Deloitte & Touche LLP

Toll Road Enterprise Fund of Harris County, Texas

Financial Statements As of February 28, 1999 and 1998 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, 1999 and 1998, and the related statements of operations and changes in accumulated deficit and 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 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 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, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 supplementary information on page 20 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part or that parties with which the Authority does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report dated July 2, 1999 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

July 2, 1999

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

BALANCE SHEETS, FEBRUARY 28, 1999 AND 1998

ASSETS	1999	1998
RESTRICTED ASSETS: (Note 3)		
Cash and cash equivalents (Note 2)	$ 6,968,088	$ 13,754,079
Investments (Note 2)	334,004,935	292,945,538
Accrued interest receivable	4,081,863	3,115,494
Accounts receivable and contributions due from TxDOT	24,453	4,088
Other	978,089	154,317
Total current restricted assets	346,057,428	309,973,516
PROPERTY:		
Roads, bridges and rights-of-way	1,279,787,023	1,269,687,522
Construction work in progress (Note 4)	26,092,385	-
Building	2,612,656	2,612,656
Land	366,091	366,091
Equipment	5,541,856	1,552,159
Less accumulated depreciation	(288,888,758)	(248,778,160)
Property, net	1,025,511,253	1,025,440,268
NOTE RECEIVABLE (Note 10)	13,500,000	-
DEFERRED CONSTRUCTION COSTS (Note 4)	-	16,201,289
DEFERRED CHARGES, NET OF AMORTIZATION	17,574,299	18,539,377
TOTAL ASSETS	$1,402,642,980	$1,370,154,450

See notes to financial statements.

LIABILITIES AND FUND DEFICIT	1999	1998
CURRENT LIABILITIES - Payable from restricted assets: (Note 3)		
Vouchers payable and accrued liabilities	$ 5,284,875	$ 1,708,067
Current portion of long-term debt (Note 5)	30,540,482	21,433,038
Current portion of accrued interest payable (Note 5)	12,360,094	10,160,346
Current portion of obligation under capital lease (Note 8)	554,647	-
Deferred revenue	6,767,926	4,700,354
Accrued payroll and compensated absences	884,779	659,670
Customer deposits	4,702,297	3,093,739
Total current liabilities	61,095,100	41,755,214
NONCURRENT LIABILITIES:		
Long-term debt: (Notes 3 and 5)		
Senior lien revenue bonds (net of unamortized discounts of $12,909,324 and $13,365,847 in 1999 and 1998, respectively)	717,830,676	727,574,153
Tax bonds (net of unamortized premiums of $93,715,826 and $97,641,832 in 1999 and 1998, respectively)	889,523,625	913,790,113
Deferred amount on refunding	(158,991,316)	(167,165,805)
Accrued interest payable (Note 5)	83,860,088	75,632,700
Obligation under capital lease (Note 8)	1,658,119	-
Compensatory time payable	188,435	188,289
Total noncurrent liabilities	1,534,069,627	1,550,019,450
Total liabilities	1,595,164,727	1,591,774,664
FUND DEFICIT:		
Contributed capital	108,977,302	108,983,290
Accumulated deficit (Note 9)	(301,499,049)	(330,603,504)
Total fund deficit	(192,521,747)	(221,620,214)
TOTAL LIABILITIES AND FUND DEFICIT	$1,402,642,980	$1,370,154,450

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT FOR THE YEARS ENDED FEBRUARY 28, 1999 AND 1998

	1999	1998
OPERATING REVENUE		
Toll revenue	$ 180,108,358	$ 142,254,350
OPERATING EXPENSES:		
Salaries	13,614,018	12,242,936
Materials and supplies	593,018	456,150
Services and fees	12,259,442	10,606,943
Utilities	1,028,354	922,989
Transportation and travel	193,322	168,765
Depreciation	40,271,413	37,866,847
Total operating expenses	67,959,567	62,264,630
INCOME FROM OPERATIONS	112,148,791	79,989,720
NONOPERATING REVENUES:		
Interest revenue	19,531,823	17,960,858
Gain on sale of investments and cash equivalents	93,114	126,468
Other	202,028	1,769,566
Total nonoperating revenues	19,826,965	19,856,892
NONOPERATING EXPENSES:		
Interest expense	101,940,831	102,217,751
Amortization expense	883,663	1,115,380
Other	46,807	19,665
Total nonoperating expenses	102,871,301	103,352,796
NET INCOME (LOSS)	29,104,455	(3,506,184)
ACCUMULATED DEFICIT, Beginning of year	(330,603,504)	(327,097,320)
ACCUMULATED DEFICIT, End of year	$ (301,499,049)	$ (330,603,504)

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 1999 AND 1998

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 112,148,791	$ 79,989,720
Adjustments to operations:		
Depreciation	40,271,413	37,866,847
Other nonoperating revenues (expenses)	155,221	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(20,365)	164,799
Increase in other assets	(823,772)	(38,032)
Increase (decrease) in restricted payables	7,478,047	(11,907,290)
Increase in compensatory time payable	146	111,303
Net cash provided by operating activities	159,209,481	106,187,347
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Loan to General Fund	(13,500,000)	-
Payments received on loans to Capital Projects funds	-	1,349,897
Other nonoperating revenues	-	1,528,318
Net cash (used for) provided by noncapital financing activities	(13,500,000)	2,878,215
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond refunding	-	344,114
Construction of capital assets	(21,431,206)	(29,248,261)
Acquisition of rights-of-ways	-	(146,987)
Purchase of equipment	(304,279)	(449,802)
Principal paid on bonds	(21,433,038)	(19,877,709)
Interest paid on bonds	(86,255,861)	(88,139,422)
Principal paid on obligation under capital lease	(525,030)	-
Interest paid on obligation under capital lease	(139,242)	-
Capital contributed	(5,988)	7,190,166
Net cash used for capital and related financing activities	(130,094,644)	(130,327,901)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(437,080,939)	(295,337,787)
Proceeds from sale/maturity of investments	396,021,542	273,546,342
Interest received	18,658,569	18,027,477
Net cash used for investing activities	(22,400,828)	(3,763,968)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,785,991)	(25,026,307)
CASH AND CASH EQUIVALENTS, BEGINNING	13,754,079	38,780,386
CASH AND CASH EQUIVALENTS, ENDING	$ 6,968,088	$ 13,754,079

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED FEBRUARY 28, 1999 AND 1998

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 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 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, 1999, the Authority had been paid $86,221,447 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.

During fiscal year 1999, the Authority adopted the provisions of Statement No. 31 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for

External Investment Pools" ("GASB No. 31"), which requires that certain investments and external investment pools be reported at fair value. The Authority's adoption of GASB No. 31 did not have a material impact on its financial position or result in material changes in the Authority's equity. Accordingly, no restatement of accounts reported in prior years has been considered necessary.

All investments are recorded at fair value based upon quoted market prices as of February 28, 1999, with the difference between the purchase price and market price being recorded as interest income.

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 4 years, while all other equipment is depreciated over an estimated useful life of 10 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 $0 during fiscal year 1999 and increased the cost of assets by $1,339,284 during fiscal year 1998.

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, 1999 and 1998 was $500,000 per occurrence. No claims settled during the last three fiscal years have exceeded this coverage.

Through the County, the Authority provides medical, dental, vision and basic life and disability insurance to eligible employees and retirees. The Authority pays the full cost of employee and retiree coverage and

50% of the cost of dependent premiums. The disability insurance will pay up to 50% of an employee's salary for two years with an employee option to extend the benefits period to age 65 and increase the percentage to 60%.

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

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

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

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

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

As of February 28, 1999 and 1998, $594,844 and $409,843, 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 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 $5,177,115 and $1,887,159 as of February 28, 1999 and 1998, respectively. The bank balances as of February 28, 1999 and 1998 were $2,247,707 and $1,515,962, 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 1999 and 1998 as follows:

	1999	1998
Category 1	$333,773,686	$301,159,351
Category 2	-	-
Category 3	-	-
Subtotal	333,773,686	301,159,351
Uncategorized money market mutual funds	2,022,222	3,653,107
Total	$335,795,908	$304,812,458

Fair value amounts for investments for fiscal years ended 1999 and 1998 are as follows:

	1999 Fair Value	1998 Fair Value
U.S. government securities	$217,034,931	$212,212,959
Commercial paper	19,046,069	21,942,798
Municipal bonds	97,692,686	67,880,842
Money market mutual funds	2,022,222	3,653,107
Total	$335,795,908	$305,689,706

During fiscal years 1999 and 1998, the Authority sold investments and cash equivalents which resulted in net gains of $93,114 and $126,468, 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 purchase certain amounts of debt service fund surety policies to satisfy certain reserve fund requirements. During fiscal years 1999 and 1998, 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 2000. The County reinstated construction of the airport connector during the current fiscal year. All capitalized costs previously recorded as deferred construction costs have been reclassed to construction work in progress. 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, 1999:

		Principal*		
Type of Debt	**Stated Interest Rate Range**	**Outstanding, February 28, 1999**	**Less Current Maturities (To Be Paid in FY 1999-00)**	**Long-Term Maturities, February 28, 1999**
Senior Lien Revenue Bonds	3.85% - 8.10%	$ 728,030,676	$10,200,000	$ 717,830,676
Tax Bonds	3.85% - 38.89%	909,864,107	20,340,482	889,523,625
Total - Toll Road Fund Debt		$1,637,894,783	$30,540,482	$1,607,354,301

B. Long-Term Debt - Changes in FY 1998-99 and 1997-98

Changes in the Authority's Long-Term Debt for fiscal years 1998-99 and 1997-98, respectively, were as follows:

	Principal*				
	Outstanding, February 28, 1998	Issued	Paid	Amortization Net Premium Discount	Outstanding, February 28, 1999
Senior Lien Revenue Bonds	$ 734,929,153	$ -	$ (7,355,000)	$ 456,523	$ 728,030,676
Tax Bonds	927,868,151	-	(14,078,038)	(3,926,006)	909,864,107
Total - Toll Road Fund Debt	$1,662,797,304	$ -	$(21,433,038)	$(3,469,483)	$1,637,894,783

	Principal*				
	Outstanding, February 28, 1997	Issued	Paid	Amortization Net Premium Discount	Outstanding, 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

* Includes unamortized premium and accrued compound interest bonds.

Issue	Interest Rate Range (%)	Term Issue	Term Maturity	Special Conditions	Outstanding Balance, February 28, 1999
Senior Lien Revenue Bonds (*)					
Series 1985-F (portion refunded in 1991)	6.50 - 7.10	1985	2017	Current Interest Bonds, Maturity 1996-2017	$ 1,095,000
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	590,345,000
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	65,300,000
Total Senior Lien Revenue Bonds					740,940,000
Less: Unamortized Discount					(12,909,324)
Net Senior Lien Revenue Bonds					728,030,676

C. Outstanding Bonded Debt - February 28, 1999 - Pertinent Information by Issue

Issue	Interest Rate Range (%)	Term Issue	Term Maturity	Special Conditions	Outstanding Balance, February 28, 1999
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	2,887,240
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	3,548,573
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	141,690,000
Refunding Bonds, Series 1992A (portion refunded in 1997)	11.60 - 14.7	1992	2015	Compound Interest Bonds, payable upon maturity 1997-2008	10,870,000
	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	2,237,488
	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	8,905,000
Refunding Bonds, Series 1997	3.90 - 5.25	1997	2013	Compound Interest Bonds, payable upon maturity 1998-2013	2,490,000
	5.00 - 5.13	1997	2024	Current Interest Bonds - maturity 2014-2024	150,395,000
Total Tax Bonds					816,148,281
Plus: Unamortized Premium					93,715,826
Net Tax Bonds					909,864,107
Total - Toll Road Bonded Debt					$1,637,894,783

(*) 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 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 4.11 and 3.39 as of February 28, 1999 and 1998, 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, 1999. 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, 1999 at the ceiling interest rate of 15%.

Fiscal Year	Principal	Interest	Total
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	$135,625,000	$485,625,000

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 future 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 $96,683,002 and $97,336,088 for fiscal years 1999 and 1998, 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
2000	$ 30,540,482	$ 93,086,256	$ 123,626,738
2001	33,667,461	91,729,102	125,396,563
2002	34,554,815	101,828,793	136,383,608
2003	32,009,965	104,607,167	136,617,132
2004	37,688,831	108,155,033	145,843,864
2005-2020	1,388,626,727	975,696,392	2,364,323,119
Total	$1,557,088,281	$1,475,102,743	$3,032,191,024

** Does not include unamortized premiums and discounts

G. Unissued Authorized Bonds

As of February 28, 1999, 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, 1999 and 1998, the outstanding principal balance of these defeased bonds was $705,788,000 and $1,586,811,639, 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 1999 is 10.16%. The contribution rates for calendar years 1998 and 1997 were 8.73 % and 8.65%, 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.

Funding Policy

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.

Annual Pension Cost

For the County's accounting year ended February 28, 1999, the annual pension cost for the TCDRS plan for its employees was $37,977,561, and the actual contributions were $37,977,561.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 1995 and December 31, 1996, the basis for determining the contribution rates for calendar years 1997 and 1998. The December 31, 1997 report is the most recent valuation.

Actuarial Valuation Method			
Actuarial Valuation Date	12/31/95	12/31/96	12/31/97
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, open
Amortization period in years	23	22	20
Asset Valuation Method	Amortized cost for bonds, no equities	Amortized cost for bonds, no equities	Long-term appreciation with adjustments
Actuarial Assumption: Investment return (1) Projected salary increases (1) Inflation Cost of living adjustments (1) Includes inflation at the stated rate	 8.00% 6.2% 4.5% 0.0%	 8.00% 6.2% 4.5% 0.0%	 8.00% 5.9% 4.0% 0.0%

Trend Information			
Accounting Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
02/28/99	$37,977,561	100%	0

<u>Transition Disclosure</u>

It was determined in accordance with GASB Statement No. 27 that the pension liability was zero at the transition to that statement effective at the beginning of this accounting year because all actuarially required contributions for the accounting years beginning in 1987 up to the beginning of this accounting year have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at the transition and the previously reported pension liability is zero.

Schedule of Funding			
Actuarial Valuation Date	12/31/95	12/31/96	12/31/97
Actuarial Value of Assets	792,819,604	867,259,177	954,603,458
Actuarial Accrued Liability (AAL)	915,095,107	993,882,842	1,113,130,572
Unfunded Actuarial Accrued Liability (UAAL)	122,275,503	126,623,665	158,527,114
Funded Ratio	86.64%	87.26%	85.76%
Annual Covered Payroll (Actuarial)	385,351,766	383,566,063	401,289,828
UAAL as Percentage of Covered Payroll	31.73%	33.01%	39.50%

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 1999 and 1998 approximated $36,082 and $13,223, respectively. Presently, eight retirees qualify for retirement benefits.

8. COMMITMENTS AND CONTINGENCIES

The Authority is committed under a capital lease agreement expiring on December 31, 2003 for toll collecting and accounting equipment. The amount of property recorded under the capital lease obligation net of accumulated depreciation was approximately $2.2 million as of February 28, 1999. As of February 28, 1999, the Authority's obligation for such annual payments is estimated as follows:

Fiscal Year	Principal	Interest
2000	$ 554,647	$ 109,632
2001	585,933	78,346
2002	618,984	45,295
2003	453,202	12,767
	$2,212,766	$ 246,040

Rent expense for fiscal years 1999 and 1998 was $96,861 and $1,554,458, respectively. Decrease in rent expense is attributable to the termination of a significant operating lease in October 1997. The lease agreement was for the maintenance of toll-collecting equipment.

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 $301,499,049, which has resulted from initial project expenses, interest expense and depreciation. This does not include contributed capital of $108,977,302.

10. INTERFUND LOAN

On April 7, 1998, the Commissioners Court approved an interfund loan from the Toll Road Enterprise Fund to the Harris County General Fund in the amount of $13.5 million to finance the payment of the settlement for a judgment against the County. A promissory note was executed requiring a three-year maturity with principal payable at maturity and an option to extend the note for an additional two years with principal due at the final maturity date. 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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HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND

REQUIRED SUPPLEMENTARY INFORMATION
DISCLOSURES ABOUT YEAR 2000 ISSUES (Unaudited)

GASB Technical Bulletin Nos. 98-1, "Disclosure About Year 2000 Issues," and 99-1, "Disclosure About Year 2000 Issues," an amendment of Technical Bulletin 98-1 (collectively, "GASB Nos. 98-1 and 99-1"), requires supplementary disclosures about Year 2000 issues facing the Authority. The Authority is a department of Harris County, Texas (the "County"). The following disclosure, which addresses the requirements of GASB Nos. 98-1 and 99-1, has been excerpted from the County's Comprehensive Annual Financial Report and is inclusive of all of the Authority's Information Technology and Non-Information Technology Systems.

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations. Year 2000 issues present the County with two general sources of risk to the County's continued ability to deliver services and meet its obligations. In the first category of risk, the County could have assets which will not function during the transition to the year 2000. This asset risk includes Information Technology ("IT") systems such as the general ledger, payroll, other accounting-related data, and offender information data repositories. Non-IT systems include assets such as security systems and telecommunications in which microcomputer devices may be embedded within the system, and such systems may fail to perform as required. The second class of risk involves externally-provided third-party services upon which the County is dependent to meet its operating responsibilities.

GASB Nos. 98-1 and 99-1 identify the following four principal stages as being necessary to implement a Year 2000 Plan:

- Awareness Stage - Establishing a Budget and Project Plan

- Assessment Stage - Preparing an inventory of systems and components of systems on an overall or mission-critical basis

- Remediation Stage - Technical issues of correcting existing systems or changing to Year 2000-compliant systems

- Validation/Testing Stage - Testing the Year 2000 conversion process and reviewing test results

The County's Director of Central Technology, who reports to the Commissioners Court, has assessed Year 2000 compliance for Harris County and has estimated that, as of March 5, 1999, 86% of the applications supporting the justice and non-justice departments are remediated and ready for testing and that the County's 800-megahertz radio system is 95% remediated and tested. The Director is working with County department heads to identify and correct any critical systems that may be affected by the millennium change. The Director provides the Commissioners Court with periodic updates related to Year 2000 compliance through the County's internet website.

The County's methodology for addressing the Year 2000 issue included the following.

- Inventory

  Identification of all major systems, software and embedded technology.

- Assessment

  Determine through testing that such major systems, software, and embedded technology may be date sensitive. Included in this step was the classification of each as to risk level for Harris County.

- Remediation

  Repair or replacement of software or technology, or development of alternative processes.

- Implementation and testing

  Migrate from test environment and demonstrate successful functionality in production.

The County's highest risk is related to those systems and software applications which are considered critical to the overall operation of Harris County. These have been identified in the assessment process as the Central Technology Center's Mainframe IBM Computer, Central Technology Center's IBM Operating System Software, Central Technology Center's Wide-Area Network, Central Technology Center's 800-megahertz radio system, the Justice Information Management System, the County Auditor's Countywide Financial Management System, and the County Auditor's Human Resource System, Central Technology Center's Computer-Aided Dispatch System, and the application supporting this system. All of these systems and software applications have either been corrected or plan to be by the fourth quarter of the County's Fiscal Year 2000.

The County has entered into contracts and consulting agreements to address Year 2000 compliance, with $15.5 million budgeted for the replacement of the County Auditor's financial management and human resources system.

The County department heads are responsible for contacting critical suppliers to determine their Year 2000 readiness status in an effort to ensure that the County will have critical goods and services necessary. The County cannot guarantee the Year 2000 readiness of all the suppliers of goods and services, and each County department will need a contingency plan to address critical suppliers' inability to perform as a result of Year 2000.

The County cannot guarantee that there will not be an interruption of services due to unforeseen failures resulting from Year 2000, but we are making every reasonable effort to ensure a smooth transition from calendar year 1999 to 2000 and beyond.