

HARRIS COUNTY TOLL ROAD AUTHORITY
ENTERPRISE FUND

A DEPARTMENT OF HARRIS COUNTY, TEXAS

BASIC **FINANCIAL**
STATEMENTS



For the fiscal year ended
February 28, 2018

Prepared By:
Michael Post, CPA, MBA
County Auditor

***Toll Road Authority
Enterprise Fund of Harris
County, Texas***

*Financial Statements As of February 28, 2018
and for the Year Then Ended and Independent
Auditors' Report*

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
 BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED FEBRUARY 28, 2018**

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MICHAEL POST, C.P.A., M.B.A.
HARRIS COUNTY AUDITOR

August 22, 2018

Honorable District Judges of Harris County, Honorable Members of the Harris County Commissioners Court, and Citizens of Harris County, Texas

The Harris County Auditor's Office (the "Auditor's Office") is pleased to present the Basic Financial Statements of the Harris County Toll Road Authority Enterprise Fund (the "Authority"), a department of Harris County, Texas (the "County") for the fiscal year ended February 28, 2018. This report is submitted in accordance with Section 114.025 of the Texas Local Government Code and was prepared by the staff of the County Auditor's Office. The Basic Financial Statements of the Authority includes all disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities. The information and data contained herein are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Toll Road Authority in accordance with generally accepted accounting principles in the United States of America ("GAAP").

The Financial Statements consists of management's representations concerning the finances of the Toll Road Authority, a department of Harris County, and management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide reasonable basis for making these representations, management of the Toll Road Authority has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Authority's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

The Toll Road Authority's financial statements were audited by Deloitte & Touche LLP, an independent audit firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for fiscal year ended February 28, 2018, are free of material misstatement. The independent auditor concluded based upon the audit that there was a reasonable basis for rendering an unmodified opinion that the Toll Road Authority's financial statements are fairly presented in conformity with GAAP in all material respects. The independent auditor's report is presented as the first component of the financial section of this report. Management's discussion and analysis (MD&A), which immediately follows the independent auditor's report, provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE AUTHORITY

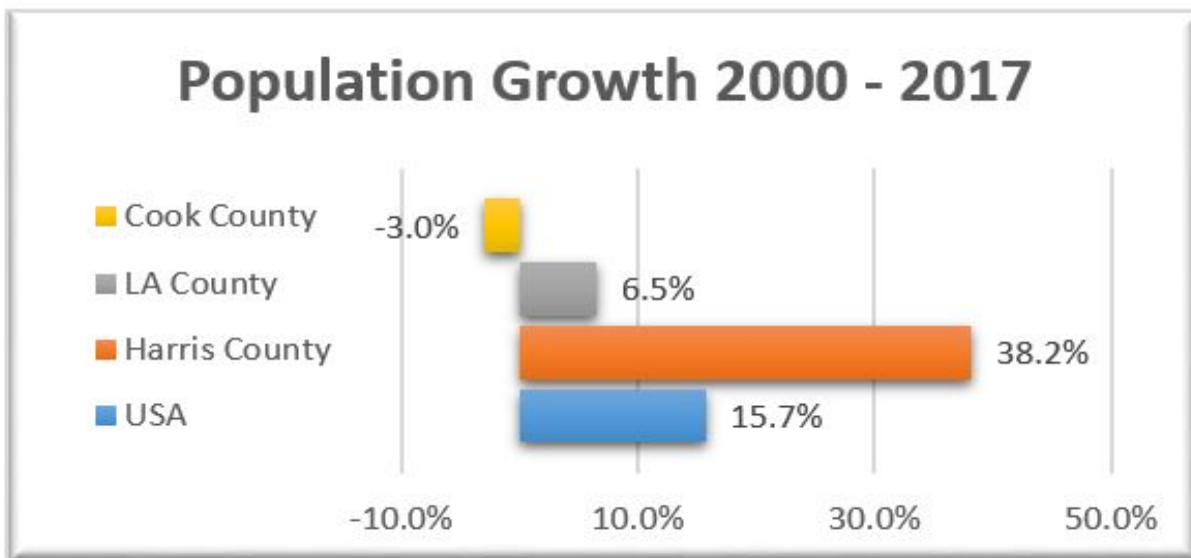
History, Location, and Population

The Harris County Toll Road Authority was established in 1983 by the Harris County Commissioners Court pursuant to Chapter 284 of the Texas Transportation Code. Also in 1983, Harris County voters

authorized issuance of up to \$900 million in bonds to construct, operate and maintain toll roads in Harris County.

The Harris County Toll Road Authority operates and maintains the roadways listed below. The six-mile Tomball Tollway opened in 2015 along the State Highway 249 corridor between Spring Cypress Road and Farm to Market Road 2920. The Katy Managed Lanes extend 12 miles from State Highway 6 to Interstate 610. The Sam Houston Tollway is the second-most outer loop encompassing the City of Houston and surrounding areas within Harris County and spans a distance of 70 miles. Harris County's 13 mile segment of the Westpark Tollway begins at Interstate 610 and extends to the County line and offering an alternative east-west corridor for West Houston residents. The Hardy Toll Road generally parallels Interstate 45 and spans approximately 21 miles with an additional 2 miles connecting it to George Bush Intercontinental Airport.

Harris County is located in the upper Gulf Coast in Southeast Texas approximately 50 miles from the Gulf of Mexico. The County's population has grown to an estimated 4.65 million residents. Harris County continues to be the nation's third largest county in terms of population and one of the fastest growing counties with 38% growth since 2000 and 67% growth since 1990. Over a 17-year period, Harris County's population has grown more than twice as fast as the nation's population. This growth has created transportation challenges that the Harris County Toll Road Authority is responding to by connecting communities and improving mobility through a commitment to excellence in the operation of a toll road system.



Authority Structure and Services

The Authority relies on charges from users of the toll road system to fund operations, debt service, and future projects.

The Authority is organized into multiple operating units, all of which report directly to the Executive Director: (i) Infrastructure Support; (ii) Engineering; (iii) Customer Service; (iv) Administrative Services and Toll Operations; (v) Finance; (vi) Communications; and (vii) Human Resources. As of February 28, 2018, the Authority currently has 1,022 employees of which 773 are full-time employees.

Budget Process

In accordance with Chapter 111 of the Texas Local Government Code, the County prepares and adopts

an annual operating budget, which serves as a financial plan for the Authority for the new fiscal year beginning March 1. The County Auditor is responsible for the preparation of the annual estimate of available resources for the County (including the Toll Road Authority) to be used in the preparation of the annual budget. The County budget (including the Toll Road budget) may not exceed the available resources of the County funds as determined by the County Auditor. After adoption of the budget by Commissioners Court, the County Auditor is responsible for ensuring the expenditures are made in compliance with budgeted appropriations. The level of budgetary control for the Toll Road Authority is at the fund level. Commissioners Court may also adopt supplemental budgets for the limited purposes of spending grant or aid money, for capital projects through the issuance of bonds, for intergovernmental contracts, and for new sources of revenue not anticipated at budget adoption. Encumbrance accounting is utilized to ensure effective budgetary control and accountability.

INFORMATION USEFUL IN ASSESSING ECONOMIC CONDITION

Local Economy

Economic conditions have a direct impact on the County's revenues and demand for services. Harris County has experienced tremendous growth since the start of the 21st century with an expanding, diversified local economy that has outperformed most of the country. The energy business has played a large part in this growth, along with the relatively low cost of living, affordable housing, and an expanding transportation system.

The Houston region is designated as the Houston-Woodlands-Sugar Land Metropolitan Statistical Area (MSA), and it comprises Harris County and eight other counties. The U.S. Bureau of Economic Analysis estimates metro Houston's Gross Domestic Product (GDP) at approximately \$478.6 billion. If the MSA were an independent nation, its economy would rank 24th largest in the world. Twenty companies on the 2017 Fortune 500 list are headquartered in the Houston area. No single industry dominates Houston employment.

In August 2017, historic levels of rain fell on Houston, Harris County, and the entire region as a result of Hurricane Harvey and caused major flooding throughout the region. The short-term impact of Harvey is likely to slow the growth of new residential construction in Harris County for 6-12 months since most of the manpower to build new homes is being consumed repairing existing flood damaged homes. Harris County was prepared for the impact of Hurricane Harvey and is well positioned financially to deal with ongoing challenges related to future unexpected events.

Oil prices have slowly climbed over the last fiscal year, with the December 2017 month-end price exceeding \$60 per barrel for the first time since June 2015. The current price of West Texas Intermediate (WTI) crude oil as of March 2018 is approximately \$65 per barrel, which is an increase from March 2017 per the U.S. Energy Information Administration.

The preliminary March 2018 unemployment rate (not seasonally adjusted) for the Houston MSA was 4.6% compared to the national average of 4.1%. The State's preliminary unemployment rate (not seasonally adjusted) for March 2018 was 4.1%. Both the Houston MSA and the State of Texas unemployment rates decreased from their March 2017 levels of 5.7% and 5.0%, respectively.

The Houston-Galveston-Brazoria, Texas area had a Consumer Price Index (CPI) that was 4.5% lower than other large urban areas as calculated for February 2018 by the Bureau of Labor Statistics. The Houston area's lower CPI is due in part to a lower CPI for housing, fuel, and utilities than other large urban areas.

Houston has one of the world's busiest ports and an excellent airport system that are integral components of the regional economy. The Port of Houston is the tenth largest port in the world. The Port of Houston

includes the Houston ship channel, which connects the Houston area terminals and the Gulf of Mexico, and is the location of one of the world's largest petrochemical complexes. The Houston Airport System includes three airports and has nonstop flights from Houston to 182 destinations and five continents. The airport system served 54.1 million passengers during 2017, of which 21% were international passengers.

Per the Multiple Listing Service of the Houston Association of Realtors, "the Houston real estate market achieved mixed results for the month of March 2018, with single-family home sales and total property sales down while pricing and total dollar volume were up compared to March 2017. The Houston real estate market experienced its first sales slowdown since Hurricane Harvey last August." Total property sales decreased 2.3%, total active listings decreased 4.6%, and total dollar volume of sales increased .7% during this time-period.

Financial Policies and Long-Term Financial Planning

The County will continue to focus on building a strong balance sheet to maintain both financial stability and current high bond ratings, as well as allocating resources to "be prepared" for floods, hurricanes, or similar unexpected events. The County has sufficient resources to cover current expenditures.

Key elements in maintaining the County's financial strength and high bond rating are the County's management of investments and debt (including the investments and debt of the Toll Road Authority). The Harris County Investment Policy, including investment strategies, is reviewed and approved at least annually by Commissioners Court. Additional information regarding the County's investment and debt management has been included in Note 2 of the notes to the Authority's financial statements, Deposits and Investments, and Note 7 of the notes to the Authority's financial statements, Long-Term Liabilities.

Risk management and self-insurance with stop-loss policies (as applicable) for medical, workers' compensation, and property continue to be effective. Various actuarial studies are periodically performed to aid in liability calculation, as well as financial planning.

The County provides retirement for all of its employees (excluding temporary employees) through the Texas County and District Retirement System (TCDRS). The County's net pension liability at February 28, 2018, was \$404,975,841, which includes the Authority's net pension liability of \$15,698,382. The County currently provides a postemployment healthcare plan; the net ending obligation for this postemployment healthcare plan was \$740,509,863 at February 28, 2018, which includes \$39,081,528 for the Authority. Additional information regarding the County's retirement plan and postemployment healthcare plan is located in Notes 8 and 9 of the notes to the Authority's financial statements.

Major Initiatives

The Harris County Toll Road Authority's Fiscal Year 2018-2019 capital improvement program includes:

- \$230 million budgeted for the Ship Channel Bridge (Sam Houston Tollway)
- \$60 million budgeted for the Tomball Partial Interchange
- \$32.1 million allocated for the Hardy Toll Road – Downtown Connector (Phase I)
- \$30.3 million for system-wide roadway improvements

ACKNOWLEDGMENTS

The timely completion of this report could not have been achieved without the dedicated efforts of the Auditor's Office and the professional services provided by our independent auditor, Deloitte & Touche LLP. I wish to express my gratitude to the Commissioners Court, District Judges, and other County officials and departments for their interest and support in planning and conducting the financial affairs of the Authority in

a responsible and professional manner.

REQUEST FOR INFORMATION

This financial report is designed to provide an overview of the Authority's finances for individuals who are interested in this information. Questions concerning any of the data provided in this report should be addressed to the County Auditor's Office, 1001 Preston, Suite 800, Houston, Texas 77002. Additional financial information is provided on the County Auditor's webpage, which can be accessed from the County's website, www.co.harris.tx.us.

A handwritten signature in blue ink that reads "Michael Post". The signature is written in a cursive style with a long horizontal stroke at the end.

Michael Post, CPA, MBA
County Auditor

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INDEPENDENT AUDITORS' REPORT

County Judge Ed Emmett
and Members of Commissioners Court of Harris County, Texas:

Report on the Financial Statements

We have audited the accompanying financial statement of net position of the Toll Road Authority (the "Authority" or "Toll Road") Enterprise Fund of Harris County, Texas (the "County"), as of February 28, 2018, and the related statements of revenues, expenses, and change in net position and of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Toll Road's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Toll Road as of February 28, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7-14, and the Other Postemployment Benefits – Schedule of Funding Progress, Schedule of Changes in Net Pension Liability and Related Ratios, and the Texas County and District Retirement System – Schedule of Employer Contributions on pages 47-50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Toll Road's basic financial statements. The Introductory Section and Other Information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory and Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Deloitte's Touche LLP

August 22, 2018

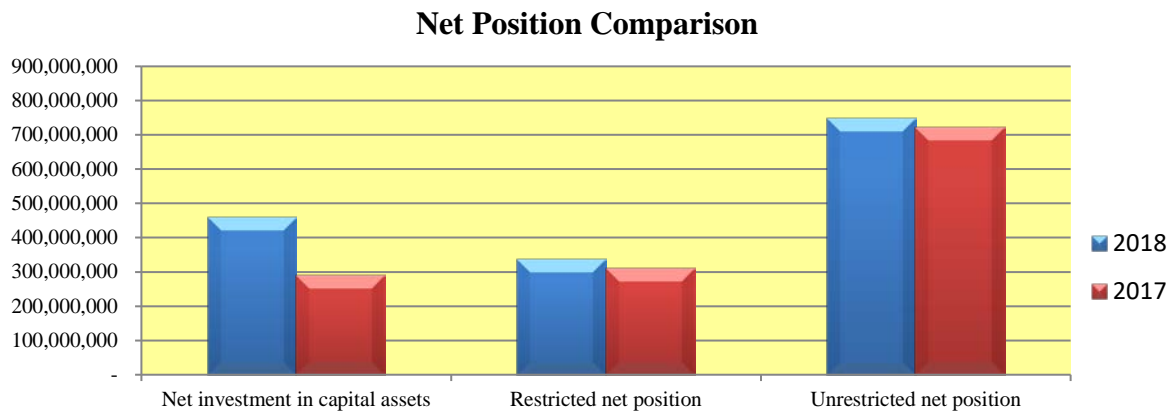
***Toll Road Authority Enterprise Fund of Harris County, Texas
Management’s Discussion and Analysis
Year Ended February 28, 2018
(Unaudited)***

This section of the Toll Road Authority Enterprise Fund of Harris County financial statements presents management’s discussion and analysis (“MD&A”) of the financial performance of the Harris County Toll Road Authority (“Authority”) during the fiscal year ended February 28, 2018.

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 its operations and activities only and is not intended to provide information about the entire County. Please read this section in conjunction with the financial statements and related footnotes following this section.

FINANCIAL HIGHLIGHTS

- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$460,022,588, includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets. This category of net position increased \$169,546,157 from the previous year, primarily due to various ongoing construction projects throughout Harris County related to the Toll Road.
 - (2) Net position of \$337,872,320 is restricted by constraints imposed from outside the Authority such as debt obligations, laws, or regulations. Restricted net position increased by \$28,223,356 from the prior year primarily due to the refunding and defeasance of certain outstanding bonds in debt service reserve.
 - (3) Unrestricted net position of \$749,091,223 represents the portion available to meet ongoing obligations of the Authority. Unrestricted net position increased \$27,089,436 from the previous year.



***Toll Road Authority Enterprise Fund of Harris County, Texas
Management's Discussion and Analysis
Year Ended February 28, 2018
(Unaudited)***

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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 and 2) Notes to the basic financial statements.

Financial Statements for the Authority include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. Since the Authority is an enterprise fund, its financial statements are presented with a 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 account for resources that are segregated for specific purposes in accordance with special regulations, restrictions, or limitations. 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 beginning on page 18 of this report.

FINANCIAL ANALYSIS

The total net position of the Authority as of February 28, 2018 was \$1,546,986,131 and \$1,322,127,182 for fiscal year ended 2017. Revenues exceeded expenses during the current year, increasing net position by \$224,858,949 from last year.

**Harris County Toll Road Authority Enterprise Fund
Condensed Statement of Net Position
February 28, 2018 and February 28, 2017
(Amounts in thousands)**

	2018	2017
Current assets	\$ 1,423,844	\$ 961,016
Capital assets, net	2,482,681	2,367,866
Other non-current assets	288,219	279,884
Total assets	<u>4,194,744</u>	<u>3,608,766</u>
Deferred outflows of resources	<u>108,792</u>	<u>134,456</u>
Current liabilities	249,178	232,003
Non-current liabilities	2,466,329	2,137,141
Total liabilities	<u>2,715,507</u>	<u>2,369,144</u>
Deferred inflows of resources	<u>41,043</u>	<u>51,951</u>
Net position:		
Net investment in capital assets	460,023	290,476
Restricted	337,872	309,649
Unrestricted	749,091	722,002
Total net position	<u>\$ 1,546,986</u>	<u>\$ 1,322,127</u>

***Toll Road Authority Enterprise Fund of Harris County, Texas
Management's Discussion and Analysis
Year Ended February 28, 2018
(Unaudited)***

The largest portion of the Authority's current fiscal year net position is unrestricted net position, which is used for the ongoing operations of the Authority. The remaining balance of the Authority's current fiscal year net position represents restricted net position, which are subject to external restrictions on how they may be used. The Authority's restricted net position is for capital projects, debt service, and operating reserve per debt covenant.

***Toll Road Authority Enterprise Fund of Harris County, Texas
Management's Discussion and Analysis
Year Ended February 28, 2018
(Unaudited)***

The following table reflects how the Authority's net position changed during the year:

**Harris County Toll Road Authority Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Position
(In Thousands)
For the Years Ended February 28, 2018 and February 28, 2017**

	<u>2018</u>	<u>2017</u>
Revenues:		
Operating revenues:		
Toll revenue	\$ 740,272	\$ 774,026
Intergovernmental revenue	-	19,176
Nonoperating Revenues:		
Investment income	13,473	7,001
Lease revenue	19	19
Miscellaneous revenue	1,032	-
Gain on disposal of capital assets	28	3,031
Total revenues	<u>754,824</u>	<u>803,253</u>
Expenses:		
Operating Expenses:		
Salaries	66,729	65,351
Materials and supplies	19,098	20,876
Services and fees	125,441	151,572
Utilities	3,241	3,788
Transportation and travel	4,844	6,980
Depreciation and amortization	104,187	106,852
Nonoperating Expenses:		
Interest expense	69,831	75,454
Bond Issuance Costs	3,404	3,234
Amortization expense	4,568	4,051
Loss on disposal of capital assets	1,007	328
Total expenses	<u>402,350</u>	<u>438,486</u>
Income before transfers	352,474	364,767
Transfers out	<u>(127,615)</u>	<u>(134,000)</u>
Change in net position	<u>224,859</u>	<u>230,767</u>
Net position - beginning	<u>1,322,127</u>	<u>1,091,360</u>
Net position - ending	<u>\$ 1,546,986</u>	<u>\$ 1,322,127</u>

Revenues

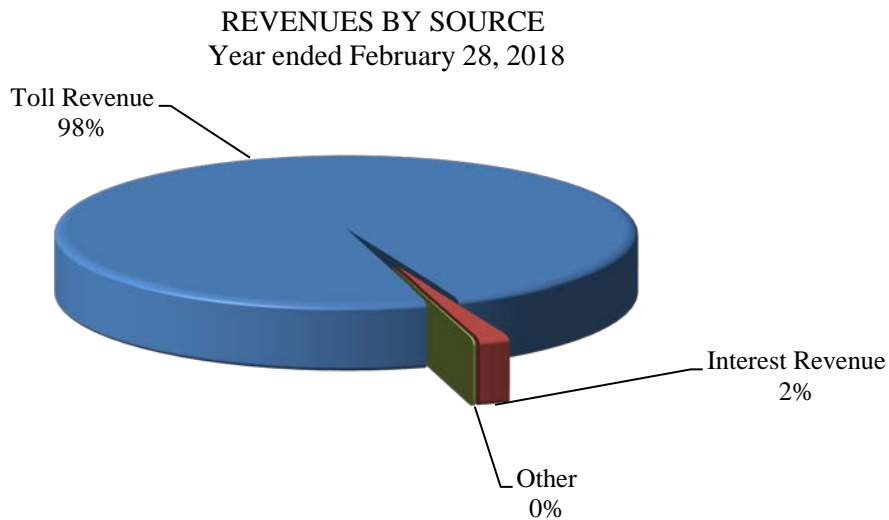
Total revenues for fiscal year 2018 were \$754,824,406, a decrease of \$48,428,189 compared to the previous fiscal year. Revenues from fiscal year 2017 was \$803,252,595.

The largest revenue source is toll revenue of \$740,272,353 or 98% of total revenues. This revenue category decreased \$33,753,605 from fiscal year 2017. There was an overall decrease of \$53.3 million from EZ tag fees, unpaid tolls, replacement identification fees, etc., and interlocal agreement programs due to the physical damage and regional disruption to the toll road system during Hurricane Harvey,

***Toll Road Authority Enterprise Fund of Harris County, Texas
Management’s Discussion and Analysis
Year Ended February 28, 2018
(Unaudited)***

which occurred in August 2017. The decrease was offset by increases noted at the Hardy Toll Road-North (\$5.1M), Sam Houston-North/East, (\$3.0M), Sam Houston-North (\$2.8M), Hardy Toll Road-South (\$2.7M), Sam Houston-East (\$2.2M), Katy Managed Lanes (\$2.0M), and Sam Houston Ship Channel Bridge (\$1.9M).

Interest revenue for fiscal year 2018 totaled \$13,472,769 and comprises 2% of total revenues. This revenue source increased by \$6,471,885 compared to fiscal year 2017 revenue of \$7,000,884, due to an increase in fair market value of investments from the prior year. Other revenues totaled \$1,079,284 or less than 1% of total revenues. Other revenue consists of lease revenue of \$18,900, gain on the disposal of capital assets of \$27,747, and miscellaneous revenue of \$1,032,637 for recovery and reimbursements of revenue losses.



Expenses

For fiscal year ended February 28, 2018, expenses totaled \$402,350,457 a decrease of \$36,135,217 compared to the prior fiscal year. In fiscal year 2017, expenses totaled \$438,485,674.

Services and fees of \$125,440,763 is the largest expense category and is 31% of total expenses. This decreased by \$26,131,287 primarily due to decreases in building, roads and bridges repair and maintenance, toll road banking fees and related items.

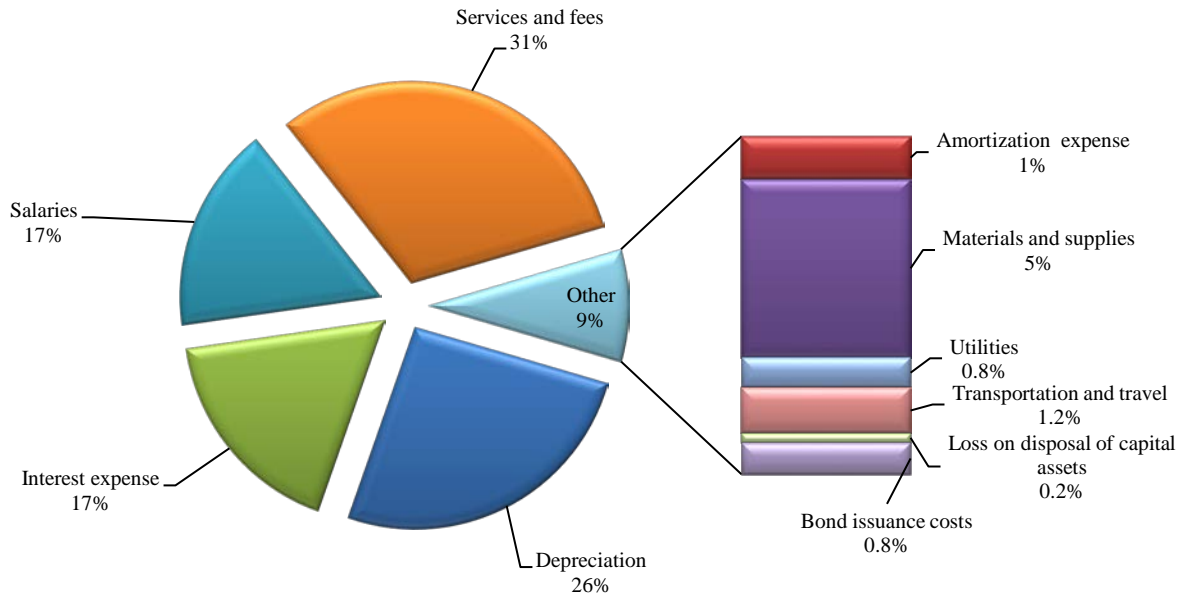
Interest expense of \$69,830,904 is one of the Authority’s largest expense categories and is 17% of total expenses. Interest expense reflects the interest and fees incurred on outstanding debt balances and activities during the year.

Salaries expense of \$66,729,515 or 17% of total expenses increased by \$1,378,162 from fiscal year 2017, due to the increase in merit and market salary increases in addition to committing consulting/traffic engineers on various construction projects.

***Toll Road Authority Enterprise Fund of Harris County, Texas
Management’s Discussion and Analysis
Year Ended February 28, 2018
(Unaudited)***

The remaining 35% of expenses consists of depreciation (26%), amortization expense (1%), and other expenses (8%) and consists of outlays relative to materials and supplies, utilities, transportation and travel, bond issuance costs and loss on disposal of capital assets. All of these expense categories are necessary for the operation of the toll road.

EXPENSES
Year Ended February 28, 2018



Transfers

Transfers consisted of transfers out of \$127,615,000, which was for funding a county thoroughfare program to increase general mobility.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority’s capital assets net of depreciation as of February 28, 2018 and February 28, 2017, amounted to \$2,482,680,816 and \$2,367,866,546, respectively. These capital assets include land, construction in progress, intangibles, buildings, equipment, and infrastructure. The Authority’s capital assets, net of accumulated depreciation/amortization increased \$114,814,270 from fiscal year 2017.

***Toll Road Authority Enterprise Fund of Harris County, Texas
Management's Discussion and Analysis
Year Ended February 28, 2018
(Unaudited)***

	Balance February 28, 2018	Balance February 28, 2017
Land	\$ 92,812,958	\$ 76,493,131
Easement	1,247,899	129,962
Right-of-way	276,696,094	276,696,094
Construction in progress	689,748,509	495,636,622
License agreement	237,500,000	237,500,000
Land improvements	18,865,805	18,865,805
Infrastructure	2,577,706,723	2,574,438,539
Other tangible assets	19,526,475	19,538,963
Buildings	18,248,694	18,226,713
Equipment	93,760,289	96,358,461
	<u>4,026,113,446</u>	<u>3,813,884,290</u>
Less: Accumulated depreciation/amortization	(1,543,432,630)	(1,446,017,744)
Totals	<u>\$ 2,482,680,816</u>	<u>\$ 2,367,866,546</u>

For further information regarding capital assets, see Note 6 to the financial statements.

Long-term liabilities

At the end of the fiscal year, the balance of the Authority's total outstanding long-term liabilities and deferred inflows of resources was \$2,569,119,623. Refer to Note 7 to the financial statements for further detail on the Authority's long-term liabilities.

	Outstanding at February 28, 2018	Outstanding at February 28, 2017
Bonds payable	\$ 2,488,846,262	\$ 2,176,172,225
Commercial paper payable	17,040,000	-
Compensatory time payable	1,069,276	1,119,161
OPEB obligation	39,081,528	33,926,229
Net pension liability	15,698,382	26,341,183
Pollution remediation obligation	7,384,175	822,925
Totals	<u>\$ 2,569,119,623</u>	<u>\$ 2,238,381,723</u>

The Authority has a continuing goal to upgrade the Authority's debt rating. The bond rating services of Moody's Investor's Service, Inc., Standard & Poor's Ratings Services, and Fitch IBCA, Inc. have assigned the Authority long term bond ratings of Aaa, AAA, and AAA, respectively, for the Unlimited Tax and Subordinate Lien Bonds and Aa2, AA-, and AA, respectively, for the Senior Lien Revenue Bonds.

See Note 9 and Note 8 to the financial statements for further information on the County's OPEB obligation and Net Pension Liability.

*Toll Road Authority Enterprise Fund of Harris County, Texas
Management's Discussion and Analysis
Year Ended February 28, 2018
(Unaudited)*

ECONOMIC FACTORS

- Harris County has a vibrant and diverse economy driven largely by the region's energy industry, international export and import shipping through the Port of Houston, two major airports, the Medical Center, and a variety of other industries. These other industries primarily include banking, technology, construction, manufacturing and education.
- The Houston region has recently experienced some of the highest population and Gross Domestic Product (GDP) growth rates in the nation. According to a forecast provided by the Houston Galveston Area Council, population in the Metro Houston area will grow by 1.1 million residents from the 2014 U.S. Census estimate through the year 2025. These underlying factors drive strong demand for transportation infrastructure in the region.
- METRO, a regional transit authority, currently operates an extensive bus and rail fleet serving Harris County and the City of Houston. METRO also 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. METRO's High Occupancy Toll ("HOT") lanes and expanded rail service provide some additional alternatives to the Toll Road System.

Major Construction Projects by The Authority:

The Authority continues to improve and expand the Toll Road System to meet growing demand. The following construction projects were underway in fiscal year 2018: 1) Hardy Toll Road extension from IH610 to downtown; 2) Ship Channel Bridge Project; 3) Tomball Tollway extension north of FM 2920 to the Harris County line; 4) Widening of the Sam Houston Tollway (Southeast) from SH288 to IH-45(S) to SH225.

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, or visit the County's website at www.co.harris.tx.us.

BASIC FINANCIAL STATEMENTS

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF NET POSITION
FEBRUARY 28, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 671,814,121
Investments	711,549,445
Receivables, net	14,956,520
Accrued interest receivable	2,062,581
Other receivables, net	13,116,287
Due from other governmental units	1,356,020
Prepays and other assets	3,471,353
Inventories	5,518,234
Total current assets	<u>1,423,844,561</u>

Non-current assets:

Restricted cash and cash equivalents	28,146,573
Restricted investments	260,019,230
Notes receivable	53,069

Capital Assets:

Land and construction in progress	1,060,505,460
License agreement, net of amortization	191,448,750
Other capital assets, net of depreciation	1,230,726,606
Total non-current assets	<u>2,770,899,688</u>
Total assets	<u>4,194,744,249</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refundings	71,373,332
Pension contributions after measurement date	846,860
Changes in pension assumptions	1,294,527
Unamortized costs on swap liability	35,277,338
Total deferred outflows of resources	<u>108,792,057</u>

LIABILITIES

Current liabilities:

Vouchers payable	56,972,226
Accrued payroll	3,905,942
Retainage payable	14,605,549
Customer deposits	161,106
Due to primary government	1,937,067
Due to other units	103,862
Unearned revenue	68,702,213
Current portion of long-term liabilities	102,790,386
Total current liabilities	<u>249,178,351</u>

Non-current liabilities:

Bonds payable	2,386,836,447
Pollution remediation payable	7,384,175
Compensatory time payable	288,705
Commercial Paper Payable	17,040,000
OPEB obligation	39,081,528
Net pension liability	15,698,382
Total non-current liabilities	<u>2,466,329,237</u>
Total liabilities	<u>2,715,507,588</u>

DEFERRED INFLOWS OF RESOURCES

Difference in projected and actual earnings on pension assets	3,881,942
Accumulated decrease in fair value of hedging derivatives	37,160,645
Total deferred inflows of resources	<u>41,042,587</u>

NET POSITION

Net investment in capital assets	460,022,588
Restricted for capital projects	9,452,505
Restricted for debt service	286,221,823
Restricted for operating reserve per bond covenant	42,197,992
Unrestricted	749,091,223
Total net position	<u>\$ 1,546,986,131</u>

See notes to the financial statements.

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED FEBRUARY 28, 2018**

OPERATING REVENUE	
Toll revenue	\$ 740,272,353
Total operating revenue	<u>740,272,353</u>
OPERATING EXPENSES	
Salaries	66,729,515
Materials and supplies	19,098,352
Services and fees	125,440,763
Utilities	3,241,369
Transportation and travel	4,843,908
Depreciation and amortization	104,186,939
Total operating expenses	<u>323,540,846</u>
Operating income	<u>416,731,507</u>
NONOPERATING REVENUES	
Investment income	13,472,769
Lease income	18,900
Miscellaneous income	1,032,637
Gain on disposal of capital assets	27,747
Total nonoperating revenues	<u>14,552,053</u>
NONOPERATING EXPENSES	
Interest expense	69,830,904
Bond issuance costs	3,403,805
Amortization expense	4,568,131
Loss on disposal of capital assets	1,006,771
Total nonoperating expenses	<u>78,809,611</u>
Income before transfers	352,473,949
Transfers out	<u>(127,615,000)</u>
Change in net position	224,858,949
Net position, beginning of year	<u>1,322,127,182</u>
Net position, end of year	<u><u>\$ 1,546,986,131</u></u>

See notes to the financial statements.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tolls	\$ 718,603,852
Payments to employees	(72,051,947)
Payments to vendors	(130,261,579)
Receipts from miscellaneous reimbursements	1,032,637
Net cash provided by operating activities	<u>517,322,963</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Internal payments to other funds	(19,377)
Payments to other governments	(6,881,786)
Transfers to other funds	(127,615,000)
Net cash provided by noncapital financing activities	<u>(134,516,163)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Receipts from lease of capital assets	18,900
Purchases of capital assets	(206,633,017)
Gain on disposal of capital assets	(27,748)
Principal and escrow paid on capital debt	(295,580,000)
Interest paid on capital debt	(90,418,871)
Proceeds from capital debt	656,909,915
Bond issuance cost	(3,403,805)
Net cash provided by capital and related financing activities	<u>60,865,374</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(795,366,288)
Proceeds from sale and maturity of investments	833,813,801
Interest received	21,184,074
Net cash provided by investing activities	<u>59,631,587</u>
Net change in cash and cash equivalents	503,303,761
Cash and cash equivalents, beginning	196,656,933
Cash and cash equivalents, ending	<u>\$ 699,960,694</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 416,731,507
Adjustments to operations:	
Depreciation and amortization	104,186,939
Other nonoperating revenues	1,032,637
Changes in assets and liabilities:	
Receivables, net	(11,729,260)
Notes and leases receivable	7,581
Prepays and other assets	35,810
Inventories	601,702
Vouchers payable and accrued liabilities	6,201,097
Retainage payable	3,805,994
Due to other units	30,598
Other liabilities	(37,111)
Pollution Payable	6,561,250
Unearned revenue	(9,946,822)
Compensatory time payable	(158,959)
Net cash provided by operating activities	<u>\$ 517,322,963</u>

Noncash operating, capital and related financing and investing activities:

Increase in fair value of hedging derivatives	\$ 13,800,170
Decrease in the fair value of investments	(5,161,579)
Purchase of capital assets on account	8,783,562

See notes to the financial statements.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Harris County Toll Road Authority (the “Authority” or “Toll Road”) was created by Harris County, Texas, (the “County”) by order of the Harris County Commissioners Court on September 22, 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, the Sam Houston Tollway, Westpark Tollway and Spur 90A 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 7, has been paid or provided for in a trust fund, the Toll Roads will become a part of the State of Texas Highway System.

Implementation of New Standards - In the current year, the Authority implemented the following standards issued by the Governmental Accounting Standards Board (“GASB”):

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (“GASB 74”), replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. Implementation of GASB 74 did not have an impact on the Authority’s financial disclosures.

GASB Statement No. 82, *Pension Issues* (“GASB 82”), addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*. Specifically, this Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, deviations from the guidance of the Actuarial Standards Board, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Implementation of GASB 82 did not have an impact on the Authority’s financial disclosures.

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.

The basic financial statements of the Authority consist of Management’s Discussion and Analysis (“MD&A”), Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

Enterprise Fund – 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.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018

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 or amortized cost 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 investment income.

Restricted Assets and Restricted Net Position– 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 28, 2018, the Authority was in compliance with these covenants.

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

Inventories – Inventory is stated at the lower of cost or market value, using the first-in, first-out method. EZ tags are recorded as inventory based on the number of tags by type (sticker, license plate, or motorcycle) as of February 28, 2018 multiplied by the cost per tag type.

Capital Assets – Capital assets include land, construction in progress, intangibles, 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, sewers 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 and easements are capitalized regardless of cost. Purchased software greater than \$100,000 is capitalized and internally developed software greater than \$1,000,000 is capitalized. 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 value at the date of purchase. Donated fixed assets are stated at their estimated acquisition 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. Infrastructure is 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. Amortization of the intangible license agreement is based upon the revenues received and will continue until the license is fully amortized.

Harris County (acting through the Harris County Toll Road Authority) entered into a tri-party agreement in March 2003 with Texas Department of Transportation (“TxDOT”), and Federal Highway Administration to participate in the reconstruction portion of the IH10 Katy Freeway. Under this agreement, the Authority funded \$237.5 million for the license to the real property for the right to operate the Toll Facility and paid an additional \$12.5 million for the design and construction, and other allowable expenses related to the Toll Facility.

In April 2012, Harris County approved a memorandum of understanding with TxDOT (the “MOU”) that contains a general outline for the development, funding, construction, operation and maintenance of toll projects for US 290, State Highway 288 and the tolled segments of the Grand Parkway. The County’s responsibilities were further clarified in subsequent agreements and actions with TxDOT, including an agreement with respect to the ownership and operation of the Katy Tollway (Managed Lanes). Below is a summary of the terms of the MOU and the subsequent agreements and actions.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018

The MOU specified that Harris County would provide \$400 million toward TxDOT's reconstruction of US290 from IH 610 to SH 99 and that the County would waive its primacy development rights for and decline to develop a toll facility along the Hempstead corridor of US 290. The reconstruction would include building a two to three lane reversible managed lane facility to accommodate both high occupancy vehicle (HOV) and toll traffic, as well as adding one general purpose lane in each direction. The MOU further provided that the County would operate and maintain the managed lanes facility and TxDOT would maintain the remainder of the US 290 facility. Harris County would retain all toll revenues for use on projects at the County's discretion.

Similar to the funding the County committed toward the IH10 Katy reconstruction program in 2003, the bi-annual installments were funded with revenues of the County's toll system. The current agreement specifies that the County has no obligation or responsibility for development, construction, installation, or operation of a reversible managed lanes facility on the US 290 project. The County further waived its primacy rights for the development of toll facilities in the US 290 and Hempstead Highway corridors. As consideration for the reduction in the County's commitment towards the US 290 project, the County agreed, subject to certain legal requirements, to transfer ownership and/or all responsibility for operation, maintenance and enforcement of the Katy Managed Lanes to the State of Texas in 2014. Negotiations on a definitive agreement with respect to the Katy Managed Lanes project occurred throughout 2015 and 2016, with the parties approving amendments to the terms governing the US 290 commitment with various target deadlines for completion of the proposed Katy Managed Lanes transaction, all of which have elapsed. Subsequently in March 2018, an agreement was reached between Harris County and TxDOT, via MOU, in which the Katy Managed Lanes will remain a Harris County Toll Road Authority (HCTRA) facility for the duration of the time that Harris County retains debt service related to the Katy Managed Lanes.

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 were 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 \$2,154,602 during fiscal year 2018.

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 excess insurance coverage for employer's liability. No claims settled during the last three fiscal years have exceeded this coverage.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018

Through the County, the Authority provides medical, dental, vision and basic life and disability insurance to eligible employees. The Authority pays the full cost of employee 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 coverage, are paid into the County's Health Insurance Management 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 absences 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 720 hours of sick leave. Unused sick leave benefits are not paid at termination. Employees accrue from three to ten hours of vacation per pay period depending on years of service and pay period type, standard versus extra. Employees may accumulate from 120 to 280 hours of vacation benefits, depending on years of service. Upon termination, employees are paid the balance of unused vacation benefits.

Non-exempt employees earn compensatory time at one and one-half times their worked hours in excess of 40 hours per week. Non-exempt employees may accrue up to 240 hours of compensatory time. Compensatory time in excess of the 240 hour maximum is paid at the regular rate of pay on the next pay period. Upon termination, non-exempt employees will be paid for any compensatory time balances.

Exempt employees earn compensatory time at a rate of one times their worked hours in excess of 40 hours a week. 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 wage rate at time of termination.

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.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority's deferred outflows, when applicable, consist of deferred charge on refundings, unamortized swap liability, pension contributions after measurement date, the differences in projected and actual earnings on pension assets, and changes in pension assumptions. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. The pension contributions after measurement date are deferred and recognized in the following fiscal year. The differences in projected and actual earnings on pension assets are amortized over a closed five year period. Pension assumption changes are recognized over the average remaining service life for all members.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018

net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority's deferred inflows, when applicable, consist of the changes in fair value of the Toll Road's hedging derivative instruments that are applicable to future reporting periods and differences in expected and actual pension experience which are amortized over a closed five-year period. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

Deposits: Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance (FDIC) is available for funds deposited at a financial institution up to a maximum of \$250,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available.

The custodial credit risk for deposits is the risk that the Authority will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. As of February 28, 2018, the balance per various financial institutions was \$677,909,350. The Authority's deposits are not exposed to custodial credit risk since all deposits are either covered by FDIC insurance or an irrevocable standby letter of credit with the Federal Home Loan Bank, in accordance with the Public Funds Collateral Act.

Investments: Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes Harris County to invest its funds pursuant to a written investment policy which primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity.

The Harris County Investment policy is reviewed and approved annually by Commissioners Court. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type, and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

AUTHORIZED INVESTMENTS

Funds of Harris County (including Authority funds) may be invested as authorized by the Public Funds Investment Act which is located in Chapter 2256 of the Texas Government Code. Allowable investments include:

1. Direct obligations of the United States, its agencies and instrumentalities.
2. Other obligations, the principal and interest of which are unconditionally guaranteed, insured or backed by the full faith and credit of the State of Texas, the United States, or any obligation fully guaranteed or fully insured by the FDIC.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018

3. Direct obligations of the State of Texas or its agencies provided the agency has the same debt rating as the State of Texas.
4. Obligations of states, agencies, counties, cities, and other political subdivisions located in the United States, rated not less than A, or its equivalent, by a nationally recognized investment rating firm.
5. Fully insured or collateralized certificates of deposit/share certificates issued by state and national banks, or a savings bank, a state or federal credit union (having its main or branch office in Texas) guaranteed or insured by the FDIC or its successor; and secured by obligations in number 1 above. In addition to the County's authority to invest funds in certificates of deposit and share certificates as stated above, made in accordance with the following conditions is an authorized investment under Texas Gov't. Code Section 2256.010(b): (1) the funds are invested by the County through a clearing broker registered with the Securities and Exchange Commission (SEC) and operating pursuant to SEC rule 15c3-3 (17 C.F.R. Section 240.15c3-3) with its main office or branch office in Texas and selected from a list adopted by the County as required by Section 2256.025; or a depository institution that has its main office or a branch office in this state and that is selected by the County; (2) the broker or the depository institution selected by the County arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the County; (3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (4) the broker or depository institution selected by the County acts as custodian for the County with respect to the certificates of deposit issued for the account of the County.
6. Fully collateralized repurchase agreements, provided the County has on file a signed Master Repurchase Agreement detailing eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination. The repurchase agreement must have a defined termination date and be secured by obligations in number 1 above. It is required that the securities purchased as part of the repurchase agreement must be assigned to the County, held in the County's name, and deposited at the time the investment is made with the County's custodian or with a third-party approved by the County. Securities purchased as part of a repurchase agreement shall be marked-to-market no less than weekly. All repurchase agreements must be conducted through a primary government securities dealer as defined by the Federal Reserve or a financial institution doing business in Texas. Maturities shall be limited to 90 days. The 90-day limit may be exceeded in the case of flexible repurchase agreements ("flex repos") provided the investment type is specifically authorized within individual bond ordinances and final maturity does not exceed the anticipated spending schedule of bond proceeds.
7. Securities lending programs if the loan is fully collateralized, including accrued income, by securities described in Texas Gov't. Code, Section 2256.009, by irrevocable bank letters of credit issued by a bank under the laws of the United States or any other state, continuously rated not less than A by at least one nationally recognized investment rating firm, or by cash invested in accordance with the Investment Act. Securities held as collateral must be pledged to the investing entity, held in the investing entity's name, and deposited at the time the investment is made. A loan must be placed through a primary government securities dealer or a financial institution doing business in Texas. A loan must allow for termination at any time and must have a term of one year or less.
8. Commercial paper with a stated maturity of 270 days or less from the date of issuance, rated A-1 or P-1 or an equivalent rating by at least two nationally recognized agencies, and not under review for possible downgrade at the time of purchase.

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
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9. Local government investment pools with a dollar weighted average maturity of 60 days or less, approved through resolution of Commissioners Court to provide services to the County, continuously rated no lower than AAA or equivalent by at least one nationally recognized rating service. The County may not invest an amount that exceeds 10 percent of the total assets of any one local government investment pool. On a monthly basis, the Investment Officer shall review a list of securities held in the portfolio of any pool in which County funds are being held. To be eligible to receive funds from and invest funds on behalf of the County an investment pool must furnish to the Investment Officer or other authorized representative an offering circular or other similar disclosure instrument that contains information required by Tex. Gov't. Code Sec. 2256.016. Investments will be made in a local government investment pool only after a thorough investigation of the pool and review by the Finance Committee.

10. A Securities and Exchange Commission (SEC) registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less. Furthermore, it must be rated not less than AAA or equivalent by at least one nationally recognized rating service and the County must be provided with a prospectus and other information required by the SEC Act of 1934 or the Investment Company Act of 1940. The County may not invest an amount that exceeds 10 percent of the total assets of any one fund. Investments will be made in a money market mutual fund only after a thorough investigation of the fund and review by the Finance Committee.

11. Interest-bearing banking deposits that are guaranteed or insured by: (A) the Federal Deposit Insurance Corporation or its successor; or (B) the National Credit Union Share Insurance Fund or its successor; and interest-bearing banking deposits other than described above if: (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in Texas that the County selects from a list of its governing body or designated investment committee adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in Texas that the County selects; (B) the broker or depository institution selected as described above arranges for the deposit of the funds in one or more federally insured depository institutions, regardless of where located, for the County's account; (C) the full amount of the principal and accrued interest of the deposits is insured by the United States or an instrumentality of the United States; and (D) the County appoints as the custodian of the bank deposits issued for the County's account: (i) the depository institution selected as described above; (ii) an entity described by Section 2257.041(d); or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

Summary of Cash and Investments

The Authority's cash and investments are stated at fair value or amortized cost. The following is a summary of the Authority's cash and investments at February 28, 2018.

	Totals
Cash and Cash Equivalents	\$ 671,814,121
Investments	711,549,445
Restricted Cash and Cash Equivalents	28,146,573
Restricted Investments	260,019,230
Total Cash and Investments	\$ 1,671,529,369

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The table below indicates the fair value and maturity value of the Authority's investments as of February 28, 2018, summarized by security type. Also demonstrated are the percentages of the total portfolio, the weighted average modified duration in years, and the credit ratings for each summarized security type.

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Weighted Avg Modified Duration (Years)	Credit Rating S&P/Moody's
<i>US Agency Notes</i>					
FHLB	\$ 49,909,000	2.99%	\$ 50,000,000	0.0082	AA+/Aaa
FHLMC	206,833,060	12.42%	208,000,000	0.0730	AA+/Aaa
FNMA	123,414,780	7.41%	124,000,000	0.0386	AA+/Aaa
<i>Total US Agency Notes</i>	<u>380,156,840</u>		<u>382,000,000</u>		
<i>Commercial Paper</i>					
MUFG-Disc	94,797,135	5.69%	95,370,000	0.0176	A-1/P-1
TMCC-Disc	348,485,334	20.93%	350,358,000	0.0563	A-1/P-1
<i>Total Commercial Paper</i>	<u>443,282,469</u>		<u>445,728,000</u>		
<i>Local Governments</i>					
AZ St School Facilities Board Rev Txbl	4,988,750	0.30%	5,000,000	0.0010	AAA/Aaa
Auburn Wash Utility Sys Rev BAB	1,989,974	0.12%	1,865,000	0.0075	AA
Austin TX Rev 11A	2,098,200	0.13%	2,000,000	0.0130	AAA/Aaa
AZ State School Facilities Board	12,970,750	0.78%	13,000,000	0.0026	AAA/Aaa
AZ Transportation	2,797,284	0.17%	2,800,000	0.0006	AA+/Aa2
Bexar County TX GO	4,658,760	0.28%	4,500,000	0.0369	AAA/Aaa
Bryan TX ISD	252,007	0.02%	250,000	0.0003	AAA/Aaa
Burien Wash BAB Taxable GO	1,214,010	0.07%	1,160,000	0.0047	Aa2
City of Columbus OH GO TX Exmpt	1,007,700	0.06%	1,000,000	0.0015	AAA/Aaa
Clayton Cty GA & Wtr Auth Rev Txbl	944,272	0.06%	945,000	0.0001	AA+/Aa2
College Station TX Independent School	1,330,253	0.08%	1,280,000	0.0057	AA-/Aa2
Columbus OH Series A	1,637,512	0.10%	1,625,000	0.0023	AAA/Aaa
Columbus OH Series B Tx Exmpt	870,354	0.05%	865,000	0.0006	AAA/Aaa
Conroe TX Industrial Development Rev	5,766,791	0.35%	5,445,000	0.0268	AA
Cty Boulder CO Wtr Swr Rev Tx Emp	1,363,243	0.08%	1,350,000	0.0014	AAA/Aa1
Cty Columbus OH GO Unlt Tx Exmpt	9,248,281	0.56%	8,935,000	0.0242	AAA/Aaa
Dallas TX Ref GO Bond	2,060,940	0.12%	2,000,000	0.0054	AA-/A1
Denver CO BAB	3,679,582	0.22%	3,540,000	0.0189	AAA/Aaa
Greensboro, NC Build America Bonds	2,065,660	0.12%	2,000,000	0.0095	AAA/Aaa
Hays Cnty TX GO LTD TX Exmpt	1,369,904	0.08%	1,325,000	0.0008	AA/Aa
Hillsborough County FL Utility	14,788,074	0.89%	14,165,000	0.0476	AA+/Aaa
Houston TX Utility Systems	2,292,570	0.14%	2,100,000	0.0152	AA
Idaho Bond Bank Authority Rev	4,469,554	0.27%	4,240,000	0.0165	Aa1
Katy TX ISD BAB	2,090,190	0.13%	2,000,000	0.0070	AAA/Aaa
Laredo TX ISD Tx Exmpt	957,810	0.06%	1,000,000	0.0014	AAA/Aaa
Leander TX Ref Fed Tx Exmpt	1,006,010	0.06%	1,000,000	0.0009	AA-/Aa2
Louisiana St UTGO Txbl	1,994,520	0.12%	2,000,000	0.0014	AA-/Aa3
Maricopa Cnty AZ Unif SD Tx Exmpt	3,141,683	0.19%	3,125,000	0.0043	AA+/Aa2
Massachusetts St Green Tx Exmpt	1,008,650	0.06%	1,000,000	0.0015	AA/Aa
Mercer Co NJ Tx Exmpt	2,853,621	0.17%	2,850,000	0.0027	AA+/Aa2
Minnesota Pub Facs Rev TX Exmpt	4,149,840	0.25%	4,000,000	0.0071	AAA/Aaa
Montgomery County TX GO	3,627,645	0.22%	3,500,000	0.0208	AA+/Aaa
North TX Municipal Water District BAB	2,810,778	0.17%	2,700,000	0.0100	AAA/Aa2

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<u>Security</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>	<u>Maturity Amount</u>	<u>Weighted Avg Modified Duration (Years)</u>	<u>Credit Rating S&P/ Moody's</u>
Oklahoma Cnty OK ISD Tx Exmpt	956,109	0.06%	950,000	0.0011	AA+
Oklahoma Co ISD GO Tx Exmpt	1,771,141	0.11%	1,760,000	0.0025	AA+
Oregon State Alt Energy Project	2,863,928	0.17%	2,780,000	0.0173	AA+/Aa1
Pecos Barstow TXISD	1,394,698	0.08%	1,390,000	0.0032	AAA
Red River TX Education Finance	2,594,990	0.16%	2,535,000	0.0168	Aa3
Rockwall TX ISD Tx Exmpt	1,936,160	0.12%	2,000,000	0.0023	AAA/Aaa
Round Rock TX ISD BAB	4,560,929	0.27%	4,375,000	0.0118	AAA/Aaa
Salt Lake County Utah Sales Tax	1,713,374	0.10%	1,630,000	0.0098	AAA
San Angelo ISD Ref Tx Exmpt	951,609	0.06%	985,000	0.0011	AAA/Aaa
San Antonio, TX Build America Bnds	1,758,508	0.11%	1,635,000	0.0118	AAA/Aaa
San Antonio TX Water Rev BAB	3,113,520	0.19%	3,000,000	0.0095	AA+/Aa1
San Marcos TX Cons ISD Tx Exmpt	1,573,365	0.09%	1,605,000	0.0013	AAA/Aaa
Snohomish County WA BAB	2,858,339	0.17%	2,760,000	0.0112	AA+/Aa2
Springfield Mo Sch Dist Tx Exmpt	1,528,877	0.09%	1,515,000	0.0018	AA+/Aaa
ST of Delaware GO Unlt TX Exmpt	2,727,813	0.16%	2,620,000	0.0052	AAA/Aaa
ST of Georgia GO Unlt TX Exmpt	5,320,620	0.32%	5,150,000	0.0029	AAA/Aaa
ST of Ohio GO Tx Exmpt	1,352,489	0.08%	1,340,000	0.0002	AA+/Aa1
Sugar Land, TX CTFS	5,695,920	0.34%	5,400,000	0.0358	AAA/Aaa
Texas City TX ISD	1,335,937	0.08%	1,285,000	0.0069	AA
Texas St Tech University Rev Bnds	1,892,867	0.11%	1,850,000	0.0097	AA+
Tom Green Co TX Tx Exmpt	306,595	0.02%	305,000	0.0002	AA
Trinity River TX Rev Tx Exmpt	1,222,108	0.07%	1,215,000	0.0017	AA-
Tulsa Cnty OK ISD #5 Tx Exmpt	2,565,300	0.15%	2,550,000	0.0034	Aa2
TX Wtr Dev Brd Ser A Tx Exmpt	998,020	0.06%	1,000,000	0.0013	AAA/Aaa
Univ of Central Arkansas Tx Exmpt	400,632	0.02%	400,000	0.0002	AA/A2
Virginia St HSG Dev Auth	1,459,040	0.09%	1,375,000	12.8050	AA+/Aa1
West Virginia Dev HSG Tx Exmpt	2,351,878	0.14%	2,360,000	0.0017	AAA/Aaa
<i>Total Local Governments</i>	<u>164,709,938</u>		<u>160,335,000</u>		
<i>US Treasury Notes</i>					
US Treasury Note	64,626,900	3.88%	65,000,000	0.0196	AAA/Aaa
<i>Total US Treasury Notes</i>	<u>64,626,900</u>		<u>65,000,000</u>		
<i>Money Market Funds</i>					
TRA - Cadence (DDA)	8,605,897	0.52%	8,605,897	N/A	N/A
LOGIC Investment Pool	26,714,428	1.60%	26,714,428	N/A	AAAm
Texas Class Investment Pool	26,031,283	1.56%	26,031,283	N/A	AAAm
Lone Star Investment Pool	22,446,171	1.35%	22,446,171	N/A	AAAm
Fidelity Instl Treasury	528,700,300	31.75%	528,700,300	N/A	N/A
<i>Total Money Market Funds</i>	<u>612,498,079</u>		<u>612,498,079</u>		
Total Investments & Cash Equivalents	<u>1,665,274,226</u>	<u>100.00%</u>	<u>\$ 1,665,561,079</u>		
<i>Demand and Time Deposits</i>	6,255,143				
Total Cash & Investments	<u><u>\$ 1,671,529,369</u></u>				

Fair Value Measurements

The County categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of February 28, 2018, the County has the recurring fair value measurements for U.S. Agency Notes, Commercial Paper, Local Governments and U.S. Treasury Notes totaling \$1,052,776,147, all of which are valued using quoted prices for similar assets in active markets (Level 2 inputs). The Money Market Funds through External Investment Pools totaling \$612,498,079 have been valued at amortized cost or fair value in

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accordance with GASB No. 79. For pools shown above, TRA- Cadence Demand Deposit Account, LOGIC and Texas Class portfolios have been valued at fair value (Level 2 input) with Lone Star and Fidelity at amortized cost.

RISK DISCLOSURES

Interest Rate Risk: All investments carry the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by matching cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

According to the County investment policy, no more than 50% of the portfolio, excluding those investments held for construction/capital projects, special revenue, flood control, proprietary and enterprise, Public Improvement Contingency, District Clerk Registry, County Clerk Registry, and bond reserves may be invested beyond three years. Additionally at least 15% of the portfolio, excluding those investments held for future major capital expenditures, debt service payments, bond fund reserve accounts, and capitalized interest funds, shall be invested in overnight instruments or in marketable securities which can be sold to raise cash within one day's notice. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed three years. As of February 28, 2018, the Authority was in compliance with all of these guidelines to manage interest rate risk.

Credit Risk and Concentration of Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County mitigates these risks by emphasizing the importance of a diversified portfolio. All funds must be sufficiently diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In particular, no more than 25% of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer. Concentration by issuer for other investment instruments is not specifically addressed in the investment policy. However, the policy does specify that acceptable investment instruments must have high quality credit ratings and, consequently, risk is minimal.

The County's investment policy establishes minimum acceptable credit ratings for certain investment instruments. Securities of states, agencies, counties, cities and other political subdivisions must be rated as to investment quality by a nationally recognized investment rating firm as A or its equivalent. Money market mutual funds and public funds investment pools must be rated AAA or its equivalent by at least one nationally recognized rating firm.

Custodial Credit Risk: Investments are exposed to custodial credit risk if the investments are uninsured, are not registered in the County's name and are held by the counterparty. In the event of the failure of the counterparty, the County may not be able to recover the value of its investments that are held by the counterparty. As of February 28, 2018, all of the Authority's investments are held in the County's name.

Foreign Currency Risk: Foreign currency risk is the risk that fluctuations in the exchange rate will adversely affect the value of investments denominated in a currency other than the US dollar. The County Investment Policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the Authority is not exposed to foreign currency risk.

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FUND INVESTMENT CONSIDERATIONS

The Investment Policy outlines specific investment strategies for each fund or group of funds identified on the Harris County and Authority's financial statements. The three investment strategies employed by Harris County are the Matching Approach, the Barbell Approach and the Laddered Approach. The Matching Approach is an investment method that matches maturing investments with disbursements. Matching requires an accurate forecast of disbursement requirements. The Barbell Approach is an investment method where maturities are concentrated at two points, one at the short end of the investment horizon and the other at the long end. The Laddered Approach is an investment method that positions maturities that occur in regular intervals, providing a known stream of cash. The investment strategies and maturity criteria are outlined in the following table.

Fund Type	Investment Strategy	Maximum Maturity Per Policy (Years)	Maturity Amount	Average Remaining Years To Maturity
Toll Road Project Funds	Matching/Barbell/Laddered	6	\$ 407,380,000	3.14
Toll Road Debt Service	Matching/Barbell/Laddered	6	424,728,000	0.35
Toll Road Renewal/Replacement	Matching/Barbell/Laddered	6	104,945,000	0.40
Toll Road Bond Reserve	Matching	Maturity of the bonds	116,010,000	5.50
Money Market Mutual Funds	N/A	N/A	612,498,079	N/A
			<u>\$ 1,665,561,079</u>	

Note: Money Market Mutual Funds are excluded from the various fund types, which may affect the average remaining days to maturity.

3. OTHER RECEIVABLES AND UNEARNED REVENUE

Other receivables as of February 28, 2018 are comprised of credit card receivables and toll violations for EZ tag collections. The other receivables amount of \$13,116,287 is reported net of allowance for doubtful accounts of \$296,499,713.

Proprietary funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the Authority reported \$68,702,213 in unearned EZ tag revenues.

4. NOTES RECEIVABLE

Notes receivable as of February 28, 2018 are comprised of the following:

	Outstanding March 1, 2017	Issued	Receipts	Outstanding February 28, 2018
Sam Houston Race Park	\$ 60,650	\$ -	\$ 7,581	\$ 53,069
Notes receivable	<u>\$ 60,650</u>	<u>\$ -</u>	<u>\$ 7,581</u>	<u>\$ 53,069</u>

5. PREPAIDS AND OTHER ASSETS

Other assets as of February 28, 2018 are comprised of the following:

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Prepaid surety expense	\$ 205,469
Prepaid office expenses	3,265,884
Total	\$ 3,471,353

6. CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2018 was as follows:

	Balance March 1, 2017	Additions	Deletions	Transfers	Balance February 28, 2018
Land	\$ 76,493,131	\$ 16,025,846	\$ (19,597)	\$ 313,578	\$ 92,812,958
Easement	129,962	1,117,937	-	-	1,247,899
Right-of-way	276,696,094	-	-	-	276,696,094
Construction in progress	495,636,622	197,715,630	-	(3,603,743)	689,748,509
Total capital assets not depreciated	848,955,809	214,859,413	(19,597)	(3,290,165)	1,060,505,460
License agreement	237,500,000	-	-	-	237,500,000
Land improvements	18,865,805	-	-	-	18,865,805
Infrastructure	2,574,438,539	-	-	3,268,184	2,577,706,723
Other tangible assets	19,538,963	-	(12,488)	-	19,526,475
Buildings	18,226,713	-	-	21,981	18,248,694
Equipment	96,358,461	5,158,754	(7,756,926)	-	93,760,289
	2,964,928,481	5,158,754	(7,769,414)	3,290,165	2,965,607,986
Less accumulated depreciation/amortization for:					
License agreement	(38,071,250)	(7,980,000)	-	-	(46,051,250)
Land improvements	(4,805,336)	(943,460)	-	-	(5,748,796)
Infrastructure	(1,337,914,168)	(84,423,503)	-	-	(1,422,337,671)
Other tangible assets	(21,965,115)	(1,326,716)	12,309	-	(23,279,522)
Buildings	(3,381,095)	(399,046)	-	-	(3,780,141)
Equipment	(39,880,780)	(9,114,214)	6,759,744	-	(42,235,250)
	(1,446,017,744)	(104,186,939)	6,772,053	-	(1,543,432,630)
Total capital assets being depreciated, net	1,518,910,737	(99,028,185)	(997,361)	3,290,165	1,422,175,356
Total capital assets, net	\$ 2,367,866,546	\$ 115,831,228	\$ (1,016,958)	\$ -	\$ 2,482,680,816

7. LONG-TERM LIABILITIES

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.

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Changes in the Authority's Long-Term Liabilities for fiscal year 2017-2018 were as follows:

	<u>Outstanding March 1, 2017</u>	<u>Issued/ Increased</u>	<u>Paid/ Decreased</u>	<u>Outstanding February 28, 2018</u>	<u>Due Within One Year</u>
Senior Lien Revenue Bonds	\$ 1,672,350,000	\$ 559,900,000	\$ (268,970,000)	\$ 1,963,280,000	\$ 71,735,000
Tax Bonds	302,705,000	-	(26,610,000)	276,095,000	27,445,000
Total Bond Principal	1,975,055,000	559,900,000	(295,580,000)	2,239,375,000	99,180,000
Unamortized Premium, Revenue Bonds	187,220,054	67,521,300	(17,117,487)	237,623,867	-
Unamortized Premium, Tax Bonds	10,537,898	4,842	(1,525,160)	9,017,580	-
Accrued Interest Payable	3,359,273	83,524,774	(84,054,232)	2,829,815	2,829,815
Total Bonds Payable	2,176,172,225	710,950,916	(398,276,879)	2,488,846,262	102,009,815
Commercial Paper Payable	-	17,040,000	-	17,040,000	-
Compensatory Time Payable	1,119,161	621,612	(671,497)	1,069,276	780,571
OPEB Obligation	33,926,229	5,155,299	-	39,081,528	-
Net Pension Liability	26,341,183	-	(10,642,801)	15,698,382	-
Pollution Remediation Obligation	822,925	6,561,250	-	7,384,175	-
Totals - Toll Road Fund Liabilities	<u>\$ 2,238,381,723</u>	<u>\$ 740,329,077</u>	<u>\$ (409,591,177)</u>	<u>\$ 2,569,119,623</u>	<u>\$ 102,790,386</u>

A. Outstanding Bonded Debt – February 28, 2018 – Pertinent Information by Issue

<u>Issue</u>	<u>Original Issue Amount</u>	<u>Interest Rate Range %</u>	<u>Term Issue</u>	<u>Maturity Range</u>	<u>Outstanding Balance February 28, 2018</u>
Senior Lien Revenue Bonds					
Refunding Series 2007A	275,340,000	4.00-5.00	2007	2008-2033	\$ 14,850,000
Refunding Series 2007B	145,570,000	Floating	2007	2034-2036	145,570,000
Refunding Series 2008B	324,475,000	4.625-5.25	2008	2012-2047	4,455,000
Series 2009A	215,455,000	4.00-5.00	2009	2016-2038	49,980,000
Series 2009C	250,000,000	5.00	2009	2016-2049	62,500,000
Refunding Series 2010D	35,420,000	3.00-5.00	2010	2011-2030	22,775,000
Refunding Series 2012A	60,415,000	Floating	2012	2015-2018	20,625,000
Refunding Series 2012B	139,500,000	Floating	2012	2012-2021	139,500,000
Refunding Series 2012C	252,845,000	2.00-5.00	2012	2013-2033	229,695,000
Refunding Series 2012D	98,010,000	.40-1.68	2012	2013-2018	21,750,000
Refunding Series 2015B	161,575,000	5.00	2015	2020-2036	161,575,000
Refunding Series 2016A	530,105,000	2.75-5.00	2016	2019-2047	530,105,000
Refunding Series 2018A	559,900,000	4.00-5.00	2018	2019-2048	559,900,000
Total Principal Senior Lien Revenue Bonds					1,963,280,000
Unamortized Premiums and Discounts					237,623,867
Total Senior Lien Revenue Bonds					<u>\$ 2,200,903,867</u>

<u>Issue</u>	<u>Original Issue Amount</u>	<u>Interest Rate Range %</u>	<u>Term Issue</u>	<u>Maturity Range</u>	<u>Outstanding Balance February 28, 2018</u>
Unlimited Tax and Subordinate Lien Bonds (Tax Bonds)					
Refunding Series 1997	\$ 150,395,000	5.00-5.125	1997	2014-2024	\$ 26,005,000
Refunding Series 2007C	321,745,000	5.00-5.25	2007	2014-2033	250,090,000
Total Tax Bonds					276,095,000
Unamortized Premiums and Discounts					9,017,580
Total Tax Bonds					<u>\$ 285,112,580</u>

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B. 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 5.10 as of February 28, 2018.

C. Debt Service Requirements

Total interest expense was \$69,830,904 for the fiscal year. The following are the debt service requirements for bonds payable:

Fiscal Year	Principal	Interest	Total
2019	\$ 99,180,000	\$ 104,580,120	\$ 203,760,120
2020	100,800,000	101,293,516	202,093,516
2021	104,635,000	96,299,481	200,934,481
2022	99,330,000	91,314,119	190,644,119
2023	77,320,000	86,969,941	164,289,941
2024-2028	410,475,000	373,734,424	784,209,424
2029-2033	486,750,000	263,408,693	750,158,693
2034-2038	424,495,000	142,857,385	567,352,385
2039-2043	192,370,000	76,973,250	269,343,250
2044-2048	209,490,000	31,143,550	240,633,550
2049-2053	34,530,000	882,100	35,412,100
	<u>\$ 2,239,375,000</u>	<u>\$ 1,369,456,579</u>	<u>\$ 3,608,831,579</u>

D. 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 28, 2018, the unissued authorized bonds for the toll road project are \$15,148,000.

E. 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 28, 2018, the outstanding principal balance of these defeased bonds was \$2,450,335,000.

F. Debt Issuances

On February 1, 2018, the County released \$2,500,000 in FNMA note pledged to Citibank as collateral on the \$72,785,000 interest rate swap for the Series 2007B bonds.

On February 1, 2018, the County released \$3,000,000 in FHLMC note pledged to JP Morgan Chase as collateral on the \$72,785,000 interest rate swap for the Series 2007B bonds.

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On February 28, 2018, the County issued \$559,900,000 in Toll Road Senior Lien Revenue and Refunding Bonds, Series 2018A, to refund and defease a portion of the County's outstanding Toll Road Senior Lien Revenue Bonds, Series 2007A, to finance the construction of various toll projects, and to pay cost of such issuance. The annual interest rates range from 4.00% to 5.00%. The issuance had a premium of \$67,519,186. The interest accrues semiannually and the bonds mature in 2048. The refunding resulted in savings of \$30,607,978 due to a decrease in cash flow requirements and had an economic gain of \$24,494,325.

G. Commercial Paper

In addition to the outstanding long-term debt of the Toll Road Authority ("Toll Road"), the Commissioners Court has established a commercial paper program secured by and payable from Toll Road revenues. On January 10, 2017 the previous Commercial Paper Program Series E was terminated. Subsequently, on April 25, 2017 Commissioners Court authorized two additional commercial paper programs, for \$200 million each, designated as Harris County Toll Road Senior Lien Revenue Commercial Paper Notes, Series E-1 and Series E-2 respectively ("Series E-1 and E-2 Notes") to finance capital projects of the Toll Road. As of February 28, 2018, Toll Road has outstanding, \$12.1 million of commercial paper in Series E-1 and \$4.9 million of commercial paper in Series E-2.

The Toll Road entered into a Revolving Reimbursement Agreement (the "Series E-1 Letter of Credit") with Landesbank Hessen-Thuringen Girozentrale, acting through its New York Branch, (together with its successors and assigns, the "Bank"), whereby the Bank supports the Series E-1 Notes by issuing a letter of credit in the original stated amount of \$214,794,521 (representing an amount supporting the total aggregate principal amount of \$200,000,000 plus an amount equal to 270 days' interest on such principal amount at the rate per annum of ten percent (10%) computed on the basis of a 365 day year) for the timely payment of the principal of and interest on the Series E-1 Notes at maturity. The Series E-1 Letter of Credit expires May 2, 2022. For this reimbursement agreement the Authority will be assessed a fee of .25% per annum on the stated amount of the letter of credit. The Authority also agrees to pay the Bank a non-refundable drawing fee equal to \$300 for each drawing under the letter of credit (not to exceed \$2,100 in the aggregate for any calendar year). If converted to a term loan, each term loan will be repaid in equal semi-annual installments (each such installment referred to as "Principal Payment"), such Principal Payments to be made on the conversion date and each date occurring every six months thereafter until paid in full.

The Toll Road entered into a Revolving Reimbursement Agreement (the "Series E-2 Letter of Credit") with Barclays Bank (the "Bank"), whereby the Bank supports the Series E-2 Notes by issuing a letter of credit in the original stated amount of \$214,794,521 (representing an amount supporting the total aggregate principal amount of \$200,000,000 plus an amount equal to 270 days' interest on such principal amount at the rate per annum of ten percent (10%) computed on the basis of a 365 day year) for the timely payment of the principal of and interest on the Series E-2 Notes at maturity. The Series E-2 Letter of Credit expires May 15, 2020. For this reimbursement agreement the Authority will be assessed a fee of .29% per annum on the stated amount of the letter of credit. The Authority also agrees to pay the Bank a non-refundable drawing fee equal to \$250 for each drawing under the letter of credit (not to exceed \$2,000 in the aggregate for any calendar year). If converted to a term loan, each term loan will be repaid in equal semi-annual installments (each such installment referred to as "Principal Payment"), such Principal Payments to be made on the conversion date and each date occurring every six months thereafter until paid in full.

DEBT SERVICE TO MATURITY-COMMERCIAL PAPER

The following is the expected debt service requirements for the various Commercial Paper issuance. These requirements assume that as of February 28, 2018, the Authority had drawn down the outstanding principal balance on the lines of credit and letter of credit and subsequently executed term loans with the banks for a principal balance of \$17,040,000 at the average rate for the quarter ending February 28, 2018 by series and reflect the effects of any refundings.

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Fiscal year	Business-type Activities		
	Principal	Interest	Total
2021	\$ 823,333	359,994	\$ 1,183,327
2022	1,646,667	532,165	2,178,832
2023	3,663,333	1,291,293	4,954,626
2024	4,856,667	1,299,320	6,155,987
2025	4,033,333	638,961	4,672,294
2026-2028	2,016,667	89,455	2,106,122
	<u>\$ 17,040,000</u>	<u>\$ 4,211,188</u>	<u>\$ 21,251,188</u>

H. Arbitrage Rebate Liability

The Tax Reform Act of 1986 established regulations for the rebate to the federal government of arbitrage earnings on certain local government bonds issued after December 31, 1985, and all local governmental bonds issued after August 31, 1986. Issuing governments must calculate any rebate due and remit the amount due at least every five years. There were no arbitrage rebate payments made during fiscal year 2018. As of February 28, 2018 there were no estimated liabilities for arbitrage rebate on enterprise debt.

I. Interest Rate Swap

The County entered an interest rate swap with Citibank, N.A., New York, relating to the Toll Road Authority, Series 2012A and Series 2012B, and the Senior Lien Revenue Refunding Bonds, Series 2007B. The County entered an interest rate swap with JPMorgan Chase Bank, National Association, relating to the Senior Lien Revenue Refunding Bonds, Series 2007B. The purpose of the swaps was to create a fixed cost of funds on certain maturities of the related bonds that is lower than the fixed cost achievable in the cash bond market.

Terms:

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Trade Date:	November 28, 2006	May 22, 2007	May 22, 2007
Effective Date:	August 15, 2009	June 14, 2007	June 14, 2007
Termination Date:	August 15, 2019	February 15, 2035	February 15, 2035
Initial Notional Amount: (a)	\$199,915,000	\$72,785,000	\$72,785,000
Current Notional Amount:	\$160,125,000	\$72,785,000	\$72,785,000
Authority Pays Fixed:	3.626%	4.398%	4.398%
Counterparty Pays Floating:	70% of 1 Month LIBOR	67% of 3 Month LIBOR + .67%	67% of 3 Month LIBOR + .67%
Payment Dates:	The 15 th day of each month	The 15 th day of February, May, August and November	The 15 th day of February, May, August and November
Collateral Threshold: (b)	(\$15,000,000)	(\$15,000,000)	(\$15,000,000)
Fair Value as of 2/28/18:	(\$4,460,747)	(\$16,349,949)	(\$16,349,949)
Collateral Pledged:	\$0	\$6,424,000 (c)	\$6,855,000 (d)
<p>(a) The notional amount for the swaps amortizes to match the outstanding bond.</p> <p>(b) Collateral threshold represents the maximum exposure that the counterparty is required to accept without a pledge of collateral. The difference between the fair value and the collateral threshold must be covered by County collateral. The maximum collateral threshold ceiling is \$45,000,000.</p> <p>(c) The County pledged a \$6.4 million FNMA note with a \$20,000,000 par, at 1.03% to Citibank as collateral under the terms of the swap agreements related to the Toll Road Senior Revenue Refunding Bonds, Series 2007B.</p> <p>(d) The County pledged a \$6.9 million FHLMC note with a \$44,000,000 par at 1.05% to JP Morgan as collateral under the terms of the swap agreements related to the Toll Road Senior Lien Revenue Refunding Bonds, Series 2007B.</p>			

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Fair Value: Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using information obtained from generally recognized sources with respect to quotations, reporting of specific transactions and market conditions and based on accepted industry standards and methodologies. The County's over-the-counter interest rate swaps are valued using Level 2 inputs and the value of the swaps includes non-performance risk considerations.

Summary of GASB 53 Effectiveness Testing:

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Derivative Instrument	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap
Hedge Type	Cash Flow Hedge	Cash Flow Hedge	Cash Flow Hedge
Method of Effectiveness Testing	Regression Historical	Consistent Critical Terms	Consistent Critical Terms
Result of Effectiveness Testing	Effective	Effective	Effective

Risks:

Harris County Toll Road Authority	Citibank–Senior Lien Revenue Refunding Bonds, Series 2012A&B	Citibank-Senior Lien Revenue Refunding Bonds, Series 2007B	JP Morgan Chase-Senior Lien Revenue Refunding Bonds, Series 2007B
Credit Risk: Credit Ratings Moody's, S&P, and Fitch	A1, A+, and A+	A1, A+, and A+	Aa3, A+, and AA-
Interest Rate Risk – risk that changes of rates in the bond market will negatively affect the cash flow to the County in a SWAP transaction.	Citi Bank NA pays 70% of 1 month LIBOR, while the County pays a fixed rate of 3.626%.	Citi Bank NA pays 67% of 3 month LIBOR + 67bp, while the County pays a fixed rate of 4.398%.	JP Morgan Chase Bank NA pays 67% of 3 month LIBOR + 67bp, while the County pays a fixed rate of 4.398%.
Termination Risk – risk that the SWAP must be terminated prior to its stated final cash flow.	The exposure to the County is \$4,460,747, which is based on a fair market value calculation.	The exposure to the County is \$16,349,949, which is based on a fair market value calculation.	The exposure to the County is \$16,349,949, which is based on a fair market value calculation.

J. Subsequent Debt Related Activity

On March 1, 2018, the County released \$1,500,000 in FNMA note pledged to Citibank as collateral on the \$72,785,000 interest rate swap for the Series 2007B bonds.

On March 1, 2018, the County released \$1,500,000 in FHLMC note pledged to JP Morgan Chase as collateral on the \$72,785,000 interest rate swap for the Series 2007B bonds.

On April 2, 2018, the County released \$2,500,000 in FHLMC note pledged to JP Morgan Chase as collateral on the \$72,785,000 interest rate swap for the Series 2007B bonds.

On April 10, 2018 the County pledged an additional \$1,000,000 in FHLMC note to JP Morgan Chase to cover the collateral threshold shortfall on the \$72,785,000 interest rate swap for the Series 2007B bonds.

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On May 1, 2018 the County pledged an additional \$3,000,000 in FHLMC note to Citibank to cover the collateral threshold shortfall on the \$72,785,000 interest rate swap for the Series 2007B bonds.

On May 10, 2018, the County released \$4,600,000 in FNMA note pledged to Citibank as collateral on the \$72,785,000 interest rate swap for the Series 2007B bonds.

On May 16, 2018, the County released \$324,000 in FNMA note pledged to Citibank as collateral on the \$72,785,000 interest rate swap for the Series 2007B bonds.

8. RETIREMENT PLAN

Plan Description. Harris County provides retirement, disability, and survivor benefits for all of its employees (excluding temporary) through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). This is accounted for as an agent multiple-employer defined benefit pension plan. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system. 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 or the website at www.TCDRS.org.

Harris County’s pension plan includes Toll Road and three other participating employers. Toll Road Authority has reported its participation in the Harris County plan as a cost sharing employer. The Harris County plan is allocated to participating employers based upon contributions. The Authority’s allocated share was 3.76%.

Benefits Provided. The plan provisions are adopted by 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 eight or more years of service, with 30 years of service regardless of age, when the sum of their age and years of service equals 75 or more, or if they become disabled. Members are vested after eight years of service 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 Commissioners Court, 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. By law, employee accounts earn 7% interest. 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. The County’s current match is 225%.

Employees Covered by Benefit Terms. At the measurement date, the following employees were covered by the benefit terms of the Harris County plan:

	12/31/16	12/31/17
Inactive employees or beneficiaries current receiving benefits	7,979	8,271
Inactive employees entitled but not yet receiving benefits	8,279	8,548
Active employees	16,772	17,350
Total	33,030	34,169

Contributions. The County has elected the annually determined contribution rate (“ADCR”) plan provisions 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 as of December 31, two years prior to the end of the fiscal year in which contributions are reported. The County contributed using an actuarially determined rate of

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14.00% of covered payroll for the months of the calendar year in 2017, and 14.00% for the months of the calendar year in 2018.

The contribution rate payable by the employee members for 2017 and 2018 is 7% as adopted by Commissioners Court. The employee contribution rate and the employer contribution rate may be changed by Commissioners Court, within the options available in the TCDRS Act.

Actuarial Assumptions. For the County’s fiscal year ending February 28, 2018, the net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary Increases	4.9%
Investment rate of return	8.0%

The County has no automatic cost-of-living adjustments (“COLA”) and one is not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculation or in the funding valuation. Each year, the County may elect an ad-hoc COLA for its retirees.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.25% (made up of 2.75% inflation and 0.5% productivity increase assumptions) and a merit, promotion, and longevity component that on average approximates 1.6% per year for a career employee.

Mortality rates for depositing members were based on the RP-2014 Active Employee Mortality Table for males and females as appropriate, with adjustments. Service retirees, beneficiaries, and non-depositing members were based on RP-2014 Annuitant Mortality Table for males and females as appropriate.

The actuarial cost method was Entry Age Normal, as required by GASB No. 68. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB No. 68

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The numbers shown are based on January 2018 information for a 10 year time horizon and are re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2018. The following target asset allocation was adopted by the TCDRS board in April 2018. The geometric real rate of return is net of inflation, assumed at 1.95%.

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Asset Class	Target Allocation	Geometric Real Rate of Return
US Equities	11.50%	4.55%
Private Equity	16.00%	7.55%
Global Equities	1.50%	4.85%
International Equities - Developed	11.00%	4.55%
International Equities - Emerging	8.00%	5.55%
Investment-Grade Bonds	3.00%	0.75%
Strategic Credit	8.00%	4.12%
Direct Lending	10.00%	8.06%
Distressed Debt	2.00%	6.30%
REIT Equities	2.00%	4.05%
Master Limited Partnerships (MLPs)	3.00%	6.00%
Private Real Estate Partnerships	6.00%	6.25%
Hedge Funds	18.00%	4.10%
	<u>100.00%</u>	

Discount Rate. The discount rate used to measure the total pension liability was 8.1%. Using the alternative method, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments based on the funding requirements under the County’s funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the unfunded actuarial accrued liability (“UAAL”) shall be amortized as a level percent of pay over 20-year layered periods.
2. Under the TCDRS Act, the County is legally required to make the contribution specified in the funding policy.
3. The County’s assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments.

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Changes in Net Pension Liability (amounts in thousands):

	Harris County		
	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2016	\$ 5,772,462	\$ 5,030,762	\$ 741,700
Changes for the year:			
Service cost	146,841	-	146,841
Interest on total pension liability	468,982	-	468,982
Effect of economic/demographic gains or losses	(6,851)	-	(6,851)
Effect of assumptions changes or inputs	10,614	-	10,614
Refund of contributions	(9,269)	(9,269)	-
Benefit payments	(254,672)	(254,672)	-
Administrative expenses	-	(3,797)	3,797
Member contributions	-	71,869	(71,869)
Net investment income	-	733,526	(733,526)
Employer contributions	-	142,896	(142,896)
Other	-	(605)	605
Balances as of December 31, 2017	<u>\$ 6,128,107</u>	<u>\$ 5,710,710</u>	<u>\$ 417,397</u>

The net pension liability allocated to the Authority at February 28, 2018 and February 28, 2017 was \$15,698,382 and \$26,341,183 respectively and employer contributions for the same period were \$5,374,391 and \$4,843,872 respectively.

Sensitivity Analysis. The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate (amounts in thousands):

	Current		
	1% Decrease 7.10%	Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 6,928,968	\$ 6,128,107	\$ 5,452,400
Fiduciary net position	5,710,710	5,710,710	5,710,710
Net pension liability	<u>\$ 1,218,258</u>	<u>\$ 417,397</u>	<u>\$ (258,310)</u>

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS financial report.

Pension Expense and Deferred Inflows/Outflows of Resources Related to Pensions. For the measurement period ending December 31, 2017, the County recognized pension expense of \$171,072,827, the Authority's share was \$7,345,650 as of February 28, 2018; the County reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources (amounts in thousands):

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	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 27,767	\$ -
Changes of assumptions	-	34,420
Net difference between projected and actual earnings	75,448	-
Contributions made subsequent to the measurement date	-	22,682
	\$ 103,215	\$ 57,102

Toll Road Authority's Allocation:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 1,044	\$ -
Changes of assumptions	-	1,295
Net difference between projected and actual earnings	2,838	-
Contributions made subsequent to the measurement date	-	847
	\$ 3,882	\$ 2,142

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension, other than contributions subsequent to the measurement date, will be recognized in pension expense for the Harris County plan as follows:

County	Toll Road
Year ended December 31:	Year ended December 31:
2018 28,080,245	2018 1,120,803
2019 28,080,245	2019 1,120,803
2020 (55,995,662)	2020 (2,041,310)
2021 (69,587,492)	2021 (2,517,699)
2022 627,188	2022 183,562

Payable to the Pension Plan. At February 28, 2018, the County reported a payable of \$16,890,990 for the outstanding amount of contributions to the pension plan.

The above information includes four participating employers to the agent multiple employer defined benefit pension plan. One of the employers, Community Supervision (“CS”) is not considered a department or a component unit of the County. The net pension liability for CS at February 28, 2017 and February 28, 2018 is \$23,093,168 and \$12,420,509, respectively.

The deferred inflows and outflows reported for CS at February 28, 2018 were (amounts in thousands):

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 826	\$ -
Changes of assumptions	-	1,024
Net difference between projected and actual earnings	2,245	-
Contributions made subsequent to the measurement date	-	668
	\$ 3,071	\$ 1,692

For the measurement period ended December 31, 2017, CS recognized pension expense of \$4,417,631. The RSI following the notes to the financial statements contains: the schedule of changes in the County’s net pension liability and related ratios, and the schedule of County contributions.

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9. OTHER POSTEMPLOYMENT BENEFITS

THE PLAN:

Plan Description. Harris County administers an agent multiple-employer defined benefit postemployment healthcare plan that covers retired employees of participating governmental entities. The plan provides medical, dental, vision, and basic life insurance benefits to plan members. Local Government Code Section 157.101 assigns the authority to establish and amend benefit provisions to Commissioners Court.

Membership in the plan at March 1, 2017, the date of the latest actuarial valuation, consists of the following:

Retirees and beneficiaries receiving benefits	4,971
Active plan members	15,639
Number of participating employers	5

Summary of Significant Accounting Policies.

Basis of Accounting. The Plan's transactions are recorded using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable.

Contributions. Local Government Code Section 157.102 assigns to Commissioners Court the authority to establish and amend contribution requirements of the plan members and the participating employers. The following tables present the criteria for the employers' contribution to the retiree's and qualifying dependent's benefits:

Retired Prior to March 1, 2002:

Years of Service	10 yrs.	9 yrs.	8 yrs.	< 8yrs. with proportionate service and/or disability
Retiree - Employer Share	100%	90%	80%	50%
Retiree - Retiree Share	0%	10%	20%	50%
Dependent - Employer Share	50%	45%	40%	25%
Dependent - Retiree Share	50%	55%	60%	75%

Retired or Eligible to Retire Prior to March 1, 2011:

Employee's age plus years of service	75	75	70-74	< 70	N/A
Years of service	10	8-9	8	4-7	< 4
Consecutive service years at retirement	4	4	4	4	N/A
Retiree - Employer Share	100%	80%	80%	50%	0%
Retiree - Retiree Share	0%	20%	20%	50%	100%
Dependent - Employer Share	50%	40%	40%	25%	0%
Dependent - Retiree Share	50%	60%	60%	75%	100%

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FOR THE YEAR ENDED FEBRUARY 28, 2018**

Eligible to Retire March 1, 2011 or After:

A combination of age plus a minimum of 10 years of non-forfeited Harris County/ TCDRS service equal to 80 or at least age 65 (or Medicare eligible) with a minimum of 10 years of non-forfeited Harris County/TCDRS service to receive 100% of the County contributions for retiree coverage and 50% for dependent coverage.

Employees Hired on or After March 1, 2007:

A combination of age plus a minimum of 20 years of non-forfeited Harris County/TCDRS service equal to 80 or at least age 65 (or Medicare eligible) with a minimum of 15 years of non-forfeited Harris County/TCDRS service to receive any County contributions for retiree or dependent coverage.

Effective March 1, 2012:

Harris County pays no more for retiree healthcare than the premium it pays for active employees for each rate tier structure (retiree only, retiree + spouse, retiree + child, retiree + 2 or more dependents). As a result all non-Medicare retirees pay an additional amount for their coverage regardless of their retirement date.

The Plan rates are set annually by Commissioners Court based on the combination of premiums and costs of the self-funded portion of the plan. The Plan is funded on a pay-as-you-go basis. For the year ended February 28, 2018, plan members or beneficiaries receiving benefits contributed \$11.65 million, or approximately 19.0 percent of total benefits paid during the year. Participating employers contributed \$50.16 million. The total contributions for the year ended February 28, 2018 were \$61.8 million. Total contributions included actual medical claims paid, premiums for other insurance and administrative costs calculated through an annual rate calculation.

THE EMPLOYER:

Annual OPEB Cost. For 2018, the County's annual OPEB cost (expense) was \$143,008,160 (including Toll Road of \$6,628,148) for the postemployment healthcare plan. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended February 28, 2018 were as follows:

Annual Required Contribution ("ARC")	\$ 143,554,856
Add interest on Net OPEB Obligation	24,287,249
Less adjustment to ARC	(24,833,945)
Annual OPEB Cost	143,008,160
Less Contributions made	(50,158,281)
Change in Net OPEB Obligation	92,849,879
Net OPEB Obligation beginning of the year	647,659,984
Net OPEB Obligation end of the year	\$ 740,509,863

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018**

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net Ending OPEB Obligation
2/29/2016	108,983,297	39,006,959	36%	562,956,581
2/28/2017	126,379,573	41,676,170	33%	647,659,984
2/28/2018	143,008,160	50,158,281	35%	740,509,863

The above tables include information for the 5 participating employers to the agent multiple-employer defined benefit postemployment healthcare plan that the County administers. Two of the employers, Emergency 911 and Community Supervision, are not considered departments or component units of the County. The net OPEB obligation for Emergency 911 and Community Supervision is \$1,376,415 and \$0 respectively at February 28, 2017. The net OPEB obligation for Emergency 911 and Community Supervision is \$1,660,856 and \$0 respectively at February 28, 2018. Toll Road’s portion of the net OPEB obligation above is \$39,081,528.

Funded Status and Funding Progress. The funded status of the plan as of March 1, 2017 (most recent actuarial valuation) was as follows:

	All Participants	Toll Road Portion
Unfunded actuarial accrued liability (UAAL)	\$ 1,858,140,539	\$ 70,712,201
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered Payroll (active plan members)	\$ 1,094,075,708	\$ 40,633,320
UAAL as a percentage of covered payroll	170%	174%

The “All Participants” column in the above table includes UAAL of \$2,598,681 for Emergency 911 and UAAL of \$12,492,026 for Community Supervision.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The actuarial assumptions used in calculating the County’s UAAL and ARC are elaborated later in this note. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are made on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In order to perform the valuation, it was necessary for the County and the actuary to make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare trend and interest rates.

In the March 1, 2017 actuarial valuation, a 3.75% discount rate was used. The medical trend rates of 5.6% for 2017 graded down to an ultimate rate of 5% by 2020 were used per the actuary’s best estimate of expected long-term plan experience. The economic assumptions used in this valuation implicitly assume a general

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018

inflation level of approximately 3.0%.

The actuarial cost method used in valuing the County's liabilities was the Entry Age Actuarial Cost Method. Under this method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

Additional Disclosures. Texas Local Government Code, Chapter 175 requires counties to make available continued health benefits coverage under certain circumstances to retirees and their dependents beyond the end of an individual's employment with the County ("Continuation Coverage") by permitting covered employees to purchase continued health benefits coverage in retirement. Texas law does not require counties to fund all or any portion of such coverage.

Because the County is given the authority to pay OPEB for its retired employees, it may incur a debt obligation to pay for OPEB so long as the County follows the constitutional requirement that it have sufficient taxing authority available at the time such debt is incurred to provide for the payment of the debt and has in fact levied a tax for such purpose concurrently with the incurrence of the debt. Any debt incurred in contravention of this constitutional requirement is considered void and payment will not be due. Harris County has not incurred a legal debt obligation for OPEB and has not levied a tax for the same. The County funds the cost associated with OPEB on a current "pay as you go" basis for a single fiscal year through an annual appropriation authorized by Commissioners Court during the County's annual budget adoption process.

GAAP requires governmental organizations to recognize an actuarially calculated accrued liability for OPEB, even though it may not have a legally enforceable obligation to pay OPEB benefits.

Information and amounts presented in the County's Comprehensive Annual Financial Report relative to OPEB expense/expenditures, related liabilities (assets), note disclosures, and supplementary information are only intended to achieve compliance with the requirements of generally accepted accounting principles (GASB 45) and does not constitute or imply that the County is legally obligated to provide OPEB benefits.

The schedule of funding progress, presented as Required Supplementary Information, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

10. COMMITMENTS AND CONTINGENCIES

Construction Commitments

The Authority is committed under various contracts in connection with the construction of Authority facilities, buildings, and roads of \$903,303,144.

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. There are several civil cases that have resulted in settlements, consent decrees or are expected to have financial impact on the Authority in subsequent fiscal years.

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018**

Pollution Remediation

The Authority is subject to numerous Federal, State and Local environmental laws and regulations. GAAP established standards for the accounting and reporting of obligations incurred to address current or potential detrimental effects of existing pollution. The Authority recorded in the financial statements pollution remediation liabilities of \$7,384,175. This liability is partially attributable to land acquired by the Authority with known pollution which is expected to be remediated before the land can be used for its intended purpose. The liability was calculated based on historical expenditures and professional judgment. The liability is an estimate and is subject to revision because of price increases or reductions, changes in technology, changes in applicable laws or regulations, or other circumstances that could cause changes. Although some uncertainties associated with environmental assessment remain and certain costs are not quantifiable, management believes the current provision for such costs is adequate. There are no estimated recoveries reducing the liability as of February 28, 2018. Additional costs, if any, are not expected to have a material effect on the financial condition of the Authority.

Metro Agreement

An amended agreement between Metro and the County related to the Westpark Corridor was approved by Commissioners Court on May 7, 2013. Per this agreement the County is obligated to reimburse Metro for certain increased project costs if incurred. The County's liability to Metro under the agreement shall not exceed the cap of \$41 million and the escalation thereof. Ad valorem taxes are irrevocably pledged to the payment.

11. TRANSFERS AND ADVANCES

The Commissioners Court approved a \$128 million annual allocation for funding of a County thoroughfare program to increase general mobility.

12. REVENUE LEASES

Operating Leases

The Authority was the lessor in a lease for signage. In the current year, there was lease revenue recognized in the amount of \$7,200.

There are contingent rentals which may be received under certain leases based on percentage of receipts. Contingent rentals amounted to \$11,700 in 2018.

13. RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"), replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 improves accounting and financial reporting for postemployment benefits other than pensions. GASB 75 will be implemented by the Authority in fiscal year 2019 and the impact has not yet been determined.

GASB Statement No.83, *Certain Asset Retirement Obligations* ("GASB 83"), addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred; the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually; and the disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2018

remaining useful life of the associated tangible capital assets. GASB 83 will be implemented by the Authority in fiscal year 2020 and the impact has not yet been determined.

GASB Statement No.84, *Fiduciary Activities* (“GASB 84”), establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be implemented by the Authority in fiscal year 2020 and the impact has not yet been determined.

GASB Statement No.85, *Omnibus 2017* (“GASB 85”), addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB 85 will be implemented by the Authority in fiscal year 2019 and the impact has not yet been determined.

GASB Statement No.86, *Certain Debt Extinguishment Issues* (“GASB 86”); Statement No.7, *Advance Refundings Resulting in Defeasance of Debt*, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. GASB 86 will be implemented by the Authority in fiscal year 2019 and the impact has not yet been determined.

GASB Statement No.87, *Leases* (“GASB 87”), require recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 will be implemented by the Authority in fiscal year 2021 and the impact has not yet been determined.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (“GASB 88”), This Statement requires additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB 88 will be implemented by the Authority in fiscal year 2020 and the impact has not yet been determined.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (“GASB 89”), This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. GASB 89 will be implemented by the Authority in fiscal year 2021 and the impact has not yet been determined.



REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
February 28, 2018
(Unaudited)**

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
2016	3/1/2015	-	1,311,021,556	1,311,021,556	0%	961,963,878	136.3%
2017	3/1/2015	-	1,332,343,309	1,332,343,309	0%	1,050,715,841	126.8%
2018	3/1/2017	-	1,858,140,539	1,858,140,539	0%	1,094,075,708	169.8%

The above table includes information for the 5 participating employers to the agent multiple-employer defined benefit postemployment healthcare plan that the County administers. Two of the employers, Emergency 911 and Community Supervision are not considered departments or component units of the County; the UAAL for these entities are \$2,598,681 and \$12,492,026 respectively.

Toll Road is an enterprise fund of the County and included in the above table. The following table contains Toll Road specific information:

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
2016	3/1/2015	-	45,843,328	45,843,328	0%	35,243,520	130.1%
2017	3/1/2015	-	46,723,318	46,723,318	0%	40,313,416	115.9%
2018	3/1/2017	-	70,712,201	70,712,201	0%	40,633,320	174.0%

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS
(Amounts in thousands)

	Year Ended December 31		
	2015	2016	2017
TOTAL PENSION LIABILITY			
Service cost	\$ 131,567	\$ 149,334	\$ 146,841
Interest on total pension liability	411,525	437,989	468,982
Effect of assumption changes or inputs	51,149	-	10,614
Effect of economic/demographic gains	(7,458)	(27,493)	(6,851)
Benefit payments/refunds of contributions	(220,100)	(238,220)	(263,941)
Net change in total pension liability	337,800	321,610	355,645
Total pension liability, beginning	5,113,052	5,450,852	5,772,462
Total pension liability, ending (a)	<u>\$ 5,450,852</u>	<u>\$ 5,772,462</u>	<u>\$ 6,128,107</u>
FIDUCIARY NET POSITION			
Employer contributions	\$ 132,346	\$ 136,391	\$ 142,896
Member contributions	66,878	68,371	71,869
Investment income net of investment expenses	(30,646)	349,499	733,526
Benefit payments/refunds of contributions	(220,100)	(238,220)	(263,941)
Administrative expenses	(3,419)	(3,799)	(3,797)
Other	363	(7,961)	(605)
Net change in fiduciary net position	(54,578)	304,281	679,948
Fiduciary net position, beginning	4,781,059	4,726,481	5,030,762
Fiduciary net position, ending (b)	<u>\$ 4,726,481</u>	<u>\$ 5,030,762</u>	<u>\$ 5,710,710</u>
Net pension liability, ending = (a) - (b)	<u>\$ 724,371</u>	<u>\$ 741,700</u>	<u>\$ 417,397</u>
Fiduciary net position as a % of total pension liability	86.71%	87.15%	93.19%
Pension covered payroll	\$ 953,501	\$ 974,217	\$ 1,020,708
Net pension liability as a % of covered payroll	75.97%	76.13%	40.89%
Toll Road's Portion:			
Allocated share	3.655%	3.551%	3.761%
Employer contribution	\$ 4,836,751	\$ 4,843,872	\$ 5,374,391
Net pension liability, ending	\$ 26,473,095	\$ 26,341,183	\$ 15,698,382

Note: The County implemented GASB 68 in fiscal year 2016. Information prior to fiscal year 2016 is not available, ten years of data will accumulate over time.

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
February 28, 2018**

Year Ended February 28	Actuarially Determined Contribution (1)	Actual Employer Contribution (1)	Contribution Deficiency (Excess)	Pensionable Covered Payroll (2)	Actual Contribution as a % of Covered Payroll
2009	\$ 80,968,198	\$ 80,968,198	\$ -	\$ 839,919,068	9.6%
2010	85,977,877	85,977,877	-	882,729,740	9.7%
2011	96,038,173	96,038,173	-	849,143,883	11.3%
2012	77,988,234	77,988,234	-	794,141,978	9.8%
2013	83,215,181	83,215,181	-	779,898,383	10.7%
2014	92,818,576	98,731,288	(5,912,712)	840,350,352	11.7%
2015	106,802,688	110,837,562	(4,034,874)	871,490,916	12.7%
2016	132,345,738	128,702,142	3,643,596	925,999,776	13.9%
2017	132,006,399	137,799,357	(5,792,958)	984,281,203	14.0%
2018	140,449,509	143,768,463	(3,318,954)	1,021,330,992	14.1%

(1) TCDRS calculated actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

(2) Payroll is calculated based on contributions as reported to TCDRS.

Toll Road is an enterprise fund of the County and is included in the above table. The following table contains Toll Road specific information:

Year Ended February 28	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	3,970,459	4,112,878	(142,419)	32,340,485	12.7%
2016	4,836,615	4,696,207	140,408	33,788,248	13.9%
2017	4,843,872	4,905,697	(61,825)	35,040,708	14.0%
2018	5,374,391	5,410,071	(35,680)	38,434,810	14.1%

Additional years for the Toll Road Authority will be added as they become available.

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12.7 years (based on contribution rate calculated in 12/31/2017 valuation)
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	Varies by age and service. 4.9% average over career including inflation.

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 February 28, 2018**

Investment rate of return	8.00%, net of investment expenses, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Morality Table for males and 110% of the RP-2014 Healthy Annuitant Morality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: Employer contributions reflect that the member contribution rate was increased to 7%. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.

*Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to Schedule.



OTHER INFORMATION

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
Traffic Count Table
Schedule 1
(Unaudited)

Component/Segment	2014	2015	2016	2017	2018
Hardy Toll Road-North	19,745,713	22,526,309	23,173,858	20,423,602	22,934,292
Hardy Toll Road-South	22,582,166	25,781,244	27,556,761	24,539,597	27,139,877
Sam Houston Tollway-South	73,769,141	77,815,638	81,778,671	82,262,865	78,854,052
Sam Houston Tollway-Central	60,951,356	64,822,097	66,791,573	64,859,879	62,102,272
Sam Houston Tollway-North	76,250,824	79,759,184	81,246,956	77,225,677	76,583,006
Sam Houston Ship Channel Bridge	17,274,970	18,944,058	19,328,018	18,652,445	19,071,816
Sam Houston Tollway-North/East	17,038,513	19,844,104	22,237,159	24,612,792	26,203,953
Sam Houston Tollway-East	23,071,940	25,109,427	26,722,662	26,997,127	27,880,290
Sam Houston Tollway-South/East	29,153,299	32,873,557	35,249,831	35,817,656	34,830,449
Sam Houston Tollway-South/West	31,343,137	36,796,203	41,311,089	42,815,881	43,109,165
Westpark Tollway	45,957,937	48,915,625	51,855,139	52,372,241	50,380,580
Spur 90A / Fort Bend Parkway Extension	3,728,952	4,013,391	4,338,216	4,603,753	4,807,710
Katy Managed Lanes (a)	22,388,942	28,243,333	31,615,049	32,611,540	34,098,330
Tomball Tollway (b)	-	-	10,744,952	15,995,964	16,996,331
Total	<u>443,256,890</u>	<u>485,444,170</u>	<u>523,949,934</u>	<u>523,791,019</u>	<u>524,992,123</u>

(a) Katy Managed Lanes include High Occupancy Vehicle non-toll transactions.

(b) Tomball Tollway opened April 2015.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
Toll Rate Schedule
Schedule 2
(Unaudited)

Toll Rate Schedule Effective as of September 12, 2015

	Cash/Attended/Automatic Coin Machine Lanes ^(a)	EZ TAG Lanes ^(b)
<u>Two Axle Vehicles</u>		
Sam Houston Tollway and Hardy Toll Road Plazas	\$ 1.00 - 1.75	\$ 0.50 - 1.50
Sam Houston Ship Channel Bridge	N/A	\$1.50
Westpark Tollway	N/A	\$ 0.40 - 1.50
Fort Bend Parkway Extension (Spur 90A)	\$1.75	\$1.50
Katy Managed Lanes	N/A	\$ 0.30 - 3.20
Tomball Tollway	N/A	\$ 0.90 - 1.50
<u>Three to Six Axle Vehicles</u>		
Sam Houston Tollway and Hardy Toll Road Plazas	\$ 1.25 - 8.75	\$ 1.25 - 8.75
Sam Houston Ship Channel Bridge	N/A	\$ 3.50 - 8.75
Westpark Tollway	N/A	\$ 1.00 - 8.75
Fort Bend Parkway Extension (Spur 90A)	N/A	\$ 3.50 - 8.75
Katy Managed Lanes	N/A	\$7.00
Tomball Tollway	N/A	\$ 2.00 - 8.75

(a) This column consolidates the columns "Attended Lanes" and "Exact Change Lanes" in previously published versions of Schedule 2.

(b) These rates do not include amounts charged for toll violations.

Note: The schedule above sets forth the current toll rate schedule for the Toll Road Project, which became effective as of September 12, 2015 and was effective throughout the fiscal year 2018.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS

Toll Road Selected Financial Information

**Schedule 3
(Unaudited)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating Revenues					
Toll revenues	\$ 609,965,677	\$ 688,920,884	\$ 759,275,927	\$ 774,025,958	\$ 740,272,353
Intergovernmental revenues	215,786	-	2,995,091	19,175,649	-
Total Operating Revenues	<u>610,181,463</u>	<u>688,920,884</u>	<u>762,271,018</u>	<u>793,201,607</u>	<u>740,272,353</u>
Operating Expenses					
Salaries	51,181,705	52,791,017	57,562,773	65,351,353	66,729,515
Materials and supplies	13,289,189	12,468,384	12,595,180	20,875,511	19,098,352
Services and fees	90,902,682	95,914,299	150,321,298	151,572,050	125,440,763
Utilities	3,400,019	3,115,952	3,540,001	3,788,013	3,241,369
Transportation and travel	3,132,094	3,008,253	3,043,332	6,979,787	4,843,908
Depreciation	90,149,522	94,431,249	101,301,061	106,852,470	104,186,939
Total Operating Expenses	<u>252,055,211</u>	<u>261,729,154</u>	<u>328,363,645</u>	<u>355,419,184</u>	<u>323,540,846</u>
Income from Operations	<u>358,126,252</u>	<u>427,191,730</u>	<u>433,907,373</u>	<u>437,782,423</u>	<u>416,731,507</u>
Nonoperating Revenues					
Investment income	5,051,716	20,471,612	15,965,906	7,000,884	13,472,769
Lease revenues	26,700	21,814	18,900	18,900	18,900
Miscellaneous Income	1,061,250	1,922,228	46,073,792	3,031,204	1,060,384
Total Nonoperating Revenues	<u>6,139,666</u>	<u>22,415,654</u>	<u>62,058,598</u>	<u>10,050,988</u>	<u>14,552,053</u>
Nonoperating Expenses					
Interest expense	92,818,557	91,521,555	87,107,618	75,454,167	69,830,904
Bond Issuance Costs	-	-	1,744,844	3,233,525	3,403,805
Amortization expense	40,487,937	14,966,359	2,880,926	4,051,144	4,568,131
Other nonoperating expenses	642,823	224,360,951	3,163,575	327,654	1,006,771
Total Nonoperating Expenses	<u>133,949,317</u>	<u>330,848,865</u>	<u>94,896,963</u>	<u>83,066,490</u>	<u>78,809,611</u>
Net Income Before Contributions and Transfers Out	230,316,601	118,758,519	401,069,008	364,766,921	352,473,949
Transfers In	-	157,037	-	-	-
Transfers Out (a)	(121,047,886)	(121,925,426)	(124,031,107)	(134,000,000)	(127,615,000)
Change in Net Position	<u>\$ 109,268,715</u>	<u>\$ (3,009,870)</u>	<u>\$ 277,037,901</u>	<u>\$ 230,766,921</u>	<u>\$ 224,858,949</u>

(a) Commissioners Court annually authorizes the transfer of Harris County Toll Road Authority net income for funding of County thoroughfares that enhance traffic flow to current and proposed toll facilities and to increase mobility.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
Historical Toll Road Operating Results and Coverages
Schedule 4
(Unaudited)

Fiscal Year Ending	(a)		(b)		Revenues Available For Unlimited Subordinate Lien Tax Bonds		Coverage Ratio On Unlimited Subordinate Lien Tax Bonds	
	Project Revenues	Other Earnings	Debt Service Senior Lien Revenue Bonds (c)	Coverage Ratio On Senior Lien Revenue Bonds	O & M Expenses	Debt Service Tax Bonds	Debt Service Tax Bonds	Lien Tax Bonds
2009	\$ 442,015,417	\$ 42,667,384	\$ 99,699,357	4.861	\$ 104,062,177	\$ 280,921,267	\$ 73,760,398	3.809
2010	455,547,954	35,046,568	103,633,212	4.734	120,029,107	266,932,203	87,130,769	3.064
2011	481,346,283	14,507,528	141,045,057	3.516	121,195,357	233,613,397	85,923,975	2.719
2012	519,296,886	45,625,135	140,612,020	4.018	120,679,625	303,630,376	85,172,767	3.565
2013	560,079,182	27,721,804	139,230,673	4.222	126,516,150	322,054,163	84,627,966	3.806
2014	609,965,677	5,293,713	147,728,476	4.165	136,373,150	331,157,764	73,812,290	4.486
2015	688,920,884	20,493,426	141,159,484	5.026	154,740,075	413,514,751	82,855,667	4.991
2016	759,275,927	18,979,897	142,199,571	5.473	203,809,584	432,246,669	58,516,811	7.387
2017	774,025,958	26,195,433	148,479,580	5.389	215,238,531	436,503,280	42,799,012	10.199
2018	740,272,353	14,522,053	148,108,962	5.096	184,590,613	422,094,831	41,737,732	10.113

(a) Total investment income less interest revenue from the Office Building. Includes lease revenue income and intergovernmental income.

(b) O&M expenses are from TRA Operations and Maintenance funds.

(c) The Debt Service Senior Lien Revenue amount for fiscal years 2011-2015 has been restated to include swap interest and certain other interest payments that were not previously included, to reflect debt service as defined in the bond indentures.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
Revenues by Toll Road Components/Segments
Schedule 5
(Unaudited)

Component/Segment	2014	2015	2016	2017	2018
Hardy Toll Road-North	\$ 26,087,773	\$ 30,484,767	\$ 31,084,565	\$ 26,437,979	\$ 31,570,462
Hardy Toll Road-South (a)	28,888,653	32,934,474	35,037,979	31,638,787	34,312,141
Sam Houston Tollway-South	94,450,310	100,818,123	105,326,514	105,453,467	103,138,124
Sam Houston Tollway-Central	82,725,157	89,664,185	92,621,249	89,313,891	88,779,628
Sam Houston Tollway-North	100,831,887	107,823,763	108,921,231	102,728,300	105,575,595
Sam Houston Ship Channel Bridge	29,956,041	32,543,323	32,232,095	27,783,262	29,670,371
Sam Houston Tollway-East	31,564,555	34,727,037	37,370,417	37,318,341	39,478,531
Sam Houston Tollway-South/East	39,360,926	44,281,024	48,811,909	49,393,072	49,722,616
Sam Houston Tollway-South/West	37,485,698	47,003,729	53,267,187	55,138,612	56,530,097
Sam Houston Tollway-North/East	20,156,797	23,900,271	26,825,495	30,091,751	33,099,803
Westpark Tollway	51,442,972	54,735,176	57,980,110	58,972,968	58,408,950
Spur 90A	4,950,869	5,343,739	5,772,065	6,172,055	6,577,661
Katy Managed Lanes	13,924,091	17,428,859	18,344,245	18,442,791	20,406,431
Tomball Tollway (d)	-	-	14,479,134	21,488,181	22,799,853
Administration (b)	25,901,055	36,301,290	50,166,867	56,521,738	44,878,302
Fort Bend (g), (h)	1,774,907	2,950,781	3,330,295	3,675,862	(568,718)
MCTRA (e)	-	-	180,767	340,662	6,387
IOP-NTTA (c)	8,627,655	10,497,290	13,339,753	15,586,467	3,658,770
IOP-TTA (c)	11,249,883	16,585,363	23,106,134	35,208,801	11,620,058
IOP-CTRMA (c), (g)	125,714	221,296	322,873	428,410	(166,879)
IOP-Metro (c)	460,734	676,394	755,043	815,826	25,594
IOP-KTA (g), (h)	-	-	-	-	(177,924)
Banc Pass (f)	-	-	-	1,074,735	926,500
Total	<u>\$ 609,965,677</u>	<u>\$ 688,920,884</u>	<u>\$ 759,275,927</u>	<u>\$ 774,025,958</u>	<u>\$ 740,272,353</u>

(a) Includes toll revenues collected for the Airport Connector.

(b) Consist of EZ tag fees, video enforcement center deposits, unpaid tolls, bank debits and credits and replacement identification fees.

(c) Revenues attributable to the Statewide Toll Interoperability Program, pursuant to various agreements.

(d) Tomball Tollway opened April 2015.

(e) Interlocal agreement with Montgomery County Toll Road Authority to collect tolls as of July 2015.

(f) Revenues attributable to County's agreement with Banc Pass.

(g) Negative revenue represents amounts due to other authorities.

(h) Interlocal agreement with Kansas Turnpike Authority to collect tolls as of May 2017.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS

Toll Road Bonds Debt Service Requirements

Schedule 6

(Unaudited)

Fiscal Year	Total Toll Road Unlimited Tax & Subordinate Lien Revenue Bonds			Total Toll Road Senior Lien Revenue Bonds			Total Toll Road Bonds Debt Service		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 27,445,000	\$ 13,742,050	\$ 41,187,050	\$ 71,735,000	\$ 90,838,070	\$ 162,573,070	\$ 99,180,000	\$ 104,580,120	\$ 203,760,120
2020	28,345,000	12,277,562	40,622,562	72,455,000	89,015,954	161,470,954	100,800,000	101,293,516	202,093,516
2021	29,285,000	10,764,775	40,049,775	75,350,000	85,534,706	160,884,706	104,635,000	96,299,481	200,934,481
2022	19,445,000	9,485,613	28,930,613	79,885,000	81,828,506	161,713,506	99,330,000	91,314,119	190,644,119
2023	20,240,000	8,449,022	28,689,022	57,080,000	78,520,918	135,600,918	77,320,000	86,969,940	164,289,940
2024	20,700,000	7,384,903	28,084,903	60,005,000	75,593,794	135,598,794	80,705,000	82,978,697	163,683,697
2025	21,165,000	6,297,059	27,462,059	63,085,000	72,516,544	135,601,544	84,250,000	78,813,603	163,063,603
2026	12,070,000	5,430,338	17,500,338	66,320,000	69,281,418	135,601,418	78,390,000	74,711,756	153,101,756
2027	12,090,000	4,796,138	16,886,138	69,690,000	65,908,024	135,598,024	81,780,000	70,704,162	152,484,162
2028	12,115,000	4,160,756	16,275,756	73,235,000	62,365,450	135,600,450	85,350,000	66,526,206	151,876,206
2029	12,135,000	3,524,194	15,659,194	76,965,000	58,636,593	135,601,593	89,100,000	62,160,787	151,260,787
2030	12,160,000	2,886,450	15,046,450	80,855,000	54,743,994	135,598,994	93,015,000	57,630,444	150,645,444
2031	12,185,000	2,247,394	14,432,394	84,930,000	50,668,593	135,598,593	97,115,000	52,915,987	150,030,987
2032	12,210,000	1,607,025	13,817,025	89,245,000	46,352,994	135,597,994	101,455,000	47,960,019	149,415,019
2033	12,240,000	965,212	13,205,212	93,825,000	41,776,244	135,601,244	106,065,000	42,741,456	148,806,456
2034	12,265,000	321,956	12,586,956	98,480,000	37,118,619	135,598,619	110,745,000	37,440,575	148,185,575
2035	-	-	-	103,160,000	32,440,742	135,600,742	103,160,000	32,440,742	135,600,742
2036	-	-	-	107,865,000	27,734,869	135,599,869	107,865,000	27,734,869	135,599,869
2037	-	-	-	55,795,000	23,819,900	79,614,900	55,795,000	23,819,900	79,614,900
2038	-	-	-	46,930,000	21,421,300	68,351,300	46,930,000	21,421,300	68,351,300
2039	-	-	-	49,165,000	19,195,375	68,360,375	49,165,000	19,195,375	68,360,375
2040	-	-	-	36,470,000	17,144,500	53,614,500	36,470,000	17,144,500	53,614,500
2041	-	-	-	37,955,000	15,283,875	53,238,875	37,955,000	15,283,875	53,238,875
2042	-	-	-	32,020,000	13,534,500	45,554,500	32,020,000	13,534,500	45,554,500
2043	-	-	-	36,760,000	11,815,000	48,575,000	36,760,000	11,815,000	48,575,000
2044	-	-	-	38,485,000	9,933,875	48,418,875	38,485,000	9,933,875	48,418,875
2045	-	-	-	40,175,000	8,087,650	48,262,650	40,175,000	8,087,650	48,262,650
2046	-	-	-	41,925,000	6,280,600	48,205,600	41,925,000	6,280,600	48,205,600
2047	-	-	-	43,555,000	4,399,075	47,954,075	43,555,000	4,399,075	47,954,075
2048	-	-	-	45,350,000	2,442,350	47,792,350	45,350,000	2,442,350	47,792,350
2049	-	-	-	31,330,000	802,100	32,132,100	31,330,000	802,100	32,132,100
2050	-	-	-	3,200,000	80,000	3,280,000	3,200,000	80,000	3,280,000
Total	\$ 276,095,000	\$ 94,340,447	\$ 370,435,447	\$ 1,963,280,000	\$ 1,275,116,132	\$3,238,396,132	\$2,239,375,000	\$ 1,369,456,579	\$3,608,831,579

**TOLL ROAD AUTHORITY ENTERPRISE FUND
OF HARRIS COUNTY, TEXAS
OUTSTANDING TOLL ROAD TAX BONDS
Schedule 7
(Unaudited)**

The Series 1997 and Series 2007C Tax Bonds are collectively referred to as the “Toll Road Tax Bonds”.

<u>Issue</u>	<u>Date Issued</u>	<u>Outstanding Principal Amount at February 28, 2018</u>
Harris County, Texas, Toll Road Unlimited Tax and Subordinate Lien Revenue Bonds, Series, 1997	August 1997	\$ 26,005,000
Harris County, Texas, Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series, 2007C	August 2007	250,090,000
TOTAL		<u>\$ 276,095,000</u>

**TOLL ROAD AUTHORITY ENTERPRISE FUND
OF HARRIS COUNTY, TEXAS
OUTSTANDING TOLL ROAD SENIOR LIEN REVENUE BONDS
Schedule 8
(Unaudited)**

The Series 2007A, Series 2007B, Series 2008B, Series 2009A, Series 2009C, Series 2010D, Series 2012A, Series 2012B, Series 2012C, Series 2012D, Series 2015B, Series 2016A, and Series 2018A are referred to as the “Senior Lien Revenue Bonds”.

<u>Issue</u>	<u>Outstanding Principal Amount at February 28, 2018</u>
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2007A	\$ 14,850,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2007B	145,570,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2008B	4,455,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2009A	49,980,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2009C	62,500,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2010D	22,775,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2012A	20,625,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2012B	139,500,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2012C	229,695,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2012D	21,750,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2015B	161,575,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2016A	530,105,000
Harris County, Texas, Toll Road Senior Lien Revenue Refunding Bonds Series 2018A	559,900,000
TOTAL	\$ 1,963,280,000

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
OPERATING FUNDS BUDGET FOR THE COUNTY'S FISCAL YEAR 2018-2019**

**Schedule 9
(Unaudited)**

On February 13, 2018 the Commissioners Court adopted the budget for the County for the Fiscal Year 2018-2019. The Fiscal Year 2019 budget included appropriations for some capital projects, which are financed from current revenues. The following is a summary of the Fiscal Year 2018-2019 budget for the County's Current Operating Fund:

Cash Balance as of March 1, 2018	\$ 980,474,062
Estimated Revenues:	
Ad Valorem and Miscellaneous Taxes	1,446,806,533
Charges for Services	245,364,752
Fines and Forfeitures	18,162,283
Intergovernmental Revenues	48,263,214
Interest	6,016,590
Other	48,668,160
Total Cash and Estimated Revenues	<u>\$ 2,793,755,594</u>
Appropriations:	
Current Operating Expenses	\$ 2,772,789,596
Capital Outlay:	
Roads	8,192,089
Parks	10,550,300
Office/Courts	2,223,609
Total Appropriations	<u>\$ 2,793,755,594</u>

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
COUNTY CAPITAL PROJECTS FUNDS BUDGETING
Schedule 10
(Unaudited)

County Capital Projects Funds are used in projects including construction of roads, office and court buildings, jails, juvenile home facilities, parks and libraries. Cash and investments on hand in the Capital Projects Funds at February 28, 2018 derived from the sale of bonds and other sources and the investment income (except investment income may be used for debt service) thereon, are designated to be spent over a period of several years for the following purposes:

Roads	\$ 156,041,142
Permanent Improvements	95,092,517
Reliant Park	12,026,873
Flood Control	204,540,471
Total	<u>\$ 467,701,003</u>

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
COUNTY ASSESSED VALUES AND TAX RATES
(EXCEPT FLOOD CONTROL DISTRICT)
LAST TEN FISCAL YEARS
Schedule 11
(Unaudited)
(amounts in thousands)

Fiscal Year	Real Property	Personal Property	Less Exemptions (a)	Total Taxable Assessed Value	M&O Tax Rate	Debt Service Tax Rate	Total County Tax Rate
2009	\$ 313,740,198	\$ 50,453,455	\$ 82,016,388	\$ 282,177,265	0.33815	0.05108	0.38923
2010	316,949,419	54,044,038	85,902,801	285,090,656	0.33401	0.05823	0.39224
2011	307,139,208	51,636,041	85,743,093	273,032,156	0.33401	0.05404	0.38805
2012	313,475,950	51,539,733	88,299,285	276,716,398	0.33444	0.05673	0.39117
2013	324,827,229	57,313,966	91,639,208	290,501,987	0.33271	0.06750	0.40021
2014	347,626,720	62,743,816	93,848,695	316,521,841	0.34547	0.06908	0.41455
2015	384,362,133	65,476,453	99,412,873	350,425,713	0.34547	0.07184	0.41731
2016	425,362,614	74,298,323	108,139,145	391,521,792	0.34547	0.07376	0.41923
2017	465,761,511	71,377,390	115,700,039	421,438,862	0.34500	0.07156	0.41656
2018	486,039,747	67,481,606	117,128,669	436,392,684	0.34500	0.07301	0.41801

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(a) The majority of exemptions are made up of the optional 20% homestead property exemption. In addition, persons 65 years of age or older or disabled receive an exemption up to a maximum individual amount of \$160,000.

Source: Harris County Appraisal District.

Note: Property in the County must be revalued every three years. Property is assessed at market value; therefore, the taxable values are equal to market value less applicable exemptions. Tax rates are per \$100 of assessed value.

**TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
COUNTY TAX LEVIES AND COLLECTIONS
(EXCEPT FLOOD CONTROL DISTRICT)**

LAST TEN FISCAL YEARS

Schedule 12

(Unaudited)

(amounts in thousands)

Fiscal Year	Taxes Levied for the Fiscal Year	Adjusted Levy as of End of Current Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years*	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2009	\$ 1,089,141	\$ 1,085,421	\$ 981,807	90.1	\$ 100,842	\$ 1,082,649	99.7
2010	1,114,429	1,101,460	1,036,477	93.0	62,036	1,098,513	99.7
2011	1,058,623	1,050,226	987,684	93.3	59,790	1,047,474	99.7
2012	1,081,861	1,073,154	1,022,187	94.5	48,139	1,070,326	99.7
2013	1,160,905	1,150,379	1,100,588	94.8	46,566	1,147,154	99.7
2014	1,308,910	1,293,515	1,247,389	95.3	40,785	1,288,174	99.6
2015	1,459,066	1,443,477	1,390,628	95.3	42,676	1,433,304	99.3
2016	1,637,031	1,637,031	1,554,734	95.0	56,495	1,611,229	98.4
2017	1,754,007	1,754,007	1,663,289	94.8	48,591	1,711,880	97.6
2018	1,822,187	1,822,187	1,723,979	94.6	-	1,723,979	94.6

* For reporting purposes refunds associated with a prior year are netted against the prior year collections.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(amounts in thousands)
Schedule 13
(Unaudited)

Taxpayers	2018			2009		
	2017 Taxable Valuations (a)	Rank	Percentage of Total 2017 Taxable Valuation (b)	2008 Taxable Valuations (a)	Rank	Percentage of Total 2008 Taxable Valuation (c)
Centerpoint Energy, Inc.	\$ 3,344,794	1	0.77%	\$ 2,500,761	3	0.89%
Exxon Mobil Corp	3,308,917	2	0.76	4,037,542	1	1.43
Chevron Chemical Company	2,940,717	3	0.67	1,493,069	5	0.53
Shell Oil Co	1,634,579	4	0.37	2,638,781	2	0.94
Equistar Chemicals LP	1,413,362	5	0.32	1,465,828	6	0.52
Palmetto TransOceanic LLC	1,296,880	6	0.30	-		0.00
National Oilwell Inc	1,060,010	7	0.24	-		0.00
Crescent HC and 4HC Investors LLC	873,922	8	0.20	1,378,917	7	0.49
Hewlett Packard	870,073	9	0.20	805,651	11	0.29
Walmart	869,095	10	0.20	721,534	13	0.26
Valero Energy Corp	841,934	11	0.19	-		0.00
United Airlines INC	828,239	12	0.19	-		0.00
Celanese LTD	735,349	13	0.17	-		0.00
Cousins POC & Greenway	715,139	14	0.16	-		0.00
HG Galleria I II III LP	679,041	15	0.16	-		0.00
Houston Refining	-		0.00	1,555,086	4	0.55
Hines Interests Ltd Partnership	-		0.00	1,248,647	8	0.44
AT&T Mobility LLC	-		0.00	999,524	9	0.35
Lyondell Chemical	-		0.00	993,951	10	0.35
Cullen Allen Holdings LP	-		0.00	740,183	12	0.26
BP Amoco	-		0.00	666,938	14	0.24
Teachers Insurance	-		0.00	659,700	15	0.23
Total	\$ 21,412,051		4.91%	\$ 21,906,112		7.77%

Source: Harris County Appraisal District.

- (a) Amounts shown for these taxpayers do not include taxable valuations, which may be substantial, attributable to certain subsidiaries and affiliates which are not grouped on the tax rolls with the taxpayers shown.
- (b) Based on the County's total taxable value as of February 28, 2018.
- (c) Based on the County's total taxable value as of February 28, 2009.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
COUNTY TAX DEBT OUTSTANDING
Schedule 14
(Unaudited)

	<u>County's Total Outstanding Tax Debt (a)</u>
Limited Tax Debt	\$ 991,259,361
Unlimited Tax Debt	746,670,000
Flood Control	470,745,000
Toll Road Tax Bonds	<u>276,095,000</u>
Total	\$ 2,484,769,361
Less: Toll Road Tax Bonds	<u>(276,095,000)</u>
Total (Approximately 0.40% of 2017 Assessed Value)	<u><u>\$ 2,208,674,361</u></u>

(a) Excluding Flood Control District debt of \$83,075,000 paid for by the District's ad valorem tax revenues. Amounts expressed at gross value, not considering unamortized premium or discount or accretion of capital appreciation bonds.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
COUNTY HISTORICAL TAX DEBT OUTSTANDING
Schedule 15
(Unaudited)

The following table sets forth the County's ad valorem tax debt outstanding, as of the end of the Fiscal years 2008-09 through 2017-18.

Fiscal Year	County's Debt Outstanding (a) (thousands)	Taxable Value (b) (thousands)	Outstanding as a Percentage of Taxable Value	Estimated Population (c)	Debt Outstanding Per Capita
2009	\$ 2,981,996	\$ 282,177,265	1.06	3,984,349	\$ 748
2010	2,854,982	285,090,656	1.00	4,070,989	701
2011	2,925,447	273,032,156	1.07	4,092,459	715
2012	2,990,172	276,716,398	1.08	4,178,574	716
2013	2,825,047	290,501,987	0.97	4,253,700	664
2014	2,713,804	316,521,841	0.86	4,336,853	626
2015	2,765,888	350,425,713	0.79	4,441,370	623
2016	2,759,388	391,521,792	0.70	4,538,028	608
2017	2,606,518	421,438,862	0.62	4,589,928	568
2018	2,484,769	436,392,684	0.57	4,652,980	534

- (a) Includes debt paid for by the County's ad valorem tax revenues.
- (b) Taxable values are net of exemptions and abatements. Property is assessed at 100% of appraised value.
- (c) Source: Bureau of the Census.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
SCHEDULE OF COUNTY-WIDE AD VALOREM TAX DEBT SERVICE REQUIREMENTS
SCHEDULE 16
(Unaudited)
(amounts in thousands)

Fiscal Year	Limited Tax Debt			Unlimited Tax Debt			Toll Road Unlimited Tax & Subordinate Lien Revenue Bonds			Flood Control (a)			Total County-Wide Tax Debt		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 78,861	\$ 53,109	\$ 131,970	\$ 51,405	\$ 36,680	\$ 88,085	\$ 27,445	\$ 13,742	\$ 41,187	\$ 27,650	\$ 25,000	\$ 52,650	\$ 185,361	\$ 128,531	\$ 313,892
2020	76,371	51,361	127,732	47,250	34,441	81,691	28,345	12,278	40,623	28,025	25,057	53,082	179,991	123,137	303,128
2021	84,960	39,278	124,238	52,395	32,084	84,479	29,285	10,765	40,050	29,495	23,586	53,081	196,135	105,713	301,848
2022	92,995	35,315	128,310	35,595	29,511	65,106	19,445	9,486	28,931	30,980	22,104	53,084	179,015	96,416	275,431
2023	71,720	30,871	102,591	65,315	27,757	93,072	20,240	8,449	28,689	32,605	20,478	53,083	189,880	87,555	277,435
2024	55,966	39,201	95,167	67,255	24,593	91,848	20,700	7,385	28,085	34,235	18,847	53,082	178,156	90,026	268,182
2025	82,472	37,208	119,680	59,120	21,296	80,416	21,165	6,297	27,462	35,525	17,136	52,661	198,282	81,937	280,219
2026	47,564	33,608	81,172	49,800	18,391	68,191	12,070	5,430	17,500	37,220	15,743	52,963	146,654	73,172	219,826
2027	59,280	19,100	78,380	50,135	15,901	66,036	12,090	4,796	16,886	38,655	13,883	52,538	160,160	53,680	213,840
2028	60,480	16,113	76,593	50,490	13,394	63,884	12,115	4,161	16,276	39,530	11,950	51,480	162,615	45,618	208,233
2029	41,315	27,540	68,855	50,985	10,870	61,855	12,135	3,524	15,659	40,530	9,973	50,503	144,965	51,907	196,872
2030	32,070	11,246	43,316	41,080	8,320	49,400	12,160	2,886	15,046	39,555	7,947	47,502	124,865	30,399	155,264
2031	33,500	9,618	43,118	38,915	6,267	45,182	12,185	2,247	14,432	26,820	5,969	32,789	111,420	24,101	135,521
2032	34,995	7,953	42,948	39,480	4,317	43,797	12,210	1,607	13,817	10,370	4,967	15,337	97,055	18,844	115,899
2033	32,285	6,203	38,488	15,050	2,373	17,423	12,240	965	13,205	10,890	4,448	15,338	70,465	13,989	84,454
2034	11,005	5,134	16,139	15,805	1,620	17,425	12,265	322	12,587	11,435	3,904	15,339	50,510	10,980	61,490
2035	11,555	4,584	16,139	16,595	830	17,425	-	-	-	12,005	3,332	15,337	40,155	8,746	48,901
2036	12,130	4,006	16,136	-	-	-	-	-	-	12,605	2,732	15,337	24,735	6,738	31,473
2037	10,880	3,400	14,280	-	-	-	-	-	-	13,115	2,228	15,343	23,995	5,628	29,623
2038	11,420	2,856	14,276	-	-	-	-	-	-	13,640	1,703	15,343	25,060	4,559	29,619
2039	12,000	2,285	14,285	-	-	-	-	-	-	14,185	1,157	15,342	26,185	3,442	29,627
2040	12,600	1,685	14,285	-	-	-	-	-	-	14,750	590	15,340	27,350	2,275	29,625
2041	13,190	1,089	14,279	-	-	-	-	-	-	-	-	-	13,190	1,089	14,279
2042	3,730	466	4,196	-	-	-	-	-	-	-	-	-	3,730	466	4,196
2043	3,880	317	4,197	-	-	-	-	-	-	-	-	-	3,880	317	4,197
2044	4,035	161	4,196	-	-	-	-	-	-	-	-	-	4,035	161	4,196
Total	\$ 991,259	\$ 443,707	\$ 1,434,966	\$ 746,670	\$ 288,645	\$ 1,035,315	\$ 276,095	\$ 94,340	\$ 370,435	\$ 553,820	\$ 242,734	\$ 796,554	\$ 2,567,844	\$ 1,069,426	\$ 3,637,270

(a) Includes Flood Control District debt paid for by the District's ad valorem tax revenues and debt paid for by the County's ad valorem tax revenues as a result of refunded commercial paper.

**TOLL ROAD AUTHORITY ENTERPRISE FUND
OF HARRIS COUNTY, TEXAS
COUNTY-WIDE AUTHORIZED BUT UNISSUED BONDS
Schedule 17
(Unaudited)
(Amounts in Thousands)**

As of February 28, 2018, the following County-wide ad valorem tax bonds authorized by the voters at elections held in September 1983, November 1999, November 2001, November 2007, November 2013, and November 2015 remain unissued.

The Schedule reflects the County's use of voted authority when it issues general obligation commercial paper notes pursuant to its Series B (parks and libraries) and Series C (roads and bridges) programs.

County Ad Valorem Tax Bonds

Limited Tax:		
Civil Justice Center	\$ 33,000	
Parks	75,400	
Forensic Lab	5,706	
Family Law Center	70,000	
Animal Shelter	<u>22,714</u>	
Total Limited Tax Bonds		\$ 206,820
Unlimited Tax:		
Road Bonds	<u>751,130</u>	
Total Unlimited Tax Bonds		751,130
Combination Unlimited Tax and Revenue:		
Toll Roads	<u>15,148</u>	
Total Unlimited Tax and Revenue Bonds		15,148
Harris County Flood Control District Limited Tax Bonds		<u>64,000</u>
Total Harris County Ad Valorem Tax Bonds		<u>1,037,098</u>
Total Authorized but Unissued Bonds		<u><u>\$1,037,098</u></u>

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
COUNTY GENERAL FUND BALANCES
LAST TEN FISCAL YEARS (modified accrual basis of accounting)
Schedule 18
(amounts in thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Harris County General Fund:										
Reserved	\$ 202,321	\$ 283,664	\$ 341,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	166,726	59,063	(22,290)	-	-	-	-	-	-	-
Nonspendable	-	-	-	4,840	4,463	5,134	6,805	7,958	8,733	8,406
Restricted	-	-	-	280,566	347,309	429,372	462,289	530,903	546,613	512,963
Committed	-	-	-	2,120	2,847	2,508	-	-	-	-
Assigned	-	-	-	33,491	24,013	14,622	16,833	27,856	23,822	50,988
Unassigned	-	-	-	91,927	189,799	355,857	549,705	782,372	1,008,332	1,162,835
Total general fund	<u>\$ 369,047</u>	<u>\$ 342,727</u>	<u>\$ 318,849</u>	<u>\$ 412,944</u>	<u>\$ 568,431</u>	<u>\$ 807,493</u>	<u>\$ 1,035,632</u>	<u>\$ 1,349,089</u>	<u>\$ 1,587,500</u>	<u>\$ 1,735,192</u>

Note: GASB Statement No. 54, Fund Balance Reporting and governmental Fund Type Definitions, replaced the categories that previously had been used to classify fund balance. The County implemented GASB No. 54 for fiscal year 2012.

TOLL ROAD AUTHORITY ENTERPRISE FUND OF HARRIS COUNTY, TEXAS
FULL-TIME EQUIVALENT COUNTY EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
Schedule 19
(Unaudited)

	Full-time Equivalent Employees as of February 28/29									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Administration of Justice	9,425	9,308	8,779	8,462	8,723	9,290	9,625	9,768	9,824	10,275
Parks	787	797	670	625	675	700	805	867	892	913
County Administration	3,339	3,161	3,032	2,901	2,957	3,021	3,166	3,280	3,406	3,460
Health and Human Services	1,796	1,718	1,467	1,385	1,326	1,334	1,369	1,432	1,450	1,488
Flood Control	354	374	335	308	290	300	291	287	293	290
Tax Administration	428	415	378	341	340	349	348	368	353	368
Roads and Bridges	856	914	597	561	536	550	448	451	563	568

Note: (1) As of February 28, 2018, it is estimated that approximately 3,362 of the County's employees were members of various labor organizations, some of which are unions affiliated with the AFL-CIO. The County does not maintain collective bargaining agreements with any unions.
(2) This schedule represents the number of County employees at the end of each fiscal year.