

# **Illinois State Toll Highway Authority (A Component Unit of the State of Illinois)**

Financial Audit  
For the Year Ended December 31, 2008  
and

Compliance Examination  
For the Year Ended December 31, 2008

Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

Financial Audit for the Year Ended December 31, 2008  
and Compliance Examination for the Year Ended December 31, 2008

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ILLINOIS STATE TOLL HIGHWAY AUTHORITY

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**Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)**

**December 31, 2008**

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**Agency Officials**

Executive Director	Brian McPartlin through October 24, 2008 Jeffrey Dailey November 19, 2008 through December 17, 2008
Acting Executive Director	Dawn Catuara October 25, 2008 through November 19, 2008 December 18, 2008 through February 5, 2009 Michael King February 6, 2009 through current
Chief of Staff	Dawn Catuara through October 24, 2008 November 20, 2008 through December 17, 2008
Chief of Finance	Michael Colsch
Controller	Leslie Savickas
Fiscal Operations Manager	Patricia Pearn
General Counsel	Thomas Bamonte

Central Administrative agency offices are located at:

2700 Ogden Avenue  
Downers Grove, Illinois 60515



*The Illinois Tollway  
2700 Ogden Avenue  
Downers Grove, Illinois 60515-1703  
Phone: 630/241-6800  
Fax: 630/241-6100  
TTY: 630/241-6898*

August 28, 2009

McGladrey & Pullen, LLP  
Certified Public Accountants  
20 N. Martingale Road, Suite 500  
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Tollway. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Tollway's compliance with the following assertions during the period ended December 31, 2008. Based on this evaluation, we assert that during the year ended December 31, 2008, the Tollway has materially complied with the assertions below.

- A. The Tollway has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Tollway has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Tollway has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Tollway are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts are fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Tollway on behalf of the State or held in trust by the Tollway have been properly and legally administered, and the accounting and recordkeeping relating thereto are proper, accurate and in accordance with law.

Yours very truly,  
Illinois State Toll Highway Authority

Michael T. King, Acting Executive Director

Michael J. Colsch, Chief of Finance

Thomas J. Bamonte, General Counsel

# Illinois State Toll Highway Authority

December 31, 2008

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## Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

## Accountants' Reports

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

## Summary of Findings

<u>Number of</u> Findings	<u>Current</u> <u>Report</u>	<u>Prior</u> <u>Report</u>
Repeat Findings	5	11
Prior recommendations implemented or not repeated	4	5
	7	1

Details of findings are presented in a separately tabbed report section.

## Schedule of Findings

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding</u> <u>Type</u>
<b>Current Findings (<i>Government Auditing Standards</i>)</b>			
08-1	10	Interest Not Properly Capitalized	Material Weakness
08-2	12	Financial Reporting	Material Weakness
08-3	15	Capital Assets	Significant Deficiency
08-4	17	Master Vendor File	Significant Deficiency
08-5	19	Procurement Process	Significant Deficiency

In addition, the following finding which is reported as relating to *Government Auditing Standards*, also meets the reporting requirements for State Compliance.

### Current Findings (State Compliance)

08-5	19	Procurement Process	Noncompliance
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Illinois State Toll Highway Authority

December 31, 2008

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Schedule of Findings (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
<b>Prior Findings Not Repeated</b>		
A	21	Untimely Violation System Implementation
B	21	Bank Reconciliations Not Approved Timely
C	21	Untimely Execution of Contracts
D	21	Internal Auditing
E	21	Lane Maintenance Contract
F	22	Report of Locally Held Funds
G	22	Revenue Reconciliation Reports

**Exit Conference**

The findings and recommendations appearing in this report were discussed with Tollway personnel at an exit conference on August 17, 2009. Attending were:

**Illinois State Toll Highway Authority**

Acting Executive Director	Mike King
Chief of Finance	Michael J. Colsch
Controller	Leslie Savickas
Executive Secretary	Christina Grosso
Fiscal Operations Manager	Patricia Pearn
Chief Accountant, Debt and Capital	Tara L. Martin
Inspector General	Tracey Smith
Chief of Engineering	Paul Kovacs
Chief of Procurement	Albert Murillo
Senior Assistant Attorney General	David E. Wilson
Senior Manager of Controls and Compliance	Arjana Jaupi

**McGladrey & Pullen, LLP**

Linda Abernethy	Partner
Kristen Kornacki	Manager
Sybil Thomas	Senior In-Charge

**Office of the Auditor General**

Thomas L. Kizziah, CPA	Audit Manager
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The responses to the recommendations were provided by Patricia Pearn, Fiscal Operations Manager, in a letter dated August 20, 2009.

# McGladrey & Pullen

Certified Public Accountants

## Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland  
Auditor General  
State of Illinois

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Toll Highway Authority's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended December 31, 2008. The management of the Illinois State Toll Highway Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Illinois State Toll Highway Authority's compliance based on our examination.

- A. The Illinois State Toll Highway Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Illinois State Toll Highway Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Illinois State Toll Highway Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Illinois State Toll Highway Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Illinois State Toll Highway Authority on behalf of the State or held in trust by the Illinois State Toll Highway Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Illinois State Toll Highway Authority's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Illinois State Toll Highway Authority's compliance with specified requirements.

In our opinion, the Illinois State Toll Highway Authority complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended December 31, 2008. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying Schedule of Findings as findings 08-1 through 08-5.

### Internal Control

The management of the Illinois State Toll Highway Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Illinois State Toll Highway Authority's internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Tollway's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Tollway's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as items 08-1 through 08-5 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings, we consider items 08-1 and 08-2 to be material weaknesses.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The Illinois State Toll Highway Authority's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Illinois State Toll Highway Authority's responses and, accordingly, we express no opinion on them.

### Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois State Toll Highway Authority as of and for the year ended December 31, 2008, which collectively comprise the Illinois State Toll Highway Authority's basic financial statements, and have issued our report thereon dated August 28, 2009. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Illinois State Toll Highway Authority. The 2008 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2008, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Illinois State Toll Highway Authority's basic financial statements for the years ended December 31, 2007. In our report dated August 7, 2008, we expressed an unqualified opinion on the basic financial statements. In our opinion, 2007 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2007, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Directors and Tollway management and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
August 28, 2009

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Illinois State Toll Highway Authority, a component unit of the State of Illinois, as of and for the year ended December 31, 2008, and have issued our report thereon dated August 28, 2009. Our report included an explanatory paragraph which stated "As discussed in Note 18 to the financial statements, the December 31, 2007 net assets have been restated (increased by \$73,878,895) to correct errors in reporting capitalized interest." 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Illinois State Toll Highway Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not for the purpose of expressing an opinion on the effectiveness of the Illinois State Toll Highway Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois State Toll Highway Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: items 08-1 through 08-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-1 and 08-2 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Illinois State Toll Highway Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 08-5.

We also noted certain matters which we have reported to management of the Illinois State Toll Highway Authority in a separate letter dated August 28, 2009.

The Illinois State Toll Highway Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Illinois State Toll Highway Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Directors and Tollway management and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
August 28, 2009

## Illinois State Toll Highway Authority

### Schedule of Findings For the Year Ended December 31, 2008

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#### Current Findings – *Government Auditing Standards*

##### Finding 08 – 1 Interest Not Properly Capitalized

The Illinois State Toll Highway Authority (Tollway) did not comply with Statement of Financial Accounting Standards No. 34 *Capitalization of Interest Cost*, which requires capitalization of interest costs incurred during the asset's construction period.

During our audit we discovered that the Tollway had been expensing all construction period interest. As a result of identifying this issue, the Tollway developed an accounting policy and a process to estimate the amounts of qualifying net interest expense for FY 2000 through FY 2008, to be capitalized to infrastructure assets. Net capitalized interest amounts were then depreciated through each fiscal year-end to determine the restatement amount, as well as the amount to be reported through December 31, 2008.

Prior to FY 2000, the Tollway's practice was to record infrastructure in annual pools, and information supporting the individual pools was not sufficiently detailed to determine if qualifying interest was included or excluded. Prior to FY 2000, all infrastructure assets were depreciated over a 20 year useful life. As such, the remaining effect of un-capitalized interest on net assets is not expected to be material.

The Tollway's December 31, 2007 ending net assets were understated by approximately \$74 million as a result of this error in accounting. For 2008, there was an additional error of approximately \$8.4 million for un-capitalized interest costs, net of the associated accumulated depreciation. The Tollway's December 31, 2008 financial statements, which include partial prior year comparative information for the December 31, 2007 year end, have been restated to reflect the \$74 million adjustment. The \$8.4 million adjustment relating to the year ended December 31, 2008 financial statements has been corrected by the Tollway in those financial statements.

The Tollway is a sole purpose proprietary (enterprise) fund and uses the full accrual basis of accounting. According to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, proprietary funds should apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, APB Opinions, and ARBs.

Statement of Financial Accounting Standards (FASB) No. 34 *Capitalization of Interest Cost*, issued in October 1979, establishes standards for capitalizing interest cost as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time to get them ready for their intended use. Interest capitalization is required for those assets if its effect, compared with the effect of expensing interest, is material. The interest cost eligible for capitalization shall be the interest cost recognized on borrowings and other obligations. The amount capitalized is to be an allocation of the interest cost incurred during the period required to complete the asset. The interest rate for capitalization purposes is to be based on the rates on the entity's outstanding borrowings. If the entity associates a specific new borrowing with the asset, it may apply the rate on that borrowing to the appropriate portion of the expenditures for the asset. In addition FASB statement No. 62 amends FASB 34 and directs that when restricted tax-exempt borrowings are issued to finance the construction activity, any interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use should be deducted in determining the amount of interest capitalized.

Illinois State Toll Highway Authority

Schedule of Findings  
For the Year Ended December 31, 2008

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Current Findings – *Government Auditing Standards*

**Finding 08 – 1 Interest Not Properly Capitalized (Continued)**

Tollway management stated that they do monitor all new GASB and FASB pronouncements and interpretations as they are released. The Tollway was required to change its pooled fixed asset accounting to specific identification in a prior year. As this conversion took place with new accounting staff, the interest capitalization requirements of FASB 34, which were released in 1979, were overlooked.

Not complying with applicable accounting standards has resulted in a restatement of the Tollway December 31, 2007 financial statements and an adjustment to the December 31, 2008 financial statements. (Finding Code No. 08-1)

**Recommendation**

We recommend the Tollway make an assessment of all accounting standards that are applicable to determine the impact on their financial reporting. In addition, all interest incurred during the construction period as described in the guidance above should be capitalized.

**Tollway Response**

We concur. We have amended our capital asset policy to address interest capitalization under FASB 34 and are acquiring an on line service to stay abreast of accounting pronouncements.

## Illinois State Toll Highway Authority

### Schedule of Findings For the Year Ended December 31, 2008

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#### Current Findings – *Government Auditing Standards*

##### Finding 08 – 2      Financial Reporting

The Illinois State Toll Highway Authority (Tollway) does not have sufficient control over the financial reporting process.

During our audit of the financial statements we noted the following:

- The Tollway enters into agreements with State/local governments to share the responsibility of costs incurred over common infrastructure. These costs had been improperly recorded by the Tollway. The Tollway recorded all the associated construction costs and intergovernmental reimbursements for these construction activities within the “construction in progress” (CIP) capital asset accounts, but did not record revenues and expenses. The Tollway accumulated the costs in its CIP accounts. When the projects were complete, the Tollway credited CIP and debited accounts receivable for the portion to be paid by the other parties. When cash was received, cash was debited and accounts receivable was credited causing a net effect of zero in the Statement of Net Assets and no recognition in the revenue and expense accounts or on the Statement of Changes in Revenues, Expenses and Changes in Net Assets. As of year end, total revenues and expenses were each understated by \$81 million. The Tollway corrected these amounts in the final financial statements.

Revenues and expenses should be recognized for work performed under intergovernmental agreements in accordance with accounting principles generally accepted in the United States of America (GAAP).

- Leases receivable and the corresponding deferred revenue for the two oasis system leases (retail and fuel leases) were overstated by \$1.6 million in the trial balance and the draft financial statements. This amount represented one year of lease payments. The amount has been corrected in the final financial statements.

Under the accrual basis of accounting, leases receivable and the related deferred revenue, should be representative of all remaining lease payments under the terms of the lease agreements.

- The footnote disclosures for investments in the draft financial statements contained errors in reporting investment types for certain funds under the custody of the State Treasurer. In the draft financial statements these investments, totaling approximately \$395 million, were classified as repurchase agreements with no credit rating (not rated). Upon further investigation it was determined that these amounts were invested in the Illinois Funds (AAA credit rating). Additionally, approximately \$9.6 million of investments that were FNMA agency securities were classified as money market investments in the draft financial statements. These disclosures were corrected in the final financial statements.

In accordance with GASB Statement No. 40, investment disclosures should be displayed by investment type and should include disclosures pertaining to credit risk.

## Illinois State Toll Highway Authority

### Schedule of Findings For the Year Ended December 31, 2008

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#### Current Findings – *Government Auditing Standards*

##### Finding 08 – 2 Financial Reporting (Continued)

The counterparty credit ratings provided in the interest rate exchange agreement section of the revenue bonds payable draft footnote were not accurately reflected as of year end. The Tollway obtained the correct ratings from Moody's and Standard and Poor's and corrected the ratings in the final financial statements.

GASB Technical Bulletin 2003-1, paragraph 10.a(1) requires the following disclosure about a derivatives risk "The credit quality ratings of counterparties as described by nationally recognized statistical rating organizations—rating agencies—as of the date of the statement of net assets. If a credit risk disclosure is required and the counterparty is not rated, the disclosure should indicate that fact."

- The amount reported for the "Bond Interest and Other Financing Costs" line of the Trust Indenture Basis Financial Statements (presented as supplementary information in the financial statements), was incorrect. The Tollway uses an electronic spreadsheet to summarize data for financial reporting purposes. Within the electronic worksheet, certain general ledger amounts were entered incorrectly as to debit versus credit. Upon reviewing the supporting schedule we noted that 8 out of 49 (16%) of the detailed accounts, totaling \$928 thousand were found to be incorrectly entered into the spreadsheet. The Tollway corrected the amount in the final financial statements.

Under the Tollway's Master Trust Indenture, certain reports of sources and uses of funds prepared on a basis of accounting other than GAAP are required to be reported.

Tollway management stated that they did not record revenues and expenses relating to intergovernmental agreements because they believed that the accounting entries made to record intergovernmental transactions were proper.

Tollway management also stated that in the absence of a standard, fully integrated general ledger system, the Tollway prepares GAAP statements by accumulating information from a large number of financial databases maintained by various departments within the Tollway. General Accounting personnel must determine which accounting information is verified and should be recorded in the financial system. Then these entries are manually prepared and entered. The complexity of the process to prepare statements leaves open the possibility of human error.

The draft financial statements presented to the auditors were misstated and contained errors in the manner described above. Also, the additional work required in order to identify, record, and report these errors further delayed issuance of the final financial statements. (Finding Code No. 08-2, 07-1, 06-1, 05-1)

Illinois State Toll Highway Authority

Schedule of Findings  
For the Year Ended December 31, 2008

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Current Findings – *Government Auditing Standards*

Finding 08 – 2      Financial Reporting (Continued)

Recommendation

We recommend internal controls over financial reporting be strengthened as follows:

- The Tollway should develop policies and procedures for recording infrastructure assets which are constructed or enhanced by the Tollway on behalf of another governmental entity (or other external party). The policy should reflect that these amounts should be recorded as exchange transactions resulting in revenues and expenses.
- The Tollway should develop policies and procedures for recording assets (receivables) and liabilities (deferred revenues) pertaining to long-term lease arrangements. Recorded amounts should be supported by detailed schedules that correspond to the signed lease agreements.
- The Tollway should develop policies and procedures to ensure the adequate review and approval of all footnotes prepared in accordance with GASB Statement 40. The review should entail a comparison of individual investments to investment statements and other source documents to ensure that investment types, amounts and credit ratings are accurately disclosed.
- The Tollway should develop policies and procedures to ensure the adequate review and approval of all derivative disclosures in the Notes to the Financial Statements and should retain documentation supporting year-end credit ratings.
- The Tollway should develop policies and procedures to review schedules supporting their trust indenture statements and supporting schedules.

Tollway Response

The Tollway concurs with the recommendation to develop policies and procedures for the following:

- Accounting for intergovernmental agreements
- Accounting for long term lease arrangements
- Adequate review of footnotes and schedules in the financial statements

In addition to developing policies we will continue to pursue a standard fully integrated general ledger system.

## Illinois State Toll Highway Authority

### Schedule of Findings For the Year Ended December 31, 2008

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#### Current Findings – *Government Auditing Standards*

##### Finding 08 – 3      Capital Assets

The Illinois State Toll Highway Authority's (Tollway) practices and procedures for recording and maintaining capital asset records need improvement.

During our audit we noted the following errors in the Tollway's capital asset records:

- Certain costs incurred by the Tollway for repairs, maintenance and licensing costs were improperly capitalized. These amounts should have been expensed. The total costs that should have been expensed were approximately \$1.5 million. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- Capital Assets and Accounts Payable were each understated by approximately \$777 thousand due to an entry at year end to void a check. Although the check was properly voided and recorded, an additional entry to record the capital asset and the corresponding payable was not recorded. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- During our compliance testing of equipment valuation, two out of ten (20%) equipment items selected from the capital asset inventory listing were recorded on the listing at the incorrect cost. The Tollway did not include freight charges totaling \$219 in the recorded cost.

In accordance with good internal control and in accordance with the Tollway's capital asset policy, capital asset additions should include all costs incurred to obtain and place the asset into service, including freight charges. Additions should include all capitalizable amounts that were constructed or received on or before December 31, even if the amounts are unpaid as of that date. Repairs and maintenance, and licensing costs should be expensed in the period incurred.

SAMS manual, procedure 03.30.20, states that the cost of equipment is determined by all of the costs necessary to acquire the asset and place it into service. Included in the cost of equipment in addition to the net invoice cost are freight charges, in-transit insurance, applicable taxes, the cost of special foundations or bases; and assembly, installation, and testing costs.

Tollway management stated that the "SUN" system, which is utilized by Property Control to inventory capital assets, was not written to support GAAP accounting and is based on purchase orders which do not reflect freight charges. It would require a massive manually intensive effort for General Accounting to review every capital asset invoice paid and even in that attempt, General Accounting might be unable to review all invoices. As an alternative method, they rely on account coding by user departments and Property Control records to identify assets tagged as capital assets.

Tollway management also stated that in the absence of a standard, fully integrated general ledger system, the Tollway prepares GAAP statements by accumulating information from a large number of financial databases maintained by various departments within the Tollway. General Accounting personnel must determine which accounting information is verified and should be recorded in the financial system. Then these entries are manually prepared and entered. The complexity of the process to prepare statements leaves open the possibility of human error.

Illinois State Toll Highway Authority

Schedule of Findings  
For the Year Ended December 31, 2008

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Current Findings – *Government Auditing Standards*

**Finding 08 – 3      Capital Assets (Continued)**

As a result of the errors and inconsistencies noted, amounts in the financial statements were immaterially misstated as noted above. In addition, the Tollway is not in compliance with SAMS manual, procedure 03.30.20. (Finding Code No. 08-3, 07-2, 06-2, 05-4)

**Recommendation**

We recommend the Tollway follow accounting principles generally accepted in the United States of America (GAAP) and the SAMS procedure 03.30.20 requirements, and value fixed assets placed into service at the appropriate cost, which includes charges for freight. We also recommend that all repairs, maintenance and licensing costs be expensed in the period the costs are incurred.

**Tollway Response**

We concur and will continue to strive to identify errors of this type as invoices are processed, although this is an extremely manual process. We will continue to review our capital asset accounting for improvements that can be obtained to the extent possible with our current financial reporting systems.

## Illinois State Toll Highway Authority

### Schedule of Findings For the Year Ended December 31, 2008

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#### Current Findings – *Government Auditing Standards*

##### Finding 08 – 4      Master Vendor File

The Illinois State Toll Highway Authority's (Tollway) Master Vendor Listing contains duplicated and inactive vendors.

During our testing of the Master Vendor File we noted that there were 121 different listings of vendors which were inactive but in the file and had the same FEIN as an active vendor listing. We also noted that there was an employee included in the vendor file. Upon further investigation we became aware that the vendor/employee initially started as an outside contractor and has since been hired by the Tollway as an employee. This employee is still listed in the Master Vendor Listing.

Good business practices would necessitate that the master vendor listing be reviewed for possible duplicate vendors or other inappropriate vendor data such as inactive vendors. The Fiscal Control and Internal Auditing Act (30 ILCS 10/1002) requires each State Agency to establish and maintain an effective system of internal control, which would include controls over the Master Vendor Listing.

Tollway management stated that duplicate vendors can result from vendor ownership changes and cases where an active contract requiring payments is still open under the name of the initial vendor. In some cases the same vendor has multiple addresses for different products the Tollway might purchase. System limitations do not permit more than one shipping address and one billing address per vendor. Inactive vendors may remain in the database to permit for future contract awards to that vendor. The SUN system, where the master vendor list resides, permits a vendor to be designated as inactive and remain in the vendor list. The employee included in the vendor list had worked as a consultant several years ago and was recently hired as an employee.

Having multiple vendor numbers for the same vendor increases the risk of a payment being issued twice to the same vendor and going undetected. Multiple vendor numbers for the same vendor also increases the risk that purchasing controls inherent in the system are not being followed. Having a current employee in the vendor listing increases the risk of unauthorized payments being made to the employee. By systematically reviewing the Master Vendor File, the Tollway reduces its exposure to making duplicate payments. (Finding Code No. 08-4, 07-4)

##### Recommendation

We recommend that the Tollway review the entire vendor master list to ensure vendors have not been issued more than one vendor number. In cases where it may be necessary to have multiple vendor numbers for the same FEIN, the Tollway should determine which vendor number should be associated with the vendor and all other inactive vendor numbers should be placed in an inactive file along with all inactive vendors. We also recommend that the Tollway remove the employee from the master vendor list.

Illinois State Toll Highway Authority

Schedule of Findings  
For the Year Ended December 31, 2008

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Current Findings – *Government Auditing Standards*

Finding 08 – 4      Master Vendor File (Continued)

Tollway Response

Procurement has recently reviewed the master vendor file and is developing a system to perform regular reviews going forward. Duplicate listings were put into an inactive status that would allow for maintaining the data for a future date if necessary without compromising the list's integrity and controlling the risk of duplicate payments being made to multiple locations. Procurement is in the process of sending a mass mailing to vendors on the inactive list to update their information for accuracy and for evaluation of a continuing need to maintain the information at all.

## Illinois State Toll Highway Authority

### Schedule of Findings For the Year Ended December 31, 2008

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#### Current Findings – *Government Auditing Standards and State Compliance*

##### Finding 08 – 5 Procurement Process

The Illinois State Toll Highway Authority (Tollway) user departments and procurement department are unable to provide proper documentation supporting compliance with the established procurement policies and procedures pertaining to timely authorization of purchases.

During our examination of the procurement process we noted the following:

- Four (4) out of 25 (16%) purchase orders were placed in the Stock Utilization and Needs (SUN) system after the invoice and goods were received and the related detailed Need Request Form was unable to be supplied due to the archival process.
- One (1) out of 25 (4%) purchase orders was for a vendor with cumulative purchases over the small purchase threshold and did not have a contract associated with the purchase. The cumulative purchases made with this vendor during the year totaled \$92,653.

The Tollway's internal purchasing procedures indicate the following:

- Purchases and contracts are processed through the SUN system. Using Department's request for inventory or non-inventory goods are initiated by completing the appropriate Need Request Form which requires the appropriate delegated approvals prior to submission to the Procurement Services Unit. With appropriate approvals, specified employees enter the Need into the SUN system and after required approvals are obtained, the Need is routed to the Procurement Services Division where the need is assigned to a buyer to be procured if the item is not in inventory stock; and
- Purchases between \$1,000 and \$31,299 are to be multi-quoted to CMS certified Small Business Vendors, except when the goods/services are only available from a documented sole-source.

Good internal control necessitates that all purchases are authorized and approved prior to ordering the goods and or services, and that such approval is documented. In addition, Title 44, Section 1.2020 of the Illinois Administrative Code states that any individual procurement of supplies or services exceeding \$31,300, other than professional or artistic services exceeding \$20,000 and any procurement of construction exceeding \$37,500 shall seek competitive sealed bidding. Procurements shall not be artificially divided so as to constitute a small purchase under this Section.

Tollway management stated that the procurement system is not capable of preventing user departments from placing orders independently before entry into the SUN system. User departments are asked to forecast their needs for goods and services. If this forecast is anticipated to be within the small purchase threshold multi-quotes are obtained. In the case noted here, the Tollway failed to recognize that the purchases from this vendor would exceed the small purchase threshold.

The SUN system drives the procurement process. If user departments do not strictly adhere to the established process, it allows for departments to purchase items without the approval of the Procurement Department. Bypassing the policies in place leaves the Tollway exposed to doing business with non-state approved vendors, violating state statutes, and also possible forfeiture of possible discounts/obtaining the lowest price. These actions also can add or contribute to improper cut off which also affects the accrual process. (Finding Code No. 08-5, 07-7)

Illinois State Toll Highway Authority

Schedule of Findings  
For the Year Ended December 31, 2008

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Current Findings – *Government Auditing Standards and State Compliance*

Finding 08 – 5 Procurement Process (Continued)

Recommendation

We recommend that the Tollway follow the procurement process in place.

Tollway Response

We concur. The procurement process will be reiterated and reviewed with all Tollway departments. We will continue to pursue an ERP system which will enhance controls over the procurement process.

## Illinois State Toll Highway Authority

### Schedule of Findings For the Year Ended December 31, 2008

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#### Prior Findings Not Repeated

##### *Government Auditing Standards:*

#### A. Untimely Violation System Implementation

The Illinois State Toll Highway Authority (Tollway) had not timely exercised their rights to pursue collection of the toll violations.

During the current year, we noted that the backlog of first and second violation notices was eliminated by year-end and there remains only a one month backlog of third notices. (Finding Code No. 07-3, 06-4)

#### B. Bank Reconciliations Not Approved Timely

The Illinois State Toll Highway Authority (Tollway) did not approve bank reconciliations in a timely manner.

In the prior year we noted several instances where the Tollway did not approve bank reconciliations in a timely manner. During our testing in the current year, we noted only one bank reconciliation that did not include an approval signature. Therefore, this finding has been moved to the Letter of Immaterial Findings as Finding Number IM 08-2. (Finding Code No. 07-5, 06-6, 05-3, 04-6, 03-7)

#### C. Untimely Execution of Contracts

The Illinois State Toll Highway Authority (Tollway) did not ensure that all contracts were executed on a timely basis.

During the current year we noted only one instance where a contract was not executed on a timely basis. This finding has been moved to the Letter of Immaterial Findings as Finding Number IM 08-3. (Finding Code No. 07-6)

##### *Governmental Auditing Standards and State Compliance:*

#### D. Internal Auditing

The Illinois State Toll Highway Authority (Tollway) did not complete required audits of all the major systems and the chief internal auditor did not report directly to the Tollway's chief executive officer as required under State Statute.

During the current year, our review of the Control and Compliance Unit (CCU) noted that the audits of six major systems that were not completed during the 2006-2007 fiscal year cycle were completed during the 2008 fiscal year. In addition, the chief internal auditor reports directly to the Tollway's chief executive officer as well as the Inspector General. (Finding Code No. 07-8, 06-5, 05-9)

##### **State Compliance:**

#### E. Lane Maintenance Contract

The Illinois State Toll Highway Authority (Tollway) did not maintain a report to determine whether its lane maintenance vendor was performing at the contracted requirements.

During 2008 the Tollway utilized the HEAT (Helpdesk Expert Automation Tool) system to monitor the vendor's performance. (Finding Code No. 07-9)

## Illinois State Toll Highway Authority

### Schedule of Findings For the Year Ended December 31, 2008

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#### Prior Findings Not Repeated

#### State Compliance (Continued):

##### F. Report of Locally Held Funds

The Illinois State Toll Highway Authority (Tollway) did not accurately report all information on 3 of their quarterly C-17 (Report of Locally Held Funds) reports to the Comptroller.

During the current year, we noted that the quarterly reports were accurately and timely filed. (Finding Code No. 07-10)

##### G. Revenue Reconciliation Reports

The Illinois State Toll Highway Authority (Tollway) management did not review and approve the revenue reconciliation reports (SB04) for the first quarter of the fiscal year.

During the current year, we noted that the revenue reconciliation reports (SB04) were reviewed and approved timely. (Finding Code No. 07-11)

**Illinois State Toll Highway Authority**

**December 31, 2008**

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**Financial Statement Report**

**Summary**

The audit of the accompanying financial statements of the Illinois State Toll Highway Authority (Tollway) was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Tollway's basic financial statements.

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditors' Report

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the Illinois State Toll Highway Authority, a component unit of the State of Illinois, as of and for the year ended December 31, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Illinois State Toll Highway Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Illinois State Toll Highway Authority's December 31, 2007 financial statements and, in our report dated August 7, 2008, we expressed an unqualified opinion on the respective statements. However, as discussed in paragraph 4 below, the December 31, 2007 net assets have been restated. The prior year partial comparative information reflects the correction of errors in those previously issued financial statements.

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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois State Toll Highway Authority, as of December 31, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, the December 31, 2007 net assets have been restated (increased by \$73,878,895) to correct errors in reporting capitalized interest. Because the December 31, 2007 net assets have been restated, the previously issued auditors' report dated August 7, 2008 is not to be relied upon without consideration of this report on the restatement of the December 31, 2007 net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2009 on our consideration of the Illinois State Toll Highway Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. Finding 08-1, referenced within our report (page 10), contains a discussion of a material weakness in internal control over financial reporting which resulted in the restatement of the December 31, 2007 basic financial statements, discussed in paragraph four of this report.

The Management's Discussion and Analysis on pages 26-34 is not a required part of the basic financial statements but is 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 supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information 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, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
August 28, 2009

**Illinois State Toll Highway Authority  
Management's Discussion and Analysis  
December 31, 2008**

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This section offers readers a discussion and analysis of the financial performance of the Illinois State Toll Highway Authority (the Tollway), provides an overview of its financial activities, and identifies changes in the Tollway's financial position for the year ended December 31, 2008. Readers should use this section of this report in conjunction with the Tollway's basic financial statements.

### **2008 FINANCIAL HIGHLIGHTS**

- Design and construction work on the Tollway's \$6.3 billion Congestion-Relief Program, initiated in 2004, continued throughout 2008. In November, 2008, in conjunction with the 2008 Series B Bonds issued, the estimated cost of the Congestion-Relief Program was revised downward to \$6.2 billion. For the year the program had the following outlays:

<u>In billions</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Total</u>
Contract \$ awarded	\$1.000	\$1.084	\$1.038	\$1.107	\$4.229
Contract \$ paid out	\$1.114	\$1.100	\$1.030	\$0.566	\$3.810

- The sixth, seventh, and eighth series of toll revenue bonds (2008 Series A-1, A-2, and B) in support of the Congestion-Relief Program were issued. These issues had a total par amount of \$1.116 billion. The Series 2008 A-1 and A-2 Bonds carry an average interest rate of 3.77% based on variable-to-fixed interest rate exchange agreements associated with the bonds. The Series 2008 B Bonds carry an interest rate of 5.50%. Principal retirements are scheduled to begin in 2018 and continue through 2033. Proceeds of these issues were used to fund the projects in the Congestion-Relief Program as well as to defease \$708,340,000 of bonds issued in 2006.
- Concomitant with the issuance of the 2008 bonds, the Tollway's senior lien underlying credit rating was reported as follows: by Fitch Ratings – AA-; by Moody's Investor Services – Aa3; and by Standard & Poor's – AA-.
- The Tollway resumed issuance of evasion recovery notices in late 2007 and issued notices throughout the entirety of 2008. In 2008 the Tollway booked \$224 million of evasion recovery revenue but the related allowance for doubtful accounts increased \$146 million.
- Amounts on deposit on behalf of I-PASS account holders increased by 14% in 2008 to \$124 million; the percentage of Tollway users paying by I-PASS was 81% in 2008 (versus 79.7% in 2007).

### **BASIC FINANCIAL STATEMENTS**

The Tollway accounts for its operations and financial transactions in a manner similar to that used by private business enterprises: the accrual basis of accounting. In these statements revenue is recognized in the period in which it is earned, and an expense is recognized in the period in which it is incurred, regardless of the timing of its related cash flow.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Tollway's basic financial statements. For each fiscal year the Tollway's basic financial statements are comprised of the following:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the financial statements.

The Statement of Net Assets presents information on all of the Tollway's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets, over time, may serve as a useful indicator of whether the financial position of the Tollway is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents revenue and expense information and how the Tollway's net assets changed during the measurement period as a result of these transactions.

The Statement of Cash Flows presents sources and uses of cash for the fiscal year, displayed in the following categories: cash flows from operating activities, cash flows from non-capital financing activities, cash flows from capital financing activities and cash flows from investing activities.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. They are an integral part of the basic financial statements.

## FINANCIAL ANALYSIS

### OPERATING REVENUE:

#### *2008 RESULTS COMPARED TO 2007*

Operating revenues increased 34% during 2008, from \$608 million to \$813 million. Most of the increase is attributed to an increase in evasion recovery. The Tollway's major revenue source, from tolls, increased 2% in 2008 over 2007, up \$12 million at \$584 million for 2008. This improvement is attributed to the opening of the South extension of I-355 for the entire year and to drivers' increased awareness of the Tollway's efforts to recover evaded tolls.

More dramatically, revenue from the Tollway's evasion recovery efforts increased substantially over 2007. Previous to 2008, violation notice issuances were suspended from June, 2006, through August, 2007, during a systems conversion. In 2008 most pending notices had been issued for total evasion recovery income of \$224 million (versus nearly \$30 million in 2007, an increase of \$194 million). Of this revenue recorded, \$59 million was collected in cash during 2008. A great deal of the evasion recovery revenue recorded under generally accepted accounting principles consists of fines levied against toll violators, over and above the tolls. During the process of collecting the evaded tolls, many of these fines are dismissed in return for collection of all tolls due. See the "Operating Expenses:" section below for commentary on the related bad debt expense corresponding to these fines. Concession revenue declined by about half versus last year, to \$1.8 million from \$3.8 million, because of adjustments in the agreements for the use of the Tollway's fiber optic network.

**OPERATING EXPENSES:**

***2008 RESULTS COMPARED TO 2007***

Operating expenses in total increased by 45% during 2008, rising to \$685 million from \$472 million the previous year. The Tollway's single largest expense category, depreciation, showed a \$60 million, 27%, increase over 2007, as the result of the completion of Congestion-Relief Program projects which were placed in service for accounting purposes during 2008. Depreciation represents 41% of the Tollway's \$685 million of operating expense (down from 46% in 2007), equaling \$279 million in 2008, up from \$219 million in 2007.

Another major category of expense is the bad debt expense associated with evasion recovery efforts. As referred to earlier in this discussion and analysis, as evasion recovery notices are issued the Tollway records the tolls evaded and the fines levied. Not all of these fines will ultimately be collected and the Tollway accrues a bad debt expense for these estimated uncollectible amounts. In 2008 this expense totaled \$147 million, an increase of \$124 million over the previous year. This increase in 2008 was not unexpected in light of the 14-month hiatus in the issuance of notices during 2006 and 2007, most of which were issued and handled in 2008.

Other notable changes in expense categories include a 27% increase in expenses for Services and Toll Collection; a 10% decrease in charges for Procurement, IT, Finance, and Administration; and a 14% increase for Insurance and Employee Benefits. The outlays for Toll Collection funded increased expenses for the Tollway's customer call center relating to the Tollway's evasion recovery effort; the decrease in Procurement, etc., resulted from a lesser allocation of state overhead. Insurance and Employee Benefit expenses were impacted by an 11% increase in group insurance premiums and a 34% increase in retirement provisions.

The net effect of the 2008 operating revenue and expense increases was a 6% decline in operating income to \$128 million from \$136 million the previous year.

**NON-OPERATING REVENUE AND EXPENSE:**

***2008 RESULTS COMPARED TO 2007***

Net non-operating expense for the year increased by 61% to \$106 million (from \$66 million in 2007) because of both 1) lower investment income at \$23 million (down 47% from \$43 million in 2007) and 2) increased interest and financing costs (up 41% to \$131 million from \$93 million in 2007) relating to the issuance of additional bonds to fund the Congestion-Relief Program. Investment income was impacted by lower interest rates earned during the year and less invested throughout the year as compared to 2007. Revenues and expenses under intergovernmental agreements of \$81 million each, reflect work performed by the Tollway on behalf of the Illinois Department of Transportation and other governmental entities under various intergovernmental agreements.

The fiscal year also posted a small gain, \$377,000, on the disposal of property (primarily items of capital equipment), a small amount, \$543,000, of miscellaneous non-operating revenue, and a small, \$221,000, loss on the fair value of investments. The final result of all operating and nonoperating activities was an increase in net assets of \$22 million in 2008 versus a \$71 million increase for 2007. The smaller result was mostly caused by increased interest and financing costs paid in 2008 (the result of more debt taken on to finance the Congestion-Relief Program) being offset by lesser investment income (due to lower market interest rates).

Illinois State Toll Highway Authority  
Management's Discussion and Analysis  
December 31, 2008

Illinois State Toll Highway Authority  
Changes in Net Assets  
For the Years Ended December 31, 2008 and 2007

	2008	(Restated) 2007
<b>Revenues</b>		
Operating Revenues:		
Toll Revenue	\$ 583,646,592	\$ 572,092,902
Toll Evasion Recovery	224,047,528	29,738,604
Concessions	1,754,403	3,788,756
Miscellaneous	3,429,783	2,819,131
Nonoperating Revenues:		
Investment income	22,979,654	43,367,461
Intergovernmental contributions	1,071,429	-
Revenues under intergovernmental agreements	81,091,003	-
Net increase (decrease) in fair value of investments	(221,181)	3,297,367
Net gain (loss) on disposal of property	377,214	(8,491,090)
Miscellaneous	542,517	-
<b>Total Revenues</b>	<b>918,718,942</b>	<b>646,613,131</b>
<b>Expenses</b>		
Operating Expenses:		
Engineering and Maintenance of Roadway and Structures	45,304,051	44,833,917
Services and Toll Collection	110,093,269	86,550,454
Traffic Control, Safety Patrol, and Radio Communications	22,344,274	21,246,925
Procurement, IT, Finance, and Administration	21,942,396	24,261,781
Insurance and Employee Benefits	59,634,767	52,414,462
Bad Debt Expense	146,850,695	23,221,646
Depreciation and Amortization	278,626,714	219,434,538
Nonoperating Expenses:		
Expenses under intergovernmental agreements	81,091,003	-
Interest expense and amortization of financing costs	130,889,438	92,553,608
Miscellaneous	-	11,461,519
<b>Total Expenses</b>	<b>896,776,607</b>	<b>575,978,850</b>
Change in Net Assets	21,942,335	70,634,281
Net Assets, beginning of year as restated	2,083,603,824	2,012,969,543
Net Assets, end of year	<b>\$ 2,105,546,159</b>	<b>\$ 2,083,603,824</b>

Illinois State Toll Highway Authority  
Management's Discussion and Analysis  
December 31, 2008

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**NET ASSETS:**

*2008 RESULTS COMPARED TO 2007*

The Tollway's total assets increased by a slight 6%, \$345 million, for 2008, reaching \$6 billion at year end, up from \$5.7 billion from the previous year. Current unrestricted assets showed virtually no change at \$503 million (up from \$499 million the previous year end) but the distribution changed notably. Intergovernmental receivables, which represent amounts due from the State and other local and municipal governmental entities, increased substantially (seven-fold) to \$87 million from \$12 million at year-end 2007. These local entities agreed to bear portions of the cost of some Congestion-Relief Program and other construction projects, and at the completion of the related projects they were invoiced for their shares. Accounts receivable increased at a lesser rate, up 19% from \$26 million to \$31 million, the result of the year's activity in the Tollway's evasion recovery efforts. Unrestricted cash and equivalents declined, as they were used to fund the Congestion-Relief Program projects, from \$438 million to \$358 million.

Current restricted assets were significantly reduced at \$635 million, down from \$1.1 billion (down 43%), primarily because of the use of invested assets in the construction fund for the Congestion-Relief Program. Construction fund assets declined 75% from \$660 million in 2007 to \$167 million at the end of this fiscal year. Cash and cash equivalents restricted for debt service increased by \$60 million; these amounts were deposited in respect of additional revenue bonds issued during the year. Restricted cash held in respect of I-PASS account holders balances did grow to \$124 million, up from \$109 million as the result of 1) normal growth in the adoption of I-PASS and 2) a change that moved commercial accounts to a pre-paid balance program from a post pay arrangement under which accounts were invoiced in arrears for tolls incurred.

The combination of these changes in restricted and unrestricted current assets netted to an overall decline in current assets of \$482 million (30%), down to \$1.1 billion from \$1.6 billion the previous year-end. Net assets were augmented this year by a \$1.1 million intergovernmental contribution, the result of agreements by various local governments and municipalities to contribute toward the construction of various components of the I-355 South extension.

**Illinois State Toll Highway Authority**  
**Statement of Net Assets**  
**December 31, 2008 and 2007**

	<b>2008</b>	<b>(Restated) 2007</b>
Current and other assets	\$ 1,178,964,531	\$ 1,656,079,800
Capital assets - net	4,853,139,669	4,031,102,382
Total assets	6,032,104,200	5,687,182,182
Current debt outstanding	97,150,000	50,030,000
Long-term debt outstanding	3,300,394,225	3,064,495,455
Other liabilities	529,013,816	489,052,903
Total liabilities	3,926,558,041	3,603,578,358
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	1,622,755,006	1,577,006,044
Restricted under Trust Indenture Agreements	282,076,511	287,975,152
Restricted for pension benefit obligations	389,834	384,052
Unrestricted	200,324,808	218,238,576
Total net assets	\$ 2,105,546,159	\$ 2,083,603,824

Illinois State Toll Highway Authority  
Management's Discussion and Analysis  
December 31, 2008

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS:**

*2008 COMPARED TO 2007*

Capital assets represent the largest category of Tollway assets at \$4.9 billion at this fiscal year end, up \$822 million (20%) from the previous year as the result of capitalizing Congestion-Relief Program projects. Capital assets comprise 80% of total assets this year versus 71% at the end of 2007.

**Illinois State Toll Highway Authority  
Capital Assets  
For the Year Ended December 31, 2008 and 2007**

	(Restated)			
	January 1, 2008	2008	2008	December 31, 2008
	Net Balance	Net Activity	Depreciation	Net Balance
Land	\$ 282,676,939	\$ 17,031,586	\$ -	\$ 299,708,525
Construction in Progress	660,331,366	(166,784,721)	-	493,546,645
Buildings	10,933,019	1,875,478	(2,040,898)	10,767,599
Infrastructure	3,015,497,730	1,228,763,360	(269,034,343)	3,975,226,747
Machinery and Equipment	61,663,328	19,778,298	(7,551,473)	73,890,153
Total	<u>\$ 4,031,102,382</u>	<u>\$ 1,100,664,001</u>	<u>\$ (278,626,714)</u>	<u>\$ 4,853,139,669</u>
	(Restated)			(Restated)
	January 1, 2007	2007	2007	December 31, 2007
	Net Balance	Net Activity	Depreciation	Net Balance
Land	\$ 272,467,772	\$ 10,209,167	\$ -	\$ 282,676,939
Construction in Progress	549,346,788	110,984,578	-	660,331,366
Buildings	12,704,575	214,594	(1,986,150)	10,933,019
Infrastructure	2,294,105,839	931,454,114	(210,062,223)	3,015,497,730
Machinery and Equipment	47,562,263	21,487,230	(7,386,165)	61,663,328
Total	<u>\$ 3,176,187,237</u>	<u>\$ 1,074,349,683</u>	<u>\$ (219,434,538)</u>	<u>\$ 4,031,102,382</u>

Additional information concerning capital assets can be found in Note 5. Information concerning the restatement can be found in Note 18.

**LONG -TERM DEBT:**

*2008 COMPARED TO 2007*

The Tollway issued three series of revenue bonds, each backed by pledged revenue and restricted funds, in order to finance projects under the Congestion-Relief Program. Issues in 2008 totaled \$1.1 billion and, after the defeasement of almost \$708 million of bonds issued in 2006, brought total bonds payable at year-end to almost \$3.4 billion, up from \$3.0 billion the previous year-end. See Note 6 for detailed information about these debt issues.

*OTHER DEBT RELATED INFORMATION*

The 1993 Series B, 1998 Series B, 2007 Series A-1 and A-2, and 2008 Series A-1 and A-2 bonds were issued as variable rate bonds. In connection with the issuance of these variable rate series, the Tollway entered into eleven separate variable-to-fixed interest rate exchange (swap) agreements in total notional amounts and with amortizations equal to the total principal amounts and amortizations of the Tollway's four variable rate bond issues. One swap agreement is associated with the 1993 Series B bonds, in an original amount of \$178.2 million, \$80.5 million of which is outstanding as of December 31, 2008. Two swap agreements are associated with the 1998 Series B bonds, in original amounts totaling \$123.1 million, all of which is outstanding as of December 31, 2008. Four swap agreements are associated with the 2007 Series A-1 and A-2 bonds, in original amounts totaling \$700 million, all of which is outstanding as of December 31, 2008. Four swap agreements are associated with the 2008 Series A-1 and A-2 bonds, in original amounts totaling \$766.2 million, all of which is outstanding as of December 31, 2008. The Tollway utilized these eleven swap agreements in order to hedge against rising interest rates and to reduce its borrowing rate (as compared to the borrowing rate obtainable by issuing fixed rate bonds). The risks associated with these types of arrangements and the strategies employed by the Tollway to mitigate those risks are discussed in Note 6 of the financial statements.

In an effort to improve disclosures associated with derivative contracts, the Government Accounting Standards Board (GASB) has issued critical accounting guidance that requires more comprehensive reporting for state and local governments. This Technical Bulletin (No. 2003-1) became effective for periods ending after June 15, 2003, and requires the Tollway to determine the fair market value of the swap contracts as of the year ended December 31, 2003, and into the future, and to disclose these amounts.

The Tollway's financial advisor has performed this calculation based upon forward rates and discounted cash flows. As of December 31, 2008, fair market value analysis of the swap agreements determined that if the Tollway had terminated the swap contracts on that date, the Tollway would have been required to make a payment of: \$1.7 million for the 1993 Series B swap agreement; a total of \$17.2 million for the two 1998 Series B swap agreements; a total of \$120.6 million for the four 2007 Series A-1 and A-2 swap agreements; and a total of \$108.9 million for the four 2008 Series A-1 and A-2 swap agreements.

The amount of additional bonds that the Tollway may issue at any time is limited by the requirement that the projected net revenues are sufficient to meet the Net Revenue Requirement, after giving effect to the debt service attributable to such additional bonds. The Net Revenue Requirement is comprised of the amount necessary to cure deficiencies, if any, in all debt service accounts and debt reserve accounts established under the Trust Indenture, plus the greater of (i) the sum of Aggregate Debt Service on Senior Bonds, the Junior Bond Revenue Requirement, and the Renewal and Replacement Deposit for such period, and (ii) 1.3 times the Aggregate Debt Service on Senior Bonds for such period (all capitalized terms as defined in the Trust Indenture). Under the terms of the Trust Indenture, the revenue bond coverage ratio for 2008 was 2.25x.

Illinois State Toll Highway Authority  
Management's Discussion and Analysis  
December 31, 2008

Illinois State Toll Highway Authority  
Long-Term Debt Analysis  
December 31, 2008 and 2007

	2008		
	Noncurrent	Current	Total
<b>Revenue Bonds Payable</b>			
Issue of 1992 Series A	\$ 100,665,000	\$ -	\$ 100,665,000
Issue of 1993 Series B	-	80,500,000	80,500,000
Issue of 1996 Series A	-	15,625,000	15,625,000
Issue of 1998 Series A	194,115,000	1,025,000	195,140,000
Issue of 1998 Series B	123,100,000	-	123,100,000
Issue of 2005 Series A	770,000,000	-	770,000,000
Issue of 2006 Series A-1	291,660,000	-	291,660,000
Issue of 2007 Series A-1	350,000,000	-	350,000,000
Issue of 2007 Series A-2	350,000,000	-	350,000,000
Issue of 2008 Series A-1	383,100,000	-	383,100,000
Issue of 2008 Series A-2	383,100,000	-	383,100,000
Issue of 2008 Series B	350,000,000	-	350,000,000
<b>Total Rev. Bonds Payable</b>	<b>\$ 3,295,740,000</b>	<b>\$ 97,150,000</b>	<b>\$ 3,392,890,000</b>

	2007		
	Noncurrent	Current	Total
<b>Revenue Bonds Payable</b>			
Issue of 1992 Series A	\$ 100,665,000	\$ -	\$ 100,665,000
Issue of 1993 Series B	80,500,000	34,300,000	114,800,000
Issue of 1996 Series A	15,625,000	14,745,000	30,370,000
Issue of 1998 Series A	195,140,000	985,000	196,125,000
Issue of 1998 Series B	123,100,000	-	123,100,000
Issue of 2005 Series A	770,000,000	-	770,000,000
Issue of 2006 Series A-1	500,000,000	-	500,000,000
Issue of 2006 Series A-2	500,000,000	-	500,000,000
Issue of 2007 Series A-1	350,000,000	-	350,000,000
Issue of 2007 Series A-2	350,000,000	-	350,000,000
<b>Total Rev. Bonds Payable</b>	<b>\$ 2,985,030,000</b>	<b>\$ 50,030,000</b>	<b>\$ 3,035,060,000</b>

Note: Amounts presented in this table exclude unamortized bond premiums and deferred amount on refunding.

Additional information concerning long-term debt can be found in Note 6.

#### **FACTORS IMPACTING FUTURE OPERATIONS**

During 2009 the Tollway will continue implementing the work of the Congestion-Relief Program. As a result of these activities the Tollway's future financial position is likely to be impacted by:

- Additional revenue bonds issued as part of its long-term financial plan to fund the Program's projects (also see Note 20),
- Additional interest costs incurred related to this additional debt, all as anticipated in the Tollway's long-term financial plan,
- Continued net increases in capital assets and in related depreciation expense as completed infrastructure projects are placed in service.

#### **CONTACTING THE TOLLWAY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers, bondholders, employees, and other stakeholders with an overview of the Tollway's finances and to demonstrate the Tollway's accountability for the funds it receives and deploys. Questions concerning this report or requests for additional financial information should be directed to the Controller, Illinois State Toll Highway Authority, 2700 Ogden Avenue, Downers Grove, Illinois 60515.

Illinois State Toll Highway Authority  
Statement of Net Assets  
December 31, 2008  
(With Comparative Totals as of December 31, 2007)

	2008	(Restated) 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
<b>CURRENT UNRESTRICTED ASSETS</b>		
Cash and Cash Equivalents	\$ 357,722,016	\$ 438,306,545
Accounts Receivable, less allowance for doubtful accounts of \$195,674,372 and \$50,110,754 in 2008 and 2007, respectively	30,567,798	25,779,142
Intergovernmental Receivables	86,814,775	11,752,789
Accrued Interest Receivable	317,275	587,992
Current Portion of Leases Receivable, less allowance for doubtful accounts of \$783,746 and \$681,805 in 2008 and 2007, respectively	1,643,250	1,601,223
Risk Management Reserved Cash	11,293,764	10,993,436
Other Prepaid Expenses	14,631,288	9,799,766
Total Current Unrestricted Assets	<u>502,990,166</u>	<u>498,820,893</u>
<b>CURRENT RESTRICTED ASSETS</b>		
Cash and Cash Equivalents Restricted for Debt Service	267,827,509	207,329,644
Cash and Cash Equivalents - Construction	167,159,562	660,429,117
Cash and Investments - I-PASS Accounts	124,296,311	108,865,464
Investments Restricted for Debt Service, at fair value	74,038,196	140,089,282
Accrued Interest Receivable	811,212	3,930,744
Pension Benefit Assets	396,570	424,772
Total Current Restricted Assets	<u>634,529,360</u>	<u>1,121,069,023</u>
Total Current Assets	<u>1,137,519,526</u>	<u>1,619,889,916</u>
<b>NONCURRENT ASSETS</b>		
<b>CAPITAL ASSETS</b>		
Land, Improvements and Construction in Progress	793,255,170	943,008,305
Other Capital Assets, net of Accumulated Depreciation	4,059,884,499	3,088,094,077
Total Capital Assets, net	<u>4,853,139,669</u>	<u>4,031,102,382</u>
<b>OTHER NONCURRENT ASSETS</b>		
Leases Receivable, less current portion	30,088,000	25,572,754
Deferred Bond Issuance Costs, net of accumulated amortization of \$8,993,114 and \$16,774,032 in 2008 and 2007, respectively	11,357,005	10,617,130
Total Other Noncurrent Assets	<u>41,445,005</u>	<u>36,189,884</u>
Total Noncurrent Assets	<u>4,894,584,674</u>	<u>4,067,292,266</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,032,104,200</u>	<u>\$ 5,687,182,182</u>

See accompanying notes to the financial statements.

(Continued)

Illinois State Toll Highway Authority  
Statement of Net Assets (Continued)  
December 31, 2008  
(With Comparative Totals as of December 31, 2007)

<b>LIABILITIES AND NET ASSETS</b>	<b>2008</b>	<b>(Restated) 2007</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Payable from Unrestricted Current Assets:		
Accounts Payable	\$ 27,597,153	\$ 25,404,871
Accrued Liabilities	187,178,171	165,228,441
Accrued Compensated Absences	4,188,960	3,625,756
Risk Management Claims Payable	10,878,028	10,688,930
Deposits and Retainage	63,244,503	65,925,871
Total Current Liabilities Payable from Unrestricted Current Assets	<u>293,086,815</u>	<u>270,873,869</u>
Payable from Current Restricted Assets:		
Pension Benefit Obligation	6,736	40,720
Current Portion of Revenue Bonds Payable	97,150,000	50,030,000
Accrued Interest Payable	60,600,406	63,374,518
Deposits and Deferred Revenue - I-PASS Accounts	124,296,311	108,865,464
Total Current Liabilities Payable from Current Restricted Assets	<u>282,053,453</u>	<u>222,310,702</u>
Total Current Liabilities	<u>575,140,268</u>	<u>493,184,571</u>
<b>NONCURRENT LIABILITIES</b>		
Revenue Bonds Payable, less current portion	3,295,740,000	2,985,030,000
Bond Premiums and Discounts, less deferred amounts on refunding	4,654,225	79,465,455
Accrued Compensated Absences	3,033,384	2,625,547
Deferred Revenue, less accumulated amortization of \$20,829,800 and \$17,628,753 in 2008 and 2007, respectively	47,990,164	43,272,785
Total Noncurrent Liabilities	<u>3,351,417,773</u>	<u>3,110,393,787</u>
Total Liabilities	<u>3,926,558,041</u>	<u>3,603,578,358</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of Related Debt	1,622,755,006	1,577,006,044
Restricted under Trust Indenture Agreements	282,076,511	287,975,152
Restricted for Pension Benefit Obligations	389,834	384,052
Unrestricted	200,324,808	218,238,576
Total Net Assets	<u>2,105,546,159</u>	<u>2,083,603,824</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 6,032,104,200</u>	<u>\$ 5,687,182,182</u>

See accompanying notes to the financial statements.

Illinois State Toll Highway Authority  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended December 31, 2008  
(With Comparative Totals for the Year Ended December 31, 2007)

	2008	(Restated) 2007
<b>OPERATING REVENUES</b>		
Toll Revenue	\$ 583,646,592	\$ 572,092,902
Toll Evasion Recovery	224,047,528	29,738,604
Concessions	1,754,403	3,788,756
Miscellaneous	3,429,783	2,819,131
Total Operating Revenues	<u>812,878,306</u>	<u>608,439,393</u>
<b>OPERATING EXPENSES</b>		
Engineering and Maintenance of Roadway and Structures	45,304,051	44,833,917
Services and Toll Collection	110,093,269	86,550,454
Traffic Control, Safety Patrol, and Radio Communications	22,344,274	21,246,925
Procurement, IT, Finance, and Administration	21,942,396	24,261,781
Insurance and Employee Benefits	59,634,767	52,414,462
Bad Debt Expense	146,850,695	23,221,646
Depreciation and Amortization	278,626,714	219,434,538
Total Operating Expenses	<u>684,796,166</u>	<u>471,963,723</u>
Operating Income	<u>128,082,140</u>	<u>136,475,670</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment Income	22,979,654	43,367,461
Intergovernmental Contributions	1,071,429	-
Revenues under Intergovernmental Agreements	81,091,003	-
Expenses under Intergovernmental Agreements	(81,091,003)	-
Net Increase (Decrease) in Fair Value of Investments	(221,181)	3,297,367
Net Gain (Loss) on Disposal of Property	377,214	(8,491,090)
Interest Expense and Amortization of Financing Costs	(130,889,438)	(92,553,608)
Miscellaneous Revenue (Expense)	542,517	(11,461,519)
Total Nonoperating Revenues (Expenses)	<u>(106,139,805)</u>	<u>(65,841,389)</u>
<b>CHANGE IN NET ASSETS</b>	21,942,335	70,634,281
<b>NET ASSETS AT BEGINNING OF YEAR, AS RESTATED</b>	<u>2,083,603,824</u>	<u>2,012,969,543</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 2,105,546,159</u>	<u>\$ 2,083,603,824</u>

See accompanying notes to the financial statements.

Illinois State Toll Highway Authority  
Statement of Cash Flows  
For the Year Ended December 31, 2008  
(With Comparative Totals for the Year Ended December 31, 2007)

	2008	(Restated) 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Sales and Services	\$ 675,219,969	\$ 565,569,266
Cash Received from Other Governments for Services	6,029,017	-
Cash Payments to Suppliers	(178,387,553)	(80,827,677)
Cash Payments to Employees	(118,419,630)	(125,665,438)
Net Cash Provided by Operating Activities	<u>384,441,803</u>	<u>359,076,151</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and Construction of Capital Assets	(1,086,200,179)	(1,089,112,549)
Cash Paid to Other Governments for Capital Assets	(22,595,213)	-
Capital Related Debt - Capital Lease Obligations	-	(4,015,550)
Proceeds from Sale of Property	480,910	6,271,776
Proceeds from Sale of Bonds	1,116,200,000	700,000,000
Discount for Sale of Bonds	(9,142,000)	-
Defeased Bonds - Paid to Escrow Agent	(708,340,000)	-
Principal paid on Revenue Bonds	(50,030,000)	(47,350,000)
Interest Expense and Issuance Costs paid on Revenue Bonds	(220,795,363)	(125,335,718)
Net Cash (Used in) Capital and Related Financing Activities	<u>(980,421,845)</u>	<u>(559,542,041)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investment Securities	(797,681,159)	(109,990,950)
Proceeds from Sales and Maturities of Investments	863,511,064	115,345,902
Interest on Investments	32,525,093	88,749,091
Net Cash Provided by Investing Activities	<u>98,354,998</u>	<u>94,104,043</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(497,625,044)</b>	<b>(106,361,847)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,425,924,206</b>	<b>1,532,286,053</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 928,299,162</b>	<b>\$ 1,425,924,206</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Cash and Cash Equivalents	\$ 357,722,016	\$ 438,306,545
Risk Management Reserved Cash	11,293,764	10,993,436
Cash and Cash Equivalents Restricted for Debt Service	267,827,509	207,329,644
Cash and Cash Equivalents Restricted for Construction	167,159,562	660,429,117
Cash and Cash Equivalents - I-PASS Accounts	124,296,311	108,865,464
<b>TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 928,299,162</b>	<b>\$ 1,425,924,206</b>

See accompanying notes to the financial statements.

(Continued)

Illinois State Toll Highway Authority  
Statement of Cash Flows (Continued)  
For the Year Ended December 31, 2008  
(With Comparative Totals for the Year Ended December 31, 2007)

	2008	(Restated) 2007
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating Income	\$ 128,082,140	\$ 136,475,670
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities:		
Depreciation and Amortization	278,626,714	219,434,538
Provision for Bad Debt	146,850,695	23,863,446
Amortization of Deferred Revenue	4,717,379	(3,155,677)
Intergovernmental Contributions and Revenues	82,162,432	-
Miscellaneous Revenue (Expense)	542,517	(11,461,519)
Effects of Changes in Operating Assets and Liabilities:		
(Increase) in Accounts Receivable	(151,537,410)	(25,320,091)
(Increase) in Intergovernmental Receivables	(75,061,986)	(10,313,358)
(Increase) Decrease in Leases Receivable	(4,659,214)	1,646,172
(Increase) Decrease in Prepaid Expenses	(4,831,522)	3,510,912
Decrease in Net Assets Available for Pension Benefits	28,202	15,383
Increase in Accounts Payable	2,192,282	10,736,460
Increase (Decrease) in Accrued Liabilities	(36,546,060)	16,784,843
Increase in Accrued Compensated Absences	971,041	551,303
(Decrease) in Pension Obligation	(33,984)	(35,315)
(Decrease) in Deposits and Retainage	(2,681,368)	(3,158,249)
Increase (Decrease) in Deposits and Deferred Revenue - I-PASS	15,430,847	(2,568,924)
Increase in Risk Management Claims Payable	189,098	2,070,557
Net Cash Provided by Operating Activities	<u>\$ 384,441,803</u>	<u>\$ 359,076,151</u>

The fair value of investments decreased by \$3,518,548 in 2008 and increased by \$1,634,270 in 2007, respectively.  
The interest paid on revenue bonds was \$148,412,572 and \$121,071,159 in 2008 and 2007, respectively.

See accompanying notes to the financial statements.

## Illinois State Toll Highway Authority

### Notes to the Financial Statements December 31, 2008

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and financial reporting practices of the Illinois State Toll Highway Authority (the Tollway), a component unit of the State of Illinois, conform to generally accepted accounting principles (GAAP), as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, which are not in conflict with GASB pronouncements. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Tollway has elected to not apply FASB pronouncements issued after November 30, 1989.

#### Financial Reporting Entity

The Illinois State Toll Highway Authority, a component unit of the State of Illinois, was created by an Act of the General Assembly of the State of Illinois – the Toll Highway Act – for the purpose of constructing, operating, regulating, and maintaining a toll highway or a system of toll highways and, in connection with the financing of such projects, is authorized to issue revenue bonds which shall be retired from revenues derived from the operation of the Tollway. Under the provisions of the Act, no bond issue of the Tollway, or any interest thereon, is an obligation of the State of Illinois. In addition, the Tollway is empowered to issue refunding bonds for the purpose of refunding any revenue bonds issued under the provisions of the Act, which are then outstanding.

The enabling legislation empowers the Tollway's Board of Directors with duties and responsibilities which include, but are not limited to, the ability to approve and modify the Tollway's budget, the ability to approve and modify toll rates and fees charged for use of the system, the ability to employ and discharge employees as is necessary in the judgment of the Tollway, and the ability to acquire, own, use, hire, lease, operate, and dispose of personal property, real property, and any interest therein.

Component units are separate legal entities for which the primary government is legally accountable. The Tollway is a component unit of the State of Illinois for financial reporting purposes because exclusion would cause the State's financial statements to be incomplete. The governing body of the Tollway is an 11 member Board of Directors of which nine members are appointed by the Governor with the advice and consent of the Illinois Senate. The Governor and the Secretary of the Illinois Department of Transportation are also members of the Tollway's Board of Directors. These financial statements are included in the State's comprehensive annual financial report and the State's separately issued basic financial statements. The Tollway itself does not have any component units.

#### Basis of Accounting

The Tollway is accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Tollway's operations are included on the Statement of Net Assets. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Tollway accounts for its operations and financings in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

## Illinois State Toll Highway Authority

### Notes to the Financial Statements December 31, 2008

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Cash Equivalents

With the exception of approximately \$32 million in locally held funds, all cash and investments are held for the Tollway either by the Illinois State Treasurer (the Treasurer) as custodian or by the bond trustee under the Tollway's Trust Indenture.

For purposes of the Statement of Cash Flows, the Tollway considers all highly liquid investments, including restricted assets with a maturity of three months or less when purchased, and all investments held on its behalf by the Treasurer, to be cash equivalents, as these investments are available upon demand.

##### Investments

The Tollway reports investments at fair value in its Statement of Net Assets with the corresponding changes in fair value being recognized as an increase or decrease to non-operating revenue in the Statement of Revenues, Expenses and Changes in Net Assets. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between willing parties, rather than in a forced sale or liquidation. All investments are held for the Tollway either by the Treasurer as custodian or the bond trustee under the Tollway's Trust Indenture.

The primary objective in the investment of Tollway funds is to ensure the safety of principal, while managing liquidity to meet the financial obligations of the Tollway, and to provide the highest investment return using authorized instruments.

All investments in U.S. Treasury and agency issues owned by the Tollway are reported at fair value. Fair value for the investments in Illinois Funds (a state-operated money market fund, sponsored by the Treasurer in accordance with Illinois state law that is rated AAA by Standard & Poor's rating agency) is equal to the value of the pool shares. State statute requires that Illinois Funds comply with the Illinois Public Funds Investment Act. Other funds held for the Tollway by the Treasurer and the bond trustee are invested in money market accounts, U.S. Treasury and agency issues at the direction of the Tollway.

The Trust Indenture, as amended, under which the Tollway's revenue bonds were issued, authorizes the Tollway to invest in U.S. Treasury and agency issues, money market funds comprised of U.S. Treasury and agency issues, repurchase agreements thereon, time deposits, and certificates of deposit. All funds held by the Tollway's bond trustee were held in compliance with these restrictions for the year ended December 31, 2008.

##### Accounts Receivable

The Tollway's accounts receivable consist of various toll charges and amounts due from individuals and, commercial, governmental, and other entities. A provision for doubtful accounts has been recorded for the estimated amount of uncollectible accounts.

##### Prepaid Expenses and Inventory

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. The Tollway's inventory items consist mostly of consumable supplies that are quickly turned over and therefore the payments for such are directly expensed.

# Illinois State Toll Highway Authority

## Notes to the Financial Statements December 31, 2008

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital Assets

Capital assets include the historical cost of land and improvements, roadway and transportation structures (infrastructure), buildings and related improvements, and equipment. Expenses for the maintenance and repairs to the roadway and transportation structures, buildings, and related improvements are charged to operations when incurred. All expenses for land, buildings, infrastructure, and construction in progress that increase the value or productive capacities of assets are capitalized. Machinery and equipment expenses of \$5,000 or more are capitalized. In 2008 the Tollway began capitalizing interest related to construction in progress. A restatement reflecting capitalization from 2000 until 2007 is reflected in the restated 2007 ending Net Asset balance. Depreciation and interest amortization are computed using the straight-line method based on estimated useful lives, as follows:

Building	20 Years
Infrastructure	5 to 40 Years
Machinery and equipment	5 to 30 Years

During 2006 the Tollway implemented new software to track individual capital asset acquisitions and deletions and to calculate accumulated depreciation for these assets. Prior to fiscal year 2006, the Tollway recorded and depreciated capital assets using a pooling method, that is, assets acquired for each year in each category were combined into one total and depreciated as a group. Deletions decreased the group as a whole but were not attributed to one specific asset.

#### Accounting for Leases

The Tollway makes a distinction between 1) capital leases that effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets and 2) operating leases under which the lessor effectively retains all such risks and benefits.

When the Tollway is lessee: Assets acquired under capital leases are included as capital assets in the Statement of Net Assets. Assets acquired under capital leases are recorded at the lesser of the present value of the future minimum lease payments or the fair value of the asset at the beginning of the lease term and depreciated on a straight-line basis to the Statement of Revenues, Expenses and Changes in Net Assets, over the useful life of the asset. A corresponding liability is established and minimum lease payments are allocated between the liability and interest expense. Capital lease liabilities are classified as current and noncurrent, depending on when the principal component of the lease payment is due. The Tollway is currently not a lessee under any capital leases.

When the Tollway is lessor: A lease receivable (current and noncurrent) is established on the Statement of Net Assets which represents the future minimum rental payments guaranteed under the terms of the capital lease. Lease receipts are credited to the Statement of Revenues, Expenses and Changes in Net Assets in the periods in which they are earned over the term of the lease, as this represents the pattern of benefits derived from the leased assets. A bad debt reserve is recorded for any amounts whose collectability is uncertain.

# Illinois State Toll Highway Authority

## Notes to the Financial Statements December 31, 2008

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Deferred Bond Issuance Costs

Costs incurred in connection with the issuance of the 1992 Series A, 1993 Series B, 1998 Series A and B, 2005 Series A bonds, 2006 Series A-1 and Series A-2 and 2007 Series A-1 and A-2 bonds, 2008 Series A-1 and A-2 and 2008 Series B are amortized over the lives of the bonds, using the straight line method.

#### Debt Refunding

In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, when the Tollway refunds any of its bonds the difference between the carrying amount and the reacquisition price of the old bonds is deferred and amortized over the lesser of the life of the old debt or the life of the new debt.

#### Deferred Revenue

The Tollway recognizes revenue when earned. Amounts received in advance of the periods in which related services are rendered are recorded as a liability under "Deferred Revenue."

#### Net Assets

The Statement of Net Assets presents the Tollway's assets and liabilities with the difference reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for revenue bonds and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the criteria of the two preceding categories.

When both restricted and unrestricted resources are available for a specific use, it is the Tollway's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Toll Revenue

Toll Revenue is recognized in the month in which the transaction occurs. Revenue from Toll Evasion Recovery is recognized in the month the notice is issued. Both tolls and fines recovered under the evasion recovery enforcement system are recorded as Toll Evasion Recovery revenue.

#### Operating Revenues and Expenses

The Tollway's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its tollway system. All other revenues and expenses, including services performed for other governments, are reported as nonoperating revenues and expenses or as special items.

## Illinois State Toll Highway Authority

### Notes to the Financial Statements December 31, 2008

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Risk Management

The Tollway has self-insured risk retention programs with stop-loss limits for current employee group health and workers' compensation claims and has provided accruals for estimated losses arising from such claims.

##### Reclassification of Certain Amounts

Certain amounts on the statement of net assets and the statement of revenues, expenses and changes in net assets for the year ended December 31, 2007, have been reclassified, with no effect on total net assets, to be consistent with the classifications adopted for the year ended December 31, 2008.

##### Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Prior Year Comparative Information

The basic financial statements include certain prior year partial comparative information in total, but not at a level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Illinois State Toll Highway Authority's financial statements for the year ended December 31, 2007, from which the partial information was derived. However, as more fully discussed in Note 18, the prior year partial comparative information reflects the correction of errors in those financial statements.

#### NOTE 2 – CASH AND INVESTMENTS

##### Custodial Credit Risk - Deposits

Custodial credit risk is the risk that an institution holding Tollway deposits may fail and expose the Tollway to a loss if the Tollway's deposits were not returned upon maturity or demand. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. The Tollway has no policy that would further limit the requirements under state law. As of December 31, 2008, the Tollway's deposits were not exposed to custodial credit risk.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Schedule of Investments

As of December 31, 2008, the Tollway had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 - 5
Certificates of Deposit	\$ 9,310,000	\$ 9,310,000	\$ -
Money market funds*	434,987,072	434,987,072	-
Illinois Funds*	492,904,663	492,904,663	-
US Agency - Federal National Mortgage Association	16,708,470	9,625,485	7,082,985
- Federal Home Loan Bank	19,303,970	16,798,495	2,505,475
- Federal Home Loan Mortgage Corp	2,603,125	-	2,603,125
US Treasury Note	57,677,491	57,677,491	-
	<u>\$ 1,033,494,791</u>	<u>\$ 1,021,303,206</u>	<u>\$ 12,191,585</u>

\* Weighted average maturity is less than one year.

Interest Rate Risk

As a means of limiting its exposure to fair value losses from rising interest rates, and as a means of managing liquidity, the Tollway's investment policy requires that the majority of Tollway funds be invested in instruments with maturities of less than one year. No investment is to exceed a ten-year maturity. Investment maturities as of December 31, 2008 are as follows:

<u>Maturity</u>	<u>Percentage</u>
Less than one year	99%
One to five years	1%

Credit and Concentration Risks

The Tollway's investment policy limits investment of Tollway funds to securities guaranteed by the United States government; obligations of agencies and instrumentalities of the United States; municipal bonds with credit ratings not lower than the credit rating of the Tollway's senior bonds outstanding; interest-bearing savings accounts, certificates of deposit, or bank time deposits with institutions which meet specified capitalization requirements; money market mutual funds registered under the Investment Company Act of 1940; the Illinois Funds; and repurchase agreements of government securities as defined in the Government Securities Act of 1986.

The investment policy further requires that the investment portfolio be diversified in terms of specific maturity, specific issuer, or specific class of securities. Final maturities are limited to ten years; the majority of Tollway funds should be invested in maturities of less than one year. The Tollway was in compliance with these policies during 2008.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

The Tollway's investments in debt securities (excluding securities explicitly guaranteed by the U.S. government) were rated by Standard & Poor's / Moody's as follows for the year ended December 31, 2008:

Investment Type	2008	
	Fair Value	Rating
Money market funds	\$ 434,987,072	AAAm/Aaa
Illinois Funds	492,904,663	AAA/NR
US Agency:		
Federal National Mortgage Association	16,708,470	AAA/Aaa
Federal Home Loan Bank	19,303,970	AAA/Aaa
Federal Home Loan Mortgage Corp	2,603,125	AAA/Aaa

NR = Not Rated

**NOTE 3 – ACCOUNTS RECEIVABLE**

The Tollway's accounts receivable consist of various toll charges and other amounts due from individuals and commercial and other entities. A provision for doubtful accounts has been recorded for estimated uncollectible amounts.

	December 31, 2008	
	Net Receivables	
Tolls	\$	1,106,097
Toll Evasion Recovery		28,605,750
Oases Receivable		164,424
Damage Claims/Emergency Services		10
Insufficient I-Pass		143,664
Overdimension Vehicle Permits		27,330
Fiber Optic Agreements		30,678
Workers' Compensation		23,342
Other		466,503
Total Non-Governmental Receivables		<u>30,567,798</u>
Various Local and Municipal Governments		14,174,490
IAG Agencies		5,221,950
Other Agencies of the State of Illinois		67,418,335
Total Intergovernmental Receivables		<u>86,814,775</u>
Total Receivables	\$	<u><u>117,382,573</u></u>

# Illinois State Toll Highway Authority

## Notes to the Financial Statements December 31, 2008

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### NOTE 4 – LEASE RECEIVABLES

During 2002, the Tollway, as lessor, entered into two 25-year lease agreements, each a capital lease, for the oasis system (a retail lease and a fuel lease). Under the terms of each lease, the lessee is financially responsible for rebuilding and renovating the oasis structures. At the end of each lease, ownership of the improvements reverts to the Tollway. In the retail lease, the lessee is responsible for the payment of all expenses associated with administration and operation of the facilities including the securing of tenants. In the fuel lease, the lessee is responsible for the operation of the service station and car wash facilities. For 2008, the minimum lease schedule has been revised to reflect amendments to the fuel and retail leases.

The fuel lease agreement requires the parties to complete a remediation program to ensure that the oasis system is in compliance with current environmental laws and that compliance continues for the term of the lease. The Tollway is solely responsible for the remediation program until it has received "No Further Remediation" (NFR) letters from the Illinois Environmental Protection Agency (IEPA), except for the DeKalb oasis, which is the responsibility of Exxon-Mobil. A new release in 2008 at Belvidere North will also be handled by Exxon-Mobil.

The IEPA issues the letters along with approval for reimbursement of approved expenses from the LUST (Leaking Underground Storage Tank) Fund established by Congress. Remediation work has been completed at all oasis sites. NFR letters have been received for seven remediation sites controlled by the Tollway and by Exxon-Mobil for the DeKalb oasis. The remaining sites are being contested over reimbursement and other technical issues. The Tollway believes that the remaining NFR letters, relating to five additional sites, will be issued without further material remediation costs being incurred.

The future minimum lease payments receivable under these agreements as of December 31, 2008, are as follows:

<u>Year Ended December 31,</u>	<u>Retail Lease</u>	<u>Fuel Lease</u>	<u>Total Leases</u>
2009*	\$ 743,000	\$ 900,250	\$ 1,643,250
2010	743,000	900,250	1,643,250
2011	743,000	900,250	1,643,250
2012	814,333	900,250	1,714,583
2012	850,000	900,250	1,750,250
Thereafter	11,333,334	12,003,333	23,336,667
	<u>\$ 15,226,667</u>	<u>\$ 16,504,583</u>	<u>\$ 31,731,250</u>

The future minimum leases receivable do not include contingent rents that may be owing under these leases because of the lessee generating revenues over specific target amounts.

\*As of December 31, 2008 the Tollway established a bad debt reserve of \$783,746 to offset uncollected retail rent payments. At the end of 2008 the retail lessee was in default of its obligations under the lease. Amounts above are reflected net of the established reserve. In management's opinion, no further reserve is required and all other payments are expected to be made on a timely basis.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

**NOTE 5 – CAPITAL ASSETS**

Capital assets as of December 31, 2008, are as follows:

	(Restated) Balance January 1	Additions and Transfers in	Deletions and Transfers Out	Balance December 31
<b>Nondepreciable Capital Assets:</b>				
Land and Improvements	\$ 282,676,939	\$ 17,033,800	\$ (2,214)	\$ 299,708,525
Construction in Progress	660,331,366	1,049,128,420	(1,215,913,141)	493,546,645
<b>Total Nondepreciable Capital Assets</b>	<b>943,008,305</b>	<b>1,066,162,220</b>	<b>(1,215,915,355)</b>	<b>793,255,170</b>
<b>Depreciable Capital Assets</b>				
Buildings	39,034,345	1,875,478	-	40,909,823
Less: Accumulated Depreciation	(28,101,326)	(2,040,898)	-	(30,142,224)
<b>Net Buildings</b>	<b>10,933,019</b>	<b>(165,420)</b>	<b>-</b>	<b>10,767,599</b>
Infrastructure	5,707,517,675	1,228,763,360	-	6,936,281,035
Less: Accumulated Depreciation	(2,692,019,945)	(269,034,343)	-	(2,961,054,288)
<b>Net Infrastructure</b>	<b>3,015,497,730</b>	<b>959,729,017</b>	<b>-</b>	<b>3,975,226,747</b>
Machinery and Equipment	168,862,466	19,879,780	(7,016,043)	181,726,203
Less: Accumulated Depreciation	(107,199,138)	(7,551,473)	6,914,561	(107,836,050)
<b>Net Machinery and Equipment</b>	<b>61,663,328</b>	<b>12,328,307</b>	<b>(101,482)</b>	<b>73,890,153</b>
<b>Total Capital Assets</b>	<b>6,858,422,791</b>	<b>2,316,680,838</b>	<b>(1,222,931,398)</b>	<b>7,952,172,231</b>
Less: Accumulated Depreciation	(2,827,320,409)	(278,626,714)	6,914,561	(3,099,032,562)
<b>Total Capital Assets, Net</b>	<b>\$ 4,031,102,382</b>	<b>\$ 2,038,054,124</b>	<b>\$ (1,216,016,837)</b>	<b>\$ 4,853,139,669</b>

In 2008 the Tollway began capitalizing interest related to construction in progress. A restatement reflecting capitalization from 2000 until 2007 (\$73,878,895) is reflected at January 1, 2008 in the table above.

## Illinois State Toll Highway Authority

### Notes to the Financial Statements December 31, 2008

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#### NOTE 6 – REVENUE BONDS PAYABLE

##### Series 2008B Bonds

On November 18, 2008, the Tollway issued \$350,000,000 of Toll Highway Senior Priority Revenue Bonds (2008 Series B). This issuance was the fourth bond sale utilized to finance capital projects in the Congestion-Relief Program. The bonds also financed capitalized interest through June 30, 2009 and costs of issuance. The bonds were sold as a term bond maturing on January 1, 2033 bearing a 5.50% interest rate and priced to yield 5.70%, which produced an Original Issue Discount of \$9,142,000. The bonds are subject to optional redemption on or after January 1, 2018 at a redemption price of 100% of the principal amount plus accrued interest. The bonds are not insured. In connection with the bond issue, a Surety Policy in the face amount of \$100,000,000 was purchased from Berkshire Hathaway Assurance Corporation for deposit in the Debt Reserve Account. The Surety Policy expires on January 1, 2033.

##### Series 2008A Bonds

On February 7, 2008, the Tollway issued \$766,200,000 of Variable Rate Senior Refunding Revenue Bonds (2008 Series A-1 and Series A-2). This issuance advance refunded all of the Tollway's \$500,000,000 then-outstanding 2006 Series A-2 Bonds and a \$208,340,000 portion of the \$500,000,000 then-outstanding 2006 Series A-1 Bonds. The bonds also financed costs of issuance. The bonds were sold at par and initially issued in a weekly mode and remained in a weekly mode through fiscal year end. Interest rates on the bonds are set pursuant to the terms of a remarketing agreement. While in the weekly mode, the bonds are subject to demand for purchase from bondholders. Any such bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Bonds tendered for purchase that are not remarketed to new bondholder(s) are funded, subject to certain conditions, under a Standby Bond Purchase Agreement among the Tollway, the Trustee, and Dexia Credit Local, New York Branch. Any such funded bonds that either (a) remain unremarketed for 180 days or (b) remain unremarketed on the expiration date of the Standby Bond Purchase Agreement and such Standby Bond Purchase Agreement is not replaced, are required to be repaid by the Authority on the earlier of: (i) their originally scheduled payment date; and (ii) in twenty equal semi-annual principal installments, commencing 6 months following such 180 day period. The cost of the Standby Bond Purchase Agreement is a per annum fee of 23 basis points times the commitment amount of \$774,764,647, which consists of \$766,200,000 for payment of principal and \$8,564,647 for payment of interest. The expiration date of the Standby Bond Purchase Agreement is February 7, 2011. While in the weekly mode, the bonds are subject to optional redemption by the Tollway. Scheduled payments of principal and interest of the bonds are insured by Financial Security Assurance Inc.

##### Series 2007A Bonds

On November 1, 2007, the Tollway issued \$700,000,000 of Variable Rate Senior Priority Revenue Bonds (2007 Series A-1 and Series A-2). This issuance was the third bond sale utilized to finance capital projects in the Congestion-Relief Program. The bonds also financed a deposit to the Debt Reserve Account and costs of issuance. The bonds were sold at par and initially issued in a weekly mode and remained in a weekly mode through fiscal year end. Interest rates on the bonds are set pursuant to the terms of a remarketing agreement. While in the weekly mode, the bonds are subject to demand for purchase from bondholders. Any such bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Bonds tendered for purchase that are not remarketed to new bondholder(s) are funded, subject to certain conditions, under a Standby Bond Purchase Agreement among the Tollway, the Trustee, and Dexia Credit Local, New York Branch.

## Illinois State Toll Highway Authority

### Notes to the Financial Statements December 31, 2008

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#### NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)

##### Series 2007A Bonds (Continued)

Any such funded bonds that either (a) remain unremarketed for 180 days or (b) remain unremarketed on the expiration date of the Standby Bond Purchase Agreement and such Standby Bond Purchase Agreement is not replaced, are required to be repaid by the Authority on the earlier of: (i) their originally scheduled payment date; and (ii) in twenty equal semi-annual principal installments, commencing 6 months following such 180 day period. The cost of the Standby Bond Purchase Agreement is a per annum fee of 31 basis points (at December 31, 2008) times the commitment amount of \$709,780,822, which consists of \$700,000,000 for payment of principal and \$9,780,822 for payment of interest. The expiration date of the Standby Bond Purchase Agreement is March 20, 2011. While in the weekly mode, the bonds are subject to optional redemption by the Tollway. Scheduled payments of principal and interest of the bonds were initially insured by a municipal bond insurance policy (the Insurance Policy) from XL Capital Assurance (the Bond Insurer). The financial strength of the Bond Insurer was downgraded from: "AAA" to "A" by Fitch Ratings on January 24, 2008; "Aaa" to "A3" by Moody's Investors Service on February 7, 2008; and "AAA" to "A-" by Standard & Poor's Corporation on February 25, 2008. These rating downgrades to the Bond Insurer adversely impacted the variable interest rates on the bonds. As a result, the Tollway directed a cancellation of the Insurance Policy on March 20, 2008.

##### Series 2006A Bonds

On June 7, 2006, the Tollway issued \$1,000,000,000 of Senior Priority Revenue Bonds (2006 Series A-1 and Series A-2). This issuance was the second bond sale utilized to fund capital projects in the Congestion-Relief Program. The bonds also financed a deposit to the Debt Reserve Account and costs of issuance. All maturities of the bonds were sold bearing 5.0% interest rates at yields which produced an Original Issue Premium of \$40,019,000. The bonds are subject to optional redemption on or after July 1, 2016 at a redemption price of 100% of the principal amount plus accrued interest. The scheduled payments of principal and interest of the bonds are insured by Financial Security Assurance, Inc. On February 7, 2008, \$708,340,000 of the 2006 Series A bonds was advance refunded by the Tollway's \$766,200,000 Variable Rate Senior Refunding Revenue Bonds (2008 Series A-1 and Series A-2).

##### Series 2005A Bonds

On June 22, 2005, the Tollway issued \$770,000,000 of Senior Priority Revenue Bonds (2005 Series A). This issuance was the first bond sale utilized to fund capital projects in the Congestion-Relief Program. The bonds also financed a deposit to the Debt Reserve Account and costs of issuance. All maturities of the bonds were sold bearing 5.0% interest rates except for the \$101,935,000 par amount maturing on January 1, 2020 which was sold bearing an interest rate of 4.125%. The bonds were sold at yields which produced a net Original Issue Premium of \$60,405,414. The bonds are subject to optional redemption on or after July 1, 2015 at a redemption price of 100% of the principal amount plus accrued interest. The scheduled payments of principal and interest of this bond series are insured by Financial Security Assurance, Inc., except for the principal and interest of the \$101,935,000 maturing January 1, 2020 maturity, which is not insured.

## Illinois State Toll Highway Authority

### Notes to the Financial Statements December 31, 2008

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#### NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)

##### Series 1998A and 1998B Bonds

On December 30, 1998, the Tollway issued \$325,135,000 of Refunding Revenue Bonds, consisting of \$202,035,000 of Fixed Rate Bonds (1998 Series A) and \$123,100,000 of Variable Rate Bonds (1998 Series B). The bonds financed a refunding of a portion (\$313,105,000) of the Tollway's Series 1992A Bonds and also financed costs of issuance and accrued interest on the Series 1998 Series A Bonds. The Series 1998A Bonds were sold with fixed interest rates ranging from 4.0% to 5.5% at yields which produced a net Original Issue Premium of \$17,414,484. The Series 1998A Bonds, of which \$195,140,000 were outstanding as of December 31, 2008, are not subject to redemption prior to maturity. The Series 1998B Bonds were initially issued in a weekly mode and were in a weekly mode during all of 2008. Interest rates on the Series 1998B Bonds are set pursuant to the terms of a remarketing agreement. While in the weekly mode, the Series 1998B Bonds are subject to demand for purchase from bondholders. Any such Series 1998B Bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Series 1998B Bonds tendered for purchase that are not remarketed to new bondholder(s) are funded, subject to certain conditions, under a Standby Bond Purchase Agreement among the Tollway, the Trustee, and Helaba Landesbank. Any such funded bonds that remain unremarketed on the expiration date of the Standby Bond Purchase Agreement and such Standby Bond Purchase Agreement is not replaced are required to be repaid by the Authority on the earlier of: (i) their originally scheduled payment date; or (ii) over a five year period in five equal annual installments, commencing on the expiration date of the Standby Bond Purchase Agreement. The cost of the Standby Bond Purchase Agreement is a per annum fee of 50 basis points (at December 31, 2008) times the commitment amount of \$129,339,315, which consists of \$123,100,000 for payment of principal and \$6,239,315 for payment of interest.

The expiration date of the Standby Bond Purchase Agreement is December 29, 2010. While in the weekly mode, the Series 1998B Bonds are subject to optional redemption by the Tollway. The final maturity of the bonds is January 1, 2017. The scheduled payments of principal and interest of the Series 1998A Bonds and the Series 1998B Bonds are insured by Financial Security Assurance, Inc.

##### Series 1996A Bonds

On October 10, 1996, the Tollway issued \$148,285,000 of Refunding Revenue Bonds (1996 Series A), \$15,625,000 of which were outstanding on December 31, 2008. The bonds financed a refunding of certain of the Tollway's then-outstanding Series 1986 and Series 1987 Bonds. The bonds also financed costs of issuance and accrued interest. The Series 1996A Bonds were sold with fixed interest rates ranging from 4.7% to 6.0% at yields which produced a net Original Issue Premium of \$2,387,535. The final maturity of the bonds is January 1, 2009. The bonds are not subject to redemption prior to maturity. The scheduled payments of principal and interest of the bonds are insured by Financial Guaranty Insurance Company.

##### Series 1993B Bonds

On March 24, 1993, the Tollway issued \$178,200,000 of Refunding Revenue Bonds (1993 Series B), \$80,500,000 of which were outstanding on December 31, 2008. The bonds were used to advance refund portions of then-outstanding Series 1985, 1986 and 1992 bonds and pay certain costs of issuance and to finance the cost of a \$22,974,900 surety bond from Municipal Bond Investors Assurance Corporation to satisfy a portion of the Debt Reserve Requirement. The bonds were sold at par and the final maturity of the bonds is January 1, 2010. The bonds were initially issued in a weekly mode and were in a weekly mode during all of 2008. Interest rates on the bonds are set pursuant to the terms of a remarketing agreement.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

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**NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)**

Series 1993B Bonds (Continued)

While in the weekly mode, the bonds are subject to demand for purchase from bondholders. Any such bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Bonds tendered for purchase that are not remarketed to new bondholder(s) are funded, subject to certain conditions, under a Letter of Credit from Societe Generale, issued pursuant to a Reimbursement Agreement among the Tollway, the Trustee, and Societe Generale. The cost of the Letter of Credit is a per annum fee of 20 basis points times the commitment amount of \$89,427,781 which consists of \$80,500,000 for payment of principal and \$8,927,781 for payment of interest. The expiration date of the Letter of Credit is December 31, 2009. While in the weekly mode, the bonds are subject to optional redemption by the Tollway. The scheduled payments of principal and interest of the bonds are insured by Municipal Bond Investors Assurance Corporation. The 1993 Series B Bonds were redeemed in full on January 28, 2009. See Subsequent Events – Note 20.

Series 1992A Bonds

On October 14, 1992, the Tollway issued \$459,650,000 of Priority Revenue Bonds (1992 Series A). The bonds financed certain capital projects, a deposit to the Debt Reserve Account and costs of issuance. A portion of the bonds were advance refunded. The bonds that remain outstanding were sold bearing an interest rate of 6.30% at a price of 99.75% and mature on January 1, 2011 and January 1, 2012. The outstanding bonds in the amount of \$100,665,000 are not subject to redemption prior to maturity and are not insured.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

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NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)

All Series

Details of outstanding revenue bonds as of December 31, 2008, are as follows:

Issue of 1992 Series A, 6.30% , due on various dates through January 1, 2012	\$	100,665,000
Issue of 1993 Series B, variable rates, due on various dates through January 1, 2010		80,500,000
Issue of 1996 Series A, 4.70 to 6.00%, due on various dates through January 1, 2009		15,625,000
Issue of 1998 Series A, 4.0 to 5.50%, due on various dates through January 1, 2016		195,140,000
Issue of 1998 Series B, variable rates, due on various dates through January 1, 2017		123,100,000
Issue of 2005 Series A, 4.125% to 5.00%, due on various dates through January 1, 2023		770,000,000
Issue of 2006 Series A-1, 5.00%, due on various dates through January 1, 2025		291,660,000
Issue of 2007 Series A-1, variable rates, due on various dates through July 1, 2030		350,000,000
Issue of 2007 Series A-2, variable rates, due on various dates through July 1, 2030		350,000,000
Issue of 2008 Series A-1, variable rates, due on various dates through January 1, 2031		383,100,000
Issue of 2008 Series A-2, variable rates, due on various dates through January 1, 2031		383,100,000
Issue of 2008 Series B, 5.50%, due on various dates through January 1, 2033		350,000,000
Totals		<u>3,392,890,000</u>
Less current maturities		(97,150,000)
Less deferred amount on refunding		(53,462,612)
Plus bond premium		<u>58,116,837</u>
Total long-term portion	\$	<u><u>3,300,394,225</u></u>

Accrued interest payable for the year ended December 31, 2008 was \$60,600,406.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

**NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)**

A summary of changes in revenue bonds payable is as follows for December 31, 2008:

	Balance January 1	Additions	Deletions	Balance December 31	Amounts Due Within One Year
1992 Series A	\$ 100,665,000	\$ -	\$ -	\$ 100,665,000	\$ -
1993 Series B	114,800,000	-	(34,300,000)	80,500,000	80,500,000
1996 Series A	30,370,000	-	(14,745,000)	15,625,000	15,625,000
1998 Series A	196,125,000	-	(985,000)	195,140,000	1,025,000
1998 Series B	123,100,000	-	-	123,100,000	-
2005 Series A	770,000,000	-	-	770,000,000	-
2006 Series A-1 & A-2	1,000,000,000	-	(708,340,000)	291,660,000	-
2007 Series A-1 & A-2	700,000,000	-	-	700,000,000	-
2008 Series A-1 & A-2	-	766,200,000	-	766,200,000	-
2008 Series B	-	350,000,000	-	350,000,000	-
<b>Totals</b>	<b>3,035,060,000</b>	<b>1,116,200,000</b>	<b>(758,370,000)</b>	<b>3,392,890,000</b>	<b>\$ 97,150,000</b>
Less:					
Unamortized deferred amount on refunding	(17,954,418)	(39,720,537)	4,212,343	(53,462,612)	
Unamortized bond (discount) premiums	97,419,873	-	(39,303,036)	58,116,837	
Current portion of Revenue bonds payable	(50,030,000)	(97,150,000)	50,030,000	(97,150,000)	
<b>Revenue bonds payable, Net of current portion</b>	<b>\$ 3,064,495,455</b>	<b>\$ 979,329,463</b>	<b>\$ (743,430,693)</b>	<b>\$ 3,300,394,225</b>	

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

**NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)**

The annual requirements to retire the principal and interest amount for all bonds outstanding at December 31, 2008, are as follows:

Year Ended December 31,	Principal	Interest	Total Debt Service
2009	\$ 97,150,000	\$ 146,671,939	\$ 243,821,939
2010	1,065,000	151,582,330	152,647,330
2011	49,910,000	148,902,275	198,812,275
2012	53,040,000	145,752,371	198,792,371
2013	56,365,000	142,382,840	198,747,840
2014	92,855,000	138,440,935	231,295,935
2015	97,795,000	133,369,185	231,164,185
2016	102,910,000	128,424,304	231,334,304
2017	107,850,000	123,383,929	231,233,929
2018	111,260,000	118,241,876	229,501,876
2019	116,085,000	112,606,291	228,691,291
2020	126,135,000	107,124,804	233,259,804
2021	135,540,000	100,926,765	236,466,765
2022	140,950,000	94,146,857	235,096,857
2023	151,720,000	86,886,763	238,606,763
2024	209,900,000	79,231,968	289,131,968
2025	201,760,000	70,711,131	272,471,131
2026	179,400,000	63,398,654	242,798,654
2027	248,700,000	56,116,411	304,816,411
2028	207,800,000	47,277,158	255,077,158
2029	217,300,000	38,935,141	256,235,141
2030	226,600,000	30,334,254	256,934,254
2031	110,800,000	21,355,188	132,155,188
2032	170,315,000	14,566,337	184,881,337
2033	179,685,000	4,941,336	184,626,336
Total	<u>\$ 3,392,890,000</u>	<u>\$ 2,305,711,042</u>	<u>\$ 5,698,601,042</u>

Defeased Bonds

On February 7, 2008, the Tollway issued \$766.2 million of Variable Rate Senior Refunding Bonds (2008 Series A-1 and A-2) to advance refund \$708.3 million of the 2006A (\$208.3 million of A-1 and \$500 million of A-2) Senior Priority Revenue Bonds with an interest rate of 5.0%. The net proceeds of \$758.6 million (after payment of \$7.6 million in underwriting fees, insurance and other issuance costs) plus an additional \$8.8 million of 2006A sinking fund monies were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006A Senior Priority Revenue Bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets. As a result of the refunding, the Tollway reduced its total debt service payments over the next 23 years by approximately \$47.1 million. The economic gain (difference between the present values of the debt service payments on the old and new debt) is approximately \$29.6 million. The principal amount of defeased bonds outstanding as of December 31, 2008 is \$708.3 million.

## Illinois State Toll Highway Authority

### Notes to the Financial Statements December 31, 2008

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#### NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)

##### Capitalized Interest

In 2008 the Tollway's total interest incurred for revenue bonds equaled \$145 million of which \$15 million was capitalized in respect of construction in progress.

##### Trust Indenture Agreement

On March 31, 1999, the Tollway executed an Amended and Restated Trust Indenture with the Trustee acting as fiduciary for bondholders. The Indenture establishes the conditions under which the Tollway may issue bonds and the security to be pledged to bondholders. The Indenture establishes two funds: (i) a Construction Fund to manage the spending of Tollway bond proceeds; and (ii) a Revenue Fund to manage the deposit of Tollway revenues. The Construction Fund is divided into different Project Accounts – one for each bond issue that finances new project(s). The Revenue Fund is divided into six different Accounts (some of which are further divided into Sub-Accounts) which establish an order of funding priority through which Tollway revenues flow. Revenues first fund the Operation and Maintenance Account, which is the only Account in the Revenue Fund in which bondholders do not have a security interest. Remaining revenues fund the other Accounts of the Revenue Fund in the following order of priority: the Debt Service Account, the Debt Reserve Account, the Renewal and Replacement Account, the Improvement Account, and the System Reserve Account. (The Indenture also allows for the creation of Junior Lien Bond Accounts; to date the Tollway has never issued Junior Lien Bonds.)

All Accounts of the Construction Fund and the Debt Service Account and Debt Reserve Account of the Revenue Fund are held by the Trustee. The classification of Trustee-held funds in these financial statements is detailed in Note 8.

##### Interest Rate Exchange Agreements

As a means of lowering its borrowing costs, the Tollway has entered into eleven separate variable-to-fixed interest rate exchange agreements (swaps) in connection with its four outstanding variable rate bond issues. Per the terms of the swaps, the Tollway pays a fixed rate of interest to the swap provider in exchange for a variable rate of interest expected to match or closely approximate the variable rate of interest owed by the Tollway to bondholders. At the time each of the swaps was entered into by the Tollway, the Tollway's fixed rate obligation in the swap was less than the fixed rate of interest obtainable by the Tollway from issuing fixed rate bonds. Four of the swaps became effective February 7, 2008, two of which are associated with the 2008 Series A-1 bonds and two of which are associated with the 2008 Series A-2 bonds. Four of the swaps became effective November 1, 2007, two of which are associated with the 2007 Series A-1 bonds and two of which are associated with the 2007 Series A-2 bonds. Two of the swaps became effective December 30, 1998 and are associated with the 1998 Series B bonds. One swap became effective March 24, 1993 and is associated with the 1993 Series B bonds. The swap counterparty ratings included in the following chart are from Moody's Investors Service and Standard & Poor's Corporation, respectively.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)

Interest Rate Exchange Agreements (continued)

Significant terms of the agreements are as follows:

	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Termination Date	Mark to Market	Counterparty Credit Ratings
Series 1993B	\$ 80,500,000	03/24/1993	4.9200%	SIFMA 7-day Muni Index	12/31/09	\$ (1,661,526)	Aa2/AA-
Series 1998B	67,705,000	12/30/1998	4.3250%	Cost of Funds	01/01/17	(9,479,522)	Aaa/AAA
Series 1998B	55,395,000	12/30/1998	4.3250%	Cost of Funds	01/01/17	(7,755,973)	Aaa/AAA
Series 2007A-1	175,000,000	11/01/2007	3.9720%	SIFMA 7-day Muni Index	07/01/30	(29,893,046)	Aa3/A+
Series 2007A-1	175,000,000	11/01/2007	3.9720%	SIFMA 7-day Muni Index	07/01/30	(29,893,046)	Aa3/A
Series 2007A-2	262,500,000	11/01/2007	3.9925%	SIFMA 7-day Muni Index	07/01/30	(45,642,249)	Aaa/AA-
Series 2007A-2	87,500,000	11/01/2007	3.9925%	SIFMA 7-day Muni Index	07/01/30	(15,214,083)	Aa2/A+
Series 2008A-1	191,550,000	02/07/2008	3.7740%	SIFMA 7-day Muni Index	01/01/31	(27,377,436)	Aaa/AA-
Series 2008A-1	191,550,000	02/07/2008	3.7740%	SIFMA 7-day Muni Index	01/01/31	(27,377,436)	Aa1/A+
Series 2008A-2	287,325,000	02/07/2008	3.7640%	SIFMA 7-day Muni Index	01/01/31	(40,642,323)	A3/BBB
Series 2008A-2	95,775,000	02/07/2008	3.7640%	SIFMA 7-day Muni Index	01/01/31	(13,547,441)	A2/A

The notional amounts of the swaps match the outstanding principal amounts of the associated bonds. The Tollway's swaps contain scheduled reductions to notional amounts that match the scheduled reductions in the associated "revenue bonds payable" category. For the 1993 Series B bonds, the Tollway pays the counterparty a fixed rate of 4.920% and receives a variable payment which was based on: the actual amount of interest paid to bondholders (cost of funds) for the period January 1 through August 20, 2008; and the SIFMA 7-day Municipal Swap Index for the period August 21 through December 31, 2008. The change from a cost of funds swap to a SIFMA-based swap was triggered by a reduction in the rating of the Bond Insurer for the 1993 Series B Bonds. For the 1998 Series B bonds, the Tollway pays the counterparties a fixed rate of 4.325% and receives a variable payment based on the actual amount of interest paid to bondholders (cost of funds). For the 2007 Series A-1 and Series A-2 bonds, the Tollway pays the counterparties fixed rates of 3.972% and 3.9925%, respectively, and receives a variable payment based on the SIFMA 7-day Municipal Swap Index. For the 2008 Series A-1 and Series A-2 bonds, the Tollway pays the counterparties fixed rates of 3.774% and 3.764%, respectively, and receives a variable payment based on the SIFMA 7-day Municipal Swap Index.

*Market Valuation*

A decline in interest rates of SIFMA based swaps with durations matching the Tollway's swap durations and to a lesser extent a one year decrease in duration of Tollway swaps, contributed to the negative December 31, 2008 market valuations included in the preceding chart for the Tollway's swaps. At the time of the swaps, the synthetic fixed rates achieved by the swaps were less than the fixed rates that could have been achieved by issuing fixed rate bonds.

**NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)**

*Market Valuation (Continued)*

The swaps' fair market values were estimated using a bond-pricing model similar to the zero-coupon model, which calculates the future net payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. These valuations may vary from those reported by the respective counterparties due to differences in valuation methods and the varying size of the bid-ask spread.

*Counterparty Credit Risk*

Counterparty credit risk is the risk that a swap is terminated and the counterparty fails to make a required termination payment. The termination payment is a market-based payment approximating the value of the swap at the time of termination. The Tollway was not exposed to counterparty credit risk as of December 31, 2008 because the negative market values of each swap would render no payments owing by the counterparties in the event of a termination. If changes in interest rates were to create positive market values for the swaps in the future, the Tollway would be exposed to counterparty credit risk in the amount of those positive market values. The swaps require full collateralization of any positive market value of the swaps in the event the counterparty's credit rating falls below a Standard & Poor's rating of A- or a Moody's Investor Services' rating of A3. The swaps require such collateral to be held by a third party custodian in the form of cash, debt obligations issued by the U.S. Treasury or debt issued by federally sponsored agencies. The eleven swaps outstanding as of December 31, 2008 are with eleven different counterparties from nine different corporations. The counterparty with the largest notional amount holds 17% of the total notional amount of the outstanding swaps. The corporation with the largest notional amount holds 21% of the total notional amount of the outstanding swaps.

*Basis Risk*

Basis risk is the extent to which the Tollway's variable rate interest payments to bondholders differs from the variable rate payments received from the swap counterparties. The Tollway's variable rate interest payments are determined by rates established by remarketing agents on a weekly basis. In the case of the 1993 Series B swap, for the period January 1, 2008 through August 20, 2008, the variable rate interest payments received from the swap counterparty were equal to the variable rate interest payments owed to bondholders, rendering this swap to be without basis risk for that period. Due to a rating downgrade of the bond insurer on the 1993 Series B bonds, the 1993 Series B swap changed effective August 21, 2008 to a SIFMA-based swap, in which variable rate payments received from the swap counterparty is equal to the SIFMA 7-day Municipal Swap Index, so basis risk is incurred to the extent the rates set by remarketing agents on the 1993 Series B bonds exceeds the SIFMA 7-day Municipal Swap Index. For the period August 21, 2008 through December 31, 2008, the average interest rate paid to bondholders was 3.56%, compared to a SIFMA 7-day Municipal Swap Index of 2.46%. In the case of the 1998 Series B swaps, the variable rate interest payments received from the swap counterparties are equal to the variable rate interest payments owed to bondholders, which renders this swap to be without basis risk. In the case of the 2007 Series A-1 and Series A-2 swaps, the variable rate payments received from the swap counterparties is equal to the SIFMA 7-day Municipal Swap Index, so basis risk is incurred to the extent the rates set by remarketing agents on the Tollway's 2007 Series A-1 and A-2 bonds exceed the SIFMA 7-day Municipal Swap Index. During 2008, the average interest rate paid to bondholders was 2.87%, compared to a SIFMA 7-day Municipal Swap Index of 2.26%.

**NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)**

*Basis Risk (continued)*

In the case of the 2008 Series A-1 and Series A-2 swaps, the variable rate payments received from the swap counterparties are equal to the SIFMA 7-day Municipal Swap Index, so basis risk is incurred to the extent the rates set by remarketing agents on the Tollway's 2008 Series A-1 and A-2 bonds exceed the SIFMA 7-day Municipal Swap Index. For the portion of 2008 during which the 2008 Series A-1 and A-2 bonds were outstanding (February 7, 2008 through December 31, 2008), the average interest rate paid to bondholders was 3.23%, compared to a SIFMA 7-day Municipal Swap Index of 2.18%.

*Termination Risk*

The Tollway or the counterparties may terminate any of the swaps if the other party fails to perform under terms of the swaps. If a swap were terminated, the associated variable rate bonds would no longer carry synthetic fixed interest rates. In addition, if the swap has a negative market value at the time of termination, the Tollway would be liable to the counterparty for a payment equal to the swap's market value.

**NOTE 7 – DEFERRED REVENUE**

During 2002, the Tollway, as lessor, entered into two 25-year capital lease agreements for the refurbishing and operation of the oasis system. Rental payments earned have been recorded as concession revenue. The future minimum rental payments for the remainder of the terms of the leases, as of December 31, 2008 and 2007, of \$31,731,250 and \$27,176,899 (net of allowance of \$783,746 and \$681,805), respectively, have been recorded as lease receivables and as deferred revenue which will be amortized over the remaining lease terms. For 2008 the minimum lease schedule has been revised to reflect amendments to the fuel and retail leases.

In the year 2000, the Tollway upgraded its communications network with the addition of a fiber optic system. Excess capacity on the fiber optic lines was leased to other organizations in order to offset the cost of the system. In 1999 and 2000, the Tollway entered into eight twenty-year fiber optic system lease agreements and at those times collected \$26,086,389 in total payments; the related revenue was deferred and has been and is being amortized over the lease terms. In 2008 the Tollway entered into additional fiber optic leases in the total amount of \$1,720,825. These leases are being accounted for in the same manner.

The total deferred revenue balance for the oasis system and fiber optic system was \$68,819,964 at December 31, 2008 and \$60,901,538 at December 31, 2007 respectively; accumulated amortization of deferred revenue was \$20,829,800 and \$17,628,753 as of December 31, 2008 and 2007, respectively.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

**NOTE 7 – DEFERRED REVENUE (CONTINUED)**

A summary of changes in deferred revenue for the year ended December 31, 2008, is as follows:

	Balance at January 1	Current Year Activity	Balance at December 31
Deferred Revenue			
Fiber Optics	\$ 26,086,389	\$ 1,720,825	\$ 27,807,214
Accumulated Amortization	(9,990,503)	(1,557,797)	(11,548,300)
	<u>16,095,886</u>	<u>163,028</u>	<u>16,258,914</u>
Lease Receivable	34,815,149	6,197,601	41,012,750
Accumulated Amortization	(7,638,250)	(1,643,250)	(9,281,500)
	<u>27,176,899</u>	<u>4,554,351</u>	<u>31,731,250</u>
Totals			
Deferred Revenue	60,901,538	7,918,426	68,819,964
Accumulated Amortization	(17,628,753)	(3,201,047)	(20,829,800)
Net Deferred Revenue	<u>\$ 43,272,785</u>	<u>\$ 4,717,379</u>	<u>\$ 47,990,164</u>

**NOTE 8 – RESTRICTED NET ASSETS**

As of December 31, 2008, the Tollway reported the following restricted net assets:

Description	December 31, 2008
Revenue bond trust indenture agreement restrictions	\$ 352,086,073
Portion classified as Invested in Capital Assets net of Related Debt	<u>(70,009,562)</u>
Net assets restricted under Trust Indenture agreement restrictions	282,076,511
Assets restricted to paying pension benefit obligations	<u>389,834</u>
Total Restricted Net Assets	<u>\$ 282,466,345</u>

**NOTE 9 – CONTRIBUTIONS TO STATE EMPLOYEES’ RETIREMENT SYSTEM**

*Plan Description.* Substantially all of the Tollway’s full-time employees, as well as the State Police assigned to the Tollway who are not eligible for any other state-sponsored retirement plan, participate in the State Employees’ Retirement System (SERS), which is a component unit of the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system (PERS) in which state employees participate, except those covered by the State Universities, Teachers, General Assembly and Judges’ Retirement Systems. SERS provides retirement, disability and death benefits to plan members and beneficiaries. Automatic annual post-retirement increases are provided. SERS is governed by Article 14 of the Illinois Pension Code, 5 ILCS 40/14-101 as well as the Illinois Administrative Code, Title 80, Subtitle D, Chapter 1. SERS issues a separate comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information. The financial position and results of operations for SERS for fiscal year 2008 are also included in the State’s Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008.

A summary of SERS’ benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS CAFR. Also included therein is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

To obtain a copy of SERS’ CAFR, write, call, or email:

State Employees Retirement System  
2101 S. Veterans Parkway  
Springfield, IL. 62794-9255  
(217) 785-2340  
[sers@mail.state.il.us](mailto:sers@mail.state.il.us)

*Funding Policy.* The contribution requirements of SERS members and the State are established by State statute and may be amended by action of the General Assembly and the Governor. Tollway employees covered by SERS contribute between 4.0% and 8.5% of their annual covered payroll. The State contribution rates for the State’s fiscal years ended June 30, 2009 and 2008 were actuarially determined according to a statutory schedule. The contribution rates for the State’s fiscal year ended June 30, 2007 were based on dollar amounts specified by statute and were not actuarially determined.

Tollway contribution rates to SERS for its SERS covered employees for the State fiscal years ended June 30, 2009, 2008 and 2007 were 21.049 percent, 16.561 percent and 11.525 percent, respectively. Tollway contributions for the calendar years ended December 31, 2008, 2007 and 2006 were \$20,215,178, \$14,383,885 and \$9,280,541 respectively.

In addition to contributions to this retirement plan, effective July 1, 1990, the Tollway adopted, under the provisions of the Tollway Act (605 ILCS 10/1 et. seq.), a non-contributory defined-benefit pension plan which covered employees who were members of SERS and who were not members of any collective bargaining unit. The plan was intended to meet the requirements of a tax-qualified plan under Section 401(a) of the Internal Revenue Code. The plan provided benefits based upon years of service and employee compensation levels. The Tollway’s policy was to make contributions consistent with sound actuarial practice. Annual cost was determined using the projected unit credit actuarial method. The Tollway suspended the plan’s benefits as of September 15, 1994, and terminated the plan effective December 31, 1994. As of December 31, 2008 the net assets available for these benefits were \$396,570, (valued at the lesser of market value or actuarial value) and the pension benefit obligation was recorded as \$6,736.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

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**NOTE 9 – CONTRIBUTIONS TO STATE EMPLOYEES’ RETIREMENT SYSTEM (CONTINUED)**

*Other Post Employment Benefits:* Under provisions of SERS, the State of Illinois provides certain health, dental, and life insurance benefits to annuitants who are former Tollway employees. Substantially all Tollway employees may become eligible for post-employment benefits if they eventually become annuitants. Currently, 804 retirees meet the eligibility requirements. Life insurance benefits are limited to \$5,000 per annuitant age 60 or older. For the year ended December 31, 2008 the Tollway contributed \$3,946,055 towards the state’s cost of these benefits.

The actuarially determined annual OPEB cost for providing these benefits and the related OPEB obligations are recorded in the financial statements of the state agencies responsible for paying these benefits. The Department of Healthcare and Family Services (HFS) administers the Health Insurance Reserve Fund (for payment of health benefits), and the Department of Central Management Services (CMS) administers the Group Life Insurance Funds (for payment of life insurance benefits).

A summary of OPEB benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the state’s CAFR. Also included therein is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

**NOTE 10 – RISK MANAGEMENT**

The Tollway has self-insured risk retention programs for workers’ compensation claims. The Tollway’s exposure under this program is limited to self-insured retentions per workers’ compensation incident. In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The estimated liabilities for asserted workers’ compensation claims of \$10,540,112 and both asserted and unasserted employee health claims of \$337,916 are included in the accompanying financial statements.

Year	Estimated Claims Payable January 1	Current Claims	Claims Payments	Estimated Claims Payable December 31	Amounts Due within One Year
2008	\$ 10,688,930	\$ 5,438,898	\$ 5,249,800	\$ 10,878,028	\$ 10,878,028
2007	8,618,373	6,765,374	4,694,817	10,688,930	10,688,930

Additionally, the Tollway purchases commercial insurance policies for general liability insurance and vehicle liability damage to capital assets other than vehicles which have a level of retention of \$250,000 per occurrence. Property coverage includes retention of \$500,000 per occurrence. The Tollway has not had significant reductions in insurance coverage during the current or prior year nor did settlements exceed insurance coverage in any of the last three years.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

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**NOTE 11 – OPERATING LEASES**

Through the normal course of operations the Tollway has entered into a lease for office space. The lease was commenced on January 1, 2003 and terminates on December 31, 2012. The lease is cancellable by the Tollway anytime after December 31, 2009 with 180 days advance written notice. Total rent paid under the lease in 2008 was \$232,650. The minimum lease payments are summarized below.

<u>Year Ended December 31,</u>	<u>Minimum Lease</u>
2009	<u>Commitment</u>
	\$ 237,660

**NOTE 12 – COMPENSATED ABSENCES**

The liability reported in the Statement of Net Assets represents the vacation and 50% of unused sick time for the period beginning January 1, 1984, and ending December 31, 1997, accrued by the employees, and is payable upon termination or death of an employee. The payment provided shall not be allowed if the purpose of the separation from employment and any subsequent re-employment is for the purpose of obtaining such payment. The Tollway's liability for unused annual vacation leave and sick leave as defined above is recorded in the accompanying financial statements at the employee's salary.

Amounts accrued as compensated absences payable at December 31, 2008 are as follows:

	<u>Balance at</u>		<u>Accrued</u>		<u>Used</u>		<u>Balance at</u>		<u>Due Within</u>
	January 1						December 31		One Year
2008	\$ 6,251,303	\$	6,149,319	\$	5,178,278	\$	7,222,344	\$	4,188,960

**NOTE 13 – COMMITMENTS**

In addition to amounts already recorded, contracts of approximately \$999.6 million have been let and are outstanding as of December 31, 2008, for projects to be included under the Tollway's construction accounts. During 2008, approximately \$1.1 billion in invoices were paid on approximately \$4.7 billion of total contracts. The Tollway plans to fund remaining payments under these contracts through revenues and future revenue bond proceeds.

# Illinois State Toll Highway Authority

## Notes to the Financial Statements December 31, 2008

### NOTE 14 – PLEDGES OF FUTURE REVENUES:

All revenue bonds issued under the Tollway's Trust Indenture are secured by a pledge of and lien on Tollway revenues and certain other funds (excluding amounts reserved for the payment of maintenance and operating expenses) as provided in the Trust Indenture.

Bond Issue	Purpose	Future Pledged Revenues	Term of Commitment
1992 Series A Priority Revenue Bonds	Fund Construction for Tri-State Tollway Widening Project	\$ 119,787,548	2012
1993 Series B Refunding Revenue Bonds	Refund Certain Outstanding Bonds	84,664,780	2010
1996 Series A Refunding Revenue Bonds	Refund Outstanding Bonds	16,093,750	2009
1998 Series A Priority Refunding Revenue Bonds (Fixed Rate)	Refund Outstanding Bonds	254,973,105	2016
1998 Series B Priority Refunding Revenue Bonds (Variable Rate)	Refund Outstanding Bonds	166,023,463	2017
2005 Series A Senior Priority Revenue Bonds	Fund Congestion Relief Program	1,190,456,048	2023
2006 Series A-1 & A-2 Senior Priority Revenue Bonds	Fund Congestion Relief Program	498,029,500	2025
2007 Series A-1 & A-2 Variable Rate Senior Priority Revenue Bonds	Fund Congestion Relief Program	1,244,543,891	2030
2008 Series A-1 & A-2 Variable Rate Senior Refunding Revenue Bonds	Refund Outstanding Bonds	1,319,096,976	2031
2008 Series B Senior Priority Revenue Bonds	Fund Congestion Relief Program	804,931,981	2033
		\$ 5,698,601,042	

Proceeds from the bonds identified above provided financing for the construction and/or improvement of the various toll highway systems in Illinois. Annual principal and interest payments on the bonds are expected to require approximately 60 percent of the pledged net revenues. The total principal and interest remaining to be paid on the bonds is \$5.7 billion. Principal and interest paid for the current year and total pledged net revenues were \$198 million and \$448 million, respectively.

## Illinois State Toll Highway Authority

### Notes to the Financial Statements December 31, 2008

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#### NOTE 15 – PENDING LITIGATION

There are lawsuits pending against the Tollway claiming, among other things, damages for wrongful discharge, personal injuries and from the operation of the Tollway's evasion recovery system. Workers' compensation lawsuits are also pending. The Tollway's exposure is limited to the self-insured retention of \$250,000 per general liability incident.

Management, after taking into consideration legal counsel's evaluation of such actions, is of the opinion that the outcome of these matters will have no material adverse effect on the financial position of the Tollway.

#### NOTE 16 – CONTINGENT LIABILITIES

A contingent liability is defined as a liability that is not sufficiently predictable to permit recording in the accounts but in which there is a reasonable possibility of an outcome which might affect financial position or results of operations. The Tollway has two categories of contingent liabilities.

##### Contingent Liability for Arbitrage Rebate

In the 1980's, Congress determined that arbitrage rebate rules were needed to curb issuance of investment motivated tax-exempt bonds. These rules were designed to create additional safeguards against issuers obtaining an arbitrage benefit by issuing bonds either prematurely or in excess of actual need in order to benefit from an expected spread between tax-exempt borrowing cost and return on investment of bond proceeds. As a result, under certain conditions any gain from arbitrage that is realized must be rebated to the United States Government.

The Tollway retained a third-party expert to perform arbitrage calculations and determine any arbitrage rebate liability. In the opinion of this third party, as of December 31, 2008, the Tollway need not accrue any arbitrage rebate liability relating to its Series 1992A, 1993B, 1996A, 1998A, 1998B, 2006A, and 2008A Bonds.

Also in their opinion, the Tollway under certain circumstances may have an arbitrage rebate liability of \$125,877 on its Series 2005A Bonds. Per current arbitrage rebate regulations, this amount, if owed, would be due on June 22, 2010, unless subsequent calculations reduced or obviated this contingent liability.

Also in their opinion, the Tollway under certain circumstances may have an arbitrage rebate liability of \$349,853 on its Series 2007A Bonds. Per current arbitrage rebate regulations, this amount, if owed, would be due on November 1, 2012, unless subsequent calculations reduced or obviated this contingent liability.

The contingent arbitrage rebate liability relating to the Tollway's Series 2008-B Bonds, which were issued on November 18, 2008, has been calculated internally by the Tollway. The Tollway calculates no contingent arbitrage rebate liability on its Series 2008-B Bonds for the period ended December 31, 2008.

Illinois State Toll Highway Authority

Notes to the Financial Statements  
December 31, 2008

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**NOTE 17 – NEW GOVERNMENTAL ACCOUNTING STANDARDS**

The Governmental Accounting Standards Board (GASB) has issued the following statements:

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets. All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to these intangible assets, as applicable. The Tollway is required to implement this Statement for the year ending December 31, 2010.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The Tollway is required to implement this Statement for the year ending December 31, 2010.

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Tollway is required to implement this Statement for the year ending December 31, 2011.

Management has not yet determined what impact, if any, these Statements will have on the financial position and results of operations of the Tollway.

**NOTE 18 – RESTATEMENT OF NET ASSETS**

The December 31, 2007 net assets have been restated to correct errors in accounting for capital assets. The effect of the restatements is as follows:

	Net Assets	Capital Assets, Net of Accumulated Depreciation	Change in Net Assets
December 31, 2007 balance, as previously reported	\$ 2,009,724,929	\$ 3,957,223,487	\$ 76,088,587
Restatement for construction period interest adjustments	73,878,895	73,878,895	(5,454,306)
December 31, 2007 balance, as restated	\$ 2,083,603,824	\$ 4,031,102,382	\$ 70,634,281

As a result of this restatement, 2007 comparative data included in the Management's Discussion and Analysis and Basic Financial Statements for "investment income" and "interest expense and amortization of financing costs" has been reduced by \$28,577,417 compared to amounts previously reported.

**NOTE 19 – RELATED PARTY TRANSACTIONS**

The Tollway has entered into various intergovernmental agreements with the State of Illinois, through the Illinois Department of Transportation (IDOT). Intergovernmental receivables and non-operating revenues of \$63 million are recorded at December 31, representing amounts for construction projects performed by the Tollway that pertain to infrastructure owned by IDOT. Accrued liabilities totaling \$58 million are recorded for amounts owed to IDOT for construction projects IDOT is performing for infrastructure assets owned by the Tollway.

**NOTE 20 – SUBSEQUENT EVENTS**

On January 1, 2009, the Tollway made its regularly scheduled principal payment of \$36,100,000 for the 1993 Toll Highway Refunding Revenue Bonds, 1993 Series B (the 1993-B Bonds). On January 28, 2009, the Tollway redeemed in full its remaining outstanding \$44,400,000, 1993-B Bonds in advance of their originally scheduled final maturity of January 1, 2010. In connection with this redemption, an interest rate hedge agreement in the outstanding notional amount of \$44,400,000 entered into in connection with the issuance of the 1993-B Bonds (the "Agreement") was terminated. A termination amount, including accrued interest, of \$1,750,000 was paid by the Authority in connection with the termination of the Agreement. The Authority used existing funds on hand to redeem the 1993-B Bonds and terminate the Agreement.

On January 29, 2009 the Tollway's Board of Directors authorized the issuance of: (i) up to \$800 million of bonds for the purpose of paying costs of the Congestion-Relief Program; and (ii) up to \$1 billion of bonds for the purpose of refunding all or a portion of the Tollway's outstanding variable rate bonds, consisting of the 1998 Series B Bonds, 2007 Series A-1 and 2007 Series A-2 Bonds, and 2008 Series A-1 and 2008 Series A-2 Bonds.

On May 21, 2009 the Tollway issued \$500,000,000 of Toll Highway Senior Priority Revenue Bonds Taxable 2009 Series A (Build America Bonds - Direct Payment) (the 2009-A Bonds). The 2009-A Bonds were issued to finance costs of the Congestion-Relief Program, a deposit to the Debt Reserve Account and costs of issuance. The bonds were issued as Build America Bonds - Direct Payment as authorized by "The American Recovery and Reinvestment Act of 2009" (the Act). Pursuant to the American Recovery and Reinvestment Act of 2009, the Tollway has made an irrevocable election to designate the Series 2009A Bonds as "Build America Bonds" and to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on the Series 2009A Bonds. The receipt of the subsidy payments is subject to certain requirements, including the filing of a form with the Internal Revenue Service prior to each interest payment date.

**SUPPLEMENTARY INFORMATION**

Illinois State Toll Highway Authority  
Schedule of Changes in Fund Balance - By Fund  
Trust Indenture Basis of Accounting (Non GAAP)  
For the Year Ended December 31, 2008

	Revenue Fund	Construction Fund	Total
<b>INCREASES</b>			
Toll Revenue	\$ 583,646,592	\$ -	\$ 583,646,592
Toll Evasion Recovery	77,653,862	-	77,653,862
Concessions	3,419,246	-	3,419,246
Interest	22,980,042	6,155,191	29,135,233
Miscellaneous	3,412,615	-	3,412,615
Gain on Sale of Investments	1,125	-	1,125
<b>Total Increases</b>	<b>691,113,482</b>	<b>6,155,191</b>	<b>697,268,673</b>
<b>DECREASES</b>			
Engineering and Maintenance of Roadway and Structures	43,898,788	-	43,898,788
Services and Toll Collection	100,464,026	-	100,464,026
Traffic Control, Safety Patrol, and Radio Communications	21,894,832	-	21,894,832
Procurement, IT, Finance and Administration	18,382,364	-	18,382,364
Insurance and Employee Benefits	59,634,694	-	59,634,694
Construction	811,931,056	302,666,657	1,114,597,713
Reclassification of expenses	83,580,130	(83,580,130)	-
Bond Principal Payments	50,030,000	-	50,030,000
Bond Interest and Other Financing Costs	147,492,790	-	147,492,790
<b>Total Decreases</b>	<b>1,337,308,680</b>	<b>219,086,527</b>	<b>1,556,395,207</b>
<b>NET INCREASES (DECREASES)</b>	<b>(646,195,198)</b>	<b>(212,931,336)</b>	<b>(859,126,534)</b>
<b>OTHER CHANGES IN FUND BALANCES</b>			
Transfers In (Out)	258,099,228	(258,099,228)	-
Proceeds from Bond Sale	-	350,000,000	350,000,000
Discount on Bond Sale	-	(9,142,000)	(9,142,000)
Transfer to Escrow Agent for Defeased Bonds	(8,810,508)	-	(8,810,508)
Bond Issuance Costs and Interest Fund Deposit	-	(13,663,137)	(13,663,137)
Adjust for 2006 Bond Issuance Costs	-	3,998,167	3,998,167
	<b>249,288,720</b>	<b>73,093,802</b>	<b>322,382,522</b>
<b>CHANGE IN FUND BALANCE</b>	<b>(396,906,478)</b>	<b>(139,837,534)</b>	<b>(536,744,012)</b>
<b>FUND BALANCE, JANUARY 1</b>	<b>866,159,331</b>	<b>306,345,548</b>	<b>1,172,504,879</b>
<b>FUND BALANCE, DECEMBER 31</b>	<b>\$ 469,252,853</b>	<b>\$ 166,508,014</b>	<b>\$ 635,760,867</b>

See accompanying Notes to the Trust Indenture Basis Schedules.

Illinois State Toll Highway Authority  
 Schedule of Changes in Fund Balance - Revenue Fund - By Account  
 Trust Indenture Basis of Accounting (Non GAAP)  
 For the Year Ended December 31, 2008

	Revenue Fund and Accounts								Total
	Revenue Account	Maintenance and Operations		Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement		
		Operating Sub Account	Operating Reserve Sub Account						
<b>INCREASES</b>									
Toll Revenue	\$ 583,646,592	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 583,646,592
Toll Evasion Recovery	77,653,862	-	-	-	-	-	-	-	77,653,862
Concessions	3,419,246	-	-	-	-	-	-	-	3,419,246
Interest	8,567,771	-	-	1,334,039	6,720,033	1,907,175	4,451,024	-	22,980,042
Miscellaneous	3,412,615	-	-	-	-	-	-	-	3,412,615
Gain on Sale of Investments	1,125	-	-	-	-	-	-	-	1,125
Intrafund Transfers	(649,834,091)	242,724,353	-	200,260,153	-	-	206,849,585	-	-
<b>Total Increases</b>	<b>26,867,120</b>	<b>242,724,353</b>	<b>-</b>	<b>201,594,192</b>	<b>6,720,033</b>	<b>1,907,175</b>	<b>211,300,609</b>	<b>-</b>	<b>691,113,482</b>
<b>DECREASES</b>									
Engineering and Maintenance of Roadway and Structures	-	43,898,788	-	-	-	-	-	-	43,898,788
Services and Toll Collection	-	100,464,026	-	-	-	-	-	-	100,464,026
Traffic Control, Safety Patrol, and Radio Communications	-	21,894,832	-	-	-	-	-	-	21,894,832
Procurement, IT, Finance and Administration	-	18,382,364	-	-	-	-	-	-	18,382,364
Insurance and Employee Benefits	-	59,634,694	-	-	-	-	-	-	59,634,694
Construction Expenses	-	-	-	-	-	137,941,232	673,989,824	-	811,931,056
Reclassification of Expenses	-	-	-	-	-	83,580,130	-	-	83,580,130
Bond Principal Payments	-	-	-	50,030,000	-	-	-	-	50,030,000
Bond Interest and Other Financing Costs	(23,265)	-	-	147,927,043	(410,988)	-	-	-	147,492,790
<b>Total Decreases</b>	<b>(23,265)</b>	<b>244,274,704</b>	<b>-</b>	<b>197,957,043</b>	<b>(410,988)</b>	<b>221,521,362</b>	<b>673,989,824</b>	<b>-</b>	<b>1,337,308,680</b>

(Continued)

Illinois State Toll Highway Authority  
Schedule of Changes in Fund Balance - Revenue Fund - By Account (Continued)  
Trust Indenture Basis of Accounting (Non GAAP)  
For the Year Ended December 31, 2008

	Revenue Fund and Accounts								Total
	Revenue Account	Maintenance and Operations		Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement		
		Operating Sub Account	Operating Reserve Sub Account						
<b>NET INCREASE (DECREASE)</b>	\$ 26,890,385	\$ (1,550,351)	\$ -	\$ 3,637,149	\$ 7,131,021	\$ (219,614,187)	\$ (462,689,215)	\$ (646,195,198)	
Non-Operating Expense								-	
Transfers In (Out)									
Transfer from Construction Fund	-	-	-	-	-	-	83,580,130	83,580,130	
Transfer to Escrow Agent for Defeased Bonds	-	-	-	(3,021,735)	(5,788,773)	-	-	(8,810,508)	
Account Transfers	-	-	-	-	(57,862,890)	-	232,381,988	174,519,098	
<b>CHANGE IN FUND BALANCE</b>	26,890,385	(1,550,351)	-	615,414	(56,520,642)	(219,614,187)	(146,727,097)	(396,906,478)	
<b>FUND BALANCE, JANUARY 1</b>	97,924	4,082,633	17,000,000	62,239,154	227,997,314	351,646,436	203,095,870	866,159,331	
<b>FUND BALANCE, DECEMBER 31</b>	\$ 26,988,309	\$ 2,532,282	\$ 17,000,000	\$ 62,854,568	\$ 171,476,672	\$ 132,032,249	\$ 56,368,773	\$ 469,252,853	

See accompanying Notes to the Trust Indenture Basis Schedules.

## Illinois State Toll Highway Authority

### Notes to the Trust Indenture Basis Schedules December 31, 2008

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 1999 Amended and Restated Trust Indenture (the Trust Indenture) requires the Tollway to provide separate funds for construction (Construction Fund) and for operations (Revenue Fund), which funds are not appropriated by the Illinois General Assembly. The Trust Indenture permits the Tollway to create additional accounts for the purpose of more precise accounting. The Illinois State Treasurer holds monies for the Tollway as ex-officio custodian and has recorded these monies in a custodian account. This account is part of the Maintenance and Operation Account within the Revenue Fund.

Prior to fiscal year 2005, the Tollway issued separate financial statements, prepared on the basis of accounting described below, in order to demonstrate compliance with the requirements of the Trust Indenture (Trust Indenture Statements). Beginning in 2005, the Tollway has included schedules, prepared on the basis of accounting described below, in the supplementary information section of this report. The Tollway believes that these schedules, along with the GAAP basis financial statements contained in this report, are sufficient to demonstrate compliance with the requirements of the Trust Indenture. As a result, separate Trust Indenture Statements are no longer prepared. Certain items in the presentation of the Trust Indenture information contained herein vary from the presentation previously used in the Trust Indenture Statements. In addition, the schedules contained in this section of the report present only the Revenue Fund and the Construction Fund. Previously, the Trust Indenture Statements included "Infrastructure and Long-term Debt of Accounts", which was optional reporting allowed under the Trust Indenture.

#### Basis of Accounting

Under the provisions of the Trust Indenture, the basis of accounting followed for the Construction Fund and the Revenue Fund within the Schedule of Changes in Fund Balance - by Fund, differs in certain respects from accounting principles generally accepted in the United States of America.

The major differences are as follows:

1. Capital construction and asset acquisitions are charged against fund balance as incurred. In addition, there is no provision for depreciation.
2. Monies received from sale of assets are recorded as revenue when the cash is received.
3. Monies received for long term fiber optic leases are recorded as revenue when received.
4. Toll Evasion Revenue is presented net of bad debt expense.
5. Principal retirements on revenue bonds are expensed when paid.
6. Bond proceeds (including premiums) are recorded as income in the year received. Amounts received from refunding issuances are recorded net of transfers to the escrow agent.
7. Unrealized gains and losses on debt reserve invested funds are netted against interest and other financing costs.
8. Bond issuance costs are expensed as incurred.
9. Capital lease obligations are not recorded. Payments under capital leases are expensed in the period payments are made.
10. Interest related to construction in progress is not capitalized.

## Illinois State Toll Highway Authority

### Notes to the Trust Indenture Basis Schedules December 31, 2008

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Therefore, the accompanying Schedules of Changes in Net Assets by Account and by Fund, which are prepared in accordance with the aforementioned accounting principles, are not intended to, and do not, present the financial position or the results of operations in accordance with accounting principles generally accepted in the United States of America.

A description of the individual accounts within the Revenue Fund and Construction Fund, as well as the required distribution of revenues collected, is as follows:

##### *The Revenue Fund*

All revenues received by the Tollway other than investment income shall be delivered by the Tollway to the Treasurer, for deposit in the Revenue Fund. On or before the 20<sup>th</sup> day of each month the Treasurer shall, at the direction of the Tollway, transfer or apply the balance as of such date of transfer in the Revenue Fund not previously transferred or applied in the following order of priority:

- A. To the Operating Sub-Account, operating expenses set forth in the annual budget for the fiscal year in an amount equal to one-twelfth of the total approved budget, less all other amounts previously transferred by the Treasurer for deposit to the credit of the Operating Sub-Account during that fiscal year, less the balance, if any, which was on deposit to the credit of the Operating Sub-Account on December 31 of the preceding fiscal year.
- B. To the Operating Reserve Sub-Account, the amount specified by the Tollway, but not to exceed thirty percent of the amount annually budgeted for operating expenses.
- C. To the Interest Sub-Account, an amount equal to interest due on unpaid bonds, plus one-sixth of the difference between the interest payable on bond and interest due within the next six months.
- D. To the Principal Sub-Account, an amount equal to any principal due plus one-twelfth of any principal of such outstanding senior bonds payable on the next principal payment date.
- E. To the Redemption Sub-Account, an amount for each bond equal to one-twelfth of any sinking fund installment of outstanding bonds payable within the next twelve months.
- F. To the Provider Payment Sub-Account, amounts as provided in any supplemental indenture for paying costs of credit enhancement or qualified hedge agreements for bonds or for making reimbursements to providers of credit enhancement or qualified hedge agreements for bonds.
- G. To the Debt Reserve Account, an amount sufficient to cause the balance in it to equal the debt reserve requirement and to make reimbursement to providers of reserve account credit facilities.
- H. To the Junior Bond Debt Service or Junior Bond Debt Reserve Account, any amounts required by supplemental indentures.
- I. To the Renewal and Replacement Account, one-twelfth the portion of the renewal and replacement amount set forth in the annual budget for the fiscal year.
- J. The balance of such amounts in the Revenue Funds are to be applied as follows:
  - 1) To the credit of the Improvement Account for allocation to a project as determined by the Tollway in its sole discretion, until the balance in the Account is equal to the improvement requirement or a lesser amount as the Tollway may from time to time determine.
  - 2) To the credit of the System Reserve Account, the entire amount remaining in the Revenue Fund after depositing or allocating all amounts required to be deposited to the credit of the above Accounts and Sub-Accounts.

Illinois State Toll Highway Authority

Notes to the Trust Indenture Basis Schedules  
December 31, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Maintenance and Operation Account*

The Maintenance and Operation Account consists of the Operating Sub-Account and the Operating Reserve Sub-Account. Moneys in the Operating Sub-Account are applied to operating expenses at the direction of the Tollway.

Revenues are transferred to the Operating Sub-Account to cover the expenses set forth in the annual budget for the current fiscal year. One-twelfth of the operating expenses outlined in the annual budget are transferred to this account once a month.

The Operating Reserve Sub-Account receives or retains an amount not to exceed 30 percent of the amount budgeted for operating expenses in the annual budget for the current fiscal year. Monies in the Operating Reserve Sub-Account are held as a reserve for the payment of operating expenses and are to be withdrawn if moneys are not available to the credit of the Operating Sub-Account to pay operating expenses.

If the Tollway determines that the amount in the Operating Reserve Sub-Account exceeds that amount necessary, the excess will be withdrawn from such Sub-Account and applied as revenues. By resolution, the Board voted to maintain a \$25 million fund balance in this account and has subsequently authorized a fund balance of \$17 million.

*Debt Service Account*

The Debt Service Account consists of the Interest Sub-Account, the Principal Sub-Account, the Redemption Sub-Account, and the Provider Payment Sub-Account, to be held by the Trustee.

Revenues are required to be deposited to cover the interest and principal amounts due and unpaid for bonds, credit enhancement or qualified hedge agreements. Revenues must also be deposited to the credit of the Debt Reserve Account in an amount sufficient to cause the balance in it to equal the debt reserve requirement.

The Debt Reserve Account receives funds to provide an amount sufficient to cause the balance in it to equal the debt reserve requirement to make any required reimbursement to providers of reserve account credit facilities.

*Renewal and Replacement Account*

Revenues must be credited to the Renewal and Replacement Account in an amount set forth in the annual budget for the renewal and replacement deposit. An amount set forth in the budget shall be determined based on recommendations of the Consulting Engineer. Additional funds can be transferred to this account by the Tollway, based on the capital plan expenditures.

*Improvement Account*

At the direction of the Tollway, the balance of amounts in the Revenue Fund are applied to the Improvement Account, for allocations to projects, determined by the Tollway, until the balance in the Account is equal to the improvement requirement.

Illinois State Toll Highway Authority

Notes to the Trust Indenture Basis Schedules  
December 31, 2008

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*System Reserve Account*

At the direction of the Tollway, the balance in the Revenue Fund is deposited to the credit of the System Reserve Account to provide for deficiencies in any other account or sub-account. If all accounts have sufficient funds, System Reserve Account funds can be used to pay off debt, fund construction projects, make improvements or pay for any other lawful Tollway purpose.

*The Construction Fund*

The Construction Fund is held as a separate segregated fund. The Construction Fund receives funds from the sale of bonds and investment of proceeds. The Treasurer establishes and maintains within the Construction Fund a separate, segregated account for each Project, the costs of which are to be paid in whole or in part out of the Construction Fund.

**NOTE 2 – ISSUANCE COST ADJUSTMENT**

The Construction Fund's fund balance was decreased by \$3.9 million to account for bond issuance expenses pertaining to the series 2006 bonds that were not properly expensed in fiscal year 2006.

Illinois State Toll Highway Authority  
Schedules of Toll Revenue By Class of  
Vehicles and Other Revenue Sources (Unaudited)  
For the Years Ended December 31, 2008 and 2007

Class of Vehicle	2008		2007	
	Average Daily Transactions*	Revenue	Average Daily Transactions*	Revenue
1. Auto, motorcycle, taxi, station wagon, ambulance, single-unit truck or tractor: 2 axles, 4 tires	1,881,192	\$ 335,653,248	1,906,999	\$ 321,007,724
2. Single-unit truck or tractor, buses: 2 axles, 6 tires	37,199	15,738,510	39,418	15,630,495
3. Trucks and buses with 3 & 4 axles	35,534	24,290,663	35,092	23,157,858
4. Trucks with 5 or more axles, other vehicles and toll adjustments	171,436	207,964,171	178,195	212,296,825
<b>TOTAL</b>	<b>2,125,361</b>	<b>583,646,592</b>	<b>2,159,704</b>	<b>572,092,902</b>
<b><u>Other Revenues</u></b>				
Concessions		3,419,246		3,788,756
Toll Evasion Recovery		77,653,862		10,080,426
Interest - Revenue Fund		22,980,042		49,846,450
Gain on Sale of Investments		1,125		-
Miscellaneous		3,412,615		1,985,523
<b>TOTAL</b>		<b>\$ 691,113,482</b>		<b>\$ 637,794,057</b>

\* The "Average Daily Transactions" represent the average daily number of vehicles passing through the toll plazas.

Illinois State Toll Highway Authority  
 Schedule of Capital Assets By Source (1)  
 December 31, 2008

	2008
Capital Assets (at historical cost):	
Land and Improvements	\$ 299,708,525
Buildings	40,909,823
Infrastructure	6,812,627,397
Vehicles	37,050,942
Office Equipment	20,375,852
Information Systems	124,299,409
Construction in Progress	<u>493,546,645</u>
 Total Capital Assets	 <u><u>\$ 7,828,518,593</u></u>
 Capital Assets Provided From:	
Bond Proceeds net of related Interest Income	\$ 4,650,443,158
Revenues	<u>3,178,075,435</u>
 Total Sources of Capital Assets	 <u><u>\$ 7,828,518,593</u></u>

(1) Prepared in accordance with the Trust Indenture (non-GAAP). Infrastructure assets do not include capitalized interest.

Illinois State Toll Highway Authority  
Schedule of Changes in Capital Assets (1)  
For the Year Ended December 31, 2008

	Balance December 31, 2007	Additions	Deletions	Balance December 31, 2008
Land and Improvements	\$ 282,676,939	\$ 17,033,800	\$ (2,214)	\$ 299,708,525
Buildings	39,034,345	1,875,478	-	40,909,823
Infrastructure	5,598,431,555	1,214,195,842	-	6,812,627,397
Vehicles	40,558,415	1,213,199	(4,720,672)	37,050,942
Office Equipment	4,329,976	18,339,248	(2,293,372)	20,375,852
Information Systems	123,974,075	327,333	(1,999)	124,299,409
Construction in Progress	660,331,366	1,049,128,420	(1,215,913,141)	493,546,645
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 6,749,336,671</b>	<b>\$ 2,302,113,320</b>	<b>\$ (1,222,931,398)</b>	<b>\$ 7,828,518,593</b>

(1) Prepared in accordance with the Trust Indenture (non-GAAP). Infrastructure assets do not include capitalized interest.

Illinois State Toll Highway Authority  
 Rehabilitation Repair and Replacement Program (Unaudited)  
 For the Years Ended December 31, 1996 Through 2008

Year	Total Funds Credited (1)
1996	\$ 71,480,356
1997	31,632,184
1998	30,493,591
1999	59,505,292
2000	87,517,692
2001	91,073,256
2002	121,375,438
2003	157,366,445
2004	157,375,682
2005	204,609,580
2006	186,545,035
2007	198,331,687
2008	1,907,175

(1) - Includes earnings on the Renewal and Replacement Account

Illinois State Toll Highway Authority  
Summary of Operating Revenues, Maintenance and Operating  
Expenses, Net Operating Revenues and Debt Service Coverage (Unaudited)  
Trust Indenture Basis  
For the Years Ended December 31, 2004 - December 31, 2008  
(Amounts in Thousands)

	2008	2007 (5)	2006(4)	2005	2004 (3)
Operating Revenue:					
Toll Revenue	\$ 583,647	\$ 572,093	\$ 567,500	\$ 580,442	\$ 391,586
Toll Evasion Recovery	77,654	10,080	195	13,257	16,035
Concession & Other Revenue	6,832	5,775	5,900	8,014	6,627
Interest Income (1)	22,980	49,846	33,359	11,321	9,179
Total Operating Revenue	\$ 691,113	\$ 637,794	\$ 606,954	\$ 613,034	\$ 423,427
Maintenance and Operating Expenses:					
Engineering and Maintenance	\$ 43,899	\$ 44,834	\$ 35,559	\$ 31,644	\$ 32,580
Toll Services	100,464	79,538	85,887	86,089	81,691
Police, Safety and Communication	21,895	21,247	19,145	18,034	15,341
Procurement, IT, Finance and Administration	18,382	24,262	23,279	27,698	20,933
Insurance and Employee Benefits	59,635	52,414	49,640	42,110	47,757
Total Expenses	244,275	222,295	213,510	205,575	198,302
Net Operating Revenues	\$ 446,838	\$ 415,499	\$ 393,444	\$ 407,459	\$ 225,125
Total Debt Service (2)	\$ 198,429	\$ 172,284	\$ 145,633	\$ 99,366	\$ 48,380
Net Revenues After Debt Service (2)	\$ 248,409	\$ 243,215	\$ 247,811	\$ 308,093	\$ 176,745
Debt Service Coverage (2)	2.252	2.412	2.702	4.101	4.653

(1) - Excludes interest income on construction funds.

(2) - Includes an annual synthetic fixed interest rate as determined under swap agreements for 1993 Series B, 1998 Series B, 2007 Series A and 2008 Series A. See footnote 6 for specifics.

(3) - The 2004 Total Debt Service payment has been revised due to the early principal retirement on the 1993 Series A Bonds in December of 2003. The 2004 Total Debt Service payment was reduced by \$31,279 (\$29,895 principal plus \$1,384 interest).

(4) - The 2006 revenues have been adjusted from the prior report for an error in reporting a gain on an investment sale. In addition, the 2006 total debt service amount has been increased by \$26,271 to correct an error.

(5) - The 2007 total debt service amount has been reduced by \$23,209 from the amount previously reported to correct an error.

Illinois State Toll Highway Authority  
 Annual Toll Transactions  
 Passenger and Commercial Vehicles (Unaudited)

For Selected Years From 1964 to 2008  
 (Transactions in thousands)

Year	Passenger	Commercial	Total	% Passenger
1964	72,721	7,005	79,726	91.21%
1969	146,476	14,488	160,964	91.00%
1974	204,360	28,446	232,806	87.78%
1979	268,051	42,606	310,657	86.29%
1984	308,104	42,890	350,994	87.78%
1989	428,745	57,193	485,938	88.23%
1994	565,601	66,693	632,294	89.45%
1999	648,269	71,835	720,104	90.02%
2000	664,002	72,308	736,310	90.18%
2001	687,856	76,429	764,285	90.00%
2002	715,073	77,763	792,836	90.19%
2003	693,507	108,096	801,603	86.52%
2004	714,120	109,025	823,145	86.76%
2005	695,378	85,068	780,446	89.10%
2006	678,535	85,590	764,125	88.80%
2007	696,055	92,237	788,292	88.30%
2008	688,516	89,366	777,882	88.51%

1959 was the first full year of toll operations for the Illinois State Toll Highway Authority.

In 2003, with a change to the toll collection system, vehicles were classified by a combination of axle account and actual toll paid. In 2003 and 2004, commercial vehicle counts were inflated by the system due to passenger vehicle overpayments at ramp plazas.

In 2006, the Tollway converted from bidirectional to one-way tolling at the Belvidere and Marengo Mainline Toll Plazas in conjunction with a doubling of the fares at these plazas. Due to this reconfiguration, total transactions were reduced by 14.6 million in 2006 with no localized revenue impact.

Illinois State Toll Highway Authority  
Annual Toll Revenues  
Passenger and Commercial Vehicles (Unaudited)

For Selected Years From 1964 to 2008  
(Transactions in thousands)

Year	Passenger	Commercial	Total	% Passenger
1964	\$ 26,284	\$ 4,888	\$ 31,172	84.32%
1969	46,872	8,803	55,675	84.19%
1974	55,419	14,891	70,310	78.82%
1979	73,048	24,068	97,116	75.22%
1984	114,233	43,094	157,327	72.61%
1989	155,394	57,387	212,781	73.03%
1994	215,221	66,922	282,143	76.28%
1999	259,448	73,178	332,626	78.00%
2000	268,277	75,668	343,945	78.00%
2001	276,724	78,050	354,774	78.00%
2002	276,763	86,472	363,235	76.19%
2003	275,751	101,703	377,454	73.06%
2004	287,218	104,368	391,586	73.35%
2005	341,352	239,090	580,442	58.81%
2006	324,556	242,944	567,500	57.19%
2007	321,008	251,085	572,093	56.11%
2008	335,653	247,994	583,647	57.51%

Illinois State Toll Highway Authority  
 Operating Revenues, Maintenance and Operating  
 Expenses and Net Operating Revenues<sup>1</sup> (Unaudited)

For Select Years From 1964 to 2008  
 (Dollars in thousands)

Year	Operating Revenue	Maintenance and Operating Expenses	Net Operating Revenues
1964	\$ 32,135	\$ 6,832	\$ 25,303
1969	57,395	13,015	44,380
1974	72,737	23,715	49,022
1979	100,436	39,733	60,703
1984	162,108	56,639	105,469
1989	254,734	85,065	169,669
1994	309,949	116,996	192,953
1995	341,636	121,103	220,533
1996	343,743	127,704	216,039
1997	352,176	131,437	220,739
1998	362,726	134,334	228,392
1999	366,092	146,881	219,211
2000	398,215	150,372	247,843
2001	389,827	160,565	229,262
2002	381,329	166,009	215,320
2003	430,804	187,300	243,504
2004	423,427	198,302	225,125
2005	613,034	205,575	407,459
2006 (2)	606,954	213,510	393,444
2007	637,794	222,295	415,499
2008	691,113	244,275	446,838

(1) Determined according to the Series 1955 Bond Resolution through December 26, 1985, and in accordance with the Indenture subsequent to December 16, 1985.

(2) Amounts for 2006 have been changed from amounts previously reported to remove a gain on the sale of an investment.

## Illinois State Toll Highway Authority

### Supplementary Information for State Compliance Purposes

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#### Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

##### Fiscal Schedules and Analysis:

- Schedule of Cash and Cash Equivalents Balances
- Schedule of Investment Depositories
- Schedule of Commodities Inventory
- Schedule of Accounts Receivable
- Schedule of Changes in Capital Assets
- Explanation of Significant Variations in Asset Accounts
- Explanation of Significant Variations in Liability Accounts
- Explanation of Significant Variations in Revenues and Expenses

##### Analysis of Operations

- Tollway Functions and Planning Program
- Average Number of Employees by Function (Unaudited)
- Emergency Purchases
- Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountants' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)

Schedule of Cash and Cash Equivalents Balances  
December 31, 2008 (with summary totals for 2007)

	Carrying Amount	Financial Institution Balances
<b>Cash (Unrestricted):</b>		
<b>Currency and Coin on Hand</b>		
Change funds at toll plazas and Administrative Building	\$ 486,900	\$ -
Petty Cash	1,450	-
<b>Cash in Banks</b>		
Bank of America - New Segments Account	7,964,958	8,051,388
Bank of America - Revolving Accounts	12,108,558	12,281,846
Bank of America - Treasurer Accounts *	(67,653,289)	1,680,631
Bank of America - Risk Management Account	11,293,764	5,521,534
<b>Cash Equivalents (Unrestricted):</b>		
Certificates of Deposits - Treasurer Accounts *	9,310,000	9,310,000
Illinois Funds - Treasurer Accounts *	395,484,808	395,484,808
Wells Fargo - Checking	18,631	18,553
<b>Total cash and cash equivalents (Unrestricted)</b>	<b>369,015,780</b>	<b>432,348,760</b>
<b>Cash (Restricted):</b>		
Bank of America - Restricted for IPASS Accounts	4,621,597	1,530,278
<b>Total Cash (Restricted)</b>	<b>4,621,597</b>	<b>1,530,278</b>
<b>Cash Equivalents (Restricted):</b>		
Restricted for Debt Service		
JP Morgan Money Market Accounts:		
Priority Debt Reserve	64,156,595	64,156,595
Debt Reserve	38,274,514	38,274,512
Priority Debt Service	76,162,160	31,762,160
Debt Service	89,234,240	86,069,322
<b>Total Restricted for Debt Service</b>	<b>267,827,509</b>	<b>220,262,589</b>
Restricted for Construction		
Federated Money Market Accounts	167,159,562	167,159,562
<b>Total Restricted for Construction</b>	<b>167,159,562</b>	<b>167,159,562</b>
Illinois Funds - Restricted for IPASS Accounts	97,419,854	105,243,504
<b>Total cash and cash equivalents (Restricted)</b>	<b>537,028,522</b>	<b>494,195,933</b>
<b>Total Cash and Cash Equivalents at December 31, 2008</b>	<b>\$ 906,044,302</b>	<b>\$ 926,544,693</b>
<b>Total Cash and Cash Equivalents at December 31, 2007</b>	<b>\$ 1,373,192,906</b>	<b>\$ 1,376,048,898</b>

\* Not locally held, account administered by the Treasurer of the State of Illinois.

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)

Schedule of Investment Depositories  
December 31, 2008 (with summary totals for 2007)

	Year End Interest Rates	Carrying Amount (Fair Value)
<b>Held at</b>		
Locally Held - JP Morgan		
U.S. Treasury and Agency issues:		
Priority Debt Reserve	4.875% - 6.12%	\$ 74,038,196
US Bank *		
U.S. Agency issues		
Restricted for IPASS accounts		<u>22,254,860</u>
<b>Total Investments at December 31, 2008</b>		<u><u>\$ 96,293,056</u></u>
<b>Total Investments at December 31, 2007</b>		<u><u>\$ 192,820,582</u></u>

\* Not locally held, account administered by the Treasurer of the State of Illinois.

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)

Schedule of Commodities Inventory  
December 31, 2008 and 2007

Location	2008	2007
Central Warehouse	\$ 1,017,711	\$ 777,250
Maintenance Buildings	5,307,551	5,015,574
Electrical Shops	380,685	265,570
Central Sign Shop	1,079,805	940,096
Carpenter Shop	451,472	177,328
Telecommunications	-	389,671
Central Garage	303,437	275,242
Pool Car Garage	21,149	17,009
Total Commodities Inventory at December 31	\$ 8,561,810	\$ 7,857,740

Note: Balances represent commodities inventories on hand as of year end. For financial reporting purposes, these amounts are expensed when the associated liability is incurred and inventories are not recorded as assets on the Statement of Net Assets.

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)

Schedule of Accounts Receivable  
December 31, 2008 (with comparative totals for 2007)

	AGING			Gross Total	Allowance for Doubtful Accounts	Net Receivables
	0-180 Days	180-365 Days	Over One Year			
Tolls	\$ 1,142,141	\$ 79,301	\$ 220,647	\$ 1,442,089	\$ (335,992)	\$ 1,106,097
Toll Evasion Recovery - Tolls	1,116,676	2,163,982	2,145,642	5,426,300	-	5,426,300
Toll Evasion Recovery - Initial Fines	43,550,285	84,395,170	83,679,890	211,625,345	(188,445,895)	23,179,450
Total Toll Evasion Recovery	44,666,961	86,559,152	85,825,532	217,051,645	(188,445,895)	28,605,750
Oases Receivable	164,424	510,744	540,000	1,215,168	(1,050,744)	164,424
Damage Claims/Emergency Services	10	-	878,855	878,865	(878,855)	10
Insufficient I-Pass	143,247	472,654	486,417	1,102,318	(958,654)	143,664
Overdimension Vehicle Permits	17,885	1,885	7,560	27,330	-	27,330
Fiber Optic	30,659	-	19	30,678	-	30,678
Workers' Compensation	23,342	-	-	23,342	-	23,342
Other	742,532	307	3,727,896	4,470,735	(4,004,232)	466,503
Total Accounts Receivable	46,931,201	87,624,043	91,686,926	226,242,170	(195,674,372)	30,567,798
Various Local and Municipal Governments	14,174,490	-	-	14,174,490	-	14,174,490
IAG Agencies	5,221,950	-	-	5,221,950	-	5,221,950
Other Agencies of the State of Illinois	67,418,335	-	-	67,418,335	-	67,418,335
Total State Agency Receivables	86,814,775	-	-	86,814,775	-	86,814,775
Total Receivables at December 31, 2008	\$ 133,745,976	\$ 87,624,043	\$ 91,686,926	\$ 313,056,945	\$ (195,674,372)	\$ 117,382,573
Total Receivables at December 31, 2007	\$ 39,481,725	\$ 8,363,070	\$ 39,797,890	\$ 87,642,685	\$ (50,110,754)	\$ 37,531,931

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)

Schedule of Changes in Capital Assets  
Year Ended December 31, 2008

Acct #	Fixed Assets by Type	Restated Balance January 1	Additions and Transfers In	Deletions and Transfers Out	Balance December 31
8000	Other Equipment	\$ -	\$ 5,744	\$ -	\$ 5,744
8100	Office Furn. and Fixtures	10,970,957	32,972	(533,082)	10,470,847
8200	Data Proc. Equipment	81,305,991	772,743	(1,207,192)	80,871,542
8300	Cash Handling	185,734	-	(48,520)	137,214
8350	Telecommunication	2,583,242	-	(89,168)	2,494,074
8400	Toll Collection	10,284,412	200,312	-	10,484,724
8500	Garage and Shop	983,755	51,494	-	1,035,249
8520	Bldg. and Bldg. Maintenance	53,415	-	-	53,415
8550	Bldg. and Bldg. Maintenance	130,641	-	(5,865)	124,776
8700	Autos	6,097,155	370,282	(224,095)	6,243,342
8750	Police Car Equipment	64,906	-	-	64,906
8800	Trucks	32,783,241	727,048	(4,437,888)	29,072,401
8900	Roadway Equipment	10,572,989	921,870	(470,234)	11,024,625
Total Equipment		156,016,438	3,082,465	(7,016,044)	152,082,859
	Buildings and Infrastructure	5,746,552,020	1,230,638,836	-	6,977,190,856
	Land and Land Improvements	282,676,939	17,033,800	(2,213)	299,708,526
	Toll Collection Equipment	2,093,739	-	-	2,093,739
	Construction in Progress	660,331,366	1,049,128,420	(1,215,913,141)	493,546,645
	Reciprocity Server (IAG)	299,590	-	-	299,590
	Next Generation Network	2,859,637	10,001	-	2,869,638
	TIMS	265,259	510,978	-	776,237
	Various Machinery & Equipment	124,636	251,808	-	376,444
	Web and E-Commerce	952,266	236,699	-	1,188,965
	Disaster Recovery	224,292	-	-	224,292
	Contingency Software	14,004	-	-	14,004
	RITE System	4,709,055	10,491,301	-	15,200,356
	Unisys Mainframe	1,303,550	-	-	1,303,550
	CCTV Cameras	-	4,663,644	-	4,663,644
	IWIN Computers	-	200,586	-	200,586
	Energy Attenuators	-	432,300	-	432,300
Total Capital Assets		\$ 6,858,422,791	\$ 2,316,680,838	\$ (1,222,931,398)	\$ 7,952,172,231

Note: The above information has been reconciled to reports (Form C-15) submitted to the Office of the Comptroller.

In 2008 the Tollway began capitalizing interest related to construction in progress. A restatement reflecting capitalization from 2000 until 2007 (\$73,878,895) is reflected at January 1, 2008 in the table above.

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)

Explanation of Significant Variations in Asset Accounts  
December 31, 2008 and 2007

	December 31,		Increase/ (Decrease)	Percentage Change
	2008	2007		
<b>Assets</b>				
Intergovernmental Receivables	\$ 86,814,775	\$ 11,752,789	\$ 75,061,986	639%
Cash and Cash Equivalents Restricted for Debt Service	267,827,509	207,329,644	60,497,865	29%
Investments Restricted for Debt Service	74,038,196	140,089,282	(66,051,086)	-47%
Cash and Cash Equivalents - Construction	167,159,562	660,429,117	(493,269,555)	-75%
Other Capital Assets - Net of accumulated depreciation	4,059,884,499	3,088,094,077	971,790,422	31%

Intergovernmental Receivables	Intergovernmental agreements associated with the I-355 south extension were billed during 2008.
Cash and Cash Equivalents Restricted for Debt Service	Debt reserve investments matured during the year. Receipts were invested in money markets.
Investments Restricted for Debt Service	Debt reserve investments matured during the year. Receipts were invested in money markets.
Cash and Cash Equivalents - Construction	The Tollway continued to fund portions of 2008 Congestion relief program projects with bond proceeds.
Other Capital Assets-Net of Accumulated Depreciation	The increase is due to infrastructure assets placed in service during 2008.

Note: Variances over \$5 million and 20% are considered significant.

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)  
Explanation of Significant Variations in Liability Accounts  
December 31, 2008 and 2007

	December 31,		Increase	Percentage
	2008	2007	(Decrease)	Change
<b>Liabilities</b>				
Revenue Bonds Payable - current portion	\$ 97,150,000	\$ 50,030,000	\$ 47,120,000	94%
Bond Discount/Premium, less deferred amount on refunding	4,654,225	79,465,455	(74,811,230)	-94%
Revenue Bonds Payable - current portion	Due to the December 2008 expiration of the liquidity agreement for the Series 1993 bonds, amounts scheduled to mature in January 2010 were classified as current.			
Bond Discount/Premium, less deferred amount on refunding	In 2008 the Tollway recorded a loss on defeased debt and sold new debt at a discount.			

Note: Variances over \$5 million and 20% are considered significant.

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)  
Explanation of Significant Variations in Revenues and Expenses  
Years Ended December 31, 2008 and 2007

	2008	2007	Increase (Decrease)	Percentage Change
Toll Evasion Recovery	\$ 224,047,528	\$ 29,738,604	\$ 194,308,924	653%
Services and Toll Collection	110,093,269	86,550,454	23,542,815	27%
Bad Debt Expense	146,850,695	23,221,646	123,629,049	532%
Depreciation and Amortization	278,626,714	219,434,538	59,192,176	27%
Investment Income	22,979,654	43,367,461	(20,387,807)	-47%
Revenues under Intergovernmental Agreements	81,091,003	-	81,091,003	NA
Expenses under Intergovernmental Agreements	(81,091,003)	-	(81,091,003)	NA
Net gain (loss) on Disposal of Property	377,214	(8,491,090)	8,868,304	-104%
Interest Expense and Amortization of Financing Costs	(130,889,438)	(92,553,608)	(38,335,830)	41%
Miscellaneous Revenue (Expense) - Nonoperating	542,517	(11,461,519)	12,004,036	-105%

Toll Evasion Recovery	The Toll Evasion Recovery system issued notices for all of 2008. In 2007 the system was operational for only a few months.
Services and Toll Collection	Increased salt, wages and fuel costs due to winter snows.
Bad Debt Expense	Bad debt expense for Toll Evasion Recovery increased by \$123 million in 2008. Reserves were adjusted to be in line with Tollway policy.
Depreciation and Amortization	The Tollway continued construction on the Congestion Relief Program. Assets have been completed and placed in service during 2008.
Investment Income	Throughout 2008 interest rates have decreased. This combined with long term investments maturing has led to a decrease in interest income.
Revenues under Intergovernmental Agreements	Represents amounts billed to the Illinois Department of Transportation under the terms of intergovernmental agreements. See below.
Expenses under Intergovernmental Agreements	Costs incurred pertaining to improvements to IDOT owned infrastructure.
Net gain (loss) on Disposal of Property	Many of the assets disposed of were fully depreciated and had little or no book value at the time of disposal.
Interest Expense and Amortization of Financing Costs	Increase due to new bond issue. Increase in bond expense and issuance costs.
Miscellaneous Revenue (Expense) - Nonoperating	The difference is the net effect of adjusting balance sheet accounts.

Note: Variances over \$5 million and 20% are considered significant.

## Illinois State Toll Highway Authority

### Analysis of Operations

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#### TOLLWAY FUNCTIONS AND PLANNING PROGRAM

The Illinois State Toll Highway Authority (Tollway) was established in 1968 as an instrumentality and administrative agency of the State of Illinois. The Tollway was created to provide for construction, operation, regulation, and maintenance of toll highways to accommodate the traveling public through and within the State of Illinois.

The Tollway's predecessor, the Illinois State Toll Highway Commission, issued revenue bonds totaling \$493,250,000 to finance the original three toll highways. During 1981, the Tollway completed the Ronald Reagan Memorial Tollway (formerly East-West Extension) of the toll highway system. Subsequently, the following bonds were issued:

- 1985, \$167,200,000, Advance refunding bonds to retire the original outstanding bonds;
- 1986, \$400,825,000, Priority revenue bonds to pay the cost of construction of the North-South Tollway, an expansion of the State toll highway system;
- 1987, \$139,145,000, Refunding revenue bonds to advance refund \$117,115,000 of the 1985 refunding bonds;
- 1992, \$459,650,000, Priority revenue bonds to pay the cost of construction of the Tri-State Tollway Widening Project;
- 1993, \$387,345,000, Refunding revenue bonds to advance refund \$342,290,000 of 1985, 1986, and 1992 series bonds;
- 1996, \$148,285,000, Refunding revenue bonds to advance refund \$144,300,000 of 1986 and 1987 series bonds;
- 1998, \$325,135,000, Refunding revenue bonds to advance refund \$313,105,000 of 1992 series bonds; and
- 2005, \$770,000,000, Priority revenue bonds to pay the costs of the Congestion Relief Program.
- 2006, \$1,000,000,000, Priority revenue bonds to pay the costs of the Congestion Relief Program.
- 2007, \$700,000,000, Priority revenue bonds to pay the costs of the Congestion Relief Program.
- 2008 A, \$766,200,000, Refunding Revenue bonds to advance refund \$208,340,000 of 2006 A-1 series bonds and \$500,000,000 of 2006 A-2 series bonds.
- 2008 B, \$350,000,000, Priority revenue bonds to pay the costs of the Congestion Relief Program

The operations of the Tollway are administered by a Board of Directors, which includes the State Governor and Secretary of the Illinois Department of Transportation

## Illinois State Toll Highway Authority

### Analysis of Operations

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#### TOLLWAY FUNCTIONS AND PLANNING PROGRAM (Continued)

The Tollway has the power and responsibility to establish and collect tolls sufficient to pay for maintenance, repairs, regulation, and operation of the toll highway system and to meet its requirements to fund bond principal and interest payments. During 2008, the Tollway did not receive any State government appropriations. In March of 2007, FHWA awarded the Tollway a second Value Pricing grant for \$750,000. Similar to a grant made in 2003, this grant will reimburse the Tollway for 80% of the costs incurred and will span three years. During 2008 the Tollway invoiced the FHWA for \$318,502 for costs incurred through August 1, 2008.

The Trust Indenture and the First, Second, Third, Fourth, Fifth, Sixth and 1996 and 1999 Amendatory Supplemental Indentures securing the 1985, 1986, 1987, 1992, 1993, 1996, 1998, 2005, 2006, 2007 and 2008 bond issues, respectively, prescribe many of the investment and accounting requirements for the Tollway. The accounting records of the Tollway are maintained on an accrual basis.

The Trust Indenture dated December 1, 1985 requires the Tollway to prepare a tentative budget of the operating expenditures for the ensuing calendar year on or before October 31. The budget is required to include recommendations of the consulting engineers as to the Renewal and Replacement deposit for the budget year. The final budget must be approved by the Board of Directors of the Tollway prior to January 31 of the calendar year budgeted. The Tollway complied with these budgetary requirements for the current calendar year.

Annual detailed departmental budgets are prepared for all Tollway expenditures. The Controller and Chief of Finance of the Tollway and each department manager monitor expenditures and analyze budgetary variances.

The consulting engineers also develop long-range improvement programs for the toll highway system. The Chief Engineer of the Tollway uses the long range plan with traffic studies and physical inspections to develop annual improvement programs and budgets.

The Tollway has developed an adequate and comprehensive planning program to meet its objectives of providing for the construction, operation, regulation, and maintenance of the toll highway system. The Tollway's monitoring of its expenditures and its monitoring of the physical condition of the roads is adequate to meet the Tollway's goals related to its operating expenditures and improvement programs.

Illinois State Toll Highway Authority  
(A Component Unit of the State of Illinois)

Analysis of Operations  
Average Number of Employees by Function (Unaudited)  
For the Year Ended December 31, 2008 and 2007

	Full-time Scheduled		Part-time Scheduled		Total	
	2008	2007	2008	2007	2008	2007
<b>Tollway Employees</b>						
Executive Director	4	4	-	-	4	4
Directors	10	10	-	-	10	10
Inspector General	13	11	-	-	13	11
Legal	11	12	-	-	11	12
State Police	18	16	-	-	18	16
Finance	51	49	-	-	51	49
Administration	141	139	-	-	141	139
Operations						
Toll Collectors	364	378	204	204	568	582
Plaza Supervisors and assistants	47	53	-	-	47	53
Other	40	35	-	-	40	35
Office of Info Tech	63	62	-	-	63	62
Engineering:						
Maintenance:						
Roadway	381	371	-	-	381	371
Transportation	72	65	-	-	72	65
Engineers	34	32	-	-	34	32
Others	75	70	-	-	75	70
Planning	17	18	-	-	17	18
Procurement	51	51	-	-	51	51
Communications	11	11	-	-	11	11
Violation Enforcement	58	48	-	-	58	48
Total Authority Employees	1,461	1,435	204	204	1,665	1,639
State Troopers	196	188	-	-	196	188
Total Personnel	1,657	1,623	204	204	1,861	1,827
Hourly base payroll	\$ 71,010,142	66.61%				
Overtime	5,671,867	5.32%				
Salaries	29,919,118	28.07%				
2008 Total Payroll	\$ 106,601,127	100.00%				
Hourly base payroll	\$ 64,051,964	63.11%				
Overtime	14,233,183	14.02%				
Salaries	23,214,012	22.87%				
2007 Total Payroll	\$ 101,499,159	100.00%				

Illinois State Toll Highway Authority  
Emergency Purchases  
For the Year Ended December 31, 2008

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The Tollway reported the following emergency purchases to the Office of the Auditor General during the fiscal year ended December 31, 2008:

Description	Cost
Repair two cranes used for installing roadway signs	\$ 43,316
Purchase salt for roads	700,659
Pothole repairs	225,000
Repair noise abatement wall on the Tri-State	91,250
Rock salt purchase for Lake County	1,708,000
Rock salt purchase	1,136,400
Exterior sealant replacement at CA front entrance	37,800
Total	\$ 3,942,425

## Illinois State Toll Highway Authority

### Service Efforts and Accomplishments For the Year Ended December 31, 2008 (Unaudited)

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#### *Agency Mission*

The Illinois State Toll Highway Authority is dedicated to providing and promoting a safe and efficient system of toll supported highways while ensuring the highest possible level of customer service.

#### *Strategic Priorities*

- Reduce traffic congestion
- Implement Congestion Relief Program (12 year capital construction plan)
- Improve operational efficiency and effectiveness

#### *Summary of Agency Operations*

The Illinois State Toll Highway Authority maintains and operates 286 miles of interstate tollways in 12 counties in Northeastern Illinois, including the Reagan Memorial Tollway (I-88), the Veterans Memorial Tollway (I-355), the Jane Addams Memorial Tollway (I-90) and the Tri-State Tollway (I-94, I-294, I-80). In September 2004, the Illinois Tollway embarked on a Congestion-Relief Program to reduce traffic and congestion by rebuilding and restoring a majority of the system. Major improvements include/will include: adding lanes, converting all mainline toll plazas to Open Road Tolling, rebuilding and widening a majority of the system and constructing the south extension of I-355.

#### *Key Performance Measures*

All performance measures are as of December 31, 2008.

1. The percentage of vehicles using I-PASS during rush hour: 86%
2. The percentage of vehicles using I-PASS for all hours: 81%
3. Number of Open Road Tolling (ORT) express lanes: 111
4. Travel Time Index Congestion Measure for the A.M. rush hour: 1.14
5. The average accident clearance time for personal injury incidents: 38.16 minutes.