



CENTRAL TEXAS TURNPIKE SYSTEM

An enterprise fund of the Texas Department of Transportation

Annual Financial Report
For The Fiscal Year Ended August 31, 2018
(With Independent Auditor's Report)



Central Texas Turnpike System
An Enterprise Fund of the Texas Department of Transportation

FINANCIAL STATEMENTS
For the Fiscal Year Ended
August 31, 2018

Prepared by:
Financial Management Division of the Texas Department of Transportation

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CENTRAL TEXAS TURNPIKE SYSTEM
Annual Financial Report
For the Fiscal Year Ended August 31, 2018

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Section One

Introductory Section

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125 EAST 11TH STREET, AUSTIN, TEXAS 78701-2483 | 512.463.8588 | WWW.TXDOT.GOV

December 14, 2018

To: The Citizens of the State of Texas and the Creditors of the Central Texas Turnpike System

The audited annual financial statements of the Central Texas Turnpike System (CTTS) for the year ended August 31, 2018 are enclosed in accordance with the Indenture of Trust dated July 15, 2002. The Indenture of Trust, as supplemented by the first through seventh Supplemental Indentures (Indenture), requires the preparation and submission of audited annual financial statements.

An external audit firm, Crowe LLP, performed an independent audit, in accordance with generally accepted auditing standards, of CTTS' basic financial statements for the year ended August 31, 2018. The audit opinion is presented in this report preceding the financial statements. This report was prepared by the accounting staff in the Financial Management Division of the Texas Department of Transportation (TxDOT). CTTS' internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Management is responsible for the accuracy of the data in this report as well as for the completeness and fairness of the presentation. Consequently, management assumes full responsibility for the completeness and fairness of all of the information presented in the financial statements. To the best of my knowledge and belief, the financial statements are accurate in all material respects, are reported in a manner that presents fairly the financial position and results of operations of CTTS and provide disclosures that enable the reader to understand CTTS' financial condition.

The Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis of the financial activities of TxDOT. We encourage readers to consider the information in this letter of transmittal in conjunction with the MD&A.

Profile of the Government

This report includes financial statements for CTTS. CTTS is part of TxDOT's reporting entity. TxDOT is an agency of the state of Texas. TxDOT is managed by an executive director and is governed by the five-member Texas Transportation Commission. All members of the Commission are appointed by the Governor. The Commission is authorized to issue general obligation and revenue bonds per statutory and constitutional provisions.

Texas Transportation Code grants the Commission the authority to study, plan, design, construct, finance, operate and maintain turnpikes in all 254 counties of the state as a part of the state's highway system. The Commission can issue turnpike revenue bonds to pay all or a part of the cost of a turnpike project, to enter into comprehensive development agreements to execute projects and to acquire right of way through quick-take procedures. Such revenue bonds were issued to fund a portion of the costs of constructing the CTTS roadways.

Budgetary Controls

Annual budgets are approved by the Texas Transportation Commission in accordance with the indenture and reviewed by the general engineering consultants. These budgets are entered and maintained in the statewide accounting system as collected revenues or reimbursements. Controls are maintained at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed collected amounts.

Information Useful in Assessing CTTS' Financial Condition

The following are the active sub-accounts of CTTS, established in accordance with the Indenture:

OUR VALUES: *People • Accountability • Trust • Honesty*

OUR MISSION: *Through collaboration and leadership, we deliver a safe, reliable, and integrated transportation system that enables the movement of people and goods.*

An Equal Opportunity Employer

- Revenue Fund – Monies from CTTS tolls and fees are deposited into the Revenue Fund and flow through the Master Trust Indenture flow of funds. To the extent all funds have the required balances, any monies on deposit in the Revenue Fund can be transferred to the General Reserve Fund and used for the purposes allowed by the General Reserve Fund. The General Reserve Fund currently has no deposits.
- First Tier Debt Service Fund – Monies on deposit may be used solely for principal and interest debt service on First Tier obligations.
- First Tier Debt Service Reserve Fund – Monies on deposit may be used solely to pay debt service on First Tier obligations to the extent funds are not otherwise available.
- Second Tier Debt Service Fund – Monies on deposit may be used solely for principal and interest debt service on Second Tier Obligations.
- Second Tier Debt Service Reserve Fund – Monies on deposit may be used solely to pay debt service on Second Tier Obligations to the extent funds are not otherwise available.
- Rate Stabilization Fund – Monies on deposit in this account are intended to assure rates and charges remain competitive and reasonable. Permissible uses: (i) cure deficiency in debt service funds, (ii) deposit into operating account under certain conditions, (iii) pay operating expenses or maintenance expenses if operating account and maintenance account are insufficient and (iv) for any other purpose for which revenues are permitted to be used under applicable law under the CTTS Master Indenture (includes self-insurance). The balance for this fund must at least equal \$67.9 million, which represents all revenues received through Aug. 31, 2008, unless amounts in the fund are used to cure a debt service deficiency for any tier. In no event shall the fund balance be reduced below \$10 million.
- Operating Account – Monies used for operating expenses, held outside the Trust.
- Maintenance Account – Monies used for maintenance expenses, held outside the Trust.
- Reserve Maintenance Account – Monies used for Annual Capital Budget and unusual or extraordinary maintenance, held outside the Trust.
- Construction Fund-Capital Contributions Account – Monies on deposit are mainly comprised of TxDOT contributions and accumulated interest earnings. The funds may only be used for lawful purposes of the system.

TxDOT and the Trustee are responsible for ensuring that funds maintain the proper minimum balances as set forth in the Indenture and for investing in securities required to meet liquidity requirements. The criteria for suitable investments for each fund type are detailed in the Commission's investment strategy.

All monies in the revenue fund, debt service fund, rate stabilization fund and construction fund – capital contributions account are invested in money market funds, government securities and investment pools that are in compliance with the Commission's investment policy.

The debt service reserve fund is invested in an investment pool and a repurchase agreement collateralized by U.S. Treasury and Agency Securities.

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December 14, 2018

Acknowledgements

The preparation of the report requires the efforts of individuals throughout TxDOT, including the dedicated efforts of the management and staff of the TxDOT Financial Reports Branch of the Financial Management Division and the Project Finance, Debt & Strategic Contracts Division. I sincerely appreciate the efforts of all these individuals who continue to help make TxDOT a leader in quality financial reporting.

Sincerely,



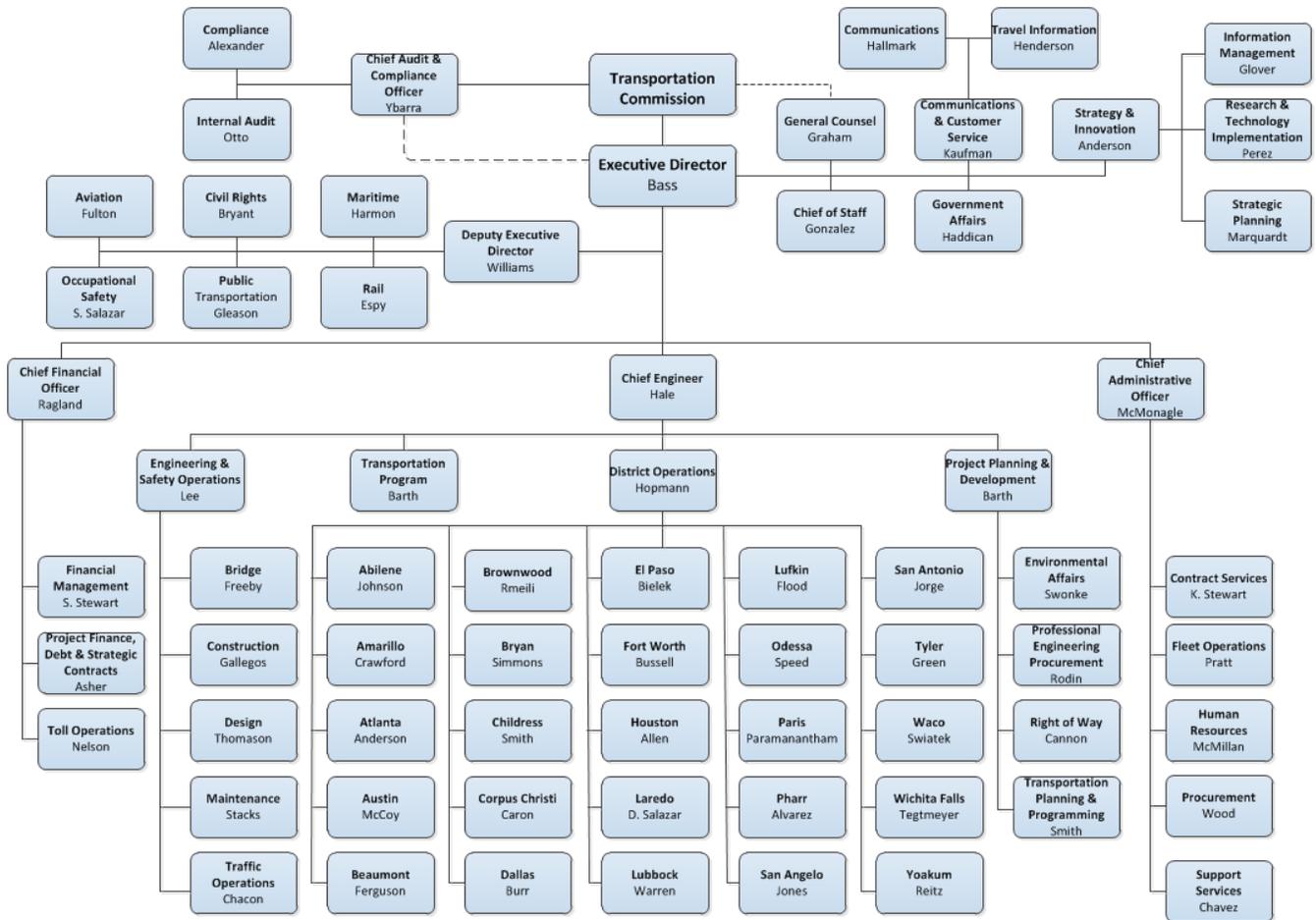
James M. Bass
Executive Director

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OUR MISSION: *Through collaboration and leadership, we deliver a safe, reliable, and integrated transportation system that enables the movement of people and goods.*

An Equal Opportunity Employer

Texas Department of Transportation Organization Chart as of August 31, 2018



**Commission and Key Personnel
As of August 31, 2018**

TEXAS TRANSPORTATION COMMISSION

J. BRUCE BUGG, JRChair
San Antonio

JEFF AUSTIN IIICommissioner
Tyler

ALVIN NEWCommissioner
San Angelo

LAURA RYANCommissioner
Houston

VICTOR VANDERGRIFF.....Commissioner
Arlington

TEXAS DEPARTMENT OF TRANSPORTATION

JAMES M. BASS Executive Director

MARC WILLIAMS Deputy Executive Director

JESUS GONZALEZ.....Chief of Staff

BRIAN RAGLAND..... Chief Financial Officer

BENITO YBARRAChief Audit and Compliance Officer

BILL HALE Chief Engineer

RICHARD MCMONAGLE Chief Administrative Officer

BOB KAUFMAN Director of Communications and Customer Service

JEFF GRAHAMGeneral Counsel

JERRY HADDICANDirector of Government Affairs

DARRAN ANDERSON..... Director of Strategy and Innovation

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Section Two

Financial Section

INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission
State of Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Central Texas Turnpike System (System), an enterprise fund of the Texas Department of Transportation (TxDOT), an agency of the State of Texas, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of August 31, 2018, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Central Texas Turnpike System, an enterprise fund of the Texas Department of Transportation, an agency of the State of Texas, and do not purport to, and do not, present fairly the financial position of TxDOT or the State of Texas, as of August 31, 2018, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 12-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Crowe LLP

Dallas, Texas
December 14, 2018

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Section Two (Continued)

Management's Discussion & Analysis

(Unaudited)

Management's Discussion and Analysis

As management of the Texas Department of Transportation (TxDOT), we offer readers of the Central Texas Turnpike System's (CTTS) financial statements this narrative overview and analysis of its financial activities for the year ended Aug. 31, 2018, with selected comparative information for the year ended Aug. 31, 2017. The information presented should be read in conjunction with our letter of transmittal, the financial statements and the accompanying notes to the financial statements.

Highlights

During fiscal 2018, CTTS generated \$197.5 million in toll revenues (net of allowance), an increase of \$12.3 million or 6.6 percent over fiscal 2017. Toll revenues increased due to a 5.1 percent increase in overall toll transactions, with 159.2 million transactions recorded on CTTS roadways in fiscal 2018.

CTTS' indenture requires certain operating, maintenance, and reserve maintenance funds to be held separate and apart from its other funds and accounts. As of Aug. 31, 2018, CTTS had increased these reserves to \$124.8 million. These balances will enable CTTS to pay directly for budgeted expenses throughout the coming year.

The assets and deferred outflows of CTTS exceeded its liabilities by \$353.2 million as of Aug. 31, 2018, an increase of \$23.1 million or 7 percent from fiscal 2017. The majority of the increase is attributable to a one-time transfer of \$22.7 million from Fund 6 of fees and interest accumulated in Fund 6. See Note 7 for additional information on transfers.

Overview of the Financial Statements

The annual financial report consists of two parts: management's discussion and analysis (this section) and the basic financial statements with their accompanying notes.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TxDOT, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Proprietary funds are used to account for a government's business-type activities. The activities related to CTTS are accounted for in an enterprise fund, which is a type of proprietary fund used to report activities in which a fee is charged to external users for goods and services.

Financial Analysis

The overall financial position and operations of CTTS for the past two years is summarized as follows.

Statement of Net Position		
August 31, 2018 and 2017 (Amounts in Thousands)		
	<u>2018</u>	<u>2017</u>
ASSETS		
Assets Other Than Capital Assets	\$ 717,510	\$ 635,947
Capital Assets	<u>2,596,517</u>	<u>2,648,000</u>
Total Assets	<u>3,314,027</u>	<u>3,283,947</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>28,183</u>	<u>30,102</u>
LIABILITIES		
Current Liabilities	47,637	41,491
Noncurrent Liabilities	<u>2,941,335</u>	<u>2,942,418</u>
Total Liabilities	<u>2,988,972</u>	<u>2,983,909</u>
NET POSITION		
Net Investment in Capital Assets	557,881	597,067
Restricted for Debt Service	123,247	77,154
Restricted for Operations and Maintenance	124,923	92,825
Unrestricted	<u>(452,813)</u>	<u>(436,906)</u>
Total Net Position	<u>\$ 353,238</u>	<u>\$ 330,140</u>

Changes in Net Position		
For the Fiscal Years Ended August 31, 2018 and 2017 (Amounts in Thousands)		
	<u>2018</u>	<u>2017</u>
REVENUES		
Total Operating Revenues	\$ 221,457	\$ 200,905
Total Nonoperating Revenues	<u>15,161</u>	<u>9,794</u>
Total Revenues	<u>236,618</u>	<u>210,699</u>
EXPENSES		
Total Operating Expenses	111,166	105,595
Total Nonoperating Expenses	<u>128,287</u>	<u>127,033</u>
Total Expenses	<u>239,453</u>	<u>232,628</u>
Loss Before Transfers	<u>(2,835)</u>	<u>(21,929)</u>
Transfers	<u>25,933</u>	<u>5,191</u>
Change in Net Position	<u>23,098</u>	<u>(16,738)</u>
Net Position – Beginning	330,140	346,878
Net Position – Ending	<u>\$ 353,238</u>	<u>\$ 330,140</u>

Net position may serve over time as a useful indicator of CTTS' financial position. Net position will decline as additional noncurrent liabilities are accrued via principal accretion on outstanding CTTS debt and assets are depreciated. Debt service was \$121.3 million in fiscal 2018 and is scheduled to increase to \$127.4 million in fiscal 2019. Operations and maintenance expense (excluding depreciation) is estimated to increase approximately \$7.7 million.

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2018, CTTS had approximately \$2.6 billion in net capital assets.

Capital Assets-Net of Depreciation and Amortization		
August 31, 2018 and 2017 (Amounts in Thousands)		
	2018	2017
Land	\$ 668,798	\$ 668,770
Construction in Progress	8,558	8,352
Land Use Rights	19,466	19,466
Infrastructure-Roadways and Bridges	1,895,814	1,947,170
Buildings	3,881	4,242
Total Capital Assets	<u>\$ 2,596,517</u>	<u>\$ 2,648,000</u>

The decrease in net capital assets of \$51.5 million mostly reflects depreciation of \$54.5 million. The Commission has authorized an expansion project which will add one lane in each direction over a 20-mile section of SH 130. Construction commenced on Oct. 4, 2018 and is planned to be completed in 2020.

Debt Administration

The Commission has issued revenue bonds backed by the pledged revenues and restricted assets specified in the bond resolutions. As of Aug. 31, 2018, CTTS had approximately \$3.0 billion of outstanding revenue bond debt. See Notes 4 & 5 for more information.

Outstanding Debt Obligations		
August 31, 2018 and 2017 (Amounts in Thousands)		
	2018	2017
Revenue Bonds Payable	\$ 2,973,867	\$ 2,968,809
Total Outstanding Debt	<u>\$ 2,973,867</u>	<u>\$ 2,968,809</u>

Bond Credit Ratings

The outstanding bonds of CTTS were rated by each of the three major Nationally Recognized Statistical Rating Organizations. As of Aug. 31, 2018, the CTTS bonds carried the following ratings:

CTTS Credit Ratings as of August 31, 2018 (Amounts in Thousands)		August 31, 2018			
<u>Bond Description</u>	<u>Net Outstanding</u>	<u>Moody's</u>	<u>S & P</u>	<u>Fitch</u>	
First Tier Revenue Bonds Series 2002-A Non-Callable Capital Appreciation Bonds	\$ 482,876	A3	A-	A-	
First Tier Revenue Refunding Bonds, Series 2012-A	625,487	A3	A-	A-	
First Tier Revenue Refunding Put Bonds, Series 2015-A	257,093	A3	A-	A-	
First Tier Revenue Refunding Bonds, Series 2015-B	222,304	A3	A-	A-	
First Tier Revenue Refunding Bonds, Series 2015-B Capital Appreciation Bonds	108,099	A3	A-	A-	
Second Tier Revenue Refunding Bonds, Series 2015-C	1,278,008	Baa1	BBB+	BBB	
Total	<u>\$ 2,973,867</u>				

An explanation of the significance of each rating may be obtained from the company furnishing the rating. The ratings reflect only the views of such companies at the time such ratings are given, and the Commission makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such companies if, in the judgment of such companies, circumstances so warrant.

Requests for Information

This financial report is designed to provide a general overview of CTTS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the TxDOT Financial Management Division at the following address:

Texas Department of Transportation
 Financial Management Division - Accounting Management Section
 125 East 11th Street
 Austin, Texas 78701-2483

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Section Two (Continued)

Basic Financial Statements

Central Texas Turnpike System
Statement of Net Position - Proprietary Funds

August 31, 2018 (Amounts in Thousands)

ASSETS

Current Assets:

Cash and Cash Equivalents:

Cash in Transit	\$	37,970
Cash and Cash Equivalents		239,780
Short-Term Investments		114,554

Restricted:

Cash and Cash Equivalents		43,775
Short-Term Investments		146,797

Receivables:

Accounts Receivable		17,485
Interest and Dividends		818

Consumable Inventory		1,332
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Total Current Assets		<u>602,511</u>
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Noncurrent Assets:

Restricted:

Investments		114,999
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Capital Assets:

Non-Depreciable Capital Assets (Note 2)		696,822
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Depreciable Capital Assets, Net (Note 2)		<u>1,899,695</u>
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Total Noncurrent Assets		<u>2,711,516</u>
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Total Assets		<u>3,314,027</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources

Loss on Bond Refunding		<u>28,183</u>
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Total Deferred Outflows of Resources		<u>28,183</u>
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LIABILITIES

Current Liabilities:

Payables:

Accounts		6,961
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Interest		4,460
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Due to Other Funds (Note 7)		3,684
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Revenue Bonds Payable (Notes 4, 5)		<u>32,532</u>
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Total Current Liabilities		<u>47,637</u>
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Noncurrent Liabilities:

Revenue Bonds Payable (Notes 4, 5)		<u>2,941,335</u>
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Total Noncurrent Liabilities		<u>2,941,335</u>
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Total Liabilities		<u>2,988,972</u>
-------------------	--	------------------

NET POSITION

Net Investment in Capital Assets		557,881
----------------------------------	--	---------

Restricted for:

Debt Service		123,247
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Operations and Maintenance		124,923
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Unrestricted		<u>(452,813)</u>
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Total Net Position	\$	<u><u>353,238</u></u>
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The accompanying notes to the financial statements are an integral part of this financial statement.

Central Texas Turnpike System
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended August 31, 2018 (Amounts in Thousands)

OPERATING REVENUES

Toll Revenue - Pledged	\$	235,904
Discounts and Allowances		(38,358)
Fee Revenue - Pledged		<u>23,911</u>
Total Operating Revenues		<u>221,457</u>

OPERATING EXPENSES

Salaries	1,807
Professional Fees and Services	4,095
Travel	7
Materials and Supplies	1,820
Communication and Utilities	787
Repairs and Maintenance	14,813
Rentals and Leases	5
Contracted Services	25,029
Advertising	1,437
Depreciation and Amortization	54,472
Other Operating Expenses	<u>6,894</u>
Total Operating Expenses	<u>111,166</u>

Operating Income	<u>110,291</u>
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NONOPERATING REVENUES (EXPENSES)

Lease Revenue	13
Interest and Investment Income	14,982
Amortization	12,167
Interest Expense	(140,420)
Settlement of Claims Revenue	166
Other Financing Fees	<u>(34)</u>
Total Nonoperating Revenues (Expenses)	<u>(113,126)</u>
Income (Loss) before Transfers	<u>(2,835)</u>

TRANSFERS

Transfers In (Note 7)	<u>25,933</u>
Total Transfers	<u>25,933</u>
Change in Net Position	<u>23,098</u>

Net Position, September 1, 2017	<u>330,140</u>
Net Position, August 31, 2018	<u>\$ 353,238</u>

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

Central Texas Turnpike System

Statement of Cash Flows

For the Fiscal Year Ended August 31, 2018 (Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from Customers	\$ 221,270
Payments for Operating Expenses	<u>(55,865)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>165,405</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Transfers from Other Funds	<u>22,744</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>22,744</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Lease Revenue	13
Payments for Principal on Debt	(14,225)
Payments of Interest on Debt	(107,051)
Payments for Interfund Services Used for Other Financing Fees	<u>(34)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(121,297)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	333,197
Proceeds from Settlement	165
Proceeds from Interest and Investment Income	12,983
Payments to Acquire Investments	<u>(491,158)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(144,813)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(77,961)</u>
CASH AND CASH EQUIVALENTS - BEGINNING	399,486
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 321,525</u>

Central Texas Turnpike System Statement of Cash Flows (concluded)

For the Fiscal Year Ended August 31, 2018 (Amounts in Thousands)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$	110,291
Adjustments:		
Depreciation		54,472
Other non-cash operating costs		200
Increase in Receivables		(188)
Decrease in Inventories		76
Increase in Payables		554
Total Adjustments		<u>55,114</u>
Net Cash Provided by Operating Activities	\$	<u>165,405</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Transfer in of capital assets from other fund	\$	2,990
Amortization of Premium/Discount On Investments	\$	1,447

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

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Central Texas Turnpike System
Notes to Financial Statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements reflect the financial position of the Central Texas Turnpike System (CTTS). CTTS is an enterprise fund of the Texas Department of Transportation (TxDOT), an agency of the state of Texas. The Texas Transportation Commission (Commission), the governing body of TxDOT, has the authority to commit CTTS to various legal agreements.

As of Aug. 31, 2018, CTTS consists of State Highway 130 Segments 1 through 4, State Highway 45 North, the tolled portion of Loop 1 and State Highway 45 Southeast. A portion of the costs of planning, designing, engineering, developing and constructing of the first three elements was financed by bonds issued by the Commission. In fiscal 2013, State Highway 45 Southeast was transferred to CTTS. In the future, at the Commission's discretion, additional projects may be added to CTTS.

CTTS does not have any employees, although labor costs are included in the cost of constructing, operating and maintaining CTTS. When TxDOT staff members perform work on behalf of CTTS, the proportionate cost of that labor is reported as an expense of CTTS. TxDOT's risk financing and insurance programs apply to CTTS.

The records of CTTS are maintained in accordance with the practices set forth in the provisions of the indentures of the outstanding revenue bonds. These practices are modeled after generally accepted accounting principles that are similar to private business enterprises.

Basis of Presentation and Basis of Accounting

The accompanying financial statements were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for TxDOT is based on all GASB pronouncements. The data in this report is combined and consolidated by the Texas Comptroller's Office with similar data from other state agencies and universities in the preparation of the state of Texas Comprehensive Annual Financial Report (CAFR).

- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement replaces the Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.* This statement establishes standards for recognizing and measuring OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.
- *GASB Statement No. 81, Irrevocable Split-Interest Agreements.* This statement establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts, in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The statement requires that a government recognize revenue when the resources become applicable to the reporting period.

- *GASB No. 85, Omnibus 2017*. This statement establishes accounting and financial reporting requirements to address practice issues identified in certain GASB statements. The topics include issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits including pensions and other postemployment benefits.
- *GASB 86, Certain Debt Extinguishment Issues*. This statement establishes accounting and financial reporting requirements for in-substance defeasance of debt using existing resources other than the proceeds of refunding debt. The statement establishes essentially the same requirements as the GASB statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, for a government places cash and other monetary assets acquired with only existing resources. This statement also addresses that for financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

These financial statements present only the financial position, changes in financial position and cash flows of CTTS. They are not intended to, and do not, present fairly the financial position, changes in financial position or cash flows of TxDOT. The reporting period is for the state fiscal year ended Aug. 31, 2018.

Fund Structure

The activity of CTTS is reported in a proprietary fund. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

A proprietary fund distinguishes operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for an enterprise fund include cost of sales and services, administrative expenses and depreciation on capital assets.

Assets, Deferred Outflows of Resources, Liabilities and Net Position

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents. On the statement of cash flows, cash and cash equivalents are considered to be cash on hand, cash in bank and money market funds with original maturities of three months or less from the date of acquisition.

Investments

Short-term investments are investments with a maturity greater than 90 days but less than one year at the time of purchase. Short-term investments are recorded on an amortized cost basis. Long-term investments are investments with a maturity of one year or more at the time of purchase. Long-term investments are recorded at fair value based upon quoted market prices as of the fiscal year end. All investment income, including changes in the fair value of investments, is recognized as nonoperating revenue in the Statement of Revenues, Expenses and Change in Net Position. See Note 3 for more information.

Accounts Receivable

The accounts receivable asset is comprised of toll operations revenue earned but not yet received by CTTS of \$55.8 million, net of an allowance for doubtful accounts of \$38.3 million, as of Aug. 31, 2018.

Consumable Inventory

Consumable inventory is comprised of toll tags. The consumption method of accounting is used to account for inventory. The costs of these items are expensed when the items are consumed.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund notes/loans, revenue bonds and revenues set aside for statutory or contractual requirements.

CTTS may receive funding whose related expenditure is restricted to certain activities. In situations where both restricted and unrestricted resources are available to cover expenses, CTTS will first expend the restricted resources and cover additional costs with unrestricted resources. CTTS reserves the right to selectively defer the use of restricted assets.

Capital Assets

Capital assets, which include buildings, construction in progress, infrastructure, land and permanent land-use rights are capitalized and reported in the financial statements.

Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. Land, permanent land-use rights and construction in progress do not have a capitalization threshold and are not depreciated. The capitalization thresholds and useful lives of CTTS' depreciable capital assets are as follows:

Capitalization of Assets		
Type	Capitalization Threshold	Estimated Useful Life
Buildings and Building Improvements	\$100,000	22 years
Infrastructure, Depreciable	\$500,000	40 years

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's useful life are not capitalized.

CTTS uses the depreciation approach for reporting both highways and highway bridges of the infrastructure assets. Under the depreciation approach, infrastructure assets are depreciated over a 40 year life, and certain preservation costs are capitalized. The capitalization threshold of \$500,000 is used for both highway bridges and roadways.

CTTS also holds three years of costs in construction in progress at all times. At the fourth year, the first year is moved to depreciable infrastructure. The three year assumption is based on a 2.7 year contract life when using the weighted dollar analysis of project costs and completion dates over the ten year history.

See Note 2 for more information on Capital Assets.

Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets. Loss on refunding debt is reported as deferred outflows of resources.

Due to Other Funds

Due to other funds represents amounts due to SHF for O&M, net of amounts due from SHF for the Veterans Waiver program. See Note 7 for more information.

Revenue Bonds Payable

Revenue bonds payable are reported at par less unamortized discount or plus unamortized premium. Payables are reported separately as either current or noncurrent in the statement of net position. See Notes 4 and 5 for more information.

Net Position

Proprietary funds report net position as the residual amount in a statement of net position. The categories of net position reported in this report include:

Net Investment in Capital Assets

Net investment in capital assets consists of capital assets (net of accumulated depreciation), and deferred outflow of resources, reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted

Restricted net position results when constraints placed on net position's use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation. The restricted component of net position represents restricted assets reduced by liabilities related to those assets.

Unrestricted

Unrestricted net position consists of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

Revenues, Expenses, Contributions and Transfers

Operating Revenues

Operating revenues consist of toll revenues earned by CTTS of \$235.9 million, net of an allowance for doubtful accounts of \$38.4 million for fiscal 2018, and fees of \$23.9 million.

Operating Expenses

Operating expenses include expenses incurred in operating the toll roads and the customer service center, and depreciation on capital assets.

Nonoperating Revenues/Expenses

Nonoperating revenues are mainly comprised of interest and investment revenue and lease revenue. Nonoperating expenses are any expenses not classified as operating, including bond interest expense and accretion on capital appreciation bonds.

Transfers

See Note 7 for more information.

NOTE 2 – CAPITAL ASSETS

The table below presents the composition of CTTS’ capital assets, reclassifications, additions and deletions during fiscal 2018. The reclassifications column represents completed construction projects and transfers of capital assets between the governmental and business-type activities of TxDOT. The additions column includes current year purchases, depreciation and amortization. The deletions column represents assets removed during the current fiscal year via sale or disposition.

Capital Assets Activity					
For the fiscal year ended August 31, 2018					
(Amounts in Thousands)					
	Balance 09/1/2017	Reclass- ifications	Additions	Deletions	Balance 08/31/2018
Non-Depreciable Assets					
Land	\$ 668,771	\$ 27	0		\$ 668,798
Construction in Progress	8,351	207			8,558
Land Use Rights	19,466				19,466
Total Non-Depreciable Assets	<u>696,588</u>	<u>234</u>	<u>0</u>	<u>0</u>	<u>696,822</u>
Depreciable Assets					
Buildings	8,360				8,360
Infrastructure	2,281,008	2,755			2,283,763
Total Depreciable Assets	<u>2,289,368</u>	<u>2,755</u>	<u>0</u>	<u>0</u>	<u>2,292,123</u>
Less Accumulated Depreciation for:					
Buildings	(4,118)		(361)		(4,479)
Infrastructure	(333,838)		(54,111)		(387,949)
Total Accumulated Depreciation	<u>(337,956)</u>	<u>0</u>	<u>(54,472)</u>	<u>0</u>	<u>(392,428)</u>
Depreciable Assets, Net	<u>1,951,412</u>	<u>2,755</u>	<u>(54,472)</u>	<u>0</u>	<u>1,899,695</u>
Total Capital Assets, Net	<u>\$ 2,648,000</u>	<u>\$ 2,989</u>	<u>\$ (54,472)</u>	<u>\$ 0</u>	<u>\$ 2,596,517</u>

NOTE 3 - DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS

CTTS is authorized by statute to make investments following the “prudent person rule”. CTTS has complied, in all material respects, with statutory authorization, bond documents, constraints and commission policies during the period.

Cash in Transit

As of Aug. 31, 2018, CTTS had \$38.0 million of cash in transit from the state Treasury to the Texas Treasury Safekeeping Trust Company (Trust Company). These funds are certain CTTS reserves required to be held outside the Trust bank account. The funds were received and invested in the CTTS account at the Trust Company on Sept. 4, 2018. See Note 10 for more information.

Investments

Measurement

CTTS categorizes its measurement of investments based on generally accepted accounting principles. The reported value by investment type of CTTS’s investments as of Aug. 31, 2018 is summarized below:

Investment Valuation	
August 31, 2018 (Amounts in Thousands)	
Investment Type	
Money Market Mutual Funds	\$ 10,573
Government Securities	221,540
Government Sponsored Entities	39,811
Government Investment Pools	186,109
Repurchase Agreements	201,872
Total Investments	<u>\$ 659,905</u>

Below is more detail regarding the measurement of CTTS’s investments as of Aug. 31, 2018:

- CTTS had investments in money market funds, overnight repurchase agreement pool (REPO), government securities, government sponsored entities and government investment pools of \$544.9 million with maturities less than one year valued at amortized cost.
- CTTS entered into a repurchase agreement of \$115 million in August 2002 with U.S. government and agency securities. Collateral for the repurchase agreement is held by the Bank of New York Mellon Trust Company (the trustee bank) with the underlying securities being the property of the Citigroup Global Markets Inc. (the direct counterparty), held in trust for CTTS. CTTS can direct the trustee bank to designate repurchase dates on any business day on or before the final repurchase date in August 2022. The agreement is measured at cost.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission’s investment policy states that all securities purchased by the Commission shall be designated as assets of the

Commission and shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee.

The long term repurchase agreement is collateralized with U.S. government and agency securities. Collateral for the repurchase agreement is held by the Bank of New York Mellon Trust Company with the underlying securities being the property of the Citigroup Global Markets Inc. (the direct counterparty), held in trust for the Commission. As of Aug. 31, 2018, Citigroup Global Markets Inc. is rated A2, A+ and A+ by Moody's, Standard and Poor's (S & P) and Fitch Ratings respectively.

Credit Risk - Investments

Direct credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy prohibits the Commission from entering into long-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 category of less than "A" and that does not have at least one long-term rating of at least "AA" by a nationally recognized statistical rating organization (NRSRO). All investments made by the Commission have been made through a firm on the then-current list of qualified financial institutions approved by the Commission.

The Commission's policy does not limit the amount of investment in obligations of the United States or its agencies. The long term repurchase agreement is a guaranteed investment contract (GIC) with Citigroup Global Markets Inc. as the counterparty. In addition, Citigroup Global Markets Inc. has collateralized the GIC with U.S. government and agency securities.

As of Aug. 31, 2018, CTTS' investments had the following ratings:

Investment Credit Ratings					
August 31, 2018 (Amounts in Thousands)					
Investment Type	Valuation	Moody's	Standard & Poor's	Fitch	
MoneyMarket Mutual Funds:					
JPMorgan US Government Fund	\$ 10,565	Aaa-mf	NR	AAAmmf	
Morgan Stanley Government Fund	8	Aaa-mf	AAAm	AAAmmf	
Government Securities:					
U.S. TreasuryNotes	181,972	Aaa	AA+	AAA	
U.S. TreasuryBills	39,568	NR	A-1+	F1+	
Government Sponsored Entities:					
Federal Home Loan Bank Discount Note	20,362	P-1	A-1+	NR	
Freddie Mac Discount Note	19,449	P-1	A-1+	F1+	
Government Investment Pools:					
Lone Star	22,422	NR	AAAm	NR	
TexPool	73,895	NR	AAAm	NR	
TexPool Prime	89,792	NR	AAAm	NR	
Repurchase Agreements :					
Long term (Citigroup GIC)	114,999	A2	A+	A+	
Repo (TTS TC)	86,873	NR	AAA	NR	
Total	\$ 659,905				

NR= Not Rated

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Assets held shall be diversified to eliminate 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 Aug. 31, 2018, the following investments exceeded five percent of the total portfolio: TexPool, TexPool Prime, Government Securities, and the Repurchase Agreements.

The Commission addresses diversification in the Commission’s Investment Policy. Diversification strategies shall be determined and revised periodically by the investment officer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has addressed interest rate risk in its various accounts by matching as closely as possible anticipated cash flows with income and return of principal on investments. In general, all securities held by the Commission are anticipated to be held to maturity, thereby avoiding interest rate risk due to an early redemption.

NOTE 4 - SUMMARY OF LONG-TERM LIABILITIES

As of Aug. 31, 2018, CTTS had five bond issues outstanding. Additional detail is provided in the sections that follow. As detailed below, the following changes occurred in long-term liabilities during the year ended Aug. 31, 2018.

Changes in Bonds Payable							
For the Fiscal Year Ended August 31, 2018 (Amounts in Thousands)							
	Bonds Outstanding 08/31/2017	Adjustments*	Bonds Issued**	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/2018	Due Within One Year
Revenue Bonds Payable	\$ 2,968,809	\$ (12,166)	\$ 31,449	\$ (14,225)	\$	\$ 2,973,867	\$ 32,532
Total	\$ <u>2,968,809</u>	\$ <u>(12,166)</u>	\$ <u>31,449</u>	\$ <u>(14,225)</u>	\$ <u>0</u>	\$ <u>2,973,867</u>	\$ <u>32,532</u>

*Includes current year amortization of premiums and discounts.
 ** Includes current year amortization of accretion.

NOTE 5 – BONDED INDEBTEDNESS

Revenue Bonds

Transportation Code, Chapter 228 Subchapter C authorizes the Commission to issue revenue bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the CTTS. The bonds are payable from and secured solely by a first and second lien on, as applicable, and pledge of the trust estate. The trust estate consists of all project revenues and all project earnings including investment earnings deposited into the revenue fund, construction fund (except for any amounts held in a sub-account containing monies derived from the state highway fund or any monies received by the Commission that are restricted to another use), the debt service fund, the debt service reserve fund, the rate stabilization fund, and the general reserve fund.

Miscellaneous Bond Information							
(Amounts in Thousands)							
Description of Issue	Bonds Issued		Range of Interest Rates	Maturities			First Call Date
	to Date	Date Issued		First Year	Last Year		
First Tier Revenue Bonds Series 2002-A							
Non-Callable Capital Appreciation Bonds*	\$ 653,180	8/29/2002	4.47% - 5.75%	2012	2030		n/a
Callable Capital Appreciation Bonds**	325,494	8/29/2002	6.00% - 6.10%	2025	2038		8/15/2012
First Tier Revenue Refunding Bonds, Series 2012-A	585,330	11/27/2012	4.00% - 5.00%	2038	2041		8/15/2022
First Tier Revenue Refunding Put Bonds, Series 2015-A	225,000	2/4/2015	5.00% - 5.00%	2041	2042		4/1/2020
First Tier Revenue Refunding Bonds, Series 2015-B	198,025	2/4/2015	5.00% - 5.00%	2032	2037		8/15/2024
First Tier Revenue Refunding Bonds, Series 2015-B Capital Appreciation Bonds	108,099	2/4/2015	4.36% - 4.38%	2036	2037		8/15/2024
Second Tier Revenue Refunding Bonds, Series 2015-C	1,157,320	2/4/2015	5.00% - 5.00%	2022	2042		8/15/2024
Total	<u>\$ 3,252,448</u>						

* Bonds issued to date include interest accreted to principal.
 ** These bonds are not outstanding as of 8/31/2018.

Neither the state, Commission, TxDOT nor any other agency or political subdivision of the state is obligated to pay the principal, premium, discount or interest on the CTTS revenue bonds except from the trust estate. The bond indenture does not create a mortgage on the CTTS. Debt service requirements for the First Tier Revenue Bonds as of Aug. 31, 2018, are detailed in the following table:

Debt Service Requirements - Revenue Bonds (Amounts in Thousands)			
Year	Principal	Interest	Total
2019	\$ 20,365	\$ 107,051	\$ 127,416
2020	26,715	107,051	133,766
2021	36,480	107,051	143,531
2022	45,350	107,051	152,401
2023	54,315	106,941	161,256
2024-2028	426,695	528,111	954,806
2029-2033	643,965	494,047	1,138,012
2034-2038	942,945	338,787	1,281,732
2039-2042	952,085	121,912	1,073,997
	<u>3,148,915</u>	<u>2,018,002</u>	<u>5,166,917</u>
Unamortized Accretion	(392,265)		(392,265)
Unamortized Premium	217,217		217,217
Total	<u>\$ 2,973,867</u>	<u>\$ 2,018,002</u>	<u>\$ 4,991,869</u>

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure the payment of bond debt service. The table below provides information on pledged revenue and pledged future revenue of the CTTS revenue bonds.

Pledged Future Revenue (Amounts in Thousands)	
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	\$ 5,166,917
Term of Commitment, Ending:	8/15/2042
Percentage of Revenue Pledged	95.01%
Current Year Pledged Revenue	\$ 224,100
Current Year Principal and Interest Paid	\$ 121,276

Put Bonds

In February 2015, the Commission issued the Central Texas Turnpike System Series 2015-A refunding put bonds. The proceeds were used to refund a portion of the CTTS Series 2002-A capital appreciation bonds and the CTTS Series 2012-B put bonds. The Series 2015-A bonds were issued in a multiannual mode which terminates on the mandatory tender date of April 1, 2020. At the termination of the initial multiannual period, the Series 2015-A bonds are subject to mandatory tender and purchase. Upon such mandatory tender and purchase, the Series 2015-A bonds are expected to be remarketed unless otherwise redeemed.

The Commission has not provided any credit or liquidity facility for the payment of the purchase price of the bonds payable upon the mandatory tender date. The principal portion of the purchase price for the bonds is expected to be obtained from the remarketing proceeds. The obligation of the Commission to purchase the bonds on the mandatory tender date is subject to the successful remarketing of such bonds. The Commission has no obligation to purchase bonds except from remarketing proceeds.

If the bonds are not remarketed, the interest rate on the bonds will be increased to the stepped coupon rate of 8 percent per annum. The impact of such a rate change to the debt service payments on the bonds is disclosed below.

Put Bonds (Amounts in Thousands)					
Description of Issue	Mandatory Tender Date	Initial Rate	Initial Period Interest	Stepped Coupon Rate	Stepped Rate Period Interest**
Central Texas Turnpike System First Tier Revenue Put Bonds, Series 2015-A	4/1/2020	5.00% per annum*	\$11,250	8.00% per annum	\$18,000
*Multiannual Mode					
**Assumes a full year of interest					

Defeased Bonds

The Commission has defeased various bond issues by placing funds in irrevocable trusts with external financial institutions to provide for all future debt service payments on the old bonds. As of Aug. 31, 2018, the amount of CTTS defeased bonds that remain outstanding are presented in the table below.

Defeased Bonds Outstanding (Amounts in Thousands)	
Description	Par Value
Revenue Bonds	
Central Texas Turnpike System Capital Appreciation Bonds	\$ <u>65,456</u> *
Total	\$ <u><u>65,456</u></u>
* Includes \$37,861 of accreted interest.	

NOTE 6 - EMPLOYEES' RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS

CTTS, an enterprise fund of the Texas Department of Transportation (TxDOT), is part of TxDOT’s reporting entity. CTTS does not have any employees and does not make contributions to any retirement plans or other postemployment benefits (OPEB) plans. TxDOT employees provide all accounting and administrative services for CTTS. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan) and the State Retiree Health Plan (SRHP). CTTS is not obligated in any form for the funding of the pension benefits provided by the ERS Plan or the postemployment benefits provided through the SRHP. Allocation of the pension and OPEB liabilities and expense for CTTS is deemed unnecessary and not required.

The details are disclosed in the TxDOT’s Annual Financial Report for the pension plan in Note 8 and the OPEB plan in Note 10.

NOTE 7 – TRANSFERS and DUE FROM OTHER FUNDS

Interfund transfers represent the flow of assets (cash or goods) between funds. In fiscal 2018, the state highway fund (SHF) transferred assets to CTTS totaling \$25.9 million, as detailed below:

Transfers	
August 31, 2018 (Amounts in Thousands)	
Category	SHF to CTIS
Construction	\$ 2,990
Feasibility Study	199
Fees and interest	<u>22,744</u>
Total	\$ <u><u>25,933</u></u>

A business decision was made in fiscal 2018 that TxDOT Toll Related Fees (Customer Account Fees, IOP Fees, and interest revenues) should be revenues of CTTS. Prior to the policy change, these fees had been deposited and recorded as revenue of the state highway fund. The fiscal 2018 transfers in balance includes \$22.7 million related to the transfer of cash for these fees and the associated interest from the state highway fund to CTTS.

Due To Other Funds at the end of fiscal 2018 totaled \$3.7 million, detailed as follows:

Interfund Balance	
August 31, 2018 (Amounts in Thousands)	
Category	Due To (From) SHF
Due to SHF - Operations and Maintenance	\$ 4,231
Due from SHF - Veterans Waiver	(547)
Net due to SHF from CTTS	<u>\$ 3,684</u>

NOTE 8 – CONTINUANCE SUBJECT TO REVIEW

TxDOT is currently subject to a continuance review. Under the Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2029, unless continued in existence by the 91st Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2030 to wind down its operations. In the event that TxDOT is abolished pursuant to the Texas Sunset Act or other law, Texas Government Code, Section 325.017(f), acknowledges that such action will not alter the obligation of the state to pay bonded indebtedness and all other obligations of the abolished agency.

NOTE 9 – COMMITMENTS & CONTINGENCIES

Contract Commitments

A Funding Agreement was executed on June 18, 2018 between TxDOT and the Central Texas Regional Mobility Authority for the construction of a direct connector from eastbound US 290 to southbound SH 130. The agreement provides for funding from CTTS for up to \$41.1 million of the cost of the project.

A Construction Contract was executed on May 14, 2018 with OHL USA, Inc. for an additional lane each way on Segment 2 of SH 130. The contract cost is \$36.7 million.

Arbitrage

Arbitrage earnings, defined as earnings on tax exempt bond proceeds in excess of the yield on the bonds, must be repaid to the federal government per Internal Revenue Code Section 148(f) (IRC §148). Pursuant to the Indenture of Trust, a Rebate Fund will be established under the Indenture to which deposits will be made upon the determination by a verification agent that a rebate payment may be due pursuant to IRC §148.

Per IRC §148, the amount of rebate due the federal government is determined and payable at the end of each five-year computation period and upon final payment of the tax exempt bonds. For Series 2002-A and Series 2002 BANs, an interim determination was made in 2007 that no arbitrage rebate was then due to the federal government. For Series 2009 bonds, which were completely refunded, a determination was made in 2013 that no arbitrage rebate was due. Further analysis and

determination of rebate payments due, if any, will be made on the next scheduled computation date for each series of bonds under the Indenture.

Lawsuits and Claims

CTTS is contingently liable in respect to lawsuits and claims in the ordinary course of business which, in the opinion of TxDOT's management, will not have a material adverse effect on the financial statements.

NOTE 10 – SUBSEQUENT EVENTS

At Aug. 31, 2018, \$38 million of certain CTTS reserves were in transit to the Texas Treasury Safekeeping Trust Company (Trust Company). The funds were being moved on Aug. 31, 2018 from the state Treasury in compliance with a state policy for local operating trust funds. The policy requires that such funds established in the statewide accounting system must be clearing accounts and have minimal cash balances at fiscal year end. The funds were received and invested in overnight repurchase agreements in the CTTS account at the Trust Company on Sept. 4, 2018.

NOTE 11 - RISK FINANCING & RELATED INSURANCE

The Central Texas Turnpike System is a toll system financed by the Texas Transportation Commission and owned and operated by TxDOT. CTTS does not have any employees. TxDOT provides all accounting, debt financing and administrative services.

TxDOT is exposed to a wide range of risks due to the size, scope and nature of its activities. Some of these risks include, but are not limited to, property and casualty losses, workers' compensation and health benefit claims, theft, damage of assets, etc. CTTS self-insures through funds on deposit within the Rate Stabilization Fund. The amount of funds held on deposit in the rate stabilization fund for self-insurance has been certified as actuarially sound by AMI Risk Consultants, Inc. To date, CTTS has not had to draw upon the funds in the rate stabilization fund to settle any claims and therefore settlements have not exceeded self-insurance coverage.

During the fiscal year, the Texas Transportation Commission maintained a Not-for-Profit Entity and Directors, Officers Liability Insurance Policy Including Employment Practices Claims Coverage in connection with the CTTS.



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