

## INDEPENDENT AUDITORS' REPORT

Secretary of Transportation,  
Florida Department of Transportation and the  
Audit Committee of Florida's Turnpike System  
Tallahassee, Florida

We have audited the accompanying basic financial statements of Florida's Turnpike System (the "System") as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective 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 System'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 audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Florida's Turnpike System's Enterprise Fund of the State of Florida Department of Transportation and do not purport to, and do not, present fairly the financial position of the Department of Transportation and the results of its operations and the cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida's Turnpike System as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the required supplementary information other than management's discussion and analysis listed in the foregoing table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis and the required supplementary information other than management's discussion and analysis. However, we did not audit the information and express no opinion on it.

The introductory section and statistical information listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Florida's Turnpike System. Such additional information has not been subjected to the auditing procedures applied in our audits of the basic financial statements, and accordingly, we express no opinion on it.

*Deloitte + Touche LLP*

October 31, 2008

(December 15, 2008 as to credit facility downgrades described in Note 15)

# FLORIDA'S TURNPIKE SYSTEM DEPARTMENT OF TRANSPORTATION STATE OF FLORIDA

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2008 AND 2007

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As management of Florida's Turnpike System ("Florida's Turnpike," "Turnpike," or the "System"), we offer readers of our annual financial report this narrative overview of the financial activities of the System for the fiscal years ended June 30, 2008 and 2007. Please read it in conjunction with the financial statements as a whole.

The System operates as an enterprise fund of the Florida Department of Transportation (the "Department"), an agency for the State of Florida. The statements contained herein include only the accounts of the System and do not include any other accounts of the Department or the State of Florida. The System is presented as a blended enterprise fund in the financial statements of the State of Florida.

### FINANCIAL HIGHLIGHTS

- The System's total revenues were \$684.0 million and \$713.7 million for fiscal years 2008 and 2007, respectively, representing a decrease of \$29.7 million and an increase of \$58.9 million from each of the prior years.
- The System's total expenses were \$387.3 million and \$360.9 million for fiscal years 2008 and 2007, respectively. Fiscal year 2008 total expenses increased \$26.4 million (7.3%) over the prior year, and fiscal year 2007 total expenses increased \$63.4 million (21.3%) over fiscal year 2006.
- The System's net assets totaled \$4,515.6 million and \$4,215.4 million as of June 30, 2008 and 2007, respectively. Increases of \$300.2 million (7.1%) and \$374.1 million (9.7%) from each of the prior fiscal years indicate growth in the System's financial position.
- The System's total capital assets, net of accumulated depreciation, amounted to \$6,495.5 million and \$5,943.0 million as of June 30, 2008 and 2007, respectively. The increase of \$552.5 million and \$506.0 million from each of the prior fiscal years signifies continued investments in capital assets.

### USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements, notes to the financial statements, and required supplementary information. While the System is considered part of the Department, which is an agency of the State of Florida, it is also considered an enterprise fund. Therefore, the System's financial statements are presented in a manner similar to a private sector business.

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

**Statement of Revenues, Expenses, and Changes in Net Assets**—This statement shows the results of the System’s total operations during the fiscal year and reflects both operating and non-operating activities. Changes in net assets reflect the current fiscal period’s operating impact upon the overall financial position of the System.

**Statement of Cash Flows**—This statement presents information about the System’s cash receipts and cash payments, or, in other words, the sources and uses of the System’s cash and the change in cash balance during the fiscal year. The direct method of cash flows is presented, ending with a reconciliation of operating income to net cash provided by operating activities.

**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.

**Other**—Certain required supplementary information is presented to disclose trend data on the System’s infrastructure condition.

## FINANCIAL ANALYSIS

Net assets serve as an indicator of the strength of the System’s financial position. The System’s net assets as of June 30, 2008 were \$4.5 billion, an increase of \$300.2 million, or 7.1%, as compared to the prior fiscal year. As of June 30, 2007, net assets were \$4.2 billion, an increase of \$374.1 million, or 9.7% from fiscal year 2006. The increases in net assets were primarily attributable to the results from operations for the two years and were primarily invested in the System’s capital assets (land, infrastructure, buildings, etc.), less any related outstanding debt used to acquire those assets (see Table 1). The System uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the System’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table 1**  
**Net Assets of Florida’s Turnpike System**  
**(In Millions)**

	As of June 30,		
	2008	2007	2006
Current and other assets	\$ 570.4	\$ 519.8	\$ 405.3
Restricted assets	202.0	119.2	142.3
Capital assets, net of accumulated depreciation	<u>6,495.5</u>	<u>5,943.0</u>	<u>5,437.0</u>
Total assets	<u>7,267.9</u>	<u>6,582.0</u>	<u>5,984.6</u>
Current liabilities	160.3	167.9	158.9
Long-term debt outstanding and other liabilities	<u>2,592.0</u>	<u>2,198.7</u>	<u>1,984.4</u>
Total liabilities	<u>2,752.3</u>	<u>2,366.6</u>	<u>2,143.3</u>
Net assets:			
Invested in capital assets, net of related debt	4,042.0	3,820.3	3,547.3
Restricted	19.5	45.9	29.1
Unrestricted	<u>454.1</u>	<u>349.2</u>	<u>264.9</u>
Total net assets	<u>\$ 4,515.6</u>	<u>\$ 4,215.4</u>	<u>\$ 3,841.3</u>

A small portion of the System's net assets represent resources subject to bond covenants or other restrictions. Funds maintained in these accounts include bond sinking fund requirements and an operations and maintenance reserve. For fiscal years ended 2008 and 2007, net assets subject to this restriction totaled \$19.5 million and \$45.9 million, respectively. For fiscal year 2008, this represents a decrease of \$26.4 million from the prior year. For fiscal year 2007, this represents an increase of \$16.8 million as compared to fiscal year 2006.

Unrestricted net assets of \$454.1 million and \$349.2 million for fiscal years 2008 and 2007, respectively, represent residual amounts after all mandatory transfers have been made as required by bond covenants and other restrictions. Typically, unrestricted net assets are used to fund improvements scheduled in the System's work program and to support the ongoing operations of the System.

**Table 2**  
**Changes in Net Assets of Florida's Turnpike System**  
**(In Millions)**

	<b>For the Year Ended June 30,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Operating revenues from toll facilities	\$ 635.6	\$ 663.9	\$ 632.9
Operating revenues from concessions and other sources	15.2	17.7	15.1
Nonoperating investment earnings	<u>33.2</u>	<u>32.1</u>	<u>6.8</u>
Total revenues	<u>684.0</u>	<u>713.7</u>	<u>654.8</u>
Operations and maintenance expense	(184.2)	(175.4)	(155.4)
Business development and marketing expense	(5.7)	(8.5)	(6.7)
Renewals and replacements expense	(102.7)	(93.9)	(56.9)
Depreciation expense	(19.6)	(15.1)	(15.2)
Nonoperating interest expense	(73.3)	(65.1)	(61.8)
Other nonoperating expense, net	<u>(1.8)</u>	<u>(2.9)</u>	<u>(1.5)</u>
Total expenses	<u>(387.3)</u>	<u>(360.9)</u>	<u>(297.5)</u>
Income before contributions for capital projects and contributions to other governments	296.7	352.8	357.3
Contributions for capital projects	13.9	29.7	24.2
Contributions to other governments	<u>(10.4)</u>	<u>(8.4)</u>	<u>(16.2)</u>
Increase in net assets	300.2	374.1	365.3
Net assets:			
Beginning of year	<u>4,215.4</u>	<u>3,841.3</u>	<u>3,476.0</u>
End of year	<u>\$ 4,515.6</u>	<u>\$ 4,215.4</u>	<u>\$ 3,841.3</u>

Total revenues for fiscal year 2008 were \$684.0 million, representing a decrease of \$29.7 million or 4.2% compared to fiscal year 2007. This decrease, resulting primarily from toll facility operating revenues, represents a temporary decline in Florida's economic conditions. Correspondingly, toll transactions decreased to 667.3 million transactions for the year ended June 30, 2008 from 690.5 million transactions for the year ended June 30, 2007. There were no toll suspensions during fiscal year 2008.

Total revenues for fiscal year 2007 were \$713.7 million, representing an increase of \$58.9 million or 9.0% compared to fiscal year 2006. This increase, resulting primarily from toll facility operating revenues, represents growth in toll transactions. Toll transactions increased from 661.4 million transactions for the year ended June 30, 2006 to 690.5 million transactions for the year ended June 30, 2007, an increase of 4.4%. In addition, revenue loss due to toll suspensions in fiscal year 2007 was significantly less than fiscal year 2006. Tolls were suspended for approximately 4 days in fiscal year 2007 compared to 16 days in fiscal year 2006. Estimated revenue loss associated with toll suspensions was estimated at \$2.5 million and \$19.0 million for fiscal years 2007 and 2006, respectively.

The System has a broad customer base and the ability to serve more than half of the state's population. Expanded use of the interstate highway system and continuing heavy flows of commuter traffic make Florida's Turnpike an attractive option to the motoring public in both rural and urban areas. Customers of the System perceive the value of its well maintained, limited-access roadways and its high level of service and respond by choosing the Turnpike over alternative routes.

For the year ended June 30, 2008, the System reported \$13.9 million for contributions for capital projects, a decrease of \$15.8 million from the prior year. The contributions consist primarily of a \$10.0 million contribution received from the Department towards the construction of the Western Beltway, Part C expansion project and the \$3.2 million office and communications building, which was built by the Department of Highway Safety and Motor Vehicles on the Turnpike at milepost 94 at the West Palm Beach Service Plaza and turned over to the System. The Department will provide total funding of \$50.0 million to the System towards the Western Beltway, Part C expansion project over a four-year period which began fiscal year 2006. Through fiscal year 2008, the System has received \$40.0 million from the Department for the project.

Total expenses (including depreciation expense) for fiscal year 2008 were \$387.3 million, an increase of \$26.4 million (7.3%), as compared to fiscal year 2007. Non-routine expenses, such as renewals and replacements expense represent \$8.8 million of the increase. Since the System utilizes the modified approach for reporting infrastructure, it is required to maintain its infrastructure assets at certain levels. Fluctuations in expense levels from year to year will result based on management's assessment of needed System preservation. Routine expenses, such as operations and maintenance and interest, represent \$17.0 million of the increase.

For fiscal year 2007, total expenses (including depreciation expense) were \$360.9 million, an increase of \$63.4 million or 21.3% from fiscal year 2006. For fiscal year 2007, renewals and replacements expense increased \$37.0 million as compared to the prior year, and operations and maintenance expense increased \$20.0 million as compared to the prior year.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**—As of June 30, 2008, the System reported \$6.5 billion in constructed, purchased, and donated capital assets (net of accumulated depreciation), which is \$552.5 million or 9.3% higher than the prior year. As of June 30, 2007, the System reported \$5.9 billion in constructed, purchased, and donated capital assets (net of accumulated depreciation), which is \$506.0 million or 9.3% higher than fiscal year 2006. The increases were mainly in the category of infrastructure assets and reflect the System's ongoing investment in its capital work program (see Table 3). The System's financial statements present capital assets in two groups: those assets subject to depreciation (buildings and equipment) and those not subject to depreciation, such as land, construction in progress, and infrastructure (see the discussion following on the modified approach for reporting infrastructure).

**Table 3**  
**Capital Assets of Florida's Turnpike System**  
**(Net of Depreciation, in Millions)**

	As of June 30,		
	2008	2007	2006
Land	\$ 851.5	\$ 826.5	\$ 813.7
Infrastructure	4,775.9	4,248.1	3,924.9
Construction in progress	688.7	714.9	559.9
Buildings and improvements, net	138.4	128.8	117.7
Furniture and equipment, net	41.0	24.7	20.8
	<u>6,495.5</u>	<u>5,943.0</u>	<u>5,437.0</u>
Total capital assets, net	<u>\$ 6,495.5</u>	<u>\$ 5,943.0</u>	<u>\$ 5,437.0</u>

For fiscal years ended 2008 and 2007, major additions of capital assets included (in millions):

	2008	2007
Widening of the Mainline - construction and land acquisition	\$ 222.6	\$ 120.4
Open Road Tolling Plaza and Express Lane Conversion Sawgrass	59.3	-
Intelligent Transportation System and Fiber Optic improvement on the Mainline	46.2	23.6
Widening of the Sawgrass Expressway	36.7	64.5
Open Road Tolling Plaza and Express Lane Conversion Mainline	34.1	-
Construction of NW 74th Street interchange on the Mainline	13.9	-
Toll System Technology upgrades on the Mainline	13.3	15.6
Intelligent Transportation System and Fiber Optic improvement on the Polk and Suncoast Parkways	13.3	15.7
Construction of the Jog Road partial interchange on the Mainline	5.3	8.0
Canal protection in Miami-Dade, Palm Beach and St Lucie counties	4.4	16.9
Construction of the Western Beltway, Part C expansion project	2.8	124.7
Median guardrail installation on Polk Parkway	1.1	4.3
Construction of the Kissimmee Park Road interchange on the Mainline	0.1	18.5
Modification of the State Road 408 interchange on the Mainline	-	29.5
Modification of SW 8th St interchange on Mainline	-	3.3
Expansion of the Leesburg toll plaza on the Mainline	-	2.1
Construction of the State Road 710 interchange on the Mainline	-	0.6
	<u>\$ 453.1</u>	<u>\$ 447.7</u>

The System's capital work program for the fiscal year ending June 30, 2009, has significant planned commitments for several major project types: \$280.6 million for widening and capacity projects; \$116.7 million for interchanges and access improvements; \$55.6 million for express-lane, SunPass and toll plaza improvements; \$16.4 million for a toll system technology upgrade; \$7.7 million for median guardrail, canal protection, and safety improvements; and \$4.2 million for Intelligent Transportation System improvements and fiber optic cable deployment. These projects will be funded over the next few years with existing cash, toll revenues, and bond proceeds, as well as available federal, state, and local funds.

**Modified Approach for Reporting Infrastructure**—Governmental accounting and reporting standards permit an alternative to reporting depreciation for infrastructure, known as the modified approach. For its highway system and improvements, the System has made the commitment to maintain and preserve these assets at condition level ratings equal to or greater than those established by the Florida Department of Transportation. As a result, the System does not report depreciation expense for its highway system and

improvements; rather, costs for both maintenance and preservation of infrastructure capital assets are expensed in the period incurred.

As detailed in required supplementary information included after the Notes to Financial Statements, the System has exceeded its targeted infrastructure condition level ratings for the last several years. For fiscal years 2008 and 2007, the System estimated it would need to spend \$139.7 million and \$136.8 million for infrastructure maintenance and preservation but actually expended \$143.8 million and \$136.1 million, respectively. Fluctuations from year to year between the amount spent to preserve and maintain the System and the estimated amount result from timing of work activities. Over a period of time, the amount expended is comparable to the estimate. As such, the System's overall maintenance condition rating is fairly consistent from year to year.

Additional information on the System's current capital assets can be found in Note 5 to the financial statements.

***Noncurrent Liabilities***— At the end of fiscal year 2008, the System had \$2.6 billion of outstanding revenue bonds (net of unamortized premiums and deferred loss on early retirement of debt) and other noncurrent liabilities payable. This amount represents an increase of the System's long-term debt obligations by \$393.3 million, or 17.9% from fiscal year 2007. This increase was primarily due to the issuance of \$581.9 million of new revenue bonds (2007A and 2008A bonds) offset by the redemption of the 1997A bonds (refunded by the 2008A bonds) and the principal payments for the System's outstanding revenue bonds.

At the end of fiscal year 2007, the System had \$2.2 billion of outstanding revenue bonds (net of unamortized premiums and deferred loss on early retirement of debt) and other noncurrent liabilities payable. This amount represents an increase of the System's long-term debt obligations by \$214.2 million, or 10.8% from fiscal year 2006. This increase was primarily due to the issuance of \$443.3 million of new revenue bonds (2006A bonds) offset by the redemption of the 1998B bonds (refunded by the 2006A bonds) and the principal payments for the System's outstanding revenue bonds.

Additional information on the System's outstanding noncurrent liabilities can be found in Notes 7, 8, and 9 to the financial statements.

The System is authorized by Section 338.2275 of the Florida Statutes to have up to \$10.0 billion of outstanding revenue bonds to fund approved projects. The System has issued \$2.5 billion of outstanding revenue bonds to finance the construction of expansion projects and system improvements. At June 30, 2008, \$7.5 billion remains of the statutory limitation on outstanding bonds.

The System issues revenue bonds to fund expansion and improvement projects in accordance with Turnpike Debt Management Guidelines. Pursuant to these guidelines, the System typically issues 30-year fixed rate bonds. Bonds issued fund the projects with an expected useful life not less than the term of the bonds. The System does not issue bonds for operations and maintenance costs. Bonds are issued through the State Board of Administration ("SBA"), Division of Bond Finance, in accordance with s.11(d), Article VII of the State Constitution.

Turnpike revenue bonds are only issued for projects included in the System's legislatively (Section 339.135 (4), F.S.) approved Work Program. Expansion projects are also subject to the statutorily required tests of economic feasibility prior to the sale of bonds (Section 338.223, F.S.). The tests require that the net revenues of an expansion project must be sufficient to pay 50% of the debt service of the bonds by the 12<sup>th</sup> year after the project opens to traffic and must pay 100% of the debt service of the bonds by the 22<sup>nd</sup> year after the project opens to traffic.

The planned bond sales are included in the Department’s financially balanced five-year finance plan and 36-month cash forecast as required by the legislature (Section 339.135 (4) F.S.).

The resolution authorizing the issuance of Turnpike revenue bonds requires a debt service reserve be established in an amount as defined in the resolution. The debt service reserve requirement for each bond issue is to be funded from revenues or through a reserve account credit facility as provided for in the resolution. At June 30, 2007, the debt service reserve requirements were fully funded by reserve account credit facilities in the form of sureties. During 2008, the ratings of the counterparties backing the sureties for certain bond issues were downgraded by Standard & Poor’s and Moody’s. As provided for in the bond resolution, the Turnpike began scheduled funding of the debt service reserve requirement for the impacted bond issues in fiscal year 2008. Additional information on the System’s debt service reserve requirements can be found in Notes 8 and 15 to the financial statements.

The System currently holds an “AA-” rating from Standard & Poor’s, an “Aa2” rating from Moody’s Investors Service, and an “AA-” rating from Fitch Ratings for its bond issues. The System’s debt service coverage ratio decreased from 3.04 for fiscal year 2007 to 2.44 for fiscal year 2008.

**Table 4**  
**Outstanding Noncurrent Liabilities of Florida’s Turnpike System**  
**(Net of Premiums and Deferred Losses, in Millions)**

	<u>As of June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue bonds (backed by toll facilities’ revenues)	\$ 2,459.2	\$ 2,079.9	\$ 1,879.3
Amounts due to various funds of the Florida			
Department of Transportation	132.0	117.3	104.5
Other noncurrent liabilities	<u>0.8</u>	<u>1.5</u>	<u>0.6</u>
 Total noncurrent liabilities	 <u>\$ 2,592.0</u>	 <u>\$ 2,198.7</u>	 <u>\$ 1,984.4</u>

***Economic Conditions and Outlook***—Based on current economic conditions both nationally and in Florida, the System expects toll revenues to decrease in fiscal year 2009 and to begin a gradual recovery in fiscal year 2010. Management believes that the temporary downturn in toll revenue will not impact its ability to meet its obligations for operating and maintenance costs, debt service and the preservation of the System.

***Requests for Information***—This financial report is designed to provide a general overview of the System’s finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Florida’s Turnpike System, P.O. Box 613069, Ocoee, FL 34761.

**FLORIDA'S TURNPIKE SYSTEM  
DEPARTMENT OF TRANSPORTATION  
STATE OF FLORIDA**

**STATEMENTS OF NET ASSETS  
JUNE 30, 2008 AND 2007  
(In thousands)**

	Notes	2008	2007
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	3	\$ 501,904	\$ 473,235
Investments	3	39,449	25,964
Receivables:			
Accounts		1,979	2,489
Interest		1,952	1,729
Due from other governments	4	6,271	3,309
Prepaid expenses		112	127
Inventory		<u>4,952</u>	<u>-</u>
Total current assets		<u>556,619</u>	<u>506,853</u>
<b>RESTRICTED ASSETS:</b>			
Restricted cash and cash equivalents	3	170,114	119,231
Restricted investments	3	<u>31,952</u>	<u>-</u>
Total restricted assets		<u>202,066</u>	<u>119,231</u>
<b>NONDEPRECIABLE CAPITAL ASSETS:</b>			
Land	5	851,532	826,472
Infrastructure—highway system and improvements		4,775,882	4,248,171
Construction in progress		<u>688,698</u>	<u>714,937</u>
Total nondepreciable capital assets		<u>6,316,112</u>	<u>5,789,580</u>
<b>DEPRECIABLE CAPITAL ASSETS:</b>			
Buildings and improvements	5	233,168	216,263
Furniture and equipment		109,836	84,062
Less accumulated depreciation		<u>(163,628)</u>	<u>(146,870)</u>
Total depreciable capital assets—net		<u>179,376</u>	<u>153,455</u>
DEFERRED CHARGES—Net		<u>13,260</u>	<u>12,420</u>
OTHER ASSETS		<u>500</u>	<u>500</u>
Total noncurrent assets		<u>6,711,314</u>	<u>6,075,186</u>
<b>TOTAL ASSETS</b>		<u>\$ 7,267,933</u>	<u>\$ 6,582,039</u>

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

**FLORIDA'S TURNPIKE SYSTEM  
DEPARTMENT OF TRANSPORTATION  
STATE OF FLORIDA**

**STATEMENTS OF NET ASSETS (CONTINUED)  
JUNE 30, 2008 AND 2007  
(In thousands)**

	Notes	2008	2007
<b>LIABILITIES AND NET ASSETS</b>			
LIABILITIES:			
CURRENT LIABILITIES:			
Construction contracts and retainage payable		\$ 40,314	\$ 46,583
Current portion of bonds payable	8, 9	81,660	71,250
Due to Department of Transportation	6, 7, 9, 12	34,584	43,493
Due to other governments		127	244
Deposits payable	9	575	5,104
Deferred revenue		<u>3,062</u>	<u>1,250</u>
Total current liabilities		<u>160,322</u>	<u>167,924</u>
NONCURRENT LIABILITIES:			
LONG-TERM PORTION OF BONDS PAYABLE, net of premiums of \$59,197 and \$32,649, respectively, and deferred losses on early retirement of debt of \$43,528 and \$44,604, respectively	8, 9	2,459,189	2,079,920
ADVANCES PAYABLE TO DEPARTMENT OF TRANSPORTATION	7, 9	131,971	117,269
DEFERRED REVENUE FROM OTHER GOVERNMENTS	9	848	897
OTHER LONG-TERM LIABILITIES	9	<u>-</u>	<u>575</u>
Total noncurrent liabilities		<u>2,592,008</u>	<u>2,198,661</u>
TOTAL LIABILITIES		<u>2,752,330</u>	<u>2,366,585</u>
COMMITMENTS AND CONTINGENCIES	13, 14		
NET ASSETS:			
Invested in capital assets, net of related debt		4,041,985	3,820,318
Restricted for debt service		2,524	62
Restricted for renewal and replacement		16,980	45,867
Unrestricted		<u>454,114</u>	<u>349,207</u>
TOTAL NET ASSETS		<u>\$ 4,515,603</u>	<u>\$ 4,215,454</u>

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

**FLORIDA'S TURNPIKE SYSTEM  
DEPARTMENT OF TRANSPORTATION  
STATE OF FLORIDA**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2008 AND 2007  
(In thousands)**

	Notes	2008	2007
<b>OPERATING REVENUES:</b>			
Toll facilities		\$ 635,571	\$ 663,943
Concessions		10,363	10,710
Other		<u>4,809</u>	<u>6,962</u>
Total operating revenues		<u>650,743</u>	<u>681,615</u>
<b>OPERATING EXPENSES:</b>			
Operations and maintenance		184,218	175,386
Business development and marketing		5,669	8,569
Renewals and replacements		102,726	93,913
Depreciation	5	<u>19,628</u>	<u>15,147</u>
Total operating expenses		<u>312,241</u>	<u>293,015</u>
<b>OPERATING INCOME</b>		<u>338,502</u>	<u>388,600</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment earnings		33,204	32,124
Interest expense		(73,255)	(65,105)
Other—net		<u>(1,808)</u>	<u>(2,757)</u>
Total nonoperating expenses—net		<u>(41,859)</u>	<u>(35,738)</u>
<b>INCOME BEFORE CONTRIBUTIONS FOR CAPITAL PROJECTS AND CONTRIBUTIONS TO OTHER GOVERNMENTS</b>		296,643	352,862
<b>CONTRIBUTIONS FOR CAPITAL PROJECTS</b>	11	13,922	29,703
<b>CONTRIBUTIONS TO OTHER GOVERNMENTS</b>		<u>(10,416)</u>	<u>(8,378)</u>
<b>INCREASE IN NET ASSETS</b>		300,149	374,187
<b>NET ASSETS:</b>			
Beginning of year		<u>4,215,454</u>	<u>3,841,267</u>
End of year		<u>\$ 4,515,603</u>	<u>\$ 4,215,454</u>

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

**FLORIDA'S TURNPIKE SYSTEM  
DEPARTMENT OF TRANSPORTATION  
STATE OF FLORIDA**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2008 AND 2007  
(In thousands)**

	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 633,955	\$ 662,806
Cash payments to suppliers for goods and services	(274,527)	(258,000)
Cash payments to employees	(16,422)	(21,151)
Other operating revenues	<u>15,057</u>	<u>21,672</u>
Net cash provided by operating activities	<u>358,063</u>	<u>405,327</u>
<b>NONCAPITAL FINANCING ACTIVITIES:</b>		
Payments to other Department of Transportation funds	<u>(7,099)</u>	<u>(8,378)</u>
Cash used in noncapital financing activities	<u>(7,099)</u>	<u>(8,378)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from issuance of revenue bonds	612,319	450,669
Payments for advance refunding of revenue bonds	(149,618)	(172,055)
Principal paid on revenue bond maturities	(72,665)	(65,610)
Interest paid on revenue bonds	(118,657)	(100,743)
Interest paid on advances from Department of Transportation	-	(52)
Payment of bond issuance costs	(2,711)	(3,084)
Deposits from local governments held for capital project partnerships	2,292	1,418
Proceeds from the sale of capital assets	17	-
Payments to acquire or construct capital assets	(540,756)	(453,172)
Insurance recoveries	1,238	106
Fiscal charges	<u>(1,068)</u>	<u>(782)</u>
Net cash used in capital and related financing activities	<u>(269,609)</u>	<u>(343,305)</u>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from the sale or maturity of investments	370,133	173,009
Investment earnings	43,177	37,350
Purchase of investments	<u>(415,113)</u>	<u>(167,193)</u>
Net cash (used in) provided by investing activities	<u>(1,803)</u>	<u>43,166</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>79,552</b>	<b>96,810</b>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>592,466</u>	<u>495,656</u>
End of year	<u>\$ 672,018</u>	<u>\$ 592,466</u>

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

**FLORIDA'S TURNPIKE SYSTEM  
DEPARTMENT OF TRANSPORTATION  
STATE OF FLORIDA**

**STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2008 AND 2007  
(In thousands)**

	2008	2007
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 338,502	\$ 388,600
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	19,628	15,147
Other noncash adjustments	1,612	(315)
Decrease (increase) in:		
Due from other governments	(1,617)	(1,137)
Accounts receivable	440	(349)
Prepaid expenses	16	16
Inventory	(6,495)	-
Increase (decrease) in:		
Due to Department of Transportation	5,793	(1,775)
Due to other governments	(117)	(84)
Deposits payable	-	5,104
Deferred revenues	301	120
Total adjustments	<u>19,561</u>	<u>16,727</u>
Net cash provided by operating activities	<u>\$ 358,063</u>	<u>\$ 405,327</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>		
Bond premium amortization—net	\$ (11,677)	\$ (9,686)
Deferred losses due to refunding	11,565	6,173
Amortization of deferred charges	1,526	1,286
Amortization of deferred losses on early retirement of debt	6,561	6,117
Write-off of deferred losses due to refunding	6,080	-
Write-off of bond discount due to refunding	2,652	1,653
Write-off of deferred charges due to refunding	345	795
Loss on disposed capital assets	450	793
Contributions for capital projects	4,534	10,608
Contributions to other governments	(3,317)	-
Unrealized (loss) gain on investments and cash equivalents	(953)	3,403

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

# FLORIDA'S TURNPIKE SYSTEM DEPARTMENT OF TRANSPORTATION STATE OF FLORIDA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2008 AND 2007

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### 1. REPORTING ENTITY

Florida's Turnpike System (the "Turnpike" or the "System") is part of the Florida Department of Transportation (the "Department"), which is an agency of the State of Florida. The Department is responsible for cash management and other financial matters of the System. The 2008 and 2007 financial statements contained herein include only the accounts of the System and do not include any other accounts of the Department or the State of Florida. The System is presented as a blended enterprise fund in the financial reports of the State of Florida.

In evaluating how to define the System for financial reporting purposes, management has considered all potential component units in accordance with Government Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*. GASB Statement No. 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Management has determined that there are no other units that meet the criteria for inclusion in the System's financial statements.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The System has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The Statement requires proprietary funds to apply all applicable GASB pronouncements as well as those Statements and Interpretations of the Financial Accounting Standards Board ("FASB"), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. As also provided by GASB Statement No. 20, the System has elected not to adopt any FASB statements issued after November 30, 1989, unless so directed by the GASB.

***Basis of Presentation—Fund Accounting***—The accounting systems of the Department are organized on the basis of funds, each of which is considered an accounting entity having a self-balancing set of accounts for recording its assets, liabilities, fund equity or net assets, revenues, and expenditures or expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. The System is an Enterprise Fund—a Proprietary Fund of the Department.

The focus of proprietary fund measurement is on economic resources, or the determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) applicable to proprietary funds are similar to those applicable to businesses in the private sector. The following is a general description of the Turnpike System Enterprise Fund:

*Enterprise funds* may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met, and governments should apply each of these criteria in the context of the activity’s principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Management believes that the activities of the System meet all three criteria.

***Basis of Accounting***—Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Proprietary funds utilize the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

***Cash and Cash Equivalents***—Investments with a maturity of three months or less when purchased are considered to be cash equivalents. Included within this category are repurchase agreements held by the State Board of Administration (“SBA”) and cash deposited in the State’s general pool of investments, which are reported at fair value.

***Investments***—Investments are stated at fair value with the exception of certain nonparticipating contracts, such as repurchase agreements, which are reported at cost. Fair values are based on published market rates.

***Accounts Receivable***—Accounts receivable are reported at their net realizable value.

***Inventory***—Inventory, which consists of SunPass system transponders that will be sold to customers, is valued at the lower of cost or market (first-in, first-out method).

***Capital Assets***—Capital assets are recorded at historical cost, except for contributed assets, which are recorded at fair market value at the date of contribution. Construction period interest cost, net of interest earned on the unexpended proceeds of tax-exempt borrowings, is capitalized as part of capital asset cost. Costs for maintenance and repairs are expensed as incurred. The System’s capitalization level is \$1,000.

Depreciation, on a straight-line basis, is charged over useful lives ranging from 15 to 30 years for buildings and 3 to 10 years for machinery and equipment. Infrastructure capital assets are recorded as highway system and improvements and are not depreciated (see the following infrastructure depreciation policy). Under the System's policy of accounting for toll facilities pursuant to "betterment accounting," 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. Costs also include the costs of enlargement, betterments, and certain general and administrative expenses incurred during the construction phase. Subsequent betterments are capitalized. All such costs are not reduced for subsequent replacements, as replacements are considered to be period costs and are included in renewals and replacements. These policies are consistent with practices followed by similar entities within the toll bridge, turnpike, and tunnel industry and with the modified approach for reporting infrastructure assets sanctioned by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

***Modified Approach for Reporting Infrastructure***—The modified approach is an alternative to reporting infrastructure capital assets depreciation, if two requirements are met. First, the assets should be managed using an asset management system that meets certain criteria. Second, the System should document that the infrastructure is being preserved at or above a condition level established and disclosed by management. Significant aspects of the System's modified approach policy are: The System has made the commitment to preserve and maintain its infrastructure assets (highway system and improvements) at levels equal to or greater than those established by the Department. Depreciation expense is not reported for infrastructure assets, nor are amounts capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential. Rather, costs for both maintenance and preservation of infrastructure capital assets are expensed in the period incurred. The System relies on the Department to maintain an asset management system that has an up-to-date inventory of System infrastructure assets and that performs condition assessments of those assets, summarizing the results using a measurement scale. Using these results, System management estimates the annual amount to maintain and preserve its infrastructure at a condition level established and disclosed by the System. The information required by GASB Statement No. 34 is presented in the required supplementary information included after the Notes to Financial Statements.

***Impairment of Capital Assets***—The System reviews its capital assets and considers impairment whenever indicators of impairment are present, such as the decline in service utility of the capital asset is large in magnitude, and the event or change in circumstance is outside the normal life cycle of the capital asset. Pursuant to these guidelines, management has determined that no impairments existed at June 30, 2008.

***Restricted Assets***—Certain assets are required to be segregated from other assets due to various bond indenture provisions. These assets are legally restricted for specific purposes, such as construction, renewals and replacements, and debt service.

***Bond Discounts and Issuance Costs***—Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the interest method and straight-line method, respectively.

***Deferred Amounts on Bond Refundings***—In bond refunding transactions, the difference between the reacquisition price and the net carrying amount of the refunded debt is deferred and systematically amortized as a component of interest expense systematically over the shorter of the remaining life of the old bonds or the life of the new bonds.

**Restricted Net Assets**—Restricted net assets are comprised of amounts restricted for debt service and renewals and replacements. It is the System’s policy to first use restricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Net Assets Invested in Capital Assets, Net of Related Debt**—This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds and advances payable that are attributable to the acquisition, construction, or improvement of those assets.

**Operating Revenues and Expenses**—Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the fund’s principal ongoing operations. The principal operating revenues of the System are toll collections and concession revenue. Operating expenses consist primarily of operations, maintenance, renewal and replacement costs, and business development and marketing costs, as well as depreciation on certain capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**Contributions to Other Governments**—Amounts included in contributions to other governments represent capital contributions to other governments by the System to support other government road construction projects in conjunction with System projects. Such contributions are authorized by Chapter 338 of the Florida Statutes.

**Use of Estimates**—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**New Accounting Standards**—In November 2006, GASB issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities, such as site assessments and cleanups. GASB Statement No. 49 will enhance comparability of financial statements among governments by requiring all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported. This Statement also will enhance users’ ability to assess governments’ obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable. The provisions of this statement are effective for fiscal periods beginning after December 15, 2007. Management believes GASB Statement No. 49 will not have a material impact on the financial position, results of operations, or cash flows of the System.

In May 2007, GASB issued GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The provisions of

this Statement are effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. The System adopted GASB Statement No. 50 as of July 1, 2007. GASB Statement No. 50 did not have a material impact on the financial position, results of operations, or cash flows of the System.

In June 2007, GASB issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2009. Management has not determined the impact that adopting GASB Statement No. 51 will have on its financial position, results of operations, or cash flows of the System.

In November 2007, the GASB issued GASB Statement No. 52, *Investments in Land and Other Real Estate Held by Endowments*. This Statement establishes accounting and financial reporting requirements for land and other real estate held as investments. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2008. Management believes GASB Statement No. 52 will not have a material impact on the financial position, results of operations, or cash flows of the System.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2009. Management believes GASB Statement No. 53 will not have a material impact on the financial position, results of operations, or cash flows of the System.

### **3. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The System's deposit and investment practices are governed by Chapter 280, Florida Statutes, and various legal covenants related to the outstanding bond issues. At June 30, 2008 and 2007, the carrying amount of the System's cash on deposit in its bank accounts was \$2.605 million and \$14.470 million, respectively. The related bank balances were \$1.917 million and \$16.025 million, respectively, all of which were insured by federal deposit insurance or collateralized pursuant to Chapter 280, Florida Statutes. All collateralized deposits are considered insured.

Chapter 280, Florida Statutes, generally requires public funds to be deposited in a bank or savings association that is designated by the State Chief Financial Officer as authorized to receive deposits in the State and that meets the collateral requirements. The Chief Financial Officer determines the collateral requirements and collateral pledging level for each Qualified Public Depository (“QPD”) following guidelines outlined in Chapter 69C-2, Florida Administrative Code (“FAC”), and Section 280.04, Florida Statutes. The Chief Financial Officer is directed by FAC to review the “Public Depository Monthly Reports” and continually monitor the collateral pledging level(s) and required collateral of each QPD. If the Chief Financial Officer determines that a QPD has violated the law and rule and has not pledged adequate collateral and/or has not used the proper collateral pledging level or levels, the QPD is immediately notified of the fact and directed to immediately comply with the Chief Financial Officer’s collateral requirements.

Eligible collateral includes federal, federally guaranteed, state and local government obligations, corporate bonds, letters of credit issued by a Federal Home Loan Bank, and with the Chief Financial Officer’s permission, collateralized mortgage obligations, real estate mortgage investment conduits and securities, or other interests in any open-end management investment company registered under the Investment Company Act of 1940, provided the portfolio of such investment company is limited to direct obligations of the United States (“U.S.”) government and to repurchase agreements fully collateralized by such direct obligations of the U.S. government, and provided such investment company takes delivery of such collateral either directly or through an authorized custodian. Statutes provide that if a loss to public depositors is not covered by deposit insurance, demanding payment under letters of credit, and the proceeds from the sale of collateral pledged or deposited by the defaulting depository, the difference will be provided by an assessment levied against other QPDs.

The System deposits monies in the state’s general pool of investments. Under Section 17.57, Florida Statutes, the state Chief Financial Officer is provided with the powers and duties concerning the investment of certain funds and specifies acceptable investments. The state Chief Financial Officer pools deposited monies from all departments in the State Treasury. The State Treasury, in turn, keeps these funds fully invested to maximize interest earnings. Authorized investment types are set forth in Section 17.57, Florida Statutes, and include certificates of deposit, direct obligations of the U.S. Treasury, obligations of federal agencies, asset-backed or mortgage-backed securities, commercial paper, bankers’ acceptances, medium-term corporate obligations, repurchase agreements, reverse repurchase agreements, commingled and mutual funds, obligations of state and local governments, derivatives, put and call options, negotiable certificates of deposit, and, subject to certain rating conditions, foreign bonds denominated in U.S. dollars and registered with the Securities and Exchange Commission for sale in the U.S., and convertible debt obligations of any corporation domiciled within the U.S. Certain investments, such as mutual funds, cannot be categorized because they are not evidenced by securities that exist in physical or book entry form. Securities held by the other parties underlying securities lending agreements also are not categorized.

The System’s share of the State’s general pool of investments was \$627.674 million and \$523.938 million at June 30, 2008 and 2007, respectively, which is the fair value of the pool share. The historical cost of the System’s share of the State’s general pool of investments was \$634.527 million and \$529.364 million at June 30, 2008 and 2007, respectively. No allocation will be made as to the System’s share of the types of investments or their risk categories. The System’s share of the assets and liabilities arising from the reverse repurchase agreements and securities lending agreements will likewise not be carried on the balance sheet since the State Treasury operates on a pooled basis and, to do so, may give the misleading impression that the System itself has entered into such agreements.

The schedule below discloses the detail of the State's general pool of investments and the fair value of each investment type at June 30, 2008 and 2007, which are used to determine the fair value of the System's participation (in thousands).

<b>Investment Type</b>	<b>2008</b>	<b>2007</b>
Commercial paper	\$ 629,609	\$ 3,827,338
Repurchase agreements	508,658	-
U.S. guaranteed obligations	3,871,432	3,792,001
Federal agencies	8,822,256	9,612,574
Bonds and notes—domestic	5,171,984	4,848,403
Bonds and notes—international	57,117	75,740
Bankers' acceptances	-	516,656
Mutual funds	691,144	1,464,337
Certificates of deposit	<u>2,000</u>	<u>-</u>
Total investments	19,754,200	24,137,049
Cash on hand	300	300
Cash on deposit	<u>1,235,960</u>	<u>1,139,762</u>
Total	<u>\$ 20,990,460</u>	<u>\$ 25,277,111</u>

The System also invests in repurchase agreements and U.S. Treasury bills and notes through the SBA. Under Section 215.47, Florida Statutes, investments held by the SBA are entirely collateralized and insured by the state. The SBA is authorized to invest in certificates of deposit, money market certificates, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase and reverse repurchase agreements collateralized by U.S. securities. Further information may be obtained from the Chief Operating Officer—Finance and Accounting, State Board of Administration of Florida, 1801 Hermitage Boulevard, Suite 101, Tallahassee, Florida 32308, (850) 488-4406.

At June 30, 2008 and 2007, the System's cash, cash equivalents, and investments consist of the following amounts stated at fair value (in thousands):

	<b>2008</b>	<b>2007</b>
<b>Cash and Restricted Cash</b>		
Cash on hand	\$ 2	\$ 335
Cash on deposit	2,605	14,470
Cash held by the State Treasury	489	2,300
Cash held by the State Board of Administration	<u>65</u>	<u>23</u>
Total cash	<u>3,161</u>	<u>17,128</u>
<b>Cash Equivalents and Restricted Cash Equivalents</b>		
U.S. government securities held by the State Board of Administration (maturity < 90 days)	41,183	-
Repurchase Agreements held by the State Board of Administration	-	51,400
Pooled investments with the State Treasury (uncategorized)	<u>627,674</u>	<u>523,938</u>
Total cash equivalents	<u>668,857</u>	<u>575,338</u>
<b>Investments and Restricted Investments</b>		
U.S. government securities held by the State Board of Administration	<u>71,401</u>	<u>25,964</u>
Total	<u>\$ 743,419</u>	<u>\$ 618,430</u>

As of June 30, 2008 and 2007, cash, cash equivalents, and investments as presented in the Statement of Net Assets are comprised of the following (in thousands):

	<b>2008</b>	<b>2007</b>
<b>Current Assets:</b>		
Cash and cash equivalents:		
Cash on hand	\$ 2	\$ 335
Cash on deposit	2,605	14,470
Cash held by the State Treasury	387	2,300
Cash held by the State Board of Administration	41,242	51,423
Pooled investments with the State Treasury (uncategorized)	<u>457,668</u>	<u>404,707</u>
Total	<u>501,904</u>	<u>473,235</u>
Investments	<u>39,449</u>	<u>25,964</u>
<b>Restricted Assets:</b>		
Restricted cash and cash equivalents:		
Cash held by the State Treasury	102	-
Cash held by the State Board of Administration	6	-
Pooled investments with the State Treasury (uncategorized)	<u>170,006</u>	<u>119,231</u>
Total restricted cash and cash equivalents	<u>170,114</u>	<u>119,231</u>
Restricted investments	<u>31,952</u>	<u>-</u>
Total	<u>\$ 743,419</u>	<u>\$ 618,430</u>

**Credit Risk**—Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3*, requires the disclosure of nationally recognized credit quality ratings of investments in debt securities, as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities existing at year-end, such as Standard & Poor’s, Moody’s, or Fitch ratings of AA, AAA, etc. Excluded from such disclosure requirements are U.S. government obligations and obligations explicitly guaranteed by the U.S. government, since those investments are deemed to have no exposure to credit risk. The credit risk requirements of GASB Statement No. 40 are not required for repurchase agreements or for deposits.

The State Treasury Investment Pool is rated by Standard & Poor’s. The rating at June 30, 2008 was AA-f. The System does not have a policy to address the credit risk that may exist for its investments in the State’s uncategorized general pool. Instead, it relies on the controls and safeguards provided by Section 17.57, Florida Statutes, as discussed above.

The System also invests in repurchase agreements and U.S. Treasury bills and notes through the SBA. Under Section 215.47, Florida Statutes, investments held by the SBA are entirely collateralized and insured by the state. The System does not have a policy to address the credit risk that may exist for its investments with the SBA. Instead, it relies on the controls and safeguards provided by Section 215.47, Florida Statutes.

**Custodial Credit Risk**—Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits or recover collateral securities that are in possession of an outside party. Custodial credit risk for investments exists when, in the event of the failure of the counterparty to a transaction, a government may be unable to recover the value of investment or collateral securities that are in the possession of an outside party.

GASB Statement No. 40 limits disclosure of custodial risk to deposits and investments that meet the definition of “Category 3,” as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The System has no “Category 3” credit risk deposits or investments for which the securities are held by the counterparty or by its trust department or agent, but not in the System’s name.

**Concentration of Credit Risk**—Increased risk of loss occurs as more investments are acquired from one issuer (i.e., lack of diversification). This results in a concentration of credit risk. GASB Statement No. 40 requires disclosures of investments by amount and issuer for any issuer that represents 5% or more of total investments. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government nor to investments in external investment pools, such as those that the System makes through the SBA or the State’s general pool of investments.

**Foreign Currency Risk**—Foreign currency risk exists when there is a possibility that changes in exchange rates could adversely affect an investment’s or deposit’s fair value. GASB Statement No. 40 requires disclosures of value in U.S. dollars by foreign currency denomination and by investment type for investments denominated in foreign currencies. The System does not have a policy to address the foreign currency risk that may exist for its investments in the State’s uncategorized general pool. Instead, it relies on the controls and safeguards provided by Section 17.57, Florida Statutes, as discussed above. For the years ended June 30, 2008 and 2007, the System was not exposed to any foreign currency risks.

**Interest Rate Risk**—Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s fair value. GASB Statement No. 40 requires that interest rate risk be disclosed using one of five approved methods.

Interest rate risk disclosures are required for all debt investments, as well as investments in external investment pools and other pooled investments that do not meet the definition of a 2a7-like pool. Also, disclosures are required for any assumptions regarding cash flow timing, interest rate changes, and other factors, as well as contract terms, such as coupon multipliers, benchmark indexes, reset dates, and embedded options that cause the fair value of investments to be highly sensitive to interest rate changes. The System does not have a policy to address the interest rate risk that may exist for its investments in the State’s uncategorized general pool or investments held with the SBA. Instead, it relies on the controls and safeguards provided by Sections 17.57 and 215.47, Florida Statutes, as discussed above.

The System’s investments reported on its statements of net assets consist of U.S. Treasury Notes held by the SBA. At June 30, 2008 and 2007, the maturity dates of these securities and their fair values (in thousands) are:

	<b>2008</b>	<b>2007</b>
November 15, 2007	\$ -	\$ 25,964
December 31, 2008	39,847	
December 31, 2011	<u>31,554</u>	<u>-</u>
	<u>\$ 71,401</u>	<u>\$ 25,964</u>

#### **4. DUE FROM OTHER GOVERNMENTS**

As of June 30, 2008 and 2007, amounts due from other governments consist of the following (in thousands):

	<b>2008</b>	<b>2007</b>
Due from the Department	\$ 4,925	\$ 3,309
Due from Department of Financial Services	<u>1,346</u>	<u>-</u>
	<u>\$ 6,271</u>	<u>\$ 3,309</u>

The amount due from the Department of Financial Services (“DFS”) is attributable to an escrow deposit held by DFS on behalf of a local government to fund certain construction costs. Pursuant to the agreement between the Turnpike and the local government, the Turnpike is required to incur the construction costs before the deposit is released from escrow.

In addition, at June 30, 2008 and 2007, respectively, amounts due from governments includes \$4.9 million and \$3.3 million of toll revenue that was collected from customers and held in a Department fund at year-end. The amounts were remitted to the Turnpike subsequent to the respective year-ends.

## 5. CAPITAL ASSETS

Changes in the System's capital assets for the fiscal years ended June 30, 2008 and 2007, are shown below (in thousands):

	<b>Beginning Balance</b>	<b>Transfers</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>2008</b>					
<b>NONDEPRECIABLE CAPITAL ASSETS:</b>					
Land	\$ 826,472	\$ -	\$ 25,313	\$ (253)	\$ 851,532
Infrastructure—highway system and improvements	4,248,171	531,066	-	(3,355)	4,775,882
Construction in progress	<u>714,937</u>	<u>(533,153)</u>	<u>506,914</u>	<u>-</u>	<u>688,698</u>
Total nondepreciable capital assets	<u>5,789,580</u>	<u>(2,087)</u>	<u>532,227</u>	<u>(3,608)</u>	<u>6,316,112</u>
<b>DEPRECIABLE CAPITAL ASSETS:</b>					
Buildings and improvements	216,263	1,950	14,961	(6)	233,168
Furniture and equipment	84,062	137	28,677	(3,040)	109,836
Less accumulated depreciation:					
Buildings and improvements	(87,481)	-	(7,279)	4	(94,756)
Furniture and equipment	<u>(59,389)</u>	<u>-</u>	<u>(12,349)</u>	<u>2,866</u>	<u>(68,872)</u>
Total depreciable capital assets	<u>153,455</u>	<u>2,087</u>	<u>24,010</u>	<u>(176)</u>	<u>179,376</u>
	<u>\$ 5,943,035</u>	<u>\$ -</u>	<u>\$ 556,237</u>	<u>\$ (3,784)</u>	<u>\$ 6,495,488</u>
<b>2007</b>					
<b>NONDEPRECIABLE CAPITAL ASSETS:</b>					
Land	\$ 813,668	\$ -	\$ 12,804	\$ -	\$ 826,472
Infrastructure—highway system and improvements	3,924,861	306,661	17,416	(767)	4,248,171
Construction in progress	<u>559,932</u>	<u>(307,835)</u>	<u>462,840</u>	<u>-</u>	<u>714,937</u>
Total nondepreciable capital assets	<u>5,298,461</u>	<u>(1,174)</u>	<u>493,060</u>	<u>(767)</u>	<u>5,789,580</u>
<b>DEPRECIABLE CAPITAL ASSETS:</b>					
Buildings and improvements	198,684	1,179	16,400	-	216,263
Furniture and equipment	71,997	(5)	12,516	(446)	84,062
Less accumulated depreciation:					
Buildings and improvements	(80,947)	-	(6,534)	-	(87,481)
Furniture and equipment	<u>(51,196)</u>	<u>-</u>	<u>(8,613)</u>	<u>420</u>	<u>(59,389)</u>
Total depreciable capital assets	<u>138,538</u>	<u>1,174</u>	<u>13,769</u>	<u>(26)</u>	<u>153,455</u>
	<u>\$ 5,436,999</u>	<u>\$ -</u>	<u>\$ 506,829</u>	<u>\$ (793)</u>	<u>\$ 5,943,035</u>

Net interest costs of \$29.634 million and \$26.260 million were capitalized as part of capital assets for the years ended June 30, 2008 and 2007, respectively. The amount capitalized includes interest costs incurred during the years ended June 30, 2008 and 2007, of \$40.285 million and \$32.121 million, net of \$10.651 million and \$5.861 million, respectively, of interest earned on related investments acquired with revenue bond proceeds.

## 6. DUE TO DEPARTMENT OF TRANSPORTATION

At June 30, 2008 and 2007, due to the Department consists of the following (in thousands):

	<b>2008</b>	<b>2007</b>
June operations, maintenance, in-house and overhead reimbursement	\$ 25,970	\$ 36,459
Current portion of advances payable to the Department	<u>8,614</u>	<u>7,034</u>
	<u>\$ 34,584</u>	<u>\$ 43,493</u>

## 7. ADVANCES PAYABLE TO DEPARTMENT OF TRANSPORTATION

At June 30, 2008 and 2007, advances payable to the Department consists of the following (in thousands):

	<b>2008</b>	<b>2007</b>
State Infrastructure Bank Loan	\$ 54,075	\$ 54,203
Operations and maintenance subsidy	71,674	59,757
Advances from Toll Facilities Revolving Trust Fund	8,704	5,791
Advances from State Transportation Trust Fund for advanced land acquisition	<u>6,132</u>	<u>4,552</u>
	140,585	124,303
Less current portion	<u>(8,614)</u>	<u>(7,034)</u>
	<u>\$ 131,971</u>	<u>\$ 117,269</u>

State Infrastructure Bank Loans (“SIB”) were established in 1997 as a pilot program for eight states, which allows those states to capitalize the SIB with up to 10% of their Federal Highway apportionments. The SIB acts as a revolving fund to provide assistance in the form of loans, credit enhancements, capital reserves, subsidized interest rates, or to provide other debt financing security. Such loans are interest free. No advances were made to the System in 2008 and 2007. Repayments of \$2.5 million each occurred as scheduled in 2008 and 2007, with the balance due in installments through 2026. SIB loans are also being utilized as interest cost subsidies for the 2003C bond sale. Interest subsidies in the amounts of \$2.4 million each were provided in fiscal years 2008 and 2007. Interest subsidies will be provided through 2011 in the aggregate of \$16.9 million. These loans will be repaid beginning in 2011 and will be fully repaid by 2034. Repayment of these loans is subordinate to payment of bonded debt. In December 2002, the Department advanced \$15.0 million of SIB funds to the System for the construction of the southern ramps connecting the Mainline at SR 50 with the SR 429 (the Orlando-Orange County Expressway Authority owned Western Beltway, Part A) to provide for system interconnectivity between these two regional transportation systems. This loan was repaid in fiscal year 2007.

In December 2000, the Department advanced \$125.424 million to the System in order to defease the remaining balance of the \$93.5 million Broward County Expressway Authority Refunding Bond Series 1984 (“Series 1984”). The System repaid the loan, plus interest, from revenues flowing to the general reserve fund. In fiscal years ending June 30, 2002 and 2003, only the net revenues of the Sawgrass Expressway were used to repay the loan. Funds in the general reserve fund were used to pay the balance of the loan due beginning in fiscal year 2004 through the final principal payment in fiscal year 2007. Interest is computed at a rate equal to the true interest cost rate on the Series 2000B Bonds, which was 5.18%. In January 2002, the agreement between the Department and the System was amended (“Amendment No. 1”) such that the Department deferred repayment of \$2.4 million of the balance, which was repaid from 2003 until 2007.

As provided in Section 338.223 (4) Florida Statutes, the Department is authorized to make operations and maintenance loans to the System in a fiscal year, subject to a limitation of 1.5% of state transportation tax revenues available for that fiscal year. For the years ended June 30, 2008 and 2007, \$11.917 million and \$11.611 million, respectively, were provided to the System primarily in support of the Suncoast Parkway project. This and any future such loans are scheduled to be repaid beginning in fiscal year 2012 from funds available in the System’s general reserve fund.

As provided in Section 338.251, Florida Statutes, the Department is authorized to advance funds to the System in the form of interest-free Toll Facility Revolving Trust Fund (“TFRTF”) loans up to \$1.5 million annually, to reimburse for preliminary engineering expenditures incurred by the System. Through fiscal year 2008, the System was awarded \$9.0 million in TFRTF loans from the Department for eligible expenditures. For the years ended June 30, 2008 and 2007, \$8.7 million and \$5.8 million have been expended, respectively. These interest-free loans must be repaid in six equal annual installments starting seven years from the date of the loans.

In fiscal year 2007, the Department made funds available for advanced right-of-way acquisition in fiscal years 2007 and 2008 for two planned widening projects. For the years ended June 30, 2008 and 2007, \$6.1 million and \$4.5 million, respectively, was provided in support of right-of-way purchases for the Veterans Expressway widening project. In fiscal year 2008, \$4.5 million was repaid interest-free using general revenue funds. The loan balance of \$6.1 million will be repaid interest-free in fiscal year 2009 using general revenue funds.

Following are maturities of advances payable to the Department at June 30, 2008 (in thousands):

2009	\$ 8,614
2010	2,732
2011	3,227
2012	7,079
2013	9,197
2014–2018	83,503
2019–2023	15,509
2024–2028	8,032
2029–2033	2,448
2034–2038	<u>244</u>
	<u>\$ 140,585</u>

## 8. BONDS PAYABLE

Bonds payable as of June 30, 2008 and 2007, are as follows (in thousands):

	Maturing	Interest	2008	2007
\$325,775 Revenue bonds, Series 2008A:				
Serial Bonds	2009–2029	5.00%	\$ 240,185	\$ -
Term Bonds	2030–2037	4.50%–5.00%	<u>81,880</u>	<u>-</u>
Total 2008 Series A			<u>322,065</u>	<u>-</u>
\$256,075 Revenue bonds, Series 2007A:				
Serial Bonds	2009–2030	4.25%–5.00%	166,185	-
Term Bonds	2031–2036	5.00%	<u>85,825</u>	<u>-</u>
Total 2007 Series A			<u>252,010</u>	<u>-</u>
\$443,290 Revenue Bonds, Series 2006A:				
Serial Bonds	2008–2029	3.00%–5.00%	337,145	341,900
Term Bonds	2030–2036	4.50%–4.75%	<u>98,975</u>	<u>98,975</u>
Total 2006 Series A			<u>436,120</u>	<u>440,875</u>
\$93,560 Refunding Bonds, Series 2005A:				
Serial Bonds	2008–2029	3.00%–5.00%	<u>92,430</u>	<u>92,820</u>
\$279,180 Revenue Bonds, Series 2004A:				
Serial Bonds	2008–2031	3.25%–5.00%	213,645	218,895
Term Bonds	2032–2034	4.50%	<u>48,170</u>	<u>48,170</u>
Total 2004 Series A			<u>261,815</u>	<u>267,065</u>
\$200,925 Revenue Bonds, Series 2003C:				
Serial Bonds	2008–2026	2.375%–5.00%	109,735	113,645
Term Bonds	2028–2033	4.625%–5.00%	<u>74,615</u>	<u>74,615</u>
Total 2003 Series C			<u>184,350</u>	<u>188,260</u>
\$303,945 Refunding Bonds, Series 2003B:				
Serial Bonds	2008–2025	4.50%–5.25%	<u>273,610</u>	<u>283,305</u>
\$445,980 Refunding Bonds, Series 2003A:				
Serial Bonds	2008–2022	4.25%–5.25%	<u>363,380</u>	<u>385,435</u>
\$101,070 Revenue Bonds, Series 2000B:				
Serial Bonds	2008–2025	4.50%–5.25%	36,360	38,905
Term Bonds	2026–2030	5.00%	<u>12,535</u>	<u>12,535</u>
Total 2000 Series B			<u>48,895</u>	<u>51,440</u>
\$112,355 Revenue Bonds, Series 2000A:				
Serial Bonds	2008–2010	5.00%–5.125%	<u>5,075</u>	<u>7,430</u>
\$109,835 Revenue Bonds, Series 1999A:				
Serial Bonds	2008–2020	4.00%–5.125%	43,335	45,980
Term Bonds	2021–2028	4.50%–5.00%	<u>46,290</u>	<u>46,290</u>
Total 1999 Series A			<u>89,625</u>	<u>92,270</u>

	<b>Maturing</b>	<b>Interest</b>	<b>2008</b>	<b>2007</b>
\$200,530 Revenue Bonds, Series 1998B:				
Serial Bonds	2008–2019	4.40%–5.25%	\$ -	\$ 5,200
Term Bonds	2020–2027	5.00%	-	-
Total 1998 Series B			<u>-</u>	<u>5,200</u>
\$233,615 Revenue Bonds, Series 1998A:				
Serial Bonds	2008–2019	5.00%–6.50%	90,840	96,930
Term Bonds	2020–2027	4.50–5.00%	104,965	104,965
Total 1998 Series A			<u>195,805</u>	<u>201,895</u>
\$199,690 Refunding Bonds, Series 1997A:	2008–2021	4.75%–5.25%	-	147,130
Add unamortized bond premium			2,525,180	2,163,125
Less deferred loss on early retirement of debt			59,197	32,648
			<u>(43,528)</u>	<u>(44,603)</u>
Less current portion			2,540,849	2,151,170
Long-term portion			<u>(81,660)</u>	<u>(71,250)</u>
			<u>\$ 2,459,189</u>	<u>\$ 2,079,920</u>

As of June 30, 2008, debt service requirements to maturity including interest at fixed rates are as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 81,660	\$ 121,485	\$ 203,145
2010	85,770	117,503	203,273
2011	89,710	113,378	203,088
2012	94,120	108,886	203,006
2013	98,815	104,197	203,012
2014–2018	565,460	442,768	1,008,228
2019–2023	575,015	297,347	872,362
2024–2028	466,050	170,906	636,956
2029–2033	314,660	81,864	396,524
2034–2037	153,920	14,986	168,906
	<u>\$2,525,180</u>	<u>\$1,573,320</u>	<u>\$4,098,500</u>

The System has defeased certain bonds by placing sufficient funds from the issuance of new bonds and a loan from the State Transportation Trust Fund into irrevocable trusts. The trust funds will provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the System's financial statements. The principal balances of all defeased bonds outstanding were \$476.8 million and \$339.2 million at June 30, 2008 and 2007, respectively.

**Bond Refunding**—In January 2008, the State of Florida issued the \$325.775 million State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2008A. A portion of the 2008A Bonds was used to advance refund the Series 1997A Bonds maturing in the years 2008 through 2021 in the outstanding principal amount of \$147.130 million. This advance refunding took advantage of a general reduction in interest rates to achieve an overall reduction in future debt service costs. The reacquisition price exceeded the carrying amount of the old debt by \$11.6 million. This amount is being netted against

the new debt and amortized over the life of the old debt. The transaction resulted in a reduction in future debt service payments of \$17.3 million and an economic gain of \$17.9 million.

In December 2006, the State of Florida issued the \$443.290 million State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2006A. A portion of the 2006A Bonds was used to advance refund the Series 1998B Bonds maturing in the years 2009 through 2027 in the outstanding principal amount of \$168.330 million. This advance refunding took advantage of a general reduction in interest rates to achieve an overall reduction in future debt service costs. The reacquisition price exceeded the carrying amount of the old debt by \$6.2 million. This amount is being netted against the new debt and amortized over the life of the old debt. The transaction resulted in a reduction in future debt service payments of \$14.8 million and an economic gain of \$10.5 million.

***Debt Service Reserve***—The resolution authorizing the issuance of Turnpike revenue bonds requires a debt service reserve be established in an amount as defined in the resolution. The debt service reserve requirement for each bond issue is to be funded from revenues or through a reserve account credit facility as provided for in the resolution. At June 30, 2007, the debt service reserve requirements were fully funded by reserve account credit facilities in the form of sureties provided by Ambac Assurance Corporation (“AMBAC”), MBIA Insurance Corporation (“MBIA”), Financial Security Assurance (“FSA”), and Financial Guaranty Insurance Company (“FGIC”).

The resolution requires that if the Standard & Poor’s or Moody’s rating of an issuer of a reserve credit facility falls below AAA to AA or A, that credit facility must be replaced with another AAA-rated credit facility within six months or with cash over a five-year period in equal semi-annual installments. If the rating falls below A, replacement must occur with a credit facility within six months or with cash over twelve months in equal monthly installments.

During 2008, FGIC was downgraded to BB by Standard & Poor’s and Baa3 by Moody’s, resulting in a requirement for the Turnpike to fund the debt service reserve account in the amount of \$12.7 million over twelve months, of which \$2.1 million was funded as of June 30, 2008. Ambac and MBIA have been downgraded to AA by Standard & Poor’s, resulting in a requirement for the Turnpike to fund the debt service reserve account in the amount of \$136.5 million in ten semi-annual installments beginning in fiscal year 2009.

## 9. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2008 and 2007, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Amount Due in More than One Year
<b>2008</b>						
Bonds payable	\$2,163,125	\$581,850	\$(219,795)	\$2,525,180	\$81,660	\$2,443,520
Add deferred amounts for issuance premiums	32,648	35,573	(9,025)	59,196	-	59,196
Less deferred amounts on refundings	<u>(44,603)</u>	<u>(11,565)</u>	<u>12,641</u>	<u>(43,527)</u>	<u>-</u>	<u>(43,527)</u>
Total bonds payable	2,151,170	605,858	(216,179)	2,540,849	81,660	2,459,189
Advances payable to Department of Transportation	124,303	23,316	(7,034)	140,585	8,614	131,971
Deferred revenue from other governments	947	-	(50)	897	49	848
Other long-term liabilities	<u>575</u>	<u>-</u>	<u>-</u>	<u>575</u>	<u>575</u>	<u>-</u>
	<u>\$2,276,995</u>	<u>\$629,174</u>	<u>\$(223,263)</u>	<u>\$2,682,906</u>	<u>\$90,898</u>	<u>\$2,592,008</u>
<b>2007</b>						
Bonds payable	\$1,953,775	\$443,290	\$(233,940)	\$2,163,125	\$71,250	\$2,091,875
Add deferred amounts for issuance premiums	33,301	7,373	(8,026)	32,648	-	32,648
Less deferred amounts on refundings	<u>(44,547)</u>	<u>(6,173)</u>	<u>6,117</u>	<u>(44,603)</u>	<u>-</u>	<u>(44,603)</u>
Total bonds payable	1,942,529	444,490	(235,849)	2,151,170	71,250	2,079,920
Advances payable to Department of Transportation	124,414	19,771	(19,882)	124,303	7,034	117,269
Deferred revenue from other governments	-	992	(45)	947	50	897
Other long-term liabilities	<u>575</u>	<u>-</u>	<u>-</u>	<u>575</u>	<u>-</u>	<u>575</u>
	<u>\$2,067,518</u>	<u>\$465,253</u>	<u>\$(255,776)</u>	<u>\$2,276,995</u>	<u>\$78,334</u>	<u>\$2,198,661</u>

## 10. EMPLOYEE BENEFITS

### A. Pensions

**Florida Retirement System**—The System participates in the Florida Retirement System (“FRS”), a cost-sharing multiple-employer public employee retirement system administered by the State of Florida, Department of Management Services, Division of Retirement, to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility, and benefit provisions. The financial statements and other supplementary information for the FRS are included in the Comprehensive Annual Financial Report of the State of Florida, which may be obtained from the Florida Department of Financial Services. FRS also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the State of Florida, Department of Management Services, Division of Retirement, Research, Education and Policy Section, P.O. Box 9000, Tallahassee, Florida 32315-9000 or by calling (850) 488-5706.

**Retiree Health Insurance Subsidy Program**—In 1987, the Florida Legislature established through Section 112.363, Florida Statutes, the Retiree Health Insurance Subsidy (“HIS”) to assist retirees of all state-administered retirement systems in paying health insurance costs. The HIS is a cost-sharing multiple-employer defined benefit pension plan. For the fiscal years ended June 30, 2008, 2007, and 2006 eligible retirees or beneficiaries received a monthly retiree health insurance subsidy payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments to individual retirees or beneficiaries were at least \$30 but not more than \$150 per month during each of the years ended June 30, 2008, 2007, and 2006. To be eligible to receive the HIS, a retiree under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

The HIS is funded by required contributions from FRS participating employers. For each of the years ended June 30, 2008 and 2007, the System contributed 1.11% of payroll for all active employees covered by the FRS, which is included in the amounts disclosed below. This contribution was added to the amount submitted for retirement contributions and was deposited in a separate trust fund from which HIS payments are authorized. If these contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

The State of Florida’s implementation of GASB Statement No. 43 resulted in a reevaluation of the HIS classification as a “postemployment benefit other than a pension” and its reclassification as a “pension benefit.” The accounting and financial reporting for the HIS is now governed by GASB Statement No. 27, which was implemented for the fiscal year ending June 30, 2007, the transition year. Further disclosures and other supplementary information for the HIS are included in the Comprehensive Annual Financial Report of the State of Florida, which may be obtained from the Florida Department of Financial Services.

**Funding Policy**—The System is required to pay all contributions for full-time and part-time employees. Generally, employee participation in FRS is compulsory. The contribution rates as indicated by 121.071, Florida Statutes, are as follows (including a health insurance subsidy of 1.11% for each of the years ended June 30, 2008, 2007, and 2006):

	Through June 30, 2008	Through June 30, 2007	Through June 30, 2006
Senior management	13.12 %	13.12 %	10.45 %
Regular employees	9.85	9.85	7.83

The System’s contributions to the FRS for the retirement plans amounted to approximately \$1.132 million, \$1.120 million, and \$0.894 million for the years ended June 30, 2008, 2007, and 2006, respectively. The System contributed 100% of the required contributions for each of the years ended June 30, 2008, 2007, and 2006.

## **B. Other Postemployment Benefits**

The System participates in the State Employees’ Health Insurance Program, a cost-sharing multiple-employer defined benefit plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance, to provide group health benefits. Section 110.123, Florida Statutes, provides that retirees may participate in the State’s group health insurance programs. Although premiums are paid by the retiree, the premium cost to the retiree is implicitly subsidized by the commingling of claims experience in a single risk pool with a single premium determination.

An actuarial valuation has been performed for the plan. The System's employees were included in the actuarial analysis and are part of the actuarial accrued liability, annual required contribution, and net other postemployment benefit obligation disclosed in Note 6 and other required supplementary information of the Comprehensive Annual Financial Report of the State of Florida.

The cost of group insurance benefits for current employees is charged to the System through overhead accruals assessed by the Department in the period the benefits are earned.

### **C. Deferred Compensation Plan**

The System, through the State of Florida, offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan (refer to Section 112.215, Florida Statutes), available to all regular payroll State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable financial emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (notwithstanding the mandates of 26 U.S.C. s. 457(b)(6), all of the assets specified in subparagraph 1) held in trust for the exclusive benefit of participants and their beneficiaries as mandated by 26 U.S.C. s. 457(g)(1).

The System does not contribute to the plan. Participation under the plan is solely at the discretion of the employee.

The State has no liability for losses under the plan but does have the duty of due care that would be required to an ordinary and prudent investor. Pursuant to Section 112.215, Florida Statutes, the Deferred Compensation Trust Fund is created in the State Treasury.

### **D. Compensated Absences**

Employees earn the right to be compensated during absences for vacation and illness. Within the limits established by law or rule, the value of unused leave benefits will be paid to employees by the Department upon separation from state service.

The cost of vacation and vested sick leave benefits is charged to the System through overhead accruals assessed by the Department in the period the benefits are earned. The liability for these benefits is not recorded by the System since the System pays the Department for these costs in the period in which they are earned by the employee. The liability for accrued leave is recorded by the Department, which is responsible for paying accrued leave when it is taken.

## **11. CONTRIBUTIONS FOR CAPITAL PROJECTS**

Contributions for capital projects represent proceeds received from other entities for construction of certain highway system projects, land acquisition, and various studies.

Contributions for capital projects recognized for the years ended June 30, 2008 and 2007, are as follows (in thousands):

	<b>2008</b>	<b>2007</b>
Western Beltway Part C	\$ 10,000	\$ 15,000
Atlantic Avenue Widening	401	491
Kissimmee Park Road Interchange	-	125
Becker Road Interchange	-	13,608
Right-of-way for I595/Griffin Road Interchange	-	479
Communication Building Lake Worth	3,188	-
Widening in Orange County	<u>333</u>	<u>-</u>
	<u><b>\$ 13,922</b></u>	<u><b>\$ 29,703</b></u>

## 12. TRANSACTIONS WITH DEPARTMENT OF TRANSPORTATION

As described in Note 1, System operations are the responsibility of the Department. Transactions between the System and other funds of the Department consist of reimbursements made by the System to the Department. Reimbursements include amounts arising from the use of Department personnel, equipment and materials, and charges incurred from independent suppliers and contractors who are paid directly by the Department on behalf of the System.

The following summarizes transactions with and balances due to the Department as of and for the years ended June 30, 2008 and 2007 (in thousands):

	<b>2008</b>	<b>2007</b>
Payments/reimbursements to the Department	\$ 186,191	\$ 199,857
Amounts due to the Department for reimbursement of operating expenses	25,970	36,459

## 13. OPERATING LEASES

The System leases certain toll equipment and office space under noncancelable operating leases. As of June 30, 2008, future minimum lease payments under noncancelable operating leases with initial or remaining terms in excess of one year are as follows (in thousands):

2009	\$ 1,058
2010	917
2011	279
2012	91
2013	<u>34</u>
	<u><b>\$ 2,379</b></u>

Rent expense for all operating leases were approximately \$0.969 million and \$0.900 million for the years ended June 30, 2008 and 2007, respectively.

The System is the lessor under a noncancelable operating lease agreement, as amended, under which the lessee provides restaurant operations and related services within System-owned service plazas. Lease rent

is calculated as a percentage of sales. Lease rent earned under the agreement totaled approximately \$6.681 million and \$6.784 million for the years ended June 30, 2008 and 2007, respectively. Pursuant to the terms of the agreement, the lessee was required to pay an initial deposit at the inception of the lease totaling \$0.525 million. The deposit is refundable and is recorded as of June 30, 2008 and 2007, in other long-term liabilities.

As of June 30, 2008, the total cost and carrying amount of the assets under the operating lease agreement were \$29.924 million and \$11.107 million, respectively. Depreciation expense relating to these assets was \$1.004 million for fiscal year 2008.

#### 14. COMMITMENTS AND CONTINGENCIES

**Commitments and Contingencies**—Commitments on outstanding contracts for construction of improvements and maintenance of the System and right of way acquisition totaled \$688.703 million at June 30, 2008.

The System is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of System management, based on the advice of Department legal counsel, the ultimate disposition of these lawsuits and claims will not have a material adverse effect on the financial position or results of operations of the System.

The System is party to a lawsuit with a natural gas pipeline company (“claimant”) involving pipeline relocation costs with respect to 11 miles along the Mainline in Broward County. The claimant’s position is that the System should reimburse them for the cost of the pipeline relocation; however, these costs have not yet been determined. Management believes that under the terms of the easement agreement, the pipeline company is responsible for its own relocation costs, and this position will be vigorously defended. The System has not accrued any liability in connection with this claim.

**Risk Management**—The System participates in various self-insurance programs established by the State of Florida for property and casualty losses and employee health insurance. Coverages include property, general liability, automobile liability, workers’ compensation, and federal civil rights actions.

The System obtains conventional coverage for damage and revenue losses on the System bridges, although it retains significant self-insurance risk in order to control the cost of insurance premiums.

The following summary provides aggregated information on losses and insurance recovery for fiscal years 2008 and 2007 (in thousands):

	<b>2008</b>	<b>2007</b>
Total losses	\$ -	\$938
Insurance recovery	<u>1,238</u>	<u>106</u>
(Gain) loss in excess of insurance recovery	<u><u>\$(1,238)</u></u>	<u><u>\$832</u></u>

The losses incurred relate to those claims that exceeded the System’s insurance coverage. The costs associated with the repairs of the bridges are recorded in renewal and replacement in the accompanying statements of revenues, expenses, and changes in net assets.

## 15. SUBSEQUENT EVENTS

***Toll Suspensions***—In August 2008, in response to the threat of Tropical Storm Fay, tolls were suspended on various parts of the System for approximately one day. The revenue loss for the toll suspension was estimated to be \$3.0 million. No physical damage to the System was reported.

In September 2008, in response to the threat of Tropical Storm Ike, tolls were suspended on various parts of the System for approximately three days. The revenue loss for the toll suspension was estimated to be \$1.8 million. No physical damage to the System was reported.

Management does not believe the revenue loss will negatively impact the financial condition of the System.

***Debt Service Reserve***—In November 2008, the debt service reserve account credit facilities in the form of sureties provided by Ambac were downgraded to “Baa1” and “A” by Moody’s and Standard & Poor’s, respectively. The reserve account credit facilities in the form of sureties provided by MBIA were downgraded to “Baa1” and “AA” by Moody’s and Standard & Poor’s, respectively. The downgrades triggered the requirement for the Turnpike to fund the debt service reserve account with another “Aaa” or “AAA” rated credit facility within six months or with cash over twelve months in the amount of \$122.8 million. Funding for this requirement will begin on December 15, 2008. In addition, Financial Security Assurance (“FSA”) was downgraded to “Aa3” by Moody’s resulting in a requirement for the Turnpike to fund the debt service reserve account in the amount of \$24.6 million with another “Aaa” rated credit facility within six months or with cash over a five-year period. Management is evaluating credit facility replacement alternatives and will remain in compliance with bond resolution requirements.

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**REQUIRED SUPPLEMENTARY INFORMATION OTHER  
THAN MANAGEMENT'S DISCUSSION AND ANALYSIS**

# FLORIDA'S TURNPIKE SYSTEM DEPARTMENT OF TRANSPORTATION STATE OF FLORIDA

## TREND DATA ON THE SYSTEM'S INFRASTRUCTURE CONDITION

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### INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Pursuant to GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, Florida's Turnpike System (the "System") has adopted an alternative method of recording depreciation expense on its infrastructure assets (highway system and improvements). Under this alternative method, referred to as the modified approach, the System expends certain maintenance and preservation costs and, consequently, does not report depreciation expense related to infrastructure. System assets accounted for under the modified approach include 460 centerline miles of roadway and 701 bridges.

In using this modified approach, the System relies on the Florida Department of Transportation (the "Department") to maintain an asset management system that has an up-to-date inventory of System infrastructure assets and that performs condition assessments of those assets, summarizing the results using a measurement scale. Using these results, System management estimates the annual amount to maintain and preserve its infrastructure at a condition level established and disclosed by the System. System management also documents the annual amount expensed to maintain and preserve its infrastructure at or above the established condition level.

### DEPARTMENT CONDITION AND MAINTENANCE PROGRAMS

***Resurfacing Program***—Road pavements require periodic resurfacing. The frequency of resurfacing depends on the volume of traffic, type of traffic, pavement material variability, and weather conditions. Resurfacing preserves the structural integrity of highway pavements and includes pavement resurfacing, pavement rehabilitation, and minor reconstruction.

The Department conducts an annual pavement condition survey. Pavements are rated on a scale of 0 to 10 (with 10 being the best) in each of three criteria: ride smoothness, pavement cracking, and wheel path rutting. Ride smoothness is what the motorist experiences. It directly affects motor vehicle operation costs. Pavement cracking refers to the structural deterioration of the pavement, which leads to loss of smoothness and deterioration of the road base by water seepage if not corrected. Wheel path rutting are depressions in pavement caused by heavy use. Ride smoothness and wheel path rutting are measured mechanically, using lasers. Pavement cracking is determined through visual observation by experienced survey crews.

The condition rating scales are set by a statewide committee of pavement engineers, so that a pavement segment receiving a rating of 6 or less in any of the three rating criteria is designated a deficient pavement segment. The standard is to ensure that 80% of the pavement on the System's roadways has a score greater than 6 in all three criteria.

***Bridge Repair/Replacement Program***—The Department's bridge repair program emphasizes periodic maintenance and specified structural rehabilitation work. The primary focus is on the replacement of structurally deficient or weight-restricted bridges.

The Department conducts bridge condition surveys using the National Bridge Inspection Standards to determine condition ratings. Each bridge is inspected at least once every two years. During the inspection process, the major components, such as deck, superstructure, and substructure are assigned a condition rating. The condition rating ranges from 0 to 9. A rating of 8 to 9 is very good to excellent, which indicates that no repairs are necessary. A rating of 5 to 7 is fair to good, which indicates that minor repairs are required. A rating below 5 identifies bridges needing major repairs or replacement. A rating of 4 or less indicates a condition of poor to failing and requires urgency in making repairs. A rating of 2 requires closure of the bridge, while a rating of 1 is used for a bridge that is closed. A rating of 0 means the bridge is beyond repair. The standard is to ensure that 90% of all System bridges achieve a rating of 5 or better.

**Routine Maintenance Program**—The System is responsible for managing and performing routine maintenance on its roadways. Routine maintenance includes many activities, such as highway repair, roadside upkeep, emergency response, maintaining signs, roadway striping, and keeping storm drains clear and structurally sound.

The Department monitors the quality and effectiveness of the System’s routine maintenance program by periodic surveys, using the Maintenance Rating Program (“MRP”). The Department has used the MRP since 1985 to evaluate routine maintenance in five broad categories or elements. The five rating elements are roadway, roadside, vegetation and aesthetics, traffic services, and drainage. The MRP results in a maintenance rating of 1 to 100 for each category as well as an overall rating for the System’s routine maintenance performance. The standard is to achieve an overall routine maintenance rating of 80 or higher.

**Condition Ratings for the System’s Infrastructure**

Percentage of pavement meeting Department standards:

<u>2008</u>	<u>2007</u>	<u>2006</u>
87%	87%	84%

Percentage of bridges meeting Department standards:

<u>2008</u>	<u>2007</u>	<u>2006</u>
95%	96%	94%

Overall routine maintenance rating:

<u>2008</u>	<u>2007</u>	<u>2006</u>
91	90	89

**Comparison of Needed-to-Actual Maintenance/Preservation  
(in Thousands)\***

<b>FISCAL YEAR</b>	<b>Needed</b>	<b>Actual</b>	<b>Difference</b>
2008	\$ 139,689	\$ 143,770	\$ 4,081
2007	136,803	136,050	(753)
2006	83,509	96,165	12,656
2005	82,491	77,551	(4,940)
2004	84,105	75,231	(8,874)

\*Note: The amounts listed above are totals for the resurfacing, bridge repair/replacement, and routine maintenance programs of the System. Needed amounts are estimated on a cash basis, while actual amounts are stated on the accrual basis of accounting.