



**STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM**

ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2015**



ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2015

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

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

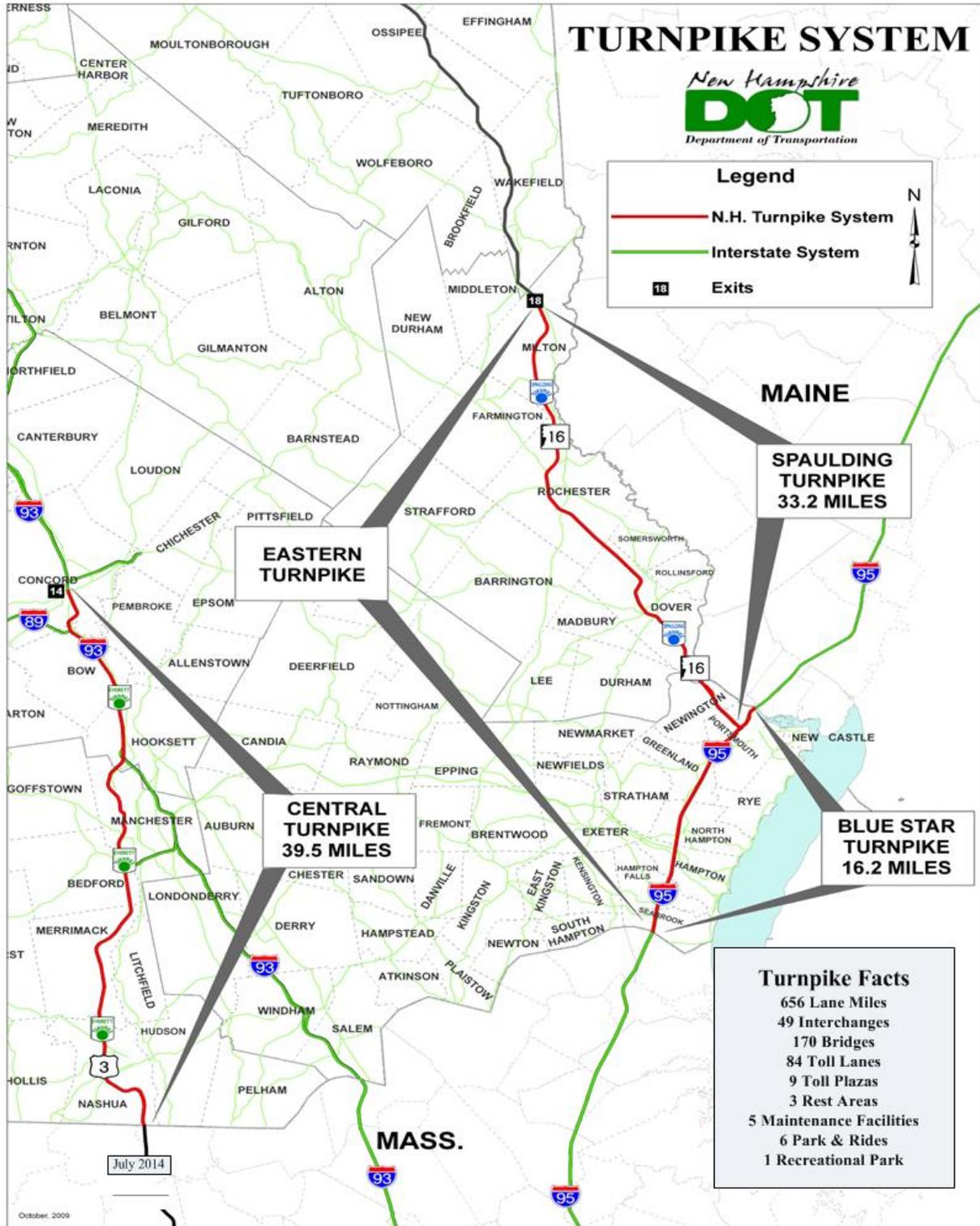
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INTRODUCTORY SECTION

(Unaudited)

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



STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION



VICTORIA F. SHEEHAN
COMMISSIONER

WILLIAM J. CASS, P.E.
ASSISTANT COMMISSIONER

January 13, 2016

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, 2015.

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 656 total lane miles, 170 bridges, 49 interchanges, 84 toll lanes, 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,

A handwritten signature in blue ink that reads "Victoria F. Sheehan".

Victoria F. Sheehan
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
David K. Wheeler

State Treasurer

William F. Dwyer

Secretary of State

William M. Gardner

Attorney General

Joseph A. Foster

NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION

Commissioner

Victoria F. Sheehan

Assistant Commissioner & Chief Engineer

William J. Cass, P.E.

Deputy Commissioner

Vacant

Director of Operations

Vacant

Director of Finance

Marie A. Mullen

Financial Reporting Administrator

Leonard L. Russell, CPA

Turnpike System Administrator

John W. Corcoran, P.E.

Turnpike System Assistant Administrator

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 auditors' report, the financial statements as of and for the fiscal year ended June 30, 2015, and the accompanying notes to the financial statements.



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

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, 2015, 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.



To the Fiscal Committee of the General Court
State of New Hampshire
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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, 2015, 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.

Emphasis of Matter

As discussed in Notes 1 and 9, the Turnpike System adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles requires that the Management's Discussion and Analysis on pages 11 through 16 and the Schedule of Proportionate Share of Net Pension Liability and Schedule of Turnpike Contributions on page 40 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 42-44 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.



To the Fiscal Committee of the General Court
State of New Hampshire
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2016 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.

KPMG LLP

January 13, 2016

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

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, 2015. This section should be read in conjunction with the Turnpike System financial statements, which follow this section.

Financial Highlights

- Total Net Position increased by \$11.5 million or 2.1% to \$546.9 million. This increase is primarily due to the proceeds of \$52.3 million of construction cash and debt service reserve from the 2015 Series A bond sale on June 24, 2015 (net of the cost of issuance and the underwriter's discount of \$0.3 million) and the reduction of current outstanding principal on revenue bonds and note payable of \$16.8 million. Offsetting the increase was the \$27.7 million reduction of capital assets in Infrastructure and Land due to Impairment of Capital Assets and the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions* that reduced the Net Position by \$10.1 million.
- Total Net Capital Assets decreased by \$13.1 million or 1.5% from the prior year to \$877.4 million. Infrastructure increased by \$60.4 million or 6.8% to \$951.2 million. However, this was offset by a net reduction of \$27.7 million in Land and Infrastructure, due to the Impairment of the unbuilt portions of the Nashua – Hudson Circumferential Highway project (see Note 4 for additional information).
- The Turnpike System at June 30, 2015 had approximately a \$19.7 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 \$0.4 million (principal and interest) is payable within one year.
- Cash and Cash Equivalents - Restricted increased by \$13.2 million or 51.1% to \$38.9 million due to the proceeds from the 2015 Series A bond sale of which \$20.3 million is held in the Revenue Bond Cash Construction Account and \$3.2 million is held in the Revenue Bond Debt Service Reserve Account.
- Investments - Restricted increased by \$37.5 million or 113.7% to \$70.5 million due to the proceeds from the 2015 Series A bond sale of which \$29.5 million is held in the Revenue Bond Cash Construction Account (Investment) and an increase in the Revenue Bond Debt Service Reserve Account (Investment) of \$8.0 million.
- Total Operating Revenues increased by \$5.1 million or 4.3% to \$124.4 million. The increase was due primarily to increased toll revenue from commercial vehicles and E-ZPass customers.
- Total Operating Expenses increased by \$17.1 million or 20.2% to \$102.0 million. The increase was due primarily to the \$27.7 million impairment of the unbuilt portions of the Nashua – Hudson Circumferential Highway project. The two projects identified for impairment were initiated in the 1970s and although costs were incurred for preliminary engineering design and land/property purchases, neither project was ultimately completed. The projects are also not included in the state's ten-year capital improvement plan nor have been funded. For purposes of accounting, these two projects have been deemed to be permanently impaired. The cumulative effect of this impairment is a one-time charge of \$27.7 million to Operating Expenses (Impairment of Capital Assets) and a reduction to Non-current Assets of the same. The expense did not have a cash impact on Turnpike operations. (See Note 4 for additional information).

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, 2015
(Unaudited)**

(I) Summary of Net Position		(Amounts in thousands)			
		2015	2014*	\$ Change	% Change
Assets:	Current Assets	\$ 165,303	\$ 124,188	\$ 41,115	33.1%
	Net Capital Assets	877,386	890,497	(13,111)	(1.5%)
	Total Assets	1,042,689	1,014,685	28,004	2.8%
Deferred Outflows of Resources:	Pension*	830	810	20	2.5%
	Loss on Refunding	2,277	3,009	(732)	(24.3%)
Liabilities:	Current Liabilities	46,885	62,885	(16,000)	(25.4%)
	Non-Current Liabilities*	450,677	420,235	30,442	7.2%
	Total Liabilities	497,562	483,120	14,442	3.0%
Deferred Inflows of Resources:	Pension*	1,367	-	1,367	100.0%
Net Position:	Net Investment in Capital Assets	474,775	452,671	22,104	4.9%
	Restricted for Debt Repayments	56,580	55,735	845	1.5%
	Restricted for Uninsured Risks	3,006	3,001	5	0.2%
	Unrestricted	12,506	23,977	(11,471)	(47.8%)
	Total Net Position	\$ 546,867	\$ 535,384	\$ 11,483	2.1%

* Prior year Net Position is restated per GASB Statement No. 68 to account for Pension Liability of \$10.1 million.

- Total Assets increased by \$28.0 million over the prior year. Current Assets increased primarily due to the proceeds from the issuance of the 2015 Series A revenue bonds. Net Capital Assets (less depreciation and amortization) decreased approximately \$13.1 million. See Note 4 for detail on Capital Assets activity and Note 11(c), Capital Improvement Program, for more information.
- Total Liabilities increased by \$14.4 million over the prior year. The increase is primarily due to an increase in non-current liabilities. Current Liabilities decreased by \$16.0 million primarily due to the decrease in Revenue Bonds Payable and Note Payable to State Highway Fund. See Note 8(e), Note Payable to State Highway Fund – Debt Maturity for additional information.
- Non-current Liabilities increased by \$30.4 million primarily due to a \$31.0 million increase in revenue bonds payable from the 2015 Series A bond issuance offset by a \$1.6 million decrease in pension expense. See Note 8(b), Changes in Non-current Liabilities for additional information.
- Total Net Position increased by \$11.5 million or 2.1% to \$546.9 million. This increase is primarily due to the proceeds of \$52.3 million of construction cash (net of the cost of issuance and the underwriter's discount) and debt service reserve from the 2015 Series A bond sale on June 24, 2015 and the reduction of outstanding principal on revenue bonds and note payable of \$16.8 million. Offsetting the increase was the net \$27.7 million reduction of capital assets in Infrastructure and Land due to Impairment of Capital Assets and the implementation of the Governmental Accounting Standards Board Statement (GASB) No. 68 *Accounting and Financial Reporting for Pensions*. The implementation of GASB Statement No. 68 resulted in a fiscal year ending June 30, 2015 Statement of Net Position reduction of \$10.7 million (\$1.3 million of deferred inflows of resources plus \$9.4 million of net pension liability) as well as a fiscal year ending June 30, 2014 restatement of the Statement of Net Position of \$10.1 million.

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

(II) Current Liabilities	(Amounts in thousands)			
	2015	2014	\$ Change	% Change
Accounts Payable	\$ 9,225	\$ 6,610	\$ 2,615	39.6%
Accrued Payroll	818	643	175	27.2%
Due to Other Funds	460	1,609	(1,149)	(71.4%)
Unearned Revenue	10,495	10,560	(65)	(0.6%)
Revenue Bonds Payable	19,455	22,875	(3,420)	(15.0%)
Note Payable to State Highway Fund	414	13,765	(13,351)	(97.0%)
Accrued Interest Payable	5,445	5,998	(553)	(9.2%)
Claims and Compensated Absences Payable	422	755	(333)	(44.1%)
Other Liabilities	151	70	81	115.7%
Total Current Liabilities	\$ 46,885	\$ 62,885	(\$16,000)	(25.4%)

- Current Liabilities consist primarily of accrued operating expenses, unearned revenue, and the current portion of revenue bonds and note payable. The decrease in Current Liabilities is primarily due to the decrease of \$13.4 million in Note Payable to State Highway Fund and \$3.4 million in Revenue Bonds Payable (see Note 8(e) for additional information). Accounts Payable increased by \$2.6 million due to the timing of payments on construction projects, slightly offsetting the decrease in Current Liabilities.

(III) Change in Net Position	(Amounts in thousands)			
	2015	2014*	\$ Change	% Change
Operating Revenues	\$ 124,412	\$ 119,325	\$ 5,087	4.3%
Operating Expenses*	(101,977)	(84,869)	17,108	20.2%
Operating Income	22,435	34,456	(12,021)	(34.9%)
Non-Operating Expenses	(11,026)	(12,453)	1,427	(11.5%)
Change in Net Position Before Capital Contributions	11,409	22,003	(10,594)	(48.1%)
Capital Contributions	74	3,108	(3,034)	(97.6%)
Change in Net Position*	11,483	25,111	(13,628)	(54.3%)
Net Position - July 1*	535,384	510,273	25,111	4.9%
Net Position - June 30	\$ 546,867	\$ 535,384	\$ 11,483	2.1%

* Prior year Operating Expenses and Net Position are restated per GASB Statement No. 68 to account for Pension Liability of \$10.1 million.

- The Turnpike System's primary revenues are generated from toll collections. The Central Turnpike generated net revenue of \$44.0 million; the Blue Star Turnpike \$61.7 million and the Spaulding Turnpike finished the year with \$15.7 million in net revenue. Another \$3.0 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 \$124.4 million for the year ended June 30, 2015.
- Total Operating Expenses for the year increased approximately \$17.1 million or 20.2% to \$102.0 million. The primary increase in 2015 over the prior fiscal year was the recognition of the \$27.7 million impairment of the unbuilt portions of the Nashua – Hudson Circumferential Highway project. The expense did not have a cash impact on operations (see Note 4 for additional information). Operating Expenses in fiscal year 2014 were adjusted upwards of \$10.1 million to take into account the implementation of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*.
- Total Non-Operating Expenses decreased approximately \$1.4 million or 11.5% to \$11.0 million. The primary decrease was the result of a reduction of \$1.5 million in interest expense on bonds and the note.

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Turnpike System Revenue and Traffic Trends

During the twelve months ended on June 30, 2015, the number of traffic transactions processed through the E-ZPass program was 72.3% of total transactions. The Hampton and Hooksett Open Road Tolling (ORT) plazas continue to lead the growth on the System reflecting a 2.6% and 1.8% increase respectively, in E-ZPass utilization over the previous year.

The System overall in fiscal year 2015, experienced an increase in traffic transactions of 0.8 million or 0.7% over fiscal year 2014.

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 Corporation, (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 2015, 2014, and 2013, the Turnpike System operating expenses for Renewal & Replacement were \$7.5 million, \$9.4 million, and \$6.4 million respectively. Renewal & Replacement capitalized expenses for fiscal years 2015, 2014 and 2013 were \$0.7 million, \$1.8 million, and \$3.3 million respectively. For fiscal year 2016, the budget is \$9.7 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

Changes in Key Personnel

In fiscal year 2015, Christopher M. Waszczuk, P.E., was promoted from Turnpike Administrator to Director of Project Development. John W. Corcoran, P.E. replaced him as Turnpike Administrator effective July 21, 2015. Mr. Corcoran holds a Civil Engineering degree from Clarkson University and has been with the Department for 23 years. His experience includes Bureau of Highway design, Assistant Administrator for the Bureau of Traffic and most recently as Assistant Administrator for the Bureau of Turnpikes. Mr. Corcoran has significant experience in both Project Development and Operations Divisions including overseeing the Toll Collection process and assisting during emergency events in the Emergency Operations Center.

In fiscal year 2016, Victoria F. Sheehan was appointed Commissioner of the Department of Transportation by the Governor and Executive Council effective October 19, 2015. On December 2, 2015, the Governor and Executive Council reappointed Ms. Sheehan as Commissioner of the Department of Transportation. Her term is effective December 3, 2015 through December 3, 2019. Ms. Sheehan holds a Masters of Engineering degree from the University of Edinburgh. Ms. Sheehan was the Manager of Strategic Planning and Highways Performance at the

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Massachusetts Department of Transportation, coordinating the Highway Division's five-year, \$5 billion capital plan and annual \$600 million operating budget, and was also responsible for asset management, project controls and performance oversight. She also served in various other roles at the Massachusetts Department of Transportation, including the accelerated Bridge Program Manager and Bridge Program Consultant Contracts Administrator. Ms. Sheehan also served as the Project Design Engineer and Resident Engineer for the Massachusetts Highway Department.

Effective September 3, 2015, the Director of Operations resigned from the Department of Transportation in order to take a position outside of the Department.

Effective December 4, 2015, the Deputy Commissioner, resigned from the Department of Transportation in order to take a position outside of the Department.

E-ZPass Back Office System Contract

On October 7, 2015, the Turnpike System entered into a contract with Cubic Transportation Systems, Inc. in the amount of \$51.9 million for design, testing, installation and maintenance services for the operation of the NH E-ZPass back office (customer billings, collections and service) operations system for the Turnpike System through June 30, 2021. (See footnote 11(b) *E-ZPass Back Office System Contract* for further information.)

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.

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

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 the period. The Turnpike System's bond credit ratings in June 2015 were as follows: Fitch Ratings A+, Moody's Investors Service A1, and Standard & Poor A+. Outlook is considered stable.

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 2015 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, 2015
(Dollars in thousands)

ASSETS and DEFERRED OUTFLOWS of RESOURCES

Current Assets:

Cash and Cash Equivalents	\$ 47,920
Cash and Cash Equivalents – Restricted	38,905
Investments - Restricted	70,493
Accounts Receivable (Net of Allowances)	6,121
Due from Other Funds	25
Inventories	1,819
Prepaid Assets	<u>20</u>
Total Current Assets	<u>165,303</u>

Non-current Assets:

Capital Assets:	
Land	103,670
Land Improvements	1,972
Buildings	6,613
Equipment and Computer Software	48,798
Construction in Progress	114,171
Infrastructure	951,176
Less: Accumulated Depreciation	<u>(349,014)</u>
Net Capital Assets	<u>877,386</u>
Total Non-current Assets	<u>877,386</u>
Total Assets	<u>1,042,689</u>

Deferred Outflows of Resources:

Pension (Note 9(c))	830
Loss on Refunding	<u>2,277</u>

Total Assets and Deferred Outflows of Resources 1,045,796

LIABILITIES and DEFERRED INFLOWS of RESOURCES

Current Liabilities:

Accounts Payable	9,225
Accrued Payroll	818
Due to Other Funds	460
Unearned Revenue	10,495
Revenue Bonds Payable	19,455
Note Payable to State Highway Fund	414
Accrued Interest Payable	5,445
Claims and Compensated Absences Payable	422
Other Liabilities	<u>151</u>
Total Current Liabilities	<u>46,885</u>

Non-current Liabilities:

Revenue Bonds Payable	434,830
Pension	9,369
Claims and Compensated Absences Payable	2,273
Other Non-current Liabilities	<u>4,205</u>
Total Non-current Liabilities	<u>450,677</u>
Total Liabilities	<u>497,562</u>

Deferred Inflows of Resources:

Pension (Note 9(c))	<u>1,367</u>
---------------------	--------------

Total Liabilities and Deferred Inflows of Resources 498,929

NET POSITION

Net Investment in Capital Assets	474,775
Restricted for Debt Repayments	56,580
Restricted for Uninsured Risks	3,006
Unrestricted	<u>12,506</u>
Total Net Position	<u>\$ 546,867</u>

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, 2015
(Dollars in thousands)

OPERATING REVENUES

Toll Revenue - Cash	\$ 34,757
Toll Revenue - E-ZPass	86,596
Other Toll Operating Revenue (Net of Allowances)	2,217
Transponder Revenue	640
Federal Revenue	<u>202</u>
Total Operating Revenues	<u>124,412</u>

OPERATING EXPENSES

Personnel Services	9,868
Payroll Benefits	5,599
Enforcement	6,312
Renewal & Replacement	7,544
Supplies, Materials and Other	3,467
Equipment and Repairs	4,988
Indirect Costs	2,645
Heat, Light and Power	1,095
Bank and Credit Card Fees	2,328
Rentals	1,076
E-ZPass Processing Fees	6,362
Transponder Expense	620
Depreciation and Amortization	22,398
Impairment of Capital Assets	<u>27,675</u>
Total Operating Expenses	<u>101,977</u>
Operating Income	<u>22,435</u>

NON-OPERATING REVENUES (EXPENSES)

Investment Income	87
Welcome Center Revenue	118
Miscellaneous Income	3,157
Gain on Sale of Other Capital Assets	7
Interest on Bonds and Note	(14,005)
Miscellaneous Expense	<u>(390)</u>
Total Non-operating Revenues (Expenses)	<u>(11,026)</u>
Change in Net Position Before Capital Contributions	11,409
Capital Contributions	<u>74</u>
Change in Net Position	11,483
<i>Net Position - July 1 (restated, Note 1(h))</i>	<u>535,384</u>
<i>Net Position - June 30</i>	<u>\$ 546,867</u>

See accompanying notes to financial statements.

NEW HAMPSHIRE TURNPIKE SYSTEM
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015
(Dollars in thousands)

Cash Flows from Operating Activities	
Receipts from Customers	\$ 123,794
Payments to Employees	(16,418)
Payments to Suppliers	<u>(32,956)</u>
Net Cash Provided by Operating Activities	<u>74,420</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and Construction of Capital Assets	(31,876)
Interest Paid on Revenue Bonds and Note Payable	(20,987)
Principal Paid on Bonds	(22,925)
Principal Paid on Note Payable Due State Highway Fund	(13,765)
Build America Bonds Subsidy Receipt	2,879
Gross Proceeds from Bond Issuance	52,612
Underwriter's Discount	(85)
Costs of Issuances	<u>(305)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(34,452)</u>
Cash Flows from Investing Activities	
Purchase of Investment	(67,498)
Proceeds from Sales and Maturities of Investments	29,994
Investment Income	<u>87</u>
Net Cash Used by Investing Activities	<u>(37,417)</u>
Net Increase in Cash and Cash Equivalents	2,551
Total Cash and Cash Equivalents - July 1	<u>84,274</u>
Total Cash and Cash Equivalents - June 30	<u>\$ 86,825</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 22,435
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	22,398
Impairment of Capital Assets	27,675
Miscellaneous Income	375
Change in Operating Assets and Liabilities:	
Change in Receivables	(626)
Change in Inventories	(415)
Change in Net Pension Liability (Net of Deferred Amounts)	(232)
Change in Accounts Payable and Other Accruals	2,776
Change in Deferred Revenue	<u>34</u>
Net Cash Provided by Operating Activities	<u>\$ 74,420</u>
Turnpike Non-Cash Capital and Related Financing Activities:	
Capital Contributions	\$ 39

See accompanying notes to financial statements.

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**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

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, 2015 is net of Allowances for Un-collectibles of \$7.9 million.

(Amounts in thousands)

Accounts Receivable	Amount
E-ZPass Reciprocity	\$ 4,511
Violation Tolls and Fees Receivable (Net of Allowances for Un-Collectibles)	511
Cash in Transit-Toll Revenue	205
Interest Receivable	521
Miscellaneous	195
Credit Card Equity Fees	178
Total Accounts Receivable	\$ 6,121

(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

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

capitalized. Capital assets also include certain identified Renewal & Replacement (R&R) costs. Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets:

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

(g) Adoption of New Accounting Pronouncements

During the fiscal year ended June 30, 2015, the Turnpike System adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 68, Accounting and Financial Reporting for *Pensions*, was issued as an amendment to GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, was issued as an amendment to GASB Statement No. 68. The new standards significantly change how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide through pension plans administered through trust or equivalent arrangements. Under the new standards, the Turnpike will report a net pension liability and related amounts of deferred outflows of resources and deferred inflows of resources associated with pension benefits provided through the New Hampshire Retirement System. The implementation of GASB Statement No. 68 resulted in a fiscal year ending June 30, 2015 Statement of Net Position reduction of \$10.7 million (\$1.3 million of deferred inflows of resources plus \$9.4 million of net pension liability) as well as a fiscal year ending June 30, 2014 restatement of the Statement of Net Position of \$10.1 million. In addition, the Notes to the Basic Financial Statements reflect the Turnpike System's proportionate share of total pension expense, plan liabilities and assets, and deferred outflows of resources and inflows of resources related to pensions, along with other descriptive information about the plan (see Note 9).

(h) Accounting Changes

The Turnpike System adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Implementation of this guidance requires state and local government employers that contribute to defined benefit pension plans to recognize the Net Pension Liability and the Pension Expense on their financial statements, along with the related Deferred Outflows of Resources and Deferred Inflows of Resources. The Net Pension Liability is the difference between the Total Pension Liability and the plan's fiduciary net position. The related effect on beginning Net Position in fiscal year 2015 is:

(Amounts in thousands)

Net Position, as previously reported	\$ 545,522
Pension Liability	(10,138)
Net Position, as restated	\$ 535,384

(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

NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

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) Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire State Retirement System (the Plan) and additions to/deductions from the its fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value.

(k) 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, rent receipts, sales of land and equipment and vending machine sales.

(l) 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.

(m) 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.

(n) 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 and payments made by private entities. These are classified as Capital Contributions.

(o) 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.

(p) 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.

(q) Deferred Outflows of Resources and Deferred Inflows 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.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

In the Turnpike System financial statements, deferred outflows of resources have resulted as an offset to long-term revenue bonds payable. The effect of implementing GASB Statement No. 68 is reflected in the deferred outflows and deferred inflows of resources.

(r) Investments

Investments are reported at fair market 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.

Note 2) Cash and Cash Equivalents and Investments

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

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

General Reserve Account: Approximately \$19.7 million of cash and cash equivalents at June 30, 2015 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 (last and final note payment of \$0.4 million made July 2015).

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, 2015, the Turnpike System's bank balances exposed to custodial credit risk for cash and cash equivalents is as follows:

(Amounts in thousands)

Type	Collateralized and Held in State's Name	Uncollateralized	Federal Deposit Insurance Corporation	Total
Demand Deposits & Cash	\$ 28,027	\$ 30,753	\$ 250	\$ 59,030
Money Markets	19,749	-	-	19,749
Government- Sponsored Enterprise security	-	7,870	-	7,870
Total	\$ 47,776	\$ 38,623	\$ 250	\$ 86,649

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

Total Cash & Cash Equivalents as of June 30, 2015 amounted to \$86.8 million. In addition to \$86.6 million in bank balances shown above, the Turnpike also reported \$0.2 million of cash in transit, change accounts, and amounts due to Turnpike from other DOT intra-agency funds.

Investments: On June 30, 2015, the value of investments in US Government Agencies with maturity dates over 90 days of the date acquired amounted to \$12.5 million and Certificates of Deposit at \$7.5 million.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

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 US Treasury instruments. On June 30, 2015, the Turnpike System's investment in US Treasury Bonds and Bills was \$50.5 million. Concentration risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At June 30, 2015, the Turnpike System's investments and concentrations were primarily in U.S. Treasury Bills.

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 Government Sponsored Enterprise securities (GSEs) have the implied backing of the U.S. Government, those obligations are not explicitly guaranteed and are exposed to potential credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the State's investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investments or weighted average maturity (WAM) of a group of investments. The WAM is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objectives and are defined in the investment guidelines associated with those funds. The WAM at June 30, 2015 for the Turnpike System's investments is 0.67 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 amounted to \$109.4 million with \$38.9 million designated as Cash and Cash Equivalents and \$70.5 million designated as Investments. Restricted assets are segregated into the following accounts as of June 30, 2015:

(Amounts in thousands)

Restricted Assets	Amount
Revenue Bond Debt Service Reserve Account (Investment)	\$ 37,984
Revenue Bond Cash Construction Account (Investment)	29,503
Revenue Bond Insurance Reserve Account	3,006
Total Investments – Restricted	70,493
Revenue Bond Cash Construction Account	20,309
Revenue Bond Principal Debt Service Account	10,009
Revenue Bond Interest Debt Service Account	5,441
Revenue Bond Debt Service Reserve Account	3,146
Total Cash & Cash Equivalents – Restricted	38,905
Total Restricted Assets	\$ 109,398

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

NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

Service Account. The Revenue Bond Cash Construction Account is used to report the available balance of the bond proceeds. Payments made from this account cover the projects costs of the respective projects for which the bonds were issued. The June 2015 net bond proceeds for construction was \$50 million. The proceeds were derived from a total issue of \$52.6 million less \$2.3 million for the debt service reserve and less \$0.3 million for bond issue costs. The Revenue Bond Principal Debt Service Account and Revenue Bond Interest Debt Service Account are used to segregate resources accumulated for debt service payments on given maturity dates. See Note 8(c), Bonds - Debt Maturity. A Revenue Bond Special Redemption Account is 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. In addition to the above accounts, 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. 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). Both the Revenue Bond Special Redemption Account and the Revenue Bond Rebate Account had zero balances as of June 30, 2015.

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, 2015 was as follows:

(Amounts in thousands)

Type	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets not Being Depreciated:					
Land	\$ 114,405	\$ 28	(\$10,761)	(\$2)	\$ 103,670
Construction in Progress	161,515	37,175	(299)	(84,220)	114,171
Total Capital Assets not Being Depreciated:	275,920	37,203	(11,060)	(84,222)	217,841
Other Capital Assets:					
Equipment and Computer Software	48,805	28	(537)	502	48,798
Buildings and Building Improvements	6,438	-	-	175	6,613
Depreciable Land Improvements	-	-	-	1,972	1,972
Infrastructure	890,738	10	(21,170)	81,598	951,176
Total Other Capital Assets	945,981	38	(21,707)	84,247	1,008,559
Total Capital Assets	1,221,901	37,241	(32,767)	25	1,226,400
Less Accumulated Depreciation for:					
Equipment	(40,205)	(3,369)	538	-	(43,036)
Buildings and Building Improvements	(2,291)	(166)	-	-	(2,457)
Infrastructure	(288,908)	(18,765)	4,250	-	(303,423)
Depreciable Land Improvements	-	(98)	-	-	(98)
Total Accumulated Depreciation	(331,404)	(22,398)	4,788	-	(349,014)
Total Net Capital Assets	\$ 890,497	\$ 14,843	(\$27,979)	\$ 25	\$ 877,386

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

At June 30, 2015, the Turnpike System had contractual commitments for capital Turnpike System improvement projects of \$79.9 million.

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 2015 was 3.38%. This rate was then applied to the average fiscal year 2015 balances of qualifying open construction in progress projects. In fiscal year 2015, interest expense that was capitalized amounted to \$5.3 million.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* establishes accounting and financial reporting standards for capital assets to be considered impaired if the asset will no longer be used or it is determined that construction has ceased, the asset should be written down to the lower of carrying value or fair value. The Turnpike System in its review for permanently impaired assets as a result of construction stoppage identified two projects meeting this criterion: 10644 and 10644A, Nashua – Hudson Circumferential Highway project. Both projects originated in the 1970's and although costs were incurred for preliminary engineering design and land/property purchases, neither project was ultimately completed. The cumulative effect of these projects is a one-time charge of \$27.7 million to Operating Expenses (Impairment of Capital Assets) and a reduction to Non-current Assets of \$27.7 million broken down as follows:

(Amounts in thousands)

Type	Impairment Amount
Land	\$ 10,758
Infrastructure	20,376
Accumulated Depreciation	(3,459)
Total Impairment of Capital Assets	\$ 27,675

Note 5) Inter-fund Activity

In fiscal year 2015, expenses were incurred due to work performed by state agencies on behalf of the Turnpike System. Enforcement expenses of \$6.3 million were incurred for services provided by the New Hampshire Department of Safety. Department of Transportation Bridge Maintenance, Traffic Bureau, Transportation Systems, Management & Operations (TSMO), and Mechanical Services from the Highway Bureau of \$1.8 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 \$1.0 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 2015, Unearned Revenue included \$10.4 million in pre-paid tolls as well as \$0.1 million of funds from municipalities and developers to support their share of construction improvements.

Note 7) Leases

(a) Operating and Capital Leases

The Turnpike System had no significant operating or capital leases for fiscal year 2015.

(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 are 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. The northbound facility fully opened and was deemed substantially complete

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

and operational March 2015. The southbound facility opened and was deemed substantially complete and operational April 2015. Both facilities opened ahead of schedule and rent payments to the Turnpike System have commenced in accordance with the ground lease agreement. The guaranteed minimum rent payments over five years to the Turnpike System are \$86,000 for fiscal year 2015 and \$0.5 million each year thereafter through fiscal year 2020. The Turnpike System recorded \$113,433 in rent receipts for fiscal year 2015.

Note 8) Non-current Liabilities

(a) Bonds Authorized and Un-issued

Bonds authorized and un-issued amounted to \$50.2 million of revenue bonds at June 30, 2015. 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, 2015, the State had issued \$715.8 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 June 24, 2015 bond issuance are restricted to only fund costs on the following projects:

Central Turnpike

- 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
- Implementation of Open Road Tolling at Bedford

Spaulding Turnpike

- 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

(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 2015:

(Amounts in thousands)

Type	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Note Payable to State Highway Fund	\$ 14,179	\$ -	\$ 13,765	\$ 414	\$ 414	\$ -
Net Pension Liability	10,948	-	1,579	9,369	-	9,369
Claims and Compensated Absences Payable	2,990	41	336	2,695	422	2,273
Revenue Bonds	426,656	52,612	24,983	454,285	19,455	434,830
Other: Pollution Remediation	2,928	1,428	-	4,356	151	4,205
Total	\$ 457,701	\$ 54,081	\$ 40,663	\$ 471,119	\$ 20,442	\$ 450,677

Note: Beginning balances shown above reflect restated values for net pension liability due to implementation of GASB 68.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

(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 3.5% to 6.3%. The annual maturities on a cash basis are as follows:

(Amounts in thousands)

Payable June 30,	Revenue Principal	Revenue Interest	Revenue Interest Rebate	Net Interest
2016	\$ 19,455	\$ 21,266	(\$2,902)	\$ 18,364
2017	27,855	20,906	(2,902)	18,004
2018	17,890	19,519	(2,902)	16,617
2019	27,110	18,432	(2,902)	15,530
2020	30,040	17,179	(2,902)	14,277
2021 thru 2025	103,715	66,171	(13,834)	52,337
2026 thru 2030	67,975	43,936	(10,139)	33,797
2031 thru 2035	51,290	27,577	(5,812)	21,765
2036 thru 2040	64,735	12,305	(2,108)	10,197
2041 thru 2043	18,100	1,105	-	1,105
Subtotal	428,165	248,396	(46,403)	201,993
Un-amortized Premium	26,120	-	-	-
Total	\$ 454,285	\$ 248,396	(\$46,403)	\$ 201,993

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 three years beyond the original termination date of 2021 (through Federal fiscal year 2024). The reduction in funding as a result of sequestration is 7.3% beginning October 1, 2014. Revenue interest rebate has been reduced by 7.3% through 2024.

(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 2015, 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.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

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

(Amounts in thousands)

Type	Expensed	Capitalized	Total
Renewal & Replacement	\$ 7,544	\$ 685	\$ 8,229

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, 2015 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 2015, a note payment of \$14.2 million (including \$0.4 million in interest) was made to the State Highway Fund.

The annual maturities are as follows:

(Amounts in thousands)

Payable June 30, 2016	Principal	Interest	Total Debt
2016	\$ 414	\$ 4	\$ 418

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.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

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 $\frac{1}{4}$ 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.

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 2015, 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 2015 was 12.13% of the covered payroll for Group I employees from July 1, 2013 thru June 30, 2015.

(c) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the Turnpike System reported a liability of \$9.4 million for its proportionate share of the net pension liability of the Plan. This net pension liability is measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, with update procedures used to roll the total pension liability forward to June 30, 2014. The State's proportion of the net pension liability was based on the State's share of contributions to the Plan relative to the contributions of all participating employers, actuarially determined. The Turnpike System's net pension liability and pension expense, along with related deferred outflows of resources and deferred inflows of resources was calculated using an allocated proportion among the State's governmental and business-type activities, based on percentage of pension plan contributions. For the year ended June 30, 2015, the Turnpike System recognized total pension expense of \$0.6 million.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

As of June 30, 2015, the Turnpike System reported deferred outflows and inflows of resources related to pensions from the following sources:

(Amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,198.8
Changes in employer proportion	-	168.5
Contributions subsequent to the measurement date	830.0	-
Total	\$ 830.0	\$ 1,367.3

Amounts reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(Amounts in thousands)

Year ended June 30,	Amortization of Deferred Amounts
2016	\$ 336.3
2017	336.3
2018	336.3
2019	336.2
2020	22.2
Total	\$ 1,367.3

(d) Actuarial Assumptions

The Plan total pension liability, measured as of June 30, 2014, was determined by a roll forward of the actuarial valuation as of June 30, 2013, using the following actuarial assumptions:

Inflation	3.0%
Salary increases	3.75 - 5.8% average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

(e) Long-Term Rates of Return

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2014:

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

**Weighted Average Long-
term Expected Geometric
Rate of Return**

Asset Class	Target Allocation	2014
Large Cap Equities	22.50%	3.25%
Small/Mid Cap Equities	7.50	3.25
Total domestic equity	30.00	
International Equities (unhedged)	13.00	4.25
Emerging International Equities	7.00	6.50
Total international equity	20.00	
Core Bonds	18.00	(0.47)
High-Yield Bonds	1.50	1.50
Global Bonds (unhedged)	5.00	(1.75)
Emerging Market Debt (external)	0.50	2.00
Total fixed income	25.00	
Private equity	5.00	5.75
Private debt	5.00	5.00
Real estate	10.00	3.25
Opportunistic	5.00	2.50
Total alternative investments	25.00	
Total	100.00%	

(f) Discount Rate

The discount rate used to measure the collective total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are determined based on the expected payroll of current members only. Employer contributions are determined based on the Plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability.

The following table illustrates the sensitivity of the Turnpike System's proportionate share of the Plan's net pension liability to changes in the discount rate. In particular, the table presents the Turnpike System's proportionate share of the Plan's net pension liability measured at June 30, 2014 assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the single discount rate:

(Amounts in thousands)

1% Decrease to 6.75%	Current Single Rate Assumption 7.75%	1% Increase to 8.75%
\$ 12,341	\$ 9,369	\$ 6,862

(g) 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.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

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, 2015, 2014, and 2013, were \$830,587, \$907,000, and \$966,000 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, 2015 was \$222,037. 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 No. 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 Statement No. 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

During fiscal year 2004, the State 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. Currently, 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. For fiscal year 2015, this reserve equaled \$16.8 million for the Fund. Rates are established annually, by actuaries, based on an analysis of past claims, state and other medical trend, and annual projected plan claims and administrative expenses. 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. Annual paid health benefits for fiscal year 2015 amounted to \$2.7 and \$1.0 million respectively for active and retired employees.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015**

(c) Workers Compensation

Since February 2003, the State has been self-insured for its workers compensation exposures, retaining all of the risk associated with workers compensation claims. The state utilizes an actuarial study that provides an annual estimate of the outstanding liabilities for the prior years' claims. The study also contains assumptions about loss development patterns, trends and other claim projections based upon 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, 2014 and 2015:

(Amounts in thousands)

	6/30/2013 Balance	Increases	Decreases	6/30/2014 Balance	Increases	Decreases	6/30/2015 Balance	Current	Long- Term
Total	\$ 2,204	\$ 222	(\$484)	\$ 1,942	\$ -	(\$308)	\$ 1,634	\$ 167	\$ 1,467

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) E-ZPass Back Office System Contract

On October 7, 2015, the Turnpike System entered into a contract with Cubic Transportation Systems, Inc. in the amount of \$51.9 million for design, testing, installation and maintenance services for the operation of the NH E-ZPass back office (customer billings, collections and service) operations system for the Turnpike System through June 30, 2021 with an option to renew, at the sole discretion of the State, for up to (3) additional (3) year optional operation periods up to, but not beyond June 30, 2030.

(c) 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).

(d) 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.

(e) Litigation

Xerox State and Local Solutions, Inc. v. Sept. of Transportation et al, filed in October 2015, Xerox, is suing the Department to challenge the selection of another vendor for the contract award of the operation of the back office systems for the E-ZPass Program in New Hampshire. Xerox is the current vendor and was not the winning bidder for the new contract that was awarded on October 7, 2015. The contract award was for design, testing, installation and maintenance services for the operation of the NH E-ZPass Back Office for the Turnpike System, in the amount of \$51.9 million. Xerox alleges the bidding process was flawed and specifically brings claims to invalidate the bidding process and seeking damages. It is premature to assess the potential liability or the outcome in this matter as discovery is in the initial phases.

NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

The Turnpike System is involved in certain other 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 for fiscal year reporting purposes is reduced to \$2.4 million at June 30, 2015. 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. At June 30, 2015, the pollution remediation obligation for this project is \$258,883.

During fiscal year 2015, the Turnpike System did not recognize any additional liability for a project site at the Hampton toll plaza. At June 30, 2015, the pollution remediation obligation for the project is \$450,980.

In fiscal year 2015, the Turnpike System recognized an additional liability of \$1.2 million which related to disposal of impacted soil and sediment excavation at a project site located at the I-95 Hampton-Hampton Falls.

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.

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**NEW HAMPSHIRE TURNPIKE SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

REQUIRED SUPPLEMENTARY INFORMATION SECTION
(Unaudited)

This section includes information on the Turnpike's proportionate share of net pension liability.

**NEW HAMPSHIRE TURNPIKE SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

**State of New Hampshire
Department of Transportation - Turnpike System
Information on the Turnpike's Proportionate Share of Net Pension Liability
For the Fiscal Year Ended June 30, 2015**

Schedule of the Turnpike's Proportionate Share of the Net Pension Liability

(amounts in thousands)

	June 30, 2015
Turnpike's Proportion of the Net Pension Liability	0.25%
Turnpike's Proportionate Share of the Net Pension Liability	\$ 9,369
Turnpike's Covered-Employee Payroll	\$ 6,815
Turnpike's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	137.48%
NHRS Fiduciary Net Position as a Percentage of the Total Pension Liability	66.32%

Note: The amounts presented were determined as of and for the period ended June 30, 2014

Schedule is intended to show 10 years. Additional years will be added as they become available.

Schedule of Turnpike Contributions

(amounts in thousands)

	June 30,	
	2015	2014
Required Turnpike Contributions	\$ 830	\$ 810
Actual Turnpike Contributions	\$ 830	\$ 810
Excess/(Deficiency) of Turnpike Contributions	-	-
Turnpike's Covered-Employee Payroll	\$ 7,188	\$ 6,815
Turnpike Contribution as a percentage of its Covered-Employee Payroll	11.55%	11.89%

Schedule is intended to show 10 years. Additional years will be added as they become available.

**NEW HAMPSHIRE TURNPIKE SYSTEM
OTHER SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

**OTHER SUPPLEMENTARY INFORMATION SECTION
(Unaudited)**

This section includes the budget to actual comparison and accompanying note.

NEW HAMPSHIRE TURNPIKE SYSTEM
OTHER SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015
(Unaudited)

State of New Hampshire Department of Transportation - Turnpike System Budget to Actual (Non-GAAP Budgetary Basis) Revenue Schedule For the Fiscal Year Ended June 30, 2015 (Amounts in thousands)				
	Budgeted		Actual	Variance
	Original	Final	Budgetary Basis	Favorable (Unfavorable) with Final Budget
Revenues				
Restricted				
Transponder Sales	\$ 84	\$ 602	\$ 605	\$ 3
Sponsorship Fees	120	-	120	120
Bonds Interest Subsidy	2,879	3,131	2,879	(252)
Vending Machine Income	7	-	7	7
Fund Transfer to DRED (Welcome Centers)	1,035	1,035	1,035	-
Blue Star Memorial	122	-	28	28
Central NH Tpk	-	41	6	(35)
Spaulding Tpk Second Barrel	-	36	-	(36)
Spaulding Tkp/US 4/NH 16	44	-	-	-
Total Restricted Revenue	4,591	4,845	4,680	(165)
Unrestricted				
Spaulding Toll Cash Receipts	4,380	4,380	4,638	258
Blue Star Toll Cash Receipts	17,880	17,880	16,205	(1,675)
Central NH Toll Cash Receipts	14,016	14,016	13,915	(101)
Property Damage	125	125	48	(77)
Miscellaneous	214	214	174	(40)
Administration Fees - Electronic Toll Collection	12	12	33	21
Concession Sales (Welcome Centers)	-	-	4	4
Toll Evasion	18	18	-	(18)
Lottery Vending	14	14	-	(14)
Rental Income	32	32	216	184
Cash Management Interest	81	81	78	(3)
Combined Debt Service Interest	13	13	-	(13)
General Interest-Reserve	100	100	-	(100)
Insurance Reserve Interest	5	5	6	1
Construction Account Interest 2009	1	1	2	1
Transponder Lease to Own	9	9	35	26
Statement Fee Revenue	33	33	36	3
Violation Enforcement System Admin Fees Less than 30 days	758	758	1,471	713
Central Toll E-ZPass Revenue	29,784	29,784	29,808	24
Blue Star Toll E-ZPass Revenue	41,720	41,720	44,525	2,805
Spaulding Toll E-ZPass Revenue	10,220	10,220	11,001	781
Miscellaneous E-ZPass Revenue	-	-	45	45
Truck Rental	3	3	-	(3)
Right-of-Way Property Sales	12	12	-	(12)
Total Unrestricted Revenue	119,430	119,430	122,240	2,810
Total Revenue	\$ 124,021	\$ 124,275	\$ 126,920	\$ 2,645

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

See accompanying Independent Auditor's Report

NEW HAMPSHIRE TURNPIKE SYSTEM
OTHER SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015
(Unaudited)

State of New Hampshire				
Department of Transportation - Turnpike System				
Budget to Actual (Non-GAAP Budgetary Basis) Expense Schedule				
For the Fiscal Year Ended June 30, 2015				
(Amounts in thousands)				
	Budgeted		Actual	Variance
	Original	Final	Budgetary Basis	Favorable (Unfavorable) with Final Budget
<u>Expenditures</u>				
Welcome Centers and Rest Area Operations	\$ 1,360	\$ 1,360	\$ 1,035	\$ 325
I-95 Bridge Purchase Repayment	14,170	14,170	14,170	-
Administration and Support	10,419	11,168	8,972	2,196
Renewal and Replacement	8,900	8,900	8,007	893
Central Operations	5,431	5,592	3,882	1,710
Central Maintenance	5,206	5,306	4,058	1,248
East NH Turnpike Blue Star Operations	3,239	3,342	2,545	797
East NH Turnpike Blue Star Maintenance	2,234	2,285	1,718	567
East NH Turnpike Spaulding Operations	2,053	2,117	1,841	276
East NH Turnpike Spaulding Maintenance	1,980	3,280	2,183	1,097
Toll Collection	11,668	11,668	9,793	1,875
Turnpike Debt Service	45,000	45,000	43,646	1,354
Transponder Inventory Fund	-	602	956	(354)
Retirees Health Insurance	1,102	1,102	831	271
Workers Compensation	400	400	359	41
Unemployment Compensation	27	27	6	21
Total Expenses before Capital Expenses	113,189	116,319	104,002	12,317
Capital Expenses				
RSA 237:2 I Blue Star Memorial	-	-	805	(805)
RSA 237:2 VII Central NH Turnpike	-	-	13,568	(13,568)
Toll Collection Equipment	-	-	501	(501)
Spaulding Turnpike Second Barrel	-	-	588	(588)
Spaulding Turnpike/US 4/NH 16	-	-	13,160	(13,160)
Total Capital Expenses	-	-	28,622	(28,622)
Total Expenses	113,189	116,319	132,624	(16,305)
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 10,832	\$ 7,956	(\$5,704)	\$ 18,950

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

See accompanying Independent Auditor's Report.

NEW HAMPSHIRE TURNPIKE SYSTEM
OTHER SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015
(Unaudited)

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.