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 four 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 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 years ended August 31, 2006 and August 31, 2005.

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:

James M Bass

Chief Financial Officer

Recommended by:

M. W. Behrens

Executive Director

110787 **DEC 14 06**

Minute Number | Date Passed

TEXAS DEPARTMENT OF TRANSPORTATION

Central Texas Turnpike System of the Texas Turnpike Authority

(An Enterprise Fund of the Texas Department of Transportation)

Financial Statements - August 31, 2006 and 2005

CENTRAL TEXAS TURNPIKE SYSTEM

of the

TEXAS TURNPIKE AUTHORITY

FINANCIAL STATEMENTS

August 31, 2006 and 2005

Prepared by:
Finance Division of the Texas Department of Transportation

CENTRAL TEXAS TURNPIKE SYSTEM
of the
TEXAS TURNPIKE AUTHORITY

Financial Statements
August 31, 2006 and 2005

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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 5, 2006

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

The Indenture of Trust, dated as of July 15, 2002, as supplemented by the First through Fourth Supplemental Indentures (collectively, the "Indenture") between the Texas Transportation Commission (the *"Commission")* and Bank One, National Association, (the *"Trustee"),* requires the Commission to provide audited annual financial statements of the Texas Turnpike Authority - Central Texas Turnpike Project (the *"Project").* Pursuant to this requirement, we hereby present to you the Financial Statements for the Central Texas Turnpike System for the year ended August 31, 2006 and for comparative purposes the year ended August 31, 2005. This report has been prepared by the Accounting Management staff in the Finance Division of the Texas Department of Transportation.

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

KPMG LLP, an independent certified public accounting firm, performed an independent audit of the System's basic financial statements for the years ended August 31, 2006 and 2005. The auditors issued an unqualified opinion on the financial statements in accordance with GAAP.

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

Profile of the Government

The Texas Department of Transportation (the *"Department"*) is an agency of the State of Texas (the "*State*") created to provide a safe, effective and efficient transportation system throughout the State. The Department's goals are to reduce congestion, improve air quality, enhance safety, expand economic opportunity and preserve the quality of our transportation system. The Department is managed by the Executive Director and is governed by a five-member Commission. The Department is organized into 25 districts and 28 divisions/offices and currently has an annual budget of approximately $7.7 billion and a staff of approximately 15,000 which manage approximately $5.4 billion in annual construction contract lettings.

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

Information useful in assessing the government's financial condition

Cash Management policies and practices: The Commission's Investment Strategy for the System identified four fund types in association with the Indenture. These funds are 1) Type I Funds: Funds in the Revenue Fund, General Reserve Fund and Debt Service Funds, other than Capitalized Interest Funds; 2) Type II Funds: Funds in the Rate Stabilization Fund; 3) Type III Funds: Funds in the Construction Fund and Capitalized Interest Funds; and, 4) Type IV Funds: Funds in Debt Service Reserve Fund. Bonds proceeds were deposited to Type III and IV Funds. Type I and Type II Funds will be funded with toll revenues. Loop 1 and portions of SH 45 and SH 130 opened to the public on November 1, 2006. Toll collections will not begin until January 2007.

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

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

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 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.

Pension Benefits and Postemployment benefits: 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 liabilities for the retirement system. ERS does not account for each state agency separately. Annual financial reports prepared by the system include audited financial statements and actuarial assumptions and conclusions.

Acknowledgements

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

M. W. Behrens

Michael W. Behrens, P.E.
Executive Director

Texas Department of Transportation

GOVERNOR

- AUTOMOBILE THEFT PREVENTION BOARD
  - Automobile Theft Prevention Authority Section — Susan Sampson

TEXAS TRANSPORTATION COMMISSION

- Audit Office — Owen Whitworth — AUD

EXECUTIVE DIRECTOR
Michael W. Behrens

- Deputy Executive Director — Steven E. Simmons
- Asst. Executive Director for Engineering Operations — Amadeo Saenz Jr.
- Asst. Executive Director for Support Operations — Edward Serna

OFFICES

- International Relations — Agustin De La Rosa — IRO
- Research and Technology Implementation — Rick Collins — RTI
- Civil Rights — Jesse W. Ball Jr. — OCR

OFFICES

- Business Opportunity Program — James T. Dossett — BOP
- General Counsel — Bob Jackson, Interim — OGC
- Public Information — Randall Dillard — PIO

DISTRICTS

- Abilene — Russel W. Lenz — ABL
- Amarillo — Mark E. Tomlinson — AMA
- Atlanta — Robert H. Ratcliff — ATL
- Austin — Robert B. Daigh — AUS
- Beaumont — John A. Barton — BMT
- Brownwood — Lynn G. Passmore — BWD
- Bryan — Bryan A. Wood — BRY
- Childress — Terry L. Keener — CHS
- Corpus Christi — Craig E. Clark — CRP
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- Fort Worth — Maribel P. Chavez — FTW
- Houston — Gary K. Trietsch — HOU
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- Lubbock — Randy Hopmann — LBB
- Lufkin — Dennis R. Cooley — LFK
- Odessa — Lauren Garduno — ODA
- Paris — Bobby G. Littlefield Jr. — PAR
- Pharr — Mario Jorge — PHR
- San Angelo — Walter G. McCullough — SJT
- San Antonio — David B. Casteel — SAT
- Tyler — Mary M. Owen — TYL
- Waco — Richard Skopik — WAC
- Wichita Falls — Larry D. Tegtmeyer — WFS
- Yoakum — Lonnie J. Gregorcyk — YKM

DIVISIONS

- Aviation — David S. Fulton — AVN
- Bridge — William R. Cox — BRG
- Construction — Thomas R. Bohuslav — CST
- Design — Mark A. Marek — DES
- Environmental Affairs — Dianna F. Noble — ENV
- Finance — James M. Bass* — FIN
- General Services — Scott D. Burford — GSD
- Government & Business Enterprises — Coby Chase — GBE
- Human Resources — Diana Isabel — HRD
- Information Systems — Judy B. Skeen — ISD
- Maintenance — Zane L. Webb — MNT
- Motor Carrier — Carol Davis — MCD
- Occupational Safety — Edwin M. Sims — OCC
- Public Transportation — Eric Gleason — PTN
- Right of Way — John P. Campbell — ROW
- Traffic Operations — Carlos Lopez — TRF
- Motor Vehicle — Brett Bray — MVD
- Transportation Planning & Programming — James L. Randall — TPP
- Travel — Doris Howdeshell — TRV
- Turnpike Authority — Phillip Russell — TTA
- Vehicle Titles & Registration — Rebecca Davio — VTR

* Serves as TxDOT Chief Financial Officer (CFO)

Commission and Key Personnel
As of August 31, 2006

TEXAS TRANSPORTATION COMMISSION

RIC WILLIAMSON ....Chairman
Weatherford

JOHN W. JOHNSON ....Commissioner
Houston

HOPE ANDRADE..Commissioner
San Antonio

TED HOUGHTON ....Commissioner
El Paso

VACANT ....Commissioner

TEXAS DEPARTMENT OF TRANSPORTATION

MICHAEL W. BEHRENS, P.E..Executive Director

Texas Turnpike Authority Division

PHILLIP E. RUSSELL, P.E. ....Director

Austin District

ROBERT B. DAIGH, P.E..District Engineer

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

TIMOTHY J. WEIGHT, P.E. ....CTTP Project Manager and Director of Turnpike Construction

Finance Division

JAMES M. BASS ....Chief Financial Officer

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FINANCIAL SECTION

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KPMG

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111 Congress Avenue
Austin, TX 78701-4091

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Internet www.us.kpmg.com

Independent Auditors' Report

Texas Transportation Commission:

We have audited the accompanying financial statements of the Central Texas Turnpike System of the Texas Transportation Authority (the System) as of and for the years ended August 31, 2006 and 2005, which collectively comprise the System's basic financial statements. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 audits provide a reasonable basis for our opinion.

As described in note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of the State of Texas, as of August 31, 2006 and 2005, and the changes in its financial position or its cash flows for the years then ended in conformity with accounting 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, 2006 and 2005, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 13 through 18 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 20, 2006

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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 it's financial activities for the years ended August 31, 2006 and 2005. These financial statements reflect the financial position of the System. The System is an enterprise fund of the Texas Department of Transportation of the State of Texas. Also, the Texas Transportation Commission, the governing body of the Department, has the authority to commit the System to various legal agreements. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 3 of this report.

Financial Highlights

- The Texas Turnpike Authority ("TTA"), a division of the Department, was created under Chapter 361 of the Texas Transportation Code, as amended (the "Turnpike Act"). In order to allow the Texas Transportation Commission (the "Commission") to make the most efficient use of its resources, the State Legislature granted authority to the Commission, acting for and through TTA, to design, construct, operate and expand turnpike projects as a part of the State's highway system.
- The 2002 Project of the System includes three elements: State Highway 45 North, Loop 1, and State Highway 130. As of August 31, 2006, $2,235,169,561 has been spent on the Project of which approximately $831,980,000 was from federal revenue, contributions, or transfers. See Note 7 on page 40 for information on commitments and contingencies.
- All elements of the 2002 Project are on time and budget at the close of fiscal year 2006. The 2002 Project is expected to open in phases, with all phases to be open by December 2007. Loop 1 and the portion of SH 45 Northeast of Loop 1 were opened in November 2006. SH 130 from US 79 southward to US 290 was opened in November 2006. SH 130 from IH 35 to US 79 is expected to open in December 2006 and US 290 to SH 71 is expected to open in September 2007. In December 2007, the western portion of the SH 45 North and SH 130 from SH 71 southward to US 183 are expected to open.
- In August 2002, the Commission issued approximately $2.2 billion in revenue bonds (the "2002 Bonds") and bond anticipation notes ("BANS") to fund the development and construction of a network of toll roads in central Texas. The 2002 Bonds, the BANS, the 2002 TIFIA Bond and the First Tier Developer Note (collectively, the "2002 Obligations") were issued under the terms of an Indenture of Trust dated as of July 15, 2002, between the Commission and BankOne, National Association as Trustee as supplemented by the First through Fourth Supplemental Indenture of Trust (collectively, the "Indenture"). See Note 1-A on page 24 and the website www.texastollways.com for further information relating to the System.
- The Commission has entered into a Secured Loan Agreement with the United States Department of Transportation for an amount of $916,760,000 to pay or reimburse a portion of the costs of the System. The obligations of the Commission under the Secured Loan Agreement are evidenced by the 2002 Transportation Infrastructure Finance and Innovation Act of 1998 ("TIFIA") Bond. It is assumed that the 2002 TIFIA Bond will be drawn down in 2007 and 2008 to refinance the Series 2002 Second Tier BANS. Should long-term fixed interest rates be lower than the rate of the 2002 TIFIA Bond, additional First Tier Obligations, Second Tier Obligations or Subordinate Obligations may be issued to refinance the BANS on their respective maturity dates. As of August 31, 2006, no funds have been drawn against the Secured Loan Agreement.
- The Developer agreed to accept deferred payment in an amount of up to $10,000,000 in the form of a Developer Note for progress payments. It is at the Department's discretion as to when and if the note will be executed. As of August 31, 2006, the note has not been executed and no funds

have been drawn against the Developer Note.

- The assets of the System exceeded its liabilities at the close of fiscal year 2006 and 2005 by $761,719,221 and $492,856,308, respectively.
- The System's net assets increased by $268,862,913 and $156,637,442 at the close of fiscal years 2006 and 2005, respectively. The majority of this increase is attributable to the increase in capital contributions and transfers.
- During fiscal year 2006, the System's total liabilities increased by $12,519,294. This is the net effect of a decrease in deferred revenues and an increase in payables. During fiscal year 2005, the System's total liabilities decreased by $27,125,276. Deferred revenues decreased by $2,340,114 and $58,196,310 in fiscal years 2006 and 2005, respectively. During fiscal years 2006 and 2005, the System received $317,000 and $12,687,003, respectively in funds transferred from local entities. Total payables and debt increased by $14,859,408 and $31,071,034 in fiscal years 2006 and 2005, respectively.
- The System's land and construction in progress values increased by $579,278,229 and $627,412,007 at the close of fiscal years 2006 and 2005, respectively. The System increased other capital assets with a Customer Service Center valued at $7,172,768 and the capitalization of bridges of $13,586,671, both net of accumulated depreciation.

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 24-41 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 $761,719,221 and $492,856,308 at August 31, 2006 and August 31, 2005.

The largest portion of the System's total assets (69%) consists of Capital Assets which includes Right of Way, Construction in Progress, Customer Service Center Building, and Bridges. Investments made from bond proceeds and contributions from local entities make up 29% of the System's total assets. These investments will be used to finance the 2002 Project of the System.

CONDENSED NET ASSETS
Enterprise Fund Total

	2006	2005	2004
Restricted and other assets	$991,077,180	$1,309,732,641	$1,807,632,482
Capital Assets	2,235,169,561	1,635,131,893	1,007,719,886
Total Assets	$3,226,246,741	$2,944,864,534	$2,815,352,368
Long-term Liabilities	(2,200,091,907)	(2,305,850,453)	(2,288,333,315)
Other Liabilities	(264,435,613)	(146,157,773)	(190,800,187)
Total Liabilities	($2,464,527,520)	($2,452,008,226)	($2,479,133,502)
Net assets:			
Invested in capital assets, net of related debt	761,719,221	492,856,308	336,218,866
Total Net Assets	$761,719,221	$492,856,308	$336,218,866

Changes in Net Assets
Operating expenses – The System incurred $15,732,501 in operating expenses during the year ended August 31, 2006. Operating expenses include expenses for preparing the Customer Service Center for operations, toll tags, advertising, and depreciation on capital assets.

Lease revenues – The System received $12,864 in lease revenue from Sage-Socrates, Ltd. in 2006 and $13,936 in 2005 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 is for five years commencing on June 1, 2004 and the consideration is $1,072 per month.

Federal revenues - The Federal Highway Administration reimbursed the System $0 in 2006 and $72,105 in 2005 for certain engineering, construction, and right-of-way acquisition costs. Federal reimbursement is based on a percentage of the costs expended from state funds on approved projects. The percentage of reimbursement for allowable costs varies from 75 to 100 percent. The System has received the maximum reimbursement for the reporting period.

Capital Contributions - 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 $2,812,378 and $70,253,808 in capital contributions from local governments for the years ended August 31, 2006 and 2005, respectively. An additional $289,568,953 and $105,961,153 in project expenditures was funded from the Department's special revenue fund for the years ended August 31, 2006 and 2005, respectively.

CONDENSED CHANGES IN NET ASSETS

Enterprise Fund Total

		2006	2005	2004
Operating Revenues	$	0	0	0
Total Operating Revenues		0	0	0
Operating Expenses		(15,732,501)	0	0
Total Operating Expenses		(15,732,501)	0	0
Nonoperating Revenues (Expenses)				
Lease Revenue		12,864	13,936	2,144
Federal Revenue		0	72,105	115,978
Net Realized and Unrealized (Loss) on Investments		(7,244,893)	(19,318,038)	(22,704,307)
Other Non-Operating Expenses		(553,888)	(345,522)	(20,930)
Total nonoperating revenue (expenses)		(7,785,917)	(19,577,519)	(22,607,115)
Income (loss) before contributions and transfers		(23,518,418)	(19,577,519)	(22,607,115)
Capital Contributions and transfers		292,381,331	176,214,961	216,548,178
Change in Net Assets		268,862,913	156,637,442	193,941,063
Total Net Assets – beginning		492,856,308	336,218,866	142,277,803
Total Net Assets -- ending	$	761,719,221	492,856,308	336,218,866

Investment income for the years ended August 31, 2006 and 2005 was $49,521,754 and $55,001,084, respectively, and has been recorded as a reduction of capitalized interest costs in accordance with GAAP.

Capital Asset and Debt Administration

Capital assets. The System's investment in capital assets as of August 31, 2006, amounts to $2,235,169,561 and as of August 31, 2005 amounted to $1,635,131,893. Non-depreciable capital assets as of August 31, 2006 amounted to $2,214,410,122. Net depreciable capital assets as of August 31, 2006 amounted to $20,759,439. Capital assets as of August 31, 2005 were classified as non-depreciable assets. The investment in capital assets includes non-depreciable land and construction in progress and depreciable Customer Service Center and bridges. See Note 2 on page 29. Construction letting for portions of the SH 45 North/Loop 1 sections since project inception have totaled $505,149,095. Original estimated letting costs for those sections totaled $697,752,000. The current estimated Exclusive Development Agreement ("EDA") costs on SH 130 are $1,071,522,325, $85,200,748 more than the original estimated EDA costs of $986,321,577. As of August 31, 2006, outstanding commitments are $20,817,213 for SH 45 North Loop 1 and $279,520,654 for SH 130. See Note 7 on page 40.

Outstanding debt. As of August 31, 2006, the System had total debt outstanding of $2,325,021,907 consisting of long-term debt of $2,200,091,907 and $124,930,000 of short-term debt. Of this amount, $1,402,338,648 is comprised of revenue bonds payable and $922,683,259 is BANS payable. As of August 31, 2005, the System had total long-term debt outstanding of $2,305,850,453. Of this amount, $1,371,825,565 is comprised of revenue bonds payable and $934,024,888 is BANS payable. See Note 4 on page 33.

2006 Balances	1st Tier Revenue Bonds	2nd Tier Bond Anticipation Notes (BANS)
Non-Callable (Series 2002-A)	$287,459,891	
Callable Capital Appreciation Bonds (2002-A)	154,658,891	
Current Interest Bonds (2002-A)	707,875,000	
Weekly Demand Bonds (2002-B)	150,000,000	
BANS (Series 2002)		$900,000,000
TOTAL Par Value	$1,299,993,782	$900,000,000
Add: Premium	11,220,782	68,112,050
Subtract: Discount	(21,429,442)	(62,274)
Total Debt Issuance	$1,289,785,122	$968,049,776
Amortization and Interest for the period from Inception through August 31, 2006	112,553,526	(45,366,517)
Total Debt Outstanding	$1,402,338,648	$922,683,259

2005 Balances	1st Tier Revenue Bonds	2nd Tier Bond Anticipation Notes (BANS)
Non-Callable (Series 2002-A)	$287,459,891	
Callable Capital Appreciation Bonds (2002-A)	154,658,891	
Current Interest Bonds (2002-A)	707,875,000	
Weekly Demand Bonds (2002-B)	150,000,000	
BANS (Series 2002)		$900,000,000
TOTAL Par Value	$1,299,993,782	$900,000,000
Add: Premium	11,220,782	68,112,050
Subtract: Discount	(21,429,442)	(62,274)
Total Long-term Debt Issuance	$1,289,785,122	$968,049,776
Amortization and Interest for the period from Inception through August 31, 2005	82,040,443	(34,024,888)
Total Long-term Debt	$1,371,825,565	$934,024,888

2004 Balances	1st Tier Revenue Bonds	2nd Tier Bond Anticipation Notes (BANS)
Non-Callable (Series 2002-A)	$287,459,891	
Callable Capital Appreciation Bonds (2002-A)	154,658,891	
Current Interest Bonds (2002-A)	707,875,000	
Weekly Demand Bonds (2002-B)	150,000,000	
BANS (Series 2002)		$900,000,000
TOTAL Par Value	$1,299,993,782	$900,000,000
Add: Premium	11,220,782	68,112,050
Subtract: Discount	(21,429,442)	(62,274)
Total Long-term Debt Issuance	$1,289,785,122	$968,049,776
Amortization and Interest for the period from Inception through August 31, 2004	53,181,675	(22,683,258)
Total Long-term Debt	$1,342,966,797	$945,366,518

Bond Credit Ratings

The Series 2002-A Bonds have received underlying ratings of "BBB+" from Standard & Poor's Credit Market Services ("*S&P*"), "Baa1" from Moody's Investors Service, Inc. ("*Moody's*"), and "BBB+" from Fitch, Inc. ("*Fitch*"). Additionally, the Series 2002-A Bonds have received ratings of "AAA", "Aaa" and "AAA" from S&P, Moody's and Fitch, respectively, due to the issuance by Ambac Assurance of a policy insuring the payment when due of the principal of and interest on the Series 2002-A Bonds. The Series 2002-B Bonds have received underlying rating of "BBB+" from S&P and "BBB+" from Fitch. Additionally, the Series 2002-B Bonds have received ratings of "AAA/A1" and "AAA/F1+" from S&P and Fitch, respectively, due to the issuance by Ambac Assurance of a policy insuring the payment when due of the principal of and interest on the Series 2002-B Bonds and a Standby Bond Purchase Agreement relating to the Series 2002-B Bonds between the Commission and The Bank of Nova Scotia.

The Series 2002 Second Tier BANS have received ratings of "AA" from S&P, "Aa3" from Moody's, and "AA" from Fitch. 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
Statements of Net Assets
August 31, 2006 and 2005

	8/31/2006	8/31/2005
ASSETS		
Current Assets:		
Cash	$ 0	$ 0
Short Term Investments	211,485,881	84,980,881
Due from Texas Department of Transportation	1,827,346	220,462
Receivables from:		
Interest and Dividends	8,036,576	6,378,509
Local Governments	1,309,126	919,277
Total Current Assets	222,658,929	92,499,129
Non-Current Assets:		
Restricted Cash and Cash Equivalents		
In State Treasury	1,425,391	335,973
Restricted Short Term Investments	516,562,673	885,512,263
Restricted Investments	200,408,206	279,030,847
Deferred Charges (Bond Issue Costs)	50,021,981	52,354,429
Non-depreciable Capital Assets:		
Land	561,306,282	501,414,994
Construction in Progress	1,653,103,840	1,133,716,899
Depreciable Capital Assets:		
Buildings	7,385,377	0
less Accumulated Depreciation	(212,609)	0
Infrastructure	13,863,950	0
less Accumulated Depreciation	(277,279)	0
Total Non-Current Assets	3,003,587,812	2,852,365,405
TOTAL ASSETS	3,226,246,741	2,944,864,534
LIABILITIES		
Current Liabilities:		
Accounts Payable	62,913,908	77,728,091
Contracts Payable – Retainage	26,415,198	16,052,133
Payable From Restricted Assets-Current Portion (Interest Payable)	13,073,296	12,934,224
Notes/Loans Payable (BANS)	124,930,000	0
Deferred Revenues	37,103,211	39,443,325
Total Current Liabilities	264,435,613	146,157,773
Non-Current Liabilities:		
Revenue Bonds Payable	1,402,338,648	1,371,825,565
Notes/Loans Payable (BANS)	797,753,259	934,024,888
Total Non-Current Liabilities	2,200,091,907	2,305,850,453
TOTAL LIABILITIES	2,464,527,520	2,452,008,226
NET ASSETS		
Invested in Capital Assets, net of related debt	$ 761,719,221	$ 492,856,308
TOTAL NET ASSETS	$ 761,719,221	$ 492,856,308

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

EXHIBIT II

CENTRAL TEXAS TURNPIKE SYSTEM

STATEMENTS OF REVENUES, EXPENSES, and CHANGES in NET ASSETS

For the years ended August 31, 2006 and August 31, 2005

	For the year ended August 31, 2006	For the year ended August 31, 2005
OPERATING REVENUES		
	$	$
Total Operating Revenues	0	0
OPERATING EXPENSES		
Professional Fees and Services	(419,625)	0
Materials and Supplies	(5,253,018)	0
Repairs and Maintenance	(309,701)	0
Contracted Services - Laborers	(7,867,175)	0
Advertising	(1,393,094)	0
Depreciation Expense	(489,888)	0
Total Operating Expenses	(15,732,501)	0
Operating (Loss)	(15,732,501)	0
NONOPERATING REVENUES (EXPENSES)		
Federal Revenue	0	72,105
Lease Revenue	12,864	13,936
Net Realized and Unrealized (Loss) on Investments	(7,244,893)	(19,318,038)
Other Nonoperating Revenues (Expenses)	(553,888)	(345,522)
Total Nonoperating Revenues (Expenses)	(7,785,917)	(19,577,519)
Loss before Other Revenues, (Expenses), Contributions, Gains/(Losses) and Transfers	(23,518,418)	(19,577,519)
OTHER REVENUES, (EXPENSES), CONTRIBUTIONS, GAINS/(LOSSES) AND TRANSFERS		
Capital Contributions & Transfers	292,381,331	176,214,961
Total Other Revenues, (Expenses), Contributions, Gains/(Losses) and Transfers	292,381,331	176,214,961
Change in Net Assets	268,862,913	156,637,442
Total Net Assets - beginning	492,856,308	336,218,866
Total Net Assets - ending	$ 761,719,221	$ 492,856,308

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

EXHIBIT III

CENTRAL TEXAS TURNPIKE SYSTEM
STATEMENTS OF CASH FLOWS
For the years ended August 31, 2006 and August 31, 2005

	For the year ended August 31, 2006	For the year ended August 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES	$	$
Payments to vendors	(13,898,509)	0
NET CASH USED IN OPERATING ACTIVITIES	(13,898,509)	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Federal Reimbursements	0	72,105
Proceeds from Lease Revenue	12,864	13,936
Proceeds from Capital Contributions	1,205,494	14,004,269
Capitalized Interest Payments	(86,580,690)	(84,574,041)
Payments for Additions to Land and Construction in Progress	(260,781,878)	(458,520,314)
Payments of Remarketing Fees and Other Costs	(606,439)	(344,924)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(346,750,649)	(529,348,969)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	2,826,707,906	6,271,430,808
Proceeds from Interest and Investment Income, net of fees	47,916,238	61,696,671
Payments to Acquire Investments	(2,675,186,990)	(5,501,999,883)
NET CASH PROVIDED BY INVESTING ACTIVITIES	199,437,154	831,127,596
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(161,212,004)	301,778,627
CASH AND CASH EQUIVALENTS - BEGINNING	556,217,237	254,438,610
CASH AND CASH EQUIVALENTS - ENDING	$ 395,005,233	$ 556,217,237

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

EXHIBIT III

CENTRAL TEXAS TURNPIKE SYSTEM

STATEMENTS OF CASH FLOWS (Continued)

For the years ended August 31, 2006 and August 31, 2005

	For the year ended August 31, 2006	For the year ended August 31, 2005
Reconciliation of operating loss to net cash used in operating activities:		
Operating (Loss)	$ (15,732,501)	$ 0
Adjustments to reconcile operating income to net cash (used) by operating activities:		
Depreciation expense	489,888	
Increase (decrease) in Accounts Payable	1,344,104	
Total Adjustments	1,833,992	0
Net Cash (Used) in Operating Activities	$ (13,898,509)	$ 0

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The System is reporting Unrealized and Realized Loss of $7,244,893 for the year ended August 31, 2006 and $19,318,038 for the year ended August 31, 2005. The System is also reporting depreciation expense of $277,279 for bridges and $212,609 on the Customer Service Center.

The debt proceeds in 2002 are net of $59,351,773 of bond issuance costs which are deferred and being amortized. Amortization for the year ended August 31, 2006 was $2,332,448 and for the year ended August 31, 2005 was $2,332,447 and has been capitalized. Bond interest expense of $86,719,761 was paid in fiscal year 2006 and $84,353,496 was paid in fiscal year 2005.

The System received noncash transfers, capitalized as construction in progress, from the Department of $289,568,953 and $105,961,153 for the years ending August 31, 2006 and 2005, respectively.

Reconciliation of Cash		
Open-end Mutual Funds classified in Short Term Investments	$ 393,579,842	$ 555,881,264
Cash and Cash Equivalents	1,425,391	335,973
	$ 395,005,233	$ 556,217,237

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

The Commission

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

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

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

The Department

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

Texas Turnpike Authority

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

The System and the 2002 Project

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

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

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

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. The System is an Enterprise Fund within the Department. 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. A proprietary fund uses the economic resources measurement focus and the accrual basis of accounting.

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

The reporting period is for the years ended August 31, 2006 and August 31, 2005. In minute Order 108949, dated June 27, 2002, the Commission defines the System as a turnpike project. This minute order also authorizes reimbursement of certain 2002 project costs incurred by the Department prior to the issuance of bonds and obligations.

C. Basis for Accounting

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

D. Assets and Liabilities

1. Cash and Cash Equivalents

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

2. Restricted Assets

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

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

3. Capital Assets

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

The Department conducts condition assessments on the highway system under its Texas Maintenance Assessment Program (TxMAP). TxMAP is conducted on a yearly basis (GASB requirement is every three years) and results in overall condition levels for the Interstate and Non-Interstate highway systems. In conjunction with the TxMAP, the Commission has adopted condition levels of 80% for the Interstate system and 75% for the Non-Interstate system. The modified approach also requires that the State estimate the expenditures that will be required to maintain the highway system at or above the adopted condition levels. The TxMAP for the System will be conducted upon completion of the Project.

4. Non-Current Assets

For the proprietary fund, the costs associated with debt issuance totaled $59,351,773. These costs are not reported as an expense of the period in which they were incurred, but instead are reported as an adjustment to interest expense throughout the period during which the related debt is outstanding. Unamortized deferred charges equaled $50,021,981 and $52,354,429 as of August 31, 2006 and 2005, respectively.

5. Accounts Payable

Accounts Payable represents the liability for the value of assets or services received during the reporting period for which payment is pending.

6. Contracts Payable

Contracts Payable represents the amount of contract retainage held in the Construction Sub-Fund in the Trustee Bank.

7. Bonds Payable – Revenue Bonds

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

8. Deferred Revenues

TTA, through its toll road operations, has entered into agreements with local governments whereby the local governments transfer funds to the System to fund purchases of right of way land and related costs. In some instances, the funds are paid for in advance by the local governments. The System policy is to defer recognition of this revenue until the right of way parcels are purchased. Recognition of these monies paid in advance by local governments is contingent upon the Department purchasing the parcels for the stated purpose in the agreement. The System has $37,103,211 and $39,443,325 in deferred revenue as of August 31, 2006 and 2005, respectively. Remaining funds will be returned to the respective local governments once any project contingencies have been finalized and a final audit has been performed.

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

1. Invested In Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt (net of unspent proceeds) that are attributed to the acquisition, construction, or improvement of those assets.

2. Restricted Net Assets

Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Restricted assets expected to be used for debt service payments in the next twelve months are classified as current assets. There were no restricted net assets at August 31, 2006 or at August 31, 2005.

3. Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but which can be removed or modified. There were no unrestricted net assets at August 31, 2006 or at August 31, 2005.

F. Revenues, Expenses, Transfers, and Restatements

1. Operating Revenues

Sections of the 2002 Project opened in November 2006. Another section is expected to open in December 2006 and all phases are expected to open by December 2007. The Department will begin collecting toll revenue in January 2007.

2. Operating Expenses

Operating expenses include expenses incurred in getting the roads and Customer Service Center ready for operation and depreciation on capital assets.

3. Capital Contributions and Transfers

TTA has entered into agreements with local governments whereby the local governments transfer funds to the System to fund purchases of right of way land and related costs. Capital contributions recognized during fiscal year 2006 include $2,833,079 from the City of Austin, $116,763 from Travis County, and ($137,464) from Williamson County. The decrease in contributions from Williamson County is a result of a refund of $1,359,000 and contributions of $1,221,536. Transfers during fiscal year 2006 include $289,568,953 from the Department.

Funds transferred during fiscal year 2005 include $2,734,015 from the City of Austin, $46,988,245 from Travis County, and $19,968,004 from Williamson County and $563,544 from Southwestern Bell Company. Transfers during fiscal year 2005 include $105,961,153 from the Department.

NOTE 2 – CAPITAL ASSETS

	Balance 8/31/05	2006 Increases	2006 Decreases	Balance 8/31/06
Non-depreciable Assets				
Land	$ 501,414,994	59,891,288		$ 561,306,282
Construction in Progress	1,133,716,899	540,636,268	21,249,327	1,653,103,840
Depreciable Assets				
Buildings		7,385,377		7,385,377
Infrastructure		13,863,950		13,863,950
Less Accumulated Depreciation for:				
Buildings		(212,609)		(212,609)
Infrastructure		(277,279)		(277,279)
Total Capital Assets	$ 1,635,131,893	621,286,995	21,249,327	$ 2,235,169,561

Capitalized interest expense, amortization of bond issue costs, premiums and discounts during fiscal year 2006 of $108,223,663, net of interest income of $49,521,754, is included in capital asset additions.

	Balance 8/31/04	2005 Increases	2005 Decreases	Balance 8/31/05
Non-depreciable Assets				
Land	$ 337,842,344	163,572,650		$ 501,414,994
Construction in Progress	669,877,542	463,839,357		1,133,716,899
Total Capital Assets	$ 1,007,719,886	627,412,007	0	$ 1,635,131,893

Capitalized interest expense, amortization of bond issue costs, premiums and discounts during fiscal year 2005 of $104,591,215, net of interest income of $55,001,084, is included in capital asset additions.

NOTE 3 - DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS

The Department is authorized by statute to make investments following the "prudent person rule." There were no significant violations of legal provisions during the period.

Deposits of Cash in Bank

As of August 31, 2006 and 2005, the carrying amount of deposits was $1,425,391 and $335,973, respectively. This amount consists of all cash held in the State Treasury. There was no cash held in the Trustee bank as of August 31, 2006 and 2005, respectively. The cash held in the State Treasury is included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents" accounts.

The following summary of investments by type as of August 31, 2006 and 2005, confirms that the System has invested in similar investment types.

Total Investments by Category	Fiscal Year Ended August 31 2006	2005
US Gov't Agency Mortgage Obligations	$419,877,540	$480,807,750
Repurchase Agreements	114,999,378	114,999,378
Commercial Paper	0	97,835,599
Open-End Mutual Funds	393,579,842	555,881,264
Total	$928,456,760	$1,249,523,991

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 or in the Trustee bank. Deposits of the State of Texas are normally managed by the State Comptroller of Public Accounts (the "Comptroller") and are protected by $100,000 of insurance by the Federal Deposit Insurance Corporation (FDIC). 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, 2006, the 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, 2006, the fair value of investments and maturities are as presented below:

Investment Type	Maturities (in Years) Less than 1	1 - 5	More than 5	Fair Value
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc)	$334,468,711	85,408,829		$419,877,540
Repurchase Agreement			114,999,378	114,999,378
Fixed Income Money Market and Bond Mutual Fund	393,579,842			393,579,842
Total	$728,048,553	$85,408,829	$114,999,378	$928,456,760

As of August 31, 2005, the fair value of investments and maturities are as presented below:

Investment Type	Maturities (in Years) Less than 1	1 - 5	More than 5	Fair Value
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc)	$316,776,281	164,031,469		$480,807,750
Repurchase Agreement			114,999,378	114,999,378
Fixed Income Money Market and Bond Mutual Fund	555,881,264			555,881,264
Commercial Paper	97,835,599			97,835,599
Total	$970,493,144	$164,031,469	$114,999,378	$1,249,523,991

Custodial Credit Risk

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, 2006 and August 31, 2005, the Commission's investments in U.S. Government Agency obligations, commercial paper, and mutual funds 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 with the underlying securities being the property of the JPMorgan Trustee Bank, held in trust for the Commission.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policy of the Commission limits investment agreements or other ongoing investment transactions to those with a final maturity or termination date of longer than six months with any financial institution that initially has a long term rating of less than "AA" by a nationally recognized investment rating firm. All investments made by the Commission have been through the list of Qualified Financial Institutions approved by the Commission and the only long term investment agreement is with Citigroup, a bank that meets the rating criteria described in the Commission's policy. The Commission's policy does not limit the amount of investment in obligations of the United States or its agencies. These securities are rated AAA by two major rating agencies, therefore the risk of default is considered remote. Citigroup is rated Aa1, AA-, and AA+ by Moody's, Standard & Poors ("S & P"), and Fitch Ratings respectively. The Bank of New York is rated Aa3, A+ by Moody's, and S & P Ratings, respectively. The policy limits investments in commercial paper to those rated not less than A-1 or P-1 by the top two nationally recognized credit rating agencies. Investments in commercial paper can not exceed 15% of the total of each investment portfolio with no more than 5% in any one name.

As of August 31, 2006, the System's investments had the following ratings.

Investment Type	Fair Value	Moody's Rating	S & P Rating	Fitch Rating	% of Portfolio
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc)	$419,877,540	Aaa	AAA	N/R	45.22%
Repurchase Agreement	114,999,378	Aa1	AA-	N/R	12.39%
Fixed Income Money Market and Bond Mutual Fund	393,579,842	Aaa	AAA	N/R	42.39%
Total	$928,456,760				

As of August 31, 2005, the System's investments had the following ratings.

Investment Type	Fair Value	Moody's Rating	S & P Rating	Fitch Rating	% of Portfolio
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc)	$480,807,750	Aaa	AAA	N/R	38.48%
Repurchase Agreement	114,999,378	Aa1	AA-	N/R	9.21%
Fixed Income Money Market and Bond Mutual Fund	555,881,264	N/R	N/R	N/R	44.48%
Commercial Paper	97,835,599	P-1	A-1+	N/R	7.83%
Total	$1,249,523,991				

Interest Rate Risk

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. Specifically, in the Bond and Replacement Proceeds account, the Commission entered into Forward Purchase Agreements which had flexible draw schedules which allowed draws to be made in amounts necessary for monthly construction expenditures. As of August 31, 2006 all Forward Purchase Agreements have terminated on their respective scheduled termination dates. Interest rate risk is essentially eliminated in the Capitalized Interest account as investments have been made such that securities mature on debt service payment dates and will not need to be liquidated prior to maturity. For variable rate bonds, an estimated draw amount has been used to account for the fluctuating nature of the interest payments at a rate higher than current market in order that securities will not need to be liquidated or sold prior to their stated maturities. In general, all securities held by the Commission are anticipated to be held to maturity, thereby avoiding interest rate risk due to an early redemption. Additionally, security maturities have been staggered and in the event the sale of security is required to meet unexpectedly higher construction draws, the proximity of the security to its stated maturity date will minimize the impact of interest rate fluctuations.

Forward Purchase Agreements

The Department's investments in Forward Purchase Agreements ("FPAs") terminated on their respective scheduled termination dates during fiscal year 2006. Investments in FPAs are carried at fair value and totaled $0 and $254,120,245 as of August 31, 2006 and 2005, respectively. All maturing securities were invested in a portfolio of U.S. Agency securities in October 2005.

Type of Security	**2006**	**2005**
Commercial Paper	$0	$97,835,599
US Gov't Agy Mortgage Obligations	0	156,284,646
Total FPAs	**$0**	**$254,120,245**

NOTE 4- SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the year ended August 31, 2006, the following changes occurred in liabilities.

Debt	Balance 08-31-05	Additions	Amortization	Interest on CABs	Balance 08-31-06	Amounts Due Within One Year (Principal)
Bond Anticipation Notes	$934,024,888		(11,341,629)		$922,683,259	$124,930,000
Revenue Bonds Payable	1,371,825,565		286,375	30,226,708	1,402,338,648	0
Total Business-Type Activities	**$2,305,850,453**		**(11,055,254)**	**30,226,708**	**$2,325,021,907**	**$124,930,000**

During the year ended August 31, 2005, the following changes occurred in liabilities.

Debt	Balance 08-31-04	Additions	Amortization	Interest on CABs	Balance 08-31-05	Amounts Due Within One Year (Principal)
Bond Anticipation Notes	$945,366,518		(11,341,630)		$934,024,888	0
Revenue Bonds Payable	1,342,966,797		286,375	28,572,393	1,371,825,565	0
Total Business-Type Activities	**$2,288,333,315**		**(11,055,255)**	**28,572,393**	**$2,305,850,453**	**0**

Debt Service Requirements

Yearly Service Requirements	BANS		REVENUE BONDS			TOTAL
	Principal	Interest	Principal	Interest	Accreted Interest	
2007	124,930,000	44,309,044		42,246,837		211,485,881
2008	775,070,000	38,399,081		42,246,837		855,715,918
2009				42,246,837		42,246,837
2010				42,246,837		42,246,837
2011				42,246,837		42,246,837
2012-2016			33,192,896	211,234,188	27,587,104	272,014,188
2017-2021			77,258,165	211,234,188	111,711,834	400,204,187
2022-2026			97,681,018	211,234,188	240,953,982	549,869,188
2027-2031			113,383,522	211,234,188	421,441,478	746,059,188
2032-2036			97,222,450	211,234,188	563,752,550	872,209,188
2037-2041			634,110,731	163,960,188	169,524,269	967,595,188
2042			247,145,000	9,968,212		257,113,212
Total Requirements	900,000,000	82,708,125	1,299,993,782	1,441,333,525	1,534,971,217	5,259,006,649

Fixed interest rates for the BANS vary from 3.125% to 5.000% depending on maturities.
For the Series 2002-A Bonds, interest rates range from 4.47% to 6.10%. The Series 2002-B Bonds have a variable interest rate. To date, the average interest rate on the Series 2002-B Bonds has been approximately 1.76%.

Notes and Loans Payable

The Commission issued $900,000,000 of Bond Anticipation Notes (BANS) on August 29, 2002 for the purpose of paying a portion of the cost of planning, designing, engineering, developing and constructing the initial phase of the System. The proceeds of the BANS will be 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 the capitalized interest with respect to the BANS to their respective maturities and (iii) pay certain issuance costs of the BANS. The BANS are also payable from the proceeds of any bonds, notes or obligations issued to retire the BANS. Interest began accruing on the BANS from August 15, 2002, and is payable on December 1 and June 1 of each year, commencing December 1, 2002, until maturity, and is calculated on the basis of a 360-day year of twelve 30-day months.

SERIES 2002 BONDS – SECOND TIER BOND ANTICIPATION NOTES MATURITY SCHEDULE		
MATURITY DATE	PRINCIPAL AMOUNT	INTEREST RATE
June 1, 2007	$9,970,000	3.125%
June 1, 2007	14,960,000	4.000%
June 1, 2007	100,000,000	5.000%
June 1, 2008	8,515,000	3.375%
June 1, 2008	21,605,000	4.000%
June 1, 2008	744,950,000	5.000%
TOTAL	$900,000,000	

Lone Star Infrastructure, the Developer, a Texas joint venture comprised of the following partners (with the ownership percentage of each set forth in parenthesis following its name): Fluor Daniel, a division of Fluor Enterprises, Inc. (45%); Balfour Beatty Construction, Inc. (35%); and T. J. Lambrecht Construction, Inc. (20%), has agreed to accept deferred payment in an amount of up to $10,000,000 for progress payment otherwise owing upon completion of the State Highway 130 element. It is at the Department's discretion as to when and if the note will be executed. As of August 31, 2006, the note had not been executed.

Revenue Bonds Payable

The Commission issued $1,149,993,782 of First Tier Revenue Bonds, Series 2002-A and $150,000,000 of First Tier Revenue Bonds, Series 2002-B. on August 29, 2002 for the purpose of paying a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the System. The proceeds of the Series 2002-A and 2002-B Bonds will be 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 Sub-Fund Requirement, and (iv) pay certain issuance costs of the Series 2002-A and 2002-B Bonds.

General information related to the bonds is summarized below:

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

- To study, design, construct, operate, expand, enlarge, and extend the 2002 Project
- Issued 08-29-02
- $1,149,993,782; all authorized bonds have been issued
- Source of revenue for debt service – The First Tier Obligations are special, limited obligations of the Commission and are payable from, and secured solely by a first lien on and pledge of the Trust Estate, as described in the Indenture, consisting of (i) all Project Revenues, and to the extent

set forth in a supplemental indenture, any Additional Obligation Security, (ii) all Project monies, including investment earnings, deposited into the Revenue Sub-Fund, the Construction Sub-Fund (except for any amounts held in a sub account containing monies derived from the State Highway Fund or any monies received by the Commission that are restricted to another use, such as right-of-way contributions that may be used only for that purpose), the First Tier Debt Service Sub-Fund, the First Tier Debt Service Reserve Sub-Fund (provided, however, that the principal portion of any Series 2002-B Bonds while they are Liquidity Provider Bonds shall not be secured by, or entitled to any benefit of, such reserve sub-fund), the Rate Stabilization Sub-Fund and the General Reserve Sub-Fund, (iii) any Project insurance proceeds and other monies required to be deposited in the pledged funds listed in (ii) above, and (iv) all payments received by the Commission pursuant to Approved Swap Agreements with respect to First Tier Obligations.

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

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

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

2. 1st Tier Revenue Bonds, Series 2002B, Variable Rate
   - To study, design, construct, operate, expand, enlarge, and extend the 2002 Project
   - Issued 08-29-02
   - $150,000,000; 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 (provided, however, that the principal portion of any Series 2002-B Bonds while they are Liquidity Provider Bonds shall not be secured by, or entitled to any benefit of, such reserve sub-fund), the Rate Stabilization Sub-Fund and the General Reserve Sub-Fund, (iii) any Project insurance proceeds and other monies required to be deposited in the pledged funds listed in (ii) above, and (iv) all payments received by the Commission pursuant to Approved Swap Agreements with respect to First Tier Obligations.

SERIES 2002-B FIRST TIER REVENUE BONDS MATURITY SCHEDULE		
MATURITY DATE	PRINCIPAL AMOUNT	INTEREST RATE
Weekly	$150,000,000	Weekly Rate
TOTAL	$150,000,000	

Neither the State, the Commission, the Department, or any other agency or political subdivision of the State is obligated to pay the principal of, premium, if any, or interest on the 2002 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 2002 Obligations. Neither the Commission nor the Department has any taxing power. The bond indenture does not create a mortgage on the System.

In addition to the First Tier Revenue Bonds, Series 2002A, the First Tier Revenue Bonds, Series 2002B, and the BANS, the United States Department of Transportation ("USDOT") has agreed to lend to the Commission up to $916,760,000 to pay or reimburse a portion of the costs of the 2002 Project under the Secured Loan Agreement. The Secured Loan Agreement was entered into pursuant to the provisions of the Transportation Infrastructure Finance and Innovation Act of 1998, 23 United States Code, Section 181, et. Seg. The System anticipates that the balance of the Loan will be drawn down in 2007 and 2008 to retire the maturing BANS. Should long-term fixed interest rates be lower than the rate of the 2002 TIFIA Bond, additional first tier obligations, second tier obligations or subordinate lien obligations may be issued to refinance the Series 2002 Second Tier BANS on their respective maturity dates. Funds under the Secured Loan Agreement are transferred from the United States Department of Treasury upon presentation by the Commission of a request for disbursement in accordance with the provisions of the Secured Loan Agreement. As of August 31, 2006, no funds had been drawn under the Secured Loan Agreement evidenced by the 2002 TIFIA Bond.

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

The System is subject to various covenants imposed by the various bond indentures. Management believes the System was in compliance with all significant covenants as of August 31, 2006.

Redemption

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

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

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

Optional Redemption

Series 2002-A Bonds

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

Callable CABs. The Callable CABs are subject to redemption prior to maturity at the option of the Commission, which 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.

Series 2002-B Bonds. While bearing interest at a Weekly Rate, the Series 2002-B Bonds are subject to redemption and payment prior to maturity at the option of the Commission, in whole or in part, in authorized denominations, on any interest Payment Date, at a redemption price equal to one hundred percent (100%) of the principal amount redeemed, plus interest accrued to the redemption date.

Special Mandatory Redemption

Series 2002-B Bonds. The Series 2002-B Bonds Liquidity Provider Bonds (Series 2002-B Bonds purchased with monies drawn on the Liquidity Agreement and held for the benefit of the Liquidity Provider pursuant to the Second Supplemental Indenture) are subject to special mandatory redemption and payment prior to maturity as provided in the Liquidity Agreement, in whole or in part, on the dates and at the redemption prices provided in such Liquidity Agreement. The Liquidity Agreement refers to the Standby Bond Purchase Agreement, dated as of August 1, 2002, between the Commission, the Trustee and the Liquidity Provider. The Liquidity Agreement is a Credit Facility and a Reimbursement Agreement under the Indenture. The initial Liquidity Agreement, a 364-day Standby Bond Purchase Agreement between the Commission and The Bank of Nova Scotia will require the special mandatory redemption of any Liquidity Provider Bonds in equal or nearly equal quarterly installments, the first such installment being payable three months following the earlier of (w) Substantial completion of the 2002 Project, (x) the occurrence and continuance of an "Event of Termination" under the Standby Bond Purchase Agreement, (y) December 1, 2007 or (z) the scheduled expiration date of the Standby Bond Purchase Agreement (but only if such date occurs after (w) and (y) of this paragraph) and on each date thereafter that is three months following the prior date of payment so that each Liquidity Provider Bond is paid in full no later than the tenth anniversary of the date of the initial delivery of the Series 2002-B Bonds or the fifth anniversary of the scheduled expiration date of the Standby Bond Purchase Agreement, whichever is later.

The Series 2002 Second Tier BANS are not subject to redemption prior to maturity.

NOTE 5 – DUE TO/FROM OTHER FUNDS (the "DEPARTMENT")

As of August 31, 2006 and August 31, 2005, the System reports a Due From the Department in the amount of $1,827,346 and a Due From the Department in the amount of $220,462, respectively. The 2006 balance is made up of a Due From the Department of $3,136,472 and a Due To the Department of $1,309,126. The net effect is made up of $2,308,307 of Accounts Receivable from the Department, $828,165 of local contributions deposited to the Department, and $1,309,126 of Accounts Payable to the Department.

NOTE 6 - EMPLOYEES' RETIREMENT PLANS

The State has joint contributory retirement plans for virtually all its employees. The Department participates in the plans administered by the Employees Retirement System of Texas ("ERS") by making monthly payments based on actuarial calculations. Future pension costs are the liabilities of the ERS. ERS does not account for each state agency separately. Annual financial reports prepared by the ERS include audited financial statements and actuarial assumptions and conclusions. The System does not have any employees. The Department provides all accounting and administrative services. The System does not have any contributions to the plan.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Contract Commitments

The following construction contracts were outstanding as of August 31, 2006:

Construction Estimate Summary – SH 45 North/Loop 1

	Construction Letting Costs	Expenditures at 8/31/06	Change Orders	Remaining Obligation
Sections 1 & 2	$107,960,584	(115,945,302)	14,933,704	$6,948,986
Section 3	$80,996,741	(84,150,223)	4,497,561	$1,344,079
Sections 4A & 4B	$103,017,730	(104,907,278)	2,392,141	$502,593
Section 5	$37,609,688	(36,855,659)	1,618,293	$2,372,322
Section 6	$34,057,983	(33,802,335)	1,234,518	$1,490,166
Section 7	$63,228,140	(63,449,614)	1,837,935	$1,616,461
Section 8	$73,608,229	(72,097,254)	5,023,797	$6,534,772
Customer Service Center	$4,670,000	(6,179,944)	1,517,778	$7,834
Totals	$505,149,095	(517,387,609)	33,055,727	$20,817,213

SH 130

The Exclusive Development Agreement ("EDA") contract was awarded to Lone Star Infrastructure ("LSI"), a joint venture between Fluor Daniel; Balfour Beatty Construction, Inc.; and T.J. Lambrecht Construction, Inc. The first notice-to-proceed (NTP1) for limited design and right-of-way acquisition activity was issued on July 8, 2002, and NTP2 and NTP5 for the remainder of the design and construction activity was issued on January 4, 2003. The Department approved and executed Requests for Change Proposals increasing the previous project cost of $986,321,577 by $85,200,748 without a time extension.

EDA Commitments Summary – SH 130

Item	Construction Letting Costs	Expenditures at 8/31/06	Change Orders	Remaining Obligation
EDA Cost	$986,321,577	(792,001,671)	85,200,748	$279,520,654

Federal Reimbursements and Grants

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

Lawsuits and Claims

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

NOTE 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, 2009, unless continued in existence by the 81st Legislature as provided by the Act. If abolished, the Department may continue until September 1, 2010 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 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 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 – SUBSEQUENT EVENTS

Sections of the 2002 Project opened in November 2006. Another section is expected to open in December 2006 and all phases are expected to open by December 2007. The Department will begin collecting toll revenue in January 2007. In efforts to get the roads ready to open and the Customer Service Center operational, the System incurred operating expenses during the fiscal year ended August 31, 2006.

The End

Texas Department of Transportation

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Texas Department of Transportation
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