NORTH TEXAS TOLLWAY AUTHORITY

# ANNUAL FINANCIAL REPORT

# FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

**Prepared by**
**Finance Department**

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**North Texas Tollway Authority**
Financial Statements and Supplementary Data
For the Fiscal Year Ended December 31, 2007

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KPMG LLP
Suite 3100
717 North Harwood Street
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## Independent Auditors' Report

The Board of Directors of
the North Texas Tollway Authority:

We have audited the accompanying statement of net assets of the North Texas Tollway Authority (the Authority) as of December 31, 2007 and the statement of revenues, expenses, and changes in net assets and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this 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 on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10, the Modified Approach – Infrastructure Assets on pages 43 through 44 and the Schedule of Funding Progress on page 45 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

June 22, 2009

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**NORTH TEXAS TOLLWAY AUTHORITY**
Management's Discussion and Analysis
December 31, 2007

For the first time, financial statements representing the entire operations of the North Texas Tollway Authority (the Authority) are being presented. Therefore, no prior year information is presented in Management's Discussion and Analysis. These statements consist of the North Texas Tollway System (the System), which includes the Dallas North Tollway (DNT), the President George Bush Turnpike (PGBT), State Highway 121 (SH121), the Mountain Creek Lake Bridge (MCLB), the Addison Airport Toll Tunnel (AATT), and the Lewisville Lake Toll Bridge (LLTB), which make up the enterprise fund of the Authority, as well as, the Feasibility Study Fund and the DFW Turnpike Transition Trust Fund. We offer readers of these financial statements a narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read it in conjunction with the financial statements, which immediately follow this section.

## Using This Annual Report

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, notes to the financial statements, and required supplementary information. The financial statements of the Authority report information using accounting methods consistent with reporting for an enterprise activity similar to those used by private sector companies.

**Statement of Net Assets:** This statement presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets are useful indicators of whether the Authority's financial position is improving or deteriorating.

**Statement of Revenues, Expenses and Changes in Net Assets:** This statement presents information showing the Authority's revenues, expenses, and how the net assets changed during the year.

**Statement of Cash Flows:** This statement presents information about the Authority's cash receipts and cash payments, or, in other words, the sources and uses of the Authority's cash and the change in cash balance during the fiscal year.

**Notes to the Financial Statements**: The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Required Supplementary Information:** Required supplementary information is presented to disclose trend data on the Authority's infrastructure condition and funding progress on the retirement plan for certain employees of the Authority.

### Financial Results and Analysis

### 2007 Highlights

- Traffic volumes on the System continued to increase.
- The Authority's overall financial position improved in 2007, as indicated by the $34.4 million increase in net assets. This increase includes $36.6 million from the Feasibility Study Fund and the DFW Turnpike Transition Trust Fund, offset by the results of operations.
- Administration and Operations expenses were under budget by 8.5% in FY 2007.
- Debt service coverage for FY 2007 was 1.96 times.
- The Authority issued $3.5 billion in Bond Anticipation Notes for the acquisition and construction of State Highway 121.

- Issued $125.0 million of Commercial Paper in 2007 and transferred $25.0 million to the Authority's Feasibility Study Fund to finance the feasibility study and design of Southwest Parkway and PGBT Eastern Extension projects.
- Opened DNT Phase 3 on September 2007 adding an additional 9.2 miles to the Authority.
- Implemented a toll rate increase on September 29, 2007.

**Summary of Operations**

Total operating revenues were $210.6 million for FY 2007. (See Table A-1.) Authority toll revenues for FY 2007 were approximately $202.7 million. Approximately 80.5% was collected electronically during FY 2007. Traffic on the Authority continues to grow, with approximately 1,055,100 average daily transactions in FY 2007.

Total operating expenses, before depreciation, for FY 2007 were $133.8 million. Interest expense, net of capitalized interest, for 2007 was $55.1 million. Debt service coverage for FY 2007 was 1.96. The Trust Agreement requires bond principal and interest coverage of 1.00 during construction years and the Authority's Debt Policy sets a coverage goal of 1.35.

**Table A-1**
Changes in Net Assets
(in millions)

| | | 2007 |
|---|---|---|
| Operating revenues | $ | 210.6 |
| Operating expenses before depreciation | | 133.8 |
| Income from operations before depreciation | | 76.8 |
| Net non-operating revenues (expenses) | | |
| Interest income | | 17.9 |
| Interest expense | | (55.1) |
| Other | | (5.2) |
| Net non-operating revenues (expenses) and depreciation | | (42.4) |
| Changes in Net Assets | | 34.4 |
| Net Assets Beginning of the Year | | 583.6 |
| Net Assets End of the Year | $ | 618.0 |

**Operations:** Total operating expenses before depreciation for fiscal year 2007 were $133.8 million. (See Table A-1.) The restructuring of the Authority to meet the strategic initiatives created three new departments and impacted all existing departments. The opening of DNT Phase 3 in September 2007 mainly impacted the operations departments. The required new employees, the implementation of a comprehensive agency wide compensation study, and increased health care costs; increased the personnel related expenses by $6.6 million. The PGBT total routine maintenance contract increased by $3.4 million. Operating expenses for reserve maintenance and capital improvements increased in the following ways. The utilization of the Commercial Paper Program increased interest expense by $2.7 million. Pavement rehabilitation, retaining wall repairs and other maintenance projects account for $3.9 million of the increase.

Net assets at December 31, 2007 were $618.0 million. (See Table A-2.)

**Table A-2**
Net Assets
(in millions)

| | | 2007 |
|---|---|---|
| Current Assets | $ | 149.7 |
| Current Restricted Assets | | 391.0 |
| Noncurrent Assets | | |
| Unrestricted Assets | | 5.0 |
| Restricted Assets | | 81.3 |
| Capital Assets and Deferred Improvement Costs | | 5,171.8 |
| Total Assets | | 5,798.8 |
| Current Liabilities | | 59.4 |
| Current Restricted Liabilities | | 172.9 |
| Noncurrent Liabilities Payable from Restricted Assets | | |
| Bond Anticipation Notes | | 3,487.3 |
| Other Long-tern Debt | | 1,461.2 |
| Total Liabilities | | 5,180.8 |
| Net Assets | | |
| Invested in Capital Assets, net of related debt | | 473.4 |
| Restricted for Construction | | 4.9 |
| Restricted for Debt Service | | 112.2 |
| Restricted for Operations and Maintenance | | 3.4 |
| Restricted for retiree health benefits | | .4 |
| Unrestricted | | 23.8 |
| Net Assets End of the Year | $ | 618.0 |

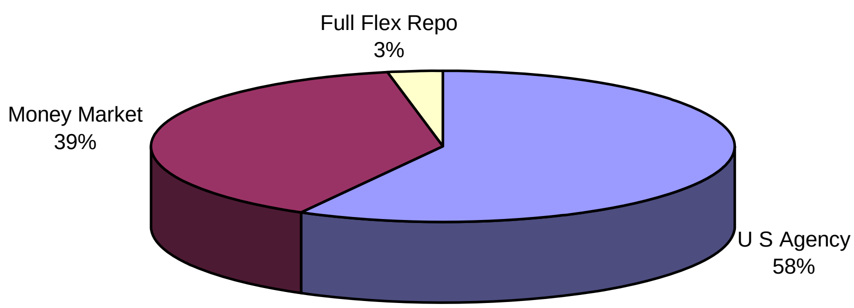
The Authority's overall financial position improved in FY 2007, as indicated by the $34.4 million increase in net assets. The largest portion of the Authority's net assets represents its investment in capital assets (e.g., right-of-way, roads, bridges, buildings, toll equipment) less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide service and, consequently, the assets are not available to liquidate liabilities or other spending.

The Authority's net assets indicate an unrestricted current ratio of 2.52 for FY 2007. Working capital was $90.3 million in FY 2007. Total unrestricted current assets were $149.7 million at the end of FY 2007. $133.5 million in cash and investments represent the largest component of current unrestricted assets. The remaining $16.7 million is comprised of accrued interest receivables, accounts receivables, interproject/agency receivables, inventory, and prepaid expenses.

Total unrestricted current liabilities were $59.4 million at the end of FY 2007. $23.1 million of this total was Accounts Payable, $2.8 million for retainage payable, and $23.8 million of deferred revenue. $9.1 million of the amount is accrued liabilities which is mainly $6.5 million in accrued salaries, vacation liability, and other post employment benefits.  Interproject/agency payables were $.5 million. The deferred revenue represents pre-paid TollTag accounts. Approximately 1,376,000 Toll Tags were in use at the end of FY 2007.

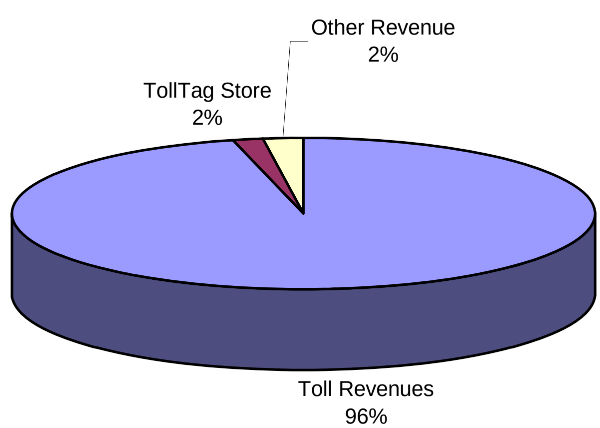
The Authority's investments at December 31, 2007 were approximately $584.0 million. The chart below shows the types of authorized investments in the portfolio.

**Table A-3**
Investments by Type




This chart shows total revenue for the entire NTTA Authority for 2007 by source.

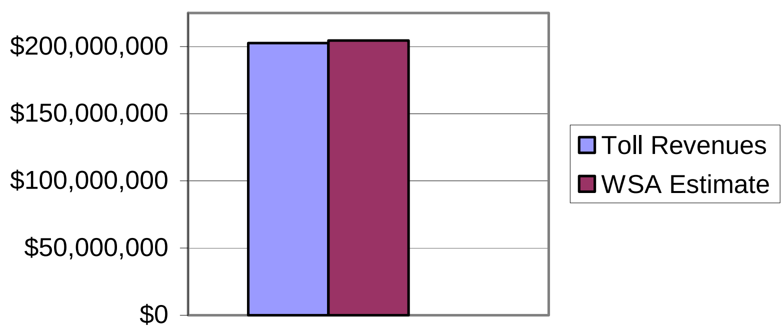
**Table A-4**
Revenue by Type




Total operating revenues for FY 2007 were $210.6 million. Toll revenues of approximately $202.7 million account for 96.2% of total revenue. TollTag store revenue, primarily from processing fees, was $3.6 million or 1.7%. Other revenue, principally administrative fees for collection of tolls from toll violators, was $4.4 million, representing 2.1% of the total.

This chart shows actual toll revenue for FY 2007 compared to the Authority's traffic and toll revenue engineer, Wilbur Smith Associates (WSA), estimated toll revenue. Toll revenue was slightly under estimates by zero point nine percent (0.9%). This can be attributed to increases in gas prices, reconstruction on segments of the Authority, and two ice storms.

**Table A-5**
Actual vs. Estimated Toll Revenue
2007




Traffic on the System continues to grow with approximately 1,055,100 average daily transactions.

Revenues of the System continue to exhibit growth each year. WSA estimated that toll revenue for the Authority would be $204.5 million in FY 2007. There were changes in travel patterns due to the increases in gas prices, construction on segments of the System, and the two ice storms during FY 2007 that affected the actual revenue. The estimate assumed the opening of DNT Phase 3 and the toll rate increase would be at the beginning of September instead of at the end. The Authority's total revenues produced 1.96x debt coverage. See Historical Debt Coverage Table A-7 on page 9.

**Capital Assets** – The Authority's investment in capital assets includes land, buildings, right-of-way, roadway, bridges, equipment, and computer systems. Capital assets at December 31, 2007 were approximately $5.1 billion, increasing from FY 2006 by approximately $3.4 billion due primarily to the $3.2 billion up-front payment for the acquisition of SH121, the construction of the DNT Extension Phase 3 and Lewisville Lake Toll Bridge. For additional information on capital assets see Note (1) (g) and Note (4).

The Authority utilizes GASB No. 34, Modified Approach of reporting infrastructure assets. Each year a comprehensive assessment is conducted on all the Authority's infrastructure assets which affect the following fiscal year's maintenance budget. For additional information and results of the 2007 assessment, please see the Required Supplementary Information on pages 43 and 44 of this report.

Since the State Highway 121 Project (SH 121) will revert to the Texas Department of Transportation (TxDOT) after the expiration of the 50 year period commencing when the Authority begins collecting tolls on the project of its own behalf, the modified approach will not apply to this subsystem. The Authority will depreciate the cost of the acquisition and the construction costs of SH 121 over the term of the project agreement pursuant to which the Authority acquired the Project. The Authority is evaluating whether or not such depreciation will be over a straight-line basis or based on the projected traffic volume on SH 121. The effect of depreciating the cost of the acquisition and the construction costs of SH 121 will reduce the Authority's net revenues as reported on a General Accepted Accounting Principles basis. Since the depreciation will be a non-cash item, it will not impact the Authority's calculation of net revenues per the Trust Agreement.

**Budgetary Highlights** – The Authority adopts (on a non-GAAP basis) an annual budget in December. The budget is established in accordance with the provisions of the Trust Agreement for the Dallas North Tollway Authority Revenue Bonds. The budget covers the fiscal year (calendar year) and is not revised during the year. For FY 2007 operating expenses were $75.5 million against an operating budget of $82.6 million. The Authority expended 91.5% of the operating budget in 2007. The primary factors in this budget are the restructuring of the Authority creating three new departments; the maintenance and operating of an additional 9.2 miles of the DNT Phase 3; and continued organizational growth in the Customer Service, Maintenance, Safety and Technology; areas focusing on improved service delivery.

**Long-Term Debt** – At the end of FY 2007, the Authority's total revenue bond debt outstanding was $1.37 billion. (See Table A-6.). This debt represents bonds secured solely by toll revenue. This amount is offset by the net of amortized net deferred debit on refunding of $42.3 million and bond discount (premium) costs of $(18.5) million on the statement of net assets. For detailed information see Note (5) and schedule of revenue bonds outstanding as of December 31, 2007 on page 28.

The Authority issued $3.49 billion in Bond Anticipation Notes (See Table A-6.) with a due date of November 19, 2008 for the acquisition and interim financing for the development and construction of SH121 Project. The up-front acquisition payment of $3.20 billion was issued to Texas Department of Transportation on November 29, 2007. An additional amount of $51 million remains in the dispute resolution process of the Project Agreement. It is the intention of the Authority's Management to issue revenue bonds in 2008 to liquidate the bond anticipation notes issues. Therefore, the notes have reclassified as long-term debt.

**Table A-6**
Long-Term Debt Outstanding
(in thousands)

| | | Amount Outstanding |
|---|---|---|
| Series 1997 | $ | 90,460 |
| Series 1997A | | 106,290 |
| Series 1998 | | 100,660 |
| Series 2003A | | 225,000 |
| Series 2003B | | 125,245 |
| Series 2003C | | 85,670 |
| Series 2005A | | 223,155 |
| Series 2005B | | 71,000 |
| Series 2005C | | 341,070 |
| Revenue Bonds Outstanding | | 1,368,550 |
| Bond Anticipation Notes | | 3,487,245 |
| Total Long-Term Debt | $ | 4,855,795 |

Table A-7 sets forth debt service coverage for all Revenue Bonds outstanding at December 31, for the years 1998 through 2007.

**Table A-7**
Historical Debt Coverage

| Year | Coverage |
|---|---|
| 2007 | 1.96x |
| 2006 | 1.98x |
| 2005 | 1.80x |
| 2004 | 2.00x |
| 2003 | 2.09x |
| 2002 | 2.08x |
| 2001 | 1.88x |
| 2000 | 2.22x |
| 1999 | 2.42x |
| 1998 | 2.50x |

Additionally, part of the construction of the PGBT was funded with the proceeds from a loan in the amount of $135 million, made by the Texas Department of Transportation in 1995 pursuant to the Intermodal Surface Transportation Efficiency Act of 1991. Interest has been accruing since 2000 and annual payments began in FY 2004. The FY 2007 payment was $7.8 million. For a detailed description of accrued interest on this loan see Note (5) page 33.

**Short-Term Debt -**The Authority maintains a $200 million commercial paper program; issuing $125.0 million of Commercial Paper in 2007, including a transfer of $ 25.0 million to the Authority's Feasibility Study Fund to finance the feasibility study and design of Southwest Parkway and PGBT Eastern Extension projects. $25.0 million was issued for the initial construction of the Lewisville Lake Toll Bridge. $75.0 was issued for an escrow account for the acquisition of the State Highway 121 Project and was defeased November 29, 2007. As of December 31, 2007 there was $75.0 million of outstanding notes under the commercial paper program, including $25 million outstanding from 2006.

The Consulting Engineers have estimated that the costs for the maintenance, rehabilitation, and capital improvement program for the Authority over the next ten to fifteen years, are projected to be approximately $560.0 million. The expenditures may be funded from the Reserve Maintenance Fund, the Construction Fund or the Capital Improvement Fund (as shown in the supplementary information) as approved from time to time.

**Future Impact on Operations**

Pursuant to the Amended and Restated Trust Agreement, the Authority aggress that it will at all times keep in effect a plan for toll collecting facilities and a schedule of rates of tolls , which will produce during each fiscal year an amount of net revenues (as defined by the Amended and Restated Trust Agreement) equal to the greater of 1.35 times the scheduled debt service requirements on all outstanding First Tier Bonds; or 1.20 times the scheduled debt service requirements on all outstanding First Tier and Second Tier Bonds; or 1.00 times the scheduled debt service requirements on all outstanding First Tier, Second Tier and Third Tier Bonds and all other outstanding obligations of the Authority payable from Net Revenues.

The Authority's $341,070,000 amount of outstanding Series 2005C Bonds are entitled to the benefit of a Standby Bond Purchase Agreement (SBBPA) provided by DEPFA Bank plc. In February 2008 the remarketing agent exercised the SBBPA, causing these bonds to bear interest at the higher of DEPFA's prime rate or federal funds plus 0.50% (the Alternate Base Rate) for the first 180 days such bonds are held by DEPFA and at the Alternate Base Rate plus 0.75% thereafter. A "termination event" or a "suspension event" occurring under the SBBPA causes the Series 2005C Bonds held by DEPFA to bear interest at the Alternate Base Rate plus 3.00%. Series 2005C Bonds held by DEPFA for more than 180 days, results in the seven year "term-out" beginning for such bonds with principal amortizing equally over a seven year period, payable semi-annually. No termination event occurred in 2007.

The Authority is evaluating its alternatives to manage the impact of the Series 2005C Bonds on future operations.

### Contacting the NTTA's Financial Management

This financial report is designed to provide overview information to our bondholders, patrons, and other interested parties. Should you have questions about this report, please contact the North Texas Tollway Authority's Chief Financial Officer, 5900 W. Plano Parkway, Suite 100, Plano, Texas 75093.

**NORTH TEXAS TOLLWAY AUTHORITY**

Statement of Net Assets

December 31, 2007

**Assets**

| | | |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents (note 3) | $ | 25,582,682 |
| Investments (note 3) | | 107,450,520 |
| Accrued interest receivable | | 4,802,089 |
| Accounts receivable (note 9) | | 9,043,687 |
| Interproject /agencies receivable (note 9) | | 1,346,627 |
| Inventory, at average cost | | 1,287,214 |
| Prepaid expenses | | 210,893 |
| Total current unrestricted assets | | 149,723,712 |
| Current restricted assets: | | |
| Restricted assets: | | |
| Restricted for construction: | | |
| Cash and cash equivalents (notes 3 and 10) | | 764,039 |
| Investments (notes 3 and 10) | | 288,860,953 |
| Restricted for debt service: | | |
| Investments (notes 3 and 5) | | 100,961,510 |
| Restricted for pension benefits and other purposes | | |
| Cash and cash equivalents (notes 3 and 5) | | 1,185 |
| Investments (notes 3 and 5) | | 443,906 |
| Accrued interest receivable on investments | | 1,673 |
| Total current restricted assets | | 391,033,266 |
| Total current assets | | 540,756,978 |
| Noncurrent assets: | | |
| Investments for unrestricted assets (note 3) | | 5,053,150 |
| Investments restricted for construction (note 3) | | 66,217,666 |
| Investments restricted for debt service (note 3) | | 15,039,240 |
| Deferred improvement costs | | 84,139,437 |
| Capital assets | | 5,087,624,397 |
| Total noncurrent assets | | 5,258,073,890 |
| **Total assets** | **$** | **5,798,830,868** |

The notes to the financial statements are an integral part of this statement

**NORTH TEXAS TOLLWAY AUTHORITY**

Statement of Net Assets

December 31, 2007

| | | |
|---|---|---|
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | $ | 23,109,681 |
| Retainage payable | | 2,822,188 |
| Interproject /agencies payable | | 529,725 |
| Accrued liabilities | | 9,173,218 |
| Deferred revenue | | 22,902,150 |
| Tolltag deposits | | 867,339 |
| Total current unrestricted liabilities | | 59,404,301 |
| Payable from restricted assets: | | |
| Construction-related payables: | | |
| Accounts payable (note 10) | | 11,056,385 |
| Retainage payable (note 10) | | 11,537,150 |
| Debt service-related payables: | | |
| Accrued interest payable on bonded debt | | 25,417,495 |
| Accrued interest payable on ISTEA loan | | 12,897,354 |
| Accrued interest payable on bond anticipation notes | | 12,786,565 |
| Accrued interest payable on commercial paper | | 181,916 |
| Accrued arbitrage rebate payable | | 801,804 |
| Commercial paper payable (note 5) | | 75,000,000 |
| Current portion of revenue bonds payable (note 5) | | 23,240,000 |
| Total current liabilities payable from restricted assets | | 172,918,669 |
| Total current liabilities | | 232,322,970 |
| Noncurrent liabilities: | | |
| Bond anticipation notes payable (note 5) | | 3,487,245,000 |
| Texas Department of Transportation loan payable (note 5) | | 4,600,000 |
| Texas Department of Transportation ISTEA loan payable (note 5) | | 135,000,000 |
| Dallas North Tollway System revenue bonds payable, net of unamortized net deferred debit on refundings of $42,258,805 and bond discount (premium) costs of $(18,516,649) (r | | 1,321,567,844 |
| Total noncurrent liabilities | | 4,948,412,844 |
| **Total liabilities** | | **5,180,735,814** |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | | 473,380,019 |
| Restricted: | | |
| Restricted for construction | | 4,919,521 |
| Restricted for debt service | | 112,167,969 |
| Restricted for operations and maintenance | | 3,408,154 |
| Held in trust for retiree health benefits and other purposes | | 430,622 |
| Unrestricted | | 23,788,769 |
| **Total net assets** | **$** | **618,095,054** |

The notes to the financial statements are an integral part of this statement

NORTH TEXAS TOLLWAY AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended December 31, 2007

| | | |
|---|---|---|
| Operating revenues: | | |
| Tolls | $ | 202,675,564 |
| Other | | 7,988,624 |
| Total operating revenues | | 210,664,188 |
| Operating expenses: | | |
| General | | |
| Administration | | 10,910,385 |
| Operations | | 64,660,897 |
| Preservation | | |
| Reserve maintenance | | 23,858,264 |
| Capital improvement | | 34,403,658 |
| Total operating expenses before depreciation | | 133,833,204 |
| Operating income before depreciation | | 76,830,984 |
| Depreciation | | 1,800,225 |
| Operating income | | 75,030,759 |
| Nonoperating revenues (expenses): | | |
| Interest earned on investments | | 17,949,963 |
| Net increase in the fair value of investments | | 1,067,995 |
| Interest expense on revenue bonds | | (52,420,707) |
| Interest expense on commercial paper | | (2,653,677) |
| Bond premium/discount amortization | | 1,386,510 |
| Deferred amount on refunding amortization | | (6,017,291) |
| Other | | 135,327 |
| Net nonoperating revenues (expenses) | | (40,551,880) |
| Change in net assets | | 34,478,879 |
| Beginning net assets | | 583,616,175 |
| Ending net assets | $ | 618,095,054 |

The notes to the financial statements are an integral part of this statement

NORTH TEXAS TOLLWAY AUTHORITY

Statement of Cash Flows

Year ended December 31, 2007

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from customers and users | $ | 212,805,358 |
| Payments to contractors and suppliers | | (95,278,171) |
| Payments to employees | | (39,574,696) |
| Net cash provided by operating activities | | 77,952,491 |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets (including capitalized interest costs) | | (3,389,511,906) |
| Issuance of bond anticipation notes | | 3,487,245,000 |
| Issuance commercial paper | | 125,000,000 |
| Defeased commercial paper | | (75,000,000) |
| Principal paid on revenue bonds | | (21,580,000) |
| Interest paid on revenue bonds and other debt | | (82,787,965) |
| Net cash provided by capital and related financing activities | | 43,365,129 |
| Cash flows from investing activities: | | |
| Purchase of investments | | (2,194,219,539) |
| Proceeds from sales and maturities of investments | | 2,037,771,537 |
| Interest received | | 18,386,738 |
| Net cash used in investing activities | | (138,061,264) |
| Net decrease in cash and cash equivalents | | (16,743,644) |
| Cash and cash equivalents, beginning of the year | | 43,091,550 |
| Cash and cash equivalents, end of the year | | 26,347,906 |
| Classified as: | | |
| Current assets | | 25,582,682 |
| Restricted assets | | 765,224 |
| Total | | 26,347,906 |
| Noncash financing, capital, and investing activities: | | |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | | 75,030,759 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | | 1,800,225 |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | | (5,422,495) |
| Increase in inventories | | (356,546) |
| Decrease in prepaid expenses | | 274,240 |
| Increase in deferred revenue | | 3,066,483 |
| Increase in accounts and retainage payable | | 133,209 |
| Increase in accrued liabilities | | 3,426,616 |
| Total adjustments | | 2,921,732 |
| Net cash provided by operating activities | $ | 77,952,491 |
| Noncash financing activities: | | |
| Increase in fair value of investments | $ | 1,067,995 |

The notes to the financial statements are an integral part of this statement

**NORTH TEXAS TOLLWAY AUTHORITY**
Notes to the Financial Statements
December 31, 2007

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## 1. Nature of the Organization and Summary of Significant Accounting Policies

### (a) Reporting Entity

In June 1997, the Texas Legislature approved a bill to create the North Texas Tollway Authority (the Authority), a regional tollway authority under Chapter 366, Texas Transportation Code (Chapter 366). Effective September 1, 1997, the Authority became the successor agency to the Texas Turnpike Authority and succeeded to all assets, rights, liabilities, and other property of the Texas Turnpike Authority located in Collin, Dallas, Denton, and Tarrant Counties. The Authority also assumed and became liable for all duties and obligations related to the Texas Turnpike Authority at that time.

The Authority is a political subdivision of the State of Texas, authorized and empowered by the Regional Tollway Authority Act (the Act) to construct, maintain, repair, and operate turnpike projects at such locations within Collin, Dallas, Denton, and Tarrant Counties, as may be determined by the Authority. The Authority is further authorized to issue turnpike revenue bonds, payable solely from tolls and other revenue of the Authority, for the purpose of paying all or any part of the cost of a turnpike project. Under the provisions of the Act, these revenue bonds shall not be deemed to constitute a debt or a pledge of the faith and credit of the State of Texas or of any other political subdivision thereof.

The North Texas Tollway Authority System (the System) is the enterprise fund of the Authority. The System is a turnpike project of the Authority and consists of the Dallas North Tollway (the DNT), the Addison Airport Toll Tunnel (the AATT), the President George Bush Turnpike (the PGBT), the Mountain Creek Lake Bridge (the MCLB), State Highway 121 (the SH121), and the Lewisville Lake Toll Bridge (the LLTB).

In addition, Chapter 366 of the Act authorized the Feasibility Study Fund, a separate enterprise activity, to be used only to pay the expenses of studying the cost and feasibility and any other expenses relating to:

(1) the preparation and issuance of bonds for the acquisition and construction of a proposed turnpike project for the Authority;

(2) the financing of the improvement, extension or expansion of an existing turnpike or Authority; and

(3) private participation, as authorized by law, in the financing of a proposed turnpike project or Authority, the refinancing of an existing turnpike project or Authority or the improvement, extension or expansion of a turnpike project or Authority.

In addition, Senate Bill 194, which was subsequently replaced by Chapter 366, authorized the establishment of the Turnpike Transition Trust Fund, a Fiduciary Fund, to account for the payment of transition costs and other obligations payable from funds of the Dallas-Fort Worth Turnpike at December 31, 1977, such as post-employment benefits (note 8, page 36).

The accompanying financial statements of the Authority include the enterprise fund, the Feasibility Study Fund, an enterprise activity, and the DFW Turnpike Transition Trust Fund.

While Fiduciary Funds are normally presented separately in the financial statements, the Turnpike Transition Trust Fund is shown as a part of the consolidated financial statements, since the Trust Fund is immaterial to the financial statements.

### (b) Basis of Accounting

The operations of the Authority are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and all assets and liabilities associated with the operation of the Authority are included in the Statement of Net Assets. The assets of the Authority are stated at cost with the exception of certain investments, which are stated at fair value.

The Authority applies all applicable GASB pronouncements to the Authority, as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those standards conflict with or contradict GASB pronouncements.

The principal revenues of the Authority are toll revenues received from patrons. Operating expenses for the Authority include the costs of operating and maintaining the System and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Trust Agreement also requires that certain funds and accounts be established and maintained. The Authority consolidates these Authority funds and accounts for the purpose of enterprise fund presentation in its external financial statements.

In accordance with House Bill 749, an act of the 72nd Legislature of Texas, the Authority may transfer an amount from a surplus fund (currently Capital Improvement Fund) established for turnpike project to the North Texas Tollway Feasibility Study Fund (Feasibility Study Fund). However, the Authority may not transfer an amount that results in a balance in the surplus fund that is less than the minimum balance required in the Trust Agreement for that project, if any.

The costs of studies funded by the Feasibility Study Fund are deferred until such time as the feasibility of the project is determined. If the project is pursued, the Feasibility Study Fund is reimbursed for related study costs from the proceeds of the project's bond issue. However, the study costs associated with projects determined to be unfeasible are removed from the Statement of Assets and written off to expense when approved by the Executive Director.

### (c) Budget

Operating budgets are adopted on a non-GAAP basis. The budget is established in accordance with the practices set forth in the provisions of the Trust Agreement for the Dallas North Tollway Authority Revenue Bonds, as interpreted by the Authority. These practices are similar to U.S. generally accepted accounting principles for an enterprise fund on an accrual basis except that depreciation and amortization of certain non-infrastructure capital assets and related acquisition and revenue bond issuance costs are not included as an operating expense or otherwise provided, and interest accrued for certain periods after official completion on certain of the Authority's bond issues is capitalized as allowed by the Trust Agreement and bond resolution, rather than being reflected as an expense. Otherwise, revenues are recognized when they are earned, expenses are recognized in the period in which they are incurred, and all assets and liabilities associated with the operation of the Authority are included in the statement of net assets in accordance with the Trust Agreement as described above.

Each year the Authority completes a review of its financial condition for the purpose of estimating whether the net revenues of the Authority for the year will meet its debt covenants. During 2007, the actual net revenues exceeded budgeted amounts. See additional information regarding legal compliance for budgets in Note (2).

### (d) Restricted Assets

Certain proceeds of the Revenue Bonds are restricted by applicable bond covenants for construction or restricted as reserves to ensure repayment of the bonds. Also, certain other assets are accumulated and restricted on a monthly basis in accordance with the Trust Agreement for the purpose of paying interest and principal payments that are due on a semiannual and annual basis, respectively, and for the purpose of maintaining the reserve funds at the required levels. Payments from these restricted accounts are strictly governed by the Trust Agreement and can only be made in compliance with the Trust Agreement. Limited types of expenses may be funded from these accounts. Expenses that do not meet these requirements are funded from unrestricted accounts. The funds and accounts that have been established in accordance with the Trust Agreement are as follows:

- **Construction and Property Fund** – The Construction and Property Fund was created to account for that portion of the proceeds from the sale of Dallas North Tollway Authority Revenue Bonds, which were required to be deposited with the trustee in order to pay all costs of construction. There also may be deposited in the Construction and Property Fund any monies received from any other source for paying the cost of the Authority.
- **Revenue Fund** – The Revenue Fund was created to account for all revenues (all tolls, other revenues, and income) arising or derived by the Authority from the operation and ownership of the Authority. All revenues of this fund are distributed to other funds in accordance with the Trust Agreement.
- **Operation and Maintenance Fund** – The Operation and Maintenance Fund was created to account for and pay current operating expenses of the Authority.
- **Reserve Maintenance Fund** – The Reserve Maintenance Fund was created to account for those expenses of maintaining the Authority that do not recur on an annual or shorter basis. As defined in the Trust Agreement, such items include repairs, painting, renewals, and replacements necessary for safe or efficient operation of the Authority or to prevent loss of revenues, engineering expenses relating to the functions of the Authority, equipment, maintenance expenses, and operating expenses not occurring at annual or shorter periods.
- **Capital Improvement Fund** – The Capital Improvement Fund was created to account for the cost of repairs, enlargements, extensions, resurfacing, additions, renewals, improvements, reconstruction and replacements, capital expenditures, engineering, and other expenses relating to the powers or functions of the Authority in connection with the Authority, or for any other purpose now or hereafter authorized by law.
- **Bond Interest Account** – The Bond Interest Account was created to account for the payment of the semiannual interest requirements of the revenue bonds.
- **Reserve Account** – The Reserve Account was created for the purpose of paying interest and principal of the bonds whenever and to the extent that the monies held for the credit of the Bond Interest Account and the Redemption Account shall be insufficient for such purpose. The required reserve is an amount equal to the average annual debt service requirements of all bonds outstanding. At December 31, 2007, the Authority was in compliance with this requirement.
- **Redemption Account** – The Redemption Account was created to account for the payment of the annual principal requirements of the revenue bonds.
- **Feasibility Study Fund** – The Feasibility Study Fund was created to account for the accumulation of costs associated with determining the economic feasibility of future projects for the Authority.

- **DFW Turnpike Transition Trust Fund** – The Trust Fund is used to fund post-employment healthcare benefits for retire employees of the Dallas-Fort Worth Turnpike. Currently, two employees met these requirements.

**(e) Cash, Cash Equivalents and Investments**

Cash includes amounts in demand deposits. Cash equivalents are amounts included in the overnight sweep of the commercial account. These deposits are fully collateralized or covered by federal deposit insurance. The Authority considers other money market funds to be investments. The carrying amount of the investments is fair value. The net change in fair value of investments is recorded on the Statement of Revenues, Expenses, and Changes in Net Assets and includes the unrealized and realized gains and losses on investments.

**(f) Materials Inventory**

Inventories of road maintenance materials and supplies are valued at the lower of cost or market using the average cost method.

**(g) Capital Assets**

All capital assets are stated at historical cost. Capital assets are defined as assets with initial, individual costs exceeding $5,000 and a useful life of greater than one year. The cost of property and equipment includes costs for infrastructure assets (right-of-way, highways and bridges substructure, and highways and bridges), toll equipment, buildings, toll facilities, and other related costs (including software) and furniture and equipment. Highway and bridges substructure includes road sub-base, grading, land clearing, embankments, and other related costs. Also included in capital assets are costs incurred in connection with the offering, sale, and issuance of bonds for construction purposes; unamortized discount on the sale of those bonds; bond interest expense net of income earned from investment of funds during construction; the cost of certain real estate for right-of-way requirements; and administrative and legal expenses incurred during the construction period.

The costs to acquire additional capital assets, which replace existing assets or improve the efficiency of the Authority, are capitalized. Under the Authority's policy of accounting for infrastructure assets pursuant to the "preservation method of accounting" or "modified approach," property costs represent an historical accumulation of costs expended to acquire rights-of-way and to construct, improve, and place in operation the various projects and related facilities. These infrastructure assets are considered to be "indefinite lived assets" that is, the assets themselves will last indefinitely and are, therefore, not depreciated. Costs related to renewing and maintaining these assets are not capitalized, but instead are considered to be period costs and are included in preservation expense classified as part of reserve maintenance and capital improvement expenses. Additional charges to preservation expense occur whenever the condition of the infrastructure assets is determined to be at a level that is below the standards adopted by the Board of Directors of the Authority.

**(h) Compensated Absences**

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**(i) Retainage Payable**

Retainage payable represents amounts billed to the Authority by contractors for which payment is not due pursuant to retained percentage provision in construction contracts until substantial completion of performance by contractor and acceptance by the Authority.

### (j) Deferred Amount on Refunding of Revenue Bonds

Deferred amount on refunding of revenue bonds incurred on advance refunding of such bonds relates to the difference between the reacquisition price and the net carrying amount of the refunded bonds. The amount deferred is included as a reduction to revenue bonds payable and is amortized in a systematic and rational manner over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter.

### (k) Bond Discounts, Premiums, and Bond Issuance Costs

Costs incurred in connection with the offering and sale of bonds for construction purposes are capitalized in the Authority's capital assets (highway and bridges), including unamortized bond discount or premiums.

### (l) Arbitrage Rebate Payable

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements, and arbitrage rebate liability on issuers of tax-exempt debt. This represents interest earnings on bond proceeds in excess of amounts allowed under the Act. This Act requires the remittance to the Internal Revenue Service (IRS) of 90% of the cumulative arbitrage rebate within 60 days of the end of each five-year reporting period following the issuance of governmental bonds. The Authority's cumulative arbitrage rebate liabilities as of December 31, 2007 are $801,804.

### (m) Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 2. Legal Compliance – Budgets

The Authority is required to prepare a preliminary budget of current expenses, deposits to the Reserve Maintenance Fund, and the purposes for which the monies held in the Reserve Maintenance Fund will be expended for the ensuing year on or before December 31 of each year. Copies of the preliminary budget must be filed with the bond trustee, and mailed to the consulting engineers, traffic engineers, principal underwriters, and all bondholders who have filed their names and addresses with the secretary and treasurer of the Authority 60 days prior to year-end. The Authority is required by the Trust Agreement to adopt a final budget for the Authority on or before December 31 prior to the beginning of the year. The budget is prepared at the Department level and is prepared based upon the Trust Agreement.

The Authority may not expend any amount or incur any obligations for maintenance, repairs, and operations in excess of the total amount of the budgeted expenses in the Annual Budget unless the funding source is other than revenues received from the Authority. The Authority may expend additional monies from the Reserve Maintenance Fund in excess of the annual deposits. Budget amendments must be approved by the Board Members of the Authority in a manner similar to the adoption of the annual budget. There were no occurrences of budget noncompliance in 2007.

Pursuant to the Trust Agreement, the Authority has agreed that it will at all times keep in effect a plan for toll collecting facilities and a schedule of rates of tolls, which will produce during each construction fiscal year an amount of net revenues (as defined by the Trust Agreement) equal to 1.00 times the scheduled debt service requirements during construction and for each of the three fiscal years following the last construction fiscal year net revenues equal to 1.10 times each years debt service requirements, and 1.20 times debt service requirements for each fiscal year thereafter.

In 2007, the requirement was 1.96 times the scheduled debt service requirement for the year.

| (Unaudited) | | |
|---|---|---|
| GAAP basis operating income | $ | 75,030,759 |
| Non-construction fund interest income | | 13,319,187 |
| Gross income | | 88,349,946 |
| Add: | | |
| Depreciation | | 1,800,225 |
| Capital improvement fund expenses | | 34,403,658 |
| Reserve maintenance fund expenses | | 23,858,264 |
| Net revenues available for debt service | | 148,412,093 |
| Bond interest expense, net of amounts capitalized | | 52,420,707 |
| Scheduled principal amount due | | 23,240,000 |
| Calculated debt service requirement | $ | 75,660,707 |
| Coverage ratio | | 1.96 |

## 3. Deposits and Investments

The Authority's investment policy is in accordance with the laws of the State of Texas. The Authority may purchase investments as authorized by the Trust Agreement and as further authorized by the revised investment policy and strategy approved by the Board of Directors in December 2006. These investments include obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; certificates of deposit issued by a state or national bank; fully collateralized repurchase agreements; commercial paper with a stated maturity of 270 days or fewer from the date of its issuance; and no load money market mutual funds that have a dollar-weighted average stated maturity of 90 days or fewer and includes in its investment objectives the maintenance of a stable net asset value of $1 for each share.

The Authority does not invest in financial instruments other than those authorized by the investment policy, and does not invest in any state or local government investment pools.

The Authority reports all equity securities and debt instruments with readily determinable market values to be carried at fair value, with changes in fair value reflected in the Statements of Revenues, Expenses, and Changes in Net Assets.

### (a) Deposits

The Authority's deposits were fully insured or collateralized at December 31, 2007. The carrying amount of the Authority's deposits was $26,347,906, including $468,113 in change funds (cash on hand). The respective bank balances totaled $20,236,422. The Federal Depository Insurance Corporation (FDIC) covered $100,000. As noted in the Investments footnote below, included in cash and cash equivalents are overnight sweeps of certain deposits into the Money Market Funds that are collateralized by the assets of the Money Market Fund. The remainder was covered by collateral held by the Federal Reserve Bank of Dallas in the Authority's name under a joint safekeeping agreement with Bank of America, Texas.

### (b) Investments

As of December 31, 2007 the maturity values are as follows:

| | | 2007 | | |
|---|---|---|---|---|
| | | | Maturities (in Years) | |
| Description | | Fair Value | Less Than 1 | 1 or Greater |
| U.S. Government Securities: | | | | |
| Federal Home Loan Bank | $ | 109,838,164 | $ 78,509,518 | $ 31,328,646 |
| Federal National Mortgage Assn. | | 167,056,012 | 132,091,942 | 34,964,070 |
| Federal Home Loan Mortgage Corp. | | 62,461,669 | 42,444,329 | 20,017,340 |
| Money Market Funds* | | 240,365,398 | 240,365,398 | - |
| Repurchase Agreements | | 18,157,050 | 18,157,050 | - |
| Total Investments | $ | 597,878,293 | $ 511,568,237 | $ 86,310,056 |

* Included in Money Market Funds are overnight sweeps of certain deposits of the Authority that are classified as cash or cash equivalent in the financial statements. The balance of $13,851,348 is collateralized by the assets of the money market funds.

### (c) Interest Rate Risk

Investment portfolios are designed with the objective of attaining the best possible rate of return commensurate with the Authority's investment risk constraints and the cash flow characteristics of the portfolio. Return on investments, although important, is subordinate to the safety and liquidity objectives. In accordance with the Authority's investment strategy, three strategies are employed for the portfolio. The Authority's portfolio has been designed and managed in a manner responsive to each funds (trust basis) unique requirement. Therefore, the Authority's funds are classified into Type I, Type II, and Type III Funds. Type I Funds include Operation and Maintenance Fund, Revenue Fund, Reserve Maintenance Fund, Bond Interest Account, and Bond Redemption Account. The weighted average maturities of Type I funds are limited to 180 days. Type II Funds include Construction Funds, Capital Improvement Funds, and Special Reserve Fund. Type II funds maturity is reflected to match the cash drawdown requirements of each fund. Type III Funds include Debt Service Reserve Fund, and Deferred Revenue-Tag Store Account. The weighted average maturity (WAM) for Type III funds is limited at 5 years. The actual WAM is 29 days for Type I funds, 156 days for Type II funds, and 239 days for Type III funds. Market value fluctuation of the overall portfolio is minimized by keeping the weighted average maturity low. Approximately 86% of the investments are maturing within one year; 14% are maturing one year or greater.

### (d) Credit Risk

Per the Authority's Investment Policy, the Authority may not enter into longer term investment agreements or other ongoing investment transactions with a final maturity or termination date of longer than six months with any financial institution that initially has a long term rating of less than "AA" by Standard & Poor's Ratings Group or "Aa2" by Moody's Investor Services. That means ratings of AA, AA+ for S&P and Aa2, Aa1 for Moody's are appropriate for the financial institution.

As of December 31, 2007, the Authority invested 39% in AAA rated money market funds, 3% invested in AAA rated Full Flex Repurchase agreements, and 58% in U.S. Agencies. Repurchase agreements are fully collateralized and the Agencies are AAA rated.

### (e) Concentration of Credit Risk

It is the policy of the Authority to diversify its investment portfolios. Assets held in the particular funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. As of December 31, 2007, the Wells Fargo, Federated, and MBIA Texas Class A funds exceeded 5% of the total portfolio. This higher balance held with the Trustee was required for the debt service payment due January 1, 2008. More than 5% of the Authority's investments are in Federal Home Loan Banking, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

Cash and investments restricted in accordance with bond provisions, unrestricted or accounted for per the Trust Agreements budget requirements are as follows:

| | | |
|---|---|---|
| Construction and Property Account | $ | 355,842,658 |
| Revenue Account | | 23,823,009 |
| Operations and Maintenance Account | | 14,319,533 |
| Reserve Maintenance Account | | 31,360,707 |
| Consolidated Capital Improvement Fund | | 68,583,103 |
| DFW Turnpike Transition Trust Fund | | 445,091 |
| Bond Interest Account | | 20,637,082 |
| Bond Reserve Account | | 72,123,668 |
| Bond Redemption Account | | 23,240,000 |
| Total cash and investments | $ | 610,374,851 |

## 4. Capital Assets

Capital assets are summarized as follows:

| | January 1, 2007 | Additions | Deletions | December 31, 2007 |
|---|---|---|---|---|
| Infrastructure network | | | | |
| (nondepreciable) | | | | |
| Preliminary costs | $ 49,960,736 | 1,415,726 | — | 51,376,462 |
| Engineering | 176,531,353 | 9,498,387 | — | 186,029,740 |
| Right-of-way | 153,805,123 | 127,293 | — | 153,932,416 |
| Construction | 1,175,225,654 | 119,654,517 | — | 1,294,880,171 |
| Administration | 29,548,350 | 14,972,186 | (747,500) | 43,773,036 |
| Capitalized interest* | 109,775,628 | 20,767,015 | — | 130,542,643 |
| Total nondepreciable property and equipment | 1,694,846,844 | 166,435,124 | (747,500) | 1,860,534,468 |
| (depreciable) | | | | |
| Construction in Progress | — | 3,223,932,608 | — | 3,223,932,608 |
| Total depreciable infrastructure network | — | 3,223,932,608 | — | 3,223,932,608 |
| Total infrastructure | 1,694,846,844 | 3,390,367,732 | (747,500) | 5,084,467,076 |
| Property and equipment | | | | |
| (depreciable): | | | | |
| Furniture and equipment | 12,711,799 | 1,918,416 | (235,952) | 14,394,263 |
| Less accumulated depreciation | (9,436,717) | (1,800,225) | — | (11,236,942) |
| Total depreciable property and equipment | 3,275,082 | 118,191 | (235,952) | 3,157,321 |
| Total capital assets | $ 1,698,121,926 | 3,390,485,923 | (983,452) | 5,087,624,397 |

Total bond interest cost incurred amounted to $63,670,707 during the year ended December 31, 2007, of which $11,250,000 was capitalized.

## 5. Revenue Bonds, Bond Anticipation Notes, Commercial Paper, and Loans Payable

### Revenue Bonds

The Authority has issued and refunded various Revenue Bond Series to construct the Authority. The Authority follows the provisions of GASB No. 23, Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities (Statement No. 23). Under the provisions of Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the life of the new debt or the life of the old debt (had it not been refunded), whichever is shorter, as an adjustment to the bond interest expense.

The following are descriptions of Revenue Bond Series currently outstanding as of December 31, 2007.

The Authority issued $129,270,000 in principal amount of Dallas North Tollway Authority Revenue Refunding Bonds, Series 1997, dated January 1, 1996 with a forward delivery on October 8, 1997, for the purpose of refunding $123,945,000 of Series 1989 revenue bonds. Interest on the bonds is payable on January 1 and July 1 of each year. Principal is payable on January 1 of each year. The bonds included $78,665,000 of serial bonds, which began maturing on January 1, 1999 and bear interest rates ranging from 5.0% to 6.5%. The remaining $50,605,000 of 5.5% term bonds is due January 1, 2015.

The Authority purchased sufficient U.S. Treasury notes with the net proceeds from the Series 1997 Bonds for the partial retirement of the Series 1989 Bonds and placed it in an irrevocable escrow account with Bank One. On December 31, 1997, the U.S. Treasury note matured and the irrevocable escrow account held sufficient cash to pay for the outstanding refunded principal of $123,945,000 on the defeased Series 1989 Bonds. The difference between the reacquisition price and the net carrying amount of the Series 1989 Bonds ($11,430,835) was deferred and is being amortized over the stated term of the Series 1997 Bonds. Amortization of the deferred amount on the refunding was $764,252 for the year ended December 31, 2007.

The Authority issued $129,005,000 in principal amount of Dallas North Tollway Authority Revenue Refunding bonds, Series 1997A, on October 20, 1997, for the purpose of refunding a portion of the Dallas North Tollway Authority Revenue Bonds, Series 1989, dated July 1, 1989, and the outstanding Dallas North Tollway Authority Revenue Bonds, Series 1994, dated December 1, 1994. The amount of refunded principal related to the Series 1989 Bonds is $98,040,000 and the amount related to the Series 1994 Bonds is $22,575,000. Interest on the bonds is payable on January 1 and July 1 of each year. Principal is payable on January 1. The bonds included $67,685,000 of serial bonds, which began maturing on January 1, 1998 and bear interest rates ranging from 4.0% to 5.375%, $56,655,000 of 5.0% term bonds due January 1, 2020, and $4,665,000 of 5.0% term bonds due January 1, 2023.

The Authority purchased sufficient U.S. Treasury securities – State and Local Government Series with the net proceeds from the Series 1997A Bonds for the partial retirement of the Series 1989 Bonds and 1994 Bonds and placed them in an irrevocable escrow account with Bank One. At December 31, 1998, the irrevocable escrow account held sufficient investments to pay for the outstanding refunded principal of $98,040,000 on the defeased Series 1989 Bonds and $22,575,000 on the defeased Series 1994 Bonds. The difference between the reacquisition price and the net carrying amount of the Series 1989 Bonds and 1994 Bonds ($9,217,525) was deferred and is being amortized over the stated term of the Series 1997A Bonds. Amortization of the deferred amount on the refunding was $152,219 for the year ended December 31, 2007.

The $100,660,000 North Texas Tollway Authority Dallas North Tollway Authority Revenue Bonds, Series 1998 were authorized to be issued pursuant to the resolution of the Board of Directors adopted on August 19, 1998, and the Trust Agreement dated as of July 1, 1989. The bonds were dated

September 15, 1998 and were issued for the purpose of financing Segment V of the PGBT. The proceeds of bonds, together with the Texas Department of Transportation's (TxDOT) contributions fully funded the acquisition and construction of Segment V. Pursuant to an agreement between TxDOT and the Authority (the 1998 Two-Party Agreement); TxDOT constructed certain parts of Segment V. Upon completion of the improvements constructed by TxDOT, the Authority reimbursed TxDOT for construction costs in excess of $24,000,000, plus TxDOT's engineering costs attributable to the tolled portion of the improvements it constructed. The 1998 issuance consists of $22,515,000 serial bonds, $22,065,000 term bonds, and $56,080,000 term bonds. Interest on the bonds is payable on January 1 and July 1 of each year. Principal will be payable on January 1 commencing on January 1, 2008. The bonds consist of $22,515,000 4.1%-4.75% Serial bonds maturing from 2008-2018 with a yield of 4.150%-4.94%, $22,065,000 4.75% Term bonds due January 1, 2022 at a yield of 5.00%, and $56,080,000 Term bonds due January 1, 2029 at a yield of 5.010%.

To fund a portion of the costs for Segments IV of the PGBT, finance improvements to the Authority and refund commercial paper notes, the North Texas Tollway Authority issued $225,000,000 Series 2003A Dallas North Texas Tollway Authority System Revenue Bonds, dated May 1, 2003. The bonds were issued May 28, 2003 on parity with other obligations of the Authority and will mature beginning January 1, 2021 and bear an interest rate of 5.00%. Interest on the bonds is payable on January 1 and July 1 of each year. The Series 2003A Bonds are subject to maturity at the option of the Authority on January 1, 2013 or on any date thereafter at a price of par plus accrued interest to the date of redemption.

The Authority issued $135,000,000 in principal amount of Dallas North Tollway Authority Revenue Refunding Bonds, Series 2003B, dated May 1, 2003 on May 28, 2003, for the purpose of refunding $113,986,475 of Series 1995 revenue bonds. Interest on the bonds of an Initial Multiannual Rate of 5.00% is payable on January 1 and July 1 of each year, commencing on January 1, 2004. The Series 2003B Tender Bonds will mature, or be subject to mandatory sinking fund redemption, on January 1 in each of the years 2030 through 2038, inclusive. On the Mandatory Tender Date of July 1, 2008, the Series will be subject to mandatory tender for purchase. The Authority has agreed that the Bonds will be remarketed at the first date on or after the Mandatory Tender Date at which they can be sold in any interest rate mode and at a rate not exceeding 12.00% per annum. In the event they cannot be remarketed and purchased on the Mandatory Tender Date, the mandatory tender will be deemed to have been rescinded and the Series 2003B Bonds will bear interest at the rate of 8.00% per annum from the Mandatory Tender Date until purchased upon a subsequent remarketing.

The Authority purchased sufficient U.S. Treasury notes with the net proceeds from the 2003B Bonds for the partial retirement of the Series 1995 Bonds and placed it in an irrevocable escrow account with Bank One. On December 31, 2003, the irrevocable escrow account held sufficient cash to pay for the outstanding refunded principal of $113,986,475 and $15,348,270 of appreciation on the defeased Series 1995 Bonds. The difference between the reacquisition price and the net carrying amount of the Series 1995 Bonds ($17,603,389) was deferred and is being amortized over the stated term of the Series 1995 Bonds. Amortization of the deferred amount on the refunding was $1,809,319 for the year ended December 31, 2007.

The Authority issued $106,750,000 in principal amount of Dallas North Tollway Authority Revenue Refunding Bonds, Series 2003C, dated September 15, 2003 on October 7, 2003, for the purpose of refunding $108,610,000 of Series 1993 Refunding Bonds. The bonds consist of $46,970,000 2.00%-5.00% Serial Bonds maturing from 2004-2010 and $59,780,000 Tender Bonds due January 1, 2011-2018 with an Initial Multi-annual Rate of 5.00%. Interest is payable on January 1 and July 1 of each year, commencing on January 1, 2004. The Series 2003C Tender Bonds will mature, or be subject to mandatory sinking fund redemption, on January 1 in each of the years 2011 through 2018, inclusive. On the Mandatory Tender Date of July 1, 2008, the Tender Bonds will be subject to mandatory tender for purchase. The Authority has agreed that the Bonds will be remarketed at the first date on or after the Mandatory Tender Date at which they can be sold in any interest rate mode and at a rate not exceeding 12.00% per annum. In the event they cannot be remarketed and purchased on the Mandatory Tender Date, the mandatory tender will be deemed to have been rescinded and the Series 2003B Bonds will bear interest at the rate of 8.00% per annum from the Mandatory Tender Date until purchased upon a subsequent remarketing.

The Authority purchased sufficient U.S. Treasury notes with the net proceeds from the Series 2003C Bonds for the partial retirement of the Series 1993 Bonds and placed it in an irrevocable escrow account with Bank One. The difference between the reacquisition price and the net carrying amount of the Series 1993 Bonds ($18,741,516) was deferred and is being amortized over the stated term of the Series 2003C Refunding Bonds. Amortization of the deferred amount on the refunding was $1,923,537 for the year ended December 31, 2007.

The $227,370,000 North Texas Tollway Authority Dallas North Tollway Authority Revenue Bonds, Series 2005A, were authorized to be issued pursuant to the resolution of the Board of Directors adopted on February 16, 2005, and the Trust Agreement dated as of July 1, 1989, as amended by the First through Eleventh Supplemental Agreements (collectively, the "Trust Agreement"). The bonds were dated March 1, 2005 and were issued for the purpose of financing a portion of the construction cost of improving, expanding and extending the Authority, including the proposed extension of the DNT from Gaylord Parkway to U.S. 380, funding the required deposit to the Reserve Account, reimbursing the cost of construction of the extension of the DNT from Legacy Drive across SH 121 to Gaylord Parkway, and paying cost of issuance relating to the bonds. Interest on the bonds is payable on January 1, and July 1, of each year. Principal is payable on January 1, of each year. The bonds consist of $88,395,000 at 3.0% - 5.0% Serial bonds maturing from 2006-2015 and 2025-2030 with yields of 2.32% - 4.55%, and $61,365,000 at 5.00% Term bonds due January 1, 2035 at a yield of 4.58%; $44,455,000 at 4.50% Term bonds due January 1, 2038 at a yield of 4.78%, and $33,155,000 at 5.00% Term bonds due January 1, 2040 at a yield of 4.65%.

The $73,700,000 North Texas Tollway Authority Dallas North Tollway Authority Variable Rate Revenue Bonds, Series 2005B, were authorized to be issued pursuant to the resolution of the Board of Directors adopted on February 16, 2005, and the Trust Agreement. The bonds were dated March 1, 2005, and were issued for the purpose of financing a portion of the construction cost of improving, expanding and extending the Authority, including the proposed extension of the DNT from Gaylord Parkway to U.S. 380, reimbursing the cost of construction of the extension of the DNT from Legacy Drive across SH 121 to Gaylord Parkway, and paying cost of issuance relating to the bonds. Interest on the bonds initially accrued from the date of delivery at a Weekly Rate, but may be subsequently converted to bear interest at a Daily Rate, Flexible Rate, Monthly Rate, Quarterly Rate, Semi-Annual Rate, Multi-Annual Rate, or Fixed Rate. While bearing interest at a Weekly Rate, interest will be payable on the first business day of each calendar month, and will be calculated on the basis of actual days elapsed on a 365-day or 366-day calendar year, as applicable. Upon a change to any of the other interest modes, the bonds will be subject to mandatory tender for purchase and remarketing with a maximum rate of twelve percent (12%) per annum. Principal will be payable on January 1, commencing on January 1, 2016. The bonds consist of $73,700,000 Weekly Mode bonds maturing from 2016-2024.

The $341,670,000 North Texas Tollway Authority Dallas North Tollway Authority Variable Rate Revenue Bonds, Series 2005C were authorized to be issued pursuant to the resolution of the Board of Directors adopted on November 11, 2005, and the Trust Agreement. The bonds were dated December 1, 2005 and were issued for the purpose of refunding $332,425,000 Series 1995 Bonds, and paying cost of issuance relating to the bonds. Interest on the bonds initially accrued from the date of delivery at a Weekly Rate, but may be subsequently converted to bear interest at a Daily Rate, Flexible Rate, Monthly Rate, Quarterly Rate, Semi-Annual Rate, Multi-Annual Rate, or Fixed Rate. While bearing interest at a Weekly Rate, interest will be payable on the first business day of each calendar month, and will be calculated on the basis of actual days elapsed in a 365-day or 366-day year, as applicable. Upon a change to any of the other interest modes, the bonds will be subject to mandatory tender for purchase and remarketing with a maximum rate of twelve (12%) per annum, The bonds consist of $341,670,000 Term Bonds due January 1, 2025. The bonds are subject to mandatory sinking fund redemption prior to maturity on January 1 of the years 2007-2025.

The Authority purchased sufficient State and Local Government Securities with the net proceeds from the Series 2005C Bonds for the retirement of the Series 1995 Bonds and placed it in an irrevocable escrow account with Bank One. On December 31, 2005, the irrevocable escrow account held sufficient cash to pay for the outstanding refunded principal of $332,425,000 on the defeased Series 1995 Bonds. The difference between the reacquisition price and the net carrying amount of the Series 1995 Bonds ($18,196,889) was deferred and is being amortized over the stated term of the Series 2005C Refunding Bonds. Amortization of the deferred amount on the refunding was $1,367,964 for the year ended December 31, 2007.

The following schedule summarizes the revenue bonds outstanding as of December 31, 2007:

| Description of issue | Beginning balance | Additions | Matured or retired | Ending balance | Due within one year |
|---|---|---|---|---|---|
| Series '97 | $ 98,435,000 | - | (7,975,000) | 90,460,000 | 8,490,000 |
| Series '97A | 107,455,000 | - | (1,165,000) | 106,290,000 | 1,220,000 |
| Series '98 | 100,660,000 | - | - | 100,660,000 | 120,000 |
| Series '03A | 225,000,000 | - | - | 225,000,000 | - |
| Series '03B | 125,245,000 | - | - | 125,245,000 | - |
| Series '03C | 93,795,000 | - | (8,125,000) | 85,670,000 | 8,535,000 |
| Series '05A | 226,870,000 | - | (3,715,000) | 223,155,000 | 4,065,000 |
| Series '05B | 71,000,000 | - | - | 71,000,000 | - |
| Series '05C | 341,670,000 | - | (600,000) | 341,070,000 | 810,000 |
| | 1,390,130,000 | - | (21,580,000) | 1,368,550,000 | 23,240,000 |
| Less: | | | | | |
| Unamortized deferred amount on refunding of revenue bonds | (48,276,096) | 6,017,291 | - | (42,258,805) | 5,586,080 |
| Bond discount/premium | 19,903,159 | 374,135 | (1,760,645) | 18,516,649 | (1,206,854) |
| Total | $ 1,361,757,063 | 6,391,426 | (23,340,645) | 1,344,807,844 | 27,619,226 |

The revenue bond debt service requirements below are prepared as of December 31, 2007:

| | | Total revenue bonds | | |
|---|---|---|---|---|
| | | Principal amount | Interest amount | Total |
| Through January 1 | | | | |
| 2008 | $ | 23,240,000 | 63,670,707 | 86,910,707 |
| 2009 | | 25,260,000 | 60,714,601 | 85,974,601 |
| 2010 | | 26,010,000 | 57,638,696 | 83,648,696 |
| 2011 | | 31,855,000 | 56,354,635 | 88,209,635 |
| 2012 | | 32,715,000 | 54,929,488 | 87,644,488 |
| 2013 – 2017 | | 215,060,000 | 249,606,004 | 464,666,004 |
| 2018 – 2022 | | 287,610,000 | 197,357,204 | 484,967,204 |
| 2023 – 2027 | | 254,095,000 | 136,242,773 | 390,337,773 |
| 2028 – 2032 | | 170,850,000 | 91,961,654 | 262,811,654 |
| 2033 – 2037 | | 219,100,000 | 48,871,334 | 267,971,334 |
| 2038 – 2040 | | 82,755,000 | 6,324,642 | 89,079,642 |
| | $ | 1,368,550,000 | 1,023,671,738 | 2,392,221,738 |

The Interest and Sinking and Reserve Accounts required by the Trust Agreement have been established with the Trustee. The balances as of December 31, 2007 were:

| | | |
|---|---|---|
| Bond interest account | $ | 20,637,082 |
| Debt service reserve account | | 72,123,668 |
| Redemption account | | 23,240,000 |
| Total | $ | 116,000,750 |

**SWAP Transactions**

**Objective of the interest rate swap**. In 2004, the Authority entered into multiple interest rate swap transactions in the collective notional amount of $202,720,000 pursuant to ISDA Master Agreements dated and effective as of August 20, 2004 (the “2004 ISDA Master Agreements”) with Citibank N.A., New York, Bear Stearns Financial Products Inc. and Lehman Brothers Special Financing Inc. (the “Swap Providers”) in connection with the then proposed refunding of a portion of the Dallas North Tollway Authority Revenue Bonds, Series 1995 (the “Series 1995 Bonds”) and the issuance of the Variable Rate Revenue Bonds, Series 2005C (the “Series 2005C Bonds”), (the “2004 Swap Transactions”). Concurrently with the issuance of the Series 2005C Bonds in December 2005, the Authority and the Swap Providers also entered into multiple interest rate swap transactions in the collective nominal amount of $138,950,000, effective as of December 15, 2005, pursuant to the 2004 ISDA Master Agreements relating to the portion of the Series 2005C Bonds issued to refund the remaining Series 1995 Bonds (the “2005 Swap Transactions”, and together with the 2004 Swap Transactions, the “Swap Transactions”).

The intention of the Swap Transactions was to produce an overall fixed rate cost of funds related to the Series 1995 Bonds. The Swap Transactions were structured to lock in low rates, minimize the negative arbitrage in escrow, achieve higher present value savings than traditional fixed rate bond alternatives and increase future debt capacity. Total present value savings from these transactions were estimated at $41.8 million.

**Terms – 2004 Swap Transactions**. Under the 2004 Swap Transactions, the Authority is obligated to make payments to the Swap Providers calculated at a fixed rate of 3.673% per annum and the Swap Providers are obligated to make floating rate payments to the Authority calculated at a rate equal to 67% of the one-month London Interbank Offered Rate ("LIBOR") for U.S. deposits. The 2004 Swap Transactions have a stated final maturity date of January 1, 2023.

**Terms – 2005 Swap Transactions**. Under the 2005 Swap Transactions, the Authority is obligated to make payments to the Swap Providers calculated at a fixed rate of 3.533% per annum and the Swap Providers are obligated to make floating rate payments to the Authority calculated at a rate equal to 67% of the one-month LIBOR for U.S. deposits. The Series 2005C Bonds and the 2005 Swap Transactions have a stated final maturity date of January 1, 2025.

As of December 31, 2007, rates were as follows:

| **Interest rate swap:** | **Terms** | **2004 Swap Rates December 31, 2007** | **2005 Swap Rates December 31, 2007** |
|---|---|---|---|
| Fixed payment to counterparties | Fixed | 3.673% | 3.533% |
| Variable payment from counterparties | 67% of 1-Month LIBOR | 3.082% | 3.082% |
| Net interest rate swap payments | | 0.591% | 0.451% |
| Variable-rate bond coupon payments | +/- BMA | 3.420% | 3.420% |
| Synthetic interest rate on bonds | | 4.011% | 3.871% |

**Fair value**. As of December 31, 2007, the Swap Transactions had a negative fair value of $13,506,467. The negative fair value signifies the amount that the Authority would owe to the Swap Providers upon the termination of all the Swap Transactions as of that date. The fair value was calculated by the Authority's financial advisor using a market quotation from the Swap Providers.

**Credit risk**. As of December 31, 2007, the Authority was not exposed to credit risk because the Swap Transactions had a negative fair value. However, should interest rates change and the fair value of the Swap Transactions become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

As of December 31, 2007 the Swap Providers' respective ratings by Moody's Investors Service ("Moody's") and by Standard and Poor's Corporation ("S&P") are as follows: Citibank N.A., New York Aa3/AA+, Bear Stearns Financial Products Inc. Aaa/AAA, and Lehman Brothers Derivative Products Inc. Aaa/AAA. Each party's portion of the 2004 Forward Swap and 2005 Current Swap agreement is 50%, 25%, 25%, and 25%, 50%, 25%, respectively.

**Basis risk**. Risk that the payment on the Series 2005C Bonds will exceed the swap receipt due the Authority due to a specific credit event or tax code change. As noted above, the Swap Transactions expose the Authority to basis risk should the relationship between LIBOR and BMA diverge, changing the synthetic rate on the Series 2005C Bonds. If a change occurs that results in the rates' moving to divergence, the expected cost savings may not be realized.

**Termination risk**. Termination risk exists only if (i) the Authority opts to terminate the Swap Transactions prior to maturity and the Swap Providers do not have sufficient funds owed to the Authority or (ii) the Authority's credit rating is reduced below investment grade and the Authority is unable to post sufficient collateral. Each of the 2004 ISDA Master Agreements may be terminated by the Authority if the respective Swap Provider does not maintain a credit rating of least Baa3 by Moody's or BBB- by S&P, in the case of Citibank N.A., New York and Bear Stearns Financial Products Inc, or A2 by Moody's or A by S&P, in the case of Lehman Brothers Special Financing Inc. If the respective Swap Provider's credit rating is reduced below A3 by Moody's or A– by S&P, in the case of Citibank N.A., New York, or A1 by Moody's or A+ by S&P in the case of Bear Stearns Financial Products, Inc. and Lehman Brothers Special Financing Inc., it is required to post collateral to the Authority's credit. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the termination the swap has a negative fair value, the Authority would be liable to the Swap Providers for a payment equal to the Swap's fair value.

The Swap Transactions are also subject to optional termination by the Authority at any time over the term of the Swap Transactions at the then prevailing market value. The Swap Providers do not have the elective right to optionally terminate the Swap Transactions.

***Swap payments and associated debt***. Using rates as of December 31, 2007, debt service requirements of the variable-rate and net swap payments, assuming current interest rates remain the same for the term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

| Fiscal Year | 2005C Bonds Associated with 2004 Swap: Principal amount | 2005C Bonds Associated with 2004 Swap: Interest amount* | 2004 Swap Debt Interest Rate Swap, Net* | Total |
|---|---|---|---|---|
| 2008 | $ 415,000 | 8,098,610 | 1,193,288 | $ 9,706,898 |
| 2009 | 430,000 | 6,890,616 | 1,190,747 | 8,511,363 |
| 2010 | 450,000 | 6,875,226 | 1,188,087 | 8,513,313 |
| 2011 | 9,255,000 | 6,558,705 | 1,133,390 | 16,947,095 |
| 2012 | 9,630,000 | 6,229,359 | 1,076,477 | 16,935,836 |
| 2013 | 10,015,000 | 5,886,846 | 1,017,288 | 16,919,134 |
| 2014 | 10,425,000 | 5,530,311 | 955,677 | 16,910,988 |
| 2015 | 10,845,000 | 5,159,412 | 891,583 | 16,895,995 |
| 2016 | 11,280,000 | 4,773,636 | 824,918 | 16,878,554 |
| 2017 | 13,260,000 | 4,320,144 | 746,551 | 18,326,695 |
| 2018 | 14,240,000 | 3,833,136 | 662,393 | 18,735,529 |
| 2019 | 15,260,000 | 3,311,244 | 572,206 | 19,143,450 |
| 2020 | 16,080,000 | 2,761,308 | 477,173 | 19,318,481 |
| 2021 | 34,940,000 | 1,566,360 | 270,678 | 36,777,038 |
| 2022 | 37,320,000 | 290,016 | 50,117 | 37,660,133 |
| 2023 | 8,480,000 | - | - | 8,480,000 |
| | $ 202,325,000 | 72,084,929 | 12,250,573 | $ 286,660,502 |

*As rates vary, variable rate bond interest payments and net swap payments will vary.

| Fiscal Year | 2005C Bonds Associated with 2005 Swap Principal amount | Interest amount* | 2005 Swap Debt Interest Rate Swap, Net* | Total |
|---|---|---|---|---|
| 2008 | $ 395,000 | 4,731,570 | 623,959 | $ 5,750,528 |
| 2009 | 410,000 | 4,717,548 | 622,109 | 5,749,657 |
| 2010 | 425,000 | 4,703,013 | 620,193 | 5,748,206 |
| 2011 | 440,000 | 4,687,965 | 618,208 | 5,746,173 |
| 2012 | 455,000 | 4,672,404 | 616,156 | 5,743,560 |
| 2013 | 470,000 | 4,656,330 | 614,037 | 5,740,367 |
| 2014 | 490,000 | 4,639,572 | 611,827 | 5,741,399 |
| 2015 | 510,000 | 4,622,130 | 609,527 | 5,741,657 |
| 2016 | 8,615,000 | 4,327,497 | 570,673 | 13,513,170 |
| 2017 | 440,000 | 4,312,449 | 568,688 | 5,321,137 |
| 2018 | 455,000 | 4,296,888 | 566,636 | 5,318,524 |
| 2019 | 475,000 | 4,280,643 | 564,494 | 5,320,137 |
| 2020 | 490,000 | 4,263,885 | 562,284 | 5,316,169 |
| 2021 | 510,000 | 4,246,443 | 559,984 | 5,316,427 |
| 2022 | 530,000 | 4,228,317 | 557,594 | 5,315,911 |
| 2023 | 31,915,000 | 3,136,824 | 413,657 | 35,465,481 |
| 2024 | 44,550,000 | 1,613,214 | 212,737 | 46,375,951 |
| 2025 | 47,170,000 | - | - | 47,170,000 |
| | 138,745,000 | 72,136,693 | 9,512,761 | 220,394,454 |

- As rates vary, variable-rate bond interest payments and net swap payments will vary.

**Bond Anticipation Notes**

The $3,487,245,000 North Texas Tollway Authority Bond Anticipation Notes, Series 2007 are authorized and issued on November 19, 2007 pursuant to the laws of the State of Texas, particularly Chapter 366, Texas Transportation Code, as amended, and Chapter 1371, Texas Governmental Code, as amended, and an amended and restated resolution adopted by the Board of Directors of the Authority. The Series 2007 Notes are special, limited obligations payable solely from, and secured solely by, the proceeds of the NTTA Authority revenue bonds to be issued by the Authority prior to the maturity date of the Notes or such other bonds, notes or obligations issued by the Authority. Proceeds of the Notes will be used for the purpose of providing interim financing for the acquisition of the State Highway 121 Project, subject to the reversionary interest of the Texas Department of Transportation after fifty years, providing interim financing for the development and construction of the State Highway 121 Project and paying cost of issuance. The Series 2007 Notes were issued as fully registered notes, without coupons, in denominations of $5,000 or any integral multiple thereof. The Notes bear interest from the date of delivery, November 29, 2007, at the rate of 4.125% per annum, calculated on the basis of a 360-day year composed of twelve 30-day months to the maturity date. Principal and interest will be payable on November 19, 2008, the maturity date or upon redemption prior to maturity.

The Bond Anticipation Notes have been reclassified as non-current liabilities in the Statement of Net Assets as December 31, 2007 since they have been refinanced on a long-term basis after year end, but before the issuance of this report.

**Commercial Paper**

On April 18, 2001, the Authority's Board of Directors authorized the issuance of $200,000,000 Dallas North Tollway Authority Tax-Exempt Commercial Paper program. The commercial paper issued must mature not more than 270 days from date of issue. The Authority may retire commercial paper at any time.

Commercial paper may be issued to provide interim financing for new projects and other capital improvements and to finance equipment purchases for projects of the System. In fiscal year 2007, the Authority issued $125,000,000 of commercial paper for the following purposes - $75,000,000 for an escrow account for the purchase of State Highway 121, $25,000,000 to finance the feasibility study and design of Southwest Parkway and PGBT Eastern Extension projects, and $25,000,000 to pay for construction cost of the Lewisville Lake Toll Bridge. A total of $75,000,000 was outstanding at December 31, 2007 with an interest rate of 3.35%.

Commercial paper notes are supported by a bank line of credit in excess of $200,000,000 and constitute an obligation subordinate to the Authority's revenue bonds. Any advances for payments of commercial paper under the line of credit are secured by a subordinate lien on Authority revenues. No such advances have occurred. The credit agreement was renewed on July 20, 2007 and will expire on January 2, 2009.

### Loans Payable

Additionally, the Authority funded, in part, costs of the construction of the PGBT with proceeds from a loan, which totaled $135,000,000, made by TxDOT in 1995 pursuant to the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). Repayment of the loan to TxDOT is to be made from amounts on deposit in the Capital Improvement Fund with payments subordinate to bonds or other obligations of the Authority issued or entered into and secured by the tolls and revenues of the Authority. Interest at the rate of 4.2% began to accrue on October 1, 2000, compounding annually on January 1, with the first payment made in October 2004 and on January 1 thereafter. A payment of $7,750,000 was made during 2007. Accrued interest payable was $12,897,354 as of December 31, 2007.

TxDOT has incurred $4,600,000 in costs for interchange improvements relating to the PGBT, which will be repaid by the Authority. Repayment of these costs will be paid in annual payments (without interest) of $500,000 beginning on October 1 of the year after the ISTEA loan is fully paid, currently 2029 and will be retired in 2039.

Debt service requirements on the TxDOT loan payable and TxDOT ISTEA loan payable subsequent to December 31, 2007 are as follows:

| | TxDOT Loan payable | | TxDOT Loan payable (ISTEA) | |
|---|---|---|---|---|
| **Fiscal years** | **Principal** | **Interest** | **Principal** | **Interest** |
| 2008 | $ - | - | 1,288,312 | 6,211,688 |
| 2009 | - | - | 1,592,421 | 6,157,579 |
| 2010 | - | - | 2,159,303 | 6,090,697 |
| 2011 | - | - | 2,249,993 | 6,000,007 |
| 2012 | - | - | 2,344,493 | 5,905,507 |
| 2013 - 2017 | - | - | 12,925,357 | 28,074,643 |
| 2018 - 2022 | - | - | 45,535,707 | 23,181,483 |
| 2023 - 2027 | - | - | 65,096,953 | 11,515,027 |
| 2028 - 2032 | 1,500,000 | - | 14,704,795 | 617,601 |
| 2033 - 2037 | 2,500,000 | | - | - |
| 2038 - 2040 | 600,000 | - | - | - |
| Total due | 4,600,000 | - | 147,897,334 | 93,754,232 |
| Interest prior to 2007 | - | - | (12,897,334) | 12,897,334 |
| Total principal and interest | $ 4,600,000 | - | 135,000,000 | 106,651,566 |

Included in the ISTEA Loan Payable amounts is $12,897,334 of interest expense incurred from fiscal years 2000 through 2003. The Authority was not required to begin payments of these amounts until 2004.

## 6. Employees' Retirement Plan

As discussed in Note 1, effective September 1, 1997, the Authority, a regional tollway authority under Chapter 366, Transportation Code, became the successor agency to the Texas Turnpike Authority. In connection with this transition, the Authority changed from being a participant in the plans administered by the Employees Retirement Authority of Texas, which are considered single employer defined benefit pension plans, to being a participant in the Texas County and District Retirement Authority (TCDRS), which is a nonprofit public trust fund that provides pension, disability, and death benefits to eligible employees of the counties and districts that participate in TCDRS. Information related to the TCDRS, the Authority's 401(k) plan, and its refrain from participation in Social Security is included herein.

A separate audited GAAP-basis pension plan report for the Employee Retirement System (ERS) is available at www.ers.state.tx.us/Publications/FinancialReports.

### Texas County and District Retirement Authority

TCDRS, an agent multiple-employer public employee retirement Authority, was established by legislative act in 1967 as a nontraditional, joint contributory, defined benefit plan. Individuals are required to become a TCDRS member at the time of their employment regardless of their age, unless the individual is ineligible for one of the reasons specified by the TCDRS (e.g., part time, temporary employee).

The governing body of the political subdivision determines the percentage of salary that both the individual and employer contribute toward retirement. The employee and employer contribution rate established was 6% and 8.74% of wages up to a maximum of $225,000, respectively, at December 31, 2007.

Once an individual reaches vested status, he or she may end employment with a TCDRS subdivision and retain his or her right to future benefits as long as the individual does not die or withdraw personal contributions. Once a vested employee has satisfied both the service and age requirements for retirement, he or she is considered retirement eligible. Employees are eligible to receive lifetime monthly pension payments following the termination of their employment if the individual has 10 or more years of service credit at age 60 or older or the individual has 30 or more years of service credit at any age.

An individual is also eligible to receive lifetime monthly pension payments after his or her termination of employment if his or her political subdivision has authorized, and the individual has satisfied 10 years of service credit at age 60 or older or the individual's combined age and total service is 75 years or more.

If an individual is eligible for service or disability retirement pension payments, the amount of the lifetime monthly pension to be received after retirement is determined by dividing the total dollars of accumulated retirement credit earned at retirement by the appropriate annuity purchase rate used to convert dollars of retirement credit to a lifetime monthly pension payment.

If an individual has at least ten years of service credit and becomes disabled for any reason, the individual may be approved for disability retirement benefits if the TCDRS Medical Board finds that the individual is mentally or physically incapacitated for any gainful occupation and the incapacity is considered permanent.

Total pension expense allocated to the Authority by TCDRS for the year ended December 31, 2007, was $2,675,465 based on a covered payroll of $30,640,927. The Authority made the actuarially required contribution. Employee contributions to the plan for the year ended December 31, 2007 were $1,838,456.

A separate audited GAAP-basis pension plan report for TCDRS is available at www.tcdrs.org/docs.

**Actuarial valuation information**

| | | | |
|---|---|---|---|
| Actuarial valuation date | December 31, 2004 | December 31, 2005 | December 31, 2006 |
| Actuarial cost method | Entry age | Entry age | Entry age |
| Amortization method | Level percentage of payroll, open | Level percentage of payroll, open | Level percentage of payroll, closed |
| Amortization period | 20.0 | 20.0 | 15.0 |
| Asset valuation method | Long-term appreciation with adjustments | Long-term appreciation with adjustments | SAF:10-yr smooth value<br>ESF: Fund value |
| Actuarial assumptions: | | | |
| Investment return* | 8.0% | 8.0% | 8.0% |
| Projected salary increases | 5.5% | 5.3% | 5.3% |
| Inflation | 3.5% | 3.5% | 3.5% |
| Cost-of-living adjustments | 0.0% | 0.0% | 0.0% |

* Includes inflation at the stated rates.

**Trend information for the retirement plan for the employees of the Authority**

| Accounting year ended | | Annual pension cost (APC) | Percentage of APC contributed | Net pension obligation |
|---|---|---|---|---|
| December 31, 2004 | $ | 1,812,344 | 100% | — |
| December 31, 2005 | | 1,999,030 | 100% | — |
| December 31, 2006 | | 2,143,060 | 100% | — |
| December 31, 2007 | | 2,675,465 | 100% | — |

## 401(k) Plan

As a state agency of the State of Texas, the Texas Turnpike Authority was a participating employer in the State of Texas Texa$aver 401(k) Profit Sharing Plan sponsored by the Employees Retirement Authority of Texas. The Texas Turnpike Authority, as a state agency, was permitted to participate in the Employees Retirement Authority of Texas under Section 812.003 of the Texas Government Code.

Because the Act established the Authority as a political subdivision of the State of Texas instead of a state agency, it is no longer eligible to participate in the Texa$aver 401(k) Plan maintained by the Employees Retirement Authority of Texas. As a successor of the Texas Turnpike Authority, however, the Authority is eligible under current IRS rules and regulations to adopt the North Texas Tollway Authority 401(k) Plan as a successor qualified cash or deferred arrangement to the Texa$aver 401(k) Plan.

Prior to 1986, the IRC of 1986 permitted state or local governments and tax-exempt organizations to maintain qualified cash or deferred arrangement. The Tax Reform Act (TRA) of 1986 amended IRC to provide that a cash or deferred arrangement shall not be treated as a “qualified cash or deferred arrangement” if it is part of a retirement plan maintained by a governmental unit. However, TRA 1986 provides specific exception for cash or deferred arrangements adopted by a governmental unit prior to 1986 (Grandfather Employer). The Authority, a government entity is eligible to adopt the 401(k) plan because it is a successor entity to the Texas Turnpike Authority, a Grandfathered Employer, and is adopting a cash or deferred arrangement substantially similar to the Texas Turnpike Authority’s cash or deferred arrangement.

Effective September 1, 1997, each Authority employee became eligible to participate in the North Texas Tollway Authority 401(k) plan, a defined contribution plan. The plan requires that each employee be required to make a mandatory employee contribution, deposited by the Authority towards the cost of the 401(k) plan, in an amount equal to 4% of total wages. All mandatory employee contributions to the 401(k) plan for payroll periods following September 1, 1997 shall be made on a pretax basis, provided they are subject to the Hospital Insurance portion of the Federal Insurance Contributions Act and the Federal Unemployment Tax Act and the withholding of those Acts. Employee contributions and plan earnings are vested at all times and a terminating employee shall be paid all mandatory contributions and plan earnings pursuant to the plan’s terms. The Authority is authorized to make discretionary employer matching contributions in such amounts as may be determined by the board, and Authority employees are vested in employer contributions at 100% after five years services. Former Texas Turnpike Authority employees employed by the Authority on or before October 31, 1997 shall receive past service credit for service with the Texas Turnpike Authority for purposes of determining the vested percentage and the Authority’s Board of Directors is allowed to further amend or terminate the plan at any time.

Total 401(k) contributions by employees for the year ended December 31, 2007 were $1,033,525 based on a covered payroll of $29,529,288.

**Social Security**

Effective September 1, 1997, the Authority elected to refrain from participation in Social Security and instead participated in both the TCDRS and the Authority 401(k) plan. The Authority requires mandatory employee participation in both of these plans.

**7. Risk Management**

In 1997, the Authority terminated its limited risk management program for workers' compensation. The remaining liability for claims is reported in the Operations and Maintenance Fund. As of December 31, 2007, $321,416 is accrued to recognize actuarially determined claim liabilities. No claims have been filed in the years 2005, 2006, or 2007.

An external insurance company now insures the Authority for workers' compensation. The Authority purchases insurance policies for all major areas of operation including buildings and contents, bridges, general liability, commercial umbrella, crime, directors and officers liability, and boiler and machinery coverage. There have not been any settlements exceeding insurance coverage in the years 2005, 2006, or 2007.

**8. Post Employment Benefits**

The Authority provides post employment health care benefits to all retired employees of the Authority covered by the Employee Retirement Authority of Texas plan, funded on a pay-as-you-go basis. Currently, 58 individuals meet these requirements to be included in the Employee Retirement Authority of Texas plan. During the year ended December 31, 2007, expenses of $274,153 were recognized for post employment health care premiums paid.

In addition, the Authority provides post employment health care benefits through the Authority's Health Benefits plan to all retired employees not covered under the Employee Retirement Authority of Texas plan. Currently, 4 individual meet the requirements to be included in the Authority's plan. The plan is funded on a pay-as-you-go basis with $2,916,614 reserved for future health benefits. During the year ended December 31, 2007, expenses of $14,769 were recognized for post employment health care premiums paid.

Beginning in 2008, the Authority will implement GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Post-Employment Benefits Other than Pensions.* The Authority has not yet determined the financial impact of adoption.

The Authority provides post-employment healthcare benefits, in accordance with State law, to all retired employees of the Dallas-Fort Worth Turnpike, funded on a pay-as-you-go basis. Currently, two individuals meet these requirements. During the year ended December 31, 2007, expenses of $13,340 were recognized for post-employment healthcare premiums paid.

**9. Disaggregation of Receivable Balances**

The Authority's accounts receivable balance is $8,492,581 as of December 31, 2007. $7,338,945 is from TxDOT related to various construction agreements. The remainder consists of the following balances - $676,626 for video tolls, $402,024 from damage claims, $65,189 from Denton County, and $9,797 miscellaneous other.

Inter-project and agency receivables of $1,346,627 is comprised of $868,337 from Colliers International lease management, and $478,290 from interoperability agencies.

## 10. Commitments and Contingencies

The Authority currently has $355,842,658 in cash and investments that are restricted for construction and $22,593,535 in current liabilities that are comprised of construction-related payables at December 31, 2007. Additionally the Authority has contract and purchase order commitments at December 31, 2007 aggregating $172,753,259. This amount includes $104,660,287 of construction contracts payable from the Construction and Property Fund. At December 31, 2007, the Authority had $333,249,123 in uncommitted funds that are restricted for construction.

The Authority issued an acquisition payment for SH 121 Project of $3,197,104,248 to TxDOT on November 29, 2007. The Authority used funds from the issuance of Bond Anticipation Notes to fund the amount recorded as a capital asset. The Bond Anticipation Notes are to be defeased by long term bonds.

An additional $51,000,000 remains in the dispute resolution process of the Project Agreement pursuant to which the Authority acquired the SH 121 Project. The Authority's staff and consultants prepared documentation explaining the calculations in dispute and remain confident that the calculations are appropriate and no more funds are due to TxDOT.

The Authority is currently evaluating several Authority maintenance, rehabilitation, and capital improvement projects with an estimated cost of approximately $560 million, which may be funded from the Authority's Reserve Maintenance Fund, the Construction Fund, or the Capital Improvement Fund over the next six years.

The Authority has an operating lease agreement for the rental of the TollTag Store. The term of the lease was extended through June 30, 2009. Lease expense for the year ended December 31, 2007 totaled $97,264, under this lease. The following represents required remaining payments under the terms of the TollTag Store lease agreement:

| | | |
|---|---|---|
| 2008 | $ | 95,774 |
| 2009 | | 47,887 |
| | $ | 143,661 |

The Authority entered into a property management agreement with Colliers International (Manager) on February 12, 2007 and ending February 28, 2009, to manage existing leases of the Gleneagles buildings. An operating account funded with operating lease payments was established for the Manager to handle all expenses. As of December 31, 2007 this account had a balance of $885,001. The building complex encompasses 163,380 square feet of which 61,662 is occupied by the Authority, 52,887 is leased, and 48,831 is vacant. The leased space is divided into two leases; one for 22,369 sq. ft. beginning July 1, 2005 and expiring March 31, 2010, one for 30,518 sq. ft. beginning July 1, 2005 and expiring December 31, 2010. The following represents minimum future rentals on non-cancelable operating lease agreements:

| | | |
|---|---|---|
| 2008 | $ | 993,162 |
| 2009 | | 1,004,347 |
| 2010 | | 696,773 |
| | $ | 2,694,282 |

On August 19, 1993, the Board authorized the creation of a Revolving Fund (Not a GAAP Fund) as permitted by Senate Bill 242. The Authority entered into a Memorandum of Understanding with Collin County and Dallas County to fund the Revolving Fund from capital improvement funds from the Authority, if matched by a contribution by the TxDOT. To date, the TxDOT has not taken any action regarding its contribution to the Revolving Fund, nor has the Board acted to establish the Revolving Fund.

The Authority is not a defendant in any litigation matters that would have a material affect on the financial statements.

## 11. Subsequent Events

On December 5, 2007, TxDOT finalized the Construction, Operations and Maintenance Agreement for the Eastern Extension to the President George Bush Turnpike ("Eastern Extension"). Upon meeting the terms of the agreement, TxDOT will provide financial assistance in the amount of $160,270,000 for the acquisition of Right-of-Way ("ROW") for the Eastern Extension and to reimburse the Authority for previously acquired ROW, and upon agreement with TxDOT, for other purposes. The first payment was received by the Authority in June 2008. The Authority satisfied the last requirement for eligibility in November 2008 with the issuance of the first traunch of permanent financing. As a part of the agreement, the Authority will impose an additional toll of 20% for users of the Eastern Extension to be deposited in the State of Texas' Fund 6 for regional mobility projects. In addition, the Authority will fund TxDOT's budgeted maintenance costs of maintaining the service roads for the Eastern Extension starting in 2011 or when the road goes into service.

On February 19, 2008, Standard & Poor's downgraded the underlying rating from A+ to A- on the Authority's outstanding Authority Revenue Bonds with a stable outlook. Moody's Investors Service affirmed its underlying rating of A2 on the Authority's outstanding Authority Revenue Bonds with a stable outlook.

On February 27, 2008, Fitch Ratings downgraded its underlying rating on the Authority's Authority Revenue Bonds to 'BBB+' from 'A-' and simultaneously withdrew the ratings. All debt ratings for the Authority were also withdrawn.

On May 21, 2008, the Board authorized the adoption of an Internal Audit statement and charter.

**Series 2008A:** The $1,770,285,000 North Texas Tollway Authority Revenue Refunding Bonds, Series 2008A were issued on April 3, 2008 for the purpose of refunding $58,760,000 of Series 2003C Tender Bonds, $71,000,000 of Series 2005B Bonds and $1,203,405,000 of the Bond Anticipation Notes that were issued in November 2007, utilizing State and Local Government Securities. Interest is payable January 1 and July 1, and principal is payable on January 1 of each year. The issue included $483,665,000 of serial bonds, which begin maturing January 1, 2009 and bear interest rates ranging from 4.0% to 6.0%; $373,810,000 of 5.125% term bonds due January 1, 2028, which are insured by MBIA Insurance Corporation; $207,910,000 of 5.625% term bonds due January 1, 2033; $404,900,000 of 5.75% term bonds due January 1, 2040; and $300,000,000 5.75% term bonds due January 1, 2048.

**Series 2008B:** The Authority issued $237,395,000 in principal amount of North Texas Tollway Authority Revenue Refunding Bonds, Series 2008B on April 3, 2008 for the purpose of refunding $215,185,000 of Series 2005A Bonds. The issue includes $53,175,000 in serial bonds, which begin maturing January 1, 2009 and bear interest rates ranging from 4.0% to 6.0%; $62,290,000 of 5.625% term bonds due January 1, 2003 and $121,930,000 of 5.75% term bonds due January 1, 2040. Interest is payable on January 1 and July 1.

**Series 2008C:** The $19,370,000 North Texas Tollway Authority Taxable Revenue Refunding Bonds, Series 2008C were issued on April 3, 2008 for the purpose of refunding $18,375,000 of Series 2003C Serial Bonds maturing January 1, 2009 and January 1, 2010. Interest is payable January 1 and July 1, and principal is payable on January 1 of each year. The issue includes serial bonds bearing interest at 4% to 4.25% maturing on January 1, 2009 and January 1, 2010.

**Series 2008D:** The $417,826,981 North Texas Tollway Authority Revenue Refunding Bonds, Series 2008D were issued on April 3, 2008 for the purpose of refunding $353,730,000 of the Bond Anticipation Notes that were issued in November 2007. These bonds were issued as Capital Appreciation Bonds, and the sum of the principal and accreted/compounded interest is payable only at maturity. The approximate Yield to Maturity is 5.90% to 5.97%. The maturity dates of the 2008D bonds are January 1, 2028 through January 1, 2038. These bonds are insured by the Assured Guaranty Corp.

**Series 2008E:** The $600,000,000 North Texas Tollway Authority Revenue Refunding Bonds, Series 2008E Put Bonds with an Initial Multiannual period, were issued on April 3, 2008 for the purpose of refunding $12,970,000 of Series 1997 Bonds and $465,755,000 of the Bond Anticipation Notes that were issued in November 2007. Interest accrues on the Series 2008E Bonds at the Initial Interest Rate, ranging from 5.0% to 5.75% and is payable January 1 and July 1. The Series 2008E Bonds were issued in subseries. These bonds are subject to mandatory tender on the following Mandatory Tender Dates: Subseries 2008E-1 on January 1, 2010, Subseries E-2 on January 1, 2012, and Subseries E-3 on January 1, 2016. On the Mandatory Tender Dates, the Series will be subject to mandatory tender for purchase. The Authority has agreed that the Bonds will be remarketed at the first date on or after the Mandatory Tender Date at which they can be sold in any interest rate mode and at a rate not exceeding 12.00% per annum. In the event they cannot be remarketed and purchased on the Mandatory Tender Date, the mandatory tender will be deemed to have been rescinded and the Series 2008E Bonds will bear interest at the rate of 12.00% per annum from the Mandatory Tender Date until purchased upon a subsequent remarketing.

**Series 2008F:** The Authority issued $1,000,000,000 North Texas Tollway Authority Second Tier Revenue Refunding Bonds, Series 2008F on July 30, 2008 for the purpose of refunding $739,150,000 of the Bond Anticipation Notes that were issued in November 2007. Interest is payable January 1 and July 1, and principal is payable on January 1. The issue consists of term bonds bearing interest from 5.75% to 6.125% with maturities on January 1, 2031, January 2, 2033 and January 1, 2038.

**Series 2008G:** The $124,750,000 North Texas Tollway Authority Revenue Refunding Bonds, Series 2008G Put Bonds with an Initial Multiannual period, were issued June 30, 2008 for the purpose of refunding $125,245,000 of Series 2003B Bonds. Interest accrues on the Series 2008G Bonds at the Initial Interest Rate of 5% and is payable January 1 and July 1 of each year, commencing January 1, 2009. The bonds are subject to mandatory tender on January 1, 2010. On the Mandatory Tender Date, the Series will be subject to mandatory tender for purchase. The Authority has agreed that the Bonds will be remarketed at the first date on or after the Mandatory Tender Date at which they can be sold in any interest rate mode and at a rate not exceeding 12.00% per annum. In the event they cannot be remarketed and purchased on the Mandatory Tender Date, the mandatory tender will be deemed to have been rescinded and the Series 2008G Bonds will bear interest at the rate of 12.00% per annum from the Mandatory Tender Date until purchased upon a subsequent remarketing.

**Series 2008H:** On September 24, 2008, the Authority issued $410,726,909 of North Texas Tollway Authority Revenue Refunding Bonds, Series 2008H Put Bonds with an Initial Multiannual period for the purpose of refunding $324,870,000 of the Bond Anticipation Notes that were issued in November 2007. Interest accrues on the bonds at the Initial Interest Rate of 5% and is payable January 1 and July 1 of each year, commencing January 1, 2009. The Series 2008H Bonds were issued in subseries. The bonds are subject to a mandatory tender on the following Mandatory Tender Dates: Subseries 2008H-1 on January 1, 2011 and Subseries 2008H-2 on January 1, 2013. On the Mandatory Tender Dates, the bonds will be subject to mandatory tender for purchase. The Authority has agreed that the Bonds will be remarketed at the first date on or after the Mandatory Tender Date at which they can be sold in any interest rate mode and at a rate not exceeding 12.00% per annum. In the event they cannot be remarketed and purchased on the Mandatory Tender Date, the mandatory tender will be deemed to have been rescinded and the Series 2008H Bonds will bear interest at the rate of 12.00% per annum from the Mandatory Tender Date until purchased upon a subsequent remarketing.

**Series 2008I:** The Authority issued $201,685,275 of North Texas Tollway Authority Convertible Capital Appreciation Bonds Series 2008I on September 24, 2008 for the purpose of refunding $175,975,000 of the Bond Anticipation Notes that were issued in November 2007. The Approximate Yield to Maturity Date is 6.2% and 6.5%. Interest will accrete from the date of delivery and will compound semiannually on January 1 and July 1, commencing January 1, 2009. The Conversion Date is January 1, 2015; after this date, interest will accrue at a rate of 6.2% and 6.5% on the total amount of principal and the accreted/compounded interest thereon payable semiannually on January 1 and July 1, commencing July 1, 2015. Principal and accreted/compounded interest accreted prior to January 1, 2015 will come due on January 1, 2042 and January 1, 2043, or upon optional redemption. These bonds are insured by the Assured Guaranty Corp.

**Series 2008J:** The Authority issued $100,000,000 of North Texas Tollway Authority First Tier Revenue Bonds, Series 2008J on November 4, 2008 for the purpose of funding development and construction of components of the NTTA Authority, including the 121 Tollway, LLTB, and the PGBT Eastern Extension. These index floating rate mode bonds were delivered pursuant to a private placement with Banc of America Securities LLC. Under such mode, interest is based on a fixed spread above the "Securities Industry and Financial Markets Association Municipal Swap Index" (“SIFMA”) announced weekly by Municipal Market Data. The interest rate is reset every Thursday at the SIFMA index for that week plus the fixed spread. Interest is paid to bondholders on the first business day of each month. For the first three years, the rate is set at SIFMA plus 2.5%, provided the Authority’s credit ratings remain the same. The bonds mature on January 1, 2031 and may be redeemed at the option of the Authority prior to that date.

**Series 2008K:** The $205,000,000 North Texas Tollway Authority Revenue Refunding Bonds, Series 2008K were issued on November 4, 2008 for the purpose of refunding $56,135,000 of Bond Anticipation Notes that were issued in November 2007, and $95,300,000 of Commercial Paper Notes. Interest is payable January 1 and July 1 commencing January 1, 2009. The total consists two subseries of Series 2008K Bonds: $125,000,000 of 5.75% term bonds, Subseries 2008K-1, due January 1, 2038 and $80,000,000 of 6.00% term bonds, Subseries 2008K-2, due January 1, 2038. The Subseries 2008K-1 bonds are insured by Assured Guaranty Corp.

**Series 2008L:** On November 4, 2008 the Authority issued $220,000,000 of North Texas Tollway Authority Revenue Refunding Bonds, Series L Put Bonds with an Initial Multiannual period, for the purpose of refunding $168,225,000 of the Bond Anticipation Notes that were issued in November 2007. Interest accrues on the bonds at the Initial Interest Rate of 5.5% and 6.0% and is payable January 1 and July 1 of each year, commencing January 1, 2009. The bonds were issued in two subseries. The bonds are subject to mandatory tender on the following Mandatory Tender Dates: Subseries 2008L-1 on January 1, 2011 and Subseries 2008L-2 on January 1, 2013. On the Mandatory Tender Dates, the Series will be subject to mandatory tender for purchase. The Authority has agreed that the Bonds will be remarketed at the first date on or after the Mandatory Tender Date at which they can be sold in any interest rate mode and at a rate not exceeding 12.00% per annum. In the event they cannot be remarketed and purchased on the Mandatory Tender Date, the mandatory tender will be deemed to have been rescinded and the Series 2008L Bonds will bear interest at the rate of 12.00% per annum from the Mandatory Tender Date until purchased upon a subsequent remarketing.

The Authority purchased sufficient U.S. Treasury notes for the partial retirement at the July 1, 2008 Mandatory Tender Date of the Series 2003B and 2003C Bonds and placed them in an irrevocable escrow account with Wells Fargo.

The swap with Lehman Brothers Special Financing Inc. was terminated on October 1, 2008, after the parent company filed for bankruptcy protection and the Authority paid $4,511,011 in termination payment. No other terminations have been exercised by any of the parties involved.

On May 18, 2009, the Board of Directors approved an agreement with the Texas Department of Transportation (TxDOT) regarding a settlement of a dispute concerning the upfront payment for the Sam Rayburn Tollway (SH 121) and the use of the agreed settlement as performance security under tolling services agreements (TSA). The Authority and TxDOT agreed to settle the dispute for $25,598,767 and to deposit the Settlement Amount in an account to be used as Performance Security for the North Tarrant Express TSA and other TSAs at the time that the North Tarrant Express has been constructed, which is currently estimated to be 2012.

### Modified Approach - Infrastructure

The Authority has elected to use the Modified Approach to account for maintenance of the Authority's infrastructure assets. As required by the Trust Agreement, an annual inspection of the Authority's roadways has occurred, conducted by the Authority's General Engineering Consultant, HNTB Corporation. This inspection provides an overall rating, indicating the average condition of all of the Authority's infrastructure assets (roadways, bridges, and facilities). The assessment of conditions is made by visual and mechanical tests designed to reveal any condition that would reduce user benefits below the minimum level of service. The Authority's goal is to maintain the Authority's infrastructure assets at a rating of 8 or better (1 to 10 scale), and has established a minimum level for GASB No. 34 purposes of a condition level of 6 or greater. These condition levels were adopted by the Board of Directors for the North Texas Tollway Authority (NTTA) by Resolution No. 02-31 on June 19, 2002 and further clarified by Resolution No. 07-169 on December 19, 2007.

The infrastructure assets include the President George Bush Turnpike (PGBT), the Dallas North Tollway (DNT), the Addison Airport Toll Tunnel (AATT), the Mountain Creek Lake Bridge (MCLB), Main Lane Plazas, Ramp Plazas, maintenance shops, administration buildings, and IT lane equipment. The roadways are a major transportation network consisting of 54 centerline miles of high-speed roadways, 50 interchanges, 10 main lane toll plazas, 52 ramp toll plazas, 192 bridges, one tunnel, and other structures and appurtenances. All assets combined totaled approximately $1.5 billion in current replacement value.

### Condition Index

A Condition Index is a measure of the "intrinsic value" of the asset as opposed to the book value. A Condition Index with a value of 10.0 is considered "like new"; on the contrary, a Condition Index with a value of 0.0 is considered "unusable." Evaluations were performed on all of the infrastructure assets under Authority jurisdiction. The evaluation resulted in an average Condition Index of 8.9 for all of the infrastructure assets combined. The following table shows the Condition Index for the years 2005 through 2007.

**Condition Index Table**

| | Condition Index | |
|---|---|---|
| Fiscal Year | Current | Goal |
| 2007 | 8.9 | 8.0 |
| 2006 | 8.9 | 8.0 |
| 2005 | 8.8 | 8.0 |

### Condition Assessment and Inventory

A comprehensive condition assessment on all the Authority's assets was conducted from fall of 2006 to March 2007. The Authority's Maintenance Management Consultant, performed condition assessments of the Authority's roadways including pavement, bridges, and facilities. Fleet, being the fourth major asset, was inspected and evaluated by the NTTA staff. Assessment procedures and representative work samples were reviewed by NTTA's General Engineering Consultants, HNTB Corporation.

### Bridges

A condition assessment was performed on the Authority's bridges using the *Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges,* published by the Federal Highway Administration (FHWA). To do this, a Sufficiency Rating was determined by totaling four separate factors using the sufficiency rating formula. The Sufficiency Rating Formula is a method of evaluating highway bridge data by calculating the four factors to obtain a numeric value, which is indicative of bridge sufficiency. The four factors are structural adequacy and safety (55% of the total rating), serviceability and functional obsolescence (30% of the total rating), essentiality for public use (15% of the total rating), and special reductions (total can be reduced by up to 13%).

Currently, the 192 bridges, totaling 8,300,000 square feet of deck area, have a Sufficiency Rating at 9.4. In order to maintain the current Sufficiency Rating, FY 2008 preservation budget of $627,901 is recommended.

**Roadways**

A condition assessment was performed on the Authority's roadways using the *Highway Maintenance Condition Assessment Program* (HMCAP) developed by Roy Jorgensen Associates, Inc., the pavement Condition Rating Authority (CRS) developed by Applied Research Associates, Inc., and the Pavement Condition Index (PCI) procedure as outlined in ASTM D5340. To do this, a Maintenance Rating Program (MRP) Index was determined by visual inspection of the Authority's roadways, appurtenances, and edge conditions. Additionally, a baseline PCI and a baseline rideability survey were conducted on the roadway surface and incorporated into the MRP Index. Although the PCI and rideability survey were conducted on the entire Authority, it would have been impractical to perform a MRP evaluation over the same length; therefore, 10% of the Authority's total roadways were randomly selected for MRP evaluation. These values were then weighted and totaled to determine an overall MRP Index. Of this total MRP Index, travel lanes and shoulders account for 70% (of which the PCI accounts for 80%), roadside components accounted for 15%, and other items account for 15%.

The Roadway Index (RI) is a measure of the overall health of the roadway Authority that takes into account the current condition of the roadway, how well it is being maintained, and its projected future performance. It is calculated using the results of the annual MRP and pavement condition surveys. In 2006 the RI was revised to use CRS pavement condition ratings in place of the PCI ratings and incorporates remaining pavement service life (RSL). RI is equal to the values of 50% of CRS, 30% RSL, 10% MRP of travel lane element, 5% MRP of roadside element, and 5% MRP of other element.

Currently, the 54 centerline miles (approximately 314 lane miles) of main lane roadways have a Roadway Index of 8.8. In order to maintain the current condition rating, a FY 2008 preservation budget of $10,658,501 is recommended.

The budget-to-actual expenditures for preservation and other infrastructure maintenance costs were as follows for the years 2003 through 2007.

| | Budget | Actual |
|---|---|---|
| Fiscal year: | | |
| 2007 | $ 51,283,652 | 31,818,863 |
| 2006 | 34,574,405 | 29,186,456 |
| 2005 | 20,552,627 | 13,704,971 |
| 2004 | 25,518,270 | 15,319,100 |
| 2003 | 15,005,598 | 12,422,078 |

**NORTH TEXAS TOLLWAY AUTHORITY**
Required Supplementary Information
December 31, 2007

**Schedule of Funding Progress**
Last three calendar years

| | | December 31, 2004 | December 31, 2005 | December 31, 2006 |
|---|---|---|---|---|
| Actuarial value of assets | $ | 14,695,673 | 18,812,011 | 24,057,082 |
| Actuarial accrued liability | | 15,396,846 | 19,922,827 | 24,266,807 |
| Percentage funded | | 95.45% | 94.42% | 99.14% |
| Unfunded (overfunded) actuarial accrued liability (UAAL) | | 701,173 | 1,110,816 | 209,725 |
| Annual covered payroll | | 20,571,788 | 23,407,840 | 26,091,290 |
| UAAL as a percentage of covered payroll | | 3.41% | 4.75% | 0.80% |