cash equivalents, ending	$ 30,478,332
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 161,261,483
Adjustments to operations:	
Depreciation	42,518,752
Other nonoperating revenues (expenses)	(6,014,686)
Changes in assets and liabilities:	
Receivables, net	3,748,383
Other assets	9,365,753
Vouchers payable and accrued liabilities	10,342,572
Retainage payable	3,029,788
Due to primary government	(1,626,805)
Other payables	2,336,769
Compensatory time payable	104,264
Net cash provided by operating activities	$ 225,066,273
Noncash operating, capital and related financing and investing activities	
Capital contribution received from other government	$ 14,922,182
Decrease in the fair market value of investments	1,083,797

See notes to financial statements.