

**INDIANA EAST-WEST TOLL ROAD PROJECT**

**ANNUAL REPORT**

June 30, 2005 and 2004

INDIANA EAST-WEST TOLL ROAD PROJECT

Indianapolis, Indiana

ANNUAL REPORT

June 30, 2005 and 2004

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INDIANA EAST-WEST TOLL ROAD PROJECT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005

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This section of the Indiana East - West Toll Road Project financial report provides a discussion and analysis of financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the Report of Independent Auditors and the financial statements, which follow this section.

**Reporting Entity**

The Indiana East-West Toll Road Project (Toll Road Project) is the result of a lease agreement between the Indiana Transportation Finance Authority (ITFA) and the Indiana Department of Transportation (INDOT) to finance and operate the Indiana East-West Toll Road as defined in the lease agreement between the two parties.

The ITFA was reconstituted to the Indiana Finance Authority pursuant to law changes. This change is effective on July 1, 2005 and therefore these financial statements have been prepared in accordance to the legal and entity structure in effect at June 30, 2005.

The adoption of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* presented an opportunity to examine the organizational structure and reporting structure of the activities conducted within the agreement between ITFA and INDOT. As a result of that examination, the reporting entity for the Toll Road was reclassified from a component unit of the ITFA to a Project of the ITFA and INDOT. ITFA and INDOT have specified roles in the Project as outlined in the agreement. Based on the reclassification of the activities of the Toll Road Project, the accumulated excess of revenues over expenses defined in prior financial statements as net assets, are owned by ITFA. Therefore, the Toll Road Project Statement of Net Assets has a liability recorded for Assets held on behalf of ITFA. On an annual basis, any excess of revenues over expenses are reflected as a Transfer to assets held on behalf of ITFA.

**Financial Highlights**

- The change in net assets before Transfer to assets held on behalf of ITFA was approximately \$11.7 million.
- Toll revenue reached a historical high level of \$88.0 million in 2005, increasing from \$85.0 million in 2004.
- In 2005, investment revenue was \$2.8 million. Investment revenue increased for the first time since 2001 when it reached a high of \$10.2 million.
- Net cash of approximately \$28.4 million was generated from the operating activities of the Toll Road.

INDIANA EAST-WEST TOLL ROAD PROJECT  
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**Overview of the Financial Statements**

The Indiana Transportation Finance Authority (ITFA) has entered into a lease agreement with the Indiana Department of Transportation (INDOT), which requires INDOT to operate and maintain the Toll Road in an efficient and economical manner. INDOT is further required to manage and operate the Toll Road as a unit separate from any other district or division of INDOT. INDOT fulfilled this requirement by establishing the Toll Road District (District). The District has a fiduciary responsibility for the assets of the Toll Road Project. The District is responsible for ensuring that the assets reported in the financial statements are used for their intended purposes.

Statement of Net Assets: The Statement of Net Assets represents the financial position of the Toll Road Project, or the financial resources available to the Toll Road Project as well as the liabilities related to those resources, on the last day of the fiscal year. As noted in the reporting entity and financial highlights sections above, the Toll Road does not have net assets. Any excess of total assets over current liabilities and long-term debt is included in a liability called Assets held on behalf of ITFA.

The Statement of Net Assets details the financial resources that the Toll Road Project has to meet its operating needs as well as the liquidity of those resources. To assess the overall health of the District, additional factors should be considered, such as the breakdown between major revenue and expense components, the activities that provide liquid resources to the Toll Road Project, the condition of the Toll Road Project's bridges and roads, and how those figures compare from year to year.

Statement of Revenues, Expenses and Changes in Net Assets: This financial statement reflects the activities of the Toll Road Project from the first day of the fiscal year through the last day of the fiscal year. This statement reflects what revenues were generated and what expenses were incurred to generate those revenues. As noted in the reporting entity and financial highlights sections above, the excess of revenues over expenses, formerly known as net income is reflected as a Transfer to assets held on behalf of ITFA. Looked at over time, the change in the Assets held on behalf of ITFA is an indicator of whether the Toll Road Project's financial health is improving or deteriorating, respectively.

Statement of Cash Flows: The Statement of Cash Flows reflects the cash provided to the Toll Road Project from its activities: operating activities, investing activities and financing activities. The ability to generate net cash flow from operating activities is an indicator of financial health. The cash and cash equivalents at the end of the year represents the ability of the District to weather difficult economic times and to fund needed projects in future years. The District breaks cash and cash equivalents into restricted cash, which is cash and short-term investments set aside for future capital projects, transportation grants or bond payments; and unrestricted cash, which is cash and short-term investments that cover emergencies, operating cash requirements, or could be committed in the future to capital projects.

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INDIANA EAST-WEST TOLL ROAD PROJECT  
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The accompanying notes to financial statements provide additional information related to the activities of the Toll Road Project.

**Financial Analysis of the Toll Road Project**

Statement of Net Assets: The Statement of Net Assets details the total assets and total liabilities of the Toll Road Project. The majority of assets are held in cash and investments and capital assets. The majority of liabilities are held as bonds payable and assets held on behalf of the ITFA. (See Table 1)

The largest segment of capital assets is infrastructure (approximately \$184 million). With the adoption of GASB No. 34 in 2002, the District no longer capitalizes expenditures that are made for infrastructure renovations; therefore, the value of these capital assets will not change unless new infrastructure is created. During 2004, the Toll Road Project commenced a multi-year project to enlarge portions of the Road from two lanes to three lanes. This project creates new infrastructure and expenditures on this project, approximately \$13 million in 2005 and \$9 million in 2004, is capitalized as incurred.

Capital assets will fluctuate for expenditures for non-infrastructure property being depreciated, such as buildings, equipment and vehicles. In 2005, the Toll Road Project capitalized approximately \$1 million for property being depreciated. In addition, the Project capitalized approximately \$5.7 million for construction in progress on building and infrastructure projects.

As noted above, the Toll Road Project reflects the accumulated excess of revenues over expenses as a liability called Assets held on behalf of ITFA. This liability increased by approximately \$11.7 million during 2005 to a balance of \$242.9 million at June 30, 2005. A portion of the assets held on behalf of ITFA is restricted for construction, transportation improvement grants and debt service.

INDIANA EAST-WEST TOLL ROAD PROJECT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005

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Table 1  
Statement of Net Assets (in millions of dollars)

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 37.2	\$ 34.4
Investments	73.4	73.1
Restricted cash	59.9	78.8
Other assets	7.4	8.9
Capital assets	<u>279.6</u>	<u>259.3</u>
Total assets	<u>\$ 457.5</u>	<u>\$ 454.5</u>
<b>LIABILITIES AND NETASSETS</b>		
Operating liabilities	\$ 9.2	\$ 10.0
Liabilities payable from restricted assets	6.6	4.3
Current and long-term portion		
of revenue bonds payable	<u>198.7</u>	<u>209.0</u>
Total operating liabilities	214.5	223.3
Assets held on behalf of ITFA		
Invested in capital assets net of related debt	82.2	51.6
Restricted	143.9	164.1
Unrestricted	<u>16.9</u>	<u>15.5</u>
Total assets held on behalf of ITFA	<u>243.0</u>	<u>231.2</u>
Total liabilities	457.5	454.5
Net assets	-	-
Total liabilities and net assets	<u>\$ 457.5</u>	<u>\$ 454.5</u>

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INDIANA EAST-WEST TOLL ROAD PROJECT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005

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Statement of Revenues, Expenses and Changes in Net Assets: The statement of revenue, expenses and changes in net assets details the operating and non-operating revenues and expenses of the Toll Road Project (see Table 2). The change in net assets before the transfer to assets held on behalf of ITFA was approximately \$11.7 million.

Tolls are the largest source of revenue. For a second straight year, toll revenue was at a historical high level. In 2005, toll revenue was \$88 million, a \$3 million (3.5%) increase from the prior year. Concession revenue is received through rents from the restaurants and fuel providers that lease five pairs of travel plazas. Concession revenue is significant as it contributes approximately 7% of total operating revenue. Concession revenue was unchanged from 2004 to 2005 at approximately \$7 million.

Total operating expenses increased by approximately \$11.1 million. Operating expenses are divided into two main components. A substantial portion of operating costs is the required presentation of the costs to repair and renovate aging infrastructure. The Toll Road Project, under the modified approach to reporting infrastructure, is required to expense the cost of repairing and renovating infrastructure assets in lieu of depreciating these assets. These costs increased by approximately \$7.6 million (30.4%). The cost for major repairs and renovations has increased in conjunction with the multi-year project to enlarge parts of the Toll Road from two lanes to three lanes. Repair and renovation expenses to the existing infrastructure are expensed as they are incurred. Excluding the cost of repairing and renovating infrastructure assets, other operating expenses, approximately \$38.9 million and \$35.3 million for 2005 and 2004, respectively, increased by approximately \$3.6 or 10%. Increases in toll collection expense and road operations expense of approximately \$1.1 million and \$0.7 million respectively represents a significant portion of this increase.

As stated above, the change in major expense for repairs and renovations from 2004 to 2005 is significant. As repair and renovation projects vary from year to year, this component of expense will also vary. It is projected that the cost of infrastructure projects for 2005 will be approximately \$30.2 million.

INDIANA EAST-WEST TOLL ROAD PROJECT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005

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Table 2  
Changes in Net Assets (in millions of dollars)

	<u>2005</u>	<u>2004</u>
<b>Operating revenues</b>		
Tolls	\$ 88.0	\$ 85.0
Concession revenues	7.0	7.0
Other revenues	<u>.8</u>	<u>.7</u>
Total operating revenues	95.8	92.7
<b>Operating expenses</b>		
General operating expenses	35.2	32.2
Major expense for repairs and renovations	32.7	25.1
Depreciation expense	<u>3.6</u>	<u>3.1</u>
Total operating expenses	<u>71.5</u>	<u>60.4</u>
<b>Operating income</b>	24.3	32.3
<b>Other financing sources (uses)</b>		
Investment revenue	2.8	1.4
Interest expense	<u>(15.4)</u>	<u>(15.3)</u>
Total other financing sources (uses)	<u>(12.6)</u>	<u>(13.9)</u>
<b>Change in net assets before transfer to assets held on behalf of ITFA</b>	11.7	18.4
<b>Transfer to assets held on behalf of ITFA</b>	<u>(11.7)</u>	<u>(18.4)</u>
<b>Change in net assets</b>	-	-
<b>Net assets, beginning of year</b>	<u>-</u>	<u>-</u>
<b>Net assets, end of year</b>	<u>\$ -</u>	<u>\$ -</u>

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INDIANA EAST-WEST TOLL ROAD PROJECT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005

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**Analysis of Infrastructure Assets**

The State of Indiana's policy is that 85% of lane miles shall be rated in a good or better condition, and that less than 1% of bridges can be rated substandard. In 2005, 91% of the Toll Road Project's lane miles were rated in good or better condition. In 2005 100% of the Toll Road Project's bridges were rated in good or better condition, none were rated as substandard.

The condition of the Toll Road Project's infrastructure, primarily the roads and bridges, are a primary factor in determining the financial health of the Toll Road Project. Poorly maintained bridges and roads will deteriorate the customer base as some customers will divert their trips to parallel highways which can provide the customer a safe and smooth ride without paying a toll. Poorly maintained roads and bridges could be an indicator that the Toll Road Project is lax in providing proper maintenance or that there are insufficient revenues to support a proper maintenance program.

**Capital Assets**

At the end of fiscal 2005, the Toll Road Project had invested \$279.6 million, net of accumulated depreciation, in a broad range of capital assets, including roads, bridges, land, buildings and equipment. This was an increase of 7.8% over prior year. The increase was due primarily to construction in process of approximately \$5.7 million for new building projects and \$13.0 million for new infrastructure projects.

The Toll Road Project has approximately \$3.5 million of restricted cash and investments on hand to fund identified construction projects.

**Economic and Other Factors**

Commercial vehicle revenue increased for a second straight year and the percentage of revenue from commercial vehicles increased to over 60% of the total revenue of the Toll Road. Passenger car revenue dropped in 2005. The high cost of gasoline may be one cause of that decrease.

Toll Revenue (in millions of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Passenger revenue	\$ 34.6	\$ 35.3	\$ 34.8	\$ 34.8	\$ 32.7
Commercial revenue	\$ 53.3	\$ 49.6	\$ 47.2	\$ 47.5	\$ 49.2

INDIANA EAST-WEST TOLL ROAD PROJECT  
MANAGEMENT DISCUSSION AND ANALYSIS  
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In addition to the overall national economy, the Toll Road Project provides a transportation corridor for two major industries, the steel industry in Northwest Indiana and the recreational vehicle industry in North Central Indiana. As those industries expand or contract, Toll Road Project revenue is affected accordingly.

The Toll Road Project's proximity to Lake Michigan results in occasional severe winters with abnormally high snowfall. A severe winter will cause dramatic increases in operating expenses and decreases in toll revenue.

**Contacting the District's Financial Management**

This financial report is designed to provide citizens, customers, and investors with a general overview of the Toll Road Project's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Director, Indiana Toll Road District, P. O. Box 1, Granger, IN 46530.



Crowe Chizek and Company LLC  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

Indiana East-West Toll Road Project  
Indiana Department of Transportation – Toll Road District  
Indiana Transportation Finance Authority  
Indianapolis, Indiana

We have audited the statements of net assets of the Indiana East-West Toll Road (the Toll Road Project) as of June 30, 2005 and 2004, and the statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Toll Road Project's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Toll Road Project as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2005 on our consideration of the Toll Road Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 8 and the other required supplementary information on pages 30 through 31 are not a required part 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 the required supplementary information. However, we did not audit the information and express no opinion on it.

*Crowe Chizek and Company LLC*

Crowe Chizek and Company LLC

Indianapolis, Indiana  
September 27, 2005

INDIANA EAST-WEST TOLL ROAD PROJECT  
STATEMENTS OF NET ASSETS  
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 37,159,992	\$ 34,413,191
Investments (Note 3)	73,391,702	73,137,750
Accounts receivable	4,057,341	3,882,340
Inventories	1,367,727	2,153,534
Prepaid expenses	<u>715,825</u>	<u>1,475,622</u>
Total current assets	116,692,587	115,062,437
Noncurrent assets		
Restricted cash and investments	59,856,087	78,763,076
Property, buildings and equipment, net (Note 4)	279,621,240	259,250,907
Bond issuance costs, net	<u>1,299,718</u>	<u>1,422,030</u>
Total noncurrent assets	<u>340,777,045</u>	<u>339,436,013</u>
Total assets	<u>\$ 457,469,632</u>	<u>\$ 454,498,450</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 6,844,428	\$ 7,131,137
Accrued salaries and related expenses	<u>2,355,537</u>	<u>2,916,116</u>
	9,199,965	10,047,253
Liabilities payable from restricted assets:		
Accrued interest payable	6,643,143	4,255,042
Current portion of revenue bonds payable (Note 5)	<u>13,745,000</u>	<u>13,025,000</u>
Total current liabilities	29,588,108	27,327,295
Long-term portion of revenue bonds payable (net of discounts and deferred losses of \$5,824,059 and \$8,569,638 in 2005 and 2004) (Note 5)		
	<u>184,980,941</u>	<u>195,980,362</u>
Assets held on behalf of ITFA:		
Invested in capital assets, net of related debt	82,195,017	51,667,575
Restricted for future debt service	52,965,341	50,564,040
Restricted for transportation improvement	9,413,582	9,404,640
Restricted for construction	81,455,119	104,092,535
Unrestricted	<u>16,871,524</u>	<u>15,462,003</u>
	<u>242,900,583</u>	<u>231,190,793</u>
Total liabilities	457,469,632	454,498,450
Net assets		
	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 457,469,632</u>	<u>\$ 454,498,450</u>

See accompanying notes to financial statements.

INDIANA EAST-WEST TOLL ROAD PROJECT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Operating revenues</b>		
Tolls	\$ 87,980,003	\$ 85,038,569
Concession revenues (Note 6)	7,041,671	7,025,369
Other revenues	<u>790,799</u>	<u>597,551</u>
Total operating revenues	95,812,473	92,661,489
 <b>Operating expenses</b>		
General administration	2,677,796	2,341,410
Toll collection	14,311,011	13,182,569
Road operations	10,948,338	10,225,001
Administrative services	959,945	873,146
Patron services	99,731	103,156
Information services	2,603,548	2,166,765
Patrol services	3,688,216	3,346,552
Major expense repairs and renovations	32,670,611	25,051,743
Depreciation expense	<u>3,574,236</u>	<u>3,094,026</u>
Total operating expenses	<u>71,533,432</u>	<u>60,384,368</u>
 <b>Operating income</b>	 24,279,041	 32,277,121
 <b>Non-operating revenues (expenses)</b>		
Interest and bond amortization expense	(15,382,629)	(15,312,496)
Investment revenue	2,822,327	1,433,553
Gain (loss) on sale of fixed assets	<u>(8,949)</u>	<u>-</u>
	<u>(12,569,251)</u>	<u>(13,878,944)</u>
 <b>Change in net assets before transfer of assets held on behalf of ITFA</b>	 11,709,790	 18,398,177
 Transfer to assets held on behalf of ITFA	 <u>(11,709,790)</u>	 <u>(18,398,177)</u>
 <b>Change in net assets</b>	 -	 -
 <b>Net assets, beginning of year</b>	 <u>-</u>	 <u>-</u>
<b>Net assets, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

INDIANA EAST-WEST TOLL ROAD PROJECT  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities</b>		
Cash received from tolls	\$ 88,171,949	\$ 84,922,798
Cash received from concessionaires	7,465,523	7,646,722
Cash paid to employees for payroll and benefits	(25,267,365)	(22,685,583)
Cash paid to contractors, suppliers and other services	<u>(41,978,488)</u>	<u>(34,044,889)</u>
Net cash from operating activities	28,391,619	35,839,048
<b>Cash flows from investing activities</b>		
Sales (purchases) of investments	(280,165)	(8,337,986)
Proceeds from sale of investments	-	5,678
Investment income	<u>2,806,809</u>	<u>1,427,651</u>
Net cash from investing activities	2,526,644	(6,904,657)
<b>Cash flows from capital and related financing activities</b>		
Capital expenditures	(24,097,532)	(20,512,533)
Proceeds from sale of fixed assets	85,374	-
Principal payment on revenue bonds	(13,025,000)	(12,380,000)
Interest paid on revenue bonds	<u>(10,041,292)</u>	<u>(12,861,351)</u>
Net cash from capital and related financing activities	<u>(47,078,450)</u>	<u>(45,753,884)</u>
<b>Net change in cash and cash equivalents</b>	(16,160,187)	(16,819,493)
<b>Cash and cash equivalents at beginning of year</b>	<u>113,176,267</u>	<u>129,995,760</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 97,016,080</u>	<u>\$ 113,176,267</u>
<b>Reconciliation of cash flows from operating activities</b>		
Operating income	\$ 24,285,118	\$ 32,277,121
Adjustments to cash from operating activities:		
Depreciation	3,574,236	3,094,026
Loss (gain) on sale of fixed assets	8,949	-
Changes in assets and liabilities:		
Accounts receivable	(175,001)	(91,969)
Inventories	785,807	(109,749)
Prepaid expenses	759,797	(325,340)
Accounts payable	(286,708)	512,966
Accrued salaries and related expenses	<u>(560,579)</u>	<u>481,993</u>
Net cash from operating activities	<u>\$ 28,391,619</u>	<u>\$ 35,839,048</u>
<b>Cash and cash equivalents at end of year consist of:</b>		
Restricted cash	\$ 59,856,087	\$ 78,763,076
Unrestricted cash	<u>37,159,993</u>	<u>34,413,191</u>
	<u>\$ 97,016,080</u>	<u>\$ 113,176,267</u>

See accompanying notes to financial statements.

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity: The Indiana East-West Toll Road Project (Toll Road Project) is the result of an agreement between the Indiana Transportation Finance Authority (ITFA) and the Indiana Department of Transportation (INDOT) to finance and operate the Indiana East-West Toll Road as defined in a lease agreement between the two parties.

The lease agreement between ITFA and INDOT requires that an annual audit of the Toll Road Project shall be conducted and filed with ITFA, the Lease Trustee and Indenture Trustee. The accompanying financial statements report only on the financial activities associated with the Toll Road Project based on defined lease agreement terms. ITFA and INDOT are responsible for reporting their specific ownership interest and operating results in the lease agreement within their respective organization-wide financial statements reported under GASB 14.

ITFA: ITFA, created pursuant to Indiana Code 8-9.5, is the successor to the Indiana Toll Finance Authority, which was created in 1983. ITFA is a body both corporate and politic, and although separate from the state, the exercise by ITFA of its powers constitutes an essential governmental function. ITFA's duties under the statute include:

- Construction, reconstruction, improvement, maintenance, repair and operation of toll roads and toll bridges in the state, as a successor to the Indiana Toll Road Commission and the Indiana Toll Bridge Commission.
- In 1988, the Legislature granted ITFA the additional power to construct, acquire, reconstruct, improve and extend other Indiana highways, bridges, streets and roads.
- In 1991, the General Assembly authorized ITFA, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate.

Any bonds issued by ITFA are special and limited obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power, and any indebtedness incurred by ITFA does not constitute an indebtedness of the state within the meaning or application of any constitutional provision or limitation. ITFA does not hold any funds with regard to the Toll Road Project. A trustee holds all cash and investments and makes related transactions in the name of ITFA. All contracts are entered into and administered by INDOT on behalf of the ITFA.

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(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

INDOT: INDOT is a department of the State of Indiana whose mission is to provide customers the best transportation system that enhances mobility, stimulates economic growth, and integrates safety, efficiency and environmental sensitivity. INDOT has jurisdiction over state roads, interstate and US Routes within the State of Indiana.

INDOT is required to manage and operate the Toll Road Project as a unit separate from any other district or division of INDOT. INDOT fulfilled this requirement by establishing the Toll Road District (District). The District is responsible for the construction, maintenance, repair and operation of the Indiana Toll Road (I-80/90) projects within the State of Indiana. Primary operating activities include toll collections, road operation, administration, and toll road management. The District is also charged with formulating, developing and recommending a continuing long-range toll road plan and short-term improvement programs and communicating planning information to the public, interested agencies and organizations. The District has a fiduciary responsibility for the assets of the Toll Road Project. The District is responsible for ensuring that the assets reported in the financial statements are used for their intended purposes.

General Lease Terms of the Toll Road Project: ITFA has entered into a lease agreement with INDOT, which requires INDOT to operate and maintain the Toll Road Project in an efficient and economical manner. INDOT sets and collects tolls and other revenues from the Toll Road Project sufficient to meet the aggregate revenue demand requirement under the lease agreement, which is to provide for operating expenses, major expense fund requirement and payment of base rent to ITFA in an amount which, when added to net investment income on funds held under the Trust Indenture, will provide for payment of debt service on the Series 1985, 1987, 1993 and 1996 Bonds. The base rent will be subject to increase if there is an increase in debt service due to the issuance of additional bonds. After meeting the aggregate revenue demand requirement, any excess revenues collected by INDOT will be paid to ITFA as additional rent.

Revenues from Toll Road Project operations and amounts provided for major expenses and for the payment of rent to ITFA are deposited with the Lease Trustee and administered and disbursed under a lease trust agreement entered into by the ITFA, INDOT and the Lease Trustee. All other funds of the Toll Road Project are held and administered by the Indenture Trustee. The financial statements of the Toll Road Project include the financial condition and operations of the funds maintained by the Lease Trustee and the Indenture Trustee. All bond proceeds, revenues or other cash received must be disbursed for specific purposes in accordance with the trust agreements for the security of the holders of the revenue bonds issued.

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(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

Measurement Focus, Basis of Accounting and Financial Reporting: The accounting policies of the Toll Road Project conform to accounting principles generally accepted in the United States of America as applicable to governments. All of the activities are accounted for as a single proprietary fund for financial reporting purposes. These funds are used to account for activities (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Toll Road Project has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The Project has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Expenses: Operating expenses have been classified based on actual direct expenditures and indirect cost allocations based on actual time, expense, space used or benefit received.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

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(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

Operating and Non-operating Revenues and Expenses: Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents: Cash and cash equivalents include deposits in financial institutions and short-term investments with original maturities of 60 days or less. Cash and short-term investments at the balance sheet date were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Public Deposits Insurance Fund.

Restricted Cash and Investments: Cash and investments are restricted by ITFA and INDOT for revenue bond future debt service, transportation improvements and construction.

Trade Accounts Receivable: Operating revenues include income derived from tolls and concession leases. Some users of the Toll Road Project have credit accounts that are billed on a periodic basis. Management considers a reserve for losses on its accounts based on historic loss experience unnecessary. Losses are charged off to toll revenue when management deems further collection efforts will not produce additional recoveries.

Investments: Investments are recorded at market. Realized and unrealized gains and losses are included in the statements of activities.

Inventories: Inventories consist of maintenance materials and supplies, signs, salt and fuels, which are stated at the lower of cost (weighted average method) or market.

Property, Buildings and Equipment: The Toll Road Project adopted the modified approach for recording infrastructure under GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network (hereafter, eligible infrastructure assets) are not required to be depreciated. The Toll Road Project has an up-to-date inventory of eligible infrastructure and performs condition assessments of these assets annually. The condition assessment is disclosed as required supplemental information. All expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized when those additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

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(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

The Toll Road Project also capitalizes its buildings and equipment. These assets are recorded at cost. Major additions and improvements are capitalized and depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Bond Discount and Issuance Costs: Bond discount and issuance costs are being amortized using the interest method over the varying terms of the bonds issued.

Assets Held on Behalf of ITFA: This liability account represents the aggregate excess of revenues over expenses over the life of the Toll Road Project because ownership belongs to ITFA. The Toll Road Project amount has been designated into categories that ITFA and INDOT use to track and monitor the utilization of Toll Road Project funds. Some funds are designated by Indiana statute.

**NOTE 2 - OPERATION OF FUNDS**

Fund Accounting Basis of Presentation: The accounts of the Toll Road Project are organized on the basis of funds and account groups, each of which is considered a separate accounting entity.

The operations of each fund are accounted for with a separate set of self-balancing accounts. The Lease and Trust Indenture agreements establish the use of the following funds for the operation of the Toll Road Project:

Lease Revenue Fund: The lease revenue fund is used by the Lease Trustee to pay operating expenses and make transfers to the Indenture Trustee.

Major Expense Fund: The major expense fund is used by the Lease Trustee to pay for major repairs, renovations and equipment purchases.

The Indenture Trustee utilizes the following funds:

Revenue Fund: The revenue fund is a holding account for receipts from the Lease Trustee. The Indenture Trustee makes transfers to the debt service funds and general reserve funds.

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(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 2 - OPERATION OF FUNDS (Continued)**

Debt Service Fund: The debt service funds are used to make semi-annual interest payments and required principal payments. This fund is also used to build up resources set aside to make up potential future deficiencies in the current debt service account.

General Reserve Fund: The general reserve fund is used to deposit excess revenues to be used in connection with projects and debt service on the outstanding bonds.

Transportation Improvement Fund: The transportation improvement fund is used to pay off-road improvements or real estate developments on Toll Road Project property or to assist in paying the cost of transportation projects by INDOT and other public agencies.

Present Construction Fund: The present construction fund is used to pay costs of construction projects as approved by ITFA.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

**Cash**: The Toll Road maintains various demand deposit accounts according to the terms of the Lease and Trust Indenture agreements. The carrying amount of cash was \$4,133,067 at June 30, 2005, while the bank balances were \$5,000,258. All account balances at the bank were insured by the Federal Deposit Insurance Corporation (FDIC) for \$100,000.

**Investments**: The Trust Indenture authorizes ITFA to invest in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, commercial paper rated in the highest rating category, tax exempt securities, certificates of deposit, repurchase agreements secured by U.S. government securities, investment agreements with a qualified financial institution and any other obligation rated in one of the two highest rating categories by a rating agency. The following schedule reports the fair value and maturities for the Toll Road's investments at June 30, 2005.

Investment Type	Fair Value	Investment Maturities	
		Less Than One Year	One to Five Years
Money Market Investments	\$11,310,823	\$11,310,823	-
Mutual Funds	81,572,190	81,572,190	-
U.S. Government Obligations	58,602,176	53,650,614	4,951,562
U.S. Agency Bonds	14,789,526	14,789,526	-
Total	<u>\$166,274,715</u>	<u>\$161,323,153</u>	<u>\$4,951,562</u>

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Toll Road does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. To the extent possible, investments will be matched with anticipated cash flow requirements.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Toll Road does not have a formal policy that limits the credit quality of the investments except as dictated by the State Treasurer guidelines or trust indenture requirements. Other investments are United States government and agency obligations.

Investment Type	Fair Value	S&P	Fitch	Moody's
Money Market Investments	\$11,310,823	AAAm	Unrated	Aaa
Mutual Funds	81,572,190	AAAm	Unrated	Aaa
Total rated investments	<u>\$92,883,013</u>			

**Concentration of Credit Risk:** Concentration credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Toll Road places no limit on the amount that may be invested in any one issuer other than dictated by the trust indenture. The following investments each exceed 5% of the Toll Road's total investments.

Issuer	Fair Value	Percent of Investments
Bond Mutual Funds - First American Government Obligation Fund	81,572,190	49.1%
US Govt Obligations -FreddieMac	\$14,789,526	8.9%
Victory Federal Money Market	<u>11,310,823</u>	<u>6.8%</u>

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(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

**NOTE 4 - NET PROPERTY, BUILDINGS AND EQUIPMENT**

Property, buildings and equipment consist of the following at June 30, 2005 and 2004:

	July 1, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2005</u>
<b>Capital assets, not being depreciated</b>				
Infrastructure	\$ 184,066,274	\$ -	\$ -	\$ 184,066,274
Land and improvements	<u>28,219,328</u>	<u>4,442</u>	<u>-</u>	<u>28,223,770</u>
Total capital assets, not being depreciated	212,285,602	4,442	-	212,290,044
<b>Construction in process</b>	11,282,846	22,993,220	-	34,276,066
<b>Capital assets, being depreciated</b>				
Buildings and improvement	63,821,171	-	-	63,821,171
Vehicles	12,144,216	742,149	1,433,760	11,452,605
Toll collection equipment	11,114,679	-	36,793	11,077,886
Telecommunications equipment	4,652,095	-	10,276	4,641,819
Office equipment and miscellaneous equipment	<u>8,525,558</u>	<u>357,721</u>	<u>1,422,588</u>	<u>7,460,691</u>
	100,257,719	1,099,870	2,903,417	98,454,172
Less: Accumulated depreciation				
Buildings and improvement	38,825,264	1,212,237	-	40,037,501
Vehicles	8,678,907	969,000	1,182,257	8,465,650
Toll collection equipment	8,245,851	525,910	29,938	8,741,823
Telecommunications equipment	3,073,663	93,901	10,276	3,157,288
Office equipment and miscellaneous equipment	<u>5,751,575</u>	<u>528,730</u>	<u>1,283,525</u>	<u>4,996,780</u>
Total accumulated depreciation	<u>64,575,260</u>	<u>3,329,778</u>	<u>2,505,996</u>	<u>65,399,042</u>
Net capital assets, being depreciated	<u>35,682,459</u>	<u>2,229,908</u>	<u>397,421</u>	<u>33,055,130</u>
Total capital assets - net	<u>\$ 259,250,907</u>	<u>\$ 20,767,754</u>	<u>\$ 397,421</u>	<u>\$ 279,621,240</u>

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

**NOTE 4 - NET PROPERTY, BUILDINGS AND EQUIPMENT (Continued)**

	<u>July 1,</u> <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2004</u>
<b>Capital assets, not being depreciated</b>				
Infrastructure	\$ 179,834,872	\$ 4,231,402	\$ -	\$ 184,066,274
Land and improvements	<u>28,212,911</u>	<u>6,417</u>	<u>-</u>	<u>28,219,328</u>
Total capital assets, not being depreciated	208,047,783	4,237,819	-	212,285,602
<b>Construction in process</b>	3,447,246	7,835,600	-	11,282,846
<b>Capital assets, being depreciated</b>				
Buildings and improvements	58,607,663	5,213,508	-	63,821,171
Office equipment	3,097,473	841,366	-	3,938,839
Toll collection equipment	10,192,234	922,445	-	11,114,679
Telecommunications equipment	4,652,095	-	-	4,652,095
Vehicles and miscellaneous equipment	<u>15,269,141</u>	<u>1,461,794</u>	<u>-</u>	<u>16,730,935</u>
	91,818,606	8,439,113	-	100,257,719
Less: Accumulated depreciation for:				
Buildings and improvements	37,659,609	1,165,655	-	38,825,264
Office equipment	2,229,944	462,055	-	2,691,999
Toll collection equipment	7,719,941	525,910	-	8,245,851
Telecommunications equipment	2,979,762	93,901	-	3,073,663
Vehicles and miscellaneous equipment	<u>10,891,978</u>	<u>846,505</u>	<u>-</u>	<u>11,738,483</u>
Total accumulated depreciation	<u>61,481,234</u>	<u>3,094,026</u>	<u>-</u>	<u>64,575,260</u>
Net capital assets, being depreciated	<u>30,337,372</u>	<u>5,345,087</u>	<u>-</u>	<u>35,682,459</u>
Total capital assets - net	<u>\$ 241,832,401</u>	<u>\$ 17,418,506</u>	<u>\$ -</u>	<u>\$ 259,250,907</u>

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

**NOTE 5 - REVENUE BONDS PAYABLE**

Long-term liability activity for the year ended June 30, 2005 and 2004 was as follows:

	<u>July 1, 2004</u>	<u>Increases *</u>	<u>Reductions</u>	<u>June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Series 1985	\$ 26,200,000	\$ -	\$ -	\$ 26,200,000	\$ -
Series 1987	43,191,361	77,346	-	43,268,707	-
Series 1993	17,980,687	-	8,714,750	9,265,937	10,535,000
Series 1996	121,633,314	-	1,642,017	119,991,297	3,210,000
	<u>\$ 209,005,362</u>	<u>\$ 77,346</u>	<u>\$ 10,356,767</u>	<u>\$ 198,725,941</u>	<u>\$ 13,745,000</u>

	<u>July 1, 2003</u>	<u>Increases *</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Amounts Due Within One Year</u>
Series 1985	\$ 26,200,000	\$ -	\$ -	\$ 26,200,000	\$ -
Series 1987	43,114,015	77,346	-	43,191,361	-
Series 1993	26,200,438	-	8,219,751	17,980,687	10,010,000
Series 1996	123,224,030	-	1,590,716	121,633,314	3,015,000
	<u>\$ 218,738,483</u>	<u>\$ 77,346</u>	<u>\$ 9,810,467</u>	<u>\$ 209,005,362</u>	<u>\$ 13,025,000</u>

Summary of Long-Term Debt:

	<u>Interest Rates Range</u>	<u>Maturity Range</u>	<u>Annual Payment Range</u>	<u>2004 Amount</u>	<u>2005 Amount</u>
Long-Term Debt	3.9%-9.5%	2005-2016	\$ 13,745,000 26,200,000	<u>\$ 209,005,362</u>	<u>\$ 198,725,941</u>

\* Amortization of original bond discount.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2005 and 2004

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**NOTE 5 - REVENUE BONDS PAYABLE (Continued)**

Debt Service Requirements to Maturity (Revenue Bonds, Notes Payable and Other):

<u>Year ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 13,745,000	\$ 11,335,982	\$ 25,080,982
2007	14,505,000	10,457,363	24,962,363
2008	15,390,000	9,485,775	24,875,775
2009	16,330,000	8,546,731	24,876,731
2010	17,130,000	7,647,494	24,777,494
2011-2015	101,250,000	22,492,163	123,742,163
2016	<u>26,200,000</u>	<u>786,000</u>	<u>26,986,000</u>
	<u>\$ 204,550,000</u>	<u>\$ 70,751,508</u>	<u>\$ 275,301,508</u>

Interest payments on the Series 1985, 1987, 1993 and 1996 bonds are due semi-annually on January 1 and July 1.

Series 1985 Bonds: During September 1985, ITFA issued \$256,970,000 of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 (Series 1985 Bonds), for the refunding of the outstanding portion of the \$259,500,000 Indiana Toll Road Commission East-West Toll Road Revenue Bonds, 1980 Series (Series 1980 Bonds). The Series 1985 Bonds are secured by the renewable lease between the ITFA and INDOT.

The Series 1980 Bonds are not reported as a debt of ITFA since repayment of principal and interest will be from escrowed funds and earnings. At June 30, 2005 and 2004, the principal amount of the Series 1980 Bonds outstanding, which have been defeased in substance, total \$107,965,000.

Series 1993 Bonds: During October 1993, ITFA issued \$76,075,000 of Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1993 (Series 1993 Bonds) to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1985. The Series 1993 Bonds are secured by the renewable lease between ITFA and INDOT.

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(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 5 - REVENUE BONDS PAYABLE (Continued)**

As a result, the refunded portion of the Series 1985 Bonds are not reported as a debt of the ITFA since repayment of principal and interest will be from escrowed funds and earnings. The advance refunding of the Series 1985 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14,217,496. This difference is being charged to interest expense in the amount of \$1,210,000 through the year 2005 using the straight-line method. Accordingly, \$1,210,000 for the periods ended June 30, 2005 and 2004 has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$9,562,692 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$7,144,850.

Series 1996 Bonds: During October 1996, ITFA issued \$134,795,000 of Indiana Transportation Finance Authority Toll Road Lease Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds), to refund a portion of the Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987. Proceeds from the sale of the Series 1996 Bonds were used to purchase assets placed in an irrevocable trust that will be used to pay principal and interest on the Series 1987 Bonds when due. The Series 1996 Bonds are secured by the renewable lease between ITFA and INDOT.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15,496,599. The difference is being charged to interest expense in the amount of \$1,285,130 and \$1,186,431 for the years ended June 30, 2005 and 2004, respectively, using the effective interest rate method over the life of the bond. Accordingly \$3,236,721 and \$4,521,852 for the years ended June 30, 2005 and 2004 has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$8,076,281 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,721,698.

At June 30, 2005 and 2004, the ITFA was in compliance with all material requirements and restrictions contained in the Trust Indentures.

**NOTE 6 - CONCESSION REVENUES**

Concession revenues arise from lease contracts entered into with vendors for the operation of the restaurants and motor fuel vending service stations on the Toll Road Project. The operators pay rentals based on a percentage of gross revenues or guaranteed rent, as defined in the respective contracts.

**NOTE 6 - CONCESSION REVENUES (continued)**

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INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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Future minimum rent payments from concessionaires are as follows:

Year ending June 30,

2006	\$6,658,953
2007	6,858,722
2008	7,064,483
2009	7,276,418
2010	7,494,711
Thereafter	<u>40,984,150</u>
Total future minimum receipts	<u>\$76,337,437</u>

**NOTE 7 - EMPLOYEE PENSION PLAN - PUBLIC EMPLOYEES' RETIREMENT FUND**

Plan Description and Provisions: INDOT, on behalf of the District employees, contributes to the Public Employees' Retirement Fund (PERF), an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana. Payroll for employees covered by the plan for the year ended June 30, 2005 and 2004 was \$13,781,935 and \$13,629,472. The total payroll for the same period was \$17,951,969 and \$16,696,679.

All full-time District employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give INDOT the right to contribute and govern most requirements of the system, including the benefits that vest after ten years of service. Employees who have reached sixty years of age may receive retirement benefits with fifteen years of service. An employee may receive benefits at age sixty-five with ten years of service.

Employees are required to contribute 3% of compensation to an annuity savings account. Legislation permits a PERF employer to make the employee contributions on behalf of the employee. INDOT has elected to pay their employees' 3% contribution as a part of a wage adjustment. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

Since employees may receive a refund of this savings account, and the employer financed pension is not affected by it, the corresponding information for the savings account is not included in the determination of the pension benefit obligation or related funding and has not been included in the following presentations.

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 7 - EMPLOYEE PENSION PLAN - PUBLIC EMPLOYEES' RETIREMENT FUND**  
(continued)

All assets of the plan are held and invested by PERF. Investments are mainly in obligations of the U.S. Government, federal agencies, and corporate bonds.

Funding Policy: PERF's funding policy provides for actuarially determined periodic contributions at rates that for individual employers increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the District employee group as a whole has tended to remain level as a percentage of annual covered payroll. The entry age normal cost method is used to determine the contribution requirements and the actuarial accrued liability.

The annual contribution to PERF is determined as part of the July 1, 2003 actuarial valuation and consists of the amortization of the unfunded actuarial accrued liability (expressed as a level dollar amount), plus the entry age normal cost (expressed as a percentage of total payroll).

The actuarial assumptions include (a) 7.25% investment rate of return, (b) projected salary increases of 5% per year, and (c) 2% per year cost-of-living adjustments. The amortization of the unfunded actuarial accrued liability is the level dollar payment necessary to amortize the unfunded actuarial accrued liability. The initial liability is being amortized over a forty-year period; subsequent changes in liability are being amortized forty years from the date of change, with the exception that changes in liabilities due to cost of living adjustments are being amortized over fifteen years. The entry age normal cost is determined on an individual basis and then increased proportionally to account for PERF operational expenses.

**Schedule of Employer Contributions**  
(In thousands of dollars)

Valuation Date	Annual Required Contributions	Actual Employer Contributions	Net Pension Obligation	Net Percentage Contributed
7/1/04	\$ 686.9	\$ 680.4	\$ (736.6)	99%
7/1/03	\$ 687.6	\$ 618.4	\$ (743.1)	89%
7/1/02	\$ 517.4	\$ 669.1	\$ (812.3)	129%

The contributions to PERF were in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2003. The contribution consisted entirely of normal cost (5.0% of current covered payroll for 2004 and 2003). INDOT made all contributions for the plan.

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**NOTE 7 - EMPLOYEE PENSION PLAN - PUBLIC EMPLOYEES' RETIREMENT FUND**

INDIANA EAST-WEST TOLL ROAD PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2005 and 2004

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(continued)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Historical funding information of the system may be found in the Annual Report of the Indiana Public Employees' Retirement Fund.

**Schedule of Funding Progress of Toll Road Project's Participation  
 in the Public Employees Retirement Fund (PERF)  
 (In thousands of dollars)**

Actuarial Valuation <u>Date</u>	Non retired Valuation <u>Assets</u>	Actuarial Accrued <u>Liability AAL</u>	Excess of Assets Over (Unfunded) <u>AAL</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	Unfunded liability as a Percentage <u>of Payroll</u>
7/1/04	\$ 16,622	\$ 16,412	\$ 210	101.0%	\$ 13,465	0%
7/1/03	\$ 16,284	\$ 14,570	\$ 1,714	112.0%	\$ 12,848	0%
7/1/02	\$ 16,622	\$ 16,412	\$ 210	101.0%	\$ 13,465	0%

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and assets in excess of the pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether INDOT's participation in PERF is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in assets in excess of the pension benefit obligation and annual covered payroll are both affected by inflation.

Expressing the assets in excess of the pension benefit obligation as a percentage of annual covered payroll approximately adjusts for effects of inflation and aids analysis of the Toll Road Project's progress made in accumulating sufficient assets to pay benefits when due. Generally, the larger this percentage the stronger the plan.

Certain ten-year historical trend information relative to the defined benefit plan as required by Governmental Accounting Standards Board Statement No. 5 is available for the multi-employer plan in the PERF report.

INDIANA EAST-WEST TOLL ROAD PROJECT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

At June 30, 2005 and 2004, the Toll Road Project had contractual commitments for various Major Expense Fund projects, primarily the purchase of property, plant and equipment, aggregating to \$10 million and \$16 million, respectively.

The Toll Road Project periodically makes Transportation Improvement Fund (TIF) grants to various cities and counties adjoining the Toll Road Project. At June 30, 2005 and 2004, TIF grants to fund projects that have not yet been expended totaled \$9,560,000.

The nature of the Toll Road Project's operations sometimes subjects the Toll Road Project to litigation resulting from concession activities and traffic accidents for which the General Counsel for the Toll Road Project is of the opinion that ultimate settlement of such claims in excess of insurance coverage will not result in a material adverse effect on the Toll Road Project's financial statements as of June 30, 2005 and 2004.

**NOTE 9 - SUBSEQUENT EVENT**

Indiana Transportation Finance Authority was reconstituted effective July 1, 2005 to the Indiana Finance Authority ("Finance Authority") was reconstituted pursuant to amendments made to Indiana Code 4-4-11 et seq., the WSRF Act, and the DWSRF pursuant to Public Law 235-2005 as enacted by the Indiana General Assembly in 2005 ("PL 235"). Pursuant to PL 235, the Finance Authority became the successor to the State, acting through the State Budget Agency and the Department of Environmental Management, for the purpose of holding, administering and managing and financing the various programs of the Indiana Transportation Finance Authority, the Indiana Development Finance Authority and others financing authorities. As a result of PL 235, the responsibility for the Toll Road has been consolidated into one entity, the Finance Authority. The Financial Statements reflect the legal and entity structure as in effect prior to the effective date of PL 235.

**NOTE 10 - RISK MANAGEMENT**

The Toll Road is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to the Toll Road's employees. The Toll Road maintains commercial insurance for its general liability, property and casualty, workers' compensation and all-risk coverage's. The policies are subject to various deductibles. For all programs, there has been no significant reduction in insurance coverage from coverage in the prior year. Insurance settlements have not exceeded insurance coverage for each of the past three fiscal years.

**REQUIRED SUPPLEMENTAL INFORMATION**

INDIANA EAST-WEST TOLL ROAD PROJECT  
 REQUIRED SUPPLEMENTAL INFORMATION  
 June 30, 2005

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**CONDITION RATING OF THE TOLL ROAD PROJECT'S HIGHWAYS AND BRIDGES**

**Roads**

	<u>Percentage of Lane Miles in Good or Better Condition</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interstate Roads	91%	96%	92%

	<u>Percentage of Lane Miles in Substandard Condition</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interstate Roads	0.6%	-0-%	-0-%

The condition of road pavement is measured using a pavement quality index (PQI), which is based on a weighted average of six distress factors found in pavement surfaces. The PQI uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good or better condition (70-100), fair condition (50-69), substandard condition (less than 50). It is the State's policy to maintain at least 85% of its road system at a good or better condition level. No more than 10% should be in substandard condition. Condition assessments are determined every year.

**Bridges**

	<u>Percentage of Bridges in Good or Better Condition</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interstate Bridges	100%	100%	100%

	<u>Percentage of Bridges in Substandard Condition</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interstate Bridges	-0-%	-0-%	-0-%

The condition of the State's bridges is determined using its Bridge Management and Inspection Program (BMIP). The bridge condition rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical condition scale ranging from 1.0 (impaired or load restricted) to a 7.0 (new). It is the State's policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1%. All bridges are inspected every two years.

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INDIANA EAST-WEST TOLL ROAD PROJECT  
REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2005

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**BREAKDOWN OF REVENUES**

Program revenues	
Charges for services	\$ 95,812,473
General revenues	
Investment revenues	<u>2,822,327</u>
Total operating and non-operating revenues	<u>\$ 98,634,800</u>



Crowe Chizek and Company LLC  
Member Horwath International

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Indiana East-West Toll Road Project  
Indiana Department of Transportation – Toll Road District  
Indiana Transportation Finance Authority  
Indianapolis, Indiana

We have audited the financial statements of Indiana East – West Toll Road Project (the Toll Road Project) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Toll Road Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We performed tests of the money received by INDOT, ITFA, the Indenture Trustee, and the Lease Trustee to determine if they have been applied in accordance with the provisions of this Lease, the Lease Trustee Agreement, and the Indenture. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Toll Road Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the ITFA, INDOT, Indiana State Board of Accounts, and the Toll Road Project's management and is not intended to be and should not be used by anyone other than these specified parties.

*Crowe Chizek and Company LLC*  
Crowe Chizek and Company LLC

Indianapolis, Indiana  
September 27, 2005

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