

## INDEPENDENT AUDITORS' REPORT

Secretary of Transportation and the Executive Board  
Florida Department of Transportation  
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, 2011 and 2010, 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 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 Florida Department of Transportation and do not purport to, and do not, present fairly the financial position of the Florida 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 respective financial position of Florida's Turnpike System as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof 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. 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.

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

*Deloitte & Touche LLP*

October 31, 2011

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2011 AND 2010

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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, 2011 and 2010. 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 \$631.6 million and \$644.7 million for fiscal year 2011 and 2010, respectively, representing a decrease of \$13.1 million (2.0%) and an increase of \$22.5 million (3.6%) from each of the prior years.
- The System's total expenses were \$348.3 million and \$337.7 million for fiscal years 2011 and 2010, respectively. Fiscal year 2011 total expenses increased \$10.6 million (3.1%) from the prior year, and fiscal year 2010 total expenses decreased \$28.4 million (7.8%) from fiscal year 2009.
- The System's net assets totaled \$5,423.1 million and \$5,122.1 million as of June 30, 2011 and 2010, respectively. Increases of \$301.0 million (5.9%) and \$315.9 million (6.6%) 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 and amortization, amounted to \$7,665.1 million and \$7,345.6 million as of June 30, 2011 and 2010, respectively. Increases of \$319.5 million (4.3%) and \$382.9 million (5.5%) from each of the prior fiscal years signify 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 nonoperating 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, 2011 were \$5.4 billion, an increase of \$301.0 million, or 5.9%, as compared to the prior fiscal year. As of June 30, 2010 net assets were \$5.1 billion, an increase of \$315.9 million, or 6.6%, from fiscal year 2009. 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,		
	2011	2010	2009
Current and other assets	\$ 652.1	\$ 461.3	\$ 367.7
Noncurrent restricted assets	256.9	480.0	167.4
Capital assets—net of accumulated depreciation and amortization	<u>7,665.1</u>	<u>7,345.6</u>	<u>6,962.7</u>
Total assets	<u>8,574.1</u>	<u>8,286.9</u>	<u>7,497.8</u>
Current liabilities	258.7	161.7	169.5
Long-term debt outstanding and other liabilities	<u>2,892.3</u>	<u>3,003.1</u>	<u>2,522.1</u>
Total liabilities	<u>3,151.0</u>	<u>3,164.8</u>	<u>2,691.6</u>
Net assets:			
Invested in capital assets—net of related debt	4,792.0	4,592.2	4,446.6
Restricted	164.9	158.0	136.5
Unrestricted	<u>466.2</u>	<u>371.9</u>	<u>223.1</u>
Total net assets	<u>\$ 5,423.1</u>	<u>\$ 5,122.1</u>	<u>\$ 4,806.2</u>

A 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 debt service reserve requirements. As of June 30, 2011 and 2010, net assets subject to this restriction totaled \$164.9 million and \$158.0 million, respectively. For fiscal year 2011, this represents an increase of \$6.9 million from the prior year. This is primarily due to an increase of net assets restricted for renewals and replacements resulting from deposits offset by disbursements for resurfacing, for preliminary engineering, and for construction. For fiscal year 2010, this represents an increase of \$21.5 million from the prior year. This increase is primarily due to additional debt service funding related to the issuance of the 2009A, 2009B, and 2010B Revenue Bonds, and the 2010A Revenue Refunding Bonds. Additional information on the System's debt service funding can be found in Note 8 to the financial statements.

Unrestricted net assets of \$466.2 million and \$371.9 million as of June 30, 2011 and 2010, respectively, represent residual amounts after all mandatory transfers have been made as required by bond covenants and other restrictions. For fiscal year 2011, this represents an increase of \$94.3 million from the prior year. This increase is primarily due to the increase in unrestricted pooled investments with the State Treasury during the year. The System's capital projects are funded through revenue bonds and toll revenues. The 2010B bond proceeds were received in June 2010, which in turn were utilized throughout fiscal year 2011 for bond related projects. This resulted in a reduced need for the use of the unrestricted portion of toll revenues for capital projects, hence the increase in unrestricted pooled investments with the State Treasury. For fiscal year 2010, this represents an increase of \$148.8 million from the prior year. This increase is primarily due to lower operating expenses (operations and maintenance, renewal and replacement, and pollution remediation), a slight increase in toll revenues, and an increase in investment earnings. 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>2011</b>	<b>2010</b>	<b>2009</b>
Operating revenues from toll facilities	\$ 600.1	\$ 596.2	\$ 590.5
Operating revenues from concessions and other sources	11.9	15.4	14.4
Nonoperating investment earnings	13.7	27.3	17.3
Nonoperating interest subsidy	<u>5.9</u>	<u>5.8</u>	<u>-</u>
Total revenues	<u>631.6</u>	<u>644.7</u>	<u>622.2</u>
Operations and maintenance expense	(176.7)	(170.3)	(186.6)
Business development and marketing expense	(3.3)	(2.2)	(4.0)
Pollution remediation expense	1.0	-	(9.5)
Renewals and replacements expense	(34.5)	(50.0)	(62.9)
Depreciation and amortization expense	(19.1)	(15.3)	(17.6)
Nonoperating interest expense	(110.4)	(98.3)	(82.8)
Other nonoperating expense—net	<u>(5.3)</u>	<u>(1.6)</u>	<u>(2.7)</u>
Total expenses	<u>(348.3)</u>	<u>(337.7)</u>	<u>(366.1)</u>
Income before contributions for capital projects and contributions to other governments	283.3	307.0	256.1
Contributions for capital projects	23.6	14.2	35.2
Contributions to other governments	<u>(5.9)</u>	<u>(5.3)</u>	<u>(0.7)</u>
Increase in net assets	301.0	315.9	290.6
Net assets:			
Beginning of year	<u>5,122.1</u>	<u>4,806.2</u>	<u>4,515.6</u>
End of year	<u>\$ 5,423.1</u>	<u>\$ 5,122.1</u>	<u>\$ 4,806.2</u>

Total revenues for fiscal year 2011 were \$631.6 million, representing a decrease of \$13.1 million or 2.0% compared to fiscal year 2010. This resulted primarily from an increase in toll revenues offset by decreases in nonoperating investment earnings due to decline in interest rates and a decrease in concessions and other sources revenue due to the service plaza renovations along the Mainline. Corresponding to the increase in toll revenue, toll transactions increased to 652.9 million transactions for the year ended June 30, 2011, from 639.4 million transactions for the year ended June 30, 2010, due to growth in ridership and a slight economic recovery. No toll suspensions occurred during fiscal years 2011 and 2010, which differs from fiscal year 2009 that had estimated revenue loss of approximately \$4.8 million associated with toll suspensions on various parts of the System for approximately four days. Historically, tolls have been suspended to aid evacuation efforts when a state of emergency has been declared by the Governor during natural disasters, such as hurricanes.

Total revenues for fiscal year 2010 were \$644.7 million, representing an increase of \$22.5 million or 3.6% compared to fiscal year 2009. This increase resulted from an increase in toll facility operating revenues, as a result of a slight recovery in the national economy, the increase in investment earnings due to the market valuation improvement of pooled investments from the prior year, and the Build America Bonds interest subsidy. Correspondingly, toll transactions increased to 639.4 million transactions for the year ended June 30, 2010, from 630.9 million transactions for the year ended June 30, 2009.

The System has a broad customer base and the ability to serve more than half of the State of Florida'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, 2011, the System reported \$23.6 million of contributions for capital projects, an increase of \$9.4 million from the prior year. The contributions consist primarily of \$15.6 million for the Homestead Extension of Florida's Turnpike (HEFT) All Electronic Tolling project, \$4.1 million for the Pace Road Polk Parkway interchange project, and \$1.7 million for construction of the I-595 fly over ramps project on the Mainline.

Total expenses (including depreciation and amortization expense) for fiscal year 2011 were \$348.3 million, an increase of \$10.6 million (3.1%), as compared to fiscal year 2010. The increase is primarily due to a \$6.4 million increase in operations and maintenance expense, a \$12.1 million increase in nonoperating interest expense as well as minor increases in the other expenses, offset by a \$15.5 million decrease in renewal and replacements expense. The increase in operations and maintenance was due to the increase in cost of sales related to transponders and an increase in overhead costs. The increase in nonoperating interest expense was primarily due to issuance of new revenue bonds in the latter part of fiscal year 2010. The decrease in renewals and replacements expense was primarily due to less resurfacing projects in fiscal year 2011 compared to fiscal year 2010. 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. The infrastructure condition ratings were not affected by the reduction in renewal and replacements expenditures in fiscal year 2011. (See the required supplementary information included after the Notes to Financial Statements.)

Total expenses (including depreciation and amortization expense) for fiscal year 2010 were \$337.7 million, a decrease of \$28.4 million (7.8%), as compared to fiscal year 2009. The decrease is primarily due to a \$12.9 million decrease in renewals and replacements expense and a \$16.3 million decrease in operations and maintenance expense. The decrease in renewals and replacements expense is due primarily from the continued reduction of third-party contract costs. The decrease in operations and maintenance was driven primarily by staffing reductions in toll operations activities. 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. The infrastructure condition ratings were not affected by the reduction in renewal and replacements expenditures in fiscal year 2010. (See the required supplementary information included after the Notes to Financial Statements.)

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** — As of June 30, 2011, the System reported approximately \$7.7 billion in constructed, purchased, and donated capital assets (net of accumulated depreciation and amortization), which was \$319.5 million or 4.3% higher than the prior year. As of June 30, 2010, the System reported approximately \$7.3 billion in constructed, purchased, and donated capital assets (net of accumulated depreciation and amortization), which was \$382.9 million or 5.5% higher than the prior year. 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 and amortization (buildings and improvements, furniture and equipment, intangible assets, and construction in progress for related assets) and those not subject to depreciation and amortization, such as land, infrastructure, and construction in progress for related assets (see the discussion following on the modified approach for reporting infrastructure).

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

	As of June 30,		
	2011	2010	2009
Land	\$ 863.9	\$ 866.6	\$ 865.2
Infrastructure	5,958.8	5,641.7	5,073.7
Construction in progress—nondepreciable assets	582.4	606.5	839.9
Buildings and improvements—net	149.2	145.2	137.2
Furniture and equipment—net	53.7	44.0	46.7
Intangible assets—net	14.6	0.2	-
Construction in progress—depreciable assets	42.5	41.4	-
	<u>\$ 7,665.1</u>	<u>\$ 7,345.6</u>	<u>\$ 6,962.7</u>
Total capital assets—net	<u>\$ 7,665.1</u>	<u>\$ 7,345.6</u>	<u>\$ 6,962.7</u>

For fiscal years ended 2011 and 2010, major additions of capital assets included (in millions):

	2011	2010
Widening and capacity improvements	\$ 159.4	\$ 176.6
Interchange and access projects	40.6	45.3
High-speed express lanes	52.3	43.0
Toll system technology upgrades	9.3	39.1
Safety improvements	1.0	2.0
Intelligent transportation system enhancements	1.1	1.4
	<u>\$ 263.7</u>	<u>\$ 307.4</u>

The System’s capital program is made up of a number of ongoing projects, which include conversion of the HEFT to All Electronic Tolling, Mainline interchange improvements at Lake Worth Road, a new interchange at Pace Road on the Polk Parkway, a system-wide toll equipment enhancement project, improvements to ramps at I-595, and several large widening projects in Polk, Orange, and Broward counties. Planned commitments for the fiscal year ending June 30, 2012 include an additional \$18.7 million for the system-wide toll equipment enhancement project, an additional \$28.8 million for conversion of parts of the mainline to All Electronic Tolling, \$65.1 million for service plaza improvements, \$19.0 million for canal protection and

roadside improvements, and \$15.3 million for bridge improvement projects. These projects will be funded over the next few years with existing cash, toll revenues, and bond proceeds, as well as available 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 Department. 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 the 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 2011 and 2010, the System estimated it would need to spend \$84.6 million and \$84.7 million, respectively, for infrastructure maintenance and preservation, but actually expended \$75.3 million and \$88.9 million, respectively. Fluctuations occur from year to year between the amount spent to preserve and maintain the System and the estimated amount result from the 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 2011, the System had outstanding revenue bonds (net of unamortized premiums and deferred loss on early retirement of debt) and other noncurrent liabilities payable totaling \$2.9 billion. This amount represents a decrease of the System's long-term debt obligations by \$110.8 million, or 3.7% from June 30, 2010. This decrease was primarily due to principal payments for the System's outstanding revenue bonds.

At the end of fiscal year 2010, the System had \$3.0 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 \$481.0 million, or 19.1% from fiscal year 2009. This increase was primarily due to the issuance of \$785.8 million of new revenue and revenue refunding bonds (2009A, 2009B, 2010A, and 2010B) offset by the redemption of a portion of the 1998A, 1999A, and all of the 2000B bonds (refunded by the 2010A bonds) and 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 \$2.8 billion of outstanding revenue bonds to finance the construction of expansion projects and system improvements. At June 30, 2011, \$7.2 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 are issued to fund 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 12th year after the project opens to traffic and must pay 100% of the debt service of the bonds by the 22nd year after the project opens to traffic (Section 338.221, F.S.).

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. Due to the initial downgrading and further downgrading of the ratings of the counterparties backing the sureties for certain bond issues in fiscal years 2008 and 2009, respectively, the System began scheduled funding of the debt service requirements for the related bond issues. During fiscal year 2010, the Turnpike completed all debt service funding requirements and remains fully funded for fiscal year 2011. Additional information on the System’s debt service reserve requirements can be found in Note 8 to the financial statements.

The System currently holds an “AA-” rating from Standard & Poor’s, an “Aa3” 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 to 1.82 for fiscal year 2011 from 2.01 for fiscal year 2010. This still exceeds the 1.2 minimum debt service coverage as required by the covenants with the bondholders.

**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>2011</u>	<u>2010</u>	<u>2009</u>
Revenue bonds (backed by toll facilities’ revenues)	\$ 2,731.8	\$ 2,844.7	\$ 2,367.4
Amounts due to various funds of the Florida			
Department of Transportation	155.8	152.9	143.5
Other noncurrent liabilities	<u>4.7</u>	<u>5.5</u>	<u>11.2</u>
Total noncurrent liabilities	<u>\$ 2,892.3</u>	<u>\$ 3,003.1</u>	<u>\$ 2,522.1</u>

***Economic Conditions and Outlook*** — Based on current economic conditions both nationally and in Florida, the System expects toll revenues to increase slightly in fiscal year 2012 and to continue a gradual recovery in fiscal year 2013. Management currently believes that the downturn in toll revenue that occurred in fiscal years 2008 and 2009, which recovered slightly in fiscal years 2010 and 2011, will not affect 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, Florida 34761.

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

**STATEMENTS OF NET ASSETS  
JUNE 30, 2011 AND 2010  
(In thousands)**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 3)	\$ 573,609	\$ 418,142
Unrestricted investments	37,444	
Receivables:		
Accounts	3,116	3,007
Interest	1,321	948
Due from other governments (Note 4)	16,747	18,041
Prepaid expenses	547	-
Inventory	3,583	5,236
Other assets	473	-
Total current assets	<u>636,840</u>	<u>445,374</u>
<b>NONCURRENT ASSETS:</b>		
Restricted assets:		
Restricted cash and cash equivalents (Note 3)	50,686	285,791
Restricted investments (Note 3)	<u>206,263</u>	<u>194,204</u>
Total restricted assets	<u>256,949</u>	<u>479,995</u>
Nondepreciable capital assets (Note 5):		
Land	863,893	866,680
Infrastructure — highway system and improvements	5,958,776	5,641,690
Construction in progress	<u>582,363</u>	<u>606,452</u>
Total nondepreciable capital assets	<u>7,405,032</u>	<u>7,114,822</u>
Depreciable capital assets (Note 5):		
Buildings and improvements	262,745	254,140
Furniture and equipment	136,623	127,855
Intangible assets	16,787	167
Construction in progress	42,507	41,371
Less accumulated depreciation and amortization	<u>(198,582)</u>	<u>(192,791)</u>
Total depreciable capital assets — net	<u>260,080</u>	<u>230,742</u>
Deferred charges — net	<u>13,654</u>	<u>15,471</u>
Other assets	<u>1,582</u>	<u>500</u>
Total noncurrent assets	<u>7,937,297</u>	<u>7,841,530</u>
<b>TOTAL ASSETS</b>	<u><b>\$8,574,137</b></u>	<u><b>\$8,286,904</b></u>

(Continued)

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

**STATEMENTS OF NET ASSETS  
JUNE 30, 2011 AND 2010  
(In thousands)**

<b>LIABILITIES AND NET ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>LIABILITIES:</b>		
Current liabilities:		
Construction contracts and retainage payable (Note 15)	\$ 113,757	\$ 25,965
Current portion of bonds payable (Notes 8, 9)	103,460	99,000
Due to Florida Department of Transportation (Notes 6, 7, 9, 12)	38,866	28,606
Due to other governments	172	193
Deposits payable	200	200
Deferred revenue	<u>2,261</u>	<u>7,706</u>
Total current liabilities	<u>258,716</u>	<u>161,670</u>
Noncurrent liabilities:		
Long-term portion of bonds payable — net of premiums of \$56,946 and \$72,965, respectively, and deferred losses on early retirement of debt of \$33,548 and \$40,107, respectively (Notes 8, 9)	2,731,768	2,844,688
Advances payable to Florida Department of Transportation (Notes 7, 9, 12)	155,828	152,942
Deferred revenue from other governments (Note 9)	699	748
Other long-term liabilities (Notes 9, 15)	<u>4,018</u>	<u>4,750</u>
Total noncurrent liabilities	<u>2,892,313</u>	<u>3,003,128</u>
Total liabilities	<u>3,151,029</u>	<u>3,164,798</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 8, 13, 14)</b>		
<b>NET ASSETS:</b>		
Invested in capital assets — net of related debt	4,791,948	4,592,159
Restricted for debt service	139,183	137,286
Restricted for renewal and replacement	25,756	20,785
Unrestricted	<u>466,221</u>	<u>371,876</u>
Total net assets	<u>\$5,423,108</u>	<u>\$5,122,106</u>

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

(Concluded)

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2011 AND 2010  
(In thousands)**

	<b>2011</b>	<b>2010</b>
OPERATING REVENUES:		
Toll facilities	\$ 600,079	\$ 596,173
Concessions	8,382	10,757
Other	<u>3,485</u>	<u>4,666</u>
Total operating revenues	<u>611,946</u>	<u>611,596</u>
OPERATING EXPENSES:		
Operations and maintenance	176,758	170,262
Business development and marketing	3,302	2,160
Pollution remediation (Note 15)	(1,030)	-
Renewals and replacements	34,502	50,005
Depreciation and amortization (Note 5)	<u>19,110</u>	<u>15,268</u>
Total operating expenses	<u>232,642</u>	<u>237,695</u>
OPERATING INCOME	<u>379,304</u>	<u>373,901</u>
NONOPERATING REVENUES (EXPENSES):		
Investment earnings	13,750	27,309
Interest subsidy (Note 5, 8)	5,943	5,811
Interest expense	(110,437)	(98,294)
Other — net	<u>(5,314)</u>	<u>(1,642)</u>
Total nonoperating expenses — net	<u>(96,058)</u>	<u>(66,816)</u>
INCOME BEFORE CONTRIBUTIONS FOR CAPITAL PROJECTS AND CONTRIBUTIONS TO OTHER GOVERNMENTS	283,246	307,085
CONTRIBUTIONS FOR CAPITAL PROJECTS (Note 11)	23,681	14,177
CONTRIBUTIONS TO OTHER GOVERNMENTS	<u>(5,925)</u>	<u>(5,331)</u>
INCREASE IN NET ASSETS	301,002	315,931
NET ASSETS:		
Beginning of year	<u>5,122,106</u>	<u>4,806,175</u>
End of year	<u>\$ 5,423,108</u>	<u>\$ 5,122,106</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, 2011 AND 2010  
(In thousands)**

	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 597,133	\$ 594,693
Cash payments to suppliers for goods and services	(181,229)	(194,221)
Cash payments to employees	(19,267)	(15,124)
Other operating revenues	<u>8,334</u>	<u>13,595</u>
Net cash provided by operating activities	<u>404,971</u>	<u>398,943</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from the issuance of revenue bonds	-	818,266
Proceeds from 2009B Build America Bonds interest subsidy	5,943	5,811
Payments for advance refunding of revenue bonds	-	(232,386)
Principal paid on revenue bond maturities	(99,000)	(91,405)
Interest paid on revenue bonds	(144,059)	(132,816)
Payment of bond issuance costs	-	(5,814)
Deposits from local governments held for capital project partnerships	-	18
Receipts from contributions made by other governments	4,551	3,302
Payments to acquire or construct capital assets	(217,293)	(401,573)
Proceeds from the sale of capital assets	10	965
Insurance recoveries	69	1,249
Fiscal charges	<u>(988)</u>	<u>(825)</u>
Net cash used in capital and related financing activities	<u>(450,767)</u>	<u>(35,208)</u>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from the sale or maturity of investments	571,750	543,695
Investment earnings	17,464	28,905
Purchase of investments	<u>(623,056)</u>	<u>(605,721)</u>
Net cash used in investing activities	<u>(33,842)</u>	<u>(33,121)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>(79,638)</b>	<b>330,614</b>
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>703,933</u>	<u>373,319</u>
End of year	<u>\$ 624,295</u>	<u>\$ 703,933</u>

(Continued)

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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2011 AND 2010  
(In thousands)**

	<b>2011</b>	<b>2010</b>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	<u>\$ 379,304</u>	<u>\$ 373,901</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	19,110	15,268
Pollution remediation	(1,030)	-
Other noncash adjustments	(1,372)	529
(Increase) decrease in:		
Due from other governments	(5,614)	(1,480)
Accounts receivable	(108)	(336)
Prepaid expenses	(547)	-
Inventory	3,024	(550)
Other Assets	(1,555)	-
Increase (decrease) in:		
Due to Florida Department of Transportation	14,896	13,352
Due to other governments	(21)	89
Construction contracts and retainage payable	(1,556)	(1,340)
Deferred revenue	<u>440</u>	<u>(490)</u>
Total adjustments	<u>25,667</u>	<u>25,042</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 404,971</u>	<u>\$ 398,943</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Bond premium amortization — net	<u>\$ (16,019)</u>	<u>\$ (12,467)</u>
Amortization of deferred charges	<u>\$ 1,817</u>	<u>\$ 1,588</u>
Amortization of deferred losses on early retirement of debt	<u>\$ 6,558</u>	<u>\$ 5,871</u>
Deferred losses due to refunding	<u>\$ -</u>	<u>\$ (8,758)</u>
Write-off of deferred losses, net bond discounts, and deferred charges due to refunding	<u>\$ -</u>	<u>\$ 3,438</u>
Loss on disposed capital assets	<u>\$ 2,578</u>	<u>\$ 477</u>
Contributions for capital projects	<u>\$ 19,130</u>	<u>\$ 10,875</u>
Contributions to other governments	<u>\$ (5,925)</u>	<u>\$ (5,331)</u>
Purchases of capital assets in construction contracts and retainage payable	<u>\$ 107,415</u>	<u>\$ -</u>
Unrealized (loss) gain on investments and cash equivalents	<u>\$ (3,145)</u>	<u>\$ 12,476</u>

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

(Concluded)

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2011 AND 2010**

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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 "State"). The Department is responsible for cash management and other financial matters of the System. The fiscal years 2011 and 2010 financial statements contained herein include only the accounts of the System and do not include any other accounts of the Department or the State. The System is presented as a blended enterprise fund in the financial reports of the State.

In evaluating how to define the System for financial reporting purposes, management has considered all potential component units in accordance with Governmental 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 and amortization 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 consists of SunPass system transponders that will be sold to customers, which are valued at the lower of cost or market (first-in, first-out method).

**Other Assets** — Other assets consists of toll equipment parts for use in All Electronic Tolling lanes on the System. Toll equipment parts are reported at historical cost and classified as current if used within the operating cycle of 12 months, otherwise, they are classified as noncurrent.

**Capital Assets** — Capital assets are recorded at historical cost, except for contributed assets, which are recorded at fair value at the date of contribution. Construction in progress for nondepreciable capital consists of project costs for infrastructure highway system, improvements, and buildings that are not yet complete and ready for use. Construction in progress for depreciable assets consists of project costs for equipment and intangible assets that are not yet complete and have not been placed in service.

Construction period interest cost, net of interest earned on the unexpended proceeds of tax-exempt borrowings, is capitalized as part of the capital asset cost. Costs for maintenance and repairs are expensed as incurred. The System's capitalization level is \$1,000 for tangible assets and \$10,000 for intangible assets. Depreciation and amortization, on a straight-line basis, is charged over useful lives ranging from 15 to 30 years for buildings and improvements, 3 to 10 years for furniture and equipment, and 3 to 15 years for intangibles assets. 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 a historical accumulation of costs expended to acquire right-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 and amounts are not 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 when 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, 2011 and 2010.

**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 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 amortization, reduced by the outstanding balances of bonds net of unexpended proceeds, 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, pollution remediation, and business development and marketing costs, as well as depreciation and amortization 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 March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The System implemented GASB Statement No. 54 as of July 1, 2010. GASB Statement No. 54 did not have an effect on the financial position, changes in net assets, or cash flows of the System.

In December 2009, the GASB issued GASB Statement No. 57, *OPEB (Other Postemployment Benefits) Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. In addition, it clarifies requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, related to the coordination of the timing and frequency

of OPEB measurements by agent employers and the agent multiple-employer OPEB plans in which they participate. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Management believes GASB Statement No. 57 will not directly affect the financial position, changes in net assets, or cash flows of the System.

In June 2010, the GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves the accounting and financial reporting requirements of existing pronouncements that address financial instruments and external investment pools. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The System implemented GASB Statement No. 59 as of July 1, 2010. GASB Statement No. 59 had no effect on the financial position, changes in net assets, or cash flows of the System.

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement improves the consistency in the reporting of service concession arrangements (SCA's), which are a type of public-private or public-public partnership, thereby enhancing the comparability of the accounting and financial reporting of such arrangements among state and local governments. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management believes GASB Statement No. 60 will not have a material effect on the financial position, changes in net assets, or cash flows of the System.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*. This Statement improves the financial reporting requirements for a governmental financial reporting entity, modifies certain requirements for inclusion of component units in the financial reporting entity, and amends criteria for reporting component units as if they were part of the primary government in certain circumstances. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Management believes GASB Statement No. 61 will not have a material effect on the financial position, changes in net assets, or cash flows of the System.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in various pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement improves the financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management believes GASB Statement No. 62 will not have a material effect on the financial position, changes in net assets, or cash flows of the System.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides guidance for reporting deferred outflows of resources, the deferred inflows of resources, and net position in a statement of financial position and related disclosures. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management believes GASB Statement No. 63 will not have a material effect on the financial position, changes in net assets, or cash flows of the System.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Applications of Hedge Accounting Termination Provisions*—an amendment of GASB Statement No. 53. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Management believes GASB Statement No. 64 will not have a material effect on the financial position, changes in net assets, or cash flows of the System.

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

The System’s deposit and investment practices are governed by Florida Statutes Chapter 280, Section 17.57, and Section 215.47, as well as various legal covenants related to the outstanding bond issues. At June 30, 2011 and 2010, the carrying amounts of the System’s cash on deposit in its bank accounts were \$2.8 million and \$3.3 million, respectively. The related bank balances were \$2.3 million and \$2.8 million, respectively, all of which were insured by the Federal Deposit Insurance Corporation 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 (“State CFO”) as authorized to receive deposits in the State and that meets the collateral requirements. The State CFO 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 State CFO 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 State CFO 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 State CFO’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 State CFO’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 CFO is provided with the powers and duties concerning the investment of certain funds and specifies acceptable investments. The State CFO 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 convertible debt obligations of any corporation domiciled within the U.S. 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. Certain investments, such as mutual funds, cannot be categorized by all the different investment types 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 \$592.3 million and \$623.5 million at June 30, 2011 and 2010, respectively, which was the fair value of the pool share. The historical cost of the System's share of the State's general pool of investments was \$586.5 million and \$616.4 million at June 30, 2011 and 2010, respectively. No allocation is 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 is likewise not 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 as of June 30, 2011 and 2010, which were used to determine the fair value of the System's participation (in thousands).

<b>Investment Type</b>	<b>2011</b>	<b>2010</b>
Commercial paper	\$ 837,686	\$ 936,117
Repurchase agreements	371,398	403,146
U.S. guaranteed obligations	5,220,838	4,841,093
Federal agencies	8,389,122	7,972,307
Bonds and notes — domestic	2,587,252	2,466,835
Bonds and notes — international	381,778	359,973
Mutual funds	-	875,046
	<hr/>	<hr/>
Total investments	17,788,074	17,854,517
Cash on hand	300	300
Cash on deposit	756,526	1,132,545
	<hr/>	<hr/>
Total	<u>\$ 18,544,900</u>	<u>\$ 18,987,362</u>

The System currently invests in U.S. Treasury securities through the SBA. Further information may be obtained from the Chief Operating Officer — Finance and Accounting, State Board of Administration of Florida, 1801 Hermitage Boulevard, Suite 100, Tallahassee, Florida 32308, (850) 488-4406.

At June 30, 2011 and 2010, the System's cash, cash equivalents, and investments consisted of the following amounts stated at fair value (in thousands):

	<b>2011</b>	<b>2010</b>
Cash and restricted cash:		
Cash on hand	\$ 15	\$ 792
Cash on deposit	2,817	3,344
Cash held by the State Treasury	1,170	1,336
Cash held by the SBA	<u>16,784</u>	<u>36</u>
Total cash	<u>20,786</u>	<u>5,508</u>
Cash equivalents and restricted cash equivalents:		
U.S. government securities held by the SBA (maturity <90 days)	11,179	74,913
Pooled investments with the State Treasury (uncategorized)	<u>592,330</u>	<u>623,512</u>
Total cash equivalents	<u>603,509</u>	<u>698,425</u>
Restricted investments — U.S. government securities held by the SBA	206,263	194,204
Unrestricted investments — U.S. government securities held by the SBA	<u>37,444</u>	<u>-</u>
Total	<u>\$ 868,002</u>	<u>\$ 898,137</u>

As of June 30, 2011 and 2010, cash, cash equivalents, and investments as presented in the Statements of Net Assets were comprised of the following (in thousands):

	<b>2011</b>	<b>2010</b>
Current assets:		
Cash and cash equivalents:		
Cash on hand	\$ 15	\$ 792
Cash on deposit	2,817	3,344
Cash held by the State Treasury	1,070	1,226
Cash and cash equivalents held by the SBA	26,018	61,504
Pooled investments with the State Treasury (uncategorized)	<u>543,689</u>	<u>351,276</u>
Total	<u>573,609</u>	<u>418,142</u>
Noncurrent restricted assets:		
Restricted cash and cash equivalents:		
Cash held by the State Treasury	100	110
Cash and cash equivalents held by the SBA	1,945	13,445
Pooled investments with the State Treasury (uncategorized)	<u>48,641</u>	<u>272,236</u>
Total restricted cash and cash equivalents	<u>50,686</u>	<u>285,791</u>
Restricted investments	206,263	194,204
Unrestricted Investments	<u>37,444</u>	<u>-</u>
Total	<u>\$ 868,002</u>	<u>\$ 898,137</u>

**Credit Risk** — Credit risk exists when there is a possibility that 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. As of June 30, 2011, the U.S. government obligations and obligations explicitly guaranteed by the U.S. government were AAA rated. On August 5, 2011, one of the rating agencies downgraded the rating to AA+. 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, 2011, was Af. 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 currently invests in U.S. Treasury securities through the SBA. 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 or 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, 2011 and 2010, 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. As of June 30, 2011 and 2010, the maturity dates of these securities and their fair values (in thousands) were as follows:

	<b>2011</b>	<b>2010</b>
December 31, 2010	\$ -	\$ 145,734
December 31, 2011	<u>243,707</u>	<u>48,470</u>
	<u>\$ 243,707</u>	<u>\$ 194,204</u>

#### 4. DUE FROM OTHER GOVERNMENTS

As of June 30, 2011 and 2010, amounts due from other governments consisted of the following (in thousands):

	<b>2011</b>	<b>2010</b>
Due from the Department	\$ 14,328	\$ 8,618
Due from the Department of Financial Services	1,919	8,657
Due from other departments	500	680
Due from local government	<u>-</u>	<u>86</u>
	<u>\$ 16,747</u>	<u>\$ 18,041</u>

The amount due from the Department of Financial Services (DFS) is attributable to escrow deposits held by DFS on behalf of local governments and organizations to fund certain construction costs. Pursuant to the agreement between the Turnpike and the local governments, the Turnpike is required to incur the construction costs before the deposits are released from escrow. In addition, at June 30, 2011 and 2010, amounts due from the Department were \$14.3 million and \$8.6 million, respectively, which were primarily comprised 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, 2011 and 2010 are shown below (in thousands):

2011	Beginning Balance	Transfers	Additions	Retirements	Ending Balance
Nondepreciable capital assets:					
Land	\$ 866,680	\$ (194)	\$ 3,063	\$ (5,656)	\$ 863,893
Infrastructure — highway system and improvements	5,641,690	314,629	5,732	(3,275)	5,958,776
Construction in progress	<u>606,452</u>	<u>(337,683)</u>	<u>315,094</u>	<u>(1,500)</u>	<u>582,363</u>
Total nondepreciable capital assets	<u>7,114,822</u>	<u>(23,248)</u>	<u>323,889</u>	<u>(10,431)</u>	<u>7,405,032</u>
Depreciable capital assets:					
Buildings and improvements	254,140	14,880	100	(6,375)	262,745
Furniture and equipment	127,855	16,688	1,589	(9,509)	136,623
Intangible assets	167	16,548	72	-	16,787
Construction in progress	41,371	(24,868)	26,004	-	42,507
Less accumulated depreciation and amortization:					
Intangible assets	(12)	-	(2,183)	-	(2,195)
Buildings and improvements	(108,934)	-	(8,635)	4,078	(113,491)
Furniture and equipment	<u>(83,845)</u>	<u>-</u>	<u>(8,292)</u>	<u>9,241</u>	<u>(82,896)</u>
Total depreciable capital assets	<u>230,742</u>	<u>23,248</u>	<u>8,655</u>	<u>(2,565)</u>	<u>260,080</u>
	<u>\$ 7,345,564</u>	<u>\$ -</u>	<u>\$ 332,544</u>	<u>\$ (12,996)</u>	<u>\$ 7,665,112</u>
2010					
Nondepreciable capital assets:					
Land	\$ 865,191	\$ -	\$ 6,086	\$ (4,597)	\$ 866,680
Infrastructure — highway system and improvements	5,073,715	568,938	-	(963)	5,641,690
Construction in progress	<u>839,935</u>	<u>(577,301)</u>	<u>344,216</u>	<u>(398)</u>	<u>606,452</u>
Total nondepreciable capital assets	<u>6,778,841</u>	<u>(8,363)</u>	<u>350,302</u>	<u>(5,958)</u>	<u>7,114,822</u>
Depreciable capital assets:					
Buildings and improvements	239,646	5,833	11,196	(2,535)	254,140
Furniture and equipment	124,510	(1,149)	5,916	(1,422)	127,855
Intangible assets	-	-	167	-	167
Construction in progress	-	3,679	37,692	-	41,371
Less accumulated depreciation and amortization:					
Intangible assets	-	-	(12)	-	(12)
Buildings and improvements	(102,469)	-	(7,879)	1,414	(108,934)
Furniture and equipment	<u>(77,798)</u>	<u>-</u>	<u>(7,376)</u>	<u>1,329</u>	<u>(83,845)</u>
Total depreciable capital assets	<u>183,889</u>	<u>8,363</u>	<u>39,704</u>	<u>(1,214)</u>	<u>230,742</u>
	<u>\$ 6,962,730</u>	<u>\$ -</u>	<u>\$ 390,006</u>	<u>\$ (7,172)</u>	<u>\$ 7,345,564</u>

Net interest costs of \$24.2 million and \$27.0 million were capitalized as part of capital assets for the years ended June 30, 2011 and 2010, respectively. The amount capitalized includes interest costs incurred during the years ended June 30, 2011 and 2010, of \$30.1 million and \$33.7 million — net of \$2.3 million and \$0.9 million, respectively, of interest earned on related investments acquired with revenue bond proceeds, and net of \$5.9 million and \$5.8 million of the Build America Bonds (“BABs”) interest subsidy received in 2011 and 2010, respectively, from the U.S. Treasury pursuant to the American Recovery and Reinvestment Act of 2009. See Note 8 — *Bonds Payable* for further discussion related to the BABs that were part of the 2009B Bond issue.

In 2007, the System became a party to a lawsuit with a natural gas company involving pipeline relocation costs with respect to 11 miles along the Mainline in Broward County. In May 2011, the System was required to reimburse the gas company for related costs in the amount of \$92.0 million. The System’s practice of accounting for reimbursable utility costs is for these costs to be included as part of the project costs to complete the roadway projects, which are classified as capital assets. For the year ended June 30, 2011, the System recorded \$24.9 million of the reimbursable pipeline relocation costs in infrastructure – highway systems and improvements for a project completed in April 2011. The System recorded the remaining \$67.1 million in construction in progress for projects to be completed in March 2012 and July 2014. The corresponding liability was recorded in construction contracts and retainage payable. See Note 14 – *Commitments and Contingencies* for further discussion related to this lawsuit.

#### 6. DUE TO FLORIDA DEPARTMENT OF TRANSPORTATION

At June 30, 2011 and 2010, due to the Department consisted of the following (in thousands):

	<b>2011</b>	<b>2010</b>
June operations, maintenance, in-house, and overhead reimbursement	\$ 32,291	\$ 25,780
Current portion of advances payable to the Department	<u>6,575</u>	<u>2,826</u>
	<u>\$ 38,866</u>	<u>\$ 28,606</u>

#### 7. ADVANCES PAYABLE TO FLORIDA DEPARTMENT OF TRANSPORTATION

At June 30, 2011 and 2010, advances payable to the Department consisted of the following (in thousands):

	<b>2011</b>	<b>2010</b>
State Infrastructure Bank Loan	\$ 51,923	\$ 53,672
Operations and maintenance subsidy	101,480	93,096
Advances from Toll Facilities Revolving Trust Fund	<u>9,000</u>	<u>9,000</u>
	162,403	155,768
Less current portion	<u>(6,575)</u>	<u>(2,826)</u>
	<u>\$ 155,828</u>	<u>\$ 152,942</u>

State Infrastructure Bank (SIB) Loans 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 2011 and 2010. Repayments of \$2.8 million and \$2.5 million occurred as scheduled in 2011 and 2010, respectively, 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 \$1.1 and \$2.3 million were provided in each of the fiscal years 2011 and 2010, respectively. Interest subsidies have been provided through 2011 in the aggregate of \$16.9 million. Repayments on these loans started in fiscal year 2011 and will be fully repaid by fiscal year 2035. The repayment of these loans is subordinate to payment of bonded debt.

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, 2011 and 2010, \$8.4 million and \$10.0 million, respectively, were provided to the System primarily in support of the Suncoast Parkway project. This and any such future 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 2009, the System was awarded and expended \$9.0 million in TFRTF loans from the Department for eligible expenditures. Repayment of these interest-free loans begins in fiscal year 2015 with final payment due in fiscal year 2020.

Following are maturities of advances payable to the Department at June 30, 2011 (in thousands):

2012	\$ 6,575
2013	8,442
2014	10,297
2015	13,607
2016	15,428
2017-2021	73,711
2022-2026	25,103
2027-2031	7,400
2032-2035	<u>1,840</u>
	<u>\$ 162,403</u>

## 8. BONDS PAYABLE

Bonds payable as of June 30, 2011 and 2010 were as follows (in thousands):

	Maturing	Interest	2011	2010
\$251,080 Revenue Bonds, Series 2010B:				
Serial Bonds	2011–2031	2.00%–5.00%	\$ 131,485	\$ 135,445
Term Bonds	2033–2040	4.50%–5.00%	<u>115,635</u>	<u>115,635</u>
Total 2010 Series B			<u>247,120</u>	<u>251,080</u>
\$211,255 Refunding Bonds, Series 2010A — Serial Bonds	2011–2030	3.00%–5.00%	<u>198,715</u>	<u>211,255</u>
\$255,000 Revenue Bonds, Series 2009B — Build America				
Term Bonds	2025–2039	6.14%–6.80%	<u>255,000</u>	<u>255,000</u>
\$68,445 Revenue Bonds, Series 2009A — Serial Bonds	2011–2020	3.00%–5.00%	<u>56,935</u>	<u>62,810</u>
\$325,775 Revenue Bonds, Series 2008A:				
Serial Bonds	2011–2029	5.00 %	211,310	221,440
Term Bonds	2030–2037	4.50%–5.00%	<u>81,880</u>	<u>81,880</u>
Total 2008 Series A			<u>293,190</u>	<u>303,320</u>
\$256,075 Revenue Bonds, Series 2007A:				
Serial Bonds	2011–2030	5.00 %	152,495	157,250
Term Bonds	2031–2036	5.00 %	<u>85,825</u>	<u>85,825</u>
Total 2007 Series A			<u>238,320</u>	<u>243,075</u>
\$443,290 Revenue Bonds, Series 2006A:				
Serial Bonds	2011–2029	3.00%–5.00%	304,480	315,835
Term Bonds	2030–2036	4.50%–4.75%	<u>98,975</u>	<u>98,975</u>
Total 2006 Series A			<u>403,455</u>	<u>414,810</u>
\$93,560 Refunding Bonds, Series 2005A — Serial Bonds	2011–2029	3.375%–5.00%	<u>88,455</u>	<u>91,615</u>
\$279,180 Revenue Bonds, Series 2004A:				
Serial Bonds	2011–2031	4.00%–5.00%	196,540	202,435
Term Bonds	2032–2034	4.50%	<u>48,170</u>	<u>48,170</u>
Total 2004 Series A			<u>244,710</u>	<u>250,605</u>
\$200,925 Revenue Bonds, Series 2003C:				
Serial Bonds	2011–2026	4.00%–5.00%	97,195	101,525
Term Bonds	2027–2033	4.625%–5.00%	<u>74,615</u>	<u>74,615</u>
Total 2003 Series C			<u>171,810</u>	<u>176,140</u>
\$303,945 Refunding Bonds, Series 2003B — Serial Bonds	2011–2025	4.50%–5.25%	<u>241,415</u>	<u>252,700</u>
\$445,980 Refunding Bonds, Series 2003A	2011–2022	4.25%–5.25%	<u>290,025</u>	<u>315,740</u>
\$109,835 Revenue Bonds, Series 1999A — Term Bonds	2025–2028	4.50 %	<u>25,285</u>	<u>25,285</u>
\$233,615 Revenue Bonds, Series 1998A — Term Bonds	2024–2027	4.50 %	<u>57,395</u>	<u>57,395</u>
			2,811,830	2,910,830
Add unamortized bond premium			56,946	72,965
Less deferred loss on early retirement of debt			<u>(33,548)</u>	<u>(40,107)</u>
			2,835,228	2,943,688
Less current portion			<u>(103,460)</u>	<u>(99,000)</u>
Long-term portion			<u>\$2,731,768</u>	<u>\$2,844,688</u>

As of June 30, 2011, debt service requirements to maturity, including interest at fixed rates, were as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 103,460	\$ 139,513	\$ 242,973
2013	108,445	134,545	242,990
2014	113,715	129,269	242,984
2015	117,155	123,734	240,889
2016	123,090	117,877	240,967
2017–2021	676,230	493,844	1,170,074
2022–2026	588,275	336,741	925,016
2027–2031	453,375	204,681	658,056
2032–2036	404,920	95,111	500,031
2037–2040	<u>123,165</u>	<u>15,234</u>	<u>138,399</u>
	<u>\$2,811,830</u>	<u>\$1,790,549</u>	<u>\$4,602,379</u>

The System has defeased certain bonds by placing sufficient funds from the issuance of new bonds 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 \$34.5 million and \$135.6 million at June 30, 2011 and 2010, respectively.

In July 2009, the State of Florida issued the \$68.5 million and \$255.0 million State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2009A and 2009B, respectively. The 2009B Bonds were issued as BABs for purposes of the American Recovery and Reinvestment Act of 2009. Pursuant to the Recovery Act, the State receives a cash subsidy payment from the U.S. Treasury equal to 35% of the interest payable on each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the U.S. Government, but is required to be paid by the Treasury under the Recovery Act. Any cash subsidy payments received by the State are deposited into the Sinking Fund. The cash subsidy interest payments received in fiscal year 2011 and 2010 were \$5.9 million and \$5.8 million, respectively, and are included in nonoperating revenues on the Statements of Revenues, Expenses, and Changes in Net Assets.

In June 2010, the State of Florida issued the \$251.1 million State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2010B, to finance capital improvements to the System, to fund the debt service reserve account and to pay costs of issuance.

**Bond Refunding** — In April 2010, the State of Florida issued the \$211.3 million State of Florida, Department of Transportation Turnpike Revenue Refunding Bonds, Series 2010A (2010A Bonds). The proceeds from the 2010A Bonds, together with other legally available moneys, were used to advance refund a portion of the Series 1998A Bonds maturing in the years 2011 through 2023, a portion of the Series 1999A Bonds maturing in the years 2011 through 2024, and all of the Series 2000B Bonds maturing in the years 2011 through 2030, in the outstanding principal amount of \$227.1 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 \$8.8 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 \$24.4 million and an economic gain of \$19.2 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.

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 semiannual installments. If the rating falls below A, replacement must occur with another AAA-rated credit facility within six months or with cash over 12 months in equal monthly installments.

As of June 30, 2011 and 2010, the balance in the debt service reserve account was \$209.9 million and \$204.4 million, respectively. The balance as of June 30, 2011 exceeded the requirements of \$202.6 million for all outstanding issues. The debt service reserve account was fully funded as of June 30, 2011 and 2010. The System did not issue any bonds during fiscal year 2011.

## 9. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2011 and 2010 was as follows (in thousands):

2011	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Amount Due in More than One Year
Bonds payable	\$ 2,910,830	\$ -	\$ (99,000)	\$ 2,811,830	\$ 103,460	\$ 2,708,370
Add deferred amounts for issuance premiums	72,965	-	(16,019)	56,946	-	56,946
Less deferred amounts on refundings	<u>(40,107)</u>	<u>-</u>	<u>6,559</u>	<u>(33,548)</u>	<u>-</u>	<u>(33,548)</u>
Total bonds payable	2,943,688	-	(108,460)	2,835,228	103,460	2,731,768
Advances payable to the Department	155,768	9,485	(2,850)	162,403	6,575	155,828
Deferred revenue from other governments	798	-	(49)	749	50	699
Other long-term liabilities	<u>8,162</u>	<u>-</u>	<u>(2,958)</u>	<u>5,204</u>	<u>1,186</u>	<u>4,018</u>
	<u>\$ 3,108,416</u>	<u>\$ 9,485</u>	<u>\$ (114,317)</u>	<u>\$ 3,003,584</u>	<u>\$ 111,271</u>	<u>\$ 2,892,313</u>

2010	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Amount Due in More than One Year
Bonds payable	\$ 2,443,520	\$ 785,780	\$ (318,470)	\$ 2,910,830	\$ 99,000	\$ 2,811,830
Add deferred amounts for issuance premiums	46,925	35,720	(9,680)	72,965	-	72,965
Less deferred amounts on refundings	<u>(37,251)</u>	<u>(8,758)</u>	<u>5,902</u>	<u>(40,107)</u>	<u>-</u>	<u>(40,107)</u>
Total bonds payable	2,453,194	812,742	(322,248)	2,943,688	99,000	2,844,688
Advances payable to the Department	145,999	12,251	(2,482)	155,768	2,826	152,942
Deferred revenue from other governments	848	-	(50)	798	50	748
Other long-term liabilities	<u>12,736</u>	<u>-</u>	<u>(4,574)</u>	<u>8,162</u>	<u>3,412</u>	<u>4,750</u>
	<u>\$ 2,612,777</u>	<u>\$ 824,993</u>	<u>\$ (329,354)</u>	<u>\$ 3,108,416</u>	<u>\$ 105,288</u>	<u>\$ 3,003,128</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 DFS. 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, 2011, 2010, and 2009, 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 fiscal years. 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, 2011 and 2010, 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, *Accounting for Pensions by State and Local Governmental Employers*, 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 DFS.

*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, which are established in Section 121.071, Florida Statutes, were as follows (including a health insurance subsidy of 1.11% for each of the years ended June 30, 2011, 2010, and 2009):

	<u>Through June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Senior management	14.57 %	13.12 %	13.12 %
Regular employees	10.77	9.85	9.85

The System’s contributions to the FRS for the retirement plans amounted to approximately \$1.1 million for each of the years ended June 30, 2011, 2010, and 2009. The System contributed 100% of the required contributions for each of the years ended June 30, 2011, 2010, and 2009.

**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 the footnotes 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, 2011 and 2010 were as follows (in thousands):

	<b>2011</b>	<b>2010</b>
HEFT All Electronic Tolling	\$ 15,612	\$ 6,367
Pace Road/Polk Parkway Interchange	4,082	2,244
I-595 Flyover Ramps	1,735	2,853
Toll System Replacement	1,735	-
Truck Stop Electrification	423	84
Vegetation Mitigation	73	-
Suncoast 2	13	1,462
Winding Waters Natural Area	8	194
Widening in Orange County	-	939
Widening in Broward County	-	30
Golden Glades Landscaping	-	4
	<u>\$ 23,681</u>	<u>\$ 14,177</u>

## 12. TRANSACTIONS WITH FLORIDA 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, 2011 and 2010 (in thousands):

	<b>2011</b>	<b>2010</b>
Payments/reimbursements to the Department	\$ 213,881	\$ 198,469
Amounts due to the Department for reimbursement of operating expenses	35,648	25,780

## 13. OPERATING LEASES

The System leases certain toll equipment and office space under noncancelable operating leases. As of June 30, 2011, future minimum lease payments under noncancelable operating leases with initial or remaining terms in excess of one year are as follows (in thousands):

2012	\$ 379
2013	169
2014	153
2015	112
2016	<u>37</u>
	<u>\$ 850</u>

Rent expense for all operating leases was approximately \$0.6 million and \$0.9 million for the years ended June 30, 2011 and 2010, respectively.

The System is the lessor under a noncancelable operating lease agreement under which the lessee provides restaurant and fuel station operations and related services within System-owned service plazas. In fiscal year 2009, the System selected a new lessee for the operations of the System-owned service plazas. Lease rent is calculated as a percentage of sales with a minimum monthly concession fee of \$0.8 million through November 1, 2010, and \$0.5 million for the months thereafter. Lease rent earned under the agreement totaled approximately \$7.2 million and \$8.9 million for the years ended June 30, 2011 and 2010, respectively. Pursuant to the terms of the agreement, the new lessee was required to pay an initial deposit at the inception of the lease totaling \$0.2 million. The deposit is refundable and is recorded as of June 30, 2011 and 2010, in current liabilities. As of June 30, 2011, future minimum lease rental income for each of the five succeeding fiscal years and in the aggregate are as follows (in thousands):

2012	\$ 6,000
2013	6,000
2014	6,000
2015	6,000
2016	6,000
2017–2040	<u>141,500</u>
	<u>\$ 171,500</u>

As of June 30, 2011, the total cost and carrying amount of the assets in use by the lessee were \$25.8 million and \$7.0 million, respectively. Depreciation expense relating to these assets was \$0.9 million for fiscal year 2011.

As of June 30, 2010, the total cost and carrying amount of the assets in use by the lessee were \$29.9 million and \$9.1 million, respectively. Depreciation expense relating to these assets was \$1.0 million for fiscal year 2010.

#### 14. COMMITMENTS AND CONTINGENCIES

**Commitments and Contingencies** — Commitments on outstanding contracts for construction of improvements and maintenance of the System and right-of-way acquisitions totaled \$512.2 million at June 30, 2011.

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, except as described below, 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.

In 2007, the System was 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. A judgment was rendered in May 2011 and amended in July 2011 requiring the System to reimburse the claimant for relocation costs. The System has recorded a liability for the year ended June 30, 2011. However, in July 2011, the System appealed the monetary judgment to the Fourth District Court of Appeal with the claimant having filed a notice of cross appeal. See Note 5 – *Capital Assets* for further discussion on the recording of the reimbursement related to the utility costs.

**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 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.

The following summary provides aggregated information on losses and insurance recovery for fiscal years 2011 and 2010 (in thousands):

	<b>2011</b>	<b>2010</b>
Total losses	\$ (69)	\$ (2,174)
Insurance recovery	<u>69</u>	<u>1,249</u>
Net	<u>\$ -</u>	<u>\$ (925)</u>

## 15. POLLUTION REMEDIATION

Groundwater and soil contamination related to fuel tank leakage exists at the System's eight service plazas. The sites were accepted into the Florida Department of Environmental Protection's (FDEP) Early Detection Incentive (EDI) Program established in 1986 to provide reimbursement or state-contracted cleanup of qualifying sites. Under EDI, qualifying sites were exempted from departmental enforcement actions. Section 376.308 of the Florida Statutes directs facilities eligible for FDEP funding not to accrue for remediation costs until restoration funding can be committed to the facility. FDEP has funded approximately \$14.8 million for pollution remediation efforts performed at five of the service plaza sites since the sites were accepted into the program. The System has not recognized any liability for the remediation efforts funded by the FDEP. In 2009, through its agreement with a new lessee of the service plazas, the System legally obligated itself to commence pollution remediation for soil and groundwater contamination and commit restoration funding. As of June 30, 2011, future estimated remediation costs listed below (in thousands) were reduced by \$1.0 million due to the decrease in contract rate costs for source removal, excavation, installation of monitoring wells, sampling, and reporting to FDEP.

	<b>2012</b>	<b>2013</b>	<b>Total</b>
Okahumpka	\$ -	\$ 1,053	\$ 1,053
Turkey Lake	150	-	150
Canoe Creek	300	-	300
Fort Drum	500	-	500
Fort Pierce	175	2,890	3,065
West Palm Beach	-	75	75
Pompano	51	-	51
Snapper Creek	<u>10</u>	<u>-</u>	<u>10</u>
Pollution remediation liabilities	<u>\$ 1,186</u>	<u>\$ 4,018</u>	<u>\$ 5,204</u>

These estimates were developed based on existing site studies performed under the FDEP program. Management believes that these estimates are reasonable based on the information available as of June 30, 2011. However, the System's remediation efforts are halfway through the design stages and

estimates are subject to change based on new information obtained as the project progresses. Additionally, the System could potentially receive some funding from FDEP for the future pollution remediation; however, estimates are not available. The System has no other pollution remediation obligations for the fiscal years presented. The current and long-term portions of the liabilities are included in construction contracts and retainage payable and other long-term liabilities, respectively.

## **16. SUBSEQUENT EVENTS**

In July 2011, the State of Florida issued \$150.2 million State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2011A. The Series 2011A Bonds were issued to finance capital improvements to the System, refund a portion of the Turnpike Revenue Bonds, Series 2003C maturing in year 2014 – 2021 in the amount of \$47.6 million, and to pay costs of issuance.

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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 expenses 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 700 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 and 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.

**Pollution Remediation Program** — The System’s eight service plazas have groundwater and soil contamination related to fuel tank leakages. These sites were accepted into the Florida Department of Environmental Protection’s Early Detection Incentive Program in the late 1980’s, which provided funding for all pollution remediation efforts through fiscal year 2009. In fiscal year 2009, the System entered into an agreement with a new lessee for the operations of the service plazas. Under the new lease agreement, the System legally obligated itself to commence pollution remediation related to the fuel tank leakages as discussed in Note 15 to the financial statements. These expenses do not impact the infrastructure condition ratings.

**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.

<b>Condition Ratings for the System’s Infrastructure</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Percentage of pavement meeting Department standards	96 %	96 %	95 %
Percentage of bridges meeting Department standards	92 %	98 %	94 %
Overall routine maintenance rating	91	91	92

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

<b>Fiscal Year</b>	<b>Needed</b>	<b>Actual Resurfacing</b>	<b>Actual Bridge Repair and Replacement</b>	<b>Actual Pollution Remediation</b>	<b>Actual Routine Maintenance</b>	<b>Total Actual</b>	<b>Difference</b>
2011	\$ 84,588	\$ 35,116	\$ 416	\$(1,030)	\$ 40,789	\$ 75,291	\$ (9,297)
2010	84,692	49,717	287	-	38,909	88,913	4,221
2009	109,759	61,958	890	9,502	39,353	111,703	1,944
2008	139,689	99,000	3,726	-	41,044	143,770	4,081
2007	136,803	89,506	4,407	-	42,137	136,050	(753)

\*Note: The amounts listed above are totals for the resurfacing, bridge repair and replacement, pollution remediation, 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.