ILLINOIS STATE TOLL HIGHWAY AUTHORITY

(A Component Unit of the State of Illinois)

Financial Audit and Compliance Examination

Year ended December 31, 2011

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

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

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ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

December 31, 2011

Agency Officials

Executive Director	Kristi Lafleur
Chief of Staff	Michael Stone – July 27, 2011 to present Open – May 7 to July 26, 2011 Doug Kucia – January 1 to May 6, 2011
Deputy Chief of Staff	Open – November 29 to December 31, 2011 Louis Bertuca – August 9 to November 28, 2011 Open – January 1 to August 8, 2011
Chief of Finance	Michael Colsch
Controller	Leslie Savickas
Fiscal Operations Manager	Patricia Pearn
General Counsel	Elizabeth Looby (acting) – September 5 to December 31, 2011 Thomas Bamonte – January 1 to September 2, 2011

Central Administrative agency offices are located at:

2700 Ogden Avenue
Downers Grove, Illinois 60515

August 8, 2012

KPMG LLP
303 E. Wacker Dr.
Chicago, IL 60601

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 year ended December 31, 2011. Based on this evaluation, we assert that during the year ended December 31, 2011, the Tollway has materially complied with the assertions below.

A. The Tollway has obligated, expended, received and used public funds of the Tollway in accordance with the purpose for which such funds have been authorized by law.

B. The Tollway has obligated, expended, received and used public funds of the Tollway 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 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 is fair, accurate and in accordance with law.

E. The money or negotiable securities or similar assets handled by the Tollway or held in trust by the Tollway have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois State Toll Highway Authority

Kristi Lafleur, Executive Director

Michael Colsch, Chief of Finance

Elizabeth Looby, Senior Assistant Attorney General
Acting General Counsel, 9/2/11-2/20/12

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

December 31, 2011

Compliance 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 nonstandard language.

Summary of Findings

	Current Report	Prior Report
Number of:		
Findings	11	—
Repeated findings	—	—
Prior recommendations implemented or not repeated	—	3

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

Schedule of Findings

Findings (*Government Auditing Standards*)

Finding No.	Page No.	Description	Finding Type
11-01	11	Inadequate Financial Reporting Systems	Significant deficiency
11-02	12	Inadequate Controls Over Information Systems	Significant deficiency
11-03	14	Inadequate Documentation to Support Payroll Expenditures	Significant deficiency
11-04	16	Inadequate Year-End Process for Payables	Significant deficiency

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

December 31, 2011

Findings (State Compliance)

Finding No.	Page No.	Description	Finding Type
11-05	18	Procurement: Lack of Evaluation Comments	Significant deficiency and noncompliance
11-06	20	Procurement: Scoring Evaluation Certification	Significant deficiency and noncompliance
11-07	23	Procurement: Lack of State Purchasing Officer Determination Form	Significant deficiency and noncompliance
11-08	25	Procurement: Personnel/Subcontractor Differences from Proposal to Award	Significant deficiency and noncompliance
11-09	27	Procurement: Professional Services Vendors	Significant deficiency and noncompliance
11-10	30	Procurement: Review of Billing Invoices	Significant deficiency and noncompliance
11-11	32	Failure to Accurately Report Account Receivables	Significant deficiency and noncompliance

In addition, the following findings which are reported as current findings relating to *Government Auditing Standards* also meet the reporting requirements for State Compliance.

11-01	11	Inadequate Financial Reporting Systems	Significant deficiency and noncompliance
11-02	12	Inadequate Controls Over Information Systems	Significant deficiency and noncompliance
11-03	14	Inadequate Documentation to Support Payroll Expenditures	Significant deficiency and noncompliance
11-04	16	Inadequate Year-End Process for Payables	Significant deficiency and noncompliance

Exit Conference

The findings and recommendations appearing in this report were discussed with Tollway personnel at an exit conference on July 30, 2012. Attending were:

Illinois State Toll Highway Authority

Kristi Lafleur	Executive Director
Michael J. Colsch	Chief of Finance
Michael Stone	Chief of Administration
Michael Fudali	Chief Internal Auditor
Leslie Savickas	Controller
Patricia Pearn	Fiscal Operations Manager
William Iacullo	Chief Accountant - M&O
Tara Martin	Chief Accountant - Debt and Capital
Jeffrey Redding	Chief of Toll Operations
Joe Kambich	Chief of Information Technology
John Michie	Chief of Administration
Jim Neylon	State Police Lieutenant
Shana Whitehead	Chief of Business Systems
David Goldberg	General Counsel
Lisa G. Williams	EEO/AA Officer
Tom Morache	Enterprise Information Services Manager
Sharon Ferguson	Procurement and Warehouse Services Manager
John Donato	Chief of Procurement
Cassaundra Rouse	Internal Audit Manager
Sue Lewis	Investigator - Auditor

KPMG LLP

Catherine Baumann	Partner
Kristopher Allen	Senior Manager
Jason Rosheisen	Manager
Rosemary Murphy	Manager

Office of the Auditor General

Thomas L. Kizziah, CPA	Audit Manager
Mike Maziarz	Audit Manager
Leighann Brown	Performance Auditor
Kathleen A. Devitt	IT Audit Manager

The responses to the recommendations were provided by Michael Fudali, Chief Internal Auditor, in a letter dated August 8, 2012.

KPMG LLP
200 East Randolph Drive
Chicago, IL 60601-6436

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

and

The Board of Directors
Illinois State Toll Highway Authority:

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Toll Highway Authority's (the Tollway) 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, 2011. The management of the Tollway is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Tollway's compliance based on our examination.

A. The Tollway has obligated, expended, received, and used public funds of the Tollway in accordance with the purpose for which such funds have been authorized by law.

B. The Tollway has obligated, expended, received, and used public funds of the Tollway 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 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 is fair, accurate and in accordance with law.

E. The money or negotiable securities or similar assets handled by the Tollway or held in trust by the Tollway 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 Tollway's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we

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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 Tollway complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended December 31, 2011. However, the results of our procedures disclosed instances of noncompliance with the requirements, 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 finding numbers 11-01 through 11-11.

Internal Control

The management of the Tollway 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 Tollway'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.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with requirements listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings as finding numbers 11-01 through 11-11. A *significant deficiency* in an entity's internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Supplementary Information for State Compliance Purposes

Our audit for the year ended December 31, 2011 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tollway's basic financial statements. The accompanying supplementary information in Schedules 1 through 17 and the Analysis of Operations section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information for the year ended December 31, 2011 in Schedules 1, 2, 4, 5, and 11 through 17 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information for the year ended December 31, 2011 in Schedules 1, 2, 4, 5, and 11 through 17 is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplementary information included in Schedules 3 and 6 through 10 and in the Analysis of Operations section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Tollway's financial statements for the year ended December 31, 2010 were audited by other auditors whose report thereon dated June 21, 2011, expressed an unqualified opinion on the basic financial statements of the Tollway and stated that the supplementary information for the year ended December 31, 2010 included in Schedules 11, 13, 15 through 17, was subjected to the auditing procedures applied in the audit of 2010 basic financial statements and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements 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.

KPMG LLP

Chicago, Illinois
August 8, 2012

KPMG LLP
200 East Randolph Drive
Chicago, IL 60601-6436

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

and

The Board of Directors
Illinois State Toll Highway Authority:

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Tollway, a component unit of the State of Illinois, as of and for the year ended December 31, 2011, and have issued our report thereon dated August 8, 2012. 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

Management of the Tollway is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Tollway's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, and not for the purpose of expressing an opinion on the effectiveness of the Tollway's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tollway's internal control over financial reporting.

A *deficiency in internal control* over financial reporting 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies as described in the accompanying schedule of findings as finding numbers 11-01 through 11-04. A *significant deficiency* in an entity's internal control

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reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tollway'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Tollway's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Tollway'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.

KPMG LLP

Chicago, Illinois
August 8, 2012

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Findings

Year ended December 31, 2011

Current Findings – *Government Auditing Standards*

Finding 11-01 – Inadequate Financial Reporting Systems

The Tollway does not have adequate financial systems to prepare its annual financial statements and significant manual effort is required to prepare the annual financial statements in accordance with generally accepted accounting principles (GAAP).

During our audit, we noted the Tollway uses several stand-alone applications to track its financial transactions in accordance with provisions of the trust indentures. The financial data from each financial application is summarized and manually entered into two applications which are used as a general ledger. Several manual reconciliation procedures are required to ensure the information in the general ledger applications agrees to the various financial applications.

Once this information has been reconciled, a data file is generated from the general ledger applications and is imported into another application which is used to create a trial balance. Since the information in the financial applications is recorded based upon the provisions of the trust indentures, several top side entries are required to convert the trial balance to GAAP-based financial statements. As a result, the preparation of the annual financial statements is extremely time consuming and requires significant effort by management to ensure the statements are prepared in conformity with GAAP.

Additionally, we noted several of the applications used in the Tollway's financial reporting process, including one of the general ledger applications, do not have mechanisms to: restrict access for posting transactions, track specific user activity, or evidence supervisory reviews of transactions activity. Therefore, the Tollway's process for approving journal entries is also manual and time consuming.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Tollway to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Tollway management stated that the official general ledger system is a mainframe database, developed many years ago. Although the systems are cumbersome, proper accounting is achieved with much manual effort. An ERP system with current GL capabilities would greatly improve the efficiency in achieving accurate account activity recording.

The manual nature of the Tollway's financial reporting systems and related processes may result in financial reporting errors and untimely preparation of the annual financial statements. (Finding Code 11-01)

Recommendation:

We recommend the Tollway review the adequacy of its existing financial systems and consider automating its financial reporting process.

Tollway Response:

The Tollway concurs with the auditors' recommendation and is pursuing an ERP system.

Current Findings – *Government Auditing Standards*

Finding 11-02 – Inadequate Controls Over Information Systems

The Tollway had not established adequate internal controls over information systems used in its financial reporting process.

The Tollway operates a general ledger system to manage the activities of the Tollway in addition to operating and supporting information systems for purchasing, payroll, toll collection and time reporting. Access is granted to users of the Tollway's information systems based on standardized user access profiles. The standardized user profiles are intended to assist the Tollway in limiting access to the information systems based upon assigned job functions of the specific users to which the profiles are assigned. The Tollway also has formal policies and procedures to address computer security, change management, software development, disaster recovery, and physical security of the information systems to ensure the reliability of the data generated by the systems and support the assertion that systems operate as intended and that output is reliable. During our review of controls related to user access rights and change management we identified the following:

- There were no user access reviews performed over the payroll, time reporting, toll collection, or general ledger systems during the year.
- There was one user with inappropriate access to develop, implement, and migrate program changes in the general ledger system.
- There were six users (out of a 13 total users) with inappropriate access to update employee pay rates in the payroll system.
- Most users were not required to verify that they have read, understood and agreed to abide by the Tollway's computer security guidelines on an annual basis.

Generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data and the implementation of suitable change management procedures to control changes to computer systems. Effective computer security controls provide for safeguarding, securing, and controlling access to hardware, software, and the information stored in the computer system. Effective change management procedures reduce the risk of unauthorized, improper, or erroneous changes to computer systems.

The Tollway's system of internal controls should include procedures to ensure access rights granted to Tollway employees are appropriate and to document monitoring procedures of the appropriateness of access levels on a continuing basis. Internal controls should also exist to ensure incompatible programming duties are properly segregated. In addition, all users should be required to acknowledge that they have read, understand and agree to comply with the Tollway's IT Security Policy on a regular basis.

The Tollway thought the current procedures in place were adequate to maintain controls over application usage. With regard to the programmer access, there was an improper configuration on the development system that allowed one user to generate code for the production environment. IT corrected this once it was brought to their attention by the auditors. With regard to the inappropriate access to modify pay rates, the Tollway thought that when user codes were established, there were adequate controls in place that would monitor any salary changes. Finally, the Tollway thought the login computer use policy screen was adequate to inform the Tollway user community about the computer security guidelines. In addition, the Tollway's security policies are included in the Tollway's policy and procedures manual and given to each employee upon hire.

Current Findings – *Government Auditing Standards*

Failure to properly monitor user access rights may result in erroneous or unauthorized transactions being recorded in the information systems. Without adequate security over access rights and program changes there is a greater risk that improper or unauthorized changes to the Tollway's financial systems could occur and not be detected in a timely manner. (Finding Code 11-02)

Recommendation:

We recommend the Tollway implement procedures to monitor user access rights and appropriately segregate programming duties. Further, the Tollway should ensure users understand their responsibilities and acknowledge this by signing, for each calendar year, a statement of agreement to comply with established security policies and procedures.

Tollway Response:

The Tollway concurs with the auditors' recommendation and is in the process of implementing user application access and Tollway computer user security guideline reviews. Inappropriate user access rights that were indentified have been changed based on the auditors' recommendations.

Current Findings – *Government Auditing Standards*

Finding 11-03 – Inadequate Documentation to Support Payroll Expenditures

The Illinois State Police could not locate payroll records supporting certain payroll expenditures reimbursed by the Tollway during fiscal year 2011.

The Illinois State Police is responsible for highway safety throughout the state, including traffic enforcement. Under a contract with the Illinois State Police dated April 20, 2007, the Tollway is responsible for reimbursing the Illinois State Police for the salaries of police employees assigned to patrol interstate tollways on a full-time basis. Under the agreement, the Illinois State Police must supply the Tollway any additional books, records, invoices, bills, or files related to the cost of performing police services. Under the current procedures, each payroll cycle the Illinois State Police prepare a summary payroll voucher of individual employee payroll disbursements, certify the voucher for accuracy on behalf of the Tollway Director, and provide voucher to the Tollway for reimbursement. However, during our procedures over these interagency expenditures reimbursed by the Tollway, we noticed Tollway does not have procedures in place to verify the payroll information reported by and reimbursed to the Illinois State Police. Upon our review of 25 individual payroll expenditures (totaling $55,085) and related personnel files for Illinois State Police employees, we noted the following:

- Salary pay rates could not be verified for 11 payroll payments (totaling $13,722) made to employees classified as police cadets. Total payments made to employees classified as police cadets reimbursed by the Tollway were $215,511 for the year ended December 31, 2011.
- Salary rates did not agree to the employment agreement for 10 fulltime employees with sampled payroll payments (totaling $40,093) resulting in an overstatement of $160. Management stated each employee was paid $16 more than the salary amount per the employee agreement as a uniform and food per diem. Upon further review, we noted $64,720 of total uniform and food per diems paid to Illinois State Police employees assigned to patrol interstate tollways for the year ended December 31, 2011.

Total payroll expenditures for the Tollway and total payroll expenditures for Illinois State Police employees assigned to patrol interstate tollways on a full-time basis totaled $101,870,839 and $17,295,512, respectively, for the year ended December 31, 2011.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Tollway to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the Tollway's resources. Effective internal controls should include procedures to ensure interagency expenditures reimbursed by the Tollway are accurate and appropriately supported.

Tollway management stated that the Tollway has an adequate process in place for monitoring expenditures incurred by the Illinois State Police and reimbursed by the Tollway under the intergovernmental agreement.

Failure to periodically monitor interagency expenditures reimbursed by the Tollway to ensure they are accurate and appropriately supported may result in the misstatement of the Tollway's financial statements. (Finding Code 11-03)

Current Findings – *Government Auditing Standards*

Recommendation:

We recommend the Tollway implement procedures to periodically verify expenditures reimbursed by the Tollway are accurate and appropriately supported.

Tollway Response:

The Tollway will implement procedures to conduct periodic reviews of reimbursed expenses for accuracy and appropriateness.

Current Findings – *Government Auditing Standards*

Finding 11-04 – Inadequate Year End Payables Process

The Tollway has not established adequate internal controls over accurately identifying and recording period end payable transactions for financial reporting purposes.

During our audit, we noted the Tollway's year end accounts payable procedures include specifically reviewing cash disbursements made subsequent to year end through the third week in May to determine to which accounting period the related expense transactions pertained. Further, the Tollway estimates amounts payable under intergovernmental agreements based upon information its planning and engineering departments have negotiated with contracting governments under open projects.

In relation to our testwork on expense transactions, we reviewed 160 expense transactions recorded during the fiscal year (totaling $11,125,403). During our review of these transactions we noted the following items were not recorded to the proper accounting period:

- One finance expenditure (totaling $400) which pertained to fiscal year 2010 but was recognized as expense in fiscal year 2011.
- One engineering and maintenance of roadway expenditure (totaling $458) which pertained to fiscal year 2010 but was recognized as expense in fiscal year 2011.
- One services and toll collection expenditure (totaling $179) which pertained to fiscal year 2010 but was recognized as expense in fiscal year 2011.
- One procurement, IT, finance, and administration expenditure (totaling $289) which pertained to fiscal year 2012 but was recognized as expense in fiscal year 2011.

In addition, we noted that the Tollway had been unable to perform a formal reconciliation with IDOT to determine if the amount reported as intergovernmental payables were complete and accurate. As a result, the initial confirmation received from IDOT contained a difference of $4,434,952 which was required to be reviewed and resolved by the Tollway. Upon further review, the difference reported by IDOT represented payments made by the Tollway prior to December 31, 2011 which IDOT had not reflected in its records.

Payments to vendors by the Tollway totaled $133,998,040 during the year ended December 31, 2011. Amounts payable by the Tollway under intergovernmental agreements totaled $67,688,724 as of the year ended December 31, 2011.

Generally accepted accounting principles require transactions to be reported in the period they are incurred. Additionally, the Fiscal Control and Internal Auditing Act (Illinois Compiled Statutes Chapter 30 Section 10/3001), requires the Tollway to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. Effective internal controls should include procedures to accurately assess whether expenditures are reported in the appropriate period.

Current Findings – *Government Auditing Standards*

According to Tollway officials, the accrual process is a manual process, dependent upon using departments forwarding unpaid and properly accruable invoices to General Accounting. Further, they stated efforts to engage IDOT in a discussion of amounts owed to them have not been successful. The Tollway does not have an ERP system with a fully automated accounts payable module.

Failure to accurately identify and record period end accounts payable transactions may result in the misstatement of the Tollway's financial statements. (Finding Code 11-04)

Recommendation:

We recommend the Tollway review its current process to assess the completeness of its expense accruals at year end and consider changes necessary to ensure all period end accounts payable are accurately identified and recorded. We also recommend the Tollway continue its attempts to implement procedures to reconcile amounts payable under intergovernmental agreements directly with contracting governments.

Tollway Response:

The Tollway concurs with the auditors' recommendation and is pursuing an ERP system to include improved and automated controls concerning accounts payable activity.

Current Findings – *State Compliance*

Finding 11-05 Procurement: Lack of Evaluation Comments

The Tollway did not adequately document the rationale to support scores awarded to vendor proposals.

During procurement testing we selected a sample of five general procurements conducted and awarded by the Tollway during the year ended December 31, 2011. The five procurements tested were estimated, with renewals, to be worth over $92 million. Three of the opportunities (with awards estimated at $76 million) were procured using a Request for Proposal (RFP) and the other two opportunities (with awards estimated at $16 million) were procured as State-use contracts. During our testwork, we noted the forms used by the Tollway to document the evaluation of the technical proposals for two RFPs tested and for Phase I of the third RFP did not require evaluators to provide comments supporting the scores awarded by the evaluator. Accordingly, evaluators did not document comments to support any of the scores awarded. Additionally, the form used for the Phase II evaluation of the third RFP tested included a place for comments; however, comments were only documented for 18% of the criteria evaluated. The Tollway could not provide evidence that scores without supporting comments were returned to evaluators.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should include comments to support the points awarded to technical criteria. Tollway officials reported Evaluation Procedures for Bids and/or Proposals provide specific guidance for procurement actions at the Tollway. Under the Assignment of Evaluation Points section, guidance states *"Rating points must be supported by thorough and appropriate comments. The points given must be consistent with the comments. General statements such as 'good proposal' without something to qualify the statement (i.e., why it is a good proposal) are not acceptable. Evaluations, which are not accompanied by thorough supporting comments, should be returned to the evaluator for further consideration."*

Tollway officials stated the Evaluation Procedures for Bids and/or Proposals are used by the Tollway as a guideline/overall instruction in performing evaluations. It has not been Tollway practice to require evaluator comments on each individual scoring item.

Failure to provide thorough and appropriate comments relative to how scores were assigned to evaluation criteria is in violation with the Tollway's procurement procedures and prevents an independent reviewer from assessing whether the appropriate vendor was awarded the contract. (Finding Code No. 11-05)

Recommendation:

The Tollway should take the necessary steps to ensure that procurement evaluation criteria are followed and appropriately documented by all evaluators when awarding State contracts. Such steps should include ensuring that evaluators submit thorough and appropriate comments to support scores awarded for evaluation criteria and following up with evaluation team members who fail to document such comments.

Current Findings – *State Compliance*

Tollway Response:

The Tollway is in the process of reviewing internal procurement evaluation procedures and will take steps necessary to ensure those procurement evaluation procedures are followed. In pursing an ERP system, the Tollway will also research the capability of workflow, approval and audit trail management in the procurement process to capture procurement evaluation procedure requirements and verify their performance.

Current Findings – *State Compliance*

Finding 11-06 Procurement: Scoring Evaluation Certification

The Tollway failed to have evaluation team members certify their evaluation scores. Additionally, the initial administrative review of proposals lacked certification signatures. Finally, the Tollway did not comply with its evaluation procedures relative to reference checks.

During our procurement testing we selected a sample of five general procurements conducted and awarded by the Tollway during the audit period. The five procurements were estimated, with renewals, to be worth over $92 million. Three of the opportunities (with awards estimated at $76 million) were procured using a Request for Proposal (RFP) and the other two opportunities (with awards estimated at $16 million) were procured as State-use contracts. During testing we reviewed available documentation to determine whether evaluation documents contained certifications by the individuals that conducted the various evaluation steps. We noted the following exceptions in the three RFP selected for our testwork:

- **Merchant Card Services Procurement:**
  - Forty percent (2 of 5) of the evaluators had scores and dates/times for completing the evaluations that were typed into the scoring sheets. One of the two had the same typed date and time for all four evaluations conducted.
  - None of the evaluation forms were signed by individual evaluators. Each evaluation was identified by a "scorer number." All Tollway identified evaluators completed a conflict of interest agreement but none of those identified to which "scorer number" it related.
  - All six of the RFP Administrative Review forms had the same typed information for printed name for the reviewer and date of the bid opening. However none of the forms were signed by the official that completed the review.
  - The pricing analysis was also unsigned. Thus, it is not possible to determine when it was completed.
  - Additionally, the Contract Checklist form, which contains sections for comments from buyer, comments from manager/supervisor, buyer's initials, manager/supervisor initials, and date was not completed.
  - The Tollway provided a Reference Check Questionnaire which was not utilized for the Merchant Card procurement. There were six responding bidders for this procurement, yet documentation only was provided for two of the proposers. Reference checks for two proposing bidders were not signed or dated as to when they occurred.

- **Project Management and Technology Planning Procurement:**
  - None of the Phase 1 evaluation forms were signed by individual evaluators. Phase II evaluations did not have evaluator names or scorer numbers to identify who conducted the evaluations. In addition, the name and/or number on the cover sheet did not correspond to how they were identified by the Tollway. One Phase II evaluation was signed, but misidentified on the cover sheet by the Tollway.
  - All Tollway identified evaluators completed a conflict of interest agreement but none of those identified which "scorer number" it related to.
  - None of the RFP Administrative Review forms were signed by the officials that completed the review.
  - The pricing analysis was also unsigned by individual evaluators. It was also determined that the scoring calculation was done incorrectly for one of the proposing vendors. While this scoring difference would not have changed the outcome of the award, it was not noticed until auditors requested the documentation for the price scoring.

- The Contract Checklist form lacked comments from buyer, comments from manager/supervisor, and the manager/supervisor initials, and date was not completed.
- The Tollway provided five Reference Check Questionnaire forms for this procurement. There were eight responding bidders for this procurement, yet none of the references showed what proposer the reference related to, one reference was not completed, and two reference checks were not signed or dated as to when they occurred.

- **Liability Insurance Program Procurement:**
  - Twenty-five percent (1 of 4) of the evaluators did not fill out the evaluation form properly or include the time the evaluation was conducted.
  - None of the evaluation forms were signed by individual evaluators. Each evaluation was identified by a "scorer number." All Tollway identified evaluators completed a conflict of interest agreement but none of those identified which "scorer number" it related to.
  - Even though the procurement file reviewed by auditors on February 27, 2012 did not contain a RFP Administrative Review form for the proposal received for this procurement, the Tollway did provide one to auditors on June 14, 2012. However, this form also was not signed by the official that completed the review. There were no reference checks for the one proposer to this procurement.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should include evidence to support that the individual members of the evaluation team signed and dated the evaluations to not only create an audit trail but assure that the scores were actually completed by the members of the evaluation team. Tollway officials reported Evaluation Procedures for Bids and/or Proposals provide specific guidance for procurement actions at the Tollway. Under the References section, guidance states *"You should contact at least 3 references for each firm submitting a proposal. This task could be assigned to someone outside the evaluation team such as a technical advisor."* The Tollway's RFP-Administrative Review form provides sections for the reviewer to print their name, sign their name and provide the review date. The Tollway's Procurement Services Unit Policy and Procedure Manual (Chapter 2 Section G Subsection 4(k)) requires the Information Processing Officer to complete administrative reviews of all bids opened.

Tollway officials stated Tollway policy did not require signatures on Administrative Review forms, Contract Checklist forms or Pricing Analysis.

According to Tollway officials, the Tollway did not require RFP evaluators to sign scoring sheets in order to allow evaluation team members to remain anonymous. Completed scoring sheets were provided to the procurement department Buyer, who ensured that each evaluation committee member provided a completed scoring sheet and tallied the final scores.

Further, the Tollway stated the Reference Check Questionnaire is a template that the Tollway modifies for each procurement based on the Tollway's discretion, in order to best capture information and feedback pertinent to the given procurement. Tollway policy did not require reference checks for non-responsive bidders or for procurements in which the RFP does not require a reference check.

Failure to have evaluations signed and certified by the members of the evaluation team makes it difficult to determine whether the procurement was evaluated in accordance with Tollway procedures. Absent certified

signatures, it was not possible to determine if the scores were actually submitted by individuals assigned to the evaluation team. Failure to complete administrative forms for procurements is a violation of Tollway procedure. (Findings Code No. 11-06)

Recommendation:

The Tollway should ensure that all evaluation scoring tools are dated and include certifying signatures by the individual evaluator and are also dated to indicate when the scoring actually took place. Additionally, the Tollway should either develop a policy/procedure for completing the signature of the RFP Administrative Review form or update its form. Finally, the Tollway should follow its current procedure for documenting the performance of reference checks.

Tollway Response:

The Tollway is in the process of reviewing internal procurement evaluation procedures and will require that evaluators sign and date their evaluations. In pursuing an ERP system, the Tollway will also research the capability of workflow, approval and audit trail management in the procurement process to capture procurement evaluation procedure requirements and verify their performance.

Current Findings – *State Compliance*

Finding 11-07 Procurement: Lack of State Purchasing Officer Determination Form

The Tollway procurement files lacked written determinations of contract awards for procurements at the Tollway by the State Purchasing Officer (SPO).

During our procurement testing we selected a sample of five general procurements and five engineering procurements conducted and awarded by the Tollway during the audit period. The ten procurements were estimated, with renewals, to be worth over $107 million. Two of the procurements were State-use contracts which, according to the Chief Procurement Officer, do not require SPO approval for the award. During testing we reviewed available documentation to determine whether the SPO had approved each award through a written determination of contract award. We found that none of the eight applicable procurements requiring a written determination of contract award had a completed determination in the procurement file.

The Illinois Procurement Code (30 ILCS 500/20-155(b)) requires that the procurement file shall contain the basis on which the award is made, all submitted bids and proposals, all evaluation materials, score sheets and all other documentation related to or prepared in conjunction with evaluation, negotiation, and the award process. The procurement file shall contain a written determination, signed by the chief procurement officer or State purchasing officer, setting forth the reasoning for the contract award decision. CPO Notice #37 requires that all competitive procurements "be preceded by a written determination recommending the award of a contract to a specific vendor." The Illinois Administrative Code (44 Ill. Adm. Code 1.7025) states that "Each written determination shall set out sufficient facts, circumstances, and reasoning as will substantiate the specific determination that is made."

Tollway officials stated that the SPO Determination form was not required at the time of the submittal of the contracts and was not required until late 2011. Prior to that date, the SPO provided approval through the Remedy system. However, auditors note that the Remedy system does not lay out the facts required by the Administrative Code.

Tollway officials stated for engineering contracts, prior to November, 2011, the SPO Determination Form did not exist and the department believed the SPO's involvement through the PSB and contract award process, including the SPO's final signature on the contracts, satisfied the SPO determination requirement. In November 2011, via CPO Notice 2012.07, the Chief Procurement Officer communicated a revised PBC approval process and supplied the agency with a written determination form.

According to Tollway officials, for general procurements, prior to the distribution of the SPO Determination Form, the Tollway was instructed by the SPO that the SPO Written Determination requirement was satisfied by the SPO review and sign off on the printed out Award Information Tab of the PBC System.

Failure to include a written determination of contract award in the procurement file is a violation of State statute and decreases the transparency in the procurement process. (Finding Code No. 11-07)

Current Findings – *State Compliance*

Recommendation:

The Tollway should ensure that its procurement files contain a written determination of contract award signed by the Chief Procurement Officer or State Purchasing Officer.

Tollway Response:

The Tollway concurs with the auditors' recommendation.

Current Findings – *State Compliance*

Finding 11-08 Procurement: Personnel/Subcontractor Differences from Proposal to Award

The Tollway allowed vendors to modify the key personnel and subcontractors proposed for specific projects during the contract negotiation process.

During our procurement testing we selected a sample of five professional services awards for architectural and engineering procurements conducted and awarded by the Tollway during the audit period. The five procurements were estimated, with renewals, to be worth over $15 million. During testing we reviewed the proposals of the winning vendors and compared those to the contracts. We found:

- Twenty-one percent (14 of 67) of the key personnel proposed for the procurements tested were not listed on the final signed Design Section Engineer Agreement.
- Eighty percent (4 of 5) of procurements tested had additional subcontractors added to the final signed Design Section Engineer Agreement that were not originally proposed by the vendors. A total of 13 additional subcontractors were added with a total value of $432,015. The Tollway reported that one of the subcontractors was added during a project scoping meeting. Documentation showed an addition to the scoping meeting minutes where an Tollway official apparently called the winning vendor and discussed the need to add this subcontractor.

We found no documentation in the procurement files to show that changes to key personnel and subcontractors were reviewed and approved by the Tollway.

The Architectural, Engineering, and Land Surveying Qualifications Based Selection Act (30 ILCS 535/30) requires that a State agency shall evaluate the firms submitting letters of interest and other prequalified firms, taking into account qualifications; and the State agency may consider, but shall not be limited to considering, ability of professional personnel, past record and experience, performance data on file, willingness to meet time requirements, location, workload of the firm and any other qualifications based factors as the State agency may determine in writing are applicable. Tollway Policy for the Selection of Architectural-Engineering-Surveying Consulting Firms requires that all respondents to a Professional Service Bulletin or a Request for Proposal be evaluated for professional and technical qualifications.

Tollway officials stated the key personnel (as identified in the professional service bulletin) were included in the final contracts via exhibits C-1 or E, with the exception of one employee on one vendor's statement of interest. This exception was attributed to an oversight. Exhibit A is a listing by the vendor of employees the vendor has offered as key employees. This will often include roles that the Tollway had not defined as key personnel according to the Professional Service Bulletin (PSB). Exhibit C-1 and E capture the personnel that the Tollway has determined are in fact key personnel. The Tollway also selects and enters into contracts for professional services with the prime contractor alone. Further, Tollway officials believe that subcontractors can be added or deleted dependent upon the final scope of the contract and project requirements.

Significant changes made to vendor's proposals during the negotiation process could alter the quality of the original proposal and the subsequent evaluations which are based on the qualifications and ability of professional staff proposed for a project. (Finding Code No. 11-08)

Current Findings – *State Compliance*

Recommendation:

The Tollway should examine its process for negotiating with vendors and allowing significant revisions to the proposals that have already gone through the evaluation process to ensure that the key personnel identified in the proposal are the same as those in the contract, or otherwise document personnel change approvals.

Tollway Response:

The Tollway will take steps to further clarify/document the tracking of key personnel from the statement of interest phase to the final agreement phase.

Current Findings – *State Compliance*

Finding 11-09 Procurement: Professional Services Vendors

The Tollway utilized a process in selecting engineering professional services consultants that was not detailed in the Tollway's procedure. Additionally, the Tollway does not require evaluators for engineering services to complete a conflict of interest policy and confidentiality agreement.

On August 26, 2011, the Tollway advertised in Professional Services Bulletin (PSB) 11-2 for vendors to provide engineering services for the Tollway. Twenty-five Tollway projects were included in PSB 11-2. During procurement testing we selected a sample of 5 of the 25 projects and reviewed available documentation to review the procurement process utilized by the Tollway for these procurements.

Relative to the projects in PSB 11-2:

- Tollway documentation estimated $39.3 million in total fees for the 25 projects, with over $13 million dedicated to commitments for Disadvantaged Business Enterprises (DBE) firms.
- Our five sampled projects totaled, with renewals, $15.5 million in fees, or 39% of the total project fees.
- 110 firms sent in a response or Statement of Interest (SOI).
- 499 total SOIs were submitted by the 110 firms; however 56 were disqualified due to missing Board of Elections documents, failure to be prequalified by IDOT or for not following instructions. This left 443 SOIs for the evaluators to review.
- The evaluation team consisted of six individuals: four Tollway staff, an IDOT employee, and a public representative.

Our evaluation of the procurement process utilized by the Tollway for the engineering services projects found:

- **Lack of Documented Evaluation Process in Procedures:** Tollway staff provided a Notice and Selection of Professional Services Procedure (P3100) for the capital program. While the procedure does lay out how the PSB is published, it is silent on the actual evaluation procedures the evaluation team utilizes in practice. Process weaknesses we identified which should be detailed in the procedure included:
  - **Failure to Utilize Tollway Provided Scoring Sheet**. Evaluators were provided an objective scoring sheet with each bidder for each project detailed on the form. While Tollway staff indicated that it may be utilized by evaluators, the staff stated they were not collected. Auditors were not provided with any evidence that the forms were actually utilized and the procurement file contained no such documentation.
  - **Nomination Process**. The Tollway evaluators use a process where bidders are nominated by evaluators and then voting narrows the list to three. There is no objective numerical scoring conducted for the engineering services projects. Another vote is taken to determine a rank order for the top three firms to start the negotiation process. The only evidence of this process is a handwritten tally mark sheet completed by the evaluation team's liaison. There was no documentation to indicate who nominated each of the firms for initial consideration. There was no documentation to show that the individual evaluators actually reviewed all the SOIs submitted.
  - **Resolution of Ties**. Evaluators indicated that the resolution of ties when narrowing the bidders to a short list is not part of any Tollway procedure. For example, for Project #1 in PSB11-2, the evaluators nominated 12 bidders to be considered for the short list narrowing down to three. One firm received three votes to make it to the short list. Four other firms received two votes each to make it to the short list. However, only two of those firms were considered for the final vote. There was no documentation to show how the tie was broken and the other two firms moved on for further consideration.

- **Subcontractor Workload**. The Tollway requires prime contractors seeking the engineering services contracts to disclose workloads so that evaluators can ascertain if the new projects can be completed timely. This same requirement does not extend to subcontractors that will be utilized by the primes in the project. Tollway documentation showed that for the 25 projects in PSB 11-2, the winning engineering firms were going to utilize subcontractors for between 12 and 50 percent of the project fees.

- **Conflict of Interest Policy and Confidentiality Agreement:**
  - Evaluators for procurement of engineering services at the Tollway do not sign conflict of interest/confidentiality statements.
  - Tollway staff reported that they do not require them to sign those forms, but that the Tollway's procedures require them to remain ethical and objective and remove themselves from situations where they may have a bias. Staff also stated that the engineering world is small and it would be hard to select any evaluator who did not have interaction of some type with all of the firms that submit statements of interest.
  - The Tollway Procurement Division does require its evaluators to sign and certify a Conflict of Interest Policy and Confidentiality Agreement form. The form lists as its purpose to *"further clarify the conflicts of interest policy of the Tollway's Procurement Department and other departments and to set out a process for disclosing and managing conflicts of interest."*
  - Engineering believes that Tollway personnel are already bound by the conflict of interest and confidentiality policy as detailed in the Tollway's policy and procedure manual. The public member of the evaluation team did sign an Illinois State Toll Highway Authority Professional Services Committee Conflict of Interest Certification for Public Members form on October 27, 2011, the same day the evaluation team met to evaluate proposals. This was a month after the individual received the statements of interest to review. We would also note that Procurement Division staff, like engineering staff, also sign those confidentiality agreements at the time of hire, yet are still required to complete a Conflict of Interest Policy and Confidentiality Agreement form when they evaluate a procurement opportunity.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; and (2) obligations and costs are in compliance with applicable law. These controls should include evidence to support the evaluation process for consultants hired by the Tollway as well as requiring evaluators for engineering services to complete and certify any potential relationships that the Tollway needs to address before allowing an individual to sit on a selection team.

Tollway officials stated although a documented procedure does not exist detailing how individual selection committee members should determine top ranked firms for presentation to the selection committee, the instruction to evaluators was to evaluate based on the statements of interest and the firm's qualifications. Committee members vote by secret ballot (with votes tallied, typically electronically, by a minute-taker) to determine the top three firms for the individual items, consistent with the Qualifications Based Selection Act. Meeting minutes from selection committee meetings document the top three firms nominated. In the case of ties, re-voting among the "tied" parties occurs until one is selected (also documented in the vote tallies).

Further, Tollway officials stated the Tollway did not require subcontractors to disclose workloads as the Tollway believes that subcontractor workloads are not a significant or determining factor in the selection process. The

Current Findings – *State Compliance*

Tollway only selects and enters into a contract with the prime contractor, who is ultimately responsible for ensuring work is completed.

Further, according to Tollway officials, under the Engineering Department's practice, the Tollway's conflict of interest and confidentiality policy, as included in the agency's policy and procedures manual and acknowledged by each employee, obviated the need to have these employees re-sign conflicts of interest and confidentiality statements prior to each professional service selection.

Failure to document the evaluation of vendors to provide engineering services consulting fees may result in noncompliance with procurement regulations. (Finding Code No. 11-09)

Recommendation:

The Tollway should enhance its procedures for selecting engineering services consultants to include detailed steps for the evaluation process and ensuring that documentation is sufficient to show that evaluators considered all Statements of Interest in their evaluations. Additionally, the Tollway should consider requiring evaluators for engineering services consultants to sign a conflict of interest policy and confidentiality agreement.

Tollway Response:

The Tollway concurs with the auditors' recommendation.

Current Findings – *State Compliance*

Finding 11-10 Procurement: Review of Billing Invoices

The Tollway failed to thoroughly review invoices submitted by a vendor. This resulted in some payments to the vendor that were not supported by timesheets that were certified by the individuals charging hours to the project.

During procurement testing we selected a sample of five general procurements conducted and awarded by the Tollway during the audit period. We reviewed invoices submitted by the vendors for payment on the projects. For one of the projects, the Project Management and Technology Planning Procurement, we found an unsupported payment of approximately $37,420, which was 3% of the total paid to the contractor, based on timesheets submitted by the Tollway to support the payments. Payments to the vendor were authorized by the Tollway and paid by the Comptroller from the Illinois State Toll Highway Revenue Fund (#0455).

Auditors requested, and Tollway personnel developed and provided, an electronic file which contained timesheets for a six month period for the contractor staff. The Tollway later provided invoices for the contractor for the period examined. Our review of the invoices for the period July 2011 through December 2011 found:

- Eleven instances for six individuals that worked for the contractor where time charged on the invoices did not match timesheets certified by the employees with their signatures and reviewed and certified by another individual listed only as "client signature". The signature appeared to be of a Tollway official in the IT area. The exceptions resulted in a potential overpayment of $37,420.
- Tollway personnel stated the timesheets were *"spot checked against the invoices for approval by the IT personnel. After reviewing the auditor's reconciliation, there appeared to be missing time sheets and perhaps the auditor calculated the monthly hours billed based on the groupings of time sheets, by month, of the PDF files submitted, versus the actual calendar month hours of the timesheets."* Contrary to the Tollway's assertion, the auditors did not calculate the timesheets based upon the groupings of the PDF files. Furthermore, the auditors, unlike the Tollway, did not spot check the submitted timesheets.
- In attempting to verify contractor hours worked relative to the exceptions identified in our testing, the Tollway indicated they relied on their door access system to the main building for the entry and exit times of contractor staff. However, the reliance upon the door access system does not verify that the total number of hours spent in the building were spent working on the billed project to the Tollway.
- After questioning by the auditors, Tollway staff consulted with the contractor and reported:
  - In one case there was a missing timesheet for the period October 24, 2011 to November 4, 2011 which the contractor verified in its payroll system. However, the Tollway approved payment without the timesheet to support the invoice. When we examined the new documentation we found:
    1. The Tollway provided a timesheet reviewed on May 31, 2012 - or seven months after the time this contractor was to have performed the work showing the individual worked 8 hours per day for each of the 10 days in the period.
    2. The Tollway stated *"To verify that [the individual] worked the hours, the Tollway has run a report from the door access system. This report verified [the individual] entry and exit time for the period of the missing timesheet."*
    3. However, the door access system report showed that the individual was in the building for 8 hours on only 3 of 10 days on the timesheet.
    4. For 7 of the 10 days in the period the door access system report showed the individual was in the building less than 8 hours yet the Tollway was charged for a full 8 hours on the timesheet.

- In another case, the Tollway relied on the door access system to increase an employee's reported and certified hours from 4 to 8 hours, since he was in the building for 8 hours, per the system, even though the employee submitted a signed timesheet, stating he worked 4 hours on the project that day.
- In another case, a contract worker reported, by signing the timesheet, 80 hours for his work during two billing periods, September 26, 2011 through October 7, 2011 and October 23, 2011 through November 4, 2011. According to the Tollway, the contractor's payroll system listed 86 and 90 hours for this worker during those periods so the timesheets were revised - timesheets that the worker had already signed and were reviewed by an official from the contractor firm and a Tollway official. When we examined the new documentation we found:
  1. The Tollway provided timesheet reviewed on May 31, 2012 - or up to nine months after the time had been previously certified.
  2. The Tollway stated *"A door access report was run to verify [the individual's] time."*
  3. However, the door access report showed that the individual charged more hours than time in the building for 10 of the 20 days in the pay periods.

     As the door access reports provided did not substantiate the hours billed by the vendor, they were not used in determining the amount of the unsupported payment.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies, including the Authority, to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should include verification by the Tollway of a vendor's billed hours prior to submitting to the Comptroller for payment. Additionally, the State Finance Act requires the Authority to ensure that services specified on a voucher presented for payment are correct, authorized and lawfully incurred (30 ILCS 105/9.04).

According to Tollway officials, its procedure was to spot check internally generated manual timesheets signed by the vendor employee and Tollway as a method for tracking project hours. The Tollway provided timesheets to the auditor in mid-May and had also supplied additional original timesheets on May 29th. These additional timesheets should have been supplied with the original request but were inadvertently omitted. There were also discrepancies between amounts billed and some original manual timesheets. The Tollway states it is reconciling billings, to the extent possible, by validating whether the vendor employees were onsite on dates timesheets were missing or inaccurately completed.

Failure to adequately review vendor billings may result in improper payments being made. (Finding Code No. 11-10)

Recommendation:

The Tollway should take steps necessary to verify all vendor billed time is accurate, prior to making payment to the vendor. Additionally, the Tollway should seek repayment of overpayments/billings not properly supported.

Tollway Response:

The Tollway concurs with the auditors' recommendation and is pursuing an ERP system to include improved and automated controls concerning invoice support, approval and payment. The Tollway is conducting a review of the invoices submitted and evidentiary documentation to determine if there were unsupported payments.

Finding 11-11 – Failure to Accurately Report Account Receivables

The Tollway did not accurately report information about account receivable balances to the Office of the State Comptroller.

On a quarterly basis the Tollway submits three financial reports to the Office of the Comptroller to report accounts receivables activity, an aging of receivables balances and estimates of uncollectible receivables, and collection activity. These reports include the Summary of Accounts Receivable Activity (Form C-97), Aging of Total Gross Receivables (Form C-98) and Collections Activity for Accounts over 180 Days Past Due (Form C-99) reports. During our review of accounts receivable reports for the quarters ended September 30, 2011 and December 31, 2011, we noted the following:

- Amounts reported as other current receivables (Acct. #625) of $130,053,000 for the quarter ended September 30, 2011 and $131,343,000 for the quarter ended December 31, 2011 in Form C-98 improperly included receivables that were actually past due 1 to 180 days because management does not age these receivables in sufficient detail to separately report amounts past due from 1 to 30 days, 31 to 90 days, and 91 to 180 days in accordance with the reporting requirements. Therefore, these amounts were reported as current receivables.
- Accounts which have receivables over 180 days past due being collected by private collection firms reported in Form C-99 were overstated by 21 customer accounts for the quarter ended September 30, 2011 and 590,013 customer accounts for the quarter ended December 31, 2011 because management included certain customers with zero balances.
- Receivable balances are improperly aged based on billing date instead of when receivables become past due.
- Due to a misclassification between receivables over $15,000 and receivables less than $15,000, amounts reported as receivables over 180 days past due and over $15,000 reported in Form C-99A were overstated by $2,953,318 for the quarter ended September 30, 2011 and understated by $11,426 for the quarter ended December 31, 2011.
- Total amount of receivables over 180 days past due and being collected by private collection firms, reported in Form C-99 for the quarter ended September 30, 2011, was understated by $3,151 because interest income from property damage receivables were not reported.

Total gross receivables reported for the quarters ended September 30, 2011 and December 31, 2011 were $436,282,000 and $442,171,000, respectively.

The Comptrollers' Statewide Accounting Management System Procedures Manual Section 26.20.20 states that in order for an agency to effectively estimate the collectability of its receivables and properly focus collection efforts, each outstanding receivable due the State must be "aged" relative to its formal due date. A receivable is considered "current" (not past due) prior to the passage of its formal due date. When the debtor's due date passes without full payment, the debt becomes past due and must be aged according to the number of days beyond the due date that the debt has been outstanding.

Further, Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to

maintain accountability over the State's resources. Effective internal controls should include a process to ensure the Tollway accurately reports information about account receivable balances.

Tollway management stated that the preparation of the report is a manual process, subject to human error. An automated ERP system with an accounts receivable module would assist in the preparation of aging reports.

Failure to accurately report information about account receivable balances inhibits the ability of the Office of the State Comptroller to properly monitor and evaluate the Tollway's receivables and related collections activity. (Finding Code 11-11)

Recommendation:

We recommend the Tollway review its current procedures for preparing quarterly accounts receivable reports and consider any changes necessary to ensure information submitted to the Office of the Comptroller is accurate. Additionally, we recommend the Tollway work with the Office of the Comptroller in addressing inaccurate reports previously submitted.

Tollway Response:

The Tollway will update its current procedures and discuss the previously submitted reports with the Office of the Comptroller. In addition, the Tollway is pursuing an ERP system to include improved and automated controls concerning accounts receivable activity.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Prior Findings Not Repeated

Year ended December 31, 2011

None.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

December 31, 2011

Financial Statement Report

Summary

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

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

KPMG LLP
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

Honorable William G. Holland
Auditor General State of Illinois

and

The Board of Directors
Illinois State Toll Highway Authority:

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the Illinois State Toll Highway Authority (the Tollway), a component unit of the State of Illinois, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Tollway's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2012 on our consideration of the Tollway's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit for the year ended December 31, 2011 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tollway's basic financial statements. The accompanying supplementary information in Schedules 1 through 17 and the Analysis of Operations section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information for the year ended December 31, 2011 in Schedules 1, 2, 4, 5, and 11 through 17 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information for the year ended December 31, 2011 in Schedules 1, 2, 4, 5, and 11 through 17 is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplementary information included in Schedules 3 and 6 through 10 and in the Analysis of Operations section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Tollway's financial statements for the year ended December 31, 2010 were audited by other auditors whose report thereon dated June 21, 2011, expressed an unqualified opinion on the basic financial statements of the Tollway and stated that the supplementary information for the year ended December 31, 2010 included in Schedules 11, 13, 15 through 17, was subjected to the auditing procedures applied in the audit of 2010 basic financial statements and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

August 8, 2012

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, 2011. Readers should use this section of this report in conjunction with the Tollway's basic financial statements.

2011 Financial Highlights

- In August of 2011, the Tollway's Board of Directors approved a $12 billion capital plan, called "Move Illinois, the Illinois Tollway Driving the Future", which established a guide for infrastructure investments to be made by the Tollway beginning in 2012 through 2026.
- To fund the capital outlays approved for "Move Illinois", the Tollway board set new toll rates for passenger vehicles using the system; these higher rates are effective January 1, 2012. Previous board action approved rate increases for commercial vehicles beginning in 2015. The capital plan also calls for new revenue bonds to be issued beginning in 2012 through 2022 totaling $5 billion.
- Design and construction work on the Tollway's $6 billion Congestion-Relief Program, initiated in 2005, totaled just $122 million in 2011, with the bulk of that program's work completed.
- No bonds were issued in 2011. The Tollway significantly diversified the liquidity support for its variable rate bonds outstanding, replacing one provider of liquidity supporting its 2007A and 2008A series with seven new liquidity providers. The Tollway's underlying ratings of Aa3, AA-, and AA- from Moody's, S&P, and Fitch, respectively, were each confirmed in the first quarter of 2011 in connection with the re-offerings of the Tollway's 2007A and 2008A series of bonds that resulted in the previously-described liquidity provider replacements.
- Amounts on deposit on behalf of I-PASS account holders increased by 5.3% at year-end to $147 million; the percentage of Tollway users paying by I-PASS was 84% in 2011. In 2004—the year before vehicles began to pay a penalty for not using I-PASS—the percentage was 54% of users.

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:

- Balance Sheet
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

The Balance Sheet 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

2011 Results Compared to 2010

Operating Revenue

The Tollway's total 2011 operating revenues exceeded those of the previous year, up $24 million (almost 4%) at $698 million, versus $673 million in 2010. Almost all of this increase came from toll revenue which totaled $653 million this year (up from $629 million last year); as the regional economy showed signs of potential strength, traffic returned to the Tollway's roads and revenue grew. Revenue from evasion recovery was $33 million for the year (versus $35 million in 2010).

Concession revenue was steady at $2.4 million and miscellaneous income (largely coming from reversal of prior year bad debt expense) was up slightly at $10 million (from $7 million in 2010).

Operating Expenses

Operating expenses, excluding depreciation, declined $11 million (4%) in 2011, a reduction that was budgeted in line with a conservative revenue forecast for the year. The decreased operating budget was made possible by reducing funding for vacant personnel positions. Depreciation expense was stable year over year, 1% higher at $318 million, up from $315 million last year. The resulting operating income for the year, $113 million, was up by $32 million from the previous year due to the toll revenue increase and decreased operating expenses in 2011.

Non-operating Revenue and Expense

Net non-operating expense increased again this year (by 4%) from $178 million last year to $184 million for 2011, primarily the result of a $9 million (5%) increase in interest and other financing costs which totaled $207 million this year versus $198 million in 2010. For 2011 the costs of bank liquidity supporting variable rate bonds increased with market rates for these types of facilities; this issue alone was responsible for the largest share of the finance cost increase. Again this year the Tollway received an interest rebate from the federal treasury relating to bonds which were issued as Build America Bonds. The 2011 rebate totaled $16.2 million, up from $16.1 million for 2010.

Also of note in this category of revenue and expense was another drop in investment income, from $1.7 million last year to $1.1 million in 2011, as a result of lower interest rates earned in the money markets.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

Changes in Net Assets

December 31, 2011 and 2010

		2011	2010
Revenues:			
Operating revenues:			
Toll revenue	$	652,673,895	628,753,508
Toll evasion recovery		33,268,033	34,923,828
Concessions		2,421,164	2,387,581
Miscellaneous		9,507,791	7,385,229
Nonoperating revenues:			
Investment income		1,064,068	1,749,894
Capital contributed under intergovernmental agreements		2,262,302	—
Revenues under intergovernmental agreements		6,753,264	10,734,092
Net increase in fair value of investments		—	287,425
Bond interest subsidy (Build America Bonds)		16,244,130	16,132,636
Miscellaneous		4,383,831	4,007,969
Total revenues		728,578,478	706,362,162
Expenses:			
Operating expenses:			
Engineering and maintenance of roadway and structures		44,803,170	45,768,938
Services and toll collection		106,466,995	112,640,323
Traffic control, safety patrol, and radio communications		23,071,556	22,821,776
Procurement, IT, finance, and administration		22,176,542	24,369,106
Insurance and employee benefits		69,987,945	71,681,922
Depreciation and amortization		318,165,918	314,933,275
Nonoperating expenses:			
Expenses under intergovernmental agreement		6,753,264	10,734,092
Intergovernmental expense (contributions)		—	1,858,125
Net increase in fair value of investments		299,150	—
Net gain on disposal of property		1,157,639	26,357
Interest expense and amortization of financing cost		206,933,905	197,804,008
Total expenses		799,816,084	802,637,922
Decrease in net assets		(71,237,606)	(96,275,760)
Capital contributions		—	369,821
Net assets, beginning of year		1,921,987,538	2,017,893,477
Net assets, end of year	$	1,850,749,932	1,921,987,538

(Continued)

Balance Sheet

Though operating income increased in 2011 by $32 million to a $113 million result, this level was not sufficient to fund this year's net nonoperating expense of $184 million. Thus the Tollway again posted a decrease in net assets for the year of $71 million, but this result was improved from the $96 million such decrease in 2010. These negative changes are the results of the increased depreciation expense recorded (a near doubling as a result of the Congestion-Relief Program) as assets from that program have been placed in service and the coincidental increases in interest expense for the bonds issued to fund these infrastructure projects from the Congestion-Relief Program. After this year's result, the Tollway's net assets totaled $1.85 billion.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

Balance Sheet

December 31, 2011 and 2010

		2011	2010
Current and other Assets	$	1,478,879,860	1,294,685,301
Capital assets – net		5,112,248,814	5,263,500,475
Total assets	$	6,591,128,674	6,558,185,776
Current debt outstanding	$	176,140,000	49,910,000
Long–term debt outstanding		3,840,217,373	4,017,017,496
Other liabilities		724,021,369	569,270,742
Total liabilities	$	4,740,378,742	4,636,198,238
Net assets:			
Invested in capital assets, net of related debt	$	1,095,891,441	1,196,572,979
Restricted under trust indenture agreement		295,857,893	272,539,329
Restricted for supplemental pension benefits obligations		69,473	74,407
Unrestricted		458,931,125	452,800,823
Total net assets	$	1,850,749,932	1,921,987,538

Capital Assets and Debt Administration

Capital Assets

Capital assets continue to represent the largest category of Tollway assets, totaling $5.1 billion at year-end ($5.3 billion a year ago) comprising 78% of total Tollway assets.

IILLINOIS STATE TOLL HIGHWAY AUTHORITY
Capital Assets
December 31, 2011 and 2010

	January 1, 2011 Net Balance	2011 Net Activity	2011 Depreciation	December 31, 2011 Net Balance
Land	$ 313,258,059	1,870,889	—	315,128,948
Construction in progress	74,417,230	1,460,794	—	75,878,024
Buildings	12,349,235	4,940,338	(2,531,846)	14,757,727
Infrastructure	4,781,311,271	145,998,450	(303,987,539)	4,623,322,182
Machinery and equipment	82,164,680	12,643,786	(11,646,533)	83,161,933
Total	$ 5,263,500,475	166,914,257	(318,165,918)	5,112,248,814

	January 1, 2010 Net Balance	2010 Net Activity	2010 Depreciation	December 31, 2010 Net Balance
Land	$ 304,331,535	8,926,524	—	313,258,059
Construction in progress	232,930,401	(158,513,171)	—	74,417,230
Buildings	14,211,662	532,596	(2,395,023)	12,349,235
Infrastructure	4,724,986,846	358,047,677	(301,723,252)	4,781,311,271
Machinery and equipment	87,304,318	5,675,362	(10,815,000)	82,164,680
Total	$ 5,363,764,762	214,668,988	(314,933,275)	5,263,500,475

Long-Term Debt

At year-end 2011, total revenue bonds payable had been reduced by $53 million (from $4.017 billion to $3.963 billion), the result of a principal payment for 2011 (and thus a current liability at December 31, 2010). All debt issues and related transactions are described more fully in note 8.

Other Debt−Related Information

The 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 ten separate variable-to-fixed interest rate exchange (swap) agreements in total notional amounts and with amortizations approximately matching the total principal amounts and amortizations of the Tollway's three variable rate bond issues. In connection with a refunding of a portion of the 2008 Series A-2 Bonds, one of the ten swap agreements was terminated on July 1, 2010, leaving nine swap agreements outstanding as of December 31, 2011. 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, 2011. 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, 2011. Three swap agreements are associated with the 2008 Series A-1 and A-2 bonds, in original amounts totaling $478.875 million, all of which is outstanding as of December 31, 2011. The Tollway utilized these nine 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 9 of the financial statements.

As more fully described in Note 8, liquidity support for the Tollway's $478,900,000 2008 Series A Bonds was provided by a Standby Bond Purchase Agreement from Dexia Credit Local, New York Branch, until February 7, 2011, on which date the 2008 Series A Bonds were mandatorily tendered and subsequently remarketed as three separate sub-series, each sub-series liquidity supported by a standby bond purchase agreement that qualified as a Substitute Liquidity Facility under the Supplemental Indenture for the 2008 Series A Bonds. The Substitute Liquidity Facilities were provided by: JPMorgan Chase Bank, National Association; and PNC Bank, National Association.

As more fully described in Note 8, liquidity support for the Tollway's $700,000,000 2007 Series A Bonds was provided by a Standby Bond Purchase Agreement from Dexia Credit Local, New York Branch, until March 18, 2011, on which date the 2007 Series A Bonds were mandatorily tendered and subsequently remarketed as six separate sub-series, each sub-series secured by a letter of credit that qualified as a Substitute Credit Facility under the Supplemental Indenture for the 2007 Series A Bonds. The Substitute Credit Facilities were provided by: Citibank, N.A.; PNC Bank, National Association; The Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York Branch; Harris N.A.; Northern Trust Company and Wells Fargo Bank, National Association.

Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) establishes accounting and financial reporting standards for the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. In accordance with the provisions of GASB 53 requiring its use in financial statements for periods beginning after June 15, 2009, the Tollway adopted the standard beginning with its fiscal year 2010 financial statements. Prior to adopting GASB 53, the Tollway accounted for its derivative contracts under the provisions of GASB Technical Bulletin 2003-1 (GASB TB 03-1). The requirements of GASB TB 03-1 have been superseded by GASB 53.

As of December 31, 2011, fair market value analyses of the swap agreements estimate that if the Tollway had terminated the swap contracts on that date, the Tollway would have been required to make payments of: a total of $21.366 million for the two 1998 Series B swap agreements; a total of $182.613 million for the four 2007 Series A-1 and A-2 swap agreements; and a total of $103.329 million for the three 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 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 debt service coverage ratio for 2011 was 1.8x.

IILLINOIS STATE TOLL HIGHWAY AUTHORITY

Long Term Debt Analysis

December 31, 2011

	2011		
	Noncurrent	**Current**	**Total**
Revenue bonds payable:			
Issue of 1992 Series A	$ —	51,870,000	51,870,000
Issue of 1998 Series A	190,765,000	1,170,000	191,935,000
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	95,800,000	—	95,800,000
Issue of 2008 Series B	350,000,000	—	350,000,000
Issue of 2009 Series A	500,000,000	—	500,000,000
Issue of 2009 Series B	280,000,000	—	280,000,000
Issue of 2010 Series A-1	279,300,000	—	279,300,000
Total revenue bonds payable	$ 3,840,625,000	176,140,000	4,016,765,000

Note: Amounts presented in this table exclude unamortized bond premiums and amounts deferred on refunding. Additional information concerning long-term debt can be found in note 8. Issue of 1998 Series B has been classified as a Current Liability due to a supporting liquidity facility that expires on December 28, 2012. The scheduled 1998 Series B principal payments are $53,900,000 on January 1, 2016 and $69,200,000 on January 1, 2017.

Factors Impacting Future Operations

In 2012 the passenger vehicle toll increase takes effect and the Tollway commences the work of its $12 billion Move Illinois capital program. Land acquisition and design work will begin for: the widening and rebuilding of the Jane Addams Memorial Tollway (I-90), including an interchange project at Illinois 47; the construction of the I-294/I-57 interchange; and the development of the Elgin-O'Hare West Bypass. The impact of these initiatives may include:

- Significantly increased toll revenues which should lead to the Tollway posting a positive change in net assets for the year. Tollway forecasts for the fifteen-year span of the Move Illinois program call for about 60% of the program's costs to be funded by toll revenues.
- A small bond issue, the first of several that will finance the Move Illinois projects for which funds will be borrowed.

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
(A Component Unit of the State of Illinois)

Balance Sheet

December 31, 2011

Assets and Deferred Outflows of Resources

Current assets:		
Current unrestricted assets:		
Cash and cash equivalents	$	453,263,176
Accounts receivable, less allowance for doubtful accounts of $307,177,981		15,988,036
Intergovernmental receivables		19,417,580
Accrued interest receivable		774
Risk management reserved cash and cash equivalents		15,024,842
Prepaid insurance		10,182,438
Total current unrestricted assets		513,876,846
Current restricted assets:		
Cash and cash equivalents restricted for debt service		177,231,234
Cash and cash equivalents – I-PASS accounts		146,510,701
Accrued interest receivable		3,425
Supplemental pension benefits assets		31,800
Total current restricted assets		323,777,160
Total current assets		837,654,006
Noncurrent assets and deferred outflow of resources:		
Capital assets:		
Land, improvements and construction in progress		391,006,972
Other capital assets, net of accumulated depreciation		4,721,241,842
Total capital assets, net		5,112,248,814
Other noncurrent assets:		
Accounts receivable less current portion		115,369,210
Deferred bond issuance costs, net of accumulated amortization of $10,967,644		15,421,503
Deferred outflow of resources – accumulated decrease in fair value of hedging derivatives		307,308,634
Total other noncurrent assets		438,099,347
Noncurrent restricted assets		
Cash and cash equivalent - debt service reserve		202,870,537
Supplemental pension benefit assets		255,970
Total noncurrent restricted assets		203,126,507
Total noncurrent assets and deferred outflow of resources		5,753,474,668
Total assets and deferred outflow of resources	$	6,591,128,674

See accompanying notes to the financial statements.

(Continued)

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Balance Sheet

December 31, 2011

Liabilities and Net Assets

Liabilities:	
Current liabilities	
Payable from unrestricted current assets:	
Accounts payable	$ 8,460,515
Accrued liabilities	61,966,498
Accrued compensated absences	4,690,858
Intergovernmental agreement payable	67,688,724
Risk management claims payable	13,377,479
Deposits and retainage	7,848,313
Total current liabilities payable from unrestricted current assets	164,032,387
Payable from current restricted assets:	
Supplemental pension benefit obligation	218,297
Current portion of revenue bonds payable	176,140,000
Accrued interest payable	84,247,303
Deposits and deferred revenue – I-PASS accounts	146,510,701
Total current liabilities payable from current restricted assets	407,116,301
Total current liabilities	571,148,688
Noncurrent liabilities:	
Revenue bonds payable, less current portion	3,840,625,000
Bond premium, less deferred amount on refunding	(407,627)
Accrued compensated absences	5,289,691
Derivative instrument liability	307,308,634
Deferred revenue, less accumulated amortization of $28,452,184	16,414,356
Total noncurrent liabilities	4,169,230,054
Total liabilities	4,740,378,742
Net assets:	
Invested in capital assets, net of related debt	1,095,891,441
Restricted under trust indenture agreements	295,857,893
Restricted for supplemental pension benefits obligations	69,473
Unrestricted	458,931,125
Total net assets	1,850,749,932
Total liabilities and net assets	$ 6,591,128,674

See accompanying notes to the basic financial statements.

(Continued)

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Statement of Revenues, Expenses and Changes in Net Assets

Year ended December 31, 2011

Operating revenues:	
Toll revenue	$ 652,673,895
Toll evasion recovery	33,268,033
Concessions	2,421,164
Miscellaneous	9,507,791
Total operating revenues	697,870,883
Operating expenses:	
Engineering and maintenance of roadway and structures	44,803,170
Services and toll collection	106,466,995
Traffic control, safety patrol and radio communications	23,071,556
Procurement, IT, finance, and administration	22,176,542
Insurance and employee benefits	69,987,945
Depreciation and amortization	318,165,918
Total operating expenses	584,672,126
Operating income	113,198,757
Revenues under intergovernmental agreements	6,753,264
Expenses under intergovernmental agreements	(6,753,264)
Capital contributed under intergovernmental agreements	2,262,302
Net decrease in fair value of investments	(299,150)
Net loss on disposal of property	(1,157,639)
Interest expense and amortization of financing costs	(206,933,905)
Bond interest subsidy (Build America Bonds)	16,244,130
Miscellaneous revenue	4,383,831
Total nonoperating revenues (expenses), net	(185,500,431)
Investment income	1,064,068
Change in net assets	(72,301,674)
Net assets at beginning of year	1,921,987,538
Net assets at end of year	$ 1,850,749,932

See accompanying notes to the basic financial statements.

(Continued)

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Statement of Cash Flows

Year ended December 31, 2011

Cash flows from operating activities:	
Cash received from sales and services	$ 766,304,571
Cash received from other governments for services	34,158,585
Cash paid for intergovernmental services	(1,278,111)
Cash payments to suppliers	(134,221,172)
Cash payments to employees	(140,565,396)
Net cash provided by operating activities	524,398,477
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(196,030,399)
Cash paid for intergovernmental capital projects	984,191
Proceeds from sale of property	995,761
Principal paid on revenue bonds	(49,910,000)
Bond subsidy (Build America Bonds)	16,244,130
Interest expense and issuance costs paid on revenue bonds	(211,492,881)
Net cash used in capital and related financing activities	(439,209,198)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	25,150,950
Interest on investments	1,292,158
Net cash provided by investing activities	26,443,108
Net increase in cash and cash equivalents	111,632,387
Cash and cash equivalents at beginning of year	883,555,873
Cash and cash equivalents at end of year	$ 995,188,260
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents	$ 453,263,176
Risk management reserved cash and cash equivalents	15,024,842
Cash and cash equivalents restricted for debt service	380,101,771
Cash and cash equivalents – I-PASS accounts	146,510,701
Supplemental pension benefit assets	287,770
Total cash and cash equivalents at end of year	$ 995,188,260

(Continued)

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Statement of Cash Flows

Year ended December 31, 2011

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	113,198,757
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		318,165,918
Provision for bad debt		47,642,875
Amortization of deferred revenue		(27,523,698)
Intergovernmental revenues		6,753,264
Intergovernmental expenses		(6,753,264)
Miscellaneous revenue		4,383,831
Effects of changes in operating assets and liabilities:		
Decrease in accounts receivable		7,881,080
Decrease in intergovernmental receivables		25,356,952
Decrease in lease receivable		28,444,750
Decrease in prepaid expenses		1,658,112
Decrease in net assets available for pension benefits		35,436
Increase in accounts payable		922,608
Decrease in accrued liabilities		(9,252,240)
Increase in accrued compensated absences		297,583
Decrease in supplemental pension obligation		(30,502)
Increase in intergovernmental agreement payable		7,523,522
Increase in deposits and deferred revenue – I-PASS		7,381,718
Decrease in risk management claims payable		(1,688,225)
Net cash provided by operating activities	$	524,398,477

The fair value of investments increased by $586,575 in 2011.

See accompanying notes to the basic financial statements.

(Continued)

(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 U.S. generally accepted accounting principles (GAAP), as promulgated by of the Governmental Accounting Standards Board (GASB). Additionally, the Tollway follows 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.

(a) 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 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 of Illinois 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.

(b) Basis of Accounting

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.

Accordingly, 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. Under this measurement

focus, all assets and all liabilities associated with the Tollway's operations are included in the Balance Sheet. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

Nonexchange transactions, in which the Tollway receives value without directly giving equal value in return, include fines for toll evasion.

(c) Cash Equivalents

With the exception of $29.7 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 assets with a maturity of three months or less when purchased, repurchase agreements and all other investments held on its behalf by the Treasurer to be cash equivalents, as these investments are available upon demand.

(d) Investments

The Tollway reports investments at fair value in its Balance Sheet with the corresponding changes in fair value being recognized as an increase or decrease to nonoperating revenue in the Statement of Revenues, Expenses and Changes in Net Assets. All investments are held for the Tollway either by the Treasurer as custodian or by the bond trustee under the Tollway's Trust Indenture.

The primary objectives 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 AAAm 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 U.S. Treasury and agency issues at the direction of the Tollway and in repurchase agreements which are recorded at face value which approximates fair value.

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, 2011.

(e) 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.

(f) 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.

(g) Noncurrent Cash and Investments

Cash and investments that are externally restricted for sinking or reserve funds for the purchase or construction of capital or other noncurrent assets are classified as noncurrent assets in the balance sheet.

(h) Capital Assets

Capital assets include the historical cost of land and improvements, easements, roadway and transportation structures (infrastructure), buildings and related improvements, software and equipment. Most 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. The Tollway capitalizes interest related to construction in progress.

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

(i) 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 Balance Sheet. 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 Balance Sheet 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 collectibility is uncertain. The Tollway is currently not a lessor under any capital leases.

(j) Long-Term Accounts Receivable

In the course of business the Tollway may enter into contracts with various parties that call for payments to the Tollway to be made at a date more than one year in the future. These receivables are classified as long-term. See note 7.

(k) Deferred Bond Issuance Costs

Costs incurred in connection with the issuance of the bonds are amortized over the lives of the bonds, using the straight line method.

(l) 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 of the new bonds 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, using the straight line method.

(m) 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.”

(n) Swap Agreements

In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Tollway records changes in fair values of the hedging derivative instruments (swaps) as deferred outflows of reserves or deferred inflows in the Balance Sheet.

(o) Net Assets

The Balance Sheet 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 is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets results 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.

At December 31, 2011, restrictions on net assets consisted of:

Restricted for Supplemental Pension Obligation reflects monies set aside for a retirement plan established in 1990 and suspended in 1994.

Restricted under Trust Indenture Agreements result when constraints placed on net assets use either externally imposed creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislations.

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.

(p) Toll Revenue

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

(q) Classification of 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 are reported as nonoperating revenues and expenses or as special items.

Toll Evasion revenue is shown net of bad debt expense; concession revenue includes only oasis revenue.

(r) 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.

(s) Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(2) Cash and Investments

(a) 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, 2011, the Tollway's deposits were not exposed to custodial credit risk.

(b) Schedule of Investments

As of December 31, 2011, the Tollway had the following investments and maturities:

		Investment maturities (in years)	
Investment type	**Fair Value**	**Less Than 1**	**1-5**
Repurchase agreements	$ 435,070,000	435,070,000	—
Money market funds*	380,101,772	380,101,772	—
Illinois Funds*	149,229,810	149,229,810	—
	$ 964,401,582	964,401,582	—

*Weighted average maturity is less than one year.

(c) Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. 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.

(d) Credit and Concentration Risks

Credit risk is the risk that the Tollway will not recover its investments due to the ability of the counterparty to fulfill its obligation. 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. 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 2011.

The Tollway's investments in debt securities (or the securities underlying the repurchase agreements) were rated by Moody's/Standard & Poors as follows for the year ended December 31, 2011:

	2011 (Moody's/S&P)	
Investment type	**Fair value**	**Rating**
Repurchase agreements	$ 435,070,000	Aaa/AA+
Money market funds	380,101,772	Aaa-mf/AAAm
Illinois Funds	149,229,810	N/R/AAAm

(3) Current 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. As of December 31, 2011, the Tollway's accounts receivable balance consists of the following:

	Gross accounts receivables	Allowance for doubtful accounts	Net accounts receivables
Tolls	$ 2,360,302	(426,330)	1,933,972
Toll evasion recovery	316,090,767	(303,216,202)	12,874,565
Oases receivable	125,875	—	125,875
Damage claims/emergency service	188,597	(154,627)	33,970
Insufficient I-PASS	2,016,684	(1,435,547)	581,137
Over dimension vehicle permit	35,410	—	35,410
Fiber optic agreements	53,593	—	53,593
Workers' compensation	7,891	—	7,891
Other	2,286,898	(1,945,275)	341,623
Total non-governmental receivables	323,166,017	(307,177,981)	15,988,036
Various local and municipal government	9,065,877	—	9,065,877
IAG Agencies	5,922,329	—	5,922,329
Other agencies of the state of Illinois	4,429,374	—	4,429,374
Total intergovernmental receivables	19,417,580	—	19,417,580
Total receivables	$ 342,583,597	(307,177,981)	35,405,616

(4) Prepaid Insurance

In the normal course of business the Tollway pays for services that will be consumed beyond the current year. These are established as prepaid expenses. As of December 31, 2011 the Tollway has $10.2 million in prepaid insurance.

(5) Leases Receivable

In 2011, the Tollway reviewed its leases with oasis operators and determined that they should be recorded as operating leases. This caused removal of assets and liabilities each in the amount of $28.4 million for leases previously deemed capital leases; no change in net assets resulted.

During 2002, the Tollway, as lessor, entered into two 25-year lease agreements 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.

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 oases and the Belvidere North, which are the responsibility of ExxonMobil. 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 ExxonMobil 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, 2011 are as follows:

Year ended December 31		Retail lease	Fuel lease	Total leases
2012	$	814,333	900,250	1,714,583
2013		850,000	900,250	1,750,250
2014		850,000	900,250	1,750,250
2015		850,000	900,250	1,750,250
2016		850,000	900,250	1,750,250
Thereafter		8,783,332	9,302,586	18,085,918
	$	12,997,665	13,803,836	26,801,501

The future minimum leases receivable do not include contingent rents that maybe owed under these leases should the lessees generate revenues in excess of specific target amounts. The future minimum lease amounts above will be treated as revenue in the year they are earned.

(6) Capital Assets

Changes in capital assets for the year ended December 31, 2011 are as follows:

	Balance January 1	Additions and transfers in	Deletions and transfers out	Balance December 31
Nondepreciable capital assets:				
Land and improvements	$ 313,258,059	1,870,889	—	315,128,948
Construction in progress	74,417,230	114,539,658	(113,078,864)	75,878,024
Total nondepreciable capital assets	387,675,289	116,410,547	(113,078,864)	391,006,972
Depreciable capital assets:				
Buildings	47,126,097	4,940,338	—	52,066,435
Infrastructure	6,803,140,467	145,998,450	(70,996,903)	6,878,142,014
Machinery and equipment	201,813,099	14,797,186	(7,592,616)	209,017,669
Total depeciable capital assets	7,052,079,663	165,735,974	(78,589,519)	7,139,226,118
Less accumulated depreciation:				
Buildings	(34,776,862)	(2,531,846)	—	(37,308,708)
Infrastructure	(2,021,829,196)	(303,987,539)	70,996,903	(2,254,819,832)
Machinery and equipment	(119,648,419)	(11,646,533)	5,439,216	(125,855,736)
Total accumulated depreciation	(2,176,254,477)	(318,165,918)	76,436,119	(2,417,984,276)
Total depreciable capital assets, net	4,875,825,186	(152,429,944)	(2,153,400)	4,721,241,842
Total capital assets, net	$ 5,263,500,475	(36,019,397)	(115,232,264)	5,112,248,814

(7) Long-Term Accounts Receivable

As of December 31, 2012, long-term accounts receivable consisted of the following:

		2011 Long-term receivables
Will County – I-355 South Intergovernmental Agreement	$	642,857
Village of Lemont – I-355 South Intergovernmental Agreement		642,857
City of Lockport – I-355 South Intergovernmental Agreement		642,857
Village of Homer Glen – I-355 South Intergovernmental Agreement		642,857
Village of New Lenox – I-355 South Intergovernmental Agreement		642,857
Various Other Intergovernmental Agreements		1,949,439
Illinois Department of Transportation		110,205,486
	$	115,369,210

(8) Revenue Bonds Payable

Changes in revenue bonds payable for the year ended December 31, 2011 are as follows:

	Balance January 1	Additions	Deletions	Balance December 31	Amounts due within one year
1992 Series A	$ 100,665,000	—	(48,795,000)	51,870,000	51,870,000
1998 Series A	193,050,000	—	(1,115,000)	191,935,000	1,170,000
1998 Series B	123,100,000	—	—	123,100,000	123,100,000
2005 Series A	770,000,000	—	—	770,000,000	—
2006 Series A-1	291,660,000	—	—	291,660,000	—
2007 Series A-1 & A-2	700,000,000	—	—	700,000,000	—
2008 Series A-1 & A-2	478,900,000	—	—	478,900,000	—
2008 Series B	350,000,000	—	—	350,000,000	—
2009 Series A	500,000,000	—	—	500,000,000	—
2009 Series B	280,000,000	—	—	280,000,000	—
2010 Series A-1	279,300,000	—	—	279,300,000	—
Totals	4,066,675,000	—	(49,910,000)	4,016,765,000	$ 176,140,000
Unamortized deferred amounts on refunding	(58,351,768)	—	4,458,174	(53,893,594)	
Unamortized bond premium	58,604,264	378,290	(5,496,587)	53,485,967	
Current portion of revenue bonds payable	(49,910,000)	(176,140,000)	49,910,000	(176,140,000)	
Revenue bonds payable, net of current portion	$ 4,017,017,496	(175,761,710)	(1,038,413)	3,840,217,373	

(a) 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, 2012. Such outstanding bonds in the amount of $51,870,000 are not subject to redemption prior to maturity and are not insured.

(b) 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 the 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 $191,935,000 were outstanding as of December 31, 2011, 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 2011. 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 Hessen Thuringen Girozentale, New York Branch.

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 Tollway on the earlier of: (i) their originally scheduled payment date; and (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 60 basis points 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. While in the weekly mode, the Series 1998B Bonds are subject to optional redemption by the Tollway. The expiration date of the Standby Bond Purchase Agreement is December 28, 2012. The Series 1998B Bonds are classified as a current liability due to the supporting liquidity facility expiring on December 28, 2012. The scheduled 1998 Series B principal payments are $53,900,000 on January 1, 2016 and $69,200,000 on January 1, 2017. The final maturity of the 1998A and 1998B bonds is January 1, 2016 and January 1, 2017, respectively. The scheduled payments of principal and interest of the Series 1998A Bonds and the Series 1998B Bonds are insured by Assured Guaranty Municipal Corp., pursuant to the acquisition of the original bond insurer, Financial Security Assurance Inc., by Assured Guaranty Ltd. on July 1, 2009. The variable interest rate of the Series 1998B Bonds as of December 31, 2011 was 0.20%.

(c) 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 Assured Guaranty Municipal Corp., pursuant to the acquisition of the original bond insurer, Financial Security Assurance Inc., by Assured Guaranty Ltd. on July 1, 2009, except for the principal and interest of the $101,935,000 maturing January 1, 2020, which is not insured. The final maturity of the bonds is January 1, 2023.

(d) 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 Assured Guaranty Municipal Corp., pursuant to the acquisition of the original bond insurer, Financial Security Assurance Inc., by Assured Guaranty Ltd. on July 1, 2009. 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). The final maturity of the bonds is January 1, 2025.

(e) 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 2011. 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 optional redemption by the Tollway. While in the weekly mode, the bonds are subject to bondholder tender for purchase. Any such bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Funding for any bonds tendered for purchase that failed to be remarketed was available, under certain circumstances, from a Liquidity Facility in the form of a Standby Bond Purchase Agreement provided by Dexia Credit Local, New York Branch, through March 18, 2011, the effective expiration date of that Standby Bond Purchase Agreement. On March 18, 2011, the 2007 Series A Bonds were mandatorily tendered and, on the same day, subsequently remarketed as six separate sub-series, each sub-series secured by a direct-pay letter of credit that qualified as a Substitute Credit Facility under the Supplemental Indenture for the 2007 Series A Bonds. The following provides information regarding each of those sub-series and their respective letters of credit.

(f) Series 2007A-1a Bonds

On March 18, 2011 the Tollway remarketed $175,000,000 of the 2007 Series A-1 Bonds as 2007 Series A-1a (the "Series 2007A-1a Bonds"). While in the weekly mode, the Series 2007A-1a Bonds are secured by a direct-pay letter of credit from Citibank, N.A. pursuant to the terms of the Letter of Credit Reimbursement Agreement dated as of March 1, 2011 between the Tollway and such bank (the "2007A-1a Credit Facility"). The 2007A-1a Credit Facility provides up to $175,000,000 for payment of principal and up to $3,595,891 for payment of interest (equivalent to 50 days' accrued interest at 15%), including for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2007A-1a Credit Facility is utilized to purchase bonds tendered and not remarketed, and such bonds continue to fail to be remarketed, then such bonds are required to be repaid by the Authority thirteen months after the termination date of the 2007A-1a Credit Facility. The 2007A-1a Credit Facility, if not extended, is currently scheduled to expire on January 31, 2014. The cost of the 2007A-1a Credit Facility is a per

annum fee of 75 basis points times the stated amount of $178,595,891. The variable interest rate of the Series 2007A-1a Bonds as of December 31, 2011 was 0.10%.

(g) Series 2007A-1b Bonds

On March 18, 2011 the Tollway remarketed $175,000,000 of the 2007 Series A-1 Bonds as 2007 Series A-1b (the "Series 2007A-1b Bonds"). While in the weekly mode, the Series 2007A-1b Bonds are secured by a direct-pay letter of credit from PNC Bank, National Association pursuant to the terms of the Reimbursement Agreement dated as of March 1, 2011 between the Tollway and such bank (the "2007A-1b Credit Facility"). The 2007A-1b Credit Facility provides up to $175,000,000 for payment of principal and up to $3,236,302 for payment of interest (equivalent to 45 days' accrued interest at 15%), including for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2007A-1b Credit Facility is utilized to purchase bonds tendered and not remarketed, and to the extent such bonds continue to either (a) remain unremarketed for 180 days or (b) remain unremarketed on the termination date of the Series 2007A-1b Credit Facility, then such funded bonds are required to be repaid by the Authority in equal semi-annual principal installments commencing on the earlier of (i) 180 days after the date the bonds were purchased and (ii) the termination date of the 2007A-1b Credit Facility, and ending on the date three years following the date the bonds were purchased. The 2007A-1b Credit Facility, if not extended, is currently scheduled to expire on March 18, 2014. The cost of the 2007A-1b Credit Facility is a per annum fee of 75 basis points times the stated amount of $178,236,302. The variable interest rate of the Series 2007A-1b Bonds as of December 31, 2011 was 0.08%.

(h) Series 2007A-2a Bonds

On March 18, 2011 the Tollway remarketed $100,000,000 of the 2007 Series A-2 Bonds as 2007 Series A-2a (the "Series 2007A-2a Bonds"). While in the weekly mode, the Series 2007A-2a Bonds are secured by a direct-pay letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York Branch pursuant to the terms of the Reimbursement Agreement dated as of March 1, 2011 between the Tollway and such bank (the "2007A-2a Credit Facility"). The 2007A-2a Credit Facility provides up to $100,000,000 for payment of principal and up to $1,849,316 for payment of interest (equivalent to 45 days' accrued interest at 15%), including for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2007A-2a Credit Facility is utilized to purchase bonds tendered and not remarketed, and to the extent such bonds continue to remain unremarketed on the first business day of the fourth calendar month immediately succeeding the date the bonds were purchased, then such funded bonds are required to be repaid by the Authority in equal quarterly principal installments commencing on such first business day of the fourth calendar month immediately succeeding the date the bonds were purchased, and ending on the date four (4) years after the date the bonds were purchased. The 2007A-2a Credit Facility, if not extended, is currently scheduled to expire on March 17, 2014. The cost of the 2007A-2a Credit Facility is a per annum fee of 75 basis points times the stated amount of $101,849,316. The variable interest rate of the Series 2007A-2a Bonds as of December 31, 2011 was 0.09%.

(i) Series 2007A-2b Bonds

On March 18, 2011 the Tollway remarketed $107,500,000 of the 2007 Series A-2 Bonds as 2007 Series A-2b (the "Series 2007A-2b Bonds"). While in the weekly mode, the Series 2007A-2b Bonds are secured by a direct-pay letter of credit from Harris, N.A. pursuant to the terms of the Reimbursement Agreement dated as of March 1, 2011 between the Tollway and such bank (the "2007A-2b Credit Facility"). The 2007A-2b Credit Facility provides up to $107,500,000 for payment of principal and up to $1,988,014 for payment of interest (equivalent to 45 days' accrued interest at 15%), including for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2007A-2b Credit Facility is utilized to purchase bonds tendered and not remarketed, and to the extent such bonds continue to either (a) remain unremarketed for 180 days or (b) remain unremarketed on the termination date of the Series 2007A-2b Credit Facility, then such funded bonds are required to be repaid by the Authority in equal quarterly principal installments commencing on the date one year following the earlier of (i) 180 days after the date the bonds were purchased and (ii) the termination date of the 2007A-2b Credit Facility, and ending on the date two years following the earlier of (i) 180 days after the date the bonds were purchased and (ii) the termination date of the 2007A-2b Credit Facility. The 2007A-2b Credit Facility, if not extended, is currently scheduled to expire on March 18, 2014. The cost of the 2007A-2b Credit Facility is a per annum fee of 75 basis points times the stated amount of $109,488,014. The variable interest rate of the Series 2007-2b Bonds as of December 31, 2011 was 0.08%.

(j) Series 2007A-2c Bonds

On March 18, 2011 the Tollway remarketed $55,000,000 of the 2007 Series A-2 Bonds as 2007 Series A-2c (the "Series 2007A-2c Bonds"). While in the weekly mode, the Series 2007A-2c Bonds are secured by a direct-pay letter of credit from The Northern Trust Company pursuant to the terms of the Reimbursement Agreement dated as of March 1, 2011 between the Tollway and such bank (the "2007A-2c Credit Facility"). The 2007A-2c Credit Facility provides up to $55,000,000 for payment of principal and up to $1,017,123 for payment of interest (equivalent to 45 days' accrued interest at 15%), including for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2007A-2c Credit Facility is utilized to purchase bonds tendered and not remarketed, and to the extent such bonds continue to either (a) remain unremarketed for 270 days or (b) remain unremarketed on the termination date of the Series 2007A-2c Credit Facility, then such funded bonds are required to be repaid by the Authority in equal semi-annual principal installments commencing on the next ensuing January 1 or July 1 after the earlier of (i) 270 days after the date the bonds were purchased and (ii) the termination date of the 2007A-2c Credit Facility, and ending on the date three years following the earlier of (i) 270 days after the date the bonds were purchased and (ii) the termination date of the 2007A-2c Credit Facility. The 2007A-2c Credit Facility, if not extended, is currently scheduled to expire on March 18, 2014. The cost of the 2007A-2c Credit Facility is a per annum fee of 70 basis points times the stated amount of $56,017,123. The variable interest rate of the Series 2007A-2c Bonds as of December 31, 2011 was 0.07%.

(k) Series 2007A-2d Bonds

On March 18, 2011 the Tollway remarketed $87,500,000 of the 2007 Series A-2 Bonds as 2007 Series A-2d (the "Series 2007A-2d Bonds"). While in the weekly mode, the Series 2007A-2d Bonds are secured by a direct-pay letter of credit from Wells Fargo Bank, National Association pursuant to the terms of the Reimbursement Agreement dated as of March 1, 2011 between the Tollway and such bank (the "2007A-2d Credit Facility"). The 2007A-2d Credit Facility provides up to $87,500,000 for payment of principal and up to $1,618,151 for payment of interest (equivalent to 45 days' accrued interest at 15%), including for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2007A-2d Credit Facility is utilized to purchase bonds tendered and not remarketed, and to the extent such bonds continue to either (a) remain unremarketed for 181 days or (b) remain unremarketed on the termination date of the Series 2007A-2d Credit Facility, then such funded bonds are required to be repaid by the Authority in equal semi-annual principal installments commencing on the earlier of (i) 181 days after the date the bonds were purchased and (ii) the termination date of the 2007A-2d Credit Facility, and ending on the date three years following the date the bonds were purchased. The 2007A-2d Credit Facility, if not extended, is currently scheduled to expire on March 18, 2013. The cost of the 2007A-2d Credit Facility is a per annum fee of 85 basis points times the stated amount of $89,118,151. The variable interest rate of the Series 2007A-2d Bonds as of December 31, 2011 was 0.08%.

(l) Series 2008A Bonds

On February 7, 2008, the Tollway issued $766,200,000 of Variable Rate Senior Refunding Revenue Bonds ($383,100,000 2008 Series A-1 and $383,100,000 2008 Series A-2). The bonds advance refunded $708,340,000 of the then-outstanding 2006 Series A Bonds and financed costs of issuance. Payments of principal when due at maturity and interest are insured by Assured Guaranty Municipal Corp., pursuant to the acquisition of the original bond insurer, Financial Security Assurance Inc., by Assured Guaranty Ltd. on July 1, 2009. The bonds were sold at par and initially issued in a weekly mode and have remained in a weekly mode through fiscal year end 2011. On July 1, 2010, $287,300,000 of the 2008 Series A-2 bonds was refunded by the Tollway's $279,300,000 Toll Highway Senior Refunding Revenue Bonds (2010 Series A-1). $383,100,000 of the 2008 Series A-1 Bonds and $95,800,000 of the 2008 Series A-2 Bonds remain outstanding. 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 optional redemption by the Tollway. While in the weekly mode, the bonds are subject to bondholder tender for purchase. Any such bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Funding for any bonds tendered for purchase that failed to be remarketed was available, under certain circumstances, from a Liquidity Facility in the form of a Standby Bond Purchase Agreement provided by Dexia Credit Local, New York Branch, through February 7, 2011, the effective expiration date of that Standby Bond Purchase Agreement. On February 7, 2011, the 2008 Series A Bonds were mandatorily tendered and, on the same day, subsequently remarketed as three separate sub-series, each sub-series secured by a standby bond purchase agreement that qualified as a Substitute Liquidity Facility under the Supplemental Indenture for the 2008 Series A Bonds. The following provides information regarding each of those sub-series and their respective standby bond purchase agreements.

(m) Series 2008A-1a Bonds

On February 7, 2011 the Tollway remarketed $191,500,000 of the 2008 Series A-1 Bonds as 2008 Series A-1a (the "Series 2008A-1a Bonds"). While in the weekly mode, liquidity support is provided for the Series 2008A-1a Bonds by a Standby Bond Purchase Agreement dated February 1, 2011 among the Tollway, the Trustee, and JPMorgan Chase Bank, National Association (the "2008A-1a Liquidity Facility"). The 2008A-1a Liquidity Facility provides up to $191,500,000 for payment of principal and up to $2,203,562 for payment of interest (equivalent to 35 days' accrued interest at 12%) for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2008A-1a Liquidity Facility is utilized to purchase bonds tendered and not remarketed, and to the extent such bonds continue to remain unremarketed for 91 days, then such funded bonds are required to be repaid by the Authority in ten equal semi-annual principal installments commencing on the first business day of the sixth full month following the date 91 days after the date the bonds were purchased. The 2008A-1a Liquidity Facility, if not extended, is currently scheduled to expire on February 7, 2013. The cost of the 2008A-1a Liquidity Facility is a per annum fee of 75 basis points times the commitment amount of $193,703,562. The variable interest rate of the Series 2008A-1a Bonds as of December 31, 2011 was 0.13%.

(n) Series 2008A-1b Bonds

On February 7, 2011 the Tollway remarketed $191,600,000 of the 2008 Series A-1 Bonds as 2008 Series A-1b (the "Series 2008A-1b Bonds"). While in the weekly mode, liquidity support is provided for the Series 2008A-1b Bonds by a Standby Bond Purchase Agreement dated February 1, 2011 among the Tollway, the Trustee, and PNC Bank, National Association (the "2008A-1b Liquidity Facility"). The 2008A-1b Liquidity Facility provides up to $191,600,000 for payment of principal and up to $2,141,721 for payment of interest (equivalent to 34 days' accrued interest at 12%) for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2008A-1b Liquidity Facility is utilized to purchase bonds tendered and not remarketed, and to the extent such bonds continue to remain unremarketed for 180 days, then such funded bonds are required to be repaid by the Authority in equal semi-annual principal installments commencing on the first business day of the sixth full month following the date 180 days after the date the bonds were purchased and ending on the date five years after the date the bonds were purchased. The 2008A-1b Liquidity Facility, if not extended, is currently scheduled to expire on February 7, 2014. The cost of the 2008A-1b Liquidity Facility is a per annum fee of 75 basis points times the commitment amount of $193,741,721. The variable interest rate of the Series 2008A-1b Bonds as of December 31, 2011 was 0.12%.

(o) Series 2008A-2 Bonds

On February 7, 2011 the Tollway remarketed $95,800,000 of the 2008 Series A-2 Bonds (the "Series 2008A-2 Bonds"). While in the weekly mode, liquidity support is provided for the Series 2008A-2 Bonds by a Standby Bond Purchase Agreement dated February 1, 2011 among the Tollway, the Trustee, and JPMorgan Chase Bank, National Association (the "2008A-2 Liquidity Facility"). The 2008A-2 Liquidity Facility provides up to $95,800,000 for payment of principal and up to $1,102,357 for payment of interest (equivalent to 35 days' accrued interest at 12%) for the purpose of paying the principal and interest portions of the purchase price of any bonds tendered and not remarketed. To the extent the 2008A-2 Liquidity Facility is utilized to purchase bonds tendered and not remarketed, and to the extent such bonds continue to remain unremarketed for 91 days, then such funded bonds are required to be repaid by the Authority in ten equal semi-annual principal installments commencing on the first business day of the sixth full month following the date 91 days after the date the bonds were purchased. The 2008A-2 Liquidity Facility, if not extended, is currently scheduled to expire on February 7, 2013. The cost of the 2008A-2 Liquidity Facility is a per annum fee of 75 basis points times the commitment amount of $96,902,357. The variable interest rate of the Series 2008A-2 Bonds as of December 31, 2011 was 0.09%.

(p) 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.

(q) Build America Bonds

The American Recovery and Reinvestment Act of 2009 authorized the Tollway to issue taxable bonds known as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds. The receipt of such subsidy payments by the Tollway is subject to certain requirements, including the filing of a form with the Internal Revenue Service prior to each interest payment date. The subsidy payments are not full faith and credit obligations of the United States of America. The Series 2009A Bonds and Series 2009B Bonds are taxable Build America Bonds. All other Tollway bonds are tax-exempt bonds.

(r) Series 2009A 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 Tollway made an irrevocable election to designate the bonds as Build America Bonds pursuant to the provisions of Section 54AA(g) of the Internal Revenue Code of 1986. The Tollway covenanted to apply Build America Bonds subsidy payments to the payment of debt service. This issuance was the fifth 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 as two term bonds maturing on January 1, 2024 and January 1, 2034. The bonds maturing January 1, 2024 bear an interest rate of 5.293%, were sold at a price of 100% of the par amount of the bonds, and are subject to optional redemption on or after January 1, 2019 at a redemption price of 100% of the principal amount plus accrued interest. The bonds maturing January 1, 2034 bear an interest rate of 6.184%, were sold at a price of 100% of the par amount of the bonds, and are subject to optional redemption at a redemption price equal to the greater of: (i) 100% of the principal amount of the bonds to be redeemed; and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the bonds to be redeemed, discounted to the date on which the bonds are to be redeemed on a semi-annual basis at the yield(s) to maturity as of such redemption date of the United States Treasury security(ies) with a constant maturity(ies) most nearly equal to the period from the redemption date to the maturity date(s) of the bonds to be redeemed, plus 30 basis points, plus, in each case, accrued interest. The bonds are not insured.

(s) Series 2009B Bonds

On December 8, 2009, the Tollway issued $280,000,000 of Toll Highway Senior Priority Revenue Bonds (Taxable 2009 Series B) (Build America Bonds – Direct Payment). The Tollway made an irrevocable election to designate the bonds as Build America Bonds pursuant to the provisions of Section 54AA(g) of the Internal Revenue Code of 1986. The Tollway covenanted to apply Build America Bonds subsidy payments to the payment of debt service. This issuance was the sixth 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. In connection with the issuance of the bonds, the Tollway deposited $12,000,000 funds on hand into the debt service account to pay the bond interest due on June 1, 2010 and a portion of the bond interest due on December 1, 2010. The bonds mature on December 1, 2034. The bonds bear an interest rate of 5.851% and were sold at a price of 100% of the par amount of the bonds. The bonds are subject to optional redemption at a redemption price equal to the greater of: (i) 100% of the principal amount of the bonds to be redeemed; and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the bonds to be redeemed, discounted to the date on which the bonds are to be redeemed on a semi-annual basis at the yield to maturity as of such redemption date of the United States Treasury security with a constant maturity most nearly equal to the period from the redemption date to the maturity date of the bonds, plus 25 basis points. The bonds are not insured.

(t) Series 2010A-1 Bonds

On July 1, 2010, the Tollway issued $279,300,000 of Toll Highway Senior Refunding Revenue Bonds (2010 Series A-1). The bonds refunded $287,300,000 of the Tollway's $383,100,000 then-outstanding 2008 Series A-2 Bonds. The bonds also financed costs of issuance. Maturities of the bonds ranging from January 1, 2018 through January 1, 2031 were sold bearing interest rates ranging from 3.50% to 5.25%. The bonds were sold at yields which produced a net Original Issue Premium of $9,648,275. The bonds are subject to optional redemption on or after January 1, 2020 at a redemption price of 100% of the principal amount plus accrued interest. In connection with the refunding, the Tollway terminated a variable-to-fixed interest rate exchange (swap) agreement with Depfa Bank plc. The swap agreement was in a notional amount of $287,325,000 and was terminated in its entirety on June 10, 2010. The Tollway made a termination payment of $10,331,527 from Tollway funds on hand in connection with the termination of the swap agreement.

(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 Trustee-held 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 refunded portion of 2006A Senior Priority Revenue Bonds. As a result, the refunded portion of 2006A Senior Priority Revenue Bonds is considered to be defeased and the liability for those bonds was removed from the Balance Sheet in 2008.

As of December 31, 2011 the principal amount of Tollway defeased bonds outstanding is $708.3 million.

(v) All Series

Details of outstanding revenue bonds as of December 31, 2011, are as follows:

Issue of 1992 Series A, 6.30%, due on various dates through January 1, 2012	$ 51,870,000
Issue of 1998 Series A, 5.00% to 5.50%, due on various dates through January 1, 2016	191,935,000
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	95,800,000
Issue of 2008 Series B, 5.50%, due on various dates through January 1, 2033	350,000,000
Issue of 2009 Series A, 5.293% to 6.184%, due on various dates through January 1, 2034	500,000,000
Issue of 2009 Series B, 5.851%, due on various dates through December 1, 2034	280,000,000
Issue of 2010 Series A-1, 3.50%, to 5.25% due on various dates through January 1, 2031	279,300,000
Totals	4,016,765,000
Less current maturities	(176,140,000)
Less unamortized deferred amount on refunding	(53,893,595)
Plus unamortized bond premium	53,485,968
Total long-term portion	$ 3,840,217,373

Accrued interest payable for the year ended December 31, 2011, was $84,247,303.

The annual requirements to retire the principal and interest amount for all bonds outstanding at December 31, 2011, are as follows:

Year ended December 31,	Principal	Interest	Total debt service
2012	$ 53,040,000	195,249,343	248,289,343
2013	56,365,000	191,950,985	248,315,985
2014	92,855,000	187,973,493	280,828,493
2015	97,795,000	182,901,743	280,696,743
2016	102,910,000	177,921,276	280,831,276
2017	107,850,000	172,952,072	280,802,072
2018	111,315,000	167,735,342	279,050,342
2019	137,785,000	161,521,928	299,306,928
2020	144,640,000	154,936,177	299,576,177
2021	150,695,000	147,910,700	298,605,700
2022	157,980,000	140,239,276	298,219,276
2023	165,615,000	132,153,899	297,768,899
2024	223,660,000	123,726,708	347,386,708
2025	198,605,000	113,557,786	312,162,786
2026	181,350,000	105,852,728	287,202,728
2027	246,565,000	97,873,162	344,438,162
2028	206,045,000	89,094,937	295,139,937
2029	215,850,000	80,346,158	296,196,158
2030	225,550,000	71,189,600	296,739,600
2031	110,295,000	61,617,710	171,912,710
2032	237,545,000	53,606,386	291,151,386
2033	249,790,000	39,734,988	289,524,988
2034	542,665,000	24,504,402	567,169,402
Total	$ 4,016,765,000	2,874,550,799	6,891,315,799

The table above was prepared assuming the Tollway will renew the standby bond purchase agreement for the 1998B variable rate bonds prior to its expiration on December 28, 2012. In the event the Tollway is unable to renew or replace this agreement, the bonds will be subject to a mandatory tender and repayment in accordance with the terms described in footnote 8(b). The outstanding principal of $123,100,000 has been classified as a current liability on the balance sheet.

(w) Capitalized Interest

In 2011 the Tollway's total interest accrued for revenue bonds equaled $196.9 million, of which $3.1 million was capitalized in respect of construction in progress.

(x) 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 account for the spending of Tollway bond proceeds; and (ii) a Revenue Fund to account for 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 11.

(y) 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 gain from arbitrage must be rebated to the United States Government. The Tollway determined that as of December 31, 2011, no arbitrage rebate liability had accrued.

(9) Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding as of December 31, 2011, classified by type, and the changes in fair value of such derivatives instruments for the year then ended as reported in the 2011 financial statements are as follows (amounts in thousands; debit (credit))

	Changes in fair value		December 31, 2011		Notional
Cash flow hedges:	Classification	Amount	Classification	Amount	amount
Pay fixed, receive variable, interest rate swaps	Deferred outflow	$ 187,843	Derivative instrument liability	$ (307,308)	$ 1,301,975

As a means of lowering its borrowing costs, the Tollway had entered into ten separate variable-to-fixed interest rate exchange agreements (swaps) in connection with its three 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 were associated with the 2008 Series A-2 bonds. One of the swaps associated with the 2008 Series A-2 Bonds was terminated on June 10, 2010 in connection with the Tollway's refunding of a portion of its 2008 Series A-2 Bonds on July 1, 2010. 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.

Details of these derivative instruments outstanding are as follows (amounts in thousands):

Bond Series	Current notional amount	Effective date	Fixed rate paid	Variable rate received	Fair value as of 12/31/11	Swap Termination Date	Counterparty	Estimated counterparty credit ratings
1998B	$ 67,705	12/30/98	4.3250%	Actual bond rate	$ (11,751)	1/1/17	Goldman Sachs Mitsui Marine Derivatives Products, L.P.	Aa1/AAA
1998B	55,395	12/30/98	4.3250%	Actual bond rate	(9,615)	1/1/17	JPMorgan Chase Bank, National Association	Aa1/A+
2007A-1	175,000	11/1/07	3.9720%	SIFMA	(45,400)	7/1/30	Citibank N.A.	A1/A
2007A-1	175,000	11/1/07	3.9720%	SIFMA	(45,400)	7/1/30	Goldman Sachs Bank USA	Aa3/A-
2007A-2	262,500	11/1/07	3.9925%	SIFMA	(68,860)	7/1/30	Bank of America, N.A.	A2/A
2007A-2	87,500	11/1/07	3.9925%	SIFMA	(22,953)	7/1/30	Wells Fargo Bank, N.A.	Aa3/AA-
2008A-1	191,550	2/7/08	3.7740%	SIFMA	(41,396)	1/1/31	The Bank of New York Mellon, N.A.	Aa1/AA-
2008A-1	191,550	2/7/08	3.7740%	SIFMA	(41,375)	1/1/31	Deutsche Bank AG, New York Branch	Aa3/A+
2008A-2	95,775	2/7/08	3.7640%	SIFMA	(20,558)	1/1/31	Bank of America, N.A.	A2/A
Totals	$ 1,301,975				$ (307,308)			

The swap counterparty ratings included in the chart are from Moody's Investors Service and Standard & Poor's Corporation, respectively.

The notional amounts of the swaps match the outstanding principal amounts of the associated bonds, with the exception that the swap associated with the Tollway's $95,800,000 outstanding 2008 Series A-2 bonds is in a notional amount of $95,775,000. The amortizations of the 2008 Series A-2 Bonds and the related swap result in the bond amount outstanding always exceeding the swap notional amount outstanding, with the difference between the two never exceeding $25,000.

Interest rate swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market values of the swaps were calculated using the zero coupon method as described in GASB 53.

Risks

(a) Credit Risk

Counterparty credit risk is the risk that a swap is terminated and the counterparty fails to make one or more required payments. 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 termination payment

credit risk as of December 31, 2011 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 fair values. The swaps require full collateralization from the counterparty of any positive fair 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 full collateralization from the counterparty of positive market value of the swaps in the event the counterparty's credit rating falls below a Standard & Poor's rating of AA- or a Moody's Investor Services' rating of Aa3 and the amount of the positive market value exceeds certain thresholds as specified in the swap agreements. 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 nine swaps outstanding as of December 31, 2011 are with eight different counterparties from seven different financial firms. The financial firm with the largest notional amount holds 28% of the total notional amount of the outstanding swaps.

(b) 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 to bondholders are determined by rates established by remarketing agents on a weekly basis. 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 currently without basis risk. Under certain circumstances as specified in the 1998 Series B swap agreements and upon notice from the swap counterparties, the variable rate payments received from swap counterparties may change from a basis of the actual bond interest rate to the SIFMA 7-day Municipal Swap Index plus eight basis points. During 2011, the average interest rate paid to 1998 Series B bondholders was 0.29%, compared to a SIFMA 7-day Municipal Swap Index of 0.18%. 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 2011, the average interest rate paid to Series 2007A bondholders was 0.18%, compared to a SIFMA 7-day Municipal Swap Index of 0.18%. 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. During 2011, the average interest rate paid to Series 2008A bondholders was 0.20%, compared to a SIFMA 7-day Municipal Swap Index of 0.18%.

Low interest rates contributed to the negative December 31, 2011 market valuations (fair values) 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.

(c) Termination Risk

The Tollway's swap agreements do not contain any out-of-the-ordinary termination provisions that would expose it to significant termination risk. Consistent with agreements of this type, the Tollway and the counterparty each have the ability to terminate a swap agreement if the other party fails to perform under the terms of the agreement. The agreements allow either party to terminate in the event of a significant loss of creditworthiness by the other party. If a swap were to be terminated, the associated variable rate bonds would no longer be hedged and the Tollway would be subject to variable rate risk, unless it entered into a new hedge following termination. In addition, if the swap were to have a negative market value at the time of termination, the Tollway would be liable to the counterparty for a payment approximately equal to the market value of the swap.

(d) Rollover Risk

There is no rollover risk, given that the swap agreements have final maturities and amortizations that approximately match the final maturities and amortizations of the related bond issues.

Derivative Instrument Payments and Hedged Debt

As of December 31, 2011, aggregate projected debt service requirements of the Tollway's hedged debt and net receipts/payments on associated hedging derivative instruments are presented below. The projected amounts assume that the interest rates on variable-rate debt and reference rates on associated hedging derivative instruments as of December 31, 2011 will remain the same for their terms. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the associated hedging derivative instruments will vary. The hedging derivative instruments column reflects only the net receipts/payments on derivative instruments that qualify for hedge accounting. All of the Tollway's derivative instruments as of December 31, 2011 qualified for hedge accounting.

Fiscal year ending December 31,	Hedged debt		Hedging derivative instruments – net payments	Total
	Principal	Interest		
2012	$ —	1,410,768	49,837,915	51,248,683
2013	—	1,410,768	49,837,915	51,248,683
2014	—	1,410,768	49,837,915	51,248,683
2015	—	1,410,768	49,837,915	51,248,683
2016	53,900,000	1,302,968	47,614,540	102,817,508
2017 – 2021	79,450,000	5,793,358	222,882,200	308,125,558
2022 – 2026	349,125,000	5,230,775	202,019,107	556,374,882
2027 – 2031	819,500,000	1,603,662	62,052,842	883,156,504
	$ 1,301,975,000	19,573,835	733,920,349	2,055,469,184

(10) 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. In 2011, the Tollway reviewed these leases and determined that they should be recorded as operating leases. This caused removal of assets and offsetting liabilities for leases previously deemed capital leases. This removal is illustrated in the table below. There was no effect to the Statement of Revenues, Expenses and Changes in Net Assets.

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 upfront payments; the related revenue was deferred and has been and is being amortized over the lease terms. From 2002 through 2011 the Tollway entered into additional fiber optic leases in the total amount of $6,439,816. As before monies were collected at the beginning of each lease. These leases are being accounted for in the same manner.

The total deferred revenue balance for the fiber optic system was $32,526,205 at December 31, 2011, and accumulated amortization of deferred revenue was $16,111,853 as of December 31, 2011.

A summary of changes in deferred revenue for the year ended December 31, 2011, is as follows:

		Balance at January 1	Current year activity	Balance at December 31
Deferred revenue:				
Fiber optics	$	29,995,988	2,530,217	32,526,205
Accumulated amortization		(14,502,684)	(1,609,169)	(16,111,853)
		15,493,304	921,048	16,414,352
Lease receivable		42,394,250	(42,394,250)	—
Accumulated amortization		(13,949,500)	13,949,500	—
Totals		28,444,750	(28,444,750)	—
Deferred revenue		72,390,238	(39,864,033)	32,526,205
Accumulated amortization		(28,452,184)	12,340,331	(16,111,853)
Net deferred revenue	$	43,938,054	(27,523,702)	16,414,352

(11) Restricted Net Assets

As of December 31, 2011, the Tollway reported the following restricted net assets:

Description		December 31, 2011
Revenue bond trust indenture agreement restrictions	$	242,817,893
Portion classified as invested in capital assets net of related debt		53,040,000
Net assets restricted under trust indenture agreement		295,857,893
Restricted for pension benefit obligations		69,473
Total	$	295,927,366

(12) 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 issues a separate comprehensive annual financial report (CAFR). The financial position and results of operations for SERS for fiscal year 2011 are also included in the state's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011.

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

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, 2011 and 2010 were determined according to the statutory schedule.

Tollway contribution rates to SERS for the Tollway's SERS covered employees for the State fiscal years ended June 30, 2012, 2011 and 2010 were 34.190%, 30.253%, (revised on January 1, 2011 to 27.988% retroactive to July 1, 2010) and 28.377% respectively. Tollway contributions for the calendar years ended December 31, 2011, 2010 and 2009 were $32,790,627, $30,279,821 and $33,618,063, respectively. The retroactive contribution rate adjustment did result in approximately a $1.2 million reduction of Tollway contributions.

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 noncontributory 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, 2011 the net assets available for these benefits were $287,770, (valued at the lesser of market value or actuarial value) and the pension benefit obligation was recorded as $218,297. As of December 31, 2011, 7 beneficiaries remained in the plan.

Other Post Employment Benefits (OPEB): 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, 921 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, 2011, the Tollway contributed $4,317,857 towards the state's current cost of 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, 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.

(13) 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. 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 $12,931,689 and both asserted and unasserted employee health claims of $445,790 are included in the accompanying financial statements. Amounts are reported as current because the Tollway generally pays the self-insured retention portion in the subsequent fiscal year.

Year	Estimated claims payable January 1	Current claims	Claims payments	Estimated claims payable December 31
2011	$ 15,065,704	3,571,763	5,259,988	13,377,479
2010	16,022,848	6,064,517	7,021,661	15,065,704

Additionally, the Tollway purchases commercial insurance policies for general liability insurance and vehicle liability insurance which have a level of retention of $250,000 per occurrence. Property insurance coverage for damages to capital assets other than vehicles includes retention of $1,000,000 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.

(14) Compensated Absences

The liability reported in the Balance Sheet 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 the 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 pay rate.

Amounts accrued as compensated absences payable at December 31, 2011 are as follows:

Balance at January 1	Accrued	Used	Balance at December 31	Due within one year
$ 9,682,966	5,042,837	4,745,254	9,980,549	4,690,858

(15) 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	$ 53,503,905	2012
1998 Series A Priority Refunding Revenue Bonds (Fixed Rate)	Refund Outstanding Bonds	219,886,788	2016
1998 Series B Priority Refunding Revenue Bonds (Variable Rate)	Refund Outstanding Bonds	150,051,238	2017
2005 Series A Senior Priority Revenue Bonds	Fund Congestion Relief Program	1,077,631,836	2023
2006 Series A-1 Senior Priority Revenue Bonds	Fund Congestion Relief Program	454,280,500	2025
2007 Series A-1 & A-2 Variable Rate Senior Priority Revenue Bonds	Fund Congestion Relief Program	1,159,335,274	2030
2008 Series A-1 & A-2 Variable Rate Senior Refunding Revenue Bonds	Refund Outstanding Bonds	764,355,401	2031
2008 Series B Senior Priority Revenue Bonds	Fund Congestion Relief Program	754,507,675	2033
2009 Series A Senior Priority Revenue Bonds (Build America Bonds – Direct Payment)	Fund Congestion Relief Program	1,095,429,910	2034
2009 Series B Senior Priority Revenue Bonds (Build America Bonds – Direct Payment)	Fund Congestion Relief Program	656,804,400	2034
2010 Series A-1 Senior Priority Refunding Revenue Bonds	Refund Outstanding Bonds	505,528,872	2031
		$ 6,891,315,799	

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 25 percent of the currently projected pledged net revenues (based on approved future rate scheduled for passenger and commercial vehicles). The total principal and interest remaining to be paid on the bonds is $6.9 billion. Principal and interest paid in the current year and total pledged net revenues were $248.4 million and $451.4 million, respectively. Annual principal and interest

payments for synthetic fixed rate bonds (1998 Series B, 2007 Series A and 2008 Series A) are estimated based on rates applicable on December 31, 2011.

(16) Commitments

At December 31, 2011, there remain open for capital projects contracts totaling $84 million. The Tollway plans to fund remaining payments under these contracts through revenues and accumulated cash.

(17) 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 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.

(18) 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. It is the opinion of management that the Tollway has no contingent liabilities as of December 31, 2011.

(19) New Governmental Accounting Standards

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

Statement No. 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (provisions related to the frequency and timing of measurements). The provisions of this Statement related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Tollway is required to implement the provisions of this Statement for the year ending December 31, 2012.

Statement No. 61 – *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. This Statement also clarifies the reporting of equity interests in legally separate organizations. The Tollway is required to implement the provisions of this Statement for the year ending December 31, 2013.

Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance contained in pre-November 1989 FASB and AICPA Pronouncements*, was established to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Tollway is required to implement the provisions of this Statement for the year ending December 31, 2012.

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

(20) Related Parties

The Tollway has entered into various intergovernmental agreements with the State of Illinois, through the Illinois Department of Transportation (IDOT). Intergovernmental receivables of approximately $111 million are recorded at December 31, representing construction projects performed by the Tollway that pertain to the infrastructure owned by IDOT. Accrued liabilities totaling approximately $60 million are recorded for amounts owed to IDOT for construction projects IDOT has performed for infrastructure assets owned by the Tollway.

(21) Subsequent Events

Effective January 1, 2012 a toll rate increase for passenger vehicles took effect. The rate increase was approved by the Tollway board of directors in 2011.

Also on January 1, 2012 the Tollway established a department of Diversity and Strategic Development.

SUPPLEMENTARY INFORMATION

Schedule 1

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Changes in Fund Balance – by Fund
Trust Indenture Basis of Accounting (Non GAAP)

Year ended December 31, 2011

	Revenue fund	Construction fund	Total
Increases:			
Toll revenue	$ 652,673,895	—	652,673,895
Toll evasion recovery	33,268,033	—	33,268,033
Concessions	2,346,143	—	2,346,143
Interest	1,064,067	—	1,064,067
Miscellaneous	8,064,286	—	8,064,286
Total increases	697,416,424	—	697,416,424
Decreases:			
Engineering and maintenance of roadway and structures	43,666,796	—	43,666,796
Services and toll collection	88,737,420	—	88,737,420
Traffic control, safety patrol, and radio communications	23,060,557	—	23,060,557
Procurement, IT, finance and administration	20,521,788	—	20,521,788
Insurance and employee benefits	69,987,945	—	69,987,945
Construction	142,697,902	—	142,697,902
Bond principal payments	49,910,000	—	49,910,000
Build America bond subsidy	(16,244,130)	—	(16,244,130)
Bond interest and other financing costs	204,512,923	—	204,512,923
Total decreases	626,851,201	—	626,851,201
Net increases	70,565,223	—	70,565,223
Other changes in fund balances:			
Unrealized gain/loss on investments-IPASS	(299,150)	—	(299,150)
Amortization of other financing costs	—	—	—
	(299,150)	—	(299,150)
Change in fund balance	70,266,073	—	70,266,073
Fund balance, January 1	646,269,515	—	646,269,515
Fund balance, December 31	$ 716,535,588	—	716,535,588

See accompanying independent auditors' report.

Schedule 2

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Changes in Fund Balance – Revenue Fund – by Account
Trust Indenture Basis of Accounting (Non GAAP)

Year ended December 31, 2011

	Revenue fund and accounts							
		Maintenance and operations						
	Revenue account	Operating sub account	Operating reserve sub account	Debt service	Debt service reserve	Renewal and replacement	Improvement	Total
Increases:								
Toll revenue	$ 652,673,895	—	—	—	—	—	—	652,673,895
Toll evasion recovery	33,268,033	—	—	—	—	—	—	33,268,033
Concessions	2,346,143	—	—	—	—	—	—	2,346,143
Interest	742,790	—	—	8,720	12,711	192,997	106,849	1,064,067
Miscellaneous	8,064,286	—	—	—	—	—	—	8,064,286
Intrafund transfers	(712,004,365)	247,544,455	—	244,042,073	—	174,000,000	46,417,837	—
Total increases	(14,909,218)	247,544,455	—	244,050,793	12,711	174,192,997	46,524,686	697,416,424
Decreases:								
Engineering and maintenance of roadway and structures	—	43,666,796	—	—	—	—	—	43,666,796
Services and toll collection	—	88,737,420	—	—	—	—	—	88,737,420
Traffic control, safety patrol, and radio communications	—	23,060,557	—	—	—	—	—	23,060,557
Procurement, IT, finance and administration	—	20,521,788	—	—	—	—	—	20,521,788
Insurance and employee benefits	—	69,987,945	—	—	—	—	—	69,987,945
Construction expenses	—	—	—	—	—	121,731,699	20,966,203	142,697,902
Bond principal payments	—	—	—	49,910,000	—	—	—	49,910,000
Build America bond subsidy	—	—	—	(16,244,130)	—	—	—	(16,244,130)
Interest and other financing costs	—	—	—	204,306,026	206,897	—	—	204,512,923
Total decreases	—	245,974,506	—	237,971,896	206,897	121,731,699	20,966,203	626,851,201
Net increase (decrease)	(14,909,218)	1,569,949	—	6,078,897	(194,186)	52,461,298	25,558,483	70,565,223
Unrealized gain/loss on investments	(299,150)	—	—	—	—	—	—	(299,150)
Transfer of funds for swap termination	13,475,782	—	—	—	—	—	(13,475,782)	—
Change in fund balance	(1,732,586)	1,569,949	—	6,078,897	(194,186)	52,461,298	12,082,701	70,266,073
Fund balance, January 1	23,122,117	7,449,579	17,000,000	89,936,130	207,479,573	176,098,866	125,183,250	646,269,515
Fund balance, December 31	$ 21,389,531	9,019,528	17,000,000	96,015,027	207,285,387	228,560,164	137,265,951	716,535,588

See accompanying independent auditors' report.

(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.

(a) 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. Principal retirements on revenue bonds are expensed when paid. The results of defeasement are accounted for as revenue or expense at the time of the transaction.

5. Bond proceeds (including premiums) are recorded as income in the year received. Amounts received from refunding issuances, if any, are recorded net of transfers to the escrow agent.

6. Unrealized gains and losses on Debt Reserve invested funds are netted against interest and other financing costs.

7. Bond issuance costs are expensed as incurred.

8. Capital lease obligations are not recorded. Payments under capital leases are expensed in the period payments are made.

9. Interest related to construction in progress is not capitalized.

10. Recoveries of expenses are classified as decreases in operating expenses for trust indenture and as miscellaneous operating revenue for GAAP.

11. In trust indenture, transponder purchase expense is reflected in the Renewal and Replacement fund as construction expense. For GAAP the expenses are reflected as an operating expense.

12. Construction expenses incurred under intergovernmental agreements are decreased by payments received under these intergovernmental agreements.

Therefore, the accompanying Schedules of Changes in Fund Balance 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:

(b) 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 20th 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 Service 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.

(c) 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. Revenue is recorded on an accrual basis and as such may not be available for allocation until the cash is collected.

The Operating Reserve Sub-Account receives or retains an amount not to exceed 30% 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.

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

(e) 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.

(f) 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.

(g) 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.

(h) The Construction Fund

The Construction Fund is held as a separate segregated fund. The Construction Fund receives funds from the sale of bonds (other than refunding 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.

(2) Miscellaneous

The following items are reported as Bond Interest and Other Financing Costs:

Components of Bond Interest and Other Financing Costs – 2011

	Debt service	Debt reserve	Total
Amortization of bond premium (discounts) insurance and remarketing fees	$ 7,385,546	206,897	7,592,443
Bond interest expense	196,920,480	—	196,920,480
	$ 204,306,026	206,897	204,512,923

Other Information:

- Construction and other capital expenses for Renewal and Replacement and Improvement include accrued expenses.
- Bond Interest expense represents accrued interest payable.
- In November 2008 the Tollway purchased a $100 million surety bond. This policy is being amortized over the life of the bonds (24.1 years). The amortization is shown in the debt reserve column above.
- Cash balances held by the Trustee at December 31, 2011 are $177 million in the Debt Service accounts and $203 million in the Debt Reserve account.
- During 2010 the Tollway Board of Directors authorized $30 million to be transferred from the Improvement fund to the Debt Service fund for swap termination payments only. $10.3 million of these funds were used to terminate swaps associated with the 2008 A-2 bond series. The remaining balance cannot be used to meet debt service obligations. This amount is included in the $177 million Debt Service amount above.
- Improvement construction expenses include $642k of bad debt expense reversal.
- During the preparation of the Trust Indenture statement for the period ending December 31, 2011, it was determined that the total of $13.5 million was incorrectly allocated within the Revenue Fund to the Improvement Account during prior years. These allocations are reversed through the entry “reallocation of fund balances” list in this statement. Prior year revenue and expenditures are not affected by this change.
- Insurance and Employee Benefits includes expense for retirement, workers compensation, the employer portion of FICA, and medical insurance.

Schedule 3

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Toll Revenue by Class of
Vehicles and Other Revenue Sources (Unaudited)

Years ended December 31, 2011

	2011	
	Average daily transactions*	**Revenue**
Class of vehicle:		
1. Auto, motorcycle, taxi, station wagon, ambulance, single-unit truck, or tractor: 2 axles, 4 tires	2,036,151	$ 354,186,392
2. Single-unit truck or tractor, buses: 2 axles, 6 tires	35,736	18,258,236
3. Trucks and buses with 3 and 4 axles	37,159	29,459,153
4. Trucks with 5 or more axles, other vehicles and toll adjustments	172,674	250,770,114
Total	2,281,720	652,673,895
Other revenues:		
Concessions		2,346,143
Toll evasion recovery		33,268,033
Interest – revenue fund		1,064,067
Miscellaneous		8,064,286
Total		$ 697,416,424

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

See accompanying independent auditors’ report.

Schedule 4

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Capital Assets by Source [1]

December 31, 2011

		2011
Capital assets (at original cost):		
Land and improvements	$	315,128,948
Buildings		52,066,435
Infrastructure [2]		6,743,340,271
Vehicles		41,419,697
Office equipment		32,461,205
Information systems		135,136,767
Construction in progress		75,878,024
Total capital assets	$	7,395,431,347
Capital assets provided from:		
Bond proceeds net of related interest income	$	5,552,273,927
Revenues		1,843,157,420
Total sources of capital assets	$	7,395,431,347

[1] Prepared in accordance with the Trust Indenture (non-GAAP).
[2] Infrastructure assets do not include capitalized interest totaling $3.1 million.

See accompanying independent auditors' report.

Schedule 5

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Changes in Capital Assets [1]

Year ended December 31, 2011

		Balance January 1, 2011	Additions	Deletions[2]	Balance December 31, 2011
Land and improvements	$	313,258,059	1,870,889	—	315,128,948
Buildings		47,126,097	4,940,338	—	52,066,435
Infrastructure		6,671,712,756	142,624,418	(70,996,903)	6,743,340,271
Vehicles		41,890,084	7,122,229	(6,861,872)	42,150,441
Office equipment		31,035,451	1,425,754	(686,146)	31,775,059
Information systems		128,887,564	6,249,203	(44,598)	135,092,169
Construction in progress		74,417,230	114,539,658	(113,078,864)	75,878,024
Total capital asset	$	7,308,327,241	278,772,489	(191,668,383)	7,395,431,347

[1] Prepared in accordance with the Trust Indenture (non-GAAP), infrastructure assets do not include capitalized interest totaling $3.1 million.

[2] Infrastructure deletions above represent assets that are fully depreciated on a GAAP basis.

See accompanying independent auditors' report.

Schedule 6

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Rehabilitation Repair and Replacement Program (Unaudited)

Years ended December 31, 1996 through 2011

		Total funds credited [1]
Year:		
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
2009		161,463,238
2010		206,096,487
2011		174,192,997
	$	1,940,966,135

[1] – Includes earnings on the renewal and replacement account.

Schedule 7

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Summary of Operating Revenues, Maintenance and Operating Expenses, Net Operating Revenues and Debt Service Coverage
Trust Indenture Basis (Unaudited)

Years ended December 31, 2005 through December 31, 2011

(Amounts in thousands)

		2011	2010	2009[4]	2008	2007	2006	2005
Operating revenue:								
Toll revenue	$	652,674	628,754	592,063	583,647	572,093	567,500	580,442
Toll evasion recovery		33,268	34,924	54,829	77,654	10,080	195	13,257
Concession and other revenue		10,410	7,332	7,960	6,832	5,775	5,900	8,014
Interest income[1]		1,064	1,750	3,200	22,980	49,846	33,359	11,321
Total operating revenue		697,416	672,760	658,052	691,113	637,794	606,954	613,034
Maintenance and operating expenses:								
Engineering and maintenance		43,667	45,627	47,895	43,899	44,834	35,559	31,644
Toll services		88,737	88,580	91,541	100,464	79,538	85,887	86,089
Police, safety and communication		23,061	22,811	22,650	21,895	21,247	19,145	18,034
Procurement, IT, finance and administration		20,522	22,165	20,605	18,382	24,262	23,279	27,698
Insurance and employee benefits		69,988	71,674	72,494	59,635	52,414	49,640	42,110
Total expenses		245,975	250,857	255,185	244,275	222,295	213,510	205,575
Net operating revenues	$	451,441	421,903	402,867	446,838	415,499	393,444	407,459
Total debt service[2][3]	$	249,960	248,108	173,319	198,429	172,284	145,633	99,366
Net revenues after debt service[2]	$	201,481	173,795	229,548	248,409	243,215	247,811	308,093
Debt service coverage[2]		1.81	1.70	2.32	2.25	2.41	2.70	4.10

[1] – Excludes interest income on construction funds.

[2] – Includes annual synthetic fixed interest rates as determined under swap agreements for 1993 Series B, 1998 Series B, 2007 Series A and 2008 Series A. See note 8 for specifics.

[3] – In January 2009 the Tollway early retired the 1993B bonds ($44.4 million of principal) from existing funds. The amount is not shown as part of the Total Debt Service above.

Schedule 8

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Annual Toll Transactions
Passenger and Commercial Vehicles (Unaudited)

For selected years from 1959 to 2011

(Transactions in thousands)

	Passenger	Commercial	Total	Percentage passenger
Year:				
1959	37,884	5,050	42,934	88.23%
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
2009	694,837	80,516	775,353	89.62
2010	730,797	86,286	817,083	89.44

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 count 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.

Schedule 9

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Annual Toll Revenues
Passenger and Commercial Vehicles (Unaudited)

For selected years from 1959 to 2011

(Transactions in thousands)

	Passenger	Commercial	Total	Percentage passenger
Year:				
1959	$ 11,943	$ 2,593	$ 14,536	82.16%
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	242,943	567,499	57.19
2007	321,008	251,085	572,093	56.11
2008	335,653	247,994	583,647	57.51
2009	334,520	257,543	592,063	56.50
2010	348,946	279,808	628,754	55.50

Schedule 10

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Operating Revenues, Maintenance and Operating
Expenses and Net Operating Revenues[1] (Unaudited)

For selected years from 1964 to 2011

(Dollars in thousands)

	Operating revenue	Maintenance and operating expenses	Net operating revenues
Year:			
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	606,954	213,510	393,444
2008	691,113	244,275	446,838
2009	658,052	255,185	402,867
2010	672,760	250,857	421,903
2011	697,416	245,975	451,441

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

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Supplementary Information for State Compliance Purposes

December 31, 2011

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 (Unaudited)
- Average Number of Employees by Function (Unaudited)
- Emergency Purchases (Unaudited)
- 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.

Schedule 11

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Cash and Cash Equivalents Balances

December 31, 2011
(With summary totals for 2010)

		Carrying amount	Financial institution balances
Cash (unrestricted):			
Currency and coin on hand:			
Change funds at toll plazas and administrative building	$	446,900	446,900
Petty cash		1,250	1,250
Cash in banks:			
Bank of America – New segments account		4,806,883	4,806,883
Bank of America – Revolving accounts		9,529,243	9,568,277
Bank of America – Treasurer account*		2,853,461	488,648
Wells Fargo – Checking		15,439	15,439
Cash equivalents (unrestricted):			
Certificates of deposits – Treasurer accounts*		540,000	540,000
Bank of America – Repurchase agreements – Risk management		15,024,842	15,024,842
Wells Fargo – Repurchase agreements – Treasurer accounts*		435,070,000	435,070,000
Total cash and cash equivalents (unrestricted)		468,288,018	465,962,239
Cash (restricted):			
Bank of America – R & M for I-PASS accounts		(2,719,109)	1,862,550
Cash equivalents (restricted):			
Restricted for debt service:			
Money market accounts:			
Priority debt reserve		202,870,537	202,870,537
Priority debt service		139,394,073	139,394,073
Debt service		14,081,287	14,081,287
Provider payment		4,327,342	4,327,342
Bank of New York – Money market account		19,428,533	19,428,533
Total restricted for debt service		380,101,772	380,101,772
Northern Trust – Pension benefit asset		287,770	287,770
Illinois Funds – Restricted for I-PASS accounts		149,229,810	149,229,810
Total cash and cash equivalent (restricted)		526,900,243	531,481,902
Total cash and cash equivalents at December 31, 2011	$	995,188,261	997,444,141
Total cash and cash equivalents at December 31, 2010	$	883,879,079	883,996,995

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

See accompanying independent auditors' report.

Schedule 12

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Commodities Inventory

December 31, 2011

		2011
Location:		
Central warehouse	$	944,721
Maintenance buildings		9,642,964
Electrical shops		431,758
Central sign shop		723,586
Carpenter shop		402,968
Central garage		265,124
Pool car garage		38,806
Total commodities inventory at December 31	$	12,449,927

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 balance sheet.

See accompanying independent auditors' report.

Schedule 13

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Accounts Receivable

December 31, 2011

		Aging					
		0-180 Days	180-365 Days	Over one year	Gross total	Allowance for doubtful accounts	Net receivables
Tolls	$	688,573	76,026	1,595,703	2,360,302	(426,330)	1,933,972
Toll evasion recovery – tolls and initial fines		38,283,776	26,559,324	251,247,667	316,090,767	(303,216,202)	12,874,565
Oases receivable		125,875	—	—	125,875	—	125,875
Damage claims/emergency services		44,568	9,264	134,765	188,597	(154,627)	33,970
Insufficient I-Pass		262,169	302,503	1,452,013	2,016,685	(1,435,547)	581,138
Over dimension vehicle permits		17,985	1,760	15,665	35,410	—	35,410
Fiber optic agreements		53,592	—	—	53,592	—	53,592
Workers' compensation		7,891	—	—	7,891	—	7,891
Other		1,056,121	10,944	1,219,833	2,286,898	(1,945,275)	341,623
Subtotal – accounts receivable		40,540,550	26,959,821	255,665,646	323,166,017	(307,177,981)	15,988,036
E-Z Pass Agency Group (IAG Agencies)		9,065,877	—	—	9,065,877	—	9,065,877
Illinois Department of Transportation		5,919,413	2,916	—	5,922,329	—	5,922,329
Other governments		2,647,751	2,266	1,779,357	4,429,374	—	4,429,374
Subtotal – government agency receivables		17,633,041	5,182	1,779,357	19,417,580	—	19,417,580
I-355 Intergovernmental agreement contributions		—	—	3,214,286	3,214,286	—	3,214,286
Illinois Department of Transportation		—	—	110,205,485	110,205,485	—	110,205,485
Other intergovernmental agreements		—	—	1,949,439	1,949,439	—	1,949,439
Subtotal – long-term receivables		—	—	115,369,210	115,369,210	—	115,369,210
Total receivables at December 31, 2011	$	58,173,591	26,965,003	372,814,213	457,952,807	(307,177,981)	150,774,826
Total receivables at December 31, 2010	$	121,556,137	75,849,400	260,940,941	458,346,478	(274,333,620)	184,012,858

* In addition, toll evasion recovery escalated fines are booked as a receivable and are fully reserved as to collectibility. They are not included in the above schedule of accounts receivable.

See accompanying independent auditors' report.

Schedule 14

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Schedule of Changes in Capital Assets

Year ended December 31, 2011

Acct#	Fixed assets by type	Balance January 1	Additions and transfers in	Deletions and transfer out	Balance December 31
8000	Other equipment	$ 12,688	—	—	12,688
8100	Office furn. and fixtures	10,405,143	—	(23,130)	10,382,013
8200	Data proc. equipment	81,371,254	3,263,629	(44,598)	84,590,285
8300	Cash handling	137,214	—	—	137,214
8350	Telecommunication	1,799,327	—	—	1,799,327
8400	Toll collection	10,484,724	—	(38,700)	10,446,024
8500	Garage and shop	1,548,070	65,185	(10,096)	1,603,159
8520	Bldg. and bldg. maintenance	53,415	—	—	53,415
8550	Bldg. and bldg. maintenance	124,776	—	—	124,776
8700	Autos	6,782,254	1,039,398	(2,208,614)	5,613,038
8750	Police car equipment	64,906	—	—	64,906
8800	Trucks	32,279,442	6,082,831	(4,653,258)	33,709,015
8900	Roadway equipment	12,290,027	490,711	(614,220)	12,166,518
	Total equipment	157,353,240	10,941,754	(7,592,616)	160,702,378
	Buildings and infrastructure	6,718,838,853	147,564,755	(70,996,903)	6,795,406,705
	Capitalized interest	131,427,711	3,374,032	—	134,801,743
	Land and land improvements	313,258,059	1,870,889	—	315,128,948
	Construction in progress	74,417,230	114,539,658	(113,078,864)	75,878,024
	Toll collection equipment	2,093,739	—	—	2,093,739
	Reciprocity server (IAG)	299,590	—	—	299,590
	Next generation network	2,877,401	232,707	—	3,110,108
	TIMS	2,428,074	437,739	—	2,865,813
	Various machinery and equipment	3,345,798	—	—	3,345,798
	Web and e-commerce	2,104,493	868,939	—	2,973,432
	Disaster recovery	224,292	2,640	—	226,932
	Contingency software	14,004	1,318	—	15,322
	RITE system	19,874,084	1,437,886	—	21,311,970
	Unisys mainframe	1,303,550	—	—	1,303,550
	CCTV cameras	9,037,236	869,859	—	9,907,095
	IWIN computers	200,586	—	—	200,586
	Energy attenuators	473,190	—	—	473,190
	Field server	31,296	—	—	31,296
	RWIS system	111,850	—	—	111,850
	Mainframe legacy system	40,676	—	—	40,676
	Consolidate customer service	—	4,345	—	4,345
	Total capital assets	$ 7,439,754,952	282,146,521	(191,668,383)	7,530,233,090

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

See accompanying independent auditors' report.

Schedule 15

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Explanation of Significant Variations in Asset Accounts*

Years ended December 31, 2011 and 2010

Assets	December 31 2011	December 31 2010	Increase (decrease)	Percentage change
Accounts receivable, less allowance for doubtful accounts	$ 15,988,036	23,869,116	(7,881,080)	-33%
Intergovernmental receivables	19,417,580	102,057,955	(82,640,375)	-81%
Investment - I-PASS accounts	—	25,148,200	(25,148,200)	-100%
Lease receivable, less current portion	—	26,801,500	(26,801,500)	-100%
Long-term accounts receivable	115,369,210	58,085,787	57,283,423	99%
Deferred outflow of resources	307,308,634	119,465,483	187,843,151	157%
Investments	-	25,150,950	(25,150,950)	-100%

Accounts receivable, less allowance for doubtful accounts	Decreases in violation and fiber optic receivables during 2011 due to collections and timely billing.
Intergovernmental receivables	Construction projects are being completed and intergovernmental agreement invoices are being reclassified from long-term to current.
Investment - I-PASS accounts	There were no investments at the end of 2011. All were called during the year. The current interest receivable was removed from the books as part of this change.
Leases receivable, less current portion	It was determined that the leases for the oasis should be operating leases not capital leases. The variance is due to the accounting change.
Long-term accounts receivable	Amounts booked from other agencies and municipalities have become current receivables.
Deferred outflow of resources	The increase resulted from fair value fluctuations in interest rate swap agreements entered into to hedge variability in interest rates.
Investments	During 2011, the Tollway invested monies in U.S. Government agency securities.

* Variances over $5 million and 20% are considered significant.

Schedule 16

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Explanation of Significant Variations in Liability Accounts*

Years ended December 31, 2011 and 2010

Liabilities	December 31 2011	December 31 2010	Increase (decrease)	Percentage change
Deposits and retainage	$ 7,848,313	16,957,143	(9,108,830)	-54%
Derivative instrument liability	307,308,634	119,465,483	187,843,151	157%
Deferred revenue, less accumulated amortization	16,414,356	43,938,054	(27,523,698)	-63%

Deposits and retainage	Construction projects have closed out and retainages were paid out.
Derivative instrument liability	Change in market value of swaps based on information provided by 3rd party.
Deferred revenue, less accumulated amortization	It was determined that the oases leases should be operating leases and not capital leases. The variance is due to this accounting change.

* Variances over $5 million and 20% are considered significant.

Schedule 17

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, 2011 and 2010

None

* Variances over $5 million and 20% are considered significant.

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. In 1992 the Tollway completed the Veterans Memorial Tollway (formerly the North-South). Since 1985 the following bonds have been 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;
- 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, Variable Rate Senior Priority Revenue Bonds to pay the costs of the Congestion Relief Program.
- 2008 A, $766,200,000, Variable Rate Senior Priority Revenue Bonds to advance refund all of the $500,000,000 2006 Series A-2 Bonds and $208,340,000 of the 2006 Series A-1 Bonds.
- 2008 B, $350,000,000, Priority revenue bonds to pay the costs of the Congestion Relief Program.
- 2009, $780,000,000, Priority revenue bonds (Taxable) to pay the costs of the Congestion Relief Program.
- 2010A, $279,300,000, Senior Refunding Revenue Bonds to advance refund $278,300,000 2008 Series A-2 Bonds.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Analysis of Operations (Unaudited)

December 31, 2011

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.

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 the principal and interest bond funding requirements. During 2011, 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. To date, $930,900 has been expended and $750,000 has been received as reimbursement. No additional grants have been received in 2011.

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, 2008, 2009, and 2010 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 office of Ms. Kristi Lafleur, the Tollway's Executive Director, for the fiscal year being audited, is located at the Tollway's Central Administration Building, 2700 Ogden Avenue, Downers Grove, Illinois, 60515.

The Trust Indenture dated December 1, 1985 requires the Tollway to prepare a tentative budget of the operating expenditures for the ensuring 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 this fiscal 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 believes that its monitoring of its expenditures and its monitoring of the physical condition of the roads is adequate to meet 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)
Years ended December 31, 2011 and 2010

	Full-time scheduled		Part-time scheduled		Total	
	2011	2010	2011	2010	2011	2010
Tollway employees:						
Executive director	4	6	—	—	4	6
Directors	10	10	—	—	10	10
Inspector general	14	12	—	—	14	12
Legal	10	11	—	—	10	11
State police	15	16	—	—	15	16
Finance	43	44	—	—	43	44
Administration	29	31	—	—	29	31
Operations:						
Toll collectors	430	323	—	172	430	495
Plaza managers and assistants	33	34	—	—	33	34
Other	144	147	—	—	144	147
Office of Info Tech	50	54	—	—	50	54
Engineering:						
Maintenance:						
Roadway	368	358	—	—	368	358
Transportation	68	69	—	—	68	69
Engineers	35	35	—	—	35	35
Others	75	75	—	—	75	75
Planning	16	16	—	—	16	16
Procurement	47	50	—	—	47	50
Communications	10	11	—	—	10	11
Business systems	62	61	—	—	62	61
Total authority employees	1,463	1,363	—	172	1,463	1,535
State troopers	168	174	—	—	168	174
Total personnel	1,631	1,537	—	172	1,631	1,709

Hourly base payroll	$	83,850,242	78.98%
Overtime		5,367,403	5.06%
Salaries		16,953,231	15.96%
2011 Total payroll	$	106,170,876	100.00%
Hourly base payroll	$	69,068,292	65.05%
Overtime		3,839,024	3.62%
Salaries		33,274,674	31.33%
2010 Total payroll	$	106,181,990	100.00%

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Emergency Purchases (Unaudited)

Year ended December 31, 2011

The Tollway reported the following emergency purchases to the Office of the Auditor General during the fiscal year ended December 31, 2011:

Description		Cost
Security audit of Tollway computer systems	$	136,430
Total	$	136,430

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Service Efforts and Accomplishments (Unaudited)

Year ended December 31, 2011

(1) 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.

(2) Strategic Priorities

With the above Mission Statement in mind, the Illinois Tollway is guided by five Strategic Priorities:

- Promote the regional economy
- Foster environmental responsibility and sustainability in roadway and agency operations
- Increase collaboration with regional transportation and planning agencies
- Further transparency and accountability
- Enhance customer service for its 1.4 million daily drivers

(3) Summary of Agency Operations

The Illinois Tollway maintains and operates 286 miles of interstate tollways in 12 counties in Northern Illinois, including the Reagen 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).

The Tollway is a user-fee system. No state or federal tax dollars are used to support the maintenance and operation of the Tollway System. The Tollway depends on toll revenues and proceeds from the issuance of revenue bonds for the expansion, reconstruction and improvement of the Tollway system. The Tollway's budget is a balanced budget in which revenues provide sufficient resources for operating and maintenance expenses, debt service and required deposits to the Renewal and Replacement and Improvement Accounts as required by the Trust Indenture.

(4) Key Performance Measures

The following metrics were reported for the year ending December 31, 2011.

1. The percentage of vehicles using I-PASS during rush hour: 89%
2. The percentage of vehicles using I-PASS for all hours: 84%
3. Travel Time Index Congestion Measure for the A.M. rush hour: 1.00
4. The average personal injury incidents accident clearance time: 30.32 minutes