

MAINE STATE LEGISLATURE

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THE MAINE TURNPIKE AUTHORITY

Financial Statements

**For the Years Ended
December 31, 2013 and 2012**

THE MAINE TURNPIKE AUTHORITY

Financial Statements

For the Years Ended December 31, 2013 and 2012

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Independent Auditors' Report

To the Board of Directors
Maine Turnpike Authority
Portland, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the Maine Turnpike Authority, a component unit of the State of Maine, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which comprise the Authority'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Maine Turnpike Authority, as of December 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.

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To the Board of Directors
Maine Turnpike Authority

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8, the schedule of funding progress for the retiree healthcare plan on page 32 and the trend data on infrastructure condition on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The Calculation of the Composite Debt Service Ratio on page 33, as required by the bond resolutions and related documents and the Statement of Activities for the State of Maine General Purpose Financial Statements on page 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Calculation of the Composite Debt Service Ratio and the Statement of Activities for the State of Maine General Purpose Financial Statements on page 34 is the responsibility of management and was derived from and relates 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 audit 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 Calculation of the Composite Debt Service Ratio and the Statement of Activities for the State of Maine General Purpose Financial Statements on page 34 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014 on our consideration of the Maine Turnpike Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maine Turnpike Authority's internal control over financial reporting and compliance.

Macpage LLC

South Portland, Maine
March 20, 2014

THE MAINE TURNPIKE AUTHORITY

Management's Discussion and Analysis

December 31, 2013

The management of the Maine Turnpike Authority (the Authority) offers this narrative overview and analysis of the Authority's financial activities for the years ended December 31, 2013 and 2012. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. The information presented here should be read in conjunction with the Authority's basic financial statements.

Financial Highlights

Net operating income for the Maine Turnpike Authority was \$57,013,512 and \$36,212,014 for calendar years 2013 and 2012, respectively. The increase in net operating income is mostly due to an increase in Net Fare Revenue. Total Revenues increased 15.9% in 2013 which is mostly due to a toll increase implemented on November 1, 2012. The decrease in Operating Expenses is mostly due to a decrease in Salaries expense mainly in Fare Collection and Highway Maintenance due to staff reductions that occurred in late 2012 and the continued efficiencies generated by E-ZPass.

Net income produced an increase in net position to \$33,370,343 from \$13,649,104 for fiscal years 2013 and 2012, respectively. The term "net position" refers to the difference between assets and liabilities. At the close of calendar year 2013, the Authority had a net position of \$180,997,218, an increase of 22.6% over calendar year 2012. At the close of calendar year 2012, the Authority's net position was \$147,626,875. The Authority's overall financial position has improved as shown by the increase in net position.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements are presented in a manner similar to a private-sector business and have been prepared according to accounting principles generally accepted (GAAP) in the United States. All of the current year's revenues are recorded as they are earned and expenses are recorded as they are incurred, regardless of when cash is received or disbursed.

Basic Financial Statements

The statement of net position presents information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position serve as a relative indicator of the change in financial position of the Authority.

The statement of revenues, expenses, and changes in net position shows the result of the Authority's total operations during the fiscal year and reflects both operating and non-operating activities. Changes in net position reflect the current fiscal period's operating impact upon the overall financial position of the Authority.

Management Discussion and Analysis, *continued*

The statement of cash flows provides a detailed analysis of all sources and uses of cash. The direct method of cash flows is presented, ending with a reconciliation of operating income to net cash provided by operating activities. The statement of cash flows is divided into the following activities: operating, capital financing, and investing.

Notes to the Financial Statements

The notes provide additional information that is essential to fully understand the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and notes, this report also presents required supplementary information concerning infrastructure condition and the retiree healthcare plan. Additionally, certain supplementary information concerning the Authority's debt service ratio, as defined by the bond resolution, is included.

Financial Analysis

Maine Turnpike Authority's Statement of Net Position

	December 31,	
	2013	2012, Restated
Assets and Deferrals		
Current Assets	\$ 106,492,381	\$ 104,234,514
Capital Assets, Net of Accumulated Depreciation	497,236,090	489,030,660
Non-Current Restricted Assets	48,415,195	39,311,162
Other Assets	12,514,588	14,635,096
Deferred Outflows of Resources	7,652,018	8,339,246
Total Assets and Deferred Outflows	\$ 672,310,272	\$ 655,550,678
Liabilities and Net Position		
Current Liabilities	44,977,043	43,174,274
Bonds Payable, Net of Unamortized Premiums	430,974,658	451,304,104
Other Post Employment Benefits Liability	13,961,000	12,161,000
Other Non-current Liabilities	1,400,353	1,284,425
Total Liabilities	\$ 491,313,054	\$ 507,923,803
Net Position:		
Net Investment in Capital Assets	117,417,425	115,189,754
Restricted	49,831,918	31,776,349
Unrestricted	13,747,875	660,772
Total Net Position	\$ 180,997,218	\$ 147,626,875
Total Liabilities and Net Position	\$ 672,310,272	\$ 655,550,678

Management Discussion and Analysis, *continued*

As noted earlier, net position serves as an indicator of the Authority's overall financial position. In the case of the Authority, assets exceeded liabilities by \$180,997,218 at the close of 2013. This represents an increase of \$33,370,343 (22.6%) over the net position balance of \$147,626,875 as of December 31, 2012. This increase was primarily due to a toll increase implemented November 1, 2012, and the Authority's reductions in operating costs.

The largest portion of the Authority's net position reflects its net investment in capital assets (e.g., right-of-way, roads, bridges, toll equipment, etc) less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide service and consequently, these assets are not available for liquidating liabilities or for other spending. The net investment in Capital Assets was \$117,417,425 and \$115,189,754 for the years ending December 31, 2013 and 2012, respectively.

Restricted net position is reserved for projects defined in the bond resolutions and applicable bond issue official statements. The Authority's restricted net position was \$49,831,918 and \$31,776,349 for the years ending December 31, 2013 and 2012, respectively. The remaining unrestricted net position serves as working capital and may be used to meet the Authority's capital and ongoing operational needs.

The Maine Turnpike Authority's Changes in Net Position

	For the Years Ended December 31,	
	2013	2012, Restated
Revenues:		
Net Fare Revenues	\$ 121,817,365	\$ 104,507,889
Concession Rental	4,147,783	4,051,615
Investment Income (Loss)	(473,518)	140,863
Miscellaneous	1,135,177	1,142,267
Total Revenues	\$ 126,626,807	\$ 109,842,634
Expenses:		
Operations	21,604,137	23,030,296
Maintenance	26,287,423	28,850,395
Administrative	2,204,851	2,399,757
Depreciation	5,480,257	5,301,133
Preservation	14,401,856	13,824,705
Interest Expense	20,884,040	21,022,757
Other	2,393,900	1,764,486
Total Expenses	\$ 93,256,464	\$ 96,193,530
Changes in Net Position	33,370,343	13,649,104
Net Position, beginning of year	147,626,875	133,977,771
Net Position, end of year	\$ 180,997,218	\$ 147,626,875

Management Discussion and Analysis, *continued*

The Authority's net fare revenues, which represent approximately 96% of all operating revenues, increased \$17,309,476 (16.6%) in 2013. The increase is due to a 20.5% toll increase implemented on November 1, 2012. Concession Rental income increased \$96,168 (2.37%) in 2013, due to increased customer patronage. Operations, Maintenance and Administrative expenses decreased \$4,184,037 (8.4%) in 2013. This decrease is attributed to management's efforts to continue to reduce costs and become more efficient. There were some staff reductions that occurred in late 2012 in both Highway Maintenance and Fare Collections, which reduced salaries and benefits in those areas. Fare collection costs continue to decline as the Authority gains efficiencies with higher E-ZPass usage. Other cost reduction efforts include reducing legal costs by utilizing in-house staff, as well as reducing spending in public relations, organizational memberships and sponsorships. Preservation expenses increased \$577,151 (4.2%) in 2013 due to the expansion of the paving, slope and drainage repair programs.

Capital Assets and Debt Administration

Capital Assets

The Authority's investment in capital assets as of December 31, 2013 amounted to \$564,504,666 of gross asset value with accumulated depreciation of \$67,268,576, leaving a net book value of \$497,236,090. Capital assets include right-of-way, roads, bridges, buildings, equipment and vehicles. Please see Note 3 of the financial statements for a schedule of changes in the Authority's capital assets.

Capital asset acquisitions are capitalized at cost. Acquisitions are funded through debt issuance and Authority revenues.

Major capital asset events of 2013 include the completion of the New Gloucester Open Road Toll Plaza, the Gray Maintenance Facility improvements and Auburn Interchange improvements, as well as the Exit 52, Blackstrap Road, Old Lisbon Road, Snow Hill Road, Saco River and F.S. Presumpscot bridges. In addition, construction of the Lewiston Interchange, with an estimated completion of 2015, began in 2013. Engineering and Design work for the Gray Interchange, with an estimated completion of 2018 also began in 2013. Also, Engineering and Design work for Ferrin/West Road and Litchfield Road Bridges are well in progress with an estimated completion of fall 2014. Lastly, work related to the Toll System Upgrades began at three locations. This project will upgrade each toll plaza location with improved traffic counting and video/image technology to continue the highly accurate data collection the Authority requires. The toll system, which was installed in 2004, will be replaced by Transcore's Infinity solution. The upgrade will be phased in over the next five years.

Modified Approach for Infrastructure Assets

The Maine Turnpike Authority has elected to use the modified approach to infrastructure reporting under GASB 34. This means that, in lieu of reporting depreciation on infrastructure, the Authority reports the costs associated with maintaining the existing asset in good condition as preservation expense. Infrastructure assets include: roads, bridges, interchanges, tunnels, right of way, drainage, guard rails, and lighting systems associated with the road. Pursuant to its bond covenants, the Authority maintains a reserve maintenance fund for these preservation expenses. For fiscal 2013, \$14,401,856 was spent for preservation compared to an estimated cost of \$13,788,300.

Management Discussion and Analysis, *continued*

The roadways are rated on a 10-point scale, with 10 meaning that every aspect of the roadway is in new and perfect condition. The Authority's system as a whole is given an overall rating, indicating the average condition of all roadways operated by the Authority. The assessment of condition is made by visual inspection designed to reveal any condition that would reduce highway-user benefits below the maximum level of service. The Authority's policy is to maintain the roadway condition at rating of 8 (generally good condition) or better. The results of the 2013 inspection states that the Maine Turnpike has been maintained in generally good condition and presents a favorable appearance, which is the same assessment the Authority received in 2012.

Long-term Debt

The Authority has outstanding bonds payable of \$437,758,322 and \$11,036,336 for revenue and subordinated bonds, respectively (both net of unamortized bond discounts and premiums). Please see Note 6 of the financial statements for the annual principal payment requirements on revenue and subordinated bonds as of December 31, 2013.

The Authority has a cap, set by the Legislature, on the amount of revenue bonds that can be outstanding at any given time. In 2007 this cap was increased to \$486,000,000. As of December 31, 2013, outstanding revenue bonds were \$412,130,000, leaving \$73,870,000 available under the cap.

The Authority's current bond ratings are as follows:

Fitch	AA-
Moody's	Aa3
Standard & Poor's	AA-

In 2013, Fitch and Standard & Poor's completed their review of the Authority's finances and each agency affirmed the Authority's ratings and gave a stable outlook.

Debt Service Reserve Fund

The general bond resolution requires the Authority to fund the Debt Service Reserve Requirement with cash and investments or with a surety policy or letter of credit.

Currently, the Debt Service Reserve requirement is approximately \$17,942,461, which is fifty percent of maximum annual debt service (MADS). To meet this requirement, the Authority has deposited \$17,942,461 of cash into the Debt Service Reserve Fund. The Authority has approximately \$21,000,000 of surety bonds in place, however, since the sureties are rated lower than the Authority's bond ratings, they do not count towards the Debt Service Reserve requirement.

Please see Note 7 of the Financial Statements for more discussion of the Debt Service Reserve Fund.

Management Discussion and Analysis, *continued*

Budgetary Controls

Each year the Maine Turnpike Authority presents their Operating, Reserve Maintenance and Capital budgets to the Transportation Committee and it is ultimately voted on by the State of Maine Legislature. The Authority has made several decisions which have resulted in significant reductions to preceding budgets that have been received very positively by the Committee and the Legislature. More importantly, actual expenses have begun to prove that these decisions have positively affected the Authority's outcome without negatively impacting the mission of the Authority which is to provide a safe and efficient highway operated at a reasonable cost.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, Maine Turnpike Authority, 2360 Congress Street, Portland, ME 04102; or email your questions to info@maineturnpike.com.

STATEMENT OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS	December 31,	
	2013	2012, Restated
Current Assets:		
Cash and Equivalents	\$ 17,778,869	\$ 5,573,525
Restricted Cash and Equivalents to meet current restricted liabilities	81,808,946	47,312,101
Restricted Investments - Short Term	-	44,789,708
Accounts Receivable and Accrued Interest Receivable	4,424,921	4,068,055
Inventory	1,604,401	1,642,771
Other - Current Assets	875,244	848,354
Total Current Assets	106,492,381	104,234,514
Non-Current Assets:		
Restricted Assets		
Cash and Equivalents	34,100,454	24,319,490
Investments - Long Term	14,301,245	14,893,518
Accounts Receivable and Accrued Interest Receivable	13,496	98,154
Total Restricted Assets	48,415,195	39,311,162
Other Assets		
Prepaid Bond Insurance - Net	1,509,588	1,645,096
MDOT Prepaid Transfer	11,005,000	12,990,000
Total Other Assets	12,514,588	14,635,096
Capital Assets not being Depreciated:		
Land and Infrastructure	429,931,568	413,917,907
Construction in Progress	7,824,106	17,988,769
Capital Assets net of Accumulated Depreciation:		
Property and Equipment	59,480,416	57,123,984
Total Capital Assets - Net of Accumulated Depreciation	497,236,090	489,030,660
Total Non-Current Assets	558,165,873	542,976,918
TOTAL ASSETS	\$ 664,658,254	\$ 647,211,432
Deferred Outflows of Resources:		
Deferred Loss on Refunding Bonds	7,652,018	8,339,246
Total Assets and Deferred Outflows	\$ 672,310,272	\$ 655,550,678

*See independents auditors' report.
The accompanying notes are an integral part of these financial statements.*

STATEMENT OF NET POSITION, *continued*

LIABILITIES AND NET POSITION	December 31,	
	2013	2012, Restated
Current Liabilities Payable from Unrestricted Assets:		
Accounts, Contracts and Retainage Payable	\$ 3,058,267	\$ 2,618,168
Accrued Salary, Vacation and Sick Leave Payable	2,138,500	2,936,234
Unearned Fare Revenue	7,192,852	6,465,910
Unearned Concession Rentals	49,706	280,912
Total Current Liabilities Payable from Unrestricted Assets	12,439,325	12,301,224
Current Liabilities Payable from Restricted Assets:		
Accounts, Contracts and Retainage Payable	3,759,585	3,998,094
Accrued Salary, Vacation and Sick Leave Payable	159,329	156,370
Bond Interest Payable	10,261,904	10,622,136
Current Portion of Revenue Bonds and Subordinated Debt Payable	17,820,000	15,560,000
Other Current Liabilities	536,900	536,450
Total Current Liabilities Payable from Restricted Assets	32,537,718	30,873,050
Total Current Liabilities	44,977,043	43,174,274
Non-current Liabilities:		
Long-term Revenue Bonds and Subordinated Debt Payable	430,974,658	451,304,104
Other Post Employment Benefits Liability	13,961,000	12,161,000
Other Non-current Liabilities	1,400,353	1,284,425
Total Non-current Liabilities	446,336,011	464,749,529
Total Liabilities	491,313,054	507,923,803
Net Position:		
Net Investment in Capital Assets	117,417,425	115,189,754
Restricted	49,831,918	31,776,349
Unrestricted	13,747,875	660,772
Total Net Position	180,997,218	147,626,875
Total Liabilities and Net Position	\$ 672,310,272	\$ 655,550,678

See independent auditors' report.

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Years Ended December 31,	
	2013	2012, Restated
REVENUES		
Operating Revenue:		
Net Fare Revenue	\$ 121,817,365	\$ 104,507,889
Concession Rentals	4,147,783	4,051,615
Miscellaneous	1,135,177	1,142,267
Total Operating Revenues	127,100,325	109,701,771
Interest Income (loss)		
Revenue Fund	(17,767)	(31,569)
Reserve Maintenance Fund	(44,852)	(29,983)
Improvement Account	(8,738)	(8,239)
Interchange Account	(975)	(8,128)
Maine Department of Transportation Account	(1,622)	(2,017)
Total Interest Income (loss)	(73,954)	(79,936)
Total Revenues	127,026,371	109,621,835
EXPENSES		
Operating Expenses:		
Operations	21,604,137	23,030,296
Maintenance	26,287,423	28,850,395
Administration	2,204,851	2,399,757
Depreciation	5,480,257	5,301,133
Reserve Maintenance - Preservation	14,401,856	13,824,705
Other Expenses - Capital General Expenses	34,335	3,535
Total Operating Expenses	70,012,859	73,409,821
Net Operating Income	57,013,512	36,212,015
Non-Operating Revenue/(Expenses):		
Investment Income (loss)	(399,564)	220,799
Loss on Sale and Disposal of Capital Assets	(2,061,274)	(121,883)
Interest Expense	(20,884,040)	(21,022,757)
Bond Issuance Cost	-	(1,417,878)
Bond Insurance Amortization	(135,506)	(142,796)
Bond Premium/Discount Amortization	2,509,445	2,458,640
Deferred Loss on Refunding Amortization	(687,230)	(637,035)
MDOT Prepaid Transfer Amortization	(1,985,000)	(1,900,000)
Total Non-Operating Revenue/(Expenses)	(23,643,169)	(22,562,910)
Change in Net Position	33,370,343	13,649,104
Net Position at beginning of year	147,626,875	133,977,771
Net Position at end of year	\$ 180,997,218	\$ 147,626,875

*See independent auditors' report.
The accompanying notes are an integral part of these financial statements.*

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2013	2012
Operating Activities:		
Cash Received from Tolls/Customers	\$ 154,287,850	\$ 133,569,685
Cash Payments to Suppliers	(68,999,739)	(67,441,542)
Cash Payments to Employees	(21,060,698)	(21,922,581)
Net Cash Provided by Operating Activities	64,227,413	44,205,562
Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(15,993,540)	(25,558,745)
Proceeds from Issuance of Revenue Bonds	-	75,480,591
Bond Proceeds Used to Fund Debt Service Reserve	-	1,413,328
Payments for Bond Expenses	-	(589,386)
Interest Paid on Revenue Bonds	(20,661,836)	(19,521,009)
Payment of Principal on Revenue Bonds	(13,575,000)	(11,955,000)
Interest Paid on Subordinated Debt Bonds	(478,400)	(562,463)
Payment of Principal on Special Obligation Bonds	(1,985,000)	(1,900,000)
Net Cash Provided By (Used in) Capital and Financing Activities	(52,693,776)	16,807,316
Investing Activities:		
Purchase of Investments	-	(122,420,548)
Proceeds from Sales and Maturities of Investments	44,678,866	62,499,892
Interest Received	270,650	345,743
Net Cash Used in Investing Activities	44,949,516	(59,574,913)
Net Increase in Cash and Equivalents	56,483,153	1,437,965
Cash and Equivalents at Beginning of Year	77,205,116	75,767,151
Cash and Equivalents at End of Year	133,688,269	77,205,116
Cash and Equivalents - Unrestricted	17,778,869	5,573,525
Restricted Cash and Equivalents - Current	81,808,946	47,312,101
Restricted Cash and Equivalents - Non-Current	34,100,454	24,319,490
	\$ 133,688,269	\$ 77,205,116

See independent auditors' report.

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS, *continued*

	For the Years Ended December 31,	
	2013	2012
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from Operations	\$ 57,013,512	\$ 36,212,014
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities:		
Depreciation	5,480,257	5,301,133
Interest Loss included in Operating Revenue	73,954	79,936
Other - Capital General Expenses	34,335	3,536
Changes in Assets and Liabilities:		
Accounts Receivable	(356,513)	(513,788)
Prepaid Accounts	(26,753)	325,618
Inventory	38,370	(181,166)
Accounts, Contracts and Retainage Payable	2,269,289	2,839,186
Unearned Toll & Concession Revenue	495,737	320,672
Accrued Salary, Vacation and Sick Leave Payable	(794,775)	(181,579)
Net Cash Provided by Operating Activities	\$ 64,227,413	\$ 44,205,562

*See independent auditors' report.
The accompanying notes are an integral part of these financial statements.*

THE MAINE TURNPIKE AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 1 – Summary of Organization and Significant Accounting Policies and Procedures

Reporting Entity – The Maine Turnpike Authority (the Authority) is a body corporate and politic created by an act of the Legislature of the State of Maine, Chapter 69 of the Private and Special Laws of 1941 as amended, authorized and empowered to construct, maintain and operate a turnpike at such a location as shall be approved by the State Highway Commission and to issue turnpike revenue bonds of the Authority, payable solely from revenues of the Authority. Under the provisions of the Act, turnpike revenue bonds and interest thereon shall not be deemed debt or liability or a pledge of the faith and credit of the State of Maine.

During 1982, the Legislature of the State of Maine, Chapter 595 of the Public Laws of the State of Maine 1982, authorized an act to amend the Maine Turnpike Authority Statutes. This act states that the Maine Turnpike Authority shall continue in existence until such a time as the Legislature shall provide for termination and all outstanding indebtedness of the Authority shall be repaid or an amount sufficient to repay that indebtedness shall be set aside in trust.

For financial reporting purposes, the Authority is a stand-alone entity; there are no component units included in the accompanying financial statements. In 2012 the Authority was determined to be considered a component unit of the State of Maine, for reporting purposes only.

Basis of Accounting – The Authority prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for proprietary funds, which are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses are recorded when incurred. Proprietary funds distinguish operating revenues and expenses from non-operating activity. Operating revenues arise from providing goods or services to outside parties for a fee. The intent of the governing body is that the operating costs, including administration and depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses that are not derived directly from operations are reported as non-operating revenues and expenses.

Operating Revenues and Expenses – The Authority's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its System. Operating revenues for fares are recognized as the vehicles pass through the toll system. Prepayments on account are recorded as deferred fare revenue. Concession rental income is recognized based on the terms of the rental agreements. Net fare revenue is net of credit card fees of \$1,576,554 and \$1,243,967 for 2013 and 2012, respectively.

Non-operating revenues – Non-operating revenues consists of the amortization of bond premiums realized on previously issued debt, investment income earned and non-operating accounts and gains from the sale of capital assets.

Notes to Financial Statements, *continued*

Note 1 – Summary of Organization and Significant Accounting Policies and Procedures, *continued*

Interest Income on Operating Accounts – Interest income generated from on-going operations is included in operating revenue, in accordance with the requirements outlined in GASB 34.

Cash and Equivalents – For purposes of the statements of cash flow, demand deposit accounts with commercial banks, and cash invested in commercial money market funds are considered cash equivalents.

Investments – Investments are carried at fair value. Accrued interest paid upon the purchase of investments is recognized as interest income in the period it is earned.

Accounts Receivable – Accounts receivable consists primarily of toll revenues due from commercial accounts and other tolling agencies. The Authority obtains surety bonds to cover commercial accounts receivable. Management believes that all accounts receivable as of December 31, 2013 and 2012 are fully collectable. Therefore, no allowance for doubtful accounts was recorded.

Inventory – Inventory consists of both EZ Pass transponders and salt. The EZ Pass transponders will be sold to customers and are valued using the First-In First-Out (FIFO) method. Salt, to be used in operations is valued using a weighted average method. Both the EZ Pass Transponders and salt are carried at the lower of cost or market.

Restricted Assets – Restricted assets of the Authority represent bond proceeds designated for construction, and other monies required to be restricted for debt service, operations, maintenance, renewal and replacement.

Capital Assets – All capital assets are recorded on the balance sheet at historical cost. Capital assets are included in one of the following categories: Infrastructure; Land and Land Improvements; Buildings; Vehicles; Toll System; Computer and Other Equipment; Intangible Assets; and Construction in Progress.

Costs to acquire additional capital assets, and to replace existing assets or otherwise prolong their useful lives, are capitalized for toll equipment, buildings, toll facilities, other related costs and furniture and equipment. The Authority has elected to use the modified approach to infrastructure reporting under GASB 34. This means that, in lieu of reporting depreciation on infrastructure, the Authority reports as preservation expense the costs associated with maintaining the existing road in good condition. Infrastructure assets include roads, bridges, interchanges, tunnels, right of way, drainage, guardrails, and lighting systems associated with the road.

Depreciation of toll equipment, buildings, toll facilities, other related costs, signs, software and furniture and equipment is computed using the straight-line method, using the full-month convention, over the estimated useful lives of the assets as follows:

Notes to Financial Statements, *continued*

Note 1 – Summary of Organization and Significant Accounting Policies and Procedures, *continued*

Building	30 – 50 years
Building Improvements	15 – 20 years
Land Improvements (exhaustible)	15 years
Toll Equipment	5 – 10 years
Furniture and Fixtures	5 – 15 years
Software	3 – 10 years
Computers, Printers and IT Equipment	3 – 5 years
Other Equipment (incl. Vehicles)	5 – 20 years

The following minimum capitalization thresholds for capitalizing fixed assets are as follows:

Land and Improvements (non-exhaustible)	\$ 1
Land Improvements (exhaustible)	\$ 5,000
Buildings and Improvements	\$ 25,000
Machinery/Equipment/Vehicles	\$ 5,000
Computers, Printers & IT Equipment	\$ 5,000
Software	\$ 10,000
Infrastructure	\$ 100,000

Under the modified approach, infrastructure assets are considered to be “indefinite lived” assets; that is, the assets themselves will last indefinitely and are, therefore, not depreciated. Costs related to maintenance, renewal and replacement for these assets are not capitalized, but instead are considered to be period costs and are included in preservation expense.

Construction in Progress represents costs incurred by the Authority for in-process activities designed to expand, replace, or extend the lives of existing property and equipment.

Retainage Payable – Retainage payable represents amounts billed to the Authority by contractors for which payment is not due pursuant to retained percentage provisions in construction contracts until substantial completion of performance by contractor and acceptance by the Authority.

Prepaid Expenses – Expenses that benefit more than one reporting period are charged to Prepaid Expenses and expensed over its service period. Examples include insurance premiums, software site licenses and service contracts.

Accrued Vacation and Sick Leave Payable – Accrued vacation and sick leave payable includes accumulated vacation pay and vested sick pay.

Accrued Salaries Payable – Accrued salaries payable includes salary and wage expense incurred at the end of the period but not paid until the following period, which amounted to \$203,629 and \$768,858 for the years ended December 31, 2013 and 2012, respectively, and are included on the balance sheet under Accrued Salary, Vacation and Sick Leave Payable.

Notes to Financial Statements, *continued*

Note 1 – Summary of Organization and Significant Accounting Policies and Procedures, *continued*

Unearned Toll Revenue – The Authority offers a prepaid balance program which allows patrons to carry a balance on their account for future toll expenses. This balance is reduced by each trip through the tolls and can be increased by the patron at any time. Up until October 31, 2012, the Authority offered a Commuter Plan to patrons who travel regularly between the same two exits. Commuters paid a set fee, in advance, that covered a three month period. Revenue was earned over the three month period on a prorated basis. On November 1, 2013 the Authority replaced the Commuter Plan with a Volume Discount Plan for passenger vehicles.

Bond Premium, Discount and Issuance Costs – Bond premiums and discounts associated with the issuance of bonds are amortized using the effective interest rate method over the life of the bonds. Bond issuance costs such as bond insurance are amortized using the straight-line method over the life of the bonds. Other bond issuance costs, such as consulting, legal and underwriter fees are expensed in the period they are incurred.

Refunded Bonds – The Authority defeased certain bonds in 2004, 2005, 2008 and 2012 by placing cash received from the advanced refunding into an irrevocable escrow account to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's balance sheets.

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Use of Restricted/Unrestricted Net Position – When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the Authority's policy is to apply restricted net position first.

Reclassifications – Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 classifications.

Recent Accounting Pronouncements – In March 2012, the GASB issued GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities". This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. The new statement is effective for periods beginning after December 15, 2012. The Authority implemented GASB 65 in 2013 and is reflected in the comparative financial statements. Please see Note 14 on page 31.

In June 2012, the GASB issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" – an amendment of GASB Statement No. 27. This statement improves accounting and financial reporting by state and local government pensions. The new statement is effective for periods beginning after June 15, 2014. The Authority is currently assessing the impact of this statement on its financial statements.

Notes to Financial Statements, continued

Note 2 – Deposits and Investments

Deposits

Custodial Credit Risk-Authority Deposits: For deposits, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of December 31, 2013, the Authority reported deposits of \$676,073 with a bank balance of \$588,731. The entire balance of \$588,731 was covered by the F.D.I.C. (\$515,755) or by additional insurance purchased on behalf of the Authority by the respective banking institutions (\$72,976). As of December 31, 2012, the Authority reported deposits of \$3,317,248 with a bank balance of \$3,303,424. The entire balance of \$3,303,424 was covered by the F.D.I.C. (\$3,062,046) or by additional insurance purchased on behalf of the Authority by the respective banking institutions (\$241,378).

Investments

At December 31, 2013, the Authority had the following investments and maturities:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>More Than 5 Years</u>
U.S. Government Securities	\$ 17,093,634	\$ -	\$ -	\$ -
U.S. Government Obligations	\$ 14,301,245	\$ -	\$ 8,096,838	\$ 6,204,407
Federated Treasury Obligation Fund	\$ 115,874,181	\$ -	Not Applicable	\$ -
Total Investments	\$ 147,269,060	\$ -	\$ 8,096,838	\$ 6,204,407

At December 31, 2012, the Authority had the following investments and maturities:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>More Than 5 Years</u>
U.S. Government Securities	\$ 1,715,000	\$ 1,715,000	\$ -	\$ -
U.S. Government Obligations	\$ 59,683,226	\$ 44,789,708	\$ 6,375,151	\$ 8,518,367
Federated Treasury Obligation Fund	72,172,868		Not Applicable	
Total Investments	\$ 133,571,094	\$ 46,504,708	\$ 6,375,151	\$ 8,518,367

Deposits and investments are as follows:

	<u>2013</u>	<u>2012</u>
Deposits	\$ 676,073	\$ 3,317,248
Investment	147,313,439	133,571,094
Total Deposits and Investments	\$ 147,989,512	\$ 136,888,342

Deposits and investments have been reported as follows in the financial statements:

	<u>2013</u>	<u>2012</u>
Cash and Equivalents	\$ 17,778,869	\$ 5,573,525
Current Restricted Cash and Equivalents	-	47,312,101
Noncurrent Restricted Cash and Equivalents	34,100,452	24,319,490
Current Restricted Investments	81,808,946	44,789,708
Restricted Investments - Long Term	14,301,245	14,893,518
Total Deposits and Investments	\$ 147,989,512	\$ 136,888,342

Notes to Financial Statements, *continued*

Note 2 – Deposits and Investments, *continued*

Interest Rate Risk: The Authority's policy for investment rate risk is as follows: Portfolio maturities will provide for stability of income and reasonable liquidity; liquidity will be assured through practices ensuring that the next disbursement date is covered through maturing to be staggered to avoid undue concentration in a specific maturity sector.

Maturities selected will provide investments or marketable securities which can be sold to raise cash in a day's notice without loss of principal; and, risks of market price volatility will be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest on investment income received from the balance of the portfolio.

Credit Risk: Maine statutes authorize the Authority to invest in obligations of the U.S. Treasury and U.S. agencies and repurchase agreements. The Authority does not have a formal policy related to credit rate risk.

Custodial credit risk: investments – For investments, this is the risk that in the event of failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Authority is authorized to invest in: obligations of the U.S. government and its agencies provided they are full faith and credit obligations fully insured or collateralized certificates of deposit at commercial banks and savings and loan associations repurchase agreements collateralized by U.S. Treasury or Agency securities; and money market mutual funds whose portfolios consist of government securities.

The Authority's investment policy is to attain a market rate of return considered reasonable under generally accepted market principles throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio thus ensuring prudent use of public funds and preservation of the public's trust. The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. All security transactions, including collateral for repurchase agreements, entered into by the MTA shall be conducted on a "delivery vs. payment" basis. Securities will be held by a third party custodian, or Trust Department designated by the Executive Director, CFO, or Director of Finance and evidenced by safekeeping receipts.

Notes to Financial Statements, *continued*

Note 3 – Capital Assets

A Summary of changes to capital assets for the year ended December 31, 2013 is as follows:

	Balance 12/31/2012	Additions	Transfers	Disposals	Balance 12/31/2013
Capitalized Assets Not Being Depreciated (cost)					
Land	\$ 33,899,589	56,000	1,428,588	-	\$ 35,384,177
Infrastructure	380,018,318	(355,000)	17,015,945	(2,131,871)	394,547,390
Construction in Progress	17,988,769	14,619,951	(24,784,614)	-	7,824,106
Total Capital Assets Not Being Depreciated	431,906,676	14,320,951	(6,340,081)	(2,131,871)	437,755,673
Capitalized Assets Being Depreciated (cost)					
Land Improvements (exhaustible)	8,864,847	-	233,010	(28,762)	9,069,095
Buildings	63,664,465	(101,486)	2,494,825	(320,816)	65,736,988
Improvements	-	-	-	-	-
Machinery and Equipment	48,487,707	1,707,502	3,612,246	(1,864,546)	51,942,909
Total Capital Assets Being Depreciated	121,017,019	1,606,015	6,340,081	(2,214,124)	126,748,992
Less Accumulated Depreciation for:					
Land Improvements (exhaustible)	(6,662,329)	(354,385)	-	28,762	(6,987,952)
Buildings	(19,314,410)	(2,176,353)	-	255,762	(21,235,002)
Improvements	-	-	-	-	-
Machinery and Equipment	(37,916,296)	(2,949,518)	-	1,820,193	(39,045,622)
Total Accumulated Depreciation	(63,893,035)	(5,480,257)	-	2,104,717	(67,268,576)
Total Capital Assets Being Depreciated, net	57,123,984	(3,874,241)	6,340,081	(109,407)	59,480,416
Total Capital Assets	\$ 489,030,660	10,446,710	-	(2,241,279)	\$ 497,236,090

A Summary of changes to capital assets for the year ended December 31, 2012 is as follows:

	Balance 12/31/2011	Additions	Transfers	Disposals	Balance 12/31/2012
Capitalized Assets Not Being Depreciated (cost)					
Land	\$ 33,148,547	698,000	53,042	-	\$ 33,899,589
Infrastructure	349,948,573	8,491	30,774,906	(713,652)	380,018,318
Construction in Progress	26,861,444	22,119,058	(30,991,733)	-	17,988,769
Total Capital Assets Not Being Depreciated	409,958,564	22,825,549	(163,785)	(713,652)	431,906,676
Capitalized Assets Being Depreciated (cost)					
Land Improvements (exhaustible)	8,864,847	-	-	-	8,864,847
Buildings	64,048,912	34,110	3,806	(422,363)	63,664,465
Improvements	-	-	-	-	-
Machinery and Equipment	47,424,371	1,542,538	159,979	(639,181)	48,487,707
Total Capital Assets Being Depreciated	120,338,130	1,576,648	163,785	(1,061,544)	121,017,019
Less Accumulated Depreciation for:					
Land Improvements (exhaustible)	(6,314,088)	(348,241)	-	-	(6,662,329)
Buildings	(17,587,823)	(2,107,887)	-	381,300	(19,314,410)
Improvements	-	-	-	-	-
Machinery and Equipment	(35,707,254)	(2,845,005)	-	635,963	(37,916,296)
Total Accumulated Depreciation	(59,609,165)	(5,301,133)	-	1,017,262	(63,893,036)
Total Capital Assets Being Depreciated, net	60,728,965	(3,724,484)	163,785	(44,282)	57,123,984
Total Capital Assets	\$ 470,687,529	19,101,065	0	(757,934)	\$ 489,030,660

Notes to Financial Statements, *continued*

Note 4 – Letter of Credit

The Authority has a \$20 million letter of credit with Bangor Savings Bank which expires on December 31, 2014. It is secured under the General Resolution solely by the Authority's Revenues (as defined therein) on a subordinated basis to the Authority's outstanding bonds and additional bonds to be issued on a senior basis, all in accordance with the Resolution. There was no outstanding balance on the letter of credit as of December 31, 2013 and 2012.

Note 5 – Net Position

Net position represents the difference between assets, deferred outflows of resources, and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and adding back any unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's net investment in capital assets was calculated as follows:

	Years Ended December 31,	
	2013	2012
Capital Assets	\$ 564,504,666	\$ 552,923,695
Unspent Bond Proceeds	32,311,335	51,864,095
Accumulated Depreciation	(67,268,576)	(63,893,036)
Bonds Payable	(412,130,000)	(425,705,000)
Total Net Investment In Capital Assets	\$ 117,417,425	\$ 115,189,754

Note 6 – Long-term Debt

Revenue Bonds Payable

The Authority issues revenue bonds from time to time for the purpose of financing capital improvements and new projects. As of December 31, 2013, the Authority had the following outstanding bonds:

- \$115,050,000 of Series 2004 Revenue Bonds, issued in October 2004, to pay a portion of the costs of various turnpike projects and to advance refund a portion of the principal amount of the Series 1994, 1997 and 2000 bonds.
- \$76,715,000 of Series 2005 Revenue Bonds, issued in April 2005, to advance refund a portion of the principal amount of the Series 2000 bonds.
- \$50,000,000 of Series 2007 Revenue Bonds, issued in September 2007, to pay a portion of the costs of various turnpike projects.
- \$45,885,000 of Series 2008 Refunding Revenue Bonds, issued in May 2008, to advance refund principal amounts of the Series 1998 Refunding Bonds, which was called in July 2008.
- \$50,000,000 of Series 2009 Revenue Bonds, issued in February 2009, to pay a portion of the costs of various turnpike projects, interest only until 2014.
- \$68,990,000 of Series 2012A Revenue Bonds, issued in March 2012, to pay a portion of the costs of various turnpike projects.

Notes to Financial Statements, continued

Note 6 – Long-term Debt, continued

- \$84,240,000 of Series 2012B Revenue Refunding Bonds. The proceeds from the bonds were used to advance refund all of the Series 2003 Bonds maturing in the years 2014 through 2033, and a portion of the Series 2004 Bonds maturing in the years 2022 through 2030, in the outstanding principal amount of \$87,055,000.

Interest on all bonds is payable semi-annually on January 1st and July 1st of each year. The bonds will mature on July 1st in the years and principal amounts noted below:

Issue	Amount Issued	Maturity Date	Interest Rate	Balance 12/31/2013
Series 2004	115,050,000	7/1/2005 - 2030	3.00-5.25 %	54,645,000
Series 2005	76,715,000	7/1/2006 - 2030	3.00-5.125 %	75,770,000
Series 2007	50,000,000	7/1/2013 - 2037	3.75-5.25 %	48,955,000
Series 2008	45,885,000	7/1/2010 - 2018	3.00-5.00 %	29,530,000
Series 2009	50,000,000	7/1/2014 - 2038	3.00-6.00 %	50,000,000
Series 2012	153,230,000	7/1/2014 - 2042	2.00-5.00 %	153,230,000
Total Revenue Bonds Payable				\$ 412,130,000

Requirements for the repayment of the outstanding revenue bonds are as follows:

	Principal	Interest	Total debt service
2014	15,775,000	20,109,921	35,884,921
2015	16,535,000	19,344,234	35,879,234
2016	17,250,000	18,618,959	35,868,959
2017	18,090,000	17,793,046	35,883,046
2018	18,945,000	16,929,884	35,874,884
2019-2023	80,410,000	72,674,090	153,084,090
2024-2028	102,540,000	51,482,175	154,022,175
2029-2033	81,975,000	26,474,044	108,449,044
2034-2038	44,660,000	11,153,188	55,813,188
2039-2042	15,950,000	2,042,500	17,992,500
Totals	\$ 412,130,000	\$ 256,622,040	\$ 668,752,041

Notes to Financial Statements, continued

Note 6 – Long-term Debt, continued

A summary of changes in revenue bonds is as follows:

	<u>12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u>
Series 2003	1,360,000	-	(1,360,000)	-
Series 2004	60,575,000	-	(5,930,000)	54,645,000
Series 2005	75,900,000	-	(130,000)	75,770,000
Series 2007	50,000,000	-	(1,045,000)	48,955,000
Series 2008	34,640,000	-	(5,110,000)	29,530,000
Series 2009	50,000,000	-	-	50,000,000
Series 2012	153,230,000	-	-	153,230,000
Totals	\$ 425,705,000	\$ -	\$ (13,575,000)	\$ 412,130,000

Special Obligation Bonds Payable

- \$19,480,000 of Series 2008 Special Obligation Refunding Bonds, issued in May 2008, to refund all of the Authority's outstanding Series 1998 Special Obligation Bonds. The Special Obligation Refunding Bonds are subordinate to the outstanding Revenue Bonds and were originally issued in 1996.

<u>Issue</u>	<u>Amount Issued</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/2013</u>
Series 2008	\$ 19,480,000	7/1/2009 - 2018	3.00-4.00 %	\$ 11,005,000
Total Special Obligation Bonds Payable				\$ 11,005,000

Requirements for the repayment of the outstanding special obligation bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	2,045,000	413,888	2,458,888
2015	2,120,000	342,313	2,462,313
2016	2,195,000	268,113	2,463,113
2017	2,275,000	185,800	2,460,800
2018	2,370,000	94,800	2,464,800
Totals	\$ 11,005,000	\$ 1,304,914	\$ 12,309,914

Notes to Financial Statements, continued

Note 6 – Long-term Debt, continued

A summary of changes in special obligation bonds is as follows:

	<u>12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u>
Series 2008	12,990,000	0	(1,985,000)	11,005,000
Totals	\$ 12,990,000	\$ -	\$ (1,985,000)	\$ 11,005,000

Changes in Revenue and Special Obligation long-term liability for the year ended December 31, 2013, was as follows:

	<u>12/31/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2013</u>	<u>Due within one year</u>
Revenue Bonds	\$ 425,705,000	\$ -	\$ (13,575,000)	\$ 412,130,000	\$ 15,775,000
Special Obligation Bonds	12,990,000	-	(1,985,000)	11,005,000	2,045,000
Subtotal	438,695,000	-	(15,560,000)	423,135,000	17,820,000
Adjustment for Premium / Discounts	28,169,104	-	(2,509,446)	25,659,658	-
Total	\$ 466,864,104	\$ -	\$ (18,069,446)	\$ 448,794,658	\$ 17,820,000

Changes in Revenue and Special Obligation long-term liability for the year ended December 31, 2012, was as follows:

	<u>12/31/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2012</u>	<u>Due within one year</u>
Revenue Bonds	\$ 371,485,000	\$ 153,230,000	\$ (99,010,000)	\$ 425,705,000	\$ 13,575,000
Special Obligation Bonds	14,890,000	-	(1,900,000)	12,990,000	1,985,000
Subtotal	386,375,000	153,230,000	(100,910,000)	438,695,000	15,560,000
Adjustment for Premium / Discounts	14,135,788	19,034,371	(5,001,055)	28,169,104	-
Total	\$ 400,510,788	\$ 172,264,371	\$ (105,911,055)	\$ 466,864,104	\$ 15,560,000

Notes to Financial Statements, *continued*

Note 7 – Debt Service Reserve Fund

The general bond resolution requires the Authority to fund the Debt Service Reserve Requirement with cash and investments or with a surety policy or letter of credit. In order to satisfy this requirement, the Authority acquired surety policies issued by Financial Guaranty Insurance Company (FGIC), Financial Security Assurance, Inc (FSA), MBIA Insurance Company and AMBAC Assurance Corporation. The surety policies cover various series and terminate on various dates in the future. A summary of the surety policies purchased is as follows:

Debt Service Reserve Fund Surety Policy Provider	Series Availability	Termination Date	Maximum Amount
FSA	2004	July 1, 2030	1,781,929
MBIA	All Turnpike Revenue Bonds Issued Prior to 2004	July 1, 2018	12,029,000
Ambac	All Turnpike Revenue Bonds	July 1, 2030	4,871,359
FSA	All Turnpike Revenue Bonds	July 1, 2018	2,308,902

Each of the providers of the Debt Service Reserve Fund surety policies was rated Aaa by Moody's and AAA by Standard & Poor's (S&P) at the time of issuance of its respective policy. However, each of MBIA, FGIC, Ambac and FSA have been downgraded significantly as a result of their exposure to the 2008 sub-prime mortgage risk and do not maintain ratings by Moody's and S&P at least equal to the ratings on the Authority's outstanding revenue bonds.

Accordingly, each of the policies from MBIA, FGIC, Ambac and FSA, while still in effect, no longer qualify under the general bond resolution to meet the Debt Service Reserve Fund requirement.

Currently, the Debt Service Reserve requirement is \$17,942,461, which is one half of maximum annual debt service (MADS). In response to the downgrades of MBIA, FGIC, Ambac and FSA, the Authority has funded the Debt Service Reserve Fund of \$17,972,461 with cash, keeping the Authority in compliance with its bond resolution requirement of funding one half of MADS.

Note 8 – Maine Public Employees Retirement System (MainePERS) – Consolidated Retirement Pension Plan

Plan Description – The Authority participates in the Maine Public Employees Retirement System, a multiple-employer defined benefits pension plan, which covers substantially all employees. The MainePERS provides retirement, disability and death benefits to plan participants and beneficiaries. Employees are eligible for normal retirement upon attaining age sixty and early retirement after completing twenty-five or more years of service.

Notes to Financial Statements, *continued*

Note 8 – Maine Public Employees Retirement System (MainePERS) – Consolidated Retirement Pension Plan, *continued*

Funding Policy – Plan participants are required to contribute 6.5% of their annual compensation and the Authority is required to contribute at an actuarially determined rate. The current rate is 6.5% of employee earned compensation.

The Maine Turnpike Authority's contributions to MainePERS were approximately \$1,536,945, \$1,423,355 and \$1,315,433 for the years ended December 31, 2013, 2012 and 2011, respectively.

Note 9 – Operating Lease

In 2006, the Authority entered into lease agreements with HMS Host and CN Brown to operate its five service plazas on the Turnpike. The Authority entered into the arrangements as a means to provide services to users of the Turnpike in a more efficient, cost-effective manner. The terms of the agreements are as follows. The lease agreement with HMS Host is contingent based on sales however also provides a guaranteed minimum rent of \$3,050,000 or 85% of the previous year's rental, whichever is greater. In addition, the Authority received contingent rentals of \$299,955 and \$208,567 in 2013 and 2012, respectively. The lease agreement with CN Brown provides for contingent rent based on sales. The Authority received \$792,468 and \$793,048 in contingent rentals from CN Brown in 2013 and 2012, respectively.

On April 1st, 2013 the Authority entered into a lease agreement with Maine Crafts Association for an area located in the Authority's West Gardiner Service Plaza. The lease agreement is contingent based on gross sales, however, also requires a guaranteed minimum rent of \$500 per month from April 1, 2013 through April 30, 2015. Beginning May 1, 2015, the monthly minimum rent increases to \$800 through the end of the contract on April 1, 2018. The Authority received minimum rent of \$4,000 from Maine Crafts Association in 2013. There was no contingent rent due the Authority for 2013 based on gross sales from Maine Crafts Association.

Contingent rent for HMS host is 20% of sales for years 1-10, 21% of sales for years 11-20 and 22% of sales for years 21-30. Contingent rent for CN Brown is based on the gallons of gasoline and diesel fuel sold at a fuel rent factor of 8 cents per gallon, adjusted upward each year for the Consumer Price Index Change, plus 10% of the sales of other products, plus 5% of the sales of tobacco products and plus 2% of the amount received from the Lottery Commission. The Authority has retained the right to approve the activities of the lessees and also has established limits to the prices that can be charged to customers. Contingent rent for the Maine Crafts Association is 2% on all gross sales exceeding \$500,000, and 4% on all gross sales exceeding \$600,000.

The lease agreement with HMS Host requires \$8 million of capital improvements to be paid for by HMS Host, consisting of leasehold improvements, equipment and furnishings as approved by the Authority. \$4 million of these improvements must be incurred prior to December 31, 2017 and the remaining \$4 million must be incurred prior to December 31, 2027.

The leased facilities are reported as capital assets of the Authority with a net book value of \$28,069,168 and \$29,147,841 as of December 31, 2013 and 2012, respectively.

Notes to Financial Statements, *continued*

Note 9 – Operating Lease, *continued*

Future minimum rentals to be received under the HMS Host lease as of December 31, 2013 are as follows:

2014	3,050,000
2015	3,050,000
2016	3,050,000
2017	3,050,000
2018	3,050,000
2019 - 2023	15,250,000
2024 - 2028	15,250,000
2029 - 2033	15,250,000
2034 - 2037	10,675,000
Total	<u>\$ 71,675,000</u>

Future minimum rentals to be received under the Maine Crafts Association lease as of December 31, 2013 are as follows:

2014	6,000
2015	8,400
2016	9,600
2017	9,600
2018	2,400
Total	<u>\$ 36,000</u>

Note 10 – Other Post Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented, as required, by the MTA on January 1, 2008. Under this pronouncement, it requires that the long-term cost of retirement health care and obligations for other postemployment benefits be determined on an actuarial basis and reported similar to pension plans.

Plan Descriptions. In addition to providing pension benefits, the Authority provides health care benefits for certain retired employees. Eligibility to receive health care benefits follows the same requirements as MainePERS. Eligible retirees receive 100% paid health benefit coverage, Anthem POS plan until age 65 or Medicare Advantage plan at the age of 65. The Authority paid approximately \$1,260,000 of insurance contributions for approximately 250 retirees for the year end December 31, 2013. Benefit provisions are established and amended through negotiations between the Authority and the respective unions.

GASB Statement Number 45 requires the Authority to perform an actuarial analysis of its OPEB costs. In December 2012, the Authority entered into a contract with an external consultant to assist in the determination and valuation of the Authority's OPEB liability for 2012 and 2013. The most recent OPEB liability actuarial valuation was completed by the consultant in February 2013.

Notes to Financial Statements, continued

Note 10 – Other Post Employment Benefits (OPEB), continued

Funding Policy and Annual OPEB Cost. GASB Statement Number 45 does not mandate the prefunding of post employment benefit liabilities. The Authority currently plans to only partially fund (on a pay-as-you-go) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement Number 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table represents the OPEB costs for the year, the amount contributed and changes in the OPEB plan:

	Years Ended December 31,	
	2013	2012
Normal Cost	\$ 1,583,000	\$ 1,533,000
UAAL amortization	2,335,000	2,166,000
Annual Required Contribution/OPEB Cost	3,918,000	3,699,000
Interest on Net OPEB Obligation	473,000	386,000
Net OPEB Obligation Adjustment	(1,330,802)	(386,000)
Contributions Made (Pay-As-You-Go)	(1,260,198)	(1,197,000)
Increase in Net OPEB Obligation	1,800,000	2,502,000
Net OPEB Obligation - Beginning of Year	12,161,000	9,659,000
Net OPEB Obligation - End of Year	<u>\$ 13,961,000</u>	<u>\$ 12,161,000</u>

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

	Years Ended December 31,	
	2013	2012
Annual Required Contribution (ARC)	\$ 3,918,000	\$ 3,699,000
Actual Contributions (Pay-As-You-Go)	1,260,198	1,197,000
Percentage Contributed	32.2%	32.4%
Actuarial Accrued Liability	\$ 51,530,000	\$ 49,537,000
Plan Assets	-	-
Unfunded Actuarial Accrued Liability	51,530,000	49,537,000
Covered payroll	\$ 17,670,000	\$ 17,114,000
Unfunded actuarial accrued liability as a percentage of covered payroll	291.6%	289.5%

Notes to Financial Statements, *continued*

Note 10 – Other Post Employment Benefits (OPEB), *continued*

For the year ended December 31, 2011 the ARC was \$3,772,000, the actual contribution was \$1,084,000 and the percentage contributed was 29.0%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets. Significant methods and assumptions were as follows:

	<u>2013</u>	<u>2012</u>
Actuarial valuation date	1/1/13	1/1/13
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of payroll	Level percent of payroll
Remaining amortization period	25 years	26 years
Actuarial assumptions:		
Investment rate of return	4.0%	4.0%
Projected salary increases	3.3%	3.3%
Healthcare inflation rate	5.0% - 8.9%	5.0% - 8.9%

Note 11 – Union Contract

The Authority has an agreement with the Maine State Employees Association, which covers Supervisors and Employees, which expired December 31, 2011. The Authority is currently negotiating with the union to execute a new contract and is currently in static-status quo. A tentative agreement with the employee's bargaining unit is expected to go out to vote in March 2014. The Authority does not anticipate significant increases in costs. The contract would be retroactive to January 1, 2014.

Notes to Financial Statements, *continued*

Note 12 – Commitments and Contingencies

The Authority is a defendant in various lawsuits. Although the outcomes of the lawsuits are not presently determinable, it is the belief of the Authority's legal counsel that any settlement or damages assessed would be covered by insurance, and therefore should not have a material adverse effect on the Authority's financial condition.

Commitments on outstanding construction projects for improvements and maintenance totaled approximately \$19,538,391 and \$3,153,885 as of 12/31/2013 and 12/31/2012, respectively.

Due to changes to enabling legislation in 2011, the Authority is potentially obligated to provide 5% of its annual operating revenues to the Maine Department of Transportation (MaineDOT). The Authority has incurred and expects to continue to incur significant expenses from construction projects that will be of mutual benefit to MaineDOT and accordingly has met its obligation to MaineDOT.

Note 13 – Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Authority is insured through various commercial insurance carriers. As required by the Authority's contract with its bondholders, the Authority's consulting engineer certifies each year that insurance limits and coverage adequately protect the properties, interests, and operations of the Authority. Claims expenditure, liabilities and reserves are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The Authority is self-insured for its workers' compensation liability. The program provides coverage for up to a maximum of \$1,000,000 for each workers' compensation claim and \$25,000,000 in the aggregate. In addition, the Authority purchases excess workers' compensation insurance to limit its financial risk. The Authority is responsible for claims made up to \$750,000 per covered claim. Reserves are estimated at one hundred percent of expected expenditures. Settled claims have not exceeded the commercial coverage in any of the past three years.

The following summarizes the claims activity with respect to the Authority's self-insured workers' compensation program:

	<u>2013</u>	<u>2012</u>
Unpaid Claims as of January 1	\$ 1,812,590	\$ 1,521,350
Incurred Claims	651,741	719,413
Total Claim Payments	<u>532,902</u>	<u>428,173</u>
Current Claims Liability	536,900	536,450
Long-term Claims Liability	<u>1,394,529</u>	<u>1,276,140</u>
Total Unpaid Claims Liability	<u>\$ 1,931,429</u>	<u>\$ 1,812,590</u>

Notes to Financial Statements, continued

Note 14 – Restatement of Net Position

In March 2012, the Governmental Accounting Standards Board issued Statement No. 65, “Items previously Reported as Assets and Liabilities”, which was implemented during the year ended December 31, 2013 and applied retroactively to the year ended December 31, 2012. This statement established accounting and financial reporting standards that reclassify certain bond issuance costs as expenses that were previously reported as assets. The effect on the change in net position for December 31, 2012 was a decrease of \$946,735 from \$14,595,839 to \$13,649,104.

Net position as of December 31, 2012 has been restated as follows:

Net position, December 31, 2011, as previously reported	\$ 139,032,130
Change in Net Position, December 31, 2012 as previously reported	14,595,839
Prior period adjustment:	
GASB 65 adjustments to Bond Issuance Costs prior to 2012 - prior period adjustment	(5,054,359)
GASB 65 adjustments to Bond Issuance Costs in 2012 - change to increase in net position	(946,735)
Net position, December 31, 2012, as restated	<u>\$ 147,626,875</u>

REQUIRED SUPPLEMENTARY INFORMATION

Trend Data on Infrastructure Condition

The Authority has elected to use the modified approach to infrastructure reporting under GASB 34. The Authority’s consulting engineers are required to make an inspection at least once a year of the Turnpike, and, on or before the first day of October of each year, to submit to the Authority a report setting forth (a) their findings whether the Turnpike has been maintained in good repair, working order and condition, (b) their advice and recommendations as to the proper maintenance, repair and operation of the Turnpike during the ensuing Fiscal Year and an estimate of the amount of money necessary for such purposes, (c) their advice and recommendations as to the amounts and types of insurance to be carried, and (d) their recommendations as to the amount that should be deposited into the Reserve Maintenance Fund during the upcoming Fiscal Year.

The roadways are rated on a 10-point scale, with 10 meaning that every aspect of the roadway is in new and perfect condition. The Authority’s system as a whole is given an overall rating, indicating the average condition of all roadways operated by the Authority. The assessment of condition is made by visual inspection designed to reveal any condition that would reduce highway-user benefits below the maximum level of service. The Authority’s policy is to maintain the roadway condition at rating of 8 (generally good condition) or better. The results of the 2013 inspection states that the Maine Turnpike has been maintained in generally good condition and presents a favorable appearance.

The budget to actual expenditures for Preservation for 2013 is as follows:

	<u>Budget</u>	<u>Actual</u>
Preservation Expense	\$ 13,788,300	\$ 14,401,856

Retiree Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
12/31/09	0	39,815,000	39,815,000	0.00%	19,064,000	208.8%
12/31/10	0	48,563,000	48,563,000	0.00%	19,699,000	246.5%
12/31/11	0	48,563,000	48,563,000	0.00%	20,093,000	241.7%
12/31/12	0	49,537,000	49,537,000	0.00%	17,114,000	289.5%
12/31/13	0	51,530,000	51,530,000	0.00%	17,670,000	291.6%

OTHER SUPPLEMENTARY INFORMATION

Calculation of the Composite Debt Service Ratio, as Defined by the Bond Resolutions and Related Documents (000's)

	Years Ended December 31st,	
	2013	2012
Revenues:		
Net Fare Revenue	\$ 121,817	\$ 104,508
Concession Rental	4,148	4,052
Investment Income ¹	(110)	(99)
Miscellaneous	1,135	1,142
Total Revenues	\$ 126,990	\$ 109,603
Expenses:		
Operations	21,605	23,031
Maintenance	10,556	10,565
Administrative	2,205	2,399
Total Expenses	\$ 34,366	\$ 35,995
Net Operating Revenues	\$ 92,624	\$ 73,608
Debt Service Payments ²	34,341	29,274
Reserve Maintenance Fund Deposit	31,000	30,000
MDOT Account / Sub Debt Fund Deposit	2,463	2,462
Other General Reserve Fund Deposits	\$ 24,820	\$ 11,872
Debt Service Ratio of Net Revenues to Debt Service ³	2.70	2.51

Note: Revenues and expenses are presented on this schedule on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Certain amounts included on the Statements of Revenues, Expenses, and Changes in Net Position are not part of the net revenues, as defined, and therefore excluded from this schedule.

¹ Capital fund and Rebate Fund earnings are not included in investment income, consistent with the Maine Turnpike Revenue Bond Resolution.

² Represents Debt Service Deposits, net of capitalized interest, on the outstanding Revenue Bonds only.

³ Net Revenues divided by Debt Service. The Bond Resolution requires a minimum ratio of 2.0.

OTHER SUPPLEMENTARY INFORMATION, *Continued*

Statement of Activities for the State of Maine General Purpose Financial Statements (000's)

Functions/Programs	Expenses	Program Revenues			Capital Grants/Contrib.	Net Revenue (Expense) and Changes to Net Assets
		Charges for Services	Program Investment Income	Operating Grants and Contrib.		
Governmental Activities						
Subtotal Governmental Activities	-	-	-	-	-	-
Business-type Activities:						
THE MAINE TURNPIKE AUTHORITY	90,746	121,817				31,071
Subtotal Business-type Activities	90,746	121,817	-	-	-	31,071
Total	90,746	121,817	-	-	-	31,071
General Revenues:						
Unrestricted Interest and Investment Earnings						(475)
Non program Specific Grants, Contributions & Apprc						-
Miscellaneous Income						5,283
Gain (Loss) on Asset Dispositions						(2,509)
Extraordinary Item						-
Total General Revenues and Extraordinary Items						2,299
Change in Net Assets						33,370
Net Assets, Beginning of the year, As Restated						147,627
Net Assets, End of the Year						180,997