



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

ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2020**



ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2020

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://www.nh.gov/dot/media/publications.htm>

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NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION

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Victoria F. Sheehan

Assistant Commissioner & Chief Engineer

William J. Cass, P.E.

Deputy Commissioner

Christopher M. Waszczuk, P.E.

Director of Operations

David M. Rodrigue, P.E.

Director of Finance

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Financial Reporting Administrator

Danielle M. Chandonnet

Turnpike System Administrator

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Business Administrator

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Maintenance Superintendent

Dix E. Bailey

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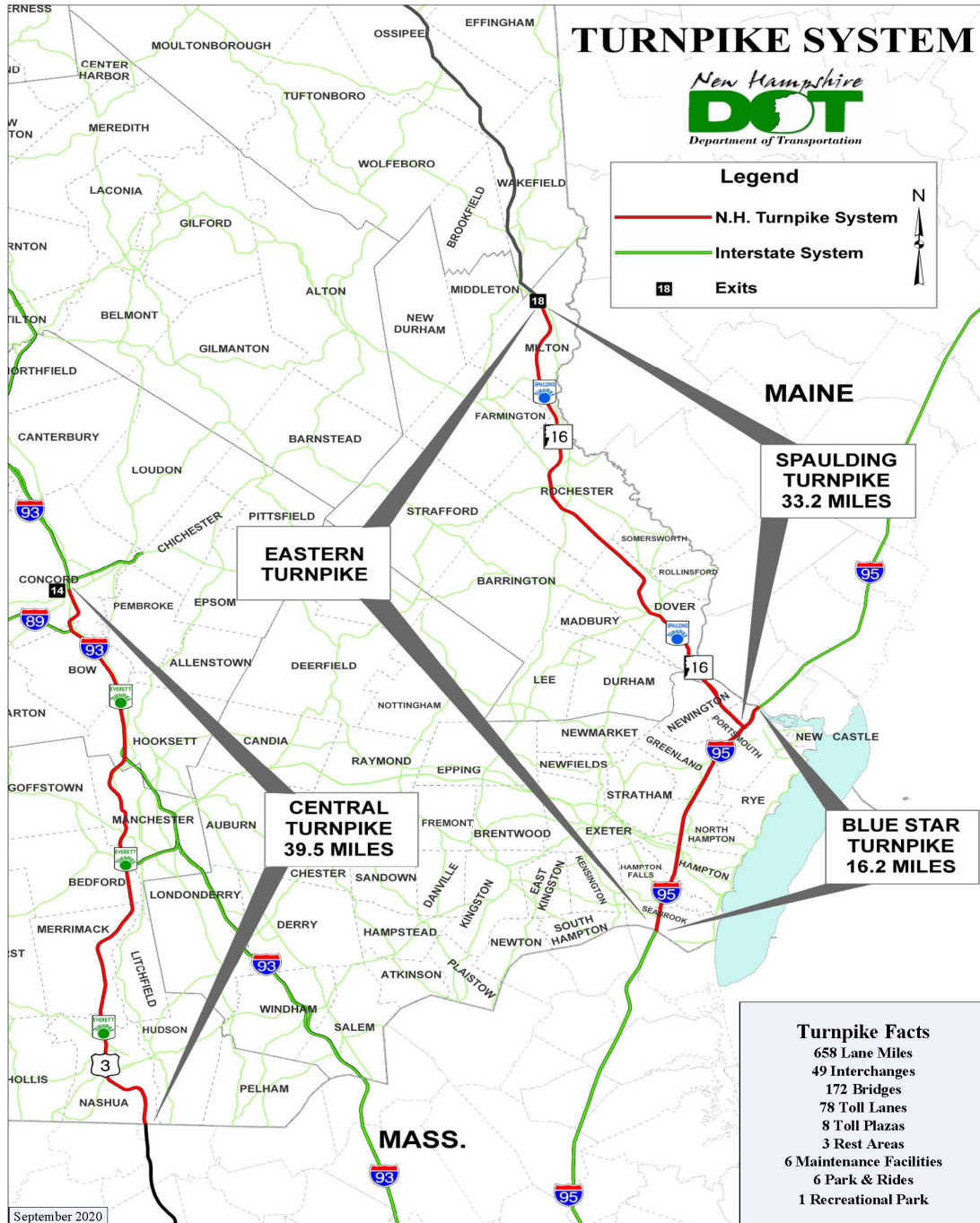
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INTRODUCTORY SECTION

(Unaudited)

This section includes the Turnpike System map and a letter addressed to the citizens, the Governor of the State of New Hampshire, and the Honorable Council.



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THE STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION



Victoria F. Sheehan
Commissioner

William Cass, P.E.
Assistant Commissioner

December 3, 2020

To: The Citizens of New Hampshire,

His 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, 2020. 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 approximately 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 658 total lane miles, 172 bridges, 49 interchanges, 84 toll lanes, and 25 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, 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 online publications, please visit us at our website <http://www.nh.gov/dot>.

Respectfully submitted,

Victoria F. Sheehan
Commissioner

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FINANCIAL SECTION

This section includes the independent auditors' report, the financial statements for the fiscal year ended June 30, 2020, 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), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Turnpike System's basic financial statements for the year then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the New Hampshire Turnpike System, as of June 30, 2020, and the changes in its financial 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 Note 1(a), the financial statements present only the New Hampshire Turnpike System and do not purport to, and do not, present fairly the financial position of the State of New Hampshire or the State of New Hampshire Department of Transportation, as of June 30, 2020, the changes in its financial position, or its cash



flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and the Required Supplementary Information Section as listed in the accompanying table of contents (collectively referred to as RSI), 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 RSI 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 and other supplementary information sections as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2020 on our consideration of the Turnpike System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Turnpike System's 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

Boston, Massachusetts
December 3, 2020

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**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
(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, 2020. This section should be read in conjunction with the Turnpike System financial statements, which follow this section.

Financial Highlights

- On October 31, 2019 the State issued \$40.8 million Turnpike System Revenue Bonds, 2019 Refunding Series. The interest rates on the new bonds are 4.0% to 5.0% with an All-In-True-Interest-Cost of 1.58%. The refunding had a net present value savings of \$9.8 million on future principal and interest payments over the lifetime of the bonds.
- E-ZPass Toll Revenues of \$98.5 million decreased by \$8.5 million or 7.9% and Cash Toll Revenues of \$20.9 million decreased by \$5.1 million or 19.5%. The overall decrease in tolls for the year was 10.2%. The decrease in toll revenue is due to the sharp reduction in both commuter and leisure travel due to travel restrictions and stay at home orders imposed as a result of the COVID-19 pandemic. Prior to these restrictions, the System was experiencing a slight increase in E-ZPass and Cash toll revenues of 0.1% through February 29, 2020.
- Accounts Receivable increased by \$3.2 million due to an increase in net violation tolls and fees receivable because of increased utilization of open road tolling without a transponder and operational changes related to the COVID-19 pandemic. From March 30, 2020 through May 15, 2020, Turnpike toll operations accepted exact change only at the cash tolls and from March 30, 2020 moved to all electronic tolling (AET) between the hours of 9:00 pm and 5:00 am. These changes led to an increase in customers who drove through tolls without immediately paying resulting in additional mail invoicing.
- Total Operating Expenses increased by \$9.9 million or 12.4% to \$89.8 million primarily due to a \$3.3 million increase in Payroll Benefits caused by a increase in workers' compensation claims and related short term liabilities, a \$2.3 million increase in Supplies, Materials, and Other for expenses related to GASB 49 Pollution Remediation, a \$2.1 million increase in depreciation expenses, \$2.0 million increase in E-ZPass program costs due to contractually scheduled cost increases, and a \$1.0 million increase in renewal and replacement program expenditures. Offsetting the increases were expense mitigation efforts by the Turnpike administration due to the significant decrease in fourth quarter toll revenue and measures taken to ensure the safety of its employees. Operating expense savings included the reduction of temporary toll attendant hours, non-COVID-related overtime, a delay in equipment purchases, a reduction in spring maintenance operations, and the temporary discontinuance of the Motorist Safety Patrol.
- Total Non-Operating Expenses decreased by \$2.1 million or 33.6% to \$4.2 million primarily to a decrease in Interest on Bonds of \$3.6 million as the Turnpike's bond liability decreased. This was offset by an increase in Local Non-Operating Expenses of \$0.6 million as the local portion of the Spaulding Turnpike widening nears completion, a decrease in the Build America Bonds Subsidy of \$0.6 million due to a decrease in interest eligible to receive subsidy, and a decrease in Facilities Rental and Concession Revenue of \$0.4 million due to the COVID-19 pandemic's impact on traffic at the Hooksett Welcome Centers in the fourth quarter.
- Total Net Position increased by \$37.0 million or 5.3% to \$731.1 million due to an increase in Net Investment in Capital Assets of \$36.6 million caused by an increase in Capital Assets and a decrease in Revenue Bonds Payable.
- The revenue impact of the COVID-19 pandemic has not affected the advertising schedule for the Turnpike Renewal and Replacement program, nor the ability of the System to adequately fund operations and pay debt service. Currently, capital projects scheduled in the ten-year capital improvement program for fiscal year 2021 are expected to move forward. If revenue losses continue into the future, there would be a delay in commencement of certain future capital projects for a year or two.

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

Using this Report

The Turnpike System is accounted for as an enterprise fund, reporting all of the Turnpike System's financial activity, assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 20 and the Statement of Revenues, Expenses and Changes in Net Position on page 21, report the Turnpike's net position and change in net position. The Statement of Cash Flows on page 22 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, 2020
(Unaudited)**

(I) Summary of Net Position

(Dollars in thousands)

Type		2020	2019	\$ Change	% Change
Assets:	Current Assets	\$ 200,213	\$ 209,048	\$ (8,835)	-4.2%
	Net Capital Assets	931,860	922,559	9,301	1.0%
	Total Assets	1,132,073	1,131,607	466	0.0%
Deferred Outflows of Resources:	Pension and Other Postemployment Benefits	3,098	4,024	(926)	-23.0%
	Loss on Refunding	533	414	119	28.7%
Liabilities:	Current Liabilities	56,475	64,271	(7,796)	-12.1%
	Non-Current Liabilities	332,976	364,407	(31,431)	-8.6%
	Total Liabilities	389,451	428,678	(39,227)	-9.2%
Deferred Inflows of Resources:	Pension and Other Postemployment Benefits	15,107	13,174	1,933	14.7%
Net Position:	Net Investment in Capital Assets	616,924	580,309	36,615	6.3%
	Restricted for Debt Repayments	50,183	53,392	(3,209)	-6.0%
	Restricted for Uninsured Risks	3,763	3,666	97	2.6%
	Restricted for Facility Sustainment	700	514	186	36.2%
	Unrestricted	59,576	56,312	3,264	5.8%
	Total Net Position	\$ 731,146	\$ 694,193	\$ 36,953	5.3%

- Total Assets increased by \$0.5 million or 0.0% to \$1.1 billion over the prior year due to decreases in Cash and Cash Equivalents offset by increases in Accounts Receivable and Net Capital Assets. Details are as follows:
 - Cash and Cash Equivalents, unrestricted, experienced a decrease of \$9.3 million primarily due to a decrease of \$8.9 million in the General Reserve. Revenue decreased significantly in the fourth quarter of fiscal year 2020 due to the COVID-19 pandemic's negative effect on traffic at the tolls. The General Reserve funds debt service, capital, renewal and replacement and operating costs.
 - Cash and Cash Equivalents, restricted, decreased \$4.1 million due to a decrease in the required balances needed in the Debt Service Reserves. This was the result of the payoff of the 2012 Series A bond on April 1, 2020 as well as a reduction in debt service interest due from refunding \$50.7 million of the \$150.0 million American Recovery and Reinvestment Act (ARRA) Build America Bond with a 2019 Refunding Series Bond at a lower interest rate. (See Note 8(c) Bonds - Debt Maturity).
 - Accounts Receivable increased by \$3.2 million due to an increase in net Violation Tolls and Fees Receivable. These receivables increased primarily due to changes in fourth quarter toll operations in response to the COVID-19 pandemic. These changes included the acceptance of exact change only and the use of all electronic tolling (AET) in the overnight hours. This led to more customers driving through the tolls without immediately paying requiring paper invoicing through the mail. Offsetting the increase was a decrease in incoming E-ZPass reciprocity from other tolling agencies due to the decrease in traffic caused by the pandemic.
 - Net Capital Assets increased by \$9.3 million over the prior year. The Turnpike System capitalized \$35.4 million primarily from the substantial completion of the Spaulding Turnpike Expansion, the replacement of the Turnpike Administration building, and costs associated with the rehabilitation of the I-95 High Level Bridge. Accumulated depreciation offsets the increases

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

in capital assets by \$27.9 million. See Note 4 Capital Assets for details on capital asset activity and Note 11(b) Capital Improvement Program for more information.

- Non-Current Liabilities decreased \$31.4 million or 8.6% from the prior year due to:
 - Decreases in Revenue Bonds Payable of \$27.0 million from the prior year. This change is due to savings in net present value on outstanding principal in the amount of \$9.8 million from the 2019A Refunding Series as well as the paying down of existing debt.
 - Decreases in Other Postemployment Benefits of \$4.9 million from the prior year. The decrease is due to changes in demographics and benefit payments, and assumption changes which revised per capita health costs, marriage assumptions for future retirees, and excise tax projections.
 - Increases in Other Non-current Liabilities \$1.1 million over the prior year due to an increase in GASB 49 Pollution Remediation at three of the four sites monitored, predominantly at the Taylor River Bridge, as result of a change in remediation assumptions. See Note 13 Pollution Remediation Obligations for more information.

- Net Position increased \$37.0 million or 5.3% over the prior year due to an increase in Net Investment in Capital Assets of \$36.6 million caused by an increase in Capital Assets and a decrease in Revenue Bonds Payable.

(II) Current Liabilities		(Dollars in thousands)		
Type	2020	2019	\$ Change	% Change
Accounts Payable	\$ 9,878	\$ 11,135	\$ (1,257)	-11.3 %
Accrued Payroll	801	894	(93)	-10.4 %
Due to Other Funds	216	151	65	43.0 %
Unearned Revenue	15,226	16,495	(1,269)	-7.7 %
Revenue Bonds Payable	24,145	30,040	(5,895)	-19.6 %
Accrued Interest Payable	3,907	4,547	(640)	-14.1 %
Claims and Compensated Absences Payable	1,616	392	1,224	312.2 %
Other Liabilities	686	617	69	11.2 %
Total Current Liabilities	\$ 56,475	\$ 64,271	\$ (7,796)	-12.1%

- Current Liabilities consist primarily of accrued operating expenses, unearned revenue, and the current portion of revenue bonds. Current Liabilities decreased by \$7.8 million or 12.1% due to:
 - a \$5.9 million decrease in short-term Revenue Bonds Payable related to the final payment of the 2012A bonds paid on April 1, 2020.
 - a \$1.3 million decrease in Accounts Payable attributed to the decrease in traffic related to the COVID-19 pandemic in the fourth quarter of the fiscal year. Decreases in related costs included outgoing E-ZPass reciprocity, credit card fees, purchase delays and a reduction in spring maintenance activities. (see Turnpike System Revenue and Trends).
 - a \$1.3 million decrease in Unearned Revenue as revenues received from local municipalities related to the Spaulding Turnpike Expansion were recognized.
 - a \$1.2 million increase in Claims and Compensated Absences Payable as a result of an increase in short term Workers' Compensation payable. During fiscal year 2020, the Turnpike System had a couple of significant workers' compensation claims that increased the allocation to the System for future years. In fiscal year 2020, the Turnpike System accounted for 18.7% of the State's workers' compensation payouts compared to 3.7% of the State's payouts in fiscal year 2019.

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

(III) Changes in Net Position

(Dollars in thousands)

Type	2020	2019	\$ Change	% Change
Operating Revenues	\$ 130,913	\$ 145,932	\$ (15,019)	-10.3 %
Operating Expenses	(89,754)	(79,832)	(9,922)	12.4 %
Operating Income	41,159	66,100	(24,941)	-37.7%
Non-Operating Expenses	(4,211)	(6,344)	2,133	-33.6 %
Change in Net Position Before Capital Contributions	36,948	59,756	(22,808)	-38.2%
Capital Contributions	5	89	(84)	-94.4 %
Change in Net Position	36,953	59,845	(22,892)	-38.3%
Net Position - July 1	694,193	634,348	59,845	9.4 %
Net Position - June 30	\$ 731,146	\$ 694,193	\$ 36,953	5.3%

- The Turnpike System's primary revenues are generated from toll collections. Operating revenue decreased by \$15.0 million or 10.3% to \$130.9 million. The combined toll operating revenue for fiscal year 2020 totaled \$119.4 million. Of this amount, the Blue Star Turnpike generated \$61.0 million, the Central Turnpike, \$41.9 million, and the Spaulding Turnpike, \$16.5 million. Toll revenues decreased primarily due to the impact on travel caused by the COVID-19 pandemic (see Turnpike System Revenue and Traffic Trends). The remaining \$11.5 million was generated primarily through receipts from toll violations and evasions. From March 30, 2020 through May 15, 2020, Turnpike toll operations accepted exact change only at the cash tolls and from March 30, 2020 moved to all electronic tolling (AET) between the hours of 9:00 pm and 5:00 am. These changes led to an increase in customers who drove through tolls without immediately paying resulting in additional mail invoicing.
- Total Operating Expenses increased by \$9.9 million or 12.4% to \$89.8 million due:
 - a \$3.3 million increase in Payroll Benefits due to several large workers' compensation claims paid and subsequent increase in current liability.
 - a \$2.3 million increase in Supplies Materials & Other due to expenses related to GASB 49 Pollution Remediation as well as the expensing of the Bedford Open Road Tolling project due to a change in Legislative direction to All Electronic Tolling (AET) at the Bedford Tolls.
 - a \$2.0 million increase in E-ZPass processing fees per the current contractual fee schedule.
 - a \$2.1 million increase in Depreciation as depreciable capital assets increased by \$81.0 million.
 - a \$1.0 million increase in Renewal and Replacement primarily due to several large paving projects.

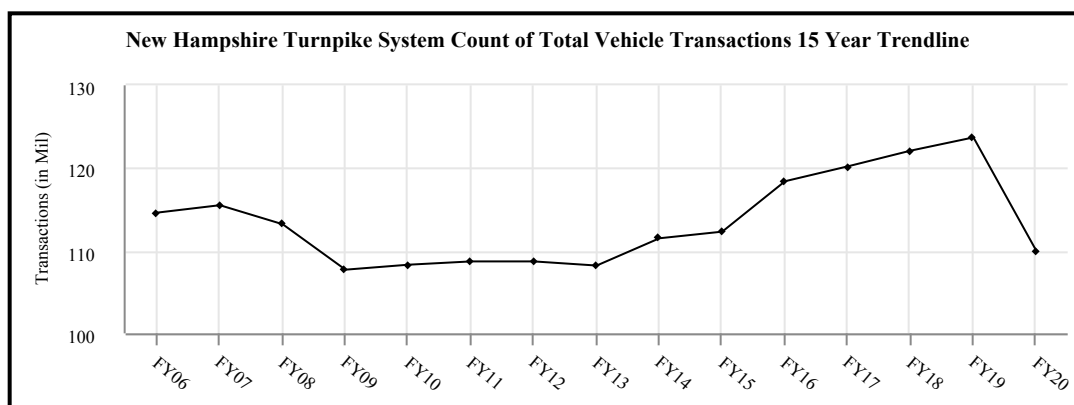
Offsetting the increases were expense mitigation efforts taken by the Turnpike administration to curb operating expenses due to the significant decrease in fourth quarter toll revenue and measures taken to ensure the safety of its employees. Operating expense savings included the reduction of temporary toll attendant hours, non-COVID-related overtime, a delay in equipment purchases, a reduction in spring maintenance operations, and a temporary discontinuance of the Motorist Safety Patrol.

- Total Non-Operating Expenses decreased by \$2.1 million or 33.6% to \$4.2 million primarily due to a decrease in Interest on Bonds of \$3.6 million as the Turnpike's bond liability decreased. This was offset by an increase in Local Non-Operating Expenses of \$0.6 million as the local portion of the Spaulding Turnpike widening nears completion, a decrease in the Build America Bonds Subsidy of \$0.6 million due to a decrease in interest eligible to receive the subsidy, and a decrease in Facilities Rental and Concession Revenue \$0.4 million due to the COVID-19 pandemic's impact on traffic at the Hooksett Welcome Centers in the fourth quarter.

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

Turnpike System Revenue and Traffic Trends

During the twelve months ended June 30, 2020, the number of traffic transactions processed through the E-ZPass system accounted for 81.4% of total toll transactions with the remaining 18.6% paid in cash. Overall, the Turnpike System experienced a decrease in traffic transactions of 14.0 million or 11.3% from fiscal year 2019. The system-wide decrease in traffic began in March as New Hampshire and states throughout the region implemented stay at home orders in response to the COVID-19 pandemic. The Governor of New Hampshire issued several emergency orders limiting movement in the state beginning with emergency order 17 *requiring all non-essential business to close and requiring Granite Staters to stay home* effective March 28, 2020 through May 4, 2020. Each subsequent emergency order lifted some of the restrictions on movement in the State and region. Despite New Hampshire and neighboring states slowly reopening, businesses that could function remotely remained so. Traffic from March 2020 through June 2020 decreased 37.1% from the same prior year period. During the most restrictive period of the New Hampshire stay at home order, traffic in April and May decreased 55.2% and 42.2% respectively from the same prior year period. Further, on December 31, 2019 at 11:59 pm, the Merrimack Exit 11 toll plaza permanently closed. The Merrimack Exit 11 toll plaza on average accounted for 3.3 million transactions a year and 1.6 million transactions January through June. See chart below.



Maintenance of the Turnpike System

The Turnpike System is maintained and repaired by the Bureau of Turnpikes in the 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 May 2017. The assessment provided recommendations on program funding levels and provided insight on the condition of the Turnpike infrastructure. Turnpike facilities were deemed to be in “good” condition. The assessment, also recommended funding for the Renewal & Replacement Program for fiscal years 2018 through 2023 of \$81.0 million. However, the Renewal & Replacement Program funding level increased to \$100.9 million since the issuance of the report to accommodate increased costs associated with the I-95 High Level Bridge rehabilitation. Major expenditures are planned for addressing near-term rehabilitation improvements at the I-95 High Level Bridge, paving, administration building rehabilitation, bridge painting, and toll plaza rehabilitation needs.

For fiscal years 2020, 2019, and 2018, the Turnpike System operating expenses for Renewal & Replacement were \$10.7 million, \$9.7 million, and \$8.1 million, respectively. Renewal & Replacement capitalized expenses for fiscal years 2020, 2019, and 2018 were \$13.3 million, \$0.2 million, and \$0.6 million respectively. For fiscal year 2021, the budget for Renewal & Replacement is \$24.3 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. The carryforward balance at June 30, 2020 less commitments is \$13.2 million.

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

Subsequent Events

2021-2030 Ten-Year Transportation Plan

The ten-year transportation improvement plan, adopted by the Legislature in 1986 and amended through 2020, 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 fiscal years to address changing priorities. The most recent ten-year plan for the fiscal years 2021-2030 was signed into law July 24, 2020, (Chapter 33, Laws of 2020). The most recent plan includes a provision to remove the current Merrimack Exit 11 toll plazas on the southbound on and northbound off ramps in 2021. On January 1, 2020, the toll rate at the Exit 11 ramp tolls in Merrimack was reduced to zero, making the toll plazas that remain obsolete. Further, the most recent plan changes the scope of the Bedford Mainline toll conversion from Open Road Tolling (ORT) to All Electronic Tolling (AET) and pushes the start date to 2023 from 2022.

Budget and Appropriation Process

The Legislature meets in session 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.

The Turnpike System, a Bureau of the State of New Hampshire Department of Transportation, 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 and consists primarily of salaries and benefits, maintenance, and expenses relative to snow removal and debt service.

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

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

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

Capital Improvement Program

Under the provisions of State law, New Hampshire Revised Statutes Annotated (RSA) 240, as amended by the Legislature, established a ten-year highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. State law RSA 237-A:2 authorized the issuance of \$766.0 million of revenue bonds to fund these projects.

The ten-year capital improvement program, adopted by the Legislature in 1986 and amended through 2019, 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 2019 – 2028 is \$496.3 million.

The Turnpike System's bond credit ratings as of June 2020 were as follows: Fitch Ratings A+, outlook stable, Moody's Investors Service Aa3, outlook stable, and Standard & Poor's AA-, outlook stable.

**New Hampshire Turnpike System
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

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 2020 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, 2020
(Dollars in thousands)

ASSETS and DEFERRED OUTFLOWS of RESOURCES

Current Assets:

Cash and Cash Equivalents	\$ 111,621
Cash and Cash Equivalents – Restricted	17,879
Investments - Restricted	44,688
Accounts Receivable (Net of Allowances)	22,791
Due from Other Funds	297
Inventories	2,855
Prepaid Assets	82
Total Current Assets	200,213

Non-current Assets:

Capital Assets:	
Land	102,069
Land Improvements	2,003
Buildings	17,876
Equipment and Computer Software	75,667
Construction in Progress	34,933
Infrastructure	1,169,760
Less: Accumulated Depreciation	(470,448)
Net Capital Assets	931,860
Total Non-current Assets	931,860

Total Assets

1,132,073

Deferred Outflows of Resources:

Pension and Other Postemployment Benefits	3,098
Loss on Refunding	533
	3,631

Total Assets and Deferred Outflows of Resources

1,135,704

LIABILITIES and DEFERRED INFLOWS of RESOURCES

Current Liabilities:

Accounts Payable	9,878
Accrued Payroll	801
Due to Other Funds	216
Unearned Revenue	15,226
Revenue Bonds Payable	24,145
Accrued Interest Payable	3,907
Claims and Compensated Absences Payable	1,616
Other Liabilities	686
Total Current Liabilities	56,475

Non-current Liabilities:

Revenue Bonds Payable	293,547
Pension	10,559
Other Postemployment Benefits	22,734
Claims and Compensated Absences Payable	1,955
Other Non-current Liabilities	4,181
Total Non-current Liabilities	332,976

Total Liabilities

389,451

Deferred Inflows of Resources:

Pension and Other Postemployment Benefits	15,107
	15,107

Total Liabilities and Deferred Inflows of Resources

404,558

NET POSITION

Net Investment in Capital Assets	616,924
Restricted for Debt Repayments	50,183
Restricted for Uninsured Risks	3,763
Restricted for Facility Sustainment and Reinvestment Reserve	700
Unrestricted	59,576
Total Net Position	\$ 731,146

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, 2020
(Dollars in thousands)

OPERATING REVENUES

Toll Revenue - Cash	\$ 20,927
Toll Revenue - E-ZPass	98,457
Other Toll Operating Revenue	10,382
Transponder Revenue	715
Federal Revenue	432
Total Operating Revenues	<u>130,913</u>

OPERATING EXPENSES

Personnel Services	9,971
Payroll Benefits	5,382
Enforcement	8,276
Renewal & Replacement	10,719
Supplies, Materials and Other	4,112
Equipment and Repairs	5,040
Indirect Costs	2,534
Welcome Centers	1,045
Heat, Light and Power	1,006
Bank and Credit Card Fees	3,166
Rentals	959
E-ZPass Processing Fees	8,785
Transponder Expense	646
Depreciation and Amortization	28,113
Total Operating Expenses	<u>89,754</u>
Operating Income	<u>41,159</u>

NON-OPERATING REVENUES (EXPENSES)

Investment Income	2,296
Facilities Rental and Concession Revenue	886
Facility Sustainment and Reinvestment Reserve	186
Build America Bonds Subsidy	2,283
Miscellaneous Income	1,596
Gain on Sale of Other Capital Assets	15
Interest on Bonds	(9,617)
Miscellaneous Expense	(358)
Local Non-Operating Expense	(1,498)
Total Non-operating Revenues (Expenses)	<u>(4,211)</u>
Change in Net Position Before Capital Contributions	36,948
Capital Contributions	5
Change in Net Position	<u>36,953</u>
<i>Net Position - July 1</i>	<u>694,193</u>
<i>Net Position - June 30</i>	<u><u>\$731,146</u></u>

See accompanying notes to financial statements.

NEW HAMPSHIRE TURNPIKE SYSTEM
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2020
(Dollars in thousands)

Cash Flows from Operating Activities	
Receipts from Customers	\$ 127,832
Payments to Employees	(16,852)
Payments to Suppliers	(49,301)
Net Cash Provided by Operating Activities	<u>61,679</u>
Cash Flows from Non-Capital Financing Activities	
Receipts from Municipalities	724
Welcome Center Rental Income	1,277
Facility Sustainment Reserve Fund	186
Net Cash Provided by Non-Capital Financing Activities	<u>2,187</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and Construction of Capital Assets	(33,215)
Interest Paid on Revenue Bonds	(16,837)
Principal Paid	(30,040)
Build America Bonds Subsidy Receipt	1,468
Gross Proceeds from Refunding	51,357
Paid to Refunding Agent	(51,052)
Costs of Issuances	(300)
Underwriters' Discount	(66)
Net Cash Used by Capital and Related Financing Activities	<u>(78,685)</u>
Cash Flows from Investing Activities	
Purchase of Investments	(60,569)
Proceeds from Sales and Maturities of Investments	59,679
Investment Income	2,306
Net Cash Provided by Investing Activities	<u>1,416</u>
Net Decrease in Cash and Cash Equivalents	(13,403)
Total Cash and Cash Equivalents - July 1	142,903
Total Cash and Cash Equivalents - June 30	<u>\$ 129,500</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 41,159
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	28,113
Miscellaneous Income	313
Change in Operating Assets and Liabilities:	
Receivables	(3,192)
Inventories	(199)
Net Pension and Other Postemployment Benefits Liability (Net of Deferred Amounts)	(2,228)
Accounts Payable and Other Accruals	(2,136)
Deferred Revenue	(151)
Net Cash Provided by Operating Activities	<u>\$ 61,679</u>
Turnpike Non-Cash Capital and Related Financing Activities	
Capital Contributions	5
Non-Cash Capital Acquisition	(5,262)

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, 2020**

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 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. These financial statements are only of the Turnpike Fund and are not intended to present the net position, changes in net position, or, where applicable, cash flows of the State or the State of New Hampshire Department of Transportation. 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 as more fully described in Note 8.

(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. Assets in the Facility Sustainment and Reinvestment Reserve Fund are restricted per contract with 3rd party operator of Hooksett Welcome Centers.

(d) Accounts Receivable (Net of Allowances)

Receivables primarily consist of outstanding E-ZPass Reciprocity and Violation Toll and Fees as detailed in the table below. The accounts receivable balance as of June 30, 2020 is net of Allowances for Uncollectibles of \$44.3 million.

(Dollars in thousands)

Accounts Receivable	Amount
E-ZPass Reciprocity	\$ 5,257
Toll Revenue in Transit	1,112
Violation Tolls and Fees Receivable (Net of Allowances)	14,052
Interest Receivable	1,305
Federal Receivable	432
Welcome Center Rent	386
Credit Card Equity Fees	224
Miscellaneous	23
Total Accounts Receivable	\$ 22,791

(e) Cash Equivalents

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

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020**

(f) Capital Assets

Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets purchased or constructed by other funding sources are recorded at cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but expensed. Capital assets also include certain identified Renewal & Replacement 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	2.0%
Buildings	>= \$100,000	40	2.5%
Building Improvements & Land Improvements	>= \$100,000	20	5.0%
Toll Equipment	>= \$ 10,000	10	10.0%
Equipment	>= \$ 10,000	5	20.0%
Computer Software (Amortized)	>= \$500,000	5	20.0%

(g) Adoption of New Accounting Pronouncements

During the fiscal year ended June 30, 2020, the State adopted the following new accounting standard issued by the GASB:

GASB No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95) addresses the temporary relief to governments and other stakeholders in the light of the COVID-19 pandemic by postponing the effective dates of certain GASB pronouncements that first became effective or are scheduled to become effective for periods beginning after June 25, 2018 and later. The effective dates for certain pronouncements are postponed by one year and GASB Statement 87 *Leases* is postponed by eighteen months. As a result, the implementation of GASB No. 84 *Fiduciary Activities*, GASB No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*, and GASB No. 90 *Majority Equity Interests - an amendment of GASB Statements No. 14, and No. 61* will be implemented in fiscal year 2021.

(h) Compensated Absences

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

(i) Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are defined as a consumption of net assets 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, 2020

(j) Postemployment Liabilities (Benefit)

The State participates in two defined benefit pension plans, the State of New Hampshire Retirement System (NHRS) and the New Hampshire Judicial Retirement Plan (NHJRP) and also participates in two other postemployment benefit (OPEB) plans, a funded plan administered by NHRS hereafter referred to as the Trusted OPEB Plan and a nonfunded plan hereafter referred to as the Non Trusted OPEB Plan. The Turnpike System's employees participate in the NHRS retirement plan and the Trusted and Non Trusted OPEB plans (see Note 9-Employee Benefit Plans for activity related to these plans). The Turnpikes participation in the Trusted OPEB plan and its corresponding liability is immaterial to the financial statements.

For purposes of measuring the total/net postemployment liabilities, deferred outflows of resources and deferred inflows of resources and related postemployment expense related to each plan, information about the fiduciary net position and additions to/deductions from fiduciary net position has been determined on the same basis as it is reported by each plan, if applicable. For this purpose, benefit payments are recognized when due and payable in accordance with each plans' benefit terms, and plan investments are reported at fair value.

(k) Revenues and Expenses

Revenues and expenses are classified on the Income Statement as operating or non-operating. Operating revenues and expenses are a direct result of Turnpike operations and include toll and violation toll and fee collections, transponder sales, reimbursements due for eligible operating expenses, costs to operate and maintain the Turnpike System as well as administrative and depreciation expenses. Non-operating revenue includes interest earned on investments, interest subsidies, rental incomes, and sales on concession, vending machine, land, and equipment.

(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 a third party vendor 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 the vendor. 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 using weighted average. Included in the inventory amount are E-ZPass transponders and toll equipment replacement parts. Transponders are received and stored by the vendor at the E-ZPass Customer Service Center located in Concord, New Hampshire and at walk-in E-ZPass Service Centers located in Nashua and Portsmouth, New Hampshire. Toll equipment replacement parts are stored at Turnpike warehouses throughout the State.

(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.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020**

(q) Investments

GASB Statement No. 72 *Fair Value Measurement and Application*, requires that investments are reported at fair value except for certain investments which are reported using the amortized cost method of valuation. The Turnpike System discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy is as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities that are accessible at the measurement date.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency.

Level 3 – Unobservable inputs for the asset or liability.

In determining fair value, the Turnpike System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. If an investment is in an active market where quoted prices exist, the market price of an identical security is used to report fair value. Corporate fixed income securities and certain U.S. government securities utilize pricing that may involve estimation using similar securities or trade dates. As these investments are generally not traded in an active market, fair value measurements are determined using market data and matrix pricing.

As of June 30, 2020, the Turnpike System's investments total \$44.7 million.

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: On June 30, 2020, the balance of cash and cash equivalents in the General Reserve Account was approximately \$80.1 million. These funds are intended to be used for capital construction projects.

Debt Securities: The State Treasury invests in U.S. Treasury instruments. On June 30, 2020, the Turnpike System's holding of U.S. Treasury Bonds and Notes was \$40.9 million. Concentration risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At June 30, 2020, the Turnpike System's investments and concentrations were primarily in U.S. Treasury Bonds and Notes.

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 deposits at FDIC-insured depository institutions (including noninterest bearing accounts) are insured by the FDIC up to the standard maximum amount of \$250,000 for each deposit insurance ownership category, examples which are collateralized are per RSA 383-B:3-301(e)(2); Ban 1450 Collateralization of Public Deposits. All commercial paper must be from issuers having an A1/P1 rating or better and an AA- or better long-term debt rating from

NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

one or more of the nationally recognized rating agencies. Certificates of deposits must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have a minimum rating of green and one star as assigned by Veribanc Inc.

As of June 30, 2020, the Turnpike System's bank balances exposed to custodial credit risk for cash and cash equivalents are as follows:

(Dollars in thousands)

Type	Collateralized and Held in State's Name	Uncollateralized	Federal Deposit Insurance Corporation	Total
Demand Deposits & Cash	\$ 113,316	\$ 16,928	\$ 250	\$ 130,494
Total	\$ 113,316	\$ 16,928	\$ 250	\$ 130,494

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

In addition to \$130.5 million in bank balances shown above, the Turnpike System also reported \$(1.0) million in amounts due to other DOT intra-agency funds for a total Cash & Cash Equivalents as of June 30, 2020 amount of \$129.5 million.

Investments: On June 30, 2020, the value of investments with maturity dates over 90 days of the date acquired amounted to a total of \$40.9 million and Certificates of Deposit at \$3.8 million.

Certificates of deposits must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have a minimum rating of green and one star as assigned by Veribanc Inc.

The State Treasury has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in statute RSA 6:8. Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments will be denominated in U.S. dollars.

The Turnpike System categorizes its fair value measurements within the fair value hierarchy established in accordance with U.S. generally accepted accounting principles. See Note 1(q) - Investments for fair value hierarchy leveling.

The following table summarizes the Turnpike System's investments measured at fair value, by type, as of June 30, 2020.

(Dollars in thousands)

	Investments Classified in the Fair Market Value Hierarchy		
	Level 1	Level 2	Total
U.S. Government Obligations	\$ —	\$ 40,924	\$ 40,924
Total	\$ —	\$ 40,924	\$ 40,924

Credit risk is the risk that the issuer or other counter-party will not fulfill its obligations. The State may invest in investment-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 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

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020**

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, 2020 for the Turnpike System's investments are 0.902 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. The State's selection criteria are aimed at investing in only high quality institutions where default is extremely unlikely. The Turnpike System's investments are held by its custodian in the name of the Turnpike System.

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 value amounted to \$62.6 million with \$17.9 million designated as Cash and Cash Equivalents – Restricted and \$44.7 million designated as Investments – Restricted. Restricted assets are separated into the following accounts as of June 30, 2020:

(Dollars in thousands)

Restricted Assets	Amount
Revenue Bond Debt Service Reserve Account	\$ 40,925
Revenue Bond Insurance Reserve Account	3,763
Total Investments – Restricted	44,688
Revenue Bond Debt Service Reserve Account	302
Revenue Bond Principal Debt Service Account	12,970
Revenue Bond Interest Debt Service Account	3,907
Facility Sustainment and Reinvestment Reserve Account	700
Total Cash & Cash Equivalents – Restricted	17,879
Total Restricted Assets	\$ 62,567

The Revenue Bond Debt Service Reserve Account is used to report resources set aside to make up potential future deficiencies in the Revenue Bond Interest Debt Service Account and Revenue Bond Principal Debt Service Account. On the Statement of Net Position, \$7.9 million of the Revenue Bond Debt Service Account is reported as part of Net Investment in Capital Assets instead of Restricted for Debt Payments. This amount represents the portion of the account related to unspent bond proceeds. 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 established 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, 2020. The Facility Sustainment and Reinvestment Reserve Account is established to provide funding for facility maintenance, repair, and capital improvement projects of the Hooksett Welcome Centers (Welcome Centers) should the operator fail to meet physical facility performance standards. The account's funding, spending, and cap limits are subject to the terms and conditions of the Ground Lease Contract between the Turnpike System and the operator.

**NEW HAMPSHIRE TURNPIKE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020**

Note 4) Capital Assets

Capital Asset activity for the fiscal year ended June 30, 2020 was as follows:

(Dollars in thousands)

Type	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets not Being Depreciated:					
Land	\$ 102,069	\$ —	\$ —	\$ —	\$ 102,069
Construction in Progress	78,793	15,701	1,167	(58,394)	34,933
Work in Progress Computer Software	—	—	—	—	—
Total Capital Assets not Being Depreciated:	180,862	15,701	1,167	(58,394)	137,002
Other Capital Assets:					
Equipment and Computer Software	73,213	2,501	47	—	75,667
Buildings and Building Improvements	14,263	3,107	—	506	17,876
Depreciable Land Improvements	2,003	—	—	—	2,003
Infrastructure	1,094,743	17,397	207	57,827	1,169,760
Subtotal Other Capital Assets	1,184,222	23,005	254	58,333	1,265,306
Total Capital Assets	1,365,084	38,706	1,421	(61)	1,402,308
Less Accumulated Depreciation for:					
Equipment and Computer Software	(56,945)	(4,623)	(47)	—	(61,521)
Buildings and Building Improvements	(3,453)	(451)	—	—	(3,904)
Depreciable Land Improvements	(499)	(100)	—	—	(599)
Infrastructure	(381,628)	(22,941)	(145)	—	(404,424)
Total Accumulated Depreciation	(442,525)	(28,115)	(192)	—	(470,448)
Net Capital Assets	\$ 922,559	\$ 10,591	\$ 1,229	\$ (61)	\$ 931,860

At June 30, 2020, the Turnpike System had contractual commitments for capital Turnpike System improvement projects of \$23.3 million.

The Turnpike System's capital assets also include intangible assets as per GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This standard 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. Intangible assets for The Turnpike System include both land easements and computer software.

Easements with an indefinite useful life are classified as land assets. Temporary easements, which expire when a project is closed, are considered a project cost. If the project is capitalized, then the cost becomes a part of Infrastructure and is amortized over 50 years. If the project is expensed, the easement cost will be expensed in the same period.

Computer software acquisitions that the Department owns the license to or requires extensive customization from the licensee for Department use is considered an intangible asset. If the software is capitalized, the cost will be amortized over 5 years. If the software is expensed, the software cost will be expensed in the same period.

Also included in the capitalization of assets, per 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 2020 was 3.24%. This rate was then applied to the average fiscal year 2020 balances of qualifying open construction in progress projects. In fiscal year 2020, interest expense that was capitalized amounted to \$2.9 million.

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Note 5) Inter-fund Activity

In fiscal year 2020, expenses were incurred due to work performed by other state agencies on behalf of the Turnpike System. Enforcement expenses of \$8.3 million were incurred for services provided by the New Hampshire Department of Safety. Services provided by the Department of Information Technology and the Department of Transportation, Division of Operations' Bureaus including Bridge Maintenance, Traffic, Transportation Systems, Management & Operations (TSMO), and Mechanical Services resulted in \$2.2 million of expenses and account for the majority of the remaining inter-fund activity. New Hampshire Department of Business and Economic Affairs, Division of Travel and Tourism operations of the Seabrook and Hooksett Welcome Centers amounted to \$1.0 million.

Note 6) Unearned Revenue

Unearned Revenue primarily consists of prepaid toll monies received from customers on their transponder accounts. Revenue is recognized when a customer uses the E-ZPass toll system on the turnpike. In fiscal year 2020, Unearned Revenue included approximately \$14.6 million in pre-paid tolls as well as \$0.6 million 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 2020.

(b) Ground Lease Contract

A public private partnership between the State (Department of Transportation, Liquor Commission, and Department of Business and Economic Affairs) and Granite State Hospitality, LLC was formed in 2013 to develop, operate, and maintain both north and southbound rest areas on I-93 in the town of Hooksett. The rest areas are full service welcome centers with concession and fuel sales, visitor centers, and State Liquor and Wine Outlet Stores. The Turnpike System receives a minimum guaranteed rent of \$23.2 million over a 35-year term with tiered rent payments based on the sale of gasoline and tiered percentage rent based on gross concession sales. In fiscal year 2020 the guaranteed minimum rent payment was \$0.5 million. In addition to the minimum rent, the Turnpike System receives additional rental income if fuel or concession sales exceed contractual thresholds. For fiscal year 2020 the Turnpike System recorded \$0.9 million in total rental receipts. In addition, the Turnpike System also maintains a Facility Sustainment and Reinvestment Reserve Account funded by the operator which provides funding for facility maintenance, repair, and capital improvement projects should the Developer/Operator fail to meet established, contractual performance standards. This account is capped at \$1.0 million. On June 30, 2020, the Facility Sustainment and Reinvestment Reserve Account had a balance of approximately \$0.7 million.

(Dollars in thousands)

Hooksett Welcome Center Rent	Amount
Guaranteed Minimum Rent	\$ 500
Fuel Sales	38
Concession Sales	348
Total Hooksett Welcome Center Rent	\$ 886

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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, 2020. 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, 2020, 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 ~ Aa3 (stable)
- Standards & Poor's ~ AA- (stable)

During fiscal year 2020, Moody's Investors Service increased the Turnpike System bond rating from A1 (stable) to Aa3 (stable). Also, Fitch Rating amended its rating to A+ (stable) from A+ (positive).

(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 2020:

(Dollars in thousands)

Type	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Revenue Bonds	\$ 350,585	\$ 51,357	\$ 84,250	\$ 317,692	\$ 24,145	\$ 293,547
Net Pension Liability	10,719	1,370	1,530	10,559	—	10,559
Net Other Postemployment Benefits Liability	27,661	660	5,587	22,734	—	22,734
Claims and Compensated Absences Payable	2,749	1,281	459	3,571	1,616	1,955
Other: Pollution Remediation and Other	3,742	1,131	6	4,867	686	4,181
Total	\$ 395,456	\$ 55,799	\$ 91,832	\$ 359,423	\$ 26,447	\$ 332,976

(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 4.00% to 6.01%. The annual maturities on a cash basis are as follows:

(Dollars in thousands)

Payable June 30,	Revenue Principal	Revenue Interest	Revenue Interest Rebate	Net Interest
2021	\$ 24,145	\$ 14,509	\$ (1,900)	\$ 12,609
2022	26,285	13,119	(1,886)	11,233
2023	21,650	11,787	(1,771)	10,016
2024	18,795	10,912	(1,606)	9,306
2025	12,840	9,863	(1,454)	8,409
2026 thru 2030	58,090	41,063	(6,915)	34,150
2031 thru 2035	51,290	27,576	(5,812)	21,764
2036 thru 2040	64,735	12,306	(2,107)	10,199
2041 thru 2043	18,100	1,104	—	1,104
Subtotal	295,930	142,239	(23,451)	118,788
Un-amortized Premium	21,762	—	—	—
Total	\$ 317,692	\$ 142,239	\$ (23,451)	\$ 118,788

On October 31, 2019 the State issued the \$40.8 million Turnpike System Revenue Bonds, 2019 Refunding Series. The bonds were sold at a \$10.5 million premium. The interest rates on the new bonds are 4.0% to

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5.0% with an All-In-True-Interest-Cost of 1.58%. The refunding had a net present value savings of \$9.8 million and cash savings of \$11.0 million on future principal and interest payments over the lifetime of the bonds. The closing date for the bond issue was November 14, 2019. Proceeds of the \$50.7 million were used to refund a portion of the 2009 Series A bonds. Interest on these bonds will be paid on May 1 and November 1 of each year, commencing May 1, 2020.

The Bipartisan Budget Act of 2019 did not include sequestration relief on reimbursements for direct-pay bonds (BABs) and it extended the sequestration through Federal fiscal year 2029. The reduction in funding as a result of sequestration is 5.9% beginning October 1, 2019. Revenue interest rebate has been reduced by 5.9% through 2029.

(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 2020, the toll rate schedule was deemed to be sufficient to meet all required payments in connection with the Turnpike System, and as such, no Independent Engineer’s study was necessary.

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

(Dollars in thousands)

Type	Expensed	Capitalized	Total
Renewal & Replacement	\$ 10,719	\$ 13,266	\$ 23,985

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

Note 9) Employee Benefit Plans

(a) New Hampshire Retirement System

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing, multiple-employer Public Employee Retirement System (“NHRS”) 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. NHRS is a contributory defined-benefit plan providing service, disability, death, and vested retirement

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benefits to members and beneficiaries. NHRS 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. NHRS is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

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

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

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

All Turnpike System employees are members of Group I.

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

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

NHRS 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>.

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The Turnpike System contributed 12.6% of gross payroll for Group I members.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2020, the Turnpike System reported a liability of \$10.6 million for its proportionate share of the net pension liability of NHRS. This net pension liability is measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll the total pension liability forward to June 30, 2019. The State's

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proportion of the net pension liability was based on the State's share of contributions to NHRS 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 (1.1676%), based on the Turnpikes' share of the State's contributions to NHRS relative to the State's total contributions to NHRS. For the year ended June 30, 2020, the Turnpike System recognized pension expense of \$1.0 million.

As of June 30, 2020, the Turnpike System reported deferred outflows and inflows of resources relating to pensions from the following sources:

(Dollars in thousands)

Deferred Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ —	\$ (86)
Differences between expected and actual experience	58	(227)
Change in actuarial assumptions	379	—
Changes in employer proportion	250	(496)
Change in employer proportion (entity)	426	(1,407)
Contributions subsequent to the measurement date	942	—
Total	\$ 2,055	\$ (2,216)

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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

(Dollars in thousands)

Fiscal Year Ended June 30,	Amortization of Deferred Amounts
2021	\$ (15)
2022	(593)
2023	(491)
2024	(4)
	\$ (1,103)

Actuarial Assumptions: NHRS total pension liability, measured as of June 30, 2019, was determined by a roll forward of the actuarial valuation as of June 30, 2018, using the following actuarial assumptions:

Inflation	2.50%
Salary increases	5.60% average, including inflation
Wage inflation	3.25%
Investment rate of return	7.25%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

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

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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 2019:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Geometric Rate of Return
Large Cap Equities	22.50 %	4.25 %
Small/Mid Cap Equities	7.50	4.50
Total Domestic Equity	30.00	
International Equities (unhedged)	13.00	4.50
Emerging International Equities	7.00	6.00
Total International Equity	20.00	
Core Bonds	9.00	1.12
Global Multi-Sector Fixed Income	10.00	2.46
Absolute Return Fixed Income	6.00	1.50
Total Fixed Income	25.00	
Private Equity	10.00	7.90
Private Debt	5.00	4.86
Total Alternative Investments	15.00	
Real Estate	10.00	3.00
Total Real Estate Investments	10.00	
Total	100.00 %	

Discount Rate: The discount rate used to measure the collective total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that 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 NHRS's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, NHRS'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 NHRS's net pension liability to changes in the discount rate. In particular, the table presents the Turnpike System's proportionate share of NHRS's net pension liability measured at June 30, 2019 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:

(Dollars in thousands)

Fiscal Year Ended	1% Decrease to 6.25%	Current Single Rate Assumption 7.25%	1% Increase to 8.25%
June 30, 2020	\$ 14,139	\$ 10,559	\$ 7,600

(b) Other Postemployment Benefits (OPEB)

Plan Description: RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses through a single employer (primary government with component units) defined postemployment benefit plan, previously defined as the Non Trusted OPEB Plan. These benefits include group hospitalization, hospital medical care, surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum.

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During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of state service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011.

These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, (the Fund), a single-employer group health fund, which is the state's self- insurance internal service fund implemented in October 2003 for active state employees and retirees. The Fund covers the cost of medical and prescription drug claims by charging actuarially developed working rates to State agencies for participating employees, retirees and eligible spouses.

An additional major source of funding for retiree benefits is from the medical subsidy payment described earlier, which totaled approximately \$150,497, \$174,752, and \$186,799, respectively, for fiscal years ended June 30, 2020, 2019, 2018. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Turnpike System's contributions to the fund on behalf of Turnpike Retirees for fiscal years ended June 30, 2020, 2019, 2018, were \$674,308, \$632,758, and \$750,055 respectively.

Total OPEB Liability: The Turnpike System's proportionate share of the State's total Non Trusted OPEB Plan liability is \$22.7 million, measured as of June 30, 2019, and was determined by an actuarial valuation as of December 31, 2018. The Turnpike System's proportionate share of the State's total Non Trusted OPEB Plan liability is the ratio attributable to each fund/component unit based on each participant's calculated liability. As of the measurement date, the Turnpike System's proportion was 1.27%, which was a decrease of 18.2 basis points from its proportion measured as of the previous measurement date.

Actuarial Assumptions and Other Inputs: The total Non Trusted OPEB Plan liability as of June 30, 2019 was measured by an actuarial valuation as of December 31, 2018 using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation:	3.25%
Salary increases:	Group I employees: 13.25% decreasing over 9 years to an ultimate level of 3.75%; Group II employees: 25.25% decreasing over 8 years to an ultimate level of 4.25%.
Discount rate:	3.50% as of June 30, 2019 and 3.87% as of June 30, 2018
Healthcare cost trend rates:	
Medical:	Non-Medicare: 6.00% decreasing by 0.25% each year to an ultimate level of 4.50% per year. Medicare*: -12.20% for one year then 4.50% per year.
Prescription Drug:	Non-Medicare: 8.00% decreasing by 0.25% each year to an ultimate level of 4.50% per year. Medicare: 7.00% decreasing by 0.25% each year to an ultimate level of 4.50% per year.
Contributions:	Retiree contributions are expected to increase with a blended medical and prescription drug trend. Because the January 1, 2019 Non-Medicare working rates were temporarily reduced to spend down reserves, an additional adjustment was applied in the first year to bring the rates back to the unsubsidized level.

*First-year Medicare medical trend reflects known Medicare Advantage rate guarantees through 2020.

The discount rate was based on the yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher as shown in the Bond Buyer 20-Bond General Obligation Index (3.87% as of June 30, 2018, and 3.50% as of June 30, 2019). This determination is in accordance with GASB Statement No 75.

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Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table projected generationally for males and females with Scale MP-2015.

The assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study by New Hampshire Retirement System for the period July 1, 2010 through June 30, 2015.

Changes in assumptions reflect trend assumption revisions to reflect current experience and future expectations.

Sensitivity of the Turnpike System Non Trusted OPEB Plan liability to changes in the discount rate:

The following presents sensitivity of the Turnpike System's proportionate share of the total Non Trusted OPEB Plan liability to changes in the discount rate. In particular, the table presents the Turnpike System's proportionate share of the Total OPEB liability measured at June 30, 2019 if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate:

(Dollars in thousands)

Fiscal Year Ended	1% Decrease to 2.50%	Current Discount Rate 3.50%	1% Increase to 4.50%
June 30, 2020	\$ 25,696	\$ 22,734	\$ 20,108

Sensitivity of the Turnpike System OPEB liability to changes in the healthcare cost trend rates:

The following presents sensitivity of the Turnpike System's proportionate share of the total Non Trusted OPEB Plan liability to changes in the healthcare cost trend rates. In particular, the table presents the Turnpike System's proportionate share of total Non Trusted OPEB Plan liability measured at June 30, 2019, if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare trend cost rates:

(Dollars in thousands)

Fiscal Year Ended	1% Decrease	Current Trend Rate	1% Increase
June 30, 2020	\$ 18,929	\$ 22,734	\$ 27,650

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2020, the Turnpike System recognized an OPEB expense of \$1.7 million. As of June 30, 2020, the Turnpike System reported deferred outflows and inflows of resources on its financial statements related to the Non Trusted OPEB Plan from the following sources:

(Dollars in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ (379)
Changes in assumptions	—	(9,731)
Changes in employer proportion	479	(2,781)
Contributions subsequent to the measurement date	564	—
Total	\$ 1,043	\$ (12,891)

Amounts reported as deferred outflows of resources related to the Non Trusted OPEB Plan resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the total Non Trusted OPEB Plan liability in the year ended June 30, 2021. Remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to the Non Trusted OPEB Plan will be recognized in OPEB expense as follows:

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(Dollars in thousands)

Year ended June 30,	Amount
2021	\$ (3,545)
2022	(3,545)
2023	(3,545)
2024	(1,777)
Total	\$ (12,412)

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 fiscal years.

(b) Employee and Retiree Health Benefits

During fiscal year 2004, the State established an Employee Benefit Risk Management Fund (the 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 3% of annual claims and administrative costs, for unexpected costs. For fiscal year 2020, this reserve equaled \$17.6 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 2020 amounted to \$3.1 million and \$1.0 million respectively for active and retired employees.

(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 fiscal 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, 2019 and 2020:

(Dollars in thousands)

	6/30/2018 Balance	Increases	Decreases	6/30/2019 Balance	Increases	Decreases	6/30/2020 Balance	Current	Long- Term
Total	\$ 1,526	\$ 66	\$ —	\$ 1,592	\$ 1,989	\$ 1,244	\$ 2,337	\$ 1,493	\$ 844

The workers' compensation claim expense is recorded in the Statement of Revenues, Expenses and Changes in Net Position under Payroll Benefits and the liability is recorded in the Statement of Net Position under Claims and Compensated Absences Payable.

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Note 11) Commitments

(a) 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. This contract was last amended on June 24, 2020 to better align contract deliverables with agreed upon performance milestones. No changes were made to contracted price or overall service timeframes.

(b) Capital Improvement Program

The ten-year transportation improvement plan, adopted by the Legislature in 1986 and amended through 2028, 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 fiscal years to address changing priorities and the most recent ten-year plan for the fiscal years 2019 – 2028 was signed into law July 2, 2018 (Chapter 358, Laws of 2018).

(c) Maintenance

The Turnpike System is maintained and repaired by the Bureau of Turnpikes' own forces or those of contracted vendors. With the exception of other insignificant proceeds, all maintenance and repair costs have been funded from Turnpike operating revenues since the beginning of the Turnpike System in 1950.

(d) Litigation

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) - Revenue Bond Resolutions for further detail). 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. The Turnpike System currently has obligations to remediate four sites - Hampton Toll Plaza, Hudson site (formerly Benson's Animal Park), Newington Country Store, and the Taylor River Bridge in Hampton-Hampton Falls. No new sites were identified in fiscal year 2020. Pollution liabilities reported at June 30, 2020 totaled \$4.4 million. In fiscal year 2020, the Taylor River Bridge liability increased by \$0.7 million due to including the potential for premature failure of the Taylor River Dam into the remediation assumptions and pushing out the scheduled replacement from fiscal year 2022 to fiscal year 2031. Liability estimates are subject to change due to price increases or reductions, technology, or changes in applicable laws or regulations governing the remediation efforts.

**NEW HAMPSHIRE TURNPIKE SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

**REQUIRED SUPPLEMENTARY INFORMATION SECTION
(Unaudited)**

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

**NEW HAMPSHIRE TURNPIKE SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

**State of New Hampshire Turnpike System
Information on the Turnpike's Proportionate Share of Net Pension Liability
For the Fiscal Year Ended June 30, 2020**

Schedule of the Turnpike's Proportionate Share of the Net Pension Liability (Of the Total NHRS)
(Dollars in thousands)

	June 30,					
	2020	2019	2018	2017	2016	2015
Turnpike's Proportion of the Net Pension Liability of the Total NHRS	0.22 %	0.22 %	0.28 %	0.26 %	0.25 %	0.25 %
Turnpike's Proportionate Share of the Net Pension Liability	\$10,559	\$10,719	\$13,875	\$13,757	\$10,100	\$ 9,369
Turnpike's Covered-Employee Payroll	7,253	7,268	8,357	7,472	6,974	6,792
Turnpike's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	145.58 %	147.48 %	166.03 %	184.11 %	144.82 %	137.94 %
NHRS Fiduciary Net Position as a Percentage of the Total Pension Liability	65.59 %	64.73 %	62.66 %	58.30 %	65.47 %	66.32 %

Note: The amounts presented were determined as of and for the measurement periods ended June 30, 2019, 2018, 2017, 2016, 2015, 2014. Schedule is intended to show 10 years. Additional years will be added as they become available.

Schedule of Turnpike Contributions
(Dollars in thousands)

	June 30,						
	2020	2019	2018	2017	2016	2015	2014
Required Turnpike Contributions	\$ 942	\$ 960	\$ 950	\$ 1,030	\$ 930	\$ 830	\$ 810
Actual Turnpike Contributions	942	960	950	1,030	930	830	810
Excess/(Deficiency) of Turnpike Contributions	—	—	—	—	—	—	—
Turnpike's Covered-Employee Payroll	7,450	7,507	8,555	7,807	6,963	7,154	6,792
Turnpike Contribution as a percentage of its Covered-Employee Payroll	12.64 %	12.79 %	11.10 %	13.19 %	13.36 %	11.60 %	11.93 %

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

See accompanying Independent Auditors' Report

**NEW HAMPSHIRE TURNPIKE SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2020
(Unaudited)**

**State of New Hampshire Turnpike System
Information on the Turnpike's Proportionate Share of Total Other Postemployment Benefits
For the Fiscal Year Ended June 30, 2020**

Schedule of the Turnpike's Proportionate Share of the Total Non Trusted OPEB Plan Liability

(Dollars in thousands)

	June 30,			
	2020	2019	2018	2017
Turnpike's Proportion of the Total Non Trusted OPEB Plan Liability	1.266196 %	1.448213 %	1.443700 %	1.415079 %
Turnpike's Proportionate Share of the Total Non Trusted OPEB Plan Liability	\$ 22,734	\$ 27,661	\$ 32,186	\$ 40,694
Turnpike's Covered-Employee Payroll	\$ 7,253	\$ 7,268	\$ 8,357	\$ 7,472
Turnpike's Proportionate Share of the Total Non Trusted OPEB Plan Liability as a Percentage of its Covered-Employee Payroll	313.44 %	380.59 %	385.14 %	544.62 %

Note: The amounts presented were determined as of and for the measurement periods ended June 30, 2019, 2018, 2017, and 2016.

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

Notes to the Required Supplementary Information:

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Changes in assumptions reflect trend assumption revisions to reflect current experience and future expectations. The table below shows the historical discount rate.

	2019	2018	2017	2016
Discount Rate	3.50 %	3.87 %	3.58 %	2.85 %

See accompanying Independent Auditors' Report

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**NEW HAMPSHIRE TURNPIKE SYSTEM
OTHER SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2020
(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, 2020
(Unaudited)

State of New Hampshire Turnpike System				
Budget to Actual (Non-GAAP Budgetary Basis) Revenue Schedule				
For the Fiscal Year Ended June 30, 2020				
(Dollars in thousands)				
	Budgeted		Actual	Variance
	Original	Final	Budgetary Basis	Favorable (Unfavorable) with Final Budget
Revenues				
<i>Restricted</i>				
Bonds Interest Subsidy	\$ 2,936	\$ 2,936	\$ 2,456	\$ (480)
Spaulding /Central/Blue Star (Private Local Funds)	750	836	1,371	535
Sponsorship Fees	127	127	130	3
Misc Reimbursements	—	70	55	(15)
Federal Revenue	—	—	432	432
Transponder Sales	500	500	615	115
Vending Machine Income	—	—	3	3
Total Restricted Revenue	4,313	4,469	5,062	593
<i>Unrestricted</i>				
Spaulding Cash Receipts	3,936	3,936	3,084	(852)
Blue Star Cash Receipts	13,359	13,359	9,122	(4,237)
Central Cash Receipts	10,677	10,677	8,685	(1,992)
E-ZPass Central Receipts	36,854	36,854	32,537	(4,317)
E-ZPass Blue Star Receipts	52,434	52,418	50,133	(2,285)
E-ZPass Spaulding Receipts	13,656	13,656	13,107	(549)
Misc ET C Revenue	5	5	—	(5)
VES Administration Fees	1,964	1,964	6,649	4,685
Administration Fees- Toll Collections	50	50	40	(10)
Violation Revenue Central	1,000	1,000	1,009	9
Violation Revenue Blue Star	1,000	1,000	1,361	361
Violation Revenue Spaulding	300	300	378	78
Cash Management Interest	450	450	811	361
General Reserve Interest	600	600	1,399	799
Insurance Reserve Interest	50	50	97	47
Sale Of Service	1	1	—	(1)
Facility Sustainment Reserve	170	170	186	16
Rental Income	15	15	32	17
Hooksett Rental Income	500	500	500	—
Fuel Sales	150	150	36	(114)
Concession Sales	500	500	451	(49)
ROW Property Sales	350	350	—	(350)
Property Damage	400	400	28	(372)
Miscellaneous	400	400	212	(188)
Transponder Lease-to-own	50	50	75	25
Statement Fee Revenue	45	45	196	151
Total Unrestricted Revenue	138,916	138,900	130,128	(8,772)
Total Revenue	\$ 143,229	\$ 143,369	\$ 135,190	\$ (8,179)

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

See accompanying Independent Auditors' Report

NEW HAMPSHIRE TURNPIKE SYSTEM
OTHER SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2020
(Unaudited)

State of New Hampshire Turnpike System Budget to Actual (Non-GAAP Budgetary Basis) Expense Schedule For the Fiscal Year Ended June 30, 2020 (Dollars in thousands)				
	Budgeted		Actual	Variance
	Original	Final	Budgetary Basis	Favorable (Unfavorable) with Final Budget
<u>Expenditures</u>				
Administration and Support	\$ 11,907	\$ 12,323	\$ 9,923	\$ 2,400
Renewal and Replacement	23,630	23,768	24,711	(943)
Central Operations	4,769	4,769	3,634	1,135
Central Maintenance	6,250	6,432	3,899	2,533
East NH Turnpike Blue Star Operations	2,918	2,918	2,460	458
East NH Turnpike Blue Star Maintenance	2,387	2,387	1,578	809
East NH Turnpike Spaulding Operations	2,053	2,053	1,640	413
East NH Turnpike Spaulding Maintenance	3,007	3,112	2,418	694
Toll Collection	13,767	14,271	16,929	(2,658)
Turnpike Debt Service	47,220	47,220	46,877	343
Transponder Inventory Fund	500	500	772	(272)
Retirees Health Insurance	692	692	674	18
Workers Compensation	625	1,161	1,161	—
Unemployment Compensation	10	10	4	6
Total Expenses before Capital Expenses	119,735	121,616	116,680	4,936
Capital Expenses				
RSA 237:2 I Blue Star Memorial	—	—	3	(3)
RSA 237:2 VII Central NH Turnpike	5,900	5,900	3,249	2,651
Toll Collection Equipment	7,800	7,800	399	7,401
Spaulding Turnpike/US 4/NH 16	24,300	24,300	15,352	8,948
Total Capital Expenses	38,000	38,000	19,003	18,997
Total Expenses	157,735	159,616	135,683	23,933
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$14,506)	(\$16,247)	(\$493)	(\$32,112)

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

See accompanying Independent Auditors' Report

**NEW HAMPSHIRE TURNPIKE SYSTEM
OTHER SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2020
(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 biennial 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 Turnpike 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.