

**REQUEST FOR PROPOSALS FOR**  
**ANNUAL INDEPENDENT AUDIT SERVICES**

**ISSUING OFFICE**

**Pennsylvania Turnpike Commission**  
**Office of Audit and Advisory Services**

**RFP NUMBER**

**RFP 13-10210-4557**

**DATE OF ISSUANCE**

**December 13, 2013**

**REQUEST FOR PROPOSALS FOR  
ANNUAL INDEPENDENT AUDIT SERVICES**

**TABLE OF CONTENTS**

<b>Part I</b>	<b>- GENERAL INFORMATION FOR PROPOSERS</b>	<b>page 1</b>
<b>Part II</b>	<b>- INFORMATION REQUIRED FROM PROPOSERS</b>	<b>page 12</b>
<b>Part III</b>	<b>- CRITERIA FOR SELECTION</b>	<b>page 16</b>
<b>Part IV</b>	<b>- BACKGROUND INFORMATION</b>	<b>page 18</b>
<b>Part V</b>	<b>- WORK STATEMENT</b>	<b>page 21</b>

**APPENDIX A – PROPOSAL COVER SHEET**

**APPENDIX B – COMPREHENSIVE ANNUAL FINANCIAL REPORT, FISCAL YEARS  
ENDED MAY 31, 2013 AND 2012**

## PART I

### GENERAL INFORMATION FOR PROPOSERS

**I-1. Purpose.** This request for proposals (RFP) provides interested Proposers with sufficient information to enable them to prepare and submit proposals for consideration by the Pennsylvania Turnpike Commission (Commission) to satisfy a need for annual independent audit services.

**I-2. Issuing Office.** This RFP is issued for the Commission by the Office of Audit and Advisory Services.

**I-3. Scope.** This RFP contains instructions governing the proposals to be submitted and the material to be included therein; a description of the service to be provided; requirements which must be met to be eligible for consideration; general evaluation criteria; and other requirements to be met by each proposal.

**I-4. Problem Statement.** The Pennsylvania Turnpike Commission desires to engage a qualified firm of certified public accountants (“Independent Auditor”) to audit the fiscal years ended May 31, 2014, 2015 and 2016 financial statements of both the Commission and the Pennsylvania Turnpike Commission Retiree Medical Trust. The selected firm will complete both audits and provide the audited financial statements of the Commission no later than August 30, 2014, 2015, and 2016, respectively, and of the Retiree Medical Trust no later than September 30, 2014, 2015 and 2016, respectively. The selected firm will perform related services such as assisting the Commission with its Comprehensive Annual Financial Report for each of the three fiscal years. A work statement is provided in Part V.

**I-5. Type of Contract.** It is proposed that if a contract is entered into as a result of this RFP, it will be a fixed fee contract. The Commission may in its sole discretion undertake negotiations with Proposers whose proposals as to price and other factors show them to be qualified, responsible, and capable of performing the work.

**I-6. Rejection of Proposals.** The Commission reserves the right to reject any and all proposals received as a result of this request, or to negotiate separately with competing Proposers.

**I-7. Subcontracting.** Any use of subcontractors by a Proposer must be identified in the proposal. During the contract period use of any subcontractors by the selected Proposer, which were not previously identified in the proposal, must be approved in advance in writing by the Commission.

A firm that responds to this solicitation as a prime may not be included as a designated subcontractor to another firm that responds to the same solicitation. **Multiple responses under any of the foregoing situations may cause the rejection of all responses of the firm or firms involved.** This does not preclude a firm from being set forth as a designated subcontractor to more than one prime contractor responding to the project advertisement.

**I-8. Incurring Costs.** The Commission is not liable for any costs the Proposer incurs in preparation and submission of its proposal, in participating in the RFP process or in anticipation of award of contract.

**I.9. Questions and Answers.** Written questions may be submitted to clarify any points in the RFP which may not have been clearly understood. Written questions should be submitted by email to [RFP-Q@paturndpike.com](mailto:RFP-Q@paturndpike.com) with **RFP 13-10210-4557** in the Subject Line to be received no later than **12:00 PM local time on Monday, December 30, 2013**. All questions and written answers will be posted to the website as an addendum to and become part of this RFP.

**I-10. Addenda to the RFP.** If it becomes necessary to revise any part of this RFP before the proposal response date, addenda will be posted to the Commission's website under the original RFP document. It is the responsibility of the Proposer to periodically check the website for any new information or addenda to the RFP.

The Commission may revise a published advertisement. If the Commission revises a published advertisement less than ten days before the RFP due date, the due date will be extended to maintain the minimum ten-day advertisement duration if the revision alters the project scope or selection criteria. Firms are responsible to monitor advertisements/addenda to ensure the submitted proposal complies with any changes in the published advertisement.

**I-11. Response.** To be considered, proposals must be delivered to the Pennsylvania Turnpike Commission's Contracts Administration Department, Attention: Wanda Metzger, on or before **2:00 PM local time on Friday, January 17, 2014**. The Pennsylvania Turnpike Commission is located at 700 South Eisenhower Boulevard, Middletown, PA 17057 (Street address). Our mailing Address is P. O. Box 67676, Harrisburg, PA 17106.

**Please note that use of U.S. Mail, FedEx, UPS, or other delivery method, does not guarantee delivery to the Contracts Administration Department by the above listed time for submission.** Proposers mailing proposals should allow sufficient delivery time to ensure timely receipt of their proposals. If the Commission office location to which proposals are to be delivered is closed on the proposal response date, due to inclement weather, natural disaster, or any other cause, the deadline for submission shall be automatically extended until the next Commission business day on which the office is open. Unless the Proposers are otherwise notified by the Commission, the time for submission of proposals shall remain the same.

**I-12. Proposals.** To be considered, Proposers should submit a complete response to this RFP, using the format provided in PART II. Each proposal should be submitted in six (6) hard copies of the Technical Submittal and six (6) hard copies of the Cost Submittal. In addition to the hard copies of the proposal, **one complete and exact copy of the entire proposal (Technical and Cost, along with all requested documents) on CD-ROM or Flash Drive in Microsoft Office or Microsoft Office-compatible format.** The electronic copy must be a mirror image of the hard copy. Proposer should ensure that there is no costing information in the technical submittal. The CD or Flash drive should clearly identify the Proposer and include the name and version number of the virus scanning software that was used to scan the CD or Flash drive before it was submitted. The Proposer shall present the proposal to the Contracts Administration Department only. No other distribution of proposals will be made by the Proposer. Each proposal page should be numbered for ease of reference.

An official authorized to bind the Proposer to its provisions must sign the proposal. If the official signs the Proposal Cover Sheet (Appendix A to this RFP) and the Proposal Cover Sheet is attached to the

proposal, the requirement will be met. For this RFP, the proposal must remain valid for at least **120** days. Moreover, the contents of the proposal of the selected Proposer will become contractual obligations if a contract is entered into.

Each and every Proposer submitting a proposal specifically waives any right to withdraw or modify it, except as hereinafter provided. Proposals may be withdrawn by written or fax notice (fax number (717) 986-8714) received at the Commission's address for proposal delivery prior to the exact hour and date specified for proposal receipt.

Overnight Delivery Address:

Contracts Administration Department  
Attn: Wanda Metzger  
PA Turnpike Commission  
700 South Eisenhower Blvd.  
Middletown, PA 17057

US Mail Delivery Address:

Contracts Administration Department  
Attn: Wanda Metzger  
PA Turnpike Commission  
P.O. Box 67676  
Harrisburg, PA 17106

However, if the Proposer chooses to attempt to provide such written notice by fax transmission, the Commission shall not be responsible or liable for errors in fax transmission. A proposal may also be withdrawn in person by a Proposer or its authorized representative, provided his/her identity is made known and he/she signs a receipt for the proposal, but only if the withdrawal is made prior to the exact hour and date set for proposal receipt. A proposal may only be modified by the submission of a new sealed proposal or submission of a sealed modification which complies with the requirements of this solicitation.

**I-13. Economy of Preparation.** Proposals should be prepared simply and economically, providing a straightforward, concise description of the Proposer's ability to meet the requirements of the RFP.

**I-14. Discussions for Clarification.** Proposers who submit proposals may be required to make an oral or written clarification of their proposals to the Issuing Office through the Contract Administration Department to ensure thorough mutual understanding and Proposer responsiveness to the solicitation requirements. The Issuing Office through the Contract Administration Department will initiate requests for clarification.

**I-15. Best and Final Offers.** The Issuing Office reserves the right to conduct discussions with Proposers for the purpose of obtaining "best and final offers." To obtain best and final offers from Proposers, the Issuing Office may do one or more of the following: a) enter into pre-selection negotiations; b) schedule oral presentations; and c) request revised proposals. The Issuing Office will limit any discussions to responsible Proposers whose proposals the Issuing Office has determined to be reasonably susceptible of being selected for award.

**I-16. Prime Proposer Responsibilities.** The selected Proposer will be required to assume responsibility for all services offered in its proposal whether or not it produces them. Further, the Commission will consider the selected Proposer to be the sole point of contact with regard to contractual matters.

**I-17. Proposal Contents.** Proposals will be held in confidence and will not be revealed or discussed with competitors, unless disclosure is required to be made (i) under the provisions of any

Commonwealth or United States statute or regulation; or (ii) by rule or order of any court of competent jurisdiction. All material submitted with the proposal becomes the property of the Pennsylvania Turnpike Commission and may be returned only at the Commission's option. Proposals submitted to the Commission may be reviewed and evaluated by any person other than competing Proposers at the discretion of the Commission. The Commission has the right to use any or all ideas presented in any proposal. Selection or rejection of the proposal does not affect this right.

In accordance with the Pennsylvania Right-to-Know Law (RTKL), 65 P.S. § 67.707 (Production of Certain Records), Proposers shall identify any and all portions of their Proposal that contains confidential proprietary information or is protected by a trade secret. Proposals shall include a written statement signed by a representative of the company/firm identifying the specific portion(s) of the Proposal that contains the trade secret or confidential proprietary information.

Proposers should note that "trade secrets" and "confidential proprietary information" are exempt from access under Section 708(b)(11) of the RTKL. Section 102 defines both "trade secrets" and "confidential proprietary information" as follows:

Confidential proprietary information: Commercial or financial information received by an agency: (1) which is privileged or confidential; **and** (2) the disclosure of which would cause substantial harm to the competitive position of the person that submitted the information.

Trade secret: Information, including a formula, drawing, pattern, compilation, including a customer list, program, device, method, technique or process that: (1) derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use; **and** (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The term includes data processing software by an agency under a licensing agreement prohibiting disclosure.

65 P.S. §67.102 (emphasis added).

The Office of Open Records has determined that a third party must establish a trade secret based upon factors established by the appellate courts, which include the following:

- the extent to which the information is known outside of his business;
- the extent to which the information is known by employees and others in the business;
- the extent of measures taken to guard the secrecy of the information;
- the value of the information to his business and to competitors;
- the amount of effort or money expended in developing the information; and
- the ease of difficulty with which the information could be properly acquired or duplicated by others.

*See Crum v. Bridgestone/Firestone North Amer. Tire.*, 907 A.2d 578, 585 (Pa. Super. 2006).

The Office of Open Records also notes that with regard to "confidential proprietary information" the standard is equally high and may only be established when the party asserting protection shows that the information at issue is either 'commercial' or 'financial' and is privileged or confidential, and the disclosure **would** cause substantial competitive harm." (emphasis in original).

For more information regarding the RTKL, visit the Office of Open Records' website at [www.openrecords.state.pa.us](http://www.openrecords.state.pa.us).

**I-18. Debriefing Conferences.** Proposers whose proposals are not selected will be notified of the name of the selected Proposer and given the opportunity to be debriefed, at the Proposer's request. The Issuing Office will schedule the time and location of the debriefing. The Proposer will not be compared with other Proposers.

**I-19. News Releases.** News releases pertaining to this project will not be made without prior Commission approval, and then only in coordination with the Issuing Office.

**I-20. Commission Participation.** Unless specifically noted in this section, Proposers must provide all services to complete the identified work. The Commission will make on-site office facilities available for auditing personnel. Telephone(s) and internet access will be provided for work related use. A Commission representative will be available to assist in the scheduling (via Microsoft Outlook) of Commission personnel and conference rooms for meetings if necessary. Personal Computers (PCs) and any project related software are the responsibility of the certified public accounting firm and will not be provided by the Commission.

The independent audit will occur at the Commission's Central Office Building. The Commission offers flexible working hours to its employees with starting times ranging from 7:00 AM – 9:30 AM and ending times from 3:00 PM – 5:30 PM. Core hours of operation are 8:30 AM – 4:30 PM Monday – Friday. The selected independent auditor will need to plan and staff the audit accordingly so Commission employees are available to assist and answer questions.

The Commission will complete certain schedules (client prepared schedules) as agreed upon by the Commission and the selected auditor. The selected firm must meet with Commission representatives and agree upon the client prepared schedules by April 15 of each year.

**I-21. Cost Submittal.** The cost submittal shall be placed in a separately sealed envelope within the sealed proposal and kept separate from the technical submittal.

**I-22. Term of Contract.** The term of the contract will commence on the Effective Date (as defined below) and will end three (3) years from that date with an option of two (2) one-year extensions. The Commission shall fix the Effective Date after the contract has been fully executed by the Contractor and by the Commission and all approvals required by Commission contracting procedures have been obtained.

**I-23. Proposer's Representations and Authorizations.** Each Proposer by submitting its proposal understands, represents, and acknowledges that:

- a. All information provided by, and representations made by, the Proposer in the proposal are material and important and will be relied upon by the Issuing Office in awarding the contract(s). Any misstatement, omission or misrepresentation shall be treated as fraudulent concealment from the Issuing Office of the true facts relating to the submission of this proposal. A misrepresentation shall be punishable under 18 Pa. C.S. 4904.

- b. The price(s) and amount of this proposal have been arrived at independently and without consultation, communication or agreement with any other Proposer or potential Proposer.
- c. Neither the price(s) nor the amount of the proposal, and neither the approximate price(s) nor the approximate amount of this proposal, have been disclosed to any other firm or person who is a Proposer or potential Proposer, and they will not be disclosed on or before the proposal submission deadline specified in the response section of this RFP.
- d. No attempt has been made or will be made to induce any firm or person to refrain from submitting a proposal on this contract, or to submit a proposal higher than this proposal, or to submit any intentionally high or noncompetitive proposal or other form of complementary proposal.
- e. The proposal is made in good faith and not pursuant to any agreement or discussion with, or inducement from, any firm or person to submit a complementary or other noncompetitive proposal.
- f. To the best knowledge of the person signing the proposal for the Proposer, the Proposer, its affiliates, subsidiaries, officers, directors, and employees are not currently under investigation by any governmental agency and have not in the last four (4) years been convicted or found liable for any act prohibited by State or Federal law in any jurisdiction, involving conspiracy or collusion with respect to bidding or proposing on any public contract, except as disclosed by the Proposer in its proposal.
- g. To the best of the knowledge of the person signing the proposal for the Proposer and except as otherwise disclosed by the Proposer in its proposal, the Proposer has no outstanding, delinquent obligations to the Commonwealth including, but not limited to, any state tax liability not being contested on appeal or other obligation of the Proposer that is owed to the Commonwealth.
- h. The Proposer is not currently under suspension or debarment by the Commonwealth, or any other state, or the federal government, and if the Proposer cannot certify, then it shall submit along with the proposal a written explanation of why such certification cannot be made.
- i. The Proposer has not, under separate contract with the Issuing Office, made any recommendations to the Issuing Office concerning the need for the services described in the proposal or the specifications for the services described in the proposal.
- j. Each Proposer, by submitting its proposal, authorizes all Commonwealth agencies to release to the Commission information related to liabilities to the Commonwealth including, but not limited to, taxes, unemployment compensation, and workers' compensation liabilities.



## **I-24. Insurance.**

### **A. General Insurance Requirements**

1. The term “Auditing Firm” shall include the Proposer, Contractor, Subcontractor, and Sub-subcontractors of every tier. The Professional Services shall not commence until the Auditing Firm has obtained, at their own expense, the following minimum levels of insurance and such insurance has been approved by the Commission.

Approval of insurance required of the Auditing Firm will be granted only after submission to the Commission, original certificates of insurance signed by the representatives of the insurers or, at the Commission’s request, certified copies of the required insurance policies. Evidence of renewal or replacement coverage shall be provided to the Commission in the same form as previously described no later than 30 days prior to the expiration date of coverage. The required insurance shall not contain any exclusions or endorsements which are not acceptable to the Commission. Failure of the Commission to demand such certificate or other evidence of full compliance with these insurance requirements or failure of the Commission to identify a deficiency from evidence that is provided shall not be construed as a waiver of Auditing Firm’s obligation to maintain such insurance. With respect to insurance maintained after final payment in compliance with a requirement below, an additional certificate(s) evidencing such coverage shall be provided to the Commission with final application for payment and thereafter upon renewal or replacement of such insurance until the expiration of the time period for which such insurance must be maintained. If found to be non-compliant, the Commission may purchase the required insurance coverage(s) and the cost will be borne by the Auditing Firm through direct payment/reimbursement to the Commission, or the Commission may withhold payment to the Auditing Firm for amounts owed to them.

2. All insurance required herein, with the exception of the Professional / Errors and Omissions Liability Insurance shall be written on an “occurrence” basis and not a “claims-made” basis. For Professional Liability “claims-made” coverage:
  - a. The retroactive date must be on or prior to the start of work under this contract; and
  - b. The Auditing Firm must purchase “tail coverage/an extended reporting period” or maintain coverage for a period of three years, subsequent to the completion of their work / final payment.
3. The Commission, its commissioners, agents, servants, employees and representatives shall be named as additional insured on all of the Auditing Firm ’s liability policies (except Workers Compensation and Professional Liability policies) for ongoing and completed operations on a primary and noncontributory basis. On the Commercial General Liability, coverage to include ongoing and completed operations must be provided using ISO Endorsements CG 2010 and CG 2037, or their equivalents. This coverage should be provided, along with evidence of such coverage in a form acceptable to the Commission as discussed in Item A1, for a period of three years after completion of the project/final payment. The Commission reserves the right to require the Auditing Firm name other parties as additional insureds as required by the Commission. There shall be no “Insured versus Insured” Exclusion on any policies; all policies shall provide coverage for “cross liability suits”.

4. All insurance policies required hereunder shall be endorsed to provide that the policy is not subject to cancellation, non-renewal, or material reduction in coverage until thirty (30) days prior written notice has been given to the Commission. Should coverage cancel or non-renew, it is the responsibility of the Auditing Firm to replace coverage to comply with the Contract requirements so there is no lapse of coverage for any time period. In the event the insurance carrier(s) will not issue or endorse their policy(s) to comply with the above, it is the responsibility of the Auditing Firm to report any notice of cancellation, non-renewal, or material reduction in coverage at least thirty (30) days prior to the effective date of this notice.
5. No acceptance and/or approval of any insurance by the Commission shall be construed as relieving or excusing the Auditing Firm or the Auditing Firm's Surety (if applicable) from any liability or obligation imposed upon either or both of them by provisions of this Contract.
6. Any deductibles or self-insured retention's of \$10,000 or greater shall be disclosed by the Auditing Firm, and are subject to Commissions written approval prior to starting work. Any deductible or retention amounts elected by the Auditing Firm or imposed by the Auditing Firm's insurer(s) shall be the sole responsibility of the Auditing Firm , and the Additional Insured requirements specified herein shall be offered within the SIR amount(s).
7. All insurance companies shall have an AM Best's rating of A-, Class VIII or better and be permitted to do business in the State of Pennsylvania.
8. There shall be no liability upon the Commission, public officials, their employees, their authorized representatives, or agents either personally or as officials of the Commission in carrying out any of the provisions of the Contract nor in exercising any power or authority granted to them by or within the scope of the Contract, it being understood that in all such matters they act solely as agents and representatives of the Commission.
9. Waiver of Rights of Recovery and Waiver of Rights of Subrogation:
  - a. The Auditing Firm waives all rights of recovery against the Commission and all the additional insured's for loss or damage covered by any of the insurance maintained by the Auditing Firm.
  - b. If any of the policies of insurance required under this contract require an endorsement to provide for the waiver of subrogation, then the named insured of such policies will cause them to be so endorsed.
10. Any type of insurance or any increase in limits of liability not described above which the Auditing Firm requires for its own protection or on account of statute shall be its own responsibility and at its own expense.
11. The amount of insurance provided in the aforementioned insurance coverages shall not be construed as a limitation of the liability on the part of the Auditing Firm.
12. Auditing Firm shall promptly notify the Commission and the appropriate insurance company(ies) in writing of any accident(s) as well as any claim, suit or process received by the insured Auditing Firm arising in the course of operations under the contract. The Auditing Firm shall

forward such documents received to its insurance company(ies) as soon as practicable or as required by its insurance policy(ies).

## **B. Auditing Firm Liability Insurance Requirements**

**Auditing Firm Liability Insurance Requirements – the following may be provided through a combination of primary and excess policies in order to meet the minimum limits set forth below:**

- The Auditing Firm shall purchase the following insurance coverage's for the minimum limits specified below or required by law.
- **Commercial General Liability** insurance for bodily injury, personal injury, advertising injury, and property damage including loss of use, etc. with minimum limits of:

\$1,000,000	each occurrence;
\$1,000,000	personal and advertising injury;
\$2,000,000	general aggregate; and
\$2,000,000	products/completed operation aggregate.

This insurance shall include coverage for all of the following:

- Coverage is to be provided on ISO form CG 00 01 12 07 (Occurrence basis) or an equivalent form including Premises Operations, Independent Contractors, Products/Completed Operations, Broad Form Property Damage, Contractual Liability, and Personal Injury and Advertising Injury;
- General aggregate limit applying on a per project basis;
- No sexual abuse or molestation exclusion;
- No amendment to the definition of an "Insured Contract";
- Products/Completed Operations Coverage must be maintained for a period of at least three (3) years after final payment / completion of work (including coverage for the Additional Insured's as set forth in these Insurance Requirements).
- **Business Auto Liability** insurance with a minimum Combined Single Limit of \$1,000,000 per accident and including, but not limited to, coverage for all of the following:
  - Liability arising out of the ownership, maintenance or use of any auto;
  - Auto non-ownership and hired car coverage
  - Contractual Liability Coverage (including Liability for Employee Injury assumed under a Contract as provided in the standard ISO policy form)
- **Workers' Compensation** insurance with statutory benefits as required by any state in which work is performed or federal law, including standard "other states" coverage; employer's **liability** insurance with minimum limits of:

\$1,000,000	each accident for bodily injury by accident;
\$1,000,000	each employee for bodily injury by disease; and
\$1,000,000	policy limit for bodily injury by disease.

1. Includes sole proprietorships and officers of a corporation who will be performing work.

2. Where applicable, if the Auditing Firm is lending or leasing its employees to the Commission for the work under this Contract, it is the Auditing Firm's responsibility to provide the Workers Compensation and Employer's Liability coverage and to have their policy endorsed with the proper Alternate Employer Endorsement.

- **Financial Advisor Professional Liability:** Auditing Firm shall provide professional liability insurance with minimum limits of \$10,000,000 Per Claim and in the Aggregate. The definition of "Covered Services" shall include the services required in the scope of this contract.
- **Crime Insurance:** The Auditing Firm shall be responsible for the maintaining Crime Insurance, which includes the Employee Theft and Theft, Disappearance and Destruction coverage parts, in an amount not less than \$10,000,000 Per Occurrence. The Employee Theft Coverage part should include the Clients' Property Endorsement (ISO Form CR 04 01, or its equivalent).
- **Umbrella Liability or Excess Liability** insurance with minimum limits of:
  - \$5,000,000 per occurrence;
  - \$5,000,000 aggregate for other than products/completed operations and auto liability; and
  - \$5,000,000 products/completed operations aggregate.

Policy to apply on a Following Form basis of the Commercial General Liability (Per Project Aggregate), Commercial Automobile Liability and Employers Liability Coverage.

- **Privacy Liability:**

Auditing Firm shall maintain coverage for third party liability arising out of breach of privacy, inclusive of confidential and proprietary business information, HIPAA violations and other breaches of personally identifiable information and/or protected health information, which may arise from their work with this contract.

Minimum Limits of Liability:

Per Claim:	\$10,000,000
Aggregate:	\$10,000,000

Privacy Breach Notification and Credit Monitoring: \$1,000,000 Per Occurrence

## C. Indemnification

To the extent that state and/or federal laws limit the terms and conditions of this clause, it shall be so limited. This clause shall survive termination of this contract. The Auditing Firm shall protect, defend, indemnify and hold harmless the Commission, and their respective members, representatives, agents and employees (the "Indemnified Parties") from and against all liability (including liability for violation of any law or any common law duty), claims, damages, losses, and expenses including but not limited to attorneys' fees arising in connection with, out of, or resulting from the performance of the work including, in whole or in part, any act or omission of the Auditing Firm, any Subcontractor, Sub-subcontractor(s), anyone direct or indirectly employed by any of them or anyone for whose acts any of

them may be liable, regardless of whether or not it is also caused by or results from any act or omission of any party indemnified hereunder.

In any and all claims against the Indemnified Parties by an employee of the Auditing Firm , Subcontractor, or any Sub-subcontractor, or anyone directly or indirectly employed by any of them, or anyone for whose acts any of them may be liable, the indemnification obligation shall not be limited in any way by any limitation on the amount or type of damages, compensation or benefits payable by or for any Auditing Firm , Subcontractor or any Sub-subcontractor under Workmen's Compensation Acts, Disability Benefits Acts, or other Employee Benefit Act.

## **PART II**

### **INFORMATION REQUIRED FROM PROPOSERS**

Proposals must be submitted in the format, including heading descriptions, outlined below. To be considered, the proposal must respond to all requirements in this part of the RFP. Any other information thought to be relevant, but not applicable to the enumerated categories, should be provided as an appendix to the proposal. All cost data relating to this proposal should be kept separate from and not included in the Technical Submittal. Each proposal shall consist of the completed proposal cover sheet (use Appendix A) and two (2) separately sealed submittals. The submittals are as follows: (i) Technical Submittal, in response to Part II-1 through II-10 hereof; (ii) Cost Submittal, in response to Part II-11 hereof.

The Commission reserves the right to request additional information which, in the Commission's opinion, is necessary to assure that the Proposer's competence, number of qualified employees, business organization, and financial resources are adequate to perform according to the RFP.

The Commission may make such investigations as deemed necessary to determine the ability of the Proposer to perform the work, and the Proposer shall furnish to the Issuing Office all such information and data for this purpose as requested by the Commission. The Commission reserves the right to reject any proposal if the evidence submitted by, or investigation of, such Proposer fails to satisfy the Commission that such Proposer is properly qualified to carry out the obligations of the agreement and to complete the work specified.

#### **II-1. Proposal Cover Sheet (Appendix A)**

Show the name of your firm, Federal I.D. number, address, name of contact person, contact person's email and telephone number date and the subject: **Annual Independent Audit Services, RFP 13-10210-4557**. In addition it is required that all information requested in Appendix A be provided including information pertaining to location of office performing the work, contact information, listing of all Pennsylvania offices and total number of Pennsylvania employees, and location of company headquarters.

**II-2. Statement of the Problem.** State in succinct terms your understanding of the services required by this RFP.

**II-3. Management Summary.** Include a narrative description of the proposed effort and a list of the items to be delivered and services to be provided.

**II-4. Work Plan.** Describe in narrative form your technical plan for accomplishing the work. Use the task descriptions in Part V of this RFP for the fiscal year 2014 as your reference point. Also explain your approach for subsequent audits (fiscal years 2015 and 2016) as well as your approach to the additional auditing services and guidance activities discussed in Section I-4. Highlight the differences between the initial engagement and subsequent engagements. Modifications of the task descriptions are permitted; however, reasons for changes should be fully explained. Indicate the number of personhours allocated to each task.

**II-5. Prior Experience.** Include a narrative description of audit experience and qualifications. Specific experience with similar organizations (proprietary-type component units, state and local

governments, etc.), SAP Enterprise Resource Software (including ACL, Direct Link or other auditing software) and implementation of required GASBs should be included. Experience should be related to audits performed by individuals who will be assigned to this project as well as that of your company. Previous audit engagements referred to should be identified and the name of the customer shown, including the address, and telephone number of the responsible official of the customer, company, or agency who may be contacted. Include a minimum of three (3) references, governmental preferred.

**II-6. Personnel.** Include the number and names where practicable, of auditors (staff, in-charges, managers, partners, etc.) who will be engaged in the work. Indicate the responsibilities each will have in this audit and how long each has been with your company and in their current roles. Include a resume or similar document indicating the level of education and experience for each auditor who will be assigned to this engagement. If you are unable to identify the personnel who will be assigned to this work, please provide a list of requirements (education and experience) needed to obtain each level (staff, in-charge, manager, partner, etc.) in your organization. Identify subcontractors you intend to use and the services they will perform.

**II-7. Auditor Information.** All firms submitting proposals should state:

- Whether they meet applicable Pennsylvania State licensing requirements.
- Their policies regarding notification of changes in key personnel.
- Whether they are independent, as defined by applicable auditing standards.
- Any relationship your firm has with the Pennsylvania Turnpike Commission.
- Whether they have been the object of any disciplinary action in the Commonwealth of Pennsylvania during the past four years

**II-8. Commitment to Diversity and Inclusion**

The Turnpike Commission is committed to the inclusion of disadvantaged, minority, and woman firms in contracting opportunities. Responding firms shall clearly identify DBE/MBE/WBE firms, expected to participate in the Contract, in their Proposal. Proposed DBE/MBE/WBE firms must be certified by the Pennsylvania Unified Certification Program ([www.paucp.com](http://www.paucp.com)) at the time of the submission of the proposal. The utilization of disadvantaged, minority and women-owned businesses are encouraged and will be considered a factor in the evaluation determination.

**II-9. Locations.** List your firm's total number of locations and employees and the number of locations and employees in Pennsylvania. Also, please list the business address(es) of the personnel who will be assigned to the engagement.

**II-10. Peer Review.** A copy of your firm's most recent peer review report should be provided with the technical submittal.

**II-11. Cost Submittal.** The information requested in this section shall constitute your cost submittal. **The Cost Submittal shall be placed in a separate sealed envelope within the sealed proposal, and on a CD-ROM, separate from the technical submittal.**

Proposers should **not** include any assumptions in their cost submittals. If the proposer includes assumptions in its cost submittal, the Issuing Office may reject the proposal. The cost submittal should list the proposed fixed fee for annual audit services which includes the audits of both the Pennsylvania

Turnpike Commission's Annual Financial and Retiree Medical Trust financial statements for the three fiscal years ending May 31, 2014, 2015 and 2016 respectively. The cost submittal should include a detailed itemization (costs for each audit for each year should be clearly listed) of the proposed fixed fee.

- a. Direct Labor Costs.** Itemize to show the following for each category of personnel with a different rate per hour:
  - (1) Category: e.g., partner, project manager, analyst, senior auditor, research associate.
  - (2) Estimated hours.
  - (3) Rate per hour. (use as applicable - if "loaded" rates are used, please provide breakdowns of these rates by indicating amount of overhead, profit, or any other factor that is included in rate).
  - (4) Total cost for each category and for all direct labor costs.
- b. Labor Overhead.** Specify what is included and rate used. If there is no labor overhead rate in your proposal, so state.
- c. Travel and Subsistence.** Itemize transportation, lodging and meals per diem costs separately. Travel and subsistence costs must not exceed current Conus rates and IRS approved mileage rates. If there are no travel and subsistence in your proposal, so state.
- d. Subcontract Costs.** Itemize as in (a) above. If there are no subcontract costs in your proposal, so state.
- e. Cost of Supplies and Materials.** Itemize. If there are no supplies and materials in your proposal, so state.
- f. Other Direct Costs.** Itemize. If there are no other direct costs in your proposal, so state.
- g. Total Cost.** List the sum of the costs from a. – f. The sum should equal the proposed fixed fee for each audit for each fiscal year.

The Commission may seek guidance on accounting issues and may require additional services to be performed during the term of this engagement. Please describe guidance/services that are considered part of your fixed fee proposal and guidance/services that are out of scope, such as those additional services discussed in Section I-4 Problem Statement above. Guidance and services determined to be out of scope, will be compensated at the standard hourly rates set forth in **a.** above.

The cost submittal should describe your firm's standard progress billing policy/procedures. The Commission will determine if your standard procedure is acceptable. The Commission and the selected Proposer will agree upon final contract terms.



**Any costs not provided in the cost proposal will be assumed as no charge to the Commission.**

**The selected Proposer shall only perform work on this contract after the Effective Date is affixed and the fully-executed contract sent to the selected Proposer. The Commission shall issue a written Notice to Proceed to the selected Proposer authorizing the work to begin on a date which is on or after the Effective Date. The selected Proposer shall not start the performance of any work prior to the date set forth in the Notice of Proceed and the Commission shall not be liable to pay the selected Proposer for any service or work performed or expenses incurred before the date set forth in the Notice to Proceed. No Commission employee has the authority to verbally direct the commencement of any work under this Contract.**

## PART III

### CRITERIA FOR SELECTION

**III-1. Mandatory Responsiveness Requirements.** To be eligible for selection, a proposal shall be (a) timely received from a Proposer; and (b) properly signed by the Proposer.

**III-2. Technical Nonconforming Proposals.** The two (2) Mandatory Responsiveness Requirements set forth in Section III-1 above (a&b) are the only RFP requirements that the Commission will consider to be non-waivable. The Issuing Office reserves the right, in its sole discretion, to (1) waive any other technical or immaterial nonconformities in the proposal, (2) allow the Proposer to cure the nonconformity, or (3) consider the nonconformity in the evaluation of the proposal.

**III-3. Proposal Evaluation.** Proposals will be reviewed, evaluated, and rated by a Technical Evaluation Team (TET) of qualified personnel based on the evaluation criteria listed below. The TET will present the evaluations to the Audit Committee. The Audit Committee will review the TET's evaluation and provide the Commission with the firm(s) determined to be highly recommended for this assignment.

The Audit Committee will select the most highly qualified firm for the assignment or the firm whose proposal is determined to be most advantageous to the Commission by considering the TET's evaluation and the Audit Committee's determination as to each firm's rating. In making the Commission's decision, additional selection factors may be considered taking into account the estimated value, scope, complexity and professional nature of the services to be rendered and any other relevant circumstances. Additional selection factors may include, when applicable, the following: geographic location and proximity of the firm, firm's Pennsylvania presence or utilization of Pennsylvania employees for the assignment; equitable distribution of work; diversity inclusion; and any other relevant factors as determined as appropriate by the Commission.

Award will only be made to a Proposer determined to be responsive and responsible in accordance with Commonwealth Management Directive 215.9, Contractor Responsibility Program.

**III-4. Evaluation Criteria.** The following criteria will be used, in order of relative importance from the highest to the lowest, in evaluating each proposal

**a. Understanding the Problem.** This refers to the Proposer's understanding of the Commission needs that generated the RFP, of the Commission's objectives in asking for the services or undertaking the study, and of the nature and scope of the work involved.

**b. Proposer Qualifications.** This refers to the ability of the Proposer to meet the terms of the RFP, especially the time constraint and the quality, relevancy, and recency of studies and projects completed by the Proposer. This also includes the Proposer's financial ability to undertake a project of this size.

**c. Personnel Qualifications.** This refers to the competence of professional personnel who would be assigned to the job by the Proposer. Qualifications of professional personnel will be measured

by experience and education, with particular reference to experience on studies/services similar to that described in the RFP. Particular emphasis is placed on the qualifications of the project manager.

**d. Soundness of Approach.** Emphasis here is on the techniques for collecting and analyzing data, sequence and relationships of major steps, and methods for managing the service/project. Of equal importance is whether the technical approach is completely responsive to all written specifications and requirements contained in the RFP and if it appears to meet Commission objectives.

**e. Cost.** While this area may be weighted heavily, it will not normally be the deciding factor in the selection process. The Commission reserves the right to select a proposal based upon all the factors listed above, and will not necessarily choose the firm offering the best price. The Commission will select the firm with the proposal that best meets its needs, at the sole discretion of the Commission.

**f. Commitment to Diversity and Inclusion (D/M/WBE) Participation.** This refers to the inclusion of D/M/WBE firms, as described in Part II-8, Participation may be measured in terms of total dollars committed or percentage of total contract amount to certified D/M/WBE firms.

## **PART IV BACKGROUND INFORMATION**

### **IV-1. Background.**

The Pennsylvania Turnpike Commission was created as an instrumentality of the Commonwealth of Pennsylvania on May 21, 1937, with powers to construct, operate, and maintain the Turnpike System, and to issue Turnpike revenue bonds, repayable solely from tolls and other Commission revenues. The Commission is considered a proprietary-type component unit of the Commonwealth of Pennsylvania and presents its financial statements on the accrual basis with a capital maintenance measurement focus. There are no other entities that would potentially qualify for inclusion in the Pennsylvania Turnpike Commission's financial reporting entity under accounting principles generally accepted in the United States.

The Commission consists of five members, one of whom is the Commonwealth of Pennsylvania's Secretary of Transportation. The other four are appointed for four-year terms by the Governor with the approval of a two-thirds majority of the Senate.

A copy of the Commission's Comprehensive Annual Financial Report, Fiscal Years Ended May 31, 2013 and 2012 is attached (Appendix B) to provide additional information to interested vendors.

### **IV-2. Financial Management System and Availability of Commission Accounting Records and Data.**

All Commission generated accounting data will be made available to the Independent Auditor during the engagement. The Commission currently uses the SAP ERP (Enterprise Resource Planning) software suite (version ECC 6.0). The SAP ERP software suite includes the following modules:

- General Ledger
- Accounts Payable
- Accounts Receivable
- Fixed Assets
- Treasury
- Project Systems
- Cost Center Accounting
- Profit Center Accounting
- Materials Management
- Purchasing
- Supplier Relationship Management
- Enterprise Buyer Professional
- Plant Maintenance
- Fleet Management
- Employee Self- Service Workflow
- Business Warehouse
- Benefits
- Personnel Administration

- Personnel Development
- Payroll
- Time Entry
- Cross Application Timesheets
- Organization Management
- Leave Management
- Personnel Cost Planning and Simulation
- Cross Application Timesheet
- Employee Self- Service
- Manager Self-Service
- SAP Portals
- CRM- Call center and marketing
- Workflow

### **Pennsylvania Turnpike Commission Retiree Medical Trust:**

The Financial Statements of the Pennsylvania Turnpike Commission Retiree Medical Trust are prepared in Excel using statements from the Custodian. Following is additional information about the Trust.

The Pennsylvania Turnpike Commission (the “Employer/Plan Sponsor”) has established the Pennsylvania Turnpike Commission’s Retiree Medical Trust (the “Trust”). The Trust is intended to provide for funding of non-pension postemployment benefits for employees who meet the age and service requirements outlined in the Employer plan documents.

The Pennsylvania Turnpike Commission maintains a welfare plan program (the “Plan”), the purpose of which is to provide medical benefits for eligible retirees and their dependents who are in need of medical care. The Plan is a single employer, defined benefit plan. The Plan is not included in the financial statements of a public employee retirement system.

Plan benefit provisions and employee contributions, which are retained by the Employer, are established and may be amended by the Employer. The Plan provides certain postemployment medical, prescription drug, dental and vision benefits to management employees who have reached 20 years of service and are under age 60; benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older. The Plan provides certain postemployment medical and prescription drug benefits to union employees who have reached 20 years of service and are under age 60; benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older.

Membership consists of the following as of March 1, 2012, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	1,197
Fully eligible active plan participants	648
Other active plan participants	1,387
Total participant count	3,232

The Commission approved a Retiree Medical Trust Funding Policy whereby the Commission anticipates approving an annual contribution to the Trust in the amount of the Annual Required Contribution as determined by the Commission’s actuary during the approval of each Operating Budget.

The Trust is administered by the Trustees. PNC Bank serves as custodian/third-party administrator of the assets of the Trust. Payments from the Trust are made by the custodian at the direction of the Trustees.

The Pennsylvania Turnpike Commission Retiree Medical Trust is accounted for as a fiduciary fund. Accordingly, the basic financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB). The Trust implemented GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2009 as part of its initial basic financial statement presentation.

Employer contributions to the Trust are recognized when due and the Employer has made a formal commitment to provide the contributions. Claims are recognized when due and payable in accordance with the terms of the Plan.

## **PART V WORK STATEMENT**

### **V-1. Objectives.**

It is the intent of the Commission to procure the services of a qualified independent certified public accounting firm to audit the Commission's financial statements and the Pennsylvania Turnpike Commission Retiree Medical Trust financial statements as well as perform related services for fiscal years ending May 31, 2014, 2015 and 2016.

### **V-2. Nature and Scope of the Project.**

The selected Independent Auditor will perform annual financial audits of the records of both the Commission and the Pennsylvania Turnpike Commission Retiree Medical Trust for the fiscal years ending May 31, 2014, 2015 and 2016.

The selected firm will ensure the Commission's financial statements, notes to the financial statements and required supplementary information conform to all applicable GASB pronouncements and requirements and that all of the Government Finance Officers Association's (GFOA) comments and suggestions for improvement in financial reporting techniques from the previous year's Comprehensive Annual Financial Report (CAFR) have been appropriately incorporated into the financial statements.

The audits will be conducted in accordance with auditing standards generally accepted in the United States as set forth by the American Institute of Certified Public Accountants.

The Independent Auditor will express an opinion on the fair presentation of the Commission's financial statements. The auditor's opinion is to include the scope of the examination, the fact that the audit was performed in accordance with auditing standards generally accepted in the United States, an opinion as to whether the statements conform to generally accepted accounting principles and a statement on procedures applied to supplementary information required by the Government Accounting Standards Board. In the event that a possible modification to the opinion may be anticipated, it would be expected that the Independent Auditor would discuss the circumstances with the Director of Audit and Advisory Services as soon as possible.

A management letter is required and should include statements on audit findings and recommendations affecting the financial statements, internal control, accounting system, legality of actions, instances of noncompliance with laws and regulations and any other material matters. A draft of the letter is to be reviewed by the Pennsylvania Turnpike Commission's Director of Audit and Advisory Services. The Independent Auditor will review and perform limited procedures on the Commission's Management's Discussion and Analysis and ensure it is prepared in accordance with GASB 34.

The Independent Auditor will assist the Commission in its preparation of the CAFR for submission to the GFOA's Certificate of Achievement for Excellence in Financial Reporting Program. Assistance will include: reviewing the CAFR to ensure all GFOA requirements are met; reviewing the CAFR application; reviewing prepared responses to the GFOA's previous year's comments and suggestions for improvement in financial reporting techniques; completing final word processing and production of the CAFR.

The Independent Auditor shall present to the Commission's Audit Committee the results of the annual audit.

### **V-3. Time Requirements, Deliverables and Commission Resources.**

Each fiscal year's audit shall include routine entrance and exit conferences. The selected Independent Auditor will develop an audit program at the beginning of each fiscal year's audit. The audit program will include a timeline and milestones for completing the audit. The timeline and milestones must be reviewed with and approved by the Commission's Director of Audit and Advisory Services or his designee. For the initial audit (fiscal 2014), the timing of this meeting will be agreed upon at a later date by the selected vendor and the Commission, but it will occur no later than March 31, 2014. For subsequent years, the review meeting will occur on or before April 15<sup>st</sup>.

The Commission will make on-site office facilities available for auditing personnel. Telephone(s) and internet access will be provided for work related use. A Commission representative will be available to assist in the scheduling (via Microsoft Outlook) of Commission resources and conference rooms for meetings if necessary. Personal Computers (PCs) and any project related software are the responsibility of the auditing firm and will not be provided by the Commission.

- The independent audit will occur at the Commission's Central Office Building.
- The Commission will prepare certain schedules as agreed upon by the Commission and the selected Independent Auditor. The selected auditor must meet with Commission representatives and agree upon the client prepared schedules no later than April 30 of each fiscal year. The Commission will complete the majority of the client prepared schedules by early to mid July following the close of each fiscal year.
- The selected firm will complete preliminary fieldwork by May 31<sup>st</sup> of each fiscal year. The Commission is anticipating an April 1, 2014 start date for the fiscal 2014 audit. Due to fiscal year end closing, Commission employees will have limited availability during the month of June to address audit questions.

The Independent Auditor will conduct periodic meetings with the Director of Audit and Advisory Services for the purpose of discussing the audit status and progress in relation to the audit program (timeline and milestones) as well as any issues identified during the performance of the audit. The Independent Auditor will also prepare written progress reports. The progress reports will address the audit timeline, preliminary findings, and any major audit issues that the firm believes to be material. The frequency of the progress reports will be determined during the entrance conference.

The Independent Auditor will complete the audit and provide the Commission with an electronic copy of the typed Audit Report (audited financial statements) no later than August 24<sup>th</sup> following the close of each fiscal year. The auditor will also provide 30 printed, bound copies of the Audit Report no later than August 24<sup>th</sup> following the close of each fiscal year.



The Independent Audit Report will include the following: title page; table of contents; audit opinion letter, Management's Discussion and Analysis; basic financial statements and additional information required to conform to all applicable GASB pronouncements and requirements.

The basic financial statements will include: statement of net position; statements of revenues, expenses, and changes in net position; statements of cash flows; notes to financial statements; and any additional information required to conform to all applicable GASB pronouncements and requirements.

The Independent Auditor will provide a copy of the completed CAFR to the Commission no later than November 15<sup>th</sup> following the close of each fiscal year. The auditor will also provide the Commission with an electronic file copy and 30 printed, bound copies of the CAFR by November 15<sup>th</sup> following the close of each fiscal year.

The Independent Auditor will retain all working papers for a minimum of five (5) years after the issuance of the respective fiscal year Audit Report. Such working papers will be available for examination by authorized representatives of the Pennsylvania Turnpike Commission.

**APPENDIX A – PROPOSAL COVER SHEET**  
**Pennsylvania Turnpike Commission**

**ANNUAL INDEPENDENT AUDIT SERVICES**

**RFP# 13-10210-4557**

**Enclosed in two separately sealed submittals is the technical and cost proposal for the Proposer identified below for the above referenced RFP:**

<b>Proposer Information:</b>	
Proposer Name	
Proposer Mailing Address	
Proposer Website	
Proposer Contact Person/Title	
Contact Person's Phone Number	
Contact Person's Fax Number	
Contact Person's Email Address	
Proposer Federal ID Number	
Location of Headquarters	
Location of Office(s) Performing the Work	
Listing of all Pennsylvania Offices and Total Number of Pennsylvania Employees	

<b>Submittals Enclosed and Separately Sealed:</b>	
<input type="checkbox"/> Technical Submittal	<input type="checkbox"/> Cost Submittal
<b>Signature</b>	
Signature of an official authorized to bind the Proposer to the provisions contained in the Proposer's proposal: _____	
Print Name	
Title	

**FAILURE TO COMPLETE, SIGN AND RETURN THIS FORM WITH THE PROPOSAL MAY RESULT IN THE REJECTION OF THE PROPOSAL.**

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL  
REPORT

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania  
Fiscal Years Ended May 31, 2013 and 2012

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Comprehensive Annual Financial Report

Fiscal Years Ended May 31, 2013 and 2012

**Prepared by:**

Christopher G. Will, Investment Manager  
Catherine L. Sabo, Accounting Manager  
Theodore A. Rusenko, Accounting and Financial Reporting Manager  
Jamie L. May, Technical Accounting Manager  
Anthony Q. Maun, Assistant CFO/Accounting and Budget

(This page intentionally left blank)

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Comprehensive Annual Financial Report

Fiscal Years Ended May 31, 2013 and 2012

**Table of Contents**

Introductory Section	1
Letter of Transmittal	3
Organization Chart	12
List of Principal Officials	13
Certificate of Achievement	14
Financial Section	15
Independent Auditors' Report	17
Management's Discussion and Analysis	21
Basic Financial Statements	33
Statements of Net Position	35
Statements of Revenues, Expenses, and Changes in Net Position	37
Statements of Cash Flows	38
Notes to Financial Statements	41
Required Supplementary Information	91
Schedule of Funding Progress – Postemployment Healthcare Benefits	93
Other Supplementary Information	95
Section Information	97
As of and for the year ended May 31, 2013	
Schedule of Net Position	98
Schedule of Revenues, Expenses, and Changes in Net Position	100
Schedule of Cash Flows	101
As of and for the year ended May 31, 2012	
Schedule of Net Position	104
Schedule of Revenues, Expenses, and Changes in Net Position	106
Schedule of Cash Flows	107
Schedules of Cost of Services Detail	110
Statistical Section	111
Summary of Revenues and Expenses	115
Schedule of Net Position	116
Debt Coverage – All Sections	117
Ratios of Mainline Outstanding Debt and Debt Service Payments	118
Traffic Statistics	119
Revenue Composition as a Percentage of Total Revenue	120
Traffic Composition as a Percentage of Total Vehicles	121
Ten Largest Commercial Customers	122
Percentage of PA Turnpike ETC Traffic by IAG Agency	123
Employment by Nonfarm Related Industries – Demographic and Economic	124
Number of Employees by Functional Area	125
Vehicle Class Definitions	126
Miscellaneous Statistics	127
Technical Data	128
Chronology, Turnpike Construction	129
Chronology, Turnpike Improvements	130
Chronology, Speed Limits	134

(This page intentionally left blank)

# Introductory Section



(This page intentionally left blank)

August 29, 2013

To the Bondholders of the Pennsylvania Turnpike Commission:

## **Introduction**

The comprehensive annual financial report of the Pennsylvania Turnpike Commission (Commission) for the fiscal year ended May 31, 2013, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Commission. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position, changes in financial position, and cash flows of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included. Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

The Pennsylvania Turnpike Commission was created as an instrumentality of the Commonwealth of Pennsylvania on May 21, 1937, with powers to construct, operate, and maintain the Turnpike System, and to issue Turnpike revenue bonds, repayable solely from tolls and other Commission revenues. The Commission is considered a component unit of the Commonwealth of Pennsylvania and presents its financial statements on the accrual basis of accounting. There were no other entities that would potentially qualify for inclusion in the Pennsylvania Turnpike Commission's financial reporting entity under accounting principles generally accepted in the United States.

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units in accordance with Governmental Accounting Standards Board (GASB) Statements No. 14, *The Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*. GASB Statement No. 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. GASB Statement No. 39 provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The Commission believes it has no component units, based on its review of GASB Statements No. 14 and No. 39.

The Commission consists of five members, one of whom is the Commonwealth of Pennsylvania's Secretary of Transportation. The others are appointed by the Governor with the approval of a majority of the Senate.

## **Turnpike System**

The present Pennsylvania Turnpike System is composed of: the 359-mile east/west Turnpike Mainline traversing the southern portion of Pennsylvania; the 110-mile north/south section identified as the Northeast Extension; the approximately 16-mile north/south connection, known as the Beaver Valley Expressway, which intersects the Turnpike Mainline in the southwestern portion of the Commonwealth; the approximately 13-mile Amos K. Hutchinson Bypass which adjoins the Turnpike Mainline near the New Stanton Interchange; the completed portion of the Mon/Fayette Expressway project totaling approximately 48 miles; and a 6-mile section of the Southern Beltway project from PA 60 to US 22.

The Turnpike Mainline connects with the Ohio Turnpike at its western terminus and with the New Jersey Turnpike at its eastern terminus. The Turnpike Mainline commences on the eastern boundary of Pennsylvania at the Delaware River Bridge which connects the Pennsylvania Turnpike System to the New Jersey Turnpike. The Turnpike Mainline traverses the state in a westerly direction generally paralleling the southern border of the state immediately north of Philadelphia and south of Harrisburg to the vicinity of Somerset. West of Somerset, the highway follows a northwesterly direction to the northeast of Pittsburgh and to the Ohio state line, south of Youngstown, Ohio.

The Northeast Extension is approximately 110 miles in length and connects the Turnpike Mainline and the area north of Scranton. The Northeast Extension meets the Turnpike Mainline at a point north of Plymouth Meeting and traverses the eastern portion of Pennsylvania in a northerly direction through Allentown and Scranton to its northern terminus where it connects with U.S. Route 6 and Interstate Route 81.

The Turnpike System was constructed prior to the development of the National Interstate Highway System and no Federal Highway Trust Fund monies were used in the original construction of the Turnpike Mainline, Northeast Extension, Beaver Valley Expressway, or the Amos K. Hutchinson Bypass section of the Turnpike. However, portions of the Turnpike System have been designated as Interstate Routes. The Turnpike Mainline has been designated as Interstate Route 276 between the area where Interstate Route 95 crosses the Turnpike System and the Valley Forge Interchange. The portion of the Turnpike Mainline west of the Valley Forge Interchange to the western terminus at the Ohio state line has been designated as Interstate Route 76. In addition, the Turnpike Mainline between the New Stanton and Breezewood Interchanges has been designated as Interstate Route 70. The Northeast Extension has been designated as Interstate Route 476.

The Turnpike System was constructed and opened to traffic in sections. The original Turnpike Mainline segment between Irwin and Carlisle was opened in 1940. Ten years later, in 1950, the 100-mile section between Carlisle and Valley Forge was completed and opened. After 1950, construction of new segments of the Turnpike System occurred at more frequent intervals with the Turnpike Mainline segment in service as of May 1956. The initial segment of the Northeast Extension between the Turnpike Mainline and the temporary interchange just south of the

Lehigh Tunnel was opened in 1955. The final segment, from the temporary interchange to Scranton, was completed and opened for traffic in November 1957.

The Delaware River Bridge, which connects the Turnpike Mainline with the New Jersey Turnpike System, is owned jointly by the Commission and the New Jersey Turnpike Authority.

The Pennsylvania Turnpike Commission opened E-ZPass for passenger vehicles on December 2, 2000 in southeastern and south central Pennsylvania. E-ZPass is a comprehensive electronic toll collection system that allows account holders to pass through designated toll lanes at Commission facilities without stopping to pay a toll collector. The process begins with customers opening accounts with a customer service center offering E-ZPass. The customers are then issued transponders that are electronically linked to their established accounts. The transponders are mounted in or on the customers' vehicles. As the customers' transponder-equipped vehicles pass through the E-ZPass toll lanes, the transponder numbers are read by equipment mounted in the lanes and ultimately the required toll is calculated and deducted from the respective customer's account.

The initial E-ZPass opening was a regional implementation that included interchanges 242 (Harrisburg West) to 56 (Lehigh Valley) on the Northeast Extension. Six additional interchanges (226 – Carlisle, 236 – Gettysburg Pike, and 74 – Mahoning Valley to 115 – Wyoming Valley on the Northeast Extension) were added to the E-ZPass system on May 19, 2001. On December 15, 2001, the Commission opened E-ZPass for passenger vehicles on the remainder of the Mainline ticket system. The Commission opened E-ZPass to trucks and buses on the entire ticket system on December 15, 2002.

In November 2004, the E-ZPass system was expanded to two additional interchanges, 122–Keyser Avenue and 131–Clarks Summit on the Northeast Extension, Mid-County. Expansion of E-ZPass to the extensions in the western portion of the state began with the opening of E-ZPass lanes at the Amos K. Hutchinson Bypass (Turnpike 66) mainline interchange in June 2006. During fiscal year 2007, Beaver Valley Expressway and Amos K. Hutchinson Bypass were completely equipped with E-ZPass.

In June 2004, the E-ZPass system was improved by the opening of the Commission's first express E-ZPass lane at the Warrendale interchange. The express E-ZPass lanes allow traffic to travel at normal speeds (55 mph). Express lanes eliminate the need for travelers to enter and exit the Turnpike System through the normal toll plaza interchanges. A second interchange, Mid-County, was improved by the opening of express E-ZPass lanes in October 2005.

### **Long-Range Financial Planning Process**

Annually, the Commission prepares an Operating Budget, a Ten Year Capital Plan and an Act 44 Financial Plan.

The Operating Budget is an estimate of the expenses to maintain, support and operate the roadway and facilities for the next fiscal year. The fiscal 2014 Operating Budget was approved for \$337.5 million.

The Ten Year Capital Plan is comprised of projects managed in four separate groupings: Highway Program, Technology Program, Fleet Equipment Program and the Facilities and Energy Management Operations Program. The Ten Year Capital Plan includes such expenses as the cost of resurfacing, replacing or reconstructing existing turnpike system, including roadway, bridges, toll plazas, maintenance building and various other assets. The fiscal year 2013 Ten Year Capital Plan was approved for \$6.8 billion and is allocated 89% Highway, 3% Technology, 2% Fleet Equipment and 6% Facilities and Energy Management Operations. The Proposed Capital Plan for fiscal year 2014, which calls for investment of \$6.6 billion, was proposed by the Commission on May 21, 2013, but has not yet been adopted pending legislative developments.

The Act 44 Financial Plan is the Commission's long range financial plan and incorporates the Operating Budget and the Ten Year Capital Plan. This long-range financial plan reflects the Commission's commitment to operate and maintain its toll facilities, support a capital investment program at levels consistent with the ten year plan spending levels adjusted for inflation, and fully fund its Act 44 obligations. At the same time, the financial plan assumes the Commission will maintain debt service coverage ratios of at least 2.00x on the annual debt service for its Turnpike Senior Revenue Bonds, 1.30x on combined debt service for its Turnpike Senior Revenue and Subordinate Revenue Bonds and 1.20x for all three of its liens. In addition, a liquidity level equal to at least 10% of operating revenues is assumed to be maintained. These coverage and liquidity targets reflect the Commission's goal to maintain financial flexibility consistent with its credit ratings.

## **Capital Improvements Program**

### **Act 61 Projects**

In 1985, the General Assembly of the Commonwealth enacted legislation, which among other things, authorized and empowered the Commission to undertake the construction of new projects and to operate them as part of the Pennsylvania Turnpike System. This legislation, known as the "Turnpike Organization, Extension and Toll Road Conversion Act," also known as Act 1985-61 (Act 61), included several groups of projects for the Turnpike System. Act 61 grouped the improvement and extension authorizations into four major groups of projects.

The initial group of projects included, among others, the following, a portion of which have been financed and completed with bond proceeds: the Beaver Valley Climbing Lane, the Downingtown Interchange, the Fort Washington, Willow Grove and Philadelphia Interchanges, the Mid-County Expressway Connection (Montgomery County), the Mon/Fayette Expressway and Southern Beltway, the Beaver Valley Expressway, the Amos K. Hutchinson Bypass (formerly the Greensburg (North-South) Bypass), the Keyser Avenue Interchange (Wilkes-Barre/Scranton Area) and an additional tube at the Lehigh Tunnel on the Northeast Extension.

Act 26 of 1991 made certain changes to Act 61 of 1985, by shifting priorities of certain projects and adding provisions regarding new projects. Act 26 also increased the Commonwealth's Oil Company Franchise Tax by 55 mills with 14% of such increase being dedicated to toll road projects under Act 61.

Act 3 of 1997 appropriated to the Commission annual allocations from the Commonwealth's Motor License Fund for the purpose of funding capital improvement projects authorized by Act 61.

### **Mon/Fayette Expressway and Southern Beltway**

The Pennsylvania portion of the proposed Mon/Fayette Expressway is a series of independent projects that extend from the West Virginia border, near Cheat Lake, in a generally northern direction paralleling the Monongahela River and connecting with Interstate Route 376 in Allegheny County. Four projects constructed as part of the Mon/Fayette Expressway are in operation and considered part of the Turnpike System. One is a six-mile toll road between Interstate Route 70 and U.S. Route 40 in Washington County. This project was built by the Pennsylvania Department of Transportation and turned over to the Commission upon its opening in 1990. The second is an eight-mile section of toll road from the West Virginia/Pennsylvania line, to Fairchance, Pennsylvania, which is located just south of Uniontown. The third project is a 17-mile section of toll road from Interstate Route 70 in Washington County to PA Route 51 in Allegheny County, which opened in April 2002. The fourth is a 17-mile section from Uniontown to Brownsville, including a 3,078-foot bridge over the Monongahela River, which opened to traffic in July 2012. These four contiguous projects of the Mon/Fayette Expressway are now part of the Turnpike System.

The final section of the Mon/Fayette Expressway, extending from PA Route 51 to Interstate Route 376 in Pittsburgh, has completed the preliminary design phase; however, due to the magnitude of the estimated costs of construction, the Commission believes it is unlikely to be economically feasible to complete the west leg of this project.

The proposed Southern Beltway is to be constructed from the Mon/Fayette Expressway, near Finleyville, extending as part of a beltway south of Pittsburgh to Interstate 376 (I-376) at the Pittsburgh International Airport. It is comprised of three distinct projects. The six-mile project from I-376 to U.S. 22 (also known as the Findlay Connector) opened to traffic in October 2006. The other two projects are in the design phase. The project from U.S. 22 to Interstate 79 (I-79) is in final design, and acquisition of the right-of-way is underway. Additional funding is needed to complete the design and construction of the project connecting U.S. 22 to I-79. The project from I-79 to the Mon/Fayette Expressway has completed the environmental phase and is inactive until additional resources are found.

## **I-95 Interchange**

The Interstate 276 (I-276) section of the PA Turnpike and Interstate 95 (I-95) presently cross in Bucks County and no direct connection of these two roads exist. This project involves the construction of a direct interchange between I-276 and I-95 where the ramps carrying the I-95 designation would be higher speed ramps. The project also includes tolling modifications and reconstruction and widening of the interstates.

The first phase of the Interchange Project includes preparatory work and construction of a portion of the interchange between I-95 and the Turnpike Mainline, including northbound I-95 to the eastbound Turnpike Mainline and southbound I-95 to the westbound Turnpike Mainline. This phase includes construction of a new mainline toll plaza and an All-Electronic Tolling (AET) plaza westbound. Construction has commenced and is expected to continue through 2018. The second phase will include the completion of the reconstruction and widening of the remaining interchange connectors. The third phase will be the construction of an additional bridge over the Delaware River.

## **Economic Conditions and Outlook**

The Commonwealth of Pennsylvania is one of the most populous states, ranking sixth behind California, Texas, New York, Florida and Illinois. With a population of over 12.7 million, Pennsylvania has the sixth largest state economy with a Gross State Product of \$601 billion. Pennsylvania is an established state with a diversified economy. Pennsylvania historically had been identified as a heavy industry state; however, that reputation has changed over the last 30 years as the coal, steel and railroad industries declined and the Commonwealth's business environment readjusted with a more diversified economic base. Currently, the major sources of growth in Pennsylvania are in the service sector, with the largest industry employer in the healthcare and social assistance sector.

Pennsylvania's agricultural industries remain important components of the Commonwealth's economic structure, accounting for \$8 billion in crop and livestock products and milk production. Exports of Pennsylvania food, agricultural and forestry related products are more than \$1.9 billion annually according to the Pennsylvania Department of Agriculture. Over 60,000 farm families continue to be the stewards of more than 7.8 million acres of farmland. With \$6.1 billion in cash receipts annually from production agriculture, Pennsylvania farmers and agribusinesses are the leading economic driver in the state. Agricultural diversity in the Commonwealth is demonstrated by the fact that Pennsylvania ranks highly among the states in the production of a number of agricultural products, with the top commodity being milk valued at \$2.3 billion.

In addition to production agriculture, the industry also raises revenue and supplies jobs through support services such as food processing, marketing, transportation and farm equipment. In total, production agriculture and agribusiness contribute nearly \$67 billion to Pennsylvania's economy. Pennsylvania's extensive public and private forests of 17 million acres provide a vast source of material for the lumber, furniture and paper products industries. The forestry and related

industries employ more than 128,000 workers with economic activity exceeding \$5.5 billion. Pennsylvania ranks number one among the 50 states in hardwood lumber exports. Total exports of Pennsylvania forest products are approximately \$1.1 billion, according to the Pennsylvania Department of Agriculture. Additionally, the Commonwealth derives a good water supply from underground sources, abundant rainfall, and a large number of rivers, streams and lakes. Other natural resources include major deposits of coal, petroleum and natural gas. Annually, about 66.5 million tons of anthracite and bituminous coal, 2.2 trillion cubic feet of natural gas and about 4.3 million barrels of crude oil are extracted from Pennsylvania.

Human resources are plentiful in Pennsylvania with a labor force estimated at over 6 million people. The high level of education embodied in the Commonwealth's workforce fosters a wide variety of employment capabilities. Pennsylvania's basic and higher education statistics compare favorably with other states in the nation. Approximately 88% of adults have earned the minimum of a high school degree. In addition, approximately 27% of adults have earned a bachelor's degree or higher, which is consistent with national averages. The per capita personal income is \$42,478. The unemployment rate in Pennsylvania has been close to the national average for the past 10 years.

Pennsylvania is a Middle Atlantic State within easy reach of the populous eastern seaboard and, as such, is a gateway to the Midwest. A comprehensive transportation grid enhances the Commonwealth's strategic geographic position. The Commonwealth's water systems afford the unique feature of triple port coverage, a deep-water port at Philadelphia, a Great Lakes port at Erie and an inland water port at Pittsburgh. Pennsylvania combines characteristics of both the northeastern and Midwestern regions, with the major cities of Philadelphia in the Southeastern part of the state and Pittsburgh in the Southwestern part of the state.

Pennsylvania has over 119,000 miles in its highway system and is ranked 9<sup>th</sup> among the states in the proportion of its workforce that commutes via public transportation. Pennsylvania also has 70 railroad companies, more than any other state.

## **Internal Control**

Management of the Commission is responsible for establishing and maintaining internal controls designed to ensure that the assets of the Commission are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.



## **Trust Indentures**

Operations of the Commission are substantially controlled by the provisions of four separate Trust Indentures (collectively referred to as Indentures):

- A Senior Turnpike Toll Revenue Trust Indenture dated July 1, 1986 which was amended and restated as of March 1, 2011, as supplemented, between the Commission and the Trustee, U.S. Bank Corp., successor to Wachovia Bank;
- An Oil Franchise Tax Trust Indenture dated August 1, 1998, as supplemented, between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to National City Bank;
- A Registration Fee Revenue Trust Indenture dated July 1, 2005 between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to National City Bank; and
- A Subordinate Turnpike Toll Revenue Trust Indenture dated April 1, 2008, as supplemented, between the Commission and the Trustee, Wells Fargo Bank, N.A., successor to TD Bank, N.A.

Accordingly, certain activities of the Commission are restricted by these Indentures.

As demonstrated by the statements included in the financial section of this report, the Commission continues to meet its responsibility for sound financial management and compliance with the Indentures.

## **Other Information**

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Pennsylvania Turnpike Commission for its comprehensive annual financial report for the fiscal year ended May 31, 2012, which was the 25th consecutive year that the Commission has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the Government Finance Officers Association to determine its eligibility for another certificate.

## **Independent Audit**

The Trust Indentures require an annual audit by independent certified public accountants. The accounting firm of Zelenkofske Axelrod LLC was engaged by the Commission to perform the audit for the fiscal year ended May 31, 2013. The auditors' report on the financial statements is included in the financial section of this report.

## **Acknowledgments**

The timely preparation of the comprehensive annual financial report was made possible through the assistance of Christopher G. Will, Catherine L. Sabo, Jamie L. May, Theodore A. Rusenko, and Anthony Q. Maun of the Finance and Administration area. We express our sincere appreciation for the contributions made by these individuals in the preparation of this report.

In addition, without the leadership and support of the Commissioners and executive staff of the Pennsylvania Turnpike Commission, preparation of this report would not have been possible.

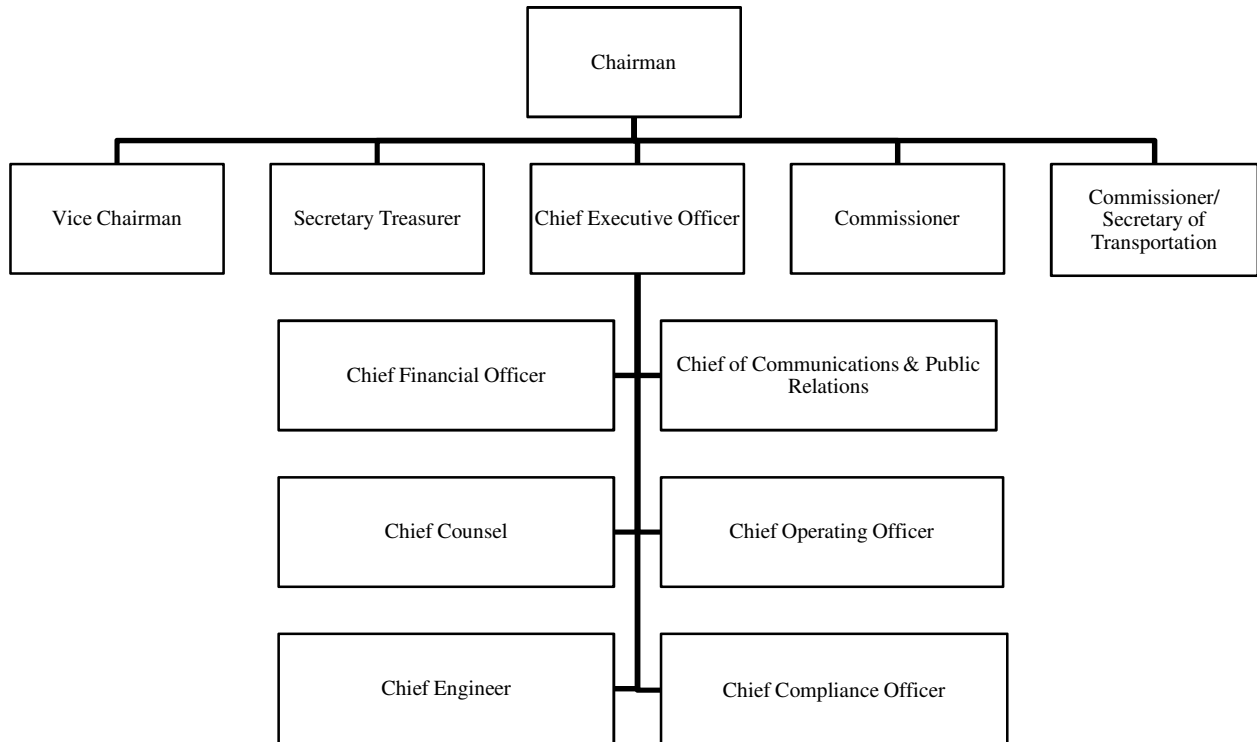


Nikolaus Grieshaber  
Chief Financial Officer

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Organization Chart

At May 31, 2013



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

List of Principal Officials

At May 31, 2013

<b>Title</b>	<b>Name</b>
Commission Chairman	William K. Lieberman
Commission Vice Chairman	A. Michael Pratt
Commission Secretary-Treasurer	Pasquale T. Deon, Sr.
Commissioner/Secretary of Transportation	Barry J. Schoch
Commissioner	Vacant*
Chief Executive Officer	Mark P. Compton
Chief Operating Officer	Craig R. Shuey
Chief Counsel	Doreen A. McCall
Chief of Communications & Public Relations	William J. Capone
Chief Engineer	Bradley J. Heigel
Chief Financial Officer	Nikolaus H. Grieshaber
Chief Compliance Officer	David A. Gentile

\* Sean Logan was appointed in July 2013.



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Pennsylvania Turnpike Commission**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**May 31, 2012**

Executive Director/CEO

## Financial Section

(This page intentionally left blank)

# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT

The Commissioners  
Pennsylvania Turnpike Commission  
Middletown, Pennsylvania

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Pennsylvania Turnpike Commission (the "Commission"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended May 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors consider 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.

<b>Harrisburg</b>	<b>Lehigh Valley</b>	<b>Philadelphia</b>	<b>Pittsburgh</b>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109	1101 West Hamilton Street Allentown, PA 17101-1043	2370 York Road, Suite A-5 Jamison, PA 18929	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237
717.561.9200 Fax 717.561.9202	610.871.5077 Fax 717.561.9202	215.918.2277 Fax 215.918.2302	412.367.7102 Fax 412.367.7103



# Zelenkofske Axelrod LLC

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of May 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adoption of Accounting Pronouncements**

As described in Note 2 to the financial statements, in 2013 the Commission adopted the provisions of Governmental Accounting Standards Board's Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multi-Employer Plans*, the provisions of Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, the provisions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and the provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

## **Emphasis of Matter**

As more fully explained in Note 9, the Commission has committed to making significant payments under a Lease and Funding Agreement as required under the terms of Act 44. The Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress – postemployment healthcare benefits on pages 21 through 32 and page 93 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 audits 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.

# Zelenkofske Axelrod LLC

## *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The section information on pages on 97 through 109 and the schedules of cost of services detail on page 110 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The section information and schedules of cost of services detail are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the section information and cost of services detail are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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



ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
August 29, 2013

(This page intentionally left blank)

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis

May 31, 2013

The management of the Pennsylvania Turnpike Commission (hereinafter referred to as the "Commission") offers this management's discussion and analysis ("MD&A") overview and analysis of the Commission's financial activities for the year ended May 31, 2013, which should be read in conjunction with the Commission's basic financial statements. Certain amounts presented in the prior period have been reclassified to conform to the current period financial statement presentation.

**Overview of the Basic Financial Statements**

This MD&A is intended to serve as an introduction to the Commission's basic financial statements. While the Commission is considered a component unit of the Commonwealth of Pennsylvania, it is also an enterprise fund. Therefore, the Commission's financial statements are presented in a manner similar to a private-sector business and have been prepared according to accounting principles generally accepted in the United States ("GAAP"). All of the current year's revenues are recorded when earned and expenses are recorded as they are incurred, regardless of when the cash is received or disbursed.

The statements of net position present information on all of the Commission's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the differences being reported as net position. Over time, increases or decreases in net position serve as a relative indicator of the change in financial position of the Commission.

The statements of revenues, expenses, and changes in net position show the result of the Commission's total operations during the fiscal year and reflect both operating and nonoperating activities, capital contributions, and the special item. Changes in net position (increases or decreases) reflect the current fiscal period's operating impact upon the overall financial position of the Commission.

The statements of cash flows provide a detailed analysis of all sources and uses of cash. The direct method of cash flows is presented, along with a reconciliation of operating income to net cash provided by operating activities. The statements of cash flows are divided into the following activities sections – operating, investing, capital and related financing, and noncapital financing.

Notes to the basic financial statements contain supplemental information and offer explanations to the basic financial statements. The notes are intended to assist the reader in understanding the Commission's basic financial statements.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis**

**Comparative Condensed Statements of Net Position**

	<b>2013</b>	<b>May 31 2012</b>	<b>2011</b>
		<i>(Restated)<sup>1</sup></i>	<i>(Restated)<sup>1</sup></i>
		<i>(In Thousands)</i>	
<b>Assets and deferred outflows of resources</b>			
Current assets	\$ 1,014,941	\$ 777,193	\$ 914,591
Long-term investments	728,103	898,014	1,182,695
Capital assets, net of accumulated depreciation	4,831,902	4,715,957	4,564,858
Other assets	158,471	125,814	101,103
Total assets	6,733,417	6,516,978	6,763,247
Deferred outflows of resources	117,369	198,518	67,155
Total assets and deferred outflows of resources	6,850,786	6,715,496	6,830,402
<b>Liabilities and deferred inflows of resources</b>			
Current liabilities	\$ 597,007	\$ 523,912	\$ 647,535
Debt, net of unamortized premium and unamortized refunding losses	8,526,198	7,776,161	7,330,665
Other noncurrent liabilities	203,766	284,892	178,315
Total liabilities	9,326,971	8,584,965	8,156,515
Deferred inflows of resources	141,440	108,503	78,393
Total liabilities and deferred inflows of resources	9,468,411	8,693,468	8,234,908
<b>Net position</b>			
Net investment in capital assets	653,109	967,760	1,049,972
Restricted for construction purposes	228,757	235,965	268,626
Restricted for debt service	49,655	37,611	39,433
Unrestricted	(3,549,146)	(3,219,308)	(2,762,537)
Total net position	\$ (2,617,625)	\$ (1,977,972)	\$ (1,404,506)

<sup>1</sup> Certain 2012 and 2011 amounts were restated as discussed in Note 6.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

The Commission's total net position decreased \$639.7 million and \$573.5 million for the fiscal years ended May 31, 2013 and 2012, respectively. The large decreases in net position in the fiscal years 2013 and 2012 were mainly the result of the \$450 million paid in both years to the Pennsylvania Department of Transportation (PennDOT), as required by Act 44 and the Lease and Funding Agreement (Funding Agreement) between the Commission and PennDOT, and interest expense on the debt issued to fund these payments. These expenses were recorded as nonoperating expenses. Please refer to Note 9, Commitments and Contingencies, of the financial statements and to the Events That Will Impact Financial Position section of this MD&A for additional information regarding Act 44 and the Funding Agreement between the Commission and PennDOT.

Restricted net position is restricted for construction projects and debt service as defined in Trust Indentures and applicable bond issue official statements.

The Commission's total assets and deferred outflows of resources increased by \$135.3 million in fiscal year 2013. This 2013 increase is mostly related to increases in cash and investments of \$69.1 million, capital assets of \$115.9 million, and the OPEB asset of \$29.3 million. These increases were partially offset by a decrease in deferred outflows of resources of \$81.1 million. The increase in capital assets is related to capital asset additions of \$479.1 million offset by \$311.7 million of depreciation expense. The increase in the OPEB asset is mostly related to the Commission's \$54.8 million contributions to the Retiree Medical Trust. The decrease in deferred outflows of resources is the result of change in values of the Commission's hedging derivatives. For additional information, see: Note 4, Cash and Investments; Note 5, Capital Assets, and the Capital Assets and Debt Administration section of this MD&A; Note 11, Postemployment Benefits; and Note 9, Commitments and Contingencies.

Total assets and deferred outflows of resources decreased by \$114.9 million in fiscal year 2012. This 2012 decrease is mostly related to a decrease in cash and investments of \$421.6 million offset by increases in capital assets and deferred outflows of resources of \$151.1 million and \$131.4 million, respectively. The decrease in cash and investments was mainly the result of the acquisition of capital assets and the payment of debt service. The increase in capital assets is related to capital asset additions of \$476.6 million offset by \$300.8 million of depreciation expense. See Note 5, Capital Assets, and the Capital Assets and Debt Administration section of this MD&A for additional information regarding the Commission's capital assets. The increase in deferred outflows of resources is the result of change in values of the Commission's hedging derivatives. See Note 9, Commitments and Contingencies for additional information regarding the Commission's hedging derivatives.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

Total liabilities and deferred inflows of resources increased by \$774.9 million in fiscal year 2013 and by \$458.6 million in fiscal year 2012. The fiscal year 2013 increase was mainly related to the issuance of senior debt to finance the costs of various capital expenditures set forth in the Commission's current ten-year plan and the issuance of subordinate debt to finance the costs of making payments to PennDOT in accordance with Act 44. See Note 7, Debt, for additional information regarding the new issuances of debt.

**Comparative Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Year ended May 31		
	2013	2012	2011
		(Restated) <sup>1</sup>	(Restated) <sup>1</sup>
	(In Thousands)		
Operating:			
Operating revenues	\$ 831,636	\$ 803,939	\$ 758,648
Cost of services	(412,484)	(387,506)	(359,870)
Depreciation	(311,735)	(300,777)	(281,587)
Operating income	107,417	115,656	117,191
Nonoperating revenues (expenses):			
Investment earnings	30,048	28,052	24,566
Other nonoperating revenues	19,877	21,196	19,709
Act 44 payments to PennDOT	(450,000)	(450,000)	(450,000)
Capital assets transferred to PennDOT	-	(22,783)	-
Interest and bond expense	(393,822)	(367,994)	(333,275)
Nonoperating expenses, net	(793,897)	(791,529)	(739,000)
Loss before capital contributions and special item	(686,480)	(675,873)	(621,809)
Capital contributions	97,836	102,407	62,074
Discontinued project	(51,009)	-	-
Decrease in net position	\$ (639,653)	\$ (573,466)	\$ (559,735)

<sup>1</sup> Certain 2012 and 2011 amounts were restated as discussed in Note 6.

For fiscal years ended May 31, 2013, and 2012, operating and nonoperating revenues totaled \$881.6 million and \$853.2 million, respectively, while operating and nonoperating expenses totaled \$1,568.0 million and \$1,529.1 million, respectively.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

Total operating and nonoperating revenues for fiscal year 2013 were \$28.4 million or 3.3% higher than fiscal year 2012. This increase in revenue was mainly related to a \$30.7 million increase in fare revenues resulting from a January 2013 toll increase of 2% for E-ZPass customers and 10% for cash customers, the full year impact of the January 2012 toll increase of 10% for cash customers and reductions in January 2013 and January 2012 to the post-paid, commercial-volume-discount program. Total traffic volumes were flat in fiscal year 2013 compared to fiscal year 2012.

Total operating and nonoperating revenues for fiscal year 2012 were \$50.3 million or 6.3% higher than fiscal year 2011. The increase in total revenue was mainly related to a \$41.1 million increase in fare revenues resulting from a January 2012 toll increase of 10% for cash customers, the full year impact of the January 2011 toll increase of 3% for E-ZPass customers and 10% for cash customers and reductions in both January 2012 and January 2011 to the post-paid, commercial-volume-discount program. Total traffic volumes were flat in fiscal year 2012 compared to fiscal year 2011. Additionally, other operating revenues were \$4.2 million higher in fiscal year 2012 than in fiscal year 2011.

Total operating and nonoperating expenses for fiscal year 2013 were \$38.9 million higher than fiscal year 2012 primarily due to increases in: cost of services of \$25.0 million mainly related to increases in noncapitalizable contractor charges related to maintenance of the road, increase in employee benefits of \$5.9 million driven by the contribution to the State Employees' Retirement System, increase of \$5.1 million for materials and supplies which is primarily a winter materials increase of \$4.9 million; depreciation expense of \$11.0 related to an increase in assets being depreciated (see Note 5, Capital Assets); and interest and bond expenses of \$25.8 million related to the increase in debt (see Note 7, Debt).

For the fiscal year ended May 31, 2013, the Commission recorded an expense of \$51.0 million for the write-down of assets under construction related to design costs for the west leg of the PA Route 51 to Interstate Route 376 project. Due to the magnitude of the estimated costs of construction, the Commission believes it is unlikely to be economically feasible to complete this leg of the project. This expense was recorded as a special item in the statements of revenues, expenses and changes in net position.

Total expenses for fiscal year 2012 were \$104.3 million higher than fiscal year 2011 primarily due to increases in: cost of services of \$27.6 million mainly related to increases in noncapitalizable contractor charges related to maintenance of the road, employee and retiree benefits, transponder expense and auto/general tort expense; depreciation expense of \$19.2 related to an increase in assets being depreciated (see Note 5, Capital Assets); interest and bond expenses of \$34.7 million related to the increase in debt (see Note 7, Debt); and capital assets transferred to PennDOT of \$22.8 million as described in Note 2, Summary of Significant Accounting Policies.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

***Capital Assets and Debt Administration***

***Capital Assets***

Capital assets consist of land and intangible assets (right-of-way easements), buildings, improvements, equipment, infrastructure, and assets under construction. Infrastructure assets are typically items that are immovable such as highways, bridges, and tunnels. The Commission's investment in capital assets at May 31, 2013 amounted to \$9.6 billion of gross asset value with accumulated depreciation of \$4.8 billion, leaving a net book value of \$4.8 billion. The net book value of capital assets at May 31, 2012 was \$4.7 billion. Capital assets represented 70.5% and 70.2% of the Commission's total assets and deferred outflows of resources at May 31, 2013 and 2012, respectively.

Assets under construction at the end of fiscal year 2013 were \$661.6 million, which was \$202.9 million less than fiscal year 2012. In fiscal year 2013, \$550.9 million of constructed capital assets were completed which was \$157.6 million less than the \$708.5 million of constructed capital assets completed in fiscal year 2012. In addition to constructed capital assets, the Commission had capital asset additions of approximately \$80.1 million and \$54.0 million in fiscal years 2013 and 2012, respectively.

A top priority of the Commission is to entirely reconstruct the Turnpike roadways, completely removing all original pavement and sub-base and replacing it with an entirely new roadway, including all facets of the highway such as barriers and guide rails, noise and retention walls, and drainage systems. From about 1998 to date, the Commission has rebuilt approximately 102 miles of roadways and bridges and much of the reconstructed roadway has been widened to accommodate six lanes. An additional eight miles of roadway reconstruction has been initiated, and another 135 miles of reconstruction is currently in design. Also, the Commission completed 70 miles of roadway resurfacing during fiscal year 2013, helping to maintain a quality-riding surface with a Turnpike System wide median IRI (International Roughness Index) of 75 which is rated as good.

Construction of the new Monongahela River Bridge and replacement of the Lehigh River and Pohopoco Creek Bridges were completed. The Commission constructed five new bridges, completely replaced eleven aging original bridges with new bridges, rehabilitated another four bridges, and constructed five new retaining walls in 2012. Of the Commission's bridges, 7.4% are rated structurally deficient which is below the national average of 11%. Sixty-one of the 64 bridges currently rated structurally deficient are either in construction or design for rehabilitation.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

***Capital Assets and Debt Administration (continued)***

*Capital Assets (continued)*

Facility projects continue to focus on environmental and safety compliance, and on the maintenance and repair of existing buildings including HVAC, electrical and plumbing systems. The Commission completed construction on the Searights Maintenance Facility in June 2012 and completed construction on the new District 4 Trades Warehouse in December 2012. Construction of the new Somerset Maintenance Facility is underway, and the advertisement for the new Plymouth Meeting Maintenance Facility is anticipated in September 2013. New Maintenance Facilities are under design currently with the Bowmansville Maintenance Facility in the master plan phase. Equipment purchases and regular maintenance of existing equipment is ongoing to ensure the Commission's fleet of dump trucks, plows, and other equipment is of sufficient number and functioning properly so that maintenance staff will be adequately equipped to maintain the roadway.

With the completion of Phase 2 for the Uniontown to Brownsville project, the Mon/Fayette Expressway is completed and open to traffic from the Pennsylvania/West Virginia line to PA 51 in Jefferson Hills Borough, a distance of 48 miles. Phase 2 of the Uniontown to Brownsville project, a seven mile section, opened to traffic on July 16, 2012. The preliminary design for the remainder of the Mon/Fayette Expressway project, extending from PA Route 51 to Interstate Route 376 in Pittsburgh, has been completed. Additional funding is required to construct this section. Due to the magnitude of the estimated costs of construction, the Commission believes it is unlikely to be economically feasible to complete the west leg of this project.

The Southern Beltway is a series of three independent projects that are planned to be constructed from the Mon/Fayette Expressway near Finleyville as part of a beltway south of Pittsburgh to Pennsylvania Route 60 (PA 60) at the Pittsburgh International Airport. One project constructed as part of the Southern Beltway, a six-mile section of toll road in Allegheny County that connects PA 60 to U.S. Route 22 (U.S. 22), is in operation. The other two projects are in the design phase. The project from Interstate 79 (I-79) to Mon/Fayette Expressway has completed the environmental phase and is inactive until additional resources are found. The project from U.S. 22 to I-79 is in final design, and acquisition of the right-of-way is underway. Additional funding is needed to complete the design and construction of the project connecting U.S. 22 to Interstate 79.

The Commission has no legal obligation to complete the unfinished portions of the Mon/Fayette Expressway and Southern beltway projects at this time.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

***Capital Assets and Debt Administration (continued)***

*Capital Assets (continued)*

The Interstate 276 (I-276) section of the PA Turnpike and Interstate 95 (I-95) presently cross in Bucks County and no direct connection of these two roads exist. This project involves the construction of a direct interchange between I-276 and I-95 where the ramps carrying the I-95 designation would be higher speed ramps. The project also includes tolling modifications and reconstruction and widening of the interstates.

The first phase of the Interchange Project includes preparatory work and construction of a portion of the interchange between I-95 and the Turnpike Mainline, including northbound I-95 to the eastbound Turnpike Mainline and southbound I-95 to the westbound Turnpike Mainline. This phase includes construction of a new mainline toll plaza and an AET plaza westbound. Construction has commenced and is expected to continue through 2018. The second phase will include the completion of the reconstruction and widening of the remaining interchange connectors. The third phase will be the construction of an additional bridge over the Delaware River.

The above paragraphs describe the changes in capital assets occurring during the fiscal years ended May 31, 2013 and 2012. Please refer to the capital assets section in the notes to the financial statements (Note 5) for more detailed capital asset schedules.

*Debt Administration*

In April 2013, the Commission issued \$92,465,000 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2043. The 2013 A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In April 2013, the Commission issued \$71,701,729 2013 Series A Subordinate Bonds at a fixed rate with a maturity date of December 1, 2043. The 2013 Series A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

***Capital Assets and Debt Administration (continued)***

***Debt Administration (continued)***

In January 2013, the Commission issued \$176,075,000 2013 Series A Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2013 Series A Senior bonds were issued primarily to finance the cost of various capital expenditures set forth in the Commission's current ten-year capital plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges and for issuing the 2013 A bonds.

In November 2012, the Commission issued \$70,060,000 2012 Series B Senior Bonds at a variable rate with a maturity date of December 1, 2016. The 2012 Series B Senior Bonds were issued primarily to current refund the \$52,070,000 December 1, 2012 maturity of the Commission's 2009 Series C Variable Rate Turnpike Revenue Bonds and the \$17,455,000 December 1, 2012 maturity of the Commission's 2011 Series D Variable Rate Turnpike Revenue Bonds.

In October 2012, the Commission issued \$92,780,000 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series B Motor License Fund-Enhanced Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In October 2012, the Commission issued \$121,065,000 2012 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In July 2012, the Commission issued \$200,215,000 2012 Series A Senior Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Senior Bonds were issued for the purpose of financing the costs of various capital expenditures set forth in the Commission's current ten-year plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Financial Analysis (continued)**

***Capital Assets and Debt Administration (continued)***

***Debt Administration (continued)***

In April 2012, the Commission issued \$94,935,000 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In April 2012, the Commission issued \$123,545,000 2012 Series A Subordinate Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In November 2011, the Commission issued \$110,080,000 2011 Series E Senior Bonds at a fixed rate with a maturity date of December 1, 2030. The 2011 Series E Senior Bonds were issued primarily to current refund the 2001 Series R Senior Bonds.

In November 2011, the Commission issued \$52,365,000 2011 Series D Senior Bonds at a variable rate with a maturity date of December 1, 2014. The 2011 Series D Senior Bonds were issued primarily to partially refund the 2009 Series C Senior Bonds.

In October 2011, the Commission issued \$98,910,000 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2041. The 2011 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In October 2011, the Commission issued \$126,740,000 2011 Series B Subordinate Bonds at fixed rate with a maturity date of December 1, 2041. The 2011 Series B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

The above paragraphs describe debt activity occurring during the fiscal years ended May 31, 2013 and 2012. Please refer to the debt and commitments and contingencies sections in the notes to the financial statements (Notes 7 and 9) for more detailed schedules and descriptions of long-term debt and swap activity.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Events That Will Impact Financial Position**

On July 18, 2007, Act 44 was enacted, creating a “public-public partnership” between the Commission and PennDOT to provide funding for roads, bridges and transit throughout the Commonwealth. Subsequently, in order to effectuate the provisions of Act 44 requiring the Commission to make substantial annual payments to PennDOT, the Commission and PennDOT entered into a Lease and Funding Agreement (the Funding Agreement), incorporating many of the terms of Act 44. The term of the Funding Agreement is fifty (50) years from October 14, 2007, its effective date.

The Funding Agreement requires the Commission to make scheduled annual payments to PennDOT, payable in equal quarterly installments, to be used to provide funding for roads, bridges and transit in the Commonwealth. The Commission's obligation to pay the annual debt service on any Special Revenue Bonds on a timely basis is part of its payment obligation under the Funding Agreement. The Funding Agreement also granted the Commission the option to lease the portion of Interstate I-80 located in the Commonwealth from PennDOT upon the approval of the Federal Highway Administration (FHWA) of the conversion of such portion into a toll road (the Conversion). The Funding Agreement granted the unilateral option to the Commission to effectuate the Conversion at any time before the third anniversary of the Funding Agreement (the Conversion Period), with the option to extend the Conversion Period for up to three one-year periods.

On October 13, 2007, the Commission and PennDOT submitted a joint application to the FHWA for approval of the Conversion. The FHWA ultimately denied the application on April 6, 2010. Neither the Commission nor PennDOT appealed the FHWA's decision, nor did the Commission extend the Conversion Period during the notice period under the Funding Agreement or give notice of Conversion. Therefore, the Conversion Period lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. The Funding Agreement provides that the Commission's aggregate annual payments to PennDOT are limited to \$450 million annually upon lapse of the Conversion option and such payment amount commenced with the 2010-2011 Fiscal Year. Under existing law, all legal, financial and operational responsibility for I-80 remains with PennDOT.

In accordance with Act 44, the Commission is required to provide a financial plan to the Secretary of the Budget of the Commonwealth no later than June 1 of each year. The financial plan must describe the Commission's proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenue and expenditures for the ensuing Fiscal Year. The financial plan must also show that the operation of the Turnpike System can reasonably be anticipated to result in the Commission's ability to meet its payment obligations to PennDOT pursuant to the Funding Agreement and Act 44. It does not, however, address the funding needs for the Mon/Fayette or Southern Beltway projects.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Management's Discussion and Analysis (continued)

**Events That Will Impact Financial Position (continued)**

On May 31, 2013, the Commission submitted its financial plan for Fiscal Year 2013-14 (the Financial Plan). The Financial Plan incorporates the Commission's Capital Plan for Fiscal Year 2013-14 (the Proposed Capital Plan), which provides for \$6.6 billion in capital spending over the period from Fiscal Year 2013-14 through the Fiscal Year 2022-23. The Proposed Capital Plan allows the Commission to accelerate a number of capital improvements and to pursue new initiatives to maintain and improve the Turnpike System. The Financial Plan indicates that in Fiscal Year 2012-13 it was able to meet all of its financial covenants and Act 44 obligations and was able to progress with its Capital Plan. Given the slow recovery of the economy, the Commission plans to continue the cost containment and efficiency measures it implemented within the past few years. These measures, together with future toll increases, are expected to allow the Commission to meet its financial covenants, Act 44 obligations, and capital needs during Fiscal Year 2013-14.

The Financial Plan concludes that the Commission will continue to meet all of its indenture covenants and all of its other obligations through the 2056-57 Fiscal Year. However, as a forward-looking report, the Financial Plan makes certain assumptions, including future toll increases, to reach its conclusion that the financial covenants, Act 44 obligations and capital needs will be met beyond Fiscal Year 2013-14. Key among these assumptions is the Commission's ability to raise all tolls throughout the Turnpike System. The Financial Plan reflects the expected full year effects of the January 2013 toll increase and the expected partial year impacts of the planned January 2014 toll increase. The Financial Plan does not assume any tolling of I-80 and assumes the \$450 million reduced level of funding obligations required by Act 44. No assurances can be made by the Commission with respect to the assumptions made or conclusions reached in the Financial Plan. A complete copy of the Financial Plan is available on the Commission's website.

The above paragraphs provide a brief overview of Act 44 and its requirements. Please refer to the commitments and contingencies section in the notes to the financial statements (Note 9) for additional information regarding the Commission's commitments under the Funding Agreement.

Furthermore, legislation may be introduced that could affect the Commission and its obligations pursuant to Act 44. However, the Commission cannot predict what other legislation may be considered by the General Assembly during the 2013-2014 or future legislative sessions or if any other proposals or initiatives may lead to the adoption of legislation that may affect the Commission.

## Basic Financial Statements



(This page intentionally left blank)

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Net Position

	May 31	
	2013	2012
	(Restated) <sup>1</sup>	
	(In Thousands)	
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	\$ 130,010	\$ 100,804
Short-term investments	47,952	25,545
Accounts receivable	39,149	36,254
Accrued interest receivable	1,663	2,252
Inventories	16,871	19,576
Restricted current assets:		
Cash and cash equivalents	528,427	351,584
Short-term investments	241,914	231,363
Accounts receivable	5,400	5,959
Accrued interest receivable	3,555	3,856
Total current assets	1,014,941	777,193
Noncurrent assets:		
Long-term investments:		
Long-term investments unrestricted	197,127	265,732
Long-term investments restricted	530,976	632,282
Total long-term investments	728,103	898,014
Capital assets not being depreciated:		
Land and intangibles	271,310	256,175
Assets under construction	661,613	864,474
Capital assets being depreciated:		
Buildings	893,705	832,592
Improvements other than buildings	112,632	95,198
Equipment	549,578	531,210
Infrastructure	7,172,878	6,704,803
Total capital assets before accumulated depreciation	9,661,716	9,284,452
Less accumulated depreciation	4,829,814	4,568,495
Total capital assets after accumulated depreciation	4,831,902	4,715,957
Other assets:		
Deferred issuance costs	73,616	71,402
OPEB asset	58,127	28,871
Other assets	26,728	25,541
Total other assets	158,471	125,814
Total noncurrent assets	5,718,476	5,739,785
Total assets	6,733,417	6,516,978
Deferred outflows of resources	117,369	198,518
Total assets and deferred outflows of resources	\$ 6,850,786	\$ 6,715,496

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Net Position (continued)

	May 31	
	2013	2012
	(Restated) <sup>1</sup>	
	(In Thousands)	
<b>Liabilities and deferred inflows of resources</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 350,017	\$ 355,803
Current portion of debt	198,800	127,275
Unearned income	48,190	40,834
Total current liabilities	597,007	523,912
Noncurrent liabilities:		
Debt, less current portion, net of unamortized premium of \$178,859 and \$117,576 in 2013 and 2012, respectively, and net of unamortized refunding loss of \$152,171 and \$166,511 in 2013 and 2012, respectively	8,526,198	7,776,161
Other noncurrent liabilities	203,766	284,892
Total noncurrent liabilities	8,729,964	8,061,053
Total liabilities	9,326,971	8,584,965
Deferred inflows of resources	141,440	108,503
Total liabilities and deferred inflows of resources	9,468,411	8,693,468
<b>Net position</b>		
Net investment in capital assets	653,109	967,760
Restricted for construction purposes	228,757	235,965
Restricted for debt service	49,655	37,611
Unrestricted	(3,549,146)	(3,219,308)
Total net position	\$ (2,617,625)	\$ (1,977,972)

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended May 31	
	2013	2012
	<i>(Restated)<sup>1</sup></i>	
	<i>(In Thousands)</i>	
Operating revenues:		
Fares – net of discounts of \$10,198 and \$16,981 for the years ended May 31, 2013 and 2012, respectively	\$ 811,542	\$ 780,798
Other	20,094	23,141
Total operating revenues	<u>831,636</u>	<u>803,939</u>
Operating expenses:		
Cost of services	412,484	387,506
Depreciation	311,735	300,777
Total operating expenses	<u>724,219</u>	<u>688,283</u>
Operating income	107,417	115,656
Nonoperating revenues (expenses):		
Investment earnings	30,048	28,052
Other nonoperating revenues	19,877	21,196
Act 44 payments to PennDOT	(450,000)	(450,000)
Capital assets transferred to PennDOT	-	(22,783)
Interest and bond expense	(393,822)	(367,994)
Nonoperating expenses, net	<u>(793,897)</u>	<u>(791,529)</u>
Loss before capital contributions and special item	(686,480)	(675,873)
Capital contributions	97,836	102,407
Discontinued project	(51,009)	-
Decrease in net position	<u>(639,653)</u>	<u>(573,466)</u>
Net position at beginning of year	(1,977,972)	(1,404,506)
Net position at end of year	<u>\$ (2,617,625)</u>	<u>\$ (1,977,972)</u>

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6.

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Cash Flows

	Year Ended May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Cash received from customer tolls and deposits	\$ 829,291	\$ 799,163
Cash payments for goods and services	(253,179)	(261,579)
Cash payments to employees	(144,292)	(139,717)
Cash received from other operating activities	7,706	9,649
<b>Net cash provided by operating activities</b>	<b>439,526</b>	<b>407,516</b>
<b>Investing activities</b>		
Proceeds from sales and maturities of investments	1,631,813	2,498,230
Interest received on investments	25,232	29,328
Purchases of investments	(1,466,354)	(2,188,178)
<b>Net cash provided by investing activities</b>	<b>190,691</b>	<b>339,380</b>
<b>Capital and related financing activities</b>		
Capital grants received	7,240	9,183
Cash proceeds from motor license grant	28,000	28,000
Cash proceeds from oil company franchise tax	60,285	61,897
Construction and acquisition of capital assets	(507,650)	(456,849)
Proceeds from sale of capital assets	1,765	862
Payments for bond and swap expenses	(1,540)	(595)
Payments for debt refundings	(69,525)	(345,745)
Payments for debt maturities	(41,890)	(62,030)
Interest paid on debt	(182,611)	(182,962)
Interest subsidy from Build America Bonds	19,181	22,387
Proceeds from debt issuances	473,667	167,906
<b>Net cash used for capital and related financing activities</b>	<b>(213,078)</b>	<b>(757,946)</b>
<b>Noncapital financing activities</b>		
Cash payments to PennDOT	(450,000)	(450,000)
Payments for bond and swap expenses	(1,032)	(1,180)
Payments for debt maturities	(15,860)	(12,245)
Interest paid on debt	(160,512)	(137,788)
Proceeds from debt issuances	416,314	468,106
<b>Net cash used for noncapital financing activities</b>	<b>(211,090)</b>	<b>(133,107)</b>
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>206,049</b>	<b>(144,157)</b>
Cash and cash equivalents at beginning of year	452,388	596,545
Cash and cash equivalents at end of year	<b>\$ 658,437</b>	<b>\$ 452,388</b>

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Cash Flows (continued)

	<b>Year Ended May 31</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 107,417	\$ 115,656
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	311,735	300,777
Change in operating assets and liabilities:		
Accounts receivable	(2,370)	(2,975)
Inventories	2,705	3,973
Other assets	(28,061)	(25,328)
Accounts payable and accrued liabilities	41,810	9,923
Other noncurrent liabilities	6,290	5,490
Net cash provided by operating activities	<u>\$ 439,526</u>	<u>\$ 407,516</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>		
Cash and cash equivalents	\$ 130,010	\$ 100,804
Restricted cash and cash equivalents	528,427	351,584
Total cash and cash equivalents	<u>\$ 658,437</u>	<u>\$ 452,388</u>

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statements of Cash Flows (continued)

**Noncash Activities**

The Commission recorded a net decrease of \$5.5 million and \$1.9 million in the fair value of its investments for the years ended May 31, 2013 and 2012, respectively.

The Commission recorded \$8.2 million and \$6.0 million for the amortization of bond premiums for the years ended May 31, 2013 and 2012, respectively.

The Commission recorded \$25.6 million and \$23.0 million in expenses for amortization of deferred refunding losses, amortization of bond issuance costs and amortization of swap agreement costs for the years ended May 31, 2013 and 2012, respectively.

The Commission recorded an interest expense reduction of \$11.7 million and \$8.8 million for the years ended May 31, 2013 and 2012, respectively, related to GASB 53 entries.

The Commission has entered into contracts with the operators of service plaza restaurants and service stations to totally reconstruct several service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission implemented GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements in fiscal year 2013 (including restatements of fiscal year 2012). The Commission recognized capital contribution revenues of \$3.4 million and \$1.8 million related to these arrangements for the years ended May 31, 2013 and 2012, respectively. See Note 6 for further discussion on the service plazas.

In fiscal year 2012, the Commission wrote down the value of its transponder inventory by \$4.6 million to reflect lower market costs.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$22.8 million to PennDOT during the fiscal year ended May 31, 2012. The Commission did not transfer any assets to PennDOT during the fiscal year ended May 31, 2013.

*The notes to the financial statements are an integral part of this statement.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements

May 31, 2013

**1. Financial Reporting Entity**

The Pennsylvania Turnpike Commission (the Commission) was created as an instrumentality of the Commonwealth of Pennsylvania on May 21, 1937, with powers to construct, operate, and maintain the Turnpike System and to issue Turnpike revenue bonds, repayable solely from tolls and other Commission revenues. The Commission is considered a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units in accordance with Governmental Accounting Standards Board (GASB) Statements No. 14, *The Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*. GASB Statement No. 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. GASB Statement No. 39 provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The Commission believes it has no component units based on its review of GASB Statements No. 14 and No. 39.

The Commission consists of five members, one of whom is the Secretary of Transportation. The others are appointed by the Governor with the approval of a majority of the Senate.

**2. Summary of Significant Accounting Policies**

The financial statements of the Pennsylvania Turnpike Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below:

**Basis of Accounting**

The Commission's basic financial statements are presented on the accrual basis of accounting.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Reclassifications**

Certain amounts presented in the prior period have been reclassified to conform to the current period financial statements presentation.

**Cash Equivalents**

For purposes of the statements of cash flows, the Commission considers all highly liquid debt investment securities that mature within three months of acquisition to be cash equivalents.

**Investments**

Investments are stated at fair value with the exception of certain nonparticipating contracts such as repurchase agreements and other agreements structured as repurchase agreements that are reported at cost, which does not materially differ from fair value. Fair values are based on quoted market prices.

**Capital Assets**

Capital assets consist of land and intangible assets (right-of-way easements), buildings, improvements, equipment, infrastructure, and assets under construction. Infrastructure assets are typically items that are immovable such as highways, bridges, and tunnels. Capital assets are stated at cost. Donated capital assets are valued at their estimated fair value on the date received. Interest is capitalized based on average construction costs and the average bond interest rate, less interest earned on invested construction funds. Acquisitions of capital assets valued at \$15,000 or greater are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Intangible assets have an indefinite life and, thus, are not depreciated. The following lives are used:

Buildings	10 – 45 years
Improvements other than buildings	15 – 20 years
Equipment	3 – 40 years
Infrastructure	10 – 50 years

**Inventories**

Inventories are valued at the lower of average cost (determined on a first-in, first-out method) or market. In fiscal year 2012, the Commission wrote down the value of its transponder inventory by \$4.6 million to reflect lower market costs.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Debt Premium/Discount and Issuance Costs**

Debt premium/discount and issuance costs are being amortized using the effective interest rate method over the varying terms of the bonds issued.

**Unearned Income**

Unearned income is primarily related to E-ZPass customer deposits and microwave tower leases. E-ZPass customers of the Commission are required to deposit funds in advance of anticipated travel. Since this money is collected prior to the customers' travel and revenue recognition, it is recorded as unearned income. The Commission had unearned income of \$48.2 million and \$40.8 million at May 31, 2013 and 2012, respectively.

**Net Position**

GASB Statement No. 63 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included.

*Restricted* – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The restrictions would be imposed by external parties including creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* – This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Operating Revenues**

Revenues associated with operations of the Turnpike System are considered operating revenues. The principal operating revenues of the Commission are fare revenues from customers. Other operating revenues include: service station, restaurant, property and other rental income as well as electronic toll collection and violation enforcement fees related to the E-ZPass program. Also included is revenue from various sponsorship agreements.

*Fare Revenues*

Fare revenues are recognized when vehicles exit the Turnpike System. As of May 31, 2013 and 2012, approximately 68.3% and 66.8%, respectively, of the fare revenues were realized through electronic toll collection; the remainder was realized through cash collection or a credit card program for military and Class 9 vehicles.

**Operating Expenses**

Operating expenses relate directly to operating and maintaining the Turnpike System. The principal operating expenses of the Commission are cost of services and depreciation. Other expenses are considered nonoperating expenses.

*Cost of Services*

Cost of services includes: wages and salaries, benefits, utilities, fuels, professional fees and services, PA State Police services, and purchased goods, including materials and supplies.

**Utilization of Resources**

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first and then unrestricted resources as needed.

**Nonoperating Revenues (Expenses)**

Nonoperating revenues include: investment earnings and other miscellaneous revenues not associated with the operations of the Turnpike System. Nonoperating expenses include: Act 44 payments to PennDOT, capital assets transferred to PennDOT, interest and bond expenses, and other miscellaneous expenses not associated with the operations of the Turnpike System.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Nonoperating Revenues (Expenses) (continued)**

*Act 44 Payments to PennDOT*

The Commission and PennDOT entered into a Lease and Funding Agreement as required under the terms of Act 44. See Note 9 for more information regarding this Lease and Funding Agreement.

*Capital Assets Transferred to PennDOT*

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$22.8 million to PennDOT during the fiscal year ended May 31, 2012. The Commission did not transfer any of these assets to PennDOT during the fiscal year ended May 31, 2013.

**Capital Contributions**

Capital contributions include: Oil Company Franchise Tax revenues, Motor License Registration Fee revenues, grants from other governments for reimbursement of capital costs for various highway construction projects, capital assets received from other third parties and amortization of deferred inflows of resources for service concession agreements.

*Oil Company Franchise Tax Revenues*

The Commission receives 14% of the additional 55 mills of the Commonwealth's Oil Company Franchise Tax revenues pursuant to Act 26 established in 1991. The revenues totaled \$59.6 million and \$63.2 million for the fiscal years ended May 31, 2013 and 2012, respectively. These revenues are kept in a separate fund as required by the applicable bond indenture.

*Motor License Registration Fee Revenues*

The Commission received \$28.0 million in grants during each of the fiscal years ended May 31, 2013 and 2012 from the Commonwealth's Motor License Fund. The Commission has elected to account for this grant in a separate fund.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Capital Contributions (continued)**

*Reimbursements from Other Governments*

The Commission receives grants from other governments for reimbursement of costs for various highway construction projects. During the fiscal years ended May 31, 2013 and 2012, the Commission recognized \$6.8 million and \$9.4 million, respectively, as capital contributions from the Federal government.

*Other Capital Contributions*

The Commission has entered into long-term agreements with the operators of service plaza restaurants and service stations to totally reconstruct the service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* in fiscal year 2013. The Commission recognized capital contribution revenues of \$3.4 million and \$1.8 million, as restated, related to these agreements for the years ended May 31, 2013 and 2012, respectively. See Note 6 for further discussion on the service plazas.

**Adoption of Accounting Pronouncements**

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Commission adopted the remaining provisions of Statement No. 57 during the fiscal year ended May 31, 2013. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2013 and 2012.

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The Commission adopted this statement for its fiscal year ended May 31, 2013 financial statements. See Note 6 for further discussion including the restatement of prior year amounts, as required.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of this statement had no significant impact on the Commission's financial statements for fiscal years ending May 31, 2013 and 2012.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

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

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Commission adopted this statement for its fiscal year ended May 31, 2013 financial statements. See the basic financial statements and the net position section earlier in this note for further discussion.

**Pending Changes in Accounting Principles**

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The Commission is required to adopt Statement No. 61 for its fiscal year ended May 31, 2014 financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Commission is required to adopt Statement No. 65 for its fiscal year ended May 31, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The Commission is required to adopt Statement No. 66 for its fiscal year ended May 31, 2014.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Commission is required to adopt Statement No. 67 for its fiscal year ended May 31, 2015.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The Commission is required to adopt Statement No. 68 for its fiscal year ended May 31, 2016.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Commission is required to adopt Statement No. 69 for its fiscal year ended May 31, 2015.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Pending Changes in Accounting Principles (continued)**

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The Commission is required to adopt Statement No. 70 for its fiscal year ended May 31, 2015.

The Commission has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

**3. Indenture Requirements and Restrictions**

The Commission's debt has been issued under the provisions of four separate Trust Indentures (collectively referred to as Indentures):

- A Senior Turnpike Toll Revenue Trust Indenture dated July 1, 1986 which was amended and restated as of March 1, 2011, as supplemented, between the Commission and the Trustee, U.S. Bank Corp., successor to Wachovia Bank;
- An Oil Franchise Tax Trust Indenture dated August 1, 1998, as supplemented, between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to National City Bank;
- A Registration Fee Revenue Trust Indenture dated July 1, 2005 between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to National City Bank; and
- A Subordinate Turnpike Toll Revenue Trust Indenture dated April 1, 2008, as supplemented, between the Commission and the Trustee, Wells Fargo Bank, N.A., successor to TD Bank, N.A.

Accordingly, certain activities of the Commission are restricted by these Indentures.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**4. Cash and Investments**

Following is a summary of cash and cash equivalents and investments by type:

Cash and Cash Equivalent and Investment Types	May 31	
	2013	2012
	<i>(In Thousands)</i>	
U.S. Treasuries	\$ 105,795	\$ 28,426
GNMA mortgages	12,327	15,245
Government agency securities	183,474	258,724
Municipal bonds	373,181	376,526
Corporate obligations	306,667	453,432
Total investment securities	981,444	1,132,353
Investment derivatives – basis swaps	36,525	22,569
Cash and cash equivalents	658,437	452,388
Total cash and cash equivalents and investments	\$ 1,676,406	\$ 1,607,310

**Cash and Cash Equivalents**

Cash deposits are in various financial institutions. The Indentures require that cash deposits be either insured or collateralized by a pledge of direct obligations of the United States Government or the Commonwealth of Pennsylvania or otherwise in accordance with the laws of the Commonwealth of Pennsylvania governing trust funds of public bodies.

The following summary presents the amount of Commission deposits all of which are fully insured or collateralized with securities held by the Commission or its agent in the Commission's name.

	Total Bank Balance	Total Book Balance
	<i>(In Thousands)</i>	
<b>May 31, 2013</b>		
Cash and cash equivalents	\$ 657,123	\$ 658,437
<b>May 31, 2012</b>		
Cash and cash equivalents	\$ 460,918	\$ 452,388



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**4. Cash and Investments (continued)**

**Cash Equivalents and Investment Securities**

The Indentures (as listed in Note 3) permit investments in obligations of, or guaranteed by, the United States of America, its agencies, and its instrumentalities (United States Government obligations); certificates of deposit issued by institutions insured by the FDIC or fully collateralized with United States Government obligations; investment agreements with certain financial institutions; commercial paper and asset-backed securities rated in the highest category by applicable rating agencies; money market funds and auction rate certificates rated in one of the two highest categories by applicable rating agencies; corporate bonds and medium term notes with a minimum rating of “AA-”; investments in long-term debt obligations of any state or political subdivision but only to the extent that the applicable rating agency has assigned a rating to such obligations, which at the time of purchase is not lower than the highest underlying rating assigned to any series of Commission bonds then outstanding; and repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York collateralized with obligations of, or guaranteed by, the United States of America.

Debt insurers have placed additional restrictions on construction funds. For these funds, corporate bonds, auction rate certificates, asset-backed securities, and medium term notes are not allowed.

The Commission has an investment policy that defines guidelines and operational factors governing the investment of financial assets. The policy generally has the same restrictions regarding permitted investments as the Indentures. Permitted investments include:

- U.S. Treasury Bills, Notes, Bonds, Strips;
- Time Deposits issued by a banking association organized and doing business under the laws of the United States of America or of any state that may have a combined capital and surplus of at least \$50,000,000;
- Certificates of Deposit that are fully collateralized and issued by a bank, savings and loan or trust company organized under the laws of the United States or any state thereof;
- Investment Agreements with a bank, a bank holding company or a financial institution that has outstanding long-term indebtedness rated “AA” or better by Moody’s and S&P;
- Obligations of any federal agencies which obligations are backed by the full faith and credit of the United States of America;

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**4. Cash and Investments (continued)**

**Cash Equivalents and Investment Securities (continued)**

- Senior debt obligations rated a minimum “AA” by S&P and “Aa2” by Moody’s and issued by government-sponsored enterprises which include Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation; and Federal National Mortgage Association;
- Mortgage-backed securities issued by an approved Federal agency and collateralized mortgage obligations so long as such securities are rated a minimum of “Aa2” by Moody’s and “AA” by S&P’s;
- Debt obligations of any state or local government entity with securities rated in the “Aa/AA” category;
- Commercial paper rated not less than “A-1/P-1/F-1”, corporate bonds rated “Aa3/AA-” or better, and asset-backed securities rated “AAA”;
- Repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York, collateralized by investments with a minimum 102% valuation in securities of U.S. Treasury bills, notes, bonds, strips, or obligations of any of federal agencies or senior debt obligations described above; and
- Share or Certificates in any short-term investment fund investing not less than 90% of its assets in obligations of U.S. treasury bills, notes, bonds, strips or time deposits.

All investment ratings shall be based on security ratings at the time of purchase. The portfolio’s average credit quality should be rated “Aa3/AA-” or better by Moody’s/S&P. Investments are generally purchased with the intent of holding to maturity with flexibility to restructure and rebalance portfolio holdings to manage risk and benefit from market opportunities.

The investment policy imposes the following additional limitations:

- Investments in any single Federal agency, not carrying the full faith and credit of the U.S. Government, are limited to 35% of the portfolio.
- Investments in certificates of deposit and investment agreements are limited to 30% of the portfolio.
- Combined exposure to commercial paper, corporate bonds, and asset-backed securities, in aggregate, is limited to 35% of the total portfolio.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**4. Cash and Investments (continued)**

**Cash Equivalents and Investment Securities (continued)**

- Investments in any single issuer, excluding U.S. Treasury and Federal Agencies, are limited to 5% of the portfolio.

The Commission's investment policy also limits investments to those issues expected to mature within five years, taking into consideration call, prepayment, or other features that may impact maturity.

The Commission's exposure to credit risk for investment securities as of May 31, 2013 is as follows:

Investment Type	Quality Rating					Total
	AAA	AA	A	A-1	Below A	
(In Thousands)						
Government agency securities	\$ 183,474	\$ -	\$ -	\$ -	\$ -	\$ 183,474
Municipal bonds	21,920	229,711	31,155	90,395	-	373,181
Corporate obligations	64,213	190,820	7,497	42,099	2,038	306,667
	\$ 269,607	\$ 420,531	\$ 38,652	\$ 132,494	\$ 2,038	\$ 863,322

Investments guaranteed by the full faith of the U.S. Government, such as U.S. Treasuries and GNMA mortgages, are not considered to have credit risk and do not require disclosure of credit quality.

**Concentration of Credit Risk**

As of May 31, 2013, the Commission had no investments of more than 5% of its consolidated portfolio.

**Interest Rate Risk**

On May 31, 2013, the effective duration of the Commission's investments, by type, was as follows:

Investment Type	Fair Value	Effective Duration
	<i>(In Thousands)</i>	<i>(In Years)</i>
U.S. Treasuries	\$ 105,795	2.6436
GNMA mortgages	12,327	3.0475
Government agency securities	183,474	1.9039
Municipal bonds	373,181	1.2441
Corporate obligations	306,667	1.3977
Total investment securities	<u>\$ 981,444</u>	

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**4. Cash and Investments (continued)**

**Investment Derivatives – Basis Swaps**

Following is a summary of the Commission's basis swaps at May 31, 2013:

	Notional Amount (Thousands)	Weighted Avg. Mat. (Years)	Effective Date	Maturity Date	Terms	Fair Value (Thousands)	Counterparty	Credit Ratings Moody's/ S&P's/Fitch
	\$ 107,784					\$ 6,482	JP Morgan Chase	Aa3/A+/A+
	107,784					7,110	Merrill Lynch CS*	Baa2/A-/A
	107,784				Pay 67% of 1-month LIBOR	4,993	PNC	A2/A/A+
	134,733				Receive 60.08% of 10-year maturity of the USD-ISDA swap rate	8,891	UBS AG	A2/A/A
A	458,085	8.4	7/1/2007	12/1/2030		27,476		
	112,000				Pay SIFMA	(7,127)	JP Morgan Chase	Aa3/A+/A+
	48,000				Receive 63% of 1-month LIBOR + 20 basis points	(3,054)	UBS AG	A2/A/A
B	160,000	16.1	8/14/2003	12/1/2032		(10,181)		
	80,000				Pay 67% of 1-month LIBOR	4,940	JP Morgan Chase	Aa3/A+/A+
	80,000				Receive 60.15% of 10-year maturity of the USD-ISDA swap rate	4,940	Royal Bank of Canada	Aa3/AA-/AA
C	160,000	16.0	11/15/2007	11/15/2032		9,880		
					Pay SIFMA			
D	145,065	15.9	6/1/2010	6/1/2039	Receive 99.68% of 3-month LIBOR	7,845	GSMMDP	Aa2/AAA/NR
					Pay SIFMA			
E	145,065	15.9	6/1/2010	6/1/2039	Receive 99.80% of 3-month LIBOR	7,921	Deutsche Bank	A2/A+/A+
					Pay 60.08% of 10-year maturity of the USD-ISDA swap rate			
F	107,784	1.5	1/1/2011	1/1/2015	Receive 67% of 1-month LIBOR	(2,845)	Deutsche Bank	A2/A+/A+
					Pay 60.08% of 10-year maturity of the USD-ISDA swap rate			
G	134,733	1.5	1/1/2011	1/1/2015	Receive 67% of 1-month LIBOR	(3,571)	Deutsche Bank	A2/A+/A+
						<u>\$ 36,525</u>		

1-month LIBOR was 0.19428% at May 31, 2013

3-month LIBOR was 0.27525% at May 31, 2013

10-year maturity of the USD-ISDA swap rate was 2.329% at May 31, 2013

SIFMA was 0.12% at May 31, 2013

\* On November 15, 2012, the Commission executed an amendment to the swap agreements to include Merrill Lynch Derivative Products as guarantor. Merrill Lynch Derivative Products credit ratings were Aa3/AAA/NR (Moody's/S&P/Fitch).

*See Note 9 for additional disclosures regarding derivative instruments.*

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**5. Capital Assets**

Summaries of changes to capital assets for the years ended May 31, 2013 and 2012 are as follows:

	Balance May 31, 2012	Additions	Transfers	Reductions	Balance May 31, 2013
	<i>(In Thousands)</i>				
<b>Capital assets not being depreciated (cost)</b>					
Land and intangibles	\$ 256,175	\$ 15,287	\$ -	\$ 152	\$ 271,310
Assets under construction	864,474	399,036	(550,888)	51,009	661,613
Total capital assets not being depreciated	1,120,649	414,323	(550,888)	51,161	932,923
<b>Capital assets being depreciated (cost)</b>					
Buildings	832,592	27,576	38,502	4,965	893,705
Improvements other than buildings	95,198	13,492	3,942	-	112,632
Equipment	531,210	11,270	13,971	6,873	549,578
Infrastructure	6,704,803	12,444	494,473	38,842	7,172,878
Total capital assets being depreciated	8,163,803	64,782	550,888	50,680	8,728,793
Less accumulated depreciation for:					
Buildings	294,378	22,746	-	4,965	312,159
Improvements other than buildings	61,774	4,478	-	-	66,252
Equipment	369,478	29,244	-	6,609	392,113
Infrastructure	3,842,865	255,267	-	38,842	4,059,290
Total accumulated depreciation	4,568,495	311,735	-	50,416	4,829,814
Total capital assets being depreciated, net	3,595,308	(246,953)	550,888	264	3,898,979
Total capital assets	\$ 4,715,957	\$ 167,370	\$ -	\$ 51,425	\$ 4,831,902

For the fiscal year ended May 31, 2013, the Commission recorded an expense of \$51.0 million for the write-down of assets under construction related to design costs for the west leg of the PA Route 51 to Interstate Route 376 project. Due to the magnitude of the estimated costs of construction, the Commission believes it is unlikely to be economically feasible to complete this leg of the project. This expense was recorded as a special item in the statements of revenues, expenses and changes in net position.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**5. Capital Assets (continued)**

	Balance May 31, 2011	Additions	Transfers	Reductions	Balance May 31, 2012
<i>(In Thousands)</i>					
<b>Capital assets not being depreciated (cost)</b>					
Land and intangibles	\$ 248,011	\$ 8,164	\$ -	\$ -	\$ 256,175
Assets under construction	1,151,520	422,605	(708,518)	1,133	864,474
Total capital assets not being depreciated	1,399,531	430,769	(708,518)	1,133	1,120,649
<b>Capital assets being depreciated (cost)</b>					
Buildings	813,936	12,398	12,435	6,177	832,592
Improvements other than buildings	92,725	1,590	883	-	95,198
Equipment	498,255	17,722	22,882	7,649	531,210
Infrastructure	6,041,749	14,106	672,318	23,370	6,704,803
Total capital assets being depreciated	7,446,665	45,816	708,518	37,196	8,163,803
Less accumulated depreciation for:					
Buildings	277,522	23,033	-	6,177	294,378
Improvements other than buildings	57,863	3,911	-	-	61,774
Equipment	349,082	27,252	-	6,856	369,478
Infrastructure	3,596,871	246,581	-	587	3,842,865
Total accumulated depreciation	4,281,338	300,777	-	13,620	4,568,495
Total capital assets being depreciated, net	3,165,327	(254,961)	708,518	23,576	3,595,308
Total capital assets	\$ 4,564,858	\$ 175,808	\$ -	\$ 24,709	\$ 4,715,957

The Commission incurred interest costs of \$11.1 million and \$13.4 million for the fiscal years ended May 31, 2013 and 2012, respectively, which qualified for capitalization. For fiscal year 2013, there was a \$0.1 million interest income offset; therefore, \$11.0 million was capitalized. For fiscal year 2012, there was no interest income offset; therefore, the full \$13.4 million was capitalized.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**6. Service Concession Arrangements**

There are 17 service plazas along the Turnpike System providing gasoline and diesel fuel, other automotive supplies and services, and restaurant services. The Commission has entered into long term service plaza redevelopment agreements with HMSHost Restaurants, LLC and Sunoco, Inc. to design, reconstruct, finance, operate and maintain all of the service plazas. The Commission has no responsibility for maintaining the service plazas under the agreements. The Commission maintains the ability to approve and/or modify the services that the operators can provide and the rates that can be charged. The service plaza operators are compensated by the users of the services and share a portion of that revenue with the Commission as rental payments. Upon completion of construction, the reconstructed assets are recognized by the Commission. The current contracts with HMSHost Restaurants, LLC and Sunoco, Inc. expire on August 25, 2036 and January 31, 2022, respectively. Sunoco, Inc.'s lease may be extended for three additional five-year periods. The first extension shall be at the discretion of Sunoco, Inc., and the second and third extensions shall be mutually agreed to by both parties.

As of May 31, 2013, the Commission had capitalized \$97.2 million in assets representing twelve service plazas that had fully completed construction and recognized deferred inflows of resources of \$88.4 million related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2013 and in accordance with GASB Statement No. 60, the Commission recognized a receivable and deferred inflow of resources in the amount of \$26.7 million for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction.

In accordance with GASB Statement No. 60, the applicable May 31, 2012 balances were restated. As of May 31, 2012, the Commission had capitalized \$55.1 million in service plaza capital assets. Deferred inflows of resources in the amount of \$49.8 million were recognized related to these assets. The present value of future guaranteed minimum rent payments scheduled to begin upon completion of all construction was recorded as a receivable and also as deferred inflows of resources in the amount of \$25.5 million. These amounts increased total other assets by \$25.5 million to \$125.8 million and increased the deferred inflows of resources by \$75.3 million to \$108.5 million. Capital contributions were decreased by \$13.4 million to \$102.4 million due to deferring the previously recognized contributions. The result of these transactions decreased net investment in capital assets by \$49.8 million to \$967.8 million.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt**

Following is a summary of debt outstanding:

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Mainline Senior Debt</b>		
<b>2001 Series T:</b> Issued \$86,660 in September 2001 at 4.13% to 5.50%, due in varying installments through December 1, 2013. Interest paid each June 1 and December 1.	\$ 27,005	\$ 40,260
<b>2004 Series A:</b> Issued \$269,245 in June 2004 at 5.00% to 5.50%, due in varying installments through December 1, 2034. Interest paid each June 1 and December 1.	269,245	269,245
<b>2006 Series A:</b> Issued \$118,015 in June 2006 at 5.00%, due in varying installments through December 1, 2026. Interest paid each June 1 and December 1.	118,015	118,015
<b>2008 Series B Multi-Modal:</b> Issued \$402,000 in May 2008 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through December 1, 2038. Series B-2 through B-6 refunded in May 2011.	100,000	100,000
<b>2008 Series C Multi-Modal Revenue:</b> Issued \$50,000 in August 2008 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through June 1, 2038.	50,000	50,000
<b>2009 Series A Build America Bonds:</b> Issued \$275,000 in July 2009 at 6.105%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1.	275,000	275,000
<b>2009 Series B:</b> Issued \$375,010 in December 2009 at 3% to 5%, due in varying installments through December 1, 2025. Interest paid each June 1 and December 1.	375,010	375,010
<b>2009 Series C:</b> Issued \$208,280 in December 2009 at a variable rate (based on SIFMA + 0.52% to 1.05%, paid the 1 <sup>st</sup> of each month), due in varying installments through December 1, 2014. Partially refunded in November 2011.	104,140	156,210
<b>2010 Series A:</b> Issued \$209,230 in July 2010 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through December 1, 2036.	194,370	198,725
<b>2010 Series B Build America Bonds:</b> Issued \$600,000 in September 2010 at 5.5%, due in varying installments through December 1, 2049. Interest paid each June 1 and December 1.	600,000	600,000
<b>2011 Series A:</b> Issued \$68,660 in April 2011 at 4% to 5%, due in varying installments through December 1, 2023. Interest paid each June 1 and December 1.	68,660	68,660
<b>2011 Series B:</b> Issued \$92,035 in April 2011 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through June 1, 2015.	69,860	69,860
<b>2011 Series C:</b> Issued \$298,330 in May 2011 at a variable rate (based on SIFMA, reset weekly, paid the 1 <sup>st</sup> of each month), due in varying installments through December 1, 2038.	294,355	296,390
<b>2011 Series D:</b> Issued \$52,365 in November 2011 at a variable rate (based on SIFMA +0.05% to 0.55%, reset weekly, paid the 1 <sup>st</sup> of each month), due in equal installments through December 1, 2014. Partially refunded in December 2012.	34,910	52,365
<b>2011 Series E:</b> Issued \$110,080 in November 2011 at 3.63% to 5%, due in varying installments through December 1, 2030. Interest paid each June 1 and December 1.	110,080	110,080
<b>2012 Series A:</b> Issued \$200,215 in July 2012 at 3% to 5%, due in varying installments through December 2042. Interest paid each June 1 and December 1.	200,215	-



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

	May 31 2013	2012
	<i>(In Thousands)</i>	
<b>Mainline Senior Debt (continued)</b>		
<b>2012 Series B:</b> Issued \$70,060 in November 2012 at a variable rate (based on SIFMA +.55%, reset weekly, paid the 1st of each month) Due at December 1, 2016.	\$ 70,060	\$ -
<b>2013 Series A:</b> Issued \$176,075 in January 2013 at a variable rate (based on SIFMA +.60% and .68%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2018	176,075	-
<b>Total Mainline Senior Debt Payable</b>	<b>3,137,000</b>	2,779,820
<b>Mainline Subordinate Debt</b>		
<b>2008 Sub-Series A-1 Subordinate:</b> Issued \$176,565 in April 2008 at 4.125% to 5.00%, due in varying installments through June 1, 2038. Interest paid each June 1 and December 1.	176,565	176,565
<b>2008 Sub-Series A-2 Subordinate (Federally Taxable):</b> Issued \$68,290 in April 2008 at 3.74% to 6.41%, due in varying installments through June 1, 2022. Interest paid each June 1 and December 1.	53,975	58,060
<b>2008 Sub-Series B-1, B-2 Subordinate (B-2 Federally Taxable):</b> Issued \$233,905 in July 2008 at 5.00% to 7.47%, due in varying installments through June 1, 2036. Interest paid each June 1 and December 1.	233,905	233,905
<b>2008 Sub-Series C-1, C-3, C-4 Subordinate (C-4 Federally Taxable):</b> Issued \$411,110 in October 2008 at 4.00% to 6.25%, due in varying installments through June 1, 2038. Interest paid each June 1 and December 1. Sub-Series C-3 refunded July 2009 and Sub-Series C-4 refunded June 2010.	221,585	225,000
<b>2009 Series A Subordinate:</b> Issued \$308,035 in January 2009 at 3.00% to 5.00%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1.	292,730	297,985
<b>2009 Series B Subordinate:</b> Issued \$856,735 in July 2009 at 3.00% to 5.75%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1.	856,735	856,735
<b>2009 Series C Subordinate:</b> Issued \$99,998 in July 2009 at 6.25%, due in varying installments through June 1, 2033. Interest to be compounded semi-annually from July 2009 until June 1, 2016, thereafter paid each June 1 and December 1. Series C issued as Capital Appreciation Bonds (CABs). Compounded interest to be paid at maturity or earlier redemption.	126,670	119,108
<b>2009 Series D Subordinate:</b> Issued \$324,745 in October 2009 at 4.00% to 5.50%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	324,745	324,745
<b>2009 Series E Subordinate:</b> Issued \$200,005 in October 2009 at 6.00% to 6.375%, due in varying installments through December 1, 2038. Interest to be compounded semi-annually from October 2009 to December 1, 2017, thereafter paid each June 1 and December 1. Series E issued as CABs. The compounded interest to be paid at maturity or earlier redemption.	249,798	234,817
<b>2010 Sub-Series A-1, A-2, A-3 Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$187,816 in July 2010 at 4.50% to 5.50%. Sub-Series A-1 due in varying installments through December 1, 2038. Interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest will compound semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series A-3 issued as CABs. Compounded interest to be paid at maturity or earlier redemption.	203,486	197,697

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Mainline Subordinate Debt (continued)</b>		
<b>2010 Sub-Series B-1, B-2 Subordinate:</b> Issued \$273,526 in July 2010 at 5.00%. Sub-Series B-1 due in varying installments through December 1, 2037. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compounded interest paid at maturity or earlier redemption.	\$ 303,442	\$ 292,354
<b>2010 Sub-Series B-1, B-2, B-3 Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$105,299 in October 2010 at 3.95% to 5.125%, due in varying installments through December 1, 2040. Sub-Series B-1 interest paid each June 1 and December 1. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 issued as CABs with interest paid at maturity or earlier redemption.	113,645	110,301
<b>2010 Sub-Series C-1, C-2, C-3 Subordinate:</b> Issued \$138,916 in October 2010 at 4.25% to 5.45%. Sub-Series C-1 due in varying installments through December 1, 2040. Sub-Series C-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series C-3 issued as CABs with interest paid at maturity or earlier redemption.	151,276	146,308
<b>2011 Series A Subordinate:</b> Issued \$135,655 in April 2011 at 5.00% to 6.50%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	135,655	135,655
<b>2011 Series A Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$102,620 in April 2011 at 5.00% to 6.00%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	102,620	102,620
<b>2011 Series B Subordinate:</b> Issued \$126,740 in October 2011 at 2.00% to 5.25%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	123,635	126,740
<b>2011 Series B Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$98,910 in October 2011 at 3.00% to 5.00%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	98,910	98,910
<b>2012 Series A Subordinate:</b> Issued \$123,545 in April 2012 at 3.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	123,545	123,545
<b>2012 Series A Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$94,935 in April 2012 at 2.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	94,935	94,935
<b>2012 Series B Subordinate:</b> Issued \$121,065 in October, 2012 at 2% to 5%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	121,065	-
<b>2012 Series B Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$92,780 in October, 2012 at 3% to 5%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	92,780	-
<b>2013 Series A Subordinate:</b> Issued \$71,702 in April, 2013 at 3.125% to 5%, due in varying installments through December 1, 2043. Sub-Series A-1 Serial bond interest paid each June 1 and December 1. Sub-Series A-1 Term bond interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2018, thereafter paid each June 1 and December 1.	71,870	-

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Mainline Subordinate Debt (continued)</b>		
<b>2013 Series A Subordinate Motor License Fund-Enhanced Special Revenue:</b> Issued \$92,465 in April, 2013 at 3% to 5%, due in varying installments through December 1, 2043. Interest paid each June 1 and December 1.	\$ 92,465	\$ -
<b>Total Mainline Subordinate Debt Payable</b>	<b>4,366,037</b>	3,955,985
<b>Total Mainline Senior and Subordinate Debt Payable</b>	<b>7,503,037</b>	6,735,805
<b>Oil Company Franchise Tax Senior Debt</b>		
<b>2003 Series A Oil Company Franchise Tax Revenue:</b> Issued \$124,730 in August 2003 at 2.50% to 5.25%, due in varying installments through December 1, 2024. Interest paid each June 1 and December 1. Partially defeased in November 2006.	35,770	40,510
<b>2003 Series C Oil Company Franchise Tax Multi-Modal Revenue:</b> Issued \$160,000 in August 2003 at a variable rate, converted to a fixed rate of 5.00% in May 2008, due in varying installments through December 1, 2032. Interest paid each June 1 and December 1.	160,000	160,000
<b>2006 Series A Oil Company Franchise Tax Revenue Refunding:</b> Issued \$98,705 in November 2006 at 5.00%, due in varying installments through December 1, 2023. Interest paid each June 1 and December 1.	90,665	93,585
<b>2009 Series A, B, C Oil Company Franchise Tax Revenue:</b> Issued \$164,181 in October 2009. Series A issued at 2.00% to 5.85%, due in varying installments through December 1, 2023. Series B (Build America Bonds, Issuer Subsidy, Federally Taxable) issued at 5.85%, due in varying installments through December 1, 2037. Interest paid each June 1 and December 1. Series C issued as CABs at 5.30%. Interest on the CABs is deferred until maturity on December 1, 2039.	163,233	163,601
<b>Total Oil Company Franchise Tax Senior Debt Payable</b>	<b>449,668</b>	457,696
<b>Oil Company Franchise Tax Subordinate Debt</b>		
<b>2003 Series B Subordinate Oil Company Franchise Tax Revenue:</b> Issued \$197,955 in August 2003 at 2.38% to 5.50%, due in varying installments through December 1, 2032. Interest paid each June 1 and December 1. Partially defeased in November 2006.	55,185	59,075
<b>2006 Series B Subordinate Oil Company Franchise Tax Revenue Refunding:</b> Issued \$141,970 in November 2006 at 3.75% to 5.00%, due in varying installments through December 1, 2031. Interest paid each June 1 and December 1.	136,375	138,540
<b>2009 Series D, E Subordinate Oil Company Franchise Tax Revenue:</b> Issued \$134,065 in October 2009. Series D issued at 2.00% to 5.00%, due in varying installments through December 1, 2027. Series E (Build America Bonds, Issuer Subsidy, Federally Taxable) issued at 6.378%, due in varying installments through December 1, 2037.	130,395	131,210
<b>Total Oil Company Franchise Tax Subordinate Debt Payable</b>	<b>321,955</b>	328,825
<b>Total Oil Company Franchise Tax Senior and Subordinate Debt Payable</b>	<b>771,623</b>	786,521

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

	May 31	
	2013	2012
	<i>(In Thousands)</i>	
<b>Motor License Registration Fee Debt</b>		
<b>2005 Series A:</b> Issued \$234,135 in August 2005 at 3.25% to 5.25%, due in varying installments through July 15, 2030. Interest paid each January 15 and July 15.	\$ 192,225	\$ 198,620
<b>2005 Series B, C, D:</b> Issued \$231,425 in August 2005 at a variable rate (based on SIFMA, reset weekly, paid the 15 <sup>th</sup> of each month), due in varying installments through July 15, 2041.	231,425	231,425
<b>Total Motor License Registration Fee Debt Payable</b>	<b>423,650</b>	430,045
<b>Total Debt Payable</b>	<b>8,698,310</b>	7,952,371
Unamortized premium	178,859	117,576
Unamortized deferred loss on refundings	(152,171)	(166,511)
Total debt, net of unamortized premium and deferred loss on refundings	8,724,998	7,903,436
Less current portion	198,800	127,275
Debt, noncurrent portion	<b>\$ 8,526,198</b>	\$ 7,776,161

SIFMA was 0.12% on May 31, 2013

As disclosed in Note 3, the Commission's Trust Indentures impose certain restrictions and requirements. The Commission's Trust Indenture for the Series 2008 A Turnpike Subordinate Revenue Bonds imposes that the Commission establish and maintain schedules of tolls for traffic over the Turnpike System as required by the Senior Indenture, and in addition, the amount paid into the General Reserve Fund of the Senior Indenture in each fiscal year and for each Commission Payment, will be at least sufficient to provide funds in an amount not less than: (1) 115% of the Annual Debt Service for each fiscal year on account of all outstanding Revenue Bonds and Revenue Bonds Parity Obligations; (2) 100% of the Annual Debt Service for such fiscal year on account of all Outstanding Guaranteed Bonds, Guaranteed Bonds Parity Obligations and Subordinated Indebtedness; and (3) any payment by the Commission required by the Subordinate Indenture for restoring a deficiency in the Debt Service Fund within an eighteen (18) month period.

The Amended and Restated Trust Indenture of 2001 requires that tolls be adequate to provide funds to cover current expenses and (1) provide funds in an amount not less than the greater of 130% of the maximum principal and interest requirements for the succeeding year, or (2) 100% of the maximum principal and interest payments for the next fiscal year plus the amount required for maintenance of the Turnpike System as determined by the Commission's Consulting Engineer. If any deficiencies occur, the Commission is authorized to raise tolls accordingly.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

The Oil Company Franchise Tax Revenue Bonds are secured by a pledge and assignment by the Commission to the Trustee of: (1) all proceeds from the Commission's allocation of the Commonwealth of Pennsylvania's Oil Company Franchise Tax; (2) the Commission's right to receive its allocation of the Oil Company Franchise Tax and any portion of the allocation actually received by the Commission; (3) all monies deposited into accounts or funds created by the 1998 Indenture, as supplemented; and, (4) all investment earnings on all monies held in accounts and funds established by the 1998 Indenture.

The 1998 Indenture requires the Commission to petition the General Assembly of the Commonwealth of Pennsylvania for additional funds in the event that the Commission's allocation of the Oil Company Franchise Tax is inadequate to pay maximum principal and interest payments for the succeeding year.

Pursuant to Section 20 of Act 3, the Commonwealth appropriates \$28.0 million of Act 3 revenues to the Commission annually. The \$28.0 million is payable to the Commission in the amount of \$2.3 million per month. The Registration Fee Revenue Bonds are secured by a pledge and assignment by the Commission to the Trustee of any receipts, revenues and other moneys received by the Trustee on or after the date of the Indenture from the Commission's allocation of Act 3 revenues and any income earned on any fund or account established pursuant to the Indenture.

The Commission entered into a loan agreement to borrow up to \$200 million in four tranches of up to \$50 million each through the Immigrant Investor Program (known as the EB-5 visa program) administered by the U.S. Citizenship and Immigration Services. The Commission anticipates borrowing this money in the period 2014 through 2017 to fund a portion of the I-95 Interchange Project. Such debt would be issued under the Senior Indenture on parity with the Turnpike Revenue Bonds. As of May 31, 2013, the Commission has not borrowed any money under this agreement.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

Changes in debt are as follows:

	Balance at June 1, 2012	Additions	Reductions	Balance at May 31, 2013	Due Within One Year
	<i>(In Thousands)</i>				
Mainline debt	\$ 6,735,805	\$ 872,262	\$ 105,030	\$ 7,503,037	\$ 175,530
Oil Company Franchise Tax debt	786,521	952	15,850	771,623	16,550
Motor License Registration Fee debt	430,045	-	6,395	423,650	6,720
	7,952,371	873,214	127,275	8,698,310	198,800
Premium (discount), net	117,576	69,467	8,184	178,859	-
Unamortized deferred loss on refundings	(166,511)	(203)	(14,543)	(152,171)	-
	<u>\$ 7,903,436</u>	<u>\$ 942,478</u>	<u>\$ 120,916</u>	<u>\$ 8,724,998</u>	<u>\$ 198,800</u>

	Balance at June 1, 2011	Additions	Reductions	Balance at May 31, 2012	Due Within One Year
	<i>(In Thousands)</i>				
Mainline debt	\$ 6,482,647	\$ 651,888	\$ 398,730	\$ 6,735,805	\$ 105,030
Oil Company Franchise Tax debt	800,811	905	15,195	786,521	15,850
Motor License Registration Fee debt	436,140	-	6,095	430,045	6,395
	7,719,598	652,793	420,020	7,952,371	127,275
Premium (discount), net	92,167	32,160	6,751	117,576	-
Unamortized deferred loss on refundings	(176,560)	(13,700)	(23,749)	(166,511)	-
	<u>\$ 7,635,205</u>	<u>\$ 671,253</u>	<u>\$ 403,022</u>	<u>\$ 7,903,436</u>	<u>\$ 127,275</u>

The issuance of new debt is conducted in accordance with the terms of the applicable Trust Indenture and approval of the Commissioners.

In October 2011, the Commission issued \$126,740,000 2011 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2041. The 2011 Series B Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

In October 2011, the Commission issued \$98,910,000 2011 Series B Motor License Fund Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2041. The 2011 Series B Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In November 2011, the Commission issued \$52,365,000 2011 Series D Senior Bonds at a variable rate with a maturity date of December 1, 2014. The 2011 Series D Bonds were issued primarily to partially refund the 2009 Series C Senior Bonds. The refunding did not change the Commission's debt service. The transaction resulted in an economic loss of \$0.3 million.

In November 2011, the Commission issued \$110,080,000 2011 Series E Senior Bonds at a fixed rate with a maturity date of December 1, 2030. The 2011 Series E Bonds were issued primarily to current refund a portion of the 2001 Series R Bonds. This partial refunding of the 2001 Series R Bonds allowed the Commission to reduce its debt service by approximately \$14.6 million. The transaction resulted in an economic gain of approximately \$8.1 million.

In April 2012, the Commission issued \$123,545,000 2012 Series A Subordinate Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In April 2012, the Commission issued \$94,935,000 2012 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 Series A Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In July 2012, the Commission issued \$200,215,000 2012 Series A Turnpike Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 A bonds are being issued for the purpose of financing the costs of various capital expenditures set forth in the Commission's current ten-year plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges.

In October 2012, the Commission issued \$121,065,000 2012 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

In October 2012, the Commission issued \$92,780,000 2012 Series B Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2042. The 2012 B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In November 2012, the Commission issued \$70,060,000 2012 Series B Senior Bonds at a variable rate with a maturity date of December 1, 2016. The 2012 B Senior Bonds were issued primarily to current refund the \$52,070,000 December 1, 2012 maturity of the Commission's Variable Rate Turnpike Revenue Bonds, Series C of 2009 and the \$17,455,000 December 1, 2012 maturity of the Commission's Variable Rate Turnpike Revenue bonds, Series D of 2011 Bonds and for payment of the costs of issuance of the 2012 Series B Senior Bonds. The refunding did not change the Commission's debt service. The transaction resulted in an economic loss of \$0.5 million.

In January 2013, the Commission issued \$176,075,000 2013 Series A Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2013 A Senior bonds were issued primarily to finance the cost of various capital expenditures set forth in the Commission's current ten-year capital plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges and for issuing the 2013 A bonds.

In April 2013, the Commission issued \$71,701,729 2013 Series A Subordinate Bonds at a fixed rate with a maturity date of December 1, 2043. The 2013 A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In April 2013, the Commission issued \$92,465,000 2013 Series A Motor License Fund-Enhanced Subordinate Special Revenue Bonds at a fixed rate with a maturity date of December 1, 2043. The 2013 A Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44.

In prior years, the Commission defeased certain revenue bonds by placing funds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds were not included in the Commission's financial statements. At May 31, 2013 and 2012, the Commission had \$415.0 million and \$424.9 million, respectively, of defeased bonds outstanding.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

Debt service requirements subsequent to May 31, 2013 related to all section debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2014	\$ 198,800	\$ 339,493	\$ 538,293
2015	192,255	335,804	528,059
2016	129,465	330,913	460,378
2017	198,120	357,484	555,604
2018	231,135	355,856	586,991
2019-2023	972,355	1,786,159	2,758,514
2024-2028	1,245,241	1,551,563	2,796,804
2029-2033	1,590,104	1,275,421	2,865,525
2034-2038	2,106,846	867,854	2,974,700
2039-2043	1,378,414	361,312	1,739,726
2044-2048	317,700	90,793	408,493
2049 and thereafter	137,875	11,570	149,445
	<u>\$ 8,698,310</u>	<u>\$ 7,664,222</u>	<u>\$ 16,362,532</u>

Debt service requirements subsequent to May 31, 2013 related to the Mainline debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2014	\$ 175,530	\$ 290,099	\$ 465,629
2015	167,915	287,475	455,390
2016	103,985	283,710	387,695
2017	171,460	311,467	482,927
2018	203,165	311,111	514,276
2019-2023	814,715	1,584,982	2,399,697
2024-2028	1,032,201	1,395,996	2,428,197
2029-2033	1,323,979	1,176,251	2,500,230
2034-2038	1,785,617	827,464	2,613,081
2039-2043	1,268,895	315,310	1,584,205
2044-2048	317,700	90,793	408,493
2049 and thereafter	137,875	11,570	149,445
	<u>\$ 7,503,037</u>	<u>\$ 6,886,228</u>	<u>\$ 14,389,265</u>

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

Debt service requirements subsequent to May 31, 2013 related to Oil Company Franchise Tax are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2014	\$ 16,550	\$ 39,107	\$ 55,657
2015	17,290	38,386	55,676
2016	18,070	37,621	55,691
2017	18,885	36,826	55,711
2018	19,785	35,972	55,757
2019-2023	109,790	164,408	274,198
2024-2028	151,235	133,113	284,348
2029-2033	186,430	93,510	279,940
2034-2038	221,289	39,109	260,398
2039-2043	12,299	45,701	58,000
	<u>\$ 771,623</u>	<u>\$ 663,753</u>	<u>\$ 1,435,376</u>

Debt service requirements subsequent to May 31, 2013 related to Motor License Registration Fee debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2014	\$ 6,720	\$ 10,287	\$ 17,007
2015	7,050	9,943	16,993
2016	7,410	9,582	16,992
2017	7,775	9,191	16,966
2018	8,185	8,773	16,958
2019-2023	47,850	36,769	84,619
2024-2028	61,805	22,454	84,259
2029-2033	79,695	5,660	85,355
2034-2038	99,940	1,281	101,221
2039-2043	97,220	301	97,521
	<u>\$ 423,650</u>	<u>\$ 114,241</u>	<u>\$ 537,891</u>

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

**Swap Payments and Associated Debt**

Net swap payments and related debt service requirements related to all sections subsequent to May 31, 2013, assuming current interest rates remain the same for the term of the agreements, are as follows:

<b>Year Ending May 31</b>	<b>Principal Maturities</b>	<b>Interest</b>	<b>Hedging Derivative</b>	<b>Total</b>
<i>(In Thousands)</i>				
2014	\$ 71,635	\$ 9,945	\$ 25,530	\$ 107,110
2015	71,720	9,270	25,530	106,520
2016	2,275	8,835	25,528	36,638
2017	72,445	8,613	25,531	106,589
2018	2,475	8,326	25,530	36,331
2019-2023	34,030	41,354	127,988	203,372
2024-2028	133,585	23,812	136,007	293,404
2029-2033	163,705	8,942	105,456	278,103
2034-2038	265,515	4,508	54,743	324,766
2039-2043	135,520	415	7,735	143,670
	<u>\$ 952,905</u>	<u>\$ 124,020</u>	<u>\$ 559,578</u>	<u>\$ 1,636,503</u>

Mainline net swap payments and related debt service requirements for the 2006 Series A, 2008 Series B Multi-Modal, 2009 Series C Senior, 2011 Series C Senior, 2011 Series D Senior and 2012 B Senior bond issues are as follows:

<b>Year Ending May 31</b>	<b>Principal Maturities</b>	<b>Interest</b>	<b>Hedging Derivative</b>	<b>Total</b>
<i>(In Thousands)</i>				
2014	\$ 71,635	\$ 9,528	\$ 16,084	\$ 97,247
2015	71,720	8,854	16,084	96,658
2016	2,275	8,418	16,083	26,776
2017	72,445	8,197	16,085	96,727
2018	2,475	7,910	16,084	26,469
2019-2023	34,030	39,271	80,760	154,061
2024-2028	133,585	21,728	88,779	244,092
2029-2033	129,440	6,941	60,077	196,458
2034-2038	165,575	3,227	25,710	194,512
2039-2043	38,300	114	906	39,320
	<u>\$ 721,480</u>	<u>\$ 114,188</u>	<u>\$ 336,652</u>	<u>\$ 1,172,320</u>

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**7. Debt (continued)**

**Swap Payments and Associated Debt (continued)**

Motor License net swap payments and related debt service requirements for the 2005 Series B, C, and D bond issues are as follows:

Year Ending May 31	Principal Maturities	Interest	Hedging Derivative	Total
<i>(In Thousands)</i>				
2014	\$ -	\$ 417	\$ 9,446	\$ 9,863
2015	-	416	9,446	9,862
2016	-	417	9,445	9,862
2017	-	416	9,446	9,862
2018	-	416	9,446	9,862
2019-2023	-	2,083	47,228	49,311
2024-2028	-	2,084	47,228	49,312
2029-2033	34,265	2,001	45,379	81,645
2034-2038	99,940	1,281	29,033	130,254
2039-2043	97,220	301	6,829	104,350
	<u>\$ 231,425</u>	<u>\$ 9,832</u>	<u>\$ 222,926</u>	<u>\$ 464,183</u>

As rates vary, variable rate bond interest payments and net swap payments will vary.

**8. Retirement Benefits**

Substantially all employees of the Commission participate in the Commonwealth of Pennsylvania State Employees' Retirement System (SERS), a cost-sharing multiple-employer public employee retirement system that was established under the provisions of Public Law 858, No. 331. It is a defined benefit plan that is funded through a combination of employee contributions, employer contributions and investment earnings. Membership in SERS is mandatory for most Commission employees which provides retirement, death, and disability benefits.

Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish or amend benefit provisions. Act 2001-9, signed into law on May 17, 2001, established Class AA membership whereby, generally, annual full retirement benefits for electing active members is 2.5% of the member's highest three-year average salary (final average salary) multiplied by years of service. Commission employees hired after June 30, 2001, but before January 1, 2011, are Class AA members. Members hired on or before June 30, 2001 had the option, but were not required, to elect Class AA membership.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**8. Retirement Benefits (continued)**

Those members not electing Class AA membership are considered Class A. The general annual benefit for full retirement for Class A members is 2% of the member's final average salary multiplied by years of service. Retirement benefits for Class A and AA employees vest after five years of credited service. Class A and AA employees who retire at age 60 with three years of service or with 35 years of service if under age 60 are entitled to an unreduced annual retirement benefit.

Act 120, signed into law on November 23, 2010, established Class A-3 and Class A-4 memberships. Effective January 1, 2011, all new members to SERS must elect one of these new membership classes. New members who elect Class A-3 will accrue benefits at 2% of their final average salary multiplied by years of service. Those members choosing Class A-4 will accrue benefits at 2.5% of their final average salary multiplied by years of service. Under Act 120, retirement benefits for Class A-3 and A-4 vest after ten years of credited service. Class A-3 and A-4 members who retire at age 65 with three years of service or when the member's age (last birthday) plus his/her completed years of credit service total at least 92 (Rule of 92) are entitled to an unreduced annual retirement benefit.

Covered Class A, Class AA, Class A-3 and A-4 employees are required by statute to contribute to SERS at a rate of 5%, 6.25%, 6.25% and 9.3% respectively, of their gross pay. Employees' contributions are recorded in individually identified accounts, which are also credited with interest, calculated quarterly to yield 4% per annum, as mandated by statute. Accumulated employee contributions and credited interest vest immediately and are returned to the employee upon termination of service if the employee is not eligible for other benefits.

Participating agency contributions, including those for the Commission, are also mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide SERS with assets sufficient to meet the benefits to be paid to SERS members. The Commission's retirement contribution, as a percentage of covered payroll, by class is as follows:

<b>Year Ended June 30</b>	<b>Class A</b>	<b>Class AA</b>	<b>Class A-3</b>	<b>Class A-4</b>
<b>2013</b>	<b>8.43%</b>	<b>10.51%</b>	<b>7.29%</b>	<b>7.29%</b>
2012	5.59%	6.99%	4.83%	4.83%
2011	3.29%	4.11%	4.11%	4.11%

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**8. Retirement Benefits (continued)**

The Commission's required contributions and percentage contributed are as follows:

<b>Year Ended May 31</b>	<b>Commission Required Contribution (In Millions)</b>	<b>% Contributed</b>
<b>2013</b>	<b>\$12.0</b>	<b>100%</b>
2012	\$ 7.9	100%
2011	\$ 5.3	100%

A copy of SERS's annual financial statements can be obtained by writing to: State Employees' Retirement System, 30 North Third Street, P.O. Box 1147, Harrisburg, Pennsylvania 17108-1147. Additional information about SERS, including its CAFR and actuarial valuation reports, are available at [www.sers.state.pa.us](http://www.sers.state.pa.us).

**9. Commitments and Contingencies**

**Litigation**

The Commission is a defendant in a number of legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commission arising from alleged torts, alleged breaches of contracts, and condemnation proceedings. Tort claims against the Commission are generally barred by sovereign immunity, except as waived by statute. Further, to the extent waived, damages for any loss are limited by sovereign immunity to \$250,000 for each person and \$1,000,000 for each accident. Based on the current status of all of the Commission's legal proceedings, it is the opinion of Commission management and counsel that they will not have a material effect on the Commission's financial position.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**9. Commitments and Contingencies (continued)**

**Internal Revenue Service Examination and Correspondence**

The Commission received correspondence from the IRS dated September 27, 2010. In that letter, the IRS stated that the Commission's \$275,000,000 Turnpike Revenue Bonds, Series A of 2009 (Federally Taxable-Issuer Subsidy-Build America Bonds) had been named for examination. The IRS further stated that it "routinely" examines municipal debt issuances to determine compliance with Federal tax requirements and that at this time, the IRS has no reason to believe that the Commission's debt issuance fails to comply with any of the applicable tax requirements.

The Commission received additional correspondence from the IRS dated June 7, 2011. In that letter, the IRS stated that they completed their examination of the Commission's \$275,000,000 Turnpike Revenue Bonds, Series A of 2009 (Federally Taxable-Issuer Subsidy-Build America Bonds). As a result, the IRS made a determination to close the examination with no-change to the position that the Commission is allowed a refundable credit with respect to each interest payment under the Bonds as provided in section 54AA and section 6431 of the Internal Revenue Code of 1986, as amended (the "Code").

**Open Purchase Order Commitments**

The Commission had open purchase order commitments of approximately \$681.1 million and \$545.3 million at May 31, 2013 and 2012, respectively.

**Lease and Funding Agreement between the Commission and PennDOT**

On July 18, 2007, Act 44 was enacted, creating a "public-public partnership" between the Commission and PennDOT to provide funding for roads, bridges and transit throughout the Commonwealth. Subsequently, in order to effectuate the provisions of Act 44 requiring the Commission to make substantial annual payments to PennDOT, the Commission and PennDOT entered into a Lease and Funding Agreement (the Funding Agreement), incorporating many of the terms of Act 44. The term of the Funding Agreement is fifty (50) years from October 14, 2007, its effective date.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**9. Commitments and Contingencies (continued)**

**Lease and Funding Agreement between the Commission and PennDOT (continued)**

The Funding Agreement requires the Commission to make scheduled annual payments to PennDOT, payable in equal quarterly installments, to be used to provide funding for roads, bridges and transit in the Commonwealth. The Commission's obligation to pay the annual debt service on any Special Revenue Bonds on a timely basis is part of its payment obligation under the Funding Agreement. The Funding Agreement also granted the Commission the option to lease the portion of Interstate I-80 located in the Commonwealth from PennDOT upon the approval of the Federal Highway Administration (FHWA) of the conversion of such portion into a toll road (the Conversion). The Funding Agreement granted the unilateral option to the Commission to effectuate the Conversion at any time before the third anniversary of the Funding Agreement (the Conversion Period), with the option to extend the Conversion Period for up to three one-year periods.

On October 13, 2007, the Commission and PennDOT submitted a joint application to the FHWA for approval of the Conversion. The FHWA ultimately denied the application on April 6, 2010. Neither the Commission nor PennDOT appealed the FHWA's decision, nor did the Commission extend the Conversion Period during the notice period under the Funding Agreement or give notice of Conversion. Therefore, the Conversion Period lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. The Funding Agreement provides that the Commission's aggregate annual payments to PennDOT are limited to \$450 million annually upon lapse of the Conversion option and such payment amount commenced with the 2010-2011 Fiscal Year. Under existing law, all legal, financial and operational responsibility for I-80 remains with PennDOT.

The Commission made payments of \$450 million (recorded as nonoperating expense) in both fiscal years reported in these statements.

The Commission is required by the terms of the Funding Agreement and Act 44 to fix and adjust tolls at levels that will generate revenues (together with other available moneys) sufficient to pay, among other things, amounts to PennDOT pursuant to the Funding Agreement when due and other obligations of the Commission, and the Commission has covenanted in the Subordinate Indenture to set tolls at a level sufficient to meet its coverage obligations taking into account any additional debt incurred in order to make such payments. The Commission believes that Turnpike System revenues should enable it to satisfy its reduced payment obligations as set forth in Act 44 without reliance on any I-80 toll revenues.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**9. Commitments and Contingencies (continued)**

**Lease and Funding Agreement between the Commission and PennDOT (continued)**

Due to the significance of the quarterly payments under Act 44, the Commission currently does not have excess cash from operations to finance its required payments to PennDOT. Therefore, the Commission plans to continue to increase toll rates annually and to issue debt for the foreseeable future to finance the majority of these payments. There can be no assurance that the Commission will be able to continue to issue debt on terms that are acceptable, or at all, to finance these obligations. The sole and exclusive remedy for the failure to make the required payments to PennDOT under the Funding Agreement is that all actions of the Commission taken by a vote of the Commissioners thereafter must be approved by a unanimous vote of all Commissioners until such time as the payment is made. However, under Act 44, a unanimous vote is not required if it would prevent the Commission from complying with covenants with “current bondholders, debt holders or creditors.” The Funding Agreement does not refer to “current bondholders, debt holders or creditors,” but provides that a unanimous vote is not required if it would prevent the Commission from complying with covenants with “bondholders, debt holders or creditors having such status as of the Effective Date,” which under the Funding Agreement is defined as October 14, 2007. These voting procedures have not become effective as the Commission has not missed any payments under the Funding Agreement.

Act 44 provides that all required payments under the Funding Agreement or as required by Act 44 shall be subordinate obligations of the Commission payable solely from the General Reserve Fund after meeting all other Commission requirements pursuant to any financial documents, financial covenants, liquidity policies or agreements in effect at the Commission.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**9. Commitments and Contingencies (continued)**

**Interest Rate Swaps**

The fair value and notional amount of derivative instruments outstanding at May 31, 2013 and May 31, 2012, classified by type and the changes in fair value of such derivative instruments for the years then ended as reported in the fiscal year 2013 and fiscal year 2012 financial statements are as follows:

	<u>Changes in fair value</u>			<u>Fair Value at May 31, 2013</u>		
	<u>May 31, 2012</u>	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
<i>(In Thousands)</i>						
<b>Cash flow hedges:</b>						
Pay-fixed interest rate swap	\$ (198,518)	Deferred outflow	\$ 81,149	Noncurrent liabilities	\$ (117,369)	\$ 685,455
<b>Fair value hedges:</b>						
Receive-fixed rate swap	33,229	Deferred inflow	(6,912)	Noncurrent liabilities	26,317	118,015
<b>Investment derivative instruments:</b>						
Basis swaps	<u>22,569</u>	Investment earnings	<u>13,956</u>	Long-Term investments	<u>36,525</u>	1,310,732
<b>Total PTC</b>	<u>\$ (142,720)</u>		<u>\$ 88,193</u>		<u>\$ (54,527)</u>	

	<u>Changes in fair value</u>			<u>Fair Value at May 31, 2012</u>		
	<u>May 31, 2011</u>	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
<i>(In Thousands)</i>						
<b>Cash flow hedges:</b>						
Pay-fixed interest rate swap	\$ (67,155)	Deferred outflow	\$ (131,363)	Noncurrent liabilities	\$ (198,518)	\$ 685,455
<b>Fair value hedges:</b>						
Receive-fixed rate swap	17,664	Deferred inflow	15,565	Noncurrent liabilities	33,229	118,015
<b>Investment derivative instruments:</b>						
Basis swaps	<u>20,142</u>	Investment earnings	<u>2,427</u>	Long-Term investments	<u>22,569</u>	1,315,792
<b>Total PTC</b>	<u>\$ (29,349)</u>		<u>\$ (113,371)</u>		<u>\$ (142,720)</u>	

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**9. Commitments and Contingencies (continued)**

**Interest Rate Swaps (continued)**

*Fair Values*

Fair values of the Commission's derivative instruments were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the swaps.

*Recent Activity*

In November 2011, the Commission issued 2011 Series D Senior Bonds primarily to partially refund the 2009 Series C Senior Bonds. Concurrently, \$38,495,000 of the related swaps were deemed terminated and are now associated with the 2011 Series D Senior Bonds. The fair value of these swaps at the time of the deemed termination was a negative \$5,046,312. This amount is being amortized over the three year period ending December 1, 2014, which is final maturity for both the 2009 Series C Senior Bonds and the 2011 Series D Senior Bonds.

In November 2012, the Commission issued 2012 Series B Senior Bonds primarily to partially refund the 2009 Series C Senior Bonds and the 2011 Series D Senior Bonds. Concurrently, \$38,495,000 of the 2009 Series C Senior Bonds related swaps and \$12,831,667 of the 2011 Series D Senior Bonds related swaps were deemed terminated and are now associated with the 2012 Series B Senior Bonds. The fair value of these swaps at the time of the deemed termination was a negative \$7,428,303. This amount is being amortized over the two year period ending December 1, 2014, which is the final maturity for both the 2009 Series C Senior Bonds and the 2011 Series D Senior Bonds.

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Notes to Financial Statements (continued)**

**9. Commitments and Contingencies (continued)**

**Interest Rate Swaps (continued)**

Following is a summary of the hedging derivatives in place as of May 31, 2013. These hedging derivatives contain certain risks and collateral requirements as described below (in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty	Moody's/ S&P/Fitch	Book Fair Value	Full Value (to) from Counterparty
Pay fixed	Hedge of changes of								
Interest	cash flows of 2012 Series	\$ 12,836			Pay 4.403%,	Bank of America*	A3/A/A	\$ 704	\$ (4,163)
Rate	B Bonds (formerly	25,655			receive 67.00%	JP Morgan Chase	Aa3/A+/A+	1,406	(8,321)
Swap	2009 Series C & 2011	12,836			of 1-month	UBS AG	A2/A/A	704	(4,163)
	Series D Bonds)	\$ 51,327	11/30/2012	12/1/2030	LIBOR			\$ 2,814	\$ (16,647)
Pay fixed	Hedge of changes of	\$ 6,418			Pay 4.403%,	Bank of America*	A3/A/A	\$ 79	\$ (2,082)
Interest	cash flows of 2011 Series D	12,827			receive 67.00%	JP Morgan Chase	Aa3/A+/A+	159	(4,161)
Rate	D Bonds (formerly	6,418			of 1-month	UBS AG	A2/A/A	79	(2,082)
Swap	2009 Series C Bonds)	\$ 25,663	12/1/2011	12/1/2030	LIBOR			\$ 317	\$ (8,325)
Pay fixed	Hedge of changes of	\$ 19,266			Pay 4.403%,	Bank of America*	A3/A/A	\$ (2,112)	\$ (6,249)
Interest	cash flows of 2009	38,508			receive 67.00%	JP Morgan Chase	Aa3/A+/A+	(4,221)	(12,489)
Rate	Series C Bonds (formerly	19,266			of 1-month	UBS AG	A2/A/A	(2,112)	(6,249)
Swap	2002 Series A Bonds)	\$ 77,040	12/9/2009	12/1/2030	LIBOR			\$ (8,445)	\$ (24,987)
Pay fixed		\$ 57,860				Citibank	A3/A/A	\$ (14,238)	\$ (14,238)
Interest	Hedge of changes of	57,845				JP Morgan Chase	Aa3/A+/A+	(14,234)	(14,234)
Rate	cash flows on the 2005	57,860			Pay 4.2015%,	Merrill Lynch CS*	Baa2/A-/A	(14,231)	(14,231)
Swap	Series B,C,D Bonds	\$ 231,425	8/17/2005	7/15/2041	receive SIFMA	Morgan Stanley	Baa1/A-/A	(14,231)	(14,231)
Pay fixed		\$ 33,333				GSMMDP	Aa2/AAA/NR	\$ (11,755)	\$ (11,755)
Interest	Hedge of changes in	33,333				Merrill Lynch CS*	Baa2/A-/A	(11,754)	(11,754)
Rate	cash flow on the 2008	33,334			Pay 4.887%,	Morgan Stanley	Baa1/A-/A	(11,755)	(11,755)
Swap	Series B Bonds	\$ 100,000	6/1/2008	12/1/2038	receive SIFMA			\$ (35,264)	\$ (35,264)
Pay fixed	Hedge of changes of	\$ 66,667				GSMMDP	Aa2/AAA/NR	\$ (6,619)	\$ (23,510)
Interest	cash flow on the 2011	66,667				Merrill Lynch CS*	Baa2/A-/A	(6,619)	(23,509)
Rate	Series C Bonds (formerly	66,666			Pay 4.887%,	Morgan Stanley	Baa1/A-/A	(6,619)	(23,510)
Swap	2008 Series B Bonds)	\$ 200,000	5/26/2011	12/1/2038	receive SIFMA			\$ (19,857)	\$ (70,529)
Total pay fixed interest rate swaps		\$ 685,455						\$ (117,369)	\$ (212,686)
Pay variable									
Interest	Hedge of changes of				Receive 4.186%,				
Rate	fair value of 2006 Series				Pay SIFMA	Citibank	A3/A/A	\$ 26,317	\$ 26,317
Swap	A Bonds	\$ 118,015	6/9/2006	12/1/2026					

1-month LIBOR was 0.19428% at May 31, 2013.

SIFMA was 0.12 % at May 31, 2013.

\* On November 15, 2012, the Commission executed an amendment to the swap agreements to include Merrill Lynch Derivative Products as guarantor. Merrill Lynch Derivative Products credit ratings were Aa3/AAA/NR (Moody's/S&P/Fitch).

The full value (to) from Counterparty listed is the mid-market value at May 31, 2013. The difference between full value and book fair value is related to the value of the swaps at the time the related bonds were refunded. This value is being amortized over the shorter of the life of the original bonds or the refunding bonds.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**9. Commitments and Contingencies (continued)**

**Interest Rate Swaps (continued)**

- **Credit Risk** – The Commission is exposed to credit risk for both hedging derivatives and investment derivatives (see Note 4) that have positive fair values. The Commission was exposed to credit risk with respect to the 2012 Series B Senior Bonds, 2011 Series D Senior Bonds, and 2006 Series A Senior Bonds swaps at May 31, 2013. The Commission is also exposed to credit risk with respect to the (A), (C), (D) and (E) basis swaps listed in Note 4. However, should interest rates change and the fair values of the other swaps become positive, the Commission would have additional credit risk exposure.

To mitigate the exposure to credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Collateral would be posted with a third-party custodian and would be in the form of cash, U.S. Treasury Obligations, or U.S. Government Agency Securities.

The Commission's derivative agreements contain netting provisions, under which transactions executed with a single counterparty within a credit are netted in the event of default or counterparty insolvency. At May 31, the Commission had net credit risk exposure to four counterparties, one of which posted collateral in the amount of \$32.2 million, pursuant to the provisions of the derivative agreement. Two counterparties were not required to post collateral because the fair values at year end were below the collateral threshold amounts. The remaining counterparty's credit rating was investment grade; therefore, no collateral was required.

- **Interest Rate Risk** – The Commission is exposed to variable interest rates with respect to the fixed-to-variable swap agreement associated with the 2006 Series A Senior Bonds. Additionally, the Commission will be exposed to variable interest rates if the swap provider for a variable-to-fixed swap agreement defaults or if a variable-to-fixed swap is terminated.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**9. Commitments and Contingencies (continued)**

**Interest Rate Swaps (continued)**

- **Basis Risk** – The Commission is exposed to basis risk on its basis swaps because the variable-rate payments received by the Commission on these derivative instruments are based on rates other than the interest rates the Commission pays on these derivative instruments. See the basis swap schedule in Note 4 for the terms of the interest rate swap agreements. The Commission's exposure to basis risk for the swaps listed in Note 4 is as follows:
  - (A) – To the extent 67% of 1-month LIBOR exceeds 60.08% of the 10-year maturity of the USD-ISDA Swap Rate
  - (B) – To the extent SIFMA exceeds 63% of 1-month LIBOR + 20 basis points
  - (C) – To the extent 67% of 1-month LIBOR exceeds 60.15% of the 10-year maturity of the USD-ISDA Swap Rate
  - (D) – To the extent SIFMA exceeds 99.68% of 3-month LIBOR
  - (E) – To the extent SIFMA exceeds 99.80% of 3-month LIBOR
  - (F) – To the extent 60.08% of the 10-year maturity of the USD-ISDA Swap Rate exceeds 67% of 1-month LIBOR
  - (G) – To the extent 60.08% of the 10-year maturity of the USD-ISDA Swap Rate exceeds 67% of 1-month LIBOR
- **Termination Risk** – The swap agreements may be terminated due to a number of circumstances and the Commission retains the option to terminate the swaps at any time. If a swap agreement is terminated (by either party), the respective variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if at the time of termination, the swap had a negative fair value, the Commission would be liable to the swap counterparty for a liability equal to the swap's full value. It is generally the Commission's intent at the time of swap execution to maintain the swap transactions for the life of the financing.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**9. Commitments and Contingencies (continued)**

**Interest Rate Swaps (continued)**

- ***Collateral Requirements*** – The Commission’s derivative instruments related to its Mainline Turnpike Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its senior credit rating falls below specified thresholds. These thresholds vary from agreement to agreement, with most in the “A3” (Moody’s Investors Service) and “A-” (Standard & Poor’s and Fitch Rating Service) levels. The Commission’s Mainline senior bond rating was “A1” from Moody’s and “A+” from both Standard & Poor’s and Fitch at May 31, 2013. Based on May 31, 2013 full values, the Commission could be required to post \$125.4 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

The Commission’s derivative instruments related to its Oil Company Franchise Tax Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its credit rating falls below specified thresholds. These thresholds vary from agreement to agreement, with most in the “A3” (Moody’s Investors Service) and A- (Standard & Poor’s and Fitch Rating Service) levels. The Commission’s Oil Company Franchise Tax senior bond rating is currently “Aa3” from Moody’s and “AA” from Standard & Poor’s. Based on May 31, 2013 full values, the Commission could be required to post \$5.2 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

The Commission’s derivative instruments related to its Motor Vehicle Registration Fee Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its credit rating falls below specified thresholds and/or in the event of certain uncured insurer events of default. These thresholds vary from agreement to agreement. The Commission’s Motor Vehicle Registration Fee Revenue bond rating was “Aa3” from Moody’s, “A” from Standard & Poor’s and “AA-” from Fitch at May 31, 2013. Based on May 31, 2013 full values, the Commission could be required to post \$56.9 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

**10. Related Party Transactions**

The Commission incurred costs of \$38.2 million and \$36.1 million for the fiscal years ended May 31, 2013 and 2012 respectively, related to its use of the Commonwealth’s State Police in patrolling the Turnpike System.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**11. Postemployment Benefits**

**Plan Description**

The Commission maintains a welfare plan program (the Plan), for the purpose of providing benefits to eligible retirees and their dependents. The Plan is a single employer, defined benefit plan. The Commission established the Pennsylvania Turnpike Commission Retiree Medical Trust (the Trust) on May 30, 2008 as an irrevocable trust, tax-exempt under the Internal Revenue Code, to provide funding of the Plan's other post-employment benefits (OPEB).

The Trust is administered by the Trustees. PNC Bank serves as custodian of the assets of the Trust. Payments from the Trust are made by the custodian at the direction of the Trustees. The Trust's financial statements are not included in the financial statements of a public employee retirement system. The Trust issues a stand-alone financial report, which can be obtained by contacting the Commission's Accounting Department.

Plan benefit provisions and retiree and dependent contribution rates are established and may be amended by the Commission.

*Management Employees/Retirees*

The benefits funded by the Trust include certain post-employment medical, prescription drug, dental and vision benefits to management employees who have reached 20 years of service and are under age 60; and benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older. The same coverage is provided to surviving spouses and dependents of management retirees who retired on or after March 1, 2001. Surviving spouses of retirees who retired prior to March 1, 2001 are required to contribute the full cost of the coverage and dependents are offered coverage under COBRA. Medicare Part B premiums are paid by the retiree, spouse or dependent if age 65 or over, or under age 65 and disabled.

*Union Employees/Retirees*

The benefits also include certain post-employment medical and prescription drug benefits to union employees who have reached 20 years of service and are under age 60; and benefit eligibility changes from 20 to 10 years for employees 60 years of age or older. The same coverage is provided to spouses and dependents of eligible union retirees until the death of the retiree. Surviving spouses are required to contribute the full cost of coverage and dependents are offered coverage under COBRA.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**11. Postemployment Benefits (continued)**

**Funding Policy**

The Commission has adopted a Retiree Medical Trust Funding Policy, effective September 17, 2008, whereby the Commission anticipates approving an annual contribution to the Trust in the amount of the Annual Required Contribution (ARC) as determined by the Commission's actuary during the approval of its annual operating budget.

**Annual OPEB Cost and Net OPEB Asset**

The following chart summarizes the components of the Commission's annual OPEB cost, actual contributions, percentage of annual OPEB cost contributed, increase in the net OPEB asset and the net OPEB asset at the end of the fiscal year.

	Year ended May 31		
	2013	2012	2011
	<i>(Dollar Amounts in Thousands)</i>		
Normal cost	\$ 9,019	\$ 7,356	\$ 6,931
Trust expense assumption	150	-	-
Amortization	13,095	20,377	18,745
Interest	1,159	1,088	1,027
Annual required contribution (ARC)	23,423	28,821	26,703
Interest on net OPEB asset	(2,021)	(283)	(141)
Adjustment to ARC	4,110	527	168
Annual OPEB cost	25,512	29,065	26,730
Employer contributions	54,768	54,397	28,505
Percentage of annual OPEB cost contributed	214.7%	187.2%	106.6%
Increase in net OPEB asset	29,256	25,332	1,775
Net OPEB asset – beginning of year	28,871	3,539	1,764
Net OPEB asset – end of year	\$ 58,127	\$ 28,871	\$ 3,539

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**11. Postemployment Benefits (continued)**

**Annual OPEB Cost and Net OPEB Asset (continued)**

The ARC and its components (normal cost, trust expense assumption, UAAL amortization, and mid-year contribution interest) in the table on the previous page were obtained from the biennial actuarial valuations, prepared by an independent actuary. The fiscal year 2013 and 2012 ARC and Annual OPEB cost amounts were obtained from a March 1, 2012 valuation. The fiscal year 2011 ARC amount was obtained from a March 1, 2010 valuation.

Retiree and spouse contribution rates at May 31, 2013 are as follows:

- Management employees and union employees who retired prior to July 1, 1998 and October 1, 1997, respectively—the retiree/spouse contributes the full cost of coverage less the Commission’s monthly subsidy of \$19.28 once the retiree turns 65.
- Union employees who retired on October 1, 1997 or later—the retiree/spouse contributes the full cost of coverage less the Commission’s monthly subsidy of \$73.50 when the retiree or spouse reach age 65.
- Surviving spouses are paying 100% of the premiums, except for surviving spouses of Management employees who retired after March 1, 2001.

**Funding Status and Funding Progress**

The actuarial value of assets, AAL, and UAAL amounts for the fiscal year ended May 31, 2012 and 2010 in the chart below were obtained from actuarial valuations, prepared by independent actuaries, as of March 1, 2012 and 2010, respectively.

<b>Fiscal Year Ended May 31</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<i>(Dollar Amounts in Thousands)</i>						
2012	\$ 152,341	\$ 250,750	\$ 98,409	60.8%	\$ 124,241	79.2%
2010	\$ 66,436	\$ 263,398	\$ 196,962	25.2%	\$ 123,754	159.2%

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**11. Postemployment Benefits (continued)**

**Actuarial Methods and Assumptions**

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information depicting the change in the actuarial value of Plan assets over time relative to the actuarial accrued liability for benefits.

The valuation measurements in the charts on the previous pages are, in part, the result of estimates of the value of reported amounts and assumptions about the probability of events in the long term. Such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the Commission and the Plan members through the respective valuation dates. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of the actuarial methods and assumptions used in the March 1, 2012 valuation is as follows:

Actuarial cost method	Projected Unit Credit
Discount rate	7%
Rate of return on assets	7%
Amortization method	Level dollar
Amortization period	10 years (closed)
Asset valuation method	Fair value
Benefit Assumption – increases/decreases	No changes

**Health Cost Trend:** The healthcare trend assumption for medical and pharmacy benefits and premiums is based on the Society of Actuaries-Getzen Model version 11.1 utilizing the baseline assumptions included in the model, except GDP inflation is assumed to be 2.75% per year and real GDP growth is assumed to be 1.8% per year, for fiscal years 2016 and later. Further adjustments are made for aging, percentage of costs associated with administrative expenses, inflation on administrative costs, and potential excise tax due to Healthcare Reform.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**11. Postemployment Benefits (continued)**

**Actuarial Methods and Assumptions (continued)**

The health cost trend assumption for medical and pharmacy benefits at sample years is as follows:

<b>Valuation Year Ending February 28</b>	<b>Pre-65 Trend</b>	<b>Post-65 Trend</b>
2013	7.3%	7.3%
2014	7.4%	7.4%
2015	6.2%	6.2%
2016	5.9%	5.9%
2017	5.9%	5.9%
2018	5.8%	5.8%
2019	5.8%	5.8%
2020	5.8%	5.8%
2025	5.8%	5.7%
2030	6.8%	5.7%
2035	6.6%	5.6%
2040	6.0%	5.4%
2045	5.8%	5.6%
2050	5.7%	5.5%
2055	5.6%	5.9%

The health cost trend assumptions for dental and vision benefits and premiums are assumed to be 4.5% per year.

Salary increases were not considered as OPEB benefits are not based upon pay.

**12. Self-Insurance**

The Commission is exposed to various risks of losses such as theft of, damage to, and destruction of assets, errors and omissions, third-party torts, injuries to employees, injuries to third parties due to accidents caused by Commission automobiles, and natural disasters. The Commission has purchased commercial insurance for all risks of losses, including employee medical benefits, except for torts, injuries to employees and injuries to third parties due to accidents caused by Commission automobiles. No settlements exceeded insurance coverage for each of the past three years.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**12. Self-Insurance (continued)**

The Commission recorded a liability of \$37.6 million and \$31.9 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2013 and 2012, respectively. This liability is based on GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be recorded if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is calculated based on the Commission's past loss experience. The liability for automobile and general tort was not discounted. The liability for workers' compensation was discounted using a rate of 3.25% and 4.05% for each of the fiscal years ended May 31, 2013 and 2012. The liability includes amounts for claims adjustment expense and is net of any salvage and subrogation. Salvage and subrogation were not material for the years ended May 31, 2013 and 2012. The Commission believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss adjustment expenses.

Management believes that its reserve for claims incurred but not reported is determined in accordance with generally accepted actuarial principles and practices. However, estimating the ultimate liability is a complex and judgmental process inasmuch as the amounts are based on management's informed estimates and judgments using data currently available. As additional experience and data become available regarding claim payments and reporting patterns, legislative developments and economic conditions, the estimates are revised accordingly and the impact is reflected currently in the Commission's financial statements.

The self-insurance liabilities are \$37.6 million and \$31.9 million for fiscal years ended May 31, 2013 and 2012, respectively. The self-insurance liabilities recorded as accounts payable and accrued liabilities are \$2.7 million and \$1.9 million for the fiscal years ended May 31, 2013 and 2012, respectively. The self-insurance liabilities recorded as other noncurrent liabilities are \$34.9 million and \$30.0 million for the fiscal years ended May 31, 2013 and 2012, respectively.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**12. Self-Insurance (continued)**

The following summaries provide aggregated information on self-insurance liabilities:

	June 1, 2012 Liability	Effects of Discount as of June 1, 2012	Incurred Claims		Paid Claims		Effects of Discount as of May 31, 2013	May 31, 2013 Liability
			Current Year	Prior Years	Current Year	Prior Years		
<i>(In Thousands)</i>								
<b>Year ended May 31, 2013</b>								
Workers' compensation	\$ 6,278	\$ 2,056	\$ 1,558	\$ 1,504	\$ (568)	\$ (2,491)	\$ (1,675)	\$ 6,662
Automobile/general tort	25,586	-	5,897	(416)	(54)	(94)	-	30,919
	<u>\$ 31,864</u>	<u>\$ 2,056</u>	<u>\$ 7,455</u>	<u>\$ 1,088</u>	<u>\$ (622)</u>	<u>\$ (2,585)</u>	<u>\$ (1,675)</u>	<u>\$ 37,581</u>
<i>(In Thousands)</i>								
	June 1, 2011 Liability	Effects of Discount as of June 1, 2011	Current Year	Prior Years	Current Year	Prior Years	Effects of Discount as of May 31, 2012	May 31, 2012 Liability
<b>Year ended May 31, 2012</b>								
Workers' compensation	\$ 6,328	\$ 1,833	\$ 897	\$ 2,544	\$ (561)	\$ (2,707)	\$ (2,056)	\$ 6,278
Automobile/general tort	20,477	-	6,155	2,224	(556)	(2,714)	-	25,586
	<u>\$ 26,805</u>	<u>\$ 1,833</u>	<u>\$ 7,052</u>	<u>\$ 4,768</u>	<u>\$ (1,117)</u>	<u>\$ (5,421)</u>	<u>\$ (2,056)</u>	<u>\$ 31,864</u>

The foregoing reflects an adjustment for a deficiency of \$1.1 million and \$4.8 million for the fiscal years ended May 31, 2013 and 2012, respectively, for prior years' incurred claims that resulted from a change in estimate as more information became available.

**13. Compensated Absences**

Sick leave is earned at a rate of 3.08 hours every two weeks, or ten days per year. Unused sick leave may be carried over from year to year up to a maximum of 18 days. In November of each year, employees are reimbursed for all accumulated unused sick leave above the maximum. Sick leave payouts were \$1.9 and \$1.8 million in November 2012 and 2011 respectively.

Vacation leave is earned at varying rates, depending on years of service. Management employees earn between 4.62 and 8.93 hours every two weeks. Union employees earn between 3.08 and 8.93 hours every two weeks.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**13. Compensated Absences (continued)**

Upon termination of employment, all unused sick and vacation leave is paid to the employee. The compensated absences liabilities are \$16.7 million and \$16.1 million for fiscal years ended May 31, 2013 and 2012, respectively. The compensated absences liabilities recorded as accounts payable and accrued liabilities are \$9.2 million and \$9.7 million for the fiscal years ended May 31, 2013 and 2012, respectively. The compensated absences liabilities recorded as other noncurrent liabilities are \$7.5 million and \$6.4 million for the fiscal years ended May 31, 2013 and 2012, respectively.

A summary of changes to compensated absences for the years ended May 31, 2013 and 2012 is as follows:

<b>Fiscal Year Ended May 31</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
			<i>(In Thousands)</i>		
<b>2013</b>	<b>16,146</b>	<b>12,771</b>	<b>12,187</b>	<b>16,730</b>	<b>9,202</b>
2012	16,182	11,882	11,918	16,146	9,709

**14. Letters of Credit**

The Commission has outstanding letters of credit with several banks as described in the paragraphs below:

Supplemental Trust Indenture No. 13 dated as of May 1, 2008, amendment and restatement of the Amended and Restated Indenture of Trust dated as of March 1, 2011, between the Commission and U.S. Bank National Association required a Letter of Credit to be established for the 2008 Series B-1 Turnpike Multi-Modal Revenue Bonds. The Commission entered into a Letter of Credit with Barclays Bank PLC in the amount of up to \$102,136,987 for purposes of paying debt service obligations on the bonds. The Commission draws against this letter of credit each month to fund the related debt service payments. The Commission makes monthly reimbursements for these draws against the letter of credit. During fiscal year 2013, the Commission made draws against the Letter of Credit and reimbursements to Barclays in the amount of \$202,049 and \$202,049, respectively. There were no outstanding draws against the Letter of Credit at May 31, 2013.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**14. Letters of Credit (continued)**

Supplemental Trust Indenture No. 14 dated as of August 1, 2008, amendment and restatement of the Amended and Restated Indenture of Trust dated as of March 1, 2011, between the Commission and U.S. Bank National Association required a Letter of Credit to be established for the 2008 Series C Turnpike Multi-Modal Revenue Bonds. The Commission entered into a Letter of Credit with Barclays Bank PLC in the amount of up to \$50,854,795 for purposes of paying debt service obligations on the bonds. The Commission draws against this letter of credit each month to fund the related debt service payments. The Commission makes monthly reimbursements for these draws against the letter of credit. During fiscal year 2013, the Commission made draws against the Letter of Credit and reimbursements to Barclays in the amount of \$87,117 and \$87,117, respectively. There were no outstanding draws against the Letter of Credit at May 31, 2013.

Pennsylvania insurance law requires a Letter of Credit, Surety Bond, or Escrow from entities that self-insure their Workers Compensation. Therefore, the Commission has four (4) Standby Letters of Credit to satisfy the PA Turnpike's collateral requirement under the expired Owner Controlled Insurance Program (OCIP) with Zurich American Insurance. As of May 31, 2013, there have been no draws against these Letters of Credit. The Letters of Credit are as follows:

- \$450,000 Letter of Credit with PNC Bank, N.A. for beneficiary Zurich American Insurance for the Allegheny River Bridge OCIP.
- \$581,000 Letter of Credit with PNC Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase I OCIP.
- \$2,000,000 Letter of Credit with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase II OCIP.
- \$255,000 Letter of Credit with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Susquehanna River Bridge and Valley Forge to Norristown Widening OCIPs.

As of May 31, 2012, there was a \$90,000 Letter of Credit with PNC Bank, N.A. for beneficiary Zurich American Insurance for the Findlay Connector OCIP. This Letter of Credit was closed on November 27, 2012.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Notes to Financial Statements (continued)

**15. Subsequent Events**

On June 27, 2013, the Commission entered into two novation agreements for three swaps with UBS AG and The Bank of New York Mellon. The prior counterparty to the Commission for both novation agreements was UBS AG; the subsequent counterparty to the Commission for both novation agreements is The Bank of New York Mellon. The total notional amount of the three swaps was \$221,253,000 at May 31, 2013.

On July 23, 2013, the Commission issued 2013 Series B Senior Bonds in the principal amount of \$265,155,000 at a variable rate maturing on December 1, 2020. The 2013 B bonds were issued for the purpose of financing the costs of: (a) the current refunding of the Commission's outstanding (1) Variable Rate Turnpike Revenue Bonds, Series C of 2009, maturing on December 1, 2013, in the aggregate principal amount of \$52,070,000; (2) Turnpike Multi-Modal Revenue Refunding Bonds Series A-1 of 2010, maturing on December 1, 2035, currently outstanding in the aggregate principal amount of \$97,230,000; (3) Turnpike Multi-Modal Revenue Refunding Bonds, Series A-2 of 2010, maturing on December 1, 2035, currently outstanding in the aggregate principal amount of \$97,140,000; and (4) Variable Rate Turnpike Revenue Bonds, Series D of 2011, maturing on December 1, 2013, currently outstanding in the aggregate principal amount of \$17,455,000; and (b) issuing the 2013 B Bonds.

On August 20, 2013, the Commission issued 2013 Series C Senior Bonds in the principal amount of \$222,935,000 at a fixed interest rate maturing on December 1, 2043. The 2013 Series C Senior Bonds were issued for the purpose of financing the costs of: (a) various capital expenditures set forth in the Commission's current ten-year capital plan including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and/or the rehabilitation of certain interchanges; and (b) issuing the 2013 Series C Senior Bonds.

## Required Supplementary Information

(This page intentionally left blank)

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Required Supplementary Information

**Schedule of Funding Progress – Postemployment Healthcare Benefits**  
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
March 1, 2012	\$ 152,341	\$ 250,750	\$ 98,409	60.8%	\$ 124,241	79.2%
March 1, 2010	\$ 66,436	\$ 263,398	\$ 196,962	25.2%	\$ 123,754	159.2%
March 1, 2008	\$ 14,000	\$ 228,067	\$ 214,067	6.1%	\$ 118,559	180.6%

Following is a listing of changes in assumptions used in the March 1, 2012 valuation compared with previous valuations.

- ***Economic Assumptions*** – The discount rate was reduced from 8% to 7%.
- ***Healthcare Assumptions*** – Per capita claims costs were updated based on recent experience of Commission retirees and the healthcare trend was modified to reflect the use of the “Getzen” model and to incorporate the estimated impact of the excise tax beginning in 2018 due to Healthcare Reform. Assumed health plan elections for members attaining age 65 were modified from 100% electing Signature 65 to 2/3rd electing Signature 65 and 1/3rd electing Freedom Blue (without Rx).
- ***Demographic assumptions*** – For members eligible for unreduced retirement benefits in SERS prior to age 60, the rate of retirement was increased to 15% for all ages. For members hired after December 31, 2010, the rates of retirement for ages 60-64 were modified if not eligible for unreduced retirement benefits in SERS. The mortality assumption was revised to reflect anticipated future improvements after 2010.
- ***Other assumptions*** – A 2% load of active liabilities and normal costs for medical and Rx benefits was added to reflect the possibility of supplemental employees transferring to regular employees subsequent to the valuation date. A trust expense assumption was also added.
- ***Actuarial method*** – The end of the attribution period was modified from first eligibility for benefits to expected retirement age.

(This page intentionally left blank)

## Other Supplementary Information

(This page intentionally left blank)

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information

**Section Information**

For accounting purposes, the Pennsylvania Turnpike Commission maintains its records in three sections: Mainline, Oil Franchise, and Motor License. These sections are based on the types of revenues and the associated bond issues.

The Mainline section consists of income and expenses directly associated with the operations of the Turnpike System. In addition, all bonds pledged against this revenue source are included in this section.

The Oil Company Franchise section consists of revenues received from the Commission's allocation of the Commonwealth's Oil Company Franchise Tax. This revenue is pledged against the Oil Company Franchise Tax Debt as listed in Note 7.

The Motor License section consists of an annual income of \$28 million which has been provided to the Commission pursuant to Section 20 of Act 3 of the Commonwealth of Pennsylvania. This income is pledged against the Motor License Registration Fee Debt as listed in Note 7.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Net Position**

	May 31, 2013			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Assets and deferred outflows of resources</b>				
Current assets:				
Cash and cash equivalents	\$ 130,010	\$ -	\$ -	\$ 130,010
Short-term investments	47,952	-	-	47,952
Accounts receivable	39,149	-	-	39,149
Accrued interest receivable	1,663	-	-	1,663
Inventories	16,871	-	-	16,871
Restricted current assets:				
Cash and cash equivalents	449,577	58,566	20,284	528,427
Short-term investments	214,369	21,448	6,097	241,914
Accounts receivable	1,110	4,290	-	5,400
Accrued interest receivable	2,283	1,135	137	3,555
Total current assets	902,984	85,439	26,518	1,014,941
Noncurrent assets:				
Long-term investments:				
Long-term investments unrestricted	197,127	-	-	197,127
Long-term investments restricted	372,599	133,653	24,724	530,976
Total long-term investments	569,726	133,653	24,724	728,103
Capital assets not being depreciated:				
Land and intangibles	271,310	-	-	271,310
Assets under construction	661,613	-	-	661,613
Capital assets being depreciated:				
Buildings	893,705	-	-	893,705
Improvements other than buildings	112,632	-	-	112,632
Equipment	549,578	-	-	549,578
Infrastructure	7,172,878	-	-	7,172,878
Total capital assets before accumulated depreciation	9,661,716	-	-	9,661,716
Less accumulated depreciation	4,829,814	-	-	4,829,814
Total capital assets after accumulated depreciation	4,831,902	-	-	4,831,902
Other assets:				
Deferred issuance costs	57,795	11,788	4,033	73,616
OPEB Asset	58,127	-	-	58,127
Other assets	26,728	-	-	26,728
Total other assets	142,650	11,788	4,033	158,471
Total noncurrent assets	5,544,278	145,441	28,757	5,718,476
Total assets	6,447,262	230,880	55,275	6,733,417
Deferred outflows of resources	60,435	-	56,934	117,369
Total assets and deferred outflows of resources	\$ 6,507,697	\$ 230,880	\$ 112,209	\$ 6,850,786

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Net Position (continued)**

	May 31, 2013			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Liabilities and deferred inflows of resources</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 320,773	\$ 24,660	\$ 4,584	\$ 350,017
Current portion of debt	175,530	16,550	6,720	198,800
Unearned income	48,190	-	-	48,190
Total current liabilities	544,493	41,210	11,304	597,007
Noncurrent liabilities:				
Debt, less current portion, net of unamortized premium, and net of unamortized refunding loss	7,354,889	760,348	410,961	8,526,198
Other noncurrent liabilities	146,418	414	56,934	203,766
Total noncurrent liabilities	7,501,307	760,762	467,895	8,729,964
Total liabilities	8,045,800	801,972	479,199	9,326,971
Deferred inflows of resources	141,440	-	-	141,440
Total liabilities and deferred inflows of resources	8,187,240	801,972	479,199	9,468,411
<b>Net position</b>				
Net investment in capital assets	1,828,277	(761,520)	(413,648)	653,109
Restricted for construction purposes	-	182,099	46,658	228,757
Restricted for debt service	41,326	8,329	-	49,655
Unrestricted	(3,549,146)	-	-	(3,549,146)
Total net position	\$(1,679,543)	\$ (571,092)	\$ (366,990)	\$(2,617,625)

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Revenues, Expenses and Changes in Net Position**

	May 31, 2013			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 811,542	\$ -	\$ -	\$ 811,542
Other	20,094	-	-	20,094
Total operating revenues	831,636	-	-	831,636
Operating expenses:				
Cost of services	411,572	894	18	412,484
Depreciation	311,735	-	-	311,735
Total operating expenses	723,307	894	18	724,219
Operating income (loss)	108,329	(894)	(18)	107,417
Nonoperating revenues (expenses):				
Investment earnings	27,624	2,106	318	30,048
Other nonoperating revenues	17,431	2,446	-	19,877
Act 44 payments to PennDOT	(450,000)	-	-	(450,000)
Interest and bond expense	(337,906)	(36,355)	(19,561)	(393,822)
Nonoperating expenses, net	(742,851)	(31,803)	(19,243)	(793,897)
Loss before capital contributions and special item	(634,522)	(32,697)	(19,261)	(686,480)
Capital contributions	10,274	59,562	28,000	97,836
Discontinued project	-	(51,009)	-	(51,009)
(Decrease) Increase in net position	(624,248)	(24,144)	8,739	(639,653)
Net position at beginning of year	(1,022,159)	(580,473)	(375,340)	(1,977,972)
Intersection transfers	(33,136)	33,525	(389)	-
Net position at end of year	\$(1,679,543)	\$ (571,092)	\$ (366,990)	\$(2,617,625)

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows**

	May 31, 2013			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Operating activities</b>				
Cash received from customer tolls and deposits	\$ 829,291	\$ -	\$ -	\$ 829,291
Cash payments for goods and services	(252,275)	(886)	(18)	(253,179)
Cash payments to employees	(143,900)	(392)	-	(144,292)
Cash received from other operating activities	7,706	-	-	7,706
<b>Net cash provided by (used for) operating activities</b>	<b>440,822</b>	<b>(1,278)</b>	<b>(18)</b>	<b>439,526</b>
<b>Investing activities</b>				
Proceeds from sales and maturities of investments	1,371,376	233,566	26,871	1,631,813
Interest received on investments	20,639	3,932	661	25,232
Purchases of investments	(1,214,333)	(218,159)	(33,862)	(1,466,354)
<b>Net cash provided by (used for) investing activities</b>	<b>177,682</b>	<b>19,339</b>	<b>(6,330)</b>	<b>190,691</b>
<b>Capital and related financing activities</b>				
Capital grants received	7,240	-	-	7,240
Cash proceeds from motor license grant	-	-	28,000	28,000
Cash proceeds from oil company franchise tax	-	60,285	-	60,285
Construction and acquisition of capital assets	(484,489)	(23,161)	-	(507,650)
Proceeds from sale of capital assets	1,765	-	-	1,765
Payments for bond and swap expenses	(1,202)	-	(338)	(1,540)
Payments for debt refundings	(69,525)	-	-	(69,525)
Payments for debt maturities	(19,645)	(15,850)	(6,395)	(41,890)
Interest paid on debt	(122,848)	(39,514)	(20,249)	(182,611)
Interest subsidy from Build America Bonds	16,735	2,446	-	19,181
Proceeds from debt issuances	473,667	-	-	473,667
<b>Net cash (used for) provided by capital and related financing activities</b>	<b>(198,302)</b>	<b>(15,794)</b>	<b>1,018</b>	<b>(213,078)</b>
<b>Noncapital financing activities</b>				
Cash payments to PennDOT	(450,000)	-	-	(450,000)
Payments for bond and swap expenses	(1,032)	-	-	(1,032)
Payments for debt maturities	(15,860)	-	-	(15,860)
Interest paid on debt	(160,512)	-	-	(160,512)
Proceeds from debt issuances	416,314	-	-	416,314
<b>Net cash used for noncapital financing activities</b>	<b>(211,090)</b>	<b>-</b>	<b>-</b>	<b>(211,090)</b>
Increase (Decrease) in cash and cash equivalents	209,112	2,267	(5,330)	206,049
Cash and cash equivalents at beginning of year	370,475	56,299	25,614	452,388
Cash and cash equivalents at end of year	<b>\$ 579,587</b>	<b>\$ 58,566</b>	<b>\$ 20,284</b>	<b>\$ 658,437</b>

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows (continued)**

Year Ended May 31, 2013				
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Reconciliation of operating income to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 108,329	\$ (894)	\$ (18)	\$ 107,417
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	311,735	-	-	311,735
Change in operating assets and liabilities:				
Accounts receivable	(2,370)	-	-	(2,370)
Inventories	2,705	-	-	2,705
Other assets	(28,061)	-	-	(28,061)
Accounts payable and accrued liabilities	42,194	(384)	-	41,810
Other noncurrent liabilities	6,290	-	-	6,290
Net cash provided by (used for) operating activities	<u>\$ 440,822</u>	<u>\$ (1,278)</u>	<u>\$ (18)</u>	<u>\$ 439,526</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>				
Cash and cash equivalents	\$ 130,010	\$ -	\$ -	\$ 130,010
Restricted cash and cash equivalents	449,577	58,566	20,284	528,427
Total cash and cash equivalents	<u>\$ 579,587</u>	<u>\$ 58,566</u>	<u>\$ 20,284</u>	<u>\$ 658,437</u>

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows (continued)**

**Noncash activities**

The Commission recorded a net decrease of \$ 5.5 million in the fair value of its investments for the year ended May 31, 2013. (Decreases) Increases by section were: Mainline, \$(8.0) million; Oil Franchise, \$2.1 million and Motor License, \$0.4 million.

The Commission recorded \$8.2 million for the amortization of bond premium for the year ended May 31, 2013. Amortization by section was: Mainline, \$6.4 million; Oil Franchise, \$1.1 million and Motor License, \$0.7 million.

The Commission recorded \$25.6 million for the amortization of deferred refunding losses, amortization of bond issuance costs and amortization of swap agreement costs for the year ended May 31, 2013. Amortization by section was: Mainline, \$23.2 million; Oil Franchise, \$1.3 million and Motor License, \$1.1 million.

The Commission recorded an interest expense reduction of \$11.7 million in the Mainline section for the year ended May 31, 2013 related to GASB 53 entries.

The Commission has entered into contracts with the operators of service plaza restaurants and service stations to totally reconstruct several service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission implemented GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements in fiscal year 2013 (including restatements of fiscal year 2012). The Commission recognized Mainline capital contribution revenues of \$3.4 million related to these arrangements for the year ended May 31, 2013. See Note 6 for further discussion on the service plazas.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission did not transfer any assets to PennDOT during the fiscal year ended May 31, 2013.

The Commission records intersection activity related to revenue, expense, asset and liability transfer between its sections. Some of the intersection entries are related to cash transfers; others are noncash transfers as required. Net intersection transfers for the year ended May 31, 2013 were: from Mainline, \$33.1 million; to Oil Franchise, \$33.5 million; and from Motor License, \$0.40 million.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Net Position (Restated)<sup>1</sup>**

May 31, 2012

	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Assets and deferred outflows of resources				
Current assets:				
Cash and cash equivalents	\$ 100,804	\$ -	\$ -	\$ 100,804
Short-term investments	25,545	-	-	25,545
Accounts receivable	36,254	-	-	36,254
Accrued interest receivable	2,252	-	-	2,252
Inventories	19,576	-	-	19,576
Restricted current assets:				
Cash and cash equivalents	269,671	56,299	25,614	351,584
Short-term investments	210,152	18,973	2,238	231,363
Accounts receivable	946	5,013	-	5,959
Accrued interest receivable	2,452	1,273	131	3,856
Total current assets	667,652	81,558	27,983	777,193
Noncurrent assets:				
Long-term investments:				
Long-term investments unrestricted	265,732	-	-	265,732
Long-term investments restricted	457,774	152,587	21,921	632,282
Total long-term investments	723,506	152,587	21,921	898,014
Capital assets not being depreciated:				
Land and intangibles	256,175	-	-	256,175
Assets under construction	864,474	-	-	864,474
Capital assets being depreciated:				
Buildings	832,592	-	-	832,592
Improvements other than buildings	95,198	-	-	95,198
Equipment	531,210	-	-	531,210
Infrastructure	6,704,803	-	-	6,704,803
Total capital assets before accumulated depreciation	9,284,452	-	-	9,284,452
Less accumulated depreciation	4,568,495	-	-	4,568,495
Total capital assets after accumulated depreciation	4,715,957	-	-	4,715,957
Other assets:				
Deferred issuance costs	54,811	12,415	4,176	71,402
OPEB asset	28,871	-	-	28,871
Other assets	25,541	-	-	25,541
Total other assets	109,223	12,415	4,176	125,814
Total noncurrent assets	5,548,686	165,002	26,097	5,739,785
Total assets	6,216,338	246,560	54,080	6,516,978
Deferred outflows of resources	110,751	-	87,767	198,518
Total assets and deferred outflows of resources	\$6,327,089	\$ 246,560	\$ 141,847	\$6,715,496

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6 to the financial statements..

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Net Position (*Restated*)<sup>1</sup> (continued)**

	May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Liabilities and deferred inflows of resources</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 317,906	\$ 32,341	\$ 5,556	\$ 355,803
Current portion of debt	105,030	15,850	6,395	127,275
Unearned income	40,834	-	-	40,834
Total current liabilities	463,770	48,191	11,951	523,912
Noncurrent liabilities:				
Debt, less current portion, net of unamortized premium, and net of unamortized refunding loss	6,582,340	776,351	417,470	7,776,161
Other noncurrent liabilities	194,635	2,491	87,766	284,892
Total noncurrent liabilities	6,776,975	778,842	505,236	8,061,053
Total liabilities	7,240,745	827,033	517,187	8,584,965
Deferred inflows of resources	108,503	-	-	108,503
Total liabilities and deferred inflows of resources	7,349,248	827,033	517,187	8,693,468
<b>Net position</b>				
Net investment in capital assets	2,169,923	(782,475)	(419,688)	967,760
Restricted for construction purposes	-	191,617	44,348	235,965
Restricted for debt service	27,226	10,385	-	37,611
Unrestricted	(3,219,308)	-	-	(3,219,308)
Total net position	\$(1,022,159)	\$ (580,473)	\$ (375,340)	\$(1,977,972)

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6 to the financial statements.



Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Revenues, Expenses and Changes in Net Position (Restated)<sup>1</sup>**

	May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Operating revenues:				
Net fares	\$ 780,798	\$ -	\$ -	\$ 780,798
Other	23,090	51	-	23,141
Total operating revenues	803,888	51	-	803,939
Operating expenses:				
Cost of services	386,497	964	45	387,506
Depreciation	300,777	-	-	300,777
Total operating expenses	687,274	964	45	688,283
Operating income (loss)	116,614	(913)	(45)	115,656
Nonoperating revenues (expenses):				
Investment earnings	10,582	16,823	647	28,052
Other nonoperating revenues	16,305	4,891	-	21,196
Act 44 payments to PennDOT	(450,000)	-	-	(450,000)
Capital assets transferred to PennDOT	(22,783)	-	-	(22,783)
Interest and bond expense	(312,116)	(36,923)	(18,955)	(367,994)
Nonoperating expenses, net	(758,012)	(15,209)	(18,308)	(791,529)
Loss before capital contributions	(641,398)	(16,122)	(18,353)	(675,873)
Capital contributions	11,172	63,235	28,000	102,407
(Decrease) Increase in net position	(630,226)	47,113	9,647	(573,466)
Net position at beginning of year	(453,024)	(567,353)	(384,129)	(1,404,506)
Intersection transfers	61,091	(60,233)	(858)	-
Net position at end of year	\$(1,022,159)	\$ (580,473)	\$ (375,340)	\$(1,977,972)

<sup>1</sup> Certain 2012 amounts were restated as discussed in Note 6 to the financial statements.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows**

	May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Operating activities</b>				
Cash received from customer tolls and deposits	\$ 799,163	\$ -	\$ -	\$ 799,163
Cash payments for goods and services	(260,901)	(639)	(39)	(261,579)
Cash payments to employees	(139,204)	(513)	-	(139,717)
Cash received from other operating activities	9,598	51	-	9,649
<b>Net cash provided by (used for) operating activities</b>	408,656	(1,101)	(39)	407,516
<b>Investing activities</b>				
Proceeds from sales and maturities of investments	2,362,553	128,412	7,265	2,498,230
Interest received on investments	22,586	6,078	664	29,328
Purchases of investments	(2,095,197)	(83,437)	(9,544)	(2,188,178)
<b>Net cash provided by (used for) investing activities</b>	289,942	51,053	(1,615)	339,380
<b>Capital and related financing activities</b>				
Capital grants received	9,153	30	-	9,183
Cash proceeds from motor license grant	-	-	28,000	28,000
Cash proceeds from oil company franchise tax	-	61,897	-	61,897
Construction and acquisition of capital assets	(387,325)	(69,524)	-	(456,849)
Proceeds from sale of capital assets	862	-	-	862
Payments for bond and swap expenses	(355)	(240)	-	(595)
Payments for debt refundings	(345,745)	-	-	(345,745)
Payments for debt maturities	(40,740)	(15,195)	(6,095)	(62,030)
Interest paid on debt	(122,552)	(40,117)	(20,293)	(182,962)
Interest subsidy from Build America Bonds	17,496	4,891	-	22,387
Proceeds from debt issuances	167,906	-	-	167,906
<b>Net cash (used for) provided by capital and related financing activities</b>	(701,300)	(58,258)	1,612	(757,946)
<b>Noncapital financing activities</b>				
Cash payments to PennDOT	(450,000)	-	-	(450,000)
Payments for bond and swap expenses	(1,180)	-	-	(1,180)
Payments for debt maturities	(12,245)	-	-	(12,245)
Interest paid on debt	(137,788)	-	-	(137,788)
Proceeds from debt issuances	468,106	-	-	468,106
<b>Net cash used for noncapital financing activities</b>	(133,107)	-	-	(133,107)
Decrease in cash and cash equivalents	(135,809)	(8,306)	(42)	(144,157)
Cash and cash equivalents at beginning of year	506,284	64,605	25,656	596,545
Cash and cash equivalents at end of year	\$ 370,475	\$ 56,299	\$ 25,614	\$ 452,388

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Section Information (continued)**

**Schedule of Cash Flows (continued)**

	Year Ended May 31, 2012			
	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
<b>Reconciliation of operating income to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 116,614	\$ (913)	\$ (45)	\$ 115,656
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	300,777	-	-	300,777
Change in operating assets and liabilities:				
Accounts receivable	(2,975)	-	-	(2,975)
Inventories	3,973	-	-	3,973
Other assets	(25,328)	-	-	(25,328)
Accounts payable and accrued liabilities	10,111	(194)	6	9,923
Other noncurrent liabilities	5,484	6	-	5,490
Net cash provided by (used for) operating activities	<u>\$ 408,656</u>	<u>\$ (1,101)</u>	<u>\$ (39)</u>	<u>\$ 407,516</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>				
Cash and cash equivalents	\$ 100,804	\$ -	\$ -	\$ 100,804
Restricted cash and cash equivalents	269,671	56,299	25,614	351,584
Total cash and cash equivalents	<u>\$ 370,475</u>	<u>\$ 56,299</u>	<u>\$ 25,614</u>	<u>\$ 452,388</u>

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Other Supplementary Information (continued)**

**Section Information (continued)**

**Schedule of Cash Flows (continued)**

**Noncash activities**

The Commission recorded a net decrease of \$ 1.9 million in the fair value of its investments for the year ended May 31, 2012. (Decreases) Increases by section were: Mainline, \$(9.2) million; Oil Franchise, \$11.1 million and Motor License, \$0.0 million.

The Commission recorded \$6.0 million for the amortization of bond premium for the year ended May 31, 2012. Amortization by section was: Mainline, \$4.2 million; Oil Franchise, \$1.1 million and Motor License, \$0.7 million.

The Commission recorded \$23.0 million for the amortization of deferred refunding losses, amortization of bond issuance costs and amortization of swap agreement costs for the year ended May 31, 2012. Amortization by section was: Mainline, \$20.7 million; Oil Franchise, \$1.3 million and Motor License, \$1.0 million.

The Commission recorded an interest expense reduction of \$8.8 million in the Mainline section for the year ended May 31, 2012 related to GASB 53 entries.

The Commission has entered into contracts with the operators of service plaza restaurants and service stations to totally reconstruct several service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission implemented GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements in fiscal year 2013 (including restatements of fiscal year 2012). The Commission recognized Mainline capital contribution revenues of \$1.8 million related to these arrangements for the year ended May 31, 2012. See Note 6 for further discussion on the service plazas.

In fiscal year 2012, the Commission wrote down the value of its transponder inventory in the Mainline section by \$4.6 million to reflect lower market costs.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of \$22.8 million from its Mainline section to PennDOT during the fiscal year ended May 31, 2012.

The Commission records intersection activity related to revenue, expense, asset and liability transfer between its sections. Some of the intersection entries are related to cash transfers; others are noncash transfers as required. Net intersection transfers for the year ended May 31, 2012 were: to Mainline, \$61.1 million; from Oil Franchise, \$60.2 million; and from Motor License, \$0.9 million.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Other Supplementary Information (continued)

**Schedules of Cost of Services Detail**

The following tables provide additional detail for the costs of services reported in the statements of revenues, expenses and changes in net position.

**Fiscal Year Ended May 31, 2013**

	<b>Mainline Operating</b>	<b>Mainline Capital</b>	<b>Total Mainline</b>	<b>Oil Franchise</b>	<b>Motor License</b>	<b>Total</b>
General & administrative	\$ 42,542	\$ 72,659	\$ 115,201	\$ 681	\$ 18	\$ 115,900
Operations safety & incident response	4,455	-	4,455	-	-	4,455
Service centers	24,480	-	24,480	-	-	24,480
Employee benefits	80,670	6,634	87,304	213	-	87,517
Fare collection	59,952	-	59,952	-	-	59,952
Maintenance	65,924	988	66,912	-	-	66,912
Facilities and energy mgmt operations	8,903	8,194	17,097	-	-	17,097
Turnpike patrol	36,171	-	36,171	-	-	36,171
Total cost of services	\$ 323,097	\$ 88,475	\$ 411,572	\$ 894	\$ 18	\$ 412,484

**Fiscal Year Ended May 31, 2012**

	<b>Mainline Operating</b>	<b>Mainline Capital</b>	<b>Total Mainline</b>	<b>Oil Franchise</b>	<b>Motor License</b>	<b>Total</b>
General & administrative	\$ 40,335	\$ 61,837	\$ 102,172	\$ 704	\$ 45	\$ 102,921
Operations safety & incident response	4,078	-	4,078	-	-	4,078
Service centers	25,570	-	25,570	-	-	25,570
Employee benefits	77,563	4,254	81,817	208	-	82,025
Fare collection	61,884	-	61,884	-	-	61,884
Maintenance	58,096	2,838	60,934	52	-	60,986
Facilities and energy mgmt operations	7,644	7,740	15,384	-	-	15,384
Turnpike patrol	34,658	-	34,658	-	-	34,658
Total cost of services	\$ 309,828	\$ 76,669	\$ 386,497	\$ 964	\$ 45	\$ 387,506

## Statistical Section

(This page intentionally left blank)

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Statistical Section

This part of the Commission's Comprehensive Annual Financial Report presents detailed information as a context for understanding the information in the financial statements, note disclosures, required supplementary information and the Commission's overall financial health.

**Financial Trends**

Pages 115-116

These schedules contain trend information to help the reader understand how the Commission's financial performance and viability have changed over time.

**Debt Capacity**

Pages 117-118

These schedules present information to help the reader assess the affordability of the Commission's current levels of outstanding debt and the Commission's ability to issue additional debt in the future.

**Revenue Capacity**

Pages 119-121

These schedules contain information to help the reader assess the Commission's most significant revenue source, toll collection.

**Demographic and Economic Information**

Pages 122-124

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Commission's financial activities take place.

**Operating Information**

Pages 125-134

These schedules contain service and infrastructure data to help the reader understand how the information in the Commission's financial report relates to the services it provides and the activities it performs.



(This page intentionally left blank)

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Summary of Revenues and Expenses**  
(000s Omitted)

Fiscal Years Ended May 31

	2004	2005	2006	2007	2008	2009	2010	2011 (Restated)*	2012 (Restated)*	2013
Operating revenues:										
Net fares	\$ 408,744	\$ 545,158	\$ 588,637	\$ 592,641	\$ 598,926	\$ 615,604	\$ 693,827	\$ 739,704	\$ 780,798	\$ 811,542
Other	19,034	26,316	20,971	15,803	21,279	17,943	16,274	18,944	23,141	20,094
Total operating revenues	427,778	571,474	609,608	608,444	620,205	633,547	710,101	758,648	803,939	831,636
Operating expenses:										
Cost of services	237,385	270,706	362,618	369,855	372,959	393,364	378,426	359,870	387,506	412,484
Depreciation	229,548	211,401	214,885	198,414	214,334	241,701	260,316	281,587	300,777	311,735
Total operating expenses	466,933	482,107	577,503	568,269	587,293	635,065	638,742	641,457	688,283	724,219
Operating income (loss)	(39,155)	89,367	32,105	40,175	32,912	(1,518)	71,359	117,191	115,656	107,417
Nonoperating revenues(Expenses):										
Oil company franchise tax revenues	47,062	51,551	55,749	67,071	-	-	-	-	-	-
Motor license registration fee revenues	28,000	28,000	28,000	28,000	-	-	-	-	-	-
Investment earnings	30,901	38,927	60,506	67,689	50,488	53,416	18,030	24,566	28,052	30,048
Other nonoperating revenues	1,453	658	1,789	1,405	(135)	660	7,174	19,709	21,196	19,877
Act 44 payments to PennDOT	-	-	-	-	(750,000)	(850,000)	(900,000)	(450,000)	(450,000)	(450,000)
Capital assets transferred to PennDOT	-	-	-	-	-	-	(64,058)	-	(22,783)	-
Interest and bond expenses	(120,895)	(118,373)	(127,565)	(135,415)	(146,250)	(191,553)	(263,931)	(333,275)	(367,994)	(393,822)
Change in net assets/net position before capital contributions and special item**	(52,634)	90,130	50,584	68,925	(812,985)	(988,995)	(1,131,426)	(621,809)	(675,873)	(686,480)
Capital contributions	14,787	9,647	23,030	24,306	101,166	97,149	130,172	62,074	102,407	97,836
Discontinued project	-	-	-	-	-	-	-	-	-	(51,009)
Change in net assets/net position **	\$ (37,847)	\$ 99,777	\$ 73,614	\$ 93,231	\$ (711,819)	\$ (891,846)	\$ (1,001,254)	\$ (559,735)	\$ (573,466)	\$ (639,653)

\* Certain 2012 and 2011 amounts were restated as discussed in Note 6 to the financial statements.

\*\* The Commission implemented GASB Statement 63 beginning in 2012; and, therefore, prior years have not been adjusted to reflect implementation of this standard.

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Schedule of Net Assets/Net Position  
(000s Omitted)

Fiscal Years Ended May 31

	Net Assets				Net Position**			
	Invested in Capital Assets, Net of Related Debt	Restricted	Unrestricted	Total Net Assets	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2004	\$ 470,592	\$ 934,108	\$ 88,825	\$ 1,493,525	\$ -	\$ -	\$ -	\$ -
2005	408,557	1,092,830	91,916	1,593,303	-	-	-	-
2006	666,356	830,412	170,149	1,666,917	-	-	-	-
2007	772,709	731,995	255,444	1,760,148	-	-	-	-
2008	1,287,419	278,802	(517,892)	1,048,329	-	-	-	-
2009	1,254,426	315,136	(1,413,079)	156,483	-	-	-	-
2010	1,186,992	340,485	(2,372,248)	(844,771)	-	-	-	-
2011 (Restated)*	1,049,972	308,059	(2,762,537)	(1,404,506)	-	-	-	-
2012 (Restated)*	-	-	-	-	967,760	273,576	(3,219,308)	(1,977,972)
2013	-	-	-	-	653,109	278,412	(3,549,146)	(2,617,625)

\* Certain 2012 and 2011 amounts were restated as discussed in Note 6 to the financial statements.

\*\* The Commission implemented GASB Statement 63 beginning in 2012; and, therefore, prior years have not been adjusted to reflect implementation of this standard.

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

**Debt Coverage – All Sections**  
(000s Omitted)

Fiscal Years Ended May 31

	<b>Revenues and Capital Contributions</b>	<b>Direct Expenses</b>	<b>Net Revenues Available for Debt Service Payments</b>	<b>Principal Payments</b>	<b>Interest Payments</b>	<b>Total Payments</b>	<b>Coverage</b>
2004	\$ 561,075	\$ 240,144	\$ 320,931	\$ 46,135	\$ 112,467	\$ 158,602	2.02
2005	699,868	273,384	426,484	44,160	111,349	155,509	2.74
2006	781,738	370,316	411,422	43,645	117,687	161,332	2.55
2007	781,919	375,543	406,376	57,080	121,952	179,032	2.27
2008	762,161	379,309	382,852	52,645	140,368	193,013	1.98
2009	757,509	400,666	356,843	67,555	153,443	220,998	1.61
2010	867,934	387,185	480,749	75,800	203,880	279,680	1.72
2011 (Restated)*	865,269	371,510	493,759	70,570	281,885	352,455	1.40
2012 (Restated)*	954,926	396,204	558,722	74,275	320,750	395,025	1.41
2013	973,938	419,160	554,778	57,750	343,123	400,873	1.38

\* Certain 2012 and 2011 amounts were restated as discussed in Note 6 to the financial statements.

Source: Pennsylvania Turnpike Commission

Revenues and capital contributions, direct expenses, principal payments and interest payments listed on this schedule include all sections (**Mainline, Oil Franchise and Motor License**) of the Pennsylvania Turnpike Commission. Amounts listed for revenues and capital contributions include operating and nonoperating revenues as well as capital contributions, but do not include the change in fair value of investments. Amounts listed for direct expenses include cost of services and nonoperating expenses with the exception of Act 44 payments, interest expense and the discontinued project. Amounts listed for the principal and interest payments are for all sections and include both senior and subordinate debt.

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Ratios of Mainline Outstanding Debt and Debt Service Payments**  
(000s Omitted)

Fiscal Years Ended May 31

	<b>Number of Vehicles</b>	<b>Mainline Bonds Outstanding</b>	<b>Oil Franchise Bonds Outstanding</b>	<b>Motor License Bonds Outstanding</b>	<b>Total Bonds Outstanding</b>	<b>Mainline Debt Service Payments</b>	<b>Oil Franchise Debt Service Payments</b>	<b>Motor License Debt Service Payments</b>	<b>Total Debt Service Payments</b>	<b>Mainline Bonds Outstanding Per Vehicle*</b>	<b>Mainline Debt Service Payments Per Vehicle*</b>
2004	188,019	\$ 1,132,655	\$ 626,485	\$ 467,735	\$ 2,226,875	\$ 81,060	\$ 49,628	\$ 27,914	\$ 158,602	\$ 6.02	\$ 0.43
2005	188,425	1,372,810	615,885	463,265	2,451,960	88,111	39,473	27,925	155,509	7.29	0.47
2006	185,901	1,340,125	604,925	231,425	2,176,475	97,654	39,433	24,245	161,332	7.21	0.53
2007	185,423	1,655,270	594,945	231,425	2,481,640	111,543	39,195	28,294	179,032	8.93	0.60
2008	189,551	2,800,035	583,600	453,205	3,836,840	126,058	40,211	26,744	193,013	14.77	0.67
2009	186,220	3,753,590	571,040	447,705	4,772,335	159,756	34,218	27,024	220,998	20.16	0.86
2010	186,532	5,173,393	814,558	442,020	6,429,971	214,843	38,205	26,632	279,680	27.73	1.15
2011	189,042	6,482,647	800,811	436,140	7,719,598	268,576	57,487	26,392	352,455	34.29	1.42
2012	189,087	6,735,805	786,521	430,045	7,952,371	313,325	55,312	26,388	395,025	35.62	1.66
2013	187,897	7,503,037	771,623	423,650	8,698,310	318,865	55,364	26,644	400,873	39.93	1.70

\* Oil Franchise and Motor License bonds outstanding and debt service payments are not included in the ratio as the debt service payments are not associated with traffic volumes.

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Traffic Statistics  
(000s Omitted)

Fiscal Years Ended May 31

	Number of Vehicles	Gross Fare Revenue	Gross Fare Revenue Per Vehicle	Revenue Miles	Gross Fare Revenue Per Mile
<b>Class 1 (Passenger)</b>					
2004	163,612	\$ 230,356	\$ 1.41	\$ 4,515,417	\$ 0.05
2005	163,316	302,738	1.85	4,393,196	0.07
2006	160,590	328,807	2.05	4,419,609	0.07
2007	160,107	322,780	2.02	4,433,565	0.07
2008	164,096	329,072	2.01	4,464,114	0.07
2009	162,638	353,885	2.18	4,383,017	0.08
2010	163,599	407,368	2.49	4,424,566	0.09
2011	165,230	435,751	2.64	4,449,998	0.10
2012	164,960	455,133	2.76	4,389,824	0.10
2013	163,690	471,514	2.88	4,387,754	0.11
<b>Classes 2-9 (Commercial)</b>					
2004	24,407	189,960	7.78	1,218,841	0.16
2005	25,109	258,391	10.29	1,228,114	0.21
2006	25,311	278,600	11.01	1,272,915	0.22
2007	25,316	294,836	11.65	1,312,445	0.22
2008	25,455	290,078	11.40	1,306,678	0.22
2009	23,582	284,359	12.06	1,170,736	0.24
2010	22,933	310,670	13.55	1,092,970	0.28
2011	23,812	328,105	13.78	1,123,574	0.29
2012	24,127	342,646	14.20	1,117,470	0.31
2013	24,207	350,226	14.47	1,117,644	0.31
<b>Total</b>					
2004	188,019	420,316	2.24	5,734,258	0.07
2005	188,425	561,129	2.98	5,621,310	0.10
2006	185,901	607,407	3.27	5,692,524	0.11
2007	185,423	617,616	3.33	5,746,010	0.11
2008	189,551	619,150	3.27	5,770,792	0.11
2009	186,220	638,244	3.43	5,555,753	0.11
2010	186,532	718,038	3.85	5,517,536	0.13
2011	189,042	763,856	4.04	5,573,572	0.14
2012	189,087	797,779	4.22	5,507,294	0.14
2013	187,897	821,740	4.37	5,505,398	0.15

Source: Pennsylvania Turnpike Commission

Refer to page 126 for vehicle class definitions.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Revenue Composition as a Percentage of Total Revenue

Fiscal Years Ended May 31

	<b>Class 1 (Passenger)</b>	<b>Classes 2-9 (Commercial)</b>	<b>Total</b>	<b>Electronic Toll Collection (ETC)</b>	<b>Non-ETC</b>	<b>Total</b>
2004	54.81%	45.19%	100.00%	36.02%	63.98%	100.00%
2005	53.95	46.05	100.00	43.77	56.23	100.00
2006	54.13	45.87	100.00	51.15	48.85	100.00
2007	52.26	47.74	100.00	56.08	43.92	100.00
2008	53.63	46.37	100.00	58.93	41.07	100.00
2009	55.45	44.55	100.00	61.09	38.91	100.00
2010	56.73	43.27	100.00	62.61	37.39	100.00
2011	57.05	42.95	100.00	64.98	35.02	100.00
2012	57.05	42.95	100.00	66.84	33.16	100.00
2013	57.38	42.62	100.00	68.34	31.66	100.00

Source: Pennsylvania Turnpike Commission

Refer to page 126 for vehicle class definitions.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Traffic Composition as a Percentage of Total Vehicles

Fiscal Years Ended May 31

	<b>Class 1 (Passenger)</b>	<b>Classes 2-9 (Commercial)</b>	<b>Total</b>	<b>Electronic Toll Collection (ETC)</b>	<b>Non-ETC</b>	<b>Total</b>
2004	87.02%	12.98%	100.00%	31.23%	68.77%	100.00%
2005	86.67	13.33	100.00	36.83	63.17	100.00
2006	86.38	13.62	100.00	41.91	58.09	100.00
2007	86.35	13.65	100.00	46.42	53.58	100.00
2008	86.57	13.43	100.00	52.40	47.60	100.00
2009	87.34	12.66	100.00	53.40	46.60	100.00
2010	87.71	12.29	100.00	56.61	43.39	100.00
2011	87.40	12.60	100.00	60.06	39.94	100.00
2012	87.24	12.76	100.00	64.11	35.89	100.00
2013	87.12	12.88	100.00	68.25	31.75	100.00

Source: Pennsylvania Turnpike Commission

Refer to page 126 for vehicle class definitions.



**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Ten Largest Commercial Customers**  
(000s Omitted)

Fiscal Years Ended May 31

	<b>2013</b>		<b>2004</b>	
	<b>Annual Fares</b>	<b>Rank</b>	<b>Annual Fares</b>	<b>Rank</b>
Heavy Vehicle Electronic License Plate, Inc.	\$ 49,504	1		
Best Pass, Inc.	35,207	2		
FedEx Ground	3,402	3		
United Parcel Service, Inc	3,180	4	\$ 2,839	2
J. B. Hunt Transport, Inc.	2,743	5	2,664	3
YRC, Inc.	2,668	6		
ABF Freight System, Inc.	2,092	7	1,289	9
New Century Transportation, Inc.	1,990	8		
Estes Express Lines	1,715	9		
Pitt-Ohio Express, Inc.	1,666	10		
Werner Enterprises, Inc.			2,932	1
Schneider National Carriers			2,649	4
New York State Motor Truck Association			1,840	5
U.S. Xpress Leasing			1,727	6
Overnite Transportation			1,515	7
Yellow Transportation, Inc			1,326	8
Swift Transportation Co.			1,178	10
	\$104,167		\$ 19,959	

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Percentage of PA Turnpike ETC Traffic by IAG Agency

Fiscal Years Ended May 31

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Pennsylvania</b>	<b>71.16%</b>	<b>69.94%</b>	<b>69.13%</b>	<b>68.25%</b>	<b>67.27%</b>	<b>65.85%</b>	<b>64.65%</b>	<b>62.70%</b>	<b>61.46%</b>	<b>59.77%</b>
New Jersey Agencies*	<b>14.14</b>	14.87	15.51	16.18	16.58	16.65	17.02	17.60	17.92	19.45
New York State Thruway	<b>2.83</b>	2.85	2.86	3.03	3.23	3.47	3.59	3.88	3.69	3.48
Port Authority NY & NJ	<b>2.17</b>	2.34	2.53	2.66	2.89	3.06	3.28	3.62	4.00	4.34
MTA Bridges & Tunnels	<b>2.08</b>	2.08	2.17	2.24	2.31	2.47	2.66	2.88	3.02	3.14
Maryland Transportation Authority	<b>1.17</b>	1.17	1.17	1.20	1.26	1.22	1.13	1.04	0.86	0.62
Delaware River Joint Toll Bridge Commission	<b>1.12</b>	1.16	1.21	1.27	1.32	1.31	1.28	1.21	1.09	0.90
Illinois State Toll Highway Authority	<b>1.06</b>	1.03	0.96	0.83	0.80	0.72	0.60	0.33	0.00	0.00
Delaware DOT	<b>0.97</b>	0.99	1.00	1.03	1.04	1.05	1.03	1.03	0.96	0.37
Delaware River Port Authority	<b>0.87</b>	1.05	1.25	1.45	1.74	2.65	3.28	4.32	5.83	6.99
Virginia DOT	<b>0.69</b>	0.66	0.66	0.62	0.59	0.56	0.50	0.44	0.20	0.00
Massachusetts Turnpike Authority	<b>0.44</b>	0.44	0.41	0.39	0.35	0.36	0.35	0.36	0.40	0.41
Delaware River & Bay Authority	<b>0.19</b>	0.23	0.25	0.27	0.29	0.32	0.33	0.34	0.33	0.31
Other	<b>1.11</b>	1.19	0.89	0.58	0.33	0.31	0.30	0.25	0.24	0.22
Total	<b>100.00%</b>	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

\* Includes: New Jersey Highway Authority, New Jersey Turnpike Authority, South Jersey Transportation Authority and Burlington County Bridge Commission.

Source: Pennsylvania Turnpike Commission

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Employment by Nonfarm Related Industries – Demographic and Economic**

For the Last Ten Calendar Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Employment by nonfarm related industries (1) (2)</b>										
<b>Private earnings:</b>										
<b>Goods producing:</b>										
Natural resources and mining	17,900	18,700	19,700	20,300	21,100	22,200	22,200	26,600	33,800	37,000
Construction	246,000	250,200	255,700	261,000	262,300	254,600	224,600	215,900	222,800	225,800
Manufacturing	712,400	690,700	679,400	670,400	659,100	643,800	574,100	560,000	564,900	567,100
<b>Total goods producing</b>	<b>976,300</b>	<b>959,600</b>	<b>954,800</b>	<b>951,700</b>	<b>942,500</b>	<b>920,600</b>	<b>821,000</b>	<b>802,500</b>	<b>821,500</b>	<b>829,900</b>
<b>Service providing:</b>										
Trade	1,108,200	1,113,600	1,120,300	1,125,800	1,133,900	1,125,900	1,080,800	1,080,000	1,093,400	1,102,000
Information	120,600	112,200	109,500	108,200	107,500	105,900	99,600	93,200	91,100	90,200
Financial activities	338,500	336,200	335,700	335,000	332,800	329,800	318,400	311,000	308,600	310,200
Professional and business services	610,500	638,100	660,500	685,300	705,700	709,400	674,800	689,900	716,800	730,000
Education and health services	980,500	999,200	1,030,000	1,054,400	1,075,100	1,101,000	1,119,600	1,135,000	1,152,100	1,168,500
Leisure and hospitality	471,000	477,200	484,700	491,700	499,900	503,200	494,300	500,500	510,500	521,100
Other services	260,100	263,700	261,600	258,400	255,800	254,300	249,900	250,300	253,000	256,000
<b>Total service providing</b>	<b>3,889,400</b>	<b>3,940,200</b>	<b>4,002,300</b>	<b>4,058,800</b>	<b>4,110,700</b>	<b>4,129,500</b>	<b>4,037,400</b>	<b>4,059,900</b>	<b>4,125,500</b>	<b>4,178,000</b>
<b>Total private earnings</b>	<b>4,865,700</b>	<b>4,889,800</b>	<b>4,957,100</b>	<b>5,010,500</b>	<b>5,053,200</b>	<b>5,050,100</b>	<b>4,858,400</b>	<b>4,862,400</b>	<b>4,947,000</b>	<b>5,007,900</b>
<b>Government</b>	<b>748,300</b>	<b>747,100</b>	<b>747,800</b>	<b>748,300</b>	<b>747,500</b>	<b>752,000</b>	<b>759,600</b>	<b>761,200</b>	<b>740,500</b>	<b>721,800</b>
<b>Total employment by nonfarm related industries</b>	<b>5,614,000</b>	<b>5,646,900</b>	<b>5,704,900</b>	<b>5,758,800</b>	<b>5,800,700</b>	<b>5,802,100</b>	<b>5,618,000</b>	<b>5,623,600</b>	<b>5,687,500</b>	<b>5,729,700</b>

**Source:** Information obtained from the Pennsylvania Department of Labor and Industry-Center for Workforce Information & Analysis website ([www.paworkstates.state.pa.us](http://www.paworkstates.state.pa.us)).

**Notes:** (1)-Due to statutory requirements (confidentiality provisions), the Commonwealth of Pennsylvania cannot disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.

(2)-Various calendar years may differ from the totals presented in the same table in the May 31, 2012 CAFR as a result of the revised data provided on the Center for Workforce Information & Analysis website.

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Number of Employees by Functional Area

Fiscal Years Ended May 31

**Union and Management – Number of Employees**

	<b>Management</b>	<b>Union</b>	<b>Total</b>
2004	402	1,928	2,330
2005	469	1,775	2,244
2006	480	1,779	2,259
2007	481	1,798	2,279
2008	471	1,815	2,286
2009	401	1,980	2,381
2010	397	1,746	2,143
2011	397	1,707	2,104
2012	436	1,689	2,125
2013	451	1,687	2,138

Bargaining Unit Affiliation: International Brotherhood of Teamsters, Chauffeurs, Warehousemen, and Helpers of America

**Employee Statistics by Functional Area**

	<b>Fare Collection</b>	<b>Maintenance</b>	<b>Other</b>	<b>Total</b>
2004	972	747	611	2,330
2005	919	726	599	2,244
2006	937	774	548	2,259
2007	972	786	521	2,279
2008	971	792	523	2,286
2009	1,060	813	508	2,381
2010	902	759	482	2,143
2011	852	722	530	2,104
2012	822	733	570	2,125
2013	798	745	595	2,138

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Vehicle Class Definitions  
(Class Determines Fare)

Class	Weight Classification
1	Passenger vehicles
2*	7,001 – 15,000 lbs.
3	15,001 – 19,000 lbs.
4	19,001 – 30,000 lbs.
5	30,001 – 45,000 lbs.
6	45,001 – 62,000 lbs.
7	62,001 – 80,000 lbs.
8	80,001 – 100,000 lbs.
9**	100,001 lbs. and over or over dimensional

\* Also includes any vehicle combination with more than two axles but weighing less than 7,000 lbs., except motorcycles with sidecar and/or trailer.

\*\* Permits may be required. Permits are required if the vehicle exceeds any of the following:

Length: 85 feet

Weight: 125,000 lbs.

Axle weight: 22,400 lbs.

Height: 13 feet 6 inches

Width: Over 10 feet to a maximum of 11 feet 6 inches

Note: Some exceptions may apply. For additional information regarding these exceptions, visit our website at [www.paturndpike.com](http://www.paturndpike.com) or call our Customer Assistance Center.

Classes 2 through 9 may also be referred to as commercial vehicles.

Source: Pennsylvania Turnpike Commission

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Miscellaneous Statistics**

Fiscal Year Ended May 31

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>LENGTH OF HIGHWAY:</b>										
Delaware River to Ohio Line	359	359	359	359	359	359	359	359	359	359
Northeast Extension	110	110	110	110	110	110	110	110	110	110
Southwestern Expansion	60	60	60	67	67	75	75	76	76	83
<b>NUMBER OF TOLL INTERCHANGES:</b>										
Mainline	32	32	32	30	30	30	30	31	31	32
Northeast Extension	10	10	10	10	10	10	10	10	10	10
Western Expansions	17	17	17	19	19	22	22	23	23	25
<b>NUMBER OF SERVICES PLAZAS:</b>										
Delaware River to Ohio Line	19	19	19	18	18	18	18	15	15	15
Northeast Extensions	2	2	2	2	2	2	2	2	2	2
<b>NUMBER OF MAINTENANCE FACILITIES:</b>										
	21	21	21	21	21	21	21	21	21	22

Source: Pennsylvania Turnpike Commission

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Technical Data**

Fiscal Year Ended May 31, 2013

Right-of-Way Width:	Minimum	200 feet
Turnpike Width:	Delaware River to Ohio Line (4 lanes)	78 feet
	Northeastern Extension Junction to Philadelphia Interchange (6 lanes)	106 feet
	Northeastern Extension (4 lanes)	72 feet
	Southwestern Expansion	132 feet
Lane Width:	Standard	10 feet
	Northeastern Extension Junction to Philadelphia Interchange	12 feet
	Width of double lanes	24 feet
Curves:	Maximum (approximately 955 feet minimum radius) on Allegheny Mountain climbing lanes only	6 degrees
	Western Extension (Irwin – Ohio Line)	4 degrees
	Remainder of Turnpike	3 degrees
Grades:	Mainline	3 percent
	Ramps	6 percent
	Extensions	5 percent
Tunnels:	Allegheny	6,070 feet
	Tuscarora	5,326 feet
	Kittatinny	4,727 feet
	Lehigh	4,461 feet
	Blue Mountain	4,339 feet
Major Bridges:	Delaware River Bridge	6,571 feet
	Susquehanna River Bridges (EB/WB)*	5,918 feet
	Monongahela River Bridge	3,078 feet
	Joe Montana Bridges (NB/SB)*	2,516 feet
	Allegheny River Bridges (EB/WB)*	2,350 feet
	Park Avenue Bridges (NB/SB)*	1,788 feet
	Mahoning River Bridges (NB/SB)*	1,700 feet
	SR 51/SR 119 Interchange Bridges*	1,697 feet
	Dunlap Creek Bridges (NB/SB)*	1,675 feet
	Clarks Summit Bridge	1,627 feet
Highest Elevation:	Milepost 100.45	2,603 ft. above sea level

\* When bridges are separated for directional purposes, the longer bridge length is reported.

The technical data presented does not change from year to year; therefore, a ten year trend schedule is not presented.

Source: Pennsylvania Turnpike Commission

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Chronology, Turnpike Construction**

May 31, 2013

<b>Turnpike Section</b>	<b>Length (Miles)</b>	<b>Construction Cost (Millions)</b>	<b>Bill Signed</b>	<b>Ground- breaking</b>	<b>Open to Traffic</b>
Original Turnpike: Carlisle – Irwin	159	\$ 76	May 21, 1937	Oct. 27, 1938	Oct. 1, 1940
Philadelphia Extension: Carlisle – Valley Forge	100	87	May 16, 1940	Sept. 28, 1948	Nov. 20, 1950
Western Extension: Irwin – Ohio Line	67	77.5	June 11, 1941	Oct. 24, 1949	Dec. 26, 1951
Delaware River Extension: Valley Forge – Delaware River	33	65	May 23, 1951	Nov. 20, 1952	Nov. 17, 1954
Delaware River Bridge	1.5	Not available	May 23, 1951	June 22, 1954	May 23, 1956
Northeastern Extension: East/West Turnpike to Scranton	110	233	Sept. 27, 1951	Mar. 25, 1954	Nov. 7, 1957
Mon/Fayette Expressway – California Interchange	6	7	Sept. 1985	June 9, 1988	Oct. 12, 1990
Beaver Valley Expressway	16	240	Sept. 1985	Oct. 20, 1989	Nov. 20, 1992
Mid-County Interchange	–	80	Sept. 1985	Dec. 20, 1989	Dec. 15, 1992
Amos K. Hutchinson Bypass	13	271	Sept. 1985	Aug. 20, 1990	Dec. 9, 1993
Keyser Avenue Interchange	–	47	Sept. 1985	Not available	Feb. 1, 1995
Mon/Fayette Expressway – Mason- Dixon Link	8	132	Sept. 1985	Nov. 1, 1994	Mar. 1, 2000
Mon/Fayette Expressway – I-70 to Coyle Curtain Road	4	90	Sept. 1985	June 19, 1997	May 11, 2001
Mon/Fayette Expressway – Coyle Curtain Road to SR 51	13	604	Sept. 1985	Sept. 1997	Apr. 12, 2002
Southern Beltway Findlay Connector	6	234	Aug. 1991	Nov. 12, 2003	Oct. 11, 2006
Mon/Fayette Expressway - Uniontown to Brownsville		859	Sept. 1985		
Phase 1	8			April 1, 2006	Oct. 23, 2008
Phase 2	9			April 24, 2008	July 16, 2012

Source: Pennsylvania Turnpike Commission



**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Chronology, Turnpike Improvements**

May 31, 2013

<b>Date</b>	<b>Improvement</b>
September 6, 1962	Groundbreaking on Laurel Hill Bypass and boring of second Allegheny Tunnel
October 30, 1964	Laurel Hill Bypass (3.1 miles) opened, eliminating two-lane 4,541-foot-long Laurel Hill tunnel
March 15, 1965	Second Allegheny Tunnel opened; original tunnel closed for refurbishing
December 1965	Median barriers completed on entire east-west turnpike
April 1966	Work begins at second tunnels at Blue, Kittatinny, and Tuscarora Mountains
August 25, 1966	Original Allegheny Tunnel reopened
November 26, 1968	Sideling Hill Bypass (13.3 miles) opened, eliminating two two-lane tunnels: Ray's Hill (3,532 feet) and Sideling Hill (6,782 feet)
November 26, 1968	Second Blue, Kittatinny, and Tuscarora Tunnels opened
August 14, 1969	Median barrier completed on entire Turnpike
December 2, 1981	Completion of three climbing lane projects (Allegheny, Indian Creek, and Jacob's Creek)
May 20, 1982	Computerization and renovation of toll collection system begins
March 10, 1986	Six-lane widening project begins (junction of Northeastern Extension to Philadelphia Interchange)
July 22, 1987	Computerized toll collection system placed into service
November 27, 1987	Opening of six-lane section near Philadelphia
June 9, 1988	Groundbreaking on the Mon/Fayette, six-mile link between I-70 and U.S. 40
February 14, 1989	Groundbreaking for second Lehigh Tunnel
October 20, 1989	Groundbreaking for Mahoning River Bridge
December 19, 1989	Groundbreaking for Mid-County Interchange
June 14, 1990	Groundbreaking for Beaver Valley Expressway
August 15, 1990	Groundbreaking for Amos K. Hutchinson Bypass
October 12, 1990	Opening of the first six-mile section of the Mon-Valley/Fayette Expressway linking I-70 and U.S. 40 in Washington County
November 22, 1991	Complete installation of call boxes along the Turnpike System
November 22, 1991	Opening of the second Lehigh Tunnel

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Chronology, Turnpike Improvements (continued)**

May 31, 2013

<b>Date</b>	<b>Improvement</b>
November 20, 1992	Opening of the Beaver Valley Expressway (Toll 60, James E. Ross Highway), the world's first weigh barrier toll system
December 15, 1992	Opening of the new Mid-County Interchange
December 9, 1993	Opening of Amos K. Hutchinson Bypass
November 1, 1994	Groundbreaking on first section of the Mon/Fayette Expressway, at Fairchance
February 1, 1995	Opening of the Keyser Avenue Interchange
May 26, 1995	Opening of the Allentown and Sideling Hill Farmers' Markets
June 2, 1995	Groundbreaking on the Mon/Fayette Route 70 to Route 51 Transportation project
November 1, 1996	Northeast Extension designated I-476
March 1, 2000	Opening of Mon/Fayette Expressway – Mason-Dixon Link
August 25, 2000	Completion of total reconstruction MP 94 – 99
December 2, 2000	Implementation of E-ZPass (electronic toll collection system) for passenger vehicles in southeastern and south central PA (interchanges 242 – 56)
May 7, 2001	Reopening of the newly renovated and expanded central office administration building in Highspire, PA
May 11, 2001	Opening of I-70 to Coyle Curtain Road section of the Mon/Fayette Expressway
May 19, 2001	Expansion of E-Zpass system to six additional interchanges, 226, 236, and 74 (Mahoning Valley) to 115 (Wyoming Valley) Toll Plaza on the Northeast Extension
August 17, 2001	Completion of total reconstruction MP 186 – 199
November 2001	Interchange dual-numbering system installation completed
December 15, 2001	E-Zpass lanes for passenger vehicles available at all of the Turnpike's Mainline Interchanges
April 12, 2002	Opening of Coyle Curtain Road to SR 51 section of the Mon/Fayette Expressway
June 1, 2002	Implementation of a Wide Area Network (WAN)
August 23, 2002	Completion of total reconstruction MP 75 – 85
December 15, 2002	E-Zpass lanes for commercial vehicles available at all of the Turnpike's Mainline Interchanges
June 1, 2003	Opening of the new Warrendale Interchange

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Chronology, Turnpike Improvements (continued)**

May 31, 2013

<b>Date</b>	<b>Improvement</b>
November 12, 2003	Groundbreaking for Southern Beltway Findlay Connector (PA-60 to US 22)
June 2, 2004	Opening of the first express E-Zpass lane at Warrendale Interchange (eastbound)
June 26, 2004	Opening of the second express E-Zpass lane at Warrendale Interchange (westbound)
November 23, 2004	Expansion of E-Zpass system to two additional interchanges, 122–Keyser Avenue and 131–Clarks Summit on the Northeast Extension
December 9, 2004	Electronic bar code scanners installed at all interchanges
January 19, 2005	Implementation of the Tag Teller program
April 1, 2005	Completion of total reconstruction MP 110 – 120
October 12, 2005	Express E-Zpass lanes opened at Mid County Interchange
November 28, 2005	Fog warning system between Breezewood Interchange and Sideling Hill Service Plaza installed
January 2, 2006	One way tolling (eastbound) at Gateway Interchange (free westbound)
April 1, 2006	Groundbreaking for Mon/Fayette Uniontown to Brownsville project
June 2, 2006	Expansion of E-Zpass system to the AKH mainline interchange
October 2006	Opening of Findlay Connector
January 2007	Reconstruction of Norristown Interchange, MP 333.28 (completed)
February 2007	Amos K. Hutchinson and Beaver Valley Expressway completely equipped with E-Zpass
May 2007	Westbound span of the Susquehanna River Bridge was opened to traffic
May 2007	Opening of reconstructed Oakmont Service Plaza
June 2007	Eastbound span of the Susquehanna River Bridge was opened to traffic
June 2007	Gateway Express E-Zpass opened
August 2007	Reconstruction of Lebanon-Lancaster Interchange, MP 266.45 (completed)
September 2007	Reconstruction of Gettysburg Interchange, MP 236.22 (completed)
October 2007	Reconstruction of Harrisburg East Interchange, MP 247.38 (completed)
May 2008	Opening of reconstructed Allentown, Sideline Hill and North Somerset Service Plazas
October 2008	Completion of Phase I of Uniontown to Brownsville portion of Mon/Fayette

**Pennsylvania Turnpike Commission**  
A Component Unit of the Commonwealth of Pennsylvania

**Chronology, Turnpike Improvements (continued)**

May 31, 2013

<b>Date</b>	<b>Improvement</b>
May 2009	Opening of reconstructed New Stanton Service Plaza
June 2009	Total Reconstruction of MP 1.85 – 9.29, 123-129, 210.92 – 215.29
November 2009	Total Reconstruction MP 67-74
May 2010	Opening of reconstructed King of Prussia Service Plaza
November 2010	Opening of reconstructed Hickory Run Service Plaza
May 2011	Opening of reconstructed Bowmansville and Lawn Service Plazas
November 2011	Opening of newly constructed Lehigh River & Pohopoco Creek Bridges
May 2012	Opening of newly constructed South Somerset Service Plaza
May 2012	Opening of reconstructed Cumberland Valley and Blue Mountain Service Plazas
July 2012	Completion of Phase 2 of Uniontown to Brownsville portion of Mon/Fayette (including Monongahela River Bridge)
December 2012	Opening of all-electronic SR20 Interchange, MP 320
December 2012	Total Reconstruction of MP 31.04-37.82, 215.29-220.3
May 2013	Opening of reconstructed Highspire and South Midway Service Plazas

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission  
A Component Unit of the Commonwealth of Pennsylvania

Chronology, Speed Limits

May 31, 2013

<b>Date</b>	<b>Speed Limit</b>
October 1, 1940	No speed limit established by law
April 15, 1941	70 MPH; various lower commercial speeds depending on vehicle weight
December 1941	Wartime restriction of 35 MPH for all traffic
August 1945	Wartime restriction lifted. Speed limits revert to those of April 15, 1941
July 9, 1951	70 MPH for cars, buses, motorcycles 50 MPH for all other traffic
January 15, 1953	Gateway to Breezewood: 60 MPH for cars, buses 45 MPH for trucks
May 7, 1956	Breezewood to Valley Forge: 70 MPH for cars, buses 50 MPH for trucks Bridges: 45 MPH for all traffic
July 24, 1966	65 MPH for cars, buses, motorcycles 55 MPH for commercial vehicles
November 1973	55 MPH restriction nationwide, enforced on Turnpike beginning December 2, 1973
July 13, 1995	65 MPH for cars, buses, motorcycles, and commercial vehicles, except in urban areas where speed limit is 55 MPH
April 3, 2001	55 MPH from milepost 75 to milepost 130 for all vehicles
April 11, 2005	65 MPH for all vehicles, except tunnels, MP 122-130, and approaches to mainline toll plazas will remain at 55 MPH

Source: Pennsylvania Turnpike Commission

## **Addendum No. 1**

RFP # 13-10210-4557

### **Annual Independent Audit Services**

**Prospective Respondents: You are hereby notified of the following information in regard to the referenced RFP:**

Following are the answers to questions submitted in response to the above referenced RFP as of December 30, 2013. All of the questions have been listed verbatim, as received by the Pennsylvania Turnpike Commission.

**1. How many hours did the prior year audit field work require?**

The Commission does not have this information.

**2. Has the Commission, or its Trust, experienced any significant funding changes since its last audit?**

No

**3. What software is utilized for financial and fixed asset accounting?**

SAP ECC 6.0

**4. Approximately how many employees does the Commission currently have, and is payroll processed by an external provider, such as ADP?**

We currently have approximately 2,100 employees at the Commission. Payroll is processed in house using SAP.

**5. Was there anything expected from your former auditor that fell shy of expectations?**

No

All other terms, conditions and requirements of the original RFP dated December 13, 2013 remain unchanged unless modified by this Addendum.