

# MAINE STATE LEGISLATURE

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# **THE MAINE TURNPIKE AUTHORITY**

## **Financial Statements**

**For the Years Ended December 31, 2011 and 2010**

# THE MAINE TURNPIKE AUTHORITY

## Financial Statements

For the Year Ended December 31, 2011 and 2010

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## Independent Auditors' Report

To the Board of Directors  
Maine Turnpike Authority  
Portland, Maine

We have audited the accompanying financial statements of the Maine Turnpike Authority, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Maine Turnpike Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Maine Turnpike Authority as of December 31, 2010, were audited by other auditors whose reported dated April 14, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maine Turnpike Authority as of December 31, 2011, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2012 on our consideration of the Maine Turnpike Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 30 and the trend data on infrastructure condition on page 30 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.

To the Board of Directors  
Maine Turnpike Authority

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 regarding 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Maine Turnpike Authority. The Calculation of the Composite Debt Service Ratio on page 31, as defined by the bond resolutions and related documents is not a required part of the financial statements. The Calculation of the Composite Debt Service Ratio is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Macdonald Page & Co LLC*

February 14, 2012  
South Portland, Maine

# THE MAINE TURNPIKE AUTHORITY

## Management's Discussion and Analysis

December 31, 2011

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, 2011 and 2010. 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

Operating income for the Maine Turnpike Authority was \$38,503,823 and \$39,001,156 for calendar years 2011 and 2010, respectively. The decrease in operating income is mostly due to the decrease in Net Fare Revenue. The decrease in Net Fare Revenue can be attributed to an overall decline in traffic of 1.1% in 2011 which is attributable to the soft economic recovery. The increase in Concession Rental can be attributed to the increase in patronage at the service plazas as well as the reinstatement of minimum rent payments received from HMS Host. The increase in Operating Expenses is mostly attributed to an increase in gasoline and diesel fuel prices and the increase in salt used due to the harsher winter that was experienced. There was a decrease in Preservation expenses, primarily due to the timing of projects.

Net income produced an increase in net assets of \$17,779,547 and \$19,065,339 for fiscal years 2011 and 2010, respectively. The term "net assets" refers to the difference between assets and liabilities. At the close of calendar year 2011, the Authority had net assets of \$140,864,873, an increase of 14% over calendar year 2010. At the close of calendar year 2010, the Authority had net assets of \$123,085,326. The Authority's overall financial position has improved as shown by the increase in net assets.

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

The statement of revenues, expenses, and changes in net assets shows the result of the Authority's total operations during the fiscal year and reflects both operating and non-operating activities. Changes in net assets 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 that 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 Net Assets

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Current Assets	\$ 39,625,074	\$ 54,044,647
Capital Assets, Net of Accumulated Depreciation	472,124,515	450,840,000
Non-Current Restricted Assets	42,332,507	39,710,550
Other Assets	22,309,009	24,746,748
<b>Total Assets</b>	<b>\$ 576,391,105</b>	<b>\$ 569,341,945</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities	41,437,389	39,315,062
Bonds Payable, Net of Unamortized Premium and Unamortized Refunding Losses	383,200,809	398,391,658
Other Post Employment Benefits Liability	9,651,649	6,964,570
Other Non-current Liabilities	1,236,385	1,585,329
<b>Total Liabilities</b>	<b>\$ 435,526,232</b>	<b>\$ 446,256,619</b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	100,639,520	93,251,180
Restricted	31,945,482	20,492,710
Unrestricted	8,279,871	9,341,436
<b>Total Net Assets</b>	<b>\$ 140,864,873</b>	<b>\$ 123,085,326</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 576,391,105</b>	<b>\$ 569,341,945</b>

## Management Discussion and Analysis, *continued*

As noted earlier, net assets serve as an indicator of the Authority's overall financial position. In the case of the Authority, assets exceeded liabilities by \$140,864,873 at the close of the most recent calendar year. This represents an increase of \$17,779,547 (14%) over the previous year. This increase was primarily due to operating results.

The largest portion of the Authority's net assets reflects its 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 investment in Capital Assets, Net of Related Debt was \$100,639,520 and \$93,251,180 for the years ending December 31, 2011 and 2010, respectively. The increase is primarily due to major bridge rehabilitations completed or currently under construction.

Restricted net assets are reserved for projects defined in the bond resolutions and applicable bond issue official statements. The Authority's restricted net assets were \$31,945,482 and \$20,492,710 for the years ending December 31, 2011 and 2010, respectively. The increase can be attributed to required deposits made to the debt service fund and the Reserve Maintenance fund in 2011. The remaining unrestricted net assets serve 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 Assets

	For the Years Ended December 31,	
	2011	2010
<b>Revenues:</b>		
Net Fare Revenue	\$ 101,654,987	\$ 102,768,062
Concession Rental	4,261,781	3,898,772
Investment Income (Loss)	(200,746)	(142,133)
Miscellaneous	1,625,175	1,242,830
<b>Total Revenues</b>	<b>107,341,197</b>	<b>107,767,531</b>
<b>Expenses:</b>		
Operations	24,010,944	24,047,747
Maintenance	28,039,369	27,060,038
Administrative	2,653,361	2,721,038
Depreciation	5,237,026	5,235,185
Preservation	9,002,562	9,709,036
Interest Expense	19,718,419	20,170,436
Other	899,969	(241,288)
<b>Total Expenses</b>	<b>89,561,650</b>	<b>88,702,192</b>
<b>Change in Net Assets</b>	<b>17,779,547</b>	<b>19,065,339</b>
<b>Net Assets, Beginning of Year, as Restated</b>	<b>123,085,326</b>	<b>104,019,987</b>
<b>Net Assets, End of Year</b>	<b>\$ 140,864,873</b>	<b>\$ 123,085,326</b>

## **Management Discussion and Analysis, *continued***

The Authority's net fare revenues, which represent approximately 95% of all operating revenues, decreased \$1,113,075 (1%) in 2011. The decrease can be attributed to a 1.1% decrease in toll revenue and a 0.8% decrease in traffic transactions in 2011, attributable to the soft economic recovery. Concession Rental income increased \$363,009 (9%) in 2011. This increase can be attributed mostly to the increased patronage at the service plazas and in part due to the assumption of minimal rents received from HMS Host which was reinstated in 2011.

Operations, Maintenance and Administrative expenses increased \$874,851 (2%) in 2011. This increase is attributed to the increase in gasoline and diesel fuel prices and an increased usage of salt due to the harsher winter season. Preservation expenses decreased by \$706,474 (8%) in 2011 due to timing as well as the scope of various projects.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

The Authority's investment in capital assets as of December 31, 2011 amounted to \$531,733,681 of gross asset value with accumulated depreciation of \$59,609,166, leaving a net book value of \$472,124,515. 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 2011 included the completion of the Cumberland Disaster Recovery Site, the completion of Lambert Street, Lisbon Street, Presumpscot River, and Sabattus River bridges. In addition, construction of the Washington Street and Exit 48 bridges are well in progress with an estimated completion of late spring/early summer 2012. The Hallowell Road and Exit 53 bridges are well in progress with an estimated completion of fall 2012.

#### *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 2011, \$9,002,562 was spent for preservation compared to an estimated cost of \$10,089,000.

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 2011 inspection states that the Maine Turnpike has been maintained in generally good condition and presents a favorable appearance, which is essentially the same assessment the Authority received in 2010.

## Management Discussion and Analysis, *continued*

### *Long-term Debt*

The Authority has outstanding bonds payable of \$382,516,036 and \$14,539,772 for revenue and subordinated bonds, respectively (both net of unamortized bond discounts and premiums and deferred loss on refunding). Please see Note 6 of the financial statements for the annual principal payment requirements on revenue and subordinated bonds as of December 31, 2011.

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, 2011, outstanding revenue bonds were \$371,485,000, leaving \$114,545,000 available under the cap.

The Authority's current bond ratings are as follows:

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

In February 2012, Standard & Poor's upgraded the Authority's ratings to AA- from A+. The upgrade was based on the Authority's continued strong financial performance and business position during a period of limited traffic growth. Fitch and Moody's also reviewed and affirmed their ratings of the Authority in February 2012. All three rating agencies gave the Authority 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 \$16,633,867, which is fifty percent of maximum annual debt service (MADS). To meet this requirement, the Authority has deposited \$16,633,867 of cash into the Debt Service Reserve Fund.

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

### **OPEGA Report**

In 2010 the Maine Legislature directed its Office of Program Evaluation and Government Accountability (OPEGA) to conduct an audit of the Authority's operations and management. OPEGA is an office of auditors who evaluate public agencies and programs throughout state government under general direction from 12 members of the Legislature on the Government Oversight Committee.

OPEGA focused its review on the following areas: the previously required operating surplus transfer to MaineDOT; rating agency and bond resolutions limitations on potential legislative actions; the reasonableness of the Authority's outstanding debt level; contractor selection and contract management procedures and controls; oversight and governance; and operating expenditures. The audit resulted in a report (the "OPEGA Report") released in its final form in January 2011.

## **Management Discussion and Analysis, *continued***

The OPEGA Report was largely positive, finding that the Authority was compliant with state and federal regulations, the Resolution and standard industry practices on issues including debt level, operating surplus, construction services procurement, accounting principles, agency oversight and governance. The OPEGA Report also recommended certain changes in the Authority's sole-source contracting, budgeting, transfers to MaineDOT, and allowed travel and meal expenditures in order to improve the effectiveness, efficiency, timeliness and economy of the expenditure of toll revenues for the operation and maintenance of the Turnpike.

The recommendations were comprehensively and collaboratively addressed in the spring of 2011 in a reform bill jointly crafted by the Authority and legislative leaders. Maine Public Law of 2011, Chapter 302 amends certain sections of the Authority's Enabling Act, including (i) substituting the annual operating surplus transfer requirement with a requirement to allocate five percent of the Authority's annual revenue to department projects, (ii) increasing budget reporting requirements to the State Legislature, (iii) amending the term limits for board Members as well as certain board procedures and policies, (iv) requiring the Authority to institute compliance auditing to monitor internal financial operations and controls, (v) expanding the Authority's ability to contract with other public agencies and political subdivision of the State, (vi) setting policies for competitive procurement of services with boundaries on sole source purchasing, (vii) requiring cooperation between the Authority and MaineDOT with respect to construction projects in lieu of the previous oversight duty imposed on MaineDOT and (viii) permitting the Authority to establish reciprocal enforcement measures with other tolling authorities. The Authority has implemented a number of policies to comply with its recently amended Enabling Act and with the OPEGA recommendations, including the adoption of a comprehensive program for procuring engineering and other services on a competitive basis.

The OPEGA Report also questioned the need, reasonableness or appropriateness of certain expenditures made by the Authority from 2005 through 2009. The Government Oversight Committee held hearings on the OPEGA Report throughout 2011. The Executive Director resigned on March 7, 2011, after holding that position for approximately 23 years. Following his resignation, the Authority commissioned a forensic audit by an independent auditor, which confirmed the misappropriation of Authority funds by the Authority's former Executive Director. On March 17, 2011 the Authority appointed former State Senator Peter Mills as its Executive Director and in August, 2011 the Governor appointed Daniel Wathen, a former Chief Justice of the Maine Supreme Court, as a Member and then Chair of the Board. In June, 2011 the Authority initiated civil claims against the former director and two surety bond companies to recover all the financial losses incurred by the Authority as a result of misuse of Authority funds. In December, 2011 the Authority and the other parties agreed to a recovery of \$430,000 by the Authority.

### **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](mailto:info@maineturnpike.com).

**BALANCE SHEETS**

<b>ASSETS</b>	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Current Assets:</b>		
Cash and Equivalents	\$ 6,068,401	\$ 5,658,404
Restricted Cash and Equivalents to meet current restricted liabilities	27,366,833	41,595,681
Accounts Receivable and Accrued Interest Receivable	3,554,263	3,649,948
Inventory	1,461,605	2,012,254
Other Current Assets	1,173,972	1,128,360
<b>Total Current Assets</b>	<b>39,625,074</b>	<b>54,044,647</b>
<b>Non-Current Assets:</b>		
Restricted Assets		
Cash and Equivalents	42,331,917	39,709,222
Accounts Receivable and Accrued Interest Receivable	590	1,328
<b>Total Restricted Assets</b>	<b>42,332,507</b>	<b>39,710,550</b>
Bond Issuance Cost - Net	7,419,009	8,011,748
MDOT Prepaid Transfer	14,890,000	16,735,000
Capital Assets not being Depreciated:		
Land and Infrastructure	384,534,106	359,406,771
Construction in Progress	26,861,444	28,169,067
Capital Assets net of Accumulated Depreciation:		
Property and Equipment	60,728,965	63,264,162
<b>Total Capital Assets - Net of Accumulated Depreciation</b>	<b>472,124,515</b>	<b>450,840,000</b>
<b>Total Non-Current Assets</b>	<b>536,766,031</b>	<b>515,297,298</b>
<b>TOTAL ASSETS</b>	<b>\$ 576,391,105</b>	<b>\$ 569,341,945</b>

**BALANCE SHEETS, *continued***

<b>LIABILITIES AND NET ASSETS</b>	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Current Liabilities Payable from Unrestricted Assets:</b>		
Accounts, Contracts and Retainage Payable	\$ 2,340,029	\$ 2,240,439
Accrued Salary, Vacation and Sick Leave Payable	3,025,152	3,278,755
Unearned Toll Revenue	5,776,226	5,424,697
Unearned Concession Rentals	254,167	-
<b>Total Current Liabilities Payable from Unrestricted Assets</b>	<b>11,395,574</b>	<b>10,943,891</b>
<b>Current Liabilities Payable from Restricted Assets:</b>		
Accounts, Contracts and Retainage Payable	5,968,165	4,352,763
Accrued Salary, Vacation and Sick Leave Payable	249,030	276,487
Bond Interest Payable	9,682,850	9,945,769
Current Portion of Revenue Bonds and Subordinated Debt Payable	13,855,000	13,415,000
Other Current Liabilities	286,770	381,152
<b>Total Current Liabilities Payable from Restricted Assets</b>	<b>30,041,815</b>	<b>28,371,171</b>
<b>Total Current Liabilities</b>	<b>41,437,389</b>	<b>39,315,062</b>
<b>Non-current Liabilities:</b>		
Long-term Revenue Bonds and Subordinated Debt Payable	383,200,809	398,391,658
Other Post Employment Benefits Liability	9,651,649	6,964,570
Other Non-current Liabilities	1,236,385	1,585,329
<b>Total Non-current Liabilities</b>	<b>394,088,843</b>	<b>406,941,557</b>
<b>Total Liabilities</b>	<b>435,526,232</b>	<b>446,256,619</b>
<b>Net Assets:</b>		
Invested in Capital Assets - Net of Related Debt	100,639,520	93,251,180
Restricted	31,945,482	20,492,710
Unrestricted	8,279,871	9,341,436
<b>Total Net Assets</b>	<b>140,864,873</b>	<b>123,085,326</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 576,391,105</b>	<b>\$ 569,341,945</b>

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

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For the Years Ended December 31,	
	2011	2010
<b>REVENUES</b>		
<b>Operating Revenue:</b>		
Net Fare Revenue	\$ 101,654,987	\$ 102,768,062
Concession Rentals	4,261,781	3,898,772
Miscellaneous	1,625,175	1,242,829
<b>Total Operating Revenues</b>	<b>107,541,943</b>	<b>107,909,663</b>
<b>Interest Income (loss)</b>		
Revenue Fund	(28,499)	(25,040)
Reserve Maintenance Fund	(42,952)	(11,756)
Improvement Account	(10,150)	(5,932)
Interchange Account	(1,407)	(4,536)
Maine Department of Transportation Account	(2,467)	(1,907)
<b>Total Interest Income (loss)</b>	<b>(85,475)</b>	<b>(49,171)</b>
<b>Total Revenues</b>	<b>107,456,468</b>	<b>107,860,492</b>
<b>EXPENSES</b>		
<b>Operating Expenses:</b>		
Operations	24,010,944	24,047,747
Maintenance	28,039,369	27,060,038
Administration	2,653,361	2,721,038
Depreciation	5,237,026	5,235,185
Preservation	9,002,562	9,709,036
Other Expenses - Capital General Expenses	9,383	86,292
<b>Total Operating Expenses</b>	<b>68,952,645</b>	<b>68,859,336</b>
<b>Operating Income</b>	<b>38,503,823</b>	<b>39,001,156</b>
<b>Non-Operating Revenue/(Expenses):</b>		
Federal Grant Revenue	-	1,209,100
Investment Income (loss)	(115,270)	(92,961)
Gain on Sale of Capital Assets	121,505	106,052
Interest Expense	(19,718,419)	(20,170,436)
Bond Issuance Cost Amortization	(502,940)	(502,940)
Bond Premium/Discount Amortization	1,721,915	1,696,435
Deferred Loss on Refunding Amortization	(386,067)	(386,067)
MDOT Prepaid Transfer Amortization	(1,845,000)	(1,795,000)
<b>Total Non-Operating Revenue/(Expenses)</b>	<b>(20,724,276)</b>	<b>(19,935,817)</b>
<b>Change in Net Assets</b>	<b>17,779,547</b>	<b>19,065,339</b>
<b>Net Assets at beginning of year</b>	<b>123,085,326</b>	<b>104,019,987</b>
<b>Net Assets at end of year</b>	<b>\$ 140,864,873</b>	<b>\$ 123,085,326</b>

See independent auditors' report.

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

## STATEMENTS OF CASH FLOWS

	<b>For the Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating Activities:</b>		
Cash Received from Tolls/Customers	\$ 129,372,536	\$ 130,808,472
Cash Payments to Suppliers	(60,641,666)	(59,634,190)
Cash Payments to Employees	(23,471,498)	(22,688,326)
<b>Net Cash Provided by Operating Activities</b>	<b>45,259,372</b>	<b>48,485,956</b>
<b>Capital and Related Financing Activities:</b>		
Acquisition and Construction of Capital Assets	(22,948,712)	(22,341,132)
Proceeds from Federal ARRA Grant	-	1,209,100
Interest Paid on Revenue Bonds	(19,273,725)	(19,596,598)
Payment of Principal on Revenue Bonds	(11,570,000)	(7,060,000)
Interest Paid on Subordinated Debt Bonds	(617,813)	(671,663)
Payment of Principal on Special Obligation Bonds	(1,845,000)	(1,795,000)
<b>Net Cash Used in Capital and Financing Activities</b>	<b>(56,255,250)</b>	<b>(50,255,293)</b>
<b>Investing Activities:</b>		
Interest Paid	(200,279)	(132,994)
<b>Net Cash Used in Investing Activities</b>	<b>(200,279)</b>	<b>(132,994)</b>
Net Change in Cash and Equivalents	(11,196,156)	(1,902,330)
Cash and Equivalents at Beginning of Year	86,963,307	88,865,637
<b>Cash and Equivalents at End of Year</b>	<b>75,767,151</b>	<b>86,963,307</b>
Cash and Equivalents - Unrestricted	6,068,401	5,658,404
Restricted Cash and Equivalents - Current	27,366,833	41,595,681
Restricted Cash and Equivalents - Non-Current	42,331,917	39,709,222
	<b>\$ 75,767,151</b>	<b>\$ 86,963,307</b>

**STATEMENTS OF CASH FLOWS, *continued***

	<b>For the Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
<b>Income from Operations</b>	<b>\$ 38,503,823</b>	<b>\$ 39,001,156</b>
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities:		
Depreciation	5,237,026	5,235,185
Interest Loss included in Operating Revenue	85,474	49,171
Other - Capital General Expenses	9,383	86,292
<b>Changes in Assets and Liabilities:</b>		
Accounts Receivable	95,682	(275,158)
Prepaid Accounts	(45,613)	(159,550)
Inventory	550,649	(323,636)
Retainage Payable	(496,798)	597,709
Accounts, Contracts and Retainage Payable	995,111	3,794,409
Unearned Toll & Concession Revenue	605,695	375,488
Accrued Salary, Vacation and Sick Leave Payable	(281,060)	104,888
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 45,259,372</u></b>	<b><u>\$ 48,485,956</u></b>

*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 Year Ended December 31, 2011

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### 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 and the Authority is not considered a component unit of another entity.

**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. In accordance with Government Accounting Standards Board (GASB) Statement No. 20, the Authority follows the pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 except where those pronouncements conflict with GASB pronouncements. The Authority has the option but has elected not to follow subsequent private-sector guidance. 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 \$1,242,917 and \$1,213,684 for 2011 and 2010, 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. Management believes that all accounts receivable as of December 31, 2011 and 2010 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:

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

**Notes to Financial Statements, continued**

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

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 \$580,256 and \$419,445 for the years ended December 31, 2011 and 2010, respectively, and are included on the balance sheet under Accrued Salary, Vacation and Sick Leave Payable.

**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. Additionally, a Commuter Plan is offered to patrons who travel regularly between the same two exits. Commuters pay a set fee, in advance, that covers a three month period. Revenue is earned over this three month period on a prorated basis. Commuter quarters start in February, May, August and November.

**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 are amortized using the straight-line method over the life of the bonds.

## **Notes to Financial Statements, *continued***

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

**Refunded Bonds** – The Authority defeased certain bonds in 2004, 2005 and 2008 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 Amount on Refunding Revenue Bonds** – The difference between the reacquisition price and the net carrying amount of refunded bonds is amortized on a straight-line basis over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter.

**Use of Restricted/Unrestricted Net Assets** – 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 assets first.

**Reclassifications** – Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 classifications.

**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, 2011, the Authority reported deposits of \$616,502 with a bank balance of \$643,726. The entire balance of \$643,726 was covered by the F.D.I.C. (\$312,171) or by additional insurance purchased on behalf of the Authority by the respective banking institutions (\$331,555). As of December 31, 2010, the Authority reported deposits of \$415,952 with a bank balance of \$365,550. The entire balance of \$365,550 was covered by the F.D.I.C. (\$309,375) or by additional insurance purchased on behalf of the Authority by the respective banking institutions (\$56,175).

*Investments*

At December 31, 2011, 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	\$ 5,447,803	\$ 5,447,803	\$ -	\$ -
Federated Treasury Obligation Fund (1)	69,702,846		Not Applicable	
<b>Total Investments</b>	<b>\$ 75,150,649</b>	<b>\$ 5,447,803</b>	<b>\$ -</b>	<b>\$ -</b>

At December 31, 2010, 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	\$ 5,238,818	\$ 5,238,818	\$ -	\$ -
Federated Treasury Obligation Fund (1)	81,308,537		Not Applicable	
<b>Total Investments</b>	<b>\$ 86,547,355</b>	<b>\$ 5,238,818</b>	<b>\$ -</b>	<b>\$ -</b>

Deposits and investments are as follows:

	<u>2011</u>	<u>2010</u>
Deposits	\$ 616,472	\$ 415,952
Investment	75,150,649	86,547,355
<b>Total Deposits and Investments</b>	<b>\$ 75,767,121</b>	<b>\$ 86,963,307</b>

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

	<u>2011</u>	<u>2010</u>
Cash and Equivalents	\$ 6,068,371	\$ 5,658,404
Current Restricted Cash and Equivalents	27,366,833	41,595,681
Noncurrent Restricted Cash and Equivalents	42,331,917	39,709,222
<b>Total Deposits and Investments</b>	<b>\$ 75,767,121</b>	<b>\$ 86,963,307</b>

## 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, 2011 is as follows:

	Balance 12/31/2010	Additions	Transfers	Disposals	Balance 12/31/2011
<b>Capitalized Assets Not Being Depreciated (cost)</b>					
Land	\$ 33,065,612	82,942	-	(7)	\$ 33,148,547
Infrastructure	326,341,159	35,527	25,008,873	-	351,385,559
Construction in Progress	28,169,067	24,979,254	(26,286,877)	-	26,861,444
<b>Total Capital Assets Not Being Depreciated</b>	<b>387,575,838</b>	<b>25,097,723</b>	<b>(1,278,004)</b>	<b>(7)</b>	<b>411,395,550</b>
<b>Capitalized Assets Being Depreciated (cost)</b>					
Land Improvements (exhaustible)	8,864,847	-	-	-	8,864,847
Buildings	63,892,801	-	156,111	-	64,048,912
Improvements	470,437	-	-	(470,437)	-
Machinery and Equipment	45,498,708	1,457,680	1,121,893	(653,910)	47,424,371
<b>Total Capital Assets Being Depreciated</b>	<b>118,726,793</b>	<b>1,457,680</b>	<b>1,278,004</b>	<b>(1,124,347)</b>	<b>120,338,130</b>
<b>Less Accumulated Depreciation for:</b>					
Land Improvements (exhaustible)	(5,965,847)	(348,241)	-	-	(6,314,088)
Buildings	(15,473,679)	(2,114,144)	-	-	(17,587,823)
Improvements	(470,437)	-	-	470,437	-
Machinery and Equipment	(33,552,668)	(2,774,641)	-	620,055	(35,707,254)
<b>Total Accumulated Depreciation</b>	<b>(55,462,631)</b>	<b>(5,237,026)</b>	<b>-</b>	<b>1,090,492</b>	<b>(59,609,165)</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>63,264,162</b>	<b>(3,779,346)</b>	<b>1,278,004</b>	<b>(33,855)</b>	<b>60,728,965</b>
<b>Total Capital Assets</b>	<b>\$ 450,840,000</b>	<b>21,318,377</b>	<b>-</b>	<b>(33,862)</b>	<b>\$ 472,124,515</b>

	Balance 12/31/2009	Additions	Transfers	Disposals	Balance 12/31/2010
<b>Capitalized Assets Not Being Depreciated (cost)</b>					
Land	\$ 32,928,339	138,673	(1,400)	-	\$ 33,065,612
Infrastructure	326,341,159	-	-	-	326,341,159
Construction in Progress	8,333,431	20,845,131	(1,009,495)	-	28,169,067
<b>Total Capital Assets Not Being Depreciated</b>	<b>367,602,929</b>	<b>20,983,804</b>	<b>(1,010,895)</b>	<b>-</b>	<b>387,575,838</b>
<b>Capitalized Assets Being Depreciated (cost)</b>					
Land Improvements (exhaustible)	8,864,847	-	-	-	8,864,847
Buildings	64,627,643	-	(734,842)	-	63,892,801
Improvements	470,437	-	-	-	470,437
Machinery and Equipment	42,449,011	2,211,350	1,745,737	907,390	45,498,708
<b>Total Capital Assets Being Depreciated</b>	<b>116,411,938</b>	<b>2,211,350</b>	<b>1,010,895</b>	<b>907,390</b>	<b>118,726,793</b>
<b>Less Accumulated Depreciation for:</b>					
Land Improvements (exhaustible)	(5,553,604)	(412,243)	-	-	(5,965,847)
Buildings	(13,413,311)	(2,060,368)	-	-	(15,473,679)
Improvements	(470,437)	-	-	-	(470,437)
Machinery and Equipment	(31,693,033)	(2,762,574)	-	(902,939)	(33,552,668)
<b>Total Accumulated Depreciation</b>	<b>(51,130,385)</b>	<b>(5,235,185)</b>	<b>-</b>	<b>(902,939)</b>	<b>(55,462,631)</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>65,281,553</b>	<b>(3,023,835)</b>	<b>1,010,895</b>	<b>4,451</b>	<b>63,264,162</b>
<b>Total Capital Assets</b>	<b>\$432,884,482</b>	<b>17,959,969</b>	<b>-</b>	<b>4,451</b>	<b>\$450,840,000</b>

## 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, 2012. 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, 2011 and 2010.

### Note 5 – Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and adding back any unspent proceeds. Net assets are 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 assets invested in capital assets, net of related debt was calculated as follows:

	Years Ended December 31,	
	2011	2010
Capital Assets	\$ 531,733,681	\$ 506,302,631
Unspent Bond Proceeds	5	25,466,180
Accumulated Depreciation	(59,609,166)	(55,462,631)
Bonds Payable	(371,485,000)	(383,055,000)
<b>Total Invested In Capital Assets Net of Related Debt</b>	<b>\$ 100,639,520</b>	<b>\$ 93,251,180</b>

### 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, 2011, the Authority had the following outstanding bonds:

- \$126,000,000 of Series 2000 Revenue Bonds, issued in March 2000, to finance modernization, widening, and interchange construction and reconstruction.
- \$51,000,000 of Series 2003 Revenue Bonds, issued in May 2003, to retire the 2002 Commercial Paper Subordinated Notes and to finance various turnpike projects.
- \$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.

**Notes to Financial Statements, continued**

**Note 6 – Long-term Debt, continued**

- \$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.

The Board of Directors authorized the Maine Turnpike Authority to proceed with the negotiations regarding the Series 2012 Revenue Bonds for the amount of \$75,000,000, expected to be issued in March of 2012, to pay a portion of the costs of various turnpike projects.

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:

<b>Issue</b>	<b>Amount Issued</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Balance 12/31/2011</b>
Series 2000	126,000,000	7/1/2007 - 2012	5.00-5.30 %	795,000
Series 2003	51,000,000	7/1/2011 - 2033	3.50-5.25 %	49,730,000
Series 2004	115,050,000	7/1/2005 - 2030	3.00-5.25 %	105,430,000
Series 2005	76,715,000	7/1/2006 - 2030	3.00-5.125 %	76,030,000
Series 2007	50,000,000	7/1/2013 - 2037	3.75-5.25 %	50,000,000
Series 2008	45,885,000	7/1/2010 - 2018	3.00-5.00 %	39,500,000
Series 2009	50,000,000	7/1/2014 - 2038	3.00-6.00 %	50,000,000
<b>Total Revenue Bonds Payable</b>				<b>\$ 371,485,000</b>

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

	<b>Principal</b>	<b>Interest</b>	<b>Total debt service</b>
2012	11,955,000	18,803,238	30,758,238
2013	13,575,000	18,237,809	31,812,809
2014	15,425,000	17,581,859	33,006,859
2015	16,155,000	16,841,996	32,996,996
2016	16,895,000	16,100,321	32,995,321
2017-2021	76,500,000	68,207,039	144,707,039
2022-2026	83,450,000	49,349,119	132,799,119
2027-2031	91,220,000	26,019,106	117,239,106
2032-2036	35,965,000	8,557,138	44,522,138
2037-2038	10,345,000	807,825	11,152,825
<b>Totals</b>	<b>\$ 371,485,000</b>	<b>\$ 240,505,450</b>	<b>\$ 611,990,450</b>

**Notes to Financial Statements, continued**

**Note 6 – Long-term Debt, continued**

A summary of changes in revenue bonds is as follows:

	<u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>
Series 2000	4,035,000	-	(3,240,000)	795,000
Series 2003	51,000,000	-	(1,270,000)	49,730,000
Series 2004	107,670,000	-	(2,240,000)	105,430,000
Series 2005	76,155,000	-	(125,000)	76,030,000
Series 2007	50,000,000	-	-	50,000,000
Series 2008	44,195,000	-	(4,695,000)	39,500,000
Series 2009	50,000,000	-	-	50,000,000
<b>Totals</b>	<b>\$ 383,055,000</b>	<b>\$ -</b>	<b>\$ (11,570,000)</b>	<b>\$ 371,485,000</b>

**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 12/31/2011</u>
Series 2008	\$ 19,480,000	7/1/2009 - 2018	3.00-4.00 %	\$ 14,890,000
<b>Total Special Obligation Bonds Payable</b>				<b>\$ 14,890,000</b>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	1,900,000	562,463	2,462,463
2013	1,985,000	478,400	2,463,400
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
2017-2018	4,645,000	280,600	4,925,600
<b>Totals</b>	<b>\$ 14,890,000</b>	<b>\$ 2,345,777</b>	<b>\$ 17,235,777</b>

**Notes to Financial Statements, continued**

**Note 6 – Long-term Debt, continued**

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

	<u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>
Series 2008	16,735,000	0	(1,845,000)	14,890,000
<b>Totals</b>	<b>\$ 16,735,000</b>	<b>\$ -</b>	<b>\$ (1,845,000)</b>	<b>\$ 14,890,000</b>

Revenue and Special Obligation long-term liability for the year ended December 31, 2011, was as follows:

	<u>12/31/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2011</u>	<u>Due within one year</u>
Revenue Bonds	\$ 383,055,000	\$ -	\$ (11,570,000)	\$ 371,485,000	\$ 11,955,000
Special Obligation Bonds	16,735,000	-	(1,845,000)	14,890,000	1,900,000
<b>Subtotal</b>	<b>399,790,000</b>	<b>-</b>	<b>(13,415,000)</b>	<b>386,375,000</b>	<b>13,855,000</b>
Adjustment for Unamortized Balances:					
Premium / Discounts	15,857,702	-	(1,721,915)	14,135,787	-
Deferred Loss on Refunding	(3,841,045)	-	386,067	(3,454,978)	-
<b>Total</b>	<b>\$ 411,806,657</b>	<b>\$ -</b>	<b>\$ (14,750,848)</b>	<b>\$ 397,055,809</b>	<b>\$ 13,855,000</b>

Revenue and Special Obligation long-term liability for the year ended December 31, 2010, was as follows:

	<u>12/31/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2010</u>	<u>Due within one year</u>
Revenue Bonds	\$ 390,115,000	\$ -	\$ (7,060,000)	\$ 383,055,000	\$ 11,570,000
Special Obligation Bonds	18,530,000	-	(1,795,000)	16,735,000	1,845,000
<b>Subtotal</b>	<b>408,645,000</b>	<b>-</b>	<b>(8,855,000)</b>	<b>399,790,000</b>	<b>13,415,000</b>
Adjustment for Unamortized Balances:					
Premium / Discounts	17,554,137	-	(1,696,435)	15,857,702	-
Deferred Loss on Refunding	(4,227,112)	-	386,067	(3,841,045)	-
<b>Total</b>	<b>\$ 421,972,025</b>	<b>\$ -</b>	<b>\$ (10,165,368)</b>	<b>\$ 411,806,657</b>	<b>\$ 13,415,000</b>

## 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		Termination	Maximum
Provider	Series Availability	Date	Amount
MBIA	1994 and 1997	July 1, 2018	\$ 5,263,254
FGIC	2000	July 1, 2012	4,871,788
Ambac	2003	July 1, 2033	1,893,884
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 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 \$16,633,867, 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 \$16,633,867 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 4% of employee earned compensation.

The Maine Turnpike Authority's contributions to MainePERS were approximately \$1,315,433, \$1,160,575 and \$1,087,032 for the years ended December 31, 2011, 2010 and 2009, 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 cost to construct these service plazas was \$34,847,308. The lease agreement with HMS Host provides a guaranteed minimum rent of \$3,050,000. In addition, the Authority received contingent rentals of \$418,983 and \$3,090,178 in 2011 and 2010, respectively. In 2010, the Authority waived the minimum rent requirement for HMS Host, therefore they were only responsible to pay the contingent rent that year. The lease agreement with CN Brown provides for contingent rent based on sales. The Authority received \$792,798 and \$806,093 in contingent rentals from CN Brown in 2011 and 2010, respectively.

Future minimum rentals to be received under the HMS Host lease as of December 31, 2011 are as follows:

2013	3,050,000
2014	3,050,000
2015	3,050,000
2016	3,050,000
2017	3,050,000
2018 - 2022	15,250,000
2023 - 2027	15,250,000
2028 - 2032	15,250,000
2033 - 2037	13,725,000
<b>Total</b>	<b><u><u>\$ 77,775,000</u></u></b>

### 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.

**Notes to Financial Statements, continued**

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

*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 \$1,083,921 of insurance contributions for approximately 222 retirees for the year end December 31, 2011. 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 2010, the Authority entered into a contract with an external consultant to assist in the determination and valuation of the Authority's OPEB liability for 2010 and 2011. The most recent OPEB liability actuarial valuation was completed by the consultant in February 2011.

*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:

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Normal Cost	\$ 1,582,000	\$ 1,532,000
UAAL amortization	2,190,000	2,022,000
Annual Required Contribution/OPEB Cost	3,772,000	3,554,000
Contributions Made (Pay-As-You-Go)	(1,084,000)	(949,000)
Increase in Net OPEB Obligation	2,688,000	2,605,000
Net OPEB Obligation - Beginning of Year	6,971,000	4,366,000
Net OPEB Obligation - End of Year	\$ 9,659,000	\$ 6,971,000

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

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Annual Required Contribution (ARC)	\$ 3,772,000	\$ 3,554,000
Actual Contributions (Pay-As-You-Go)	1,084,000	949,000
Percentage Contributed	28.7%	26.7%
Actuarial Accrued Liability	\$ 48,563,000	\$ 48,563,000
Plan Assets	-	-
Unfunded Actuarial Accrued Liability	48,563,000	48,563,000
Covered payroll	\$ 20,093,000	\$ 19,699,000
Unfunded actuarial accrued liability as a percentage of covered payroll	241.7%	246.5%

## Notes to Financial Statements, *continued*

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

For the year ended December 31, 2009 the ARC was \$3,111,000, the actual contribution was \$809,000 and the percentage contributed was 26.0%.

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>2011</u>	<u>2010</u>
Actuarial valuation date	1/1/11	1/1/11
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of payroll	Level percent of payroll
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Investment rate of return	4.5%	4.5%
Projected salary increases	2.0%	3.3%
Healthcare inflation rate	4.5% - 9.5%	4.5% - 9.5%

### Note 11 – Union Contract

The Authority has an agreement with the Maine State Employees Association, which covers Supervisors and Employees, which expired on December 31, 2011. The Authority is currently negotiating with the union to execute a new contract.

### 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.

## Notes to Financial Statements, *continued*

### Note 12 – Commitments and Contingencies, *continued*

Commitments on outstanding construction projects for improvements and maintenance totaled approximately \$8,442,743 and \$12,610,437 as of 12/31/2011 and 12/31/2010, respectively.

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

### 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>2011</u>	<u>2010</u>
Unpaid Claims as of January 1	\$ 1,791,092	\$ 1,582,004
Incurred Claims	173,031	596,434
Total Claim Payments	<u>442,773</u>	<u>387,346</u>
Current Claims Liability	286,770	381,152
Long-term Claims Liability	<u>1,234,580</u>	<u>1,409,940</u>
<b>Total Unpaid Claims Liability</b>	<b><u>\$ 1,521,350</u></b>	<b><u>\$ 1,791,092</u></b>

**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 2011 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 2011 is as follows:

	<u>Budget</u>	<u>Actual</u>
Preservation Expense	\$ 10,089,000	\$ 9,002,562

**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]
12/31/08	\$ 0	\$ 39,815,000	\$ 39,815,000	0.00%	\$ 18,420,000	216.2%
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%

## OTHER SUPPLEMENTARY INFORMATION

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

	<u>Years Ended December 31st,</u>	
	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>		
Net Fare Revenue	\$ 101,655	\$ 102,768
Concession Rental	4,262	3,899
Investment Income <sup>1</sup>	(136)	(79)
Miscellaneous	1,625	1,243
<b>Total Revenues</b>	<b><u>\$ 107,406</u></b>	<b><u>\$ 107,831</u></b>
<b>Expenses:</b>		
Operations	24,011	24,048
Maintenance	11,046	9,998
Administrative	2,653	2,721
<b>Total Expenses</b>	<b><u>\$ 37,710</u></b>	<b><u>\$ 36,767</u></b>
<b>Net Operating Revenues</b>	<b><u>\$ 69,696</u></b>	<b><u>\$ 71,064</u></b>
Debt Service Payments <sup>2</sup>	30,844	26,657
Reserve Maintenance Fund Deposit	28,000	29,000
MDOT Account / Sub Debt Fund Deposit	2,463	2,467
<b>Other General Reserve Fund Deposits</b>	<b><u>\$ 8,389</u></b>	<b><u>\$ 12,940</u></b>
<b>Debt Service Ratio of Net Revenues to Debt Service<sup>3</sup></b>	<b><u>2.26</u></b>	<b><u>2.67</u></b>

**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 Assets are not part of the net revenues, as defined, and therefore excluded from this schedule.

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

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

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