

NOTE:

The Toll Highway Authority's FY 07 financial statements should be read in conjunction with the FY 2008 financial statements. In the FY 2008 financial statements, the December 31, 2007 net assets have been restated (increased by \$73.9 million) to correct errors in reporting capitalized interest. Because the December 31, 2007 net assets have been restated, the previously issued auditors' report dated August 7, 2008 is not to be relied upon without consideration of the auditors' report dated August 28, 2009 on the restatement of the December 31, 2007 net assets.

McGladrey & Pullen

Certified Public Accountants

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

Financial Audit

For the Years Ended December 31, 2007 and 2006

and

Compliance Examination

For the Year Ended December 31, 2007

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

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

Financial Audit for the Years Ended December 31, 2007 and 2006
and Compliance Examination for the Year Ended December 31, 2007

Table of Contents

	<u>Page(s)</u>
Agency Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	3 - 4
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	5 - 7
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 <i>Government Auditing Standards</i>	8 - 9
Schedule of Findings	
Current Findings – <i>Government Auditing Standards</i>	10 - 22
Current Findings – State	23 - 25
Prior Findings Not Repeated – <i>Government Auditing Standards</i>	26
Financial Statement Report	
<p>Note: The Independent Auditor's Report and financial statements as of and for the year ended December 31, 2006 were previously issued under separate cover. The report dated September 12, 2007 was issued by McGladrey & Pullen, LLP as Special Assistant Auditors to the Auditor General and is incorporated herein by reference.</p>	
Summary	27
Independent Auditors' Report	28 - 29
Management's Discussion and Analysis	30 - 40
Basic Financial Statements	
Statements of Net Assets	41 - 42
Statements of Revenues, Expenses, and Changes in Net Assets	43
Statements of Cash Flows	44 - 45
Notes to the Financial Statements	46 - 77

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

Financial Audit for the Years Ended December 31, 2007 and 2006
and Compliance Examination for the Year Ended December 31, 2007

Table of Contents (Continued)

	<u>Page(s)</u>
Supplementary Information	
Trust Indenture Agreement Schedules	
Schedules of Changes in Net Assets – By Fund	78 - 79
Schedules of Changes in Net Assets – Revenue Fund – By Account	80 - 83
Notes to the Trust Indenture Basis Schedules	84 - 87
Schedules of Toll Revenue By Class of Vehicles and Other	
Revenue Sources (Unaudited)	88
Schedules of Capital Assets by Source	89
Schedules of Changes in Capital Assets	90
Rehabilitation Repair and Replacement Program (Unaudited)	91
Summary of Operating Revenues, Maintenance and Operating Expenses, Net Operating	
Revenues and Debt Service Coverage – Trust Indenture Basis (Unaudited)	92
Annual Toll Transactions: Passenger and Commercial Vehicles (Unaudited)	93
Annual Toll Revenues: Passenger and Commercial Vehicles (Unaudited)	94
Operating Revenues, Maintenance and Operating Expenses and Net	
Operating Revenues (Unaudited)	95
Supplementary Information for State Compliance Purposes	
Summary	96
Fiscal Schedules and Analysis	
Schedule of Cash and Cash Equivalents Balances	97
Schedule of Investment Depositories	98
Schedule of Commodities Inventory	99
Schedule of Accounts Receivable	100
Schedule of Changes in Capital Assets	101
State Administrative Chargeback	102 - 103
Explanation of Significant Variations in Asset Accounts	104
Explanation of Significant Variations in Liability Accounts	105
Explanation of Significant Variations in Revenues and Expenses	106
Analysis of Operations	
Tollway Functions and Planning Program	107 - 108
Average Number of Employees by Function (Unaudited)	109
Emergency Purchases	110
Service Efforts and Accomplishments (Unaudited)	111

Illinois State Toll Highway Authority

December 31, 2007

Agency Officials

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



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

August 7, 2008

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

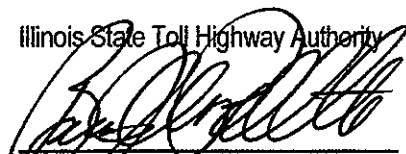
Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Tollway. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Tollway's compliance with the following assertions during the period ended December 31, 2007. Based on this evaluation, we assert that during the year ended December 31, 2007 the Tollway has materially complied with the assertions below.

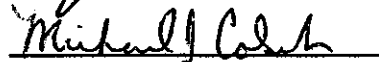
- A. The Tollway has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Tollway has obligated, expended, received and used public funds of the State in accordance with any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

Yours very truly,

Illinois State Toll Highway Authority



Brian J. McPartlin, Executive Director



Michael J. Colson, Chief of Finance



Thomas Bamonte, General Counsel

Illinois State Toll Highway Authority

December 31, 2007

Summary

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

Accountants' Reports

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

Summary of Findings

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
<u>Findings</u>	<u>Report</u>	<u>Report</u>
Findings	11	6
Repeat Findings	5	5
Prior recommendations implemented or not repeated	1	4

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

Schedule of Findings

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
Current Findings (<i>Government Auditing Standards</i>)		
07-1	10	Financial Reporting
07-2	13	Capital Assets
07-3	15	Untimely Violation System Implementation
07-4	16	Master Vendor File
07-5	17	Bank Reconciliations Not Approved Timely
07-6	18	Untimely Execution of Contracts
Current Findings (<i>Government Auditing Standards</i> and State Compliance)		
07-7	19	Procurement Process
07-8	21	Internal Auditing
Current Findings (State Compliance)		
07-9	23	Lane Maintenance Contract
07-10	24	Report of Locally Held Funds
07-11	25	Revenue Reconciliation Reports
Prior Finding Not Repeated (<i>Government Auditing Standards</i>)		
07-12	26	Lack of Detection Controls for Improper Transponder Use

Illinois State Toll Highway Authority

December 31, 2007

Exit Conference

The findings and recommendations appearing in this report were discussed with Tollway personnel at a pre-exit conference on July 28, 2008. Attending were:

Illinois State Toll Highway Authority

Chief of Finance	Michael Colsch
General Counsel	Thomas Bamonte
Controller	Leslie Savickas
Executive Secretary	Christina Grosso
Fiscal Operations Manager	Patricia Pearn
Chief Accountant – Debt and Capital	Tara Martin
Chief Accountant - Maintenance and Operations	Frederic Trick
Chief of Administration	Tracey Smith
Chief of Business Systems (Department of Electronic Tolling)	Stan Ryniewski
Auditor (Internal Audit Department)	Arjana Jaupi

McGladrey & Pullen, LLP

Linda Abernethy, CPA	Partner
Heather Morandi	Supervisor

Office of the Auditor General

Thomas L. Kizziah, CPA	Audit Manager
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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 1, 2008.

McGladrey & Pullen

Certified Public Accountants

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

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Toll Highway Authority's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended December 31, 2007. 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, 2007. However, the results of our procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying Schedule of Findings as findings 07-1 through 07-11. 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings as items 07-1 through 07-11 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings, we consider items 07-1 and 07-2 to be material weaknesses.

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

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois State Toll Highway Authority as of and for the year ended December 31, 2007, which collectively comprise the Illinois State Toll Highway Authority's basic financial statements, and have issued our report thereon dated August 7, 2008. 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 2007 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, 2007, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Illinois State Toll Highway Authority's basic financial statements for the years ended December 31, 2006 and 2005. In our reports dated September 12, 2007 and August 4, 2006, we expressed unqualified opinions on the basic financial statements. In our opinion, 2006 and 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 years ended December 31, 2006 and 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, the Board of Directors and Tollway management and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
August 7, 2008

McGladrey & Pullen

Certified Public Accountants

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the Illinois State Toll Highway Authority, a component unit of the State of Illinois, as of and for the years ended December 31, 2007 and December 31, 2006, and have issued our report thereon dated August 7, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 07-1, 07-2, 07-3, 07-4, 07-5, 07-6, 07-7 and 07-8.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 and 07-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Illinois State Toll Highway Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 07-7 and 07-8.

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
August 7, 2008

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-1 Financial Reporting

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

During our review of the financial documentation we noted the following:

- The Accounts Receivable – Toll Evasion Recovery Account was understated by approximately \$340,000 at year end. Tollway personnel recorded a journal entry crediting the accounts receivable account; however the adjustment should have been recorded as a debit to the accounts receivable account. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- An unidentified variance existed between the supporting information provided for accounts receivable (acct 01-1142 and 01-1143), and the balances reported in the trial balance. Supporting documentation received from the Tollway was approximately \$103,000 less than the amount recorded on the trial balance. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- The Tollway did not fully amortize debt issuance costs at the end of December 2007. The original cost of the issuance was approximately \$964,000 and approximately \$481,000 was used as the basis for the calculation. The remainder of the costs were not known until after year- end. As a result, accrued interest payable and interest expense were understated by approximately \$483,000. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- We noted two vouchers totaling \$112,000 (dated March 2006), were inappropriately recorded as liabilities as of December 31, 2007 (Comptroller Reimbursement Account). Upon further inquiry, these two vouchers were noted as paid by the Comptroller on March 15, 2006, but were not reversed out of the liability account by the Tollway at year end. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- During our examination of year-end accruals we discovered that a majority of the December 31, 2007 liability for accounts payable and other accrued liabilities was recorded using adjusting journal entries. These adjustments, totaling approximately \$25 million, were recorded manually (via adjusting journal entries) to the general ledger account entitled "Accrued Expenses – Other", as opposed to using an automated accounts payable system. The Tollway's present automated system only records vouchers that have been submitted to the State Comptroller's office for payment as of December 31 ("pay order liabilities") and does not support other liabilities for which vendor invoices were received after December 31 pertaining to the prior fiscal year (2007). The software system utilized by the Tollway does not allow invoices to be entered into the system after year-end.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-1 Financial Reporting (Continued)

- Various accounts payable invoices totaling approximately \$2.2 million were not properly accrued at year end. This adjustment was communicated to management but was deemed immaterial and was not corrected on the final financial statements.
- A manual entry to accrued liabilities was erroneously recorded twice at year-end causing an overstatement of accrued liabilities of approximately \$228,000. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- Various construction accruals totaling approximately \$477,000 were not properly accrued at year end. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- Accrued payroll at year-end was understated by approximately \$272,000. There were four Tollway departments missing accruals for the last two days of the fiscal year resulting in the understatement. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- The amount of pension benefit assets held in excess of the pension benefit obligation was recorded by the Tollway as both restricted net assets and deferred revenue. The required deferred revenue reversal of approximately \$364,000 was communicated to management and has been corrected in the final financial statements. Although the amount of the adjustment was immaterial it was recorded to enhance the comparability of the deferred revenue detailed footnote in the Notes to the Financial Statements, which details the 2007 balances compared to 2006 balances.

Good internal controls require that all significant accounts be reconciled on a regular basis, preferably monthly, to underlying documentation. In addition, the account reconciliations and accruals should be reviewed by an additional Tollway employee to ensure that the information is accurately reported and to ensure that the amounts agree to the general ledger. Any necessary adjustments should be made in a timely manner. All processes relating to year-end accruals should be automated to the extent possible particularly when they involve a significant number of transactions (such as accounts receivable and accounts payable). All vendor invoices should be processed through an automated accounts payable system. All vendor invoices should be entered into the system upon receipt by the Tollway by an account payable clerk. All entries into the system should automatically update the general ledger accounts (accounts payable and the related expense accounts). Balances recorded as accounts payable at year-end should be reconciled to the open invoice listing generated by the automated accounts payable system. Invoices open for long periods of time should be investigated. On occasion, open invoice listings should be reconciled to invoices on hand. The Fiscal Control and Internal Auditing Act (30 ILCS 10/1002) requires each State Agency to establish and maintain an effective system of internal control, which would include controls over the financial reporting process.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-1 Financial Reporting (Continued)

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

Amounts were noted as improperly recorded during our audit of accrued receivables and liabilities. Under the present system there is risk of errors, duplications and omissions due to the magnitude of year-end entries processed using a manual system (journal entries). The risk that accounts payable in particular may be overstated or understated at year-end in the account (01-1720 Accrued Expenses – Other) is particularly significant due to the magnitude of necessary journal entries and because the dollar amounts are material. In addition, without a detailed listing of unpaid invoices, it is difficult to review and determine if there are old invoices on hand and it becomes difficult to reconcile amounts recorded to unpaid invoices on hand. (Finding Code No. 07-1, 06-1, 05-1)

Recommendation

We recommend internal controls over financial reporting be strengthened. Individuals preparing account reconciliations should cross-check all amounts to ensure that the supporting work paper (including all detail) is complete and accurate, and agrees to the balance recorded in the general ledger and trial balance. In addition, an individual other than the preparer should review all significant trial balance accounts to ensure supporting documentation exists, amounts agree to the trial balance and that all posted adjustments are accurate. All unresolved reconciling items should be researched and properly recorded prior to the month-end close. We also recommend the Tollway utilize an automated accounts payable system to track all vendor invoices. This would also include other routine bills received such as utilities and other re-occurring expenses for which the Tollway is billed. Journal entries should only be used in circumstances where an invoice is not available such as for recording estimates, and retainages related to construction projects.

Tollway Response

We concur with the recommendation. We agree that internal controls over financial reporting should continue to be strengthened and we continually make the effort to improve our financial reporting processes and their integrity. We will enhance our processes to the fullest extent possible and continue to pursue the acquisition of a standard, fully integrated general ledger system, which would include an automated accounts payable subsidiary ledger which would track all open invoices and allow a proper accrual at the end of each accounting period.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-2 Capital Assets

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

The following were noted during our review of capital asset records:

- The Tollway did not appropriately account for a capital lease termination. As a result, beginning net assets were understated by approximately \$1.9 million, revenue was overstated by approximately \$1.4 million, expenses were overstated by approximately \$2.5 million and capital assets were overstated by approximately \$2.1 million. This adjustment was communicated to management but was deemed immaterial and was not corrected on the final financial statements.
- Two machinery and equipment capital asset additions totaling approximately \$3 million were expensed as opposed to being capitalized in 2007. This adjustment was communicated to management but was deemed immaterial and was not corrected on the final financial statements.
- During 2007, the Tollway entered its pooled infrastructure capital assets into its capital asset software. Previously these assets were depreciated in pools using Excel. The capital asset software utilized by the Tollway prorated depreciation expense on most of the pooled assets for depreciation not recorded in prior years. In recalculating depreciation expense we noted that depreciation on one of these assets was not prorated; instead the entire amount of approximately \$2.5 million was recorded in 2007 as depreciation expense. Depreciation is not being consistently calculated on pooled assets. This adjustment was communicated to management but was deemed immaterial and was not corrected on the final financial statements.
- During 2006, approximately \$7 million in transponder purchases were improperly capitalized. As a result of this error, beginning net assets are overstated by approximately \$7 million, and 2007 depreciation expense is overstated by approximately \$1.5 million. This adjustment was communicated to management but was deemed immaterial and was not corrected on the final financial statements.
- Depreciation on the new southern extension of I 355 (part of the 2007 infrastructure acquisitions) is being calculated at the full month convention whereas in prior years depreciation has consistently been calculated using a half year convention resulting in an inconsistent method of depreciation. This inconsistency has resulted in depreciation being approximately \$6.3 million less compared to what depreciation would have been if calculated utilizing a half year convention. The Tollway's written capitalization policy does not specify depreciation conventions to be used.
- Certain infrastructure assets are being depreciated over 5 years. Although this is consistent with past practice, this useful life has not been included in the Tollway's written capitalization policy.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-2 Capital Assets (Continued)

- The useful life of one building asset, a leasehold improvement, was changed from 20 years in 2006, to 7 years (the remaining term of the lease) in 2007. Useful lives for buildings per the revised written capitalization policy are 20 years which is unchanged from the prior year policy. The change in life for this individual asset has resulted in depreciation expense being overstated by approximately \$36,000. This adjustment was deemed immaterial and was not corrected on the final financial statements.
- During our observation of property and equipment inventory, we noted that one item out of 20 (5%), totaling approximately \$6,000, could not be located.
- During our observation of property and equipment inventory, we noted that one item out of 10 (10%), was recorded at an incorrect value in that freight charges of approximately \$1,800 were not included in the asset value.

The Tollway should capitalize and depreciate its capital assets in accordance with its formal written capitalization policy, and in accordance with the Statewide Accounting Manual (SAMS manual). SAMS procedure 03.30.20 requires that applicable freight be included in the capitalized cost of the capital asset. In addition, accounting principles generally accepted in the United States of America (GAAP) requires that capital assets be capitalized and uniformly depreciated over their estimated useful lives using a systematic approach.

According to Tollway personnel, their entire capital asset recording was done in order to accurately portray asset values and useful lives and they were not able to timely reflect these modifications in their written capital asset policy. For the capital item which excluded freight, Tollway management stated that the Property Control System uses the SUN system to record fixed assets. This system is based on purchase orders and does not reflect freight charges.

As a result of the errors and inconsistencies noted, amounts in the financial statements were immaterially misstated as noted above. In addition, capital assets are being capitalized and depreciated in a manner which is not consistent with the Tollway's policy. (Finding Code No. 07-2, 06-2, 05-4)

Recommendation

We recommend that the Tollway capitalize and depreciate all assets in accordance with its written capitalization policy. Where appropriate, the policy should be updated to reflect current practice for areas such as useful lives and should also address depreciation conventions to be used. In addition, the Tollway should account for lease terminations in accordance with GAAP.

Tollway Response

We concur and will update our written capitalization policy to conform to the exceptional depreciation conventions and useful lives employed in 2007. Additionally, we will strive to improve the review process for new capital assets placed in service, to ensure proper conformity with our written capitalization policy.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-3 Untimely Violation System Implementation

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

Currently the Tollway has not been able to bill toll violators on a timely basis. In August 2007, the Tollway implemented a new violation system and resumed issuing notices to violators; however, there were approximately 1.5 million potential notices that had not been issued as of December 31, 2007. According to the Summary of Significant Accounting Policies in the Tollway's Notes to the Financial Statements, revenue from toll evasion is recognized in the month that the violation notice is issued.

The Toll Highway Act (605 ILCS 10/10) authorized the Tollway to enforce a violation enforcement system that seeks reimbursement from Toll violators. To obtain maximum results, the system must be functioning properly and enforced in a timely manner. Additionally, good business practices require that notices to violators be sent so that the transactions can be recognized in the financial statements in a timely fashion.

Tollway management stated that a vendor was selected to implement the RITE solution that consists of a toll collection and violation processing system. The toll collection system was given priority over the violation system, resulting in delays in the development and implementation of the violation system.

The violation enforcement system acts as an effective deterrent to patrons that do not pay the proper toll amount. Without an effective violation enforcement system in place, the Tollway is at risk in not collecting toll revenue on a timely basis and additionally this has an unfavorable effect on the Tollway's operating cash flow. (Finding Code No. 07-3, 06-4)

Recommendation

We recommend the Tollway bill all toll violators in accordance with their policies and rights established by state statute, in a timely fashion.

Tollway Response

We concur. As of June, 2008, the backlog has been reduced to 890,000 potential notices and will be fully eliminated by year-end.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-4 Master Vendor File

The Illinois State Toll Highway Authority (the Tollway) has vendors with multiple vendor numbers within its master vendor file.

During our examination of the Master Vendor Listing, we noted that 62 vendors appeared multiple times, with the same contact information but the vendor had multiple vendor numbers. Access to the master vendor listing is restricted to the Tollway's buyers in the Procurement Department. The Tollway's policy does not require periodic review of the master vendor listing.

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

Tollway management stated that this occurred due to an oversight.

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

Recommendation

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

Tollway Response

We concur. The Tollway will implement a process to review the master vendor list on a regular basis.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-5 Bank Reconciliations Not Approved Timely

The Illinois State Toll Highway Authority (Tollway) did not approve bank reconciliations in a timely manner. In addition, several reconciliations were not completed in a timely manner and did not include a preparer and/or approval signature.

During our review of 66 bank reconciliations, we noted the following:

- 30 out of 66 bank reconciliations (45%) did not include an approval signature;
- 2 out of 66 bank reconciliations (3%) did not include a preparer or approval signature; and
- 2 out of 66 bank reconciliations (3%) were not completed timely.

The 2 bank reconciliations not completed timely included a December 2007 reconciliation not completed until March 2008 and a June 2007 reconciliation not completed until August 2007.

Strong internal controls require that all bank accounts be reconciled in a timely manner to detect fraud and correct errors and/or omissions. Bank reconciliations should be completed prior to the end of the following month. In addition, documentation of the individual responsible for the monthly preparation of the bank reconciliation and the individual responsible for reviewing the monthly reconciliation should sign and date the bank reconciliation. The Fiscal Control and Internal Auditing Act (30 ILCS 10/1002) requires that each State Agency establish and maintain an effective system of internal control, which would include the process for reconciling bank accounts.

Tollway personnel stated that the December 2007 bank reconciliation for the general account was delayed while they awaited information from the State Comptroller's office to reconcile outstanding warrants; when this finally became available, extra time was spent to perform this reconciliation of our largest account balance. Prior to December 2007, the Tollway had no information to reconcile outstanding warrants to the Comptroller's records.

Tollway personnel also indicated that the missing approvals occurred because the Chief Accountant- M & O position was vacant until July 1, resulting in increased workloads for other staff.

Failure to complete bank reconciliations on a timely basis increases the risk of loss of Tollway funds due to theft or fraud. The timely preparation of bank reconciliations is also critical to ensuring that data is correctly recorded in the general ledger on a timely basis. (Finding Code No. 07-5, 06-6, 05-3, 04-6, 03-7)

Recommendation

We recommend the Tollway follow established procedures to ensure all bank accounts are reconciled and approved in a timely manner. We also recommend the preparer and reviewer sign off on the bank reconciliation.

Tollway Response

We concur with the points made in this finding and will apply extra effort toward ensuring timeliness in the preparation of bank reconciliations and proper review and/or approval, as indicated by the initials of the reviewer or approver.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards*

07-6 Untimely Execution of Contracts

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

During our review of 12 contracts, we noted that 9 contracts (75%), totaling approximately \$282 million, were signed between 3 and 77 days after issuance of the Notice to Proceed. The Notice to Proceed is the Tollway's written communication to the contractor notifying them that they are authorized to proceed with work outlined in the contract.

Sound internal controls require contracts be reviewed and executed prior to commencing of services in order to be binding and enforceable. The Fiscal Control and Internal Auditing Act (30 ILCS 10/1002) requires each State Agency to establish and maintain an effective system of internal control, which would include controls over the timely execution of contracts.

Tollway management indicated that the construction contracts were signed by the contractor when brought to the Board for approval. In some cases the formal contract signing was delayed for various reasons. Notices to Proceed were provided to the contractor in order not to delay the start of the projects. In no case were any payments made to contractors without signed contracts.

The failure to review and sign contracts before the beginning of the contract period does not bind the contractor for compliance with applicable laws, regulations and rules and may result in improper and unauthorized payments. (Finding Code No. 07-6)

Recommendation

We recommend the Tollway process and approve all contracts in writing before the beginning of the contract period.

Tollway Response

We concur and currently require all contract signatures to be obtained before a Notice to Proceed is issued.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards* and State Compliance

07-7 Procurement Process

The Illinois State Toll Highway Authority (Tollway) user departments and procurement department are not following the established procurement procedures.

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

- Nine (9) out of 25 (36%) purchase orders were placed in the Stock Utilization and Needs (SUN) system after the invoice and goods were received;
- Eleven (11) out of 25 (44%) purchase orders did not obtain a multi-quote for purchases made. These instances negated the opportunity for the purchase request to solicit quotes or identify whether a contract should be created for the vendor.

The Tollway internal purchasing procedures indicate the following:

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

Tollway management stated that the systems are not capable of preventing user departments from placing orders independently before entry into SUN. Users placing orders for recurring items in this manner make it difficult for Procurement to coordinate efforts with users to analyze and track recurring spending.

The SUN system drives the procurement process as user departments negate this process it allows for departments to purchase items without the approval of procurement. Bypassing the policies in place also leaves the Tollway exposed to doing business with non-state approved vendors, violating state statutes, and also possible forfeiture of possible discounts/obtaining the lowest price. These actions also can add or contribute to improper cut off which also affects the accrual process. (Finding Code No. 07-7)

Illinois State Toll Highway Authority

Schedule of Findings
For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards* and State Compliance

07-7 Procurement Process (Continued)

Recommendation

We recommend that Tollway follow the procurement process in place.

Tollway Response

We concur. The procurement rules will be reiterated to all Tollway departments.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards* and State Compliance

07-8 Internal Auditing

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

Six out of nine (67%) planned major systems internal audits were not completed during the 2006-2007 fiscal year cycle. 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
- Expenditure control
- Administrative support services
- Purchasing and procurement
- Electronic data processing

In addition, the chief internal auditor reports directly to the inspector general.

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." Section 30 ILCS 10/2002(b) of the act also states "the chief internal auditor shall report directly to the chief executive officer and shall have direct communications with the chief executive officer and the governing board, if applicable, in the exercise of auditing activities."

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. During 2007, three of the required audits were completed, with a fourth one in progress.

Illinois State Toll Highway Authority

Schedule of Findings
For the Year Ended December 31, 2007

Current Findings – *Government Auditing Standards* and State Compliance

07-8 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. In addition, the Tollway is not in compliance with the Fiscal Control and Internal Auditing Act because the chief internal auditor does not report directly to the Tollway's Director. (Finding Code No. 07-8, 06-5, 05-9)

Recommendation

We recommend the Tollway complete all required internal audits on a timely basis. In addition, we recommend that the chief internal auditor report directly to the Tollway's Director.

Tollway Response

We concur and anticipate completion of all required audits in 2008.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – State Compliance

07-9 Lane Maintenance Contract

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

The Vendor is responsible for lane maintenance to the Tollway's toll system. During our testing we noted the Tollway has not developed a reconciliation process to monitor the Vendor's performance relating to lane availability using the standards agreed upon within the contract. The contract (valued at approximately \$38 million) specifies penalties that can be applied in the event that minimum performance standards are not achieved. A reporting system is currently being developed to monitor the specific metrics relating to lane availability.

The contract between the Vendor and the Tollway states that the Vendor is required to provide system accuracy at a rate of 99.5% and each of the Host, VPS and IPASS Systems shall be available 99.0% on a monthly basis during operational business hours excluding "Permitted Down" time.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/1002) requires each State Agency to establish and maintain an effective system of internal control, which would include proper monitoring of contracts in accordance with their specific terms.

Tollway personnel stated that the HEAT (Helpdesk Expert Automation Tool) system [referred to in the contract], which will allow them to monitor performance, is still under development. In the absence of being able to use this system, the Tollway devised an alternate method to track performance.

The contract provides for penalties and disincentives based on the daily availability, which could offset any loss. Since no reconciliation exists to monitor and measure the lane availability for the current contract, issuance and collection of penalties, if appropriate, is compromised. (Finding Code No. 07-9)

Recommendation

We recommend the Tollway implement policies to measure the performance of the Vendor as specified under the terms of the contract.

Tollway Response

The Tollway will work to implement a system to routinely monitor lane maintenance performance.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – State Compliance

07-10 Report of Locally Held Funds

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

The amounts reported on the fourth quarter C-17 were not indicative of the final balances reflected in the December 2007 financial statements. Three locally held fund accounts were excluded from the fourth quarter report. In addition, one C-17 was filed with an investment balance at quarter-end which was subsequently removed from the general ledger and had a zero balance. The inaccurate fourth quarter C-17 reports had not been resubmitted with the actual numbers as of May 2008.

The State Comptroller Act (15 ILCS 405/16) indicates that the Comptroller shall prescribe the form and require the filing of quarterly fiscal reports by each State agency. "Within 30 days after the end of each quarter, or at such earlier time as the comptroller by rule requires, each State agency shall file with the comptroller the report of its receipts and collections during the preceding quarter, including receipts and collections of taxes and fees, funds and fund authorizations from sources other than appropriation by the General Assembly, gifts, grants and donations, and income from revenue producing activities or property of or under the control of the agency".

Tollway management stated that this was due to an oversight and that revised forms have been prepared, but not submitted to the Comptroller.

Failure to submit accurate information in the quarterly C-17's results in noncompliance with state statutes. (Finding Code No. 07-10)

Recommendation

We recommend the Tollway review their policies and procedures for ensuring that required forms are accurately filed with final adjusted balances.

Tollway Response

We concur. A corrected C-17 for the fourth quarter has since been submitted to the Comptroller.

Illinois State Toll Highway Authority

Schedule of Findings For the Year Ended December 31, 2007

Current Findings – State Compliance

07-11 Revenue Reconciliation Reports

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

The Office of the Comptroller provides each agency which has had activity during the month with certain reconciliation reports which are intended to allow the agency to compare its internal records with those of the Comptroller's. These reconciliation reports have been formulated to provide both parties (the agency and the Comptroller), assurance that the SAMS system is functioning properly and contains accurate information. During our review of the SB04 reconciliations for January, February and March 2007 we noted these reports were not reviewed and approved by management.

According to the Statewide Accounting Management System (SAMS) procedure 25.40.20, "This reconciliation is required to be performed monthly and the Comptroller's Office notified of any unreconcilable differences so that the necessary corrective action can be taken to locate the differences and correct the accounting records."

Additionally, strong internal controls require that accounts be reconciled and approved in a timely manner to detect fraud and correct errors and/or omissions.

Tollway management stated that this occurred due to an oversight.

Lack of timely reconciliations, and the related communication of errors to the Comptroller, could lead to the Comptroller relying on inaccurate accounting records. (Finding Code No. 07-11)

Recommendation

We recommend the Tollway review and approve all reconciliations in a timely manner.

Tollway Response

We concur.

Illinois State Toll Highway Authority

Schedule of Findings
For the Year Ended December 31, 2007

Prior Finding Not Repeated

Governmental Auditing Standards

07- 12 Lack of Detection Controls for Improper Transponder Use

The Illinois State Toll Highway Authority (Tollway) did not have the proper internal controls in place to classify all I-Pass transactions properly in some of the lanes.

During our review of the internal controls, we noted that all I-Pass lanes had been properly equipped in order to accurately report all transactions. (Finding Code No. 06-3, 05-2, 04-3, 03-6, 02-7)

Illinois State Toll Highway Authority

December 31, 2007

Financial Statement Report

Summary

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

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

Note: The Independent Auditors' Report and Financial Statements as of and for the year ended December 31, 2006 were previously issued under separate cover. The report dated September 12, 2007 was issued by McGladrey & Pullen, LLP as Special Assistant Auditors to the Auditor General and is incorporated herein by reference.

McGladrey & Pullen

Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the Illinois State Toll Highway Authority, a component unit of the State of Illinois, as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Illinois State Toll Highway Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2008 on our consideration of the Illinois State Toll Highway Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 30-40 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information as listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Schaumburg, Illinois
August 7, 2008

**Illinois State Toll Highway Authority
Management's Discussion and Analysis
December 31, 2007 and 2006**

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 years ended December 31, 2007 and 2006. Readers should use this section of this report in conjunction with the Tollway's basic financial statements.

2007 FINANCIAL HIGHLIGHTS

- In 2007 the Illinois Tollway continued the work of its Congestion-Relief Program and in November the 12.5 mile extension of I-355 south to I-80 was opened. This road, the South Extension consists of six lanes and runs through 13 municipalities or townships in three counties. As a result of its opening, economic development along this road is accelerating.
- The Congestion-Relief Program, initiated in 2004, underwent a complete reassessment during 2007. As a result, and after consultation with local municipalities, a number of its projects were modified or enhanced. As well, due to some increased material and construction costs, the budgets for remaining projects were re-evaluated and in some cases increased. Finally, significant additions were made to the program to address additional portions of the system and to provide access improvements to the Tollway. Thus the program's schedule was lengthened by two years, to now end in 2016, and its overall budget was increased by approximately \$1 billion to \$6.3 billion. Through year-end 2007 outlays were as follows:

<u>In billions</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Total</u>
Contract \$ awarded	\$1.084	\$1.038	\$1.107	\$3.229
Contract \$ paid out	\$1.100	\$1.030	\$0.566	\$2.696

- The fourth and fifth series of toll revenue bonds (2007 Series A-1 and 2007 Series A-2, each in the amount of \$350,000,000) in support of the Congestion-Relief Program were issued. These issues total \$700,000,000 in par amount and carry an average interest rate of 3.98% based on variable-to-fixed interest rate exchange agreements associated with the bonds. Principal retirements are scheduled to begin in 2024 and continue through 2030. The bonds fund a portion of the projects in the Congestion-Relief Program.

Amounts on deposit on behalf of I-PASS account holders decreased by 2.3% in 2007 to \$108.9 million as the result of a program change that allows related parties to share prepaid balances; the percentage of Tollway users paying by I-PASS was 79.7% at the end of 2007 (versus 78.4% at the end of 2006).

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.

NOTES TO THE FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS

OPERATING REVENUE:

2007 RESULTS COMPARED TO 2006

This year the Tollway's operating revenues showed a small, 4%, increase of \$23.3 million over last year, rising from \$585.1 million to \$608.4 million in 2007. The largest component of this increase was an additional \$18.0 million of toll evasion recovery revenue which totaled \$29.7 million, up from \$11.7 million; this 154% increase came from the implementation of a new violation enforcement system during the year. The Tollway's largest source of revenue, from tolls, increased just under 1%, \$4.6 million, to \$572.1 million, up from \$567.5 million last year. Concession revenue climbed \$757,000 to \$3.8 million and miscellaneous operating revenues were flat at \$2.8 million.

2006 RESULTS COMPARED TO 2005

In 2006, total Tollway operating revenue was off slightly from the previous year, declining by 4.4%, or \$27 million, to \$585 million. Toll revenue is the largest single component of operating revenue and for 2006 it registered only a small decline to \$567 million (down 2.2%, \$13 million, from \$580 million in 2005) as a result of more I-PASS usage, more widespread construction on Tollway roads, and conversion to a new electronic toll collection and violation enforcement systems. Those who pay tolls with I-PASS pay at a rate discounted up to 50% from the cash rate, a tremendous incentive in favor of electronic toll payment. I-PASS usage in 2006 averaged 78.4%, an increased percentage from 74% in 2005, and this change no doubt contributed to the slight revenue decline. Also, during 2006 the Tollway's Congestion-Relief Program focused heavily on conversion of all mainline toll plazas to Open Road Tolling, from barrier-style lanes. This work was completed in October and was performed throughout the system all year through that time, possibly contributing to lower usage and thus lower revenue on the roads overall.

A larger factor in the year over year revenue decline was toll evasion recovery which equaled \$11.7 million in 2006, down \$15 million from \$26.7 million in 2005, as the result of a change in the software and the vendor used to capture violations and issue notices to violators. A three-year contract with the previous vendor expired in 2006 but implementation of the replacement system was delayed during the second half of the year to allow for continued development and testing. Delayed notices related to 2006 violations are expected to be issued by the replacement system in 2007.

Other categories of operating revenue, from concessions and miscellaneous sources, showed small increases over 2005; up \$840,000 in total to just shy of \$6 million for the year.

OPERATING EXPENSES:

2007 RESULTS COMPARED TO 2006

Expenses other than depreciation increased by 15% in 2007, rising from \$219.3 million to \$252.5 million, due largely to an increase of \$22.4 million in the provision for the uncertain collectability of various receivables. Additionally outlays increased for labor, salt, sand, and fuel required to respond to higher than average snowfalls. Thirty Illinois State Police troopers were hired mid-year and trained for Tollway duty; this net increase in State Police assigned to the Tollway's District 15 was required to patrol the 12.5 miles of the I-355 South Extension opened last year.

**Illinois State Toll Highway Authority
Management's Discussion and Analysis
December 31, 2007 and 2006**

Depreciation and amortization expense for the year, \$214 million, was steady at 46% of total operating expense. Depreciation expense equaled \$186 million in 2006.

As a result of these expense activities, operating income declined \$38 million, from \$180 million to \$142 million.

2006 RESULTS COMPARED TO 2005

Expenses other than depreciation increased slightly, by 1.6%, \$3.5 million, in 2006 over 2005, totaling \$219 million for the year. Within the categories of expense there were some broader changes: Insurance and Employee Benefit outlays increased by almost \$5 million, 11% over 2005, to \$50 million in 2006, primarily as the result of increased costs for workers' compensation claims. Amounts paid for Procurement, Finance, IT, and Administration declined 9%, \$2 million, to \$20 million due to the 2006 reclassification of some insurance expenses from Finance to Employee Benefits. Expenses for Service and Toll Collection were virtually unchanged from 2005. Other cash operating expenses were virtually unchanged from last year.

Depreciation expense, a non-cash item, increased significantly by 22%, \$34 million to \$186 million in 2006, as a result of a 400% increase in infrastructure placed in service during 2006. With the completion of the Tollway's Open Road Tolling initiative in late 2006, \$918 million of infrastructure was added to the Tollway's depreciable asset base, far in excess of the \$181 million of projects completed and placed in service in 2005.

Therefore, overall operating expense grew to \$406 million, up 10%, \$38 million, with \$34 million of this increase a non-cash expense for depreciation. The increased charges for workers' compensation and depreciation led to reduced operating income, year-over-year, of \$180 million, a 27%, \$64 million decrease, from 2005.

NON-OPERATING REVENUE AND EXPENSE:

2007 RESULTS COMPARED TO 2006

Of non-operating revenues, investment income is the largest component at \$72 million this year, down slightly from \$75 million last year, because of lower average balances in cash and investments (the Tollway has been spending down invested bond proceeds borrowed to fund its Congestion-Relief Program) and an environment of declining investment rates. Also as a result of declining rates, the Tollway booked a \$3.3 million increase in the fair value of investments it held versus a \$2.5 million decline the previous year when rates rose on average.

The Tollway's largest non-operating expense is for interest and the amortization of other financing costs. For 2007 these costs totaled \$121 million, up 29% from \$94 million spent in 2006. The Tollway has financed about 40% of its Congestion-Relief Program outlays through the issuance of a total of \$2.47 billion of bonds in 2005, 2006, and 2007. At year-end 2007, bonds outstanding had increased by approximately \$650 million over the previous year-end, leading to the higher charge for financing.

Again in 2007 the Tollway recorded a loss on the disposal of machinery and equipment: this year \$8.5 million and last year \$2.2 million. These are non-cash operating expenses caused by imperfect estimates of the equipment's depreciable lives. If equipment is used exactly for the depreciable life initially chosen for the item and has no further salvage value at disposal, there is neither a gain nor a loss to book at its retirement. But if the estimated life is either too short or too long, a gain or loss results. In addition this year, a \$12 million miscellaneous expense was incurred, versus \$5.8 million of miscellaneous revenue in 2006, which comprised the non-cash adjustment of various balance sheet items to proper amounts in each of the years.

2007 RESULTS COMPARED TO 2006 (CONTINUED):

The net of both operating and non-operating revenue and expense for 2007 was a \$76 million increase in net assets versus a \$162 million increase in 2006. The smaller increase was primarily the result of 1) a \$33 million increase in departmental operating expenses (weather-related and administrative); 2) a \$28 million rise in depreciation expense (the result of the completion of capital projects); and 3) additional financing costs of \$28 million (because of increased levels of revenue bonds outstanding).

2006 RESULTS COMPARED TO 2005

In 2006 these non-operating revenue and non-operating expense items netted to an \$18 million expense, a 45% improvement over 2005's net \$32 million non-operating expense total. The components in this category are primarily investment income and interest expense and other financing costs.

Investment income jumped by 131% over 2005's result to \$75 million from \$32 million the previous year. During 2006, the Tollway issued \$1 billion in revenue bonds, continuing the funding plan for its Congestion-Relief Program, and also added to its debt service reserves in respect of this bond issue and to its reserve for risk management claims. The total result was a \$377 million positive change in cash balances over year-end 2005, a 32% rise. Additionally, market rates earned on cash investments during 2006 ranged from 100 – 200 basis points higher than in 2005, contributing positively to investment income. Also in 2006 the Tollway booked about \$5 million in miscellaneous income from gains on the sales of capital assets and from other various sources.

Interest expense and other financing costs rose with the \$1 billion increase in bonds, reaching a total of \$94 million, up 49% from \$63 million in 2005.

The final result for 2006 was a lesser increase in net assets, at \$162 million, a 24% decline from the 2005 increase of \$212 million.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
CHANGES IN NET ASSETS
For the Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Revenues			
Operating Revenues:			
Toll Revenue	\$ 572,092,902	\$ 567,499,808	\$ 580,441,697
Toll Evasion Recovery	29,738,604	11,695,274	26,737,437
Concessions	3,788,756	3,031,576	2,790,847
Miscellaneous	2,819,131	2,868,573	2,266,957
Nonoperating Revenues:			
Investment income	71,944,878	74,738,940	32,298,872
Net change in fair value of investments	3,297,367	(2,471,262)	(2,092,025)
Net gain (loss) on disposal of property	(8,491,090)	(2,240,196)	175,863
Miscellaneous	-	5,751,428	-
Total Revenues	675,190,548	660,874,141	642,619,648
Expenses			
Operating Expenses:			
Engineering and Maintenance of Roadway and Structures	44,833,917	35,261,319	34,886,799
Services and Toll Collection	109,772,100	95,662,840	96,196,860
Traffic Control, Safety Patrol, and Radio Communications	21,246,925	18,743,387	18,034,485
Procurement, IT, Finance, and Administration	24,261,781	19,983,865	22,018,346
Insurance and Employee Benefits	52,414,462	49,640,432	44,659,657
Depreciation and Amortization	213,980,232	186,283,372	152,195,010
Nonoperating Expenses:			
Interest expense and amortization of financing costs	121,131,025	93,613,153	62,796,040
Miscellaneous	11,461,519	-	-
Total Expenses	599,101,961	499,188,368	430,787,197
Increase in Net Assets	76,088,587	161,685,773	211,832,451
Net Assets, beginning of year	1,933,636,342	1,771,950,569	1,560,118,118
Net Assets, end of year	\$ 2,009,724,929	\$ 1,933,636,342	\$ 1,771,950,569

NET ASSETS:

2007 RESULTS COMPARED TO 2006

Total assets of the Tollway increased significantly as a result of 2007 financial activity, up 15% for the year, \$742 million, to reach \$5.6 billion at year's end. The increase is attributable to increases in capital assets during the year, as a result of the Tollway's Congestion-Relief Program and the related construction underway and completed during the year. Total capital assets net of depreciation increased 28%, or \$860 million, reaching a total of \$3.96 billion at year's end, up from \$3.1 billion a year earlier. Conversely, total current assets declined over the year, down \$117 million, 6.7%, primarily because of the use of both restricted and unrestricted cash to fund a portion of the construction program. Unrestricted cash and cash equivalents contributed \$115 million of cash to the construction program; restricted cash in the construction fund contributed \$50 million toward the construction program. All of these cash flows were in accordance with the Tollway's funding plan for the Congestion-Relief Program.

Most of the \$742 million increase in assets was matched this year by a \$666 million increase in total liabilities, the result of a \$653 million increase in revenue bonds payable. In November 2007, the Tollway issued \$700 million of bonds to finance a portion of Congestion-Relief Program activities.

2006 RESULTS COMPARED TO 2005

Tollway total assets increased 34%, by \$1.2 billion during the 2006 year, to an amount just shy of \$5 billion at year-end. About 29% of the increase was seen in current assets, with the remainder in non-current assets, 99% of which are capital assets. This increase occurred despite a \$14 million decrease in Toll Evasion Recovery. The growth in capital assets showed the effect of the Congestion-Relief Program; construction under this program ramped up significantly during 2006. The current asset increase, \$386 million, came from larger amounts of cash: in reserves for risk management claims; in construction funds awaiting expenditure; and from increased debt service reserves, related to incremental bond issuances.

Total Tollway liabilities increased \$1.062 billion during 2006, largely as a result of the \$1 billion bond issue. The single largest other change in liabilities was a \$35 million increase in retainages, reflective of the large number of construction projects underway throughout and at the end of 2006.

Total net assets increased by \$162 million during the year and equaled \$1.9 billion at December 31, 2006.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2007, 2006 and 2005

	2007	2006	2005
Current and other assets	\$ 1,656,079,800	\$ 1,774,056,501	\$ 1,385,030,217
Capital assets - net	3,957,223,487	3,096,854,036	2,262,248,823
Total assets	<u>5,613,303,287</u>	<u>4,870,910,537</u>	<u>3,647,279,040</u>
Current debt outstanding	50,030,000	49,916,807	47,308,867
Long-term debt outstanding	3,064,495,455	2,419,634,412	1,432,095,268
Other liabilities	489,052,903	467,722,976	395,924,336
Total Liabilities	<u>3,603,578,358</u>	<u>2,937,274,195</u>	<u>1,875,328,471</u>
Net Assets:			
Invested in capital assets, net of related debt	1,503,127,149	1,337,313,700	1,355,863,781
Restricted	288,359,204	249,169,152	167,271,355
Unrestricted	218,238,576	347,153,490	248,815,433
Total Net Assets	<u>\$ 2,009,724,929</u>	<u>\$ 1,933,636,342</u>	<u>\$ 1,771,950,569</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS:

2007 RESULTS COMPARED TO 2006

The Tollway added \$1.07 billion in capital assets in 2007; in 2006, the additions totaled \$1.02 billion. These are the results of the Congestion-Relief Program, which is into its third year of construction. Of additions in 2007, the bulk of outlays, 87%, \$931 million were devoted to infrastructure. This result nearly mirrored 2006 investments in infrastructure. In total the Tollway shows a \$3.9 billion net investment in capital assets at year-end 2007, up from \$3.1 billion a year earlier.

2006 RESULTS COMPARED TO 2005

As of December 31, 2006 and 2005 respectively, the Tollway owned \$3.097 billion and \$2.262 billion in capital assets, net of accumulated depreciation, of which 71% and 65% was infrastructure. The remainder consists of land, construction in progress, machinery and equipment, and buildings.

Illinois State Toll Highway Authority
Management's Discussion and Analysis
December 31, 2007 and 2006

IILLINOIS STATE TOLL HIGHWAY AUTHORITY
CAPITAL ASSETS

For the Years Ended December 31, 2007, 2006 and 2005

	January 1, 2007 Net Balance	2007 Net Activity	2007 Depreciation	December 31, 2007 Net Balance
Land	\$ 272,467,772	\$ 10,209,167	\$ -	\$ 282,676,939
Construction in Progress	549,346,788	110,984,578	-	660,331,366
Buildings	12,704,575	214,594	(1,986,150)	10,933,019
Infrastructure	2,214,772,638	931,454,114	(204,607,917)	2,941,618,835
Machinery and Equipment	47,562,263	21,487,230	(7,386,165)	61,663,328
Total	\$ 3,096,854,036	\$ 1,074,349,683	\$ (213,980,232)	\$ 3,957,223,487
	January 1, 2006 Net Balance	2006 Net Activity	2006 Depreciation	December 31, 2006 Net Balance
Land	\$ 197,433,642	\$ 75,034,130	\$ -	\$ 272,467,772
Construction in Progress	540,620,699	8,726,089	-	549,346,788
Buildings	11,671,040	2,908,855	(1,875,320)	12,704,575
Infrastructure	1,462,364,162	918,920,710	(166,512,234)	2,214,772,638
Machinery and Equipment	50,159,280	15,298,801	(17,895,818)	47,562,263
Total	\$ 2,262,248,823	\$ 1,020,888,585	\$ (186,283,372)	\$ 3,096,854,036
	January 1, 2005 Net Balance (Restated)	2005 Net Activity	2005 Depreciation	December 31, 2005 Net Balance
Land	\$ 194,814,195	\$ 2,619,447	\$ -	\$ 197,433,642
Construction in Progress	182,362,914	358,257,785	-	540,620,699
Buildings	13,466,585	-	(1,795,545)	11,671,040
Infrastructure	1,412,964,424	181,628,653	(132,228,915)	1,462,364,162
Machinery and Equipment	47,676,835	20,652,995	(18,170,550)	50,159,280
Total	\$ 1,851,284,953	\$ 563,158,880	\$ (152,195,010)	\$ 2,262,248,823

LONG -TERM DEBT:

2007 RESULTS COMPARED TO 2006

The Tollway issued the next in its series of revenue bonds backed by pledged revenue and restricted funds in order to finance its Congestion-Relief Program in November 2007. The issue totaled \$700 million. Total revenue bonds payable as of December 31, 2007, were just over \$3 billion. See Note 7 for detailed information about these debt issues. Also during 2007, all of the Tollway's capital lease obligations were satisfied either through scheduled payments or, in one case, a negotiated early termination.

2006 RESULTS COMPARED TO 2005

The Tollway has issued several series of revenue bonds backed by pledged revenue and restricted funds as specified in its Trust Indenture. In June 2006, the Tollway issued the 2006 Series A-1 and Series A-2 bonds totaling \$1 billion par value of fixed-rate Senior Priority Revenue Bonds. These bonds were issued in order to finance a portion of the Congestion-Relief Program. The total revenue bonds payable as of December 31, 2006 was approximately \$2.4 billion. See Notes 7 and 9 for more information. The total amounts of capital leases payable as of December 31, 2006, were approximately \$4 million as compared to \$ 2.3 million at December 31, 2005. See Note 6 for more information.

OTHER DEBT RELATED INFORMATION

The 1993 Series B, 1998 Series B and 2007 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 seven variable-to-fixed interest rate exchange (swap) agreements in total notional amounts and with amortizations equal to the total principal amounts and amortizations of the Tollway's three variable rate bond issues. One swap agreement is associated with the 1993 Series B bonds, in an original amount of \$178.2 million, \$114.8 million of which is outstanding as of December 31, 2007. 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, 2007. 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, 2007. The Tollway utilized these seven 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 7 of the financial statements.

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

The Tollway's financial advisor has performed this calculation based upon forward rates and discounted cash flows. As of December 31, 2007, fair market value analysis of the swap agreements determined that if the Tollway had terminated the swap contracts on that date, the Tollway would have been required to make a payment of: \$3.4 million for the 1993 Series B swap agreement; a total of \$9.6 million for the two 1998 Series B swap agreements; and a total of \$19.8 million for the four 2007 Series A-1 and A-2 swap agreements.

The amount of additional bonds that the Tollway may issue at any time is limited by the requirement that the projected net revenues are sufficient to meet the Net Revenue Requirement, after giving effect to the debt service attributable to such additional bonds. The Net Revenue Requirement is comprised of the amount necessary to cure deficiencies, if any, in all debt service accounts and debt reserve accounts established under the Trust Indenture, plus the greater of (i) the sum of Aggregate Debt Service on Senior Bonds, the Junior Bond Revenue Requirement, and the Renewal and Replacement Deposit for such period, or (ii) 1.3 times the Aggregate Debt Service on Senior Bonds for such period (all capitalized terms as defined in the Trust Indenture). The revenue bond coverage ratio for 2007 was 2.523 times aggregate debt service.

Illinois State Toll Highway Authority
Management's Discussion and Analysis
December 31, 2007 and 2006

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
LONG TERM DEBT ANALYSIS
December 31, 2007, 2006 and 2005

	2007		
	Noncurrent	Current	Total
Revenue Bonds Payable			
Issue of 1992 Series A	\$ 100,665,000	\$ -	\$ 100,665,000
Issue of 1993 Series B	80,500,000	34,300,000	114,800,000
Issue of 1996 Series A	15,625,000	14,745,000	30,370,000
Issue of 1998 Series A	195,140,000	985,000	196,125,000
Issue of 1998 Series B	123,100,000	-	123,100,000
Issue of 2005 Series A	770,000,000	-	770,000,000
Issue of 2006 Series A-1	500,000,000	-	500,000,000
Issue of 2006 Series A-2	500,000,000	-	500,000,000
Issue of 2007 Series A-1	350,000,000	-	350,000,000
Issue of 2007 Series A-2	350,000,000	-	350,000,000
Total Rev. Bonds Payable	2,985,030,000	50,030,000	3,035,060,000
Total Long-Term Debt	\$ 2,985,030,000	\$ 50,030,000	\$ 3,035,060,000
	2006		
	Noncurrent	Current	Total
Revenue Bonds Payable			
Issue of 1992 Series A	\$ 100,665,000	\$ -	\$ 100,665,000
Issue of 1993 Series B	114,800,000	32,500,000	147,300,000
Issue of 1996 Series A	30,370,000	13,905,000	44,275,000
Issue of 1998 Series A	196,125,000	945,000	197,070,000
Issue of 1998 Series B	123,100,000	-	123,100,000
Issue of 2005 Series A	770,000,000	-	770,000,000
Issue of 2006 Series A-1	500,000,000	-	500,000,000
Issue of 2006 Series A-2	500,000,000	-	500,000,000
Total Rev. Bonds Payable	2,335,060,000	47,350,000	2,382,410,000
Capital Lease Obligations			
Integrated Toll Collection System	1,448,743	2,566,807	4,015,550
Total Long-Term Debt	\$ 2,336,508,743	\$ 49,916,807	\$ 2,386,425,550

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
LONG TERM DEBT ANALYSIS (Continued)
December 31, 2007, 2006 and 2005

	2005		
	Noncurrent	Current	Total
Revenue Bonds Payable			
Issue of 1992 Series A	\$ 100,665,000	\$ -	\$ 100,665,000
Issue of 1993 Series B	147,300,000	30,900,000	178,200,000
Issue of 1996 Series A	44,275,000	13,225,000	57,500,000
Issue of 1998 Series A	197,070,000	910,000	197,980,000
Issue of 1998 Series B	123,100,000	-	123,100,000
Issue of 2005 Series A	770,000,000	-	770,000,000
Total Rev. Bonds Payable	1,382,410,000	45,035,000	1,427,445,000
Capital Lease Obligations			
Integrated Toll Collection System	4,015,550	2,273,867	6,289,417
Total Long-Term Debt	\$ 1,386,425,550	\$ 47,308,867	\$ 1,433,734,417

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

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
 Statements of Net Assets
 December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
CURRENT UNRESTRICTED ASSETS		
Cash and Cash Equivalents	\$ 438,306,545	\$ 553,378,025
Accounts Receivable, less allowance for doubtful accounts of \$50,110,754 and \$28,427,407 in 2007 and 2006, respectively	25,779,142	24,322,497
Intergovernmental Receivables	11,752,789	1,439,431
Accrued Interest Receivable	587,992	171,628
Current Portion of Leases Receivable, less allowance for doubtful accounts of \$681,805 in 2007 and \$0 in 2006	1,601,223	1,643,250
Risk Management Reserved Cash	10,993,436	8,686,324
Other Prepaid Expenses	9,799,766	13,310,678
Total Current Unrestricted Assets	<u>498,820,893</u>	<u>602,951,833</u>
CURRENT RESTRICTED ASSETS		
Cash and Cash Equivalents Restricted for Debt Service	207,329,644	148,776,433
Cash and Investments - I-PASS Accounts	108,865,464	111,434,388
Investments Restricted for Debt Service, at fair value	140,089,282	142,146,867
Accrued Interest Receivable	3,930,744	21,151,321
Cash and Cash Equivalents - Construction	660,429,117	710,010,883
Pension Benefit Assets	424,772	440,155
Total Current Restricted Assets	<u>1,121,069,023</u>	<u>1,133,960,047</u>
Total Current Assets	<u>1,619,889,916</u>	<u>1,736,911,880</u>
NONCURRENT ASSETS		
CAPITAL ASSETS		
Land, Improvements and Construction in Progress	943,008,305	821,814,560
Other Capital Assets, net of Accumulated Depreciation	3,014,215,182	2,275,039,476
Total Capital Assets, net	<u>3,957,223,487</u>	<u>3,096,854,036</u>
OTHER NONCURRENT ASSETS		
Leases Receivable, less current portion	25,572,754	27,176,899
Deferred Bond Issuance Costs, net of accumulated amortization of \$16,774,032 and \$15,972,036 in 2007 and 2006, respectively	10,617,130	9,967,722
Total Other Noncurrent Assets	<u>36,189,884</u>	<u>37,144,621</u>
Total Noncurrent Assets	<u>3,993,413,371</u>	<u>3,133,998,657</u>
TOTAL ASSETS	<u>\$ 5,613,303,287</u>	<u>\$ 4,870,910,537</u>

See accompanying notes to the financial statements.

Illinois State Toll Highway Authority
 Statements of Net Assets
 December 31, 2007 and 2006

LIABILITIES AND NET ASSETS	2007	2006
LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Current Assets:		
Accounts Payable	\$ 25,404,871	\$ 14,668,411
Accrued Liabilities	165,228,441	148,443,598
Accrued Compensated Absences	3,625,756	3,300,000
Current Portion of Capital Lease Obligations	-	2,566,807
Risk Management Claims Payable	10,688,930	8,618,373
Deposits and Retainage	65,925,871	69,084,120
Total Current Liabilities Payable from Unrestricted Current Assets	<u>270,873,869</u>	<u>246,681,309</u>
Payable from Current Restricted Assets:		
Pension Benefit Obligation	40,720	76,035
Current Portion of Revenue Bonds Payable	50,030,000	47,350,000
Accrued Interest Payable	63,374,518	63,269,589
Deposits and Deferred Revenue - I-PASS Accounts	108,865,464	111,434,388
Total Current Liabilities Payable from Current Restricted Assets	<u>222,310,702</u>	<u>222,130,012</u>
Total Current Liabilities	<u>493,184,571</u>	<u>468,811,321</u>
NONCURRENT LIABILITIES		
Revenue Bonds Payable, less current portion	2,985,030,000	2,335,060,000
Bond Premium, less deferred amount on refunding	79,465,455	83,125,669
Accrued Compensated Absences	2,625,547	2,400,000
Capital Lease Obligations, less current portion	-	1,448,743
Deferred Revenue, less accumulated amortization of \$17,628,753 and \$14,473,076 in 2007 and 2006, respectively	43,272,785	46,428,462
Total Noncurrent Liabilities	<u>3,110,393,787</u>	<u>2,468,462,874</u>
Total Liabilities	<u>3,603,578,358</u>	<u>2,937,274,195</u>
NET ASSETS		
Invested in Capital Assets, net of Related Debt	1,503,127,149	1,337,313,700
Restricted	288,359,204	249,169,152
Unrestricted	218,238,576	347,153,490
Total Net Assets	<u>2,009,724,929</u>	<u>1,933,636,342</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,613,303,287</u>	<u>\$ 4,870,910,537</u>

See accompanying notes to the financial statements.

Illinois State Toll Highway Authority
 Statements of Revenues, Expenses and Changes in Net Assets
 For the Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Toll Revenue	\$ 572,092,902	\$ 567,499,808
Toll Evasion Recovery	29,738,604	11,695,274
Concessions	3,788,756	3,031,576
Miscellaneous	2,819,131	2,868,573
Total Operating Revenues	<u>608,439,393</u>	<u>585,095,231</u>
OPERATING EXPENSES		
Engineering and Maintenance of Roadway and Structures	44,833,917	35,261,319
Services and Toll Collection	109,772,100	95,662,840
Traffic Control, Safety Patrol and Radio Communications	21,246,925	18,743,387
Procurement, IT, Finance, and Administration	24,261,781	19,983,865
Insurance and Employee Benefits	52,414,462	49,640,432
Depreciation and Amortization	213,980,232	186,283,372
Total Operating Expenses	<u>466,509,417</u>	<u>405,575,215</u>
Operating Income	<u>141,929,976</u>	<u>179,520,016</u>
NONOPERATING REVENUES (EXPENSES)		
Investment Income	71,944,878	74,738,940
Net Increase (Decrease) in Fair Value of Investments	3,297,367	(2,471,262)
Net Loss on Disposal of Property	(8,491,090)	(2,240,196)
Interest Expense and Amortization of Financing Costs	(121,131,025)	(93,613,153)
Miscellaneous Income (Expense)	(11,461,519)	5,751,428
Total Nonoperating Revenues (Expenses)	<u>(65,841,389)</u>	<u>(17,834,243)</u>
INCREASE IN NET ASSETS	76,088,587	161,685,773
NET ASSETS AT BEGINNING OF YEAR	<u>1,933,636,342</u>	<u>1,771,950,569</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,009,724,929</u>	<u>\$ 1,933,636,342</u>

See accompanying notes to the financial statements.

Illinois State Toll Highway Authority
 Statements of Cash Flows
 For the Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Sales and Services	\$ 565,569,266	\$ 639,014,310
Cash Payments to Suppliers	(80,827,677)	(125,174,751)
Cash Payments to Employees	(125,665,438)	(91,929,311)
Net Cash Provided by Operating Activities	<u>359,076,151</u>	<u>421,910,248</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
ACTIVITIES		
Acquisition and Construction of Capital Assets	(1,089,112,549)	(1,023,183,781)
Proceeds from Sale of Property	6,271,776	55,000
Proceeds from Sale of Bonds	700,000,000	1,000,000,000
Premium for Sale of Bonds	-	40,019,000
Principal paid on Capital Leases	(4,015,550)	(2,273,867)
Principal paid on Revenue Bonds	(47,350,000)	(45,035,000)
Interest Expense and Financing Costs paid on Revenue Bonds	(125,335,718)	(74,338,771)
Net Cash Used in Capital and Related Financing Activities	<u>(559,542,041)</u>	<u>(104,757,419)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous Income	-	5,751,428
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities	(109,990,950)	(113,234,781)
Proceeds from Sales and Maturities of Investments	115,345,902	57,113,085
Interest on Investments	88,749,091	56,976,059
Net Cash Provided by Investing Activities	<u>94,104,043</u>	<u>854,363</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(106,361,847)	323,758,620
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,532,286,053</u>	<u>1,208,527,433</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,425,924,206</u>	<u>\$ 1,532,286,053</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 438,306,545	\$ 553,378,025
Cash and Cash Equivalents Restricted for Debt Service	207,329,644	148,776,433
Cash and Cash Equivalents Restricted for Construction	660,429,117	710,010,883
Cash and Investments - I-PASS Accounts	108,865,464	111,434,388
Risk Management Reserved Cash	10,993,436	8,686,324
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,425,924,206</u>	<u>\$ 1,532,286,053</u>

See accompanying notes to the financial statements.

(Continued)

Illinois State Toll Highway Authority
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2007 and 2006

	2007	2006
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating Income	\$ 141,929,976	\$ 179,520,016
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities:		
Depreciation and Amortization	213,980,232	186,283,372
Provision for Bad Debt	23,863,446	12,775,995
Amortization of Deferred Revenue	(3,155,677)	(2,739,461)
Miscellaneous Expense	(11,461,519)	-
Effects of Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(25,320,091)	1,345,637
(Increase) Decrease in Intergovernmental Receivables	(10,313,358)	3,084,794
Decrease in Lease Receivable	1,646,172	1,643,250
(Increase) Decrease in Prepaid Expenses	3,510,912	(8,341,184)
Decrease in Net Assets Available for Pension Benefits	15,383	22,402
Increase (Decrease) in Accounts Payable	10,736,460	(2,927,736)
Increase (Decrease) in Accrued Liabilities	16,784,843	(2,247,224)
Increase in Accrued Compensated Absences	551,303	653,359
(Decrease) in Pension Obligation	(35,315)	(37,980)
Increase (Decrease) in Deposits and Retainage	(3,158,249)	35,470,672
Increase (Decrease) in Deposits and Deferred Revenue - I-PASS	(2,568,924)	15,114,187
Increase in Risk Management Claims Payable	2,070,557	2,290,149
Net Cash Provided by Operating Activities	<u>\$ 359,076,151</u>	<u>\$ 421,910,248</u>

The fair value of investments increased by \$1,634,270 in 2007 and decreased by \$1,645,236 in 2006.

The interest paid on revenue bonds was \$121,071,159 and \$52,268,225 in 2007 and 2006, respectively.

See accompanying notes to the financial statements.

Illinois State Toll Highway Authority

Notes to the Financial Statements December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

Component units are separate legal entities for which the primary government is legally accountable. The Tollway is a component unit of the State of Illinois for financial reporting purposes because exclusion would cause the State's financial statements to be incomplete. The governing body of the Tollway is an 11 member Board of Directors of which 9 members are appointed by the Governor with the advice and consent of the Illinois Senate. The Governor and the Secretary of the Illinois Department of Transportation are also members of the Tollway's Board of Directors. These financial statements are included in the State's comprehensive annual financial report and the State's separately issued basic financial statements. The Tollway itself does not have any component units.

Basis of Accounting

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

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

Illinois State Toll Highway Authority

Notes to the Financial Statements December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

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

Investments

The Tollway reports investments at fair value in its Statement of Net Assets with the corresponding changes in fair value being recognized as an increase or decrease to non-operating revenue in the Statement of Revenues, Expenses and Changes in Net Assets.

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

All investments in U.S. Treasury and agency issues held by the Tollway are reported at fair value. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between willing parties, rather than in a forced or liquidation sale. Fair value for the investment in Illinois Funds (a state-operated money market fund, sponsored by the Illinois State Treasurer in accordance with Illinois state law that is rated AAA by Standard & Poor's rating agency and consists of government securities that are invested for 60 days or less) 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 Illinois State Treasurer are invested in U.S. Treasury and agency issues at the direction of the Tollway. All other Tollway investments which consist of repurchase agreements 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. The Tollway was in compliance with this restriction for the years ended December 31, 2007 and 2006.

Accounts Receivable

The Tollway's accounts receivable consists of various toll charges and amounts due from individuals, commercial and other entities. A provision for doubtful accounts has been recorded for the estimated uncollectible amounts. Bad debt expense is recorded as a component of service and toll collection expense.

Prepaid Expenses and Inventory

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

Illinois State Toll Highway Authority

Notes to the Financial Statements December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets include the historical cost of land and improvements, roadway and structures (infrastructure), buildings and related improvements, and equipment. Expenses for the maintenance and repairs of the roadway and 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. Effective July 1, 2004, machinery and equipment expenses of \$5,000 or more are capitalized. Depreciation and amortization are computed using the straight-line method based on estimated useful lives, as follows:

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

During fiscal year 2007 the Tollway re-evaluated estimated useful lives for machinery and equipment and updated some estimates. The effect of this evaluation was a depreciation expense decrease of approximately \$4.5 million between 2007 and 2006.

Accounting for Leases

A distinction is made between 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 operating leases under which the lessor effectively retains all such risks and benefits.

Tollway as lessee – assets acquired under capital leases are included as capital assets in the Statement of Net Assets. Assets acquired under capital leases are recorded at the lesser of the present value of the future minimum lease payments, or the fair value of the asset, at the beginning of the lease term and depreciated on a straight-line basis to the Statement of Revenues, Expenses and Changes in Net Assets, over the useful life of the asset. A corresponding liability is established and minimum lease payments are allocated between the liability and interest expense. Capital lease liabilities are classified as current and noncurrent, depending on when the principal component of the lease payment is due.

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

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Bond Issuance Costs

Costs incurred in connection with the issuance of the 1992 Series A, 1993 Series A and B, 1996 Series A, 1998 Series A and B, 2005 Series A, 2006 Series A-1 and Series A-2, and 2007 Series A-1 and Series A-2 bonds are amortized over the lives of the bonds, using the straight-line method.

Debt Refunding

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

Deferred Revenue

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

Net Assets

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

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

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

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

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

Toll Revenue

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

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Use of Estimates in Preparing Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that an institution holding Tollway deposits may fail and expose the Tollway to a loss if the Tollway's deposits are not returned. 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, 2007, the Tollway's deposits were not exposed to custodial credit risk.

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Schedule of Investments

As of December 31, 2007, the Tollway had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	6 - 10
Repurchase agreements	\$ 409,343,320	\$ 409,343,320	\$ -	\$ -
Certificates of Deposit	11,265,000	11,265,000	-	-
Money market funds*	867,758,761	867,758,761	-	-
Illinois Funds*	59,185,617	59,185,617	-	-
US Agency:				
Resolution Funding Corporation	15,965,938	15,965,938	-	-
Federal National Mortgage Association	7,596,075	-	7,596,075	-
Federal Home Loan Bank	41,851,603	27,521,150	14,330,453	-
Federal Home Loan Mortgage Corp	10,086,750	-	10,086,750	-
Federal Farm Credit Bank	787,979	787,979	-	-
US Treasury Note	116,532,237	58,489,353	58,042,884	-
	<u>\$ 1,540,373,280</u>	<u>\$ 1,450,317,118</u>	<u>\$ 90,056,162</u>	<u>\$ -</u>

* Weighted average maturity is less than one year.

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2006, the Tollway had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	6 - 10
Repurchase agreements	\$ 520,814,252	\$ 520,814,252	\$ -	\$ -
Certificates of Deposit	20,076,419	20,076,419	-	-
Money market funds*	202,412,316	202,412,316	-	-
Illinois Funds*	92,700,090	92,700,090	-	-
US Agency:				
Resolution Funding Corporation	15,073,774	-	15,073,774	-
Federal National Mortgage Association	9,206,790	6,708,340	2,498,450	-
Federal Home Loan Bank	675,627,914	656,375,000	19,252,914	-
Federal Home Loan Mortgage Corp	2,489,050	-	2,489,050	-
Federal Farm Credit Bank	789,766	-	789,766	-
US Treasury Note	112,815,073	-	112,815,073	-
	<u>\$ 1,652,005,444</u>	<u>\$ 1,499,086,417</u>	<u>\$ 152,919,027</u>	<u>\$ -</u>

* Weighted average maturity is less than one year.

Interest Rate Risk

As a means of limiting its exposure to fair value losses from rising interest rates, and as a means of managing liquidity, the Tollway's investment policy requires that the majority of Tollway funds be invested in instruments with maturities of less than one year. No investment is to exceed a ten-year maturity. Investment maturities as of December 31, 2007 are as follows:

December 31, Maturity	2007 Percentage	2006 Percentage
Less than one year	94%	91%
One to five years	6%	9%

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Credit and Concentration Risks

The Tollway's investment policy limits investment of Tollway funds to securities guaranteed by the United States government; obligations of agencies and instrumentalities of the United States; municipal bonds with credit ratings not lower than the credit rating of the Tollway's senior bonds outstanding; interest-bearing savings accounts, certificates of deposit, or bank time deposits with institutions which meet specified capitalization requirements; money market mutual funds registered under the Investment Company Act of 1940; the Illinois Funds; and repurchase agreements of government securities as defined in the Government Securities Act of 1986. 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 2007 and 2006.

The Tollway's investments in debt securities (excluding securities explicitly guaranteed by the U.S. government) were rated by Standard & Poor's for the year ended December 31, 2007 and 2006 as follows:

Investment Type	2007		2006	
	Fair Value	Rating	Fair Value	Rating
Money market funds	\$ 867,758,761	AAA	\$ 202,412,316	AAA
Repurchase agreements	409,343,320	NR	520,814,252	NR
Illinois Funds	59,185,617	AAA	92,700,090	AAA
US Agency:				
Resolution Funding Corporation	15,965,938	NR	15,073,774	NR
Federal National Mortgage Association	7,596,075	AAA	9,206,790	AAA
Federal Home Loan Bank	41,851,603	AAA	675,627,914	AAA
Federal Home Loan Mortgage Corp	10,086,750	AAA	2,489,050	AAA
Federal Farm Credit Bank	787,979	AAA	789,766	AAA

NR = Not Rated

Illinois State Toll Highway Authority

Notes to the Financial Statements December 31, 2007 and 2006

NOTE 3 – ACCOUNTS RECEIVABLE

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

NOTE 4 – LEASE RECEIVABLE

During 2002, the Tollway, as Lessor, entered into two 25-year lease agreements (capital leases) for the oases system (retail and fuel leases). 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 securing 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 oasis, which is the responsibility of Exxon-Mobil. The IEPA issues the letters along with approval for reimbursement of approved expenses from the LUST (Leaking Underground Storage Tank) Fund established by Congress. Remediation work has been completed at all oasis sites. NFR letters have been received for seven remediation sites controlled by the Tollway and by Exxon-Mobil for the DeKalb oasis.

The future minimum lease payments receivable under these agreements as of December 31, 2007, are as follows:

<u>Year Ended December 31,</u>	<u>Retail Lease</u>	<u>Fuel Lease</u>	<u>Total Leases</u>
2008	\$ 1,382,778	\$ 900,250	\$ 2,283,028
2009	703,895	900,250	1,604,145
2010	703,895	900,250	1,604,145
2011	703,895	900,250	1,604,145
2012	703,895	759,805	1,463,700
Thereafter	10,102,193	9,194,426	19,296,619
	<u>\$ 14,300,551</u>	<u>\$ 13,555,231</u>	<u>\$ 27,855,782</u>

The future minimum lease receivable does not include contingent rents that may be received under these leases because of the lessee generating revenues over specific amounts. As of December 31, 2007, the Tollway established a bad debt reserve of \$681,805 to offset uncollected retail rent payments. In management's opinion, no further reserve is required and all other payments are expected to be made on a timely basis.

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 5 – CAPITAL ASSETS

Capital Assets as of December 31, 2007 are as follows:

	Balance January 1	Additions and Transfers in	Deletions and Transfers Out	Balance December 31
Nondepreciable Capital Assets:				
Land and Improvements	\$ 272,467,772	\$ 11,286,847	\$ (1,077,680)	\$ 282,676,939
Construction in Progress	549,346,788	906,656,166	(795,671,588)	660,331,366
Total Nondepreciable Capital Assets	821,814,560	917,943,013	(796,749,268)	943,008,305
Depreciable Capital Assets				
Buildings	38,819,751	214,594	-	39,034,345
Less: Accumulated Depreciation	(26,115,176)	(1,986,150)	-	(28,101,326)
Net Buildings	12,704,575	(1,771,556)	-	10,933,019
Infrastructure	4,668,418,027	937,216,459	(7,202,931)	5,598,431,555
Less: Accumulated Depreciation	(2,453,645,389)	(204,607,917)	1,440,586	(2,656,812,720)
Net Infrastructure	2,214,772,638	732,608,542	(5,762,345)	2,941,618,835
Machinery and Equipment	186,118,554	29,410,071	(46,666,159)	168,862,466
Less: Accumulated Depreciation	(138,556,291)	(7,386,165)	38,743,318	(107,199,138)
Net Machinery and Equipment	47,562,263	22,023,906	(7,922,841)	61,663,328
Total Capital Assets	5,715,170,892	1,884,784,137	(850,618,358)	6,749,336,671
Less: Accumulated Depreciation	(2,618,316,856)	(213,980,232)	40,183,904	(2,792,113,184)
Total Capital Assets, Net	\$ 3,096,854,036	\$ 1,670,803,905	\$ (810,434,454)	\$ 3,957,223,487

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital Assets as of December 31, 2006 are as follows:

	Balance January 1	Additions and Transfers in	Deletions and Transfers Out	Balance December 31
Nondepreciable Capital Assets:				
Land and Improvements	\$ 197,433,642	\$ 75,034,130	\$ -	\$ 272,467,772
Construction in Progress	540,620,699	369,711,691	(360,985,602)	549,346,788
Total Nondepreciable Capital Assets	738,054,341	444,745,821	(360,985,602)	821,814,560
Depreciable Capital Assets				
Buildings	35,910,896	2,908,855	-	38,819,751
Less: Accumulated Depreciation	(24,239,856)	(1,875,320)	-	(26,115,176)
Net Buildings	11,671,040	1,033,535	-	12,704,575
Infrastructure	3,749,497,317	949,470,340	(30,549,630)	4,668,418,027
Less: Accumulated Depreciation	(2,287,133,155)	(166,512,234)	-	(2,453,645,389)
Net Infrastructure	1,462,364,162	782,958,106	(30,549,630)	2,214,772,638
Machinery and Equipment	192,226,651	23,091,874	(29,199,971)	186,118,554
Less: Accumulated Depreciation	(142,067,371)	(17,895,818)	21,406,898	(138,556,291)
Net Machinery and Equipment	50,159,280	5,196,056	(7,793,073)	47,562,263
Total Capital Assets	4,715,689,205	1,420,216,890	(420,735,203)	5,715,170,892
Less: Accumulated Depreciation	(2,453,440,382)	(186,283,372)	21,406,898	(2,618,316,856)
Total Capital Assets, Net	\$ 2,262,248,823	\$ 1,233,933,518	\$ (399,328,305)	\$ 3,096,854,036

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 6 – CAPITAL LEASE OBLIGATIONS

During 2002, the Tollway recorded equipment acquired under agreements that are classified as capital leases. The Integrated Toll Collection System (ITCS) was retired in July 2007 upon payment of a negotiated settlement of \$7.2 million. The lease for the Violation Enforcement System (VES) commenced on July 1, 2002 and expired as of June 30, 2006.

Assets recorded under capital leases consist of the following at December 31, 2007:

	Balance January 1	2007 Amortization	Retirement	Balance December 31
Integrated Toll Collection System (ITCS)	\$ 12,416,781	\$ -	\$ (2,931,739)	\$ 9,485,042
Less: Accumulated Amortization	(9,485,042)	-	-	(9,485,042)
Net ITCS	<u>\$ 2,931,739</u>	<u>\$ -</u>	<u>\$ (2,931,739)</u>	<u>\$ -</u>

Assets recorded under capital leases consist of the following at December 31, 2006:

	Balance January 1	2006 Amortization	Retirement	Balance December 31
Violation Enforcement System (VES)	\$ 14,053,729	\$ -	\$ -	\$ 14,053,729
Less: Accumulated Amortization	(8,198,008)	(5,855,721)	-	(14,053,729)
Net VES	<u>5,855,721</u>	<u>(5,855,721)</u>	<u>-</u>	<u>-</u>
Integrated Toll Collection System (ITCS)	12,416,781	-	-	12,416,781
Less: Accumulated Amortization	(7,243,124)	(2,069,464)	(172,454)	(9,485,042)
Net ITCS	<u>5,173,657</u>	<u>(2,069,464)</u>	<u>(172,454)</u>	<u>2,931,739</u>
Total Leased Capital Assets	26,470,510	-	-	26,470,510
Total Accumulated Amortization	(15,441,132)	(7,925,185)	(172,454)	(23,538,771)
Net Leased Capital Assets	<u>\$ 11,029,378</u>	<u>\$ (7,925,185)</u>	<u>\$ (172,454)</u>	<u>\$ 2,931,739</u>

The changes in the capital lease obligations for the year ended December 31, 2007 and 2006 are as follow:

	Balance January 1	Additions	Deletions	Balance December 31	Due Within One Year
2007	\$ 4,015,550	\$ -	\$ 4,015,550	\$ -	\$ -
2006	6,289,417	-	2,273,867	4,015,550	2,566,807

Illinois State Toll Highway Authority

Notes to the Financial Statements December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE

Series 2007A Bonds

On November 1, 2007, the Tollway issued \$700,000,000 of Variable Rate Senior Priority Revenue Bonds (2007 Series A-1 and Series A-2). This issuance was the third bond sale utilized to finance capital projects in the Congestion-Relief Program. The bonds also financed a deposit to the Debt Reserve Account and costs of issuance. The bonds were sold at par and initially issued in a weekly mode and remained in a weekly mode through fiscal year end. Interest rates on the bonds are set pursuant to the terms of a remarketing agreement. While in the weekly mode, the bonds are subject to demand for purchase from bondholders. Any such bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Bonds tendered for purchase that are not remarketed to new bondholder(s) are funded, subject to certain conditions, under a Standby Bond Purchase Agreement among the Tollway, the Trustee, and Dexia Credit Local, New York Branch. Any such funded bonds that either (a) remain un-remarketed for 180 days or (b) remain un-remarketed 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) in twenty equal semi-annual principal installments, commencing 6 months following such 180 day period. The cost of the Standby Bond Purchase Agreement is a per annum fee of 31 basis points times the commitment amount of \$709,780,822, which consists of \$700,000,000 for payment of principal and \$9,780,822 for payment of interest. The expiration date of the Standby Bond Purchase Agreement is March 20, 2011. While in the weekly mode, the bonds are subject to optional redemption by the Tollway. The bonds mature on various dates through January 1, 2031. Scheduled payments of principal and interest of the bonds were initially insured by XL Capital Assurance, an insurance policy which was subsequently cancelled on March 20, 2008 (see Note 18 – Subsequent Events).

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 mature on various dates through January 1, 2026 for Series A-1 and through January 1, 2028 through Series A-2. The bonds are subject to optional redemption on or after July 1, 2016 at a redemption price of 100% of the principal amount plus accrued interest. The scheduled payments of principal and interest of the bonds are insured by Financial Security Assurance, Inc. On February 7, 2008, \$708,340,000 of the 2006 Series A bonds were advance refunded by the Tollway's \$766,200,000 Variable Rate Senior Refunding Revenue Bonds (2008 Series A-1 and Series A-2) (see Note 18 – Subsequent Events).

Illinois State Toll Highway Authority

Notes to the Financial Statements December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

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 \$60,682,677. The bonds mature on various dates through January 1, 2023. The bonds are subject to optional redemption on or after July 1, 2015 at a redemption price of 100% of the principal amount plus accrued interest. The scheduled payments of principal and interest of this bond series are insured by Financial Security Assurance, Inc., except for the principal and interest of the \$101,935,000 maturing January 1, 2020, which is not insured.

Series 1998A and B Bonds

On December 30, 1998, the Tollway issued \$325,135,000 of Refunding Revenue Bonds, consisting of \$202,035,000 of Fixed Rate Bonds (1998 Series A) and \$123,100,000 of Variable Rate Bonds (1998 Series B). The bonds financed a refunding of a portion (\$313,105,000) of the Tollway's Series 1992A Bonds and also financed costs of issuance and accrued interest on the Series 1998 Series A Bonds. The Series 1998A Bonds were sold with fixed interest rates ranging from 4.0% to 5.5% at yields which produced a net Original Issue Premium of \$17,414,484. The Series 1998A Bonds 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 2007. Interest rates on the Series 1998B Bonds are set pursuant to the terms of a remarketing agreement. While in the weekly mode, the Series 1998B Bonds are subject to demand for purchase from bondholders. Any such Series 1998B Bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Series 1998B Bonds tendered for purchase that are not remarketed to new bondholder(s) are funded, subject to certain conditions, under a Standby Bond Purchase Agreement among the Tollway, the Trustee, and Helaba Landesbank. Any such funded bonds that remain unremarketed on the expiration date of the Standby Bond Purchase Agreement and such Standby Bond Purchase Agreement is not replaced are required to be repaid by the Authority on the earlier of: (i) their originally scheduled payment date; 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 11 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. The expiration date of the Standby Bond Purchase Agreement is December 29, 2008. While in the weekly mode, the Series 1998B Bonds are subject to optional redemption by the Tollway. The final maturity of the Series A and B bonds respectively is January 1, 2016 and January 1, 2017. The scheduled payments of principal and interest of the Series 1998A Bonds and the Series 1998B Bonds are insured by Financial Security Assurance, Inc.

Series 1996A Bonds

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

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Series 1993B Bonds

On March 24, 1993, the Tollway issued \$178,200,000 of Refunding Revenue Bonds (1993 Series B), \$114,800,000 of which were outstanding on December 31, 2007. The bonds were used to advance refund portions of then-outstanding Series 1985, 1986 and 1992 bonds and pay certain costs of issuance and to finance the cost of a \$22,974,900 surety bond from Municipal Bond Investors Assurance Corporation to satisfy a portion of the Debt Reserve Requirement. The bonds were sold at par and the final maturity of the bonds is January 1, 2010. The bonds were initially issued in a weekly mode and were in a weekly mode during all of 2007. Interest rates on the bonds are set pursuant to the terms of a remarketing agreement. While in the weekly mode, the bonds are subject to demand for purchase from bondholders. Any such bonds tendered for purchase are remarketed pursuant to the terms of a remarketing agreement. Bonds tendered for purchase that are not remarketed to new bondholder(s) are funded, subject to certain conditions, under a Letter of Credit from Societe Generale, issued pursuant to a Reimbursement Agreement among the Tollway, the Trustee, and Societe Generale. The cost of the Letter of Credit is a per annum fee of 20 basis points times the commitment amount of \$127,531,792, which consists of \$114,800,000 for payment of principal and \$12,731,792 for payment of interest. The expiration date of the Letter of Credit is December 31, 2009. While in the weekly mode, the bonds are subject to optional redemption by the Tollway. The scheduled payments of principal and interest of the bonds are insured by Municipal Bond Investors Assurance Corporation.

Series 1992A Bonds

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

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

All Series

Details of outstanding revenue bonds as of December 31, 2007 are as follows:

Issue of 1992 Series A, 6.30% , due on various dates through January 1, 2012	\$ 100,665,000
Issue of 1993 Series B, variable rates, due on various dates through January 1, 2010	114,800,000
Issue of 1996 Series A, 4.70% to 6.00%, due on various dates through January 1, 2009	30,370,000
Issue of 1998 Series A, 4.0% to 5.50%, due on various dates through January 1, 2016	196,125,000
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, 4.49% to 5.00%, due on various dates through January 1, 2026	500,000,000
Issue of 2006 Series A-2, 5.00%, due on various dates through January 1, 2028	500,000,000
Issue of 2007 Series A-1, variable rates, due on various dates through January 1, 2031	350,000,000
Issue of 2007 Series A-2, variable rates, due on various dates through January 1, 2031	<u>350,000,000</u>
Totals	3,035,060,000
Less current maturities	(50,030,000)
Less deferred amount on refunding	(17,954,418)
Plus bond premium	<u>97,419,873</u>
Total long-term portion	<u>\$ 3,064,495,455</u>

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Details of outstanding revenue bonds as of December 31, 2006 are as follows:

Issue of 1992 Series A, 6.30% , due on various dates through January 1, 2012	\$ 100,665,000
Issue of 1993 Series B, variable rates, due on various dates through January 1, 2010	147,300,000
Issue of 1996 Series A, 4.70% to 6.00%, due on various dates through January 1, 2009	44,275,000
Issue of 1998 Series A, 4.0% to 5.50%, due on various dates through January 1, 2016	197,070,000
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, 4.49% to 5.00%, due on various dates through January 1, 2026	500,000,000
Issue of 2006 Series A-2, 5.00%, due on various dates through January 1, 2028	<u>500,000,000</u>
Totals	2,382,410,000
Less current maturities	(47,350,000)
Less deferred amount on refunding	(20,399,638)
Plus bond premium	<u>103,525,307</u>
Total long-term portion	<u><u>\$ 2,418,185,669</u></u>

The carrying amount of the Tollway's long-term debt approximates its fair value at December 31, 2007 and 2006, based on discounted cash flow analyses, using the Tollway's estimated current incremental borrowing rate. Accrued interest payable for the years ended December 31, 2007 and 2006 was \$63,374,518 and \$63,269,589, respectively.

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

A summary of changes in revenue bonds payable is as follows for December 31, 2007:

	Balance January 1	Additions	Deletions	Balance December 31	Amounts Due Within One Year
1992 Series A	\$ 100,665,000	\$ -	\$ -	\$ 100,665,000	\$ -
1993 Series B	147,300,000	-	(32,500,000)	114,800,000	34,300,000
1996 Series A	44,275,000	-	(13,905,000)	30,370,000	14,745,000
1998 Series A	197,070,000	-	(945,000)	196,125,000	985,000
1998 Series B	123,100,000	-	-	123,100,000	-
2005 Series A	770,000,000	-	-	770,000,000	-
2006 Series A-1 & A-2	1,000,000,000	-	-	1,000,000,000	-
2007 Series A-1 & A-2	-	700,000,000	-	700,000,000	-
Totals	2,382,410,000	700,000,000	(47,350,000)	3,035,060,000	<u>\$ 50,030,000</u>
Less:					
Unamortized deferred amount on refunding	(20,399,638)	-	2,445,220	(17,954,418)	
Unamortized bond premium	103,525,307	-	(6,105,434)	97,419,873	
Current portion of Revenue bonds payable	(47,350,000)	(50,030,000)	47,350,000	(50,030,000)	
Revenue bonds payable, Net of current portion	<u>\$ 2,418,185,669</u>	<u>\$ 649,970,000</u>	<u>\$ (3,660,214)</u>	<u>\$ 3,064,495,455</u>	

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

A summary of changes in revenue bonds payable is as follows for December 31, 2006:

	Balance January 1	Additions	Deletions	Balance December 31	Amounts Due Within One Year
1992 Series A	\$ 100,665,000	\$ -	\$ -	\$ 100,665,000	\$ -
1993 Series B	178,200,000	-	(30,900,000)	147,300,000	32,500,000
1996 Series A	57,500,000	-	(13,225,000)	44,275,000	13,905,000
1998 Series A	197,980,000	-	(910,000)	197,070,000	945,000
1998 Series B	123,100,000	-	-	123,100,000	-
2005 Series A	770,000,000	-	-	770,000,000	-
2006 Series A-1 & A-2	-	1,000,000,000	-	1,000,000,000	-
Totals	1,427,445,000	1,000,000,000	(45,035,000)	2,382,410,000	\$ 47,350,000
Less:					
Unamortized deferred amount on refunding	(23,263,736)	-	2,864,098	(20,399,638)	
Unamortized bond premium	68,933,454	40,019,000	(5,427,147)	103,525,307	
Current portion of Revenue bonds payable	(45,035,000)	(47,350,000)	45,035,000	(47,350,000)	
Revenue bonds payable, Net of current portion	\$ 1,428,079,718	\$ 992,669,000	\$ (2,563,049)	\$ 2,418,185,669	

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

The annual requirements to retire the principal and interest amount for all bonds outstanding at December 31, 2007 are shown in the table below. The interest component of this schedule is calculated using: the fixed interest rates of the Series 1992A, 1993A, 1996A, 1998A, 2005A and 2006A Bonds; an annual synthetic fixed interest rate of 4.920% on the 1993 Series B Bonds as determined under the 1993 Swap Agreement entered into in connection with such Bonds; an annual synthetic fixed interest rate of 4.325% on the 1998 Series B Bonds as determined under the 1998 Swap Agreements entered into in connection with such Bonds; and annual synthetic fixed interest rates of 3.972% on the 2007 Series A-1 Bonds and 3.9925% on the 2007 Series A-2 Bonds, as determined under the swap agreements entered into in connection with such Bonds.

Year Ended December 31,	Principal	Interest	Total Debt Service
2008	\$ 50,030,000	\$ 134,659,754	\$ 184,689,754
2009	52,750,000	141,135,574	193,885,574
2010	45,465,000	138,880,229	184,345,229
2011	49,910,000	136,191,197	186,101,197
2012	53,040,000	133,008,851	186,048,851
2013	56,365,000	129,704,204	186,069,204
2014	92,855,000	125,729,857	218,584,857
2015	97,795,000	120,658,107	218,453,107
2016	102,910,000	115,687,153	218,597,153
2017	107,850,000	110,720,803	218,570,803
2018	107,460,000	105,601,820	213,061,820
2019	112,085,000	100,113,195	212,198,195
2020	121,935,000	94,747,054	216,682,054
2021	131,140,000	88,789,356	219,929,356
2022	136,450,000	82,138,000	218,588,000
2023	147,020,000	75,051,250	222,071,250
2024	205,000,000	67,539,144	272,539,144
2025	190,000,000	58,723,972	248,723,972
2026	175,000,000	50,397,937	225,397,937
2027	245,000,000	41,911,250	286,911,250
2028	205,000,000	31,954,006	236,954,006
2029	215,000,000	22,691,913	237,691,913
2030	225,000,000	12,977,813	237,977,813
2031	110,000,000	2,750,000	112,750,000
Total	<u>\$ 3,035,060,000</u>	<u>\$ 2,121,762,439</u>	<u>\$ 5,156,822,439</u>

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

The annual requirements to retire the principal and interest amount for all bonds outstanding at December 31, 2006 are as follows. The interest component of this schedule is calculated using: the fixed interest rates of the Series 1992A, 1993A, 1996A, 1998A, 2005A and 2006A Bonds; an annual synthetic fixed interest rate of 4.920% on the 1993 Series B Bonds as determined under the 1993 Swap Agreement entered into in connection with such Bonds; and an annual synthetic fixed interest rate of 4.325% on the 1998 Series B Bonds as determined under the 1998 Swap Agreements entered into in connection with such Bonds.

Year Ended December 31,	Principal	Interest	Total Debt Service
2007	\$ 47,350,000	\$ 122,047,852	\$ 169,397,852
2008	50,030,000	116,173,139	166,203,139
2009	52,750,000	113,488,974	166,238,974
2010	45,465,000	110,995,502	156,460,502
2011	49,910,000	108,315,447	158,225,447
2012	53,040,000	105,087,374	158,127,374
2013	56,365,000	101,874,182	158,239,182
2014	92,855,000	97,854,107	190,709,107
2015	97,795,000	92,782,357	190,577,357
2016	102,910,000	87,759,307	190,669,307
2017	107,850,000	82,875,270	190,725,270
2018	107,460,000	77,726,070	185,186,070
2019	112,085,000	72,237,445	184,322,445
2020	121,935,000	66,832,910	188,767,910
2021	131,140,000	60,952,000	192,092,000
2022	136,450,000	54,262,250	190,712,250
2023	147,020,000	47,175,500	194,195,500
2024	155,000,000	39,625,000	194,625,000
2025	115,000,000	32,875,000	147,875,000
2026	100,000,000	27,500,000	127,500,000
2027	120,000,000	22,000,000	142,000,000
2028	80,000,000	17,000,000	97,000,000
2029	90,000,000	12,750,000	102,750,000
2030	100,000,000	8,000,000	108,000,000
2031	110,000,000	2,750,000	112,750,000
Total	<u>\$ 2,382,410,000</u>	<u>\$ 1,680,939,686</u>	<u>\$ 4,063,349,686</u>

Illinois State Toll Highway Authority

Notes to the Financial Statements December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Trust Indenture Agreement

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

All Accounts of the Construction Fund and the Debt Service Account and Debt Reserve Account of the Revenue Fund are held by the Trustee. The classification of Trustee-held funds in these financial statements is detailed in Footnote 9.

Interest Rate Exchange Agreements

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

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Interest Rate Exchange Agreements (Continued)

Significant terms of the agreements as of December 31, 2007 are as follows:

	Notional Value	Effective Date	Fixed Rate	Variable Rate Received	Termination Date	Mark to Market	Counterparty Credit Ratings
Series 1993B	\$ 114,800,000	03/24/1993	4.9200%	Cost of Funds	12/31/09	\$ (3,370,263)	Aa1/AA
Series 1998B	67,705,000	12/30/1998	4.3250%	Cost of Funds	01/01/17	(5,283,636)	Aaa/AAA
Series 1998B	55,395,000	12/30/1998	4.3250%	Cost of Funds	01/01/17	(4,322,975)	Aaa/AAA
Series 2007A-1	175,000,000	11/01/2007	3.9720%	SIFMA 7 - day Muni index	07/01/30	(4,717,042)	Aa1/AA+
Series 2007A-1	175,000,000	11/01/2007	3.9720%	SIFMA 7 - day Muni index	07/01/30	(4,717,042)	Aa3/AA-
Series 2007A-2	262,500,000	11/01/2007	3.9925%	SIFMA 7 - day Muni index	07/01/30	(7,771,095)	Aa1/AA
Series 2007A-2	87,500,000	11/01/2007	3.9925%	SIFMA 7 - day Muni index	07/01/30	(2,590,365)	Aa1/AA-

Significant terms of the agreements as of December 31, 2006 are as follows:

	Notional Value	Effective Date	Fixed Rate	Variable Rate Received	Termination Date	Mark to Market	Counterparty Credit Ratings
Series 1993B	\$ 147,300,000	03/24/1993	4.9200%	Cost of Funds	12/31/09	\$ (4,200,000)	Aa2/AA
Series 1998B	67,705,000	12/30/1998	4.3250%	Cost of Funds	01/01/17	(3,410,000)	Aaa/AAA
Series 1998B	55,395,000	12/30/1998	4.3250%	Cost of Funds	01/01/17	(2,790,000)	Aaa/AAA

Forward Starting Agreements

Aug 07	\$ 175,000,000	5/1/07-8/1/07	3.9520%	SIFMA 7 - day Muni index	07/01/30	\$ 700,000	Aa3/AA-
Aug 07	175,000,000	5/1/07-8/1/07	3.9520%	SIFMA 7 - day Muni index	07/01/30	700,000	Aaa/AA
Nov 07	262,500,000	8/1/07-11/1/07	3.9925%	SIFMA 7 - day Muni index	07/01/30	143,000	Aa2/AA-
Nov 07	87,500,000	8/1/07-11/1/07	3.9925%	SIFMA 7 - day Muni index	07/01/30	48,000	Aa2/A+

The notional amounts of the swaps match the outstanding principal amounts of the associated bonds. The Tollway's swaps contain scheduled reductions to notional amounts that match the scheduled reductions in the associated "revenue bonds payable" category. For the 1993 Series B bonds, the Tollway pays the counterparty a fixed rate of 4.920% and receives a variable payment based on the actual amount of interest paid to bondholders (cost of funds). For the 1998 Series B bonds, the Tollway pays the counterparties a fixed rate of 4.325% and receives a variable payment based on the actual amount of interest paid to bondholders (cost of funds). For the 2007 Series A-1 and Series A-2 bonds, the Tollway pays the counterparties fixed rates of 3.972% and 3.9925%, respectively, and receives variable payments based on the SIFMA 7-day Municipal Swap Index. The slight increase in the fixed rate from the 3.952% fixed rate on the forward swaps as of December 31, 2006 to the 3.972% fixed rate on the Series 2007A-1 effective swaps as of December 31, 2007 was in connection with July 2007 amendments to those forward swaps which extended their effective date from a window of May 1, 2007 – August 1, 2007 to a window of November 1, 2007 – February 1, 2008.

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Interest Rate Exchange Agreements (Continued)

Market Valuation

A change in interest rates and to a lesser extent a decrease in duration, contributed to the negative December 31, 2007 market valuations included in the preceding chart for the Tollway's swaps. At the time of the swaps, the synthetic fixed rates achieved by the swaps were less than the fixed rates that could have been achieved by issuing fixed rate bonds. The swaps' fair market values were estimated using a bond-pricing model similar to the zero-coupon model, which calculates the future net payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. These valuations may vary from those reported by the respective counterparties due to differences in valuation methods and the varying size of the bid-ask spread.

Counterparty Credit Risk

Counterparty credit risk is the risk that a swap is terminated and the counterparty fails to make a required termination payment. The termination payment is a market-based payment approximating the value of the swap at the time of termination. The Tollway was not exposed to counterparty credit risk as of December 31, 2007 because the negative market values of each swap would render no payments owing by the counterparties in the event of a termination. If changes in interest rates were to create positive market values for the swaps in the future, the Tollway would be exposed to counterparty credit risk in the amount of those positive market values. The swaps require full collateralization of any positive market value of the swaps in the event counterparty's credit rating falls below a Standard & Poor's rating of A- or a Moody's Investor Services' rating of A3. The swaps require such collateral to be held by a third party custodian in the form of cash, debt obligations issued by the U.S. Treasury or debt issued by federally sponsored agencies. The seven swaps outstanding as of December 31, 2007 are with six different counterparties. The counterparty with the largest notional amount holds 28% of the total notional amount of the outstanding swaps.

Basis Risk

Basis risk is the extent to which the Tollway's variable rate interest payments to bondholders differ from the variable rate payments received from the swap counterparties. The Tollway's variable rate interest payments are determined by rates established by remarketing agents on a weekly basis. In the case of the 1993 Series B and 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 these swaps to be without basis risk. In the case of the 2007 Series A-1 and Series A-2 swaps, the variable rate payments received from the swap counterparties 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 2007 Series A-1 and A-2 bonds exceed the SIFMA 7-day Municipal Swap Index. For the portion of 2007 during which the 2007 Series A-1 and A-2 bonds were outstanding (November 1, 2007 through December 31, 2007), the average interest rate paid to bondholders was 3.42%, compared to a SIFMA 7-day Municipal Swap Index of 3.38%.

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Interest Rate Exchange Agreements (Continued)

Termination Risk

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

NOTE 8 – DEFERRED REVENUE

During 2002, the Tollway entered into two 25-year capital lease agreements for the refurbishing and operation of the oases system. Rental payments earned have been recorded as concession revenue. The future minimum rental payments for the remainder of the terms of the leases, as of December 31, 2007 and 2006, of \$27,173,977 (net of allowance of \$681,805) and \$28,820,149, respectively, have been recorded as a lease receivable and deferred revenue which will be amortized over the lease terms.

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 lease agreements and at those times collected \$26,086,389 in total payments; the related revenue was deferred and is being amortized over the lease terms.

At December 31, 2007 and 2006, the deferred revenue balance for the oases system and fiber optic system was \$60,901,538; accumulated amortization of deferred revenue was \$17,628,753 and \$14,473,076 as of December 31, 2007 and 2006, respectively.

A summary of changes in deferred revenue for the year ended December 31, 2007 is as follows:

	Balance at January 1	Current Year Activity	Balance at December 31
Deferred Revenue			
Fiber Optics	\$ 26,086,389	\$ -	\$ 26,086,389
Accumulated Amortization	(8,478,076)	(1,512,427)	(9,990,503)
	<u>17,608,313</u>	<u>(1,512,427)</u>	<u>16,095,886</u>
Lease Receivable	34,815,149	-	34,815,149
Accumulated Amortization	(5,995,000)	(1,643,250)	(7,638,250)
	<u>28,820,149</u>	<u>(1,643,250)</u>	<u>27,176,899</u>
Totals			
Deferred Revenue	60,901,538	-	60,901,538
Accumulated Amortization	(14,473,076)	(3,155,677)	(17,628,753)
Net Deferred Revenue	<u>\$ 46,428,462</u>	<u>\$ (3,155,677)</u>	<u>\$ 43,272,785</u>

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 8 – DEFERRED REVENUE (CONTINUED)

A summary of changes in deferred revenue for the year ended December 31, 2006 is as follows:

	Balance at January 1	Current Year Activity	Balance at December 31
Deferred Revenue			
Fiber Optics	\$ 26,086,389	\$ -	\$ 26,086,389
Accumulated Amortization	(7,381,865)	(1,096,211)	(8,478,076)
	<u>18,704,524</u>	<u>(1,096,211)</u>	<u>17,608,313</u>
Lease Receivable	34,815,149	-	34,815,149
Accumulated Amortization	(4,351,750)	(1,643,250)	(5,995,000)
	<u>30,463,399</u>	<u>(1,643,250)</u>	<u>28,820,149</u>
Totals			
Deferred Revenue	60,901,538	-	60,901,538
Accumulated Amortization	(11,733,615)	(2,739,461)	(14,473,076)
Net Deferred Revenue	<u>\$ 49,167,923</u>	<u>\$ (2,739,461)</u>	<u>\$ 46,428,462</u>

NOTE 9 – RESTRICTED NET ASSETS

As of December 31, 2007 and 2006, the Tollway reported the following restricted net assets:

Description	December 31, 2007	December 31, 2006
Revenue bond trust indenture agreement restrictions	\$ 898,374,269	\$ 911,465,915
Portion classified as Invested in Capital Assets net of Related Debt	<u>(610,399,117)</u>	<u>(662,660,883)</u>
Net assets restricted under Trust Indenture agreement restrictions	287,975,152	248,805,032
Assets restricted to paying pension benefit obligations	<u>384,052</u>	<u>364,120</u>
Total	<u>\$ 288,359,204</u>	<u>\$ 249,169,152</u>

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 10 – CONTRIBUTIONS TO STATE EMPLOYEES’ RETIREMENT SYSTEM

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 2007 are also included in the state’s Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007.

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 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

The Tollway makes employer retirement contributions based upon an actuarially determined percentage of its payroll. The Tollway’s covered payrolls, which include all employees, for the years ended December 31, 2007, 2006, and 2005 were \$101,499,159, \$93,582,811 and \$90,940,663, respectively.

Contributions to SERS are based upon compensation. Effective January 2004 those employees not covered by a collective bargaining unit agreement were required to contribute an employee-paid percentage (4%) to SERS. The Tollway continued to pay for the contributions of a small number of employees covered by SERS in accordance with the collective bargaining unit agreements. The contributions and percent of covered payroll for each of the years ended December 31, 2007, 2006, and 2005 were as follows:

	Contributions			Percent of Covered Payroll		
	2007	2006	2005	2007	2006	2005
Tollway Contribution	\$ 14,383,885	\$ 9,280,541	\$ 10,880,875	14.2%	9.9%	12.0%
Employee's Contribution paid by the Tollway	631,164	2,464,405	2,667,899	0.6%	2.6%	2.9%
Employee's Contribution Totals	<u>3,673,560</u>	<u>1,390,008</u>	<u>1,154,285</u>	<u>3.6%</u>	<u>1.5%</u>	<u>1.3%</u>
	<u>\$ 18,688,609</u>	<u>\$ 13,134,954</u>	<u>\$ 14,703,059</u>	<u>18.4%</u>	<u>14.0%</u>	<u>16.2%</u>

NOTE 10 – CONTRIBUTIONS TO STATE EMPLOYEES’ RETIREMENT SYSTEM (CONTINUED)

In addition to contributions to this retirement plan, effective July 1, 1990, the Tollway adopted, under the provisions of the Tollway Act (605 ILCS 10/1 et. seq.), a non-contributory defined-benefit pension plan which covered employees who were members of SERS and who are 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, 2007 and 2006, the net assets available for these benefits were \$424,772 and \$440,155, respectively, (valued at the lesser of market value or actuarial value) and the pension benefit obligation was recorded as \$40,720 and \$76,035, respectively.

Under provisions of SERS, the State of Illinois provides certain health, dental, and life insurance benefits (other post employment benefits “OPEB”) to annuitants who are former Tollway employees. Substantially all Tollway employees may become eligible for OPEB benefits if they eventually become annuitants. Currently, 778 retirees meet the eligibility requirements. Life insurance benefits are limited to \$5,000 per annuitant age 60 or older. For the years ended December 31, 2007 and 2006, the Tollway contributed \$4,139,025 and \$3,996,267, respectively, towards the state’s cost of these benefits. The actuarially determined annual OPEB cost for providing these benefits and the related OPEB obligations are recorded in the financial statements of the state agencies responsible for paying these benefits. The Department of Healthcare and Family Services (HFS) administers the Health Insurance Reserve Fund (for payment of health benefits), and the Department of Central Management Services (CMS) administers the Group Life Insurance Funds (for payment of life insurance benefits).

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

NOTE 11 – RISK MANAGEMENT

The Tollway has self-insured risk retention programs for workers’ compensation claims. The Tollway’s exposure under this program is limited to self-insured retentions per workers’ compensation incident. In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Tollway has a “claims paid” policy for various portions of the employee’s health plan with stop loss coverage exceeding \$350,000 per policy year, with the remainder of the plan covered by the purchase of commercial insurance policies. The estimated liabilities for asserted workers’ compensation claims of \$9,997,840 and both asserted and unasserted employee health claims of \$691,090 are included in the accompanying financial statements.

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 11 – RISK MANAGEMENT (Continued)

Year	Estimated Claims Payable January 1	Current Claims	Claims Payments	Estimated Claims Payable December 31
2007	\$ 8,618,373	\$ 6,765,374	\$ 4,694,817	\$ 10,688,930
2006	6,328,224	6,473,772	4,183,623	8,618,373
2005	4,439,964	11,138,737	9,250,477	6,328,224

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

NOTE 12 – COMPENSATED ABSENCES

Non-union Tollway employees earn annual leave based upon length of employment and can accumulate leave up to a maximum of 10 days credit to be carried over to the following fiscal year. Subject to certain exceptions, any days in excess of the maximum will be forfeited. The liability reported in the Statement of Net Assets represents the vacation and 50% of unused sick time for the period beginning January 1, 1984 and ending December 31, 1997, accrued by the employees, and is payable upon termination or death of the employee. Payments will not be made in lieu of vacation, except upon death or termination of employment. 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 discussed above is recorded in the accompanying financial statements at the employee's current salary level.

The summary of changes in accrued compensated absences payable at December 31, 2007 and 2006 is as follows:

	Balance at January 1	Accrued	Used	Balance at December 31	Due Within One Year
2007	\$ 5,700,000	\$ 5,460,915	\$ 4,909,612	\$ 6,251,303	\$ 3,625,756
2006	5,046,641	7,460,964	6,807,605	5,700,000	3,300,000

NOTE 13 – 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.

Illinois State Toll Highway Authority

Notes to the Financial Statements December 31, 2007 and 2006

NOTE 14 – COMMITMENTS

In addition to amounts already recorded, contracts of approximately \$1,084,000,000 have been let and are outstanding as of December 31, 2007, for projects to be included under the Tollway's construction accounts. During 2007, approximately \$1,099,984,000 in invoices was paid on approximately \$3,746,000,000 of total contracts. The Tollway plans to fund remaining payments under these contracts through revenues and future revenue bond proceeds.

NOTE 15 – PENDING LITIGATION

There are lawsuits pending against the Tollway claiming damages for wrongful discharge and personal injuries. Workers' compensation lawsuits are also pending. The Tollway's exposure is limited to the self-insured retention of \$250,000 per general liability incident. Management, after taking into consideration legal counsel's evaluation of such actions, is of the opinion that the outcome of these matters will have no material adverse effect on the financial position of the Tollway.

NOTE 16 – CONTINGENT LIABILITIES

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

Inter-Governmental Agreements:

The Tollway, in connection with the normal conduct of its affairs, enters into various agreements with other state agencies, municipalities, etc. These agreements are usually made to share construction costs, to exchange land parcels, and/or to share the costs of maintenance of contiguous improvements. Such agreements would not materially affect the financial position of the Tollway.

Arbitrage Rebate:

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

The Tollway retained a third party expert to perform arbitrage calculations and determine any arbitrage rebate liability. In the opinion of this third party, as of December 31, 2007, the Tollway need not accrue any arbitrage rebate liability relating to its Series 1992A, 1993B, 1996A, 1998A, 1998B, and 2006A Bonds. Also in their opinion, the Tollway under certain circumstances may have an arbitrage rebate liability of \$395,206 on its Series 2005A Bonds. This amount, if owed, would be due five years from the date of its determination, unless subsequent calculations reduced or removed this contingent liability.

NOTE 16 – CONTINGENT LIABILITIES (Continued)

The contingent arbitrage rebate liability relating to the Tollway's Series 2007A Bonds, which were issued on November 1, 2007, has been calculated internally by the Tollway. The Tollway calculates a contingent arbitrage rebate liability of \$1,119,513 on its Series 2007A Bonds for the year ended December 31, 2007. Of this amount, \$1,071,180 is arbitrage in the Series 2007A Project Fund. If the bond proceeds in the Series 2007A Project Fund are spent in a timely manner, as demonstrated by meeting certain spend-down targets specified in the Tax Code, then any arbitrage realized in said Project Fund is exempt from the arbitrage rebate requirements. The Tollway fully expects to qualify for such an exemption related to prompt spend down of bond proceeds. The earliest date on which an arbitrage rebate liability related to the Series 2007A Bonds would become payable is November 1, 2012.

NOTE 17 – NEW GOVERNMENTAL ACCOUNTING STANDARDS

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

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Tollway is required to implement this Statement for the year ending December 31, 2008.

Statement No. 50, *Pension Disclosures – an amendment to GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The Tollway is required to implement this Statement for the year ending December 31, 2008.

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

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

NOTE 18 – SUBSEQUENT EVENTS

On January 31, 2008, the Tollway's Board of Directors authorized the issuance of up to \$1 billion of bonds for the purposes of paying costs of the Congestion-Relief Program and/or refunding outstanding debt.

On February 7, 2008 the Tollway issued \$766,200,000 of Toll Highway Variable Rate Senior Refunding Revenue Bonds, 2008 Series A-1 and 2008 Series A-2 (together the 2008A Bonds). The 2008A Bonds were issued to provide funds that were used, together with other available funds, to advance refund \$208,340,000 of the \$500,000,000 Toll Highway Senior Priority Revenue Bonds, 2006 Series A-1 and all \$500,000,000 of the Toll Highway Senior Priority Revenue Bonds, 2006 Series A-2. To lower its borrowing costs, in connection with the 2008A Bonds the Tollway entered into four variable-to-fixed interest rate exchange agreements, effective February 7, 2008, with notional amounts totaling \$766,200,000. The purpose of the refunding was to produce debt service savings for the Tollway.

Illinois State Toll Highway Authority

Notes to the Financial Statements
December 31, 2007 and 2006

NOTE 18 – SUBSEQUENT EVENTS (Continued)

On March 20, 2008 the municipal bond insurance policy (the Insurance Policy) on the Tollway's \$700,000,000 Variable Rate Senior Priority Revenue Bonds, 2007 Series A (the 2007A Bonds) was cancelled. The 2007A Bonds had been guaranteed as to scheduled payment of principal and interest by an Insurance Policy issued by XL Capital Assurance Inc. (the Bond Insurer). On the November 1, 2007 Issue Date of the 2007A Bonds, the financial strength of the Bond Insurer was rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. The financial strength of the Bond Insurer was downgraded to "A" by Fitch on January 24, 2008, "A3" by Moody's on February 7, 2008, and "A-" by Standard & Poor's on February 25, 2008. These rating downgrades adversely impacted the variable interest rates on the 2007A Bonds. As a result, in connection with a mandatory tender of the 2007A Bonds on March 20, 2008 the Tollway directed the cancellation of the Insurance Policy, which removed the adverse impact to the variable interest rates on the 2007A Bonds.

SUPPLEMENTARY INFORMATION

Illinois State Toll Highway Authority
Schedules of Changes in Net Assets - By Fund
Trust Indenture Basis of Accounting (Non GAAP)
For the Year Ended December 31, 2007

	Revenue Fund	Construction Fund	Total
INCREASES			
Toll Revenue	\$ 572,092,902	\$ -	\$ 572,092,902
Toll Evasion Recovery	10,080,426	-	10,080,426
Concessions	3,788,756	-	3,788,756
Interest	49,846,450	22,454,501	72,300,951
Miscellaneous	1,985,523	-	1,985,523
Total Increases	637,794,057	22,454,501	660,248,558
DECREASES			
Engineering and Maintenance of Roadway and Structures	44,833,917	-	44,833,917
Services and Toll Collection	79,537,865	-	79,537,865
Traffic Control, Safety Patrol, and Radio Communications	21,246,925	-	21,246,925
Procurement, IT, Finance and Administration	24,261,781	-	24,261,781
Insurance and Employee Benefits	52,414,462	-	52,414,462
Construction	58,292,262	1,041,691,583	1,099,983,845
Bond Principal Payments	47,350,000	-	47,350,000
Bond Interest and Other Financing Costs	114,657,361	-	114,657,361
Total Decreases	442,594,573	1,041,691,583	1,484,286,156
NET INCREASES (DECREASES)	195,199,484	(1,019,237,082)	(824,037,598)
OTHER CHANGES IN NET ASSETS			
Proceeds from Bond Sale	\$ -	\$ 700,000,000	\$ 700,000,000
Bond Issuance Costs	-	(3,501,321)	(3,501,321)
Non-operating expense	(5,710,121)	-	(5,710,121)
Construction Funds	-	(1,155,260,396)	(1,155,260,396)
Account Transfers In (Out)	38,564,700	(38,564,700)	-
	32,854,579	(497,326,417)	(464,471,838)
CHANGE IN NET ASSETS	228,054,063	(1,516,563,499)	(1,288,509,436)
NET ASSETS, JANUARY 1	638,105,268	1,822,909,047	2,461,014,315
NET ASSETS, DECEMBER 31	\$ 866,159,331	\$ 306,345,548	\$ 1,172,504,879

Illinois State Toll Highway Authority
Schedules of Changes in Net Assets - By Fund
Trust Indenture Basis of Accounting (Non GAAP)
For the Year Ended December 31, 2006

	Revenue Fund	Construction Fund	Total
INCREASES			
Toll Revenue	\$ 567,499,808	\$ -	\$ 567,499,808
Toll Evasion Recovery	195,274	-	195,274
Concessions	3,031,576	-	3,031,576
Interest	38,336,717	37,221,895	75,558,612
Gain (Loss) on Sale of Investments	(4,977,588)	1,472,782	(3,504,806)
Miscellaneous	2,868,573	-	2,868,573
Total Increases	606,954,360	38,694,677	645,649,037
DECREASES			
Engineering and Maintenance of Roadway and Structures	35,558,553	-	35,558,553
Services and Toll Collection	85,886,665	-	85,886,665
Traffic Control, Safety Patrol, and Radio Communications	19,145,475	-	19,145,475
Procurement, IT, Finance and Administration	23,278,873	-	23,278,873
Insurance and Employee Benefits	49,640,432	-	49,640,432
Construction	179,252,023	848,696,845	1,027,948,868
Bond Principal Payments	45,035,000	-	45,035,000
Bond Interest and Other Financing Costs	100,516,132	-	100,516,132
Total Decreases	538,313,153	848,696,845	1,387,009,998
NET INCREASES (DECREASES)	68,641,207	(810,002,168)	(741,360,961)
OTHER CHANGES IN NET ASSETS			
Proceeds from Bond Sale	-	1,000,000,000	1,000,000,000
Premium Received from Bond Sale	-	40,019,000	40,019,000
Bond Issuance Costs	-	(8,580,564)	(8,580,564)
Account Transfers In (Out)	56,805,992	(56,805,992)	-
	56,805,992	974,632,444	1,031,438,436
CHANGE IN NET ASSETS	125,447,199	164,630,276	290,077,475
NET ASSETS, JANUARY 1	512,658,069	1,658,278,771	2,170,936,840
NET ASSETS, DECEMBER 31	\$ 638,105,268	\$ 1,822,909,047	\$ 2,461,014,315

Illinois State Toll Highway Authority
Schedule of Changes in Net Assets - Revenue Fund - By Account
Trust Indenture Basis of Accounting (Non GAAP)
For the Year Ended December 31, 2007

	Revenue Fund and Accounts							
	Revenue Account	Maintenance and Operations		Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement	Total
		Operating Sub Account	Operating Reserve Sub Account					
INCREASES								
Toll Revenue	\$ 572,092,902	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 572,092,902
Toll Evasion Recovery	10,080,426	-	-	-	-	-	-	10,080,426
Concessions	3,788,756	-	-	-	-	-	-	3,788,756
Interest	8,032,102	-	-	3,197,469	9,755,851	23,331,687	5,529,341	49,846,450
Miscellaneous	1,985,523	-	-	-	-	-	-	1,985,523
Intrafund Transfers	(595,991,375)	218,368,731	-	172,695,686	-	175,000,000	29,926,958	-
Total Increases	(11,666)	218,368,731	-	175,893,155	9,755,851	198,331,687	35,456,299	637,794,057
DECREASES								
Engineering and Maintenance of Roadway and Structures	-	44,833,917	-	-	-	-	-	44,833,917
Services and Toll Collection	-	79,537,865	-	-	-	-	-	79,537,865
Traffic Control, Safety Patrol, and Radio Communications	-	21,246,925	-	-	-	-	-	21,246,925
Procurement, IT, Finance and Administration	-	24,261,781	-	-	-	-	-	24,261,781
Insurance and Employee Benefits	-	52,414,462	-	-	-	-	-	52,414,462
Construction Expenses	-	-	-	-	-	71,143,122	(12,850,860)	58,292,262
Bond Principal Payments	-	-	-	47,350,000	-	-	-	47,350,000
Interest and Other Financing Costs	-	-	-	114,657,361	-	-	-	114,657,361
Total Decreases	-	222,294,950	-	162,007,361	-	71,143,122	(12,850,860)	442,594,573

(Continued)

Illinois State Toll Highway Authority
Schedule of Changes in Net Assets - Revenue Fund - By Account (Continued)
Trust Indenture Basis of Accounting (Non GAAP)
For the Year Ended December 31, 2007

	Revenue Fund and Accounts							
	Revenue Account	Maintenance and Operations		Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement	Total
		Operating Sub Account	Operating Reserve Sub Account					
NET INCREASE (DECREASE)	(11,666)	(3,926,219)	-	13,885,794	9,755,851	127,188,565	48,307,159	195,199,484
Non-operating Expense	-	-	-	-	-	-	(5,710,121)	(5,710,121)
Account Transfers In (Out)	-	-	-	-	38,564,700	-	-	38,564,700
CHANGE IN NET ASSETS	(11,666)	(3,926,219)	-	13,885,794	48,320,551	127,188,565	42,597,038	228,054,063
NET ASSETS, JANUARY 1	109,590	8,008,852	17,000,000	48,353,360	179,676,763	224,457,871	160,498,832	638,105,268
NET ASSETS, DECEMBER 31	\$ 97,924	\$ 4,082,633	\$ 17,000,000	\$ 62,239,154	\$ 227,997,314	\$ 351,646,436	\$ 203,095,870	\$ 866,159,331

Illinois State Toll Highway Authority
Schedules of Changes in Net Assets - Revenue Fund - By Account
Trust Indenture Basis of Accounting (Non GAAP)
For the Year Ended December 31, 2006

	Revenue Fund and Accounts							
	Revenue Account	Maintenance and Operations		Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement	Total
		Operating Sub Account	Operating Reserve Sub Account					
INCREASES								
Toll Revenue	\$ 567,499,808	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 567,499,808
Toll Evasion Recovery	195,274	-	-	-	-	-	-	195,274
Concessions	3,031,576	-	-	-	-	-	-	3,031,576
Interest	6,582,483	-	-	2,171,146	6,976,235	11,545,034	11,061,819	38,336,717
Miscellaneous	2,868,573	-	-	-	-	-	-	2,868,573
Gain (Loss) on Sale of Investments	-	-	-	-	(4,977,588)	-	-	(4,977,588)
Intrafund Transfers	(640,590,068)	214,259,439	-	144,515,994	-	175,000,000	106,814,635	-
Total Increases	(60,412,354)	214,259,439	-	146,687,140	1,998,647	186,545,034	117,876,454	606,954,360
DECREASES								
Engineering and Maintenance of Roadway and Structures	-	35,558,553	-	-	-	-	-	35,558,553
Services and Toll Collection	-	85,886,665	-	-	-	-	-	85,886,665
Traffic Control, Safety Patrol, and Radio Communications	-	19,145,475	-	-	-	-	-	19,145,475
Procurement, IT, Finance and Administration	-	23,278,873	-	-	-	-	-	23,278,873
Insurance and Employee Benefits	-	49,640,432	-	-	-	-	-	49,640,432
Construction Expenses	-	-	-	-	-	65,824,926	113,427,097	179,252,023
Bond Principal Payments	-	-	-	45,035,000	-	-	-	45,035,000
Interest and Other Financing Costs	-	-	-	99,350,874	1,165,258	-	-	100,516,132
Total Decreases	-	213,509,998	-	144,385,874	1,165,258	65,824,926	113,427,097	538,313,153

(Continued)

Illinois State Toll Highway Authority
Schedules of Changes in Net Assets - Revenue Fund - By Account (Continued)
Trust Indenture Basis of Accounting (Non GAAP)
For the Year Ended December 31, 2006

	Revenue Fund and Accounts							Total
	Revenue Account	Maintenance and Operations		Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement	
		Operating Sub Account	Operating Reserve Sub Account					
NET INCREASE (DECREASE)	(60,412,354)	749,441	-	2,301,266	833,389	120,720,108	4,449,357	68,641,207
Account Transfers In (Out)	-	-	-	-	56,805,992	-	-	56,805,992
CHANGE IN NET ASSETS	(60,412,354)	749,441	-	2,301,266	57,639,381	120,720,108	4,449,357	125,447,199
NET ASSETS, JANUARY 1	60,521,944	7,259,411	17,000,000	46,052,094	122,037,382	103,737,763	156,049,475	512,658,069
NET ASSETS, DECEMBER 31	\$ 109,590	\$ 8,008,852	\$ 17,000,000	\$ 48,353,360	\$ 179,676,763	\$ 224,457,871	\$ 160,498,832	\$ 638,105,268

Illinois State Toll Highway Authority

Notes to the Trust Indenture Basis Schedules December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting

Under the provisions of the Trust Indenture, the basis of accounting followed for the Construction Fund and the Revenue Fund within the Schedule of Changes in Net Assets by Account, 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. Principal retirements on revenue bonds are expensed when paid.
4. Bond proceeds (including premiums) are recorded as income in the year received.
5. Unrealized gains and losses on debt reserve invested funds are netted against interest and other financing costs.
6. Bond issuance costs are expensed as incurred.
7. Capital lease obligations are not recorded. Payments under capital leases are expensed in the period payments are made.

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

Illinois State Toll Highway Authority

Notes to the Trust Indenture Basis Schedules December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Revenue Fund

All revenues received by the Tollway other than investment income shall be delivered by the Tollway to the Treasurer, for deposit in the Revenue Fund. On or before the 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 Reserve Account, an amount sufficient to cause the balance in it to equal the debt reserve requirement and to make reimbursement to providers of reserve account credit facilities.
- H. To the Junior Bond Debt Service or Junior Bond Debt Reserve Account, any amounts required by supplemental indentures.
- I. To the Renewal and Replacement Account, one-twelfth the portion of the renewal and replacement amount set forth in the annual budget for the fiscal year.
- J. The balance of such amounts in the Revenue Funds are to be applied as follows:
 - 1) To the credit of the Improvement Account for allocation to a project as determined by the Tollway in its sole discretion, until the balance in the Account is equal to the improvement requirement or a lesser amount as the Tollway may from time to time determine.
 - 2) To the credit of the System Reserve Account, the entire amount remaining in the Revenue Fund after depositing or allocating all amounts required to be deposited to the credit of the above Accounts and Sub-Accounts.

Illinois State Toll Highway Authority

Notes to the Trust Indenture Basis Schedules
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Maintenance and Operation Account

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

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

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

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

Debt Service Account

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

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

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

Renewal and Replacement Account

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

Improvement Account

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

Illinois State Toll Highway Authority

Notes to the Trust Indenture Basis Schedules
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

System Reserve Account

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

The Construction Fund

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

In 2007, fund balances attributed to the original I-355 and Tri-State Widening have been closed out of the construction fund. The effect is to decrease the fund balance in the construction fund by \$1.2 billion dollars. These projects have been completed for many years. Management believes that closing these amounts out of the construction fund will provide financial statement readers with a better understanding of activity within the construction fund.

NOTE 2 – NON-OPERATING EXPENSE:

A non-operating expense of \$5,710,121 was recorded in the improvement column of the 2007 Changes in Net Assets – Revenue Fund. The amount represents \$11.5 million miscellaneous expense incurred in 2007 less \$5.8 million of miscellaneous revenue in 2006. Both items are comprised of non-cash adjustments of various balance sheet items to proper amounts in each of the years.

Illinois State Toll Highway Authority
Schedules of Toll Revenue by Class of
Vehicles and Other Revenue Sources (Unaudited)
For the Years Ended December 31, 2007 and 2006

Class of Vehicle	2007		2006	
	Average Daily Transactions*	Revenue	Average Daily Transactions*	Revenue
1. Auto, motorcycle, taxi, station wagon, ambulance, single-unit truck or tractor: 2 axles, 4 tires	1,906,999	\$ 321,007,724	1,859,001	\$ 324,556,673
2. Single-unit truck or tractor, buses: 2 axles, 6 tires	39,418	15,630,495	37,006	15,605,892
3. Trucks and buses with 3 & 4 axles	35,092	23,157,858	34,798	24,375,926
4. Trucks with 5 or more axles, other vehicles and toll adjustments	178,195	212,296,825	162,689	202,961,317
TOTAL	2,159,704	572,092,902	2,093,494	567,499,808
<u>Other Revenues</u>				
Concessions		3,788,756		3,031,576
Toll Evasion Recovery		10,080,426		195,274
Interest - Revenue Fund		49,846,450		38,336,717
Miscellaneous		1,985,523		(2,109,015)
TOTAL		\$ 637,794,057		\$ 606,954,360

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

Illinois State Toll Highway Authority
Schedules of Capital Assets by Source
December 31, 2007 and 2006

	2007	2006
Capital Assets:		
Land and Improvements	\$ 282,676,939	\$ 272,467,772
Buildings	39,034,345	38,819,751
Infrastructure	5,598,431,555	4,668,418,027
Vehicles	40,558,415	36,190,426
Office Equipment	4,329,976	4,259,274
Information Systems	123,974,075	145,668,854
Construction in Progress	<u>660,331,366</u>	<u>549,346,788</u>
Total Capital Assets	<u>\$ 6,749,336,671</u>	<u>\$ 5,715,170,892</u>
Capital Assets Provided From:		
Bond Proceeds net of related Interest Income	\$ 3,608,751,575	\$ 2,567,059,992
Revenues	<u>3,140,585,096</u>	<u>3,148,110,900</u>
Total Sources of Capital Assets	<u>\$ 6,749,336,671</u>	<u>\$ 5,715,170,892</u>

Illinois State Toll Highway Authority
Schedules of Changes in Capital Assets
For the Years Ended December 31, 2007 and 2006

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006	Additions	Deletions	Balance December 31, 2007
Land and Improvements	\$ 197,433,642	\$ 75,034,130	\$ -	\$ 272,467,772	\$ 11,286,847	\$ (1,077,680)	\$ 282,676,939
Buildings	35,910,896	2,908,855	-	38,819,751	214,594	-	39,034,345
Infrastructure	3,749,497,317	949,470,340	(30,549,630)	4,668,418,027	937,216,459	(7,202,931)	5,598,431,555
Vehicles	28,080,873	8,498,062	(388,509)	36,190,426	9,968,771	(5,600,782)	40,558,415
Office Equipment	4,259,274	-	-	4,259,274	366,431	(295,729)	4,329,976
Information Systems	159,886,504	14,593,812	(28,811,462)	145,668,854	19,074,869	(40,769,648)	123,974,075
Construction in Progress	540,620,699	369,711,691	(360,985,602)	549,346,788	906,656,166	(795,671,588)	660,331,366
TOTAL CAPITAL ASSETS	\$ 4,715,689,205	\$ 1,420,216,890	\$ (420,735,203)	\$ 5,715,170,892	\$ 1,884,784,137	\$ (850,618,358)	\$ 6,749,336,671

Illinois State Toll Highway Authority
 Rehabilitation Repair and Replacement Program (Unaudited)
 For the Years Ended December 31, 1996 Through 2007

Year	Total Funds Credited (1)
1996	\$ 71,480,356
1997	31,632,184
1998	30,493,591
1999	59,505,292
2000	87,517,692
2001	91,073,256
2002	121,375,438
2003	157,366,445
2004	157,375,682
2005	204,609,580
2006	186,545,035
2007	198,331,687
	\$ 1,397,306,238

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

Note: The above amounts represent revenue allocated to the renewal and replacement fund.

Illinois State Toll Highway Authority
 Summary of Operating Revenues, Maintenance and Operating Expenses, Net
 Operating Revenues and Debt Service Coverage - Trust Indenture Basis (Unaudited)
 For the Years Ended December 31, 2003 Through 2007
 (Amounts in Thousands)

	2007	2006	2005	2004	2003
Operating Revenue:					
Toll Revenue	\$ 572,093	\$ 567,500	\$ 580,442	\$ 391,586	\$ 377,454
Toll Evasion Recovery	10,080	195	13,257	16,035	37,249
Concession & Other Revenue	5,775	2,395	8,014	6,627	7,563
Interest Income (1)	49,846	38,336	11,321	9,179	8,538
Total Operating Revenue	<u>\$ 637,794</u>	<u>\$ 608,426</u>	<u>\$ 613,034</u>	<u>\$ 423,427</u>	<u>\$ 430,804</u>
Maintenance and Operating Expenses:					
Engineering and Maintenance	\$ 44,834	\$ 35,559	\$ 31,644	\$ 32,580	\$ 35,275
Toll Services	79,538	85,887	86,089	81,691	75,011
Police, Safety and Communication	21,247	19,145	18,034	15,341	16,147
Procurement, IT, Finance and Administration	24,262	23,279	27,698	20,933	19,524
Insurance and Employee Benefits	52,414	49,640	42,110	47,757	41,343
Total Expenses	<u>222,295</u>	<u>213,510</u>	<u>205,575</u>	<u>198,302</u>	<u>187,300</u>
Net Operating Revenues	<u>\$ 415,499</u>	<u>\$ 394,916</u>	<u>\$ 407,459</u>	<u>\$ 225,125</u>	<u>\$ 243,504</u>
Total Debt Service (2)	\$ 195,493	\$ 119,362	\$ 99,366	\$ 48,380	\$ 109,552 (3)
Net Revenues After Debt Service (2)	\$ 220,006	\$ 275,554	\$ 308,093	\$ 176,745	\$ 133,952
Debt Service Coverage (2)	2.125	3.309	4.101	4.653	2.223

Source: Information was obtained from the Trust Indenture supplementary schedule of the Tollway.

(1) - Excludes interest income on construction funds.

(2) - Includes an annual synthetic fixed interest rate of 4.92% on the 1993 Series B Bonds as determined under the 1993 Swap Agreement and an annual synthetic fixed interest rate of 4.325% on the 1998 Series B Bonds as determined under the 1998 Swap Agreement.

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

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

For Selected Years From 1964 to 2007
(Transactions in thousands)

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

In 2003, a new Integrated Toll Collection System was completed which classified vehicles by axle counts in relation to the toll paid by each vehicle. In 2003 and 2004, commercial vehicle counts were inflated by the new classification system due to passenger vehicle overpayments at ramp plazas. Due to the toll increase in January 2005, the classification system is able to more accurately record passenger and commercial vehicle counts for 2005 and beyond. The Tollway estimates that about 50% of the decline in commercial vehicle transactions between 2004 and 2005 can be attributed to the over count of commercial vehicles and the corresponding under count of passenger vehicles in 2004.

In 2006, the Tollway implemented one-way tolling at the Belvidere and Marengo toll plazas, so that drivers pay only westbound tolls at Belvidere and eastbound tolls at Marengo. This resulted in an estimated 14.6 million reduction in transactions. The toll rates at Belvidere and Marengo were doubled in conjunction with the conversion.

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

For Selected Years From 1964 to 2007
(Dollars in thousands)

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

Illinois State Toll Highway Authority
 Operating Revenues, Maintenance and Operating
 Expenses and Net Operating Revenues¹ (Unaudited)

For Selected Years From 1964 to 2007
 (Dollars in thousands)

Year	Operating Revenue	Maintenance and Operating Expenses	Net Operating Revenues
1964	\$ 32,135	\$ 6,832	\$ 25,303
1969	57,395	13,015	44,380
1974	72,737	23,715	49,022
1979	100,436	39,733	60,703
1984	162,108	56,639	105,469
1989	254,734	85,065	169,669
1994	309,949	116,996	192,953
1995	341,636	121,103	220,533
1996	343,743	127,704	216,039
1997	352,176	131,437	220,739
1998	362,726	134,334	228,392
1999	366,092	146,881	219,211
2000	398,215	150,372	247,843
2001	389,827	160,565	229,262
2002	381,329	166,009	215,320
2003	430,804	187,300	243,504
2004	423,427	198,302	225,125
2005	613,034	205,575	407,459
2006	608,426	213,510	394,916
2007	637,794	222,295	415,499

(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

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

Illinois State Toll Highway Authority

Schedule of Cash and Cash Equivalents Balances

December 31, 2007 (with summary totals for 2006)

	Carrying Amount	Financial Institution Balances
Cash (Unrestricted):		
Currency and Coin on Hand		
Change funds at toll plazas and Administrative Building	\$ 515,900	\$ 515,900
Petty Cash	1,450	1,450
Cash in Banks		
Bank of America - New Segments Account	8,171,496	9,822,992
Bank of America - Revolving Accounts	12,930,521	4,319,826
Bank of America - Treasurer Accounts *	(10,218,582)	11,884
Bank of America - Risk Management Account	10,993,436	10,993,436
Cash Equivalents (Unrestricted):		
Illinois Funds	6,278,587	
Certificates of Deposits - Treasurer Accounts *	11,265,000	11,265,000
Wells Fargo - Repurchase Agreements - Treasurer Accounts *	409,343,320	409,295,000
Wells Fargo - Checking	18,853	18,854
Total cash and cash equivalents (Unrestricted)	449,299,981	446,244,342
Cash (Restricted):		
Bank of America - Restricted for IPASS Accounts	3,192,446	2,825,490
US Bank - Restricted for IPASS Accounts	34,688	34,688
Total Cash (Restricted)	3,227,134	2,860,178
Cash Equivalents (Restricted):		
Restricted for Debt Service		
Bank of New York Market Accounts:		
Priority Debt Reserve	56,547,285	56,547,285
Debt Reserve	28,383,331	28,383,331
Priority Debt Service	38,036,771	38,036,771
Debt Service	84,362,257	84,362,257
Total Restricted for Debt Service	207,329,644	207,329,644
Restricted for Construction		
Federated Money Market Accounts	158,273,478	158,273,478
Goldman Sachs Money Market Accounts	502,155,639	502,155,639
Total Restricted for Construction	660,429,117	660,429,117
Illinois Funds - Restricted for IPASS Accounts	52,907,030	59,185,617
Total cash and cash equivalents (Restricted)	923,892,925	929,804,556
Total Cash and Cash Equivalents at December 31, 2007	\$ 1,373,192,906	\$ 1,376,048,898
Total Cash and Cash Equivalents at December 31, 2006	\$ 1,514,805,553	\$ 1,522,564,967

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

Illinois State Toll Highway Authority

Schedule of Investment Depositories

December 31, 2007 (with summary totals for 2006)

	Year End Interest Rates	Carrying Amount (Fair Value)
Locally Held at		
Bank of New York		
U.S. Treasury and Agency issues:		
Priority Debt Reserve	4.875%-6.160%	\$ 66,228,981
Debt Reserve	3.750%-6.160%	73,860,301
		<u>140,089,282</u>
U.S. Agency issues- Restricted for IPASS Accounts		<u>52,731,300</u>
Total Investments at December 31, 2007		<u><u>\$ 192,820,582</u></u>
Total Investments at December 31, 2006		<u><u>\$ 159,627,367</u></u>

Illinois State Toll Highway Authority

Schedule of Commodities Inventory

December 31, 2007 and 2006

Location	2007	2006
Central Warehouse	\$ 777,250	\$ 739,222
Maintenance Buildings	5,015,574	6,244,694
Electrical Shops	265,570	325,856
Central Sign Shop	940,096	1,080,694
Carpenter Shop	177,328	150,153
Telecommunications	389,671	328,473
Central Garage	275,242	251,605
Helicopter	<u>17,009</u>	<u>17,436</u>
Total Commodities Inventory at December 31	<u>\$ 7,857,740</u>	<u>\$ 9,138,133</u>

Illinois State Toll Highway Authority

Schedule of Accounts Receivable

December 31, 2007 and 2006

	AGING			Gross Total	Allowance for Doubtful Accounts	Net Receivables
	0-180 Days	180-365 Days	Over One Year			
Tolls	\$ 13,840,463	\$ -	\$ 661,790	\$ 14,502,253	\$ (2,005,643)	\$ 12,496,610
Toll Evasion	9,959,806	6,429,884	35,630,080	52,019,770	(42,059,964)	9,959,806
Oases Receivable	315,905	540,000	-	855,905	(540,000)	315,905
Damage Claims/Emergency Services	381,473	309,133	1,671,674	2,362,280	(2,562,254)	(199,974)
Insufficient IPass	-	142,638	745,474	888,112	(888,112)	-
Overweight Tickets	-	22,011	950,320	972,331	(972,331)	-
Overdimension Vehicle Permits	27,775	400	7,900	36,075	-	36,075
Fiber Optic	6,185	-	-	6,185	-	6,185
Worker's Compensation	32,588	-	-	32,588	-	32,588
Other	3,164,741	919,004	130,652	4,214,397	(1,082,450)	3,131,947
Total Accounts Receivable	<u>27,728,936</u>	<u>8,363,070</u>	<u>39,797,890</u>	<u>75,889,896</u>	<u>(50,110,754)</u>	<u>25,779,142</u>
IAG Agencies	6,331,126	-	-	6,331,126	-	6,331,126
State of Illinois	421,663	-	-	421,663	-	421,663
DuPage County	5,000,000	-	-	5,000,000	-	5,000,000
Total Intergovernmental Receivables	<u>11,752,789</u>	<u>-</u>	<u>-</u>	<u>11,752,789</u>	<u>-</u>	<u>11,752,789</u>
Total Receivables at December 31, 2007	<u>\$ 39,481,725</u>	<u>\$ 8,363,070</u>	<u>\$ 39,797,890</u>	<u>\$ 87,642,685</u>	<u>\$ (50,110,754)</u>	<u>\$ 37,531,931</u>
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>

Illinois State Toll Highway Authority

Schedule of Changes in Capital Assets
Year Ended December 31, 2007

Acct #	Fixed Assets by Type	Balance January 1	Additions	Deletions	Balance December 31
8100	Office Furn. and Fixtures	\$ 10,962,843	\$ 96,000	\$ (87,886)	\$ 10,970,957
8200	Data Proc. Equipment	77,862,814	3,492,174	(48,997)	81,305,991
8300	Cash Handling	254,323	-	(68,589)	185,734
8350	Telecommunication	2,699,727	-	(116,485)	2,583,242
8400	Toll Collection	6,504,240	3,780,172	-	10,284,412
8500	Garage and Shop	918,726	70,950	(5,921)	983,755
8520	Bldg. and Bldg. Maintenance	53,415	-	-	53,415
8550	Bldg. and Bldg. Maintenance	165,641	-	(35,000)	130,641
8700	Autos	7,353,040	822,853	(2,078,738)	6,097,155
8750	Police Car Equipment	64,906	-	-	64,906
8800	Trucks	28,837,384	7,000,438	(3,054,581)	32,783,241
8900	Roadway Equipment	9,495,830	1,586,456	(509,297)	10,572,989
Total Equipment		145,172,889	16,849,043	(6,005,494)	156,016,438
	Buildings and Infrastructure	4,707,237,778	937,431,053	(7,202,931)	5,637,465,900
	Land and Land Improvements	272,467,772	11,286,847	(1,077,680)	282,676,939
	Toll Collection Equipment	14,190,155	2,093,739	(14,190,155)	2,093,739
	Capital Leases	26,470,510	-	(26,470,510)	-
	Construction in Progress	549,346,788	906,656,166	(795,671,588)	660,331,366
	Reciprocity Server (IAG)	285,000	14,590	-	299,590
	Next Generation Network	-	2,859,637	-	2,859,637
	TIMS	-	265,259	-	265,259
	Various Machinery & Equipment	-	124,636	-	124,636
	Web and E-Commerce	-	952,266	-	952,266
	Disaster Recovery	-	224,292	-	224,292
	Contingency Software	-	14,004	-	14,004
	RITE System	-	4,709,055	-	4,709,055
	Unisys Mainframe	-	1,303,550	-	1,303,550
Total Capital Assets		\$ 5,715,170,892	\$ 1,884,784,137	\$ (850,618,358)	\$ 6,749,336,671

Illinois State Toll Highway Authority

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 \$10,590,000 and \$10,388,000 for the State's fiscal years 2007 and 2006, respectively. The Tollway's share of the total cost of identified State services was 2.387% for 2007 and 2.51% for 2006.

The table on the next page details the calculation for 2007. 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

State Administrative Chargeback

For the Year Ended June 30, 2007

State Agency	FY 2007 Total GRF w/o Grants (\$ in 000's)	Allocation to Tollway at 2.387%** (\$ in 000's)
Office of the Secretary of State (SOS)	\$ 100,330	\$ 2,395
Department of Natural Resources (DNR)	74,612	1,781
Central Management Services (CMS)	64,266	1,534
General Assembly	48,808	1,165
Illinois State Police (ISP)	45,481	1,085
Office of the State Comptroller (OSC)	26,478	632
Office of the State Treasurer (OST)	23,524	562
Illinois Historic Preservation Agency (IHPA)	12,994	310
Department & Commission of Human Rights	8,244	197
Office of the Governor	7,712	184
Office of the Auditor General (OAG)	7,684	183
Legislative Information System (LIS)	6,490	155
Illinois Emergency Management Agency (IEMA)	5,513	132
Illinois Department of Transportation (IDOT)	2,821	67
Office of Management and Budget (GOMB)	2,734	65
Legislative Reference Bureau (LRB)	2,345	56
Government Forecasting and Accountability Comm.	1,368	33
Joint Committee on Administrative Rules	1,157	28
Environmental Protection Agency (EPA)	829	20
Legislative Audit Commission (LAC)	258	6
Total	\$ 443,648	\$ 10,590

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

Illinois State Toll Highway Authority

Explanation of Significant Variations in Asset Accounts
December 31, 2007 and 2006

	December 31,		Increase/ (Decrease)	Percentage Change
	2007	2006		
Assets				
Cash and Cash Equivalents	\$ 438,306,545	\$ 553,378,025	\$ (115,071,480)	-21%
Intergovernmental Receivables	11,752,789	1,439,431	10,313,358	716%
Accrued Interest Receivable	587,992	171,628	416,364	243%
Risk Management Reserved Cash	10,993,436	8,686,324	2,307,112	27%
Prepaid Expense	9,799,766	13,310,678	(3,510,912)	-26%
Cash and Cash Equivalents Restricted for Debt Service	207,329,644	148,776,433	58,553,211	39%
Accrued Interest Receivable - Restricted	3,930,744	21,151,321	(17,220,577)	-81%
Other Capital Assets - Net of accumulated depreciation	3,014,215,182	2,275,039,476	739,175,706	32%

Cash and Cash Equivalents	During 2007, the Tollway proceeded with the Congestion Relief Program. Payments for construction projects were made out of current revenues as well as bond proceeds. These outlays led to a decrease in cash balances.
Intergovernmental Receivables	The Tollway books as receivables reimbursements due from its cash held by the State Treasurer. In addition, a \$5 million receivable due from DuPage County existed at the end of fiscal year 2007. This payment was received in January 2008.
Accrued Interest Receivable	The increase is due to the Tollway's larger investment balances at the end of fiscal year 2007 compared to fiscal year 2006.
Risk Management Reserved Cash	The increase is due to the requirements actuarially determined at the end of the fiscal year for claims incurred but not reported.
Prepaid Expense	In 2007, the state administrative charge is reflected as an accrued expense compared to a prepaid expense at the end of 2006.
Cash and Cash Equivalents Restricted for Debt Service	The increase is due to invested bond proceeds from the 2007 issue that are restricted under the Trust Indenture.
Accrued Interest Receivable - Restricted	During 2007, debt reserve investments earning relatively high rates matured and could not be replaced with securities yielding more than short-term money market funds. As a result of lower yields, year-end to year-end, amounts receivable declined noticeably.
Other Capital Assets-Net of Accumulated Depreciation	The increase is due to infrastructure assets placed in service during 2007 with the completion of the I-355 south extension.

Note: Variances over 20% are considered significant.

Illinois State Toll Highway Authority

Explanation of Significant Variations in Liability Accounts
December 31, 2007 and 2006

	December 31,		Increase	Percentage
	2007	2006	(Decrease)	Change
Liabilities				
Accounts Payable	\$ 25,404,871	\$ 14,668,411	\$ 10,736,460	73%
Current Portion of Capital Lease Obligations	-	2,566,807	(2,566,807)	-100%
Risk Management Claims Payable	10,688,930	8,618,373	2,070,557	24%
Pension Benefit Obligation	40,720	76,035	(35,315)	-46%
Revenue Bonds Payable	2,985,030,000	2,335,060,000	649,970,000	28%
Capital Lease Obligations, less current portion	-	1,448,743	(1,448,743)	-100%

Accounts Payable	The increase is due to larger construction payables in 2007 as a result of the ongoing Congestion-Relief Program.
Current Portion of Capital Lease Obligations	All capital leases in force at the end of fiscal year 2006 were terminated during fiscal year 2007.
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.
Pension Benefit Obligation	This pension plan was terminated in 1997 and the liability balance is therefore in decline.
Revenue Bonds Payable	The increase is due to issuance of \$700 million revenue bonds during fiscal year 2007.
Capital Lease Obligations, less current portion	All capital leases in force at the end of fiscal year 2006 were terminated during fiscal year 2007.

Note: Variances over 20% are considered significant.

Illinois State Toll Highway Authority

Explanation of Significant Variations in Revenues and Expenses Years Ended December 31, 2007 and 2006

	2007	2006	Increase (Decrease)	Percentage Change
Toll Evasion Recovery	\$ 29,738,604	\$ 11,695,274	\$ 18,043,330	154%
Concessions	3,788,756	3,031,576	757,180	25%
Engineering and Maintenance of Roadway and Structures	44,833,917	35,261,319	9,572,598	27%
Procurement, IT, Finance and Administration	24,261,781	19,983,865	4,277,916	21%
Net Increase (Decrease) in Fair Value of Investments	3,297,367	(2,471,262)	5,768,629	-233%
Net Loss on Disposal of Property	(8,491,090)	(2,240,196)	(6,250,894)	279%
Interest Expense and Amortization of Financing Costs	(121,131,025)	(93,613,153)	(27,517,872)	29%
Miscellaneous Income (Expense) - Nonoperating	(11,461,519)	5,751,428	(17,212,947)	-299%

Toll Evasion Recovery	In 2007, the Tollway completed its violation system change over and resumed issuing violation notices.
Concessions	The increase is attributed to fiber optics and service station revenue.
Engineering and Maintenance of Roadway and Structures	The increase is due to increased salt, wages and fuel costs due to early winter snows. In addition, twelve months of state administrative charges were incurred during 2007.
Procurement, IT, Finance and Administration	The increase is due to twelve months of state administrative charge expense incurred during fiscal year 2007 compared to only six months incurred during fiscal year 2006.
Net Increase (Decrease) in Fair Value of Investments	In 2007, the investment value increased as a result of a declining rate environment.
Net Loss on Disposal of Property	The increase is due to the Tollway selling assets such as trucks, plows etc. through a consignment broker during 2007.
Interest Expense and Amortization of Financing Costs	The increase is due to a full year of interest paid on the \$1 billion of bonds issued in June 2006. In 2006, only 6 months of interest was expensed. The Tollway also expensed two months of interest on the 2007 bond issue.
Miscellaneous Income (Expense) - Nonoperating	The difference is the net effect of adjusting balance sheet accounts.

Illinois State Toll Highway Authority

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.
- 2007, \$700,000,000, Priority revenue bonds to pay the costs of the Congestion Relief Program.

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

Illinois State Toll Highway Authority

Analysis of Operations

TOLLWAY FUNCTIONS AND PLANNING PROGRAM (Continued)

The Tollway has the power and responsibility to establish and collect tolls sufficient to pay for maintenance, repairs, regulation, and operation of the toll highway system and to meet its requirements to fund bond principal and interest payments. During 2007, 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. The Tollway is currently in the process of competitively procuring a contractor to perform the traffic modeling services called for in this effort.

The Trust Indenture and the First, Second, Third, Fourth, Fifth, Sixth and 1996 and 1999 Amending Supplemental Indentures securing the 1985, 1986, 1987, 1992, 1993, 1996, 1998, 2005, 2006 and 2007 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

Analysis of Operations

Average Number of Employees by Function (Unaudited)

For the Year Ended December 31, 2007 and 2006

	Full-time		Part-time		Temporary and Temporary Replacements		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Tollway Employees								
Executive Director	4	3	-	-	-	-	4	3
Directors	10	10	-	-	-	-	10	10
Inspector General	11	12	-	-	-	-	11	12
Legal	12	12	-	-	-	-	12	12
State Police	16	16	-	-	-	-	16	16
Finance	49	51	-	-	-	-	49	51
Administration	139	35	-	-	-	1	139	36
Operations								
Toll Collectors	378	396	204	195	-	-	582	591
Plaza Supervisors and assistants	53	53	-	-	-	-	53	53
Other	35	178	-	-	-	-	35	178
Office of Info Tech	62	66	-	-	-	-	62	66
Engineering:								
Maintenance:								
Roadway	371	362	-	-	-	-	371	362
Transportation	65	69	-	-	-	-	65	69
Engineers	32	42	-	-	-	-	32	42
Others	70	62	-	-	-	-	70	62
Planning	18	15	-	-	-	-	18	15
Procurement	51	50	-	-	-	-	51	50
Communications	11	5	-	-	-	-	11	5
Violation Enforcement	48	12	-	-	-	-	48	12
Total Authority Employees	1,435	1,449	204	195	-	1	1,639	1,645
State Troopers	188	138	-	-	-	-	188	138
Total Personnel	1,623	1,587	204	195	-	1	1,827	1,783
Hourly base payroll	\$ 64,051,964	63.11%						
Overtime	14,233,183	14.02%						
Salaries	23,214,012	22.87%						
2007 Total Payroll	\$ 101,499,159	100.00%						
Hourly base payroll	\$ 50,902,359	54.39%						
Overtime	4,786,212	5.11%						
Salaries	37,894,240	40.49%						
2006 Total Payroll	\$ 93,582,811	100.00%						

EMERGENCY PURCHASES

The Tollway reported the following emergency purchases to the Office of the Auditor General during the fiscal year ended December 31, 2007:

Description	Cost
Fabricate signage for the I-355 extension	\$ 271,970
Full cube prismatic reflective sheeting for I-355 signage	60,799
Purchase four free-standing kiosks	96,000
Repairs to draingage pipe on I-90 westbound	85,338
Continuing maintenance of CAD system application	130,000
Batteries for the Tollway's UPS system	37,605
Repairs to soundwall at Lincoln Oasis	15,614
Repairs to arch corrugated metal pipes on Northwest Tollway	476,576
Repairs and calibration to pneumatic volume controllers of VAV boxes	<u>386,100</u>
Total	<u><u>\$ 1,560,002</u></u>

Illinois State Toll Highway Authority

Service Efforts and Accomplishments For the Year Ended December 31, 2007 (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 286.5 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, 2007.

1. The percentage of vehicles using I-PASS during rush hour: 83%
2. The percentage of vehicles using I-PASS for all hours: 80%
3. Number of Open Road Tolling (ORT) express lanes: 91
4. Travel Time Index Congestion Measure for the A.M. rush hour: 1.14
5. The average accident clearance time for personal injury incidents: 35.56 minutes.