TEXAS TRANSPORTATION COMMISSION

TRAVIS AND WILLIAMSON Counties | **MINUTE ORDER** |

AUSTIN District

Transportation Code, Chapter 228 and other applicable law authorizes the Texas Transportation Commission (commission) to issue toll project revenue bonds, bond anticipation notes, and other obligations to finance toll projects on the state highway system, and to enter into trust agreements and indentures of trust governing matters relating to the issuance of such obligations.

The commission issued toll project revenue bonds and other obligations to finance a portion of the costs of the Central Texas Turnpike System (system), a toll project composed initially of SH 130 (Segments 1 through 4), SH 45 North, and Loop 1 project elements (2002 Project). The commission also authorized the execution of an indenture of trust and five supplemental indentures to secure revenue bonds and other obligations issued for the 2002 Project. The Indenture of Trust dated July 15, 2002 (indenture) prescribes the terms, provisions and covenants related to the issuance of toll project revenue bonds and obligations to finance a portion of the costs of the 2002 Project.

Under Section 712 of the indenture, the commission covenants to prepare, or cause to be prepared, no more than 120 days after the last day of each fiscal year, a financial report of the results of operations of the system for such fiscal year. The financial report is required to be certified by a certified public accountant and to contain an audited balance sheet, an audited statement of operations, and an audited statement of cash flows for such fiscal year. Audited financial statements, contained in the attached Exhibit A, have been prepared for the fiscal year ended August 31, 2010.

IT IS THERFORE ORDERED by the commission that the audited financial statements of the system, attached as Exhibit A, is accepted.

Submitted and reviewed by:

Director, Finance Division

Recommended by:

Executive Director

112530 DEC 16 10

Minute Number | Date Passed

Exhibit A

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, 2010

CENTRAL TEXAS TURNPIKE SYSTEM

of the

TEXAS TURNPIKE AUTHORITY

FINANCIAL STATEMENTS

August 31, 2010

Prepared by:
Finance Division of the Texas Department of Transportation

CENTRAL TEXAS TURNPIKE SYSTEM
of the
TEXAS TURNPIKE AUTHORITY

Financial Statements
August 31, 2010

TABLE OF CONTENTS

INTRODUCTORY SECTION

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Texas Department of Transportation
DEWITT C. GREER STATE HIGHWAY BLDG. • 125 E. 11TH STREET • AUSTIN, TEXAS 78701-2483 • (512) 463-8585

December 15, 2010

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 Fifth 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 *"System").* Pursuant to this requirement, we hereby present to you the Financial Statements for the System for the year ended August 31, 2010 and for comparative purposes the year ended August 31, 2009. 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 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 are 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.

The Texas State Auditor's Office performed an independent audit of the System's basic financial statements for the year ended August 31, 2010. 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, 2009, and, in their report dated December 18, 2009 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 System. 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 safe and efficient movement of people and goods, enhance economic viability and improve the quality of life for the people that travel in the state of Texas by maintaining existing roadways and collaborating with private and local entities to plan, design, build and maintain expanded transportation infrastructure. The Department's goals are to develop an organizational structure and strategies designed to address the future multimodal transportation needs of all Texans; enhance safety for all Texas transportation system users; maintain the existing Texas transportation system; promote congestion relief strategies; enhance system connectivity, and facilitate the development and exchange of comprehensive multimodal funding strategies with transportation program and project partners. The Department is managed by the Executive Director and is governed by a five-member Commission. The Department is organized into 25 districts, 20 divisions, 6 offices and 4 regional support centers and currently has an annual budget of approximately $9.7 billion and a staff of approximately 12,000 which manage approximately $3.2 billion in annual highway 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 comprehensive development agreements to execute 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 the Debt Service Reserve Fund. Bond proceeds were deposited to Type III and IV Funds. Type I and Type II Funds are funded with toll revenues. Toll revenues and fees of $73.3 million were deposited into the Revenue Fund during fiscal year 2010. Type I Funds provide for semi-annual debt service payments to bondholders, fund the Rate Stabilization Fund, and can pay operating and maintenance expenses of the System. The System funded $15 million in operating expenses during fiscal year 2010. The Rate Stabilization Fund's required balance per the Bond Indenture is $67.8 million. The Rate Stabilization Fund may be used to cure deficiencies for debt service payments or to supplement payments for operating and maintenance costs. As of August 31, 2010, Type III Funds included capital contributions from local governments, Department equity contributions and related earnings. These funds may be used for System expenses.

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. All Type I, II and III funds are invested in money market funds that are in compliance with the Commission's investment policy. The Debt Service Reserve Fund, a Type IV Fund, is invested in a Forward Purchase Agreement consisting of U.S. Treasury and Agency securities and a repurchase agreement collateralized by U.S. Treasury and Agency Securities. 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, Debt & Portfolio 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, debt financing and administrative services.

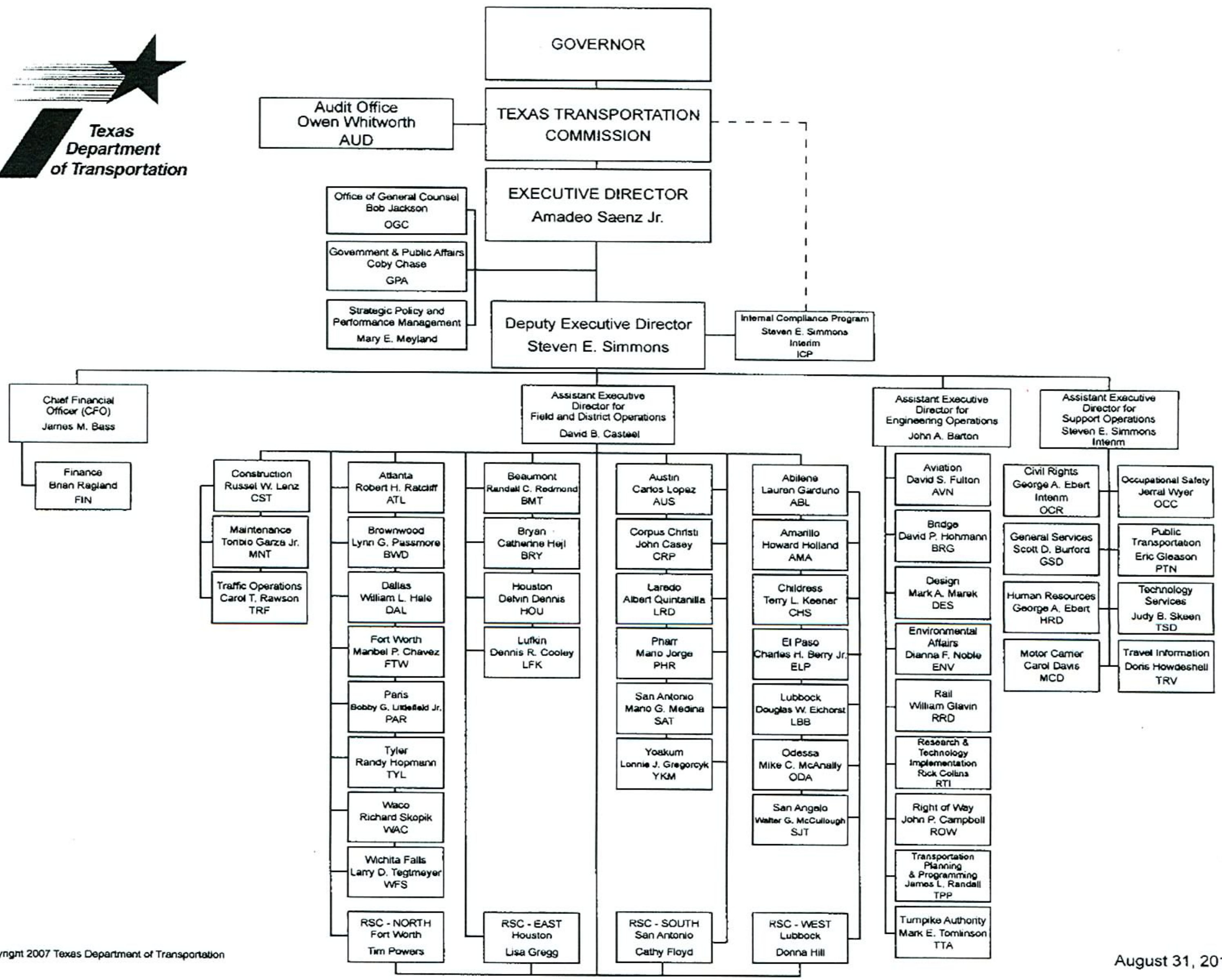
Risk Financing & Management

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 the Accounting Management, Debt & Portfolio Management and the rest of the Finance Division for their professionalism and devotion in preparing this complex financial document.

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



August 31, 2010

Commission and Key Personnel
As of August 31, 2010

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, CPA .... Director

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FINANCIAL SECTION

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State Auditor's Office
John Keel, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission:
Ms. Deirdre Delisi, Chair
Mr. Ned S. Holmes
Mr. Ted Houghton
Mr. Fred Underwood
Mr. William Meadows
Mr. Amadeo Saenz, Jr., P.E., Executive Director, Department of Transportation

We have audited the accompanying financial statements of the Central Texas Turnpike System (System) as of and for the year ended August 31, 2010, which collectively comprise the System's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department of Transportation's (Department) management. Our responsibility is to express an opinion on these financial statements based on our audit. Comparative information is presented from the financial statements for the year ended August 31, 2009. These statements were audited by us, and we expressed an unqualified opinion on them in our report dated December 18, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Notes 1(A) and 1(B), the financial statements present only the financial position of the System, which is an enterprise fund of the Department and the State of Texas. They do not purport to, and do not, present fairly the financial position of the Department nor the State of Texas as of August 31, 2010, and the changes in the Department's or the State's financial position for the reporting period then ended in conformity with principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of August 31, 2010, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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SAO No. 11-307

Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The Introductory Section, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we will issue a report on our consideration of the Department's internal control over System financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

John Keel, CPA
State Auditor

December 14, 2010

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 year ended August 31, 2010 and for comparative purposes the year ended August 31, 2009. These financial statements reflect the financial position of the System. The System is an enterprise fund of the 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 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, 2010, $2,708,564,656 has been spent on the Project of which approximately $983,389,240 was from contributions, transfers, or federal revenue.
- The System earned over $73 million and $66 million in toll revenue and fees for the fiscal years 2010 and 2009, respectively.
- With the submission of Change Order No. 26, in the amount of $15,421,491, the contract with Lone Star Infrastructure ("LSI") reached the final executed contract value of $1,121,120,205 in fiscal year 2010.
- The assets of the System exceeded its liabilities at the close of fiscal year 2010 and 2009 by $577,220,176 and $641,069,624 respectively.
- The System's net assets decreased by $63,849,448 and $116,365,274 at the close of fiscal years 2010 and 2009, respectively. The majority of this decrease is attributable to the recording of interest accretion on the Series 2002-A Bonds and the Transportation Innovation Financing Infrastructure Act ("TIFIA") note payable.
- The System's total liabilities increased by $33,175,439 and $90,093,393 at the close of fiscal years 2010 and 2009, respectively. This is mainly a result of interest accretion on the Series 2002-A Bonds and the TIFIA note payable. Deferred revenues decreased by $57,488,879 in fiscal year 2010. The decrease is mainly attributable to the System refunding $21,709,737 to local entities and the revenue recognition of $16,795,305 and $8,300,147 in Travis County and City of Austin contributions, respectively. Total payables and debt increased by $90,664,318 in fiscal year 2010. Total payables and debt increased by $88,658,342 in fiscal year 2009.
- The System's land values, including permanent easements, increased by $9,537,671 and $9,240,332 during fiscal years 2010 and 2009, respectively. Depreciation on the System's Customer Service Center and bridges was $361,000 and $17,389,167, respectively in fiscal year 2010. There were no additions to bridges in fiscal year 2010. Reclassifications between roadways and bridges were recorded in fiscal year 2010 resulting in a net increase to roadways and a corresponding decrease to bridges in the amount of $883,815. The increase in land for fiscal year 2010 is mainly attributable to a reclassification from roadways to land for prior year costs. Additions to roadways for fiscal year 2010 were $8,130,554 including the aforementioned adjustment. Additions to roadways for fiscal year 2009 were $15,704,283.
- During fiscal year 2010 the Department implemented a Master Lockbox and Custodial Account Agreement (the "Agreement") between the Department, the SH 130 Concession Company, and the Bank of New York Mellon Trust Company. This change affected the accounting treatment of the

custodial cash deposited from TxTag customers and other transactions relating to toll activity. As a result, cash deposits from TxTag customers are no longer recognized as assets of the System and all previously held TxTag deposits for prepaid tolls were removed from System bank accounts and transferred to the Master Custodial Accounts. This resulted in a decrease of $16,146,489 in Cash and Cash Equivalents and a decrease of $10,627,036 in Deferred Revenue for fiscal year 2010.

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 $577,220,176 and $641,069,624 at August 31, 2010 and August 31, 2009, respectively.

The largest portion of the System's total assets (84%) consists of Capital Assets which include Land, Infrastructure - Roadways, Land Use Rights, Buildings, and Infrastructure – Bridges. Money Market and Similar Funds, Short-Term Investments, and Restricted Investments make up 16% of the System's total assets.

Condensed Net Assets Enterprise Fund Total	2010	2009	2008
Restricted, Current Assets, and Deferred Charges	$496,487,555	$527,963,437	$572,144,455
Capital Assets	2,649,686,423	2,648,884,550	2,630,975,413
Total Assets	3,146,173,978	3,176,847,987	3,203,119,868
Current Liabilities	(24,016,797)	(64,065,688)	(76,950,007)
Non-Current Long-Term Liabilities	(2,544,937,005)	(2,471,712,675)	(2,368,734,963)
Total Liabilities	(2,568,953,802)	(2,535,778,363)	(2,445,684,970)
Net Assets:			
Invested in Capital Assets, Net of Related Debt	104,749,419	177,171,875	262,240,450
Restricted for Debt Service	164,286,453	160,537,959	173,244,455
Unrestricted	308,184,304	303,359,790	321,949,993
Total Net Assets	$577,220,176	$641,069,624	$757,434,898

Changes in Net Assets

Operating revenues – The System recognized $73,298,997 and $66,362,310 in toll and fee revenue for the fiscal years 2010 and 2009, respectively.

Operating expenses – The System incurred $67,610,051 and $68,028,784 in operating expenses during the years ended August 31, 2010 and 2009, 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 2010 and 2009 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 – Texas Turnpike Authority ("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 $27,762,446 and $760,866 in capital contributions from local governments for the years ended August 31, 2010 and 2009, respectively. An additional $35,527,692 and $26,989,281 in project expenditures was funded from the State Highway Fund, the Department's special revenue fund, for the years ended August 31, 2010 and 2009, respectively. The State Highway Fund's contribution of $35,527,692 consisted of $737,523 in capital contributions and $34,790,169 in operating transfers for fiscal year 2010.

Condensed Changes in Net Assets
Enterprise Fund Total

	2010	2009	2008
Total Operating Revenues	$73,298,997	$66,362,310	$48,945,195
Total Operating Expenses	(67,610,051)	(68,028,784)	(67,016,504)
Total Operating Income/(Loss)	5,688,946	(1,666,474)	(18,071,309)
Total Nonoperating Revenues (Expenses)	(132,828,532)	(142,448,947)	(72,670,310)
Loss before Other Revenues, (Expenses), Contributions, Gains/(Losses), and Transfers	(127,139,586)	(144,115,421)	(90,741,619)
Capital Contributions and Transfers	63,290,138	27,750,147	42,724,927
Change in Net Assets	(63,849,448)	(116,365,274)	(48,016,692)
Total Net Assets – Beginning	641,069,624	757,434,898	805,451,590
Total Net Assets – Ending	$577,220,176	$641,069,624	$757,434,898

Investment income for the years ended August 31, 2010 and 2009 was $6,251,339 and $10,233,006, 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 2010 and 2009 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 Assets and Debt Administration

Capital Assets. The System's investment in capital assets as of August 31, 2010, amounted to $2,649,686,423 and as of August 31, 2009, amounted to $2,648,884,550. Non-depreciable capital assets amounted to $2,277,394,438 and $2,259,726,213 as of August 31, 2010 and 2009, respectively. Net depreciable capital assets as of August 31, 2010 and 2009, amounted to $372,291,985 and $389,158,337, respectively. The investment in capital assets includes non-depreciable land, non-depreciable roadways, depreciable Customer Service Center, and depreciable bridges. See Note 2 on page 30. As of August 31, 2010, all sections of the System have been granted substantial completion and final acceptance and are open to traffic.

As permitted by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the Department has adopted the modified approach for reporting the roadways associated with the System. As required by this Statement, the Department conducts condition assessments on the System 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 System. In conjunction with TxMAP, the Texas Transportation Commission has adopted a minimum acceptable condition level of 80% for the System. The condition assessment results for fiscal year 2010 reflect a condition level of 87.9%.

The modified approach also requires that the Department estimate the expenditures that will be required to maintain the System at or above the adopted condition level. For fiscal year 2010 the Department computed an estimate of $11.4 million for the System with actual expenditures of $7.0 million. See Modified Approach to Reporting Infrastructure Assets on page 39 for additional information.

Outstanding Debt. As of August 31, 2010, the System had total long-term debt outstanding of $2,544,937,005. Of this amount, $1,537,924,340 was comprised of revenue bonds payable and $1,007,012,665 was the TIFIA note payable. As of August 31, 2009, the System had total long-term 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 the TIFIA note payable. See Note 4 on page 33.

2010 Balances	First 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, 2010	253,209,397	107,012,665
Deferred Amount on Refunding	(4,345,179)	
Total Debt Outstanding	$1,537,924,340	$1,007,012,665

2009 Balances	First 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
Deferred Amount on Refunding	(4,480,966)	
Total Debt Outstanding	$1,499,620,484	$972,092,191

2008 Balances	First 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

Bond Credit Ratings

At the time of initial issuance in 2002, the principal and interest payments of the First Tier Series 2002-A and Series 2002-B Revenue Bonds, but not the Bond Anticipation Notes ("BANs"), were insured through a policy issued by Ambac Assurance and additionally carried the credit ratings of the insurer. Ratings on Ambac were first downgraded in 2008 and ultimately were either at below investment grade levels or withdrawn. The insured rating for the First Tier Bonds was similarly downgraded. Once the insured ratings fell below the First Tier underlying ratings and below investment grade levels, only the First Tier underlying ratings are utilized. With the refunding of the Series 2002-B First Tier Bonds, the insurance policy on those bonds is no longer in effect.

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 First Tier Revenue Refunding Put Bonds, Series 2009, issued March 5, 2009.

The Series 2002-A and Series 2009 bonds are rated BBB+, Baa1, and BBB+ by Fitch Ratings, Moody's, and Standard and Poor's ("S & P"), respectively. 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, 2010 (With Comparative Totals for August 31, 2009)

	8/31/2010	8/31/2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)		
Cash on Hand	$	$ 76,099
Cash in Bank		25,488,890
Money Market and Similar Funds	318,382,715	325,836,567
Short-Term Investments (Note 3)	15,029,000	15,315,669
Interest and Dividends Receivable	300,323	412,043
Accounts Receivable	4,386,215	638,431
Due from State Highway Fund (Note 10)	1,842	1,792,819
Receivables from:		
Local Governments (Note 11)	3,673,594	1,584,144
Central Texas Regional Mobility Authority (CTRMA) (Note 10)		191,735
Harris County Toll Road Authority (HCTRA) (Note 10)		274,221
North Texas Tollway Authority (NTTA) (Note 10)		226,429
Total Current Assets	341,773,689	371,837,047
Non-Current Assets:		
Restricted Cash and Cash Equivalents in State Treasury (Note 3)	32,762	21,116
Restricted Investments (Note 3)	114,999,378	114,999,378
Deferred Charges	39,681,726	41,105,896
Non-Depreciable Capital Assets (Note 2):		
Land	631,440,065	638,428,380
Infrastructure – Roadways	1,629,428,387	1,621,297,833
Land Use Rights	16,525,986	
Depreciable Capital Assets (Note 2):		
Buildings	8,360,006	8,360,006
Less Accumulated Depreciation	(1,629,335)	(1,268,335)
Infrastructure - Bridges	422,810,212	421,926,397
Less Accumulated Depreciation	(57,248,898)	(39,859,731)
Total Non-Current Assets	2,804,400,289	2,805,010,940
TOTAL ASSETS	3,146,173,978	3,176,847,987
LIABILITIES		
Current Liabilities:		
Accounts Payable (Note 11)	20,098,229	707,030
Due to State Highway Fund (Note 10)		1,879,387
Payables to:		
Central Texas Regional Mobility Authority (CTRMA) (Note 10)		569,534
Harris County Toll Road Authority (HCTRA) (Note 10)		678,294
North Texas Tollway Authority (NTTA) (Note 10)		622,586
Interest Payable	3,658,083	1,859,493
Deferred Revenues	260,485	57,749,364
Total Current Liabilities	24,016,797	64,065,688
Non-Current Liabilities:		
Revenue Bonds Payable (Note 4)	1,537,924,340	1,499,620,484
Notes/Loans Payable (Note 4)	1,007,012,665	972,092,191
Total Non-Current Liabilities	2,544,937,005	2,471,712,675
TOTAL LIABILITIES	2,568,953,802	2,535,778,363
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	104,749,419	177,171,875
Restricted for Debt Service	164,286,453	160,537,959
Unrestricted	308,184,304	303,359,790
TOTAL NET ASSETS	$ 577,220,176	$ 641,069,624

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, 2010 (With Comparative Totals for August 31, 2009)

	For the year ended August 31, 2010	For the year ended August 31, 2009
OPERATING REVENUES		
Toll Revenue	$ 73,298,997	$ 66,362,310
Total Operating Revenues	73,298,997	66,362,310
OPERATING EXPENSES		
Professional Fees and Services	(9,173,343)	(11,273,671)
Materials and Supplies	(3,782,132)	(2,484,254)
Communication and Utilities	(1,255,124)	(1,563,081)
Repairs and Maintenance	(12,779,272)	(12,102,265)
Printing and Reproduction	(16,064)	
Contracted Services	(20,489,879)	(20,781,985)
Advertising	(183,042)	(934,508)
Depreciation Expense	(17,750,167)	(17,038,006)
Prompt Payment Interest	(533)	(508)
Other Operating Expenses	(2,180,495)	(1,850,506)
Total Operating Expenses	(67,610,051)	(68,028,784)
Operating Income/(Loss)	5,688,946	(1,666,474)
NON-OPERATING REVENUES (EXPENSES)		
Lease Revenue	12,864	12,864
Interest and Investment Income	6,251,339	10,233,006
Net Increase in Fair Value of Investments	380,789	140,977
Interest and Amortization	(66,745,615)	(44,601,115)
Accretion on Capital Appreciation Bonds and TIFIA Note	(72,802,167)	(107,897,303)
Other Financing Fees	74,180	(354,458)
Other Non-Operating Revenues	78	17,082
Total Non-Operating Revenues (Expenses)	(132,828,532)	(142,448,947)
Loss before Other Revenues, (Expenses), Contributions, Gains/(Losses), and Transfers	(127,139,586)	(144,115,421)
OTHER REVENUES, (EXPENSES), CONTRIBUTIONS, GAINS/(LOSSES), AND TRANSFERS		
Capital Contributions (Note 7)	28,499,969	8,433,132
Transfers (Note 7)	34,790,169	19,317,015
Total Other Revenues, (Expenses), Contributions, Gains/(Losses), and Transfers	63,290,138	27,750,147
Change in Net Assets	(63,849,448)	(116,365,274)
Total Net Assets – Beginning	641,069,624	757,434,898
Total Net Assets – Ending	$ 577,220,176	$ 641,069,624

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, 2010 (With Comparative Totals for August 31, 2009)

	For the year ended August 31, 2010	For the year ended August 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 75,331,264	$ 94,626,484
Payments to Vendors	(45,091,187)	(45,733,193)
Payments to Toll Partners (Note 10)		(27,941,444)
NET CASH PROVIDED BY OPERATING ACTIVITIES	30,240,077	20,951,847
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Series 2009 Bond Issue		143,041,160
Proceeds from Lease Revenue	12,864	12,864
Proceeds from Capital Contributions	27,762,446	760,866
Payments for Interest on Debt	(62,678,437)	(43,155,893)
Payments for Additions to Land and Roadways	(19,222,932)	(23,835,693)
Payments for Principal on Debt		(150,000,000)
Payments of Remarketing Fees and Other Costs	(5,320)	(354,458)
NET CASH (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	(54,131,379)	(73,531,154)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	59,997,479	111,320,870
Proceeds from Interest and Investment Income, Net of Fees	7,030,659	10,908,758
Payments to Acquire Investments	(59,997,542)	(105,373,984)
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,030,596	16,855,644
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,860,706)	(35,723,663)
CASH AND CASH EQUIVALENTS - BEGINNING	351,422,672	387,146,335
Restatement to Beginning Cash and Cash Equivalents (Note 10)	(16,146,489)	
RESTATED CASH AND CASH EQUIVALENTS - BEGINNING	335,276,183	387,146,335
CASH AND CASH EQUIVALENTS – ENDING	$ 318,415,477	$ 351,422,672

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 (Concluded)

For the year ended August 31, 2010 (With Comparative Totals for August 31, 2009)

		For the year ended August 31, 2010		For the year ended August 31, 2009
Reconciliation of Operating Income/(Loss) to Net Cash Provided by Operating Activities:				
Operating Income/(Loss)	$	5,688,946	$	(1,666,474)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense		17,750,167		17,038,006
Increase in Accounts Payable		4,768,699		5,380,687
(Increase) Decrease in Accounts Receivable		2,032,265		(308,765)
Increase in Deferred Revenue				1,994,035
(Increase) in Due To Other Funds				(1,485,642)
Total Adjustments		24,551,131		22,618,321
Net Cash Provided by Operating Activities	$	30,240,077	$	20,951,847

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The System received $35,527,692 of non-cash transfers from the State Highway Fund for the year ended August 31, 2010. Of this amount, $737,523 was capitalized and $34,790,169 was expensed for the year. The System received $26,989,281 of non-cash transfers from the State Highway Fund for the year ended August 31, 2009. Of this amount, $7,672,266 was capitalized and $19,317,015 was expensed for the year.

Reconciliation of Cash and Cash Equivalents				
Cash on Hand	$		$	76,099
Cash in Bank				25,488,890
Money Market and Similar Funds		318,382,715		325,836,567
Restricted Cash and Cash Equivalents in State Treasury		32,762		21,116
Cash and Cash Equivalents	$	318,415,477	$	351,422,672

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 of Texas (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 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 20 functional divisions, 6 offices, 4 regional offices, and 25 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 execute 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 were 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 currently consists 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. 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 ("LSI"), while 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. They 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, 2010. In Minute Order 108949, dated June 27, 2002, the Commission defines the System as a turnpike project. This minute order also authorized reimbursement of certain 2002 project costs incurred by the Department prior to the issuance of bonds and obligations.

In fiscal year 2010 the Department implemented a Master Lockbox and Custodial Account Agreement (the "Agreement") between the Department, the SH 130 Concession Company, and the Bank of New York Mellon Trust Company. Note 10 provides additional information regarding this agreement.

The fiscal year 2009 columns on the basic financial statements do not represent complete financial statements. These prior year totals are not necessary for a fair presentation of the financial statements but are presented to facilitate financial analysis. Specifically, only partial presentation of fiscal year 2009 notes has been included in these statements.

C. Measurement Focus and Basis of 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 Funds 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 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. As of August 31, 2010, transactions relating to the depository bank are no longer reflected in Cash on Hand and Cash in Bank. See Note 10 for additional information.

2. Accounts Receivable

Accounts Receivable reflects toll revenue earned but not yet received as of August 31, 2010. Toll revenue earned by and due to the System from CTRMA, HCTRA, and NTTA customers is due from the custodian of the Master Lockbox and Custodial Accounts. See Note 10 for additional information.

3. Receivables

Receivables from Local Governments reflect the asset for amounts due from local entities for System expenses not yet received as of August 31, 2010. The disaggregation of these receivables as reported in the financial statements is shown in Note 11, "Disaggregation of Receivables and Payables Balances".

As of August 31, 2009, receivables from the Central Texas Regional Mobility Authority ("CTRMA"), Harris County Toll Road Authority ("HCTRA"), and North Texas Tollway Authority ("NTTA") reflected toll revenue earned by and due to the System from the use of System toll roads by CTRMA, HCTRA, and NTTA customers. See Note 10 for additional information.

4. 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 related 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.

5. 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 Department's policy is to capitalize bridges and buildings when the cost is $500,000 and $100,000 or greater, respectively. The useful life for the bridges capitalized is 25 years and the useful life of the Customer Service Center is 22 years.

Since the highway system is being reported using the modified approach, depreciation is not reported on the highway system, and only additions and improvements to the highway system are capitalized. Expenses other than additions and improvements are expensed.

The modified approach requires that the Department:

a. Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
b. Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
c. Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

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.

6. Deferred Charges

For the proprietary fund, the bond issue 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.

7. Accounts Payable

Accounts Payable represents the liability for the value of assets or services received during the reporting period for which payment is pending. Accounts Payable also represents the liability for local entity contribution refunds due to Travis County and the City of Austin. The disaggregation of these payables as reported in the financial statements is shown in Note 11, "Disaggregation of Receivables and Payables Balances".

8. Due to State Highway Fund

For fiscal year 2009, Due to State Highway Fund included amounts the System collected on the State Highway Fund's behalf for toll revenue earned by and due to the State Highway Fund from CTRMA, HCTRA, and NTTA for CTRMA, HCTRA, and NTTA customers that drove on State Highway Fund toll roads. See Note 10 for additional information.

9. Payables to CTRMA, HCTRA, and NTTA

As of August 31, 2009, Payables to CTRMA, HCTRA, and NTTA reflected toll revenue earned by and due to CTRMA, HCTRA, and NTTA for the use of CTRMA, HCTRA, and NTTA toll roads by TxTag customers. See Note 10 for additional information.

10. 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. Right-of-way audits were performed in fiscal year 2010 and refunds due to the respective local governments were calculated. Refunds not processed during fiscal year 2010 are reflected in Accounts Payable.

As of August 31, 2009, cash deposits from TxTag customers were deposited in System bank accounts and recognized as deferred revenue until earned. See Note 10 for additional information.

11. Revenue Bonds Payable

Revenue Bonds Payable is reported at par less unamortized discount or plus unamortized premium. Payables are reported separately as either current or non-current in the Statement of Net Assets.

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

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 that are attributed to the acquisition, construction or improvement of those assets.

2. Restricted for Debt Service

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.

3. Unrestricted

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.

F. Revenues, Expenses, Contributions, and Transfers

1. Operating Revenues

Operating Revenues consists of toll and fee revenue collected by the System.

2. 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.

3. Non-Operating Revenues (Expenses)

Non-Operating Revenues include all other revenues that are not toll revenues. Interest and investment income and lease revenue make up Non-Operating Revenues. 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 Transportation Innovation Financing Infrastructure Act ("TIFIA") note payable, and the net increase (decrease) in fair value of investments.

4. Capital Contributions and Transfers

The System has capital contributions from local governments and the State Highway Fund. System operating and maintenance expenses paid by the State Highway Fund on behalf of the System are recorded as transfers. See Note 7 for additional information.

NOTE 2 – CAPITAL ASSETS

	Balance 8/31/09	Reclassification*	2010 Increases	2010 Decreases	Balance 8/31/10
Non-Depreciable Capital Assets					
Land	$ 638,428,380	$ (16,525,986)	$ 9,537,671	$	$ 631,440,065
Infrastructure - Roadways	1,621,297,833	(883,815)	9,014,369		1,629,428,387
Land Use Rights		16,525,986			16,525,986
Depreciable Capital Assets					
Buildings	8,360,006				8,360,006
Infrastructure - Bridges	421,926,397	883,815			422,810,212
Less Accumulated Depreciation for:					
Buildings	(1,268,335)		(361,000)		(1,629,335)
Infrastructure - Bridges	(39,859,731)	(340,982)	(17,048,185)		(57,248,898)
Total Capital Assets	$ 2,648,884,550	$ (340,982)	$ 1,142,855	$ 0	$ 2,649,686,423

* Reclassification of permanent easements from Land to Land Use Rights in FY 2010 to comply with the implementation of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, in the amount of $16,525,986. Additionally, reclassifications from Roadways to Bridges for FY 2009 for a net amount of $883,815, and the related accumulated depreciation in the amount of $(340,982), were recorded in FY 2010.

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, 2010, the carrying amount of deposits was $318,415,477, as presented below:

Deposits	
Cash in State Treasury	$ 32,762
Money Market and Similar Funds	318,382,715
Total	**$ 318,415,477**

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 $250,000 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. On August 10, 2010, the FDIC Board of Directors adopted a final rule amending its insurance regulations to permanently increase the standard maximum deposit insurance amount from $100,000 to $250,000. This permanent increase became effective July 22, 2010.

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, 2010, 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.

Investments

As of August 31, 2010, the fair value of investments and maturities are as presented below:

	Maturities (in Years)		Fair Value
Investment Type	Less than 1	More than 5	Total
U.S. Government Agency Obligations	$15,029,000		$15,029,000
Repurchase Agreement (Salomon Smith Barney Master GIC, now owned by Citigroup, Inc.)		$114,999,378	114,999,378
Total	$15,029,000	$114,999,378	$130,028,378

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, 2010, 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 Citigroup, Inc., (the direct counterparty), held in trust for the Commission. Bank of New York Mellon Trust Company is rated Aaa, AA, and AA- by Moody's, Standard and Poor's ("S&P"), and Fitch Ratings, respectively.

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 does not 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 and AAA by Moody's and S&P rating agencies; therefore, the risk of default is considered remote. The repurchase agreement is a guaranteed investment contract ("GIC") with Citigroup, Inc. as the counterparty. In addition, Citigroup, Inc. has collateralized the GIC with U.S. Government and Agency securities.

Credit Risk – Investments (continued)

As of August 31, 2010, 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	$15,029,000	N/A*	N/A*	N/A*
Repurchase Agreement	114,999,378	A3	A	A+
Total	$130,028,378			

*N/A - Note matured on 9/02/2010 and is no longer an asset of the System, ratings as of 8/31/2010 can no longer be obtained.

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. 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. For investment maturities, see the tables on page 31.

Foreign Currency Risk - Investments

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

Derivatives

As of August 31, 2010, 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

As detailed below, the following changes occurred in long-term liabilities during the year ended August 31, 2010:

Debt	Balance 09-01-09	Reductions	Accretion	Balance 08-31-10	Amounts Due Within One Year (Principal)
Revenue Bonds Payable	$1,512,305,484		$37,881,693	$1,550,187,177	$0
Plus Unamortized Revenue Bond Premium	9,017,410	$(314,767)		8,702,643	
Less Unamortized Revenue Bond Discount	(17,221,444)	601,143		(16,620,301)	
Less Deferred Amount on Refunding	(4,480,966)	135,787	0	(4,345,179)	0
Total Revenue Bonds Payable	**1,499,620,484**	**422,163**	**37,881,693**	**1,537,924,340**	**0**
Notes/Loans Payable	972,092,191		34,920,474	1,007,012,665	
Total Debt	**$2,471,712,675**	**$422,163**	**$72,802,167**	**$2,544,937,005**	**$0**

Debt Service Requirements

Yearly Service Requirements	Revenue Bonds			TIFIA			Total
	Interest	Accreted Interest	Principal	Interest	Accreted Interest	Principal	
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	44,625,587	4,336,083	5,818,916	35,022,322			89,802,908
2015	44,625,587	5,840,401	6,764,599	36,442,987			93,673,574
2016-2020	223,127,938	94,156,744	73,353,256	239,653,470			630,291,408
2021-2025	223,127,938	203,157,188	91,032,813	312,549,638	$103,271	$273,627	830,244,475
2026-2030	223,127,938	393,402,186	116,207,814	332,521,052	8,720,597	23,106,121	1,097,085,708
2031-2035	223,127,938	532,318,533	98,841,466	290,078,696	12,246,932	32,449,508	1,189,063,073
2036-2040	199,590,063	297,133,776	482,391,225	199,908,632	73,273,636	194,146,047	1,446,443,379
2041-2042	33,236,425		417,270,000	32,551,880	245,329,088	650,024,697	1,378,412,090
Total Requirements	**$1,348,466,175**	**$1,534,971,218**	**$1,299,268,782**	**$1,574,198,756**	**$339,673,524**	**$900,000,000**	**$6,996,578,455**

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 United States Department of Transportation ("USDOT") has agreed to lend the Commission up to $916,760,000 to pay or reimburse a portion of the costs of the System 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. During the availability period for drawdown of the loan, the Commission has drawn $900,000,000 under the Secured Loan Agreement evidenced by the 2002 TIFIA Bond. The first interest payments on the TIFIA loan were made on February 15, 2010 and August 15, 2010. The loan will be paid from revenues from the 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 ("LSI"), 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%), agreed to accept deferred payment in an amount of up to $10,000,000 for progress payments otherwise owing upon completion of the State Highway 130 (Segments 1 – 4) element. It was at the Commission's discretion as to when and if the note would be executed. As of August 31, 2010, final payment has been made to LSI, including all retainage. The note was never 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 Bonds and 2002-B Bonds.

First Tier Revenue Bonds, Series 2002-A, 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, 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.

Optional Redemption

Series A Current Interest Bonds ("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.

First 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 the 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.

Neither the State, Commission, Department nor any other agency or political subdivision of the State is obligated to pay the principal of, premium, if any, or interest on the Central Texas Turnpike System 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 Central Texas Turnpike System Obligations. Neither the Commission, Department nor the System has any taxing power. The bond indenture does not create a mortgage on the System.

The System is subject to various covenants imposed by the various bond indentures. Management believes the System is in compliance with all significant covenants as of August 31, 2010.

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.

NOTE 6 – COMMITMENTS & CONTINGENCIES

Contract Commitments

All sections of SH 45 North, Loop 1, and SH 130 of the System have been granted substantial completion and final acceptance and are open to traffic.

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.

Arbitrage

Arbitrage earnings, defined as earnings on tax exempt bond proceeds in excess of the yield on the bonds, must be repaid to the federal government per Internal Revenue Code Section 148(f) ("IRC §148"). Pursuant to the Indenture of Trust, a Rebate Fund will be established under the Indenture to which deposits will be made upon the determination by a verification agent that a rebate payment may be due pursuant to IRC §148.

Per IRC §148, the amount of rebate due the federal government is determined and payable at the end of each five-year computation period and upon final payment of the tax exempt bonds. For Series 2002-A and Series 2002 BANs, an interim determination was made in 2007 that no arbitrage rebate was then due to the federal government. Further analysis and determination of rebate payments due, if any, will be made on the next scheduled computation date for each series of bonds under the Indenture.

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 – 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. Contributions from the State Highway Fund for operations and maintenance expenses are recorded as Transfers. Individual balances and activity at August 31, 2010, as follows:

Capital Contributions		
City of Austin	$	8,300,146
Travis County		16,794,531
Williamson County		973,324
State Highway Fund		737,523
City of Hutto		44,062
City of Pflugerville		1,650,383
Total Capital Contributions	**$**	**28,499,969**

Transfers		
State Highway Fund	$	34,790,169
Total Transfers	**$**	**34,790,169**

NOTE 8 – 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 82nd 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 9 - RISK FINANCING & RELATED INSURANCE

The System does not have any employees. The Department provides all accounting, debt financing, 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.

NOTE 10 – RESTATEMENTS AND ADJUSTMENTS

During fiscal year 2010 the Department implemented a Master Lockbox and Custodial Account Agreement (the "Agreement") between the Department, the SH 130 Concession Company, and the Bank of New York Mellon Trust Company. The covenants of the Agreement required the Department to establish Master Custodial Accounts with an independent custodian and for all deposits related to prepaid toll accounts to be held and secured by the custodian under Master Custodial Accounts. To comply with the provisions of the Agreement, beginning in fiscal year 2010, the System no longer recognizes cash deposits from TxTag customers as assets of, and deposits to, the System and its bank accounts. All previously held TxTag deposits for prepaid tolls were removed from System bank accounts and transferred to the Master Custodial Accounts. As a result, cash deposits from TxTag customers are no longer recognized as assets of the System including any matching deferred revenue. The result was a reduction of $16,146,489 in the balance of Cash and Cash Equivalents and a reduction of $10,627,036 in the balance of Deferred Revenues. The implementation of the Agreement also resulted in the restatement to beginning cash and cash equivalents of $16,146,489 in the Statement of Cash Flows (Exhibit III).

Master Custodial Accounts will also serve as a clearinghouse for payments to the System, the Department and other toll operators including CTRMA, HCTRA, and NTTA for tolls earned. All toll revenues earned will be due from and remitted by the custodian of the Master Custodial Accounts. As a result amounts due from and to CTRMA, HCTRA, and NTTA and will no longer be reflected in Receivables from CTRMA, HCTRA, and NTTA and Payables to CTRMA, HCTRA, and NTTA.

All transactions related to the Master Custodial Accounts are accounted for by the Department in an Agency Fund.

NOTE 11 –DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables from Local Governments at August 31, 2010, as reported in the Statement of Net Assets (Exhibit I), are detailed as follows:

Receivables from Local Governments	**Amount**
City of Pflugerville	1,050,383
Travis County	2,623,211
Total Receivables from Local Governments	**$3,673,594**

Accounts Payable at August 31, 2010, as reported in the Statement of Net Assets (Exhibit I), are detailed as follows:

Accounts Payable	**Amount**
City of Austin	$14,838,308
Travis County	5,207,432
Payables related to additions to Land	22,500
Payables related to additions to Infrastructure - Roadways	29,989
Total Accounts Payable	**$20,098,229**

Required Supplementary Information
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 Department has adopted the modified approach for reporting the System. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the Department:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each fiscal year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the System, the Department has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Department performs yearly condition assessments through its Texas Maintenance Assessment Program ("TxMAP"). Under this program, visual inspections are conducted on approximately 10% of the System. For each section of highway observed, twenty-one elements separated into three highway components are assessed scores from 0 to 5 (0 = N/A, 1 = Failed, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the System. The overall score is converted to a percentage measurement for reporting (1 = 20%, 2 = 40%, 3 = 60%, 4 = 80%, 5 = 100%).

Assessed Conditions

The Department has adopted a minimum condition level of 80% for the System based on TxMAP assessments. Fiscal year 2008 was the first year that a condition assessment was conducted on the System.

Central Texas Turnpike System

Fiscal Year	Condition Assessment (Minimum 80%)
2010	87.9%
2009	90.5%
2008	91.7%

Estimated and Actual Costs for Maintenance

The table below provides a comparison between the Department's estimate of maintenance expenditures required to maintain the System at or above the adopted condition level and the actual expenditures.

Central Texas Turnpike System

	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Estimate	$11,371,334	$9,178,651	$6,909,785
Actual	$6,972,452	$7,261,987	$5,411,318

Factors Affecting Condition Assessments

The Department continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, the Department hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the System at or above the adopted condition levels and the condition level of the System. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints, and environmental effects (rainfall, drought, hurricane, freeze, thaw, etc.) should be considered as they may have a major impact on needed funds and the condition of System roads.

The End

Texas Department of Transportation

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Exhibit A