ANNUAL FINANCIAL REPORT

Grand Parkway Transportation Corporation

A Blended Component Unit of the Texas Department of Transportation

(With Independent Auditor's Report)

For the Fiscal Year Ended August 31, 2016

Texas Department of Transportation

Grand Parkway Transportation Corporation

A Blended Component Unit of the Texas Department of Transportation

FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2016

Prepared by:
Texas Department of Transportation's Financial Management Division

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GRAND PARKWAY TRANSPORTATION CORPORATION
Annual Financial Report
For the Fiscal Year Ended August 31, 2016

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Section One

Introductory Section

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Grand Parkway Transportation Corporation
125 E. 11th Street, Austin, Texas 78701

December 16, 2016

TO: The Citizens of Texas and the Bondholders of the Grand Parkway Transportation Corporation

The audited annual financial statements of the Grand Parkway Transportation Corporation (GPTC) for the year ended August 31, 2016 are enclosed in accordance with the Trust Agreement dated August 1, 2013, as supplemented (Trust Agreement). The Trust Agreement requires the preparation and submission of audited annual financial statements beginning with the fiscal year in which substantial completion occurs for the initial project financed with the obligations issued pursuant to the Trust Agreement.

An external audit firm, Crowe Horwath LLP, performed an independent audit, in accordance with generally accepted auditing standards, of GPTC's basic financial statements for the year ended August 31, 2016. The audit opinion is presented in this report preceding the financial statements. This report was prepared by the accounting staff of the Financial Management Division of Texas Department of Transportation (TxDOT). GPTC's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

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 fairness of all of the information presented in the financial statements. To the best of my knowledge and belief, the financial statements are accurate in all material respects, are reported in a manner that presents fairly the financial position and results of operations of GPTC and provide disclosures that enable the reader to understand GPTC's financial condition.

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

Profile of the Government

GPTC is incorporated as a public non-profit corporation. It was created by the Texas Transportation Commission (Commission) in 2012 and is organized and existing pursuant to the provisions of Subchapters A through C, Chapter 431, Texas Transportation Code and the Business Organization Code related to non-profit corporations, including Chapter 22 thereof (collectively, the Act). The Corporation is authorized to act on behalf of the Commission for the public purpose of developing, financing, refinancing, designing, acquiring, constructing, reconstructing, expanding, operating and maintaining some or all of the segments of the Grand Parkway Project.

The Corporation is governed by a three-member board of directors consisting of individuals appointed by the Commission, all of whom are full-time, permanent employees of TxDOT. The directors serve without compensation. The Corporation has no staff, no resources and no taxing power.

The Grand Parkway (State Highway 99) Project is a proposed 184-mile highway around the greater Houston area from State Highway 146 in Galveston County, Texas to State Highway 146 in Baytown, Texas and spread across the seven counties of Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty and Montgomery. The primary purpose of the Grand Parkway Project is to provide an outer loop around the Houston metropolitan area to improve connectivity within the existing network, reduce transportation congestion and enhance mobility and travel options, reduce unsafe "stop and go" conditions and accommodate demographic and economic growth. The Grand Parkway Project is divided into 11 segments designated A through I-2.

GPTC obligations were issued in part to finance the costs of the initial project of the Grand Parkway System consisting of Segment D located in Harris County, Texas and Segments E, F-1, F-2 and G. Certain outstanding GPTC obligations are supported, under certain circumstances, by a Toll Equity Loan Agreement (TELA) between the Corporation and TxDOT. Obligations issued by GPTC are not obligations of the Commission, TxDOT or any other agency of the State of Texas.

GPTC has the power to issue toll revenue bonds, notes or other obligations and enter into contracts, and assume agreements of TxDOT in connection with the Grand Parkway Project. The Corporation also has the power to enter into agreements with TxDOT regarding the responsibility of each party for the development, financing, refinancing, design, construction, reconstruction, expansion, operation or maintenance of the Grand Parkway Project and the support to be provided to the Corporation by TxDOT including any necessary toll equity loan agreements between the Corporation and TxDOT and take other actions necessary or convenient to implementing the Grand Parkway Project.

Budgetary Controls
The GPTC utilizes the services of TxDOT employees for all accounting, debt financing and administrative services. TxDOT's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements.

Annual budgets must be approved by the board of directors of GPTC on or before the fifth business day preceding the first day of the new fiscal year.

Information Useful in Assessing GPTC Financial Condition
GPTC and the Trustee are responsible for ensuring that funds maintain the proper minimum balances as set forth in the Trust Agreement and for investing in securities required to meet liquidity requirements. All moneys held for the credit of the Construction Fund and Reserve Accounts shall, as nearly as may be practicable, be invested and reinvested in permitted investments. In lieu of the investments, at the option of the Corporation, the Corporation may make interest bearing time deposits, invest in certificates of deposits, or make other similar arrangements with the Trustee or any other depositary, as may be permitted by law.

Risk Financing & Management
GPTC has established a self-insurance program funded with $100,000,000 on deposit with the Trustee, held in the Rate Stabilization Fund. TxDOT staff provides all accounting, debt financing and administrative services. Salaries and wages of TxDOT employees who are specifically dedicated to managing the operations of GPTC are reported as expenses in this report.

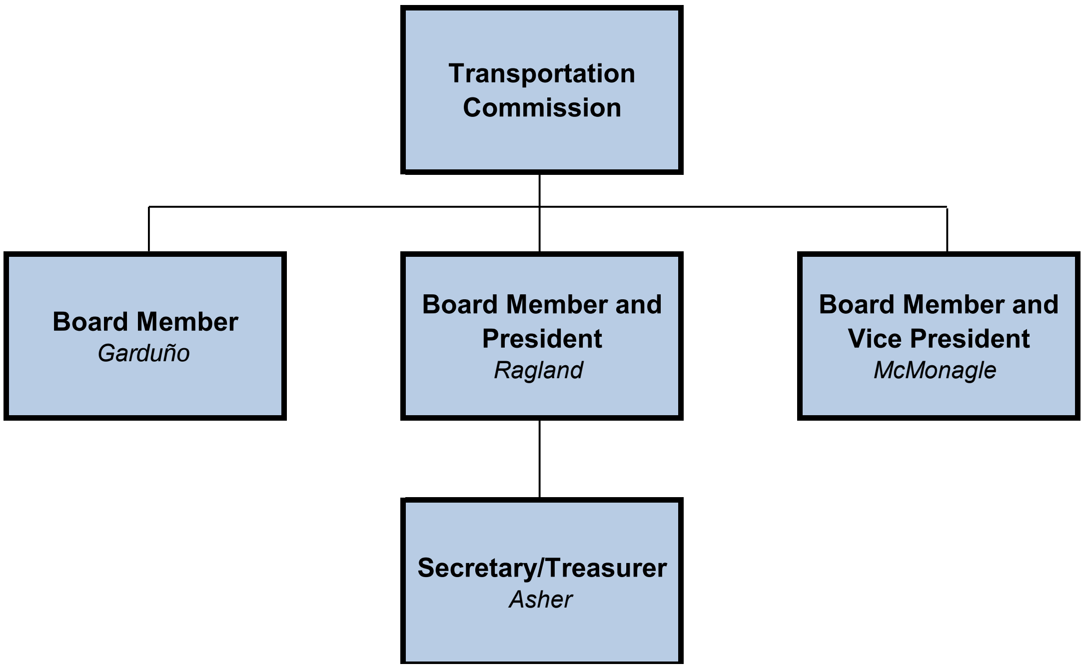
Acknowledgements
The preparation of the report requires the efforts of individuals throughout TxDOT, including the dedicated efforts of the management and staff of the TxDOT Financial Reports Section of the Financial Management Division and the Project Finance, Debt & Strategic Contracts Division. I sincerely appreciate the efforts of all these individuals who made this report possible.

Sincerely,

Brian Ragland
President
Grand Parkway Transportation Corporation

Grand Parkway Transportation Corporation

Organization Chart as of August 31, 2016



Grand Parkway Transportation Corporation
Corporation Officials
As of August 31, 2016

BOARD OF DIRECTORS

Key Personnel	Title	Occupation
Brian Ragland	President, Board of Directors	Chief Financial Officer, TxDOT
Richard McMonagle	Vice President, Board of Directors	Chief Administrative Officer, TxDOT
Lauren Garduño	Board Member	Director of Project Planning and Development

OFFICIALS

Name	Title	Occupation
Benjamin Asher	Secretary/Treasurer	Project Finance, Debt and Strategic Contracts Director, TxDOT

Section Two

Financial Section

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INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission
State of Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Grand Parkway Transportation Corporation (Corporation), a component unit of the Texas Department of Transportation (TxDOT), an agency of the State of Texas, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of August 31, 2016, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 10-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
December 16, 2016

Section Two (Continued)

Management's Discussion and Analysis (Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Grand Parkway Transportation Corporation's (GPTC), we offer readers of the GPTC financial statements this narrative overview and analysis of its financial activities for the year ended Aug. 31, 2016, with selected comparative information for the year ended Aug. 31, 2015. The information presented should be read in conjunction with our letter of transmittal, the financial statements and the accompanying notes to the financial statements.

GPTC is authorized to act on behalf of the Commission for the public purpose of developing, financing, refinancing, designing, constructing, reconstructing, expanding, operating and/or maintaining the Grand Parkway System (the System). The System consists of eight segments of the Grand Parkway Project including Segments D (Harris County), E, F-1, F-2, G, H, I-1 and I-2 located in Chambers, Harris, Liberty and Montgomery counties.

Highlights

During fiscal year 2016, GPTC generated $83.9 million in toll revenues, an increase of $53.4 million or 175 percent over fiscal 2015. Toll revenue increased mainly due to the opening of Segment F1 and F2 in February 2016 and Segment G in April 2016. Also, toll revenue from full year operations, for Segment D and E, increased by 46 percent over fiscal 2015.

As of Aug. 31, 2016, GPTC has incurred $2.3 billion of costs related to the design and construction of the System which is reported as intangible assets on the statement of net position.

As of Aug. 31, 2016, GPTC reported deficit net position, the liabilities and deferred inflows of GPTC exceeded its assets by $23.3 million. The net position decreased by $39.9 million from fiscal 2015. The deficit is attributable to amortization expense of $62.4 million and interest expense of $46.5 million, offset by the increase of operating revenues of $53.4 million.

Overview of Financial Statements

The financial section of this annual financial report consists of two parts: management's discussion and analysis (this section) and the basic financial statements with their accompanying notes.

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. Proprietary funds are used to account for a government's business-type activities. The activities related to GPTC are accounted for in an enterprise fund, which is a type of proprietary fund used to report activities in which a fee is charged to external users for goods and services.

Financial Analysis

The overall financial position and operations of GPTC for the past two years is summarized as followed.

Statement of Net Position
(Amounts in Thousands)
August 31, 2016 and 2015

	2016	2015
ASSETS		
Assets Other Than Intangible Assets	$ 693,201	$ 1,056,004
Intangible Assets	2,326,591	2,059,570
Total Assets	3,019,792	3,115,574
LIABILITIES		
Current Liabilities	88,523	161,637
Noncurrent Liabilities	2,953,566	2,935,335
Total Liabilities	3,042,089	3,096,972
DEFERRED INFLOW OF RESOURCES	996	1,992
NET POSITION		
Restricted for Operations and Maintenance	38,707	21,648
Unrestricted	(62,000)	(5,038)
Total Net Position	$ (23,293)	$ 16,610

Changes in Net Position
(Amounts in Thousands)
August 31, 2016 and 2015

		2016		2015
REVENUES				
Total Operating Revenues	$	83,890	$	30,523
Total Non-operating Revenues		2,136		147
Total Revenues		86,026		30,670
EXPENSES				
Total Operating Expenses		76,800		3,875
Total Non-operating Expenses		49,129		22
Total Expense		125,929		3,897
Change in Net Position		(39,903)		26,773
Net Position - Beginning		16,610		(10,163)
Net Position - Ending	$	(23,293)	$	16,610

Net Position

The $23.3 million deficit balance of net position is primarily due to the total expense exceeded the revenue by $39.9 million. The large expense in fiscal 2016 included $62.4 million of amortization and $46.5 million of interest.

Interest was capitalized as intangible assets prior to substantial completion of the five segments of the System in March 2016. Starting April 2016 interest was reported as expense. Amortization of intangible assets began in fiscal 2016.

Revenues

Total revenues for fiscal 2016 were $86.0 million. The largest revenue source is toll and fee revenue of $83.9 million or 98 percent of total revenues. Interest revenue for fiscal 2016 totaled $2.1 million.

Expenses

For the fiscal year ended Aug. 31, 2016, expenses totaled $125.9 million. Amortization expense is the largest expense category comprising 50 percent of total expenses and 81 percent of total operating expenses. GPTC began amortization of intangible assets in fiscal 2016.

Interest expense totaling $46.5 million is the second largest expense category in fiscal 2016 and represents 37 percent of total expenses. Interest expense reflects the interest and fees incurred but not capitalized on outstanding debt balances and activities during the year.

Intangible Assets and Debt Administration

Intangible Assets

Adhering to a service concession arrangement (SCA), GPTC records the construction related costs, acquisition costs of right-of-way and capitalized interest during construction as an intangible asset. GPTC began to amortize the intangible assets in 2016 since all five segments in the initial system achieved substantial completion as of March 2016. The intangible assets will be amortized over 38 years which is the remaining life of GPTC issued debts. As of Aug. 31, 2016, GPTC had $2.3 billion, net of $62.4 million accumulated amortization, in intangible assets. See Note 2 for more information.

Intangible Assets Activities
For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

		Balance 9/1/2015		Additions		Reductions		Balance 8/31/2016
Intangible Assets - SCA	$	2,059,570	$	329,417	$		$	2,388,987
Less: Accumulated Amortization for Intangible Assets						(62,396)		(62,396)
Intangible Assets, Net	$	2,059,570	$	329,417	$	(62,396)	$	2,326,591

Debt Administration

GPTC issued bonds and bond anticipation notes backed by the pledged revenues and restricted assets specified in the bond resolutions. As of Aug. 31, 2016, GPTC had $2.9 billion of debt. See Note 4 for more information.

Outstanding Debt Obligations
(Amounts in Thousands)
August 31, 2016 and 2015

		2016		2015
Revenue Bonds Payable	$	2,207,671	$	2,189,440
BAN Payable		745,565		757,666
Total Outstanding Debt	**$**	**2,953,236**	**$**	**2,947,106**

Bond Credit Ratings

Long-Term Credit Ratings		
As of August 31, 2016		
	Fitch	Standard & Poor's
Series 2013 - A	BBB+	BBB
Series 2013 - B	AA-	AA+
Series 2013 - E	AA-	AA+
Series 2014 - A		SP-1+
Series 2014 - B		AA+
Series 2014 - C		AA+

An explanation of the significance of each rating may be obtained from the company furnishing the ratings. The ratings reflect only the respective views of such organizations and GPTC 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 any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant.

Requests for Information

This financial report is designed to provide a general overview of GPTC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to GPTC at the following address:

Grand Parkway Transportation Corporation
Finance Management
125 East 11th Street
Austin, Texas 78701-2483

Section Two (Continued)

Basic Financial Statements

GRAND PARKWAY TRANSPORTATION CORPORATION
STATEMENT OF NET POSITION
August 31, 2016 (Amounts in Thousands)

ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash and Cash Equivalents	$	45,638
Restricted Cash and Cash Equivalents:		
Cash and Cash Equivalents		254,766
Short-Term Investments		5,369
Restricted:		
Short-Term Investments		265,839
Receivables:		
Accounts Receivable		11,330
Interest and Dividends		264
Consumable Inventory		6
Total Current Assets		583,212
Noncurrent Assets:		
Restricted:		
Investments		50,013
Investments		59,976
Intangible Assets (Note 2)		2,326,591
Total Noncurrent Assets		2,436,580
Total Assets		3,019,792
LIABILITIES		
Current Liabilities:		
Payables:		
Accounts		30,681
Interest		46,454
Contract Retainage		2,089
Deposits		3,084
Due to Other Funds (Note 7)		6,545
Revenue Bonds Payable (Notes 4, 5)		(330)
Total Current Liabilities		88,523
Noncurrent Liabilities:		
Notes and Loans Payable (Note 5)		745,565
Revenue Bonds Payable (Notes 4, 5)		2,208,001
Total Noncurrent Liabilities		2,953,566
Total Liabilities		3,042,089
DEFERRED INFLOWS OF RESOURCES		
Gain on Bond Refunding		996
Total Deferred Inflows of Resources		996
NET POSITION		
Restricted for:		
Operations and Maintenance		38,707
Unrestricted		(62,000)
Total Net Position	$	(23,293)

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

GRAND PARKWAY TRANSPORTATION CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

OPERATING REVENUES		
Toll Revenue - Pledged	$	78,117
Fee Revenue - Pledged		5,773
Total Operating Revenues		83,890
OPERATING EXPENSES		
Salaries		525
Professional Fees and Services		578
Travel		3
Materials and Supplies		299
Communication and Utilities		178
Repairs and Maintenance		1,592
Rentals and Leases		1
Contracted Services		5,316
Advertising		279
Depreciation and Amortization		62,397
Other Operating Expenses		5,632
Total Operating Expenses		76,800
Operating Income (Loss)		7,090
NONOPERATING REVENUES (EXPENSES)		
Interest and Investment Income		2,142
Net Decrease in Fair Value of Investments		(6)
Interest Expense and Amortization		(48,593)
Bond Issuance Expenses		(424)
Other Financing Fees		(112)
Total Nonoperating Revenues (Expenses)		(46,993)
Change in Net Position		(39,903)
Net Position, September 1, 2015		16,610
Net Position, August 31, 2016	$	(23,293)

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

GRAND PARKWAY TRANSPORTATION CORPORATION
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Customers	$	77,488
Proceeds from Local Entity		3,084
Payments for Interfund Services Used		(16,067)
Payments to Suppliers for Goods and Services		(69)
NET CASH PROVIDED BY OPERATING ACTIVITIES		64,436
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments for Debt Interest		(111,136)
Payments of Costs of Debt Issuance		(3)
Payments for Other Financing Fee		(13)
Payments for Interfund Services Used		(45,558)
Payments for Intangible Assets		(279,722)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES		(436,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		3,129
Proceeds from Sales and Maturities of Investments		1,231,864
Purchases of Investments		(783,248)
Payments for Accrued Interest on Purchase of Investment		(585)
NET CASH PROVIDED IN INVESTING ACTIVITIES		451,160
NET INCREASE IN CASH AND CASH EQUIVALENTS		79,164
CASH AND CASH EQUIVALENTS - September 1, 2015		221,240
CASH AND CASH EQUIVALENTS – August 31, 2016	$	300,404

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GRAND PARKWAY TRANSPORTATION CORPORATION
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVTIES:

Operating Income	$	7,090
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Amortization of Intangible Assets		62,397
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable		(6,402)
(Increase) in Inventory		(6)
Decrease in Prepaid Expenses		4
Increase in Accounts Payable		2,632
Increase in Deposit Payable		3,084
(Decrease) in Amounts Due to Other Fund		(4,363)
Net Cash Provided by Operating Activities	$	64,436

Noncash Investing, Capital and Financing Activities:

Amortization of Investment Premium/Discount	$	739
Net Change in Fair Market Value of Investments	$	(6)

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

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Grand Parkway Transportation Corporation
Notes to Financial Statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements reflect the financial position of the Grand Parkway Transportation Corporation (GPTC). GPTC is a public non-profit corporation, created by the Texas Transportation Commission (Commission) in 2012. GPTC is authorized to act on behalf of the Commission for the public purpose of developing, financing, refinancing, designing, constructing, reconstructing, expanding, operating and/or maintaining the Grand Parkway System (the System). The System consists of eight segments of the Grand Parkway Project including Segments D (Harris County), E, F-1, F-2, G, H, I-1 and I-2 located in Chambers, Harris, Liberty and Montgomery counties. The Texas Department of Transportation (TxDOT) owns or will own the roadway and all access roads and appurtenant facilities comprising the System and the related right-of-way. GPTC is entitled to all revenues from, or produced as a consequence of, the operation of the System as a toll highway.

GPTC is governed by a three-member board of directors consisting of individuals appointed by the Commission, all of whom are employees of TxDOT. GPTC has no staff, no resources and no taxing power. The GPTC utilizes the services of TxDOT employees for administrative support, including financial, legal, technical, clerical and other services.

Basis of Presentation

The accompanying financial statements were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GPTC's accounting will closely follow the requirements detailed in GASB 60 for governmental service concession arrangement (SCA) operators.

The basic financial statements consist of Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements. The reporting period is for the fiscal year of September 1st through August 31st.

GPTC, a blended component unit of TxDOT, is part of the TxDOT's reporting entity. GPTC does not have any employees and does not make contributions to any retirement plans. TxDOT employees provide all accounting and administrative services for GPTC. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan). No allocation of the pension liabilities and expense for GPTC is deemed necessary or required.

GPTC implemented the following new GASB pronouncements for fiscal 2016:

- *GASB Statement No. 72, Fair Value Measurement and Application*- clarifies fair value for financial reporting and establishes general principles of fair value reporting for measurement, recognition and disclosure.
- *GASB Statement No 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

Fund Structure

The activity of GPTC is reported in a proprietary fund. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

A proprietary fund distinguishes operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations.

Assets, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

Investments with a maturity of three months or less are considered cash equivalents. On the statement of cash flows, cash and cash equivalents are cash on hand, cash in bank, money market funds, state and local government investment pools (TexPool) and short-term, highly liquid investments with a maturity of three months or less at the time of purchase.

Investments

Long-term investments are investments with a maturity date of one year or greater from the date of purchase. These investments are recorded at fair value based upon quoted market prices as of fiscal year end. Short-term investments are investment with a maturity greater than 90 days but less than one year at the time of purchase. Short-term investments are recorded on an amortized cost basis. All investment income, including changes in the fair value of investments, net interest income, is recognized as nonoperating revenue in the operating statement. See Note 3 for more information.

Interest Receivable

Interest receivable is the amount of interest that has been earned, but which has not yet been received.

Accounts Receivable

The accounts receivable of $11.3 million is the toll revenue earned but not yet received by GPTC of $13.1 million, net of an allowance of doubtful accounts of $1.8 million as of Aug. 31, 2016.

Consumable Inventory

Consumable inventory is comprised of toll tags. The consumption method of accounting is used to account for inventory. The costs of these items are expensed when the items are consumed.

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

Intangible Asset

GPTC is operating under a service concession agreement (SCA) with TxDOT. As a governmental operator, GPTC records an intangible asset for its cost of design, construction and acquisition of right-of-way of the System. In accordance with GASB 62, GPTC capitalized interest and investment income, interest paid, and accretion during the construction period to the intangible asset. Amortization of the intangible asset began in fiscal 2016. See Note 2 for more information about GPTC's SCA with TxDOT.

Accounts Payable

Accounts payable represents the liability for the value of assets or services received during the reporting period for which payment is pending. It includes the payable to the design-build developer, bond issuance costs and other vendor payments.

Due to Other Funds

Due to other funds represents the reimbursement to the state highway fund for reimbursable construction, right-of-way acquisition costs, bond issuance costs, maintenance expenses and toll operating expenses incurred in fiscal 2016, but not paid as of Aug. 31, 2016.

Long-Term Liabilities

Long-term liabilities include revenue bonds payable and bond anticipation notes. Revenue bonds and notes payable are reported net of the applicable premium or discount.

Generally speaking, the serial maturities of long-term obligations to be paid within one year of the financial statements date are reported as a current liability and are considered a short-term obligation. In certain circumstances, however, amounts scheduled to mature during the ensuing fiscal year are instead reported as noncurrent long-term liabilities. This provision applies when GPTC intends to refund a debt instrument on a long term basis and issues a long-term obligation after the date of the financial statements but before the financial statements are issued.

Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of net assets that is applicable to a future reporting period. Deferred inflows have a negative effect on net position, similar to liabilities. Gain on refunding debt is reported as deferred inflow of resources. Deferred inflow of resources are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or life of the new debt, whichever is shorter.

Net Position

Proprietary funds report net position as the residual amount in a statement of net position. The categories of net position reported in this report include:

Restricted

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation. The restricted component of net position represents restricted assets reduced by liabilities related to those assets.

Unrestricted

Unrestricted net position consists of the assets, liabilities, and deferred inflows of resources that are not included in the restricted components of net position.

Revenues and Expense

Operating Revenue

Operating revenues consist of toll revenue for open Segments D, E, F1, F2 and G, net of allowance for doubtful accounts of $1.8 million, and fee revenue earned by GPTC.

Operating Expense

Operating expenses include expenses incurred in operating the toll roads, the customer service center, maintenance expense and amortization on the intangible asset.

Nonoperating Revenues/Expenses

Nonoperating revenues are mainly comprised of interest and investment revenue, net of the change in fair market value of investments. Nonoperating expenses are any expenses not classified as operating, including bond issuance costs and interest expense.

NOTE 2 – INTANGIBLE ASSETS

The Grand Parkway Transportation Corporation (GPTC) is operating under a service concession arrangement (SCA) with the Texas Department of Transportation (TxDOT). An SCA is an arrangement between a transferor (TxDOT) and an operator (GPTC) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. As the governmental operator, GPTC records an intangible asset for the design and construction costs of Segments D (Harris County), E, F-1, F-2 and G of Grand Parkway toll road.

Segments D (Harris County), E, F-1, F-2 and G all achieved substantial completion and opened to traffic by the end of March 2016. As required, GPTC is amortizing the intangible asset using a straight line method for a term of 38 years, beginning in fiscal 2016.

The table below presents the composition of GPTC's intangible assets as of Aug. 31, 2016.

Intangible Assets Activities
For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Balance 9/1/2015	Additions	Reductions	Balance 8/31/2016
Intangible Assets - SCA	$ 2,059,570	$ 329,417	$	$ 2,388,987
Less: Accumulated Amortization for Intangible Assets			(62,396)	(62,396)
Intangible Assets, Net	$ 2,059,570	$ 329,417	$ (62,396)	$ 2,326,591

NOTE 3 - DEPOSITS, INVESTMENTS AND REPURCHASE AGREEMENTS

GPTC is authorized by statute to make investments following the “prudent person rule”. GPTC has complied, in all material respects, with statutory authorization, bond documents, constraints and board policies during the period.

Deposits

GPTC had no cash in bank as of Aug. 31, 2016.

Investments

Fair Value Measurement

GPTC holds investments that are measured at fair value on a recurring basis.

GPTC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three-tiered fair value hierarchy is as follows.

- Level 1 – Quoted prices active markets for identical investments
- Level 2 – Significant other observable inputs other than quoted market prices
- Level 3 – Significant unobservable inputs

As of Aug. 31, 2016, the measurements of GPTC’s investments are summarized below:

Investment Summary
August 31, 2016 (Amounts in Thousands)

Investment Type	**Fair Value Hierarchy Level 1**	**Other Measurement Amortized Cost**	**Total**
U.S. Government			
U.S. Treasury Securities	$ 99,989	$ 144,886	$ 244,875
U.S. Government Agency Obligations:			
Federal Home Loan Banks		106,299	106,299
Federal National Mortgage Association		20,024	20,024
Federal Home Loan Mortgage Corporation		19,983	19,983
Federal Farm Credit Banks	10,000		10,000
Money Market Funds		424	424
Texpool		279,996	279,996
Total Investments	$ **109,989**	$ **571,612**	$ **681,601**

U.S. treasury securities and U.S. government agency obligations investments of $110.0 million with original maturities of one year or more are valued at quoted market prices (Level 1 input). These investments are all due within one year.

Investments in money market fund, Texpool, U.S. treasury securities and U.S. government agency obligations of $571.6 million with maturities less than one year are excluded from measurement at fair value according to GASB 72. These investments are measured at amortized cost.

Interest Rate Risk

Interest rate risk is the chance that an unexpected change in interest rates, will adversely affect the fair value of an investment. GPTC does not have a formal policy on interest rate risk. Investment portfolios are designed with the objective of attaining the best possible rate of return commensurate with GPTC's investment risk constraints and the cash flow characteristics of the portfolio. Return on investment, although important, is subordinate to the safety and liquidity objectives. In general, all securities held by GPTC are anticipated to be held to maturity, thereby avoiding interest rate risk due to an early redemption. Approximately 83 percent of the investments mature within one year. Market value fluctuation of the overall portfolio is minimized by keeping the weighted average maturity low.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, GPTC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. GPTC's investment policy states that all securities purchased shall be designated as assets of GPTC, and shall be protected through the use of a third-party custodian/safekeeping agent, which may be a Trustee. Additionally, GPTC conducts securities on a delivery-versus-payment (DVP) basis.

Credit Risk - Investments

Direct credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy prohibits GPTC from entering into long-term investment agreements or other non-DVP investment transactions with a final maturity or termination date of longer than six months with any financial institution or broker/dealer 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 statistical rating organization (NRSRO). All investments made by GPTC have been through the list of qualified business organization authorized to engage in investment transactions approved by GPTC.

As of Aug. 31, 2016, GPTC holdings had the following ratings:

Investment Credit Ratings
August 31, 2016 (Amounts in Thousands)

Investment Type	Balance	S&P	Credit Rating Moody's	Fitch
Money Market Mutual Funds				
JP Morgan US Government MMKT	$ 78	**NR**	**Aaa-mf**	**AAAmmf**
Goldman Sachs Financial Square Funds	171	**AAAm**	**Aaa-mf**	**NR**
Morgan Stanley Institutional Liquidity Funds	9	**AAAm**	**Aaa-mf**	**AAAmmf**
Fidelity Institutional Money Market Government	166	**AAAm**	**AAA-mf**	**NR**
Governmental Investment Pools				
TexPool	279,996	**AAAm**	**NR**	**NR**
US Agency Notes				
Federal Home Loan Banks (Discount Notes)	106,299	**A-1+**	**P-1**	**NR**
Federal National Mortgage Association	20,024	**AA+**	**Aaa**	**AAA**
Federal Home Loan Mortgage Corporation (Discount Notes)	19,983	**A-1+**	**P-1**	**F1+**
Federal Farm Credit Banks	10,000	**AA+**	**Aaa**	**AAA**
U.S. Treasuries				
Treasury Notes	176,953	**AA+**	**Aaa**	**AAA**
Treasury Bills	67,922	**A-1+**	**NR**	**NR**
Total:	$ 681,601			

Concentration of Credit Risk

It is the policy of GPTC to diversify its investment portfolios. Assets held in the particular funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. As of Aug. 31, 2016, the following investments exceeded 5 percent of the total GPTC portfolio: Texpool, Federal Home Loan Banks, and US Treasuries.

The Commission and GPTC both address diversification in the Commission'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.

NOTE 4 – SUMMARY OF LONG-TERM LIABILITIES

As of Aug. 31, 2016, GPTC had five bond issues outstanding and one bond anticipation note. As detailed below, the following changes occurred in long-term liabilities during the year ended Aug. 31, 2016.

Long-Term Liabilities Activity (Amounts in Thousands)
For the Fiscal Year ended August 31, 2016

	Beginning Balance 08/31/2015	Additions*	Reductions	Adjustments**	Ending Balance 08/31/2016	Due Within One Year
Revenue Bonds Payable	$ 2,189,440	$ 17,902		$ 329	$ 2,207,671	$ (330)
Notes Payable	757,666			(12,101)	745,565	
Total	$ 2,947,106	$ 17,902	$ 0	$ (11,772)	$ 2,953,236	$ (330)

* Includes current year amortization of accretion.
**Includes current year amortization of premiums and discounts.

NOTE 5 – BONDED INDEBTEDNESS

Revenue Bonds

Transportation Code, Section 222.103 authorizes the Commission to participate, by spending money from any available source in the acquisition, construction, maintenance, or operation of a toll facility of a public or private entity on terms and conditions established by the Commission. In March 2012, the Commission adopted a resolution creating the Grand Parkway Transportation Corporation (GPTC). GPTC is authorized to assist and act on behalf of the Commission in the development, financing, design, construction, reconstruction, expansion, operation and/or maintenance of the Grand Parkway toll project.

Miscellaneous Bond Information
(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Date Issued	Range of Interest Rates		Maturities First Year	Maturities Last Year	First Call Date
First Tier Toll Revenue Bonds, Series 2013-A	$ 200,000	8/1/2013	5.13%	5.50%	2031	2053	10/1/2023
Subordinate Tier Toll Revenue Bonds, Series 2013-B							
Convertible Capital Appreciation Bonds**	329,143	8/1/2013	4.95%	5.85%	2029	2048	10/1/2028
Current Interest Bonds	1,137,935	8/1/2013	5.00%	5.25%	2048	2053	10/1/2023
Subordinate Tier Toll Revenue Bonds, Series 2013-E	361,810	8/1/2013	5.18%	5.18%	2036	2042	*
Subordinate Tier Toll Revenue Bonds, Series 2014-B	83,550	2/13/2014	variable		2016	2016	*
Subordinate Tier Toll Revenue Bonds, Series 2014-C	107,180	2/13/2014	variable		2016	2016	*
Total	$ 2,219,618						

* Bonds are subject to redemption prior to their respective maturities at the option of the Corporation.
** Bonds issued to date include interest accreted to principal.

The bond obligations are payable from tolls and other revenues of GPTC held by the trustee. Neither the state; the Commission; nor any other agency or political subdivision of the state, is obligated to pay the debt service on the GPTC bonds.

The Grand Parkway System is owned by the Commission and the Commission has not mortgaged, assigned, or pledged any interest in any real or personal property or improvements, including any interest in the Grand Parkway System, as security for payment of the bonds other than the pledge of the Trust Estate under the Trust Agreement.

Debt Service requirements for Revenue bonds as of August 31, 2016 are detailed in the following tables.

Debt Service Requirements - Revenue Bonds (Amounts in Thousands)

Year	Principal	Interest	Total
2017	$ 190,730	$ 89,035	$ 279,765
2018		87,911	87,911
2019		87,911	87,911
2020		87,911	87,911
2021		87,911	87,911
2022-2026		508,952	508,952
2027-2031	9,165	578,012	587,177
2032-2036	126,035	562,790	688,825
2037-2041	300,620	505,933	806,553
2042-2046	303,025	426,533	729,558
2047-2051	625,510	314,285	939,795
2052-2056	824,550	47,930	872,480
	2,379,635	3,385,114	5,764,749
Unamortized Accretion	(160,017)		(160,017)
Unamortized Premium/(Discount)	(11,947)		(11,947)
Total	$ 2,207,671	$ 3,385,114	$ 5,592,785

The short term obligations related to the Series 2014-B and Series 2014-C bonds were excluded from current liabilities because GPTC will refund the bonds via issuing refunding bonds for $83.6 million and executing a draw of $107.2 million from a Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) long-term secured loan to pay the maturing principal on Dec. 15, 2016. See Note 9 for additional details.

Notes and Loans Payable

Bond Anticipation Notes

GPTC issued a refunding bond anticipation note in February 2014, for the purpose of providing funds to refund a portion of the outstanding debt payable from toll and other revenues of GPTC.

As of Aug. 31, 2016, the note's debt service requirements are as follows.

Debt Service Requirements - Notes Payable (Amounts in Thousands)						
Year		**Principal**		**Interest**		**Total**
2017	$	733,465	$	15,525	$	748,990
		733,465		15,525		748,990
Unamortized Premium		12,100				12,100
Total	$	745,565	$	15,525	$	761,090

The above short-term obligation was excluded from current liabilities because GPTC will refund the BAN via a draw from a Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) long-term secured loan on Dec. 15, 2016. See Note 9 for additional details.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure the payment of bond debt service. The table below provides information on pledged revenue and pledged future revenue on existing bonds.

Pledged Future Revenue (Amounts in Thousands)	August 31, 2016
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	$5,764,749
Term of Commitment, Year Ending Aug. 31:	2053
Percentage of Revenue Pledged	99.54%
Current Year Pledged Revenue	$85,634
Current Year Principal and Interest Paid	$ 89,325

NOTE 6 - EMPLOYEES' RETIREMENT PLAN

GPTC, a blended component unit of the Texas Department of Transportation (TxDOT), is part of TxDOT's reporting entity. GPTC does not have any employees and does not make contributions to any retirement plans. TxDOT employees provide all accounting and administrative services for GPTC. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan). GPTC is not obligated in any form for the funding of the pension benefits provided by the ERS Plan. Allocation of the pension liabilities and expense for GPTC is deemed unnecessary and not required.

The ERS Plan is considered a single employer defined benefit plan under GASB Statement 68. The defined benefit provisions of the ERS Plan are authorized by state law and may be amended by the Legislature. The details of the pension plans are disclosed in TxDOT's Note 8, Employees' Retirement Plan, according to the requirements of GASB 68.

NOTE 7 – INTERFUND ACTIVITY

During fiscal 2016, TxDOT paid certain construction related costs for GPTC.

GPTC became responsible for the maintenance and operation of the System when the GPTC Series 2013 bonds were closed in August 2013. All costs and expense related to maintenance and operation of the System paid by the state highway fund are subject to reimbursement by GPTC as a junior operating expense.

In fiscal 2016, GPTC reimbursed the state highway fund $61.6 million: $16.2 million for operating and maintenance incurred since August 2013, $45.4 million for construction related costs.

As of Aug. 31, 2016, the due to state highway fund balance totaled $6.5 million, as detailed in the following table:

Interfund Activity
August 31, 2016 (Amounts in Thousands)

Category		GPTC Due to SHF
Construction	$	4,786
Operating & Maintenance		1,759
Total	$	6,545

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Contingencies

Unpaid Claims and Lawsuits

The type and volume of activity for which GPTC is responsible exposes it to a large number of claims and lawsuits.

The Texas Attorney General's office indicates that the lawsuits listed below were pending as of Aug. 31, 2016.

Type of Suit	Amounts in Controversy
Eminent Domain	Total claims with amounts indicated range from $0 to $14.3 million with a total of $69.1 million.

Arbitrage

Rebatable arbitrages defined by Internal Revenue Code (IRC), Section 148, are earnings on tax exempt bond proceeds in excess of the yield on the bond. The rebatable arbitrage must be repaid to the federal government. Pursuant to the Trust Agreement, a Rebate Fund will be established to which deposits will be made upon the determination by GPTC that funding of the Rebate Fund is necessary or appropriate. The amount of rebate due to the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. IRC Section 148 also provides for certain rebate exceptions, including an exception if certain spend-out requirements of the bond proceeds are met. GPTC has no rebatable arbitrage liability in fiscal 2016.

Significant Commitments

Construction Contracts

Disclosure of the construction related commitment as of Aug. 31, 2016 is displayed below:

GPTC Construction Related Contract Commitments
August 31, 2016 (Amounts in Thousands)

Contractor	Segment	Contract Commitment	Paid Amount	Remaining Commitment
Zachry Odebrecht Parkway Builders	Segment F1,F2&G	$1,068,493	$1,065,475	$3,018

NOTE 9 - SUBSEQUENT EVENTS

The United States Department of Transportation (USDOT) approved a secured loan made to GPTC under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) in December 2013 in a principal amount not to exceed $840.6 million. GPTC drew on the TIFIA loan on Dec. 13, 2016 to refund $733.5 million of Series 2014-A BANs and $107.2 million of the Series 2014-C bonds.

GPTC also issued a refunding bond on Dec. 7, 2016 to pay the Series 2014-B maturing principal amount of $83.6 million.

Entity	Series	Par Amount (Amount in Millions)		Date of Issuance/Draw	Purpose
Grand Parkway Transportation Corporation Revenue Bonds	2016	$	84.1	December 7, 2016	To refund debt and pay costs of issuance.
Grand Parkway Transportation Corporation (TIFIA Loan)		$	840.6	December 13, 2016	To refund debt and pay costs of issuance.

NOTE 10 - RISK FINANCING & RELATED INSURANCE

Grand Parkway Transportation Corporation (GPTC) is a non-profit corporation created by the Texas Transportation Commission to act on behalf of the Commission in assisting with the development, construction, financing, operating and maintaining of the SH 99 (Grand Parkway) project. GPTC does not own any part of the Grand Parkway System and does not have any employees.

GPTC self-insures through funds on deposit within its Rate Stabilization Fund. The amount on deposit in the Rate Stabilization Fund for self-insurance has been certified as actuarially sound by the Madison Consulting Group. To date, GPTC has not drawn upon the Rate Stabilization Fund to settle any claims and therefore settlements have not exceeded self-insurance coverage. During fiscal 2016, GPTC acquired director's and officer's liability insurance and certain public official's liability coverage.

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Produced by **Texas Department of Transportation's Financial Management Division.**

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