# ACCEPTANCE OF THE CENTRAL TEXAS TURNPIKE SYSTEM FINANCIAL REPORT

## Description

This item presents the financial report consisting of unaudited financial statements of the Central Texas Turnpike System (CTTS) for the year ended August 31, 2009.

The State Auditor's Office (SAO) conducted the audit of the CTTS and we anticipate issuance of an unqualified opinion on or about December 18, 2009. The unqualified opinion will state the financial statements present fairly, in all material respects, the financial position of the CTTS as of August 31, 2009, and the changes in financial position for the reporting period ended in conformity with generally accepted accounting principles.

## Background

The financial report is prepared and submitted annually to comply with requirements of the CTTS indenture of trust.

## Criteria

None.

## Problem/Condition

Preparation and submission of the audited financial report within 120 days of fiscal year end is necessary to comply with the requirements of the indenture. The audited financial statements will be submitted within the required time period.

## Other Comments

Because the audited financial statements will not be available until shortly after the commission meeting, they will be brought to the commission in January for acceptance.

## Alternate Solutions/Actions

None.

DRAFT MINUTE ORDERS SUBJECT TO CHANGE PRIOR TO COMMISSION ACTION

TEXAS DEPARTMENT OF TRANSPORTATION

# Central Texas Turnpike System of the Texas Turnpike Authority

(An Enterprise Fund of the Texas Department of Transportation)

Financial Statements - For Fiscal Year Ended August 31, 2009

# CENTRAL TEXAS TURNPIKE SYSTEM

of the

# TEXAS TURNPIKE AUTHORITY

## FINANCIAL STATEMENTS

## August 31, 2009

Prepared by:
Finance Division of the Texas Department of Transportation

CENTRAL TEXAS TURNPIKE SYSTEM
of the
TEXAS TURNPIKE AUTHORITY

Financial Statements
August 31, 2009

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# INTRODUCTORY SECTION

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December 18, 2009

TO: The Citizens of the State of Texas and the Creditors of the Central Texas Turnpike Project

The Indenture of Trust, dated as of July 15, 2002, as supplemented by the First through Fourth Supplemental Indentures (collectively, the "Indenture") between the Texas Transportation Commission (the *"Commission")* and Bank One, National Association, (the *"Trustee"),* requires the Commission to provide audited annual financial statements of the Texas Turnpike Authority - Central Texas Turnpike Project (the *"Project").* Pursuant to this requirement, we hereby present to you the Financial Statements for the Central Texas Turnpike System (the "System") for the year ended August 31, 2009 and for comparative purposes the year ended August 31, 2008. This report has been prepared by the Accounting Management staff in the Finance Division of the Texas Department of Transportation.

Management is responsible for the accuracy of the data in this report as well as for the completeness and fairness of the presentation. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this financial report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements of the Central Texas Turnpike System in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the Texas Department of Transportation's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, the financial report is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the System and provides disclosures that enable the reader to understand the System's financial condition.

Auditors from the Texas State Auditor's Office performed an independent audit of the System's basic financial statements for the year ended August 31, 2009. The auditors issued an unqualified opinion on the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The summarized comparative information for the prior period has been derived from the System's financial statements for the year ending August 31, 2008, and, in their report dated December 12, 2008 the Texas State Auditor expressed an unqualified opinion on those financial statements.

The Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis of the financial activities of the Project. We encourage readers to consider the information in this letter of transmittal in conjunction with the MD&A, which can be found on page 13.

**Profile of the Government**

The Texas Department of Transportation (the *"Department")* is an agency of the State of Texas (the "*State"*) created to provide a safe, effective and efficient transportation system throughout the State. The Department's goals are to reduce congestion, improve air quality, enhance safety, expand economic opportunity and preserve the quality of our transportation system. The Department is managed by the Executive Director and is governed by a five-member Commission. The Department is organized into 25 districts, 4 regional offices and 28 divisions/offices and currently has an annual budget of approximately $8.3 billion and a staff of approximately 13,000 which manage approximately $2.7 billion in annual construction contract lettings.

The Texas Turnpike Authority Division of the Department *("TTA")* is controlled and governed by the Commission. TTA was created in 1997 under Chapter 361 of the Texas Transportation Code, as amended (the *"Turnpike Act").* As originally created in 1997, TTA had a separate board of directors. The independent board of directors was abolished by the State Legislature in 2001 and all of its duties were given to the Commission. To allow the Commission to make the most efficient use of its resources, the State Legislature granted authority to the Commission, acting for and through TTA, to study, plan, design, construct, finance, operate and maintain turnpikes in all 254 counties of the State as a part of the State's highway system. The Commission has the authority to issue turnpike revenue bonds to pay all or a part of the cost of a turnpike project, to enter into exclusive development agreements to prosecute projects, and to acquire right-of-way through quick-take procedures.

**Information useful in assessing the government's financial condition**

Cash Management policies and practices: The Commission's Investment Strategy for the System identified four fund types in association with the Indenture. These funds are 1) Type I Funds: Funds in the Revenue Fund, General Reserve Fund and Debt Service Funds, other than Capitalized Interest Funds; 2) Type II Funds: Funds in the Rate Stabilization Fund; 3) Type III Funds: Funds in the Construction Fund and Capitalized Interest Funds; and, 4) Type IV Funds: Funds in Debt Service Reserve Fund. Bonds proceeds were deposited to Type III and IV Funds. Type I and Type II Funds are funded with toll revenues. Various portions of the 2002 Project opened in fiscal year 2007 and no tolls were levied for the first two months after the opening of each section of the road as a promotional incentive. The last section of the 2002 Project opened in April 2008. Revenues are being deposited into the Revenue Fund (Type I funds). As of August 2009, $67.8 million of toll revenue deposits were transferred from the Revenue Fund to the Rate Stabilization Fund. The rate stabilization fund requirement is an amount equal to the greater of (a) all revenues, less required deposits, through August 31, 2008, or (b) $10 million.

The Department and the Trustee are responsible for ensuring that funds maintain the proper minimum balances as set forth in the Indenture and for investing in securities required to meet liquidity requirements. The investments suitable for each fund type have been determined using the following criteria that are detailed in the Commission's Investment Strategy: 1) suitability of the investment to the financial requirements of the entity; 2) preservation and safety of principal; 3) liquidity; 4) marketability of the investment if the need arises to liquidate the investment before maturity; 5) diversification of the investment portfolio; and, 6) yield. For more detailed information on Investments, please see the latest Texas Transportation Commission Quarterly Investment Report. Requests for a copy of the Investment Policy should be addressed to the Finance Division, Accounting Management Section, 125 E. 11th Street, Austin, Texas, 78701-2483.

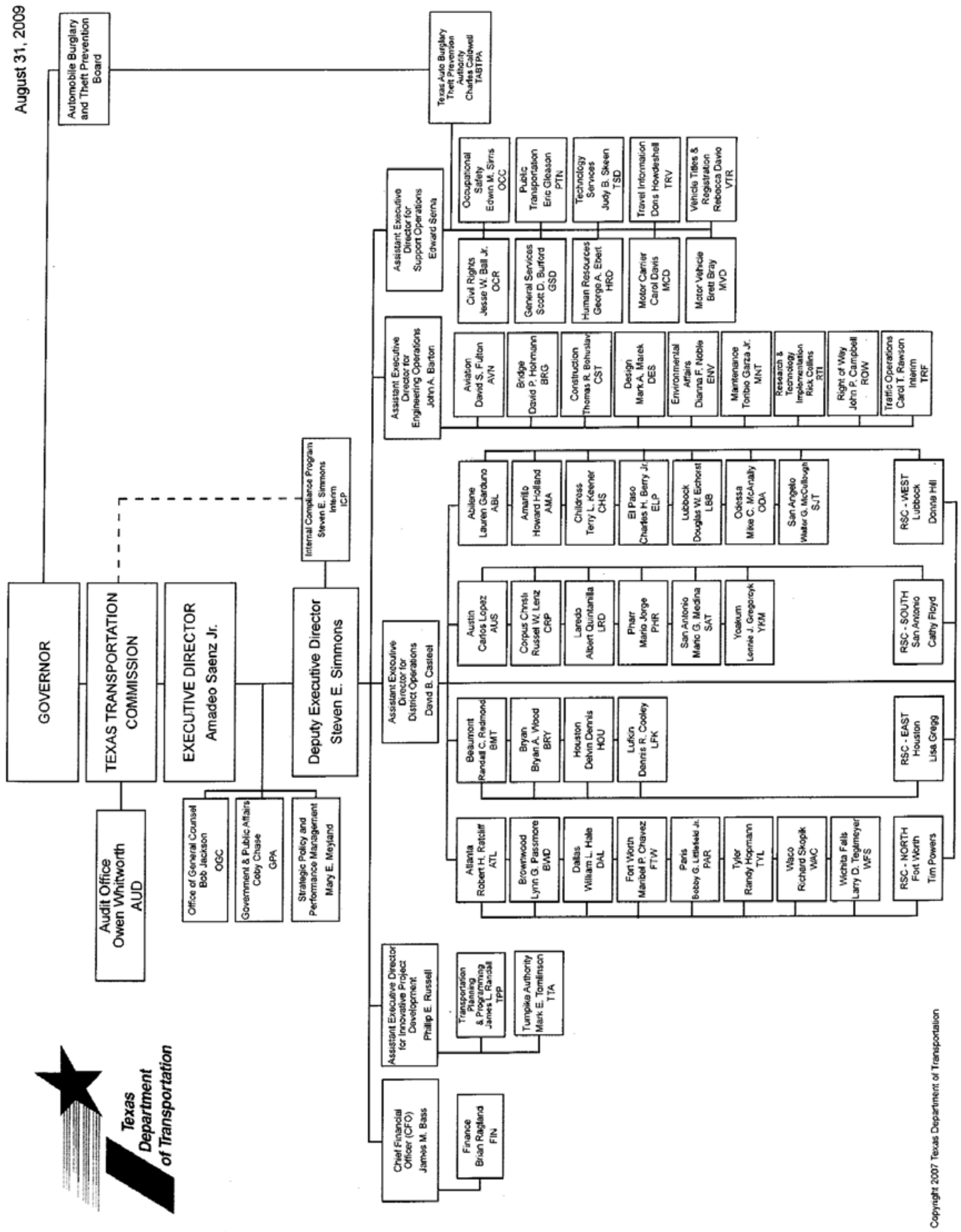
The System does not have any employees. Department employees and contractors perform the work of the System. The Department provides all accounting and administrative services.

**Risk Financing & Management:** The Department is exposed to a wide range of risks due to the size, scope, and nature of its activities. Some of these risks include, but are not limited to, property and casualty losses, workers' compensation and health benefit claims, theft, damage of assets, etc. The Department retains these risks, and manages them through claims review and safety programs, which are primarily the responsibility of the Department's Occupational Safety Division. TTA, as a division of the Department, participates in these programs.

**Acknowledgements**

Production of this report would not have been possible without the support of Austin District staff that supplied generally accepted accounting principles *("GAAP")* closing data on a timely basis. We extend special appreciation to Diana Smith, Glen Knipstein, Silvia Morales, Robert Snipes and the Finance Division for their professionalism and devotion in preparing this complex financial document.

Amadeo Saenz, Jr., P.E.
Executive Director


August 31, 2009
Texas Department of Transportation
GOVERNOR
Automobile Burglary and Theft Prevention Board
TEXAS TRANSPORTATION COMMISSION
Audit Office Owen Whitworth AUD
EXECUTIVE DIRECTOR Amadeo Saenz Jr.
Office of General Counsel Bob Jackson OGC
Government & Public Affairs Coby Chase GPA
Strategic Policy and Performance Management Mary E. Meyland
Deputy Executive Director Steven E. Simmons
Internal Compliance Program Steven E. Simmons Interim ICP
Chief Financial Officer (CFO) James M. Bass
Finance Brian Ragland FIN
Assistant Executive Director for Innovative Project Development Phillip E. Russell
Transportation Planning & Programming James L. Randall TPP
Turnpike Authority Mark E. Tomlinson TTA
Assistant Executive Director for District Operations David B. Casteel
Atlanta Robert H. Ratcliff ATL
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Dallas William L. Hale DAL
Fort Worth Maribel P. Chavez FTW
Paris Bobby G. Littlefield Jr. PAR
Tyler Randy Hopmann TYL
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RSC - NORTH Fort Worth Tim Powers
Beaumont Randall C. Redmond BMT
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RSC - EAST Houston Lisa Gregg
Austin Carlos Lopez AUS
Corpus Christi Russel W. Lenz CRP
Laredo Albert Quintanilla LRD
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San Antonio Mario G. Medina SAT
Yoakum Lonnie J. Gregorcyk YKM
RSC - SOUTH San Antonio Cathy Floyd
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Amarillo Howard Holland AMA
Childress Terry L. Keener CHS
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Lubbock Douglas W. Eichorst LBB
Odessa Mike C. McAnally ODA
San Angelo Walter G. McCullough SJT
RSC - WEST Lubbock Donna Hill
Assistant Executive Director for Engineering Operations John A. Barton
Aviation David S. Fulton AVN
Bridge David P. Hohmann BRG
Construction Thomas R. Bohuslav CST
Design Mark A. Marek DES
Environmental Affairs Dianna F. Noble ENV
Maintenance Toribio Garza Jr. MNT
Research & Technology Implementation Rick Collins RTI
Right of Way John P. Campbell ROW
Traffic Operations Carol T. Rawson Interim TRF
Assistant Executive Director for Support Operations Edward Serna
Civil Rights Jesse W. Ball Jr. OCR
General Services Scott D. Burford GSD
Human Resources George A. Ebert HRD
Motor Carrier Carol Davis MCD
Motor Vehicle Brett Bray MVD
Occupational Safety Edwin M. Sims OCC
Public Transportation Eric Gleason PTN
Technology Services Judy B. Skeen TSD
Travel Information Doris Howdeshell TRV
Vehicle Titles & Registration Rebecca Davio VTR
Texas Auto Burglary Theft Prevention Authority Charles Caldwell TABTPA
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**Commission and Key Personnel**
**As of August 31, 2009**

**TEXAS TRANSPORTATION COMMISSION**

DEIRDRE DELISI........................................Chair
Austin

NED S. HOLMES........................................Commissioner
Houston

TED HOUGHTON........................................Commissioner
El Paso

WILLIAM MEADOWS........................................Commissioner
Fort Worth

FRED UNDERWOOD........................................Commissioner
Lubbock

**TEXAS DEPARTMENT OF TRANSPORTATION**

AMADEO SAENZ, Jr., P.E........................................Executive Director
JAMES M. BASS........................................Chief Financial Officer

**Texas Turnpike Authority Division**

MARK E. TOMLINSON, P.E........................................Director

**Austin District**

CARLOS A. LOPEZ, P.E........................................District Engineer

ROBERT STUARD, P.E........................................Deputy District Engineer

TIMOTHY J. WEIGHT, P.E........................................Director of Construction

**Finance Division**

BRIAN RAGLAND........................................Director

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# FINANCIAL SECTION

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*Auditor Opinion*

*Auditor Opinion*

## Management's Discussion and Analysis

As management of the Texas Department of Transportation (the "Department"), we offer readers of the Central Texas Turnpike System's (the "System") financial statements this narrative overview and analysis of its financial activities for the years ended August 31, 2009 and for comparative purposes the year ended August 31, 2008. These financial statements reflect the financial position of the System. The System is an enterprise fund of the Texas Department of Transportation of the State of Texas. Also, the Texas Transportation Commission, the governing body of the Department, has the authority to commit the System to various legal agreements. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 3 of this report.

**Financial Highlights**

- The Texas Turnpike Authority ("TTA"), a division of the Department, was created under Chapter 361 of the Texas Transportation Code, as amended (the "Turnpike Act"). In order to allow the Texas Transportation Commission (the "Commission") to make the most efficient use of its resources, the State Legislature granted authority to the Commission, acting for and through TTA, to design, construct, operate and expand turnpike projects as a part of the State's highway system.
- The 2002 Project of the System includes three elements: State Highway 45 North, Loop 1, and State Highway 130 (Segments 1 – 4). As of August 31, 2009, $2,690,012,616 has been spent on the Project of which approximately $1,019.5 million was from federal revenue, contributions, or transfers. See Note 6 on page 37 for information on commitments and contingencies.
- The 2002 Project has opened in phases, with the last phase opening in April 2008. Loop 1 and the portion of SH 45 Northeast of Loop 1 were opened in November 2006. SH 130 from US 79 southward to US 290 was opened in November 2006. The western portion of SH 45 North opened in April 2007. SH 130 from IH 35 to US 79 opened in December 2006 and US 290 to SH 71 opened in September 2007. In April 2008, the last segment of SH 130 from SH 71 southward to US 183 opened.
- In August 2002, the Commission issued approximately $2.2 billion in revenue bonds (the "2002 Bonds") and bond anticipation notes ("BANS") to fund the development and construction of a network of toll roads in central Texas. The 2002 Bonds, the BANS, the 2002 TIFIA Bond and the First Tier Developer Note (collectively, the "2002 Obligations") were issued under the terms of an Indenture of Trust dated as of July 15, 2002, between the Commission and BankOne, National Association as Trustee as supplemented by the First through Fourth Supplemental Indenture of Trust (collectively, the "Indenture"). See Note 1-A on page 24 and the website www.texastollways.com for further information relating to the System.
- The Commission has entered into a Secured Loan Agreement with the United States Department of Transportation for an amount of $916,760,000 to pay or reimburse a portion of the costs of the System. The obligations of the Commission under the Secured Loan Agreement are evidenced by the 2002 Transportation Infrastructure Finance and Innovation Act of 1998 ("TIFIA") Bond. In May 2007, a draw was received on the approved TIFIA loan in the amount of $124,930,000 to provide funds to pay for the maturing Bond Anticipation Notes (BANs). In May 2008, a draw of $775,070,000 was received on the TIFIA loan. These proceeds were used to make the final principal payment on the Series 2002 Second Tier BANS.
- The Developer agreed to accept deferred payment in an amount of up to $10,000,000 in the form of a Developer Note for progress payments. It is at the Commission's discretion as to when and if the note will be executed. As of August 31, 2009, the note has not been executed and no funds

have been drawn against the Developer Note.

- The assets of the System exceeded its liabilities at the close of fiscal year 2009 and 2008 by $641,093,384 and $757,434,898, respectively.
- The System's net assets decreased by $116,341,514 and $48,016,692 at the close of fiscal years 2009 and 2008, respectively. The majority of this decrease is attributable to the recording of interest accretion on the Series 2002A bonds and the TIFIA note payable.
- During fiscal year 2009, the System's total liabilities increased by $90,093,393. This is mainly a result of interest accretion on the Series 2002A bonds and the TIFIA note payable. During fiscal year 2008, the System's total liabilities decreased by $5,489,040. Deferred revenues increased by $1,435,051 in fiscal year 2009. The System held $10,627,036 in deposits from TxTAG customers at the end of fiscal year 2009. Deferred revenues increased by $15,476,578 in fiscal year 2008. Total payables and debt increased by $88,658,342 in fiscal year 2009. Total payables and debt decreased by $20,965,618 in fiscal year 2008.
- The System's land values increased by $9,240,332 and $18,583,282 during fiscal years 2009 and 2008, respectively, due to additional acquisitions. Depreciation on the System's Customer Service Center and bridges was $361,001 and $17,014,245, respectively in fiscal year 2009. Bridge additions in fiscal year 2009 were $4,509,528. Additions to roadways for fiscal year 2009 were $16,892,283.
- A special mandatory redemption of $2,525,000 of the Series 2002-B Bonds occurred on February 19, 2009, using funds from the Revenue Fund. The remaining $147,475,000 of the Series 2002-B Bonds were refunded with proceeds from the CTTS First Tier Revenue Refunding Put Bonds, Series 2009, issued March 5, 2009.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The basic financial statements are comprised of fund financial statements and notes to the financial statements.

**Fund financial statements.** A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activities related to the System are being accounted for in an enterprise fund. The accounts of the System are maintained in accordance with practices set forth in the provisions of the Indenture. These practices are modeled after generally accepted accounting principles for an enterprise fund on an accrual basis.

***Proprietary funds.*** Proprietary funds are used to account for a government's business-type activities. Proprietary funds use the economic resources measurement focus and accrual basis of accounting. Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The Department has established an enterprise fund to track the activities of the System. *Enterprise funds* are used to report an activity for which a fee is charged to external users for goods or services. The basic enterprise fund financial statements can be found on pages 20 - 23 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 24 – 38 of this report.

**Financial Analysis**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the System, assets exceeded liabilities by $641,093,384 and $757,434,898 at August 31, 2009 and August 31, 2008, respectively.

The largest portion of the System's total assets (83%) consists of Capital Assets which includes Right of Way, Roadways, Construction in Progress, Customer Service Center Building, and Bridges. Money Market and Similar Funds, Short Term Investments, and Restricted Investments make up 14% of the System's total assets. These investments will be used to finance the 2002 Project of the System.

Beginning in fiscal year 2008, to better comply with GASB requirements, we have changed the presentation of the Net Assets section from the prior year.

**CONDENSED NET ASSETS**
**Enterprise Fund Total**

| | **2009** | **2008** | **2007** |
|---|---|---|---|
| Restricted and Current Assets | $527,963,437 | $572,144,455 | $733,573,001 |
| Capital Assets | 2,648,908,310 | 2,630,975,413 | 2,523,052,599 |
| **Total Assets** | $3,176,871,747 | $3,203,119,868 | $3,256,625,600 |
| Current Liabilities | (64,065,688) | (76,950,007) | (891,635,440) |
| Long term Liabilities | (2,471,712,675) | (2,368,734,963) | (1,559,538,570) |
| **Total Liabilities** | $(2,535,778,363) | $(2,445,684,970) | $(2,451,174,010) |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 177,195,635 | 262,240,450 | 805,451,590 |
| Restricted for Debt Service | 160,537,959 | 173,244,455 | |
| Unrestricted | 303,359,790 | 321,949,993 | |
| **Total Net Assets** | $641,093,384 | $757,434,898 | $805,451,590 |

**Changes in Net Assets**

Operating revenues – The System recognized $66,362,310 in toll revenues for the fiscal year 2009.

Operating expenses – The System incurred $68,005,024 and $67,016,504 in operating expenses during the years ended August 31, 2009 and 2008, respectively. Operating expenses include expenses for operating the toll roads and the Customer Service Center, toll tags, advertising, and depreciation on capital assets.

Lease revenues – The System received $12,864 in lease revenue from Sage-Socrates, Ltd. in 2009 and 2008 for customer parking to facilitate the shopping center located on the property adjacent to the right-of-way. The lease is for 0.247 acres. The term has been extended to 2014, and the consideration is $1,072 per month.

Capital Contributions and Transfers - TTA, through its toll road operations, has entered into agreements with local governments whereby the local governments transfer funds to the Department to fund purchases of right of way land and related costs. The System recognized $760,866 and a credit of ($4,101,531) in capital contributions from local governments for the years ended August 31, 2009 and 2008, respectively.

An additional $26,989,281 and $46,826,458 in project expenditures was funded from the Department's special revenue fund for the years ended August 31, 2009 and 2008, respectively.

**CONDENSED CHANGES IN NET ASSETS**
**Enterprise Fund Total**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Total Operating Revenues** | $66,362,310 | $48,945,195 | $16,743,690 |
| **Total Operating Expenses** | $(68,005,024) | $(67,016,504) | $(25,170,483) |
| **Total Operating (Loss)** | $(1,642,714) | $(18,071,309) | $(8,426,793) |
| **Total Nonoperating Revenue (Expenses)** | $(142,448,947) | $(72,670,310) | $(64,882,368) |
| Income (Loss) before Contributions and Transfers | (144,091,661) | (90,741,619) | (73,309,161) |
| Capital Contributions and Transfers | 27,750,147 | 42,724,927 | 117,041,530 |
| **Change in Net Assets** | (116,341,514) | (48,016,692) | 43,732,369 |
| **Total Net Assets – beginning** | $757,434,898 | $805,451,590 | $761,719,221 |
| **Total Net Assets – ending** | $641,093,384 | $757,434,898 | $805,451,590 |

Investment income for the years ended August 31, 2009 and 2008 was $10,233,006 and $24,697,956, respectively. As the toll roads opened, interest income, interest expense, amortization, and accretion were capitalized in direct proportion to the capitalization of construction in progress. For fiscal years 2009 and 2008 all construction in progress was capitalized to roadways, land, bridges or buildings. Prior to the opening of the toll roads, investment income was recorded as a reduction of capitalized interest costs in accordance with generally accepted accounting principles.

**Capital Asset and Debt Administration**

**Capital Assets.** The System's investment in capital assets as of August 31, 2009 amounted to $2,648,994,410 and as of August 31, 2008, amounted to $2,630,975,413. Non-depreciable capital assets amounted to $2,260,914,213 and $2,234,781,598 as of August 31, 2009 and 2008, respectively. Net depreciable capital assets as of August 31, 2009 and 2008 amounted to $387,994,097 and $396,193,815, respectively. The investment in capital assets includes non-depreciable land, roadways, depreciable Customer Service Center and bridges. See Note 2 on page 29. As of August 31, 2009, all sections of SH 45 North and Loop 1 of the System have been granted substantial completion and final acceptance and are open to traffic. The current estimated Exclusive Development Agreement ("EDA") costs on SH 130 are $1,105,698,715, $119,377,138 more than the original estimated EDA costs of $986,321,577. As of August 31, 2009, outstanding commitments are $1,500,000 for SH 130. See Note 6 on page 37.

As permitted by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the State has adopted the modified approach for reporting the roadways associated with the Central Texas Turnpike System (CTTS). As required by this Statement, the Texas Department of Transportation (TxDOT) conducts condition assessments on the CTTS under its Texas Maintenance Assessment Program (TxMAP). TxMAP is conducted on a yearly basis (GASB requirement is every three years) and results in an overall condition level for the CTTS. In conjunction with TxMAP, the Texas Transportation Commission has adopted a minimum acceptable condition level of 80% for the CTTS. The condition assessment results for FY 2009 reflect a condition level of 90.5%.

The modified approach also requires that the State estimate the expenditures that will be required to maintain the CTTS at or above the adopted condition level. For FY 2009, TxDOT computed an estimate of $9.2 million for the CTTS with actual expenditures of **$7**.3 million. See Modified Approach to Reporting Infrastructure Assets on page 39 for additional information.

**Outstanding Debt.** As of August 31, 2009, the System had total debt outstanding of $2,471,712,675. Of this amount, $1,499,620,484 was comprised of revenue bonds payable and $972,092,191 was a Transportation Innovation Financing Infrastructure Act 'TIFIA' note payable. As of August 31, 2008, the System had total debt outstanding of $2,368,734,963. Of this amount, $1,468,734,963 was comprised of revenue bonds payable and $900,000,000 was TIFIA note payable. See Note 4 on page 32.

| 2009 Balances | 1st Tier Revenue Bonds | TIFIA Note |
|---|---|---|
| Non-Callable (Series 2002-A) | $287,459,891 | |
| Callable Capital Appreciation Bonds (2002-A) | 154,658,891 | |
| Current Interest Bonds (2002-A) | 707,875,000 | |
| Refunding Put Bonds (2009) | 149,275,000 | |
| TIFIA Note | | $900,000,000 |
| **TOTAL Par Value** | $1,299,268,782 | $900,000,000 |
| Add: Premium | 11,220,782 | |
| Subtract: Discount | (21,429,442) | |
| **Total Debt Issuance** | $1,289,060,122 | $900,000,000 |
| Amortization and Interest for the period from Inception through August 31, 2009 | 215,041,328 | 72,092,191 |
| Unamortized loss on Refunding | (4,480,966) | |
| **Total Debt Outstanding** | $1,499,620,484 | $972,092,191 |

| 2008 Balances | 1st Tier Revenue Bonds | TIFIA Note |
|---|---|---|
| Non-Callable (Series 2002-A) | $287,459,891 | |
| Callable Capital Appreciation Bonds (2002-A) | 154,658,891 | |
| Current Interest Bonds (2002-A) | 707,875,000 | |
| Weekly Demand Bonds (2002-B) | 150,000,000 | |
| TIFIA Note | | $900,000,000 |
| **TOTAL Par Value** | $1,299,993,782 | $900,000,000 |
| Add: Premium | 11,220,782 | |
| Subtract: Discount | (21,429,442) | |
| **Total Debt Issuance** | $1,289,785,122 | $900,000,000 |
| Amortization and Interest for the period from Inception through August 31, 2008 | 178,949,841 | |
| **Total Debt Outstanding** | $1,468,734,963 | $900,000,000 |

| 2007 Balances | 1st Tier Revenue Bonds | 2nd Tier Bond Anticipation Notes (BANS) | TIFIA Note |
|---|---|---|---|
| Non-Callable (Series 2002-A) | $287,459,891 | | |
| Callable Capital Appreciation Bonds (2002-A) | 154,658,891 | | |
| Current Interest Bonds (2002-A) | 707,875,000 | | |
| Weekly Demand Bonds (2002-B) | 150,000,000 | | |
| BANS (Series 2002) | | $775,070,000 | |
| TIFIA Note | | | $124,930,000 |
| **TOTAL Par Value** | $1,299,993,782 | $775,070,000 | $124,930,000 |
| Add: Premium | 11,220,782 | 68,112,050 | |
| Subtract: Discount | (21,429,442) | (62,274) | |
| **Total Debt Issuance** | $1,289,785,122 | $843,119,776 | $124,930,000 |
| Amortization and Interest for the period from Inception through August 31, 2007 | 144,823,448 | (56,708,146) | |
| **Total Debt Outstanding** | $1,434,608,570 | $786,411,630 | $124,930,000 |

**Bond Credit Ratings**

The Series 2002-A Bonds have received underlying ratings of "BBB+" from Standard & Poor's Credit Market Services ("*S&P*"), "Baa1" from Moody's Investors Service, Inc. ("*Moody's*"), and "BBB+" from Fitch, Inc. ("*Fitch*"). These ratings were reaffirmed in 2008 and again in 2009, and were also assigned to the Series 2009 Revenue Refunding Put Bonds.

Commencing in January 2008, interest rates on the CTTS Series 2002-B variable rate debt began to fluctuate due to the credit uncertainty of the bond insurer. Periodically interest rates on the bonds would rise and fall until credit ratings on the bond insurer were lowered or withdrawn, which triggered higher interest rates, the tender of bonds, and a majority of the bonds ending up being held by the standby bond repurchase bank. The Series 2002-B bonds were subject to redemption at the option of the Commission on any interest payment date. Under the terms of the Standby Purchase Agreement, a special mandatory redemption of $2,525,000 of Series 2002-B bonds occurred on February 19, 2009, using funds from the Revenue Fund. The remaining $147,475,000 of the Series 2002-B bonds were refunded with proceeds from the issuance of the CTTS First Tier Revenue Refunding Put Bonds, Series 2009, issued March 5, 2009.

An explanation of the significance of each rating may be obtained from the company furnishing the rating. The ratings reflect only the views of such companies at the time such ratings are given, and the Commission makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such companies if, in the judgment of such companies circumstances so warrant.

**Requests for Information**

This financial report is designed to provide a general overview of the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Division, Accounting Management Section, 125 E. 11th Street, Austin, Texas, 78701-2483.

# BASIC FINANCIAL STATEMENTS

# EXHIBIT I

# CENTRAL TEXAS TURNPIKE SYSTEM
## Statement of Net Assets
## August 31, 2009

| | 8/31/2009 | Memorandum Only 8/31/2008 |
|---|---|---|
| ***ASSETS*** | | |
| Current Assets: | | |
| Cash and Cash Equivalents (Note 3) | $ | $ |
| Cash on Hand | 76,099 | 112,431 |
| Cash in Bank | 25,488,890 | 12,965,988 |
| Money Market and Similar Funds | 325,836,567 | 371,854,798 |
| Short Term Investments (Note 3) | 15,315,669 | 21,121,577 |
| Interest and Dividends Receivable | 412,043 | 1,070,712 |
| Accounts Receivable | 638,431 | 698,635 |
| Due from Texas Department of Transportation | 1,792,819 | 118,191 |
| Receivables from: | | |
| Local Governments | 1,584,144 | 1,309,126 |
| Harris County Toll Road Authority (HCTRA) | 274,221 | 168,920 |
| North Texas Tollway Authority (NTTA) | 226,429 | 154,496 |
| Central Texas Regional Mobility Authority (CTRMA) | 191,735 | |
| Total Current Assets | 371,837,047 | 409,574,874 |
| Non-Current Assets: | | |
| Restricted Cash and Cash Equivalents in State Treasury (Note 3) | 21,116 | 2,213,118 |
| Restricted Investments (Note 3) | 114,999,378 | 114,999,378 |
| Deferred Charges (Bond Issue Costs) | 41,105,896 | 45,357,085 |
| Non-depreciable Capital Assets (Note 2): | | |
| Land | 638,428,380 | 629,188,048 |
| Roadways | 1,622,485,833 | 1,605,593,550 |
| Depreciable Capital Assets (Note 2): | | |
| Buildings | 8,360,006 | 8,360,006 |
| less Accumulated Depreciation | (1,268,335) | (907,334) |
| Infrastructure - Bridges | 420,738,397 | 411,923,869 |
| less Accumulated Depreciation | (39,835,971) | (23,182,726) |
| Total Non-Current Assets | 2,805,034,700 | 2,793,544,994 |
| TOTAL ASSETS | 3,176,871,747 | 3,203,119,868 |
| ***LIABILITIES*** | | |
| Current Liabilities: | | |
| Accounts Payable | 707,030 | 10,859,244 |
| Contracts Payable – Retainage | 0 | 3,888,909 |
| Due to Texas Department of Transportation (TxDOT) | 1,879,387 | 1,690,400 |
| Payables to: | | |
| Central Texas Regional Mobility Authority (CTRMA) | 569,534 | 580,313 |
| Harris County Toll Road Authority (HCTRA) | 678,294 | 242,993 |
| North Texas Tollway Authority (NTTA) | 622,586 | 924,005 |
| Payable From Restricted Assets-Current Portion (Interest Payable) | 1,859,493 | 2,449,830 |
| Deferred Revenues | 57,749,364 | 56,314,313 |
| Total Current Liabilities | 64,065,688 | 76,950,007 |
| Non-Current Liabilities: | | |
| Revenue Bonds Payable (Note 4) | 1,499,620,484 | 1,468,734,963 |
| Notes/Loans Payable (Note 4) | 972,092,191 | 900,000,000 |
| Total Non-Current Liabilities | 2,471,712,675 | 2,368,734,963 |
| TOTAL LIABILITIES | 2,535,778,363 | 2,445,684,970 |
| ***NET ASSETS*** | | |
| Invested in Capital Assets, Net of Related Debt | $ 177,195,635 | $ 262,240,450 |
| Restricted for Debt Service | 160,537,959 | 173,244,455 |
| Unrestricted | 303,359,790 | 321,949,993 |
| TOTAL NET ASSETS | $ 641,093,384 | $ 757,434,898 |

The accompanying notes to the financial statements are an integral part of this financial statement.

## EXHIBIT II

# CENTRAL TEXAS TURNPIKE SYSTEM

### STATEMENT OF REVENUES, EXPENSES, and CHANGES in NET ASSETS

### For the year ended August 31, 2009

| | For the year ended August 31, 2009 | Memorandum Only For the year ended August 31, 2008 |
|---|---|---|
| ***OPERATING REVENUES*** | | |
| Toll Revenue | $ 66,362,310 | $ 48,945,195 |
| Total Operating Revenues | 66,362,310 | 48,945,195 |
| ***OPERATING EXPENSES*** | | |
| Professional Fees and Services | (11,273,671) | (3,638,688) |
| Materials and Supplies | (2,484,254) | (8,119,031) |
| Communication and Utilities | (1,563,081) | (1,099,819) |
| Repairs and Maintenance | (12,102,265) | (10,908,602) |
| Printing and Reproduction | 0 | (3,912) |
| Contracted Services | (20,781,985) | (21,515,322) |
| Advertising | (934,509) | (1,815,515) |
| Depreciation Expense | (17,014,245) | (15,882,339) |
| Prompt Payment Interest | (508) | (11,467) |
| Other Professional Services | 0 | (2,690,423) |
| Other Operating Expenses | (1,850,506) | (1,331,386) |
| Total Operating Expenses | (68,005,024) | (67,016,504) |
| Operating (Loss) | (1,642,714) | (18,071,309) |
| ***NONOPERATING REVENUES (EXPENSES)*** | | |
| Lease Revenue | 12,864 | 12,864 |
| Interest and Investment Income | 10,233,006 | 24,697,956 |
| Net Increase (Decrease) in Fair Value of Investments | 140,977 | (152,082) |
| Interest | (44,601,115) | (62,936,383) |
| Accretion on Capital Appreciation Bonds | (107,897,303) | (33,840,017) |
| Other Financing Fees | (354,458) | (486,899) |
| Other Nonoperating Revenues (Expenses) | 17,082 | 34,251 |
| Total Nonoperating Revenues (Expenses) | (142,448,947) | (72,670,310) |
| Loss before Other Revenues, (Expenses), Contributions, Gains/(Losses) and Transfers | (144,005,561) | (90,741,619) |
| Capital Contributions and Transfers | 27,750,147 | 42,724,927 |
| Total Other Revenues, (Expenses), Contributions, Gains/(Losses) and Transfers | 27,750,147 | 42,724,927 |
| Change in Net Assets | (116,341,514) | (48,016,692) |
| Total Net Assets – beginning | 757,434,898 | 805,451,590 |
| Total Net Assets – ending | $ 641,093,384 | $ 757,434,898 |

The accompanying notes to the financial statements are an integral part of this financial statement.

# EXHIBIT III

## CENTRAL TEXAS TURNPIKE SYSTEM
## STATEMENT OF CASH FLOWS
## For the year ended August 31, 2009

| | For the year ended August 31, 2009 | Memorandum Only<br>For the year ended August 31, 2008 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | $ | $ |
| Receipts from Customers | 94,626,484 | 84,763,618 |
| Payments to Vendors | (45,733,193) | (53,235,558) |
| Payments to Toll Partners | (27,941,444) | (28,761,464) |
| NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES | 20,951,847 | 2,766,596 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from TIFIA Note | 0 | 775,070,000 |
| Proceeds from Series 2009 Bond Issue | 143,041,160 | 0 |
| Proceeds from Lease Revenue | 12,864 | 12,864 |
| Proceeds from Capital Contributions | 760,866 | (4,101,531) |
| Payments for Interest on Debt | (43,155,893) | (93,362,742) |
| Payments for Additions to Land and Roadways | (23,835,693) | (85,028,607) |
| Payments for Principal on Debt | (150,000,000) | (775,070,000) |
| Payments of Remarketing Fees and Other Costs | (354,458) | (486,899) |
| NET CASH (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES | (73,531,154) | (182,966,915) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from Sales of Investments | 111,320,870 | 138,418,765 |
| Proceeds from Interest and Investment Income, net of fees | 10,908,758 | 27,357,490 |
| Payments to Acquire Investments | (105,373,984) | (59,999,421) |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 16,855,644 | 105,776,834 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (35,723,663) | (74,423,485) |
| CASH AND CASH EQUIVALENTS – BEGINNING | 387,146,335 | 461,569,820 |
| CASH AND CASH EQUIVALENTS – ENDING | $ 351,422,672 | $ 387,146,335 |

The accompanying notes to the financial statements are an integral part of this financial statement.

# EXHIBIT III

## CENTRAL TEXAS TURNPIKE SYSTEM
## STATEMENT OF CASH FLOWS (Continued)
## For the year ended August 31, 2009

| | For the year ended August 31, 2009 | Memorandum Only For the year ended August 31, 2008 |
|---|---|---|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating (Loss) | $ (1,642,714) | $ (18,071,309) |
| Adjustments to reconcile operating income to net cash (used) by operating activities: | | |
| Depreciation expense | 17,014,245 | 15,882,339 |
| Increase (Decrease) in Accounts Payable | 5,380,688 | (2,759,713) |
| (Increase) in Accounts Receivable | (308,765) | (164,607) |
| Increase in Deferred Revenue | 1,994,035 | 2,783,465 |
| (Increase) Decrease in Due To Other Funds | (1,485,642) | 5,096,421 |
| Total Adjustments | 22,594,561 | 20,837,905 |
| Net Cash Provided (Used) in Operating Activities | $ 20,951,847 | $ 2,766,596 |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The System received $26,989,280 of noncash transfers from the Department for the year ended August 31, 2009. Of this amount, $7,672,266 was capitalized and $19,317,015 was expensed for the year. The System received $46,826,458 of noncash transfers from the Department for the year ended August 31, 2008. Of this amount, $1,538,822 was capitalized and $45,287,636 was expensed for the year.

| | | |
|---|---|---|
| Reconciliation of Cash and Cash Equivalents | | |
| Cash on Hand | $ 76,099 | $ 112,431 |
| Cash in Bank | 25,488,890 | 12,965,988 |
| Money Market and Similar Funds | 325,836,567 | 371,854,798 |
| Restricted Cash and Cash Equivalents in State Treasury | 21,116 | 2,213,118 |
| Cash and Cash Equivalents | $ 351,422,672 | $ 387,146,335 |

The accompanying notes to the financial statements are an integral part of this financial statement.

***NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

A. Organization

These financial statements reflect the financial position of the Central Texas Turnpike System (the "System"). The System is an enterprise fund of the Texas Department of Transportation, an agency of the State of Texas. Also, the Texas Transportation Commission, the governing body of the Department, has the authority to commit the System to various legal agreements.

The Commission

The State created the State Highway Commission (the "Commission") on April 4, 1917, for the purpose of adopting and implementing a comprehensive system of state highways and promoting the construction of a state highway system by cooperation with counties or independently by the State Highway Commission. In 1975, the State Legislature changed the name of the State Highway Commission to the State Highway and Public Transportation Commission. In 1991, the State Legislature changed the name to the current name, the Texas Transportation Commission. The State Legislature directed the Commission to plan and make policies for the location, construction, and maintenance of a comprehensive system of state highways and public roads.

The Commission governs the Texas Department of Transportation (the "Department") and is charged by statute with policy-making responsibilities. The Department is charged with the management responsibilities for implementing the policies of the Commission. The Department is managed by the Executive Director and supported by the staff. The State Legislature provided that the Commission must divide the State into no more than 25 regional districts for the purpose of the performance of the Department's duties. There are currently 25 districts.

The Commission consists of five members appointed by the Governor with the advice and consent of the State Senate. One member is designated by the Governor as the Chairman and serves as the chief executive officer of the Commission. A person is not eligible to be a member of the Commission if the person or the person's spouse is employed by or manages a business that is regulated by or regularly receives funds from the Department, directly or indirectly owns or controls more than ten percent (10%) interest in a business that is regulated by or receives funds from the Department, uses or receives a substantial amount of goods, services or funds from the Department, or is registered, certified, or licensed by the Department. Members of the Commission serve six-year terms, with one to two members' terms expiring February 1 of each odd-numbered year.

The Department

The Texas Department of Transportation was created to provide a safe, effective and efficient transportation system throughout the State. The Department is governed by the five-member Texas Transportation Commission and an executive director selected by the Commission and is an agency of the State of Texas. The Department's operations are conducted by a central office with twenty two functional divisions, six offices, four regional offices, and twenty-five geographic districts in the State.

Texas Turnpike Authority

The Texas Turnpike Authority ("TTA") is controlled and governed by the Commission. TTA was created in 1997 by an act of the State Legislature as a division of the Department. As originally created in 1997, TTA had a separate board of directors. The independent board of directors was abolished by the State Legislature in 2001 and all of its duties were given to the Commission. The Commission, using the resources of TTA and the other resources of the Department, has the statutory authority to study, plan, design, construct, finance, operate and maintain turnpikes in all 254 counties of the State. The projects of TTA are part of the State Highway System. The Commission has the authority to issue turnpike revenue bonds to pay all or a part of the cost of a turnpike project, to enter into exclusive development agreements to prosecute projects, and to acquire right-of-way through quick-take procedures.

The System and the 2002 Project

The Commission issued $2,199,993,782 par value of revenue bonds and bond anticipation notes (BANS) on August 29, 2002. These proceeds will be used, among other purposes, to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase (referred to as the "2002 Project") of the System. The System initially will consist of the 2002 Project. The 2002 Project includes three distinct elements: State Highway 130, State Highway 45 North, and Loop 1. The System will also include any future project to expand, enlarge or extend the System, any future project pooled with the System pursuant to the Turnpike Act, and any other roads, bridges, tunnels or other toll facilities for which the Commission has operational responsibility and is collecting Tolls, unless the Commission declares in writing, delivered to the Trustee, that such roads, bridges, tunnels or other toll facilities are not part of the System for the purposes of the Indenture.

The construction of the System was the responsibility of the Department; however, the Department retained the engineering firm of HDR, Inc. to provide certain program management services, which included design and construction oversight on the State Highway 130 element and the engineering firm of Post, Buckley, Schuh & Jernigan, Inc. (PBS&J) provided construction oversight on the Loop 1 and State Highway 45 North elements. The State Highway 130 element was constructed pursuant to an exclusive development agreement with Lone Star Infrastructure, and the Loop 1 and State Highway 45 North elements were constructed pursuant to a traditional design-bid-build process.

The System does not have any employees, although labor costs are included in the cost of constructing, operating and maintaining the System. When Department staff performs work on behalf of the System, the proportionate cost of that labor is reported as an expense of the System. The Department's risk financing and insurance programs apply to the System.

B. Basis of Presentation

The records of the System are maintained in accordance with the practices set forth in the provisions of the Indenture for the 2002 Project Revenue Bonds and BANS. These practices are modeled after generally accepted accounting principles for an enterprise fund on an accrual basis. An enterprise fund is a type of proprietary fund used to account for a government's continuing organizations and activities that are similar to private business enterprises.

The accompanying financial statements present only the financial position, changes in financial position, and cash flows of the System, and are not intended to and do not present fairly the financial position, changes in financial position or cash flows of the Department in conformity with accounting principles generally accepted in the United States of America.

The reporting period is for the year ended August 31, 2009. In minute Order 108949, dated June 27, 2002, the Commission defines the System as a turnpike project. This minute order also authorizes reimbursement of certain 2002 project costs incurred by the Department prior to the issuance of bonds and obligations.

C. Basis for Accounting

A proprietary fund uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. A proprietary fund distinguishes operating from non-operating revenues and expenses. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for an enterprise fund, a type of proprietary fund, include the cost of sales and services, administrative expenses, and depreciation on capital assets. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities that Use Proprietary Fund Accounting*, the System applies all Financial Accounting Standards Board ("FASB") guidance issued on or before November 30, 1989, unless it conflicts with or contradicts with GASB guidance, and has chosen not to follow FASB guidance issued subsequent to that date.

D. Assets and Liabilities

1. Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents. On the Statement of Cash Flows, cash and cash equivalents are considered to be cash on hand, cash in bank, cash in State Treasury, and money market funds with original maturities of three months or less from the date of acquisition.

2. Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund notes/loans, revenue bonds, and revenues set aside for statutory or contractual requirements.

The System may receive funding whose expenditure is restricted to certain activities. In situations where both restricted and unrestricted net assets are expended to cover expenses, the System will first expend the restricted net assets and cover additional costs with unrestricted net assets. The System reserves the right to selectively defer the use of restricted assets.

3. Capital Assets

All capital assets acquired by proprietary funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at fair value on the date of acquisition. Interest and amortization expenses, net of interest income, incurred during construction were capitalized. The System follows the Department's policy and uses the modified approach for reporting the highway system excluding bridges. Straight line depreciation will be calculated on bridges and infrastructure assets not included as part of the highway system as they are completed. The useful life for the bridges capitalized is 25 years and the useful life of the Customer Service Center is 22 years.

The Department's policy is to capitalize a furniture purchase where the cost of the purchase is $5,000 or greater and the item purchased is expected to have a useful life exceeding one year. Capitalized furniture purchases are depreciated using straight-line depreciation and useful lives ranging from 10 to 12 years. Fixtures are capitalized and depreciated as part of the building to which they are attached and are not tracked separately. The capitalization threshold for buildings is $100,000. Buildings meeting the capitalization threshold are depreciated using straight-line depreciation and a useful life of 22 years.

4. Non-Current Assets

For the proprietary fund, the costs associated with the 2002 debt issuance totaled $59,351,773. These costs are not reported as an expense of the period in which they were incurred, but instead are amortized using the straight-line basis and reported as an adjustment to interest expense throughout the period during which the related debt is outstanding. On March 5, 2009, the Commission issued $149,275,000 of Series 2009 CTTS First Tier Revenue Refunding Put Bonds, and the proceeds were used to retire the outstanding Series 2002-B variable rate bonds. Bond issue costs associated with the Series 2009A bonds totaled $1,752,875. As a result of the refunding, deferred charges were reduced by $4,541,255, the difference between the reacquisition price and the net carrying amount of the old debt, and reclassified on the balance sheet as an unamortized loss on refunding, a contra liability account. Unamortized deferred charges equaled $41,105,896 as of August 31, 2009.

5. Accounts Payable

Accounts Payable represents the liability for the value of assets or services received during the reporting period for which payment is pending. Included in accounts payable are amounts held by the System that are due to the Central Texas Regional Mobility Authority (CTRMA), the Harris County Toll Road Authority (HCTRA), and the North Texas Tollway Authority (NTTA). This represents TxTAG customers that drove on CTRMA and HCTRA toll roads.

6. Contracts Payable

Contracts Payable represents the amount of contract retainage held in the Construction Sub-Fund in the Trustee Bank. All contract retainage has been paid as of August 31, 2009.

7. Bonds Payable – Revenue Bonds

Revenue bonds payable are reported at par less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or non-current in the statement of net assets.

8. Deferred Revenues

TTA, through its toll road operations, has entered into agreements with local governments whereby the local governments transfer funds to the System to fund purchases of right of way land and related costs. In some instances, the funds are paid for in advance by the local governments. The System's policy is to defer recognition of this revenue until the right of way parcels are purchased. Recognition of these monies paid in advance by local governments is contingent upon the Department purchasing the parcels for the stated purpose in the agreement. The System has $57,749,364 in deferred revenue as of August 31, 2009.

Remaining funds will be returned to the respective local governments once any project contingencies have been finalized and a final audit has been performed.

E. Net Assets – The difference between fund assets and liabilities is 'Net Assets'.

1. Invested In Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt (net of unspent proceeds) that are attributed to the acquisition, construction, or improvement of those assets. Invested in Capital Assets, Net of Related Debt was $177,195,635 at August 31, 2009.

2. Restricted Net Assets

Restricted net assets result when constraints placed on net assets' use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Restricted assets expected to be used for debt service payments in the next twelve months are classified as current assets. At August 31, 2009, the System had $160,537,959 in Net Assets, Restricted for Debt Service.

3. Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but which can be removed or modified. Unrestricted Net Assets were $303,359,790 at August 31, 2009.

F. Revenues, Expenses, Transfers, and Restatements

1. Operating Revenues

Operating revenues is made up of toll revenue collected by the System. Sections of the 2002 Project opened at various times during fiscal years 2007 and 2008, with the last section of the project opening in April 2008. The System began collecting toll revenue in January 2007.

2. Non-Operating Revenues

Non-operating revenues include all other revenues that are not toll revenues. Interest and investment income and lease revenue make up non-operating revenues.

3. Operating Expenses

Operating expenses include expenses incurred in operating the toll roads and the Customer Service Center and depreciation on capital assets. The System has contracted with the Washington Division of the URS Corporation to manage the daily toll collection operations.

4. Non-Operating Expenses

Non-operating expenses include those expenses not classified as operating. These expenses include bond interest expense (net of amortization of bond issue costs), accretion on capital appreciation bonds, and the net increase (decrease) in fair value of investments.

5. Capital Contributions and Transfers

TTA has entered into agreements with local governments whereby the local governments transfer funds to the System to fund purchases of right of way land and related costs. Capital contributions recognized during fiscal year 2009 include a credit of ($556,694) from the City of Austin, and contributions of $300,000 from Travis County, and $1,017,560 from Williamson County. Transfers during fiscal year 2009 include $26,989,281 from the Department.

***NOTE 2 – CAPITAL ASSETS***

| | | Balance 8/31/08 | Reclassification | 2009 Increases | 2009 Decreases | | Balance 8/31/09 |
|---|---|---|---|---|---|---|---|
| **Non-depreciable Capital Assets** | | | | | | | |
| Land | $ | 629,188,048 | | 9,240,332 | | $ | 638,428,380 |
| Roadways | | 1,605,593,550 | (8,814,528) | 25,706,811 | | | 1,622,485,833 |
| **Depreciable Capital Assets** | | | | | | | |
| Buildings | | 8,360,006 | | | | | 8,360,006 |
| Infrastructure - Bridges | | 411,923,869 | 8,814,528 | | | | 420,738,397 |
| Less Accumulated Depreciation for: | | | | | | | |
| Buildings | | (907,334) | | (361,001) | | | (1,268,335) |
| Infrastructure - Bridges | | (23,182,726) | | (16,653,245) | | | (39,835,971) |
| Total Capital Assets | $ | 2,630,975,413 | 0 | 17,932,897 | 0 | $ | 2,648,908,310 |

***NOTE 3 - DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS***

Government Code, Chapter 2256 (Public Funds Investment Act) authorizes the Commission to purchase, sell, and invest its funds and funds under its control in accordance with investment policies approved by the Commission. Government Code, 2256.005 requires the Commission to adopt a written investment policy regarding the investment of its funds and funds under its control, including a separate written investment strategy for each of the funds or group of funds. The Department is authorized by statute to make investments following the "prudent person rule." Authorized investments include obligations of or guaranteed by governmental entities, certificates of deposit and share certificates, repurchase agreements, banker's acceptance, commercial paper, mutual funds, investment pools, guaranteed investment contracts, forward purchase contracts, and securities lending program.

**Deposits**

As of August 31, 2009, the carrying amount of deposits was $351,346,573, detailed as follows:

| **Deposits** | |
|---|---|
| Cash in Bank | 25,488,890 |
| Cash in State Treasury | 21,116 |
| Money Market and Similar Funds | 325,836,567 |
| **Total** | **$351,346,573** |

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. All of the System's deposits are held in the State Treasury, the Trustee bank, or a depository bank. Deposits of the State of Texas are normally managed by the State Comptroller of Public Accounts (the "Comptroller") and are protected by $100,000 of insurance by the Federal Deposit Insurance Corporation (FDIC). On October 3, 2008, the Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The legislation provides that the basic deposit insurance limit will return to $100,000 after December 31, 2009.

Collateral pledged must be equal to at least 105% of the principal amount deposited by the Department. The Comptroller has full responsibility for insuring adequate collateralization of all state deposits, including those held in local banks. On August 31, 2009, the State Treasury deposits were fully collateralized with securities held by an agent of the Comptroller, in the Department's name, in accordance with the Comptroller's requirements. The Wachovia bank deposits were collateralized at August 31, 2009.

**Investments**

As of August 31, 2009, the fair value of investments and maturities are as presented below:

| Investment Type | Maturities (in Years) | | Fair Value |
|---|---|---|---|
| | Less than 1 | More than 5 | Total |
| U.S. Government Agency Obligations | $15,315,669 | | $15,315,669 |
| Repurchase Agreement | | 114,999,378 | 114,999,378 |
| Total | $15,315,669 | $114,999,378 | $130,315,047 |

**Custodial Credit Risk - Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission's investment policy states that all securities purchased by the Commission shall be designated as assets of the Commission and shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee. As of August 31, 2009, the Commission's investments in U.S. Government Agency obligations were held in the Commission's name. The repurchase agreement is collateralized with U.S. Government and Agency securities. Collateral for the repurchase agreement is held by the Bank of New York Mellon with the underlying securities being the property of the JPMorgan Trustee Bank, held in trust for the Commission.

**Credit Risk - Investments**

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission may not enter into long term investment agreements or other ongoing investment transactions with a final maturity or termination date of longer than six months with any financial institution that initially has a long term rating category of less than "A" and that doesn't have at least one long-term rating of at least "AA" by a nationally recognized investment rating firm according to the Investment Policy. All investments made by the Commission have been through the list of Qualified Financial Institutions approved by the Commission. The Commission's policy does not limit the amount of investment in obligations of the United States or its agencies. These securities are rated AAA by Standard & Poors ("S & P"), therefore the risk of default is considered remote. Citigroup is rated A3, A, and A+ by Moody's, S & P, and Fitch Ratings respectively. The Bank of New York Mellon is rated Aaa, AA, and AA by Moody's, and S & P, and Fitch Ratings respectively.

As of August 31, 2009, the System's investments had the following ratings.

| Investment Type | Fair Value | Moody's Rating | S & P Rating | Fitch Rating |
|---|---|---|---|---|
| U.S. Government Agency Obligations | $15,315,669 | Aaa | AAA | NR |
| Repurchase Agreement | 114,999,378 | A3 | A | A+ |
| Total | $130,315,047 | | | |

**Concentration of Credit Risk - Investments**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The only investment that the System holds that exceeds 5% of the total investments is the repurchase agreement. This investment is held primarily for the debt service reserve fund, which has a long term duration and a specific purpose. The Commission addresses diversification in the Department's Investment Policy. Assets held in particular funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Investment Officer for all funds.

**Interest Rate Risk - Investments**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has addressed interest rate risk in its various accounts by matching as closely as possible anticipated cash flows with income and return of principal on investments. Interest rate risk was essentially eliminated in the Capitalized Interest account as investments have been made such that securities mature on debt service payment dates and will not need to be liquidated prior to maturity. For variable rate bonds, an estimated draw amount was used to account for the fluctuating nature of the interest payments at a rate higher than current market in order that securities will not need to be liquidated or sold prior to their stated maturities. In general, all securities held by the Commission are anticipated to be held to maturity, thereby avoiding interest rate risk due to an early redemption. Additionally, security maturities were staggered and in the event the sale of security was required to meet unexpectedly higher construction draws, the proximity of the security to its stated maturity date will minimize the impact of interest rate fluctuations. For investment maturities, see the table on page 30.

**Foreign Currency Risk – Investments**

The System's investments are not exposed to foreign currency risk.

**Derivatives**

As of August 31, 2009, no investment derivative transactions have been entered into on behalf of the System.

## *NOTE 4- SUMMARY OF LONG TERM LIABILITIES*

### Changes in Long-Term Liabilities

During the year ended August 31, 2009, the following changes occurred in liabilities.

| Debt | Balance 08-31-08 | Additions | Principal Payments | Accretion on CABs | Balance 08-31-09 | Amounts Due Within One Year (Principal) |
|---|---|---|---|---|---|---|
| Revenue Bonds Payable | $1,477,225,372 | $149,275,000 | $150,000,000 | $35,805,112 | $1,512,305,484 | $0 |
| Unamortized Revenue Bond Premium | 9,332,177 | | 314,767 | | 9,017,410 | |
| Unamortized Revenue Bond Discount | (17,822,586) | 601,142 | | | (17,221,444) | |
| Unamortized Loss on Refunding | | 60,289 | 4,541,255 | | (4,480,966) | |
| Notes/Loans Payable | 900,000,000 | | | *72,092,191 | 972,092,191 | 0 |
| Total | $2,368,734,963 | $149,936,431 | $154,856,022 | $107,897,303 | $2,471,712,675 | $0 |

* Accreted interest on the TIFIA Note Payable consists of FY 2007 $1,730,315 and FY 2008 $17,810,047, not previously reported, and FY 2009 $52,551,829.

### Debt Service Requirements

| Yearly Service Requirements | REVENUE BONDS | | | TIFIA | | | TOTAL |
|---|---|---|---|---|---|---|---|
| | Interest | Accreted Interest | Principal | Interest | Accreted Interest | Principal | |
| 2010 | $44,625,587 | | | $18,474,911 | | | $63,100,498 |
| 2011 | 44,625,587 | | | 30,081,956 | | | 74,707,543 |
| 2012 | 44,625,587 | 1,604,681 | 2,900,319 | 31,690,132 | | | 80,820,719 |
| 2013 | 44,625,587 | 3,021,626 | 4,688,374 | 33,697,991 | | | 86,033,578 |
| 2014 | 44,625,588 | 4,336,083 | 5,818,916 | 35,022,322 | | | 89,802,909 |
| 2015-2019 | 223,127,937 | 74,730,009 | 64,184,991 | 223,337,086 | | | 585,380,023 |
| 2020-2024 | 223,127,938 | 177,208,127 | 87,771,873 | 297,002,998 | | | 785,110,936 |
| 2025-2029 | 223,127,938 | 355,390,266 | 112,604,734 | 336,598,163 | 8,700,245 | 65,294,511 | 1,101,715,857 |
| 2030-2034 | 223,127,938 | 504,937,458 | 102,902,542 | 301,477,216 | 38,747,907 | 168,121,784 | 1,339,314,845 |
| 2035-2039 | 215,388,438 | 413,742,968 | 342,372,033 | 224,295,438 | 93,444,662 | 349,147,098 | 1,638,390,637 |
| 2040-2042 | 62,063,637 | | 576,025,000 | 60,995,454 | 198,780,710 | 317,436,607 | 1,215,301,408 |
| Total Requirements | $1,393,091,762 | $1,534,971,218 | $1,299,268,782 | $1,592,673,667 | $339,673,524 | $900,000,000 | $7,059,678,953 |

For the Series 2002-A Bonds, interest rates range from 4.47% to 6.10%. The Series 2009 Bonds bear interest at 5%. The interest on the TIFIA loan is 5.510%.

### Notes and Loans Payable

The Commission issued $900,000,000 of Bond Anticipation Notes (BANS) on August 29, 2002 for the purpose of paying a portion of the cost of planning, designing, engineering, developing and constructing the initial phase of the System. The TIFIA Loan draws of $900,000,000 paid the maturing principal amount of the BANs that came due of $124,930,000 on June 1, 2007 and $775,070,000 on June 1, 2008. The first interest payment on the TIFIA Loan is not payable until February 15, 2010. The loan will be paid from revenues from the Central Texas Turnpike System as they are sufficient to pay (a) all interest which will become due and payable on the TIFIA loan on each such date and (b) the principal, if any, of the secured loan which will become due and payable on each such date, therefore this schedule is subject to change each year as actual revenues are received. Per the agreement, principal and interest can be deferred (negatively amortized) due to availability of revenues, therefore the principal amount may increase over time.

Lone Star Infrastructure, the Developer, a Texas joint venture comprised of the following partners (with the ownership percentage of each set forth in parenthesis following its name): Fluor Daniel, a division of Fluor Enterprises, Inc. (45%); Balfour Beatty Construction, Inc. (35%); and T. J. Lambrecht Construction, Inc. (20%), has agreed to accept deferred payment in an amount of up to $10,000,000 for progress payment otherwise owing upon completion of the State Highway 130 (Segments 1 – 4) element. It is at the Commission's discretion as to when and if the note will be executed. As of August 31, 2009, the note had not been executed.

**Revenue Bonds Payable**

The Commission issued $1,149,993,782 of First Tier Revenue Bonds, Series 2002-A and $150,000,000 of First Tier Revenue Bonds, Series 2002-B on August 29, 2002 for the purpose of paying a portion of the costs of planning, designing, engineering, developing, and constructing the initial phase of the System. The proceeds of the Series 2002-A and 2002-B Bonds were used, together with certain other funds to (i) finance a portion of the costs of planning, designing, engineering, developing and constructing the 2002 Project, (ii) pay a portion of capitalized interest during construction and for the first 11 months following the anticipated completion date of the 2002 Project, (iii) fund a portion of the First Tier Debt Service Reserve Fund Requirement, and (iv) pay certain issuance costs of the Series 2002-A and 2002-B Bonds.

A special mandatory redemption of $2,525,000 of the Series 2002-B Bonds occurred on February 19, 2009, using funds from the Revenue Fund. The remaining $147,475,000 of the Series 2002-B Bonds were refunded with proceeds from the CTTS First Tier Revenue Refunding Put Bonds, Series 2009, issued March 5, 2009.

**1st Tier Revenue Bonds, Series 2002A, Fixed Rate**

- To study, design, construct, operate, expand, enlarge, and extend the 2002 Project
- Issued 08-29-02
- $1,149,993,782; all authorized bonds have been issued
- Source of revenue for debt service – The First Tier Obligations are special, limited obligations of the Commission and are payable from, and secured solely by a first lien on and pledge of the Trust Estate, as described in the Indenture, consisting of (i) all Project Revenues, and to the extent set forth in a supplemental indenture, any Additional Obligation Security, (ii) all Project monies, including investment earnings, deposited into the Revenue Sub-Fund, the Construction Sub-Fund (except for any amounts held in a sub account containing monies derived from the State Highway Fund or any monies received by the Commission that are restricted to another use, such as right-of-way contributions that may be used only for that purpose), the First Tier Debt Service Sub-Fund, the First Tier Debt Service Reserve Sub-Fund (provided, however, that the principal portion of any Series 2002-B Bonds while they are Liquidity Provider Bonds shall not be secured by, or entitled to any benefit of, such reserve sub-fund), the Rate Stabilization Sub-Fund and the General Reserve Sub-Fund, (iii) any Project insurance proceeds and other monies required to be deposited in the pledged funds listed in (ii) above, and (iv) all payments received by the Commission pursuant to Approved Swap Agreements with respect to First Tier Obligations.

**SERIES A NON-CALLABLE CAPITAL APPRECIATION BONDS**

MATURITY SCHEDULE

| MATURITY DATE | PRINCIPAL AMOUNT | Initial Offering Yield to Maturity | MATURITY DATE | PRINCIPAL AMOUNT | Initial Offering Yield to Maturity |
|---|---|---|---|---|---|
| August 15, 2012 | $2,900,319 | 4.47% | August 15, 2022 | 17,683,687 | 5.58% |
| August 15, 2013 | 4,688,374 | 4.59 | August 15, 2023 | 18,300,417 | 5.65 |
| August 15, 2014 | 5,818,917 | 4.71 | August 15, 2024 | 18,929,309 | 5.67 |
| August 15, 2015 | 6,764,599 | 4.86 | August 15, 2025 | 16,620,603 | 5.70 |
| August 15, 2016 | 13,020,687 | 4.96 | August 15, 2026 | 21,153,902 | 5.72 |
| August 15, 2017 | 14,061,808 | 5.05 | August 15, 2027 | 21,202,526 | 5.73 |
| August 15, 2018 | 14,855,575 | 5.16 | August 15, 2028 | 21,164,367 | 5.74 |
| August 15, 2019 | 15,482,322 | 5.26 | August 15, 2029 | 21,046,035 | 5.75 |
| August 15, 2020 | 15,932,864 | 5.36 | August 15, 2030 | 20,907,983 | 5.75 |
| August 15, 2021 | 16,925,597 | 5.49 | | | |
| TOTAL | | | | $287,459,891 | (Interest to accrete from Delivery Date) |

**SERIES A CALLABLE CAPITAL APPRECIATION BONDS**

MATURITY SCHEDULE

| MATURITY DATE | PRINCIPAL AMOUNT | INTEREST RATE |
|---|---|---|
| August 15, 2025 | $2,573,200 | 6.00% |
| August 15, 2026 | 2,419,900 | 6.01 |
| August 15, 2027 | 2,275,200 | 6.02 |
| August 15, 2028 | 2,138,800 | 6.03 |
| August 15, 2029 | 2,010,200 | 6.04 |
| August 15, 2030 | 1,888,900 | 6.05 |
| August 15, 2031 | 20,749,511 | 6.06 |
| August 15, 2032 | 20,287,006 | 6.07 |
| August 15, 2033 | 19,778,829 | 6.08 |
| August 15, 2034 | 19,290,312 | 6.08 |
| August 15, 2035 | 18,735,808 | 6.09 |
| August 15, 2036 | 19,130,494 | 6.09 |
| August 15, 2037 | 19,780,106 | 6.10 |
| August 15, 2038 | 3,600,625 | 6.10 |
| TOTAL | $154,658,891 | (Interest to accrete from Delivery Date) |

| SERIES A CURRENT INTEREST BONDS<br>MATURITY SCHEDULE | | |
|---|---|---|
| MATURITY DATE | PRINCIPAL AMOUNT | INTEREST RATE |
| August 15, 2038 | $134,600,000 | 5.75% |
| August 15, 2039 | 146,525,000 | 5.50 |
| August 15, 2042 | 10,385,000 | 5.25 |
| Term Bond<br>August 15, 2042 | 416,365,000 | 5.00 |
| TOTAL | $707,875,000 | (Interest to accrue from August 15, 2002) |

**Mandatory Sinking Fund Redemption.**

The Series A Current Interest Bonds ("CIBs") maturing on August 15, 2042 and bearing interest at a rate of 5% per annum (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity in the principal amounts and on the dates in the following table. The Term Bonds will be redeemed at a redemption price equal to the principal amount, plus accrued interest to the date of redemption, without premium, on the date and in the principal amounts respectively.

Series A CIBs Bearing Interest at 5% Per Annum and Maturing August 15, 2042

| Redemption Date | Amount |
|---|---|
| August 15, 2040 | $158,755,000 |
| August 15, 2041 | 170,850,000 |
| August 15, 2042 (final maturity) | 86,760,000 |

**Optional Redemption**

Series A CIBs. The Series A CIBs are subject to redemption prior to maturity at the option of the Commission, with funds derived from any available source, on August 15, 2012, or on any date thereafter, in whole or in part, at a redemption price of par plus accrued interest to the redemption date.

Callable Capital Appreciation Bonds ("CABs"). The Callable CABs are subject to redemption prior to maturity at the option of the Commission, with funds derived from any available source, on August 15, 2012, or on any date thereafter, in whole or in part, at the redemption price (expressed as a percentage of the Accreted Value of such Callable CABs on the redemption date) applicable to the date of redemption falling within the applicable redemption period.

| Redemption Period | Redemption Prices |
|---|---|
| August 15, 2012 through February 14, 2013 | 102.00% |
| February 15, 2013 through August 14, 2013 | 101.50% |
| August 15, 2013 through February 14, 2014 | 101.00% |
| February 15, 2014 through August 14, 2014 | 100.50% |
| August 15, 2014 and thereafter | 100.00% |

Non-Callable CABs. The Non-Callable CABs are not subject to optional redemption prior to maturity.

**1st Tier Revenue Bonds, Series 2002B, Variable Rate**

The Commission issued $150,000,000 of First Tier Revenue Bonds, Series 2002-B on August 29, 2002. In January 2008, interest rates on the CTTS Series 2002-B variable rate debt began to fluctuate due to the credit uncertainty of the bond insurer. Credit ratings on the bond insurer were lowered or withdrawn, which triggered higher interest rates and the tender of bonds until a majority of the bonds were held by the standby bond repurchase bank.

A special mandatory redemption of $2,525,000 of the Series 2002-B Bonds occurred on February 19, 2009, using funds from the Revenue Fund. The remaining $147,475,000 of the Series 2002-B Bonds were refunded with proceeds from the CTTS First Tier Revenue Refunding Put Bonds, Series 2009, issued March 5, 2009.

**1st Tier Revenue Refunding Put Bonds, Series 2009, Variable Rate**

- Issued 03/05/2009
- $149,275,000; all authorized bonds have been issued
- Source of revenue for debt service – The First Tier Obligations are special, limited obligations of the Commission and are payable from, and secured solely by a first lien on and pledge of the Trust Estate, consisting of (i) all Project Revenues, and to the extent set forth in a supplemental indenture, any Additional Obligation Security, (ii) all Project monies, including investment earnings, deposited into the Revenue Sub-Fund, the Construction Sub-Fund (except for any amounts held in a sub account containing monies derived from the State Highway Fund or any monies received by the Commission that are restricted to another use, such as right-of-way contributions that may be used only for that purpose), the First Tier Debt Service Sub-Fund, the First Tier Debt Service Reserve Sub-Fund, (iii) any Project insurance proceeds and other monies required to be deposited in the pledged funds listed in (ii) above, and (iv) all payments received by the Commission pursuant to Approved Swap Agreements with respect to First Tier Obligations.
- Interest on the Series 2009 Bonds is fixed at 5% during the Initial Multiannual Period (March 5, 2009 – February 15, 2011). The Bonds are subject to mandatory tender on February 15, 2011, subject to the successful remarketing of the bonds at that time. If the Series 2009 Bonds are not remarketed as of the mandatory tender date, the interest rate on the bonds will increase to 15% per annum. The Commission has not provided any credit or liquidity facility for the Series 2009 Bonds.

| **SERIES 2009 REVENUE REFUNDING PUT BONDS**<br>MATURITY SCHEDULE | | |
|---|---|---|
| MATURITY DATE | PRINCIPAL AMOUNT | INTEREST RATE |
| August 15, 2042 | $149,275,000 | 5.00% |
| TOTAL | $149,275,000 | (Interest to accrete from Delivery Date) |

Neither the State, the Commission, the Department, or any other agency or political subdivision of the State is obligated to pay the principal of, premium, if any, or interest on the CTTS Obligations except from the Trust Estate. None of the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the CTTS Obligations. Neither the Commission, the Department, nor the System have any taxing power. The bond indenture does not create a mortgage on the System.

In addition to the First Tier Revenue Bonds, Series 2002A, the First Tier Revenue Bonds, Series 2002B, the First Tier Revenue Refunding Put Bonds, Series 2009, and the BANS, the United States Department of Transportation ("USDOT") has agreed to lend to the Commission up to $916,760,000 to pay or reimburse a portion of the costs of the 2002 Project under the Secured Loan Agreement. The Secured Loan Agreement was entered into pursuant to the provisions of the Transportation Infrastructure Finance and Innovation Act of 1998, 23 United States Code, Section 181, et. Seq. Funds under the Secured Loan Agreement are transferred from the United States Department of Treasury upon presentation by the Commission of a request for disbursement in accordance with the provisions of the Secured Loan Agreement. In May 2007, a draw was received on the approved TIFIA loan in the amount of $124,930,000. In May 2008, an additional $775,070,000 was received to make the final principal payment on the Series 2002 Second Tier BANS. It is anticipated that the remaining $16,760,000 of the TIFIA loan will not be drawn down.

The obligations of the Commission under the Secured Loan Agreement are evidenced by the 2002 TIFIA Bond, a Subordinate Lien Obligation under the Indenture, payable from a subordinate lien on the Trust Estate described above; provided, however, that the 2002 TIFIA Bond is not secured by any funds or accounts established under the Indenture established for the benefit of the First Tier Obligations, Second Tier Obligations, or other specific Subordinate Lien Obligations issued pursuant to a supplemental indenture under the Indenture. Upon the occurrence of a Bankruptcy Related Event under the Secured Loan Agreement, the 2002 TIFIA Bond becomes a First Tier Obligation.

The System is subject to various covenants imposed by the various bond indentures. Management believes the System was in compliance with all significant covenants as of August 31, 2009.

***NOTE 5 - EMPLOYEES' RETIREMENT PLANS***

The State has joint contributory retirement plans for virtually all its employees. The Department participates in the plans administered by the Employees Retirement System of Texas ("ERS") by making monthly payments based on actuarial calculations. Future pension costs are the liabilities of the ERS. ERS does not account for each state agency separately. Annual financial reports prepared by the ERS include audited financial statements and actuarial assumptions and conclusions. The System does not have any employees, although labor costs are included in the cost of constructing, operating and maintaining the System. When Department staff performs work on behalf of the System, the proportionate cost of that labor is reported as an expense of the System. The System does not have any contributions to the plan.

***NOTE 6 – COMMITMENTS AND CONTINGENCIES***

Contract Commitments

All sections of SH 45 North and Loop 1 of the System have been granted substantial completion and final acceptance and are open to traffic.

SH 130

The Exclusive Development Agreement ("EDA") contract was awarded to Lone Star Infrastructure ("LSI"), a joint venture between Fluor Daniel; Balfour Beatty Construction, Inc.; and T.J. Lambrecht Construction, Inc. The first notice-to-proceed (NTP1) for limited design and right-of-way acquisition activity was issued on July 8, 2002, and NTP2 and NTP5 for the remainder of the design and construction activity was issued on January 4, 2003. The Department approved and executed Requests for Change Proposals increasing the previous project cost of $986,321,577 by $119,377,138 without a time extension.

**EDA Commitments Summary – SH 130**

| Item | Construction Letting Costs | Expenditures at 8/31/09 | Change Orders | Remaining Obligation |
|---|---|---|---|---|
| EDA Cost | $986,321,577 | (1,104,198,715) | 119,377,138 | $1,500,000 |

Federal Reimbursements and Grants
The federal eligibility for funds received by the Department is subject to review by federal agencies. While the reviews may result in refunds or adjustments, management of the Department does not believe the impact of these minor adjustments would be material.

Lawsuits and Claims
The System is contingently liable in respect to lawsuits and claims in the ordinary course of business which, in the opinion of the Department's management, will not have a material adverse effect on the financial statements.

***NOTE 7 – CONTINUANCE SUBJECT TO REVIEW***

The Department is currently subject to a continuance review. Under the Texas Sunset Act, the Department will be abolished effective September 1, 2011, unless continued in existence by the 81st Legislature as provided by the Act. If abolished, the Department may continue until September 1, 2012 to close out its operations. In the event that the Department is abolished pursuant to the Texas Sunset Act or other law, Section 325.017(f), Texas Government Code, acknowledges that such action will not alter the obligation of the State to pay bonded indebtedness and all other obligations of the abolished agency.

***NOTE 8 - RISK FINANCING & RELATED INSURANCE***

The System does not have any employees. The Department provides all accounting and administrative services. In addition, the Department's risk financing and insurance programs apply to the System.

The Department is exposed to a wide range of risks, due to the size, scope, and nature of its activities. Some of these risks include, but are not limited to, property and casualty losses, workers' compensation and health benefit claims, theft, damage of assets, etc.

The Department's special revenue fund retains these risks, and manages them through self-insurance and safety programs, which are the responsibility of the Department's Occupational Safety Division. TTA, as a division of the Department, participates in these programs.

### *Modified Approach to Reporting Infrastructure Assets*

As permitted by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the State has adopted the modified approach for reporting the roadways associated with the Central Texas Turnpike System (CTTS). As required by this Statement, the Texas Department of Transportation (TxDOT) conducts condition assessments on the CTTS under its Texas Maintenance Assessment Program (TxMAP). TxMAP is conducted on a yearly basis (GASB requirement is every three years) and results in an overall a condition level for the CTTS. In conjunction with TxMAP, the Texas Transportation Commission has adopted a minimum acceptable condition level of 80% for the CTTS. The condition assessment results for FY 2009 reflect a condition level of 90.5%.

The modified approach also requires that the State estimate the expenditures that will be required to maintain the CTTS at or above the adopted condition level. For FY 2009, TxDOT computed an estimate of $9.2 million for the CTTS with actual expenditures of **$**7.3 million.

*The End*

Texas Department of Transportation

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**Produced by the Finance Division**
**Texas Department of Transportation**