McGladrey & Pullen
Certified Public Accountants

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

Financial Statements
For the Years Ended December 31, 2006 and 2005
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

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

Financial Statements
For the Year Ended December 31, 2006

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Agency Officials

Executive Director	
Through February 23, 2006	Jack Hartman
December 21, 2006 through current	Brian McPartlin
Acting Executive Director	
February 24, 2006 to March 29, 2006	Marilyn Johnson
March 30, 2006 to December 20, 2006	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

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.

Summary of Findings

The auditors identified matters involving the Tollway's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 74-86 of this report, as finding 06-1, *(Financial Reporting)*, finding 06-2, *(Capital Assets)*, finding 06-3, *(Lack of Detection Controls for Improper Transponder Use),* finding 06-4, *(Untimely Violation System Implementation)*, finding 06-5, *(Internal Auditing)*,and finding 06-6, *(Bank Reconciliations Not Completed Timely)*. The auditors also consider findings 06-1, 06-2 and 06-4 to be material weaknesses.

Exit Conference

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

Illinois State Toll Highway Authority

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

McGladrey & Pullen, LLP

Linda Abernethy, CPA	Partner
Heather Morandi	Supervisor

Office of the Auditor General

Thomas L. Kizziah, CPA	Audit Manager

A formal exit conference was waived by the Tollway.

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

McGladrey & Pullen
Certified Public Accountants

Independent 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, 2006 and 2005, 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, 2006 and 2005, 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 September 12, 2007 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 5-16 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 performed 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
September 12, 2007

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, 2006 and 2005. Readers should use this section of this report in conjunction with the Tollway's basic financial statements.

2006 FINANCIAL HIGHLIGHTS

- In 2006 the Tollway continued to implement its $5.3 billion Congestion-Relief Program. Authorized in 2004 by the Tollway's board, through year-end 2006 outlays were as follows:

	2006	2005	Total for program
Contract $ awarded	$1.038 billion	$1.107 billion	$2.662 billion
Contract $ paid out	$1.030 billion	$0.566 billion	$1.751 billion

- A major aspect of the Congestion-Relief Program was completion of the conversion in 2006 of 20 mainline toll plazas to Open Road Tolling, making Illinois the first state to implement a system-wide transition from traditional barrier-style plazas to a system that offers non-stop toll collection at highway speeds. As a result, tollpayers' travel times are reduced, fewer emissions are released into the air, and productivity across the Tollway's twelve-county area is enhanced.

- The year saw continued progress in the building of the I-355 South extension, which includes construction of a 1.3 mile six-lane bridge over the Des Plaines River Valley, as well as interchanges with I-55 and I-80. Construction is on schedule and within budget; completion is estimated for November 2007.

- The second and third series of toll revenue bonds (2006 Series A-1 and A-2, each in the amount of $500,000,000) in support of the Congestion-Relief Program were issued. This $1 billion in debt carries a true interest cost of 4.75%; principal retirements are scheduled to begin in 2018 and continue through 2031. The bonds fund the following components of the Congestion-Relief Program: system-wide Open Road Tolling; improvements to the Reagan Memorial Tollway (I-88); the extension of I-355 south to I-80; and other costs related to restoration or rebuilding of the system.

- Concomitant with the issuance of the 2006 Series A-1 and A-2 bonds, the Tollway's senior lien underlying credit rating was reported as follows: by Fitch Ratings – AA-; by Moody's Investor Services – Aa3; and by Standard & Poor's – AA-.

- Amounts on deposit on behalf of I-PASS account holders increased by 16% in 2006 to $111 million; the percentage of Tollway users paying by I-PASS was 78.4% at the end of 2006 (versus 74% at the end of 2005).

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:

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. For detail see operating income on page 19. 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 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.

2005 RESULTS COMPARED TO 2004

In 2005 the Tollway's operating revenues increased 46% to just over $612 million (up from almost $419 million in 2004). Most of this increase, $189 million, was due to changes in certain rates based on the principles of "Congestion Pricing," which charges higher rates for Commercial Vehicles using the Tollway system during peak time periods of daily travel in order to reduce congestion and expedite travel times. The daytime rates for the three Commercial Vehicle classes of large, medium, and small are $4.00, $2.25, and $1.50, respectively, at typical mainline plazas. The daytime Commercial Vehicle rates apply from 6:00 a.m. to 10:00 p.m. on weekdays and weekends. The corresponding overnight (10:00 p.m. to 6:00 a.m.) rates are discounted to $3.00, $1.75, and $1.00. Also Commercial Vehicles using I-PASS receive the discounted overnight toll rate during the off-peak hours of 9:00 a.m. to 3:30 p.m. and 6:30 p.m. to 10:00 p.m. on weekdays and 6:00 a.m. to 10:00 p.m. on weekends. This off-peak discount expires at the end of 2008. The new toll rate structure allows Passenger Vehicle I-PASS users to continue to pay at previously existing rates ($0.40 at most toll plazas), while Passenger Vehicle users paying with cash pay double the I-PASS rate.

Of other classes of operating revenues collected, recoveries from toll evaders were up 27% at almost $27 million (from $21 million in 2004), the result of consistent collection efforts. Lease payments received from oasis concessions were on a par, year to year, at $2.8 million in 2005 versus $2.7 million in 2004. Other miscellaneous revenues decreased by $1.2 million for a total of $2.3 million in 2005, versus $3.5 million the previous year.

OPERATING EXPENSES:

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 after inclusion of a $13 million Toll Evasion bad debt expense. 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%, $65 million decrease, from 2005.

2005 RESULTS COMPARED TO 2004

Operating expenses in total increased 7% year to year. This $25 million increase was mostly the result of: a $1.7 million increased outlay for rock salt; a $2 million increase in the costs of administering the violation enforcement effort; an $8.5 million increase in the allowance for doubtful accounts, mainly in respect of violation receivables that may not be collected; a $1.2 million increase in outlays for State Police services due to the addition of state troopers to District 15; a $.5 million for phone system upgrades, and a $9.4 million increase in depreciation expense created by approximately $200 million in depreciable capital assets placed into service during the year.

NON-OPERATING REVENUE AND EXPENSE:

2006 RESULTS COMPARED TO 2005

In 2006 these 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 and investment 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 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.

2005 RESULTS COMPARED TO 2004

As would be expected as the result of the June 2005 bond issuance, the proceeds of which were earmarked for capital expenditures and are invested until the completion of the related construction-investment income more than quadrupled to $32.3 million, versus $7.0 million in 2004. Similarly, with a large cash portfolio on hand during a time of generally increasing short-term rates, the fair value of investments decreased $2 million as of the 2005 balance sheet date.

Interest expense and other financing cost amortization were up 58% at $62.8 million, versus $39.8 million in 2004. All of this increase resulted from the additional $770 million of bonds issued mid-year. Overall, however, total non-operating expenses showed virtually no change at $32.4 million net expenses in 2005 and $31.1 million in 2004 as increased interest expense was offset by increased interest income.

All of these operating and non-operating activities resulted in a 2005 increase in the Tollway's net assets of $211.8 million, a substantially higher increase than that posted in 2004 of $44.2 million. The improved 2005 increase results from the combination of the 46% increase in total revenues offset by the 7% increase in total expenses.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
CHANGES IN NET ASSETS
For the Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004 as Restated
Revenues			
Operating Revenues:			
Toll Revenue	$ 567,499,808	$ 580,441,697	$ 391,586,232
Toll Evasion Recovery	11,695,274	26,737,437	21,034,678
Concessions	3,031,576	2,790,847	2,654,668
Miscellaneous	2,868,573	2,266,957	3,445,212
Nonoperating Revenues:			
Investment income	74,738,940	32,298,872	6,966,085
Net decrease in fair value of investments	(2,471,262)	(2,092,025)	(72,859)
Net gain (loss) on disposal of property	(2,240,196)	175,863	1,776,272
Miscellaneous	5,751,428	-	-
Total Revenues	660,874,141	642,619,648	427,390,288
Expenses			
Operating Expenses:			
Engineering and Maintenance of Roadway and Structures	35,261,319	34,886,799	32,579,707
Services and Toll Collection	95,662,840	96,196,860	83,913,805
Traffic Control, Safety Patrol, and Radio Communications	18,743,387	18,034,485	15,340,985
Procurement, IT, Finance, and Administration	19,983,865	22,018,346	20,933,265
Insurance and Employee Benefits	49,640,432	44,659,657	47,756,919
Depreciation and Amortization	186,283,372	152,195,010	142,835,466
Nonoperating Expenses:			
Interest expense and amortization of financing costs	93,613,153	62,796,040	39,768,842
Total Expenses	499,188,368	430,787,197	383,128,989
Income before special item	161,685,773	211,832,451	44,261,299
Special Item	-	-	(7,381,371)
Increase in Net Assets	161,685,773	211,832,451	36,879,928
Net Assets, beginning of year	1,771,950,569	1,560,118,118	1,523,238,190
Net Assets, end of year	$ 1,933,636,342	$ 1,771,950,569	$ 1,560,118,118

NET ASSETS:

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. The increase occurred despite a $14 million decrease in Toll Evasion Recovery (see page 6 for a discussion of 2006 Toll Evasion revenue). 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 deposits and 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.

2005 RESULTS COMPARED TO 2004

The Tollway's total assets increased almost $1.2 billion during the year 2005 primarily due to: 1) a $58 million dollar increase in unrestricted cash and a $713 million increase in restricted cash and investments-each a result of the June bond issue and each primarily held in respect of accrued liabilities or future capital outlays; and 2) growth in capital assets of $411 million, consisting largely of $358 million in construction in progress and $182 million of capitalized infrastructure, mostly relating to the Congestion-Relief Plan. This increase was offset by $152 million in depreciation and amortization for 2005.

Tollway liabilities increased $982 million as a result of the year's operating and financial activities. Current liabilities in total grew by $200 million, largely from: 1) a $94 million increase in accruals relating to increased construction activity and 2) a $23 million increase in amounts due to transponder holders, caused by incentives to use I-PASS for toll payment rather than cash. Long-term debt outstanding grew by approximately $782 million due to the Series 2005 bonds issued in June.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2006, 2005 and 2004

	2006	2005	2004, as Restated
Current and other assets	$ 1,774,056,501	$ 1,385,030,217	$ 602,402,207
Capital assets - net	3,096,854,036	2,262,248,823	1,851,284,953
Total assets	4,870,910,537	3,647,279,040	2,453,687,160
Current debt outstanding	49,916,807	47,308,867	17,894,080
Long-term debt outstanding	2,419,634,412	1,432,095,268	649,808,755
Other liabilities	467,722,976	395,924,336	225,866,207
Total Liabilities	2,937,274,195	1,875,328,471	893,569,042
Net Assets:			
Invested in capital assets, net of related debt	1,337,313,700	1,355,863,781	1,183,582,118
Restricted	249,169,152	167,271,355	74,848,940
Unrestricted	347,153,490	248,815,433	301,687,060
Total Net Assets	$ 1,933,636,342	$ 1,771,950,569	$ 1,560,118,118

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS:

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. See Note 5 for additional information.

2005 RESULTS COMPARED TO 2004

As of December 31, 2005, the Tollway owned $2.262 billion in capital assets, net of accumulated depreciation, of which 65% was infrastructure. The remainder consists of land, construction in progress, machinery and equipment, and buildings. See Note 5 for additional information.

IILLINOIS STATE TOLL HIGHWAY AUTHORITY
CAPITAL ASSETS
For the Year Ended December 31, 2006, 2005 and 2004

	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
	January 1, 2004 Net Balance	2004 Net Activity	2004 Depreciation	December 31, 2004 Net Balance (Restated)
Land	$ 192,135,453	$ 2,678,742	$ -	$ 194,814,195
Construction in Progress	183,433,984	(1,071,070)	-	182,362,914
Buildings	15,262,130	-	(1,795,545)	13,466,585
Infrastructure	1,369,600,238	144,644,476	(101,280,290)	1,412,964,424
Machinery and Equipment	69,705,274	(14,171,675)	(7,856,764)	47,676,835
Total	$ 1,830,137,079	$ 132,080,473	$ (110,932,599)	$ 1,851,284,953

LONG -TERM DEBT:

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 $5.3 billion Congestion-Relief Program. The Tollway senior lien bonds are rated AA- by Standard & Poor's, AA- by Fitch Ratings, and Aa3 by Moody's Investor Service as of December 31, 2006. 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, 2005, were approximately $4 million. See Note 6 for more information.

LONG -TERM DEBT (CONTINUED):

2005 RESULTS COMPARED TO 2004

The Tollway has issued several series of revenue bonds backed by pledged revenue and restricted funds as specified in its Trust Indenture. In June 2005, the Tollway issued the 2005 Series A bonds totaling $770 million par value of fixed-rate Senior Priority Revenue Bonds. These bonds were issued in order to finance a portion of the $5.3 billion Congestion-Relief Plan. The Tollway senior lien bonds are rated AA- by Standard & Poor's, AA- by Fitch Ratings, and Aa3 by Moody's Investor Service as of December 31, 2005. The total revenue bonds payable as of December 31, 2005 was approximately $1.4 billion. See Notes 7 & 9 for more information. The total amounts of capital leases payable as of December 31, 2005, were approximately $6 million. The only changes to the capital lease payable during the year were scheduled payments. See Note 6 for more information.

OTHER DEBT RELATED INFORMATION

The 1993 Series B and 1998 Series B bonds were issued as variable rate bonds. In conjunction with the issuance of these variable rate series, the Tollway entered into synthetic fixed rate interest rate exchange (swap) agreements totaling $ 301.3 million. In September 2005, the Tollway entered into four forward starting swap agreements totaling $700 million in order to support the Tollway's Congestion-Relief Plan. The Tollway utilized these strategies in order to hedge against rising interest rates and to reduce borrowing costs. 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. The December 31, 2006, 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 $4.2 million for the 1993 Series B and $6.2 million for the 1998 Series B agreements. If terminated on December 31, 2006, the fair market value of the four forward starting swap agreements would result in an aggregate payment of $1.6 million to be made by the respective counterparties to the Tollway.

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. The revenue bond coverage ratio for 2006 was 3.70.

IILLINOIS STATE TOLL HIGHWAY AUTHORITY

LONG TERM DEBT ANALYSIS

Decemeber 31, 2006, 2005 and 2004

	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

	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

LONG TERM DEBT ANALYSIS (Continued)

Decemeber 31, 2006, 2005 and 2004

	2004		
	Noncurrent	Current	Total
Revenue Bonds Payable			
Issue of 1992 Series A	$ 100,665,000	$ -	$ 100,665,000
Issue of 1993 Series B	178,200,000	-	178,200,000
Issue of 1996 Series A	57,500,000	12,580,000	70,080,000
Issue of 1998 Series A	197,980,000	875,000	198,855,000
Issue of 1998 Series B	123,100,000	-	123,100,000
Total Rev. Bonds Payable	657,445,000	13,455,000	670,900,000
Capital Lease Obligations			
Integrated Toll Collection System	6,289,417	2,014,360	8,303,777
Video Enforcement System	-	2,424,720	2,424,720
	6,289,417	4,439,080	10,728,497
Total Long-Term Debt	$ 663,734,417	$ 17,894,080	$ 681,628,497

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, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
CURRENT UNRESTRICTED ASSETS		
Cash and Cash Equivalents	$ 553,378,025	$ 425,153,914
Accounts Receivable, less allowance for doubtful accounts of $28,427,407 and $16,291,778 in 2006 and 2005 respectively	24,322,497	38,444,129
Intergovernmental Receivables	1,439,431	4,524,225
Accrued Interest Receivable	171,628	2,101,772
Current Portion of Leases Receivable	1,643,250	1,643,250
Risk Management Reserved Cash	8,686,324	19,226
Other Prepaid Expenses	13,310,678	4,969,494
Total Current Unrestricted Assets	602,951,833	476,856,010
CURRENT RESTRICTED ASSETS		
Cash and Cash Equivalents Restricted for Debt Service	148,776,433	114,014,999
Cash and Investments - I-PASS Accounts	111,434,388	96,320,201
Investments Restricted for Debt Service, at fair value	142,146,867	88,496,433
Accrued Interest Receivable	21,151,321	1,458,296
Cash and Cash Equivalents - Construction	710,010,883	573,019,093
Pension Benefit Assets	440,155	462,557
Total Current Restricted Assets	1,133,960,047	873,771,579
Total Current Assets	1,736,911,880	1,350,627,589
NONCURRENT ASSETS		
CAPITAL ASSETS		
Land, Improvements and Construction in Progress	821,814,560	738,054,341
Other Capital Assets, net of Accumulated Depreciation	2,275,039,476	1,524,194,482
Total Capital Assets, net	3,096,854,036	2,262,248,823
OTHER NONCURRENT ASSETS		
Leases Receivable, less current portion	27,176,899	28,820,149
Deferred Bond Issuance Costs, net of accumulated amortization of $15,972,036 and $15,607,068 in 2006 and 2005, respectively	9,967,722	5,582,479
Total Other Noncurrent Assets	37,144,621	34,402,628
Total Noncurrent Assets	3,133,998,657	2,296,651,451
TOTAL ASSETS	$ 4,870,910,537	$ 3,647,279,040

See accompanying notes to the financial statements.

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

LIABILITIES AND NET ASSETS	2006	2005
LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Current Assets:		
Accounts Payable	$ 14,668,411	$ 17,596,147
Accrued Liabilities	148,443,598	150,690,822
Accrued Compensated Absences	3,300,000	2,916,626
Current Portion of Capital Lease Obligations	2,566,807	2,273,867
Risk Management Claims Payable	8,618,373	6,328,224
Deposits and Retainage	69,084,120	33,613,448
Total Current Liabilities Payable from Unrestricted Current Assets	246,681,309	213,419,134
Payable from Current Restricted Assets:		
Pension Benefit Obligation	76,035	114,015
Current Portion of Revenue Bonds Payable	47,350,000	45,035,000
Accrued Interest Payable	63,269,589	37,046,915
Deposits and Deferred Revenue - I-PASS Accounts	111,434,388	96,320,201
Total Current Liabilities Payable from Current Restricted Assets	222,130,012	178,516,131
Total Current Liabilities	468,811,321	391,935,265
NONCURRENT LIABILITIES		
Revenue Bonds Payable, less current portion	2,335,060,000	1,382,410,000
Bond Premium, less deferred amount on refunding	83,125,669	45,669,718
Accrued Compensated Absences	2,400,000	2,130,015
Capital Lease Obligations, less current portion	1,448,743	4,015,550
Deferred Revenue, less accumulated amortization of $14,473,076 and $11,733,615 in 2006 and 2005 respectively	46,428,462	49,167,923
Total Noncurrent Liabilities	2,468,462,874	1,483,393,206
Total Liabilities	2,937,274,195	1,875,328,471
NET ASSETS		
Invested in Capital Assets, net of Related Debt	1,337,313,700	1,355,863,781
Restricted	249,169,152	167,271,355
Unrestricted	347,153,490	248,815,433
Total Net Assets	1,933,636,342	1,771,950,569
TOTAL LIABILITIES AND NET ASSETS	$ 4,870,910,537	$ 3,647,279,040

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, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Toll Revenue	$ 567,499,808	$ 580,441,697
Toll Evasion Recovery	11,695,274	26,737,437
Concessions	3,031,576	2,790,847
Miscellaneous	2,868,573	2,266,957
Total Operating Revenues	585,095,231	612,236,938
OPERATING EXPENSES		
Engineering and Maintenance of Roadway and Structures	35,261,319	34,886,799
Services and Toll Collection	95,662,840	96,196,860
Traffic Control, Safety Patrol and Radio Communications	18,743,387	18,034,485
Procurement, IT, Finance, and Administration	19,983,865	22,018,346
Insurance and Employee Benefits	49,640,432	44,659,657
Depreciation and Amortization	186,283,372	152,195,010
Total Operating Expenses	405,575,215	367,991,157
Operating Income	179,520,016	244,245,781
NONOPERATING REVENUES (EXPENSES)		
Investment Income	74,738,940	32,298,872
Net (Decrease) in Fair Value of Investments	(2,471,262)	(2,092,025)
Net Gain (Loss) on Disposal of Property	(2,240,196)	175,863
Interest Expense and Amortization of Financing Costs	(93,613,153)	(62,796,040)
Miscellaneous Income	5,751,428	-
Total Nonoperating Revenues (Expenses)	(17,834,243)	(32,413,330)
INCREASE IN NET ASSETS	161,685,773	211,832,451
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	-	1,560,118,118
NET ASSETS AT BEGINNING OF YEAR	1,771,950,569	-
NET ASSETS AT END OF YEAR	$ 1,933,636,342	$ 1,771,950,569

See accompanying notes to the financial statements.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Sales and Services	$ 639,014,310	$ 634,406,161
Cash Payments to Suppliers	(125,174,751)	(3,534,045)
Cash Payments to Employees	(91,929,311)	(98,566,235)
Net Cash Provided by Operating Activities	421,910,248	532,305,881
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(1,023,183,781)	(563,538,767)
Proceeds from Sale of Property	55,000	555,750
Proceeds from Sale of Bonds	1,000,000,000	770,000,000
Premium for Sale of Bonds	40,019,000	60,682,677
Principal paid on Capital Leases	(2,273,867)	(4,439,080)
Principal paid on Revenue Bonds	(45,035,000)	(13,455,000)
Interest Expense and Financing Costs paid on Revenue Bonds	(74,338,771)	(45,096,109)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(104,757,419)	204,709,471
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous Income	5,751,428	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investment Securities	(113,234,781)	(61,542,635)
Proceeds from Sales and Maturities of Investments	57,113,085	525,439
Interest on Investments	56,976,059	29,335,975
Net Cash Provided by (Used in) Investing Activities	854,363	(31,681,221)
NET INCREASE IN CASH AND CASH EQUIVALENTS	323,758,620	705,334,131
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,208,527,433	503,193,302
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,532,286,053	$ 1,208,527,433
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	$ 553,378,025	$ 425,153,914
Cash and Cash Equivalents Restricted for Debt Service	148,776,433	114,014,999
Cash and Cash Equivalents Restricted for Construction	710,010,883	573,019,093
Cash and Cash Equivalents - I-PASS Accounts	111,434,388	96,320,201
Risk Management Reserved Cash	8,686,324	19,226
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,532,286,053	$ 1,208,527,433

See accompanying notes to the financial statements.

(Continued)

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2006 and 2005

	2006	2005
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$ 179,520,016	$ 244,245,781
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	186,283,372	152,195,010
Provision for Bad Debt	12,775,995	13,480,578
Amortization of Deferred Revenue	(2,739,461)	(2,798,569)
Effects of Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,345,637	(20,186,493)
(Increase) Decrease in Intergovernmental Receivables	3,084,794	(4,522,469)
Decrease in Lease Receivable	1,643,250	1,494,250
(Increase) in Prepaid Expenses	(8,341,184)	(1,958,802)
Decrease in Net Assets Available for Pension Benefits	22,402	30,443
Increase (Decrease) in Accounts Payable	(2,927,736)	6,329,549
Increase (Decrease) in Accrued Liabilities	(2,247,224)	94,185,813
Increase (Decrease) in Accrued Compensated Absences	653,359	(812,053)
(Decrease) in Pension Obligation	(37,980)	(5,103)
Increase in Deposits and Retainage	35,470,672	22,973,179
Increase in Deposits and Deferred Revenue - I-PASS	15,114,187	25,209,325
Increase in Risk Management Claims Payable	2,290,149	2,445,442
Net Cash Provided by Operating Activities	$ 421,910,248	$ 532,305,881

The fair value of investments decreased by $1,645,236 and $2,092,025 in 2006 and 2005, respectively.
The interest paid on revenue bonds was $52,268,225 and $31,810,416 in 2006 and 2005, respectively.

See accompanying notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Tollway accounts for its operations and financings in a manner similar to private business enterprises, where 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.

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 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 year ended December 31, 2006.

Accounts Receivable

The Tollway's accounts receivable consists 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. Bad debt expense is recorded as a component of service and toll collection expense.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Previous to July 1, 2004, machinery and equipment expenses of $200 or more were 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	3 to 10 Years

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

Accounting for Leases

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.

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, 1998 Series A and B, 2005 Series A bonds and 2006 Series A-1 and Series A-2 bonds are amortized over the lives of the bonds, using the effective interest method. Portions of the bond issuance cost amortization incurred during the construction period are capitalized and amortized over the life of the related capitalized asset 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 period 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.

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.

Reclassifications

Net assets invested in capital assets, net of related debt and restricted net assets for the year ended December 31, 2005, have been reclassified with no effect on total net assets, to be consistent with the classifications reported for the year ended December 31, 2006.

NOTE 2 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that an institution holding Tollway deposits may fail and expose the Tollway to a loss if the Tollway's deposits were not returned. 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, 2006, the Tollway's deposits were not exposed to custodial credit risk.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Schedule of Investments

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	-
	$ 1,652,005,444	$ 1,499,086,417	$ 152,919,027	$ -

* Weighted average maturity is less than one year.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2005, the Tollway had the following investments and maturities:

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10
Repurchase agreements	$ 361,783,326	$ 361,783,326	$ -	$ -
Money market funds*	126,534,386	126,534,386	-	-
Illinois Funds*	96,898,592	96,898,592	-	-
US Agency:				
Resolution Funding Corporation	14,535,102	-	14,535,102	-
Federal National Mortgage Association	6,827,174	-	6,827,174	-
Federal Home Loan Bank	6,881,325	-	6,881,325	-
Federal Farm Credit Bank	802,222	-	802,222	-
US Treasury Note	59,450,610	-	-	59,450,610
	$ 673,712,737	$ 585,216,304	$ 29,045,823	$ 59,450,610

* 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, 2006 are as follows:

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

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; 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 2006.

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

	2006		2005	
Investment Type	Fair Value	Rating	Fair Value	Rating
Money market funds	$ 202,412,316	AAA	$ 126,534,386	AAA
Repurchase agreements	520,814,252	NR	361,783,326	A1/P1
Illinois Funds	92,700,090	AAA	96,898,592	AAA
US Agency:				
Resolution Funding Corporation	15,073,774	NR	14,535,102	NR
Federal National Mortgage Association	9,206,790	AAA	6,827,174	AAA
Federal Home Loan Bank	675,627,914	AAA	6,881,325	NR
Federal Home Loan Mortgage Corp	2,489,050	AAA	-	-
Federal Farm Credit Bank	789,766	AAA	802,222	AAA

NR = Not Rated

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); receipt of these letters leads to the reimbursement of costs from an IEPA fund. Remediation work has been completed at all oasis sites through the end of 2006. The Tollway believes that the remaining NFR letter will be issued without further costs being incurred.

The future minimum lease payments receivable under these agreements as of December 31, 2006, are as follows:

Year Ended December 31,	Retail Lease	Fuel Lease	Total Leases
2007	$ 743,000	$ 900,250	$ 1,643,250
2008	703,895	900,250	1,604,145
2009	703,895	900,250	1,604,145
2010	703,895	900,250	1,604,145
2011	703,895	900,250	1,604,145
Thereafter	10,806,088	9,954,231	20,760,319
	$ 14,364,668	$ 14,455,481	$ 28,820,149

NOTE 4 – LEASE RECEIVABLE (CONTINUED)

The future minimum lease receivable does not include contingent rentals that may be received under these leases because of the lessee generating revenues over specific amounts. Contingent rentals were not significant in 2006.

NOTE 5 – CAPITAL ASSETS

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

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital Assets as of December 31, 2005 are as follows:

	Balance January 1 as Restated	Additions	Deletions	Balance December 31
Nondepreciable Capital Assets:				
Land and Improvements	$ 194,814,195	$ 2,620,451	$ (1,004)	$ 197,433,642
Construction in Progress	182,362,914	358,257,785	-	540,620,699
Total Nondepreciable Capital Assets	377,177,109	360,878,236	(1,004)	738,054,341
Depreciable Capital Assets				
Buildings	35,910,896	-	-	35,910,896
Less: Accumulated Depreciation	(22,444,311)	(1,795,545)	-	(24,239,856)
Net Buildings	13,466,585	(1,795,545)	-	11,671,040
Infrastructure	3,567,868,664	181,628,653	-	3,749,497,317
Less: Accumulated Depreciation	(2,154,904,240)	(132,228,915)	-	(2,287,133,155)
Net Infrastructure	1,412,964,424	49,399,738	-	1,462,364,162
Machinery and Equipment	172,311,307	21,031,878	(1,116,534)	192,226,651
Less: Accumulated Depreciation	(124,634,472)	(18,170,550)	737,651	(142,067,371)
Net Machinery and Equipment	47,676,835	2,861,328	(378,883)	50,159,280
Total Capital Assets	4,153,267,976	563,538,767	(1,117,538)	4,715,689,205
Less: Accumulated Depreciation	(2,301,983,023)	(152,195,010)	737,651	(2,453,440,382)
Total Capital Assets, Net	$ 1,851,284,953	$ 411,343,757	$ (379,887)	$ 2,262,248,823

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 fully installed and operating as of July 1, 2002 and will be amortized through June 30, 2008. The lease for the Violation Enforcement System (VES) commenced on July 1, 2002 and expired as of June 30, 2006. The cost of the equipment under capital leases is included in the Statement of Net Assets as machinery and equipment. Amortization of assets under capital leases is included in depreciation expense.

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	5,855,721	(5,855,721)	-	-
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	5,173,657	(2,069,464)	(172,454)	2,931,739
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	$ 11,029,378	$ (7,925,185)	$ (172,454)	$ 2,931,739

Assets recorded under capital leases consist of the following at December 31, 2005:

	Balance January 1	2005 Amortization	Balance December 31
Violation Enforcement System (VES)	$ 14,053,729	$ -	$ 14,053,729
Less: Accumulated Amortization	(5,855,720)	(2,342,288)	(8,198,008)
Net VES	8,198,009	(2,342,288)	5,855,721
Integrated Toll Collection System (ITCS)	12,416,781	-	12,416,781
Less: Accumulated Amortization	(5,173,660)	(2,069,464)	(7,243,124)
Net ITCS	7,243,121	(2,069,464)	5,173,657
Total Leased Capital Assets	26,470,510	-	26,470,510
Total Accumulated Amortization	(11,029,380)	(4,411,752)	(15,441,132)
Net Leased Capital Assets	$ 15,441,130	$ (4,411,752)	$ 11,029,378

NOTE 6 – CAPITAL LEASE OBLIGATIONS (CONTINUED)

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2006 is as follows:

	Year ending December 31,	Amount
	2007	$ 3,084,126
	2008	1,542,063
Net minimum lease payments		4,626,189
Less: Amount representing interest		(610,639)
Present value of minimum lease payments		4,015,550
Less: Current maturities of capital lease obligations		(2,566,807)
Long-term capital lease obligations		$ 1,448,743

The changes in the capital lease obligations for the year ended December 31, 2006 and 2005 are as follow:

	Balance January 1	Additions	Deletions	Balance December 31	Amounts Due Within One Year
2006	$ 6,289,417	$ -	$ 2,273,867	$ 4,015,550	$ 2,566,807
2005	10,728,497	-	4,439,080	6,289,417	2,273,867

NOTE 7 – REVENUE BONDS PAYABLE

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) bearing 5.0% coupons for all maturities. The bonds were sold at a premium of $40,019,000 and with a redemption option that allows them to be called on or after July 1, 2016, at a redemption price of 100% of the principal amount plus accrued interest. This issuance was the second bond sale utilized to fund capital projects in the Congestion-Relief Program. Scheduled payments of principal and interest of this bond series are insured by Financial Security Assurance, Inc.

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Series 2005A Bonds

On June 10, 2005, the Tollway issued $770,000,000 of Senior Priority Revenue Bonds (2005 Series A) with interest rates ranging from 4.125% to 5.0%. The bonds were sold at a premium of $60,682,677. The bonds can be called on or after July 1, 2015, at a redemption price of 100% of the principal amount plus accrued interest. The Tollway has used and expects to use these bond proceeds to fund capital projects in the Congestion-Relief Plan. Scheduled payments of principal and interest of this bond series are insured by Financial Security Assurance, Inc.

Series 1998A and B Bonds

On December 1, 1998, the Tollway issued revenue bonds (1998A Priority Refunding Bonds and 1998B Refunding Bonds) aggregating $325,135,000 with interest rates ranging from 4.0% to 5.5% for the 1998A and variable interest for the 1998B. The 1998 Bonds were issued to provide funds to advance refund the $313,105,000 principal amount of the Tollway's outstanding 1992 Series A Bonds and the related costs of issuance. Treasury obligations in the amount of $338,231,025 were purchased and deposited in an irrevocable trust, the principal and interest on which provided for the payment of the refunded 1992 Series A Bonds. The balance of the funds was used to pay for the costs, fees, and premiums related to the issuance of the 1998 Bonds. The 1998 bond issue is insured by Financial Security Assurance Inc. using its Municipal Bond Insurance Policy.

The 1998 Series A bonds are not subject to redemption prior to their respective maturity dates. During any auction rate period, the 1998 Series B bonds are subject to redemption by the Tollway in whole or in part, on the first business day of each rate period, at a redemption price equal to 100 percent of the principal amount thereof, plus accrued interest to the redemption date. Concurrently with the issuance of the 1998 bonds, Financial Security Assurance Inc. issued its municipal bond insurance policy for the bonds. Additionally, the Tollway arranged for a letter of credit ($129,339,315 at December 31, 2006 and 2005) in support of the 1998B bonds. The insurance policy guarantees the scheduled payment of principal and interest on the 1998 bonds.

Series 1996 Bonds

The 1996 Series A bonds were issued in an aggregate amount of $148,285,000 with various maturities in the years 1997 to 2009, bearing interest rates from 4.7% to 6.0%. The 1996 Series Bonds are not subject to redemption prior to maturity. This bond issue is insured by Financial Guaranty Insurance Company using its Municipal Bond New Issue Insurance Policy.

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Series 1993 Bonds

The 1993 Refunding Bonds were issued in two series, $209,145,000 of Toll Highway Refunding Revenue Bonds, 1993 Series A, and $178,200,000 of Toll Highway Refunding Revenue Bonds, 1993 Series B. The 1993 Series B is the only issue which remains outstanding of this series. The 1993 Series B bonds were issued with various maturities in the years 2006 to 2010, bearing interest rates to be marketed under the terms of a remarketing agreement, and are payable each January 1 and July 1. The 1993 Series B bonds can be converted to a term or fixed rate and are subject to optional and mandatory tender and redemption. The Tollway has arranged for a letter of credit, under the terms of a reimbursement agreement ($163,636,175 and $197,963,112 at December 31, 2006 and 2005, respectively). The letter of credit has been placed with the tender agent to be used for the repurchase of tendered 1993 Series B bonds.

The 1993 Series B Bonds are insured by Municipal Bond Investors Assurance Corporation. In addition to a pledge of revenues, the Tollway acquired a $22.9 million surety bond in 1993 to be used in conjunction with available revenues for the funding of the Debt Reserve Requirements.

Series 1992 Bonds

The Toll Highway Priority Revenue Bonds, 1992 Series A, maturing on January 1, 2011 and January 1, 2012 ($100,665,000), are not callable for redemption prior to maturity. These bonds carry a 6.3% fixed rate of interest. Other Toll Highway Priority Revenue Bonds, 1992 Series S (the callable bonds) were defeased in conjunction with the issuance of the 1998A and 1998B Revenue Bonds ($313,105,000), and the 1993 Revenue Bonds ($45,880,000).

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

All Series

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, 2.5 to 5.75 %, 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	500,000,000
Totals	2,382,410,000
Less current maturities	(47,350,000)
Less deferred amount on refunding	(20,399,638)
Plus bond premium	103,525,307
Total long-term portion	$ 2,418,185,669

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Details of outstanding revenue bonds as of December 31, 2005 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, 2.5 to 5.75%, due on various dates through January 1, 2010	178,200,000
Issue of 1996 Series A, 4.70 to 6.00%, due on various dates through January 1, 2009	57,500,000
Issue of 1998 Series A, 4.0 to 5.50%, due on various dates through January 1, 2016	197,980,000
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
Totals	1,427,445,000
Less current maturities	(45,035,000)
Less deferred amount on refunding	(23,263,736)
Plus bond premium	68,933,454
Total long-term portion	$ 1,428,079,718

The carrying amount of the Tollway's long-term debt approximates its fair value at December 31, 2006, based on discounted cash flow analyses, using the Tollway's estimated current incremental borrowing rate. Accrued interest payable for the year ended December 31, 2006 and 2005 was $63,269,589 and $37,046,915, respectively.

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	

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

A summary of changes in revenue bonds payable is as follows for December 31, 2005:

	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	-	-	178,200,000	30,900,000
1996 Series A	70,080,000	-	(12,580,000)	57,500,000	13,225,000
1998 Series A	198,855,000	-	(875,000)	197,980,000	910,000
1998 Series B	123,100,000	-	-	123,100,000	-
2005 Series A	-	770,000,000	-	770,000,000	-
Totals	670,900,000	770,000,000	(13,455,000)	1,427,445,000	$ 45,035,000
Less:					
Unamortized deferred amount on refunding	(25,216,003)	-	1,952,267	(23,263,736)	
Unamortized bond premium	11,290,341	60,682,677	(3,039,564)	68,933,454	
Current portion of Revenue bonds payable	(13,455,000)	(45,035,000)	13,455,000	(45,035,000)	
Revenue bonds payable, Net of current portion	$ 643,519,338	$ 785,647,677	$ (1,087,297)	$ 1,428,079,718	

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:

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	$ 2,382,410,000	$ 1,680,939,686	$ 4,063,349,686

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Trust Indenture Agreement

On March 31, 1999, the Tollway executed an Amended and Restated Trust Indenture agreement which constitutes a contract among the Tollway, the bond trustee and the bondholders. The agreement requires the establishment of certain funds and accounts. Revenues held or collected from operation of the Tollway system are required to be transferred and recorded to the extent available within the stated accounts.

Refer to Note 9 for details of restricted net assets under the Amended and Restated Trust Indenture.

Interest Rate Exchange Agreements

As a means of lowering its borrowing costs, the Tollway entered into three separate variable-to-fixed interest rate exchange agreements (swaps) at a cost less than what the Tollway would have paid to issue fixed rate debt. Two of the agreements are associated with the 1998 Series B bonds effective July 1999, while the third swap is associated with the 1993 Series B bonds effective June 1993. The agreements effectively changed the variable interest rates on the 1993 Series B bonds and the 1998 Series B bonds to synthetic fixed rates of 4.920% and 4.325%, respectively.

Significant terms of the agreements are as follows:

	Notional Value	Fixed Rate	Fixed Leg Payer	Effective Date	Termination Date	Settlement	Mark to Market
Series 1993B	$ 147,300,000	4.920%	Authority	06/30/93	12/31/09	Semiannual	$ (4,200,000)
Series 1998B	67,705,000	4.325%	Authority	07/01/99	01/01/17	Semiannual	(3,410,000)
Series 1998B	55,395,000	4.325%	Authority	07/01/99	01/01/17	Semiannual	(2,790,000)

The notional amounts of the agreements match the principal amounts of the associated debt. The Tollway's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated 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 counterparty a fixed rate of 4.325% and receives a variable payment based on the actual amount of interest paid to bondholders (cost of funds). Conversely, the bonds' variable rate coupon payments are determined by rates established by the remarketing agents on a weekly basis.

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Interest Rate Exchange Agreements (Continued)

Variable-to-Fixed Interest Rate Swaps

Prior to the issuance of the 1998 Series B bonds, the Tollway entered into an Interest Rate Exchange Agreement (swap agreement) for the entire principal of the 1998 Series B bonds ($123,100,000). Under the terms of this agreement, each July 1 and January 1, beginning July 1, 1999 and ending January 1, 2017, the Tollway: (1) pays a synthetic interest rate of 4.325% (fixed leg) on the outstanding 1998 Series B bonds until maturity and (2) is paid a variable interest rate (variable leg) by the counterparty equal to the interest payments due on the attached bonds (cost of funds).

On March 24, 1993, the Tollway entered into an Interest Rate Exchange Agreement (swap agreement) with the 1993 swap provider for the entire amount of the 1993 Series B bonds ($178,200,000). Under the terms of this agreement, each June 30 and December 31, beginning June 1993, and ending December 2009, the Tollway: (1) pays a synthetic interest rate of 4.92% on the outstanding 1993 Series B bonds until maturity and (2) is paid a variable interest rate (variable leg) by the counterparty equal to the interest payments due on the attached bonds (cost of funds).

Fair Market Value

A decrease in duration and change in interest rates contributed to negative fair market values at December 31, 2006 for the 1993 Series B and 1998 Series B swap agreements. At the time of the agreements, synthetic fixed rates achieved by the agreements were less than the fixed rates that could have been achieved by issuing fixed rate municipal bonds. The agreements' fair market values were estimate using a bond-pricing model similar to the zero-coupon model, which calculates the future net settlement 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 agreements. These valuations may vary from those reported by the respective counterparties due to a fundamental difference between the basis of the valuation and the varying size of the bid-ask spread.

The fair market valuations provided above were developed by using the estimated bid price levels as the basis of valuation, whereas the valuations provided by the counterparties were estimated by using mid-point market levels and other contractual factors that would be taken into account if the transactions was terminated at that time.

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Interest Rate Exchange Agreements (Continued)

Credit Risk

Interest Rate Exchange Agreements - The Tollway was not exposed to counterparty credit risk at December 31, 2006 due to the negative fair market values of each agreement. If changes in interest rates create positive fair market values for the agreements in the future, the Tollway would be exposed to credit risk in the amount of the derivatives' fair market values. The 1993 Series B swap agreement contains collateral agreements with the counterparties. The agreements require full collateralization of the fair market value of the swaps should the counterparties' credit ratings fall below Standard & Poor's rating of BBB+, or Moody's Investor Services' rating of Baa1. Collateral on all swaps is 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 1998 Series B swap agreement does not contain any provisions relating to collateralization.

The Tollway has executed the three agreements with various counterparties. One counterparty holds 54% of the notional amount of the outstanding agreements and has credit ratings of AA- and Aa3 with Standard & Poor's and Moody's, respectively. A second counterparty holds 25% of the notional amount of the outstanding swaps and has credit ratings of AA- and Aa3 with Standard & Poor's and Moody's, respectively. A third counterparty holds 21% of the notional amount of the outstanding swaps and has credit ratings of A+ and A1 with Standard & Poor's and Moody's, respectively.

Basis Risk

The Tollway's variable rate bond coupon payments are determined by rates established by remarketing agents on a weekly basis. If the remarketing agents fail to determine the rates, then the weekly rates shall be the equivalent of the Bond Marketing Association (BMA) Municipal Swap Index. For the 1998 Series B bonds, if the floating rate were to be converted to the 65% of the LIBOR rate due to a conversion event, the Tollway receives a variable rate payment other than the BMA (i.e., 65% of the LIBOR rate); the Tollway is exposed to basis risk should the relationship between the LIBOR and BMA converge. The BMA rate and 65% of the LIBOR rate at December 31, 2006 were 3.91% and 3.45%, respectively.

Termination Risk

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

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

Forward Starting Interest Rate Exchange Agreements

On September 8, 2005, the Tollway entered into four Forward Starting Interest Rate Exchange Agreements for an aggregate notional principal amount of $700,000,000. Two of the agreements are associated with an authorized issuance of $350,000,000 of junior lien debt effective November 1, 2006 ("November 2006 Agreements"), while the other two agreements are associated with an authorized issuance of $350,000,000 of junior lien debt effective November 1, 2007 ("November 2007 Agreements"). The forward agreements in effect locked in synthetic fixed rates for the 2006 and 2007 issuances of 3.626% and 3.674%, respectively.

Agreement Amendments

On March 10, 2006, the Tollway amended all four Forward Starting Interest Rate Exchange Agreements by converting the variable leg of the agreements from a rate calculated by 75% of the London Inter-Bank Offered Rate (LIBOR) to a rate determined by the BMA Municipal Swap Index. This conversion was executed in order to purchase tax protection, associated with the tax-exempt BMA based hedging agreements, at a historically inexpensive time. This conversion was accomplished by nominally increasing the fixed leg of the November 2006 and November 2007 Agreements to 3.921% and 3.9925%, respectively.

On September 21, 2006, the November 2006 Agreements' effective dates were extended from November 1, 2006 to August 1, 2007 (now know as the "August 2007 Agreements"). These extensions were deemed appropriate after review of the capital program draws and fund balances. The effective date extensions were accomplished by a nominal increase to the fixed rate of the August 2007 Agreements to 3.952%.

Credit Risk

Due to the current positive fair market values of these agreements, the Tollway is exposed to some level of credit risk. If changes in interest rates create negative fair market values for the agreements in the future, the Tollway would no longer be exposed to credit risk in the amount of the derivatives' fair market values. Credit risk is mitigated through collateral agreements if the counterparties' credit ratings fall below Standard & Poor's rating of BBB+, or Moody's Investor Services' rating of Baa1. Collateral on all swaps is 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 four forward starting agreements were entered into with various counterparties. One counterparty holds 37.5% of the notional amount of the outstanding swaps and has credit ratings of AA- and Aa2 with Standard & Poor's and Moody's, respectively. A second counterparty holds 25% of the notional amount of the outstanding swaps and has credit ratings of AA+ and Aa1 with Standard & Poor's and Moody's, respectively. A third counterparty holds 25% of the notional amount of the outstanding swaps and has credit ratings of AA+ and As3 with Standard & Poor's and Moody's, respectively. A fourth counterparty holds 12.5% of the notional amount of the outstanding swaps and has credit ratings of AA- and Aa3 with Standard & Poor's and Moody's, respectively.

NOTE 7 – REVENUE BONDS PAYABLE (CONTINUED)

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

Forward Swap	Notional Value	Fixed Rate	Fixed Leg Payer	Effective Date	Termination Date	Settlement	Marked to Market 12/31/2006
2006	$ 175,000,000	3.626%	Tollway	11/01/06	07/01/30	Semiannual	$ 700,000
2006	175,000,000	3.626%	Tollway	11/01/06	07/01/30	Semiannual	700,000
2007	262,500,000	3.674%	Tollway	11/01/06	07/01/30	Semiannual	142,500
2007	87,500,000	3.674%	Tollway	11/01/06	07/01/30	Semiannual	47,500

Significant terms of the agreements as of December 31, 2005 are as follows:

Forward Swap	Notional Value	Fixed Rate	Fixed Leg Payer	Effective Date	Termination Date	Settlement	Marked to Market 12/31/2005
2006	$ 175,000,000	3.626%	Tollway	11/01/06	07/01/30	Semiannual	$ 2,400,000
2006	175,000,000	3.626%	Tollway	11/01/06	07/01/30	Semiannual	2,400,000
2007	262,500,000	3.674%	Tollway	11/01/06	07/01/30	Semiannual	2,300,000
2007	87,500,000	3.674%	Tollway	11/01/06	07/01/30	Semiannual	800,000

The notional amounts of the agreements match the principal amounts of the debt that is to be issued. The Tollway's agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in the associated "revenue bonds payable" category. With respect to the August 2007 Agreements, the Tollway will pay the counterparty a fixed rate of 3.952% and will receive a variable payment calculated based on the BMA Municipal Swap Index. For the bonds to be issued in November 2007, the Tollway will pay the counterparty a fixed rate of 3.9925% and will receive a variable payment calculated based on the BMA Municipal Swap Index. The agreements are subject to mandatory termination in 2007 if the bonds associated with the agreements are not issued by the Tollway.

NOTE 8 – DEFERRED REVENUE

During 2002, the Tollway entered into two 25-year lease agreements for the refurbishing and operation of the oases system. Rental payments have been recorded as concession revenue. The future minimum rental payments for the remainder of the terms of the leases, as of December 31, 2006 and 2005, of $28,820,149 and $30,463,399, 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 has been 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, 2006, the deferred revenue balance for the oases system and fiber optic system was $60,901,538; accumulated amortization of deferred revenue was $14,473,076 and $11,733,615 as of December 31, 2006 and 2005, respectively.

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)
	18,704,524	(1,096,211)	17,608,313
Lease Receivable	34,815,149	-	34,815,149
Accumulated Amortization	(4,351,750)	(1,643,250)	(5,995,000)
	30,463,399	(1,643,250)	28,820,149
Totals			
Deferred Revenue	60,901,538	-	60,901,538
Accumulated Amortization	(11,733,615)	(2,739,461)	(14,473,076)
Net Deferred Revenue	$ 49,167,923	$ (2,739,461)	$ 46,428,462

NOTE 8 – DEFERRED REVENUE (CONTINUED)

A summary of changes in deferred revenue for the year ended December 31, 2005 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	(6,077,546)	(1,304,319)	(7,381,865)
	20,008,843	(1,304,319)	18,704,524
Lease Receivable	34,815,149	-	34,815,149
Accumulated Amortization	(2,857,500)	(1,494,250)	(4,351,750)
	31,957,649	(1,494,250)	30,463,399
Totals			
Deferred Revenue	60,901,538	-	60,901,538
Accumulated Amortization	(8,935,046)	(2,798,569)	(11,733,615)
Net Deferred Revenue	$ 51,966,492	$ (2,798,569)	$ 49,167,923

NOTE 9 – RESTRICTED NET ASSETS

As of December 31, 2006 and 2005, the Tollway reported the following restricted net assets:

Description	December 31, 2006	December 31, 2005
Revenue bond trust indenture agreement restrictions	$ 911,465,915	$ 694,906,906
Portion classified as Invested in Capital Assets net of Related Debt	(662,660,883)	(527,984,093)
Net assets restricted under Trust Indenture agreement restrictions	248,805,032	166,922,813
Assets restricted to paying pension benefit obligations	364,120	348,542
Total	$ 249,169,152	$ 167,271,355

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 2006 are also included in the state's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006.

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 or call:

State Employees Retirement System
2101 S. Veterans Parkway
Springfield, IL. 62794-9255
(217) 785-2340

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, 2006, 2005, and 2004 were $93,582,811, $90,940,663 and $87,742,570, 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 most 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, 2006, 2005, and 2004 were as follows:

	Contributions			Percent of Covered Payroll		
	2006	2005	2004	2006	2005	2004
Tollway Contribution	$ 9,280,541	$ 10,880,875	$ 13,363,872	9.9%	12.0%	15.2%
Employee's Contribution paid by the Tollway	2,464,405	2,667,899	2,920,679	2.6%	2.9%	3.3%
Employee's Contribution	1,390,008	1,154,285	1,295,754	1.5%	1.3%	1.5%
Totals	$ 13,134,954	$ 14,703,059	$ 17,580,305	14.0%	16.2%	20.0%

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, 2006 and 2005, the net assets available for these benefits were $440,155 and $462,557, respectively, (valued at the lesser of market value or actuarial value) and the pension benefit obligation was recorded as $76,035 and $114,015, respectively.

Under provisions of SERS, the Tollway provides certain health, dental, and life insurance benefits to annuitants who are former Tollway employees. Substantially all Tollway employees may become eligible for post-employment benefits if they eventually become annuitants. Currently, 770 retirees meet the eligibility requirements. Health and dental benefits include basic benefits for annuitants under the Tollway's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to $5,000 per annuitant age 60 or older. The cost of post-employment benefits is recognized on a pay-as-you-go basis, and for the year ended December 31, 2006 and 2005, approximately $3,996,267 and $3,918,898, respectively, of expense was recognized for post employment benefits.

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 $7,926,730 and both asserted and unasserted employee health claims of $691,643 are included in the accompanying financial statements.

Year	Estimated Claims Payable January 1	Current Claims	Claims Payments	Estimated Claims Payable December 31
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
2004	2,982,645	12,011,856	10,554,537	4,439,964

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 a 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 5 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, 2006 and 2005 is as follows:

	Balance at January 1	Accrued	Used	Balance at December 31	Due Within One Year
2006	$ 5,046,641	$ 7,460,964	$ 6,807,605	$ 5,700,000	$ 3,300,000
2005	5,858,694	4,141,154	4,953,207	5,046,641	2,916,626

NOTE 13 – COMMITMENTS

In addition to amounts already recorded, contracts of approximately $964,000,000 have been let and are outstanding as of December 31, 2006, for projects to be included under the Tollway's construction accounts. During 2006, approximately $1,030,000,000 in invoices was paid on $2,661,833,000 of total contracts. The Tollway plans to fund these contracts through revenues and future revenue bond proceeds.

NOTE 14 – 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 15 – CONTINGENT LIABILITIES

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

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 to share construction costs, exchange of land parcels and share the costs of maintenance of contiguous improvements. Such agreements would not materially affect the financial position of the Tollway.

NOTE 15 – CONTINGENT LIABILITIES (CONTINUED)

Spend Down of Construction Funds:

In the 1980s, Congress determined that arbitrage rebate rules were needed to curb the issuance of investment motivated tax-exempt bonds. These rules were designed to create additional safeguards against issuers obtaining an "arbitrage" benefit by either issuing bonds prematurely or using bond proceeds in an improper or untimely fashion.

During 2006 the Tollway retained a third party firm to perform arbitrage calculations for the period ending December 31, 2006. In their opinion there is a potential rebate liability of $1,388,724 if the 2006 Series A-1 & A-2 bond proceeds are not spent in a timely manner. The Tollway believes the possibility of this scenario is remote.

NOTE 16 – NEW GOVERNMENTAL ACCOUNTING STANDARDS

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

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The Tollway is required to implement this Statement for the year ending December 31, 2007.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments – generally, a single lump sum. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and resource provisions. In addition, this Statement requires disclosures pertaining to future revenues that have been pledged or sold, along with information about which revenues will be unavailable for other purposes and how long they will continue to do so. The Tollway is required to implement this Statement or the year ending December 31, 2007.

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.

NOTE 16 – NEW GOVERNMENTAL ACCOUNTING STANDARDS (CONTINUED)

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 17 – RESTATEMENT OF NET ASSETS

The December 31, 2004 net assets have been restated to correct errors in accounting for accumulated depreciation and accrued interest receivable. The effect of the restatements is as follows:

	Net Assets	Change in Net Assets	Accrued Interest Receivable	Capital Assets, Net of Accumulated Depreciation
December 31, 2004 balance, as previously reported	$ 1,522,561,994	$ 15,491,883	$ 8,288,610	$ 1,805,709,188
Restatement to accrued interest receivable	(8,019,641)	(1,399,838)	(8,019,641)	-
Restatement to accumulated depreciation	45,575,765	22,787,883	-	45,575,765
December 31, 2004 balance, as restated	$ 1,560,118,118	$ 36,879,928	$ 268,969	$ 1,851,284,953

NOTE 18 – SUBSEQUENT EVENTS

On May 31, 2007, the Tollway's Board of Directors authorized the issuance of up to $1 billion of refunding bonds. On June 28, 2007, the Board authorized the issuance of up to $700 million of revenue bonds to fund the Congestion-Relief Program. There are currently no bond issues scheduled.

On July 17, 2007, the Tollway modified its two forward starting swap agreements; each previously scheduled to begin August 1, 2007, by extending the effective dates to February 1, 2008, and adjusting the fixed payor rate to 3.952% from 3.972%.

On September 7, 2007, the Tollway's Board of Directors approved modifications to the Congestion-Relief Program that increased the value of the capital improvements to about $6.3 billion an extended the duration of the program through December 31, 2016. Previously, the program was estimated to total $5.3 billion and was scheduled to conclude by December 31, 2014. The modified program added $754 million of projects and updated the scopes and cost estimates of projects remaining from the initial program.

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, 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
SCHEDULES OF CHANGES IN NET ASSETS - BY FUND
TRUST INDENTURE BASIS OF ACCOUNTING (NON GAAP)
FOR THE YEAR ENDED DECEMBER 31, 2005

	Revenue Fund	Construction Fund	Total
INCREASES			
Toll Revenue	$ 580,441,697	$ -	$ 580,441,697
Toll Evasion Recovery	13,256,860	-	13,256,860
Concessions	2,787,104	-	2,787,104
Interest	19,340,884	13,716,595	33,057,479
Accrued Interest Restatement	(8,019,641)	-	(8,019,641)
Miscellaneous	7,778,204	-	7,778,204
Recovery of Expense	1,761,170	-	1,761,170
Decrease in Accounts Receivable	172,846	-	172,846
Total Increases	617,519,124	13,716,595	631,235,719
DECREASES			
Engineering and Maintenance of Roadway and Structures	31,644,077	-	31,644,077
Services and Toll Collection	86,088,758	-	86,088,758
Traffic Control, Safety Patrol, and Radio Communications	18,034,485	-	18,034,485
Procurement, IT, Finance and Administration	27,697,688	-	27,697,688
Insurance and Employee Benefits	42,110,028	-	42,110,028
Construction	291,754,700	278,315,783	570,070,483
Bond Principal Payments	13,455,000	-	13,455,000
Bond Interest and Other Financing Costs	53,439,497	-	53,439,497
Total Decreases	564,224,233	278,315,783	842,540,016
NET INCREASES (DECREASES)	53,294,891	(264,599,188)	(211,304,297)
OTHER CHANGES IN NET ASSETS			
Proceeds from Bond Sale	$ -	$ 770,000,000	$ 770,000,000
Premium Received from Bond Sale	-	60,682,677	60,682,677
Bond Issuance Costs	-	(4,100,864)	(4,100,864)
Account Transfers In (Out)	58,964,171	(58,964,171)	-
	58,964,171	767,617,642	826,581,813
CHANGE IN NET ASSETS	112,259,062	503,018,454	615,277,516
NET ASSETS, JANUARY 1	400,399,007	1,155,260,317	1,555,659,324
NET ASSETS, DECEMBER 31	$ 512,658,069	$ 1,658,278,771	$ 2,170,936,840

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							
		Maintenance and Operations						
	Revenue Account	Operating Sub Account	Operating Reserve Sub Account	Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement	Total
INCREASES								
Toll Revenue	$ 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
SCHEDULE 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							
		Maintenance and Operations						
	Revenue Account	Operating Sub Account	Operating Reserve Sub Account	Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement	Total
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
SCHEDULES OF CHANGES IN NET ASSETS - REVENUE FUND - BY ACCOUNT
TRUST INDENTURE BASIS OF ACCOUNTING (NON GAAP)
FOR THE YEAR ENDED DECEMBER 31, 2005

	Revenue Fund and Accounts							
		Maintenance and Operations						
	Revenue Account	Operating Sub Account	Operating Reserve Sub Account	Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement	Total
INCREASES								
Toll Revenue	$ 580,441,697	$ -	$ -	$ -	$ -	$ -	$ -	$ 580,441,697
Toll Evasion Recovery	13,256,860	-	-	-	-	-	-	13,256,860
Concessions	2,787,104	-	-	-	-	-	-	2,787,104
Interest	2,417,922	1,924,547	-	1,060,311	3,591,519	5,039,760	5,306,825	19,340,884
Accrued Interest Restatement	-				(8,019,641)	-		(8,019,641)
Miscellaneous	5,663,513	-	-	-	-	-	2,114,691	7,778,204
Recovery of Expense	-	-	-	-	-	720,696	1,040,474	1,761,170
Decrease in Accounts Receivable	-	-				172,846	-	172,846
Intrafund Transfers	(604,706,919)	207,474,207	-	97,451,167	-	199,569,820	100,211,725	-
Total Increases	(139,823)	209,398,754	-	98,511,478	(4,428,122)	205,503,122	108,673,715	617,519,124
DECREASES								
Engineering and Maintenance of Roadway and Structures	-	31,644,077	-	-	-	-	-	31,644,077
Services and Toll Collection	-	86,088,758	-	-	-	-	-	86,088,758
Traffic Control, Safety Patrol, and Radio Communications	-	18,034,485	-	-	-	-	-	18,034,485
Procurement, IT, Finance and Administration	-	27,697,688	-	-	-	-	-	27,697,688
Insurance and Employee Benefits	-	42,110,028	-	-	-	-	-	42,110,028
Construction Expenses	-	-	-	-	-	203,709,060	88,045,640	291,754,700
Bond Principal Payments	-	-	-	13,455,000	-	-	-	13,455,000
Interest and Other Financing Costs	-	-	-	53,409,556	29,941	-	-	53,439,497
Total Decreases	-	205,575,036	-	66,864,556	29,941	203,709,060	88,045,640	564,224,233

(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, 2005

	Revenue Fund and Accounts							
		Maintenance and Operations						
	Revenue Account	Operating Sub Account	Operating Reserve Sub Account	Debt Service	Debt Service Reserve	Renewal and Replacement	Improvement	Total
NET INCREASE (DECREASE)	(139,823)	3,823,718	-	31,646,922	(4,458,063)	1,794,062	20,628,075	53,294,891
Account Transfers In (Out)	-	-	-	-	58,964,171	-	-	58,964,171
CHANGE IN NET ASSETS	(139,823)	3,823,718	-	31,646,922	54,506,108	1,794,062	20,628,075	112,259,062
NET ASSETS, JANUARY 1	60,661,767	3,435,693	17,000,000	14,405,172	67,531,274	101,943,701	135,421,400	400,399,007
NET ASSETS, DECEMBER 31	$ 60,521,944	$ 7,259,411	$ 17,000,000	$ 46,052,094	$ 122,037,382	$ 103,737,763	$ 156,049,475	$ 512,658,069

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

NOTES TO THE TRUST INDENTURE BASIS SCHEDULES
DECEMBER 31, 2006

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 acquisitions are charged against fund balance as incurred. In addition, there is no provision for depreciation.
2. Principal retirements on revenue bonds are expensed when paid.
3. Bond proceeds (including premiums) are recorded as income in the year received.
4. Unrealized gains and losses on invested funds are netted with interest expense.
5. Bond issuance costs are expensed as incurred.
6. 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.

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.

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.

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.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
SCHEDULES OF TOLL REVENUE BY CLASS OF
VEHICLES AND OTHER REVENUE SOURCES (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

	2006		2005	
	Average Daily Transactions*	Revenue	Average Daily Transactions*	Revenue
Class of Vehicle				
1. Auto, motorcycle, taxi, station wagon, ambulance, single-unit truck or tractor: 2 axles, 4 tires	1,859,033	$ 326,492,478	1,875,171	$ 345,532,057
2. Single-unit truck or tractor, buses: 2 axles, 6 tires	37,006	14,550,012	39,573	16,357,485
3. Trucks and buses with 3 & 4 axles	34,798	23,995,464	34,330	23,994,173
4. Trucks with 5 or more axles, other vehicles and toll adjustments	162,689	202,461,854	155,855	194,557,982
TOTAL	2,093,526	567,499,808	2,104,929	580,441,697
Other Revenues				
Concessions		3,031,576		2,790,847
Toll Evasion Recovery		195,274		26,737,437
Interest - Revenue Fund		38,336,717		19,340,885
Miscellaneous		(2,109,015)		2,266,957
TOTAL		$ 606,954,360		$ 631,577,823

* 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, 2006 AND 2005

	2006	2005
Capital Assets:		
Land and Improvements	$ 272,467,772	$ 197,433,642
Buildings	38,819,751	35,910,896
Infrastructure	4,668,418,027	3,749,497,317
Vehicles	36,190,426	28,080,873
Office Equipment	4,259,274	4,259,274
Information Systems	145,668,854	159,886,504
Construction in Progress	549,346,788	540,620,699
Total Capital Assets	$ 5,715,170,892	$ 4,715,689,205
Capital Assets Provided From:		
Bond Proceeds net of related Interest Income	$ 2,567,059,992	$ 1,718,363,147
Revenues	3,148,110,900	2,997,326,058
Total Sources of Capital Assets	$ 5,715,170,892	$ 4,715,689,205

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
SCHEDULES OF CHANGES IN CAPITAL ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
Land and Improvements	$ 194,814,195	$ 2,620,451	$ (1,004)	$ 197,433,642	$ 75,034,130	$ -	$ 272,467,772
Buildings	35,910,896	-	-	35,910,896	2,908,855	-	38,819,751
Infrastructure	3,567,868,664	181,628,653	-	3,749,497,317	949,470,340	(30,549,630)	4,668,418,027
Vehicles	26,407,214	2,103,584	(429,925)	28,080,873	8,498,062	(388,509)	36,190,426
Office Equipment	4,334,648	-	(75,374)	4,259,274	-	-	4,259,274
Information Systems	141,569,445	18,928,294	(611,235)	159,886,504	14,593,812	(28,811,462)	145,668,854
Construction in Progress	182,362,914	358,257,785	-	540,620,699	369,711,691	(360,985,602)	549,346,788
TOTAL CAPITAL ASSETS	$ 4,153,267,976	$ 563,538,767	$ (1,117,538)	$ 4,715,689,205	$ 1,420,216,890	$ (420,735,203)	$ 5,715,170,892

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
REHABILITATION REPAIR AND REPLACMENT PROGRAM (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 1995 THROUGH 2006

Year	Total Funds Credited (1)
1995	$ 70,250,986
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
	$ 1,269,225,537

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

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
REHABILITATION REPAIR AND REPLACMENT PROGRAM (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2002 THROUGH 2006
(Amounts in Thousands)

	2006	2005	2004	2003	2002
Operating Revenue:					
Toll Revenue	$ 567,500	$ 580,442	$ 391,586	$ 377,454	$ 363,235
Toll Evasion Recovery	195	13,257	16,035	37,249	1,012
Concession & Other Revenue	2,395	8,014	6,627	7,563	5,853
Interest Income (1)	38,336	11,321	9,179	8,538	11,229
Total Operating Revenue	$ 608,426	$ 613,034	$ 423,427	$ 430,804	$ 381,329
Maintenance and Operating Expenses:					
Engineering and Maintenance	$ 35,559	$ 31,644	$ 32,580	$ 35,275	$ 30,537
Toll Services	85,887	86,089	81,691	75,011	66,792
Police, Safety and Communication	19,145	18,034	15,341	16,147	15,267
Procurement, IT, Finance and Administration	23,279	27,698	20,933	19,524	14,600
Insurance and Employee Benefits	49,640	42,110	47,757	41,343	38,813
Total Expenses	213,510	205,575	198,302	187,300	166,009
Net Operating Revenues	$ 394,916	$ 407,459	$ 225,125	$ 243,504	$ 215,320
Total Debt Service (2)	$ 119,362	$ 99,366	$ 48,380	$ 109,552	$ 79,663 (3)
Net Revenues After Debt Service (2)	$ 275,554	$ 308,093	$ 176,745	$ 133,952	$ 135,657
Debt Service Coverage (2)	3.309	4.101	4.653	2.223	2.703

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 1959 TO 2006
(Transactions in thousands)

Year	Passenger	Commercial	Total	% Passenger
1959	37,884	5,053	42,937	88.23%
1964	72,721	7,005	79,726	91.21%
1969	146,476	14,488	160,964	91.00%
1974	204,360	28,446	232,806	87.78%
1979	268,051	42,606	310,657	86.29%
1984	308,104	42,890	350,994	87.78%
1989	428,745	57,193	485,938	88.23%
1994	565,601	66,693	632,294	89.45%
1999	648,269	71,835	720,104	90.02%
2000	664,002	72,308	736,310	90.18%
2001	687,856	76,429	764,285	90.00%
2002	715,073	77,763	792,836	90.19%
2003	693,507	108,096	801,603	86.52%
2004	714,120	109,025	823,145	86.76%
2005	684,437	83,862	768,299	89.00%
2006	678,547	85,590	764,137	88.80%

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

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
ANNUAL TOLL REVENUES
PASSENGER AND COMMERCIAL VEHICLES (UNAUDITED)

FOR SELECTED YEARS FROM 1959 TO 2006
(Transactions in thousands)

Year	Passenger	Commercial	Total	% Passenger
1959	$ 11,943	$ 2,593	$ 14,536	82.10%
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	345,532	234,910	580,442	59.53%
2006	326,492	241,007	567,499	57.53%

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

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
OPERATING REVENUES, MAINTENANCE AND OPERATING
EXPENSES AND NET OPERATING REVENUES[1] (UNAUDITED)

FOR SELECTED YEARS FROM 1959 TO 2006
Dollars in thousands)

Year	Operating Revenue	Maintenance and Operating Expenses	Net Operating Revenues
1959	$ 14,974	$ 4,709	$ 10,265
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

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

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

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, 2006 and December 31, 2005, and have issued our report thereon dated September 12, 2007. 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: 06-1, 06-2, 06-3, 06-4, 06-5 and 06-6.

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 06-1, 06-2 and 06-4 to be material weaknesses.

<u>Compliance and Other Matters</u>

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 item 06-5.

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
September 12, 2007

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

Current Findings – *Government Auditing Standards*

06-1 Financial Reporting

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

Numerous adjustments were made to the initial trial balance provided to the auditors in connection with the fiscal year 2006 audit. Fifty-two accounts (out of 432) were adjusted subsequent to April 2007. The most material adjustments pertained to correcting capital assets and beginning net assets. Finding 06-2 in this report presents the issues noted during our audit of capital assets. Some of the more significant adjustments (other than capital assets) noted during our review of the trial balance and supporting records are as follows:

- Beginning net assets were adjusted by approximately $9 million. These adjustments were necessary to properly reverse prior year audit entries and correct beginning capital asset balances. In addition, amounts that should have been charged to current operations were recorded directly to net assets.

- Repurchase agreements totaling $2.8 million were written off. These balances were recorded as a passed adjustment in 2005.

- Interfund balances (reported as due from other funds and due to other funds) did not balance (net to zero). The variance of $1,640,829 was identified by Tollway accounting personnel and consisted of accounting errors for items that occurred throughout the year. Rather than recording these identified amounts accurately in the general ledger, the net difference of $1,640,829 was posted via journal entry to a selected interfund account in order to balance the due to/from accounts. The workpaper provided to the auditors, supporting the individual interfund account balances, indicated that amounts were out of balance monthly, throughout the year, not just at year-end.

- The Tollway had a balance of approximately $6 million in the “Due to From Liability” account (a component of accounts payable in the financial statements) that was unsubstantiated and was not corrected until May 2007 (five months after year-end). This account was noted in the prior audit and the auditors proposed an adjustment for $1.5 million at that time. At the end of 2006 the balance had increased to $6 million and was ultimately written-off to non-operating project expense.

- The account reconciliations prepared by Tollway staff for the worker’s compensation accrual did not agree to amounts recorded in the general ledger. The amount recorded in the general ledger was understated by approximately $600,000. The auditors proposed an adjustment for this amount.

Current Findings – *Government Auditing Standards*

06-1 Financial Reporting (Continued)

- The unamortized bond discounts and premiums recorded in the general ledger were overstated by $512,000 in the initial trial balance. The supporting schedules provided for the individual accounts were accurate however the necessary adjustments were not properly recorded in the financial statements. An adjustment was made to the final financial statements to correct this.

- The Tollway did not accurately calculate accrued interest on investments at the end of December 2006. Accrued Interest receivable and interest income were understated by $5,532. A variance was noted between the total amounts of investments at year-end used in the receivable calculation compared to the investment balance recorded in the general ledger. In addition, the Tollway did not record several of the investments at fair (market) value as of year-end resulting in an overstatement of $19,000. These adjustments were not corrected on the final financial statements.

- Amortization expenses for one account (bond amortization) were not recorded for three months. Due to this oversight, amortization expense was understated and the prepaid account was overstated by approximately $24,000. This adjustment was not corrected on the final financial statement.

- We also noted the following deficiencies within the General Account Bank Account reconciliation: 1) the initial bank reconciliation completed for the General Account was not prepared correctly and did not include approximately $5.6 million in reconciling items representing timing differences for warrants; and 2) reconciling items totaling $658,838.27 (General account) could not be identified by the Tollway. An adjustment was made in the final financial statements for the $5.6 million of timing differences relating to the warrants. As for the unidentified reconciling items, upon further review by Tollway personnel, the amount that could not be identified at year-end totaled approximately $22,000.

During our examination of year-end accruals we discovered that a majority of the December 31, 2006 liability for accounts payable and other accrued liabilities was recorded using adjusting journal entries. These adjustments, totaling approximately $17 million, were recorded manually by adjusting journal entry to general ledger, Accrued Expenses – Other, as opposed to using an automated accounts payable system. The Tollway's present automated system only contains 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 (2006). The software system utilized by the Tollway does not allow invoices to be entered into the system after year-end.

Current Findings – *Government Auditing Standards*

06-1 Financial Reporting (Continued)

Good internal controls require that all significant accounts be reconciled on a regular basis, preferably monthly, to the underlying documentation. In addition, the account reconciliations 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 trial balance. 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 accounts 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.

Tollway personnel stated that the Tollway's bond indenture requires a basis of accounting other than GAAP. The Tollway's systems are over 20 years old and not programmed to assist in preparation of GAAP statements. The system limitations only permit the Tollway to prepare GAAP statements annually. Additionally, the early retirement initiative in 2002 resulted in the loss of all experienced accounting personnel. During the last 2 years we have been rebuilding the accounting staff and enhancing accounting processes. The Tollway has few tools to use to extend GAAP-oriented processes more deeply into the accounting organization on more than the annually-required basis.

The initial trial balances given to the auditors were misstated by material amounts. In addition, inaccuracies in general ledger accounts and other supporting documentation resulted in significant delays in completing the audit and issuing the financial statements.

Although we did not discover any improperly recorded amounts during our audit of accounts payable, under the present system there is a risk of errors, duplications and omissions due to the magnitude of year-end invoices processed using a manual system (journal entries). As a result, there is a risk that accounts payable may be overstated or understated at year-end in the account (01-1720 Accrued Expenses- Other). 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. 06-1, 05-1)

Current Findings – *Government Auditing Standards*

06-1 Financial Reporting (Continued)

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) 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 condition noted.

The Tollway is continuously improving its reconciliation processes. We recently hired a second Chief Accountant to better manage the workload involved in reconciling, reviewing and approving workpapers for all general ledger accounts (432) monthly. We now have a formal monthly closing process resulting in completed workpapers that have been agreed to the trial balance and have been reviewed by one of the two Chief Accountants. The Chief Accountants and the Controller then meet to review and approve the workpapers.

The automated accounts payable system is more difficult to fix. The present automated system is not integrated with our general ledger – which is not programmed for GAAP accounting. There is no ability in our General Ledger Accounts Payable and Budget system (GAB) to anticipate invoices near year-end that will need to be booked for that year. Thus, we annually compile information on these types of invoices in Excel spreadsheets and manually record the liability in our ledger. Until the Tollway obtains a new financial reporting system that is integrated with a procurement module this situation will exist.

Current Findings – *Government Auditing Standards*

06-2 Capital Assets

The Illinois State Toll Highway Authority's (Tollway) practices and procedures for recording and maintaining capital asset records needs improvement. The following items were noted during our review of the capital asset records:

- The Property Control department did not remove/reclassify capital assets from the detailed capital asset inventory for certain items that were considered scrap/obsolete or which could not be located during the annual capital asset inventory.
- Certain transferred building assets were dated incorrectly within the newly-adopted capital asset software. These assets were transferred from the infrastructure category to the building category during 2006.
- Certain machinery and equipment capital assets were depreciated incorrectly within the newly-adopted capital asset software as a result of Tollway personnel changing the "placed in service" date.

During our initial testing of existence relating to capital assets we noted the following:

1. Certain capital assets were categorized in a "lost department "code on *the Fixed Assets by Asset Number* report (the Tollway's detailed inventory listing). The report detail included 458 items, totaling approximately $720,000 (historical cost), which could not be located during various internal physical inventory counts performed by the Tollway's property control department. As a result of the inability to initially locate these items during the physical inventory, the items were re-categorized to a department entitled "lost" until such time as there were sufficient resources to broaden the search.

    - Some of the "lost" items included hand-held items such as computers, computer software, printers, radios, chargers, and telecommunication equipment such as a hands-free mobile phone kit.
    - Some of these capital assets identified as "lost" date back to 1991.
    - 80% of the items classified as lost are over 5 years old.
    - The current net book value of these assets is approximately $41,000.
    - During our physical observations of warehoused inventory, we noted a number of items not in use that appeared to be obsolete and that should have been written-off the capital asset listing.

    Upon presenting these exceptions to Tollway personnel, additional searches were performed to locate some of these "lost department" items. 57 items, with historical cost totaling approximately $113,000 were subsequently located by Tollway personnel. Tollway personnel are still in the process of searching for the remaining items missing.

Current Findings – *Government Auditing Standards*

06-2 Capital Assets (Continued)

2. During our testing we noted that certain capital assets totaling approximately $36 million were incorrectly dated when transferred from the infrastructure category to the building category within the newly-adopted capital asset software. These capital assets were recorded in the capital asset software with an incorrect "placed in service date". The inaccurate dates resulted in an error in the depreciation calculation and an overstatement of building accumulated depreciation of approximately $728,000. Upon bringing this to the Tollway's attention, the errors were subsequently corrected.

3. The placed in service date for 43 machinery and equipment assets changed from the prior year due to the fact that the Tollway entered current capital asset additions to already existing assets, which were either fully or partially depreciated. When capital assets were entered into the software as an addition to an already existing asset, the original "placed in service" date was changed within the software for the original portion of the asset. We noted that the new software accounted for the modified asset (original plus current addition) as if the entire asset was a new addition placed into service at the most recent "placed in service" date. As a result of this dating issue, the machinery and equipment ending accumulated depreciation balance was overstated by approximately $42,200.

During the year, the Tollway adopted a new capital asset process and procedure document. The purpose of the document is to detail the Tollway's processes for capital asset accounting. Within the document, under the section entitled *Sales and/or Retirements of Assets*, the document requires that an asset be removed from the capital asset accounts when it is determined that the asset is no longer operable, has been replaced, or is no longer available for use. Retirement may consist of sale, scrap, or donation of the asset. Notification of an asset retirement is made by the Property Control unit to General Accounting. Under the section entitled *Responsible Parties,* the Property Control unit is responsible for tagging capital assets and performing regular physical inventories of capital assets, and reporting dispositions, lost or stolen assets, or any other retirement of tagged capital assets to General Accounting.

Per accounting standards generally accepted in the United States of America (GAAP), the basis of accounting for depreciable capital assets is historical or estimated historical cost, and all normal expenditures for readying the asset for use should be capitalized in determining historical cost at the date placed into service. Any current year asset additions, including those that are related to existing capitalized assets, should be treated as current year additions and should be recorded within the capital asset software as a separate identifiable capital asset with the current placed in service date. The historical cost and/or placed in service date of the original asset should not be altered. Recording capitalized assets with the proper placed into service date is necessary for maintaining accurate financial records that support amounts recorded in the financial statements.

Current Findings – *Government Auditing Standards*

06-2 Capital Assets (Continued)

According to Tollway personnel, General Accounting was not informed by the Property Control unit that they identified lost assets. General Accounting cannot write off "lost" assets unless notified by the Property Control unit. In many cases assets classified as lost by the Property Control unit were merely transferred to other locations and Property Control was not notified of the transfer. Tollway personnel also indicated that there were challenges in accurately specifying the proper placed in service dates for new items that were additions to existing assets.

Failure to remove lost or obsolete capital assets from the detailed inventory records could result in the overstatement of capital assets in the financial statements. Maintaining an accurate listing of all capitalized assets and depreciating them over their estimated useful lives ensures that the cost of capital is uniformly expensed over the period in which those assets are used. Improperly depreciating capital assets by using an inappropriate placed in service date can lead to a distortion of the current year's results. In addition, it is an important internal control to perform regular physical inventories of capital assets and promptly investigate missing items. Physical inventories, when performed properly, should serve to prevent, deter and detect fraud. (Finding Code No. 06-2, 05-4)

Recommendation

We recommend the Tollway follow its written process and procedure document pertaining to the removal of capital assets from the accounting records for items that have been deemed lost or obsolete. The property control department should investigate all lost assets on a timely basis. Items subsequently located should be reassigned to a specific department. All other items should be removed from the inventory records if deemed un-locatable after a reasonable search. Property control should report these items to the accounting department on a timely basis so that they can be removed from the financial accounting records.

We recommend the Tollway designate a person to review the information entered into the capital asset software on a regular basis in order to ensure that the amounts have been entered and dated accurately and in accordance with the Tollway's capital asset policy. This would include entering each capital addition into the capital asset software as a new asset, with its own identification number. Each addition would then be separately depreciated over its estimated useful life. We recommend using a similar numbering system for related assets such as XXX-a, XXX-b, XXX-c; or XXX.1, XXX.2, XXX.3 and so on for the capital asset additions that are related to existing capital assets.

Current Findings – *Government Auditing Standards*

06-2 Capital Assets (Continued)

Further, we recommend that all capital asset entries be reviewed by a responsible supervisor (someone other than the preparer) to ensure that all entries are prepared correctly prior to posting them to the GAAP basis trial balance.

Tollway Response

We concur.

The Property Control Unit is currently in the process of investigating all items deemed lost. They have prepared lists of these assets to send to the responsible Tollway departments and will advise General Accounting of any assets to be removed from the accounting records. The undepreciated value of the remaining items is approximately $ 20,000.

Our General Accounting staff is now led by two Chief Accountants. One is responsible for all Debt and Capital funds and accounts (the other for all Maintenance and Operating funds and accounts). With this division of labor, with a trained senior accountant on the Debt and Capital team, and with the capital asset software now installed and loaded, we have instituted monthly processes to reconcile (1) capital asset software to GAB; (2) Property Control's records to capital asset software; and (3) reports of project expenses to Machinery and Equipment, CIP, or Infrastructure. Some of the issues noted in this finding were the result of the transition to a new software system which, we have discovered, has some deficiencies that we must work around.

Current Findings – *Government Auditing Standards*

06-3 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.

Some of the lanes are equipped with vedet loops that are embedded in the ground. Vedet loops count "masses of metal" as they pass through the lane. The lane equipment is able to read the I-Pass transponder and "collects" the revenue based on the classification of the transponder as it was originally issued. The number of axles determines the classification of a vehicle. The toll collection and I-Pass system reports the transaction by the original transponder class. A violation is only recorded in the lanes affected if there is no transponder to read or if a transponder that was read is identified as insufficient, invalid, lost/stolen, etc. A violation would not be recorded if a vehicle passed through the lane with a transponder that does not correlate to the class of the vehicle.

Good internal controls require that all lanes contain equipment to identify the classification of vehicles in order to collect the correct toll revenue.

According to Tollway management, a decision was made to delay installation of the vehicle identification system in old roads. The Tollway waited to install the system in conjunction with the conversion to open road tolling lanes. This conversion is intended to be completed during fiscal year 2007.

Not being able to identify vehicles by class or not having a system in place to identify improper usage of the transponder may lead to lost or reduced revenue collection. (Finding Code No. 06-3, 05-2, 04-3, 03-6, 02-7)

Recommendation

We recommend the Tollway continue to implement controls to identify any violations resulting from improper transponder usage.

Tollway Response

We concur.

All mainline open road tolling lanes are equipped with a vehicle classification system.

Current Findings – *Government Auditing Standards*

06-4 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. The Tollway is implementing a new violation system and the last billings occurred in July 2006. As of mid-July 2007 the Tollway is still implementing the system and has not resumed issuing notices to violators. The notices pertaining to violators since the last billing in 2006 have been delayed, but not forgiven and will be billed when the system is fully implemented.

The toll violation revenue recorded approximately $26 million and $12 million in 2005 and 2006, respectively, which is a decrease of approximately 54% from the prior year.

The Toll Highway Act (605 ILCS 10/3) 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.

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 collecting toll revenue on a timely basis and additionally this has an unfavorable effect on the Tollway's operating cash flow. (Finding Code No. 06-4)

<u>Recommendation</u>

We recommend the Tollway fully implement its new system and resume billing all toll violators in accordance with their rights established by state statute.

<u>Tollway Response</u>

We concur.

The violation enforcement conversion is expected to be complete in 2007. Billing of toll violators resumed in August 2007.

Current Findings – *Government Auditing Standards*

06-5 Internal Auditing

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

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

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

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

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

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

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

Current Findings – *Government Auditing Standards*

06-5 Internal Auditing (Continued)

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

Recommendation

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

Tollway Response

We concur.

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

In addition, the following required audits are in the audit plan:
Property, Equipment and Inventories
Administrative Support Services
Revenues, Receivables and Cash
Electronic Data Processing
Budgeting, Accounting and Reporting

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

Current Findings – *Government Auditing Standards*

06-6 Bank Reconciliations Not Completed Timely

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

During our review of the Tollway's bank reconciliations, we noted that the first half of the fiscal year was not prepared and reconciled to the general ledger in a timely manner. In addition, we noted that the first half of the fiscal year reconciliations did not include the initials and dates of individuals preparing and reviewing the reconciliations. During the last part of fiscal year 2006, the Tollway implemented a requirement that the preparer and reviewer of bank reconciliations sign and date the reconciliation. Based on this change in policy, the last half of the year was properly prepared and reviewed.

Strong internal controls require that all bank accounts be reconciled and approved in a timely manner to detect fraud and correct errors and/or omissions. The accounting software used should allow the bank reconciliations to be prepared in a timely manner.

Tollway personnel stated that they did not implement the policy requiring sign off's and approval of workpapers until the second half of the year.

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. 06-6, 05-3, 04-06, 03-07)

<u>Recommendation</u>

We recommend the Tollway follow established procedures to ensure all bank accounts are reconciled in a timely manner.

<u>Tollway Response</u>

We concur with the condition noted.

Due to system limitations, bank reconciliations cannot be reconciled to the general ledger until the prior year general ledger has been closed. Therefore, during the first part of the year, bank reconciliations may not be timely. However, during this period bank accounts are reconciled to the Treasurer's and Comptroller's records. Bank reconciliations are completed fully and timely once the prior year ledger is closed.

PRIOR YEAR FINDING NOT REPEATED
FOR THE YEAR ENDED DECEMBER 31, 2006

Governmental Auditing Standards

06-7 Violation Penalties Receivable and Service Organization Activities

The Tollway does not maintain a detailed record of the outstanding violation penalties receivable. In addition, the Tollway's service provider did not engage an independent auditor to review the control objectives and control activities in place at the outside service provider.

During the current year, the Tollway obtained a detail listing of the outstanding violation penalties receivable. The Tollway ceased using this service provider as of October 2006. The new vendor that took the place of the old service provider does not function as a service organization and therefore does not require a SAS 70 to be performed. (Finding Code No. 05-5)