TEXAS DEPARTMENT OF TRANSPORTATION

Central Texas Turnpike System

(An Enterprise Fund of the Texas Department of Transportation)

Financial Statements - For Fiscal Year Ended August 31, 2011

CENTRAL TEXAS TURNPIKE SYSTEM
An Enterprise Fund of the Texas Department of Transportation

FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2011

Prepared by:
Finance Division of the Texas Department of Transportation

CENTRAL TEXAS TURNPIKE SYSTEM

Financial Statements
For the Fiscal Year Ended August 31, 2011

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Central Texas Turnpike System
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 29, 2011

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

The audited annual financial statements of the Central Texas Turnpike System (CTTS) for the year ended Aug. 31, 2011, are submitted herewith. The Indenture of Trust, dated July 15, 2002, as supplemented by the first through fifth Supplemental Indentures (Indenture), requires the preparation and submission of audited annual financial statements. This report was prepared by the Accounting Management staff in the Finance Division of the Texas Department of Transportation (TxDOT).

In fiscal 2011, the presentation of net assets was reassessed. These changes have no effect on Assets, Liabilities or total Net Assets. For purposes of comparison and analysis, all prior periods presented in the accompanying financial statements and in the management's discussion and analysis have been updated to reflect the correct net asset allocation of CTTS. See Notes 1 and 11 for additional information.

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

The Texas State Auditor's Office performed an independent audit, in accordance with generally accepted auditing standards, of CTTS' basic financial statements for the year ended Aug. 31, 2011. The audit opinion is presented in this report preceding the financial statements.

Profile of the Government

This report includes financial statements for CTTS. CTTS is part of TxDOT's reporting entity. TxDOT is an agency of the state of Texas created to provide safe, effective and efficient movement of people and goods. TxDOT is managed by an Executive Director and is governed by the five-member Texas Transportation Commission (Commission). TxDOT is organized into 25 districts, 29 divisions and offices, four regional offices and currently has an annual budget of approximately $9 billion and a staff of approximately 12,000, which manages approximately $3.5 billion in annual highway contract lettings.

The Legislature granted the Commission the authority 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 can issue turnpike revenue bonds to pay all or a part of the cost of a turnpike project, to enter into comprehensive development agreements to execute projects and to acquire right-of-way through quick-take procedures. Such revenue bonds were issued to fund a portion of the costs of constructing the CTTS roadways.

Accounting System and Budgetary Controls

TxDOT's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Information Useful in Assessing CTTS' Financial Condition

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

The following are the active sub-accounts of CTTS, established in accordance with the Indenture:

- Revenue Fund – this account receives toll revenues, totaling $74.9 million for fiscal 2011, sends debt service payments to the debt service fund, funds the rate stabilization fund and pays operating and maintenance expenses of CTTS. The revenue fund funded $6.9 million of fiscal 2011 operating expenses.

- Debt Service Fund – the semi-annual debt service payments are paid out of this account.

- Rate Stabilization Fund – this account may be used to cure deficiencies for debt service payments or to supplement payments for operating and maintenance costs. In accordance with the Indenture, the required balance for this fund is $67.8 million, the accumulated total revenue of CTTS through Aug. 31, 2008.

- Construction Fund, Capital Contribution Account – this account received capital contributions from local governments related to rights-of-way and received equity contributions by TxDOT.

- Debt Service Reserve Fund – this account received a portion of the original bond proceeds. Investments are held to pay interest, principal and mandatory sinking fund redemption whenever there is a deficiency in the First Tier Debt Service Fund.

TxDOT 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 criteria for suitable investments for each fund type are detailed in the Commission's investment strategy.

All monies in the revenue fund, debt service fund, rate stabilization fund and construction fund are invested in money market funds that are in compliance with the Commission's investment policy.

The debt service reserve fund is invested in a forward purchase agreement consisting of U.S. Treasury and Agency securities and a repurchase agreement collateralized by U.S. Treasury and Agency Securities.

For more detailed information on investments, please see the latest Texas Transportation Commission Quarterly Investment Report and Investment Policy. Requests for a copy of the Investment Policy should be addressed to the following:

Texas Department of Transportation
Finance Division
125 East 11th Street
Austin, Texas, 78701-2483

Risk Financing & Management

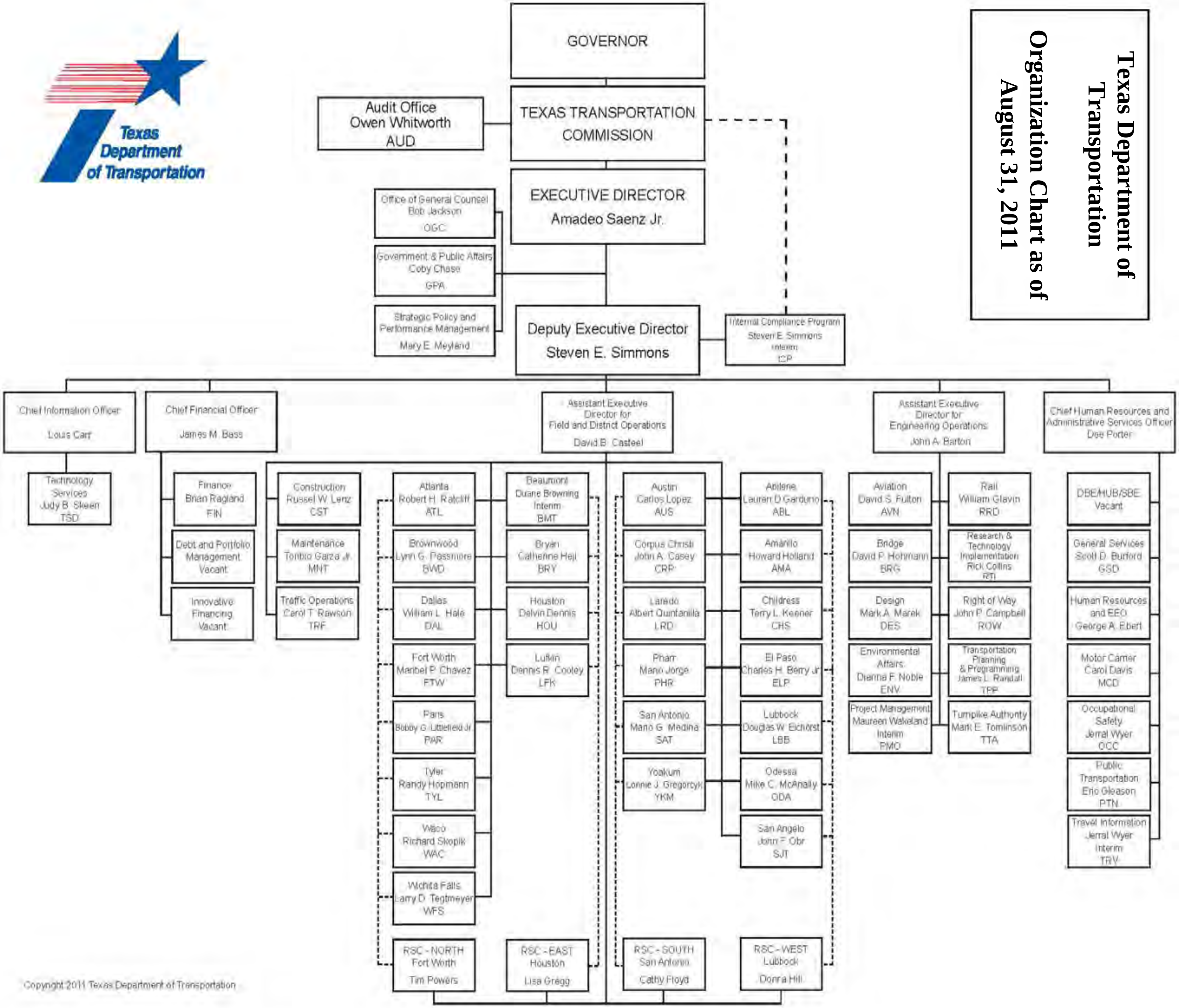
CTTS does not provide financing for any of the risks TxDOT is subject to in the course of its operations. TxDOT provides all accounting, debt financing and administrative services. Salaries and wages of TxDOT employees who are specifically dedicated to managing the operations of CTTS are reported as expenses in this report.

Acknowledgements

Production of this report would not have been possible without the efficient and dedicated staff of TxDOT. We extend special appreciation to the Accounting Management, Debt & Portfolio Management and the rest of the Finance Division for their professionalism and devotion in preparing this complex financial document.

Phil Wilson
Executive Director

Texas Department of Transportation Organization Chart as of August 31, 2011



Commission and Key Personnel
As of August 31, 2011

TEXAS TRANSPORTATION COMMISSION

DEIRDRE DELISI...Chair
Austin

NED S. HOLMES...Commissioner
Houston

TED HOUGHTON ....Commissioner
El Paso

WILLIAM MEADOWS ....Commissioner
Fort Worth

FRED UNDERWOOD ....Commissioner
Lubbock

TEXAS DEPARTMENT OF TRANSPORTATION

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

Texas Turnpike Authority Division

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

Austin District

CARLOS A. LOPEZ, P.E. ………………………………………………District Engineer
GREGORY A. MALATEK, P.E ………………………………..Deputy District Engineer
TIMOTHY J. WEIGHT, P.E. ……………………………………Director of Construction

Finance Division

BRIAN RAGLAND, CPA …………………………………………………...Director

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Central Texas Turnpike System
FINANCIAL SECTION

State Auditor's Office
John Keel, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission
Mr. Ted Houghton, Chair
Mr. Jeff Austin, III
Mr. Ned S. Holmes
Mr. William Meadows
Mr. Fred Underwood

We have audited the accompanying financial statements of the Central Texas Turnpike System (System) as of and for the year ended August 31, 2011, which collectively comprise the System's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department of Transportation's (Department) management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the System's fiscal year 2010 financial statements and, in our report dated December 14, 2010, we expressed an unqualified opinion on those financial statements.

As described in Notes 1 and 11, the System corrected a mistake in the application of an accounting principle when reporting its net assets in fiscal year 2011, which resulted in a restatement in the allocation of net assets among the net asset categories reported for fiscal year 2010. These changes have no effect on Assets, Liabilities, Changes in Financial Position, or Cash Flows. The opinions issued on the basic financial statements for the years ended August 31, 2007 through 2010, may be relied upon with the exception of the classification of net assets. This December 29, 2011, opinion applies to the net assets as restated in Note 11 for the years ended August 31, 2007 through 2010.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Note 1, the financial statements present only the System, an enterprise fund of the Department and the State of Texas and do not purport to, and do not, present fairly the financial position of the Department or the State of Texas as of August 31, 2011, the changes in the Department's or the State's financial position, or, where applicable, the Department's or the State's cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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SAO No. 12-308

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of August 31, 2011, and the respective changes in financial position and, where applicable, 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, as listed in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the Department's internal control over System financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

John Keel, CPA
State Auditor

December 29, 2011

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Management's Discussion and Analysis

As management of the Texas Department of Transportation (TxDOT) we offer readers of the Central Texas Turnpike System's (CTTS) financial statements this narrative overview and analysis of its financial activities for the years ended Aug. 31, 2011, 2010 and 2009. The information presented should be read in conjunction with our letter of transmittal, the financial statements and the accompanying notes to the financial statements.

Highlights

As discussed more fully in Note 1 and Note 11, certain reporting changes and corrections of prior period errors required the restatement of prior period balances. The major impact of these restatements is in the allocation of net assets. Total net assets for the prior period did not change, but the allocation of net assets between the categories as established in Generally Accepted Accounting Principles was materially impacted. For purposes of comparison and analysis, all prior periods presented in the accompanying financial statements and in this management's discussion and analysis have been updated to reflect the correct net asset allocation of CTTS.

The assets of CTTS exceeded its liabilities by approximately $495.1 million as of Aug. 31, 2011, a decrease of $82 million or 14.2 percent from fiscal 2010. The majority of this decrease is attributable to the recording of interest accretion on the Series 2002-A capital appreciation bonds and the Transportation Innovation Financing Infrastructure Act (TIFIA) note payable. CTTS continues to maintain a fully funded debt service reserve account, which is available for purposes authorized by the Indenture. As of Aug. 31, 2011, the debt service reserve account held $136.7 million of investments at fair value.

During fiscal 2011, CTTS generated more than $68.8 million in toll revenues, an increase of $2.7 million or 4 percent over fiscal 2010. Toll revenues increased due to a 6 percent increase in total toll transactions, with more than 83 million transactions recorded on CTTS roadways in fiscal 2011.

Approximately $46.1 million or 66.3 percent of CTTS operating expenses for fiscal 2011 were funded by the state highway fund. This support is recorded as transfers on the accompanying financial statements.

Overview of the Financial Statements

The annual financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements with the notes to the financial statements and supplementary information.

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. TxDOT, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activities related to CTTS are accounted for in an enterprise fund. Proprietary funds are used to account for a government's business-type activities. Enterprise funds, a type of proprietary fund, are used to report activities in which a fee is charged to external users for goods and services.

Financial Analysis

The overall financial position and operations of CTTS for the past three years is summarized on the following pages.

Condensed Statement of Net Assets
August 31, 2011, 2010 and 2009

	Business-Type Activities		
	2011	**2010**	**2009**
ASSETS			
Assets Other Than Capital Assets	$477,995,609	$496,487,555	$527,963,437
Capital Assets	2,632,423,987	2,649,686,423	2,648,884,550
Total Assets	3,110,419,596	3,146,173,978	3,176,847,987
LIABILITIES			
Current Liabilities	8,428,865	24,438,959	64,487,850
Non-current Liabilities	2,606,895,989	2,544,514,843	2,471,290,513
Total Liabilities	2,615,324,854	2,568,953,802	2,535,778,363
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	524,979,321	542,015,763	540,842,929
Restricted for Debt Service	37,245,671	34,287,075	30,538,448
Unrestricted	(67,130,250)	917,338	69,688,247
Total Net Assets	$495,094,742	$577,220,176	$641,069,624

Condensed Changes in Net Assets
For the Fiscal Years Ended August 31, 2011, 2010 and 2009

	2011	**2010**	**2009**
REVENUES			
Total Operating Revenues	$74,864,328	$73,298,997	$66,362,310
Total Non-operating Revenues	6,889,042	6,719,250	10,403,929
Total Revenues	81,753,370	80,018,247	76,766,239
EXPENSES			
Total Operating Expenses	(69,450,736)	(67,610,051)	(68,028,784)
Total Non-operating Expenses	(140,429,789)	(139,547,782)	(152,852,876)
Total Expenses	(209,880,525)	(207,157,833)	(220,881,660)
Loss Before Contributions and Transfers	(128,127,155)	(127,139,586)	(144,115,421)
Capital Contributions	29,968	28,499,969	8,433,132
Transfers	46,056,513	34,790,169	19,317,015
Change in Net Assets	(82,040,674)	(63,849,448)	(116,365,274)
Net Assets – Beginning, as Restated	577,135,416	641,069,624	757,434,898
Net Assets – Ending	$495,094,742	$577,220,176	$641,069,624

Net assets may serve over time as a useful indicator of CTTS' financial position. Net assets continue to decline as additional noncurrent liabilities are accrued via principal accretion on outstanding CTTS debt. Ending investment asset balances for fiscal 2011 decreased by approximately $18.8 million. These funds were used to fund CTTS operations and pay debt service costs. Construction is complete on the three roadways that currently comprise CTTS. Additional capital asset activity is projected to be minor, with activity limited to the final settlement of right-of-way cases.

Transfers from the state highway fund for operations and maintenance expenses totaled approximately $46.1 million, net of a $6.9 million reimbursement from toll revenues. The methodology the Commission has adopted to determine the reimbursement to the state highway fund is dependent upon debt service requirements. In fiscal 2011 debt service increased by approximately $11 million from fiscal 2010; this amount directly corresponds to the decrease in the amount of reimbursement to the state highway fund in fiscal 2011. Capital contributions continue to decline as CTTS is no longer receiving funds from local entities to purchase right-of-way land. See Note 8 for more information.

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2011, CTTS had $2.6 billion in net capital assets. No significant changes were recorded to capital assets during fiscal 2011.

Capital Assets - Net of Depreciation and Amortization
August 31, 2011, 2010 and 2009

	2011	2010	2009
Land	$ 631,489,854	$ 631,440,065	$ 638,428,380
Infrastructure - Roadways	1,629,343,549	1,629,428,387	1,621,297,833
Infrastructure - Bridges	348,656,349	365,561,314	382,066,666
Land Use Rights	16,525,986	16,525,986	
Buildings and Building Improvements	6,408,249	6,730,671	7,091,671
Total Capital Assets	$2,632,423,987	$2,649,686,423	$2,648,884,550

TxDOT adopted the modified approach for reporting the CTTS roadways. As required by the modified approach, TxDOT conducts condition assessments on the CTTS roadways through the Texas Maintenance Assessment Program (TxMAP). TxMAP is conducted on a yearly basis and results in an overall condition level for CTTS. In conjunction with TxMAP, the Texas Transportation Commission adopted a minimum acceptable condition level of 80 percent for CTTS. The condition assessment results for fiscal 2011 reflect a condition level of 89.9 percent.

For fiscal 2011, the estimated maintenance expenditures for the CTTS roadways were $11.6 million compared with actual expenditures of $11.4 million. Additional information is presented in the financial section's required supplementary information other than MD&A.

Debt Administration

The Texas Transportation Commission (Commission) has issued revenue bonds backed by the pledged revenues and restricted assets specified in the bond resolutions. As of Aug. 31, 2011, CTTS had approximately $1.6 billion of outstanding revenue bond debt. In addition, CTTS had approximately $1 billion of outstanding debt under the TIFIA secured loan program.

A special mandatory redemption of $2.525 million of Series 2002-B bonds was executed on Feb. 19, 2009. The remaining $147.475 million of the Series 2002-B bonds were refunded with proceeds from the issuance of the First Tier Revenue Refunding Put Bonds, Series 2009, issued March 5, 2009. The Series 2009 put bonds were initially issued in a multiannual mode which terminated on the mandatory tender date of Feb. 15, 2011. The Commission successfully remarketed the bonds into another multiannual mode of 24 months at a 2.75 percent interest rate. The bonds are subject to mandatory tender on Feb. 15, 2013, and are planned to be remarketed again at that time. See Note 4 for more details on CTTS' long-term liabilities activity.

Outstanding Debt Obligations
August 31, 2011, 2010 and 2009

	2011	2010	2009
Revenue Bonds Payable	$ 1,578,429,936	$ 1,537,924,340	$ 1,499,620,484
TIFIA Secured Loan Payable	1,032,548,891	1,007,012,665	972,092,191
Total Outstanding Debt	$ 2,610,978,827	$ 2,544,937,005	$ 2,471,712,675

Bond Credit Ratings

The Series 2002-A and Series 2009 bonds were rated by each of the three major Nationally Recognized Statistical Rating Organizations. As of Aug. 31, 2011, the CTTS bonds carried a long term rating of BBB+, Baa1, and BBB+ by Fitch Ratings, Moody's, and Standard and Poor's (S & P), respectively. An explanation of the significance of each rating may be obtained from the company furnishing the rating. The ratings reflect only the views of such companies at the time such ratings are given, and the Commission makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such companies if, in the judgment of such companies, circumstances so warrant.

Requests for Information

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

Texas Department of Transportation
Finance Division - Accounting Management
125 East 11th Street
Austin, Texas 78701-2483

BASIC FINANCIAL STATEMENTS

EXHIBIT I

CENTRAL TEXAS TURNPIKE SYSTEM

STATEMENT OF NET ASSETS

August 31, 2011 (With Comparative Totals for August 31, 2010)

	August 31, 2011	August 31, 2010 (As Restated)
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3)	$	$
Money Market and Similar Funds	299,596,638	318,382,715
Short-Term Investments (Note 3)	15,039,811	15,029,000
Interest and Dividends Receivable	319,497	300,323
Accounts Receivable	4,408,314	4,386,215
Due from Other Funds	662,787	1,842
Receivables from Local Governments (Note 12)	2,823,210	3,673,594
Prepaid Items	11,994	
Consumable Inventory	365,604	
Total Current Assets	323,227,855	341,773,689
Non-Current Assets:		
Restricted Cash and Cash Equivalents in State Treasury (Note 3)	20,000	32,762
Restricted Investments (Note 3)	114,999,378	114,999,378
Deferred Charges	39,097,993	39,681,726
Receivables from Local Governments (Note 12)	650,383	
Non-Depreciable Capital Assets (Note 2):		
Land	631,489,854	631,440,065
Infrastructure – Roadways	1,629,343,549	1,629,428,387
Land Use Rights	16,525,986	16,525,986
Depreciable Capital Assets (Note 2):		
Buildings	8,360,006	8,360,006
Less Accumulated Depreciation	(1,951,757)	(1,629,335)
Infrastructure - Bridges	422,810,212	422,810,212
Less Accumulated Depreciation	(74,153,863)	(57,248,898)
Total Non-Current Assets	2,787,191,741	2,804,400,289
TOTAL ASSETS	3,110,419,596	3,146,173,978
LIABILITIES		
Current Liabilities:		
Accounts Payable	5,476	20,098,229
Revenue Bonds Payable (Note 4)	4,082,838	422,162
Interest Payable	3,550,810	3,658,083
Unearned Revenues	789,741	260,485
Total Current Liabilities	8,428,865	24,438,959
Non-Current Liabilities:		
Revenue Bonds Payable (Note 4)	1,574,347,098	1,537,502,178
Notes/Loans Payable (Note 4)	1,032,548,891	1,007,012,665
Total Non-Current Liabilities	2,606,895,989	2,544,514,843
TOTAL LIABILITIES	2,615,324,854	2,568,953,802
NET ASSETS*		
Invested in Capital Assets, Net of Related Debt	524,979,321	542,015,763
Restricted for Debt Service	37,245,671	34,287,075
Unrestricted	(67,130,250)	917,338
TOTAL NET ASSETS	$ 495,094,742	$ 577,220,176

* The classification of net assets was changed in fiscal 2011. See Note 1 for more details.

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, 2011 (With Comparative Totals for August 31, 2010)

	For the year ended August 31, 2011	For the year ended August 31, 2010 (As Restated)
OPERATING REVENUES		
Toll Revenue	$ 68,802,457	$ 66,136,108
Fee Revenue	6,061,871	7,162,889
Total Operating Revenues	74,864,328	73,298,997
OPERATING EXPENSES		
Professional Fees and Services	(10,106,722)	(9,173,343)
Salaries	(1,126,714)	(868,358)
Materials and Supplies	(2,619,983)	(3,782,132)
Communication and Utilities	(1,143,962)	(1,255,124)
Repairs and Maintenance	(15,864,460)	(12,724,599)
Printing and Reproduction	(4,333)	(16,064)
Contracted Services	(17,934,972)	(19,676,194)
Advertising	(334,766)	(183,042)
Depreciation Expense	(17,227,387)	(17,750,167)
Prompt Payment Interest	(339)	(533)
Other Operating Expenses	(3,087,098)	(2,180,495)
Total Operating Expenses	(69,450,736)	(67,610,051)
Operating Income	5,413,592	5,688,946
NON-OPERATING REVENUES (EXPENSES)		
Lease Revenue	12,864	12,864
Interest and Investment Income	6,835,406	6,602,295
Net Increase in Fair Value of Investments	40,772	29,833
Interest and Amortization	(74,782,128)	(66,745,615)
Accretion on Capital Appreciation Bonds and TIFIA Note	(65,619,661)	(72,802,167)
Other Financing Fees	(28,000)	74,180
Other Non-Operating Revenues		78
Total Non-Operating Revenues (Expenses)	(133,540,747)	(132,828,532)
Loss before Capital Contributions and Transfers	(128,127,155)	(127,139,586)
CAPITAL CONTRIBUTIONS AND TRANSFERS		
Capital Contributions (Note 8)	29,968	28,499,969
Transfers (Note 8)	46,056,513	34,790,169
Total Capital Contributions and Transfers	46,086,481	63,290,138
Change in Net Assets	(82,040,674)	(63,849,448)
Total Net Assets – Beginning	577,220,176	641,069,624
Restatements (Note 11)	(84,760)	
Total Net Assets – Beginning, As Restated	577,135,416	641,069,624
Total Net Assets – Ending	$ 495,094,742	$ 577,220,176

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, 2011 (With Comparative Totals for August 31, 2010)

	For the year ended August 31, 2011	For the year ended August 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 76,520,426	$ 75,331,264
Payments to Suppliers for Goods and Services	(51,607,214)	(44,222,829)
Payments to Employees	(1,126,714)	(868,358)
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,786,498	30,240,077
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Transfers from Other Funds *	46,056,512	
Payments to Local Governments	(20,045,740)	
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	26,010,772	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Lease Revenue	12,864	12,864
Proceeds from Capital Contributions	200,779	27,762,446
Payments for Interest on Debt	(74,707,707)	(62,678,437)
Payments for Additions to Land and Roadways	(66,757)	(19,222,932)
Payments of Remarketing Fees and Other Costs	(883,140)	(5,320)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(75,443,961)	(54,131,379)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	119,995,816	59,997,479
Proceeds from Interest and Investment Income, Net of Fees	6,847,724	7,030,659
Payments to Acquire Investments	(119,995,688)	(59,997,542)
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,847,852	7,030,596
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,798,839)	(16,860,706)
CASH AND CASH EQUIVALENTS - BEGINNING	318,415,477	351,422,672
Restatement to Beginning Cash and Cash Equivalents		(16,146,489)
CASH AND CASH EQUIVALENTS – BEGINNING, as RESTATED	318,415,477	335,276,183
CASH AND CASH EQUIVALENTS – ENDING	$ 299,616,638	$ 318,415,477

* Previously reported as non-cash contributions, see Note 1.

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

EXHIBIT III

CENTRAL TEXAS TURNPIKE SYSTEM

STATEMENT OF CASH FLOWS (Concluded)

For the year ended August 31, 2011 (With Comparative Totals for August 31, 2010)

	For the year ended August 31, 2011	For the year ended August 31, 2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 5,413,592	$ 5,688,946
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	17,227,387	17,750,167
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	1,523,117	2,032,265
(Increase) in Inventories	(377,598)	
Increase in Accounts Payable		4,768,699
Total Adjustments	18,372,906	24,551,131
Net Cash Provided by Operating Activities	$ 23,786,498	$ 30,240,077
NONCASH TRANSACTIONS:		
Net Change in Fair Market Value of Investments	40,772	29,833
	$ 40,772	$ 29,833
Reconciliation of Cash and Cash Equivalents		
Money Market and Similar Funds	$ 299,596,638	$ 318,382,715
Restricted Cash and Cash Equivalents in State Treasury	20,000	32,762
Cash and Cash Equivalents	$ 299,616,638	$ 318,415,477

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

CTTS currently consists of the 2002 Project. The 2002 Project includes three distinct elements: State Highway 130, State Highway 45 North and Loop 1. The Commission issued revenue bonds to finance a portion of the costs of planning, designing, engineering, developing and constructing the 2002 Project. In the future, at the Commission's discretion, additional projects may be added to CTTS with separate financing.

The records of CTTS are maintained in accordance with the practices set forth in the provisions of the Indenture for the 2002 Project revenue bonds. These practices are modeled after generally accepted accounting principles that are similar to private business enterprises.

Basis of Presentation

The accompanying financial statements present only the financial position, changes in financial position and cash flows of CTTS. They are not intended to, and do not, present fairly the financial position, changes in financial position or cash flows of TxDOT. The reporting period is for the state fiscal year ended Aug. 31, 2011. The fiscal 2010 columns are presented to facilitate financial analysis.

The prior year financial data presented on the accompanying financial statements was updated due to reporting changes and corrections of prior period errors. The prior year allocation of net assets was restated to properly classify the impact of unspent bond proceeds, deferred bond issuance costs and accumulated accretion. The prior year statement of net assets was also revised to record the portion of bonds payable comprised of the current portions of unamortized premiums, discounts and deferred loss on refunding as a current liability. Prior year balances on the statement of revenues, expenses and changes in net assets were also revised to separately report fee revenue and salaries and to correct the balances in the change in fair market value of investments and investment income. The prior year statement of cash flows was updated to include the net change in fair market value of investments in the noncash transactions section. See Note 11 for more details on these corrections and reporting changes.

Financial reporting of CTTS is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, that does not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

Fund Structure and Basis of Accounting

The activity of CTTS is reported in a proprietary fund. Proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

A proprietary fund distinguishes operating from non-operating items. 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 include cost of sales and services, administrative expenses and depreciation on capital assets.

Assets, Liabilities and Net Assets

Assets:

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.

Accounts Receivable

Accounts receivable reflects toll revenue earned but not yet received as of Aug. 31, 2011. Accounts receivable represents amounts due to CTTS from the custodian of the Master Lockbox and Custodial Accounts. Master Custodial Accounts serve as a clearinghouse for payments to CTTS, TxDOT and other toll operators including the Central Texas Regional Mobility Authority, Harris County Toll Road Authority and North Texas Tollway Authority for tolls earned.

Investments

Investments are reported at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. All investment income, including changes in the fair value of investments, is recognized as non-operating revenue in the operating statement.

Receivables

Receivables from local governments reflect the asset for amounts due from local entities for CTTS expenses not yet received as of August 31, 2011. The disaggregation of these receivables as reported in the financial statements is shown in Note 12, "Disaggregation of Receivables".

Inventory and Prepaid Items

Inventory and prepaid items include toll tags and postage. The consumption method of accounting is used to account for inventory and prepaid items. The costs of these items are expensed when the items are consumed.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund notes/loans, revenue bonds and revenues set aside for statutory or contractual requirements. CTTS may receive funding whose related expenditure is restricted to certain activities. In situations where both restricted and unrestricted net assets are available to cover expenses, CTTS will first expend the restricted net assets and cover additional costs with unrestricted net assets. CTTS reserves the right to selectively defer the use of restricted assets.

Capital Assets

Capital assets, which include buildings, infrastructure, land and permanent land-use rights are capitalized and reported in the financial statements.

Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. Land, permanent land-use rights, non-depreciable infrastructure and construction in progress do not have a capitalization threshold and are not depreciated. The capitalization thresholds and useful lives of CTTS' depreciable capital assets are as follows:

Classification	Capitalization Threshold	Estimated Useful Life
Buildings and Building Improvements	$ 100,000	22 years
Infrastructure - Bridges, Depreciable	500,000	25 years

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation. Costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's useful life are not capitalized.

CTTS reports its highway infrastructure assets using the modified approach. This approach reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. TxDOT developed and implemented an asset management system that establishes minimum standards and makes a yearly determination as to whether the minimum standards are being met. Disclosures of the minimum standards and the current status of CTTS assets are included in the required supplementary information section of this report.

All other capital assets with determinable useful lives, including bridges, are depreciated on the straight-line basis over their estimated lives.

Deferred Charges

Bond issuance 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.

Liabilities:

Accounts Payable

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

Unearned Revenues

CTTS, through its toll road operations, has entered into agreements with local governments whereby the local governments transfer funds to CTTS 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. CTTS' 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 TxDOT purchasing the parcels for the stated purpose in the agreement. Right-of-way audits were performed in fiscal 2010 and refunds due to the respective local governments were calculated. Refunds not processed during fiscal 2010 were reflected in accounts payable.

Revenue Bonds Payable

Revenue bonds payable is reported at par less unamortized discount or plus unamortized premium. Payables are reported separately as either current or non-current in the statement of net assets. See Note 4 for more information.

Net Assets:

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

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.

Restricted for Debt Service

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

Unrestricted

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but which can be removed or modified.

Revenues, Expenses, Contributions and Transfers

Operating Revenues

Operating revenues consists of toll and fee revenue collected by CTTS.

Operating Expenses

Operating expenses include expenses incurred in operating the toll roads and the customer service center and depreciation on capital assets. CTTS has contracted with the Washington Division of the URS Corp. to manage the daily toll collection operations.

Non-Operating Revenues/Expenses

Non-operating revenues include all other revenues that are not toll and fee revenues. Interest and investment income, increase in the fair value of investments and lease revenue make up non-operating revenues. Non-operating expenses include those expenses not classified as operating. These expenses include bond interest expense (net of amortization of bond issue costs), accretion on capital appreciation bonds and Transportation Innovation Financing Infrastructure Act (TIFIA) note payable.

Capital Contributions and Transfers

CTTS has capital contributions from local governments and the state highway fund. CTTS operating and maintenance expenses paid by the state highway fund on behalf of CTTS are recorded as transfers. See Note 8 for additional information. These transfers were previously reported as non-cash activity on the statement of cash flows.

NOTE 2 – CAPITAL ASSETS

A summary of capital asset activity for the year ended Aug. 31, 2011 is presented below.

		Balance 08/31/2010	Adjustments	Increases	Decreases		Balance 08/31/2011
Non-Depreciable Capital Assets							
Land	$	631,440,065	$8,290	$41,499	$	$	631,489,854
Infrastructure - Roadways		1,629,428,387	(93,050)	8,212			1,629,343,549
Land Use Rights		16,525,986					16,525,986
Depreciable Capital Assets							
Buildings		8,360,006					8,360,006
Infrastructure - Bridges		422,810,212					422,810,212
Less Accumulated Depreciation for:							
Buildings		(1,629,335)		(322,422)			(1,951,757)
Infrastructure - Bridges		(57,248,898)		(16,904,965)			(74,153,863)
Total Capital Assets	$	2,649,686,423	$ (84,760)	$(17,177,676)	$ 0	$	2,632,423,987

NOTE 3 - DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS

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

Treasury Pool Deposits

As of Aug. 31, 2011, CTTS had $20,000 of cash in the state treasury pool. All monies in the treasury pool are pooled with other state funds and invested under the direction of the Comptroller of Public Accounts Treasury Operations Division (Treasury). The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2011. The Comptroller has delegated investment authority to the Trust Company and utilizes the Trust Company to manage and invest funds in the Treasury Pool.

State statutes authorize the Treasury to invest state funds in fully collateralized time deposits; direct security repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; banker’s acceptances; commercial paper; and contracts written by the Comptroller, which are commonly known as covered call options.

Investments

As of Aug. 31, 2011, the fair value of investments and maturities are as presented below:

	Maturities (in Years)		Fair Value
Investment Type	**Less than 1**	**More than 5**	**Total**
Money Market Mutual Funds	$299,596,638		$299,596,638
U.S. Government Agency Obligations	15,039,811		15,039,811
Repurchase Agreement		$114,999,378	114,999,378
Total	$314,636,449	$114,999,378	$429,635,827

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission's investment policy states that all securities purchased by the Commission shall be designated as assets of the Commission and shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee.

As of Aug. 31, 2011, 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 Trust Company with the underlying securities being the property of the Citigroup, Inc., (the direct counterparty), held in trust for the Commission. Bank of New York Mellon Trust Company is rated Aaa, AA and AA- by Moody's, Standard and Poor's (S & P) and Fitch Ratings respectively.

Credit Risk

Direct credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy prohibits the Commission from entering into long-term investment agreements or other ongoing investment transactions with a final maturity or termination date of longer than six months with any financial institution that initially has a long-term rating category of less than "A" and that does not have at least one long-term rating of at least "AA" by a nationally recognized statistical rating organization (NRSRO). All investments made by the Commission have been made through a firm on the then-current 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. The repurchase agreement is a guaranteed investment contract (GIC) with Citigroup, Inc. as the counterparty. Citigroup, Inc. is rated A3, A and A+ by Moody's, S & P and Fitch Ratings respectively. In addition, Citigroup, Inc. has collateralized the GIC with U.S. Government and Agency securities. As of Aug. 31, 2011, CTTS' investments had the following ratings.

Investment Type	Fair Value	Moody's	S & P	Fitch
Money Market Mutual Funds				
Dreyfus Institutional Cash Adv 99	$22,915,912	Aaa-mf	AAAm	AAAmmf
JPMorgan US Government MMKT Cap 3164	276,680,726	Aaa-mf	AAAm	NR
U.S. Government Agency Obligations	15,039,811	Aaa	AA+	NR
Repurchase Agreement	114,999,378	A3	A	A+
Total	$429,635,827			
NR = not rated				

Concentration of Credit Risk

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 Commission holds that exceeds 5 percent of the total investments is the repurchase agreement. This investment is held primarily for the CTTS debt service reserve fund, which has a long term duration and a specific purpose.

The Commission addresses diversification in the Commission's Investment Policy. Assets held in particular funds shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the investment officer for all funds.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has addressed interest rate risk in its various accounts by matching as closely as possible anticipated cash flows with income and return of principal on investments. 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. Investment maturities are noted in the investment fair value table.

NOTE 4 - SUMMARY OF LONG-TERM LIABILITIES

As of Aug. 31, 2011, CTTS had two bond issues outstanding and one long-term loan payable. Additional detail is provided in the sections that follow. As detailed below, the following changes occurred in long-term liabilities during the year ended Aug. 31, 2011.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2011

	Beginning Balance 09/01/2010	Additions	Reductions	Ending Balance 08/31/2011	Amounts Due Within One Year	Amounts Due Thereafter
Revenue Bonds Payable	$1,537,924,340	$40,820,363	$314,767	$1,578,429,936	$4,082,838	$1,574,347,098
Loans Payable	1,007,012,665	25,536,226		1,032,548,891		1,032,548,891
Total	$2,544,937,005	$66,356,589	$314,767	$2,610,978,827	$4,082,838	$2,606,895,989

Revenue Bonds

Miscellaneous Bond Information							
Description of Issue	**Bonds Issued to Date**	**Date Issued**	**Range of Interest Rates**		**First Year Maturity**	**Last Year Maturity**	**First Call Date**
First Tier Revenue Bonds Series 2002-A							
Non-Callable Capital Appreciation Bonds *	$468,000,674	08/29/2002	4.47%	5.75%	2012	2030	n/a
Callable Capital Appreciation Bonds *	265,119,938	08/29/2002	6.00%	6.10%	2025	2038	08/15/2012
Current Interest Bonds	707,875,000	08/29/2002	5.00%	5.75%	2038	2042	08/15/2012
First Tier Revenue Bonds Series 2009							
Refunding Put Bonds	149,275,000	03/05/2009	2.75% **		2042	2042	02/15/2013
Total Bonds Issued	$1,590,270,612						

* Bonds issued to date include interest accreted to principal through Aug. 31, 2011.

** Bonds pay interest at 2.75 percent through the 24-month multi-annual period ending Feb. 15, 2013.

Transportation Code, Section 228.102 authorized the Commission to issue revenue bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of CTTS. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate consisting of all project revenues and all project earnings including investment earnings deposited into the revenue fund, construction 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), the debt service fund, the debt service reserve fund, the rate stabilization fund, and the general reserve fund.

Neither the state, Commission, TxDOT or any other agency or political subdivision of the state is obligated to pay the principal, premium, discount or interest on the CTTS revenue bond obligations except from the trust estate. The bond indenture does not create a mortgage on the CTTS.

Debt service for the First Tier Revenue Bonds is detailed in the table below:

Debt Service Requirements – Revenue Bonds			
Year	**Principal**	**Interest**	**Total**
2012	$4,505,000	$41,266,900	$45,771,900
2013	7,710,000	41,266,900	48,976,900
2014	10,155,000	41,266,900	51,421,900
2015	12,605,000	41,266,900	53,871,900
2016	25,805,000	41,266,900	67,071,900
2017-2021	188,970,000	206,334,500	395,304,500
2022-2026	338,635,000	206,334,500	544,969,500
2027-2031	534,825,000	206,334,500	741,159,500
2032-2036	660,975,000	206,334,500	867,309,500
2037-2041	803,635,000	159,060,500	962,695,500
2042	246,420,000	8,988,275	255,408,275
	2,834,240,000	1,199,721,275	4,033,961,275
Unamortized Accretion	(1,243,969,388)		(1,243,969,388)
Unamortized Premium	8,387,875		8,387,875
Unamortized Discount	(16,019,159)		(16,019,159)
Unamortized Loss on Refunding	(4,209,392)		(4,209,392)
Total	$1,578,429,936	$1,199,721,275	$2,778,151,211

The CTTS Series 2009 put bonds were initially issued in a multiannual mode which terminated on the mandatory tender date of Feb. 15, 2011. The Commission successfully remarketed the bonds into another multiannual mode of 24 months at a 2.75 percent interest rate. The bonds are subject to mandatory tender on Feb. 15, 2013, subject to the successful remarketing of the bonds. The Commission has not provided any credit or liquidity facility for the payment of the purchase price of bonds payable upon the mandatory tender date. The principal portion of the purchase price for the bonds is expected to be obtained from the remarketing proceeds. The obligation of the Commission to purchase the bonds on the mandatory tender date is subject to the successful remarketing of such bonds. The Commission has no obligation to purchase bonds except from remarketing proceeds. If the bonds are not remarketed, the interest rate on the bonds will be increased to the stepped coupon rate of 12 percent per annum. The impact of such a rate change to the debt service payments on the bonds is disclosed below.

Put Bonds – Debt Service Comparison		
	Interest Rate	**Interest Payment**
Multiannual Mode ending Feb. 15, 2013	2.75 % per annum	$ 4,105,063
Stepped coupon rate/period if bonds cannot be remarketed	12 % per annum	$ 17,913,000

Loans Payable

The loans payable balance represents secured loans made to the Commission by the United States Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). USDOT has agreed to lend the Commission up to $916.76 million to pay or reimburse a portion of CTTS' costs. As of Aug. 31, 2011, the Commission has drawn down $900 million under the secured loan agreement.

The loan will be paid from revenues of CTTS as they are sufficient to pay (a) all interest, which will become due and payable on each such date, and (b) the principal, if any, of the secured loan which will become due and payable on each such date. For these reasons the debt service requirements are subject to change each year as actual non-revenues are received. Per the agreement, principal and interest can be deferred (negatively amortized) due to availability of revenues. The principal amount of the loan may increase over time as deferrals are made. As of Aug. 31, 2011, the secured loan agreement's debt service requirements are as follows.

Debt Service Requirements – TIFIA Loan			
Year	**Principal**	**Interest***	**Total**
2012	$	$ 31,690,305	$ 31,690,305
2013		33,698,174	33,698,174
2014		35,022,513	35,022,513
2015		36,443,186	36,443,186
2016		43,188,071	43,188,071
2017-2021		252,930,169	252,930,169
2022-2026	12,186,868	324,373,490	336,560,358
2027-2031	127,651,331	326,797,966	454,449,297
2032-2036	276,208,377	277,072,968	553,281,345
2037-2041	605,692,092	170,899,732	776,591,824
2042	217,941,604	12,008,582	229,950,186
Total	1,239,680,272	1,544,125,156	$ 2,783,805,428
Unamortized Accretion	(207,131,381)		(207,131,381)
Total Requirements	$ 1,032,548,891	$ 1,544,125,156	$ 2,576,674,047
* 5.510 percent			

NOTE 5 - EMPLOYEES' RETIREMENT PLANS

CTTS does not have any employees and does not make contributions to any retirement plans. TxDOT employees provide all accounting and administrative services for CTTS. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan). CTTS is not obligated in any form for the funding of the pension benefits provided by the ERS Plan.

NOTE 6 – COMMITMENTS & CONTINGENCIES

Arbitrage

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

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

Lawsuits and Claims

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

NOTE 7 – SUBSEQUENT EVENTS

John A. Barton was named interim executive director of TxDOT upon the retirement of Amadeo Sanchez Jr., effective Aug. 31, 2011. On Sept. 29, 2011, the Commission named Phil Wilson as the new executive director of TxDOT effective Oct. 17, 2011. Commission chair Deirdre Delisi resigned from her position on Oct. 6, 2011. The Governor appointed Commissioner Ted Houghton as chair on Oct. 7, 2011. On Oct. 10, 2011, the Governor appointed Jeff Austin III to the Commission.

On Aug. 25, 2011, the Commission accepted a TxDOT recommendation that a new back office toll operations contract be awarded to Federal Signals Technologies (FSTech). The work will consolidate with one vendor operations presently spread between FSTech (back office), lane work (URS) and violations processing (ETCC). However, as of Aug. 31, 2011 the contract was still under negotiation.

NOTE 8 – CAPITAL CONTRIBUTIONS AND TRANSFERS

Contributions from the state highway fund for capital assets totaled $29,968 for the fiscal year. Contributions from the state highway fund for operations and maintenance expenses are recorded as transfers. For fiscal year 2011, the state highway fund contributed approximately $46.1 million, net of a reimbursement of approximately $6.9 million from toll revenues. The methodology the Commission has adopted to determine the reimbursement to the state highway fund is dependent upon debt service requirements.

NOTE 9 – CONTINUANCE SUBJECT TO REVIEW

TxDOT is currently subject to a continuance review. Under the Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2015, unless continued in existence by the 84th Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2016 to close out its operations. In the event that TxDOT is abolished pursuant to the Texas Sunset Act or other law, Texas Government Code, Section 325.017(f), acknowledges that such action will not alter the obligation of the state to pay bonded indebtedness and all other obligations of the abolished agency.

NOTE 10 - RISK FINANCING & RELATED INSURANCE

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

TxDOT 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 state highway fund retains these risks and manages them through self-insurance and safety programs, which are the responsibility of TxDOT's occupational safety division.

NOTE 11 – RESTATEMENTS AND ADJUSTMENTS

During fiscal 2011, certain accounting changes and adjustments were made that required updates to prior periods presented and the restatement of net assets. The impact of these adjustments is summarized as follows:

Restatement of Net Assets

During preparation and review of the fiscal 2011 financial statements, TxDOT's accounting staff identified that the allocation of total nets assets was incorrect. As a result of this analysis the presentation of net assets was changed to be in conformance with Generally Accepted Accounting Principles. For purposes of comparison and analysis, all prior period information presented in the accompanying financial statements and in the management's discussion and analysis has been restated to reflect the corrected net asset allocation for CTTS. For all prior years, total net assets were accurately reported.

Due to the restatement of the net asset amounts, our external auditor has included an explanatory paragraph in the opinion letter accompanying this report. With the adjustments to the net assets amounts, the auditor concluded that the financial statements present fairly, in all material respects, the respective financial position of CTTS as of Aug. 31, for the years ended 2007 through 2010. A comprehensive policy on the recording of CTTS net assets was established as a result of this analysis.

The presentation of net assets for fiscal years 2007 through 2010 was determined to be incorrect. The original presentation and corrected presentation of net assets for each of those years is summarized on the following page. Detailed explanations of the cause and correction needed for each line item of net assets are included as footnotes to the table.

Historical Analysis of Net Assets Allocation	As Previously Reported	Restatements		As Restated
August 31, 2010				
Net Assets				
Invested in Capital Assets, Net of Related Debt	$ 104,749,419	$ 437,266,344	(A)	$ 542,015,763
Restricted for Debt Service	164,286,453	(129,999,378)	(C)	34,287,075
Unrestricted	308,184,304	(307,266,966)	(D)	917,338
Total	$ 577,220,176	$ 0		$ 577,220,176
August 31, 2009				
Net Assets				
Invested in Capital Assets, Net of Related Debt	$ 177,171,875	$ 363,671,054	(A)	$ 540,842,929
Restricted for Debt Service	160,537,959	(129,999,511)	(C)	30,538,448
Unrestricted	303,359,790	(233,671,543)	(D)	69,688,247
Total	$ 641,069,624	$ 0		$ 641,069,624
August 31, 2008				
Net Assets				
Invested in Capital Assets, Net of Related Debt	$ 262,240,450	$ 238,916,050	(A)	$ 501,156,500
Restricted for Debt Service	173,244,455	(130,839,631)	(C)	42,404,824
Unrestricted	321,949,993	(108,076,419)	(D)	213,873,574
Total	$ 757,434,898	$ 0		$ 757,434,898
August 31, 2007				
Net Assets				
Invested in Capital Assets, Net of Related Debt	$ 805,451,590	$ (409,074,254)	(A)	$ 396,377,336
Restricted for Capital Assets		316,018,921	(B)	316,018,921
Restricted for Debt Service		115,446,696	(C)	115,446,696
Unrestricted		(22,391,363)	(D)	(22,391,363)
Total	$ 805,451,590	$ 0		$ 805,451,590

(A) Capital assets net of related debt was understated due to misallocation of certain bond related balances.

(B) Unspent capital contributions received from TxDOT that were restricted for capital projects during the construction period of the 2002 project.

(C) The portion of bonds payable associated with bond proceeds used to fund the debt service reserve fund is not capital related and was moved from capital assets net of related debt to restricted for debt service.

(D) The portions of bonds payable associated with accretion not accumulated during the construction period, amortized original issue discounts and deferred bond issuance costs are not capital related and were moved from capital assets net of related debt to unrestricted.

Additional Restatements

The prior year financial data presented on the accompanying financial statements was also updated due to reporting changes made in fiscal 2011. The reclassifications on the statement of net assets and statement of revenues, expenses and changes in net assets are detailed in the following tables.

Restatement of Prior Year Statement of Net Assets	Sept. 1, 2010, As Previously Reported	Restatements	Sept. 1, 2010, As Restated
Current Liabilities			
Revenue Bonds Payable	$	$ 422,162	$ 422,162
Non-Current Liabilities			
Revenue Bonds Payable	$ 1,537,924,340	(422,162)	1,537,502,178
Total	$ 1,537,924,340	$ 0	$ 1,537,924,340

Restatement of Prior Year Statement of Revenues, Expenses, and Changes in Net Assets	Sept. 1, 2010, As Previously Reported	Restatements	Sept. 1, 2010, As Restated
Toll Revenue	$ 73,298,997	$ (7,162,889)	$ 66,136,108
Fee Revenue		7,162,889	7,162,889
Contracted Services	(20,489,879)	813,685	(19,676,194)
Repairs and Maintenance	(12,779,272)	54,673	(12,724,599)
Salaries		(868,358)	(868,358)
Interest and Investment Income	6,251,339	350,956	6,602,295
Net Increase in Fair Value of Investments	380,789	(350,956)	29,833
Total	$ 46,661,974	$ 0	$ 46,661,974

The statement of cash flows did not include the net change in fair market value of investments in the noncash transactions section. The following value should have been disclosed.

Restatement of Prior Year Statement of Cash Flows	Sept. 1, 2010, As Previously Reported	Restatements	Sept. 1, 2010, As Restated
NONCASH TRANSACTIONS			
Net Change in Fair Market Value of Investments	$ 0	$ 29,833	$ 29,833
Total	$ 0	$ 29,833	$ 29,833

The final cost of right-of-way assets are not determined until pending right-of-way cases are resolved. The settlement of certain right-of-way cases required the restatement of capital assets in the accompanying financial statements. An additional restatement was needed to adjust for a correction to an outstanding retainage balance on a closed project.

Restatements to Net Assets	Sept. 1, 2010, As Previously Reported	Restatements	Sept. 1, 2010, As Restated
Net Assets	$ 577,220,176	$ (84,760)	$ 577,135,416
Total	$ 577,220,176	$ (84,760)	$ 577,135,416

During fiscal 2010 TxDOT implemented a Master Lockbox and Custodial Account Agreement (Agreement) between TxDOT, the State Highway 130 Concession Company and the Bank of New York Mellon Trust Company. In compliance with the Agreement, all previously held TxTag deposits for prepaid tolls were removed from CTTS bank accounts and transferred to the Master Custodial Accounts. The implementation of the Agreement resulted in a restatement to beginning cash and cash equivalents of $16,146,489 in the fiscal 2010 statement of cash flows.

NOTE 12 –DISAGGREGATION OF RECEIVABLES BALANCES

The balance of receivables from local governments as of Aug. 31, 2011 is detailed as follows:

Receivables from Local Governments	Current Receivable	Non-current Receivable	Total
City of Pflugerville	$ 200,000	$ 650,383	$ 850,383
Travis County	2,623,210		2,623,210
Total	$ 2,823,210	$ 650,383	$ 3,473,593

Central Texas Turnpike System
REQUIRED SUPPLEMENTARY INFORMATION

MODIFIED APPROACH TO REPORTING INFRASTRUCTURE ASSETS

TxDOT adopted the modified approach for reporting the roadways associated with the Central Texas Turnpike System (CTTS). Under the modified approach, depreciation is not reported and all preservation and maintenance costs are expensed.

The modified approach requires that TxDOT:

- 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 CTTS, TxDOT has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

TxDOT performs yearly condition assessments through the Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 20 percent of toll roads. For each section of highway observed, 21 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 CTTS roadways. The overall score is converted to a percentage measurement for reporting (1 = 20 percent, 2 = 40 percent, 3 = 60 percent, 4 = 80 percent, 5 = 100 percent).

Assessed Conditions

CTTS' roadways are intended to be maintained at or above the minimum condition level of 80 percent. This condition level was established by the Commission and is determined based on TxMAP assessments. The results of the condition assessments for fiscal years 2008 through 2011 are disclosed below. Condition assessments of CTTS began in fiscal 2008.

TxMAP Condition Assessments for CTTS	
Fiscal Year	(Minimum 80%)
2011	89.9%
2010	87.9%
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 CTTS’ roadways at or above the adopted condition level and the actual expenditures.

CTTS	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008
Estimate	$11,577,672	$11,371,334	$9,178,651	$6,909,785
Actual	$11,438,932	$6,972,452	$7,261,987	$5,411,318

Factors Affecting Condition Assessments

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.

Other Condition Assessments

A separate annual inspection report is performed on the Central Texas Turnpike System (CTTS) in accordance with Section 707 of the Indenture of Trust. Those inspections are performed by the general engineering consultant (GEC) of CTTS. The fiscal 2011 inspection noted that the CTTS roadways were in an overall excellent condition, achieving an overall score of 96 percent. While the GEC inspection uses the same general criteria as TxMAP, both parties have different areas of focus when performing their evaluations resulting in slight differences. In addition, there are other differences in evaluation timing and methodology which may contribute to the difference in scores; it is performed at a different time of the year, covers all 65 miles of the system instead of using a random sample of 20 percent, and uses a more detailed breakdown of each criteria.

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