Deloitte &
Touche LLP

Toll Road Enterprise Fund of Harris County, Texas

Financial Statements As of February 28, 1998 and 1997 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, 1998 and 1997, 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 (the "County"). 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, 1998 and 1997, 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 our report dated June 26, 1998 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.

Deloitte & Touche LLP

June 26, 1998

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

BALANCE SHEETS, FEBRUARY 28, 1998 AND 1997

ASSETS	1998	1997
RESTRICTED ASSETS: (Note 3)		
Cash and cash equivalents (Note 2)	$ 13,754,079	$ 38,780,386
Investments (Note 2)	292,945,538	271,154,093
Notes receivable (Note 12)	-	1,349,897
Accrued interest receivable	3,115,494	3,055,221
Accounts receivable and contributions due from TxDOT	4,088	261,054
Other	154,317	116,285
Total current restricted assets	309,973,516	314,716,936
PROPERTY:		
Roads, bridges and rights-of-way	1,269,687,522	1,090,231,845
Construction work in progress	-	150,062,629
Building	2,612,656	2,612,656
Land	366,091	366,091
Equipment	1,552,159	1,102,357
Less accumulated depreciation	(248,778,160)	(210,913,513)
Property, net	1,025,440,268	1,033,462,065
DEFERRED CONSTRUCTION COSTS (Note 4)	16,201,289	16,201,289
DEFERRED CHARGES, NET OF AMORTIZATION	18,539,377	21,591,688
TOTAL ASSETS	$1,370,154,450	$1,385,971,978

See notes to financial statements.

LIABILITIES AND FUND DEFICIT	1998	1997
CURRENT LIABILITIES - Payable from restricted assets: (Note 3)		
Vouchers payable and accrued liabilities	$ 1,708,067	$ 15,898,663
Current portion of long-term debt (Note 5)	21,433,038	19,877,709
Current portion of accrued interest payable (Note 5)	10,160,346	11,995,588
Deferred revenue and performance deposits	4,700,354	5,185,396
Accrued payroll and compensated absences	659,670	699,255
Customer deposits	3,093,739	144,723
Arbitrage rebate payable	-	141,083
Total current liabilities	41,755,214	53,942,417
NONCURRENT LIABILITIES:		
Long-term debt: (Notes 3 and 5)		
Senior lien revenue bonds (Net of unamortized discounts of $13,365,847 and $13,365,499 in 1998 and 1997, respectively)	727,574,153	727,954,501
Tax bonds (Net of unamortized net premiums of $97,641,832 and $84,704,905 in 1998 and 1997, respectively)	913,790,113	914,931,224
Unamortized refunding loss	(167,165,805)	(150,361,192)
Accrued interest payable (Note 5)	75,632,700	64,640,071
Compensatory time payable	188,289	76,986
Total noncurrent liabilities	1,550,019,450	1,557,241,590
Total liabilities	1,591,774,664	1,611,184,007
FUND DEFICIT:		
Contributed capital (Note 9)	108,983,290	101,885,291
Accumulated deficit (Note 11)	(330,603,504)	(327,097,320)
Total fund deficit	(221,620,214)	(225,212,029)
TOTAL LIABILITIES AND FUND DEFICIT	$1,370,154,450	$1,385,971,978

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT FOR THE YEARS ENDED FEBRUARY 28, 1998 AND 1997

	1998	1997
OPERATING REVENUE -		
Toll revenue	$ 142,254,350	$ 109,631,604
OPERATING EXPENSES:		
Salaries	12,242,936	9,432,235
Materials and supplies	456,150	390,816
Services and fees	10,606,943	9,495,895
Utilities	922,989	839,766
Transportation and travel	168,765	100,408
Depreciation	37,866,847	31,820,771
Total operating expenses	62,264,630	52,079,891
INCOME FROM OPERATIONS	79,989,720	57,551,713
NONOPERATING REVENUES:		
Interest revenue	17,960,858	16,778,839
Gain on sale of investment and cash equivalents	126,468	654,153
Other	1,769,566	1,563,486
Total nonoperating revenues	19,856,892	18,996,478
NONOPERATING EXPENSES:		
Interest expense	102,217,751	93,602,799
Amortization expense	1,115,380	1,372,676
Other	19,665	-
Total nonoperating expenses	103,352,796	94,975,475
NET LOSS	(3,506,184)	(18,427,284)
Accumulated deficit, beginning of period	(327,097,320)	(308,670,036)
Accumulated deficit, end of period	$ (330,603,504)	$ (327,097,320)

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29, 1998 AND 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 79,989,720	$ 57,551,713
Adjustments to operations:		
Depreciation	37,866,847	31,820,771
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	164,799	(123,601)
(Increase) decrease in other assets	(38,032)	402,436
(Decrease) increase in restricted payables	(11,907,290)	3,088,437
Increase in compensatory time payable	111,303	43,354
Net cash provided by operating activities	106,187,347	92,783,110
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Loans to Capital Projects funds	-	(4,402,930)
Payments received on loans to Capital Projects funds	1,349,897	10,624,100
Westpark Corridor Feasability Study	-	800,000
Other nonoperating revenues	1,528,318	1,563,486
Net cash provided by noncapital financing activities	2,878,215	8,584,656
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond refunding	344,114	-
Construction of capital assets	(29,248,261)	(111,028,564)
(Acquisition) sale of rights-of-ways	(146,987)	56,611
Purchase of equipment	(449,802)	(125,702)
Principal paid on bonds	(19,877,709)	(20,013,050)
Interest paid on bonds	(88,139,422)	(89,888,793)
Capital contributed	7,190,166	43,476,372
Net cash used for capital and related financing activities	(130,327,901)	(177,523,126)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(295,337,787)	(291,993,293)
Proceeds from sale/maturity of investments	273,546,342	376,560,103
Interest received	18,027,477	21,507,208
Net cash (used for) provided by investing activities	(3,763,968)	106,074,018
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(25,026,307)	29,918,658
CASH AND CASH EQUIVALENTS, BEGINNING	38,780,386	8,861,728
CASH AND CASH EQUIVALENTS, ENDING	$ 13,754,079	$ 38,780,386

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING FEBRUARY 28, 1998 AND 1997

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. 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 lesser of 50% or $90,000,000 of the Authority's total construction costs eligible for Federal Aid reimbursement. As of February 28, 1998, the Authority had been paid $86,017,879 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 $1,339,284 during fiscal year 1998 and increased the cost of assets by $6,443,054 during fiscal year 1997.

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, 1998 and 1997 was $500,000 and $750,000 per occurrence, respectively. No claims settled during the last three fiscal years have exceeded this coverage.

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

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

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

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

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

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

As of February 28, 1998 and 1997, $409,843 and $581,242, 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 $1,887,159 and $4,812,800 as of February 28, 1998 and 1997, respectively. The bank balances as of February 28, 1998 and 1997 were $1,515,962 and $750, 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 1998 and 1997 as follows:

	1998	1997
Category 1	$301,159,351	$305,750,098
Category 2	-	-
Category 3	-	-
Total	$301,159,351	$305,750,098

Carrying amounts for investments for fiscal years ending 1998 and 1997 are as follows:

	1998		1997	
	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. government securities	$211,711,384	$212,212,959	$237,970,952	$237,965,962
Commercial paper	21,944,644	21,942,798	40,018,943	40,139,862
Municipal bonds	67,503,323	67,880,842	21,252,691	21,235,422
Money market mutual funds	3,653,107	3,653,107	5,879,093	5,879,093
	$304,812,458	$305,689,706	$305,121,679	$305,220,339

During fiscal years 1998 and 1997, the Authority sold investments and cash equivalents which resulted in a net gain of $126,468 and $654,153, 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 1998 and 1997, 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 1999. 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, 1998:

		Principal*		
Type of Debt	**Stated Interest Rate Range**	**Outstanding Balance, February 28, 1998**	**Less Current Maturities (To Be Paid in FY 1998-99)**	**Long-Term Maturities, February 28, 1998**
Senior Lien Revenue Bonds	3.85% - 8.10%	$ 734,929,153	$ 7,355,000	$ 727,574,153
Tax Bonds	3.85% - 38.89%	927,868,151	14,078,038	913,790,113
Total - Toll Road Fund Debt		$1,662,797,304	$21,433,038	$1,641,364,266

B. Long-Term Debt - Changes in FY 1997-98 and 1996-97

Changes in the Authority's Long-Term Debt for fiscal years 1997-98 and 1996-97, respectively, were as follows:

	Principal*				
	Outstanding, February 28, 1997	**Issued**	**Paid**	**Amortization Net Premium Discount**	**Outstanding Balance, February 28, 1998**
Senior Lien Revenue Bonds	$ 733,794,501	$ 63,728,189	$ (63,004,390)	$ 410,853	$ 734,929,153
Tax Bonds	928,968,933	164,194,582	(163,492,973)	(1,802,391)	927,868,151
Total - Toll Road Fund Debt	$1,662,763,434	$ 227,922,771	$(226,497,363)	$(1,391,538)	$1,662,797,304

	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

* Includes unamortized premium and accrued compound interest bonds.

C. Outstanding Bonded Debt - February 28, 1998 - Pertinent Information by Issue

Issue	Interest Rate Range (%)	Term Issue	Term Maturity	Special Conditions	Outstanding Balance, February 28, 1998
Senior Lien Revenue Bonds (*)					
Series 1985D (portion refunded in 1992)	7.30 - 8.10	1985	2002	Current Interest Bonds, Maturity 1996-2002	$ 1,355,000
Series 1985-F (portion refunded in 1991)	6.50 - 7.10	1985	2017	Current Interest Bonds, Maturity 1996-2017	2,095,000
Series 1992-A (portion refunded in 1996 and 1997)	5.70 - 6.50	1992	2017	Current Interest Bonds, Maturity 1992-2017	57,105,000
Series 1992-B (portion refunded in 1996 and 1997)	5.70 - 6.62	1992	2017	Current Interest Bonds, Maturity 1992-2017	10,670,000
Series 1994	4.00 - 5.50	1994	2021	Current Interest Bonds, Maturity 1994-2021	595,095,000
Series 1994A (portion refunded in 1997)	5.30 - 6.38	1994	2024	Current Interest Bonds, Maturity 1994-2024	16,425,000
Series 1997	3.85 - 5.30	1997	2024	Current Interest Bonds, Maturity 1997-2024	65,550,000
Total Senior Lien Revenue Bonds					748,295,000
Less: Unamortized Discount					13,365,847
Net Senior Lien Revenue Bonds					734,929,153
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	4,598,899
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 - 13.5	1985	2003	Compound Interest bonds, payable upon maturity 1992-2003	4,089,952
Refunding Bonds, Series 1991	18.89 - 21.9	1991	2014	Compound Interest Bonds, payable upon maturity 2001-2008	6,095,000
	5.85 - 7.00	1991	2014	Current Interest Rate Bonds - maturity 1995-2014	148,940,000
Refunding Bonds, Series 1992A (portion refunded in 1997)	11.60 - 14.7	1992	2015	Compound Interest Bonds, payable upon maturity 1997-2008	12,120,000
	6.50	1992	2015	Current Interest Rate Bonds - maturity 2009-2015	34,005,000
Refunding Bonds, Series 1992B (portion refunded in 1997)	14.37 - 16.1	1992	2016	Compound Interest Bonds, payable upon maturity 1997-2008	2,562,488
	6.50	1992	2015	Current Interest Rate Bonds - maturity 2010-2015	9,225,000
Series 1994A (portion refunded in 1997)	5.70 - 6.30	1994	2007	Compound Interest Bonds, payable upon maturity 2001-2007	30,881,713
	6.10 - 8.00	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	350,000,000
Series 1995A	27.6 - 38.89	1995	2012	Compound Interest Bonds, payable upon maturity 2002-2012	1,500,000
	3.85 - 6.00	1995	2001	Current Interest Bonds - maturity 1996-2001	11,605,000
Refunding Bonds, Series 1997	3.90 - 5.25	1997	2013	Compound Interest bonds, payable upon maturity 1998-2013	2,790,000
	5.00 - 5.13	1997	2024	Current Interest Bonds - maturity 2014-2024	150,395,000
Total Tax Bonds					830,226,319
Unamortized Premium					97,641,832
Net Tax Bonds					927,868,151
Total - Toll Road Bonded Debt					$ 1,662,797,304

(*) 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 3.39 and 2.34 as of February 28, 1998 and 1997, 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, 2001. The fee for the standby agreement is 0.10% 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 8.5% as of February 28, 1998. 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, 1998 at the ceiling interest rate of 15%:

Fiscal Year	Principal	Interest	Total
1999	$ -	$ 52,500,000	$ 52,500,000
2000	-	52,500,000	52,500,000
2001	-	52,500,000	52,500,000
2002	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 July 24, 1997, the County issued $218,735,000 in Toll Road Refunding Bonds, consisting of $153,185,000 in Unlimited Tax and Subordinate Lien Revenue Refunding Bonds, Series 1997 and $65,550,000 in Senior Lien Revenue Refunding Bonds, Series 1997. These refunding bonds were issued to realize debt service savings.

The net proceeds and other funds of $227,274,312, for the Series 1997 Bonds, after provision for payment of $2,001,973 in issuance costs, were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent sufficient to provide for the funding of all future debt service on the refunded bonds. This refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $24,410,370. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized over the remaining life of the old bonds using the straight-line method. There was a decrease of debt service requirements of $20,586,745 as a result of the transaction and an economic gain of $10,431,727 as a result of the transaction.

F. Debt Service Requirements

Total interest expense was $97,336,088 and $97,054,109 for fiscal years 1998 and 1997, respectively. The following are the debt service requirements for bonds payable (assuming a variable rate of 5.5% for the 1994 B-H Tax Bonds):

Fiscal Year	Principal**	Interest	Total
1999	$ 21,433,038	$ 93,959,976	$ 115,393,014
2000	30,540,482	93,086,257	123,626,739
2001	33,667,461	91,729,102	125,396,563
2002	34,554,815	101,828,793	136,383,608
2003	32,009,965	104,607,165	136,617,130
2004-2026	1,426,315,558	1,083,851,363	2,510,166,921
Total	$1,578,521,319	$1,569,062,656	$3,147,583,975

** Does not include unamortized premiums and discounts

G. Unissued Authorized Bonds

As of February 28, 1998, 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, 1998 and 1997, the outstanding principal balance of these defeased bonds was $1,586,811,639 and $1,379,038,167, respectively.

6. RETIREMENT PLAN

Plan Description

The Authority, a department of Harris County, provides pension, disability, and death benefits for all of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas County and District Retirement System (TCDRS), one of over 450 administered by TCDRS, a multiple-employer public employee retirement system agent. It is the opinion of the TCDRS management that the plans in TCDRS are substantially defined contribution plans, but they have provided additional voluntary disclosure information to help foster a better understanding of some of the nontraditional characteristics of the plan.

Under the state law governing TCDRS since 1991, the Authority 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 Authority adopted an annually determined contribution rate plan, for which the employer contribution rate is actuarially determined as a part of the annual actuarial valuation. The rate, applicable for a calendar year, consists of the normal cost contribution rate plus the rate required to amortize the unfunded actuarial liability over the remainder of the plan's 25-year amortization period which began January 1, 1995 using the entry age actuarial cost method. Monthly contributions by the employer are based on the covered payroll and the employer contribution rate in effect. The contribution rate for calendar year 1998 is 8.73%. The contribution rates for calendar years 1997 and 1996 were 8.65% and 8.29%, respectively.

The plan provisions are adopted by the governing body of the Authority, within the options available in the state statutes governing TCDRS. Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age or when the sum of their age and years of service equals 75 or more. A member is vested after eight years but must leave his accumulated contributions in the plan. If a member withdraws his personal contributions in a lump sum, he is not entitled to any amounts contributed by the employer.

The contribution rate payable by all employee members is 7% as adopted by the governing body of the Authority. Monthly contributions by each employee member are based on the member's covered compensation and the employee contribution rate. The member's contributions are credited with interest at a rate determined each December by the TCDRS Board of Trustees according to governing state law. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits, with interest. The level of these monetary credits is adopted by the governing body of the Authority. The Authority's current benefit plan provides for employer-financed monetary credits for service since the plan began of 220% of the employee's accumulated contributions and for employer-financed monetary credits for service before the plan began of 160% of a theoretical amount equal to twice what would have been contributed by the employee, with interest, prior to establishment of the plan. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions and the employer-financed monetary credits were used to purchase an annuity within TCDRS.

Payroll and Contribution Information

The County's total payroll in fiscal year 1998 was $379,343,913, and the County's contributions were based on a covered payroll of $374,948,791. The Authority's total payroll and covered payroll were $9,792,397 and $9,763,800, respectively. The employer and employee contributions were made as required and are detailed below for Harris County, of which the Authority is a department. The percentages detailed below for employer contributions are based on weighted averages for the fiscal year. Employee contributions may include the purchase of credits for military or legislative service or the buyback of previously forfeited service credit. There were no related–party transactions.

	Contribution Amounts (Rates) (Fiscal Year 1998)		
	Total	**Normal Cost**	**Prior Service**
Employee	$26,246,415 (7%)	N/A	N/A
Employer	$32,485,138 (8.66%)	$24,682,208 (6.58%)	$7,802,930 (2.08%)

Voluntary Additional Disclosure

Even though the substance of the Authority's plan is not to provide a defined benefit, some additional voluntary disclosure is appropriate due to the nontraditional existence of an unfunded pension benefit obligation and employer-financed monetary credits in excess of 100% of the employee's personal contributions. Part of the Authority's contribution is the normal cost, while the remaining portion is the amortization the unfunded actuarial liability.

Statement No. 5 of the Governmental Accounting Standards Board ("GASB No. 5") defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee pension plans.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB No. 5 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. The calculations were made as part of the annual actuarial valuation as of December 31, 1996. Significant actuarial assumptions used to compute the actuarially determined contribution requirements in that valuation are the same as those used to compute the pension benefit obligation. Because of the money-purchase nature of the plan, the interest rate assumptions, currently 9% and 7% per year with a weighted average of 8%, do not have as much impact on the results as for a defined benefit plan. An annual rate of 9% is used for calculating the actuarial liability and normal cost contribution rate. For accumulating existing monetary credits after the valuation date, an annual rate of 7% is assumed, 2% lower than the 9%

assumption in recognition of the statutory interest allocation method. Market value of assets is not determined separately for each plan, but the market value of assets for TCDRS as a whole is 104.8% of book value as of December 31, 1996:

Pension Benefit Obligation:	
Annuitants:	
Currently receiving benefits	$ 99,931,313
Terminated employees	59,272,971
Current Employees:	
Accumulated employee contributions including allocated investment earnings	312,263,651
Employer-financed vested	357,239,880
Employer-financed nonvested	47,464,915
Total	876,172,730
Net Assets Available for Benefits, at Book Value	867,259,177
Unfunded Pension Benefit Obligation	$ 8,913,553

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 is presented in the following table for plan years ended December 31, 1994 through December 31, 1996:

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
1994	98.24 %	3.76 %	7 %
1995	98.72 %	2.90 %	8.26 %
1996	98.98 %	2.38 %	8.29 %

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 1998 and 1997 approximated $13,223 and $9,560, respectively. Presently, eight 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 an 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 1998, contributed capital increased by $7,097,999. 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, 1998, the Authority's obligation for such annual payments is estimated as follows:

Fiscal Year	Amount
1999	$ 664,279
2000	664,279
2001	664,279
2002	664,279
2003	553,566

Rent expense for fiscal years 1998 and 1997 was $1,554,458 and $2,592,510, 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 $330,603,504, which has resulted from initial project expenses, interest expense and depreciation. This does not include contributed capital of $108,983,290.

12. INTERFUND LOANS

During fiscal year 1995, the Authority issued a note receivable facility to the Westbrook Square Apartments Enterprise Fund to acquire the Westbrook Square Apartment Project. The note accrued interest at the weighted average yield earned by the Authority on their investment portfolio. The note receivable from the Westbrook Square Apartment Project, including interest, was paid in full during fiscal year 1998. For the fiscal years 1998 and 1997, the Authority recognized interest revenue on the loan totaling $43,021 and $357,400, respectively.

13. SUBSEQUENT EVENTS

On April 7, 1998, the Commissioners Court approved an interfund borrowing to the Harris County General Fund in the amount of $13.5 million to finance the payment of the settlement for the Walsweer Judgement. 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. 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.

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