Toll Road Enterprise Fund of Harris County, Texas

Financial Statements As of February 28, 2002 and for the Year Then Ended and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

County Judge Robert Eckels and Members of
Commissioner's Court of Harris County, Texas:

We have audited the accompanying balance sheet of the Toll Road Authority Enterprise Fund of Harris County, Texas (the "Authority") as of February 28, 2002, and the related statements of operations and changes in accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the management of Harris County, Texas (the "County"). 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Authority's and are not intended to present fairly the financial position and results of operations of Harris County, Texas, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of February 28, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the Authority changed its method of accounting for nonexchange transactions in fiscal year 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2002 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

July 19, 2002

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

BALANCE SHEET,
FEBRUARY 28, 2002

ASSETS

RESTRICTED ASSETS (Note 3):	
Cash and cash equivalents (Note 2)	$ 6,719,559
Investments (Note 2)	469,051,922
Accrued interest receivable	2,674,285
Accounts receivable and contributions due from TxDOT	881,332
Due from other funds	664,613
Prepaids	17,116,480
Total current restricted assets	497,108,191
PROPERTY:	
Roads, bridges and rights-of-way	1,404,483,938
Construction work in progress (Note 4)	62,429,585
Building	2,612,656
Land	366,091
Equipment	7,934,048
Less accumulated depreciation	(413,060,053)
Property, net	1,064,766,265
NOTE RECEIVABLE (Note 10)	13,500,000
DEFERRED CHARGES, NET OF AMORTIZATION	14,463,311
TOTAL ASSETS	$ 1,589,837,767

See notes to financial statements.

LIABILITIES AND FUND DEFICIT

CURRENT LIABILITIES - Payable from restricted assets (Note 3):	
Vouchers payable and accrued liabilities	$ 13,743,631
Current portion of long-term debt (Note 5)	32,009,964
Current portion of accrued interest payable (Note 5)	27,921,014
Current portion of obligation under capital lease (Note 8)	400,070
Deferred revenue	9,970,152
Accrued payroll and compensated absences	1,384,087
Retainage payable	487,430
Due to other funds	43,322
Customer deposits	9,157,849
Total current liabilities	95,117,519
NONCURRENT LIABILITIES:	
Long-term debt (Notes 3 and 5):	
Senior lien revenue bonds (net of unamortized discounts of $11,423,330 in 2002)	676,271,670
Tax bonds (net of unamortized premiums of $82,910,895 in 2002)	816,526,454
Deferred amount on refunding	(141,949,243)
Accrued interest payable (Note 5)	97,158,070
Compensatory time payable	366,977
Commercial paper payable	73,767,000
Total noncurrent liabilities	1,522,140,928
Total liabilities	1,617,258,447
FUND DEFICIT:	
Contributed capital	111,977,302
Accumulated deficit (Note 9)	(139,397,982)
Total fund deficit	(27,420,680)
TOTAL LIABILITIES AND FUND DEFICIT	$ 1,589,837,767

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

STATEMENT OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT FOR THE YEAR ENDED FEBRUARY 28, 2002

OPERATING REVENUE -	
Toll revenue	$ 234,674,805
OPERATING EXPENSES:	
Salaries	18,221,632
Materials and supplies	1,023,193
Services and fees	27,202,642
Utilities	1,186,852
Transportation and travel	261,232
Depreciation	42,353,772
Total operating expenses	90,249,323
INCOME FROM OPERATIONS	144,425,482
NONOPERATING REVENUES:	
Interest revenue	23,272,160
Other	1,252,022
Total nonoperating revenues	24,524,182
NONOPERATING EXPENSES:	
Interest expense	90,337,665
Amortization expense	837,012
Loss on disposal of fixed assets	487,817
Total nonoperating expenses	91,662,494
NET INCOME BEFORE OPERATING TRANSFER OUT	77,287,170
OPERATING TRANSFER OUT	(20,000,000)
NET INCOME	57,287,170
ACCUMULATED DEFICIT, BEGINNING OF YEAR	(196,685,152)
ACCUMULATED DEFICIT, END OF YEAR	$ (139,397,982)

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating income	$ 144,425,482
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	42,353,772
Other nonoperating revenues	52,022
Changes in assets and liabilities:	
Increase in due from other funds	(611,477)
Increase in other assets	(11,851,042)
Increase in vouchers payable and accrued liabilities	5,600,800
Increase in customer deposits	1,519,539
Decrease in accrued payroll and compensated absences	(131,158)
Increase in retainage payable	404,568
Increase in deferred revenue	1,064,752
Decrease in due to other funds	(960,507)
Decrease in compensatory time payable	(22,206)
Net cash provided by operating activities	181,844,545
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES -	
Operating transfer to other fund	(20,000,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Construction of capital assets	(36,602,815)
Acquisition of rights-of-way	(47,722,407)
Purchase of equipment	(316,202)
Principal paid on bonds	(34,554,814)
Interest paid on bonds	(87,874,069)
Principal paid on obligation under capital lease	(621,821)
Interest paid on obligation under capital lease	(42,458)
Proceeds from bond refunding	128,999,441
Payments to escrow agent for refunded bonds	(131,113,662)
Proceeds from commercial paper	73,767,000
Net cash used for capital and related financing activities	(136,081,807)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(685,544,965)
Proceeds from sale/maturity of investments	616,365,655
Interest received	26,567,020
Net cash used for investing activities	(42,612,290)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,849,552)
CASH AND CASH EQUIVALENTS, BEGINNING	23,569,111
CASH AND CASH EQUIVALENTS, ENDING	$ 6,719,559
NONCASH OPERATING, CAPITAL AND RELATED FINANCING, AND INVESTING ACTIVITIES:	
Capital contributions received from other governments	$ 1,200,000
Equipment transferred from other funds	$ (205,648)
Decrease in the fair market value of investments	$ (2,684,772)

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Harris County Toll Road Authority (the "Authority") was created by Harris County, Texas, (the "County") by order of Commissioner's Court on September 13, 1983, with the Commissioner's Court designated as the governing body and the operating board of the Authority. The Authority is a department 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 Commissioner's Court has full oversight responsibility for the Authority, and the Toll Road Project is an integral part of the County's financial statements. Construction of the Hardy Toll Road and the Sam Houston Tollway and acquisition of the Jesse H. Jones Toll Bridge, now referred to as the "Sam Houston Ship Channel Bridge" (the "Toll Roads") have been financed with a combination of unlimited tax and subordinate lien revenue bonds and senior lien revenue bonds. When all of the debt service, as discussed in Note 5, has been paid or provided for in a trust fund, the Toll Roads will become a part of the State of Texas Highway System.

The County purchased the Sam Houston Ship Channel Bridge (the "Bridge") on May 5, 1994. The County issued $232,326,713 in Toll Road Unlimited Tax and Subordinate Lien Revenue Bonds to pay for the costs of acquiring the Bridge and a portion of Beltway 8 East approaching and spanning the Houston Ship Channel from the Texas Turnpike Authority. In conjunction with the acquisition of the Bridge, the Texas Department of Transportation ("TxDOT") agreed to fund the lesser of 50% or $90,000,000 of the Authority's total construction costs eligible for Federal Aid reimbursement. As of February 28, 2002, the Authority had been paid $86,221,447 by TxDOT.

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

Basis of Accounting - The Authority, a proprietary fund type, is accounted for using the accrual basis of accounting, a flow of economic resources measurement focus. Under this measurement focus, resources are recognized in the period earned, and expenses are recognized in the period incurred. The Authority applies all Government Accounting Standards Board ("GASB") pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

All investments are recorded at fair value based on quoted market prices as of the Authority's fiscal year end, with the difference between the purchase price and market price being recorded as interest income.

Fixed Assets - Fixed assets in excess of $5,000 for the Authority are capitalized. Fixed assets are stated at historical cost or estimated fair market value at the date of purchase. Donated fixed assets are stated at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset ranging from 4 to 30 years. Roads and buildings are depreciated over a 30-year useful life. Computer equipment and vehicles are depreciated over an estimated useful life of 4 years, while all other equipment is depreciated over an estimated useful life of 10 years.

On January 29, 2001, Commissioners Court approved an increase in the equipment capitalization amount from $1,000 to $5,000, effective March 1, 2001. The effect of the new capitalization amount was a reduction of $418,360 in equipment and $139,894 in accumulated depreciation, which resulted in expense of $278,466 during fiscal year 2002.

The Authority capitalizes, as a cost of its constructed property, the interest expense and certain other costs of bonds issued for construction purposes less the interest earned on the proceeds of those bonds from the date of the borrowing until the date the property is ready for use. All interest expense, interest earnings and the amortization of related bond costs were capitalized until September 1987 when the first of four sections of the Toll Road was opened for operations. Commencing October 1987, 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. Such capitalization increased the cost of assets constructed by the Toll Road Project by $1,441,932 during fiscal year 2002.

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

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

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

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

The County has reinsurance coverage for excess workers' compensation and employer's liability. The retention (deductible) for the fiscal years ended February 28, 2002 was $750,000 per occurrence. No claims settled during the last three fiscal years have exceeded these coverages.

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

The Authority's group insurance premiums, as well as employee payroll deductions for premiums for dependents and optional coverages, are paid into the County's Risk Management Internal Service Fund, which in turn makes disbursements to contracted insurance providers based on 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 vacation and sick leave are recorded as an expense and liability as the benefit accrues for the employee.

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

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

As of February 28, 2002, $949,161 has been recorded for future compensated absences.

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

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Reclassifications - Certain reclassifications have been made to the prior year financial statements and to the comparative notes for consistency with the current year presentation.

2. CASH AND INVESTMENTS

The carrying amount of the Authority's deposits was $1,625,829 as of February 28, 2002. The bank balances as of February 28, 2002 were $47,601 and were covered by federal depository insurance or collateralized with securities held by the County's agent in the County's name.

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

The Authority's investments were categorized by risk level for fiscal year 2002 as follows:

Category 1	$468,614,741
Category 2	-
Category 3	-
Subtotal	468,614,741
Uncategorized money market mutual funds	5,530,911
Total	$474,145,652

Fair value amounts for investments for fiscal year ended 2002 were as follows:

	Fair Value
U.S. government securities	$428,879,213
Municipal bonds	39,735,528
Money market mutual funds	5,530,911
Total	$474,145,652

3. RESTRICTED ASSETS

Certain assets of the Authority are required to be segregated under terms of various bond indentures. These assets are legally restricted for certain purposes, including operations and maintenance, debt service and construction. Under the bond indentures, the Authority has purchased certain amounts of debt service fund surety policies to satisfy certain reserve fund requirements. During fiscal year 2002, the Authority was in compliance with these covenants.

4. CONSTRUCTION WORK IN PROGRESS

Construction of the Westpark Tollway, which will allow traffic to travel from State Highway 6 through the intersection of Richmond Avenue and Post Oak Boulevard, initially began in fiscal year 2001. The capitalized costs for the project include engineering, design fees and capitalized interest. Capitalized costs related to the Westpark Tollway were approximately $47,449,797 as of February 28, 2002.

The Authority began several construction projects during fiscal year 2002. These projects are Hardy Extension, Barker Cypress, Ft. Bend Tollway, Beltway 8 Tollway and construction of additional lane capacity for Sam Houston. The capitalized costs for the projects include engineering, design fees and capitalized interest. For the year-ended February 28, 2002, capitalized costs related to the Hardy Extension, Barker Cypress, Ft. Bend Tollway, Beltway 8 Tollway and Sam Houston additional lane capacity were $830,929, $80,463, $476,605, $170,656 and $2,822,874, respectively.

The County entered into an agreement with TxDOT to construct a direct connector between Eastbound Beltway 8 and Northbound Hardy Toll Road. According to the agreement, TxDOT will contribute $6,000,000 to fund the project. As of February 28, 2002, the project was approximately 70% complete, accordingly the Authority has recognized 70% of TxDOT's contribution. In addition, the Authority has recognized construction costs related to the direct connector of $6,398,260 as of February 28, 2002.

5. TAX BONDS, REVENUE BONDS AND COMMERCIAL PAPER

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

A. Long-Term Debt

The Authority's long-term debt consisted of the following as of February 28, 2002:

		Principal*		
Type of Debt	Stated Interest Rate Range	Outstanding, February 28, 2002	Less Current Maturities (To Be Paid in FY 2002-03)	Long-Term Maturities, February 28, 2002
Senior Lien Revenue Bonds	3.9% - 6.6%	$ 692,146,670	$ 15,875,000	$ 676,271,670
Tax Bonds	3.9% - 38.9%	832,661,418	16,134,964	816,526,454
Total - Toll Road Fund Debt		$ 1,524,808,088	$ 32,009,964	$ 1,492,798,124

B. Long-Term Debt - Changes in FY 2001-2002

Changes in the Authority's long-term debt for the fiscal year 2002 as shown below were as follows:

	Principal*				
	Outstanding, February 28, 2001	Issued	Paid	Amortization Net Premium Discount	Outstanding, February 28, 2002
Senior Lien Revenue Bonds	$ 706,664,948	$ -	$ (15,045,000)	$ 526,722	$ 692,146,670
Tax Bonds	855,663,220	120,740,000	(145,254,815)	1,513,013	832,661,418
Total - Toll Road Fund Debt	$ 1,562,328,168	$ 120,740,000	$ (160,299,815)	$ 2,039,735	$ 1,524,808,088

C. Outstanding Bonded Debt - February 28, 2002 - Pertinent Information by Issue

Issue	Interest Rate Range (%)	Term Issue	Term Maturity	Special Conditions	Outstanding Balance, February 28, 2002
Senior Lien Revenue Bonds (*)					
Series 1992-A (portion refunded in 1996 and 1997)	5.7 - 6.5	1992	2017	Current Interest Bonds, Maturity 1992-2017	$ 52,940,000
Series 1992-B (portion refunded in 1996 and 1997)	5.7 - 6.6	1992	2017	Current Interest Bonds, Maturity 1992-2017	9,885,000
Series 1994	4.0 - 5.5	1994	2021	Current Interest Bonds, Maturity 1994-2021	561,275,000
Series 1994-A (portion refunded in 1997)	5.3 - 6.4	1994	2024	Current Interest Bonds, Maturity 1994-2024	14,975,000
Series 1997	3.9 - 5.3	1997	2024	Current Interest Bonds, Maturity 1997-2024	64,495,000
Total Senior Lien Revenue Bonds					703,570,000
Less: Unamortized Discount					11,423,330
Net Senior Lien Revenue Bonds					692,146,670

(Continued)

Issue	Interest Rate Range (%)	Term Issue	Term Maturity	Special Conditions	Outstanding Balance, February 28, 2002
Unlimited Tax and Subordinate Lien Bonds (Tax Bonds)					
Series 1985 (portion refunded in 1988 and 1992)	9.2 - 10.0	1985	2004	Compound Interest Bonds, payable upon maturity 1996-2004	$ 1,493,266
Refunding bonds, Series 1985F (portion refunded in 1991)	13.6	1985	2003	Compound Interest Bonds, payable upon maturity 1992-2003	1,490,590
Refunding Bonds, Series 1991	18.9 - 21.9	1991	2014	Compound Interest Bonds, payable upon maturity 2001-2008	5,095,000
Refunding Bonds, Series 1992A (portion refunded in 1997)	11.6 - 14.7	1992	2008	Compound Interest Bonds, payable upon maturity 1997-2008	7,570,000
	6.5	1992	2015	Current Interest Rate Bonds - maturity 2009-2015	34,005,000
Refunding Bonds, Series 1992B (portion refunded in 1997)	14.4 - 16.1	1992	2008	Compound Interest Bonds, payable upon maturity 1997-2008	1,477,488
	6.5	1992	2015	Current Interest Rate Bonds - maturity 2010-2015	9,225,000
Series 1994-A (portion refunded in 1997)	5.7 - 6.3	1994	2007	Compound Interest Bonds, payable upon maturity 2001-2007	25,534,179
	6.1 - 8.0	1994	2024	Current Interest Rate Bonds - maturity 2008-2024	59,925,000
Series 1994B-H	Variable	1994	2020	Variable Interest, optional redemption, mandatory redemption 1999-2020	329,500,000
Series 1995A	27.6 - 38.9	1995	2012	Compound Interest Bonds, payable upon maturity 2002-2012	1,500,000
Refunding Bonds, Series 1997	3.9 - 5.3	1997	2013	Compound Interest Bonds, payable upon maturity 1998-2013	1,800,000
	5.0 - 5.1	1997	2024	Current Interest Bonds - maturity 2014-2024	150,395,000
Refunding Bonds, Series 2001	6.0	2001	2014	Current Interest Bonds - maturity 2009-2014	120,740,000
Total Tax Bonds					749,750,523
Plus: Unamortized Premium					82,910,895
Net Tax Bonds					832,661,418
Total - Toll Road Bonded Debt					$1,524,808,088

(*) Portions of all Senior Lien Revenue Bond Series were refunded by Series 1994.

(Concluded)

D. 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 4.87 as of February 28, 2002.

The Series 1994B-H Tax Bonds are subject to purchase on the demand of the holder, at any time prior to the conversion from the variable rate, at a price equal to principal plus accrued interest. The variable interest rate is determined weekly by Bankers Trust Securities Corporation and J.P. Morgan Securities Inc., and is based upon current yields on short-term tax-exempt obligations. The Authority's remarketing agent is authorized to use its best efforts to sell the bonds at a price equal to par. If the remarketing agent has not remarketed such bonds by the seventh day, the remarketing agent has the option of selling the bonds to a bank with which the Authority has a standby agreement to purchase such bonds.

The terms of the standby agreement require the Authority to redeem the purchased bonds upon the expiration or termination (by events of default) of the standby agreement. The expiration date of the standby agreement is September 29, 2003. The fee for the standby agreement is 0.10% per annum, paid annually, on the amount of available commitment. The stated interest rates for the standby agreement are prime rate for the first 90 days and prime rate plus 1% for outstanding advances after the first 90 days. The prime rate was 4.75% as of February 28, 2002. The following are the debt service requirements of Series 1994B-H Tax Bonds assuming the standby bank has purchased all of the demand bonds as of February 28, 2002 at the ceiling interest rate of 15%:

Fiscal Year	Principal	Interest	Total
2004	$329,500,000	$28,831,250	$358,331,250

Upon termination of the standby agreement for events of default other than the failure of the Authority to make payments on the bonds or any other Authority bonds payable from ad valorem taxes or due to bankruptcy proceedings, the Authority is required to redeem the purchased bonds by the earlier of five years after such termination or the period from the effective date of such termination to the scheduled expiration date. The redemption of the bonds is to be made through consecutive semi-annual installments of principal and interest based on the purchased bond rate. The Authority has not defaulted on any of its bonded debt obligations.

E. Debt Service Requirements

Total interest expense was $90,337,665 for fiscal year 2002. The following are the debt service requirements for bonds payable (assuming a variable rate of 5.5% for the 1994B-H Tax Bonds):

Fiscal Year	Principal**	Interest	Total
2003	$ 32,009,965	$ 103,319,441	$ 135,329,406
2004	37,688,830	106,867,307	144,556,137
2005	39,109,679	106,204,051	145,313,730
2006	40,600,251	105,116,446	145,716,697
2007	44,237,906	102,363,999	146,601,905
2008-2025	1,259,673,892	651,424,269	1,911,098,161
Total	$1,453,320,523	$1,175,295,513	$2,628,616,036

**Does not include unamortized premiums and discounts

F. Unissued Authorized Bonds

As of February 28, 2002, the County has voter authorization to issue additional unlimited tax bonds for the Toll Road Projects in the amount of $17,673,000.

G. Defeasance of Debt

In the current 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, 2002, the outstanding principal balance of these defeased bonds was $657,942,000.

H. Refunding

On May 3, 2001, the County issued $120,740,000 Toll Road Unlimited Tax and Subordinate Lien Revenue Forward Refunding Bonds, Series 2001 with the interest rate of 6% to refund all callable current interest Toll Road Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1991, that remained outstanding on August 1, 2001 at a redemption price equal to 102% of the principle amount thereof and to pay certain costs incurred in connection with the issuance of the bonds. The refunding had a premium of $8,844,627. The refunding resulted in a decrease in cash flow requirements of $17,161,536 and an economic gain of $6,587,920.

I. Commercial Paper - Toll Road

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. The Commercial Paper program consists of Harris County Toll Road Senior Lien Revenue Notes, Series E ("Notes") in an aggregate principal amount not to exceed $150 million outstanding at any one time. As of February 28, 2002, the Authority has outstanding $73.8 million of Commercial Paper.

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

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

The Notes will have a Maximum Maturity Date of August 15, 2031 and that no Series E Note shall (i) mature after the Maximum Maturity Date, (ii) have a term in excess of 270 days, (iii) have a term beyond the third Business Day prior to the scheduled expiration date for the Credit Agreement relating to such Series E Note or (iv) be issued at any time that a "no issuance notice" has been issued by the Credit Provider pursuant to the Credit Agreement which provides that such Series E Note would not be entitled to the security provided by the Credit Agreement.

The Toll Road entered into a Revolving Credit Agreement as of October 1, 2001 with Dexia Credit Local, whereby Dexia has agreed to advance up to $150 million to the Toll Road to pay the principal of any or all maturing Series E Notes as necessary for a period through October 30, 2003, which is the date of expiration. For this agreement, the County will be assessed a fee of .125% per annum on the aggregate amount of the commitment. Advances received under the line of credit are payable in full no later than the earlier of 60 days after the date of such advance, unless converted to term loans pursuant to the agreement, or the revolving credit maturity date. The principal amount outstanding for Series E shall be paid three years from the date the term loan is made. Interest is payable monthly during the Term Loan Period at a rate equal to the base rate (which is the higher of (i) the Prime Rate or (ii) the Federal Funds Rate plus one-half of one percent) plus two percent per annum.

Fiscal Year	Principal	Interest	Total
2003	$ -	$ 3,739,577	$ 3,739,577
2004	12,294,500	10,595,468	22,889,968
2005	24,589,000	7,167,523	31,756,523
2006	24,589,000	3,427,946	28,016,946
2007	12,294,500	311,631	12,606,131
Total	$73,767,000	$25,242,145	$99,009,145

6. RETIREMENT PLAN

Plan Description - The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 502 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar-year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Under the state law governing TCDRS since 1991, the County has had the option of selecting the plan of benefits to provide in the future, while at the same time considering the level of the employer contribution rate required to adequately finance the plan. Effective January 1, 1995, the County adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period which began January 1, 1995 using the entry age actuarial cost method. Monthly contributions by the County are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 2002 is 9.86%. The contribution rates for calendar years 2001 and 2000 were 9.95% and 10.07%, respectively.

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

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

Funding Policy - The County has elected the annually 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. The County contributed using actuarially determined rate of 9.95% for the months of the accounting year in 2001, and 9.86% for the months of the accounting year in 2002.

The contribution rate payable by the employee members for 2002 and 2001 is the rate of 7% as adopted by Commissioner's Court. The employee contribution rate and the employer contribution rate may be changed by Commissioner's Court within the options available in the TCDRS Act.

Annual Pension Cost - For the County's accounting year ended February 28, 2002, the annual pension cost and actual contributions for the TCDRS plan for its employees was $48,448,052.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27 *Accounting for Pensions by State and Local Governmental Employees*, parameters based on the actuarial valuations as of December 31, 1999 and December 31, 2000, the basis for determining the contribution rates for calendar years 2001 and 2002. The December 31, 2001 report is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/99	12/31/00	12/31/01
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period in years	20	20	20
Asset Valuation Method	Long-term appreciation with adjustments	Long-term appreciation with adjustments	Long-term appreciation with adjustments
Actuarial Assumption:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases (1)	5.9%	5.9%	5.5%
Inflation	4.0%	4.0%	3.5%
Cost of living adjustments	0.0%	0.0%	0.0%
(1) Includes inflation at the stated rate			

Trend Information			
Accounting Year Ended	**Annual Pension Cost**	**Percentage of APC Contributed**	**Net Pension Obligation**
02/28/2002	$48,448,052	100%	0
02/28/2001	$47,979,693	100%	0
02/29/2000	$42,746,936	100%	0

Schedule of Funding Progress			
Actuarial Valuation Date	12/31/99	12/31/00	12/31/01
Actuarial Value of Assets	$1,151,075,284	$1,265,141,379	$1,380,976,806
Actuarial Accrued Liability (AAL)	$1,324,342,278	$1,441,046,300	$1,578,523,738
Unfunded Actuarial Accrued Liability (UAAL)	$173,266,994	$175,904,921	$197,546,932
Funded Ratio	86.92%	87.79%	87.49%
Annual Covered Payroll (Actuarial)	$458,448,718	$488,879,345	$509,600,340
UAAL as Percentage of Covered Payroll	37.79%	35.98%	38.77%

7. POST EMPLOYMENT BENEFITS

In addition to providing pension benefits described herein, the County provides certain retirement health care and life insurance benefits for retired employees. County regulations allow all County employees to become eligible for these benefits after meeting the service and retirement age requirements of the County's retirement plan. These requirements, which were modified effective January 1, 1996, require 30 years of service, or 8 years of service and 60 years of age, or years of service plus age equal to 75 or more. The County pays 100% of the cost of medical and life insurance coverage for retirees. The Authority recognizes expenses for retirement benefits as paid, which during fiscal year 2002 approximated $78,202. Presently, 23 retirees qualify for retirement benefits.

8. COMMITMENTS AND CONTINGENCIES

The Authority is committed under a capital lease agreement expiring on December 31, 2002 for toll collecting and accounting equipment. The amount of property recorded under the capital lease obligation net of accumulated depreciation was approximately $1.4 million as of February 28, 2002. As of February 28, 2002, the Authority's obligation for such annual payments is estimated as follows:

Fiscal Year	Principal	Interest
2003	$ 400,070	$ 42,783

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, the resolution of these matters is not expected to have a materially adverse effect on the financial condition of the Authority.

9. FUND DEFICIT

The Authority has an accumulated deficit of $139,397,982 as of February 28, 2002, which has resulted from initial project expenses, interest expense and depreciation. This does not include contributed capital of $111,977,302.

10. INTERFUND LOAN

On April 7, 1998, the Commissioner's Court approved an interfund loan from the Toll Road Enterprise Fund to the Harris County General Fund in the amount of $13.5 million to finance the payment of the settlement for a judgment against the County. A promissory note was executed requiring a three-year maturity with principal payable at maturity and an option to extend the note for an additional two years with principal due at the final maturity date. In April 2001, the note was extended for two additional years. The principal shall bear interest at a variable rate equal to the monthly weighted yield of the Authority's investment portfolio. Interest will be based on a 360-day year/simple interest payable on each one-year anniversary date of the note. The Authority recognized $696,056 in interest revenue from the loan for the year ended February 28, 2002.

11. APPLICATION OF GASB STATEMENT NO. 33, ACCOUNTING AND FINANCIAL REPORTING FOR NONEXCHANGE TRANSACTIONS, AS AMENDED BY GASB 36 ("GASB No. 33")

In fiscal year 2002, the Authority adopted a new statement of financial accounting standards issued by the Governmental Accounting Standards Board ("GASB"). GASB No. 33 prescribed standards for recording nonexchange transactions on the modified accrual and accrual basis of accounting. The effect of adoption of GASB No. 33 on the nonexchange transactions recorded as revenue in the Authority's enterprise fund was $1,200,000.

12. RECENT ACCOUNTING PRONOUNCEMENT - GASB STATEMENT NO. 34, BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS - FOR STATE AND LOCAL GOVERNMENTS ("GASB No. 34")

In fiscal year 2003, the Authority will adopt a new statement of financial accounting standards issued by the GASB. GASB No. 34 *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* will represent a significant change in the financial reporting model used by the state and local governments.

The Authority has not completed the process of evaluating the impact that will result from adopting GASB No. 34. The Authority is therefore unable to disclose the impact that adopting GASB No. 34 will have on the financial position and results of operations of the Authority when such statement is adopted. The Authority intends to implement GASB No. 34 for the financial reporting period ending February 28, 2003 as required.

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