Deloitte &
Touche LLP

Toll Road Enterprise Fund of Harris County, Texas

Financial Statements As of February 28, 1997 and February 29, 1996 and for the Years Then Ended and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

County Judge Robert Eckels and
Members of Commissioners Court
of Harris County, Texas:

We have audited the accompanying balance sheets of the Toll Road Enterprise Fund of Harris County, Texas (the "Authority") as of February 28, 1997 and February 29, 1996, and the related statements of operations and changes in accumulated deficit and of cash flows for the years then ended. These financial statements are the responsibility of the management of Harris County, Texas. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United Sates. 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above represent only the Authority's and are not intended to present fairly the financial position of Harris County, Texas, and the results of its operations and cash flows of its proprietary fund types, in conformity with generally accepted accounting principles.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of February 28, 1997 and February 29, 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated June 27, 1997 on our consideration of the County's internal control structure and a report dated June 27, 1997 on its compliance with laws and regulations.

Deloitte & Touche LLP

June 27, 1997

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

BALANCE SHEETS, FEBRUARY 28, 1997 AND FEBRUARY 29, 1996

ASSETS	1997	1996
RESTRICTED ASSETS: (Note 3)		
Cash and cash equivalents (Note 2)	$ 38,780,386	$ 8,861,728
Investments (Note 2)	271,154,093	355,683,191
Notes receivable (Note 11)	1,349,897	7,571,067
Accrued interest receivable	3,055,221	3,810,346
Accounts receivable and contributions due from TxDOT	261,054	1,767,274
Other	116,285	518,721
Total current restricted assets	314,716,936	378,212,327
PROPERTY:		
Roads, bridges and rights-of-way	1,090,231,845	1,012,032,245
Construction work in progress	150,062,629	115,586,203
Building	2,612,656	2,612,656
Land	366,091	366,091
Equipment	1,102,357	985,648
Less accumulated depreciation	(210,913,513)	(179,092,874)
Property, net	1,033,462,065	952,489,969
DEFERRED CONSTRUCTION COSTS (Note 4)	16,201,289	11,064,583
DEFERRED CHARGES, NET OF AMORTIZATION	21,591,688	22,960,841
TOTAL ASSETS	$1,385,971,978	$1,364,727,720

See notes to financial statements.

LIABILITIES AND FUND DEFICIT	1997	1996
CURRENT LIABILITIES - Payable from restricted assets: (Note 3)		
Vouchers payable and accrued liabilities	$ 15,898,663	$ 14,980,791
Current portion of long-term debt (Note 5)	19,877,709	20,013,050
Current portion of accrued interest payable (Note 5)	11,995,588	13,037,105
Deferred revenue and performance deposits	5,185,396	2,285,754
Accrued payroll and compensated absences	699,255	538,684
Customer deposits	144,723	21,123
Arbitrage rebate payable	141,083	705,511
Total current liabilities	53,942,417	51,582,018
NONCURRENT LIABILITIES:		
Long-term debt: (Notes 3 and 5)		
Senior lien revenue bonds (Net of unamortized discounts of $13,365,499 and $13,755,099 in 1997 and 1996, respectively)	727,954,501	733,404,901
Tax bonds (Net of unamortized net premiums of $84,704,905 and $85,079,548 in 1997 and 1996, respectively)	914,931,224	929,343,576
Unamortized refunding loss	(150,361,192)	(157,314,748)
Accrued interest payable (Note 5)	64,640,071	56,433,238
Compensatory time payable	76,986	33,632
Total noncurrent liabilities	1,557,241,590	1,561,900,599
Total liabilities	1,611,184,007	1,613,482,617
FUND DEFICIT:		
Contributed capital (Note 8)	101,885,291	59,915,139
Accumulated deficit (Note 10)	(327,097,320)	(308,670,036)
Total fund deficit	(225,212,029)	(248,754,897)
TOTAL LIABILITIES AND FUND DEFICIT	$1,385,971,978	$1,364,727,720

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT FOR THE YEARS ENDED FEBRUARY 28, 1997 AND FEBRUARY 29, 1996

	1997	1996
OPERATING REVENUE -		
Toll revenue	$ 109,631,604	$ 95,861,505
OPERATING EXPENSES:		
Salaries	9,432,235	8,629,427
Materials and supplies	390,816	209,545
Services and fees	9,495,895	7,314,784
Utilities	839,766	702,468
Transportation and travel	100,408	97,830
Depreciation	31,820,771	30,015,689
Total operating expenses	52,079,891	46,969,743
INCOME FROM OPERATIONS	57,551,713	48,891,762
NONOPERATING REVENUES:		
Interest revenue	16,778,839	13,461,395
Gain on sale of investment and cash equivalents	654,153	316,424
Other	1,563,486	975,718
Total nonoperating revenues	18,996,478	14,753,537
NONOPERATING EXPENSES:		
Interest expense	93,602,799	94,721,228
Amortization expense	1,372,676	1,334,698
Other	-	59,714
Total nonoperating expenses	94,975,475	96,115,640
NET LOSS	(18,427,284)	(32,470,341)
Accumulated deficit, beginning of period	(308,670,036)	(276,199,695)
Accumulated deficit, end of period	$ (327,097,320)	$ (308,670,036)

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29, 1997 AND FEBRUARY 28, 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 57,551,713	$ 48,891,762
Adjustments to operations:		
Depreciation	31,820,771	30,015,689
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(123,601)	343,780
(Increase) decrease in other assets	402,436	(514,420)
Increase in restricted payables	3,088,437	1,339,182
Increase in compensatory time payable	43,354	270
Net cash provided by operating activities	92,783,110	80,076,263
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Loans to Capital Projects funds	(4,402,930)	(4,197,130)
Payments received on loans to Capital Projects funds	10,624,100	-
Westpark Corridor Feasability Study	800,000	-
Other nonoperating revenues	1,563,486	-
Net cash provided by (used for) noncapital financing activities	8,584,656	(4,197,130)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond refunding	-	258,292
Construction of capital assets	(111,028,564)	(73,207,997)
Sale (acquisition) of rights-of-ways	56,611	(66,553)
Purchase of equipment	(125,702)	(1,113,092)
Principal paid on bonds	(20,013,050)	(9,443,485)
Interest paid on bonds	(89,888,793)	(84,235,054)
Issuance cost	-	(92,792)
Capital contributed	43,476,372	30,726,803
Net cash used for capital and related financing activities	(177,523,126)	(137,173,878)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(291,993,293)	(399,535,063)
Proceeds from sale/maturity of investments	376,560,103	401,770,540
Interest received	21,507,208	23,613,990
Net cash provided by investing activities	106,074,018	25,849,467
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,918,658	(35,445,278)
CASH AND CASH EQUIVALENTS, BEGINNING	8,861,728	44,307,006
CASH AND CASH EQUIVALENTS, ENDING	$ 38,780,386	$ 8,861,728

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING FEBRUARY 28, 1997 AND FEBRUARY 29, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Harris County Toll Road Authority (the "Authority") was created by Harris County, Texas, (the "County") by order of Commissioners Court on September 13, 1983, with the Commissioners Court designated as the governing body and the operating board of the Authority. The Authority is a department of the County and is charged with overseeing the acquisition, construction, improvement, operation and maintenance of the County toll road facilities (the "Toll Road Project"). The Commissioners Court has full oversight responsibility for the Authority, and the Toll Road Project is an integral part of the County's financial statements. Construction of the Hardy Toll Road and the Sam Houston Tollway and acquisition of the Jesse H. Jones Toll Bridge, now referred to as the "Sam Houston Ship Channel Bridge" (the "Toll Roads") have been financed with a combination of unlimited tax and subordinate lien revenue bonds and senior lien revenue bonds. Current construction of Sam Houston East and Sam Houston South Toll Roads is also being financed with the same combination of bonds. When all 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 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 lessor of 50% or $90,000,000 of the Authority's total construction costs eligible for Federal Aid reimbursement. As of February 28, 1997, the Authority had been paid $78,919,880 by TxDOT.

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. Investments are stated at cost or amortized cost.

Fixed Assets - Fixed assets in excess of $1,000 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 four years, while all other equipment is depreciated over an estimated useful life of ten years.

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 $6,443,054 during fiscal year 1997 and increased the cost of assets by $1,732,642 during fiscal year 1996.

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 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, 1997 and February 29, 1996 was $750,000 per occurrence.

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%.

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

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

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

Employees accrue 9.75 days of sick leave per year. Sick leave benefits are recognized as they are used by the employees. Employees may accumulate up to 480 sick leave hours. 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, 1997 and February 29, 1996, $308,649 and $264,857, respectively, have 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 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 those 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 $4,812,800 and $1,377,719 as of February 28, 1997 and February 29, 1996, respectively. The bank balances as of February 28, 1997 and February 29, 1996 were $750 and $518,469, respectively, 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 years 1997 and 1996 as follows:

	February 28, 1997	February 29, 1996
Category 1	$305,750,098	$363,141,053
Category 2	-	1,198,194
Category 3	-	-
Total	$305,750,098	$364,339,247

Carrying amounts for investments for fiscal years ending 1997 and 1996 are as follows:

	1997		1996	
	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. government securities	$237,970,952	$237,965,962	$256,856,331	$258,080,977
Commercial paper	40,018,943	40,139,862	6,426,641	6,425,066
Municipal bonds	21,252,691	21,235,422	93,701,518	93,435,427
Money market mutual funds	5,879,093	5,879,093	6,182,710	6,182,710
	$305,121,679	$305,220,339	$363,167,200	$364,124,180

During fiscal years 1997 and 1996, the Authority sold investments and cash equivalents which resulted in a net gain of $654,153 and $316,424, respectively.

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. The Authority has pledged under the bond indentures to maintain certain amounts in a debt service reserve. During fiscal years 1997 and 1996, the Authority was in compliance with these covenants.

4. DEFERRED CONSTRUCTION COSTS

Construction of the airport connector, which will run generally parallel to and north of Greens Road and connect directly with the JFK Boulevard access to the airport, is included in the capital budget for fiscal year 1998. Although certain design fees have been incurred, the County has not made a commitment to undertake such construction at this time. The capitalized costs for the project include engineering, design fees, and capitalized interest and bond costs.

5. TAX AND REVENUE BONDS

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, 1997:

		Principal*		
Type of Debt	Stated Interest Rate Range	Outstanding Balance, February 28, 1997	Less Current Maturities (To Be Paid in FY 1997-98)	Long-Term Maturities February 28, 1997
Senior Lien Revenue Bonds	4.00% - 7.75%	$ 733,794,501	$ 5,840,000	$ 727,954,501
Tax Bonds	2.00% - 21.80%	928,968,933	14,037,709	914,931,224
Total - Toll Road Fund Debt		$1,662,763,434	$19,877,709	$1,642,885,725

B. Long-Term Debt - Changes in FY 1996-97 and 1995-96

Changes in the Authority's Long-Term Debt for fiscal years 1996-97 and 1995-96, respectively, were as follows:

	Principal*				
	Outstanding, February 29, 1996	Issued	Paid	Amortization Net Premium Discount	Outstanding Balance, February 28, 1997
Senior Lien Revenue Bonds	$ 740,069,901	$ -	$ (6,665,000)	$ 389,600	$ 733,794,501
Tax Bonds	942,691,626	-	(13,348,050)	(374,643)	928,968,933
Total - Toll Road Fund Debt	$1,682,761,527	$ -	$(20,013,050)	$ 14,957	$1,662,763,434

	Principal*				
	Outstanding, February 28, 1995	Issued	Redeemed/ Paid	Amortization Net Premium Discount	Outstanding Balance, February 29, 1996
Senior Lien Revenue Bonds	$ 739,701,285			$ 368,616	$ 740,069,901
Tax Bonds	935,733,071	$39,844,925	$32,481,850	(404,520)	942,691,626
Total - Toll Road Fund Debt	$1,675,434,356	$39,844,925	$32,481,850	$ (35,904)	$1,682,761,527

*Includes unamortized premium and accrued compound interest bonds.

C. Outstanding Bonded Debt - February 28, 1997 - Pertinent Information by Issue

Issue	Interest Rate Range (%)	Term Issue	Term Maturity	Special Conditions	Outstanding Balance, February 28, 1997
Senior Lien Revenue Bonds (*)					
Series 1985B	7.25 - 7.75	1985	2002	Current Interest Bonds, Maturity 1996-2002	$ 1,295,000
Series 1985C	6.90 - 7.10	1985	2002	Current Interest Bonds, Maturity 1996-2002	1,405,000
Series 1985D	7.30 - 7.65	1985	2002	Current Interest Bonds, Maturity 1996-2002	2,595,000
Series 1987	7.25 - 7.50	1987	2002	Current Interest Bonds, Maturity 1996-2002	985,000
Series 1985-F	6.50 - 6.75	1985	2017	Current Interest Bonds, Maturity 1996-2017	3,010,000
Series 1992-A	5.80 - 6.65	1992	2017	Current Interest Bonds, Maturity 1999-2017	57,105,000
Series 1992-B	5.90 - 6.65	1992	2017	Current Interest Bonds, Maturity 1999-2017	10,670,000
Series 1994	4.00 - 5.50	1994	2021	Current Interest Bonds, Maturity 1998-2021	595,095,000
Series 1994A	5.30 - 6.10	1994	2024	Current Interest Bonds, Maturity 2001-2024	75,000,000
Total Senior Lien Revenue Bonds					747,160,000
Less: Unamortized Discount					13,365,499
Net Senior Lien Revenue Bonds					733,794,501
Unlimited Tax and Subordinate Lien bonds (Tax Bonds)					
Series 1984 (portion refunded in 1985 and 1982)	9.75 - 10.25	1984	2000	Compound Interest bonds, payable upon maturity 1996-2000	6,509,075
Series 1985 (portion refunded in 1988 and 1992)	9.15 - 10.00	1985	2004	Compound Interest bonds, payable upon maturity 1996-2004	1,493,267
Refunding bonds, Series 1985F (portion refunded in 1991)	13.58 - 13.59	1985	2003	Compound Interest bonds, payable upon maturity 1992-2003	4,707,485
Refunding bonds, Series 1988 (portion refunded in 1992 and 1995)	6.80 - 7.00	1996	1997	Current Interest Rate Bonds - maturity 1996-1997	1,960,000
Refunding Bonds, Series 1991	6.95 - 7.25	1991	2014	Compound Interest Bonds, payable upon maturity 2001-2008	6,095,000
	5.85 - 7.50			Current Interest Rate Bonds - maturity 1995-2014	155,760,000
Refunding Bonds, Series 1992A	5.80 - 6.80	1992	2015	Compound Interest Bonds, payable upon maturity 1997-2008	13,820,000
	6.50			Current Interest Rate Bonds - maturity 2009	43,180,000
Refunding Bonds, Series 1992B	5.80 - 6.80	1992	2016	Compound Interest Bonds, payable upon maturity 1997-2008	2,992,490
	6.50			Current Interest Rate Bonds - maturity 2010-2016	11,715,000
Series 1994A	5.70 - 6.30	1994	2007	Compound Interest Bonds, payable upon maturity 2001-2007	30,881,711
	6.10 - 8.00	1994	2024	Current Interest Rate Bonds - maturity 2008-2024	201,445,000
Series 1994B-H	Variable	1994	2020	Variable Interest, optional redemption, mandatory redemption 1999-2020	350,000,000
Series 1995A	2.76 - 3.89	1996	2012	Compound Interest Bonds, payable upon maturity 2002-2012	1,500,000
	3.85 - 6.00			Current Interest Bonds - maturity 1996-2001	12,205,000 0
Total Tax Bonds					844,264,028
Unamortized Premium					84,704,905
Net Tax Bonds					928,968,933
Total - Toll Road Bonded Debt					$ 1,662,763,434

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

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 also are 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 debt service requirements on the Senior Lien Revenue Bonds. The 1.25 revenue coverage covenant went into effect during fiscal year 1994. The revenue coverage ratio was 2.34 and 2.36 as of February 28, 1997 and February 29, 1996, respectively.

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 October 1, 2000. The fee for the standby agreement is 0.15% per annum paid annually, on the outstanding principal balance. 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 8.25% as of February 28, 1997. 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, 1997 at the ceiling interest rate of 15%:

Fiscal Year	Principal	Interest	Total
1998	$ -	$ 52,500,000	$ 52,500,000
1999	-	52,500,000	52,500,000
2000	-	52,500,000	52,500,000
2001	350,000,000	30,625,000	380,625,000
Total	$350,000,000	$188,125,000	$538,125,000

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. Refundings

On October 26, 1995, the Authority issued $14,355,000 of Toll Road Unlimited Tax and Subordinate Lien Revenue Bonds, Series 1995A, to refund portions of the outstanding Toll Road Unlimited Tax and

Subordinate Lien Revenue Bonds, Series 1988 and 1992B. The Authority refunded these bonds in order to achieve debt service savings. The proceeds of the Series 1995A refunding bonds were used to purchase U.S. government securities, were placed in an escrow fund, and were pledged to pay the principal and interest of the refunded bonds. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $4,353,297. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized to operations over the remaining life of the old bonds using the straight line method. There was a decrease of debt service requirements of $6,032,032 and an economic gain of $4,000,198 as of October 26, 1995.

F. Debt Service Requirements

Total interest expense was $97,054,109 and $98,832,486 for fiscal years 1997 and 1996, respectively. The following are the debt service requirements for bonds payable (assuming a variable rate of 5.5%):

Fiscal Year	Principal**	Interest	Total
1998	$ 19,877,709	$ 95,971,384	$ 115,849,093
1999	20,883,038	95,269,120	116,152,158
2000	29,985,482	94,405,311	124,390,793
2001	33,157,461	92,998,791	126,156,252
2002	34,124,814	103,019,897	137,144,711
2003-2025	1,453,395,526	1,210,924,237	2,664,319,763
Total	$1,591,424,030	$1,692,588,740	$3,284,012,770

** Does not include unamortized premiums and discounts

G. Unissued Authorized Bonds

As of February 28, 1997, the County has voter authorization to issue additional unlimited tax bonds for the Toll Road Projects in the amount of $17,700,000.

H. Defeasance of Debt

In 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, 1997 and February 29, 1996, the outstanding principal balance of these defeased bonds was $1,379,038,167 and $1,380,038,167, respectively.

6. RETIREMENT PLAN

Plan Description

All officials and permanent employees ("employees") of the Authority are members of the Texas County and District Retirement System ("TCDRS"), a statewide agent, multiple-employer public employee retirement system that administers a nontraditional joint contributory, defined contribution pension plan. The plan is one of over 450 plans administered by TCDRS. The plan provides pension, disability and death benefits for members. Eligible employees are required to participate in and contribute 7% of their monthly earnings to the plan as adopted by Commissioners Court, the governing body of Harris County.

Effective January 1, 1995, Commissioners Court adopted optional plan provisions which require the County to contribute an annually determined amount. Also, Commissioners Court shortened the periods of continuous service required for employees to vest from ten years to eight years. The annually determined contribution amount required the County to make monthly contributions at a rate of 8.26% of covered payroll. Previously, such contributions were equal to the employee's contribution rate of 7%. This rate may vary between the employee contribution rate of 7% and the employee's contribution rate plus 3%, which would result in a maximum contribution rate of 10% for the employer. The employer's contribution rate can be reduced by forfeited County contributions which remain in the plan to lower unfunded actuarial liabilities and/or reduce the annually determined contribution rate.

The retirement benefit funding ratio, which is established under the State law governing the TCDRS, is the ratio of Authority contributions to employee contributions, with interest. It can range between 1:1 and 2.5:1. The retirement funding ratio, as adopted by Commissioners Court is 2.2:1. The monthly retirement benefit amount is calculated as if the total of such contributions, with interest were used to purchase an annuity.

Although the plan provides for a defined contribution, the possibility of an unfunded actuarial liability exists because the County retirement funding ratio of 2.2:1 exceeds the County's 1995 contribution rate of 8.26% for the employer and 7% for the employee. Unfunded actuarial liabilities are generally funded by forfeitures from employees not vesting and the differential between interest applied to County deposits and employee deposits. If forfeitures and the interest differential are not sufficient, the County's contribution rate could be increased to the maximum of 10%, or the retirement funding of 2.2:1 could be reduced. At the latest available actuarial calculation date, December 31, 1995, there was an unfunded benefit obligation of $10,313,401.

Funding Status

Although the substance of the plan is not to provide a defined benefit, additional disclosure (similar to that of a defined contribution plan) is appropriate due to the nontraditional existence of an unfunded pension benefit obligation in earlier years and employer-financed monetary credits in excess of 100% of the employees' personal contributions. Effective January 1, 1997, the County's contribution rate increased from 8.29% to 8.65% under the annually determined contribution rate plan implemented January 1, 1995. The plan had an initial unfunded pension benefit obligation due to the monetary credits granted by Commissioners Court for services rendered before the plan began and can have additions to the pension benefit obligation through the periodic adoption or increases in benefits and benefit credits. The rate available to amortize any unfunded pension benefit obligation may vary slightly from year to year since it is determined as the County contribution rate minus the normal cost contribution rate, which is recalculated annually.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required for defined benefit plans, except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. Significant actuarial assumptions used in determining the pension benefit obligation include a rate of return on the investment of present and future assets of 7% for employee contributions and 9% for employer contributions compounded annually. The calculations were made as part of the annual actuarial valuation as of December 31, 1995. The actuarial valuation as of December 31, 1996 was not available at the time this report was prepared. Market value of assets is not determined separately for each plan, but the market value of assets for TCDRS as a whole was 111% of book value as of December 31, 1995.

The pension benefit obligation for the Harris County reporting entity as of December 31, 1995, includes the following:

Pension Benefit Obligation:	
Annuitants:	
Currently receiving benefits	$ 86,654,393
Terminated employees	52,942,624
Members:	
Accumulated employee contributions including allocated investment earnings	290,677,722
Employer - financed vested	329,588,548
Employer - financed nonvested	43,269,718
Total	803,133,005
Net assets available for benefits, at book value	792,819,604
Unfunded pension benefit obligation	$ 10,313,401

Payroll and Contribution Information

The Authority's total payroll for fiscal year 1997 was $7,515,519 of which $7,087,812 was covered by the plan. Employee contributions total $496,145 and Authority contributions total $592,032 for the fiscal year 1997.

Trend Information

Historical trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three-year historical trend information presenting the progress in accumulating sufficient assets to pay benefits when due is presented in the following table for plan years ended December 31, 1993 through December 31, 1995:

Plan Year	Net Assets Available for Benefits as a Percentage of Pension Benefit Obligation	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll	Employer Contributions as a Percentage of Annual Covered Payroll
1993	100.00 %	-	7 %
1994	98.24 %	3.76 %	7 %
1995	98.72 %	2.90 %	8.26 %

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 years 1997 and 1996 approximated $9,560 and $4,058, respectively. Presently, five retirees qualify for retirement benefits.

8. DEFERRED COMPENSATION PLAN

The County offers all full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer federal income taxation on a portion of their current compensation until future years. Participation in the plan is optional. The individual assets in the plan are not available to the employee until termination, retirement, death or unforeseen emergency.

All amounts of deferred compensation and earnings thereon are solely the property of the County subject to the claims of its general creditors. Participants' rights under the plan are considered those of a general creditor and are equal to the fair market value of the participants' deferred account. The County is not responsible for losses under the plan but does have the duty of exercising due care for plan assets as expected of an ordinary prudent investor. The County believes that it is unlikely it will use the assets to satisfy the claims of general creditors in the future. The plan assets and liabilities are reported in the Deferred Compensation Fund and reported in the Agency Fund of the County. The plan is managed and administered by the plan's trustee. Various investment options are underwritten by Aetna Casualty and Life Insurance Company and PEBSCO Securities Corporation.

9. CONTRIBUTED CAPITAL

During fiscal year 1997 contributed capital increased by $41,857,129. The increase is attributable to construction reimbursements from TxDOT.

10. COMMITMENTS AND CONTINGENCIES

The Authority is committed under a lease agreement expiring on December 31, 2003 for toll collecting and accounting equipment, including maintenance. As of February 28, 1997, the Authority's obligation for such annual payments is estimated as follows:

Fiscal Year	Amount
1998	$2,365,485
1999	664,279
2000	664,279
2001	664,279
2002	664,279
2003	553,566

Rent expense for fiscal years 1997 and 1996 was $2,592,510 and $2,882,677, respectively.

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.

11. FUND DEFICIT BALANCE

The Authority has an accumulated deficit of $327,097,320, which has resulted from initial project expenses, interest expense and depreciation.

12. INTERFUND LOANS

During fiscal year 1995, the Authority issued initial notes receivable facilities to the Criminal Justice Capital Project Fund for the construction of the Criminal Justice Center and to the Westbrook Square Apartments Enterprise Fund to acquire the Westbrook Square Apartment Project. The notes accrue interest at the weighted average yield earned by the Authority on their investment portfolio. During the fiscal years 1997 and 1996, the Authority loaned an additional $402,930 and $4,197,130, respectively, to the Criminal Justice Capital Project Fund. The note receivable from the Criminal Justice Capital Project Fund, including interest, was paid in full during fiscal year 1997. As of February 28, 1997 and February 29, 1996 the outstanding notes receivable were as follows:

	1997	1996
Criminal Justice Capital Project Fund	-	$6,221,170
Westbrook Square Apartments Enterprise Fund	$1,349,897	$1,349,897

For the fiscal years 1997 and 1996 the Authority recognized interest revenue on both loans totaling $357,400 and $335,578, respectively.

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