STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2014
ANNUAL
FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2014

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

Marie A. Mullen, Director of Finance
Leonard L. Russell, Financial Reporting Administrator
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
Table of Contents

Introductory Section (Unaudited) ................................................................................................................................... 3
  Turnpike System Map.......................................................................................................................................................... 4
  Commissioner’s Letter ............................................................................................................................................................. 5
  Organizational Listing............................................................................................................................................................ 6

Financial Section ..................................................................................................................................................................... 7
  Independent Auditor’s Report .............................................................................................................................................. 8-9
  Management’s Discussion and Analysis (Unaudited) ........................................................................................................... 10-15
  Basic Financial Statements...................................................................................................................................................... 17
  Statement of Net Position........................................................................................................................................................ 18
  Statement of Revenues, Expenses, and Changes in Net Position ...................................................................................... 19
  Statement of Cash Flows.......................................................................................................................................................... 20
  Table of Contents – Notes to the Financial Statements .................................................................................................. 21
  Notes to the Financial Statements .................................................................................................................................. 22-35

Other Supplementary Information Section (Unaudited) ................................................................................................. 37
  Budget to Actual (Non-GAAP Budgetary Basis) Revenue Schedule .................................................................................. 38
  Budget to Actual (Non-GAAP Budgetary Basis) Expense Schedule .................................................................................... 39
  Note to Other Supplementary Information ........................................................................................................................ 40
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.
December 29, 2014

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, 2014.

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,

David J. Brillhart, P.E.
Acting Commissioner
ORGANIZATIONAL LISTING

STATE OF NEW HAMPSHIRE

Governor
Margaret Wood Hassan

Executive Council
Joseph D. Kenney
Colin Van Ostern
Christopher T. Sununu
Christopher C. Pappas
Debora B. Pignatelli

Commissioner of the Treasury
William F. Dwyer

Secretary of State
William M. Gardner

Attorney General
Joseph A. Foster

NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION

Commissioner
Christopher D. Clement, Sr.

Acting Commissioner (effective December 12, 2014)
David J. Brillhart, P.E.

Deputy Commissioner
Patrick K. McKenna

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

Director of Finance
Marie A. Mullen

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, 2014, and the accompanying notes to the financial statements.
Independent Auditors’ Report

To the Fiscal Committee of the General Court
State of New Hampshire

Report on the Financial Statements
We have audited the accompanying financial statements of the New Hampshire Turnpike System (the Turnpike System) which comprise the statement of net position, as of June 30, 2014, 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, which collectively comprise the Turnpike System’s basic 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 U.S. generally accepted accounting principles; 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.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the New Hampshire Turnpike System, as of June 30, 2014, and the changes in its net position, and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.
Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 10 through 15 be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and 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 of this report and budgetary comparison information on pages 3 - 6 and 37 - 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section and budgetary comparison information 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2014 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Turnpike System’s internal control over financial reporting and compliance.

December 29, 2014
The Management’s Discussion and Analysis of the Turnpike System's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2014. This section should be read in conjunction with the Turnpike System financial statements, which follow this section.

**Financial Highlights**

- Total Net Position increased by $35.2 million or 6.9% to $545.5 million. This increase is primarily due to the reduction of outstanding principal on revenue bonds and note payable of $33.7 million as well as the addition of capital assets in Infrastructure and Construction in Progress (see below financial highlight on Net Capital Assets for detail on capital asset increase).

- Total Net Capital Assets increased by $32.6 million or 3.8% over the prior year to $890.5 million. Infrastructure increased by $39.6 million or 4.7% to $890.7 million primarily from the Hooksett Open Road Tolling project and a bridge replacement project on Route 3 in Bedford.

- The Turnpike System at June 30, 2014 had approximately a $33.1 million General Reserve Account in Cash and Cash Equivalents intended for capital construction projects, Renewal & Replacement costs, and I-95 Note Payable to the State Highway Fund, of which $14.2 million (principal and interest) is payable within one year.

- Cash and Cash Equivalents - Restricted decreased by $47.3 million or 64.8% to $25.7 million as all bond proceeds were spent by April 2014 and approximately $30.0 million of the Revenue Bond Debt Services Reserve Account was invested in June 2014.

- Accounts Payable decreased by $4.5 million or 40.8% to $6.6 million due to timely payment of construction expenses prior to year end to maximize Turnpike toll credits available for federal participating projects in the State Highway Fund.

- Total Operating Revenues realized modest gains and increased by $1.5 million or 1.3% to $119.3 million. The slight increase was due primarily to increased toll revenue from E-ZPass customers.

Using this Report

The Turnpike System is accounted for as an enterprise fund, reporting all of the Turnpike System’s financial activity, assets and liabilities using the accrual basis of accounting much like a private business entity. As such, this annual report consists of financial statements, along with explanatory notes to the financial statements. The Statement of Net Position on page 18 and the Statement of Revenues, Expenses and Changes in Net Position on page 19, report the Turnpike’s net position and change in net position. The Statement of Cash Flows on page 20 outlines the cash inflows and outflows and non-cash capital and related financing activities related to the activity of the Turnpike System.
**New Hampshire Turnpike System**  
**Management’s Discussion and Analysis**   
**For the Fiscal Year Ended June 30, 2014**  
**(Unaudited)**

### (I) Statement of Net Position Summary  

(Amounts in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$124,188</td>
<td>$158,886</td>
</tr>
<tr>
<td>Net Capital Assets</td>
<td>890,497</td>
<td>857,931</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>1,014,685</strong></td>
<td><strong>1,016,817</strong></td>
</tr>
<tr>
<td><strong>Deferred Outflows of Resources:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on Refunding</td>
<td>3,009</td>
<td>3,742</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>472,172</td>
<td>510,286</td>
</tr>
<tr>
<td><strong>Net Position:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>452,671</td>
<td>421,003</td>
</tr>
<tr>
<td>Restricted for Debt Repayments</td>
<td>55,735</td>
<td>52,720</td>
</tr>
<tr>
<td>Restricted for Uninsured Risks</td>
<td>3,001</td>
<td>3,005</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>34,115</td>
<td>33,545</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td><strong>$545,522</strong></td>
<td><strong>$510,273</strong></td>
</tr>
</tbody>
</table>

*Prior year Net Position restated per GASB 65 for fiscal year 2013 balance of Deferred Bond Issue Costs of $2.2 million.

- Total Assets decreased by $2.1 million over the prior year. Current Assets decreased by $34.7 million or 21.8% to $124.2 million primarily due to the reduction of cash in the Revenue Bond Cash Construction Account. Bond proceeds were fully expended during fiscal year 2014. Net Capital Assets (less depreciation and amortization) increased approximately $32.6 million or 3.8% to $890.5 million. See Note 4 for detail on Capital Assets activity and Note 11(b), Capital Improvement Program, for more information.

- Total Liabilities decreased by $38.1 million or 7.5% to $472.2 million. Current Liabilities increased by $9.9 million or 18.8% to $62.9 million primarily due to the increase in Revenue Bonds Payable and Note Payable to State Highway Fund. The payment terms of the Note Payable to State Highway Fund were changed in fiscal year 2014. See Note 8(e), Note Payable to State Highway Fund – Debt Maturity for additional information.

- Non-current Liabilities decreased by $48.1 million or 10.5% to $409.3 million due to the reclassification of $44.4 million of principal payments on the bonds and note from non-current to current and the restatement of the fiscal year 2013 Loss on Refunding of $3.7 million to Deferred Outflows of Resources in fiscal year 2014. See Note 8(b), Changes in Non-current Liabilities for additional information.

- Total Net Position increased by $35.2 million or 6.9% to $545.5 million. The increase in Net Position is due primarily to the decrease in revenue bonds and note payable of $33.7 million as well as the addition of capital assets in Infrastructure and Construction in Progress. See Note 4, Capital Assets for detail on capital asset change.
(II)  

**Current Liabilities**  

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$6,610</td>
<td>$11,158</td>
</tr>
<tr>
<td>Accrued Payroll</td>
<td>643</td>
<td>479</td>
</tr>
<tr>
<td>Due to Other Funds</td>
<td>1,609</td>
<td>594</td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td>10,560</td>
<td>11,153</td>
</tr>
<tr>
<td>Revenue Bonds Payable</td>
<td>22,875</td>
<td>17,605</td>
</tr>
<tr>
<td>Note Payable to State Highway Fund</td>
<td>13,765</td>
<td>4,814</td>
</tr>
<tr>
<td>Accrued Interest Payable</td>
<td>5,998</td>
<td>6,216</td>
</tr>
<tr>
<td>Claims and Compensated Absences Payable</td>
<td>755</td>
<td>805</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>70</td>
<td>115</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$62,885</td>
<td>$52,939</td>
</tr>
</tbody>
</table>

Current Liabilities consist primarily of accrued operating expenses, unearned revenue, and the current portion of revenue bonds and note payable. The increase in Current Liabilities of $9.9 million or 18.8% to $62.9 million in fiscal year 2014 is primarily due to the increase of $8.9 million in Note Payable to State Highway Fund and $5.3 million in Revenue Bonds Payable. The increase in Note Payable to State Highway Fund is the result of changes in the payment terms as agreed upon in July 2013 between the Department’s Commissioner and States’ Treasurer. The increase of Due to Other Funds was the result of reimbursement to the State Highway Fund for federal match dollars and highway personnel labor and benefit costs incurred for Turnpike projects. Accounts Payable decreased by $4.5 million due to timely payment of construction expenses prior to year end to maximize Turnpike toll credits available for federal participating projects in the State Highway Fund.

(III)  

**Change in Net Position**  

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$119,325</td>
<td>$117,819</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>(74,731)</td>
<td>(70,072)</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>44,594</td>
<td>47,747</td>
</tr>
<tr>
<td>Non-Operating Expenses</td>
<td>(12,453)</td>
<td>(16,912)</td>
</tr>
<tr>
<td><strong>Change in Net Position Before Capital Contributions</strong></td>
<td>32,141</td>
<td>30,835</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>3,108</td>
<td>9,930</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>35,249</td>
<td>40,765</td>
</tr>
<tr>
<td>Net Position - July 1</td>
<td>510,273</td>
<td>510,273</td>
</tr>
<tr>
<td>Net Position - June 30</td>
<td>$545,522</td>
<td>$510,273</td>
</tr>
</tbody>
</table>

*Prior year Non-Operating Expenses and Net Position restated per GASB 65 for fiscal year 2013 balance of Deferred Bond Issue Costs of $2.2 million.

The Turnpike System’s primary revenues are generated from toll collections. The Central Turnpike generated net revenue of $43.5 million; the Blue Star Turnpike $59.2 million and the Spaulding Turnpike finished the year with $14.8 million in net revenue. Another $1.8 million was also generated in other income, including toll violation administrative fees, toll evasion fines, property damage reimbursement, federal revenue, transponder sales and miscellaneous revenue, for combined toll operating revenue of approximately $119.3 million for the year ended June 30, 2014.

Total Operating Expenses for the year increased approximately $4.7 million or 6.6% to $74.7 million over the previous year. This increase in operating expenses is largely due to an increase in Renewal & Replacement of $3.1 million due to multi-year contractual obligations and available balances carried...
forward from prior years. An increase in Depreciation and Amortization of $1.3 million also contributed to higher operating expenses.

- Total Non-Operating Expenses decreased approximately $4.5 million or 26.4% to $12.5 million. The primary decrease was the result of a reduction of $2.1 million in interest expense on bonds and the note.

**Turnpike System Revenue and Traffic Trends**

During the twelve months ended on June 30, 2014, the number of traffic transactions processed through the E-ZPass program was 70.5% of total transactions. The Hampton and Hooksett Open Road Tolling (ORT) plazas continue to lead the growth on the System reflecting a 2.7% and 4.0% increase respectively, in E-ZPass utilization over the previous year.

The System overall in fiscal year 2014, experienced an increase in traffic transactions of 3.2 million or 3.0% over prior fiscal year 2013.

**Maintenance of the Turnpike System**

The Turnpike System (other than the Spaulding Turnpike extension, for which the Turnpike System is billed for maintenance performed by the Bureau of Highway Maintenance) is maintained and repaired by the Bureau of Turnpikes of the State Department of Transportation. All maintenance and repair costs have been funded from Turnpike operating revenues since the beginning of the Turnpike System in 1950. In addition, the State law RSA 237:15 authorizes the Turnpike System to set up an account to finance extension studies, maintenance, construction, reconstruction and extensions of the Turnpike System wherever located, interest on bonded indebtedness or retirement of bonded indebtedness or other costs which may be properly charged against these accounts or to the New Hampshire Turnpike System.

The contracted independent engineering consultant, HNTB, Inc. (HNTB) completed a review and assessment of the Renewal & Replacement Program in January 2012. The assessment provided recommendations on program funding levels and provided insight on the condition of the Turnpike infrastructure. Condition of the Turnpike facilities was determined through visual inspections of infrastructure (pavements, bridges, guardrail, drainage, signing, etc.). HNTB deemed the Turnpike facilities to be in “good” condition, characterized as a state whereby the various components are in appropriate working order to provide the necessary level of service and require only the anticipated minimal maintenance that would be expected for the life cycle of the facility. The HNTB assessment of the condition of the Turnpike facilities recommended funding for the Renewal & Replacement Program for fiscal years 2014 through 2019 of $66.2 million, a reduction of approximately $7.3 million over this same period from the previous recommended total. Major expenditures are planned for resurfacing, bridge rehabilitation, guardrail replacement, drainage repairs, bridge painting and toll plaza repairs.

For fiscal years 2014, 2013, and 2012, the Turnpike System operating expenses for Renewal & Replacement were $9.4 million, $6.4 million, and $9.3 million respectively. Renewal & Replacement capitalized expenses for fiscal years 2014 and 2013 were $1.8 million and $3.3 million respectively. For fiscal year 2015, the budget is $8.9 million. See Note 8 (d), Revenue Bond Resolutions for additional information.

Appropriations for Renewal & Replacement expenditures do not lapse and are carried forward and made available in subsequent years.

**Subsequent Events**

Effective July 18, 2014, with the legislative enactment of Chapter 17, Laws of 2014 (SB 367), the northbound and southbound ramp tolls for exit 12 on the Everett Turnpike in the town of Merrimack have been closed. Gross revenue will decrease by an estimated $0.9 million and operating costs will decrease by an estimated $0.3 million. Toll equipment at each plaza and all toll related signing along the turnpike will be removed. The second phase of the project will consist of the removal of the toll plaza structures and shutdown of the building facilities with a completion date of December 2014. It is anticipated that the cost of removal of the plaza will amount to $0.4 million.
New Hampshire Turnpike System  
Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014  
(Unaudited)

Budget and Appropriation Process
The Legislature meets annually, and adopts its budget every other year on a biennial basis. Prior to the beginning of each biennium, all departments of the State, including the Department of Transportation, are required by law to transmit to the Commissioner of the Department of Administrative Services requests for capital expenditures, as well as estimates of their administration, operation and maintenance expenditure requirements for each fiscal year of the ensuing biennium.

As a Bureau of the State of New Hampshire Department of Transportation, the Turnpike System is included in the State of New Hampshire’s biennial operating budget. The Turnpike System’s official budget, as adopted by the Legislature, is prepared principally on a modified cash basis. The Turnpike System’s budget consists primarily of salaries and benefits, maintenance, and expenses relative to snow removal and debt service.

The Commissioner of the Department of Administrative Services, who submits the summary to the Governor, summarizes capital expenditure requests. After holding public hearings and requesting further evaluation of selected projects by the Commissioner of the Department of Transportation, the Governor prepares a capital budget for submission to the Legislature.

In conjunction with the receipt of operating budget estimates, the Commissioner of the Department of Administrative Services prepares an estimate of the total income of the State for each fiscal year of the ensuing biennium. Based upon the expenditure estimates the Commissioner has received and the revenue projections the Commissioner has made, the Commissioner prepares a tentative budget for the ensuing biennium, which is transmitted to the Governor. The Governor then holds public hearings on the tentative operating budget and prepares the final budget proposal for submission to the Legislature setting forth the Governor’s financial program for the upcoming two fiscal years.

Once the budget becomes law, it represents the authorization for spending levels of each department of the State during the next two fiscal years.

Capital Improvement Program
Under the provisions of State law, New Hampshire Revised Statutes Annotated (RSA) 240, as amended by the Legislature, 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.

The ten-year capital improvement program, adopted by the Legislature in 1986 and amended through 2014, 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. Depending on the scheduling of projects and availability of funding (e.g. excess toll revenues, bond proceeds), the Turnpike System capital improvement program expenditures during the ten-year plan period of 2015 – 2024 are expected to be in the range of $300 - $320 million, down from the prior range of $320-340 million cash flows anticipated during period.
Contacting the Turnpike System’s Financial Management
This financial report is designed to provide New Hampshire citizens, the Legislature and the Executive Branch of
government, as well as other interested parties, a general overview of the Turnpike System’s financial activity for
fiscal year 2014 and to demonstrate the Turnpike System’s accountability for the revenue it received from toll
collections. If there are questions about this report or the need for additional information, contact the New
Hampshire Department of Transportation, Division of Finance, John O. Morton Building, 7 Hazen Drive, Concord,
NH 03302-0483.
BASIC FINANCIAL STATEMENTS
NEW HAMPSHIRE TURNPIKE SYSTEM
STATEMENT OF NET POSITION
June 30, 2014
(Amounts in thousands)

**ASSETS and DEFERRED OUTFLOWS of RESOURCES**

**Current Assets:**
- Cash and Cash Equivalents $ 58,528
- Cash and Cash Equivalents – Restricted 25,746
- Investments - Restricted 32,990
- Accounts Receivable 5,094
- Due from Other Funds 426
- Inventories 1,404
- **Total Current Assets** 124,188

**Non-current Assets:**
- Capital Assets:
  - Land 114,405
  - Buildings 6,438
  - Equipment and Computer Software 48,805
  - Construction in Progress 161,515
  - Infrastructure 890,738
  - Less: Accumulated Depreciation (331,404)
  - **Net Capital Assets** 890,497
- **Total Non-current Assets** 890,497
- **Total Assets** 1,014,685

**Deferred Outflows of Resources:**
- Loss on Refunding 3,009
- **Total Assets and Deferred Outflows of Resources, Net** 1,017,694

**LIABILITIES**

**Current Liabilities:**
- Accounts Payable 6,610
- Accrued Payroll 643
- Due to Other Funds 1,609
- Unearned Revenue 10,560
- Revenue Bonds Payable 22,875
- Note Payable to State Highway Fund 13,765
- Accrued Interest Payable 5,998
- Claims and Compensated Absences Payable 755
- Other Liabilities 70
- **Total Current Liabilities** 62,885

**Non-current Liabilities:**
- Revenue Bonds Payable 403,781
- Note Payable to State Highway Fund 414
- Claims and Compensated Absences Payable 2,235
- Other Non-current Liabilities 2,857
- **Total Non-current Liabilities** 409,287
- **Total Liabilities** 472,172

**NET POSITION**
- Net Investment in Capital Assets 452,671
- Restricted for Debt Repayments 55,735
- Restricted for Uninsured Risks 3,001
- Unrestricted 34,115
- **Total Net Position** 545,522

*See accompanying notes to financial statements.*
NEW HAMPSHIRE TURNPIKE SYSTEM  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

<table>
<thead>
<tr>
<th>OPERATING REVENUES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Toll Revenue - Cash $ 36,748</td>
<td></td>
</tr>
<tr>
<td>Toll Revenue - E-ZPass 80,768</td>
<td></td>
</tr>
<tr>
<td>Other Toll Operating Revenue 971</td>
<td></td>
</tr>
<tr>
<td>Transponder Revenue 609</td>
<td></td>
</tr>
<tr>
<td>Federal Revenue 229</td>
<td></td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong> 119,325</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING EXPENSES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services 9,703</td>
<td></td>
</tr>
<tr>
<td>Payroll Benefits 6,101</td>
<td></td>
</tr>
<tr>
<td>Enforcement 5,843</td>
<td></td>
</tr>
<tr>
<td>Renewal &amp; Replacement 9,430</td>
<td></td>
</tr>
<tr>
<td>Supplies, Materials and Other 2,918</td>
<td></td>
</tr>
<tr>
<td>Equipment and Repairs 4,408</td>
<td></td>
</tr>
<tr>
<td>Indirect Costs 2,571</td>
<td></td>
</tr>
<tr>
<td>Heat, Light and Power 1,266</td>
<td></td>
</tr>
<tr>
<td>Bank and Credit Card Fees 2,225</td>
<td></td>
</tr>
<tr>
<td>Rentals 956</td>
<td></td>
</tr>
<tr>
<td>E-ZPass Processing Fees 5,876</td>
<td></td>
</tr>
<tr>
<td>Transponder Expense 602</td>
<td></td>
</tr>
<tr>
<td>Depreciation and Amortization 22,832</td>
<td></td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong> 74,731</td>
<td></td>
</tr>
</tbody>
</table>

| Operating Income 44,594 |  |

<table>
<thead>
<tr>
<th>NON-OPERATING REVENUES (EXPENSES)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Income 78</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Income 3,112</td>
<td></td>
</tr>
<tr>
<td>Loss on Sale of Other Capital Assets (87)</td>
<td></td>
</tr>
<tr>
<td>Interest on Bonds and Note (15,512)</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Expense (44)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-operating Revenues (Expenses)</strong> (12,453)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Net Position Before Capital Contributions 32,141</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Contributions 3,108</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Net Position 35,249</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Position - July 1 (restated, Note 1(g))</strong> 510,273</td>
<td></td>
</tr>
<tr>
<td><strong>Net Position - June 30</strong> $ 545,522</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
# New Hampshire Turnpike System
## Statement of Cash Flows
### For the Fiscal Year Ended June 30, 2014
(Amounts in thousands)

### Cash Flows from Operating Activities
- Receipts from Customers: $120,746
- Payments to Employees: (15,979)
- Payments to Suppliers: (34,802)

Net Cash Provided by Operating Activities: 69,965

### Cash Flows from Capital and Related Financing Activities
- Acquisition and Construction of Capital Assets: (53,518)
- Interest Paid on Revenue Bonds and Note Payable: (22,318)
- Principal Paid on Bonds: (17,605)
- Principal Paid on Note Payable Due State Highway Fund: (14,020)
- Build America Bonds Subsidy Receipt: 2,905
- Costs of Issuances: (44)

Net Cash Used for Capital and Related Financing Activities: (104,600)

### Cash Flows from Investing Activities
- Purchase of Investment: (32,994)
- Proceeds from Sales and Maturities of Investments: 18,920
- Investment Income: 331

Net Cash Used by Investing Activities: (13,743)

### Net Decrease in Cash and Cash Equivalents
- Net Decrease in Cash and Cash Equivalents: (48,378)
- Cash and Cash Equivalents - July 1: 132,652
- Cash and Cash Equivalents - June 30: $84,274

### Reconciliation of Operating Income to Net Cash Provided by Operating Activities:
- Operating Income: $44,594

Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:
- Depreciation: 22,832
- Miscellaneous Income: 198

Change in Operating Assets and Liabilities:
- Decrease in Receivables: 436
- Decrease in Inventories: 140
- Increase in Accounts Payable and Other Accruals: 1,174
- Increase in Deferred Revenue: 591

Net Cash Provided by Operating Activities: $69,965

### Turnpike Non-Cash Capital and Related Financing Activities:
- Capital Contributions: $2,671
- Federal Operating Contributions: $229

*See accompanying notes to financial statements.*
## Table of Contents – Notes to the Financial Statements

1. Summary of Significant Accounting Policies ........................................................... 22  
   a. Financial Reporting Entity ........................................................................... 22  
   b. Measurement Focus and Basis of Accounting ........................................ 22  
   c. Restricted Assets ...................................................................................... 22  
   d. Accounts Receivable ................................................................................ 22  
   e. Cash Equivalents ...................................................................................... 22  
   f. Capital Assets .......................................................................................... 23  
   g. Accounting Changes ............................................................................... 23  
   h. Adoption of New Accounting Pronouncements .................................... 23  
   i. Compensated Absences .......................................................................... 23  
   j. Revenues and Expenses .......................................................................... 24  
   k. E-ZPass Program ...................................................................................... 24  
   l. Inventory .................................................................................................. 24  
   m. Capital Contributions ............................................................................ 24  
   n. Estimates ................................................................................................ 24  
   o. Unearned Revenue .................................................................................. 24  
   p. Deferred Outflow of Resources and Deferred Inflow of Resources ........ 24  
2. Cash and Cash Equivalents and Investments ................................................... 24  
3. Restricted Assets ............................................................................................ 26  
4. Capital Assets .................................................................................................. 27  
5. Inter-fund Activity ............................................................................................. 27  
6. Unearned Revenue .......................................................................................... 28  
7. Leases .............................................................................................................. 28  
   a. Operating and Capital Leases .................................................................... 28  
   b. Ground Lease Contract ........................................................................... 28  
8. Non-current Liabilities ....................................................................................... 28  
   a. Bonds Authorized and Un-issued ............................................................... 28  
   b. Changes in Non-current Liabilities ........................................................... 29  
   c. Bonds – Debt Maturity ............................................................................ 29  
   d. Revenue Bond Resolutions ..................................................................... 30  
   e. Note Payable to State Highway Fund – Debt Maturity ......................... 30  
9. Employee Benefit Plans ..................................................................................... 31  
   a. Plan Description – New Hampshire Retirement System ...................... 31  
   b. Funding Policy ......................................................................................... 32  
   c. Health Care Benefits for Retired Group I Employees .......................... 32  
10. Risk Management and Insurance .................................................................... 33  
    a. Principle of Self-Insurance ...................................................................... 33  
    b. Employee and Retiree Health Benefits .................................................. 33  
    c. Workers Compensation ......................................................................... 33  
11. Commitments .................................................................................................. 34  
    a. E-ZPass Customer Service Contract .................................................... 34  
    b. Capital Improvement Program .............................................................. 34  
    c. Maintenance .......................................................................................... 34  
    d. Payroll Matters .................................................................................... 34  
    e. Litigation ............................................................................................... 34  
12. Future Revenues that are Pledged or Sold .................................................... 34  
13. Pollution Remediation Obligations ................................................................. 34  
Note 1) Summary of Significant Accounting Policies

The accompanying financial statements of the New Hampshire Turnpike System (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 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, Debt Service Reserve – Investment, Principal Debt Service, Interest Debt Service and Insurance Reserve - Investment) 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 Reciprocity as detailed in the table below. The accounts receivable balance as of June 30, 2014 is net of Allowances for Un-collectibles.

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-ZPass Reciprocity</td>
<td>$ 4,118</td>
</tr>
<tr>
<td>Interest Receivable</td>
<td>484</td>
</tr>
<tr>
<td>Cash in Transit-Toll Revenue</td>
<td>310</td>
</tr>
<tr>
<td>Credit Card Equity Fees</td>
<td>145</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 5,094</strong></td>
</tr>
</tbody>
</table>

(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:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Thresholds</th>
<th>Depreciable Life</th>
<th>Annual Depreciation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>All bridges and roads</td>
<td>50</td>
<td>2%</td>
</tr>
<tr>
<td>Buildings</td>
<td>&gt;= $100,000</td>
<td>40</td>
<td>2.5%</td>
</tr>
<tr>
<td>Building Improvements &amp; Land</td>
<td>Improvements &gt;= $100,000</td>
<td>20</td>
<td>5%</td>
</tr>
<tr>
<td>Toll Equipment</td>
<td>&gt;= $10,000</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Equipment</td>
<td>&gt;= $10,000</td>
<td>5</td>
<td>20%</td>
</tr>
<tr>
<td>Computer Software (Amortized)</td>
<td>&gt;= $500,000</td>
<td>5</td>
<td>20%</td>
</tr>
</tbody>
</table>

(g) Accounting Changes
The Turnpike System adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Implementation of this guidance requires bond issuance costs (previously reported as assets) to be expensed when incurred. Accordingly, previously unamortized bond issuance costs has been eliminated and the related effect on beginning Net Position is below:

(Amounts in thousands)

<table>
<thead>
<tr>
<th>Net Position, as previously reported</th>
<th>512,431</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated Amortization of Bond Issue Costs</td>
<td>(2,158)</td>
</tr>
<tr>
<td>Net Position, as restated</td>
<td>510,273</td>
</tr>
</tbody>
</table>

(h) Adoption of New Accounting Pronouncements
During the fiscal year ended June 30, 2014, the Turnpike System adopted the following new accounting standards issued by the GASB:

GASB No. 65, Items Previously Reported as Assets and Liabilities, (GASB 65) establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB 65 resulted in the reclassification of certain items previously reported as assets and liabilities, and required the write-off of deferred bond issuance costs that were previously classified as assets, therefore the beginning net position has been restated for the Turnpike System. The provisions of this Statement are effective for periods beginning after December 15, 2012 and are included in the Turnpike System financials for fiscal year 2014.

(i) 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, 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.
(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), on behalf of the Turnpike System and recorded by the Turnpike System as unearned 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 Renewal & Replacement expenses. These are classified as Capital Contributions. Of the $3.1 million reported for capital contributions, $1.6 million was provided by municipalities and private developers. FHWA funds of $1.1 million were received for the construction of a park and ride lot in the City of Rochester.

(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.

(o) Unearned Revenue
In the Turnpike System financial statements, unearned revenue is recognized when cash, receivables or other assets are recorded prior to their being earned.

(p) Deferred Outflow of Resources and Deferred Inflow of Resources
Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

In the Turnpike System financial statements, deferred outflow of resources has resulted as an offset to long-term Revenue Bonds Payable.

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.
NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

General Reserve Account: Approximately $33.1 million of Cash and Cash Equivalents at June 30, 2014 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.

As of June 30, 2014, the Turnpike System’s bank balances exposed to custodial credit risk for cash and cash
equivalents is as follows:

<table>
<thead>
<tr>
<th>Type</th>
<th>Collateralized and Held in State’s Name</th>
<th>Uncollateralized</th>
<th>Federal Deposit Insurance Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Deposits</td>
<td>$26,515</td>
<td>$25,495</td>
<td>$250</td>
<td>$52,260</td>
</tr>
<tr>
<td>Money Market</td>
<td>$33,140</td>
<td>0</td>
<td>0</td>
<td>$33,140</td>
</tr>
<tr>
<td>Total</td>
<td>$59,655</td>
<td>$25,495</td>
<td>$250</td>
<td>$85,400</td>
</tr>
</tbody>
</table>

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, 2014, the value of investments in US Government Agencies amounted to $30.0 million and
Certificates of Deposit at $3.0 million.

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.

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, 2014, the Turnpike System’s investment was in U.S. Government Sponsored Enterprises (GSEs), at
$30.0 million. This investment will mature December 26, 2014.

Concentration risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At June 30,
2014, the Turnpike System’s investments and concentrations were primarily in U.S. Government Sponsored
Enterprises (GSEs).

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.

25
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, 2014 for the Turnpike System’s investments is 0.5 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, 2014:

<table>
<thead>
<tr>
<th>Restricted Cash, Cash Equivalents and Investment Accounts</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Bond Debt Service Reserve Account</td>
<td>$ 8,834</td>
</tr>
<tr>
<td>Revenue Bond Debt Service Reserve Account (Investment)</td>
<td>29,989</td>
</tr>
<tr>
<td>Revenue Bond Principal Debt Service Account</td>
<td>11,164</td>
</tr>
<tr>
<td>Revenue Bond Interest Debt Service Account</td>
<td>5,748</td>
</tr>
<tr>
<td>Revenue Bond Insurance Reserve Account (Investment)</td>
<td>3,001</td>
</tr>
<tr>
<td><strong>Total Restricted Assets</strong></td>
<td><strong>$ 58,736</strong></td>
</tr>
</tbody>
</table>

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, 2014.

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, 2014 was as follows:

(Amounts in thousands)

<table>
<thead>
<tr>
<th>Type</th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases / Reclass</th>
<th>Transfers</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Land Improvements</td>
<td>$113,692</td>
<td>$0</td>
<td>($105)</td>
<td>$818</td>
<td>$114,405</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>152,542</td>
<td>54,510</td>
<td></td>
<td>(16)</td>
<td>161,515</td>
</tr>
<tr>
<td>Total Capital Assets not Being</td>
<td>266,234</td>
<td></td>
<td></td>
<td></td>
<td>275,920</td>
</tr>
<tr>
<td>Depreciated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment and Computer Software</td>
<td>44,151</td>
<td>346</td>
<td>(428)</td>
<td>4,736</td>
<td>48,805</td>
</tr>
<tr>
<td>Buildings and Building Improvements</td>
<td>6,715</td>
<td>0</td>
<td>(277)</td>
<td>0</td>
<td>6,438</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>851,117</td>
<td>10</td>
<td>(897)</td>
<td>40,508</td>
<td>890,738</td>
</tr>
<tr>
<td>Subtotal Other Capital Assets</td>
<td>901,983</td>
<td>356</td>
<td>(1,602)</td>
<td>45,244</td>
<td>945,981</td>
</tr>
<tr>
<td>Total Capital Assets</td>
<td>1,168,217</td>
<td>54,866</td>
<td>(1,723)</td>
<td>541</td>
<td>1,221,901</td>
</tr>
<tr>
<td>Less Accumulated Depreciation for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment and Computer Software</td>
<td>(35,717)</td>
<td>(4,969)</td>
<td>428</td>
<td>53</td>
<td>(40,205)</td>
</tr>
<tr>
<td>Buildings and Building Improvements</td>
<td>(2,365)</td>
<td>(203)</td>
<td>277</td>
<td>0</td>
<td>(2,291)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>(272,204)</td>
<td>(17,608)</td>
<td>896</td>
<td>8</td>
<td>(288,908)</td>
</tr>
<tr>
<td>Total Accumulated Depreciation</td>
<td>(310,286)</td>
<td>(22,780)</td>
<td>1,601</td>
<td>61</td>
<td>(331,404)</td>
</tr>
<tr>
<td><strong>Total Net Capital Assets</strong></td>
<td><strong>$857,931</strong></td>
<td><strong>32,086</strong></td>
<td><strong>(122)</strong></td>
<td><strong>602</strong></td>
<td><strong>890,497</strong></td>
</tr>
</tbody>
</table>

At June 30, 2014, the Turnpike System had contractual commitments for capital Turnpike System improvement projects of $66.1 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 2014 was 3.57%. This rate was then applied to the average fiscal year 2014 balances of qualifying open construction in progress projects. In fiscal year 2014, interest expense that was capitalized amounted to $5.0 million.

Note 5)  
**Inter-fund Activity**

In fiscal year 2014, expenses were incurred due to work performed by other state agencies for the Turnpike System. Enforcement expenses of $5.8 million were incurred for services provided by the New Hampshire Department of Safety. Transportation Management Center engineering services, bridge maintenance, sign crew, pavement marking, and mechanical services from the Department of Transportation Highway Bureau of $2.4 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)  
**Unearned Revenue**

Unearned 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 2014, Unearned Revenue included $10.4 million in pre-paid tolls as well as $0.2 million of funds from municipalities and developers to support their share of construction improvements.
NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

Note 7) Leases

(a) Operating and Capital Leases
The Turnpike System had no significant operating or capital leases for fiscal year 2014.

(b) 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 into 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 over a 35-year term with tiered rent payments based on the sale of gasoline and tiered percentage rent based on gross concession sales 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 in the spring of 2015 with the northbound center substantially complete and operational December 2014 and the southbound center substantially completed and operational March 2015. The guaranteed minimum rent payments over five years to the Turnpike System is $86,000 for fiscal year 2015 and $0.5 million each year thereafter through fiscal year 2020.

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, 2014. 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, 2014, 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 (complete and open to traffic)
- 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 (complete and 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 2014:

<table>
<thead>
<tr>
<th>Type</th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
<th>Current</th>
<th>Long-Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note Payable to State Highway Fund</td>
<td>$ 28,199</td>
<td>$ 0</td>
<td>($14,020)</td>
<td>$ 14,179</td>
<td>$ 13,765</td>
<td>$ 414</td>
</tr>
<tr>
<td>Claims and Compensated Absences</td>
<td>3,329</td>
<td>222</td>
<td>(561)</td>
<td>2,990</td>
<td>755</td>
<td>2,235</td>
</tr>
<tr>
<td>Payable</td>
<td>446,369</td>
<td>0</td>
<td>(19,713)</td>
<td>426,656</td>
<td>22,875</td>
<td>403,781</td>
</tr>
<tr>
<td>Revenue Bonds¹</td>
<td>2,789</td>
<td>179</td>
<td>(41)</td>
<td>2,927</td>
<td>70</td>
<td>2,857</td>
</tr>
<tr>
<td>Other: Pollution Remediation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ 480,686</td>
<td>$ 401</td>
<td>($34,335)</td>
<td>$ 446,752</td>
<td>$ 37,465</td>
<td>$ 409,287</td>
</tr>
</tbody>
</table>

¹Beginning balance restated for GASB 65 Implementation - Loss on Refunding of $3.7 million as of June 30, 2013 moved Deferred Outflows of Resources. See Note 1(p).

(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:

<table>
<thead>
<tr>
<th>Payable June 30,</th>
<th>Revenue Principal</th>
<th>Revenue Interest</th>
<th>Revenue Interest Rebate</th>
<th>Net Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$ 22,875</td>
<td>$ 20,583</td>
<td>($2,905)</td>
<td>$ 17,678</td>
</tr>
<tr>
<td>2016</td>
<td>19,455</td>
<td>19,521</td>
<td>(2,905)</td>
<td>16,616</td>
</tr>
<tr>
<td>2017</td>
<td>27,855</td>
<td>18,639</td>
<td>(2,905)</td>
<td>15,734</td>
</tr>
<tr>
<td>2018</td>
<td>15,615</td>
<td>17,297</td>
<td>(2,905)</td>
<td>14,392</td>
</tr>
<tr>
<td>2019</td>
<td>19,705</td>
<td>16,440</td>
<td>(2,906)</td>
<td>13,534</td>
</tr>
<tr>
<td>2020 thru 2024</td>
<td>84,795</td>
<td>68,622</td>
<td>(14,298)</td>
<td>54,324</td>
</tr>
<tr>
<td>2025 thru 2029</td>
<td>66,010</td>
<td>47,823</td>
<td>(11,224)</td>
<td>36,599</td>
</tr>
<tr>
<td>2030 thru 2034</td>
<td>54,785</td>
<td>30,359</td>
<td>(6,495)</td>
<td>23,864</td>
</tr>
<tr>
<td>2035 thru 2039</td>
<td>62,070</td>
<td>15,607</td>
<td>(2,909)</td>
<td>12,698</td>
</tr>
<tr>
<td>2040 thru 2043</td>
<td>32,075</td>
<td>2,193</td>
<td>(88)</td>
<td>2,105</td>
</tr>
<tr>
<td>Subtotal</td>
<td>405,240</td>
<td>257,084</td>
<td>(49,540)</td>
<td>207,544</td>
</tr>
<tr>
<td>Un-amortized Premium</td>
<td>21,416</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>$ 426,656</td>
<td>$ 257,084</td>
<td>($49,540)</td>
<td>$ 207,544</td>
</tr>
</tbody>
</table>

The federal budget agreement enacted at the end of 2013 did not include sequestration relief on reimbursements for direct-pay bonds (BAB’s) and it extended the sequestration for two years beyond the original termination date of 2021 (through FFY 2023). The reduction in funding as a result of sequestration is 7.2% beginning October 1, 2013. Revenue Interest Rebate has been reduced by 7.2% through 2023.
(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 2014, 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.

(Change to table)

<table>
<thead>
<tr>
<th>Type</th>
<th>Expensed</th>
<th>Capitalized</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewal &amp; Replacement</td>
<td>$ 9,430</td>
<td>$ 1,849</td>
<td>$ 11,279</td>
</tr>
</tbody>
</table>

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

(e) 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, 2014 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 2014, the Commissioner and State Treasurer agreed to a modification of the payment schedule for fiscal years 2015 and 2016.
During fiscal year 2014, a note payment of $15.0 million (including $1.0 million in interest) was made to the State Highway Fund.

The annual maturities are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Payable June 30, Principal</th>
<th>Interest</th>
<th>Total Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$ 13,765</td>
<td>$ 405</td>
<td>$ 14,170</td>
</tr>
<tr>
<td>2016</td>
<td>414</td>
<td>4</td>
<td>418</td>
</tr>
<tr>
<td>Total</td>
<td>$ 14,179</td>
<td>$ 409</td>
<td>$ 14,588</td>
</tr>
</tbody>
</table>

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 2014, as required by statute, Group I members contributed 7.0% of their 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. The Turnpike System’s contribution rate for fiscal year 2014 was 12.13% of the covered payroll for Group I employees from July 1, 2013 thru June 30, 2014.

(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, 2014, 2013, and 2012, were $907,000, $966,000, and $1,042,000 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, 2014 was $206,381. 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 June 30, 2013. 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, 2013 and 2014:

<table>
<thead>
<tr>
<th></th>
<th>6/30/2012 Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>6/30/2013 Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>6/30/2014 Balance</th>
<th>Current</th>
<th>Long-Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$ 1,989</td>
<td>$ 678</td>
<td>($463)</td>
<td>$ 2,204</td>
<td>$ 222</td>
<td>($484)</td>
<td>$ 1,942</td>
<td>$ 472</td>
<td>$ 1,470</td>
</tr>
</tbody>
</table>
The workers compensation claim expense is recorded in the Statement of Revenues, Expenses and Changes in Net Position, Personal Services and the liability is recorded in the Statement of Net Position, Claims and Compensated Absences Payable.

Note 11) Commitments

(a) E-ZPass Customer Service Contract
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 transportation improvement plan, adopted by the Legislature in 1986 and amended through 2024, 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 and the most recent ten-year plan for the fiscal years 2015 – 2024 was signed into law August, 2014, (Chapter 326, Laws of 2014).

(c) Maintenance
The Turnpike System (other than the Spaulding Turnpike extension) is maintained and repaired by the Bureau of Turnpikes or their contracted vendors. With the exception of other insignificant proceeds, all maintenance and repair costs have been funded from Turnpike operating revenues since the beginning of the Turnpike System in 1950.

(d) Payroll Matters
As a result of converting to a new consolidated payroll system, the State has become aware of certain potential compliance concerns with Federal wage and hour regulations associated with the State’s payroll processing procedures. An estimate of potential liability for the Turnpike System related to these circumstances cannot be determined at this time.

(e) 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.

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 remained unchanged through June 30, 2014. This was a result of a re-estimate by an independent consulting firm. See Statement of Net Position, Current and Non-current Other Liabilities.

During fiscal year 2014, the Turnpike System recognized an additional PRO liability of $150,677 which related to contaminated soil at a project site located in the Town of Newington. On June 30, 2014, the pollution obligation for this project is $309,177.

During fiscal year 2014, the Turnpike System did not recognize any additional liability for a project site at the Hampton toll plaza. At June 30, 2014, the pollution remediation obligation for the project is $450,980.

**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 is not significant.
OTHER SUPPLEMENTARY INFORMATION SECTION
(Unaudited)

This section includes the budget to actual comparison and accompanying note.
## New Hampshire Turnpike System

### Budget to Actual (Non-GAAP Budgetary Basis) Revenue Schedule

For the Fiscal Year Ended June 30, 2014  
(UNAUDITED)  

(Amounts in thousands)

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Original</th>
<th>Final</th>
<th>Budgetary Basis</th>
<th>Favorable (Unfavorable) with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restricted</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transponder Sales</td>
<td>$14</td>
<td>$14</td>
<td>$585</td>
<td>$571</td>
</tr>
<tr>
<td>Sponsorship Fees</td>
<td>91</td>
<td>91</td>
<td>92</td>
<td>1</td>
</tr>
<tr>
<td>Bonds Interest Subsidy</td>
<td>2,905</td>
<td>2,905</td>
<td>2,905</td>
<td>0</td>
</tr>
<tr>
<td>Vending Machine Income</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Blue Star Memorial</td>
<td>1,565</td>
<td>1,565</td>
<td>1,443</td>
<td>(122)</td>
</tr>
<tr>
<td>Spaulding Turnpike Second Barrel</td>
<td>285</td>
<td>285</td>
<td>285</td>
<td>0</td>
</tr>
<tr>
<td>Spaulding Turnpike /US 4/NH 16</td>
<td>257</td>
<td>257</td>
<td>212</td>
<td>(45)</td>
</tr>
<tr>
<td><strong>Total Restricted Revenue</strong></td>
<td>5,124</td>
<td>5,124</td>
<td>5,529</td>
<td>405</td>
</tr>
<tr>
<td><strong>Unrestricted</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spaulding Toll Cash Receipts</td>
<td>4,495</td>
<td>4,495</td>
<td>4,800</td>
<td>305</td>
</tr>
<tr>
<td>Blue Star Toll Cash Receipts</td>
<td>18,321</td>
<td>18,321</td>
<td>17,188</td>
<td>(1,133)</td>
</tr>
<tr>
<td>Central NH Toll Cash Receipts</td>
<td>14,223</td>
<td>14,223</td>
<td>14,297</td>
<td>74</td>
</tr>
<tr>
<td>Property Damage</td>
<td>123</td>
<td>123</td>
<td>39</td>
<td>(84)</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>210</td>
<td>210</td>
<td>211</td>
<td>1</td>
</tr>
<tr>
<td>Administration Fees - Electronic Toll Collection</td>
<td>11</td>
<td>11</td>
<td>10</td>
<td>(1)</td>
</tr>
<tr>
<td>Toll Evasion</td>
<td>18</td>
<td>18</td>
<td>1</td>
<td>(17)</td>
</tr>
<tr>
<td>Lottery Vending</td>
<td>14</td>
<td>14</td>
<td></td>
<td>(14)</td>
</tr>
<tr>
<td>Rental Income</td>
<td>31</td>
<td>31</td>
<td>101</td>
<td>70</td>
</tr>
<tr>
<td>Cash Management Interest</td>
<td>42</td>
<td>42</td>
<td>63</td>
<td>21</td>
</tr>
<tr>
<td>Combined Debt Service Interest</td>
<td>13</td>
<td>13</td>
<td></td>
<td>(13)</td>
</tr>
<tr>
<td>General Interest-Reserve</td>
<td>100</td>
<td>100</td>
<td></td>
<td>(100)</td>
</tr>
<tr>
<td>Insurance Reserve Interest</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Construction Account Interest 2009</td>
<td>40</td>
<td>40</td>
<td>(216)</td>
<td>(256)</td>
</tr>
<tr>
<td>Transponder Lease to Own</td>
<td>9</td>
<td>9</td>
<td>24</td>
<td>15</td>
</tr>
<tr>
<td>Statement Fee Revenue</td>
<td>32</td>
<td>32</td>
<td>28</td>
<td>(4)</td>
</tr>
<tr>
<td>Violation Enforcement System Admin Fees Less than 30 Days</td>
<td>743</td>
<td>743</td>
<td>1,429</td>
<td>686</td>
</tr>
<tr>
<td>Central Toll E-ZPass Revenue</td>
<td>28,877</td>
<td>28,877</td>
<td>28,255</td>
<td>(622)</td>
</tr>
<tr>
<td>Blue Star Toll E-ZPass Revenue</td>
<td>40,779</td>
<td>40,779</td>
<td>39,407</td>
<td>(1,372)</td>
</tr>
<tr>
<td>Spaulding Toll E-ZPass Revenue</td>
<td>10,005</td>
<td>10,005</td>
<td>9,777</td>
<td>(228)</td>
</tr>
<tr>
<td>Truck Rental</td>
<td>3</td>
<td>3</td>
<td></td>
<td>(3)</td>
</tr>
<tr>
<td>Right-of-Way Property Sales</td>
<td>12</td>
<td>12</td>
<td>19</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total Unrestricted Revenue</strong></td>
<td>118,106</td>
<td>118,106</td>
<td>115,438</td>
<td>(2,668)</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$123,230</td>
<td>$123,230</td>
<td>$120,967</td>
<td>$ (2,263)</td>
</tr>
</tbody>
</table>

See accompanying Independent Auditor's Report.
### New Hampshire Turnpike System

#### Budget to Actual (Non-GAAP Budgetary Basis) Expense Schedule

**For the Fiscal Year Ended June 30, 2014**

(Amounts in thousands)

<table>
<thead>
<tr>
<th>Expenditure Type</th>
<th>Original</th>
<th>Final</th>
<th>Budgetary Basis</th>
<th>Favorable (Unfavorable) with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welcome Centers and Rest Area Operations</td>
<td>$1,324</td>
<td>$1,324</td>
<td>$1,196</td>
<td>$128</td>
</tr>
<tr>
<td>I-95 Bridge Purchase Repayment</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
<td>0</td>
</tr>
<tr>
<td>Administration and Support</td>
<td>9,406</td>
<td>10,346</td>
<td>9,592</td>
<td>754</td>
</tr>
<tr>
<td>Renewal &amp; Replacement</td>
<td>10,000</td>
<td>10,000</td>
<td>11,136</td>
<td>(1,136)</td>
</tr>
<tr>
<td>Central Operations</td>
<td>4,962</td>
<td>5,035</td>
<td>4,246</td>
<td>789</td>
</tr>
<tr>
<td>Central Maintenance</td>
<td>4,798</td>
<td>4,856</td>
<td>4,602</td>
<td>254</td>
</tr>
<tr>
<td>East NH Turnpike Blue Star Operations</td>
<td>2,990</td>
<td>3,020</td>
<td>2,497</td>
<td>523</td>
</tr>
<tr>
<td>East NH Turnpike Blue Star Maintenance</td>
<td>2,355</td>
<td>2,429</td>
<td>2,060</td>
<td>369</td>
</tr>
<tr>
<td>East NH Turnpike Spaulding Operations</td>
<td>1,891</td>
<td>1,954</td>
<td>1,779</td>
<td>175</td>
</tr>
<tr>
<td>East NH Turnpike Spaulding Maintenance</td>
<td>2,712</td>
<td>2,775</td>
<td>1,392</td>
<td>1,383</td>
</tr>
<tr>
<td>Toll Collection</td>
<td>9,101</td>
<td>9,101</td>
<td>8,984</td>
<td>117</td>
</tr>
<tr>
<td>Turnpike Debt Service</td>
<td>42,500</td>
<td>42,500</td>
<td>38,944</td>
<td>3,556</td>
</tr>
<tr>
<td>Transponder Inventory Fund</td>
<td>1,069</td>
<td>1,069</td>
<td>907</td>
<td>162</td>
</tr>
<tr>
<td>Retirees Health Insurance</td>
<td>400</td>
<td>623</td>
<td>623</td>
<td>0</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>27</td>
<td>27</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total Expenses before Capital Expenses</strong></td>
<td>108,535</td>
<td>110,384</td>
<td>103,318</td>
<td>7,066</td>
</tr>
</tbody>
</table>

#### Capital Expenses

<table>
<thead>
<tr>
<th>Capital Expenses</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RSA 237:2 I Blue Star Memorial</td>
<td></td>
<td></td>
<td>3,075</td>
<td>(3,075)</td>
</tr>
<tr>
<td>RSA 237:2 VII Central NH Turnpike</td>
<td></td>
<td></td>
<td>19,014</td>
<td>(19,014)</td>
</tr>
<tr>
<td>Toll Collection Equipment</td>
<td></td>
<td></td>
<td>7,321</td>
<td>(7,321)</td>
</tr>
<tr>
<td>Spaulding Turnpike Second Barrel</td>
<td>285</td>
<td>556</td>
<td></td>
<td>(271)</td>
</tr>
<tr>
<td>Spaulding Turnpike/US 4/NH 16</td>
<td>151</td>
<td>20,171</td>
<td></td>
<td>(20,020)</td>
</tr>
<tr>
<td><strong>Total Capital Expenses</strong></td>
<td></td>
<td></td>
<td>436</td>
<td>(49,701)</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>108,535</td>
<td>110,820</td>
<td>153,455</td>
<td>(42,635)</td>
</tr>
</tbody>
</table>

#### Excess (Deficiency) of Revenues Over (Under) Expenditures

| Excess (Deficiency) of Revenues Over (Under) Expenditures | $14,695  | $12,410  | ($32,488) | $40,372 |

The Note to Other Supplementary Information is an integral part of this schedule.

See accompanying Independent Auditor's Report.
Note to Other Supplementary Information

Note 1) Budget Control

The Laws of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the two years, consists of three parts: Part I is the Governor’s program for meeting all expenditure needs and estimating revenues; Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government; and Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The Turnpike System operating budget is prepared principally on a modified cash basis and adopted for enterprise funds, with the exception of Capital Project appropriations. The Capital Projects budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the Budget to Actual Non-GAAP Budgetary Basis Schedules.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the departmental level.

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State’s financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of the Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. The Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.