



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

**ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended  
June 30, 2016**





# ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended  
June 30, 2016

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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## **INTRODUCTORY SECTION**

**(Unaudited)**

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



STATE OF NEW HAMPSHIRE  
DEPARTMENT OF TRANSPORTATION



VICTORIA F. SHEEHAN  
COMMISSIONER

WILLIAM J. CASS, P.E.  
ASSISTANT COMMISSIONER

December 22, 2016

To: The Citizens of New Hampshire,

Her Excellency the Governor, and the Honorable Council,

We are pleased to submit the Annual Financial Report of the New Hampshire Department of Transportation Turnpike System for the fiscal year ended June 30, 2016.

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

***The Turnpike System, General Description***

The Turnpike System, as shown on the map in the Introductory Section, presently consists of 89 miles of limited access highway, 36 miles of which are part of the U.S. Interstate Highway System. The Turnpike System comprises a total of approximately 658 total lane miles, 170 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, (which are collectively referred to as the Eastern Turnpike), and the Central Turnpike. The Turnpike System primarily serves the major cities located in the central and eastern sections of southern New Hampshire.

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

Respectfully submitted,

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

Victoria F. Sheehan  
Commissioner

**ORGANIZATIONAL LISTING  
STATE OF NEW HAMPSHIRE**

**Governor**

Margaret Wood Hassan

**Executive Council**

Joseph D. Kenney  
Colin Van Ostern  
Christopher T. Sununu  
Christopher C. Pappas  
David K. Wheeler

**State Treasurer**

William F. Dwyer

**Secretary of State**

William M. Gardner

**Attorney General**

Joseph A. Foster

**NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION**

**Commissioner**

Victoria F. Sheehan

**Assistant Commissioner & Chief Engineer**

William J. Cass, P.E.

**Deputy Commissioner**

Christopher M. Waszczuk, P.E.

**Director of Operations**

David M. Rodrigue, P.E.

**Director of Finance**

Marie A. Mullen

**Financial Reporting Administrator**

Leonard L. Russell, CPA

**Turnpike System Administrator**

John W. Corcoran, P.E.

**Turnpike System Assistant Administrator**

David S. Smith, P.E.

**Business Administrator**

Margaret S. Blacker

**Maintenance Superintendent**

Dix E. Bailey

**Project Manager**

Nasser Yari, P.E.

## **FINANCIAL SECTION**

This section includes the independent auditors' report, the financial statements as of and for the fiscal year ended June 30, 2016, and the accompanying notes to the financial statements.



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

## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the New Hampshire Turnpike System (the Turnpike System) which comprise the statement of net position, as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, which collectively comprise the Turnpike System's basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the New Hampshire Turnpike System, as of June 30, 2016, and the changes in its net position, and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



To the Fiscal Committee of the General Court  
State of New Hampshire  
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***Emphasis of Matter***

Reporting Entity

As discussed in Note 1, 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, as of June 30, 2016, the changes in its financial position, or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles requires that the Management's Discussion and Analysis on pages 11 through 16 and the Schedule of Proportionate Share of Net Pension Liability and Schedule of Turnpike Contributions on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Turnpike System's basic financial statements. The introductory section of this report and budgetary comparison information on pages 42-45 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section and budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



To the Fiscal Committee of the General Court  
State of New Hampshire  
Page 3 of 3

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 on our consideration of the Turnpike System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Turnpike System's internal control over financial reporting and compliance.

KPMG LLP

December 22, 2016

**New Hampshire Turnpike System  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(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, 2016. This section should be read in conjunction with the Turnpike System financial statements, which follow this section.

***Financial Highlights***

- Total Net Position increased by \$47.6 million or 8.7% to \$594.5 million. This increase is primarily due to an increase of Capital Assets funded from 2015 Series A revenue bond proceeds.
- Total Net Capital Assets increased by \$24.7 million or 2.8% over the prior year due to an increase in Construction in Progress of \$27.5 million spurred by the \$50.0 million revenue bond sold at the end of fiscal year 2015 allowing several large projects on the Eastern and Central Turnpikes to proceed. The Turnpike System also capitalized \$18.8 million in Land, Buildings, Infrastructure, and Equipment and Computer Software. Accumulated Depreciation offsets the increases in Net Capital Assets by \$21.5 million.
- On July 1, 2015, the Turnpike System made the final \$0.4 million principal and interest payment for the \$120 million acquisition of the I-95 Piscataqua River Bridge in fiscal year 2010.
- The Turnpike System at June 30, 2016 had approximately a \$46.7 million General Reserve Account in Cash and Cash Equivalents intended for capital construction projects and renewal & replacement costs.
- Total Operating Revenues increased by \$6.3 million or 5.1% to \$130.7 million. The increase was due primarily to increased E-ZPass toll revenue of 6.7% spurred by low fuel costs and favorable travel weather.
- Total Operating Expenses, excluding a prior year one-time expense of \$27.7 million, decreased by \$1.6 million or 2.2% from the prior year due to a \$1.7 million pollution remediation liability reduction per GASB 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* and the mild winter.

***Using this Report***

The Turnpike System is accounted for as an enterprise fund, reporting all of the Turnpike System's financial activity, assets and liabilities using the accrual basis of accounting much like a private business entity. As such, this annual report consists of financial statements, along with explanatory notes to the financial statements. The Statement of Net Position on page 18 and the Statement of Revenues, Expenses and Changes in Net Position on page 19, report the Turnpike's net position and change in net position. The Statement of Cash Flows on page 20 outlines the cash inflows and outflows and non-cash capital and related financing activities related to the activity of the Turnpike System.

**New Hampshire Turnpike System  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)**

(I) Summary of Net Position		(Dollars in thousands)			
Type		2016	2015	\$ Change	% Change
<b>Assets:</b>	Current Assets	\$ 163,864	\$ 165,303	(\$1,439)	(0.9%)
	Net Capital Assets	902,130	877,386	24,744	2.8%
	Total Assets	1,065,994	1,042,689	23,305	2.2%
Deferred Outflows of Resources:	Pension	1,127	830	297	35.8%
	Loss on Refunding	1,811	2,277	(466)	(20.5%)
<b>Liabilities:</b>	Current Liabilities	55,136	46,885	8,251	17.6%
	Non-Current Liabilities	418,738	450,677	(31,939)	(7.1%)
	Total Liabilities	473,874	497,562	(23,688)	(4.8%)
Deferred Inflows of Resources:	Pension	607	1,367	(760)	(55.6%)
<b>Net Position:</b>	Net Investment in Capital Assets	491,107	474,775	16,332	3.4%
	Restricted for Debt Repayments	60,308	56,580	3,728	6.6%
	Restricted for Uninsured Risks	3,003	3,006	(3)	(0.1%)
	Unrestricted	40,033	12,506	27,527	220.1%
	<b>Total Net Position</b>	<b>\$ 594,451</b>	<b>\$ 546,867</b>	<b>\$ 47,584</b>	<b>8.7%</b>

- Total Assets increased by \$23.3 million over the prior year. Net Capital Assets (less Accumulated Depreciation and Amortization) increased primarily due to the proceeds from the issuance of the 2015 Series A revenue bonds making cash available to advance capital projects on the Eastern and Central Turnpikes. Projects that advanced in fiscal year 2016 include the replacement of five red listed bridges in Manchester, the Exit 12 overpass over Interstate 93 in Concord, and the Little Bay Bridges from Newington to Dover; the construction of a new maintenance facility at the Exit 16 interchange in Rochester; and construction progress on the widening of the Spaulding Turnpike. See Note 4 for details on Capital Assets activity and Note 11(c), Capital Improvement Program, for more information. Current Assets decreased due to the use of construction cash from bond proceeds to fund construction projects.
- Total Liabilities decreased \$23.7 million from the prior year. This change is driven primarily by a decrease in Non-Current Liabilities of \$31.9 million due to a \$30.7 million decrease in long-term Revenue Bonds Payable.
- Total Net Position increased by \$47.6 million or 8.7% to \$594.5 million due to the increase in capital assets spurred by the 2015 Series A revenue bond issuance, the reduction of outstanding long-term principal on revenue bonds, increase in toll revenue and a decrease in operating expenses due to the mild winter.

**New Hampshire Turnpike System  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)**

(II) Current Liabilities		(Dollars in thousands)		
Type	2016	2015	\$ Change	% Change
Accounts Payable	\$ 8,057	\$ 9,225	(\$1,168)	(12.7%)
Accrued Payroll	920	818	102	12.5%
Due to Other Funds	242	460	(218)	(47.4%)
Unearned Revenue	11,771	10,495	1,276	12.2%
Revenue Bonds Payable	27,855	19,455	8,400	43.2%
Note Payable to State Highway Fund	-	414	(414)	(100.0%)
Accrued Interest Payable	5,677	5,445	232	4.3%
Claims and Compensated Absences Payable	293	422	(129)	(30.6%)
Other Liabilities	321	151	170	112.6%
<b>Total Current Liabilities</b>	<b>\$ 55,136</b>	<b>\$ 46,885</b>	<b>\$ 8,251</b>	<b>17.6%</b>

- Current Liabilities consist primarily of accrued operating expenses, unearned revenue, and the current portion of revenue bonds. The increase in Current Liabilities is the result of an \$8.4 million increase in short-term Revenue Bonds Payable and a \$1.3 million increase in Unearned Revenue offset in part by a decrease in Accounts Payable of \$1.2 million due to the timing of payments on construction projects.

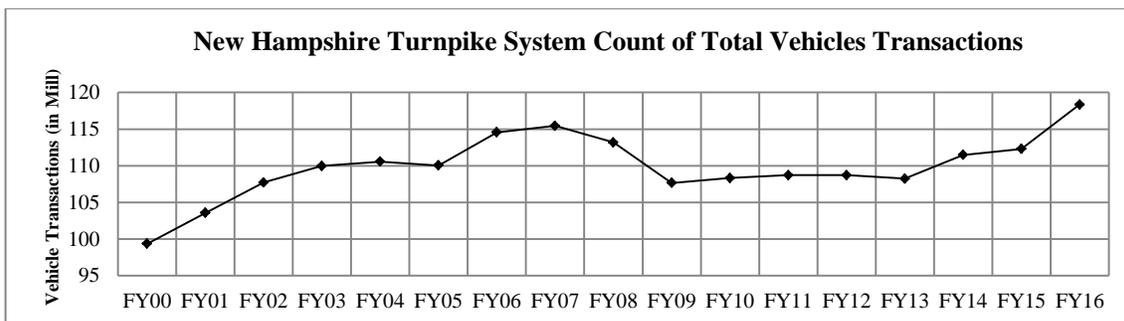
(III) Change in Net Position		(Dollars in thousands)		
Type	2016	2015	\$ Change	% Change
Operating Revenues	\$ 130,714	\$ 124,412	\$ 6,302	5.1%
Operating Expenses	(72,689)	(101,977)	29,288	(28.7%)
<b>Operating Income</b>	<b>58,025</b>	<b>22,435</b>	<b>35,590</b>	<b>158.6%</b>
Non-Operating Expenses	(10,528)	(11,026)	498	(4.5%)
<b>Change in Net Position Before Capital Contributions</b>	<b>47,497</b>	<b>11,409</b>	<b>36,088</b>	<b>316.3%</b>
Capital Contributions	87	74	13	17.6%
<b>Change in Net Position</b>	<b>47,584</b>	<b>11,483</b>	<b>36,101</b>	<b>314.4%</b>
Net Position - July 1	546,867	535,384	11,483	2.1%
<b>Net Position - June 30</b>	<b>\$ 594,451</b>	<b>\$ 546,867</b>	<b>\$ 47,584</b>	<b>8.7%</b>

- The Turnpike System's primary revenues are generated from toll collections. The combined toll operating revenue for fiscal year 2016 reached \$130.7 million. Of this amount, the Blue Star Turnpike generated \$64.2 million, the Central Turnpike, \$45.6 million, and the Spaulding Turnpike, \$16.6 million. The remaining \$4.3 million was generated primarily through receipts from toll violations and evasions and property damage reimbursements.
- Total Operating Expenses, excluding prior year one-time impairment expenses of \$27.7 million, decreased \$1.6 million or 2.2% from the previous year due to a \$1.7 million pollution remediation liability reduction per GASB 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* and the mild winter. The mild winter resulted in nearly \$2.2 million in decreased cost of supplies (salt and sand), rental equipment, and personnel expenses related to winter maintenance. Offsetting the decrease is a \$0.9 million increase in Enforcement and Traffic Bureau-related expenditures and \$0.9 million increase in Transponder Expense and E-ZPass Processing Fees as transponders nearing the end of their battery life are replaced and costs related to E-ZPass usage system-wide increases.
- Total Non-Operating Expenses decreased approximately \$0.5 million or 4.5% to \$10.5 million as a result of an increase in Investment Income and Welcome Center Revenue. Investment Income increased as portions of the 2015 Series A revenue bond proceeds were invested resulting in a \$0.9 million increase in interest earnings. Welcome Center Revenue increased as the Hooksett Welcome Centers on the Central Turnpike completed their first full operating year resulting in a \$0.7 million increase in rental income and revenue sharing from fuel and concession sales. Offsetting the increase in Non-Operating Revenues was a \$1.4 million increase in the Interest on Bonds and Note as a result of the 2015 Series A revenue bond issuance.

**New Hampshire Turnpike System  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)**

***Turnpike System Revenue and Traffic Trends***

During the twelve months ended on June 30, 2016, the number of traffic transactions processed through the E-ZPass system accounted for 73.6% of total toll transactions with the remaining 26.4% paid in cash. Overall, the Turnpike System experienced an increase in traffic transactions of 6.1 million or 5.4% over fiscal year 2015. With a mild winter and low gas prices contributing to the increase, total transactions of 118.4 million surpassed the peak number of vehicle transactions last seen in fiscal year 2007. See chart below.



***Maintenance of the Turnpike System***

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

The contracted independent engineering consultant, HNTB Corporation, (HNTB) completed a review and assessment of the Renewal & Replacement Program in January 2012. The assessment provided recommendations on program funding levels and provided insight on the condition of the Turnpike infrastructure. Condition of the Turnpike facilities was determined through visual inspections of infrastructure (pavements, bridges, guardrail, drainage, signing, etc.). HNTB deemed the Turnpike facilities to be in “good” condition, characterized as a state whereby the various components are in appropriate working order to provide the necessary level of service and require only the anticipated minimal maintenance that would be expected for the life cycle of the facility. The HNTB assessment of the condition of the Turnpike facilities recommended funding for the Renewal & Replacement Program for fiscal years 2014 through 2019 of \$66.2 million, a reduction of approximately \$7.3 million over this same period from the previous recommended total. Major expenditures are planned for resurfacing, bridge rehabilitation, guardrail replacement, drainage repairs, bridge painting and toll plaza repairs. In the fall of fiscal year 2017, HNTB will update the assessment of the Renewal & Replacement Program.

For fiscal years 2016, 2015, and 2014, the Turnpike System operating expenses for Renewal & Replacement were \$7.5 million, \$7.5 million, and \$9.4 million respectively. Renewal & Replacement capitalized expenses for fiscal years 2016, 2015, and 2014 were \$0.4 million, \$0.7 million, and \$1.8 million respectively. For fiscal year 2017, the budget is \$9.6 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.

***Changes in Key Personnel***

Effective February 10, 2016, Christopher M. Waszczuk, P.E., was promoted to Deputy Commissioner.

Effective February 10, 2016, David M. Rodrigue, P.E., was promoted to Director of Operations.

Effective May 4, 2016, Peter E. Stamnas, P.E. was promoted to Director of Project Development.

**New Hampshire Turnpike System  
Management's Discussion and Analysis  
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(Unaudited)**

On April 29, 2016, Renée Dupuis was promoted to Assistant Administrator of the Turnpike Bureau, filling the vacancy created by John W. Corcoran, P.E. upon his promotion to Turnpike Administrator.

***Subsequent Events***

***Turnpike System Insurance Reserve Account Risk Report***

Section 4.5(a)(b) of the Turnpike System General Bond Resolution stipulates that the State shall at all times maintain such insurance with respect to the system, either through insurances reserves or through insurance policies, as it determines is prudent or necessary to protect the interests of the State and the Bondholders. A special trust fund of the State administered by the Treasurer called the Turnpike System Insurance Reserve Account was created with an initial deposit of \$3.0 million. Annually, the New Hampshire Insurance Department reviews the adequacy of the Insurance Reserve Account and sets the appropriate level of Insurance Reserve for the next fiscal year. In 2016, the New Hampshire Insurance Department contracted with Risk Management Solutions, Inc. (RMS) to conduct a risk assessment analysis to evaluate potential losses to the assets of the System due to earthquake, windstorm, severe convective storm and winter storm perils. The RMS Report indicated that the System is likely to experience a loss greater than the current reserve amount once every 84 years. The report determined that the Turnpike System may experience a loss of:

<b>Number of Years</b>	<b>Loss</b>
100	\$ 3,400,000
250	\$ 6,300,000
500	\$10,000,000

The New Hampshire Insurance Department determined that the Insurance Reserve should be funded at the 100-year level of \$3.4 million for fiscal year 2017. The Department funded the additional \$400 thousand in August 2016.

***Extension of the Xerox Back Office Service Contract***

The Xerox State and Local Solution contract for professional back-office services and operation of the NH E-ZPass Customer Service Center operations was extended from September 30, 2016 to March 31, 2017 at a cost of \$4.3 million. The extension ensures continued operations through the conversion of the back-office to Cubic Transportation Systems, Inc.

***Budget and Appropriation Process***

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

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

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

In conjunction with the receipt of operating budget estimates, the Commissioner of the Department of Administrative Services prepares an estimate of the total income of the State for each fiscal year of the ensuing biennium. Based upon the expenditure estimates the Commissioner has received and the revenue projections the Commissioner has made, the Commissioner prepares a tentative budget for the ensuing biennium, which is transmitted to the Governor. The Governor then holds public hearings on the tentative operating budget and

**New Hampshire Turnpike System  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)**

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 2016, 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 2017 – 2026 are expected to be in the range of \$405 - \$415 million, up over the prior range of \$300-320 million. The increase is due to current revenue growth above projections.

The Turnpike System's bond credit ratings in June 2016 were as follows: Fitch Ratings A+, Moody's Investors Service A1, and Standard & Poor A+. Outlook is considered stable.

**Contacting the Turnpike System's Financial Management**

This financial report is designed to provide New Hampshire citizens, the Legislature and the Executive Branch of government, as well as other interested parties, a general overview of the Turnpike System's financial activity for fiscal year 2016 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, 2016**  
**(Dollars in thousands)**

**ASSETS and DEFERRED OUTFLOWS of RESOURCES**

**Current Assets:**

Cash and Cash Equivalents	\$ 71,987
Cash and Cash Equivalents – Restricted	55,380
Investments - Restricted	27,079
Accounts Receivable (Net of Allowances)	7,194
Due from Other Funds	609
Inventories	1,580
Prepaid Assets	35
Total Current Assets	<u>163,864</u>

**Non-current Assets:**

Capital Assets:	
Land	101,404
Land Improvements	2,003
Buildings	14,459
Equipment and Computer Software	50,227
Construction in Progress	141,697
Infrastructure	962,900
Less: Accumulated Depreciation	<u>(370,560)</u>
Net Capital Assets	<u>902,130</u>
Total Non-current Assets	<u>902,130</u>
<b>Total Assets</b>	<b><u>1,065,994</u></b>

**Deferred Outflows of Resources:**

Pension	1,127
Loss on Refunding	<u>1,811</u>

**Total Assets and Deferred Outflows of Resources** 1,068,932

**LIABILITIES and DEFERRED INFLOWS of RESOURCES**

**Current Liabilities:**

Accounts Payable	8,057
Accrued Payroll	920
Due to Other Funds	242
Unearned Revenue	11,771
Revenue Bonds Payable	27,855
Accrued Interest Payable	5,677
Claims and Compensated Absences Payable	293
Other Liabilities	<u>321</u>
Total Current Liabilities	<u>55,136</u>

**Non-current Liabilities:**

Revenue Bonds Payable	404,127
Pension	10,100
Claims and Compensated Absences Payable	1,943
Other Non-current Liabilities	<u>2,568</u>
Total Non-current Liabilities	<u>418,738</u>
<b>Total Liabilities</b>	<b><u>473,874</u></b>

**Deferred Inflows of Resources:**

Pension	<u>607</u>
---------	------------

**Total Liabilities and Deferred Inflows of Resources** 474,481

**NET POSITION**

Net Investment in Capital Assets	491,107
Restricted for Debt Repayments	60,308
Restricted for Uninsured Risks	3,003
Unrestricted	<u>40,033</u>
<b>Total Net Position</b>	<b><u>\$ 594,451</u></b>

*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, 2016**  
(Dollars in thousands)

**OPERATING REVENUES**

Toll Revenue - Cash	\$ 34,729
Toll Revenue - E-ZPass	92,414
Other Toll Operating Revenue (Net of Allowances)	2,468
Transponder Revenue	1,081
Federal Revenue	<u>22</u>
<b>Total Operating Revenues</b>	<b><u>130,714</u></b>

**OPERATING EXPENSES**

Personnel Services	9,074
Payroll Benefits	5,026
Enforcement	7,221
Renewal & Replacement	7,523
Supplies, Materials and Other	2,238
Equipment and Repairs	3,991
Indirect Costs	2,501
Welcome Centers	939
Heat, Light and Power	939
Bank and Credit Card Fees	2,538
Rentals	632
E-ZPass Processing Fees	6,869
Transponder Expense	1,055
Depreciation and Amortization	<u>22,143</u>
<b>Total Operating Expenses</b>	<b><u>72,689</u></b>
<b>Operating Income</b>	<b><u>58,025</u></b>

**NON-OPERATING REVENUES (EXPENSES)**

Investment Income	998
Welcome Center Revenue	774
Miscellaneous Income	3,135
Gain on Sale of Other Capital Assets	46
Interest on Bonds and Note	(15,402)
Miscellaneous Expense	<u>(79)</u>
<b>Total Non-operating Revenues (Expenses)</b>	<b><u>(10,528)</u></b>
<b>Change in Net Position Before Capital Contributions</b>	<b>47,497</b>
Capital Contributions	<u>87</u>
<b>Change in Net Position</b>	<b>47,584</b>
<i>Net Position - July 1</i>	<u>546,867</u>
<i>Net Position - June 30</i>	<b><u>\$ 594,451</u></b>

*See accompanying notes to financial statements.*

**NEW HAMPSHIRE TURNPIKE SYSTEM**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2016**  
(Dollars in thousands)

<b>Cash Flows from Operating Activities</b>	
Receipts from Customers	\$ 131,971
Payments to Employees	(14,754)
Payments to Suppliers	<u>(37,912)</u>
Net Cash Provided by Operating Activities	<u>79,305</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition and Construction of Capital Assets	(43,673)
Interest Paid on Revenue Bonds and Note Payable	(21,679)
Principal Paid	(19,455)
Principal Paid on Note Payable Due State Highway Fund	(414)
Build America Bonds Subsidy Receipt	2,826
Costs of Issuances	<u>(85)</u>
Net Cash Provided By Financing Activities	<u>(82,480)</u>
<b>Cash Flows from Investing Activities</b>	
Proceeds from Sales and Maturities of Investments	42,811
Investment Income	<u>906</u>
Net Cash Provided By Investing Activities	<u>43,717</u>
Net Increase in Cash and Cash Equivalents	40,542
Total Cash and Cash Equivalents - July 1	<u>86,825</u>
Total Cash and Cash Equivalents - June 30	<u>\$ 127,367</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$ 58,025
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	22,143
Miscellaneous Income	1,015
Change in Operating Assets and Liabilities:	
Change in Receivables	(1,657)
Change in Inventories	239
Change in Net Pension Liability (Net of Deferred Amounts)	(297)
Change in Accounts Payable and Other Accruals	(1,478)
Change in Deferred Revenue	<u>1,315</u>
Net Cash Provided by Operating Activities	<u>\$ 79,305</u>
<b>Turnpike Non-Cash Capital and Related Financing Activities:</b>	
Capital Contributions	\$ 87
Federal Operating Contributions	10

*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, 2016**

**Note 1) Summary of Significant Accounting Policies**

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

**(a) Financial Reporting Entity**

The Turnpike System is a Bureau within the Division of Operations of the State of New Hampshire Department of Transportation. The Turnpike System is reported as an enterprise fund of the State of New Hampshire (“the State”) and is included in the Comprehensive Annual Financial Report (CAFR) of the State. These financial statements are only of the fund and are not intended to present the net position, changes in net position, or, where applicable, cash flows of the State. The Turnpike System constructs, maintains, and operates toll roads, including bridges over those roads and transaction facilities and issues revenue bonds, which are repaid from tolls and other revenues. State law New Hampshire Revised Statutes Annotated (RSA) 240, as amended, established a ten-year highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. State law RSA 237-A:2 authorized the issuance of \$766.0 million of revenue bonds to fund these projects.

**(b) Measurement Focus and Basis of Accounting**

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

**(c) Restricted Assets**

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

**(d) Accounts Receivable**

Receivables primarily consist of outstanding E-ZPass Reciprocity as detailed in the table below. The accounts receivable balance as of June 30, 2016 is net of Allowances for Uncollectibles of \$10.1 million.

(Dollars in thousands)

<b>Accounts Receivable</b>	<b>Amount</b>
E-ZPass Reciprocity	\$ 5,091
Violation Tolls and Fees Receivable (Net of Allowances)	473
Cash in Transit-Toll Revenue	213
Interest Receivable	670
Hooksett Concession Sales	274
Miscellaneous	294
Credit Card Equity Fees	179
<b>Total Accounts Receivable</b>	<b>\$ 7,194</b>

**(e) Cash Equivalents**

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

**(f) Capital Assets**

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

**NEW HAMPSHIRE TURNPIKE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016**

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

**(g) Adoption of New Accounting Pronouncements**

During the fiscal year ended June 30, 2016, the Turnpike System adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*, effective for June 30, 2016 year-ends, defines the terms investment and fair value and generally requires investments to be measured at fair value. This standard also changes the measurement guidance for donated capital assets and works of art, historical treasures, and capital assets received in a service concession agreement. Additionally, it requires disclosures be made regarding fair value measurement, the level of fair value hierarchy and valuation techniques. Adoption of GASB Statement No. 72 required additional disclosures for the Turnpike System but did not require modification of the financial statements. See Note 2 Cash and Cash Equivalents and Investments for additional information.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*, effective for June 30, 2015 year-ends, establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are provided to employees of state and local government employers and are not within the scope of GASB Statement No. 68; and establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered as trusts. Adoption of GASB Statement No. 73 did not require modification of the financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for June 30, 2016 year-ends, sets forth what constitutes GAAP for all state and local governmental entities and establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Adoption of GASB Statement No. 76 did not require modification of the financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for June 30, 2016 year-ends, establishes accounting and financial reporting standards for qualifying external investment pools who elect to measure all of their investments at amortized cost and state and local governments that participate in such qualifying external investment pools. Adoption of GASB Statement No. 79 did not require modification of the financial statements.

**(h) Accounting Changes**

The Turnpike System did not implement any accounting changes in fiscal year 2016.

**(i) Compensated Absences**

All full-time State employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, generally must be taken within one year. The State's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on years of service rendered along with the State's share of Social Security, Medicare and retirement contributions. The current portion of the liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their

**NEW HAMPSHIRE TURNPIKE SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2016**

most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent that it is probable that the benefits will result in termination payments rather than be taken as absences due to illness.

***(j) Net Pension Liability***

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

***(k) Revenues and Expenses***

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

***(l) E-ZPass Program***

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

***(m) Inventory***

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

***(n) Capital Contributions***

The Turnpike System receives Federal Highway Administration (FHWA) grants through the State's Highway Fund for capital improvements, exclusive of Renewal & Replacement expenses and payments made by private entities. These are classified as Capital Contributions.

***(o) Estimates***

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

***(p) Unearned Revenue***

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

***(q) Deferred Outflows of Resources and Deferred Inflows of Resources***

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

**NEW HAMPSHIRE TURNPIKE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016**

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

**(r) Investments**

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 provided that amortized cost approximates the fair value of a security. 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. All U.S. government obligations were categorized as Level 2 as of June 30, 2016.

Level 3 – Unobservable inputs for the asset or liability. The Turnpike System had no Level 3 assets or liabilities as of June 30, 2016.

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.

**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, 2016, the balance of cash and cash equivalents in the General Reserve Account was approximately \$46.7 million. These funds are intended to be used for capital construction projects.

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

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

As of June 30, 2016, 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	\$ 25,146	\$ 44,484	\$ 250	\$ 69,880
Money Markets	46,723	-	-	46,723
Government- Sponsored Enterprise security	-	10,646	-	10,646
<b>Total</b>	<b>\$ 71,869</b>	<b>\$ 55,130</b>	<b>\$ 250</b>	<b>\$ 127,249</b>

**NEW HAMPSHIRE TURNPIKE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016**

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

Total Cash & Cash Equivalents as of June 30, 2016 amounted to \$127.3 million. In addition to \$127.2 million in bank balances shown above, the Turnpike also reported \$0.2 million of cash in transit, change accounts, and amounts due from Turnpike to other DOT intra-agency funds.

**Investments:** On June 30, 2016, the value of investments in US Government Agencies with maturity dates over 90 days of the date acquired amounted to \$21.3 million and Certificates of Deposit at \$5.7 million.

Certificates of deposits must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

The State Treasury Department has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in statute (RSA 6:8, 387:6, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments will be denominated in U.S. dollars.

The Turnpike System categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Turnpike System had no Level 3 assets or liabilities as of June 30, 2016.

The following table summarizes the Turnpike System's investments measured at fair value, by type, as of June 30, 2016 (in thousands):

	Investments Classified in the		
	Fair Value Hierarchy		
	Level 1	Level 2	Total
US Government Obligations	\$ -	\$ 21,348	\$ 21,348
<b>Total</b>	<b>\$ -</b>	<b>\$ 21,348</b>	<b>\$ 21,348</b>

The Turnpike System has \$5.7 million in Non-Participating Interest Earning Investment Contracts (Certificates of Deposit) that are not measured at fair value.

**Debt Securities:** The State invests in US Treasury instruments and Government-sponsored Enterprise securities (GSEs). On June 30, 2016, the Turnpike System's investment in US Treasury Bonds and Bills was \$19.1 million and investment in GSEs was \$2.2 million. Concentration risk is the risk of loss attributed to the magnitude of an investment in a single issuer. At June 30, 2016, the Turnpike System's investments and concentrations were primarily in U.S. Treasury Bills and GSEs.

Credit risk is the risk that the issuer or other counter-party will not fulfill its obligations. The State invests in grade securities which are defined as those with a grade B or higher. Obligations of the U.S. Government or obligations backed by the U.S. Government are not considered to have credit risk. While obligations of 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 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, 2016 for the Turnpike System's investments is 0.23 years.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments that are in the possession of an

**NEW HAMPSHIRE TURNPIKE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016**

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 \$82.5 million with \$55.4 million designated as Cash and Cash Equivalents and \$27.1 million designated as Investments. Restricted assets are segregated into the following accounts as of June 30, 2016:

(Dollars in thousands)

<b>Restricted Assets</b>	<b>Amount</b>
Revenue Bond Debt Service Reserve Account (Investment)	\$ 9,966
Revenue Bond Cash Construction Account (Investment)	14,110
Revenue Bond Insurance Reserve Account	3,003
<b>Total Investments – Restricted</b>	<b>27,079</b>
Revenue Bond Cash Construction Account	5,038
Revenue Bond Principal Debt Service Account	13,279
Revenue Bond Interest Debt Service Account	5,676
Revenue Bond Debt Service Reserve Account	31,387
<b>Total Cash &amp; Cash Equivalents – Restricted</b>	<b>55,380</b>
<b>Total Restricted Assets</b>	<b>\$ 82,459</b>

The Revenue Bond Debt Service Reserve Account is used to report resources set aside to make up potential future deficiencies in the Revenue Bond Interest Debt Service Account and Revenue Bond Principal Debt Service Account. The Revenue Bond Cash Construction Account is used to report the available balance of the bond proceeds. Payments made from this account cover the projects costs of the respective projects for which the bonds were issued. The Revenue Bond Principal Debt Service Account and Revenue Bond Interest Debt Service Account are used to segregate resources accumulated for debt service payments on given maturity dates. See Note 8(c), Bonds - Debt Maturity. A Revenue Bond Special Redemption Account is used to report any monies not otherwise required by the bond resolution to be deposited or applied, including excess proceeds after the completion of a project. In addition to the above accounts, the Revenue Bond Insurance Reserve Account is used to report the amount that is available to insure against risks that would not otherwise be covered by policies of insurance. A Revenue Bond Rebate Account also would be used to report any excess of interest earned on non-purpose investments (as defined in section 148 of the Internal Revenue Code of 1986, as amended). Both the Revenue Bond Special Redemption Account and the Revenue Bond Rebate Account had zero balances as of June 30, 2016.

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

**NEW HAMPSHIRE TURNPIKE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016**

**Note 4) Capital Assets**

Capital Asset activity for the year ended June 30, 2016 was as follows:

(Dollars in thousands)

Type	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets not Being Depreciated:					
Land	\$103,670	\$0	(\$562)	(\$1,704)	\$101,404
Construction in Progress	114,171	48,476	(662)	(20,288)	141,697
Total Capital Assets not Being Depreciated:	217,841	48,476	(1,224)	(21,992)	243,101
Other Capital Assets:					
Equipment and Computer Software	48,798	-	(665)	2,094	50,227
Buildings and Building Improvements	6,613	-	-	7,846	14,459
Depreciable Land Improvements	1,972	-	-	31	2,003
Infrastructure	951,176	-	(149)	11,873	962,900
Total Other Capital Assets	1,008,559	-	(814)	21,844	1,029,589
Total Capital Assets	1,226,400	48,476	(2,038)	(148)	1,272,690
Less Accumulated Depreciation for:					
Equipment	(43,036)	(2,754)	535	-	(45,255)
Buildings and Building Improvements	(2,457)	(363)	-	-	(2,820)
Infrastructure	(303,423)	(19,013)	149	-	(322,287)
Depreciable Land Improvements	(98)	(100)	-	-	(198)
Total Accumulated Depreciation	(349,014)	(22,230)	684	-	(370,560)
<b>Total Net Capital Assets</b>	<b>\$877,386</b>	<b>\$26,246</b>	<b>(\$1,354)</b>	<b>(\$148)</b>	<b>\$902,130</b>

At June 30, 2016, the Turnpike System had contractual commitments for capital Turnpike System improvement projects of \$49.7 million.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, interest is capitalized as part of the historical cost of acquiring certain qualifying assets. The amount of interest capitalized was calculated by using the weighted average interest rate of all outstanding revenue bonds. The weighted average interest rate for fiscal year 2016 was 3.38%. This rate was then applied to the average fiscal year 2016 balances of qualifying open construction in progress projects. In fiscal year 2016, interest expense that was capitalized amounted to \$4.4 million.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* establishes accounting and financial reporting standards for capital assets to be considered impaired if the asset will no longer be used or it is determined that construction has ceased, the asset should be written down to the lower of carrying value or fair value. The Turnpike System in its review for permanently impaired assets as a result of construction stoppage did not identify any projects in fiscal year 2016.

**Note 5) Inter-fund Activity**

In fiscal year 2016, expenses were incurred due to work performed by state agencies on behalf of the Turnpike System. Enforcement expenses of \$7.2 million were incurred for services provided by the New Hampshire Department of Safety. Department of Transportation Bridge Maintenance, Traffic Bureau, Transportation Systems, Management & Operations (TSMO), and Mechanical Services from the Highway Bureau of \$1.6 million accounted for the majority of other inter-fund activity. Operations of the Seabrook Welcome Center and Hooksett Rest Areas performed by the New Hampshire Department of Resources & Economic Development amounted to \$0.9 million (funding provided by the Turnpike Fund).

**Note 6) Unearned Revenue**

Unearned Revenue primarily consists of prepaid toll monies received from customers on their transponder accounts. Revenue is recognized when the customer uses the E-ZPass toll system on the turnpike. In fiscal year

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2016, Unearned Revenue included \$11.7 million in pre-paid tolls as well as \$0.1 million of funds from municipalities and developers to support their share of construction improvements.

**Note 7) Leases**

**(a) Operating and Capital Leases**

The Turnpike System had no significant operating or capital leases for fiscal year 2016.

**(b) Ground Lease Contract**

On June 19, 2013, the New Hampshire Department of Transportation, New Hampshire Liquor Commission, and New Hampshire Department of Resources and Economic Development entered into a contract with a private vendor, Granite State Hospitality, LLC to re-develop the north and southbound rest areas in the Town of Hooksett. The rest areas are full service welcome centers with concession sales, fuel sales, visitor centers, and two new State Liquor and Wine Outlet Stores for a minimum guaranteed rent of \$23.2 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 effective through June 30, 2048. There is an option to renew for up to two 5-year options at the sole discretion of the State. The northbound facility fully opened and was deemed substantially complete and operational March 2015. The southbound facility opened and was deemed substantially complete and operational April 2015. Both facilities opened ahead of schedule and rent payments to the Turnpike System have commenced in accordance with the ground lease agreement. The guaranteed minimum rent payments over five years to the Turnpike System are \$0.5 million for fiscal year 2016 and \$0.5 million each year thereafter through fiscal year 2020 and \$0.6 million for fiscal year 2021. In addition to the minimum rent, if fuel or concession sales exceed a certain threshold, the System receives additional rental income. The Turnpike System recorded \$0.8 million in rental receipts for fiscal year 2016.

(Dollars in thousands)

Hooksett Welcome Center Rent	Amount
Guaranteed Minimum Rent	\$ 500
Fuel Sales	121
Concession Sales	153
<b>Total Hooksett Welcome Center Rent</b>	<b>\$ 774</b>

**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, 2016. 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, 2016, the State had issued \$715.8 million of revenue bonds for this plan.

**Turnpike System Bond Ratings**

Bond ratings assigned to the Turnpike System are as follows:

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

Proceeds from the June 24, 2015 Series A revenue bond issuance are restricted to only fund costs on the following projects:

**Central Turnpike**

- Engineering and rehabilitation of F.E. Everett Turnpike/I-93 bridges in Bow and Concord
- Engineering and construction, specifically five bridges through the Millyard area of Manchester
- Implementation of Open Road Tolling at Bedford

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**Spaulding Turnpike**

- Engineering and right-of-way acquisition in Newington and Dover on the Spaulding Turnpike including widening Little Bay Bridges and reconstructing Spaulding Turnpike in Newington
- Construction of the Dover portion of the Spaulding Turnpike and rehabilitation of the General Sullivan Bridge in Dover

**Blue Star Turnpike**

- Engineering and construction of the bridge on the Blue Star Turnpike carrying I-95 over the Taylor River in North Hampton and Hampton

**(b) Changes in Non-current Liabilities**

The following is a summary of the changes in liabilities for bonds, compensated absences, and uninsured claims during fiscal year 2016:

(Dollars in thousands)

Type	Beginning Balance <sup>1</sup>	Increases	Decreases	Ending Balance	Current	Long-Term
Note Payable to State Highway Fund	\$ 414	\$ -	\$ 414	\$ -	\$ -	\$ -
Net Pension Liability	9,369	731	-	10,100	-	10,100
Claims and Compensated Absences Payable	2,695	170	629	2,236	293	1,943
Revenue Bonds	454,285	-	22,303	431,982	27,855	404,127
Other: Pollution Remediation and Misc.	4,356	171	1,638	2,889	321	2,568
<b>Total</b>	<b>\$471,119</b>	<b>\$ 1,072</b>	<b>\$ 24,984</b>	<b>\$447,207</b>	<b>\$ 28,469</b>	<b>\$418,738</b>

**1. Beginning balance includes the current portion of the prior year.**

**(c) Bonds - Debt Maturity**

Bonds of the Turnpike System consist of revenue bonds (including ARRA Bonds). Interest rates on Turnpike System revenue bonds range from 3.5% to 6.3%. The annual maturities on a cash basis are as follows:

(Dollars in thousands)

Payable June 30,	Revenue Principal	Revenue Interest	Revenue Interest Rebate	Net Interest
2017	\$ 27,855	\$ 20,906	(\$2,918)	\$ 17,988
2018	17,890	19,519	(2,918)	16,601
2019	27,110	18,432	(2,918)	15,514
2020	30,040	17,179	(2,918)	14,261
2021	24,145	15,705	(2,918)	12,787
2022 thru 2026	91,665	60,822	(13,441)	47,381
2027 thru 2031	62,990	40,157	(9,093)	31,064
2032 thru 2036	56,205	24,782	(5,136)	19,646
2037 thru 2041	58,510	9,131	(1,365)	7,766
2042 thru 2043	12,300	497	-	497
Subtotal	408,710	227,130	(43,625)	183,505
Un-amortized Premium	23,272	-	-	-
<b>Total</b>	<b>\$431,982</b>	<b>\$227,130</b>	<b>(\$43,625)</b>	<b>\$183,505</b>

The federal budget agreement enacted at the end of 2013 did not include sequestration relief on reimbursements for direct-pay bonds (BABs) and it extended the sequestration for three years beyond the original termination date of 2021 (through Federal fiscal year 2024). The reduction in funding as a result of sequestration is 6.8% beginning October 1, 2015. Revenue interest rebate has been reduced by 6.8% through 2024.

**(d) Revenue Bond Resolutions**

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

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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 2016, 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	\$ 7,523	\$ 388	\$ 7,911

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

***(e) Note Payable to State Highway Fund - Debt Maturity***

In fiscal year 2010, the Turnpike System acquired a portion of the I-95 Piscataqua River Bridge and 1.6-mile segment of I-95. The Turnpike System executed a Long-Term Note Payable with payments to be made to the State Highway Fund. Interest is at the State's borrowing rate over a maximum period of 20 years. The State interest rate in effect at June 30, 2016 on the note was 4%. However, under the terms of the note and as prescribed by law, the Commissioner of Transportation and the State Treasurer may agree from time to time to modify the payment schedule with respect to payments due to the State Highway Fund from and after July 1, 2011. In fiscal year 2014, the Commissioner and State Treasurer agreed to a modification of the payment schedule for fiscal years 2015 and 2016.

During fiscal year 2016, a note payment of \$418 thousand (including \$4 thousand in interest) was made to the State Highway Fund. This payment was the final payment to the State Highway Fund for the I-95 Piscataqua River Bridge acquisition.

**Note 9) Employee Benefit Plans**

***(a) Plan Description - New Hampshire Retirement System***

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

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

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

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

Group II members who are age 60, or members who are at least age 45 with a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by 1/4 of one percent for each month prior to age 52.5 that the member receives the allowance.

All Turnpike System employees are members of Group I.

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

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

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

***(b) Funding Policy***

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's share represents 100% of the employer cost for all Turnpike System Employees.

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

As of June 30, 2016, the Turnpike System reported a liability of \$10.1 million for its proportionate share of the net pension liability of the Plan. This net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll the total pension liability forward to June 30, 2015. The State's proportion of the net pension liability was based on the State's share of contributions to the Plan relative to the contributions of all participating employers, actuarially determined. The Turnpike System's net pension

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liability and pension expense, along with related deferred outflows of resources and deferred inflows of resources was calculated using an allocated proportion among the State's governmental and business-type activities, based on percentage of pension plan contributions. For the year ended June 30, 2016, the Turnpike System recognized pension expense of \$0.6 million.

As of June 30, 2016, the Turnpike System reported deferred outflows and inflows of resources relating to pensions from the following sources:

(Dollars in thousands)

<b>Deferred Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 263
Differences between expected and actual experience	-	216
Changes in employer proportion	197	128
Contributions subsequent to the measurement date	930	-
<b>Total</b>	<b>\$ 1,127</b>	<b>\$ 607</b>

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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

(Dollars in thousands)

<b>Year ended June 30,</b>	<b>Amortization of Deferred Amounts</b>
2017	\$ 180
2018	180
2019	180
2020	(132)
2021	2
<b>Total</b>	<b>\$ 410</b>

**(d) Actuarial Assumptions**

The Plan total pension liability, measured as of June 30, 2015, was determined by a roll forward of the actuarial valuation as of June 30, 2014, using the following actuarial assumptions:

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005 – June 30, 2010.

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**(e) Long-Term Rates of Return**

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2015:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Weighted Average Long-term Expected Geometric Rate of Return</b>
Large Cap Equities	22.50%	3.00%
Small/Mid Cap Equities	7.50	3.00
<b>Total domestic equity</b>	<b>30.00</b>	
International Equities (unhedged)	13.00	4.00
Emerging International Equities	7.00	6.00
<b>Total international equity</b>	<b>20.00</b>	
Core Bonds	4.50	(0.70)
Short Duration	2.50	(1.00)
Global Multi-Sector Fixed Income	11.00	0.28
Unconstrained Fixed Income	7.00	0.16
<b>Total fixed income</b>	<b>25.00</b>	
Private equity	5.00	5.50
Private debt	5.00	4.50
Real estate	10.00	3.50
Opportunistic	5.00	2.75
<b>Total alternative investments</b>	<b>25.00</b>	
<b>Total</b>	<b>100.00%</b>	

**(f) Discount Rate**

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

The following table illustrates the sensitivity of the Turnpike System's proportionate share of the Plan's net pension liability to changes in the discount rate. In particular, the table presents the Turnpike System's proportionate share of the Plan's net pension liability measured at June 30, 2015 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:

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Fiscal Year Ended	1% Decrease to 6.75%	Current Single Rate Assumption 7.75%	1% Increase to 8.75%
June 30, 2015	\$ 12,956	\$ 10,100	\$ 7,188

**(g) Health Care Benefits for Retired Group I Employees**

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

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

These and similar benefits for active employees are authorized by State law RSA 21-I: 30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these health benefits by paying actuarially determined premiums into the fund. The Turnpike System's contributions to the fund on behalf of Turnpike Retirees for the years ended June 30, 2016, 2015, and 2014, were \$799,500, \$830,587 and \$907,000 respectively.

An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees. The Medical Subsidy received on behalf of Turnpike retirees for the year ended June 30, 2016 was \$207,099. The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The State's long-term cost of retirement health care and Other Post-Employment Benefits (OPEB) are determined actuarially on a statewide basis as required under GASB Statement No. 45. The most recent Actuarial Valuation was performed as of December 31, 2014. Disclosure of the annual OPEB cost, funding status, net OPEB obligation the components of cost and other information concerning the plan are provided in the State of New Hampshire Comprehensive Annual Financial Report.

**Note 10) Risk Management and Insurance**

**(a) Principle of Self-Insurance**

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

**(b) Employee and Retiree Health Benefits**

During fiscal year 2004, the State established an Employee Benefit Risk Management Fund, an internal service fund, to account for its uninsured risks of loss related to employee and retiree health benefits. Currently, the State retains all of the risk associated with these benefits, and utilizes an actuarially-established IBNR (incurred

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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 2016, this reserve equaled \$16.2 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 2016 amounted to \$3.0 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 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, 2015 and 2016:

(Dollars in thousands)

	<b>6/30/2014 Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>6/30/2015 Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>6/30/2016 Balance</b>	<b>Current</b>	<b>Long- Term</b>
<b>Total</b>	\$1,942	\$0	(\$308)	\$1,634	\$ -	(\$619)	\$ 1,015	\$ 49	\$ 966

The workers compensation claim expense is recorded in the Statement of Revenues, expenses and changes in net position, personal services and the liability is recorded in the Statement of Net Position, claims and compensated absences payable.

**Note 11) Commitments**

**(a) E-ZPass Customer Service Contract**

In August of 2011, a final contract renewal option with Xerox was approved in an amount not to exceed \$28.1 million for a professional services agreement for operation of the NH E-ZPass Customer Service Center from October 1, 2011 to September 30, 2016. In April 2016, the cap on this agreement was raised \$1.9 million to not exceed \$30.0 million in the same timeframe. (See page 15 *Subsequent Events*).

**(b) E-ZPass Back Office System Contract**

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

**(c) Capital Improvement Program**

The ten-year transportation improvement plan, adopted by the Legislature in 1986 and amended through 2026, includes specific components relating to the Turnpike System. This program is intended to improve the safety of the Turnpike System and increase its capacity. It is updated every two years to address changing priorities and the most recent ten-year plan for the fiscal years 2017 – 2026 was signed into law June 24, 2016, (Chapter 324, Laws of 2016).

**(d) Maintenance**

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

**(e) Litigation**

*Xerox State and Local Solutions, Inc. v. Dept. of Transportation et al*, filed in superior court and at the Transportation Appeals Board alleging that the Department of Transportation engaged in improper conduct in

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the procurement process for the back office systems contract for the NH E-ZPass system that was recently awarded to Cubic. The contract awarded was for \$51.9 million. The Plaintiff is seeking to void the contract, to enjoin DOT from continuing implementation of the contract with Cubic, and damages. Xerox has provided an expert opinion opining that as a result of the loss of the procurement at issue in this case, Xerox incurred damages in the amount of \$238,499 for bid preparation and \$2,110,645, in lost profits.

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

**Note 12) Future Revenues that are Pledged or Sold**

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

**Note 13) Pollution Remediation Obligations**

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations (PRO)*, requires governments to reasonably determine potential polluted sites and provides guidance regarding when to recognize PRO as a liability. The Turnpike System currently has obligations to remediate four sites. No new sites were identified in fiscal year 2016.

*Hampton Toll Plaza:* During fiscal year 2016, the Turnpike System did not recognize any additional liability for a project site at the Hampton toll plaza. As of June 30, 2016, the pollution remediation obligation for the project was \$0.5 million.

*Hudson Site:* During fiscal year 2009, the Turnpike System sold a portion of land in Hudson (formerly known as Benson's) known to be contaminated with hazardous waste. As part of the sale, the Turnpike System agreed to remediate the hazardous waste at the site. For this pollution remediation obligation, the Turnpike System recognized a liability of \$3.0 million at June 30, 2009. For the fiscal year ending June 30, 2016, a portion of the mitigation site, as determined by an independent consulting firm, did not test positive for non-friable asbestos-containing material and no further remedial action for this portion of the remediation site was deemed necessary. As a result, the liability for the site was reduced. As of June 30, 2016, the pollution remediation obligation for the project was \$0.8 million.

*Newington Site:* During fiscal year 2014, the Turnpike System recognized an additional PRO liability related to contaminated soil at a project site located in the Town of Newington. During fiscal year 2016, the Turnpike System recognized an additional liability of \$21.3 thousand for installing wells at the Newington Country Store. As of June 30, 2016, the pollution remediation for this project was \$0.3 million.

*Taylor River Bridge Site:* In fiscal year 2015, the Turnpike System recognized an additional PRO liability related to the disposal of impacted soil and sediment excavation at a project site located at the Taylor River Bridge on I-95 connecting Hampton and Hampton Falls. As of June 30, 2016, the pollution remediation obligation for the project was \$1.3 million.

**NEW HAMPSHIRE TURNPIKE SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2016**

**Note 14) Accounting and Financial Reporting for Intangible Assets**

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

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

The effect of this GASB Statement on the financial statements is recognized, but is not significant.

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**NEW HAMPSHIRE TURNPIKE SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)**

**REQUIRED SUPPLEMENTARY INFORMATION SECTION**  
**(Unaudited)**

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

**NEW HAMPSHIRE TURNPIKE SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)**

**State of New Hampshire  
Department of Transportation - Turnpike System  
Information on the Turnpike's Proportionate Share of Net Pension Liability  
For the Fiscal Year Ended June 30, 2016**

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

(Dollars in thousands)

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Turnpike's Proportion of the Net Pension Liability	0.25%	0.25%
Turnpike's Proportionate Share of the Net Pension Liability	\$ 10,100	\$ 9,369
Turnpike's Covered-Employee Payroll	\$ 7,001	\$ 6,815
Turnpike's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	144.27%	137.48%
NHRS Fiduciary Net Position as a Percentage of the Total Pension Liability	65.47%	66.32%

Note: The amounts presented were determined as of and for the period ended June 30, 2015 and June 30, 2014

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

**Schedule of Turnpike Contributions**

(Dollars in thousands)

	<b>June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Required Turnpike Contributions	\$ 930	\$ 830	\$ 810
Actual Turnpike Contributions	\$ 930	\$ 830	\$ 810
Excess/(Deficiency) of Turnpike Contributions	-	-	-
Turnpike's Covered-Employee Payroll	\$ 7,003	\$ 7,188	\$ 6,815
Turnpike Contribution as a percentage of its Covered-Employee Payroll	13.28%	11.55%	11.89%

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

See accompanying Independent Auditor's Report

**NEW HAMPSHIRE TURNPIKE SYSTEM  
OTHER SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended June 30, 2016  
(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, 2016  
(Unaudited)

State of New Hampshire Department of Transportation - Turnpike System Budget to Actual (Non-GAAP Budgetary Basis) Revenue Schedule For the Fiscal Year Ended June 30, 2016 (Dollars in thousands)				
	Budgeted		Actual	Variance
	Original	Final	Budgetary Basis	Favorable (Unfavorable) with Final Budget
<b>Revenues</b>				
<i>Restricted</i>				
Bonds Interest Subsidy	\$ 2,905	\$ 2,826	\$ 2,826	\$ -
FEMA	-	151	151	-
Concession Sales	412	412	-	(412)
Spaulding TPK/US 4/NH 16	-	132	21	(111)
Sponsorship Fees	130	127	127	-
Transponder Sales	-	477	1,034	557
Vending Machine Income	-	7	7	-
<b>Total Restricted Revenue</b>	<b>3,447</b>	<b>4,132</b>	<b>4,166</b>	<b>34</b>
<i>Unrestricted</i>				
Spaulding Cash Receipts	4,808	4,808	4,676	(132)
Blue Star Cash Receipts	17,759	17,759	16,157	(1,602)
Central Cash Receipts	14,884	14,884	13,896	(988)
E-ZPass Central Receipts	29,772	29,772	31,842	2,070
E-ZPass Blue Star Receipts	42,977	42,977	48,566	5,589
E-ZPass Spaulding Receipts	10,125	10,125	11,965	1,840
Turnpike Toll Evasion	1	1	-	(1)
VES Administration Fees	1,487	1,487	1,950	463
Administration Fees- Toll Collections	11	11	49	38
Violation Revenue Central	-	-	394	394
Violation Revenue Blue Star	-	-	320	320
Violation Revenue Spaulding	-	-	77	77
Cash Management Interest	81	81	64	(17)
Combined Debt Service Interest	13	13	6	(7)
General Reserve Interest	100	100	53	(47)
Insurance Reserve Interest	5	5	11	6
Construction Account Interest	1	1	772	771
Rental Income	105	105	108	3
Hooksett Rental Income	-	-	500	500
Fuel Sales	272	272	122	(150)
Concession Sales	-	-	153	153
ROW Property Sales	20	20	7	(13)
Property Damage	41	41	326	285
Miscellaneous	217	217	245	28
Transponder Lease-to-own	25	25	47	22
Statement Fee Revenue	29	29	39	10
<b>Total Unrestricted Revenue</b>	<b>122,733</b>	<b>122,733</b>	<b>132,345</b>	<b>9,612</b>
<b>Total Revenue</b>	<b>\$ 126,180</b>	<b>\$ 126,865</b>	<b>\$ 136,511</b>	<b>\$ 9,646</b>

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

See accompanying Independent Auditor's Report

**NEW HAMPSHIRE TURNPIKE SYSTEM**  
**OTHER SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended June 30, 2016**  
**(Unaudited)**

State of New Hampshire				
Department of Transportation - Turnpike System				
Budget to Actual (Non-GAAP Budgetary Basis) Expense Schedule				
For the Fiscal Year Ended June 30, 2016				
(Dollars in thousands)				
	Budgeted		Actual	Variance
	Original	Final	Budgetary Basis	Favorable (Unfavorable) with Final Budget
<b>Expenditures</b>				
Welcome Centers and Rest Area Operations	\$1,323	\$1,323	\$887	\$436
I-95 Bridge Purchase Repayment	418	418	418	-
Administration and Support	9,849	9,868	8,421	1,447
Renewal and Replacement	9,700	9,700	7,898	1,802
Central Operations	5,334	5,363	3,772	1,591
Central Maintenance	4,912	4,925	3,842	1,083
East NH Turnpike Blue Star Operations	3,298	3,317	2,388	929
East NH Turnpike Blue Star Maintenance	2,242	2,247	1,550	697
East NH Turnpike Spaulding Operations	2,189	2,201	1,748	453
East NH Turnpike Spaulding Maintenance	1,999	2,005	2,387	(382)
Toll Collection	15,613	20,433	12,202	8,231
Turnpike Debt Service	45,000	45,000	41,130	3,870
Transponder Inventory Fund	-	725	698	27
Retirees Health Insurance	890	890	799	91
Workers Compensation	625	625	64	561
Unemployment Compensation	10	10	4	6
<b>Total Expenses before Capital Expenses</b>	<b>103,402</b>	<b>109,050</b>	<b>88,208</b>	<b>20,842</b>
<b>Capital Expenses</b>				
RSA 237:2 I Blue Star Memorial	4,400	4,400	4,931	(531)
RSA 237:2 VII Central NH Turnpike	15,400	15,400	9,310	6,090
Toll Collection Equipment	1,300	1,300	1,528	(228)
Spaulding Exit 10	1	1	-	1
Spaulding Turnpike Second Barrel	4,100	4,100	5,035	(935)
Spaulding Turnpike/US 4/NH 16	17,700	17,700	21,782	(4,082)
<b>Total Capital Expenses</b>	<b>42,901</b>	<b>42,901</b>	<b>42,586</b>	<b>315</b>
<b>Total Expenses</b>	<b>146,303</b>	<b>151,951</b>	<b>130,794</b>	<b>21,157</b>
<b>Excess (Deficiency) of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (20,535)</b>	<b>\$ (25,086)</b>	<b>\$ 5,717</b>	<b>\$ (11,511)</b>

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

See accompanying Independent Auditor's Report.

**NEW HAMPSHIRE TURNPIKE SYSTEM  
OTHER SUPPLEMENTARY INFORMATION  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)**

**Note to Other Supplementary Information**

**Note 1) Budget Control**

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

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

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

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

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