

TEXAS DEPARTMENT OF TRANSPORTATION

Central Texas Turnpike System of the Texas Turnpike Authority

(An Enterprise Fund of the Texas Department of Transportation)



Financial Statements - For Fiscal Year Ended August 31, 2009

CENTRAL TEXAS TURNPIKE SYSTEM

of the

TEXAS TURNPIKE AUTHORITY

FINANCIAL STATEMENTS

August 31, 2009

Prepared by:
Finance Division of the Texas Department of Transportation

CENTRAL TEXAS TURNPIKE SYSTEM
of the
TEXAS TURNPIKE AUTHORITY

Financial Statements
August 31, 2009

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INTRODUCTORY SECTION

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Texas Department of Transportation

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

December 18, 2009

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

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

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

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

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

Profile of the Government

The Texas Department of Transportation (the "*Department*") is an agency of the State of Texas (the "*State*") created to provide a safe, effective and efficient transportation system throughout the State. The Department's goals are to reduce congestion, improve air quality, enhance safety, expand economic opportunity and preserve the quality of our transportation system. The Department is managed by the Executive Director and is governed by a five-member Commission. The Department is organized into 25 districts, 4 regional offices, 28 divisions and offices and currently has an annual budget of approximately \$8.2 billion and a staff of approximately 13,000 which manage approximately \$2.7 billion in annual construction contract lettings.

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

Information Useful in Assessing the Government's Financial Condition

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

an amount equal to the greater of (a) all revenues, less required deposits, through August 31, 2008, or (b) \$10 million.

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

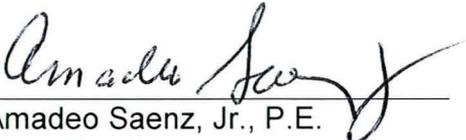
The System does not have any employees. Department employees and contractors perform the work of the System. The Department provides all accounting, debt financing and administrative services.

Risk Financing & Management

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

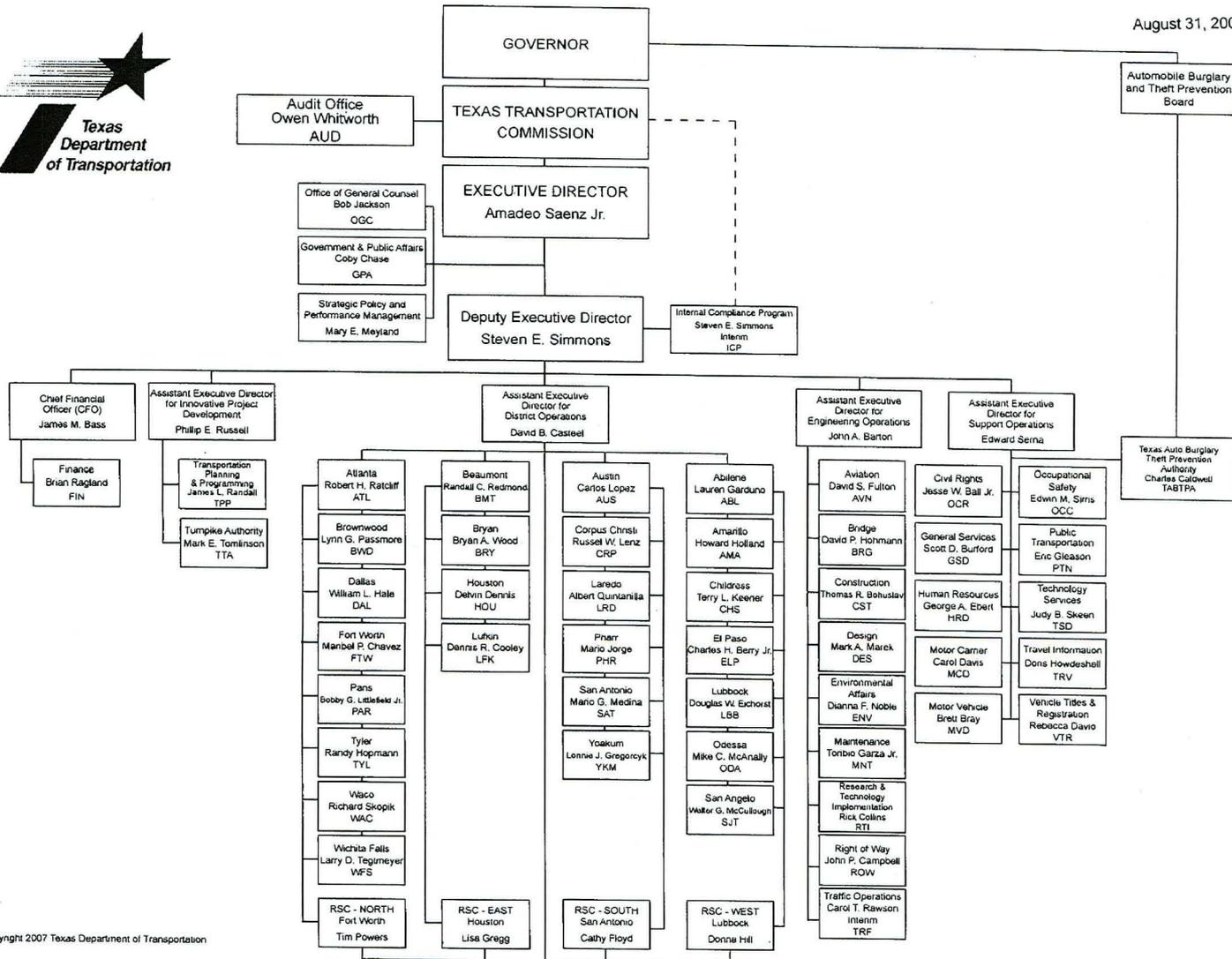
Acknowledgements

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


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



August 31, 2009



**Commission and Key Personnel
As of August 31, 2009**

TEXAS TRANSPORTATION COMMISSION

DEIRDRE DELISIChair
Austin

NED S. HOLMESCommissioner
Houston

TED HOUGHTONCommissioner
El Paso

WILLIAM MEADOWSCommissioner
Fort Worth

FRED UNDERWOODCommissioner
Lubbock

TEXAS DEPARTMENT OF TRANSPORTATION

AMADEO SAENZ, Jr., P.EExecutive Director
JAMES M. BASSChief Financial Officer

Texas Turnpike Authority Division

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

Austin District

CARLOS A. LOPEZ, P.EDistrict Engineer

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

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

Finance Division

BRIAN RAGLANDDirector

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission:

Ms. Deirdre Delisi, Chair
Mr. Ned S. Holmes
Mr. Ted Houghton
Mr. Fred Underwood
Mr. William Meadows

Mr. Amadeo Saenz, Jr., P.E., Executive Director, Department of Transportation

We have audited the accompanying basic financial statements (as defined in the Table of Contents) of the Central Texas Turnpike System (System) as of and for the fiscal year ended August 31, 2009. These financial statements are the responsibility of the Department of Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audit. Comparative information is presented from the financial statements for the year ended August 31, 2008. These statements were audited by us, and we expressed an unqualified opinion on them in our report dated December 12, 2008.

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

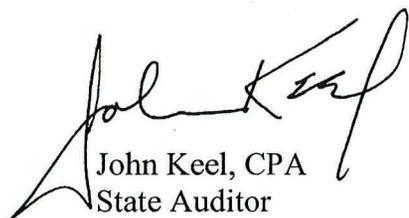
As discussed in Notes 1(A) and 1(B), the financial statements present only the financial position of the System, which is an enterprise fund of the Department of Transportation and the State of Texas. They do not purport to, and do not, present fairly the financial position of the Department of Transportation nor the State of Texas as of August 31, 2009, and the changes in the Department of Transportation's or the State's financial position for the reporting period then ended in conformity with principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the System as of August 31, 2009, and the changes in financial position and the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Modified Approach to Reporting Infrastructure Assets are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the System. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the System's financial statements taken as a whole. We did not audit the introductory section and, accordingly, we express no opinion on it.

In accordance with generally accepted government auditing standards, we will issue a separate report on our consideration of the Department of Transportation's internal control over System financial reporting and on our tests of its compliance with certain provisions of the Resolution for the Central Texas Turnpike System Revenue Bonds, Bond Anticipation Notes, and other laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA
State Auditor

December 18, 2009

Management's Discussion and Analysis

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

Financial Highlights

- The Texas Turnpike Authority ("TTA"), a division of the Department, was created under Chapter 361 of the Texas Transportation Code, as amended (the "Turnpike Act"). In order to allow the Texas Transportation Commission (the "Commission") to make the most efficient use of its resources, the State Legislature granted authority to the Commission, acting for and through TTA, to design, construct, operate and expand turnpike projects as a part of the State's highway system.
- The 2002 Project of the System includes three elements: State Highway 45 North, Loop 1, and State Highway 130 (Segments 1 – 4). As of August 31, 2009, \$2,690,012,616 has been spent on the Project of which approximately \$1,019.5 million was from federal revenue, contributions, or transfers. See Note 6 on page 38 for information on commitments and contingencies.
- The 2002 Project has opened in phases, with the last phase opening in April 2008. Loop 1 and the portion of SH 45 Northeast of Loop 1 were opened in November 2006. SH 130 from US 79 southward to US 290 was opened in November 2006. The western portion of SH 45 North opened in April 2007. SH 130 from IH 35 to US 79 opened in December 2006 and US 290 to SH 71 opened in September 2007. In April 2008, the last segment of SH 130 from SH 71 southward to US 183 opened.
- In August 2002, the Commission issued approximately \$2.2 billion in revenue bonds (the "2002 Bonds") and Bond Anticipation Notes ("BANS") to fund the development and construction of a network of toll roads in central Texas. The 2002 Bonds, the BANS, the 2002 TIFIA Bond and the First Tier Developer Note (collectively, the "2002 Obligations") were issued under the terms of an Indenture of Trust dated as of July 15, 2002, between the Commission and BankOne, National Association as Trustee as supplemented by the First through Fourth Supplemental Indenture of Trust (collectively, the "Indenture"). See Note 1-A on page 24 and the website www.texasollways.com for further information relating to the System.
- The Commission has entered into a Secured Loan Agreement with the United States Department of Transportation for an amount of \$916,760,000 to pay or reimburse a portion of the costs of the System. The obligations of the Commission under the Secured Loan Agreement are evidenced by the 2002 Transportation Infrastructure Finance and Innovation Act of 1998 ("TIFIA") Bond. In May 2007, a draw was received on the approved TIFIA loan in the amount of \$124,930,000 to provide funds to pay for the maturing Bond Anticipation Notes (BANs). In May 2008, a draw of \$775,070,000 was received on the TIFIA loan. These proceeds were used to make the final principal payment on the Series 2002 Second Tier BANS. It is anticipated that the remaining \$16,760,000 of the TIFIA loan will not be drawn down.
- The Developer agreed to accept deferred payment in an amount of up to \$10,000,000 in the form of a Developer Note for progress payments. It is at the Commission's discretion as to when and if

the note will be executed. As of August 31, 2009, the note has not been executed and no funds have been drawn against the Developer Note.

- The assets of the System exceeded its liabilities at the close of fiscal year 2009 and 2008 by \$641,069,624 and \$757,434,898, respectively.
- The System's net assets decreased by \$116,365,274 and \$48,016,692 at the close of fiscal years 2009 and 2008, respectively. The majority of this decrease is attributable to the recording of interest accretion on the Series 2002-A Bonds and the TIFIA note payable.
- During fiscal year 2009, the System's total liabilities increased by \$90,093,393. This is mainly a result of interest accretion on the Series 2002-A Bonds and the TIFIA note payable. During fiscal year 2008, the System's total liabilities decreased by \$5,489,040. Deferred revenues increased by \$1,435,051 in fiscal year 2009. The System held \$10,627,036 in deposits from TxTAG customers at the end of fiscal year 2009. Deferred revenues increased by \$15,476,578 in fiscal year 2008. Total payables and debt increased by \$88,658,342 in fiscal year 2009. Total payables and debt decreased by \$20,965,618 in fiscal year 2008.
- The System's land values increased by \$9,240,332 and \$18,583,282 during fiscal years 2009 and 2008, respectively, due to additional acquisitions. Depreciation on the System's Customer Service Center and bridges was \$361,001 and \$16,677,005, respectively in fiscal year 2009. Bridge additions in fiscal year 2009 were \$10,002,528. Additions to roadways for fiscal year 2009 were \$15,704,283.
- A special mandatory redemption of \$2,525,000 of the Series 2002-B Bonds occurred on February 19, 2009, using funds from the Revenue Fund. The remaining \$147,475,000 of the Series 2002-B Bonds were refunded with proceeds from the CTTS First Tier Revenue Refunding Put Bonds, Series 2009, issued March 5, 2009 under the Fifth Supplemental Resolution.
- Opening of SH 45 Southeast in June 2009, although not a part of the System, provides a complete alternative route to bypass Austin and is expected to increase revenues on the SH 130 segments of the System.

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 – 40 of this report.

Financial Analysis

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the System, assets exceeded liabilities by \$641,069,624 and \$757,434,898 at August 31, 2009 and August 31, 2008, respectively.

The largest portion of the System’s total assets (83%) consists of Capital Assets which includes Right of Way, Roadways, Construction in Progress, Customer Service Center Building, and Bridges. Money Market and Similar Funds, Short Term Investments, and Restricted Investments make up 14% of the System’s total assets.

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

	<u>Condensed Net Assets</u>		
	<u>Enterprise Fund Total</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Restricted, Current Assets, and			
Deferred Charges	\$527,963,437	\$572,144,455	\$733,573,001
Capital Assets	2,648,884,550	2,630,975,413	2,523,052,599
Total Assets	3,176,847,987	3,203,119,868	3,256,625,600
Current Liabilities	(64,065,688)	(76,950,007)	(891,635,440)
Long Term Liabilities	(2,471,712,675)	(2,368,734,963)	(1,559,538,570)
Total Liabilities	(2,535,778,363)	(2,445,684,970)	(2,451,174,010)
Net assets:			
Invested in Capital Assets, Net			
of Related Debt	177,171,875	262,240,450	805,451,590
Restricted for Debt Service	160,537,959	173,244,455	
Unrestricted	303,359,790	321,949,993	
Total Net Assets	\$641,069,624	\$757,434,898	\$805,451,590

Changes in Net Assets

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

Operating expenses – The System incurred \$68,028,784 and \$67,016,504 in operating expenses during the years ended August 31, 2009 and 2008, respectively. Operating expenses include expenses for operating the toll roads and the Customer Service Center, toll tags, advertising, and depreciation on capital assets.

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

Capital Contributions and Transfers - TTA, through its toll road operations, has entered into agreements with local governments whereby the local governments transfer funds to the Department to fund purchases of right of way land and related costs. The System recognized \$760,866 and a credit of (\$4,101,531) in capital contributions from local governments for the years ended August 31, 2009 and 2008, respectively. An additional \$26,989,281 and \$46,826,458 in project expenditures was funded from the Department's special revenue fund for the years ended August 31, 2009 and 2008, respectively. The Department's contribution of \$26,989,281 consisted of \$7,762,266 in capital contributions and \$19,317,015 in operating transfers for fiscal year 2009.

<u>Condensed Changes in Net Assets</u>			
<u>Enterprise Fund Total</u>			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total Operating Revenues	\$66,362,310	\$48,945,195	\$16,743,690
Total Operating Expenses	(68,028,784)	(67,016,504)	(25,170,483)
Total Operating (Loss)	(1,666,474)	(18,071,309)	(8,426,793)
Total Nonoperating Revenue (Expenses)	(142,448,947)	(72,670,310)	(64,882,368)
Income (Loss) before Contributions and Transfers	(144,115,421)	(90,741,619)	(73,309,161)
Capital Contributions and Transfers	27,750,147	42,724,927	117,041,530
Change in Net Assets	(116,365,274)	(48,016,692)	43,732,369
Total Net Assets – Beginning	757,434,898	805,451,590	761,719,221
Total Net Assets – Ending	\$641,069,624	\$757,434,898	\$805,451,590

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

Capital Asset and Debt Administration

Capital Assets. The System's investment in capital assets as of August 31, 2009 amounted to \$2,648,884,550 and as of August 31, 2008, amounted to \$2,630,975,413. Non-depreciable capital assets amounted to \$2,260,914,213 and \$2,234,781,598 as of August 31, 2009 and 2008, respectively. Net depreciable capital assets as of August 31, 2009 and 2008 amounted to \$389,158,337 and \$396,193,815, respectively. The investment in capital assets includes non-depreciable land, roadways, depreciable Customer Service Center and bridges. See Note 2 on page 30. As of August 31, 2009, all sections of SH 45 North and Loop 1 of the System have been granted substantial completion and final acceptance and are open to traffic. The current estimated Exclusive Development Agreement ("EDA") costs on SH 130 are \$1,105,698,715, \$119,377,138 more than the original estimated EDA costs of \$986,321,577. As of August 31, 2009, outstanding commitments are \$1,500,000 for SH 130. See Note 6 on page 38.

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

The modified approach also requires that the State estimate the expenditures that will be required to maintain the CTTS at or above the adopted condition level. For FY 2009, TxDOT computed an estimate of \$9.2 million for the CTTS with actual expenditures of \$7.3 million. See Modified Approach to Reporting Infrastructure Assets on page 41 for additional information.

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

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

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

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

Bond Credit Ratings

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

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

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

EXHIBIT I
CENTRAL TEXAS TURNPIKE SYSTEM
Statement of Net Assets
August 31, 2009 (With Comparative Totals for August 31, 2008)

	8/31/2009	8/31/2008
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)		
Cash on Hand	\$ 76,099	\$ 112,431
Cash in Bank	25,488,890	12,965,988
Money Market and Similar Funds	325,836,567	371,854,798
Short Term Investments (Note 3)	15,315,669	21,121,577
Interest and Dividends Receivable	412,043	1,070,712
Accounts Receivable	638,431	698,635
Due from Texas Department of Transportation	1,792,819	118,191
Receivables from:		
Local Governments	1,584,144	1,309,126
Harris County Toll Road Authority (HCTRA)	274,221	168,920
North Texas Tollway Authority (NTTA)	226,429	154,496
Central Texas Regional Mobility Authority (CTRMA)	191,735	
Total Current Assets	<u>371,837,047</u>	<u>409,574,874</u>
Non-Current Assets:		
Restricted Cash and Cash Equivalents in State Treasury (Note 3)	21,116	2,213,118
Restricted Investments (Note 3)	114,999,378	114,999,378
Deferred Charges (Bond Issue Costs)	41,105,896	45,357,085
Non-depreciable Capital Assets (Note 2):		
Land	638,428,380	629,188,048
Infrastructure - Roadways	1,621,297,833	1,605,593,550
Depreciable Capital Assets (Note 2):		
Buildings	8,360,006	8,360,006
Less Accumulated Depreciation	(1,268,335)	(907,334)
Infrastructure - Bridges	421,926,397	411,923,869
Less Accumulated Depreciation	(39,859,731)	(23,182,726)
Total Non-Current Assets	<u>2,805,010,940</u>	<u>2,793,544,994</u>
TOTAL ASSETS	<u>3,176,847,987</u>	<u>3,203,119,868</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	707,030	10,859,244
Contracts Payable – Retainage	0	3,888,909
Due to Texas Department of Transportation (TxDOT)	1,879,387	1,690,400
Payables to:		
Central Texas Regional Mobility Authority (CTRMA)	569,534	580,313
Harris County Toll Road Authority (HCTRA)	678,294	242,993
North Texas Tollway Authority (NTTA)	622,586	924,005
Payable From Restricted Assets-Current Portion (Interest Payable)	1,859,493	2,449,830
Deferred Revenues	57,749,364	56,314,313
Total Current Liabilities	<u>64,065,688</u>	<u>76,950,007</u>
Non-Current Liabilities:		
Revenue Bonds Payable (Note 4)	1,499,620,484	1,468,734,963
Notes/Loans Payable (Note 4)	972,092,191	900,000,000
Total Non-Current Liabilities	<u>2,471,712,675</u>	<u>2,368,734,963</u>
TOTAL LIABILITIES	<u>2,535,778,363</u>	<u>2,445,684,970</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	177,171,875	262,240,450
Restricted for Debt Service	160,537,959	173,244,455
Unrestricted	303,359,790	321,949,993
TOTAL NET ASSETS	<u>\$ 641,069,624</u>	<u>\$ 757,434,898</u>

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

EXHIBIT II**CENTRAL TEXAS TURNPIKE SYSTEM****STATEMENT OF REVENUES, EXPENSES, and CHANGES in NET ASSETS****For the year ended August 31, 2009 (With Comparative Totals for August 31, 2008)**

	For the year ended August 31, 2009	For the year ended August 31, 2008
OPERATING REVENUES		
Toll Revenue	\$ 66,362,310	\$ 48,945,195
Total Operating Revenues	<u>66,362,310</u>	<u>48,945,195</u>
OPERATING EXPENSES		
Professional Fees and Services	(11,273,671)	(3,638,688)
Materials and Supplies	(2,484,254)	(8,119,031)
Communication and Utilities	(1,563,081)	(1,099,819)
Repairs and Maintenance	(12,102,265)	(10,908,602)
Printing and Reproduction	0	(3,912)
Contracted Services	(20,781,985)	(21,515,322)
Advertising	(934,508)	(1,815,515)
Depreciation Expense	(17,038,006)	(15,882,339)
Prompt Payment Interest	(508)	(11,467)
Other Professional Services	0	(2,690,423)
Other Operating Expenses	<u>(1,850,506)</u>	<u>(1,331,386)</u>
Total Operating Expenses	<u>(68,028,784)</u>	<u>(67,016,504)</u>
Operating (Loss)	<u>(1,666,474)</u>	<u>(18,071,309)</u>
NONOPERATING REVENUES (EXPENSES)		
Lease Revenue	12,864	12,864
Interest and Investment Income	10,233,006	24,697,956
Net Increase (Decrease) in Fair Value of Investments	140,977	(152,082)
Interest and Amortization	(44,601,115)	(62,936,383)
Accretion on Capital Appreciation Bonds	(107,897,303)	(33,840,017)
Other Financing Fees	(354,458)	(486,899)
Other Nonoperating Revenues (Expenses)	<u>17,082</u>	<u>34,251</u>
Total Nonoperating Revenues (Expenses)	<u>(142,448,947)</u>	<u>(72,670,310)</u>
Loss before Other Revenues, (Expenses), Contributions, Gains/(Losses) and Transfers	<u>(144,115,421)</u>	<u>(90,741,619)</u>
OTHER REVENUES, (EXPENSES), CONTRIBUTIONS, GAINS/(LOSSES) AND TRANSFERS		
Capital Contributions	8,433,132	(2,562,709)
Transfers	<u>19,317,015</u>	<u>45,287,636</u>
Total Other Revenues, (Expenses), Contributions, Gains/(Losses) and Transfers	<u>27,750,147</u>	<u>42,724,927</u>
Change in Net Assets	<u>(116,365,274)</u>	<u>(48,016,692)</u>
Total Net Assets – Beginning	<u>757,434,898</u>	<u>805,451,590</u>
Total Net Assets – Ending	<u>\$ 641,069,624</u>	<u>\$ 757,434,898</u>

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

EXHIBIT III

CENTRAL TEXAS TURNPIKE SYSTEM

STATEMENT OF CASH FLOWS

For the year ended August 31, 2009 (With Comparative Totals for August 31, 2008)

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

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

EXHIBIT III

CENTRAL TEXAS TURNPIKE SYSTEM

STATEMENT OF CASH FLOWS (Continued)

For the year ended August 31, 2009 (With Comparative Totals for August 31, 2008)

	For the year ended August 31, 2009	For the year ended August 31, 2008
Reconciliation of operating loss to net cash used in operating activities:		
Operating (Loss)	\$ (1,666,474)	\$ (18,071,309)
Adjustments to reconcile operating income to net cash (used) by operating activities:		
Depreciation expense	17,038,006	15,882,339
Increase (Decrease) in Accounts Payable	5,380,687	(2,759,713)
(Increase) in Accounts Receivable	(308,765)	(164,607)
Increase in Deferred Revenue	1,994,035	2,783,465
(Increase) Decrease in Due To Other Funds	<u>(1,485,642)</u>	<u>5,096,421</u>
Total Adjustments	<u>22,618,321</u>	<u>20,837,905</u>
Net Cash Provided (Used) in Operating Activities	\$ <u>20,951,847</u>	\$ <u>2,766,596</u>

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

The System received \$26,989,281 of non-cash transfers from the Department for the year ended August 31, 2009. Of this amount, \$7,672,266 was capitalized and \$19,317,015 was expensed for the year. The System received \$46,826,458 of non-cash transfers from the Department for the year ended August 31, 2008. Of this amount, \$1,538,822 was capitalized and \$45,287,636 was expensed for the year.

Reconciliation of Cash and Cash Equivalents

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

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

The Commission

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

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

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

The Department

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

Texas Turnpike Authority

The Texas Turnpike Authority (“TTA”) is controlled and governed by the Commission. TTA was created in 1997 by an act of the State Legislature as a division of the Department. As originally created in 1997, TTA

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

The System and the 2002 Project

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

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

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

B. Basis of Presentation

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

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

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

The fiscal year 2008 columns on the basic financial statements do not represent complete financial statements. These prior year totals are not necessary for a fair presentation of the financial statements but are presented to facilitate financial analysis. Specifically, only partial presentation of fiscal year 2008 notes have been included in these statements.

C. Measurement Focus and Basis of Accounting

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

D. Assets and Liabilities

1. Cash and Cash Equivalents

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

2. Restricted Assets

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

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

3. Capital Assets

All capital assets acquired by proprietary funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at fair value on the date of acquisition. Interest and amortization expenses, net of interest income, incurred during construction were capitalized. The System follows the Department's policy and uses the modified approach for reporting the highway system

excluding bridges. Straight line depreciation will be calculated on bridges and infrastructure assets not included as part of the highway system as they are completed. The useful life for the bridges capitalized is 25 years and the useful life of the Customer Service Center is 22 years.

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

The modified approach requires that the State:

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

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

4. Non-Current Assets

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

5. Accounts Payable

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

6. Contracts Payable

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

7. Due To Texas Department of Transportation

Due to Texas Department of Transportation includes amounts the System is collecting on TxDOT's behalf for toll revenue earned by and due to TxDOT from CTRMA, HCTRA, and NTTA for CTRMA, HCTRA, and NTTA customers that drove on TxDOT roads. These amounts have been earned by TxDOT and not yet collected. These amounts have also been recorded by the System as a receivable.

8. 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.

9. Deferred Revenues

TTA, through its toll road operations, has entered into agreements with local governments whereby the local governments transfer funds to the System to fund purchases of right-of-way land and related costs. In some instances, the funds are paid for in advance by the local governments. The System's policy is to defer recognition of this revenue until the right of way parcels are purchased. Recognition of these monies paid in advance by local governments is contingent upon the Department purchasing the parcels for the stated purpose in the agreement. The System has \$57,749,364 in deferred revenue as of August 31, 2009. Remaining funds will be returned to the respective local governments once any project contingencies have been finalized and a final audit has been performed.

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

1. Invested In Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Invested in Capital Assets, Net of Related Debt was \$177,171,875 at August 31, 2009.

2. Restricted Net Assets

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

3. Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by

management, but which can be removed or modified. Unrestricted Net Assets were \$303,359,790 at August 31, 2009.

F. Revenues, Expenses, Transfers, and Restatements

1. Operating Revenues

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

2. Non-Operating Revenues

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

3. Operating Expenses

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

4. Non-Operating Expenses

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

5. Capital Contributions and Transfers

TTA has entered into agreements with local governments whereby the local governments transfer funds to the System to fund purchases of right-of-way land and related costs. Capital contributions recognized during fiscal year 2009 include a credit of (\$556,694) from the City of Austin, and contributions of \$300,000 from Travis County, and \$1,017,560 from Williamson County. Transfers during fiscal year 2009 include \$7,672,266 for the purchase of right of way land and related costs and \$19,317,015 for operation and maintenance expenses from the Department.

NOTE 2 – CAPITAL ASSETS

	Balance 8/31/08	Reclassification	2009 Increases	2009 Decreases	Balance 8/31/09
Non-depreciable Capital Assets					
Land	\$ 629,188,048		\$9,240,332		\$ 638,428,380
Infrastructure - Roadways	1,605,593,550	\$(10,002,528)	25,706,811		1,621,297,833
Depreciable Capital Assets					
Buildings	8,360,006				8,360,006
Infrastructure - Bridges	411,923,869	10,002,528			421,926,397
Less Accumulated Depreciation for:					
Buildings	(907,334)		(361,001)		(1,268,335)
Infrastructure - Bridges	(23,182,726)		(16,677,005)		(39,859,731)
Total Capital Assets	\$ 2,630,975,413	\$0	\$17,909,137	\$0	\$ 2,648,884,550

* Reclassification of roadways to bridges consists of FY 2007 \$1,188,000 and FY 2008 \$4,305,000, not previously reported, and FY 2009 \$4,509,528.

NOTE 3 - DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS

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

Deposits

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

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

Custodial Credit Risk – Deposits

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

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

Investments

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

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

Custodial Credit Risk - Investments

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

Credit Risk - Investments

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

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

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

Concentration of Credit Risk - Investments

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

Interest Rate Risk - Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has addressed interest rate risk in its various accounts by matching as closely as possible anticipated cash flows with income and return of principal on investments. In general, all securities held by the Commission are anticipated to be held to maturity, thereby avoiding interest rate risk due to an early redemption. Additionally, security maturities were staggered and in the event the sale of security was required to meet unexpectedly higher construction draws, the proximity of the security to its stated maturity date will minimize the impact of interest rate fluctuations. For investment maturities, see the table on page 31.

Foreign Currency Risk – Investments

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

Derivatives

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

NOTE 4- SUMMARY OF LONG TERM LIABILITIES

Changes in Long Term Liabilities

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

Debt	Balance 08-31-08	Additions	Reductions	Accretion	Balance 08-31-09	Amounts Due Within One Year (Principal)
Revenue Bonds Payable	\$1,477,225,372	\$149,275,000	^ \$(150,000,000)	\$35,805,112	\$1,512,305,484	\$0
Unamortized Revenue Bond Premium	9,332,177		(314,767)		9,017,410	
Less Unamortized Revenue Bond Discount	(17,822,586)		601,142		(17,221,444)	
Less Deferred Amount on Refunding		(4,541,255)	60,289		(4,480,966)	
Notes/Loans Payable	900,000,000			*72,092,191	972,092,191	
Total	\$2,368,734,963	\$144,733,745	\$(149,653,336)	\$107,897,303	\$2,471,712,675	\$0

^ \$147,475,000 of the \$150,000,000 reduction to Revenue Bonds Payable is the result of the current refunding transaction.

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

Debt Service Requirements

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

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

Notes and Loans Payable

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

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

Revenue Bonds Payable

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

Project, (iii) fund a portion of the First Tier Debt Service Reserve Fund Requirement, and (iv) pay certain issuance costs of the Series 2002-A and 2002-B Bonds.

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

- To study, design, construct, operate, expand, enlarge, and extend the 2002 Project
- Issued 08-29-02
- \$1,149,993,782; all authorized bonds have been issued

Source of Revenue for Debt Service

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

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

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

SERIES A CURRENT INTEREST BONDS		
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)

Mandatory Sinking Fund Redemption.

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

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

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

Optional Redemption

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

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

<u>Redemption Period</u>	<u>Redemption Prices</u>
August 15, 2012 through February 14, 2013	102.00%
February 15, 2013 through August 14, 2013	101.50%
August 15, 2013 through February 14, 2014	101.00%
February 15, 2014 through August 14, 2014	100.50%
August 15, 2014 and thereafter	100.00%

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

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

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

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

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

- Issued 03/05/2009
- \$149,275,000; all authorized bonds have been issued

Source of Revenue for Debt Service

The First Tier Obligations are special, limited obligations of the Commission and are payable from, and secured solely by a first lien on and pledge of the Trust Estate, consisting of (i) all Project Revenues, and

to the extent set forth in a supplemental indenture, any Additional Obligation Security, (ii) all Project monies, including investment earnings, deposited into the Revenue Sub-Fund, the Construction Sub-Fund (except for any amounts held in a sub account containing monies derived from the State Highway Fund or any monies received by the Commission that are restricted to another use, such as right-of-way contributions that may be used only for that purpose), the First Tier Debt Service Sub-Fund, the First Tier Debt Service Reserve Sub-Fund, (iii) any Project insurance proceeds and other monies required to be deposited in the pledged funds listed in (ii) above, and (iv) all payments received by the Commission pursuant to the approved Swap Agreements with respect to First Tier Obligations.

Interest on the Series 2009 Bonds is fixed at 5% during the Initial Multiannual Period (March 5, 2009 – February 15, 2011). The Bonds are subject to mandatory tender on February 15, 2011, subject to the successful remarketing of the bonds at that time. If the Series 2009 Bonds are not remarketed as of the mandatory tender date, the interest rate on the bonds will increase to 15% per annum. The Commission has not provided any credit or liquidity facility for the Series 2009 Bonds.

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

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

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

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

First Tier Obligation.

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

NOTE 5 - EMPLOYEES' RETIREMENT PLANS

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Contract Commitments

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

SH 130

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

EDA Commitments Summary – SH 130

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

Federal Reimbursements and Grants

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

Lawsuits and Claims

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

NOTE 7 – CONTINUANCE SUBJECT TO REVIEW

In 1977, the Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code)(the "Sunset Act"), which provides that virtually all agencies of the State, including the Department, are subject to periodic review by the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The Department was subject to such Sunset review in 2009 and was continued through September 1, 2011 (see below for information regarding the 81st Texas Legislature). Accordingly, the next scheduled review of the Department is during the Texas legislative session in 2011. If the Department is not continued in existence at that time, the Department will be abolished; provided, however, the Texas Sunset Act provides that the Department will remain in existence for an additional year (until September 1, 2012) for the sole purpose of concluding its business. Pursuant to the Sunset Act, the Legislature specifically recognizes the State's continuing obligation to pay bonded indebtedness and all other obligations incurred by the Department. Accordingly, in the event that a Sunset review were to result in the Department being abolished, the Governor would be required by law to designate an appropriate State agency that would continue to carry out all covenants contained in the Bonds (and in all other obligations) and the performance of all other obligations to complete the construction of projects or the performance of other obligations of the Department, including lease, contract and other written obligations. The designated State agency would provide payment from the sources of payment of the Bonds in accordance with the terms of the Bonds and would provide payment from the sources of payment of all other obligations in accordance with their terms, whether from taxes, revenues or otherwise, until the principal of and interest on the Bonds are paid in full and all other obligations, including lease, contract and other written obligations, are performed and paid in full. Moreover, debt service for all of the Commission's outstanding indebtedness relating to the System, including the Bonds, would be automatically appropriated pursuant to the Texas Constitution.

In connection with the 2009 Sunset review of the Department, the Sunset Advisory Commission (the "Sunset Commission") acknowledged that the State has a continuing need for the Department and recommended that the Department be continued in existence. Notwithstanding such recommendation, the Sunset Commission also recommended certain changes to the governance of the Department, including, but not limited to, a recommendation that the five-member Texas Transportation Commission be abolished and replaced with a single Commissioner of Transportation and that a Transportation Legislative Oversight Committee be created to monitor the Department's planning, programming and funding. In connection with its various recommendations, the Sunset Commission promulgated a detailed report which can be accessed at http://www.sunset.state.tx.us/81streports/txdot/txdot_fr.pdf. Other than certain legislation with respect to the Texas Department of Motor Vehicles, the Legislature did not act on the Sunset Commission's recommendations.

The Regular Session of the 81st Texas Legislature was convened on January 13, 2009 and ended on June 1, 2009 (the "2009 Regular Session"). Although various bills relating to the Department and the Commission were proposed, the existence of the Department was not continued by legislative act during the 2009 Regular Session. The Governor subsequently called a special session of the Legislature which convened on July 1, 2009 and adjourned on July 2, 2009. During the special session, the Legislature passed Senate Bill 2, which continues the existence of the Department through September 1, 2011. The Legislature also passed House Bill 1, which authorizes the Commission to issue \$2 billion in transportation bonds that were approved by Texas voters in 2007.

NOTE 8 - RISK FINANCING & RELATED INSURANCE

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

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

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

Required Supplementary Information

As permitted by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the State has adopted the modified approach for reporting the Central Texas Turnpike System (CTTS). Under the modified approach, depreciation is not reported and expenditures other than those for additions or improvements are expensed.

The modified approach requires that the State:

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

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

Condition Assessments

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

Assessed Conditions

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

Central Texas Turnpike System	
Fiscal Year	(Minimum 80%)
2009	90.5%
2008	91.7%

Estimated and Actual Costs for Maintenance

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

Central Texas Turnpike System	Fiscal Year 2009	Fiscal Year 2008
Estimate	\$9,178,651	\$6,909,785
Actual	\$7,261,987	\$5,411,318

Factors Affecting Condition Assessments

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

The End



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