

McGladrey & Pullen

Certified Public Accountants

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

Compliance Examination
For the Year Ended December 31, 2006
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)

Compliance Examination
For the Year Ended December 31, 2006

Table of Contents

	<u>Page(s)</u>
Agency Officials	1
Management Assertion Letter	2
Compliance Report Summary	3 – 4
Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	5 - 7
Schedule of Findings	
Current Findings – State Compliance	8 - 9
Prior Findings Not Repeated – State Compliance	10
Financial Statement Report	
The Tollway's financial statement report for the year ended December 31, 2006 which includes the report of independent auditors, management's discussion and analysis, required supplementary information other than management's discussion and analysis, basic financial statements, supplementary information, and the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with <i>Government Auditing Standards</i> has been issued separately.	
Supplementary Information for State Compliance Purposes	
Summary	11
Fiscal Schedules and Analysis	
Schedule of Cash and Cash Equivalents Balances	12
Schedule of Investment Depositories	13
Schedule of Commodities Inventory	14
Schedule of Accounts Receivable	15
Schedule of Changes in Capital Assets	16
State Administrative Chargeback	17 – 18
Explanation of Significant Variations in Asset Accounts	19
Explanation of Significant Variations in Liability Accounts	20
Explanation of Significant Variations in Revenues and Expenses	21
Analysis of Operations	
Tollway Functions and Planning Program	22 – 23
Average Number of Employees by Function (Unaudited)	24
Emergency Purchases	25
Service Efforts and Accomplishments (Unaudited)	26

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

**Agency Officials
December 31, 2006**

Executive Director Through February 23, 2006 December 21, 2006 through current	Jack Hartman Brian McPartlin
Acting Executive Director February 24, 2006 to March 29, 2006 March 30, 2006 to December 20, 2006	Marilyn Johnson Brian McPartlin
Chief of Finance	Michael Colsch
Controller	Leslie Savickas
Fiscal Operations Manager	Patricia Pearn
General Counsel	Thomas Bamonte

Central Administrative Agency offices are located at:

2700 Ogden Avenue
Downers Grove, Illinois 60515

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

Management Assertion Letter
December 31, 2006

(Insert Tollway Originals)

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

Compliance Report

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.

Accountant’s Report

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

Summary of Findings

<u>Number of</u>	<u>Compliance</u>	<u>Financial</u>	<u>Prior</u>
<u>Findings</u>	<u>Report</u>	<u>Report</u>	<u>Compliance Report</u>
Findings	1	6	9
Repeated findings	1	5	3
Prior recommendations implemented or not repeated	3	1	7

Details of State Compliance findings are presented in the separately tabbed report section of this report. Details of *Government Auditing Standards* findings are issues related to significant deficiencies and material weaknesses in internal control over financial reporting. Findings related to *Government Auditing Standards* have been issued separately with the Tollway’s Financial Statement Audit.

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
Current Findings (<i>Government Auditing Standards</i>)		
06-1		Financial Reporting
06-2		Capital Assets
06-3		Lack of Detection Controls for Improper Transponder Use
06-4		Untimely Violation System Implementation
06-5	8	Internal Auditing
06-6		Bank Reconciliations Not Completed Timely
Prior Findings Not Repeated (<i>Government Auditing Standards</i>)		
06-7		Violation Penalties Receivable and Service Organization Activities
Current Findings (State Compliance)		
06-5	8	Internal Auditing
Prior Findings Not Repeated (State Compliance)		
06-8	10	Locally Held Funds Report on Receipts and Disbursements
06-9	10	I-PASS Policies and Procedures
06-10	10	Improper Voucher Processing

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

Compliance Report

Summary

Exit Conference

The findings and recommendations appearing in this report were discussed with Tollway personnel at a pre-exit conference on August 27, 2007. Attending were:

Illinois State Toll Highway Authority

Executive Director	Brian McPartlin
Chief of Finance	Michael Colsch
Chief of Communications	Mike King
Controller	Leslie Savickas
Executive Secretary	Christina Grosso
Fiscal Operations Manager	Patricia Pearn
Capital Budget Manager	Rachael Franzen
Press Secretary	Joelle McGinnis
Deputy Chief of Staff	Billy Glunz
Chief Accountant – Maintenance and Operations	Frederic Trick
Chief of Administration	Tracey Smith

McGladrey & Pullen, LLP

Linda Abernethy, CPA	Partner
Heather Morandi	Supervisor

Office of the Auditor General

Thomas L. Kizziah, CPA	Audit Manager
------------------------	---------------

A formal exit conference was waived by the Tollway.

The responses to the recommendations were provided by Patricia Pearn, Fiscal Operations Manager, in a letter dated August 28, 2007.

McGladrey & Pullen

Certified Public Accountants

Independent Accountant's Report on State Compliance, On Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Toll Highway Authority's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended December 31, 2006. The management of the Illinois State Toll Highway Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Illinois State Toll Highway Authority's compliance based on our examination.

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

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

In our opinion, the Illinois State Toll Highway Authority complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended December 31, 2006. However, the results of our procedures disclosed an instance of noncompliance, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of State findings as finding 06-5. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 06-5 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings to be a material weakness.

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

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

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois State Toll Highway Authority as of and for the year ended December 31, 2006, which collectively comprise the Illinois State Toll Highway Authority's basic financial statements, and have issued our report thereon dated September 12, 2007. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Illinois State Toll Highway Authority. The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2006, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Illinois State Toll Highway Authority's basic financial statements for the year ended December 31, 2005. In our report dated August 4, 2006, we expressed an unqualified opinion on the basic financial statements. In our opinion, the 2005 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 2005, 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, Tollway management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
September 12, 2007

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

**Compliance Report
For the Year Ended December 31, 2006**

Current Findings – State Compliance

06-5 Internal Auditing

The Illinois State Toll Highway Authority (Tollway) failed to audit any major systems of internal accounting and administrative controls of the Tollway for the year ended December 31, 2006.

The Tollway completed one internal audit during the fiscal year; however the Tollway did not complete internal audits of any major systems of internal accounting and administrative controls during calendar year 2005 or 2006. Required audits under the State's Fiscal Control and Internal Auditing Act, which are required to be performed at least once every two years, would include the following areas of internal accounting and administrative controls:

- Tollway organization and management
- Budgeting, accounting and reporting
- Property, equipment and inventory
- Revenues, receivables and cash
- Personnel and payroll
- Roadway maintenance and property rehab and improvements
- Expenditure control
- Administrative support services
- Purchasing and procurement
- Electronic data processing

Good business practice requires that significant internal controls be periodically evaluated and assessed to determine that the controls are sufficient and operating effectively.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003) requires that the Tollway's chief executive officer ensure that "audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every 2 years."

Tollway management stated that Executive Order # 10 required most state agencies to transfer the internal audit function to the Illinois Office of Internal Audit (IOIA), a division of the Department of Central Management Services. The nature of the Tollway's governance created uncertainty as to whether the Tollway was required to comply. However, the Tollway entered into negotiations with the IOIA to perform this service but could not reach agreement on a reasonable fee and scope of service.

The transfer of the internal audit function was abandoned upon breakdown of negotiations. The Tollway's Internal Audit Department was reestablished and did conduct pre-implementation, internal control and operational reviews of various functions within the Tollway but was unable to complete all required audits.

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

Compliance Report
For the Year Ended December 31, 2006

Current Findings – State Compliance

06-5 Internal Auditing (Continued)

Significant areas of internal control must be reviewed and evaluated regularly to maintain an effective internal control system. When internal audits are not completed timely and in accordance with an approved audit plan, the Tollway may fail to detect weaknesses in its internal control in a timely manner. (Finding Code No. 06-5, 05-9)

Recommendation

We recommend the Tollway complete all required internal audits on a timely basis.

Tollway Response

We concur.

In 2006, the Tollway began to rebuild its Internal Audit Department. The department however was not fully staffed early enough in the year to complete all required audits, although this process was begun. In 2006, an audit of petty cash was performed. So far in 2007, two of the required cycle audits have been completed (Agency Organization and Management and Expenditures). Two more required audits are currently in process (Procurement and Personnel and Payroll).

In addition, the following required audits are in the audit plan:

Property, Equipment and Inventories
Administrative Support Services
Revenues, Receivables and Cash
Electronic Data Processing
Budgeting, Accounting and Reporting

The Tollway expects to complete all required audits by the end of 2008.

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

Prior Year Findings Not Repeated
For the Year Ended December 31, 2006

State Compliance

06-8 Locally Held Funds Report on Receipts and Disbursements

The Tollway was delinquent in filing the fourth quarter C-17 (Report of Locally Held Funds) and the report submitted was not accurate.

During the current year, the Tollway timely filed all quarters of the C-17. Our testing did not indicate any inaccurate information submitted to the Comptroller on the C-17's. (Finding Code No. 05-6, 04-10)

06-9 I-PASS Policies and Procedures

The Tollway does not have an approved manual for I-PASS financial policies and procedures. In addition, the current version of the annual does not specify which manager approvals should be documented in writing.

During the current year, the Tollway approved the I-PASS financial policy and procedure manual that includes the specifications as to which manager approvals are required to be documented in writing. (Finding Code No. 05-8)

06-10 Improper Voucher Processing

The Illinois State Toll Highway Authority (Tollway) did not approve vendor invoices within 30 days of receipt or pay vendors within 60 days after receipt of the invoices. In addition, 2 vouchers were not properly approved by the appropriate department head.

During the current year, the Tollway improved their voucher processing and as such the finding was removed from the compliance report and included in the immaterial letter. (Finding Code No. 05-7)

SUPPLEMENTARY INFORMATION

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

Supplementary Information for State Compliance Purposes

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
- State Administrative Chargeback
- Explanation of Significant Variations in Asset Accounts
- Explanation of Significant Variations in Liability Accounts
- Explanation of Significant Variations in Revenues and Expenses

Analysis of Operations

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

The accountant's 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 accountant's opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Schedule of Cash and Cash Equivalents Balances
December 31, 2006 (with summary totals for 2005)

	Carrying Amount	Financial Institution Balances
Cash (Unrestricted):		
Currency and Coin on Hand		
Change funds at toll plazas and Administrative Building	\$ 483,500	\$ -
Petty Cash	1,450	-
Cash in Banks		
Bank of America - New Segments Account	3,254,640	3,344,928
Bank of America - Revolving Accounts	11,834,201	11,863,108
Bank of America - Treasurer Accounts *	(3,086,437)	1,704,914
Bank of America - Risk Management Account	8,686,324	8,686,324
Cash Equivalents (Unrestricted):		
Certificates of Deposits - Treasurer Accounts *	20,076,419	20,076,419
Wells Fargo - Repurchase Agreements - Treasurer Accounts *	520,777,307	520,777,307
Wells Fargo - Checking	8,619	8,619
All Other	28,326	28,326
Total cash and cash equivalents (Unrestricted)	562,064,349	566,489,945
Cash (Restricted):		
Bank of America - Restricted for IPASS Accounts	1,253,798	810,147
Total Cash (Restricted)	1,253,798	810,147
Cash Equivalents (Restricted):		
Restricted for Debt Service		
JP Morgan Money Market Accounts:		
Priority Debt Reserve	12,568,873	11,876,682
Debt Reserve	23,438,055	24,130,246
Priority Debt Service	31,800,063	17,515,397
Debt Service	80,969,442	95,254,108
Total Restricted for Debt Service	148,776,433	148,776,433
Restricted for Construction		
Federal Home Loan Bank Bonds	656,375,000	656,375,000
JP Morgan Money Market Accounts	53,635,883	53,635,883
Total Restricted for Construction	710,010,883	710,010,883
Illinois Funds - Restricted for IPASS Accounts	92,700,090	96,477,559
Total cash and cash equivalents (Restricted)	952,741,204	299,700,022
Total Cash and Cash Equivalents at December 31, 2006	\$ 1,514,805,553	\$ 866,189,967
Total Cash and Cash Equivalents at December 31, 2005	\$ 1,208,527,433	\$ 1,215,589,311

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

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

Schedule of Investment Depositories
December 31, 2006 (with summary totals for 2005)

	Year End Interest Rates	Carrying Amount (Fair Value)
Locally Held at		
JP Morgan	3.75% - 8.625%	
U.S. Treasury and Agency issues:		
Priority Debt Reserve		\$ 66,657,446
Debt Reserve		75,489,421
		<u>142,146,867</u>
Illinois Funds - Restricted for IPASS Accounts		<u>17,480,500</u>
Total Investments at December 31, 2006		<u><u>\$ 159,627,367</u></u>
Total Investments at December 31, 2005		<u><u>\$ 88,496,433</u></u>

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

Schedule of Commodities Inventory
December 31, 2006 and 2005

Location	2006	2005
Central Warehouse	\$ 739,222	\$ 727,729
Maintenance Buildings	6,244,694	5,135,663
Electrical Shops	325,856	305,183
Central Sign Shop	1,080,694	892,592
Carpenter Shop	150,153	141,802
Telecommunications	328,473	405,243
Central Garage	251,605	217,223
Helicopter	<u>17,436</u>	<u>20,159</u>
Total Commodities Inventory at December 31	<u>\$ 9,138,133</u>	<u>\$ 7,845,594</u>

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

Schedule of Accounts Receivable
December 31, 2006 and 2005

	AGING			Gross Total	Allowance for Doubtful Accounts	Net Receivables
	0-180 Days	180-365 Days	Over One Year			
Tolls	\$ 13,226,646	\$ 259,197	\$ 185,141	\$ 13,670,984	\$ (1,190,422)	\$ 12,480,562
Toll Evasion	4,770,168	3,875,761	21,167,618	29,813,547	(23,275,995)	6,537,552
IAG Agencies	3,097,839	-	-	3,097,839	-	3,097,839
Damage Claims/Emergency Services	481,744	390,246	2,398,638	3,270,628	(3,099,000)	171,628
Overweight Tickets	171,915	32,348	853,230	1,057,493	(855,000)	202,493
Overdimension Vehicle Permits	22,760	1,295	6,160	30,215	-	30,215
Other	1,233,694	1,500	574,004	1,809,198	(6,990)	1,802,208
Total Accounts Receivable	23,004,766	4,560,347	25,184,791	52,749,904	(28,427,407)	24,322,497
RTA	2,983	5,965	10,528	19,476	-	19,476
State of Illinois	10,879	56,022	1,353,054	1,419,955	-	1,419,955
Total State Agency Receivables	13,862	61,987	1,363,582	1,439,431	-	1,439,431
Total Receivables at December 31, 2006	<u>\$ 23,018,628</u>	<u>\$ 4,622,334</u>	<u>\$ 26,548,373</u>	<u>\$ 54,189,335</u>	<u>\$ (28,427,407)</u>	<u>\$ 25,761,928</u>
Total Receivables at December 31, 2005	<u>\$ 21,787,287</u>	<u>\$ 30,115,529</u>	<u>\$ 7,357,316</u>	<u>\$ 59,260,132</u>	<u>\$ (16,291,778)</u>	<u>\$ 42,968,354</u>

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

Schedule of Changes in Capital Assets
Year Ended December 31, 2006

Acct #	Fixed Assets by Type	Balance January 1	Additions	Deletions	Balance December 31
8100	Office Furn. and Fixtures	\$ 4,259,274	\$ 6,703,569	\$ -	\$ 10,962,843
8200	Data Proc. Equipment	70,037,475	7,825,339	-	77,862,814
8300	Cash Handling	254,323	-	-	254,323
8350	Telecommunication	2,699,727	-	-	2,699,727
8400	Toll Collection	6,504,240	-	-	6,504,240
8500	Garage and Shop	918,726	-	-	918,726
8520	Bldg. and Bldg. Maintenance	53,415	-	-	53,415
8550	Bldg. and Bldg. Maintenance	165,641	-	-	165,641
8700	Autos	4,586,242	2,766,798	-	7,353,040
8750	Police Car Equipment	64,906	-	-	64,906
8800	Trucks	23,429,725	5,796,168	(388,509)	28,837,384
8900	Roadway Equipment	9,495,830	-	-	9,495,830
Total Equipment		122,469,524	23,091,874	(388,509)	145,172,889
	Buildings and Infrastructure	3,785,408,213	952,379,195	(30,549,630)	4,707,237,778
	Land and Land Improvements	197,433,642	75,034,130	-	272,467,772
	Toll Collection Equipment	14,190,155	-	-	14,190,155
	Transponders	28,811,462	-	(28,811,462)	-
	Capital Leases	26,470,510	-	-	26,470,510
	Construction in Progress	540,620,699	369,711,691	(360,985,602)	549,346,788
	Reciprocity Server (IAG)	285,000	-	-	285,000
Total Capital Assets		\$ 4,715,689,205	\$ 1,420,216,890	\$ (420,735,203)	\$ 5,715,170,892

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

Compliance Report

State Administrative Chargeback

The State of Illinois Budget for its fiscal year 2004 included a provision to charge an administrative fee to offset costs borne by the general funds for services provided to agencies or programs financed by special funds. Pursuant to this provision, the Governor's Office of Management and Budget (GOMB) initiated a transfer from the Illinois State Toll Highway Authority Trust Fund in the amount of \$19,039,920. Attorney General Madigan raised concerns about the legality of the transfer, and the Office of the Comptroller suspended action on the transfer pending a legal determination from the Attorney General on whether the funds belonged to Tollway bondholders. The Tollway's General Counsel, an Assistant Attorney General, along with bond counsel, a Special Assistant Attorney General, concluded that the Tollway could pay operating expenses of this kind to the State as long as they were reasonable and necessary, and were not in excess of aggregate amounts provided in the Tollway's annual budget. The Governor's Office of Management and Budget and the Tollway worked cooperatively to determine a methodology to determine a reasonable basis for calculating the value of services provided to the Tollway which were borne by the State general funds. The Tollway and GOMB settled on a cost allocation methodology that summed all costs borne by the general funds for types of services provided to the Tollway by numerous state agencies and offices, and then allocating a pro-rata portion to the Tollway. Collectively, the parties agreed to an allocation based upon the Tollway's portion of State headcount. The portion of costs owed by the Tollway for 2004 was determined to be 2.46% (number of Tollway employees divided by total active SERS employees) of the total cost of identified shared services.

Using the above methodology, it was agreed the Tollway would remit \$10,388,000 and \$11,046,900 for the State's fiscal years 2006 and 2005, respectively. The Tollway's share of the total cost of identified State services was 2.51% for 2006 and 2005.

The table on the next page details the calculation for 2006. The reimbursement represents reimbursement of the costs in total and is not intended to identify specific amounts reimbursed to each agency.

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

State Administrative Chargeback
For the Year Ended June 30, 2006

State Agency	FY 2006 Total GRF w/o Grants (\$ in 000's)	Allocation to Tollway at 2.51%** (\$ in 000's)
Office of the Secretary of State (SOS)	\$ 99,115	\$ 2,488
Department of Natural Resources (DNR)	77,168	1,937
Central Management Services (CMS)	55,613	1,396
General Assembly	46,803	1,175
Illinois State Police (ISP)	23,424	588
Office of the State Comptroller (OSC)	28,108	706
Office of the State Treasurer (OST)	23,524	590
Illinois Historic Preservation Agency (IHPA)	12,952	325
Department & Commission of Human Rights	8,463	212
Office of the Governor	7,707	193
Office of the Auditor General (OAG)	6,301	158
Legislative Information System (LIS)	6,178	155
Illinois Emergency Management Agency (IEMA)	5,263	132
Illinois Department of Transportation (IDOT)	4,265	107
Office of Management and Budget (GOMB)	2,882	72
Legislative Reference Bureau (LRB)	2,655	67
Government Forecasting and Accountability Comm.	1,323	33
Joint Committee on Administrative Rules	1,131	28
Environmental Protection Agency (EPA)	796	20
Legislative Audit Commission (LAC)	250	6
Total	\$ 413,921	\$ 10,388

** Active Tollway Employees as a percentage of All Active SERS Employees.

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

Explanation of Significant Variations in Asset Accounts
December 31, 2006 and 2005

	December 31,		Increase/ (Decrease)	Percentage Change
	2006	2005		
Assets				
Cash and Cash Equivalents	\$ 813,588,846	\$ 635,489,114	\$ 178,099,732	28%
Investments Restricted for Debt Service	142,146,867	88,496,433	53,650,434	61%
Investments - Construction Fund	710,010,883	573,019,093	136,991,790	24%
Accounts Receivable, less allowance for doubtful accounts	24,322,497	38,444,129	(14,121,632)	-37%
Intergovernmental Receivable	1,439,431	4,524,225	(3,084,794)	-68%
Accrued Interest Receivable	21,322,949	3,560,068	17,762,881	499%
Risk Management Reserved Cash	8,686,324	19,226	8,667,098	45080%
Prepaid Expense	13,310,678	4,969,494	8,341,184	168%
Other Capital Assets - Net of accumulated depreciation	2,275,039,476	1,524,194,482	750,844,994	49%
Deferred Bond Issuance Costs	9,967,722	5,582,479	4,385,243	79%

Cash and Cash Equivalents The increase is due to \$17.5 million of additional I-PASS Escrow funds and approximately \$100 million of additional amounts invested in repurchase agreements at December 31, 2006.

Investments Restricted for Debt Service The increase is due to invested bond proceeds from the 2006 issue that are restricted under the Trust Indenture.

Investments - Construction Fund The increase is due to the unspent proceeds from the 2006 bond issue being invested in US Agency securities.

Accounts Receivable, less accounts for doubtful accounts There was a decrease in overall receivables due to the delayed implementation of the new Toll violation system and there was a \$12 million increase in the allowance for doubtful accounts.

Intergovernmental Receivable (Receivable from Illinois State Agency) The Tollway books reimbursements from Treasurer held accounts to locally held funds as a receivable. Outstanding reimbursements for these locally held funds were less than at the end of 2005.

Accrued Interest Receivable The increase is due to the Tollway having greater investment balances at December 31, 2006 than at December 31, 2005.

Risk Management Reserved Cash in 2006 the Tollway opened a separate locally held bank account to pay Workers Compensation claims.

Prepaid Expense The Tollway prepaid the 2008 state administrative charge plus prepaid insurance on the 2006 bond issue.

Other Capital Assets-Net of Accumulated Depreciation The increase is due to infrastructure assets placed in service during 2006 with the completion of open road tolling lanes.

Deferred Bond Issuance Costs The increase is due to \$4.6 million of issuance costs for the 2006 bond issue net of amortization of costs.

Note: Variances over 20% are considered significant.

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

Explanation of Significant Variations in Liability Accounts
December 31, 2006 and 2005

	December 31,		Increase	Percentage
	2006	2005	(Decrease)	Change
Liabilities				
Pension Obligation	\$ 76,035	\$ 114,015	\$ (37,980)	-33%
Capital Lease Obligations	4,015,550	6,289,417	(2,273,867)	-36%
Risk Management Claims Payable	8,618,373	6,328,224	2,290,149	36%
Accrued Interest Payable	63,269,589	37,046,915	26,222,674	71%
Deposits and Retainage	69,084,120	33,613,448	35,470,672	106%
Revenue Bonds Payable	2,382,410,000	1,427,445,000	954,965,000	67%
Bond Premium, less Deferred Amount on Refunding	83,125,669	45,669,718	37,455,951	82%

Pension Obligation	Plan participants drew the same benefits during 2006 as in 2005, but the liability balance is in decline.
Capital Lease Obligations	The former Violation Enforcement System was fully amortized as of the end of fiscal year 2006.
Risk Management Claims Payable	The increase is due to the requirements actuarially determined at the end of the fiscal year for claims incurred but not reported.
Accrued Interest Payable	The increase is due to a full year of interest payable on a \$770 million bond issue of June 2005 and a half year interest payable on the 2006 \$1 billion bond issue.
Deposits and Retainage	The increase is due to construction of the I-355 South extension, as well as other Congestion Relief Program projects.
Revenue Bonds Payable	The increase is due to issuance of \$1 billion revenue bonds during 2006.
Bond Premium, less Deferred Amount on Refunding	The increase is due to the premium on bonds issued during 2006.

Note: Variances over 20% are considered significant.

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

Explanation of Significant Variations in Revenues and Expenses
Years Ended December 31, 2006 and 2005

	2006	2005	Increase (Decrease)	Percentage Change
Toll Evasion Recovery	\$ 11,695,274	\$ 26,737,437	\$ (15,042,163)	-56%
Miscellaneous	2,868,573	2,266,957	601,616	27%
Investment Income	74,738,940	32,298,872	42,440,068	131%
Depreciation and Amortization	186,283,372	152,195,010	34,088,362	22%
Net gain (loss) on Disposal of Property	(2,240,196)	175,863	(2,416,059)	-1374%
Interest Expense and Amortization of Financing Costs	(93,613,153)	(62,796,040)	(30,817,113)	49%
Miscellaneous Income - Nonoperating	5,751,428	-	5,751,428	100%

Toll Evasion Recovery	The decrease is due to pending notices that have not been issued as a result of testing requirements for the new violation system implementation.
Miscellaneous	The increase is due to post-pay I-PASS account transponder fees and replaced transponders.
Investment Income	The increase is due to interest rates continuing to rise during 2006 compared to 2005. Interest totaling \$37 million was earned on unspent bond proceeds.
Depreciation and Amortization	The increase is due to the Tollway placing approximately \$920 million of infrastructure assets into service during 2006.
Net gain (loss) on Disposal of Property	The decrease (loss amount) is due to the Tollway selling assets such as trucks, plows, etc. through a consignment broker during 2006.
Interest Expense and Amortization of Financing Costs	The increase is due to a full year of interest paid on the \$770 million bond issue in June 2005 and a half year interest paid on the 2006 \$1 billion bond issue.
Miscellaneous Income - Nonoperating	The difference is the net effect of closing out interfund balance sheet accounts.

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

Analysis of Operations

TOLLWAY FUNCTIONS AND PLANNING PROGRAM

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

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

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

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

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

Analysis of Operations

TOLLWAY FUNCTIONS AND PLANNING PROGRAM (Continued)

The Tollway has the power and responsibility to establish and collect tolls sufficient to pay for maintenance, repairs, regulation, and operation of the toll highway system and to meet the principal and interest bond funding requirements. During 2006, the Tollway did not receive any State government appropriations. The Tollway was awarded a Federal grant for value pricing, a \$450,000 cost State reimbursement grant whereby the Tollway is reimbursed for 80% of costs incurred, up to a total of \$360,000. To date, \$307,600 has been expended and \$274,741 has been received as reimbursement.

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 and 2006 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 Mr. Brian McPartlin, 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 ensuing calendar year on or before October 31. The budget is required to include recommendations of the consulting engineers as to the Renewal and Replacement deposit for the budget year. The final budget must be approved by the Board of Directors of the Tollway prior to January 31 of the calendar year budgeted. The Tollway complied with these budgetary requirements for the current calendar year.

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

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

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

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

Analysis of Operations

Average Number of Employees by Function (Unaudited)

For the Year Ended December 31, 2006 and 2005

	Full-time		Part-time		Temporary and Temporary Replacements		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	Tollway Employees							
Executive Director	3	4	-	-	-	1	3	5
Directors	10	10	-	-	-	-	10	10
Inspector General	12	7	-	-	-	-	12	7
Legal	12	12	-	-	-	-	12	12
State Police	16	14	-	-	-	-	16	14
Finance	51	49	-	-	-	1	51	50
Administration	35	81	-	-	1	3	36	84
Operations					-	-	-	-
Toll Collectors	396	527	195	72	-	-	591	599
Lane Walkers	-	10	-	8	-	-	-	18
Plaza Supervisors and assistants	53	48	-	-	-	-	53	48
Other	178	195	-	1	-	-	178	196
Office of Info Tech	66	64	-	-	-	1	66	65
Engineering:							-	-
Maintenance:							-	-
Roadway	362	379	-	-	-	-	362	379
Transportation	69	72	-	-	-	-	69	72
Engineers	42	34	-	-	-	-	42	34
Others	62	37	-	1	-	-	62	38
Planning	15	9	-	-	-	-	15	9
Procurement	50	- *	-	-	-	-	50	-
Communications	5	7	-	-	-	-	5	7
Violation Enforcement	12	10	-	-	-	-	12	10
Total Authority Employees	1,449	1,569	195	82	1	6	1,645	1,657
State Troopers	138	148	-	-	-	-	138	148
Total Personnel	1,587	1,717	195	82	1	6	1,783	1,805
Hourly base payroll	\$ 50,902,359	54.39%	* The Procurement function was added during 2006. The employees were included in the administration function during 2005.					
Overtime	4,786,212	5.12%						
Salaries	37,894,240	40.49%						
2006 Total Payroll	\$ 93,582,811	100.00%						
Hourly base payroll	\$ 51,762,537	56.92%						
Overtime	5,987,507	6.58%						
Salaries	33,190,619	36.50%						
2005 Total Payroll	\$ 90,940,663	100.00%						

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

EMERGENCY PURCHASES

The Tollway reported the following emergency purchases to the Office of the Auditor General during the fiscal year ended December 31, 2006:

Description	Cost
Repair watermain at toll plaza 17	\$ 31,000
Purchase of winter roadway abrasives	13,000
Purchase of blacktop for road construction	1,391,365
Purchase postage machine	24,973
Replace roof on salt dome	282,975
Bridge repairs	<u>247,000</u>
Total	<u><u>\$ 1,990,313</u></u>

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

**Service Efforts and Accomplishments
For the Year Ended December 31, 2006
(Unaudited)**

Agency Mission

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

Strategic Priorities

- Reduce traffic congestion
- Implement Congestion Relief Program (10 year capital construction plan)
- Improve operational efficiency and effectiveness

Summary of Agency Operations

The Illinois State Toll Highway Authority maintains and operates 274 miles of interstate tollways in 12 counties in Northeastern Illinois, including the Reagan Memorial Tollway (I-88), the North-South Tollway (I-355), the Northwest Tollway (I-90) and the Tri-State Tollway (I-94, I-294, I-80/I294). In September 2004, the Illinois Tollway embarked on a 10-year capital plan to reduce traffic and congestion by rebuilding and restoring a majority of the system. Major improvements will include: adding lanes, converting mainline toll plazas to Open Road Tolling and constructing the south extension of I-355.

Key Performance Measures

All performance measures are as of December 31, 2006.

1. The percentage of vehicles using I-PASS during rush hour: 86%
2. The percentage of vehicles using I-PASS for all hours: 79%
3. Number of I-PASS express lanes: 89
4. Travel Time Index Congestion Measure for the A.M. rush hour: 1.12
5. The average accident clearance time for personal injury incidents: 35 minutes.