STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2013

ANNUAL
FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2013

Prepared by the State of New Hampshire
Department of Transportation
Division of Finance

Leonard L. Russell, CPA, Financial Reporting Administrator
Marie Mullen, Administrator III
Mary Ellen Emmerling, CPA, CCM, Financial Analyst
Margaret S. Blacker, Turnpikes Business Administrator
Elizabeth A. Yanco, Accountant IV

This document and related information can be accessed at http://webster.state.nh.us/dot/media/publications.htm

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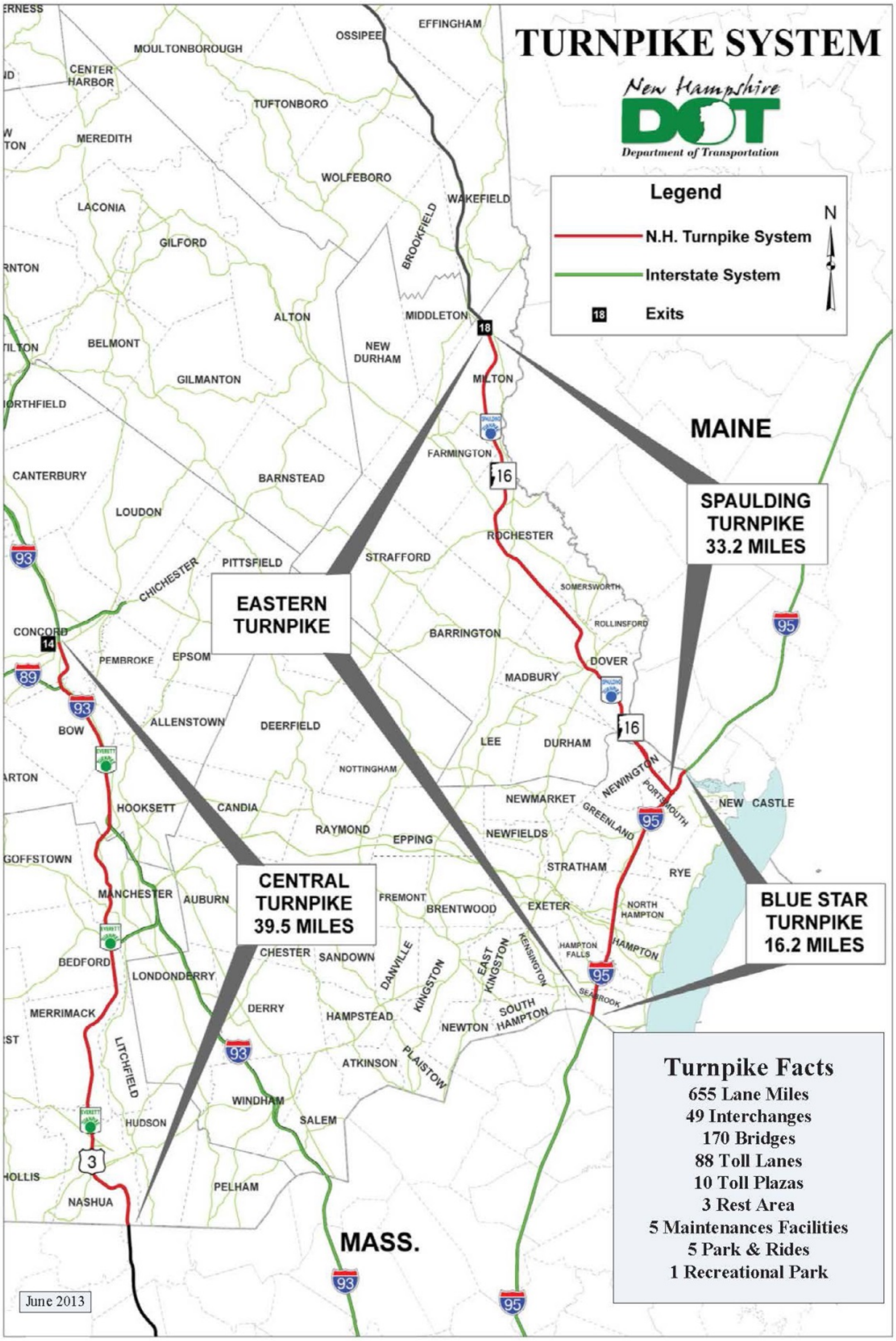
INTRODUCTORY SECTION
(Unaudited)

This section includes the Turnpike System map; a letter addressed to the citizens, the Governor of the State of New Hampshire, and the Honorable Council, and an organizational listing of the principal officials.


TURNPIKE SYSTEM
New Hampshire
DOT
Department of Transportation
Legend
N.H. Turnpike System
Interstate System
Exits
N
MAINE
MASS.
SPAULDING
TURNPIKE
33.2 MILES
EASTERN
TURNPIKE
CENTRAL
TURNPIKE
39.5 MILES
BLUE STAR
TURNPIKE
16.2 MILES
Turnpike Facts
655 Lane Miles
49 Interchanges
170 Bridges
88 Toll Lanes
10 Toll Plazas
3 Rest Area
5 Maintenances Facilities
5 Park & Rides
1 Recreational Park
June 2013

STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION

CHRISTOPHER D. CLEMENT, SR.
COMMISSIONER

JEFF BRILLHART, P.E.
ASSISTANT COMMISSIONER

December 20, 2013

To: The Citizens of New Hampshire,

Her Excellency the Governor, and the Honorable Council,

We are pleased to submit the Annual Financial Report of the New Hampshire Department of Transportation Turnpike System for the fiscal year ended June 30, 2013.

The Department of Transportation, Division of Finance, prepared this report. Responsibility for both the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Department. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Turnpike System. All disclosures necessary to enable the reader to gain an understanding of the Turnpike System's financial activities have been included.

The Turnpike System, General Description

The Turnpike System, as shown on the map in the Introductory Section, presently consists of 89 miles of limited access highway, 36 miles of which are part of the U.S. Interstate Highway System. The Turnpike System comprises a total of approximately 655 total lane miles, 170 bridges, 49 interchanges, and 24 facilities. Since beginning operations in 1950, the Turnpike System has contributed to the development of the New Hampshire economy. It has also been a major factor in the growth of the tourist industry in the State. The Turnpike System consists of three limited access highways: the Blue Star Turnpike (I-95) and the Spaulding Turnpike, (which are collectively referred to as the Eastern Turnpike), and the Central Turnpike. The Turnpike System primarily serves the major cities located in the central and eastern sections of southern New Hampshire.

For further information, news, and on-line publications, please visit us at our website http://www.nh.gov/dot.

Respectfully submitted,

Christopher D. Clement, Sr.
Commissioner

ORGANIZATIONAL LISTING

STATE OF NEW HAMPSHIRE

Governor
Margaret Wood Hassan
Executive Council
Raymond S. Burton
Colin Van Ostern
Christopher T. Sununu
Christopher C. Pappas
Debora B. Pignatelli

State Treasurer
Catherine A. Provencher

Secretary of State
William M. Gardner

Attorney General
Joseph Foster

NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION

Commissioner
Christopher D. Clement, Sr.

Assistant Commissioner
David J. Brillhart, P.E.

Deputy Commissioner
Michael P. Pillsbury, P.E.

Director of Operations
William P. Janelle, P.E.

Director of Finance
Patrick K. McKenna

Financial Reporting Administrator
Leonard L. Russell, CPA

Turnpike System Administrator
Christopher M. Waszczuk, P.E.

Turnpike System Assistant Administrators
John W. Corcoran, P.E. and David S. Smith, P.E.

Business Administrator
Margaret S. Blacker

Maintenance Superintendent
Dix E. Bailey

Project Manager
Nasser Yari, P.E.

FINANCIAL SECTION

This section includes the independent auditor's report, the financial statements as of and for the fiscal year ended June 30, 2013, and the accompanying notes to the financial statements.

JEFFRY A. PATTISON
Legislative Budget Assistant
(603) 271-3161

MICHAEL W. KANE, MPA
Deputy Legislative Budget Assistant
(603) 271-3161

State of New Hampshire

OFFICE OF LEGISLATIVE BUDGET ASSISTANT
State House, Room 102
Concord, New Hampshire 03301

RICHARD J. MAHONEY, CPA
Director, Audit Division
(603) 271-2785

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report On The Financial Statements

We have audited the accompanying financial statements of the State of New Hampshire's Turnpike System which comprise the Statement of Net Position as of June 30, 2013, and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility For The Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

TDD Access: Relay NH 1-800-735-2964

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Turnpike System as of June 30, 2013, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

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

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the Turnpike System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Turnpike System's internal control over financial reporting and compliance.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

December 20, 2013

BASIC FINANCIAL STATEMENTS

STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION - TURNPIKE SYSTEM
STATEMENT OF NET POSITION
For the Fiscal Year Ended June 30, 2013
(Amounts in thousands)

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 59,605
Cash and Cash Equivalents – Restricted	73,047
Investments - Restricted	18,734
Accounts Receivable	5,955
Due from Other Funds	1
Inventories	1,544
Total Current Assets	158,886
Non-current Assets:	
Deferred Bond Issue Costs	2,158
Capital Assets:	
Land	113,692
Buildings	6,715
Equipment and Computer Software	44,151
Construction in Progress	152,542
Infrastructure	851,117
Less: Accumulated Depreciation	(310,286)
Net Capital Assets	857,931
Total Non-current Assets	860,089
Total Assets	1,018,975
LIABILITIES	
Current Liabilities:	
Accounts Payable	11,158
Accrued Payroll	479
Due to Other Funds	594
Deferred Revenue	11,153
Revenue Bonds Payable	17,605
Note Payable to State Highway Fund	4,814
Accrued Interest Payable	6,216
Claims and Compensated Absences Payable	805
Other Liabilities	115
Total Current Liabilities	52,939
Non-current Liabilities:	
Revenue Bonds Payable (Net of Unamortized Premium)	425,022
Note Payable to State Highway Fund	23,385
Claims and Compensated Absences Payable	2,524
Other Non-current Liabilities	2,674
Total Non-current Liabilities	453,605
Total Liabilities	506,544
NET POSITION	
Net Investment in Capital Assets	423,161
Restricted for Debt Repayments	52,720
Restricted for Uninsured Risks	3,005
Unrestricted	33,545
Total Net Position	$ 512,431

See accompanying notes to financial statements.

STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION - TURNPIKE SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013
(Amounts in thousands)

OPERATING REVENUES	
Toll Revenue - Cash	$ 38,876
Toll Revenue - E-ZPass	76,686
Other Toll Operating Revenue	1,619
Transponder Revenue	494
Federal Revenue	144
Total Operating Revenues	117,819
OPERATING EXPENSES	
Personnel Services	10,016
Payroll Benefits	6,596
Enforcement	5,539
Renewal & Replacement	6,368
Supplies, Materials and Other	3,051
Equipment and Repairs	4,608
Indirect Costs	2,729
Heat, Light and Power	1,275
Bank and Credit Card Fees	2,101
Rentals	776
E-ZPass Processing Fees	5,010
Transponder Expense	512
Depreciation and Amortization	21,491
Total Operating Expenses	70,072
Operating Income	47,747
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	98
Miscellaneous Income	3,195
Interest on Bonds and Note	(17,575)
Amortization on Bond Issuance Costs	(472)
Total Non-operating Revenues (Expenses)	(14,754)
Change in Net Position Before Capital Contributions	32,993
Capital Contributions	9,930
Change in Net Position	42,923
Net Position - July 1	469,508
Net Position - June 30	$ 512,431

See accompanying notes to financial statements.

STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION - TURNPIKE SYSTEM
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013
(Amounts in thousands)

Cash Flows from Operating Activities	
Receipts from Customers	$ 118,523
Payments to Employees	(16,516)
Payments to Suppliers	(35,800)
Net Cash Provided by Operating Activities	66,207
Cash Flows from Capital and Related Financing Activities	
Acquisition and Construction of Capital Assets	(75,593)
Interest Paid on Revenue Bonds and Note Payable	(22,313)
Principal Paid on Bonds	(19,460)
Principal Paid on Note Payable Due State Highway Fund	(24,262)
Gross Proceeds from Refunding	73,912
Paid to Refunding Agent	(73,376)
Gross Proceeds from Bond Issuance	119,196
Underwriters Discount	(666)
Costs of Issuances	(545)
Build America Bonds Subsidy Receipt	3,131
Net Cash Used for Capital and Related Financing Activities	(19,976)
Cash Flows from Investing Activities	
Proceeds from Sales and Maturities of Investments	38,885
Purchase of Investment	(58,284)
Investment Income	324
Net Cash Used by Investing Activities	(19,075)
Net Increase (Decrease) in Cash and Cash Equivalents	27,156
Cash and Cash Equivalents - July 1	105,496
Cash and Cash Equivalents - June 30	$ 132,652
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	$ 47,747
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	21,491
Costs of Issuances	545
Miscellaneous Income	109
Change in Operating Assets and Liabilities:	
Increase in Receivables	(502)
Increase in Inventories	(68)
Decrease in Accounts Payable and Other Accruals	(4,356)
Increase in Deferred Revenue	1,241
Net Cash Provided by Operating Activities	$ 66,207
Turnpike Non-Cash Capital and Related Financing Activities:	
Capital Contributions	$ 9,930
Federal Operating Contributions	$ 144

Above represents federal, private and local participating funding of Turnpike System construction and maintenance projects.

See accompanying notes to financial statements.

Table of Contents – Notes to the Financial Statements

Note 1) Summary of Significant Accounting Policies

The accompanying financial statements of the Turnpike System have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

(a) Financial Reporting Entity

The New Hampshire Turnpike System ("the Turnpike System") is a Bureau within the Division of Operations of the State of New Hampshire Department of Transportation. The Turnpike System is reported as an enterprise fund of the State of New Hampshire ("the State") and is included in the Comprehensive Annual Financial Report (CAFR) of the State. The Turnpike System itself has no component units included in its reporting entity. The Turnpike System constructs, maintains, and operates toll roads, including bridges over those roads and transaction facilities and issues revenue bonds, which are repaid from tolls and other revenues. State law New Hampshire Revised Statutes Annotated (RSA) 240, as amended, established a ten-year highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. State law RSA 237-A:2 authorized the issuance of $766.0 million of revenue bonds to fund these projects.

(b) Measurement Focus and Basis of Accounting

The accounting policies of the Turnpike System conform to GAAP as applicable to government enterprise funds and, as such, the activities of the Turnpike System are reported using the economic resources, measurement focus and accrual basis of accounting.

(c) Restricted Assets

The proceeds of the Turnpike System Revenue Bonds, as well as certain resources set aside for their repayment (Revenue Bond Debt Service Reserve, Bond Construction, Bond Construction (Investments Restricted), Principal Debt Service, Interest Debt Service, and Insurance Reserve) are classified as restricted assets on the Statement of Net Position because their use is limited by a bond resolution.

(d) Accounts Receivable

Receivables primarily consist of outstanding E-ZPass toll violation administrative fees and E-ZPass Reciprocity as detailed in the table below.

(Amounts in thousands)

Accounts Receivable	Amount
E-ZPass Violations	$ 806
E-ZPass Reciprocity	3,841
Interest Receivable	667
Cash in Transit-Toll Revenue	538
Damage Receivables	103
Total	**$ 5,955**

(e) Cash Equivalents

Cash equivalents represent short-term investments with maturity dates within three months of the date acquired and recorded at cost.

(f) Capital Assets

Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets purchased or constructed by other funding sources are recorded at cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets also include certain identified Renewal & Replacement (R&R) costs. Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets:

Asset	Thresholds	Depreciable Life	Annual Depreciation Rate
Infrastructure	All bridges and roads	50	2%
Buildings	>= $100,000	40	2.5%
Building Improvements & Land Improvements	>= $100,000	20	5%
Toll Equipment	>= $10,000	10	10%
Equipment	>= $10,000	5	20%
Computer Software (Amortized)	>= $500,000	5	20%

(g) Revenue Bond Discounts/Premiums and Issuance Costs

Revenue bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred costs.

(h) Compensated Absences

All full-time State employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, generally must be taken within one year. The State's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on years of service rendered along with the State's share of Social Security, and Medicare and retirement contributions. The current portion of the liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent that it is probable that the benefits will result in termination payments rather than be taken as absences due to illness.

(i) Net Position

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Turnpike System has prepared the Statement of Net Position to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. As of June 30, 2013, there were no deferred outflows of resources or deferred inflows of resources required to be reported as such on the Statement of Net Position.

The Invested in Capital Assets (Net of Related Debt) is a balance comprised of the capital assets (net of Accumulated Depreciation) less Bonds and Note Payable (net of amortized premium, discount and loss on refunding). Restricted for Debt Repayments are the Revenue Bond Interest, Principal, and Debt Service Reserve Accounts. Other restricted accounts include Restricted for Uninsured Risks. The Unrestricted Net Position is the remaining balance.

(j) Revenues and Expenses

Revenues and expenses are classified as operating or non-operating. Operating revenues and expenses generally result from toll collections, the sale of transponders, toll violation administrative fees, administration, depreciation, and turnpike maintenance. Generally, all other revenues and expenses are reported as non-operating. Non-operating revenue generally results from the interest on investments, rental income, sales of land and equipment and vending machine sales.

(k) E-ZPass Program

Upon enrolling in the E-ZPass program, participants establish pre-paid toll accounts. These pre-paid toll receipts are collected by Xerox State and Local Solutions, Inc., (Xerox), formerly Affiliated Computer Services (ACS), on behalf of the Turnpike System and recorded by the Turnpike System as deferred revenue until the customer completes a toll transaction. Once this occurs, revenue is recorded and the customer's account is charged. Vehicle transponders, which serve to identify the vehicles passing through the toll plazas, are purchased by the Turnpike System and shipped to customers by Xerox. The sale price a customer is charged for a transponder is the same approximate cost to the Turnpike System.

(l) Inventory

Inventories for materials and supplies are valued at cost. Included in the inventory amount are E-ZPass transponders. They are received and stored at the E-ZPass Customer Service Center, by Xerox, located in New Jersey and at walk-in E-ZPass Service Centers located in New Hampshire.

(m) Capital Contributions

The Turnpike System receives Federal Highway Administration (FHWA) grants through the State's Highway Fund for capital improvements, exclusive of R&R expenses. These are classified as Capital Contributions. Of the $9.9 million reported for capital contributions, $7.4 million was utilized towards the development and installation of a communications infrastructure including deployment of Intelligent Transportation System (ITS) along the I-95 and Spaulding Turnpike. Additional funds were provided by municipalities and private developers.

(n) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2) Cash and Cash Equivalents and Investments

Deposits: The following statutory requirements and State Treasury policies have been adopted to minimize risk associated with deposits:

- State law RSA 6:7 established the policy the State Treasurer must adhere to when depositing public monies.
- Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

General Reserve Account: Approximately $32.5 million of Cash and Cash Equivalents at June 30, 2013 is in a General Reserve Account intended to be used for capital construction projects and the I-95 Note Payable to the State Highway Fund.

Custodial Credit Risk: The custodial risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the State Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk. All commercial paper must be from issuers having an A1/P1 rating or better and an AA- or better long-term debt rating from one or more of the nationally recognized rating agencies. Certificates of deposits must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

As of June 30, 2013, the Turnpike System's bank balances exposed to custodial credit risk for cash and cash equivalents is as follows:

(Amounts in thousands)

Type	Collateralized and Held in State's Name	Uncollateralized	Federal Deposit Insurance Fund	Total
Demand Deposits	$ 27,498	$ 64,368	$ 250	$ 92,116
Money Market	32,480	0	0	32,480
Certificates of Deposits	3,005	0	0	3,005
Total	**$ 62,983**	**$ 64,368**	**$ 250**	**$ 127,601**

Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act provided temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all Federal Deposit Insurance Corporation-insured depository institutions. This special temporary unlimited coverage expired on January 1, 2013. As a result, beginning on January 1, 2013, all deposits at an insured depository institution were and continue to be insured by the FDIC up to the standard maximum insurance of $250,000 for each deposit insurance ownership category.

Whereas all payments made to the State are to be in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

Investments: Investments are reported at fair value. The State Treasury Department has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in statute (RSA 6:8, 387:6, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments will be denominated in U.S. dollars. On June 30, 2013, the value of investments in US Government Agencies amounted to $24.4 million.

Debt Securities: The State invests in several types of debt securities including corporate and municipal bonds, securities issued by the US Treasury and Government Agencies, fixed income mutual funds and investment pools.

On June 30, 2013, all of the Turnpike System's investments were in U.S. Government Sponsored Enterprises (GSEs), with $18.7 million reported as investments and $5.7 million reported as cash equivalents.

Concentration risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At June 30, 2013, the Turnpike System's investments and concentrations were as follows: Federal Home Loan Bank (60%), Federal Home Loan Mortgage Corporation, also known as Freddie Mac (32%), and Federal National Mortgage Association, also known as Fannie Mae (8%).

Credit risk is the risk that the issuer or other counter-party will not fulfill its obligations. The State invests in grade securities which are defined as those with a grade B or higher. Obligations of the U.S. Government or obligations backed by the U.S. Government are not considered to have credit risk. While obligations of GSEs have the implied backing of the U.S. Government, those obligations are not explicitly guaranteed and are exposed to potential credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the State's investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investments or weighted average maturity (WAM) of a group of investments. The WAM is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objectives and are defined in the investment guidelines associated with those funds. The WAM at June 30, 2013 for the Turnpike System's investments is 0.23 years.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments that are in the possession of an outside party. Open ended mutual funds and external pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form. The State's selection criteria are aimed at investing in only high quality institutions where default is extremely unlikely.

Note 3) Restricted Assets

The resolutions of the Turnpike System revenue bonds require the Turnpike System to maintain certain accounts (below). The Turnpike System deposits all revenues into a Turnpike System revenue account, which are then applied first to the payment of operating expenses and then to fund accounts required by the resolutions.

Restricted Assets at fair market value are segregated into the following accounts as of June 30, 2013:

(Amounts in thousands)

Restricted Cash, Cash Equivalents and Investment Accounts	Amount
Revenue Bond Debt Service Reserve Account	$ 38,827
Revenue Bond Cash Construction Account	17,322
Revenue Bond Cash Construction Account (Restricted Investment)	18,734
Revenue Bond Principal Debt Service Account	7,960
Revenue Bond Interest Debt Service Account	5,933
Revenue Bond Insurance Reserve Account	3,005
Total Restricted Assets	**$ 91,781**

The Revenue Bond Interest Debt Service Account and Revenue Bond Principal Debt Service Account are used to segregate resources accumulated for debt service payments on given maturity dates. See Note 8(c), Bonds-Debt Maturity. The Revenue Bond Debt Service Reserve Account is used to report resources set aside to make up potential future deficiencies in the Revenue Bond Interest Debt Service Account and Revenue Bond Principal Debt Service Account. The Revenue Bond Insurance Reserve Account is used to report the amount that is available to insure against risks that would not otherwise be covered by policies of insurance. In addition to the above accounts, a Revenue Bond Special Redemption Account would be used to report any monies not otherwise required by the bond resolution to be deposited or applied, including excess proceeds after the completion of a project. A Revenue Bond Rebate Account also would be used to report any excess of interest earned on non-purpose investments (as defined in section 148 of the Internal Revenue Code of 1986, as amended). There were no balances in these accounts as of June 30, 2013.

JP Morgan Chase Bank, N.A., pursuant to a 1995 Debt Service Forward Supply Agreement as amended, which expires April 1, 2020, owns the exclusive right, to deliver eligible securities as an investment of a portion of the monthly deposits to the Revenue Bond Interest Debt Service Account and Revenue Bond Principal Debt Service Account.

Note 4) Capital Assets

Capital Asset activity for the year ended June 30, 2013 was as follows:

(Amounts in thousands)

Type	Beginning Balance	Increases	Decreases	Transfers /Reclass	Ending Balance
Capital Assets not Being Depreciated:					
Land and Land Improvements	$ 112,519	$ 0	($348)	$ 1,521	$ 113,692
Construction in Progress	159,803	82,946	(198)	(90,009)	152,542
Total Capital Assets not Being Depreciated:	272,322	82,946	(546)	(88,488)	266,234
Other Capital Assets:					
Equipment and Computer Software	39,057	1,054	(939)	4,979	44,151
Buildings and Building Improvements	6,145	403	0	167	6,715
Infrastructure	764,384	0	(1,092)	87,825	851,117
Subtotal Other Capital Assets	809,586	1,457	(2,031)	92,971	901,983
Total Capital Assets	1,081,908	84,403	(2,577)	4,483	1,168,217
Less Accumulated Depreciation for:					
Equipment and Computer Software	(32,340)	(4,316)	939	0	(35,717)
Buildings and Building Improvements	(2,190)	(175)	0	0	(2,365)
Infrastructure	(256,300)	(17,124)	1,220	0	(272,204)
Total Accumulated Depreciation	(290,830)	(21,615)	2,159	0	(310,286)
Total Net Capital Assets	**$ 791,078**	**$ 62,788**	**($418)**	**$ 4,483**	**$ 857,931**

At June 30, 2013, the Turnpike System had contractual commitments for capital Turnpike System improvement projects of $70.3 million.

In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* interest is capitalized as part of the historical cost of acquiring certain qualifying assets. The amount of interest capitalized was calculated by using the weighted average interest rate of all outstanding revenue bonds. The weighted average interest rate for fiscal year 2013 was 3.57%. This rate was then applied to the average fiscal year 2013 balances of qualifying open construction in progress projects. In fiscal year 2013, interest expense that was capitalized amounted to $5.7 million.

Note 5) Inter-fund Activity

In fiscal year 2013, expenses were incurred due to work performed by other state agencies for the Turnpike System. Enforcement expenses of $5.5 million for services provided by the New Hampshire Department of Safety. Bridge maintenance, sign crew, pavement marking, engineering services, and mechanical services from the Department of Transportation Highway Bureau of $1.9 million, accounted for the majority of other inter-fund activity. Operations of the Seabrook Welcome Center and Hooksett Rest Areas performed by the New Hampshire Department of Resources & Economic Development amounted to $1.2 million (funding provided by the Turnpike Fund).

Note 6) Deferred Revenue

Deferred Revenue primarily consists of prepaid toll monies received from customers on their transponder accounts. Revenue is recognized when the customer uses the E-ZPass toll system on the turnpike. In fiscal year 2013, Deferred Revenue included $9.8 million in pre-paid tolls as well as $1.3 million of funds from municipalities and developers to support their share of construction improvements.

Note 7) Operating and Capital Leases

The Turnpike System had no significant operating or capital leases for fiscal year 2013.

Note 8) Non-current Liabilities

(a) Bonds Authorized and Un-issued

Bonds authorized and un-issued amounted to $102.5 million of revenue bonds at June 30, 2013. The Legislature has established a 10-year highway construction and reconstruction plan for the Turnpike System to be funded from Turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to $766.0 million of bonds to support this plan. As of June 30, 2013, the State had issued $663.5 million of revenue bonds for this plan.

Turnpike System Bond Ratings

Bond ratings assigned to the Turnpike System are as follows:

- Fitch Ratings ~ A+ (stable)
- Moody's Investors Service ~ A1 (stable)
- Standards & Poor's ~ A+ (stable)

Proceeds from the August 30, 2012 bond issuance are restricted to only fund costs on the following projects:

Central Turnpike

- Engineering and construction of an F.E. Everett Turnpike bridge over the Souhegan River in Merrimack (complete and open to traffic).
- Engineering, right-of-way acquisition, and construction of US Rte. 3 bridge over the F.E. Everett Turnpike in Bedford (complete and open to traffic).
- Engineering and rehabilitation of F.E. Everett Turnpike/I-93 bridges in Bow and Concord.
- Engineering and construction, specifically five bridges through the Millyard area of Manchester.

Spaulding Turnpike

- Engineering, right-of-way acquisition and construction in Rochester on the Spaulding Turnpike between Exits 11 through 16 with two additional lanes of travel added from Exit 12 to 16, totaling approximately 18 new lane miles (complete and open to traffic).
- Engineering and right-of-way acquisition in Newington and Dover on the Spaulding Turnpike including widening Little Bay Bridges and reconstructing Spaulding Turnpike in Newington.
- Construction of the Dover portion of the Spaulding Turnpike and rehabilitation of the General Sullivan Bridge in Dover.

Blue Star Turnpike

- Engineering and construction of the bridge on the Blue Star Turnpike carrying I-95 over the Taylor River in North Hampton and Hampton.
- Repair and improve bridge on Route 107 over I-95 in Seabrook.
- Construction of a sound wall on I-95 in Portsmouth (complete).

System-wide

- Implementation of Open Road Tolling at Hampton (complete and open to traffic), Hooksett (open to traffic) and Bedford.
- The planning and scheduling of projects for the Capital Improvement Program is a dynamic process with changing priorities, based in part on traffic growth, right-of-way acquisition needs, environmental constraints, and financial constraints. Such factors can also result in modification in cost schedules of particular projects in the Capital Improvement Plan.

(b) Changes in Non-current Liabilities

The following is a summary of the changes in liabilities for bonds, compensated absences, and uninsured claims during fiscal year 2013:

(Amounts in thousands)

Type	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Note Payable to State Highway Fund	$ 52,461	$ 0	($24,262)	$ 28,199	$ 4,814	$ 23,385
Claims and Compensated Absences Payable	3,114	678	(463)	3,329	805	2,524
Revenue Bonds	343,791	195,248	(96,412)	442,627	17,605	425,022
Other: Pollution Remediation	2,855	27	(93)	2,789	115	2,674
Total	**$ 402,221**	**$ 195,953**	**($121,230)**	**$ 476,944**	**$ 23,339**	**$ 453,605**

(c) Bonds - Debt Maturity

Bonds of the Turnpike System consist of revenue bonds (including ARRA Bonds). Interest rates on Turnpike System revenue bonds range from 3.0% to 6.3%. The annual maturities are as follows:

(Amounts in thousands)

Payable June 30,	Revenue Principal	Revenue Interest	Revenue Interest Rebate	Net Interest
2014	$ 17,605	$ 21,339	($3,131)	$ 18,208
2015	22,875	20,583	(3,131)	17,452
2016	19,455	19,521	(3,131)	16,390
2017	27,855	18,639	(3,131)	15,508
2018	15,615	17,297	(3,131)	14,166
2019 thru 2023	85,705	72,953	(15,500)	57,453
2024 thru 2028	70,520	51,933	(12,232)	39,701
2029 thru 2033	57,695	33,378	(7,271)	26,107
2034 thru 2038	60,020	18,786	(3,681)	15,105
2039 thru 2043	45,500	3,994	(350)	3,644
Subtotal	422,845	278,423	(54,689)	223,734
Un-amortized Premium	23,524	0	0	0
Un-amortized Loss on Refunding	(3,742)	0	0	0
Total	**$ 442,627**	**$ 278,423**	**($54,689)**	**$ 223,734**

(d) Revenue Bond Resolutions

All revenue bonds are secured by a pledge of substantially all Turnpike System revenues and monies deposited into accounts created by the bond resolutions, subject only to the payment of operating expenses.

The bond resolutions require the Turnpike System to establish and collect tolls which are adequate at all times, when combined with other available sources of revenues, to provide for the proper operation and maintenance of the Turnpike System and for the timely payment of the principal and interest on all bonds, notes, or other evidences of indebtedness.

The resolutions further require the Turnpike System to collect sufficient tolls so that in each fiscal year net revenues as defined by the resolutions will be at least equal to the greater of: (a) 120% of current year debt service on the revenue bonds, or (b) 100% of current year debt service on the revenue bonds and on all general obligation or other bonds, notes or other indebtedness, and the additional amount, if any, required to be paid from the revenue bond general reserve account to satisfy the Renewal & Replacement (R&R) requirement for the fiscal year.

The resolutions further require the Turnpike System to request payment from the Revenue Bond Construction Account and an Authorized Officer shall sign a written order and file the request with the State Treasurer.

The Turnpike System is required to review the adequacy of its tolls after each fiscal year. If this review indicates that the tolls and charges are, or will be, insufficient to meet the requirements described above, then the Independent Engineer of the Turnpike System will make a study and recommend a schedule of tolls and charges which will provide revenues sufficient to comply with the requirements described above. For fiscal year 2013, the toll rate schedule was deemed to be sufficient to meet all required payments in connection with the Turnpike System, and as such, no Independent Engineer's study was necessary.

The resolutions establish an R&R requirement with respect to each fiscal year. R&R costs consist of rehabilitation, renewals, replacements, and extraordinary repairs necessary for the sound operation of the Turnpike System or to prevent loss of revenues, but not costs associated with new construction, additions or extensions.

(Amounts in thousands)

Type	Expensed	Capitalized	Total
Renewal & Replacement	$ 6,368	$ 3,260	**$ 9,628**

The Turnpike System has complied with all of its material financial bond covenants as set forth in the resolutions.

(e) Revenue Bond Refundings

On February 23, 2012, the State issued $65.4 million of Turnpike System revenue refunding bonds. The interest rates on these new bonds are 5%. The closing date for this bond issue was November 30, 2012. This refunding transaction will result in a cash savings through 2024 of $9.45 million and a net present value savings of $7.4 million.

(f) Revenue Bond Issue

The State issued $110.2 million of Turnpike System revenue bonds. The interest rates on these new bonds are 3% to 5%. The closing date for this bond issue was August 30, 2012. Proceeds of $112.0 million were placed in the Construction Account and the net remaining proceeds of $6.5 million were deposited to the Debt Service Reserve Account.

(g) Note Payable to State Highway Fund - Debt Maturity

In fiscal year 2010, the Turnpike System acquired a portion of the I-95 Piscataqua River Bridge and 1.6-mile segment of I-95. The Turnpike System executed a Long-Term Note Payable with payments to be made to the State Highway Fund. Interest is at the State's borrowing rate over a maximum period of 20 years. The State interest rate in effect at June 30, 2013 on the note was 4%. However, under the terms of the note and as prescribed by law, the Commissioner of Transportation and the State Treasurer may agree from time to time to modify the payment schedule with respect to payments due to the State Highway Fund from and after July 1, 2011. In fiscal year 2011, the Commissioner and Treasurer did agree to such a modification of the payment schedule for fiscal years 2012 and 2013.

During fiscal year 2013, a note payment of $26.0 million (including $1.7 million in interest) was made to the State Highway Fund. See Note 16 Subsequent Event

Note 9) Employee Benefit Plans

(a) Plan description - New Hampshire Retirement System

The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by State law RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire.

Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation multiplied by years of creditable service (1/66 of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested prior to January 1, 2012 and five years for members not vested on January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service.

Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by ¼ of one percent for each month prior to age 52.5 that the member receives the allowance.

All Turnpike System employees are members of Group I.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to State laws RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

A special account was established by State law RSA 100-A:16, II(h) for additional benefits. Prior to fiscal year 2007 the account was credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1 percent.

In fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10 1/2 percent as long as the actuary determines the funded ratio of the consolidated retirement system to be at least 85 percent. If the funded ratio of the system is less than 85 percent, no assets will be transferred to the special account.

In fiscal year 2011, two pieces of legislation passed that impacted the special account. The first required an $89.0 million transfer from the special account to the State annuity accumulation fund effective May 11, 2011.

The other, required the balance remaining in the special account, less funds set aside to comply with the temporary supplemental allowances required by State law RSA 100-A:41-d,III, to be transferred to the respective components of the State annuity accumulation fund, effective June 30, 2011. This resulted in an additional transfer from the special account to the State annuity accumulation fund totaling $167.3 million. In fiscal year 2012, legislation was passed that repealed the special account.

The New Hampshire Retirement System issues publicly, financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at http://www.nhrs.org.

(b) Funding Policy

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2013, by statute, Group I members contributed 7.0% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the System's actuary using the entry age normal funding method and are expressed as a percentage of gross payroll and paid by the employer. The Turnpike System's share represents 100% of the employer cost for all Turnpike System employees.

Chapter 224, Laws of 2011 (House Bill 2) directed the Board of Trustees of the New Hampshire Retirement System to recalculate employer contribution rates for the State fiscal years 2012 and 2013 to reflect the requirements of amendments to State law RSA 100-A in the 2011 legislative session, which resulted in the use of two different contribution rates paid by the Turnpike System during 2012. The Turnpike system's normal contribution rate was 12.31% of the covered payroll for Group I employees from July 1, 2011 thru July 31, 2011 and 10.08% from August 1, 2011 through June 30, 2013.

(c) Health Care Benefits for Retired Group I Employees

In addition to providing pension benefits, State law RSA 21-I:30 specifies that the State provide certain health benefits for retired employees and their spouses. These benefits include group hospitalization, hospital medical care, surgical care, and other medical care and the State's employees may become eligible for these benefits if they meet eligibility criteria and receive their pensions on a periodic basis rather than a lump sum.

Retirees whose service began prior to 7/1/2003, with at least 10 years of state creditable service, are eligible for retiree medical and prescription drug benefits at age 60. Retirees whose service began on or after 7/1/2003 but before 7/1/2011, with at least 20 years of state creditable service, are eligible for retiree medical and prescription drug benefits at age 60. Retirees whose service began on or after 7/1/2011, with at least 20 years of state creditable service and are age 60 at the time of retirement, are eligible for retiree medical and prescription drug benefits at age 65. In addition, retirees whose service began prior to 7/1/2011 are eligible for retiree medical and prescription drug benefits at any age with at least 30 years of state creditable service. Eligibility for retiree health benefits can also be established if the criteria are met for a vested deferred retirement, disability retirement, or retirement due to death.

These and similar benefits for active employees are authorized by State law RSA 21-I: 30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these health benefits by paying actuarially determined premiums into the fund. The Turnpike System's contributions to the fund on behalf of Turnpike Retirees for the years ended June 30, 2013, 2012, and 2011, were $966,000, $1,042,000, and $609,000 respectively.

An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees. The Medical Subsidy received on behalf of Turnpike Retirees for the year ended June 30, 2013 was $215,099.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The State's long-term cost of retirement health care and Other Post-Employment Benefits (OPEB) are determined actuarially on a statewide basis as required under GASB 45. The most recent Actuarial Valuation was performed as of December 31, 2012. Disclosure of the annual OPEB cost, funding status, net OPEB obligation the components of cost and other information concerning the plan are provided in the State of New Hampshire Comprehensive Annual Financial Report.

Note 10) Risk Management and Insurance

(a) Principle of Self-Insurance

The Turnpike System is exposed to various risks of loss, related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As a general operating rule, the State self-insures against all damages, losses and expenses except to the extent that the provisions of law direct the purchase of commercial insurance. Should risk assessment indicate that commercial insurance is economical and beneficial for the State or general public, the State may elect to purchase insurance. Settled claims, under the insurance program, have not exceeded insurance coverage in any of the last three years.

(b) Employee and Retiree Health Benefits

The State has established an Employee Benefit Risk Management Fund, an internal service fund, to account for its uninsured risks of loss related to employee and retiree health benefits. The State retains all of the risk associated with these benefits, and utilizes an actuarially-established IBNR (incurred but not reported) claims reserve. In addition, State law prescribes the retention of a reserve comprising 5% of annual claims and administrative costs, for unexpected costs. Rates are established annually, by actuaries, based on an analysis of past claims, state and other medical trend, and future estimated loss experience. The process used in estimating claim liabilities may not result in an exact payout amount due to variables such as medical inflation, or changes in law, enrollment or plan design.

(c) Workers Compensation

The State is self-insured for its workers compensation, retaining all of the risk associated with claims. The State utilizes an actuarial study that provides an updated estimate of the outstanding liabilities for the prior years' claims. The study also contains assumptions about loss development patterns, trend and other relevant claim characteristics based on the State's historical loss experience.
The following table presents the changes in Turnpike System workers compensation claim liabilities in the State Employee Benefit Risk Management Fund during the fiscal years ended June 30, 2012 and 2013:

(Amounts in thousands)

	6/30/2011 Balance	Increases	Decreases	6/30/2012 Balance	Increases	Decreases	6/30/2013 Balance	Current	Long-Term
Total	$ 1,990	$ 383	($384)	$ 1,989	$ 678	($463)	$ 2,204	$ 501	$ 1,703

Note 11) Commitments

(a) E-ZPass Customer Service Contract

Upon inception of the E-ZPass program, the Turnpike System entered into a 3-year contract, renewable through 2016, with Xerox State and Local Solutions, Inc., (Xerox), formerly Affiliated Computer Services (ACS), located in Newark, NJ, to process E-ZPass transactions. In September 2010, the contract with Xerox (then ACS) was renewed for an additional year for an amount not to exceed $6.0 million. In August of 2011, a final contract renewal option with Xerox was approved in an amount not to exceed $28.1 million for a professional services agreement for operation of the NH E-ZPass Customer Service Center from October 1, 2011 to September 30, 2016.

(b) Capital Improvement Program

The ten-year capital improvement program, adopted by the Legislature in 1986 and amended through 2022, includes specific components relating to the Turnpike System. This program is intended to improve the safety of the Turnpike System and increase its capacity. It is updated every two years to address changing priorities.

(c) Maintenance

The Turnpike System (other than the Spaulding Turnpike extension) is maintained and repaired by the Bureau of Turnpikes. All maintenance and repair costs have been funded from Turnpike operating revenues since the beginning of the Turnpike System in 1950.

(d) Litigation

The Turnpike System is involved in certain lawsuits, claims and grievances arising in the normal course of business, including claims for personal injury, property damage and disputes over eminent domain proceedings. In the opinion of the State Attorney General's Office, payment of claims by the Turnpike System for amounts not covered by insurance in the aggregate, are not expected to have a material adverse effect on the Turnpike's financial position.

(e) Ground Lease Contract

On June 19, 2013, the New Hampshire Department of Transportation, New Hampshire Liquor Commission, and New Hampshire Department of Resources and Economic Development entered in to a contract with a private vendor, Granite State Hospitality, LLC to re-develop the north and southbound rest areas in the Town of Hooksett. The rest areas will be developed to full service welcome centers with concession sales, fuel sales, visitor centers, and two new State Liquor and Wine Outlet Stores for a minimum guaranteed rent of $23,236,301. Rent receipts are over a 35-year term with tiered rent payments based on the sale of gasoline and tiered percentage rent based on gross concession sales is effective through June 30, 2048. There is an option to renew for up to two 5-year options at the sole discretion of the State. It is anticipated that construction for this project will be completed spring of 2015.

Note 12) Future Revenues that are Pledged or Sold

GASB Statement No. 48, *Disclosures Related to Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, is a standard that makes a basic distinction between sales of receivables and future revenues on one hand and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing). In accordance with revenue bond covenants, revenues received are pledged to secure the payment of the principal or redemption price of and interest on the bonds and the performance of the undertakings of the State in the General Bond Resolution, subject only to the application of revenues for the payment of operating expenses in accordance with the terms of the Resolution (see Note 8 (d) for further detail regarding Revenue Bond Resolutions). The bonds are equally and ratably secured by the pledge, and the undertakings of the State in the Resolution are for the equal and proportional benefit of the Bondholders, except as otherwise expressly provided in the Resolution.

Note 13) Pollution Remediation Obligations

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations (PRO)*, requires governments to reasonably determine potential polluted sites and provides guidance regarding when to recognize PRO as a liability. During fiscal year 2009, the Turnpike System sold a portion of land in Hudson (formerly known as Benson's) known to be contaminated with hazardous waste. As part of the sale, the Turnpike System agreed to remediate the hazardous waste at the site. For this pollution remediation obligation, the Turnpike System recognized a liability of $3.0 million at June 30, 2009, which was reduced to $2.2 million at June 30, 2010 and remains unchanged through June 30, 2013. This was a result of a re-estimate by an independent consulting firm.

During fiscal year 2013, the Turnpike System recognized a PRO liability of $158,500 which related to contaminated soil at a project site located in the Town of Newington. On June 30, 2013, the pollution obligation for this project is $158,500.

During fiscal year 2013, the Turnpike system recognized the completion of soil testing requirements at project sites located in the Newington-Dover area and the City of Dover. There is no future PRO liability for either of these projects.

Note 14) Accounting and Financial Reporting for Intangible Assets

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* is a standard that characterizes an intangible asset, as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks. Specific to the Turnpike System, easements with an indefinite useful life have been historically classified as land.

Temporary easements expire when a project is closed. Temporary easements are considered a project cost. If the project is capitalized, then the cost will be part of Infrastructure and will be amortized over 50 years. If the project is expensed, the easement cost will be expensed.

The effect of this GASB Statement on the financial statements is recognized, but immaterial.

Note 15) Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011 and are now included in the Turnpike System financials for fiscal year 2013.

Note 16) Subsequent Event

In fiscal year 2014, the Turnpike System Note Payable to State Highway Fund schedule of payments was modified by the Commissioner of Transportation and State Treasurer.

The fiscal year 2014 revised annual maturities are as follows:

(Amounts in thousands)

Payable June 30,	Principal	Interest	Total Debt
2014	$ 14,020	$ 980	$ 15,000
2015	13,765	405	14,170
2016	414	4	418
Total	**$ 28,199**	**$ 1,389**	**$ 29,588**

See footnote 8(g) Note Payable to State Highway Fund – Debt Maturity.