



NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Financial Statements and Supplementary
Information on Federal Award Programs

December 31, 2017

(With Independent Auditors' Reports Thereon)

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

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Independent Auditors' Report

The Commissioners
New Jersey Turnpike Authority:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the New Jersey Turnpike Authority (the Authority), a component unit of the State of New Jersey, as of and for the years ended December 31, 2017 and 2016, and the related notes to the basic financial statements, which collectively 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2017 and 2016, and the respective statements of revenues, expenses, and changes in net position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 39, the schedule of funding progress – other postemployment benefits plan (schedule 1) on page 100 and Schedule of Proportionate Share, Employer Contributions and Notes (schedule 2) on page 101 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 Supplemental Information

Our audits for the year ended December 31, 2017 and 2016 were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Authority's basic financial statements. The supplemental information included on Schedules 3 through 11B as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. This information, except for those schedules and portions of schedules marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements for the years ended December 31, 2017 and 2016 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 supplementary information included in Schedules 3 through 11B 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 June 26, 2018 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

June 26, 2018

The management of the New Jersey Turnpike Authority (the Authority) offers this narrative overview and analysis of the Authority's financial activities for the years ended December 31, 2017 and 2016, which should be read in conjunction with the Authority's financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to present an overview of the Authority's financial performance for the years ended December 31, 2017 and 2016. The Authority's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as presented by the Governmental Accounting Standards Board (GASB). This section is intended to provide an assessment of how the Authority's financial position has improved or deteriorated, and identify the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions, or conclusions by the Authority's management that should not be considered a replacement for the financial statements included in this report.

The Statement of Net Position provides information about the nature and amount of investments in resources (assets) and the obligations to Authority creditors (liabilities), as well as the deferred outflows and inflows of resources, with the difference between these amounts reported as net position.

The Statement of Revenues, Expenses, and Changes in Net Position, which accounts for all of the current year's revenues and expenses, measures the success of the Authority's operations over the past year and can be used to determine how the Authority has funded its costs.

The Statement of Cash Flows provides information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities.

The notes to the Financial Statements provide:

- Information that is essential to understand the basic financial statements, such as the Authority's accounting methods and policies.
- Details of contractual obligations, future commitments and contingencies of the Authority.
- Other events or developing situations that could materially affect the Authority's financial position.

The Required Supplementary Information included in Schedule 1 presents information regarding the Authority's progress in funding its obligation to provide postemployment benefits other than pensions to its employees.

The Required Supplementary Information included in Schedule 2 presents information regarding the Authority's proportionate share, employer contributions and notes related to the State of New Jersey Public Employees' Retirement System (PERS).

The Other Supplementary Information included in Schedules 3 through 11B presents information regarding the Authority's accounting and compliance with its 1991 Turnpike Revenue Bond Resolution, as amended, restated and supplemented (the Resolution), and the Authority's interpretation of such Resolution.

The Authority's Business



The Authority is a body corporate and politic created by the New Jersey Turnpike Authority Act of 1948, as amended and supplemented (the Act). The Act authorizes the Authority to construct, maintain, repair, and operate the New Jersey Turnpike (the Turnpike System); to fix and establish tolls for the use of the Turnpike System; and to issue Turnpike revenue bonds or notes of the Authority, subject to prior approval in writing from the Governor and from either or both the State Treasurer and the Director of the Division of Budget and Accounting of the Department of the Treasury, payable solely from tolls and other revenues of the Authority. Under the provisions of the Act, the Turnpike bonds, notes, and interest thereon shall not be deemed to constitute a debt, liability or pledge of the faith and credit of the State of New Jersey (the State) or any political subdivision thereof. The Act further provides that the powers conferred upon the Governor and the Treasurer of the State described shall be exercised with due regard for the rights of the holders of bonds of the Authority at any time outstanding; and nothing in, or done pursuant to, the Act shall in any way limit, restrict or alter the obligation or powers of the Authority, or any representative or officer of the Authority, to carry out and perform in every detail each and every covenant, agreement or contract at any time made or entered into by, or on behalf of, the Authority with respect to its bonds or for the benefit, protection or security of the holders thereof.

On May 27, 2003, the Act was amended. The amendment empowered the Authority, effective on the Transfer Date which was July 9, 2003, to assume all powers, rights, obligations and duties of the New Jersey Highway Authority (the Highway Authority), which owned and operated the Garden State Parkway (the Parkway) and the PNC Bank Arts Center.

Highlights

- In April 2017, the Series 2017A Turnpike Revenue Bonds were issued in the amount of \$600,000 primarily to continue to fund projects under the \$7 Billion Capital Improvement Program (CIP). The Series 2017A Bonds have an average life of 14.3 years and an all-in true interest cost of 3.6%, well below the 5% interest assumed in the Authority's financial plan. In addition to this, during 2017 the Authority issued the Series 2017B, the Series 2017C, the Series 2017D, the Series 2017E, the Series 2017F and the Series 2017G Bonds to fully refund the Series 2000B-G, the Series 2009E, the Series 2009I, the Series 2013D-3, the Series 2013E-3 and the Series 2014B-3 Bonds, and to partially refund the Series 2009H, Series 2012A, and Series 2013A Bonds. The fixed rate bond refunding (the Series 2017 B, E, F and G) resulted in net present value savings of approximately \$189,706 when compared to the future interest costs on the refunded bonds, while the variable rate bond refunding (the Series 2017 C and D) resulting in net present value savings of approximately \$26,122.
- The Delaware River Turnpike Bridge connecting the New Jersey and Pennsylvania Turnpikes was closed on January 20, 2017 for emergency repairs and maintenance, and Turnpike Interchanges 6 and 6A were also closed. After the completion of repairs and extensive examination and testing the bridge was fully reopened to traffic on March 9, 2017. The Authority has filed a claim under its Major Bridge and Property insurance policies for both physical damage and business interruption.
- In February 2017, the Authority exercised the option to purchase its headquarters building located at 1 Turnpike Plaza, Woodbridge, New Jersey, under the lease agreement with O & R Woodbridge Office, LLC. The purchase resulted in savings as compared to the continued long term rental of the property.
- In June 2017, the Authority received the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for the submission of its 2017 Annual Budget. The GFOA established the Distinguished Budget Presentation Awards Program in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality. The Authority received this award for the third successive year.
- In 2017, for the third consecutive year, the Authority was a recipient of the GFOA's Certificate of Achievement for Excellence in Financial Reporting for the submission of its Comprehensive Annual Financial Report (CAFR) for the years ended December 31, 2016 and 2015. The program was established by the GFOA in 1945 to assist state and local governments in preparing financial reports that evidence the spirit of transparency and full disclosure.

- In July 2017, the Authority opened a new E-Z Pass only exit at Interchange 125 southbound side on the Parkway. This interchange is expected to help ease existing traffic as well as accommodate for anticipated increased traffic with the development of the Raritan River Waterfront.
- In September 2017, The Authority entered into a 27 year agreement with HMS Host Tollroads Inc. (HMS) and a 25 year agreement with Sunoco Retail LLC (Sunoco) for the operation and remodeling of service areas along the Turnpike and the Parkway. The agreement allows HMS to provide food services at the Authority service areas in exchange for the greater of a minimum annual guaranteed payment or a percentage of gross sales, and significant additional contribution to rebuild 8 new restaurant buildings and refurbish 6 existing restaurant buildings. The agreement with Sunoco allows it to provide fuel services at the Authority service areas and a significant additional contribution to rebuild/remodel 20 fuel service facilities over next 7 years. Construction is expected to begin in 2018 on the Thomas Edison Service Area on the Turnpike and the Monmouth location on the Parkway. All locations are expected to be completed by 2024.
- In September 2017, the Authority launched its new website. This new website is more aesthetically pleasing and user friendly. Contributing factors to the increased ease of use of the website are more logical groupings of related links and a larger traffic map.
- In October 2017, the Authority successfully completed a major upgrade to its current Enterprise Resource Planning (ERP) system– PeopleSoft Financials. The upgrade was implemented seamlessly with minimal disruption to the Authority's regular business.
- In November 2017, the Authority entered into a 15 year agreement with the Department of Law and Public Safety, Division of New Jersey State Police for the provision of police services on the Turnpike and the Parkway. Pursuant to this agreement the Authority made a prepayment of \$4,500 towards the 2018 New Jersey State Police recruit training academy class. The agreement further provides for the Authority to receive a credit of \$450 per year against the indirect costs billed to the Authority, each year for the next 10 years, starting in 2018.
- On December 7, 2017, the Authority entered into a 25 year lease agreement with Live Nation Worldwide, Inc. (Live Nation) to lease the Amphitheater located at the PNC Bank Arts Center in Holmdel, New Jersey, in exchange for the greater of the minimum fixed rent or minimum percentage rental amount for each lease year based on sales and a significant contribution by Live Nation toward capital project funding for the maintenance and repair of the facility.



- In 2017, the American Society of Civil Engineers selected the Authority's Parkway Shoulder Restoration and Improvement Project between Milepost 83 and 100, as the Project of the Year. This award is presented to an exceptional civil engineering and design project constructed in New Jersey.
- During 2017, the Authority increased its rock salt inventory by approximately 66% from 75,000 tons to 125,000 tons, reducing its reliance on just in time shipments during the peak snow season.
- In 2017, the Authority's \$7 Billion CIP continued, and as of December 31, 2017, nearly 94% of the overall budget has been spent or committed on projects. The Authority spent over \$405,700 on CIP projects in 2017.
- Toll revenue in 2017 was \$1,579,896, which was \$14,473, or 0.9%, above projections. In 2017, traffic on the Turnpike increased by 2% compared to 2016, while toll transactions on the Parkway increased by 0.9%. Traffic and revenue increased due to favorable weather conditions, an improving economy, lower gas prices through most of the year, and the widening of both roadways. The traffic and revenue increased despite the effects of winter storm Stella in March 2017, the Delaware River Turnpike Bridge closure due to emergency repairs and maintenance for a significant part of the first quarter of 2017, and the absence of the leap year day in 2017. This was the sixth consecutive year that the Authority's toll revenue increased compared to the prior year and also exceeded projections.
- The Authority's net position increased by \$329,704 or 35.9%, from \$918,309 in 2016 to \$1,248,013 in 2017. Net position increased as the Authority's operating income exceeded its net non-operating expenses due to the continued growth in toll revenue, increase in investment income due to higher short term interest rates and the control of operating expenses.

Condensed Summary of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current assets	\$ 1,839,772	1,770,771	1,552,246
Other noncurrent assets	759,208	440,753	1,190,230
Capital assets, net of accumulated depreciation	<u>11,841,066</u>	<u>11,455,725</u>	<u>10,801,091</u>
Total assets	<u>\$ 14,440,046</u>	<u>13,667,249</u>	<u>13,543,567</u>
Deferred outflows:			
Accumulated decrease in fair value of hedging derivatives	\$ —	—	4,807
Deferred amount on refunding	281,059	132,231	149,697
Deferred amount relating to pension	<u>110,378</u>	<u>156,574</u>	<u>65,426</u>
Total deferred outflows	<u>\$ 391,437</u>	<u>288,805</u>	<u>219,930</u>
Liabilities:			
Current liabilities	\$ 899,866	938,644	903,179
Noncurrent liabilities	<u>12,578,049</u>	<u>12,084,993</u>	<u>12,188,373</u>
Total liabilities	<u>\$ 13,477,915</u>	<u>13,023,637</u>	<u>13,091,552</u>
Deferred inflows:			
Accumulated increase in fair value of hedging derivatives	\$ 6,288	2,035	—
Deferred amount relating to pension	<u>99,267</u>	<u>12,073</u>	<u>13,655</u>
Total deferred inflows	<u>\$ 105,555</u>	<u>14,108</u>	<u>13,655</u>
Net position:			
Net investment in capital assets	\$ 1,379,079	1,064,121	866,813
Restricted under trust agreements	242,544	221,811	164,511
Unrestricted	<u>(373,610)</u>	<u>(367,623)</u>	<u>(373,034)</u>
Total net position	<u>\$ 1,248,013</u>	<u>918,309</u>	<u>658,290</u>

Discussion of Condensed Summary of Net Position 2017, 2016, 2015

2017 – 2016

The Authority's total net position is reported at \$1,248,013 and \$918,309 as of December 31, 2017 and 2016, respectively, representing an increase of \$329,704 or 35.9%, compared to 2016. The major factors causing this increase were additional toll revenue, as traffic on both the Turnpike and the Parkway was higher in 2017 than in 2016, higher investment income and lower operating and non-operating expenses. Capital assets increased by \$385,341 or 3.4%, and other noncurrent assets increased by \$318,455 or 72.3%. Capital assets increased as a result of the continued spending on the ongoing \$7 Billion CIP. Other noncurrent assets increased primarily due to the unspent proceeds of the Series 2017A Bonds issued in April 2017. Noncurrent liabilities increased by \$493,056, or 4.1%, also primarily due to the issuance of the Series 2017A Bonds which was offset by a decrease in the net pension liability as of December 31, 2017.

2016 – 2015

The Authority's total net position is reported at \$918,309 and \$658,290 as of December 31, 2016 and 2015, respectively, representing an increase of \$260,019 or 39.5%, compared to 2015. The

major factors causing this increase were additional toll revenue, as traffic on both the Turnpike and the Parkway was higher in 2016 than in 2015, and lower operating and non-operating expenses. Capital assets increased by \$654,634, or 6.1%, and other noncurrent assets decreased by \$749,477, or 63.0%. Capital assets increased while other noncurrent assets decreased as a result of the continued spending of the proceeds from the Series 2015E Turnpike Revenue Bonds on the ongoing \$7 Billion CIP. Noncurrent liabilities decreased by \$103,380, or 0.8%, primarily due to the January 1, 2016 principal payments made on the Series 1991C and Series 2003B Turnpike Revenue Bonds.

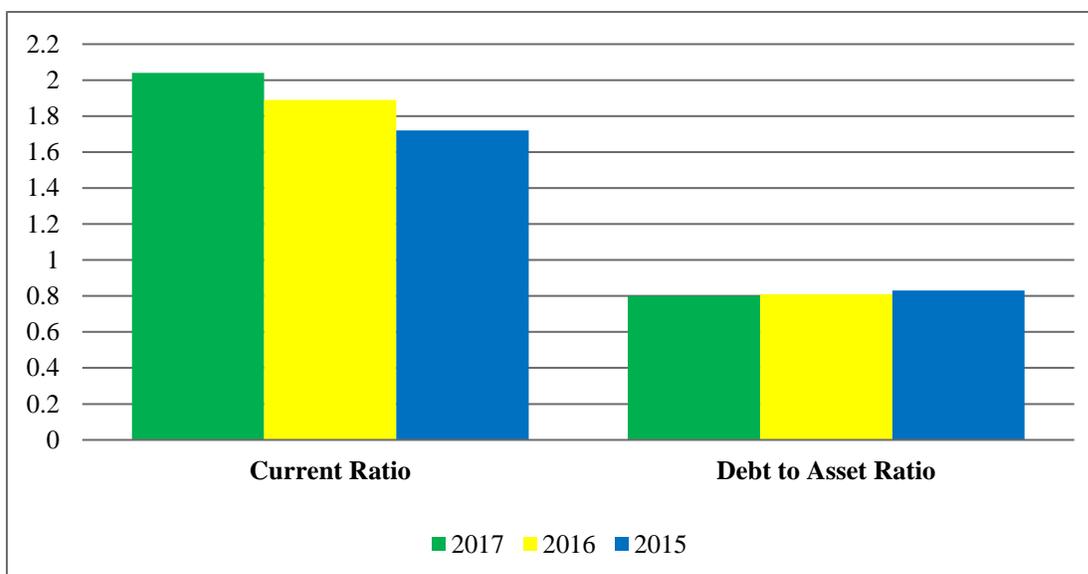
Adjusted Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net position as per GAAP Financials	\$ 1,248,013	918,309	658,290
Unfunded non cash adjustment:			
Other postemployment benefit liability	402,773	358,720	315,039
Interest rate swaps liabilities	20,914	29,190	40,199
Net pension liability	438,493	561,453	435,015
Accounts payable and accrued expenses	16,847	24,753	24,482
Other long-term obligations	49,255	71,820	92,009
Hybrid instrument borrowing	143,046	89,302	111,526
Accumulated increase in fair value of hedging derivatives	6,288	2,035	—
Deferred amount relating to pensions	99,267	12,073	13,655
Accumulated decrease in fair value of hedging derivatives	—	—	(4,807)
Deferred amount on refunding	(281,059)	(87,002)	(105,726)
Deferred amount relating to pensions	(110,378)	(156,574)	(65,426)
Restricted investments	—	79,937	93,175
Capital assets, net of accumulated depreciation	(13,673)	(15,719)	(29,398)
Total non cash adjustments	<u>\$ 771,773</u>	<u>969,988</u>	<u>919,743</u>
Garden State Arts Foundation	<u>(719)</u>	<u>(798)</u>	<u>(737)</u>
Net Position as per Bond Resolution	<u>\$ 2,019,067</u>	<u>1,887,499</u>	<u>1,577,296</u>

Shown above is the Authority's adjusted net position calculated as per the Authority's Bond Resolution. Net position as per the Bond Resolution has been calculated after adjusting for GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). Net position as per the Bond Resolution also does not include other long-term liabilities such as pollution remediation liability, owner-controlled insurance program (OCIP) claims liabilities and GAAP reserves which are all non-cash liabilities. Over the past several years, the implementation of new GASB pronouncements has resulted in significant non-cash accounting reductions in the Authority's net position. Management believes that the net position as per the Bond Resolution provides an alternate view of the strength of the Authority's operations and its financial position.

Net Position Ratio Analysis - GAAP Basis

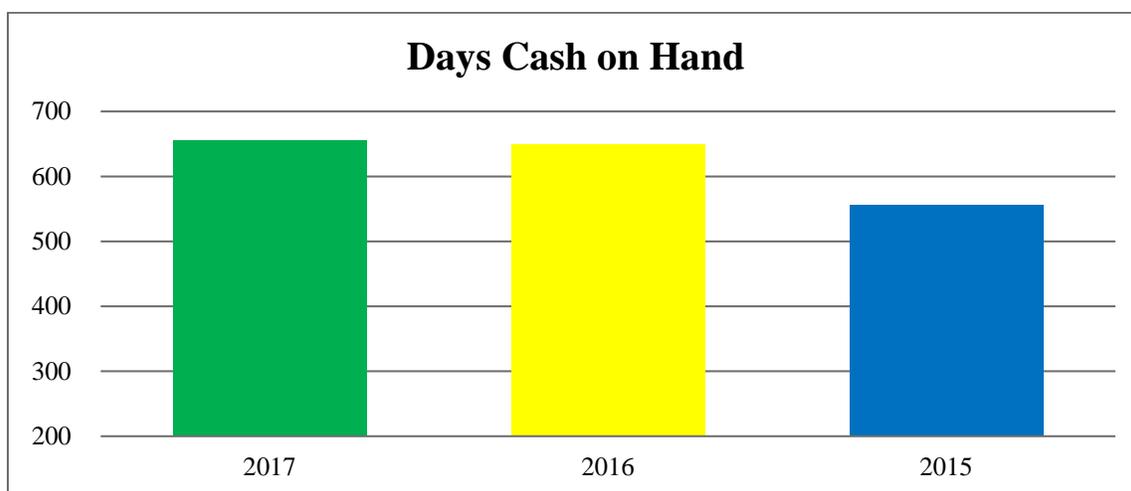
Ratio	2017	2016	2015	Explanation
<i>Current Ratio</i>	2.04	1.89	1.72	The current ratio is calculated as the Authority's current assets divided by current liabilities. A strong current ratio is over 1.0, and indicates an organization's ability to meet their short-term obligations. The Authority's current ratio has continued to improve each year, with the average over the three year period being 1.88. For 2017, the Authority has more than two times the amount of current assets as compared with current liabilities. Further, year over year the Authority's current ratio has increased, reflecting the positive cash flow generated from operations.
<i>Debt to Asset Ratio</i>	0.80	0.81	0.83	The debt to assets ratio is calculated by dividing total debt by total assets. The debt to asset ratio continues to decline, decreasing to 0.80 in 2017 from 0.83 in 2015, as a portion of capital assets are paid for through excess revenues.



Key Performance Metric - Net Position

Days Cash on Hand – Days cash on hand is calculated by combining unrestricted cash and unrestricted investments and dividing by daily operating expenses (from the Revenue Fund). This calculation shows how long (in days) the Authority would be able to pay its operating expenses without the generation of revenue. As a result, a larger number of days cash on hand is desirable. As shown in the graph, the days cash on hand has consistently increased each year. Based on this calculation, in 2017, the Authority could go 656 days without generating any revenue and still pay its operating expenses. Days cash on hand has improved due to the positive cash flow generated from operations.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Cash & Investments	\$ 913,459	876,311	767,022
Daily Operating Expenses (Revenue Fund)	\$ 1,392	1,348	1,379
Days cash on hand	656	650	556



Capital Improvement Program (CIP)

- The Authority is nearing the conclusion of a \$7 Billion CIP that included large scale projects such as widening stretches of both the Turnpike and Parkway and smaller projects that improve interchanges, rehabilitate bridges, and deploy new technologies. The \$7 Billion CIP continues on schedule and on budget. The only project included in the original \$7 Billion CIP which is expected to go beyond its original completion date is the bridge rehabilitation/repair project on the Newark Bay Hudson County Extension. This work cannot be started until the New Jersey State Department of Transportation (NJDOT) completes their Pulaski Skyway project. At this time, NJDOT expects the Pulaski Skyway project to be completed in mid-2018. At the ninth year into the ten year program, the Authority has spent or committed 94%, or \$6,566,670 of its original \$7,000,000 budget with minimal impact to traffic.
- Bond proceeds are deposited in the Construction Fund to support the \$7 Billion CIP. Total expenditures in the Construction Fund for the twelve months ended December 31, 2017 were approximately \$405,700. Spending included approximately \$125,400 for the Authority Phase I Facilities Improvements Program, approximately \$44,900 for the Parkway Widening Phase III (from milepost 35 to 48), approximately \$43,600 for the Turnpike Interchange 14A Reconstruction Project, approximately \$40,000 for the Great Egg Harbor Bridge Project, and approximately \$31,900 for the Newark Bay Hudson County Extension Bridge Re-decking Project. In addition to these expenditures, there are open contracts and commitments totaling approximately \$469,900.
- As a part of the \$7 Billion CIP the Authority has taken great measures to increase mobility and reduce commuting times on both the Parkway and Turnpike. One of the main projects that was successfully completed and open to the public in late 2014 was the 35 mile



widening of the Turnpike between Interchanges 6 and 9. Phase 1 of the Parkway widening (mileposts 63 to 80) was completed in 2011, with Phase 2 of the Parkway widening (mileposts 48 to 63) completed in 2015. Work on Phase 3 of the Parkway widening (mileposts 41 to 48) was completed in 2016, with the remainder of the work (milepost 35 to 41) to be completed in 2018. The Authority has also undertaken additional projects beyond the Turnpike and the Parkway widenings to improve the safety and mobility of traffic on both roadways such as Bridge and Interchange Improvements. Since the program began, the Authority has expanded and rehabilitated major bridges on both the roadways and more than a dozen interchanges have been re-built, expanded or improved to provide better access to and from both roadways.

The Projects currently included in the \$7 Billion CIP are the following:

<u>Project</u>	<u>Current Budget</u>	<u>Amount Spent or Committed to Date</u>	<u>Percent Spent & Committed to Date</u>
Turnpike Widening (Interchange 6-9)	\$ 2,226,399	2,137,208	96%
Bridge Improvements	1,682,762	1,479,498	88%
Roadway Improvements	816,783	797,285	98%
Interchange Improvements	1,026,431	937,294	91%
Facilities Improvements	657,625	646,385	98%
Parkway Widening (Milepost 35-80)	590,000	569,000	96%
	\$ 7,000,000	6,566,670	94%

Turnpike Widening: The Turnpike Interchanges 6 to 9 Widening Program, which was completed on schedule and under budget, was opened to traffic in November 2014. The Turnpike Widening provides three additional travel lanes in each direction between Interchanges 6 and 8A, and one additional lane in each direction between Interchanges 8A and 9, adding a total of 170 new lane miles to this critical section of roadway. The program also added a new toll plaza at Interchange 8. Program close-out will be completed in 2018.

Bridge Improvements: Bridge improvements in the \$7 Billion CIP include approximately \$1,682,700 for re-decking, seismic retrofitting, security measures, cleaning and repainting of structural steel, substructure repairs and other improvements to the 16 major Turnpike and Parkway bridges and other high-priority structures. During 2017, work related to the rehabilitation of the northbound span and the demolition of the old southbound span on the Great Egg Harbor/Drag Channel bridges was almost 61% completed. The improvement work on the Delaware River Turnpike Bridge and Newark Bay Hudson County Extension on the Turnpike will continue in 2018 and is scheduled to be completed in early 2018.

Roadway Improvements: Roadway improvements in the \$7 Billion CIP include approximately \$816,700 for widening and strengthening roadway shoulders, replacing deteriorated guide rail, improving drainage, repairing median barriers, installing variable message signs, replacing weathered and outdated guide signs, and making other investments to improve the safety and operation of the Turnpike and Parkway. The guide sign replacement project on the Turnpike was

substantially completed during 2017 and the Authority continues to work on the culvert rehabilitation on the Parkway.

Interchange Improvements: The \$7 Billion CIP also includes approximately \$1,026,000 for interchange improvements on both roadways. The major projects on which design or construction has started and continued in 2017 are Interchange 14A on the Turnpike and Interchanges 36, 37, 38, 91, 105, 125, and 163 on the Parkway. Interchange 125 on the parkway was partially completed to accommodate existing traffic volumes and future growth resulting from the development of the waterfront. Interchanges 36, 37, 38, 91, 105 and 163 were substantially completed in 2017 and Interchange 14A is scheduled to be completed in 2018.

Facility Improvements: The Facilities Improvements Program in the \$7 Billion CIP includes approximately \$657,600 for the projects to build forty-two new structures and rehabilitate eighteen existing structures. Projects include the replacement of four State Police Troop D stations, the rehabilitation of sixteen maintenance districts, minor improvements at all Turnpike toll plaza buildings, and construction of a total of thirteen salt storage facilities on both roadways. To date, nine maintenance district facilities, three State Police Stations, a Central Services facility, all the salt sheds, and all Turnpike toll plaza building repairs have been completed. Also, six additional maintenance districts are scheduled for completion in 2018.



Parkway Widening: The Parkway widening project will add a third travel lane and full-width shoulders between Mileposts 35 and 80 and will be completed as follows:

Phase I – Milepost 63 to 80 – Construction completed and open to motorists in May 2011.

Phase II – Milepost 48 to 63 –The widening between Milepost 52-63 was opened in the summer of 2013, with the remaining widening of this section to Milepost 48 opened in May 2015 upon the completion of the rehabilitation of the Bass River Bridge.

Phase III – Milepost 35 to 48 – The first construction contract for this section was awarded in June 2014 and construction began in July 2014. The widening between Milepost 48 to 41 was opened in June 2016 and the remainder is expected to be completed in the spring of 2018.

Total budgeted costs for the Parkway Mileposts 35 to 80 Widening Program are approximately \$690,000; however, \$100,000 of those costs were financed from the proceeds of bond anticipation notes prior to the issuance of the first series of bonds for the financing of the \$7 Billion CIP.

Capital Assets

	December 31		
	2017	2016	2015
Land	\$ 832,460	830,612	824,797
Construction-in-progress	1,561,960	1,258,316	2,521,406
Roadways	4,143,232	4,181,281	3,211,595
Bridges	3,829,827	3,808,491	3,237,642
Buildings	559,488	495,102	249,716
Equipment	914,099	881,923	755,935
Total capital assets, net of accumulated depreciation	<u>\$ 11,841,066</u>	<u>11,455,725</u>	<u>10,801,091</u>

Capital assets consist of land, construction in progress, infrastructure, buildings, and equipment. Infrastructure assets are typically items that are immovable, such as highways and bridges. Detailed information on capital asset activity can be found in note 4.

2017 – 2016

The Authority's capital assets as of December 31, 2017 were \$15,611,339 of gross asset value with an accumulated depreciation of \$3,770,273, leaving a net book value of \$11,841,066. This represents 82.0% of the Authority's total assets.

Capital assets, net of accumulated depreciation, increased by \$385,341 in 2017 primarily due to the continued spending on the Authority's \$7 Billion CIP. Major projects include the Parkway widening between Milepost 35 and 48, facility and interchange improvements and bridge reconstructions. Land increased by \$1,848 in 2017 due to the continued acquisition of parcels needed for the Turnpike Interchange 6-9 Widening Project and the Facilities Improvements Phase II Project as well as other various improvement projects along the Authority's right-of-way. Construction in progress increased by \$303,644 in 2017 as a result of the continued spending on the Authority's \$7 Billion CIP. This increase is mainly the result of continued spending for the Facilities Improvements Phase I, Turnpike Interchange 14A Reconstruction, and Parkway Widening Phase III (Milepost 35 to 48) Project. Roadways decreased by \$38,049, or 0.9%, in 2017 as depreciation expense was higher than roadway assets created. Bridges increased by \$21,336, or 0.6%, in 2017 due to the substantial completion of several bridges on the Turnpike and Parkway which were included in the Interchange Improvements Projects and the Bridge Deck Reconstruction Projects. Buildings increased by \$64,386, or 13%, in 2017 due to the substantial completion of two new Turnpike maintenance buildings at the maintenance districts and the purchase of the Authority's Headquarters at 1 Turnpike Plaza. Equipment increased by \$32,176, or 3.6%, in 2017 due to the addition of sign structures and safety devices after substantial completion as part of the Sign Replacement Project.



The Authority had open commitments related to construction contracts totaling \$469,900 as of December 31, 2017. These construction contracts include work related to the Authority's \$7 Billion CIP and will be completed over the next few years.

2016 – 2015

The Authority's capital assets as of December 31, 2016 were \$14,921,007 of gross asset value with an accumulated depreciation of \$3,465,282 leaving a net book value of \$11,455,725. This represents 83.8% of the Authority's total assets.

Capital assets, net of accumulated depreciation, increased by \$654,634 in 2016 primarily due to the continued spending on the Authority's \$7 Billion CIP. Major projects include the widening of the Turnpike and the Parkway, facility and interchange improvement and bridge improvements. Land increased by \$5,815 in 2016 due to the continued acquisition of parcels needed for the Parkway Interchange 125 Improvement Project, Turnpike Interchange 14A Improvement Project and the Parkway Milepost 35 to 63 Widening Project as well as other various improvement projects along the Authority's right-of-way. Constructions in progress decreased by \$1,263,090 in 2016 as a result of the addition of assets into their final capital asset categories, as many construction projects were substantially complete and opened to the public in 2016. Roadways increased by \$969,686, or 30.2%, in 2016 due to the substantial completion of the Parkway Mainline Shoulder Improvement and the Parkway Widening (Phase II) project. Bridges increased by \$570,849, or 17.6%, in 2016 due to the substantial completion of the Great Egg Harbor Bridge, the Bass River Bridge, and several bridges on the Turnpike which were included in the Bridge Deck Reconstruction Project. Buildings increased by \$245,386, or 98.3%, in 2016 due to the substantial completion of facility improvement project which includes State Police barracks along the roadways, three maintenance district buildings, salt storage facilities, and a central warehouse facility. Equipment increased by \$125,988, or 16.7%, in 2016 due to the addition of sign structures and safety devices after substantial completion of the Sign Replacement Project.

The Authority had open commitments related to construction contracts totaling \$742,000 as of December 31, 2016. These construction contracts include work related to the Authority's \$7 Billion CIP and will be completed over the next few years.

Condensed Summary of Revenue, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues:			
Toll revenue	\$ 1,579,896	1,570,662	1,523,133
E-ZPass fees	60,505	61,053	54,751
Concession revenue	35,591	38,192	38,993
Miscellaneous revenue	22,601	19,446	15,146
Total operating revenues	<u>1,698,593</u>	<u>1,689,353</u>	<u>1,632,023</u>
Operating expenses, excluding depreciation (1)	<u>(584,880)</u>	<u>(615,469)</u>	<u>(609,550)</u>
Net operating revenue	1,113,713	1,073,884	1,022,473
Depreciation expense	<u>(304,989)</u>	<u>(301,120)</u>	<u>(316,377)</u>
Operating income	<u>808,724</u>	<u>772,764</u>	<u>706,096</u>
Nonoperating revenues (expenses):			
Nonoperating revenues	170,507	101,654	81,943
Nonoperating expenses	<u>(661,997)</u>	<u>(614,399)</u>	<u>(667,364)</u>
Total nonoperating revenues (expenses), net	<u>(491,490)</u>	<u>(512,745)</u>	<u>(585,421)</u>
Change in net position, before capital contribution	317,234	260,019	120,675
Capital contributions	<u>12,470</u>	<u>—</u>	<u>—</u>
Change in net position	329,704	260,019	120,675
Net position – Beginning of period	<u>918,309</u>	<u>658,290</u>	<u>537,615</u>
Net position – End of period	<u>\$ 1,248,013</u>	<u>918,309</u>	<u>658,290</u>

(1) Operating expenses include both the funded and the non-cash portion of the annual OPEB cost.

Discussion of Condensed Summary of Revenue, Expenses and Changes in Net Position

2017 – 2016

Operating Revenues

Operating revenues totaled \$1,698,593 for the year ended December 31, 2017, representing an increase of \$9,240 or 0.5% from the year ended December 31, 2016. The principal source of revenue for the Authority is tolls. During 2017, toll revenue totaled \$1,579,896 and constituted 93.0% of the Authority's operating revenues, as compared to \$1,570,662, or 93.0%, in 2016. On the Turnpike, passenger car traffic increased 1.9% while commercial vehicle traffic increased by 2.6% resulting in an overall increase of 2.0%. On the Parkway, passenger car toll transactions increased by 0.9% while commercial vehicle toll transactions increased by 1.9% resulting in an overall increase by 0.9%. The traffic increase on both roadways as compared to 2016 is due to milder weather conditions, favorable economic conditions, comparatively stable gas prices through most of the year in 2017 and the impacts of the widening programs on both roadways. Toll transactions and revenue increased despite the closure of Interchanges 6 and 6A on the New Jersey Turnpike from January 20, 2017 to March 9, 2017 due to the emergency closure of the Delaware River Turnpike Bridge, which connects the New Jersey Turnpike to the Pennsylvania Turnpike. This closure resulted in an estimated toll revenue loss of \$8,800. Traffic and revenue also increased

despite the fact that 2017 had one fewer day than 2016, as 2016 was a leap year, and despite the impacts of winter storm Stella in March 2017. The storm resulted in 742 fewer transactions and \$2,878 less revenue when compared to similar days in March in 2016.

Electronic toll collection remains popular and overall usage rates continue to be strong. On the Turnpike, the E-ZPass usage rate for passenger cars was 83.2% and for commercial vehicles was 91.6%, resulting in an overall usage rate of 84.2% in 2017, an increase from 82.6% in 2016. On the Parkway, the overall E-ZPass usage rate increased to 81.4% from 79.6% in 2016. During 2017, passenger cars had a usage rate of 81.3% and commercial vehicles had a usage rate of 90%.

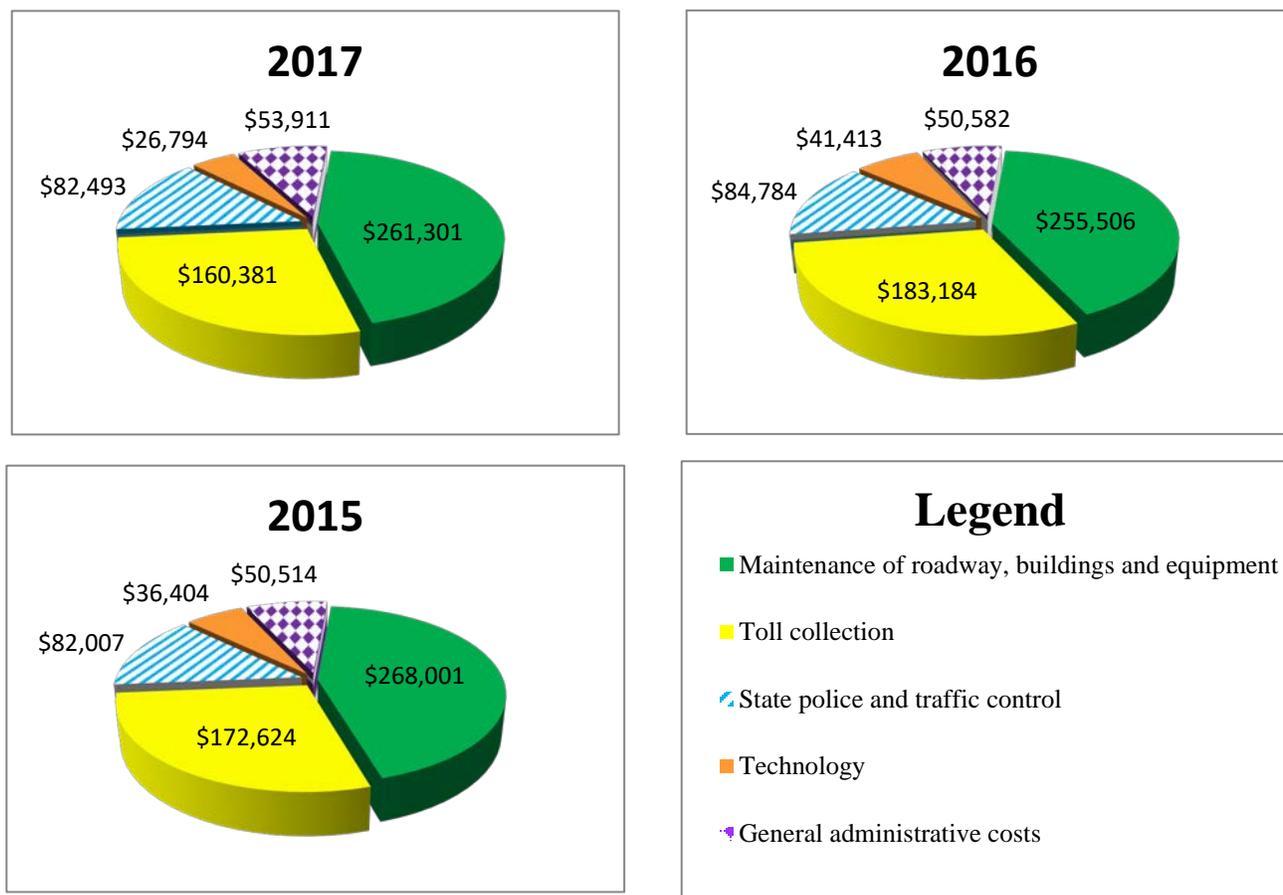
E-ZPass fees totaled \$60,505 and \$61,053 for the years ended December 31, 2017 and 2016, respectively, representing a minor decrease of \$548 or 0.9%. E-ZPass fees consist of monthly membership fees, transponder sales, lost or damaged tag fees, returned check fees, administrative fees, revoked account collection fees, interest on prepaid accounts and monthly statement fees. The decrease primarily resulted from lower lost/damaged tag fees in 2017, as 2016 included amounts collected for transponders that were not returned as part of a prior tag swap program and to a lesser extent, lower administrative fees collected in 2017. These decreases were partially offset by an increase in the interest income earned on the prepaid accounts balances due to a general increase in short term interest rates in 2017.

Concession revenues consist of amounts paid to the Authority from the sale of food, fuel and convenience store items from the companies which operate the service areas on both roadways. Concession revenues were \$35,591 in 2017, which represents a decrease of \$2,601 or 6.8% from \$38,192 in 2016. The decrease is due to a decrease in revenue received by the Authority from the gross profit margin on diesel fuel sales as compared to 2016. The Authority receives 50% of the gross profit margin on all diesel fuel sold on the Turnpike. Fuel sales on the Turnpike decreased by 9.3% in 2017 as compared to 2016. Turnpike food sales decreased 1.1%, and the convenience store sales increased by 2.4%, compared to last year. The decrease in food and fuel sales was in part due to the closure of the Delaware River Turnpike Bridge for a significant portion of the first quarter. On the Parkway, fuel sales decreased 6.7% due to reduction in the gross profit margin on diesel fuel sales and convenience store sales increased 6.7% due to the receipt of back rent payment for the Ocean view Service area. Parkway food sales decreased 3.7%.

Miscellaneous revenue totaled \$22,601 for the year ended December 31, 2017, representing an increase of \$3,155 or 16.2%, compared to \$19,446 for the year ended December 31, 2016. Miscellaneous revenue includes rentals of cell tower sites, fiber lease revenue, fiber optic lines, towing commissions, park and ride receipts, and easements. The increase is primarily due to a significant surplus land sale of \$5,700 in 2017. Both 2016 and 2017 included different non-recurring insurance and litigation settlements.

Operating Expenses

Operating expenses by category for the last three years are shown below:



General operating expenses, excluding depreciation, totaled \$584,880 for the year ended December 31, 2017, representing a decrease of \$30,589, or 5.0%, from \$615,469 for the year ended December 31, 2016. The lower operating expenses are primarily the result of a decrease in Toll collection costs by \$22,803 to \$160,381 from \$183,184, for the years ended December 31, 2017 and 2016, respectively. The main reasons for this decrease include the lower pricing for services provided at the New Jersey E-Z Pass Customer Service Center which became effective on February 1, 2017, lower credit card fees, and savings in toll lane equipment maintenance costs as lane maintenance is now performed by in-house staff. Another reason for the decrease in the toll collection cost is reduction in the non-cash portion of the pension expense in 2017. Maintenance expenses increased by \$5,795 to \$261,301 for the year ended December 31, 2017 from \$255,506 for the year ended December 31, 2016 primarily due to an increase in spending on snow and severe weather. In 2017, the Authority spent a total of \$34,011 on snow and severe weather events, an increase of \$8,702 from 2016. Overall, the Authority managed to maintain the roadways and infrastructure facilities at a relatively stable cost despite the increase in the traffic on both the roadways. State police and traffic control costs decreased by \$2,291 to \$82,493 for the year ended December 31, 2017 from \$84,784 for the year ended December 31, 2016. The primary reason for

this decrease is a downward adjustment to a prior year accrual for retroactive salary increases based upon the actual settlement of expired contracts and reduction in the non-cash portion of the pension expense in 2017. Without the adjustment to the accrual for retroactive salary increase, state police and traffic control costs would have increased by \$1,777 in 2017 due to higher State Trooper costs due to more troopers patrolling the roadways. Technology costs decreased by \$14,619 to \$26,794 for the year ended December 31, 2017 from \$41,413 for the year ended December 31, 2016. Technology costs went down in 2017 primarily due to the allocation of toll collection equipment maintenance costs, including personnel and parts to the toll collection expense category, as these functions are now fully managed in house since February of 2017. Prior to this, the majority of the maintenance was handled by an outside contractor with the Authority having a small staff to support certain minor maintenance functions. Secondly, the Authority has undertaken fewer technology improvement projects classified as expense projects as compared to the previous year. Technology costs decreased also due to the reduction in the non-cash portion of the pension expense in 2017. General administrative expenses increased by \$3,329 to \$53,911 for the year ended December 31, 2017 from \$50,582 for the year ended December 31, 2016. The slight increase is in part due to higher claim settlements incurred under the deductible limit for various insurance claims. Finally, depreciation expense for the year ended December 31, 2017 totaled \$304,989 on the gross depreciable capital asset base of \$13,216,919 as compared to \$301,120, for the year ended December 31, 2016 showing an increase of \$3,869 due to an increase in the gross depreciable capital asset base by \$384,840 during 2017.

Nonoperating Revenues (Expenses)

Net non-operating expenses decreased by \$21,255 to \$491,490 for the year ended December 31, 2017 from \$512,745 for the year ended December 31, 2016 primarily due to the contractual reduction in the payments to the State of New Jersey under the new State Transportation Projects Funding Agreement (2016-2021) as compared to the prior agreement and the increase in investment income. The decrease in the payments to the State of New Jersey and the increase in investment income were partially offset by the increase in interest expense on the Turnpike Revenue Bonds in 2017 as compared to the interest expense in 2016, higher bond expenses and lower Federal and State reimbursements.

The Build America Bonds subsidy represents a direct payment by the United States Treasury to the Authority originally equal to 35% of the interest payable on the Series 2009F Bonds and the Series 2010A Bonds. The Build America Bonds subsidy in 2017 was \$76,153, an increase of \$82 from \$76,071 in 2016 due to a decline in the automatic Federal deficit reduction spending cuts. The subsidy payment received for the July 1, 2017 interest payment was reduced by 6.9% and the subsidy payment received for January 1, 2018 interest payment was reduced by 6.6%, while in 2016 the comparable payments were reduced by 6.8% and 6.9%, respectively.

Payments to the State of New Jersey decreased by \$61,500 in 2017 to \$232,500 from \$294,000 in 2016. The payments to the State include an annual payment of \$22,000 in 2017 and 2016 to assist in transportation purposes. Under the terms of a State Transportation Projects Funding Agreement dated September 30, 2011 and a successor agreement dated June 28, 2016, the Authority made payments totaling \$204,000 in 2017 and \$264,000 in 2016. The Authority also made annual payments to the State totaling \$6,500 in 2017 and \$8,000 in 2016 as per the Feeder Road Maintenance and Cost Sharing Agreement, dated July 1, 2016, for feeder road maintenance provided by the New Jersey Department of Transportation. Payments under all agreements are

made from the General Reserve Fund and are subordinate to debt service payments on outstanding bonds and all other obligations under the Authority's General Bond Resolution (note 16).

Investment earnings were \$87,529 in 2017 as compared to \$12,217 in 2016. Interest income earned by the Authority on investments was \$17,732 in 2017, significantly higher than the \$12,777 earned in 2016 primarily due to a general increase in short term interest rates. The adoption of GASB 53 in 2010 required the recognition of certain of the Authority's interest rate swaps as investments. Accordingly, the fixed payments made on these interest rate swaps, the variable payments received and the changes in fair market value were required to be reported as investment income (loss). In 2017 and 2016, the Authority was required to report the mark-to-market value of the interest rate swaps that hedge the Series 2000B-G bonds as investments. In 2017, the Authority recorded an investment loss of \$10,141 representing the fixed interest payments on the Series 2000B-G swaps, net of the variable payments received, compared to an investment loss of \$13,801 in 2016. In October 2017, the Authority amended the terms of its Series 2000B-G swaps as part of a refunding of the Series 2000B-G Bonds. The swaps are now considered effective under GASB 53 and no longer classified as an investment as of December 31, 2017. As such, the Authority recognized an investment gain of \$79,938, representing the reclassification of the negative mark to market value of the swap. During 2016, the Authority recorded an investment gain of \$13,238 representing the change in fair market value of the Series 2000B-G swaps. In addition, in 2017 and 2016, investment earnings were reduced \$5,277 and \$2,514, respectively representing interest income capitalized to capital assets.

Interest expense increased by \$102,721 in 2017 as compared to 2016, primarily due to the interest expense on the Series 2017A Bonds, which were issued in April 2017 and a reduction in the interest expense capitalized to the construction projects.

2016 – 2015

Operating Revenues

Operating revenues totaled \$1,689,353 for the year ended December 31, 2016, representing an increase of \$57,330 or 3.5% from the year ended December 31, 2015. The principal source of revenue for the Authority is tolls. During 2016, toll revenue totaled \$1,570,662 and constituted 93.0% of the Authority's operating revenues, as compared to \$1,523,133, or 93.3%, in 2015. On the Turnpike, passenger car traffic increased 3.8% while commercial vehicle traffic increased by 2.0% resulting in an overall increase of 3.6%. On the Parkway, passenger car toll transactions increased by 2.8% while commercial vehicle toll transactions decreased by 3.2% resulting in an overall increase by 2.7%. The increases on both roadways as compared to 2015 reflect favorable weather conditions, an improving economy, comparatively lower gas prices and an extra leap year day in 2016. In addition, toll revenue increased due to the positive impacts on traffic from the widening of both roadways.

Electronic toll collection remains popular and overall usage rates continue to be strong. On the Turnpike, the E-Z Pass usage rate for passenger cars was 81.4% and for commercial vehicles was 90.8%, resulting in an overall usage rate of 82.6% in 2016, an increase from 81.7% in 2015. On the Parkway, the overall E-Z Pass usage rate increased to 79.6% from 78.7% in 2015. During 2016, passenger cars had a usage rate of 79.5% and commercial vehicles had a usage rate of 89.0%.

E-ZPass fees totaled \$61,053 and \$54,751 for the years ended December 31, 2016 and 2015, respectively, representing an increase of \$6,302 or 11.5%. E-ZPass fees consist of monthly

membership fees, transponder sales, returned check fees, administrative fees, interest on prepaid accounts and monthly statement fees. The increase primarily resulted from higher administrative fees collected from toll violators, increases in membership and statement fees, as well as higher lost or damaged tag fees. Administrative fee collections increased due to enhanced enforcement and collection efforts, including New Jersey Motor Vehicle Commission registration holds for repeat violators. There are approximately 139,000 more NJ E-ZPass accounts at the end of 2016 as compared to 2015, accounting for the increase in membership and statement fees while lost or damaged tag fees increased due to fees assessed for transponders not returned as part of the tag swap program.

Concession revenues were \$38,192 in 2016. This represents a decrease of \$801 or 2.1% from \$38,993 in 2015. The decrease is due to a decrease in revenue from the gross profit margin on diesel fuel sales as compared to 2015. The Authority receives 50% of the gross profit margin on all diesel fuel sold. The fuel sales on Turnpike decreased by 5.7% in 2016 as compared to 2015. Turnpike food and convenience store sales increased 5.0%, and 11.7%, respectively, compared to last year. The increase in food and convenience store sales was in part due to the reopening of the Grover Cleveland Service Area on the Turnpike on November 23, 2015 after a three-year closure due to the effects of Superstorm Sandy. On the Parkway, fuel sales increased 2.0% and convenience store sales increased 3.6%. Parkway food sales only increased 0.2% due to the closure of the food service facility at Vauxhall Service Area for maintenance from October 2, 2015 to May 3, 2016.

Miscellaneous revenue totaled \$19,446 for the year ended December 31, 2016, representing an increase of \$4,300, and 28.4% respectively, compared to \$15,146 for the year ended December 31, 2015. Miscellaneous revenue includes rentals of cell tower sites, fiber lease revenue, fiber optic lines, towing commissions, park and ride receipts and easements. Miscellaneous revenue increased primarily due to the receipt of a non-recurring insurance settlement and a non-recurring Financial Industry Regulatory Authority (FINRA) arbitration settlement.

Operating Expenses

General operating expenses, excluding depreciation, totaled \$615,469 for the year ended December 31, 2016, representing an increase of \$5,919, or 1.0%, from \$609,550 for the year ended December 31, 2015. The higher costs are entirely the result of an increase in the non-cash portion of Pension Expense, which increased by \$23,562 to \$33,979 from \$10,417, for the years ended December 31, 2016 and 2015, respectively. Maintenance expenses decreased by \$12,495 to \$255,506 for the year ended December 31, 2016 from \$268,001 for the year ended December 31, 2015, primarily due to lower snow and severe weather-related costs and utility expenses in 2016 as compared to 2015. Toll collection costs increased by \$10,560 to \$183,184 for the year ended December 31, 2016 from \$172,624 for the year ended December 31, 2015. The main reason for this increase is the non-cash portion of Pension Expense, higher credit card fees due to increased toll revenue processed through electronic toll collection, higher electronic toll collection transaction processing costs due to the overall increase in electronic toll transactions, and higher violation collection expenses, as administrative fee collections also increased due to enhanced collection efforts. State police and traffic control costs increased by \$2,777 to \$84,784 for the year ended December 31, 2016 from \$82,007 for the year ended December 31, 2015. The primary reason for this increase is due to a higher number of state troopers assigned to the roadways, resulting in higher salary and benefit costs paid to the New Jersey Division of State Police, as well as an increase in state police vehicles purchased. Technology costs increased by \$5,009 to \$41,413 for the year ended December 31, 2016 from \$36,404 for the year ended December 31, 2015. This increase is

due to the non-cash portion of Pension Expense, higher software license and equipment maintenance fees resulting from the various technology improvement projects initiated by the Authority. General administrative expenses increased by \$68 to \$50,582 for the year ended December 31, 2016 from \$50,514 for the year ended December 31, 2015. Overall, due to the increase of the non-cash portion of Pension Expense, general administrative expenses slightly increased. However, there is a decrease in insurance claims and premiums, lower property taxes paid on surplus real estate, and lower bond-related expenses. Finally, depreciation expense in 2016 totaled \$301,120 on the gross depreciable capital asset base of \$12,832,079.

Nonoperating Revenues (Expenses)

Net non-operating expenses decreased by \$72,676 to \$512,745 for the year ended December 31, 2016 from \$585,421 for the year ended December 31, 2015 primarily due to the contractual reduction in the payments to the State of New Jersey under the new State Transportation Projects Funding Agreement (2016-2021) as compared to the prior agreement. The decrease in the payments to the State of New Jersey was partially offset by the increase in interest expense on the Turnpike Revenue Bonds in 2016 as compared to the interest expense in 2015.

The Build America Bonds subsidy represents a direct payment by the United States Treasury to the Authority originally equal to 35% of the interest payable on the Series 2009F bonds and the Series 2010A bonds. The Build America Bonds subsidy in 2016 was \$76,071, an increase of \$163 from \$75,908 in 2015 due to a decline in the automatic Federal deficit reduction spending cuts. The subsidy payment received in June 2016 was reduced by 6.8% and the subsidy payment received in December 2016 was reduced by 6.9%, while in 2015 the comparable payments were reduced by 7.3% and 6.8%, respectively.

Payments to the State of New Jersey decreased by \$60,001 in 2016 to \$294,000 from \$354,001 in 2015. The payments to the State include an annual payment of \$22,000 in 2016 and 2015 to assist in transportation purposes. Under the terms of a State Transportation Projects Funding Agreement dated September 30, 2011 and as amended on June 28, 2016, the Authority made an annual payment of \$264,000 in 2016 and \$354,000 in 2015. The Authority also made annual payments to the State totaling \$8,000 in 2016 and \$8,001 in 2015 as per the Feeder Road Maintenance and Cost Sharing Agreement, as amended on July 1, 2016, for feeder road maintenance provided by the New Jersey Department of Transportation. These payments are made from the General Reserve Fund and are subordinate to debt service payments on all outstanding bonds and all other obligations under the Authority's General Bond Resolution (see note 16).

Investment earnings were a gain of \$12,217 in 2016 as compared to a gain of \$2,403 in 2015. Interest income earned by the Authority on investments was \$12,777 in 2016, slightly higher than the \$11,683 earned in 2015. The adoption of GASB 53 in 2010 requires the recognition of certain of the Authority's interest rate swaps as investments. Accordingly, the fixed payments made on these interest rate swaps, the variable payments received and the changes in fair market value are required to be reported as investment income (loss). In 2016 and 2015, the Authority was required to report the mark-to-market value of the interest rate swaps that hedge the Series 2000B-G bonds as investments. In 2016, the Authority recorded an investment loss of \$13,801 representing the fixed interest payments on the Series 2000B-G swaps, net of the variable payments received, compared to an investment loss of \$13,005 in 2015. In 2016, the Authority recognized an investment gain of \$13,238, representing the change in fair market value of the Series 2000B-G swaps as compared to an investment gain of \$3,720 in 2015. In addition, in 2016 and 2015, the Authority recorded capitalized interest income of \$2,514 and \$2,290, respectively.

Interest expense increased by \$8,829 in 2016 as compared to 2015, primarily due to a full year of interest expense on the Series 2015E Bonds, which were issued in October 2015. The increased interest expense on these bonds was partially offset by an increase in interest expense capitalized to projects, again related to a full year of interest costs on the Series 2015E Bonds.

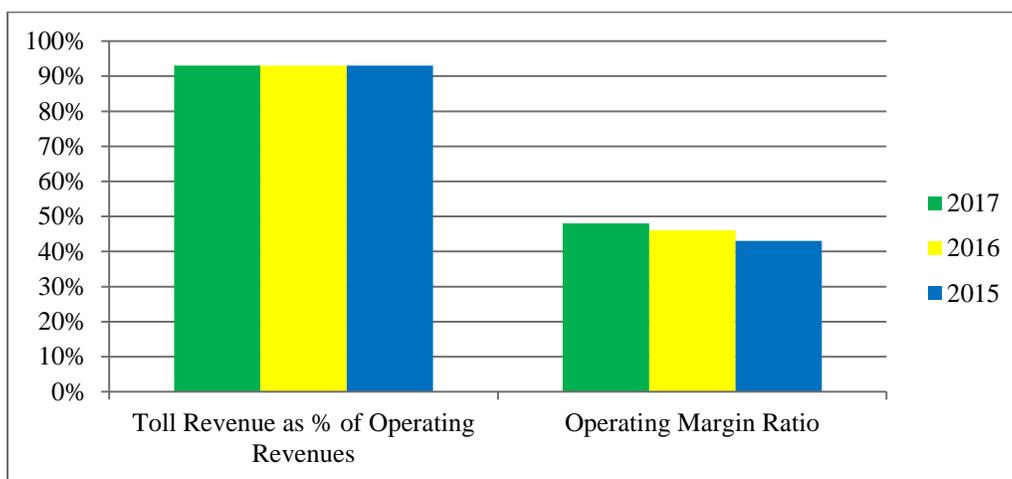
Adjusted Revenue, Expenses and Change in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Change in Net Position as per GAAP Financials	\$ 329,704	260,019	120,675
Unfunded non cash adjustments:			
Total operating expenses - GAAP adjustments	26,059	71,149	37,285
Interest expense, Turnpike Revenue Bonds	(136,270)	(235,676)	(226,702)
Investment income (loss)	(64,516)	3,078	11,574
Interfund transfers	(23,488)	211,694	196,880
Total Non Cash Adjustment	<u>\$ (198,215)</u>	<u>50,245</u>	<u>19,037</u>
Garden State Arts Foundation	<u>79</u>	<u>(61)</u>	<u>238</u>
Change in net position as per Bond Resolution	<u>\$ 131,568</u>	<u>310,203</u>	<u>139,950</u>
Add other non cash expenses			
Depreciation	304,989	301,120	316,377
Amortization	(46,327)	(39,812)	(35,382)
Change in Net Position - Non-GAAP	<u><u>\$ 390,230</u></u>	<u><u>571,511</u></u>	<u><u>420,945</u></u>

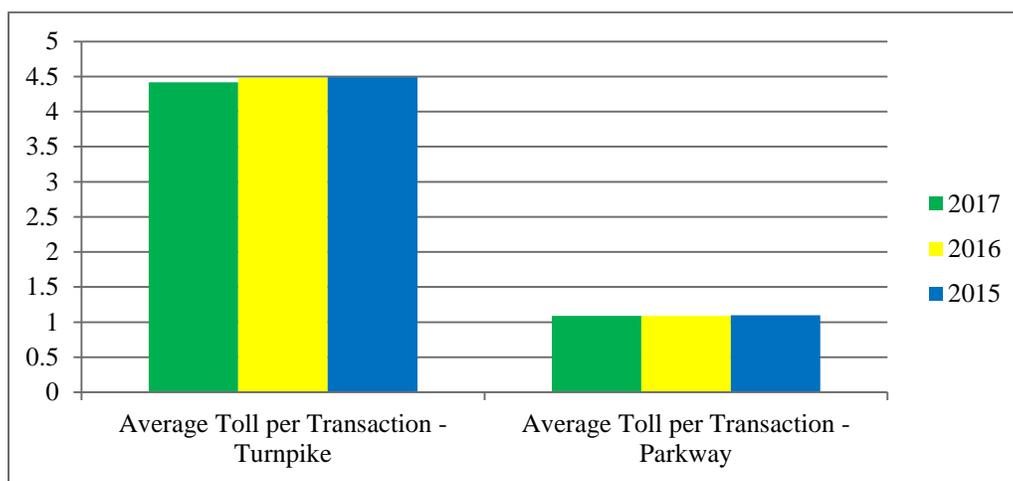
Shown above is the change in Net Position as per the Bond Resolution and has been calculated by adjusting the change in Net Position as per GAAP for non-cash expenses such as the non-cash portion of the Annual OPEB expense, GASB 68 Pension Expenses, and interest expense and investment income or loss due to the effects of GASB 53. The Change in Net Position – Non-GAAP is calculated by adding back the non-cash expenses such as depreciation and amortization of discounts and premium to the Adjusted Change in Net Position – Bond Resolution. Management believes that the Adjusted Change in Net Position above, which eliminates the more significant GAAP basis non-cash line items, presents an alternate view of the strength of the Authority's financial results.

Revenue and Expense Ratio Analysis - GAAP Basis

Ratio	2017	2016	2015	Explanation
<i>Toll Revenue as % of Operating Revenue</i>	93%	93%	93%	Toll revenue as percentage of operating revenue is calculated by dividing toll revenue by operating revenue. This percentage has remained consistent over the three years at 93%, indicating that almost all of the Authority's revenue is earned from toll collection. It also indicates that as a whole, all revenue sources have increased at approximately the same percentage over the past three years.
<i>Operating Margin Ratio Percentage</i>	48%	46%	43%	The operating margin ratio percentage is calculated by dividing operating income by total operating revenue. This ratio has increased to 48% in 2017 as compared to 46% in 2016, due to relatively lower operating expenses and higher operating revenue. The increase in this ratio in 2016 as compared to 2015 is also attributable to higher operating income and operating revenue. This ratio is consistently increasing year over year depicting an upward trend in operating income due to increase in operating revenue and stable operating expenses.



Ratio	2017	2016	2015	Explanation
<i>Average Toll per Transaction - Turnpike</i>	4.42	4.48	4.49	Average toll per transaction is calculated by dividing toll revenue by the number of toll transactions. With no change in the toll rates the slight decline in the average toll per transaction in 2017 indicates that the average trip lengths per transaction decreased marginally in 2017 as compared to 2016. Overall there is no significant change in the average toll per transaction from 2015 to 2017.
<i>Average Toll per Transaction - Parkway</i>	1.09	1.09	1.10	The average toll per transaction on the Parkway remained essentially unchanged over the three year period with a slight decrease in 2016 and 2017. Accordingly, on average, the composition of toll transactions by barrier and class remained constant over the three year period.



Toll Revenue Schedules

New Jersey Turnpike
Schedule of Toll Revenue
For the Twelve Months Ended December 31, 2017, 2016 and 2015
(all amounts in thousands)

Class	Description	2017		2016		2015	
		Toll revenue	Number of vehicles (unaudited)	Toll revenue	Number of vehicles (unaudited)	Toll revenue	Number of vehicles (unaudited)
1	Passenger car, motorcycle, taxi or hearse, light truck	\$ 797,953	227,978	789,477	223,634	756,561	215,358
2	Vehicles having two axles other than type described under Class 1	64,460	8,676	63,453	8,489	61,429	8,233
3	Vehicle (vehicles), single or in combination, having three axles	29,672	3,632	28,942	3,532	27,479	3,374
4	Vehicle (vehicles), single or in combination, having four axles	35,639	2,877	34,626	2,763	33,465	2,679
5	Vehicle (vehicles), single or in combination, having five axles	233,919	15,345	230,812	15,034	227,615	14,909
6	Vehicle (vehicles), single or in combination, having six or more axles	7,783	411	6,671	352	6,392	335
7	Buses having two axles	2,334	448	2,224	428	2,156	413
8	Buses having three axles	14,026	1,298	13,753	1,261	13,849	1,296
	Nonrevenue vehicles	—	1,559	—	1,571	—	1,558
		1,185,786	262,224	1,169,958	257,064	1,128,946	248,155
	Nonrevenue vehicles	—	(1,559)	—	(1,571)	—	(1,558)
	Toll Adjustments and Discounts	(4,237)	—	(3,520)	—	(5,106)	—
	Net Violations	(29,811)	—	(21,880)	—	(17,572)	—
		\$ 1,151,738	260,665	1,144,558	255,493	1,106,268	246,597

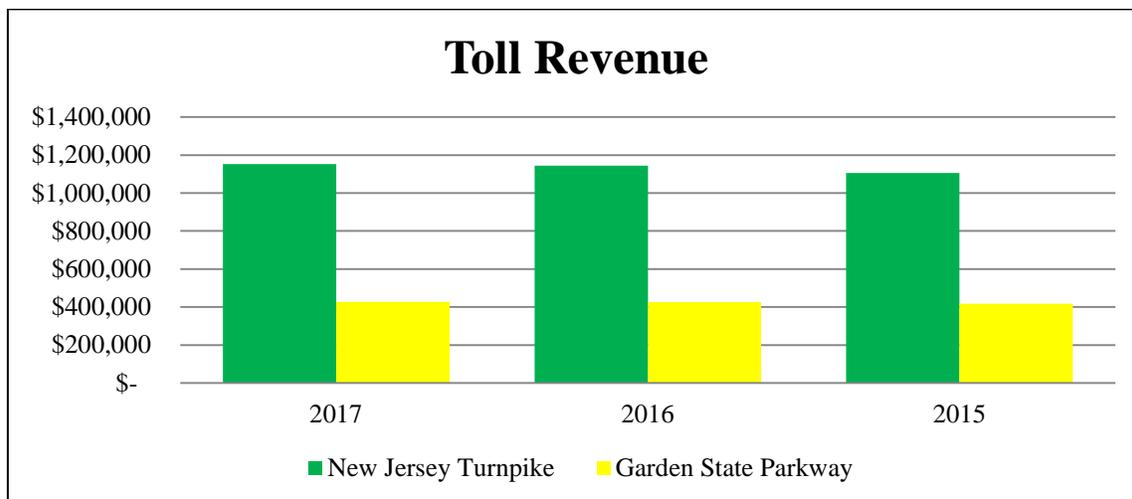
Garden State Parkway
Schedule of Toll Revenue
For the Twelve Months Ended December 31, 2017, 2016 and 2015
(all amounts in thousands)

Class	Description	2017		2016		2015	
		Toll revenue	Number of vehicles (unaudited)	Toll revenue	Number of vehicles (unaudited)	Toll revenue	Number of vehicles (unaudited)
1	Passenger car, motorcycle, taxi or hearse, light truck	\$ 420,385	387,787	416,990	384,586	407,254	374,092
2	Vehicles having two axles other than type described under Class 1	1,938	830	2,202	925	2,674	1,124
3	Vehicle (vehicles), single or in combination, having three axles	3,469	1,144	3,376	1,106	3,476	1,142
4	Vehicle (vehicles), single or in combination, having four axles	3,830	888	3,502	817	3,511	815
5	Vehicle (vehicles), single or in combination, having five axles	2,778	583	2,692	564	2,584	532
6	Vehicle (vehicles), single or in combination, having six or more axles	126	21	130	22	138	25
7	Buses having two axles	1,788	687	1,638	634	1,589	605
8	Buses having three axles	2,589	956	2,588	956	2,589	949
	Nonrevenue vehicles	—	1,532	—	1,458	—	1,476
		436,903	394,428	433,118	391,068	423,815	380,760
	Nonrevenue vehicles	—	(1,532)	—	(1,458)	—	(1,476)
	Toll Adjustments and Discounts	(318)	—	(286)	—	(474)	—
	Net Violations	(8,427)	—	(6,728)	—	(6,476)	—
		\$ 428,158	392,896	426,104	389,610	416,865	379,284

Key Performance Metrics - Revenue and Expenses

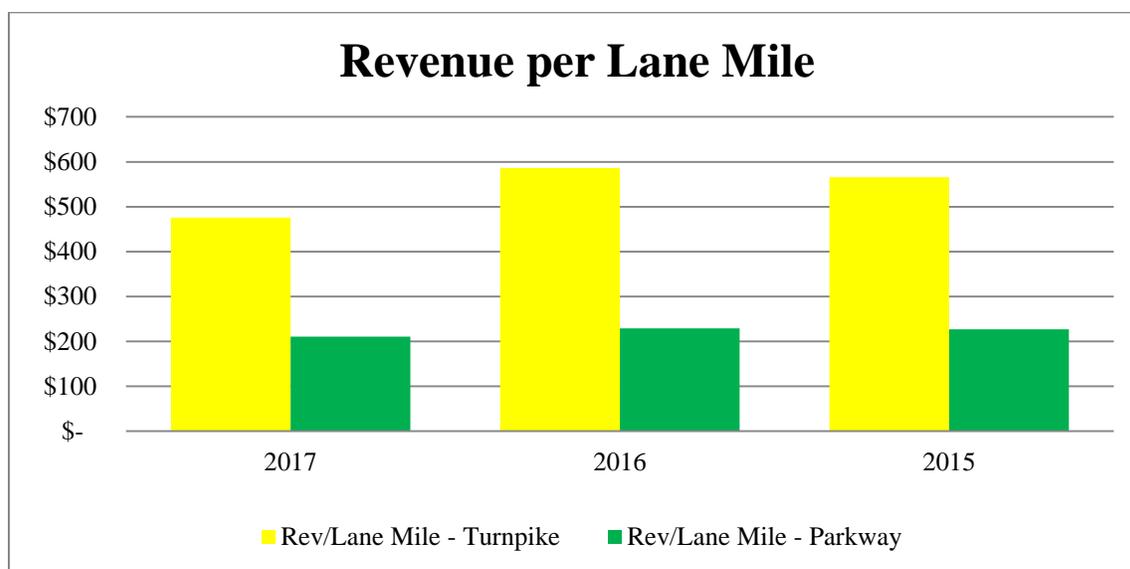
Toll Revenue – Toll revenue has increased consistently from 2015 to 2017. When comparing 2017 to 2016, there is an increase in toll revenue of 0.6% or \$9,234 for both the Turnpike and Parkway. The slight increase in the toll revenue is due to milder weather conditions, favorable economic conditions, and comparatively stable gas prices through most of the year in 2017. Toll revenue increased in 2017 despite the Delaware River Turnpike Bridge closure for 48 days in the first quarter and the impact of winter storm Stella in March 2017. Toll revenue from 2015 to 2016 also increased for both the Turnpike and Parkway, for an overall increase of 3.1%. The substantial increase of 3.5% for the Turnpike can be attributed to the opening of the Turnpike widening between Interchanges 6 and 9 in late 2014.

	<u>Turnpike</u>	<u>Parkway</u>	<u>Total</u>
2017	\$ 1,151,738	428,158	1,579,896
2016	\$ 1,144,558	426,104	1,570,662
2015	\$ 1,106,268	416,865	1,523,133
% change from 2016 to 2017	0.6%	0.5%	0.6%
% change from 2015 to 2016	3.5%	2.2%	3.1%



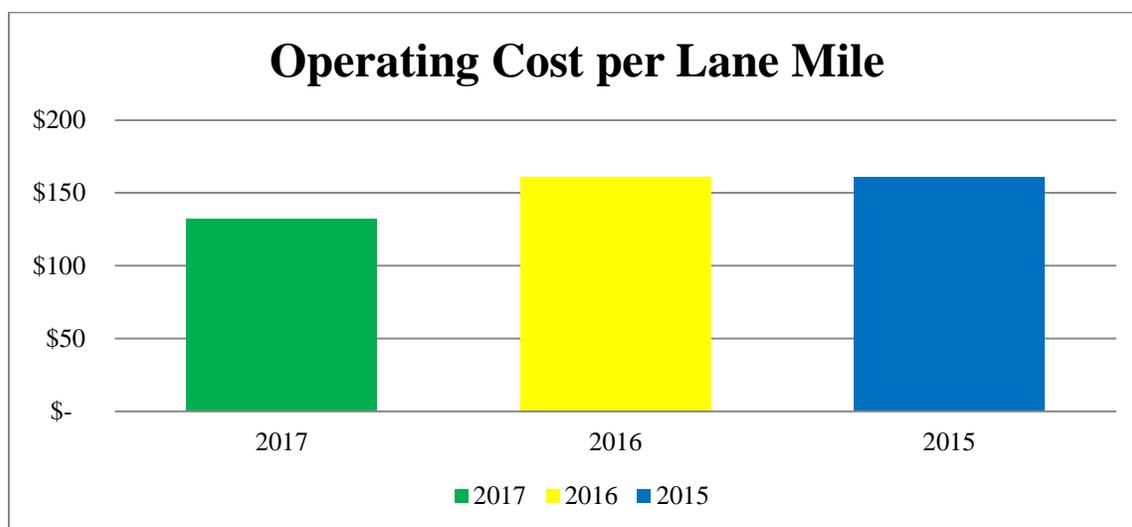
Revenue per Lane Mile – Revenue has increased each year (from 2016 to 2017 and from 2015 to 2016) on both the Turnpike and Parkway due to the milder weather conditions, favorable economic conditions, comparatively stable gas prices and the impacts of the widening programs on both roadways. Despite the increase in the toll revenue from 2016 to 2017, revenue per lane mile decreased due to a significant increase in the lane miles in 2017 from the addition of shoulder lane miles on both the roadways. Toll revenue per lane mile increased in 2016 as compared to 2015, mainly due to increase in the toll revenue, despite a slight increase in the lane miles on both the roadways in 2016 as compared with 2015.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Toll Revenue - Turnpike	\$ 1,151,738	1,144,558	1,106,268
Toll Revenue - Parkway	428,158	426,104	416,865
Total Toll Revenue	\$ 1,579,896	1,570,662	1,523,133
Lane Miles (actual) - Turnpike	2,418	1,953	1,953
Lane Miles (actual) - Parkway	2,028	1,861	1,840
Total Lane Miles (actual)	4,446	3,814	3,793
Revenue per Lane Mile - Turnpike	\$ 476	586	566
Revenue per Lane Mile - Parkway	211	229	227
Revenue per Lane Mile - Authority	\$ 355	412	402



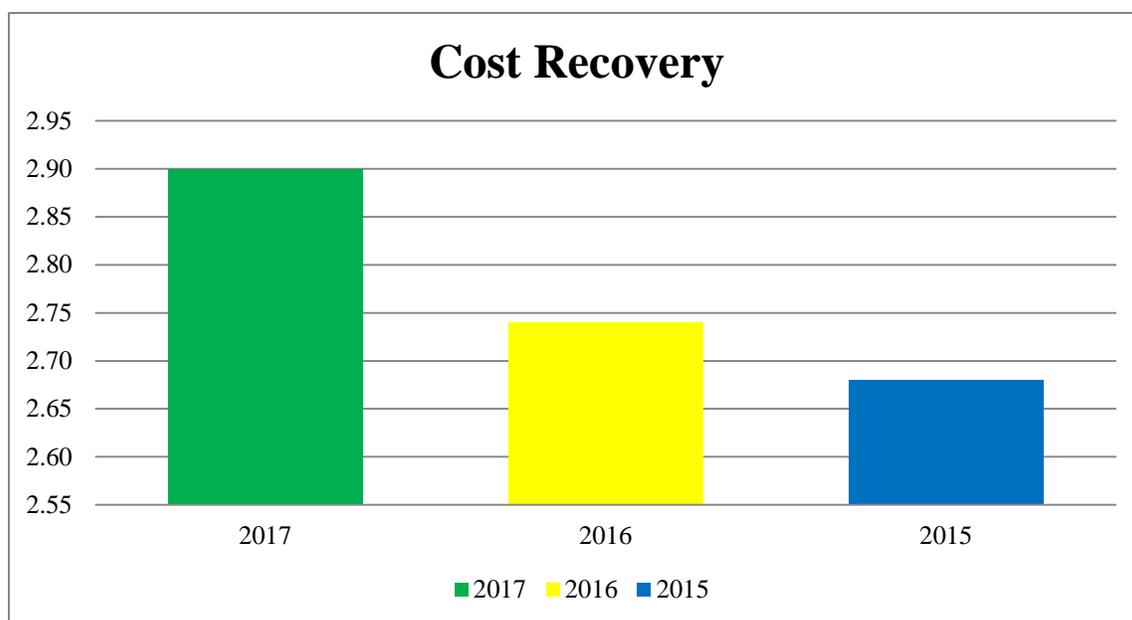
Operating Cost per Lane Mile – Operating expenses shown below include maintenance, toll collection, state police and traffic control, technology and general administrative expenses, but excludes depreciation. From 2016 to 2017, there was a decrease in the operating cost per lane mile which can be attributed to the decrease in total operating expenses in 2017 by \$30,589 and also due to the increase in lane miles in 2017 from the addition of shoulder lane miles on both the roadways (see page 19 for further breakout of operating costs). From 2015 to 2016, operating cost per lane mile remained unchanged due to marginally higher operating expenses and marginally higher lane miles in 2016 as compared to 2015.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total operating expenses	\$ 584,880	615,469	609,550
Lane Miles (actual) - Turnpike	2,418	1,953	1,953
Lane Miles (actual) - Parkway	2,028	1,861	1,840
Total Lane Miles	<u>4,446</u>	<u>3,814</u>	<u>3,793</u>
Operating cost Excluding Depreciation/Lane Mile - Authority	\$ 132	161	161



Cost Recovery – The cost recovery ratio is calculated by dividing operating revenues by operating expenses. Therefore, a ratio 1.0 or above is a positive sign as it indicates operating expenses are being fully recouped by operating revenues. The cost recovery ratio was over 2.0 in each of the years 2015 – 2017, which is a strong indicator of the Authority's ability to meet its operating expenses with its operating revenues. From 2016 to 2017, the cost recovery ratios increased due to marginally higher operating revenue and comparatively lower operating expenses. In 2017 operating revenue was nearly three times higher than operating expenses. From 2015 to 2016, the ratio increased slightly due to an increase in operating revenue in 2016 that exceeded the increase in operating expenses.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenue	\$ 1,698,593	1,689,353	1,632,023
Operating Expenses (excluding depreciation)	\$ 584,880	615,469	609,550
Cost Recovery	2.90	2.74	2.68



Financial Management Principles and Guidelines

In December 2012, the Authority adopted its "Financial Management Principles and Guidelines" (the Guidelines). Among the policies established, the Authority will manage its toll rates, expense budget and debt issuance program to achieve minimum senior debt service coverage of 1.40x and total requirement coverage of 1.20x. The Authority will also manage its cash flow and total expenditure levels such that it maintains average unrestricted cash balance in the General Reserve Fund equal to at least \$75,000. The Guidelines were amended in November 2015 to increase the minimum unrestricted cash balance in the General Reserve Fund to \$100,000. In January 2017, the Authority once again amended its Guidelines with respect to the minimum General Reserve Fund Balance requirement. The amended Guidelines increase the unrestricted cash balance in the General Reserve fund as follows:

- (1) a minimum balance of \$125,000 at 12/31/17;
- (2) a minimum balance of \$150,000 at 12/31/18;
- (3) a minimum balance of \$175,000 at 12/31/19;
- (4) beginning in 2020, by December 31st of each year, a minimum balance equal to 10% of that year's budgeted total annual revenue.

The Guidelines are implemented at the discretion of the Authority and are not a legal covenant with bondholders. Such Guidelines can be changed or eliminated at any time at the discretion of the Authority. As specified in the Guidelines, the Authority also adopted an Interest Rate Swap Management Plan in April 2013 which was amended in November 2015, an Investment Policy in September 2013, and a Debt Management Policy in January 2014. These documents may be found on the Authority's website at <http://www.njta.com/investor-relations/about-investor-relations>.

Debt Administration

The issuance of new bonds is conducted in accordance with the New Jersey Turnpike Act of 1948, constituting Chapter 454 of the Laws of New Jersey of 1948, as amended and supplemented and the Turnpike Revenue Bond Resolution adopted on August 20, 1991, as amended, restated and supplemented. The issuance of new bonds requires the approval of the Board of Commissioners and prior approval in writing from the Governor and from either or both the State Treasurer and the Director of the Division of Budget and Accounting of the Department of Treasury, payable solely from tolls and other revenues of the Authority. Detailed information on the Bonds activity during 2017 and 2016 can be found in note 6.

Bonds payable are shown below:

Series	2017	2016	2015
1991 Series (C)	\$ —	—	67,160
2000 Series (B-G)	—	400,000	400,000
2003 Series (B)	—	—	70,005
2004 Series (B, C2)	132,850	132,850	301,496
2005 Series (A-B, D1-D4)	414,885	414,885	414,885
2009 Series (A-B, E-I)	1,430,820	2,193,945	2,193,945
2010 Series (A)	1,850,000	1,850,000	1,850,000
2012 Series (A-B, G)	819,435	945,690	945,690
2013 Series (A-G)	602,330	1,986,305	2,116,295
2014 Series (A, B1-3, C)	1,201,860	1,251,860	1,301,860
2015 Series (A-H)	1,125,585	1,125,585	1,125,585
2016 Series (A-D)	325,035	325,035	—
2017 Series (A-G)	3,080,305	—	—
Premium and discount, net	627,624	444,966	464,242
Total outstanding bonds	\$ 11,610,729	11,071,121	11,251,163

2017 – 2016

On April 11, 2017, the Authority issued \$600,000 of Series 2017A Turnpike Revenue Bonds. The purpose of the Series 2017A Bonds was to (i) continue to fund projects under the \$7 Billion CIP, (ii) make a deposit to the Debt Reserve Fund and (iii) pay the costs of issuance of the Series 2017A Bonds.

On August 3, 2017, the Authority issued \$646,765 of the Series 2017B Turnpike Revenue Bonds to fully refund and, defease the Series 2009E Bonds, and to partially refund and defease the Series 2009H Bonds, the Series 2009I Bonds and the Series 2013A Bonds.

On October 26, 2017, the Authority issued \$579,375 of Series 2017C1-6 and Series 2017D1-4 Turnpike Revenue Bonds. The Series 2017C1-6 was issued to fully refund the Series 2000B-G Bonds. The Series 2017D1-4 was issued to fully refund the Series 2013D-3, the Series 2013E-3 and the Series 2014B-3 Bonds in order to meet the mandatory tender date on the refunded bonds to avoid interest rate escalations. At the same time the Authority entered into an amendment on its existing Series 2000B-G Interest Rate Swap agreement and re-identified it to the Series 2017C1-6 Bonds.

On December 14, 2017, the Authority issued \$527,525 of Series 2017E and Series 2017F Turnpike Revenue Bonds to fully refund and defease the Series 2009I Bonds and to partially refund and defease the Series 2009H Bonds, the Series 2012A Bonds and the Series 2013A Bonds.

On December 21, 2017, the Authority issued \$726,640 of Series 2017G Turnpike Revenue Bonds to partially refund and defease the Series 2012A Bonds and the Series 2013A Bonds.

Moody's Investors Services, Inc., S&P Global Ratings and Fitch Ratings assigned the ratings A2, A+ and A, respectively, to each of the Series 2017 Turnpike Revenue Bonds.

2016 – 2015

In accordance with its refunding plan, on February 2, 2016, the Authority issued \$149,995 of Series 2016A Turnpike Revenue Bonds to fully refund and defease the Series 2004B Bonds.

On December 21, 2016, the Authority issued \$175,040 of Series 2016B, 2016C and 2016D Floating Rate Bonds to fully refund the Series 2013D-2, 2013E-2 and 2014B-2 Bonds, respectively.

Moody's Investors Services, Inc., S&P Global Ratings and Fitch Ratings assigned the ratings A2, A+ and A, respectively, to each of the Series 2016 Turnpike Revenue Bonds.

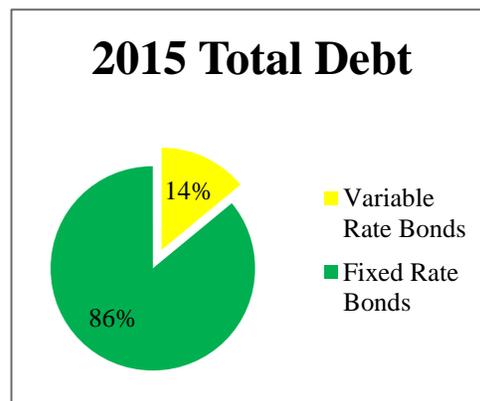
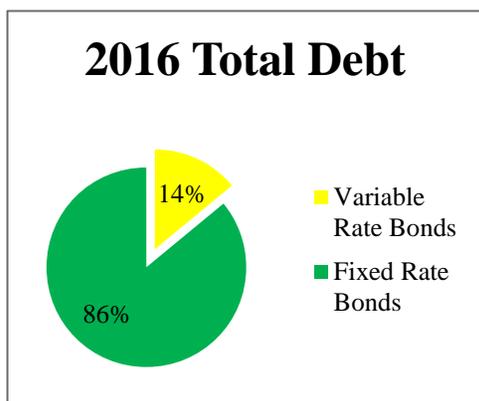
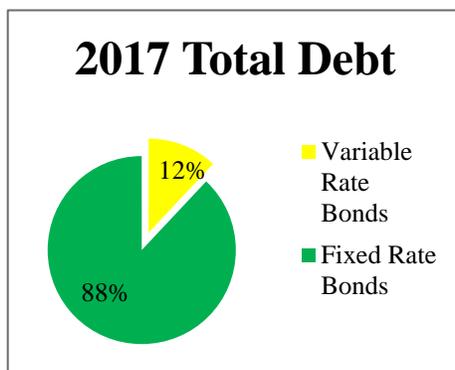
Build America Bond Subsidy Payments

The Authority's Series 2009F and Series 2010A Turnpike Revenue Bonds were issued as Build America Bonds (BAB). The BAB program was authorized by the American Recovery and Reinvestment act enacted in February 2009 to encourage local spending on new construction. Under the program, the U.S. Treasury makes a direct payment to the Authority originally equal to 35% of the interest expense for eligible bonds.

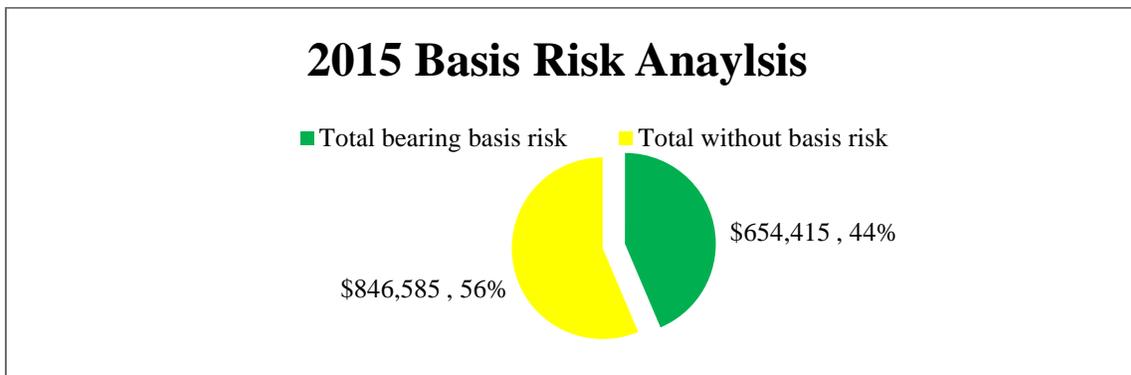
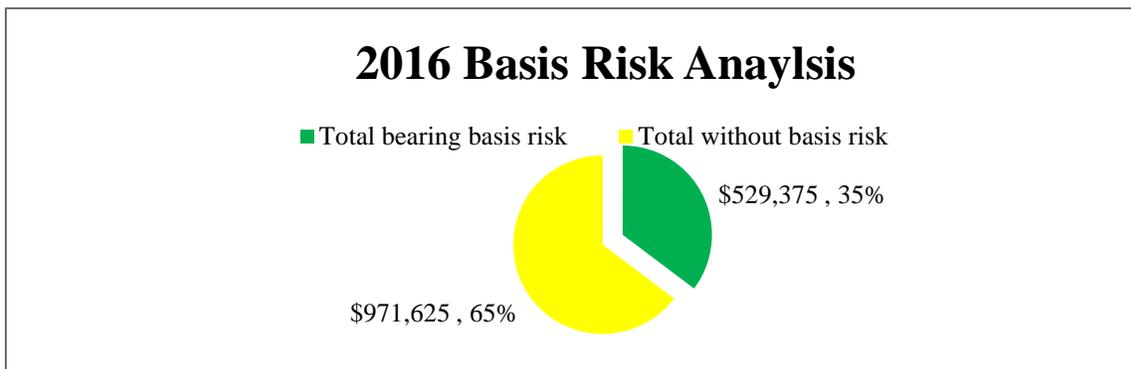
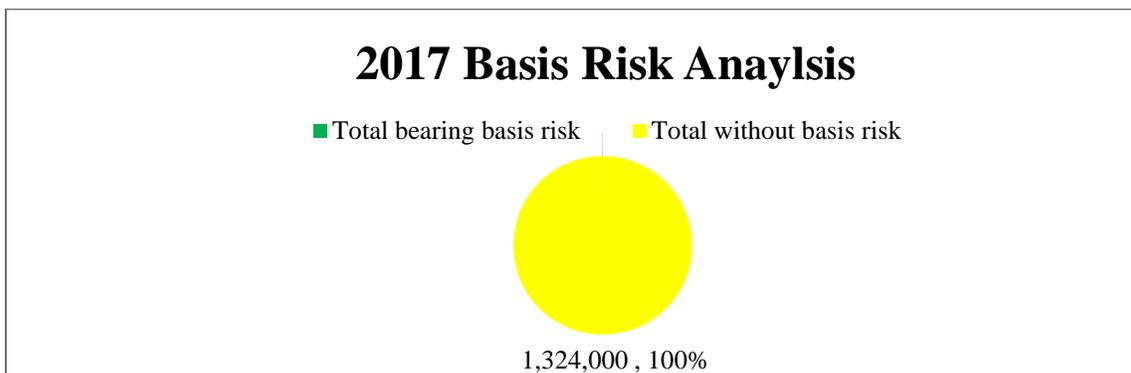
The Budget Control Act of 2011 reduced the amount of the subsidy paid by the Federal Government through automatic federal spending cuts commonly known as sequestration. The payment to the Authority received in June 2015 (for July 1, 2015 interest payment) was reduced by 7.3%, or \$2,980. The payment received in December 2015 (for January 1, 2016) was reduced by \$2,777 or 6.8%, the payment received in June 2016 (for July 1, 2016) was reduced by \$2,777 or 6.8%, the payment received in December 2016 (for January 1, 2017) was reduced by \$2,817 or 6.9%, the payment received April 2017 (for July 1, 2017) was reduced by \$2,817 or 6.9%, and the payment received in December 2017 (for January 1, 2018) was reduced by \$2,695 or 6.6%. The Internal Revenue Service has reported that the Authority's payment due on July 1, 2018 will also have a 6.6% reduction. There is uncertainty as to whether or not the Federal Government will make further cuts to the program.

Debt Portfolio

The Authority's bond portfolio at December 31, 2017 had a par value outstanding of \$10,983,105 as compared to \$10,626,155 at December 31, 2016 and \$10,786,921 at December 31, 2015. The par value of bonds increased in 2017 as compared to 2016 due to the continued issuance of Turnpike Revenue Bonds to finance the \$7 Billion CIP, partially offset by scheduled principle payments. While the overall total debt outstanding has increased since 2015, the percentage of fixed rate versus variable rate bonds has declined, as the Authority has solely issued fixed rate debt to finance the \$7 Billion CIP to avoid the risks associated with variable rate debt. As of December 31, 2017, total debt includes 88% of fixed rate bonds and only 12% of variable rate bonds, as compared to 86% of fixed rate bonds and 14% of variable rate bonds as of December 31, 2016 and 2015. These percentages are within the Authority's Guidelines, which limit variable rate bonds to 20% of total bonds outstanding.



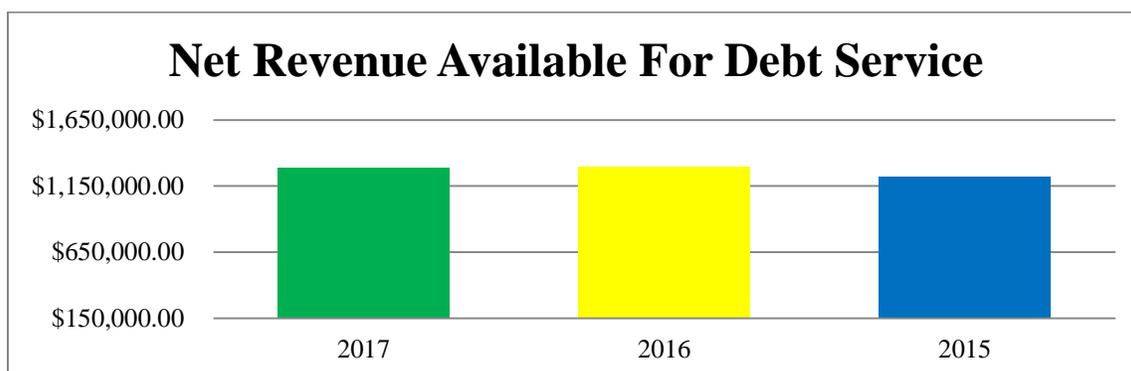
The Authority has been actively reducing the basis risk on its interest rate swap portfolio when possible over the past several years. Basis risk includes those variable rate bonds which have an interest rate index (either SIFMA or LIBOR) used to determine interest payments on the bonds which is different from the interest rate index (either SIFMA or LIBOR) used to calculate the variable payment received on the associated interest rate swap. At December 31, 2017, the Authority is not exposed to basis risk, as the Authority amended all interest rate swaps that had basis risk to receive a variable rate based on the same rate or index as the hedged variable rate debt. At December 31, 2016, the percentage of variable rate bonds bearing basis risk was reduced to 35% from 44% at December 31, 2015.

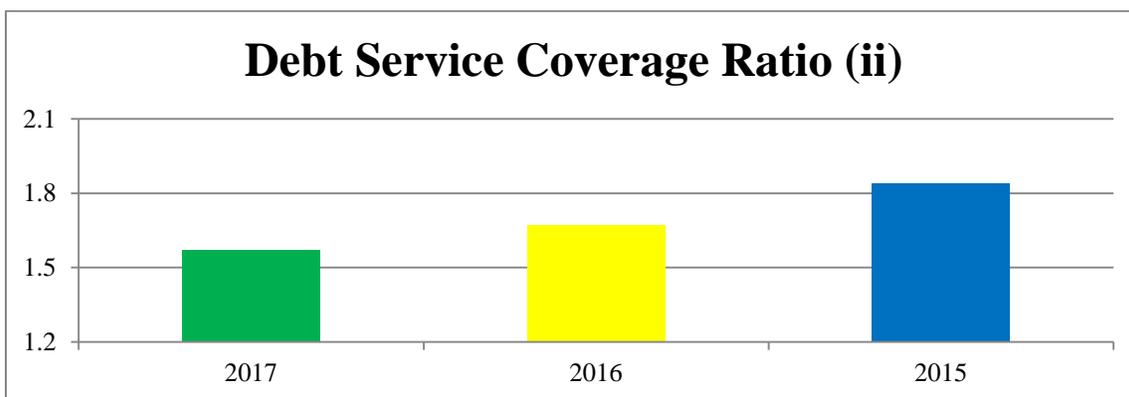
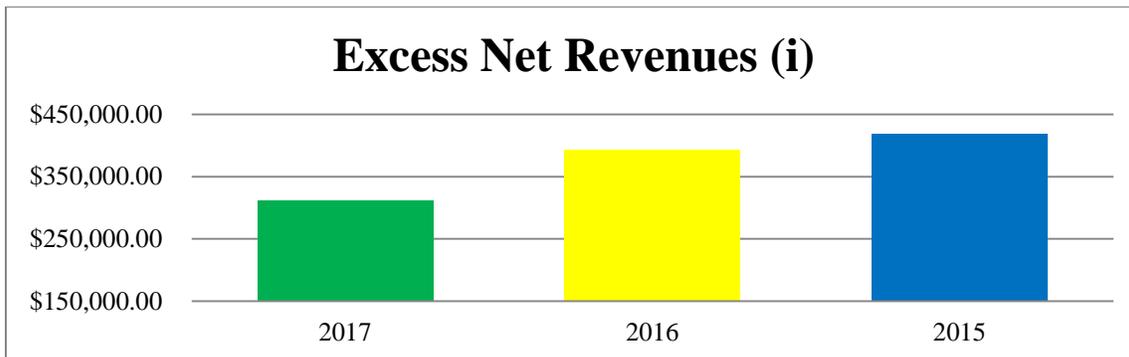


Debt Service Coverage

The Revenue Requirement under Section 713(b) of the Turnpike Revenue Bond Resolution states that in each calendar year, Net Revenues shall at least equal the Net Revenue Requirement for such year. The Net Revenue Requirement means with respect to any period of time, "an amount equal to the greater of (i) the sum of Aggregate Debt Service, Maintenance Reserve Payments, Special Project Reserve Payments and payments, if any, to the Charges Fund for such period or (ii) 1.20 times the Aggregate Debt Service for such period."

	<u>2017</u>	<u>2016</u>	<u>2015</u>
(i)			
Net revenue available for debt service	\$ 1,290,374	1,294,591	1,218,845
Less net revenue requirements (the sum of aggregate debt service, maintenance reserve, special project reserve and charges funds payments)	<u>(979,546)</u>	<u>(901,460)</u>	<u>(799,320)</u>
Excess net revenues	<u>\$ 310,828</u>	<u>393,131</u>	<u>419,525</u>
(ii)			
Net revenue available for debt service	\$ 1,290,374	1,294,591	1,218,845
Less net revenue requirements computed under test (120% of aggregate debt service requirements)	<u>(987,581)</u>	<u>(927,694)</u>	<u>(793,711)</u>
Excess net revenues	<u>\$ 302,793</u>	<u>366,897</u>	<u>425,134</u>
Net revenue available for debt service	<u>\$ 1,290,374</u>	<u>1,294,591</u>	<u>1,218,845</u>
Debt service requirements	<u>\$ 822,984</u>	<u>773,078</u>	<u>661,426</u>
Debt service coverage ratio	1.57	1.67	1.84

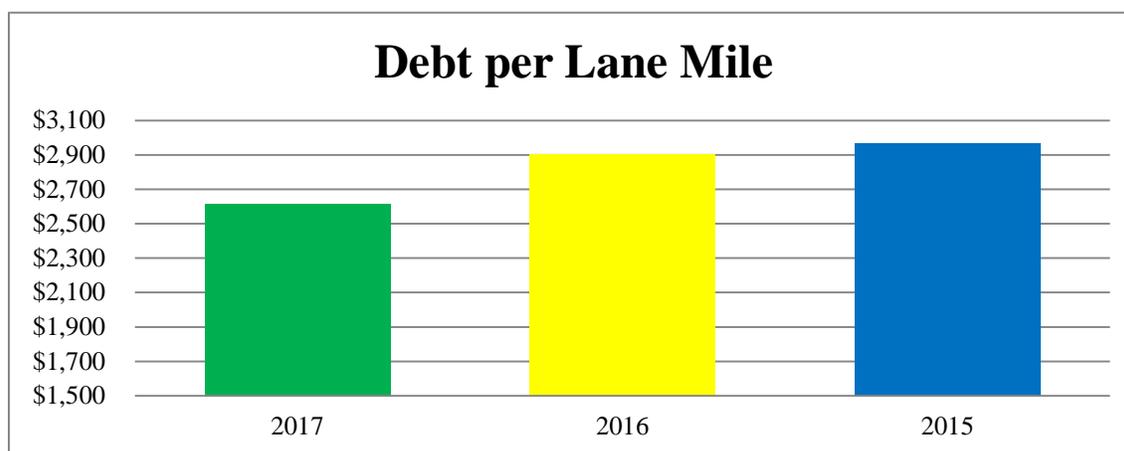




Net revenue available for debt service has slightly decreased in 2017 by \$4,217 to \$1,290,374 from \$1,294,591 in 2016. The primary reason for this decrease is an increase in operating expenses in 2017 primarily related to an increased spending on snow and severe weather events. The increase in operating expenses in 2017 is partially offset by the decrease in toll collection expense and increase in pledged revenues resulting in a marginal decrease in the net revenue available for debt service. Net revenue available for debt service significantly increased in 2016 by \$75,746 primarily due to the growth in toll revenue and the control of operating expenses. Excess net revenue and the debt service coverage ratio have gone down slightly in 2017 as compared to 2016, due mostly to an expected increase in the debt service requirements as a result of the higher interest costs from the continued financing of the Authority's \$7 Billion CIP. The slight decrease in the debt service coverage ratio had been projected, and the debt service coverage ratio in each of the three years 2015 – 2017 remains well above the 1.20x requirement of the Bond Resolution and the 1.40x target of the Guidelines.

Debt per Lane Mile – Debt per lane mile decreased by \$291 to \$2,612 in 2017 from \$2,903 in 2016 in spite of increase in bonds outstanding due to significant increase in the lane miles on both the roadways in 2017, from the addition of shoulder lane miles. The debt per lane mile decreased in 2016 to \$2,903 from \$2,966 in 2015 due to decrease in bonds outstanding on account of principal payments made in January 2016 on the Series 1991C, Series 2003B and Series 2013A Turnpike Revenue Bonds.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Bond indebtedness, net	\$ 11,610,729	11,071,121	11,251,163
Lane Miles (actual) – Turnpike	2,418	1,953	1,953
Lane Miles (actual) – Parkway	<u>2,028</u>	<u>1,861</u>	<u>1,840</u>
Total Lane Miles (actual)	<u>4,446</u>	<u>3,814</u>	<u>3,793</u>
Debt per Lane Mile – Authority	\$ 2,612	2,903	2,966



Contacting Authority's Financial Management

The purpose of this narrative and the attached exhibits was to assist the readers in obtaining a general overview of the Authority's business and finances. If you should have any questions about this report or need clarification on its contents, please contact the Chief Financial Officer of the New Jersey Turnpike Authority, P.O. Box 5042, Woodbridge, New Jersey 07095-5042 or via email at info@turnpike.state.nj.us.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Statements of Net Position

December 31, 2017 and 2016

(In thousands)

Assets	2017	2016
Current assets:		
Cash	\$ 183,707	202,305
Restricted cash	59,495	117,334
Investments	729,752	674,006
Restricted investments	733,905	645,411
Receivables, net of allowance	67,860	73,736
Inventory	23,075	22,692
Due from State of New Jersey	2,693	448
Restricted deposits	30,206	30,189
Prepaid expenses	9,079	4,650
Total current assets	<u>1,839,772</u>	<u>1,770,771</u>
Noncurrent assets:		
Restricted investments	759,208	440,753
Capital assets, net of accumulated depreciation	11,841,066	11,455,725
Total noncurrent assets	<u>12,600,274</u>	<u>11,896,478</u>
Total assets	<u>\$ 14,440,046</u>	<u>13,667,249</u>
Deferred Outflows		
Deferred outflows:		
Deferred amounts on refunding and derivative instruments	\$ 281,059	132,231
Deferred amount relating to pensions	110,378	156,574
Total deferred outflows	<u>\$ 391,437</u>	<u>288,805</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 151,458	172,155
Funds held in trust	233,344	239,720
Due to State of New Jersey	2,843	2,758
Accrued interest payable	247,828	268,050
Unearned revenue	15,320	30,466
Current portion of bonds payable	218,475	197,740
Current portion of hybrid instrument borrowing	24,649	21,546
Current portion of other long-term liabilities	5,949	6,209
Total current liabilities	<u>899,866</u>	<u>938,644</u>
Noncurrent liabilities:		
Bonds payable, net	11,392,254	10,873,381
Hybrid instrument borrowing	118,397	67,756
Other long-term liabilities	113,893	120,668
Other postemployment benefits liability	494,098	432,545
Interest rate swap liabilities	20,914	29,190
Net pension liability	438,493	561,453
Total noncurrent liabilities	<u>12,578,049</u>	<u>12,084,993</u>
Total liabilities	<u>\$ 13,477,915</u>	<u>13,023,637</u>
Deferred Inflows		
Deferred inflows:		
Accumulated increase in fair value of hedging derivatives	\$ 6,288	2,035
Deferred amount relating to pensions	99,267	12,073
Total deferred inflows	<u>\$ 105,555</u>	<u>14,108</u>
Net Position		
Net position:		
Net investment in capital assets	\$ 1,379,079	1,064,121
Restricted under trust agreements	242,544	221,811
Unrestricted	(373,610)	(367,623)
Total net position	<u>\$ 1,248,013</u>	<u>918,309</u>

See accompanying notes to basic financial statements.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2017 and 2016

(In thousands)

	2017	2016
Operating revenues:		
Toll revenue	\$ 1,579,896	1,570,662
E-ZPass fees	60,505	61,053
Concession revenue	35,591	38,192
Miscellaneous revenue	22,601	19,446
Total operating revenues	1,698,593	1,689,353
Operating expenses:		
Maintenance of roadway, buildings, and equipment	261,301	255,506
Toll collection	160,381	183,184
State police and traffic control	82,493	84,784
Technology	26,794	41,413
General administrative costs	53,911	50,582
Depreciation	304,989	301,120
Total operating expenses	889,869	916,589
Operating income	808,724	772,764
Nonoperating revenues (expenses):		
Build America Bonds subsidy	76,153	76,071
Federal and State reimbursements	2,764	9,287
Payments to the State of New Jersey	(232,500)	(294,000)
Interest expense, Turnpike Revenue Bonds	(421,913)	(319,192)
Other bond expenses	(7,584)	(1,043)
Loss on disposal of capital assets	—	(164)
Investment income	87,529	12,217
Arts Center	4,061	4,079
Total nonoperating revenues (expenses), net	(491,490)	(512,745)
Change in net position, before capital contribution	317,234	260,019
Capital contributions	12,470	—
Change in net position	329,704	260,019
Net position – beginning of year	918,309	658,290
Net position – end of year	\$ 1,248,013	918,309

See accompanying notes to basic financial statements.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

Years ended December 31, 2017 and 2016

(In thousands)

	2017	2016
Cash flows from operating activities:		
Receipts from customers and other operating activities	\$ 1,706,840	1,692,162
Payments to suppliers	(298,750)	(273,787)
Payments to employees	(178,187)	(157,809)
Payments for self-insured health benefit claims	(76,113)	(76,081)
Net cash provided by operating activities	1,153,790	1,184,485
Cash flows from noncapital financing activities:		
Receipts from Federal and State reimbursements	204	2,709
Payments to State of New Jersey	(232,500)	(294,000)
Proceeds from Arts Center	4,061	4,079
Net cash used in noncapital financing activities	(228,235)	(287,212)
Cash flows from capital and related financing activities:		
Proceeds acquired from new capital debt	3,217,519	344,312
Purchases and sales of capital assets, net	(592,719)	(801,089)
Principal paid on capital debt	(197,740)	(142,115)
Refunded capital debt	(2,525,615)	(343,686)
Proceeds from Build America Bonds subsidy	76,153	76,071
Interest paid on capital debt	(624,731)	(586,732)
Payments for bond expenses	(7,584)	(1,043)
Proceeds from capital contributions	12,470	—
Net cash used in capital and related financing activities	(642,247)	(1,454,282)
Cash flows from investing activities:		
Purchases of investments	(10,600,796)	(9,458,263)
Sales and maturities of investments	10,223,001	9,983,087
Interest received	18,050	14,704
Net cash (used in) provided by investing activities	(359,745)	539,528
Net decrease in cash	(76,437)	(17,481)
Cash and restricted cash – beginning of year	319,639	337,120
Cash and restricted cash – end of year	\$ 243,202	319,639
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 808,724	772,764
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	304,989	301,120
Changes in assets and liabilities:		
Receivables	6,191	15,241
Inventory	(383)	(2,587)
Prepaid expenses	(4,442)	(573)
Accounts payable and accrued expenses	(8,022)	19,407
Unearned revenue	(15,146)	(11,881)
Other liabilities	(8,251)	3,511
Other postemployment benefit liability	61,551	56,681
Net pension liability	(122,960)	126,438
Deferred outflows of resources related to pension	46,196	(91,148)
Deferred inflows of resources related to pension	87,194	(1,582)
Pollution remediation liability	(1,851)	(2,906)
Net cash provided by operating activities	\$ 1,153,790	1,184,485

See accompanying notes to basic financial statements.

(1) Organization

The New Jersey Turnpike Authority (the Authority) is a body corporate and politic organized and existing by virtue of the New Jersey Turnpike Authority Act of 1948, constituting Chapter 454 of the Laws of New Jersey of 1948, as amended and supplemented (the Act). The Authority is a public instrumentality exercising essential governmental functions. The Act authorizes the Authority to construct, maintain, repair, and operate transportation projects at locations established by law or by the Authority. Pursuant to the Act, the Authority has owned and operated the New Jersey Turnpike (the Turnpike) since the time the Turnpike opened for traffic in 1951. On May 27, 2003, the Act was amended. The amendment empowered the Authority, effective at the Transfer Date, which was July 9, 2003, to assume all powers, rights, obligations and duties of the New Jersey Highway Authority (the Highway Authority), which owned and operated the Garden State Parkway (the Parkway) and the PNC Bank Arts Center. As a result, the assets and liabilities of the Authority and the Highway Authority are now combined under the ownership and operation of the Authority and the Turnpike and Parkway now constitute the Turnpike System.

The Act also authorizes the Authority to fix and establish tolls for the use of the Turnpike System, and to issue Turnpike revenue bonds or notes of the Authority, subject to prior approval in writing from the Governor and from either or both the State Treasurer and the Director of the Division of Budget and Accounting of the Department of the Treasury, payable solely from tolls and other revenues of the Authority. Under the provisions of the Act, the Turnpike bonds or notes and the interest thereon shall not be deemed to constitute a debt or liability or a pledge of the faith and credit of the State or any political subdivision thereof.

The Authority has no stockholders or equity holders and all bond proceeds, revenues or other cash received must be applied for specific purposes in accordance with the provisions of the above Act and the Turnpike Revenue Bond Resolution of 1991 as amended, restated and supplemented (the Bond Resolution) for security of the bondholders. The Authority's Board of Commissioners is comprised of eight members as follows: the Commissioner of the New Jersey Department of Transportation, ex officio, or the Commissioner's designee; five members appointed by the Governor with the advice and consent of the Senate, and two members appointed by the Governor, one upon the recommendation of the President of the Senate and one upon the recommendation of the Speaker of the General Assembly. The Governor designates the chairman and vice chairman, who serve in these positions at the pleasure of the Governor and until their successors have been designated. As of December 31, 2017 and 2016, one seat was vacant.

Five members constitute a quorum and the vote of five members is necessary for any action taken by the Authority. The Act provides that the Governor shall have the right to veto any action of the Authority; however the Act prohibits the Governor or legislature from taking any actions that would impair the rights of Authority bondholders.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The Governmental Accounting Standards Board (GASB) establishes the criteria used in determining which organizations should be included in these financial statements. The GASB's Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, requires the inclusion of government organizations for which the Authority is financially accountable. Financial accountability is defined as:

1) appointment of a voting majority of the component unit's board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or 2) fiscal dependency on the primary government.

The Garden State Arts Foundation, Inc. (the Foundation) (see note 14) is included in the financial statements presented in accordance with accounting principles generally accepted in the United States of America as a blended component unit. Although legally separate from the Authority, the Foundation's members include the Commissioners of the Authority, who represent a voting majority of the Foundation's members. The Authority can impose its will upon the Foundation by virtue of the fact that the entirety of the Foundation's Board is comprised solely of Authority Board members.

Additionally, the Authority is a component unit of the State of New Jersey, and its financial statements are included in the State of New Jersey's Comprehensive Annual Financial Report as a discrete component unit.

(b) Basis of Accounting

The Authority's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues and expenses are accounted for as an enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

The Authority follows accounting principles generally accepted in the United States of America as prescribed by GASB.

(c) Capital Assets

Capitalization Policy

The cost to construct, acquire or replace an existing asset (or otherwise prolong the useful life of an existing asset) is capitalized under the Authority's capitalization policy. The capitalization threshold is \$50 and includes equipment valued over \$50 or any purchase related to a capital project whose project value exceeds \$50.

Capital assets are reported at cost, including all ancillary charges necessary to place the assets in their intended location and condition for use. If land is purchased, the capitalized amount includes the purchase price plus costs such as legal fees, filling, and excavation costs incurred to put the land in condition for its intended use. The capitalized amounts for building include both acquisition and capital improvement costs and net construction period interest.

An asset is deemed substantially complete when the structure or project is ready for the purpose for which it was constructed.

Depreciation Policy

In 2016, the Authority performed a study of the useful lives and revised the useful lives of certain asset categories on a prospective basis. Capital assets are depreciated using straight-line method over their estimated useful lives as follows:

Roadways:	
Road Bed	100 yrs
Road Surface	10 yrs
Sound Barriers	35 yrs
Retaining Walls	75 yrs
Concrete Surfaces and Barrier Curb	40 yrs
Bridges:	
Piers and Abutments	75 yrs
Deck	40-50 yrs
Spans	40-50 yrs
Major Bridge Repairs	20 yrs
Buildings	35-50 yrs
Equipment	3-50 yrs

(d) Investments

Investments are reported at fair value based on quoted market prices or other fair value measurement methods allowed by GASB Statement No. 72, *Fair Value Measurements and Application* (GASB 72). All investment income, including changes in the fair value of investments, is reported as non-operating revenue. For interest rate swap agreements which are considered ineffective under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) and classified as investments, investment income (loss) includes the fixed interest rate swap payments made to the counterparties, net of the variable payment received, and includes the changes in the fair value of the interest rate swap agreements

Investment Objectives

All investment decisions will meet the following requirements:

1. Safeguard and preserve the principal amount of invested funds.
2. Manage and maintain adequate liquidity to meet cash flow requirements, including bond payments.
3. Maintain demand bank balances at minimum levels consistent with sound operations.
4. Maximize the total rate of return on invested funds.

Authorized Investments – Investment Policy

The investment policies of the Authority are established in conformity with the Investment Policy adopted by the Board of Commissioners on September 24, 2013, which defines investment securities to mean any of the following securities legal for investment of the Authority's funds at the time of the purchase thereof:

- (a) Federal securities, which are (i) any direct and general obligations of, or any obligations guaranteed by, the United States of America, including but not limited to interest obligations of the Resolution Funding Corporation or any successor thereto, (ii) any obligations of any state or political subdivision of a state which bonds are fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holders of the bonds, (iii) certificates of ownership of the principal or interest of direct and general obligations of, or obligations guaranteed by, the United States of America, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System,
- (b) Bonds, debentures, notes or other evidences of indebtedness issued by any agency or instrumentality of the United States to the extent such obligations are guaranteed by the United States or by another such agency the obligations (including guarantees) of which are guaranteed by the United States,
- (c) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies:
 - Government National Mortgage Association (GNMA)
 - Federal Home Loan Mortgage Corporation (FHLMC)
 - Federal National Mortgage Association (FNMA)
 - Federal Home Loan Banks (FHLB)
 - Federal Land Banks
 - Federal Intermediate Credit Banks
 - Banks for Cooperatives
 - Tennessee Valley Authority
 - United States Postal Service
 - Farmers Home Administration
 - Export-Import Bank
 - Federal Financing Bank
 - Student Loan Marketing Association (SLMA);
- (d) Negotiable or non-negotiable certificates of deposit issued by any bank, trust company or national banking association, which certificates of deposit shall be continuously secured or collateralized by obligations described in subparagraphs (a), (b), and (c) above, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit.
- (e) Uncollateralized negotiable or non-negotiable certificates of deposit issued by any bank, trust company or national banking association, the unsecured obligations of which are rated in one of the two highest rating categories, without regard to rating

sub-categories, by Moody's Investors Service (Moody's) and Standard & Poor's (S&P).

- (f) Repurchase agreements collateralized by obligations described in subparagraphs (a), (b), and (c) above with any registered broker/dealer subject to the Securities Investors Protection Corporation jurisdiction, which has an uninsured, unsecured and unguaranteed obligation rated "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P, or any commercial bank with the above ratings provided:
 - (i) a master repurchase agreement or specific written repurchase agreement governs the transaction, which characterizes the transaction as a purchase and sale of securities.
 - (ii) the securities are held free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus, and undivided profits of not less than \$75,000, or (iii) a bank approved in writing for such purpose by each Credit Issuer, if any, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee,
 - (iii) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 CFR 306.1 et seq. or 31 CFR 350.0 et seq. or a successor provision in such securities is created for the benefit of the Trustee,
 - (iv) the repurchase agreement has a term of six month or less, or the Authority will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation,
 - (v) the repurchase agreement matures on or before a debt service payment date (or other appropriate liquidation period), and
 - (vi) the fair market value of the securities in relation to the amount of the repurchase obligation is equal to at least 100%.
- (g) Banker's acceptances, Eurodollar deposits and certificates of deposit (in addition to the certificates of deposit provided for by subparagraphs (d) and (e) above) of the domestic branches of foreign banks having a capital and surplus of \$1,000,000, or more, or any bank or trust company organized under the laws of the United States of America or Canada, or any state or province thereof, having capital and surplus, in the amount of \$1,000,000; provided that the aggregate maturity value of all such banker's acceptances and certificates of deposit held at any time as investment of funds under the Bond Resolution with respect to any particular bank, trust company or national association shall not exceed 5% of its capital and surplus; and provided further that any such bank, trust company, or national association shall be rated in one of the two highest rating categories, without regard to rating sub-categories, by both Moody's and S&P.

- (h) Other obligations of the United States of America or any agency thereof which may then be purchased with funds belonging to the State of New Jersey or which are legal investments for savings banks in the State of New Jersey.
- (i) Deposits in the New Jersey Cash Management Fund.
- (j) Obligations of any state, commonwealth or possession of the United States or a political subdivision thereof or any agency or instrumentality of such a state, commonwealth, possession or political subdivision, provided that at the time of their purchase such obligations are rated in either of the two highest rating categories by both Moody's and S&P.
- (k) Commercial paper with a maturity date not in excess of 270 days rated A1+ and P-1 by Moody's at the time of such investment, issued by an entity incorporated under the laws of the United States or any state thereof.

(e) ***Accounts Receivable***

Accounts receivable consist primarily of toll revenue due from commercial companies and other agencies, Federal Emergency Management Agency (FEMA) disaster assistance, charges and amounts due from individuals, and revenues receivable from operators of food and fuel concessions at the service plazas. Toll revenue accounts receivable from E-Z Pass postpaid commercial accounts are collateralized by either a surety bond or cash. Toll revenue accounts receivable from other E-Z Pass agencies are guaranteed under an E-Z Pass Group Agency Agreement (formerly known as Interagency Group Reciprocity Agreement). A reserve for uncollectible accounts receivable is established based on specific identification and historical experience.

Accounts receivable and allowance for doubtful accounts consist of the following as of December 31, 2017 and 2016:

	December 31	
	2017	2016
E-ZPass Group Agencies	\$ 35,411	37,696
FEMA	9,051	6,491
New Jersey E-Zpass Agencies	554	3,212
Total Government Receivables	<u>\$ 45,016</u>	<u>47,399</u>
NJ E-Zpass Customers (1)	\$ 5,622	29,706
Postpaid E-Zpass Customers (2)	13,653	7,160
Property Damage Claims	1,515	647
Accounts Receivable - Other	4,661	2,227
Allowance for Doubtful Accounts	(2,607)	(13,403)
Total Non-Governmental Receivables, Net	<u>22,844</u>	<u>26,337</u>
Total Accounts Receivables, Net	<u>\$ 67,860</u>	<u>73,736</u>

- (1) New Jersey E-ZPass customer accounts receivable are collateralized by cash deposits totaling \$901 at December 31, 2017 and \$10,096 at December 31, 2016.
- (2) Postpaid E-ZPass customer accounts receivable are collateralized by cash and/or surety bonds totaling \$22,229 at December 31, 2017 and \$22,349 at December 31, 2016.

(f) Supplies Inventory

Inventories are reported on an average cost basis. Inventories consist of rock salt/calcium chloride, operating supplies (materials to maintain the roadway and vehicles), E-Z Pass transponders, and fuel (gas and diesel).

Inventory consists of the following as of December 31, 2017 and 2016:

	December 31	
	2017	2016
Rock Salt - Calcium Chloride	\$ 9,187	10,883
Operating Supplies	6,945	8,058
E-ZPass Transponders	6,353	3,286
Fuel	590	465
	<u>\$ 23,075</u>	<u>22,692</u>

(g) Deposits

Deposits consist mainly of collateral deposits for owner controlled insurance programs for general liability and workers compensation claims related to the Authority's \$7 Billion Capital Improvement Program, deposits for various land acquisitions under eminent domain, and deposits for the Authority's self-funded health insurance.

(h) Net Capitalized Interest

Net Interest Costs on funds borrowed to finance the construction or acquisition of certain capital assets, during the period of construction or acquisition, are capitalized and depreciated over the life of the related assets placed in service. The Authority capitalized net interest expense of \$113,512 and \$211,694 during the years ended December 31, 2017 and 2016, respectively.

(i) Bonds Payable

Bonds payable consist of the total amount of outstanding bonds plus unamortized premiums and less unamortized discounts.

(j) Compensated Absences

The Authority accrues employees' unused sick leave and vacation time to be used at a later date or paid in cash upon termination or retirement from the Authority. The liability for sick leave is based on application dates and limits vary based upon the employee's specific contract and effective dates. The liability for unused vacation is calculated based on years of service, and the terms of the relevant labor agreement. The liability for both amounts is calculated based on the pay and salary rates in effect at the statement of net position date and was fully funded in 2017.

(k) Funds Held in Trust

Included in the December 31, 2017 and 2016 statements of net position is approximately \$26,139 and \$26,795, respectively, for amounts retained from contractors and engineers and approximately \$203,800 and \$210,300, respectively, received primarily from New Jersey E-Z Pass customers for E-Z Pass tag deposits and toll prepayments.

(l) Unearned Revenue

The Authority recognizes revenue when earned. Amounts received in advance of the periods in which related services are rendered are recorded as a liability. Unearned revenue includes advance payments from the Pennsylvania Turnpike Commission for its share of maintenance work on a jointly owned facility, and prepayment of rent by customers for the use of the Authority's fiber optic lines and communication towers.

(m) Deferred Outflows and Deferred Inflows of Resources

Deferred outflows include deferred amount on refunding and deferred amount relating to pensions. Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period.

Deferred inflows include change in fair value of hedging derivatives and deferred amount relating to pensions. Deferred inflows of resources are an increase in net position that is applicable to a future reporting period.

Accumulated decrease in fair value of hedging derivatives is resulting from the change due to deferred gain or loss and amortization of deferred gain or loss on interest rate swaps. Deferred amount on refunding is resulting from a loss in refinancing of debts due to a difference between the reacquisition price and the net carrying amount of the old debt and is amortized over the life of the related debt. Deferred outflows and deferred inflows of resources relating to pensions are reported for differences between expected or projected results compared to actual results related to the Authority's proportionate share in the cost sharing pension plan as well as changes in the Authority's proportion of the plan from the prior period.

(n) Net Position

Net position is displayed in three components as follows:

Net investment in capital assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted under trust agreements – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources when they are needed.

Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

(o) Toll Revenue

Revenues from tolls are recognized in the period earned except for tolls collected through the violation enforcement process which are recognized when received. Pursuant to the provisions of the Bond Resolution, the Authority has covenanted to charge and collect such tolls as are required in order that in each calendar year net revenue shall at least equal the net revenue requirement under the aforementioned resolution. The Act authorizes the Authority to set tolls subject to prior approval in writing from the Governor and from either or both the State Treasurer and the Director of Budget and Accounting of the Department of the Treasury. The Act further provides that the powers conferred upon the Governor and the Treasurer of the State described shall be exercised with due regard for the rights of the holders of bonds of the Authority at any time outstanding, and nothing in, or done pursuant to, the Act shall in any way limit, restrict or alter the obligation or powers of the Authority or officer of the Authority to carry out and perform in every detail each and every covenant, agreement or contract at any time made or entered into by or on behalf of the Authority with respect to its bonds or for the benefit, protection or security of the holders thereof.

(p) E-Z Pass Fees

E-Z Pass fees consist of the Authority's share of fees and charges generated from the operation of the New Jersey E-Z Pass Customer Service Center. This Customer Service

Center is currently operated on behalf of the New Jersey Turnpike Authority, South Jersey Transportation Authority, Delaware River Port Authority, Delaware River Bay Authority, the Burlington County Bridge Commission and the Delaware River Joint Toll Bridge Commission by Conduent Inc., (formerly known as Xerox State and Local Solutions, Inc.). The fees and charges consist primarily of the monthly membership fee charged to New Jersey E-Z Pass account holders and the administrative fee collected from toll evaders. In addition, other fees are charged to E-Z Pass account holders for such items as monthly statement delivery, transponders sales, lost and stolen transponders and returned checks. Revenue is also generated from allowing certain parking lots to accept E-Z Pass as payment and interest on prepaid and tag deposit account balances. For financial reporting purposes, fees and charges are recognized when earned for all but administrative fees which are recognized when received from the patrons.

(q) *Classification of Revenues over Expenses*

The Authority has classified its revenues and expenses as either operating or non-operating.

Operating revenues include activities that have the characteristics of exchange transactions including tolls, E-Z Pass fees, rental fees received from concessionaires, and miscellaneous operating revenues. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as the Build America Bonds subsidy and investment income.

Operating expenses include the costs of operating and maintaining the toll roads, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as non-operating expenses.

(r) *Income Taxes*

The Authority is exempt from federal income taxes under the Internal Revenue Code Section 115 and from state income taxes under N.J.S.A. 27:25-16. Accordingly, no provision is recorded for federal and state income taxes.

(s) *Pension and Other Postemployment Benefits*

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), establishes standards for the measurement and reporting of the proportionate share of the net pension liability and pension expense. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension expense, information about the fiduciary net position of the State of New Jersey Public Employees' Retirement System (PERS) and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value (note 11).

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), establishes standards for the measurement, recognition, and display of OPEB and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the

financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g., life insurance) when provided separately from a pension plan (note 12).

(t) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(u) Capital Contributions

Capital contributions include funding from outside sources, including state and local governments, agencies and authorities for highway, bridge and other capital improvement projects. In 2017, the Authority received \$12,470 as capital contributions from outside sources as partial funding for capital projects. These projects primarily include improvements to the roadway infrastructure in the area of Interchange 125 on the Parkway, noise barrier construction in the vicinity of State Highway Route 18 near Turnpike Interchange 9 and or improvements to the shoulders of the Newark Bay Hudson County Extension on the Turnpike. In 2016, there were no capital contributions.

(v) Accounting Pronouncements Issued but Not Yet Effective

In June 2015, the GASB issued Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive disclosures and required supplementary information. GASB 75 will be effective for periods beginning after June 15, 2017, which for the Authority is the year ended December 31, 2018. The Authority is currently evaluating the impact of this new statement.

(w) Reclassification

Certain prior year amounts have been reclassified to conform with the current year's presentation.

(3) Cash and Investments

The New Jersey Turnpike Authority is authorized to engage in investment activity pursuant to the Act, and the Bond Resolution. Specific investment policies and practices are set forth in certain sections of the Authority's Investment Policy adopted on September 24, 2013. These guidelines are adhered to by the Authority's Finance Department when making day-to-day investment decisions. The Authority principally invests in securities of United States agencies, highly rated commercial paper, demand accounts, certificates of deposit, and

repurchase agreements. According to management, the Authority is not in violation of any provisions of its Investment Policy.

(a) Cash

All moneys held under the Bond Resolution, except amounts held by the Trustee or amounts which constitute investment securities, shall be continuously and fully secured by pledging, as collateral security, direct obligations of or obligations guaranteed by the United States of America having a fair value not less than the amount of such moneys.

The total cash carrying amount as of December 31, 2017 and 2016 is \$243,202 and \$319,639, respectively. The actual amount of cash on deposit in all bank accounts as of December 31, 2017 and 2016 was \$219,922 and \$302,880, respectively. Authority accounts had a book balance as of December 31, 2017 and 2016 of \$242,576 and \$318,839, respectively, actual cash on deposit of \$219,141 and \$302,065, respectively, and are collateralized by pledged securities totaling \$233,489 and \$312,567, respectively, held in the Authority's name by the Authority's financial institutions or its agents. The Foundation's cash balance as of December 31, 2017 and 2016 includes a book balance of \$626 and \$800, respectively. The actual amount of cash on deposit in the Foundation's bank accounts as of December 31, 2017 and 2016 was \$781 and \$815, respectively, of which \$510 and \$610, respectively, was insured by the Federal Deposit Insurance Corporation (FDIC) and \$271 and \$205, respectively, which was not insured or collateralized.

(b) Investments

All securities, other than securities held by the respective trustees for the benefit of the bondholders, are held by the Authority. All investment transactions are recorded on a transaction date basis.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for an asset or liability

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

While the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to

determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following is a description of the valuation methodologies used for instruments measured at fair value:

- Certificates of deposit - The fair value of certificates of deposits and repurchase agreements are based on matrix pricing based on the securities' relationship to benchmark quoted prices.
- Commercial paper and Time deposit - The fair value is based on model-derived pricing based on the securities' purchase cost and date.
- Federal agency notes and U.S. Treasury bills – The fair value of federal agency notes and U.S. treasury bills are based on quoted prices for identical securities in markets that are not active or quoted prices for similar securities in active markets.
- Derivative instruments - The Authority's interest rate swaps are recorded at fair value and are classified as Level 2 of the fair value hierarchy. The swaps are valued using a market approach which calculates the discounted future net settlement payments based on current forward rates implied by the yield curve on the valuation date. The fair values of the swaps reflect the effect of nonperformance risk which includes, but may not be limited to the Authority's own credit risk. As of December 31, 2017, the derivative instrument is considered effective and is no longer reported within the investment balance of the Authority.

The Authority's investments as of December 31, 2017 and 2016 are summarized in the following tables by their fair value hierarchy:

	December 31, 2017		
	Total	Level 1	Level 2
Investments measured at fair value:			
Certificates of deposit	\$ 490,897	—	490,897
Commercial paper	658,242	—	658,242
Federal agency notes	710,954	200,155	510,799
U.S. Treasury bills	312,412	312,412	—
Time deposit	50,360	—	50,360
Total investments	<u>\$ 2,222,865</u>	<u>512,567</u>	<u>1,710,298</u>

December 31, 2016			
	Total	Level 1	Level 2
Investments measured at fair value:			
Certificates of deposit	\$ 490,778	—	490,778
Commercial paper	301,988	—	301,988
Federal agency notes	869,573	158,300	711,273
U.S. Treasury bills	177,768	177,768	—
Derivative instrument	(79,937)	—	(79,937)
Total investments	<u>\$ 1,760,170</u>	<u>336,068</u>	<u>1,424,102</u>

Investment Maturity

The Authority's Investment Policy specifies maximum maturity limits by Bond Resolution Fund and by type of investment. At the time of purchase, the maturity of each security in the portfolio may not exceed the following maximum timeframes for the respective fund in which the investment is made. The maximum maturity will take into account any call, put, prepayment or other features that may impact maturity. All investments mature no later than necessary to provide moneys when needed for payments to be made from such funds.

- Revenue Funds – 1 year (by Bond Resolution)
- Construction Funds – 5 years (by Authority Policy)
- Maintenance Reserve Fund – 2 years (by Bond Resolution)
- Special Projects Reserve Fund – 2 years (by Bond Resolution)
- General Reserve Fund – 3 years (by Bond Resolution)
- Debt Service Fund – 1 year (by Authority Policy)
- Charges Fund – 3 months (by Authority Policy)
- Debt Reserve Fund – 5 years (by Bond Resolution)

The Authority's Investment Policy limits the maturity of commercial paper investments to 270 days. There is no other specific maturity limit for other types of Investment Securities; however the maturities are limited by Bond Resolution Fund as noted above.

Investments are generally purchased with the intent of holding to maturity, but the Chief Financial Officer, or designee, has the flexibility to restructure and rebalance portfolio holdings to manage risk and take advantage of market opportunities.

As of December 31, 2017 and 2016 the Authority had the following investments by their maturity date range:

Investment type	December 31, 2017			
	Fair value	Investment maturities		
		Less than 1 year	1-5 years	Over 5 years
Investments:				
Certificates of deposit	\$ 50,329	50,329	—	—
Commercial paper	371,200	371,200	—	—
Federal agency notes	182,379	182,379	—	—
U.S. Treasury bills	125,844	125,844	—	—
Total investments	729,752	729,752	—	—
Restricted investments held by trustee:				
Certificates of deposit	344,760	11,164	333,596	—
Commercial paper	137,452	137,452	—	—
Federal agency notes	348,361	348,361	—	—
U.S. Treasury bills	186,568	186,568	—	—
Time deposit	50,360	50,360	—	—
Total restricted investments held by trustee	1,067,501	733,905	333,596	—
Restricted investments held by Authority:				
Certificates of deposit	95,808	95,808	—	—
Commercial paper	149,590	149,590	—	—
Federal agency notes	180,214	180,214	—	—
Total restricted investments held by Authority	425,612	425,612	—	—
Total investments	\$ 2,222,865	1,889,269	333,596	—

Note: Table includes \$7,901 of accrued interest, and Federal agency notes include \$173 in unrealized loss for the year ended December 31, 2017.

- (1) Included in investments above at December 31, 2017 is \$10,747 the Authority has designated as reserved for national toll interoperability requirements under Federal Law P.L. 112-131, the Moving Ahead for Progress in the 21st Century Act (Map-21) (\$10,500), and emergency maintenance work (\$247). In 2017, the amount reserved for the \$7 Billion Capital Improvement Program was spent resulting in a reduction in investments of \$20,000.

Investment type	December 31, 2016			
	Fair value	Investment maturities		
		Less than 1 year	1–5 years	Over 5 years
Investments:				
Certificates of deposit	\$ 80,313	80,313	—	—
Commercial paper	150,909	150,909	—	—
Federal agency notes	277,011	277,011	—	—
U.S. Treasury bills	165,773	165,773	—	—
Total investments	674,006	674,006	—	—
Restricted investments held by trustee:				
Certificates of deposit	335,361	27,539	307,822	—
Commercial paper	151,079	151,079	—	—
Federal agency notes	571,567	466,793	104,774	—
Total restricted investments held by trustee	1,058,007	645,411	412,596	—
Restricted investments held by Authority:				
Certificates of deposit	75,104	75,104	—	—
Federal agency notes	20,995	20,995	—	—
U.S. Treasury bills	11,995	11,995	—	—
Total restricted investments held by Authority	108,094	108,094	—	—
Restricted investments:				
Derivative instruments	(79,937)	—	—	(79,937)
Total investments	\$ 1,760,170	1,427,511	412,596	(79,937)

Note: Table includes \$3,112 of accrued interest, and \$0.4 of unamortized premium and discount on investments for the year ended December 31, 2016. Federal agency notes include \$347 in unrealized loss for the year ended December 31, 2016.

- (1) Included in investments above at December 31, 2016 is \$32,288 the Authority has designated as reserved for national toll interoperability requirements under Federal Law P.L. 112-131, the Moving Ahead for Progress in the 21st Century Act (Map-21) (\$10,500), the \$7 billion capital program (\$20,000) and emergency maintenance work (\$1,788). In 2016 the Grover Cleveland Service Area project was completed, resulting in a reduction in investments by \$5,075.

During 2017, the Authority amended the variable rate received on its derivative instrument previously considered an investment under GASB 53. Since the variable rate received is now based on the same index as the interest rate on the hedged bonds, the derivative instrument is now considered effective under GASB 53 and is no longer reported within the investment balance of the Authority (note 7).

The Authority's investment portfolio is subject to the following risks:

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's Investment

Policy sets maximum maturity limits for investments and requires that investment maturities are matched to the Authority's liquidity needs. At the time of purchase, the maturity of each security in the portfolio may not exceed the following maximum timeframes for the respective fund in which the investment is made in accordance with the Bond Resolution or Authority policy.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, and collateral requirements that vary according to the type of investment as defined in the Authority's Investment Policy. The Authority's Investment Policy states that all investments ratings shall be based on security ratings at the time of purchase. In the event of a downgrade in rating, the Chief Financial Officer, or designee, will determine whether to sell or hold the investment. The Authority will not make an investment in an issuer who has a negative outlook associated with their credit rating, except for US Treasury or Federal Agencies. The portfolio's average credit quality should be rated Aa3/AA- or better by Moody's/S&P. In addition, certain investment securities require collateral posting requirements as outlined in note 2.

As of December 31, 2017 and 2016, the Authority's investment quality ratings as rated by Standard & Poor's and Moody's were as follows:

December 31, 2017				
Standard and Poor's/Moody's				
ratings				
	A-1+/P-1	**A-1/P-1	AA+/Aaa	Totals
Commercial paper	\$ 639,869	18,373	—	658,242
Federal agency notes	606,006	—	104,948	710,954
U.S. Treasury bills	312,412	—	—	312,412
	<u>\$ 1,558,287</u>	<u>18,373</u>	<u>104,948</u>	<u>1,681,608</u>

**At the time of the purchase, GE Capital (the Issuer) was rated A-1+/P-1 in accordance with the Authority's Bond Resolution. In December 2017, the Issuer was downgraded to A-1/P-1. The investment for this Issuer matured on January 2, 2018.

December 31, 2016				
Standard and Poor's/Moody's				
ratings				
	A-1+/P-1	AA+/Aaa	Totals	
Commercial paper	\$ 301,988	—	301,988	
Federal agency notes	764,800	104,773	869,573	
U.S. Treasury bills	177,768	—	177,768	
	<u>\$ 1,244,556</u>	<u>104,773</u>	<u>1,349,329</u>	

Custodial credit risk: For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of the Authority.

The Authority manages custodial credit risk by limiting its investments to highly rated institutions, having its investments registered in its name, and requiring high quality collateral be held by the counterparty in the name of the Authority for certain investment securities. As of December 31, 2017 and 2016, the Authority was not exposed to custodial credit risk on its investment securities.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer that exceeds 5% or more of its total investments. Concentration limits are established in the Authority's Investment Policy as follows:

There are no limitations on investments carrying the full faith and credit of the United States Government, including repurchase agreements collateralized by such investments;

- (a) Investments in any single Federal Agency not carrying the full faith and credit of the United States Government are limited to 40% of the portfolio;
- (b) Investments in Certificates of Deposit are limited to 30% of the portfolio;
- (c) Investments made in Commercial Paper are limited to 30% of the total portfolio;
- (d) Investments in Municipal securities are limited to 30% of the total portfolio;
- (e) Investments in any one single issuer (excluding US Treasury and Federal Agency securities) are limited to 5% of the portfolio.

The Investment Policy authorizes the management to deviate from the policy if it is in the general best interest of the Authority. At December 31, 2017, the Authority exceeded its concentration limits for a single issuer with U.S. Bank and Toyota Motor Credit Corp. due to a scarcity of highly rated investments available in current market conditions. At December 31, 2016, the Authority exceeded its concentration limits for a single issuer with U.S. Bank, Toyota Motor Credit Corp. and Toronto Dominion Bank N.A. due to a scarcity of highly rated investments available in current market

conditions. More than 5% of the Authority's investments are concentrated in the following issuers as of December 31, 2017 and 2016, respectively:

Issuer	December 31	
	2017	2016
U.S. Bank	9.9%	11.6%
Federal National Mortgage Association	N/A	6.4
Federal Home Loan Mortgage Corp	6.8	10.2
Federal Home Loan Bank	17.4	32.8
Toyota Motor Credit Corp.	6.8	8.8
U.S. Treasury	14.4	10.1
Toronto Dominion Bank N.A.	N/A	5.9

(4) Capital Assets

Capital assets consist of land, construction in progress, infrastructure, buildings, and equipment. Infrastructure assets are typically items that are immovable, such as highways and bridges. These assets are capitalized as per the Authority's capitalization policy and depreciated as per the depreciation policy. The schedule below shows a summary of changes in the capital assets as of December 31, 2017 and 2016 is as follows:

Classification	December 31, 2016	Additions	Retirements/ transfers	December 31, 2017
Nondepreciable capital assets:				
Land	\$ 830,612	1,848	—	832,460
Construction-in-progress	1,258,316	688,484	(384,840)	1,561,960
Total nondepreciable capital assets	2,088,928	690,332	(384,840)	2,394,420
Depreciable capital assets:				
Roadways	5,668,995	84,786	—	5,753,781
Bridges	4,967,830	121,791	—	5,089,621
Buildings	761,004	80,244	—	841,248
Equipment	1,434,250	98,019	—	1,532,269
Total depreciable capital assets	12,832,079	384,840	—	13,216,919
Total capital assets	14,921,007	1,075,172	(384,840)	15,611,339
Less accumulated depreciation:				
Roadways	(1,487,714)	(122,835)	—	(1,610,549)
Bridges	(1,159,339)	(100,455)	—	(1,259,794)
Buildings	(265,902)	(15,858)	—	(281,760)
Equipment	(552,327)	(65,843)	—	(618,170)
Total accumulated depreciation	(3,465,282)	(304,991)	—	(3,770,273)
Capital assets, net	\$ 11,455,725	770,181	(384,840)	11,841,066

<u>Classification</u>	<u>December 31, 2015</u>	<u>Additions</u>	<u>Retirements/ transfers</u>	<u>December 31, 2016</u>
Nondepreciable capital assets:				
Land	\$ 824,797	5,979	(164)	830,612
Construction-in-progress	<u>2,521,406</u>	<u>949,939</u>	<u>(2,213,029)</u>	<u>1,258,316</u>
Total nondepreciable capital assets	<u>3,346,203</u>	<u>955,918</u>	<u>(2,213,193)</u>	<u>2,088,928</u>
Depreciable capital assets:				
Roadways	4,578,349	1,090,646	—	5,668,995
Bridges	4,297,766	670,064	—	4,967,830
Buildings	504,279	256,725	—	761,004
Equipment	<u>1,238,656</u>	<u>195,594</u>	<u>—</u>	<u>1,434,250</u>
Total depreciable capital assets	<u>10,619,050</u>	<u>2,213,029</u>	<u>—</u>	<u>12,832,079</u>
Total capital assets	<u>13,965,253</u>	<u>3,168,947</u>	<u>(2,213,193)</u>	<u>14,921,007</u>
Less accumulated depreciation:				
Roadways	(1,366,754)	(120,960)	—	(1,487,714)
Bridges	(1,060,124)	(99,215)	—	(1,159,339)
Buildings	(254,563)	(11,339)	—	(265,902)
Equipment	<u>(482,721)</u>	<u>(69,606)</u>	<u>—</u>	<u>(552,327)</u>
Total accumulated depreciation	<u>(3,164,162)</u>	<u>(301,120)</u>	<u>—</u>	<u>(3,465,282)</u>
Capital assets, net	<u>\$ 10,801,091</u>	<u>2,867,827</u>	<u>(2,213,193)</u>	<u>11,455,725</u>

(5) Accounts Payable and Accrued Expenses

Accounts payable consist of amounts owed to vendors for goods and services related to the operation and maintenance of the Turnpike System, and amounts owed to vendors related to work performed and materials supplied for capital projects. Accrued expenses include accrued pension expense related to the State of New Jersey PERS plan, representing the pension expense for 18 months (July 1, 2016 – December 31, 2017) which by under the current funding method has not yet been invoiced by PERS, accrued salaries and benefits earned by employees, and other accrued expenses which primarily include the inventory receipt accruals.

A summary of the accounts payable and accrued expenses as of December 31, 2017 and 2016 is as follows:

	December 31	
	2017	2016
Vendors – operations and maintenance	\$ 42,054	53,979
Vendors – capital expenditures	69,919	81,625
Accrued expenses – pension	25,667	24,753
Accrued salaries and benefits	11,933	9,998
Accrued expenses - other	1,885	1,800
Total	<u>\$ 151,458</u>	<u>172,155</u>

(6) **Bond Indebtedness**

As of December 31, 2017 and 2016, bond indebtedness consisted of the following:

	Interest rate	Maturity	December 31	
			2017	2016
Turnpike revenue bonds:				
Series 2000B-G , subject to mandatory redemption Jan. 1, 2021 and Jan. 1, 2030 and optional redemption prior to maturity in whole or part at redemption price of 100% plus accrued interest	Variable rate not to exceed 10.00% (1.26% to 1.49% at Dec. 31, 2016);	Jan. 1, 2030	\$ —	400,000
Series 2004C-2 , not subject to optional redemption prior to maturity	5.50%	Jan. 1, 2025	132,850	132,850
Series 2005A , not subject to optional redemption prior to maturity	5.25%	Jan. 1, 2026 through Jan. 1, 2030	173,650	173,650
Series 2005B , (Federally Taxable), not subject to optional redemption prior to maturity	4.81%	Jan. 1, 2019	32,500	32,500
Series 2005D1-D4 , (Federally Taxable Converting to Tax-Exempt) convertible to tax-exempt on Jan. 1, 2009 through Jan. 1, 2013, not subject to optional redemption	5.25%	Jan. 1, 2026	208,735	208,735
Series 2009E , subject to optional redemption prior to maturity on/after Jan. 1, 2019 in whole or in part	5.25%	Jan. 1, 2040	—	300,000
Series 2009F , Term Bond, Federally redemption prior to maturity at make-whole redemption price, subject to mandatory redemption on Jan. 1, 2037 through Jan. 1, 2040	7.41%	Jan. 1, 2040	1,375,000	1,375,000
Series 2009G , not subject to redemption prior to maturity	5.00%	Jan. 1, 2018	19,125	34,770
Series 2009H , subject to optional redemption prior to maturity on/after Jan. 1, 2019 in whole or part at redemption price plus 100% accrued interest	5.00% and 4.25%	Jan. 1, 2020	36,695	306,170

	<u>Interest rate</u>	<u>Maturity</u>	<u>December 31</u>	
			<u>2017</u>	<u>2016</u>
Series 2009I , subject to optional redemption prior to maturity on/after Jan. 1, 2020 in whole or part at redemption price plus 100% accrued interest	5.00%	Jan. 1, 2031	\$ —	32,215
Subject to optional redemption prior to maturity on/after Jan. 1, 2020 in whole or part at redemption price plus 100% accrued interest, subject to mandatory redemption on Jan. 1, 2032 through Jan. 1, 2035	5.00%	Jan. 1, 2035	—	145,790
Series 2010A , Federally Taxable – Issuer Subsidy Build America Bonds, subject to optional redemption prior to maturity at make-whole redemption price. Subject to mandatory redemption on Jan. 1, 2035 through Jan. 1, 2041	7.10%	Jan. 1, 2041	1,850,000	1,850,000
Series 2012A , subject to optional redemption prior to maturity on/after Jan. 1, 2022 in whole or in part	3.63% to 5.00%	Jan. 1, 2031 & Jan. 1, 2033	15,000	80,740
Subject to mandatory redemption on Jan. 1, 2034 and 2035	5.00%	Jan. 1, 2035	—	60,515
Series 2012B , not subject to optional redemption prior to Jan. 1, 2023	5.00%	Jan. 1, 2019 through Jan. 1, 2023	329,250	329,250
Subject to optional redemption in whole or in part on any date on/after Jan. 1, 2023	3.50% to 5.00%	Jan. 1, 2024 through Jan. 1, 2030	475,185	475,185
Series 2013A , not subject to optional redemption prior to Jan. 1, 2023	3.00% to 5.00%	Jan. 1, 2016 through Jan. 1, 2023	31,805	73,365
subject to optional redemption on/after Jul. 1, 2022	3.00% to 5.00%	Jan. 1, 2024 through Jan. 1, 2043	285,645	1,321,685
Series 2013B , not subject to optional redemption prior to maturity	Variable 1.61% at Dec 31, 2017 1.06% at Dec 31, 2016	Jan. 1, 2018	52,500	100,000
Series 2013C , not subject to optional redemption prior to maturity	Variable 1.20% at Dec 31, 2016	Jan. 1, 2017	—	129,500
	2.26% at Dec 31, 2017 1.27% at Dec 31, 2016	Jan. 1, 2018	141,500	141,500
Series 2013D-3 , subject to optional redemption Jul. 1, 2017 and mandatory tender Jan. 1, 2018	Variable 1.40% at Dec 31, 2016	Jan. 1, 2024	—	77,625

	Interest rate	Maturity	December 31	
			2017	2016
Series 2013E-3 , subject to optional redemption Jul. 1, 2017 and mandatory tender Jan. 1, 2018	Variable 1.40% at Dec 31, 2016	Jan. 1, 2024	\$ —	51,750
Series 2013F , subject to optional redemption prior to maturity on/after Jan. 1, 2023 in whole or part	3.00% to 5.00%	Jan. 1, 2026 through Jan. 1, 2035	90,880	90,880
Series 2014A , subject to optional redemption prior to maturity on/after July. 1, 2024 in whole or part	4.00% to 5.00%	Jan. 1, 2027 through Jan. 1, 2035	1,000,000	1,000,000
Series 2014B-3 , subject to optional redemption Jul. 1, 2017 and mandatory tender Jan. 1, 2018 mandatory redemption 2022, 2023, 2024	Variable 0.98% at Dec 31, 2016	Jan. 1, 2024	—	50,000
Series 2014C , not subject to optional redemption prior to maturity	5.00%	Jan. 1, 2019 through Jan. 1, 2025	201,860	201,860
Series 2015A , subject to optional redemption in whole or part, on/after Jan. 1, 2016	Variable 1.69 at Dec. 31, 2017 1.19 at Dec. 31, 2016	Jan. 1, 2024	92,500	92,500
Series 2015B , subject to optional redemption in whole or part, on/after Feb. 1, 2017, mandatory tender Jan. 1, 2020	Variable 1.47% at Dec. 31, 2017 0.91% at Dec. 31, 2016	Jan. 1, 2024	50,000	50,000
Series 2015C , subject to optional redemption in whole or part, on/after Jan. 1, 2017	Variable 1.61% at Dec 31, 2017 1.11% at Dec 31, 2016	Jan. 1, 2024	43,750	43,750
Series 2015D , subject to optional redemption in whole or part, on/after Jan. 1, 2017	Variable 1.61% at Dec 31, 2017 1.11% at Dec 31, 2016	Jan. 1, 2024	43,750	43,750
Series 2015E , subject to optional redemption prior to maturity on/after Jan. 1, 2025 in whole or part	3.375% to 5.00%	Jan. 1, 2031 through Jan. 1, 2045	750,000	750,000
Series 2015F , subject to optional redemption in whole or part, on/after Jan. 1, 2017	Variable 1.77% at Dec 31, 2017 1.17% at Dec 31, 2016	Jan. 1, 2022	72,350	72,350
Series 2015G , subject to optional redemption in whole or part, on/after Jan. 1, 2017	Variable 1.69% at Dec 31, 2017 1.14% at Dec 31, 2016	Jan. 1, 2024	25,000	25,000
Series 2015H , subject to optional redemption in whole or part, on/after Jan. 1, 2017	Variable 1.65% at Dec 31, 2017 1.15% at Dec 31, 2016	Jan. 1, 2022	48,235	48,235
Series 2016A , subject to optional redemption in whole or part, on/after	3.13% to 5.00%	Jan. 1, 2031 through Jan. 1, 2035	149,995	149,995

	Interest rate	Maturity	December 31	
			2017	2016
Series 2016B , subject to optional redemption in whole or part, on/after Jan. 1, 2018	Variable 1.73% at Dec 31, 2017 1.17% at Dec 31, 2016	Jan. 1, 2023	\$ 75,025	75,025
Series 2016C , subject to optional redemption in whole or part, on/after Jan. 1, 2018	Variable 1.73% at Dec 31, 2017 1.17% at Dec 31, 2016	Jan. 1, 2023	50,015	50,015
Series 2016D , subject to optional redemption in whole or part, on/after Jan. 1, 2018	Variable 1.74% at Dec 31, 2017 1.18% at Dec 31, 2016	Jan. 1, 2024	50,000	50,000
Series 2017A , subject to optional redemption prior to maturity on/after Jan. 1, 2027 in whole or part	3.50% to 5.00%	Jan. 1, 2027 through Jan. 1, 2036	600,000	—
Series 2017B , subject to optional redemption in whole or part, on/after Jan. 1, 2028	4.00% to 5.00%	Jan. 1, 2025 through Jan. 1, 2040	646,765	—
Series 2017C1-6 , not subject to redemption prior to maturity Subject to optional redemption prior on/after Jul. 1, 2020 in whole or part mandatory tender Jan. 1, 2021 Subject to optional redemption prior on/after Jul. 1, 2022 in whole or part mandatory tender Jan. 1, 2023	Variable (1.29% to 1.70% at Dec. 31, 2017);	Jan. 1, 2021 through Jan. 1, 2024 Jan. 1, 2028 Jan. 1, 2030	134,875 150,000 115,125	— — —
Series 2017D1-4 , not subject to redemption prior to maturity	Variable (1.43% to 1.65% at Dec. 31, 2017);	Jan. 1, 2022 through Jan. 1, 2024	179,375	—
Series 2017E , subject to optional redemption in whole or part, on/after Jan. 1, 2028	5.00%	Jan. 1, 2024 through Jan. 1, 2033	359,680	—
Series 2017F , subject to optional redemption in whole or part, on any date	2.14% to 3.729%	Jan. 1, 2019 through Jan. 1, 2036	167,845	—
Series 2017G , subject to optional redemption in whole or part, on/after Jan. 1, 2028	3.25% to 5.00%	Jan. 1, 2033 through Jan. 1, 2043	726,640	—
			<u>10,983,105</u>	<u>10,626,155</u>
Bond premium-Net			633,615	455,066
Bond discount-Net			(5,991)	(10,100)
			<u>627,624</u>	<u>444,966</u>
			<u>\$ 11,610,729</u>	<u>11,071,121</u>

On April 11, 2017, the Authority issued \$600,000 of Series 2017A Turnpike Revenue Bonds. The bonds bear interest at fixed rates from 3.50% to 5.0%, and mature from January 1, 2027 to January 1, 2036. The interest on the Series 2017A bonds is paid semi-annually. The purpose of the Series 2017A Turnpike Revenue Bonds was to pay the costs of construction of various projects which are part of the Authority's \$7 Billion CIP.

In accordance with its refunding plan, on August 3, 2017, the Authority issued \$646,765 of Series 2017B Turnpike Revenue Bonds. The bonds bear interest at fixed rates from 4.00% to 5.00%, and mature from January 1, 2025 to January 1, 2040. The interest on the Series 2017B Bonds is paid semi-annually. The Authority issued the Series 2017B Turnpike Bonds and used the proceeds to fully refund and defease the Series 2009E Bonds, and to partially refund and defease the Series 2009H, the Series 2009I and the Series 2013A Bonds.

The aggregate savings on the Series 2017B bonds were approximately \$148,204 with a net present value of \$96,189 when compared to the future interest costs on the refunded bonds. The refunding resulted in a loss on defeasance of \$49,399 in 2017, which is being amortized over the life of the new bonds.

On October 26, 2017, the Authority issued \$579,375 of the Series 2017C1-6 and the Series 2017D1-4 Turnpike Revenue Bonds. The Series 2017C1-6 and the Series 2017D1-4 Floating Rate Bonds bear interest at 70% of one month LIBOR, plus a certain spread for each Series. The interest on the Series 2017C1-6 and the Series 2017D1-4 Floating Rate Bonds is paid monthly. The Series 2017C1-6 and the Series 2017D1-4 Bonds mature from January 1, 2021 to January 1, 2030. The Authority issued the Series 2017C1-6 Bonds and used the proceeds to fully refund the Series 2000B-G Bonds. The Authority issued the Series 2017D1-4 Floating Rate Bonds and used the proceeds to fully refund the Series 2013D-3, the Series 2013E-3 and the Series 2014B-3 Bonds in order to meet the mandatory tender date on the refunded bonds to avoid interest rate escalations. At the same time the Authority entered into an amendment on its existing Series 2000B-G Interest Rate Swap agreement and re-identified it to the Series 2017C1-6 Bonds. The new fixed swap rate is 4.172% and the floating rate is 70% of one month LIBOR. The Series 2017C1-6 refunding resulted in additional present value savings of \$26,122. The Series 2013D-3 Swap agreement was re-identified to the Series 2017D-1 Bonds. The fixed swap rate remains the same at 3.4486% and the floating rate is 73.2% of one month LIBOR. The Series 2013E-3 Swap agreement was also re-identified to the Series 2017D-1 Bonds. The fixed swap rate remains the same at 3.4486% and the floating rate is 63% of one month LIBOR plus 20bp. The Series 2014B-3 Swap agreement was re-identified to the Series 2017D2-4 Bonds. The fixed swap rate remains the same at 3.35% and the floating rate is 67% of one month LIBOR.

On December 14, 2017 the Authority issued \$527,525 of Series 2017E and Series 2017F Turnpike Revenue Bonds. The bonds bear interest at fixed rates from 2.14% to 5.00%, and mature from January 1, 2024 to January 1, 2036. The interest on the Series 2017E and Series 2017F Bonds is paid semi-annually. The Authority issued the Series 2017E and Series 2017F Turnpike Bonds and used the proceeds to fully refund and defease the Series 2009I Bonds, and partially refund and defease the Series 2009H, the Series 2012A and the Series 2013A Bonds.

The aggregate savings on the Series 2017E and the Series 2017F bonds were approximately \$51,688 with a net present value of \$40,300 when compared to the future interest costs on the refunded bonds. The refunding resulted in a loss on defeasance of \$16,791 in 2017, which is being amortized over the life of the new bonds.

On December 21, 2017 the Authority issued \$726,640 of Series 2017G Turnpike Revenue Bonds. The bonds bear interest at fixed rates from 3.25% to 5.00%, and mature from January 1, 2033 to January 1, 2043. The interest on the Series 2017G Bonds is paid semi-annually. The Authority issued the Series 2017G Bonds and used the proceeds to partially refund and defease the Series 2012A and the Series 2013A Bonds.

The aggregate savings on the Series 2017G bonds were approximately \$67,467 with a net present value of \$53,217 when compared to the future interest costs on the refunded bonds.

The refunding resulted in a loss on defeasance of \$32,059 in 2017, which is being amortized over the life of the new bonds.

(a) ***Bond Insurance***

For the Series 2000B-G (as of December 31, 2016 only), Series 2004C and Series 2005A-D Bonds, principal and interest payments are insured on the stated maturity and interest payment dates through municipal bond insurance which totaled \$547,735 and \$947,735 as of December 31, 2017 and 2016, respectively. The municipal bond insurance total for 2017 does not include the Series 2000B-G Bonds as the Series was fully refunded on October 26, 2017.

In order to meet the Debt Reserve Requirement under the Bond Resolution, the Authority must deposit cash and investments in the Debt Reserve Fund. In lieu of cash and investments, the Authority may maintain a surety bond or insurance policy payable to the Trustee. The Debt Reserve Requirement of \$596,504 as of December 31, 2017 was met through investments in the Debt Reserve Fund with a fair market value of \$600,788 and insurance policies payable to the Trustee with a payment limit of \$322,019. The Debt Reserve Requirement of \$588,991 as of December 31, 2016 was met through investments in the Debt Reserve Fund with a fair market value of \$591,214 and insurance policies payable to the Trustee with a payment limit of \$322,019. Although the insurance policies are still in effect at December 31, 2017, according to the terms of the insurance policies, cash and investments in the Debt Reserve Fund must be drawn upon first to satisfy any payments required from the Debt Reserve Fund. As of December 31, 2017 and December 31, 2016, the fair market value of the cash and investments in the Debt Reserve Fund meets the Debt Reserve Requirement in its entirety.

(b) ***Interest Payments – Fixed Rate Debt***

Interest payments on all fixed rate debt are payable semi-annually on July 1 and January 1 except for Capital Appreciation Bonds.

(c) ***Variable Rate Debt***

Interest rates on variable rate debt, except for the Auction Rate Securities (see below) are reset weekly. Interest is paid monthly.

(d) ***Auction Rate Bond Interest***

The Series 2000B-G Bonds were issued as auction rate bonds with interest rates not to exceed 10%. The auction date for the Series 2000B-G Bonds generally occurs every seven days. Interest on the auction rate bonds accrues for each auction interest period and is payable in arrears on each succeeding interest payment date. An interest auction period begins on, and includes, an interest payment date and ends on (but excludes) the next succeeding interest payment date. The Series 2000B-G Bonds were refunded on October 26, 2017. As of December 31, 2017 the Authority does not have any auction rate bonds outstanding.

(e) ***Build America Bonds***

The Series 2009F Bonds and the Series 2010A Bonds are designated as Federally Taxable, Issuer Subsidy Build America Bonds for purposes of the American Recovery and Reinvestment Act of 2009. The Authority receives a cash subsidy from the United States Treasury originally equal to 35% of the interest payable on the Bonds. The Budget Control Act of 2011 reduced the amount of the subsidy paid by the Federal Government through automatic federal spending cuts commonly known as sequestration. The payment to the Authority received for the July 1, 2017 interest payment was reduced by 6.9%, and the payment received in December 2017 (for January 1, 2018 interest payment) was reduced by 6.6%. The Internal Revenue Service has reported that the Authority's payment due on July 1, 2018 will also have a 6.6% reduction. There can be no certainty the Federal Government will not make further cuts to the program. These cash payments constitute pledged revenues under the Authority's bond resolution. The Series 2009F Bonds and the Series 2010A Bonds are subject to redemption prior to maturity at the make-whole redemption price which is equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed plus accrued and unpaid interest and (ii) the sum of the present value of the remaining scheduled payments of principal and interest, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360 day year consisting of twelve 30 day months, at the adjusted Treasury Rate plus 50 basis points for the Series 2009F Bonds and 40 basis points for the Series 2010A Bonds, plus accrued and unpaid interest. The Bonds are also subject to redemption prior to their maturity at the option of the Authority upon a material adverse change to Section 54AA or 6431 of the Internal Revenue Code of 1986 pursuant to which the Authority's 35% cash subsidy payment is reduced or eliminated. In this case the redemption price is equal to the greater of (i) 100% of principal amount of the Bonds to be redeemed plus accrued and unpaid interest and (ii) the sum of the present value of the remaining scheduled payments of principal and interest, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360 day year consisting of twelve 30 day months, at the adjusted Treasury Rate plus 100 basis points, plus accrued and unpaid interest. The Series 2009F Bonds are subject to mandatory redemption on January 1, 2037 through January 1, 2040 at 100% of the principal amount plus accrued interest. The Series 2010A Bonds are subject to mandatory redemption on January 1, 2035 through January 1, 2041 at 100% of the principal amount plus accrued interest.

(f) ***Floating Rate Bonds and SIFMA Index Bonds***

The following table summarizes the terms of the Authority's direct placement of Floating Rate Bonds, SIFMA Index Bonds, and publicly offered Floating Rate Bonds as of December 31, 2017:

Series of bonds	Tax exempt or federally taxable	Final maturity date	Par amount	Floating rate	Interest rate reset	Mandatory tender date
				75% of the sum of 1-month		
2013B	Tax-Exempt	1/1/2018	\$ 52,500	LIBOR + 79bp	Monthly	-
2013C2	Tax-Exempt	1/1/2018	141,500	SIFMA + 55 bp	Weekly	-
2015A	Tax-Exempt	1/1/2024	92,500	67% 1 month LIBOR + 78 bp	Monthly	-
2015B	Tax-Exempt	1/1/2024	50,000	75% 1 month LIBOR + 45 bp	Monthly	1/1/2020
2015C	Tax-Exempt	1/1/2024	43,750	67% 1 month LIBOR + 70 bp	Monthly	-
2015D	Tax-Exempt	1/1/2024	43,750	67% 1 month LIBOR + 70 bp	Monthly	-
2015F	Tax-Exempt	1/1/2022	72,350	75% 1 month LIBOR + 59.5 bp	Weekly	-
2015G	Tax-Exempt	1/1/2024	25,000	69.75% 1 month LIBOR + 60 bp	Weekly	-
2015H	Tax-Exempt	1/1/2022	48,235	67% 1 month LIBOR + 74 bp	Monthly	-
2016B	Tax-Exempt	1/1/2023	75,025	70% 1 month LIBOR + 63 bp	Weekly	-
2016C	Tax-Exempt	1/1/2023	50,015	70% 1 month LIBOR + 63 bp	Weekly	-
2016D	Tax-Exempt	1/1/2024	50,000	70% 1 month LIBOR + 64 bp	Weekly	-
2017C1	Tax-Exempt	1/1/2021	31,050	70% 1 month LIBOR + 34 bp	Monthly	-
2017C2	Tax-Exempt	1/1/2022	32,775	70% 1 month LIBOR + 48 bp	Monthly	-
2017C3	Tax-Exempt	1/1/2023	34,575	70% 1 month LIBOR + 60 bp	Monthly	-
2017C4	Tax-Exempt	1/1/2024	36,475	70% 1 month LIBOR + 70 bp	Monthly	-
2017C5	Tax-Exempt	1/1/2028	150,000	70% 1 month LIBOR + 46 bp	Monthly	1/1/2021
2017C6	Tax-Exempt	1/1/2030	115,125	70% 1 month LIBOR + 75 bp	Monthly	1/1/2023
2017D1	Tax-Exempt	1/1/2024	129,375	70% 1 month LIBOR + 70 bp	Monthly	-
2017D2	Tax-Exempt	1/1/2022	16,075	70% 1 month LIBOR + 48 bp	Monthly	-
2017D3	Tax-Exempt	1/1/2023	16,675	70% 1 month LIBOR + 60 bp	Monthly	-
2017D4	Tax-Exempt	1/1/2024	17,250	70% 1 month LIBOR + 70 bp	Monthly	-

The Series 2013B, Series 2015A, Series 2015B, Series 2015C, Series 2015D, Series 2015F, Series 2015G, Series 2015H, Series 2016B, Series 2016C and Series 2016D Bonds are direct placements of Floating Rate Bonds. The Series 2017C1-6 and Series 2017D1-4 Bonds are publically offered Floating Rate Bonds. Pursuant to the terms of the Series 2013B, Series 2015A, Series 2015B, Series 2015C, Series 2015D, Series 2015F, Series 2015G, Series 2015H, Series 2016B, Series 2016C and Series 2016D Bonds, in addition to being subject to mandatory tender for purchase on the Mandatory Tender Date or maturity date set forth in the chart above, upon the occurrence of certain enumerated extraordinary mandatory purchase events, the respective Series of Bonds may also be subject to mandatory tender for purchase at the option of the applicable bank that is the holder of such Series of Bonds prior to the occurrence of such Mandatory Tender Date. In the event that the Authority cannot pay the purchase price for all or a portion of such Series of Bonds on the Mandatory Tender Date or any such extraordinary mandatory purchase date, (i) 50% of the principal amount of any unpurchased Bonds will be subject to mandatory redemption on the date that is one year after such Mandatory Tender Date or extraordinary mandatory purchase date, at a Redemption Price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest to the redemption date, and (ii) the entire remaining aggregate principal amount of such unpurchased Bonds will be subject to mandatory redemption on the date that is two years after such Mandatory Tender Date or extraordinary mandatory purchase date, at a Redemption Price equal to 100% of the principal amount of such Bonds to be redeemed plus accrued interest to the redemption date.

(g) *Security*

All bonds outstanding under the Bond Resolution, together with amounts owed under the interest rate swap agreements, are secured on a parity by a pledge of net revenues of the Authority senior in priority to any other Authority obligations secured by such net revenues.

(h) *Future Payments of Debt Service*

The following table sets forth as of December 31, 2017, payments of principal (through sinking fund installments) and interest to be made to the Debt Service Fund from the Revenue Fund on all outstanding bonds of the Authority for the next five years and thereafter. Interest on variable-rate debt and interest rate swaps in the following table is based upon the variable-rates as of December 31, 2017.

	<u>Principal</u>	<u>Interest</u>	<u>Interest rate swaps, net</u>	<u>Total</u>
December 31:				
2018	\$ 218,475	543,561	59,251	821,287
2019	201,025	541,699	48,543	791,267
2020	228,205	529,825	48,543	806,573
2021	249,395	522,088	45,759	817,242
2022	278,700	517,325	40,599	836,624
2023–2027	1,714,980	2,498,145	87,251	4,300,376
2028–2032	2,168,920	2,096,402	14,267	4,279,589
2033–2037	2,672,829	1,519,872	—	4,192,701
2038–2042	2,861,826	605,359	—	3,467,185
2043–2046	388,750	32,816	—	421,566
	<u>\$ 10,983,105</u>	<u>9,407,092</u>	<u>344,213</u>	<u>20,734,410</u>

(i) **Interest Expense**

Interest expense was comprised of the following:

	Year ended December 31	
	2017	2016
Turnpike Revenue Bonds, Series 2000B – G	\$ 14,790	17,098
Turnpike Revenue Bonds, Series 2004B	—	1,447
Turnpike Revenue Bonds, Series 2004C	7,307	7,307
Turnpike Revenue Bonds, Series 2005A	9,117	9,117
Turnpike Revenue Bonds, Series 2005B	1,563	1,563
Turnpike Revenue Bonds, Series 2005D	10,959	10,959
Turnpike Revenue Bonds, Series 2009E	9,188	15,750
Turnpike Revenue Bonds, Series 2009F	101,943	101,943
Turnpike Revenue Bonds, Series 2009G	956	1,739
Turnpike Revenue Bonds, Series 2009H	12,978	15,193
Turnpike Revenue Bonds, Series 2009I	5,225	8,900
Turnpike Revenue Bonds, Series 2010A	131,387	131,387
Turnpike Revenue Bonds, Series 2012A	6,894	6,894
Turnpike Revenue Bonds, Series 2012B	39,772	39,772
Turnpike Revenue Bonds, Series 2013A	65,100	67,821
Turnpike Revenue Bonds, Series 2013B–F	20,783	37,214
Turnpike Revenue Bonds, Series 2014A(1)	48,890	48,890
Turnpike Revenue Bonds, Series 2014B	1,618	3,787
Turnpike Revenue Bonds, Series 2014C	10,093	10,093
Turnpike Revenue Bonds, Series 2015A	3,362	3,340
Turnpike Revenue Bonds, Series 2015B	1,898	1,893
Turnpike Revenue Bonds, Series 2015C	1,732	1,728
Turnpike Revenue Bonds, Series 2015D	1,733	1,729
Turnpike Revenue Bonds, Series 2015E	36,413	36,413
Turnpike Revenue Bonds, Series 2015F	2,944	2,911
Turnpike Revenue Bonds, Series 2015G	989	976
Turnpike Revenue Bonds, Series 2015H	1,957	1,939
Turnpike Revenue Bonds, Series 2016A	7,312	6,683
Turnpike Revenue Bonds, Series 2016B	3,020	84
Turnpike Revenue Bonds, Series 2016C	1,982	55
Turnpike Revenue Bonds, Series 2016D	2,020	56
Turnpike Revenue Bonds, Series 2017A	21,240	—
Turnpike Revenue Bonds, Series 2017B	12,866	—
Turnpike Revenue Bonds, Series 2017C	3,265	—
Turnpike Revenue Bonds, Series 2017D	1,264	—
Turnpike Revenue Bonds, Series 2017E	849	—
Turnpike Revenue Bonds, Series 2017F	254	—
Turnpike Revenue Bonds, Series 2017G	847	—
	<u>604,510</u>	<u>594,681</u>
Less amortization of bond premium and discount	(30,876)	(25,587)
Less GASB Statement No. 53 interest expense adjustment (2)	(32,932)	(35,693)
Less interest expense capitalized to projects	(118,789)	(214,209)
Net interest expense	<u>\$ 421,913</u>	<u>319,192</u>

(1) Includes \$19,199 in capitalized interest expense paid from bond proceeds in 2016

(2) For the Series 2000B-G, 2013B-D, 2013G, 2015A-D, 2015F and 2016B Bonds

(j) **Defeased Bonds**

As of December 31, 2017 and 2016, the Authority has approximately \$1,981,000 and \$204,000, respectively, of bonds outstanding which have been previously defeased in substance and are secured by investments held by various escrow agents. The escrow accounts are invested in obligations of U.S. government agencies and are not controlled by the Authority. The bonds are considered extinguished and accordingly, the assets and obligations are not reflected on the financial statements of the Authority.

(7) **Derivative Instruments**

The fair value balances and notional amounts of derivative instruments outstanding as of December 31, 2017 and 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the accompanying financial statements are as follows:

	Changes in fair value for year ended December 31, 2017		Fair value as of December 31, 2017		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Pay-fixed, receive-variable interest rate swaps ⁽¹⁾	Deferred outflow	\$ (4,027)	Interest rate swap liabilities	\$ (20,914)	1,319,000

	Changes in fair value for year ended December 31, 2016		Fair value as of December 31, 2016		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Pay-fixed, receive-variable interest rate swaps ⁽¹⁾	Deferred inflow	\$ 11,009	Interest rate swap liabilities	\$ (29,190)	1,096,000
Investment derivatives:					
Pay-fixed, receive-variable interest rate swaps	Investment income	13,238	Restricted investments	(79,937)	400,000

⁽¹⁾ Includes fair value of at-the-market interest rate swaps from hybrid instruments

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Objective and Terms of Derivative Instruments

The following tables display the objective and terms of the Authority's derivative instruments outstanding as of December 31, 2017 and 2016, along with the credit rating of the associated counterparty (amounts in thousands):

December 31, 2017						
Type	Objective	Notional amount	Effective date	Maturity date	Terms	Counterparty credit rating
Hedging derivative instruments:						
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2013B bonds	\$ 52,500	Mar. 14, 2011	Jan. 1, 2018	Pay 5.5728%, receive 75% of 1 month of USD-LIBOR-BBA	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2013C1 bonds	63,500	Mar. 14, 2011	Jan. 1, 2018	Pay 5.6346%, receive USD-SIFMA Municipal Swap Index	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2013C2 bonds	78,000	Mar. 14, 2011	Jan. 1, 2018	Pay 5.6089%, receive USD-SIFMA Municipal Swap Index	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015A bonds	87,500	Apr. 1, 2016	Jan. 1, 2024	Pay 2.98%, receive 67% of 1 month USD-LIBOR-BBA	A1/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015B bonds	50,000	Feb. 11, 2009	Jan. 1, 2024	Pay 3.331%, receive 75% of 1 month USD-LIBOR-BBA	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015C bonds	43,750	Feb. 11, 2009	Jan. 1, 2024	Pay 3.2488%, receive 67% of 1 month USD-LIBOR-BBA	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015D bonds	43,750	Feb. 11, 2009	Jan. 1, 2024	Pay 3.2525%, receive 67% of 1 month USD-LIBOR-BBA	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015F bonds	72,350	May. 21, 2013	Jan. 1, 2022	Pay 3.4486%, receive until 73.2% of 1 month USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015G bonds	25,000	Sep. 1, 2015	Jan. 1, 2024	Pay 3.35%, receive 67% of 1 month USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015H bonds	48,235	Sep. 1, 2015	Jan. 1, 2022	Pay 3.305%, receive 67% of 1 month USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2016B bonds	75,025	May. 21, 2013	Jan. 1, 2023	Pay 3.4486%, receive 73.2% of 1 month of USD-LIBOR-BBA	Aa2/AA-/AA-

December 31, 2017						
Type	Objective	Notional amount	Effective date	Maturity date	Terms	Counterparty credit rating
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2016C bonds	50,015	Sep. 1, 2015	Jan. 1, 2023	Pay 3.4486%, receive 63% of 1 month plus 20bp USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2016D bonds	50,000	Sep. 1, 2015	Jan. 1, 2024	Pay 3.35%, receive 67% of 1 month USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2017C bonds	240,000	Sep. 1, 2015	Jan. 1, 2030	Pay 4.172%, receive 70% of 1 month of USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2017C bonds	160,000	May. 21, 2013	Jan. 1, 2030	Pay 4.172%, receive 70% of 1 month of USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2017D1 bonds	77,625	May. 21, 2013	Jan. 1, 2030	Pay 3.4486%, receive 73.2% of 1 month of USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2017D1 bonds	51,750	Sep. 1, 2015	Jan. 1, 2030	Pay 3.4486%, receive 63% of 1 month plus 20bp USD-LIBOR-BBA	Aa2/AA-/AA-
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2017D2-4 bonds	50,000	Aug. 4, 2014	Jan. 1, 2024	Pay 3.35%, receive 67% of 1 month USD-LIBOR-BBA	A1/A+/A+
December 31, 2016						
Type	Objective	Notional amount	Effective date	Maturity date	Terms	Counterparty credit rating
Hedging derivative instruments:						
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2013B bonds	\$ 100,000	Mar. 14, 2011	Jan. 1, 2018	Pay 5.5728%, receive 75% of 1 month of USD-LIBOR-BBA	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2013C1 bonds	121,000	Mar. 14, 2011	Jan. 1, 2018	Pay 5.6346%, receive USD-SIFMA Municipal Swap Index	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2013C2 bonds	150,000	Mar. 14, 2011	Jan. 1, 2018	Pay 5.6089%, receive USD-SIFMA Municipal Swap Index	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2013D bonds	77,625	May. 21, 2013	Jan. 1, 2024	Pay 3.4486%, receive 73.2% of 1 month of USD-LIBOR-BBA	Aa2/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2013E bonds	51,750	Sep. 1, 2015	Jan. 1, 2024	Pay 3.4486%, receive 63% of 1 month plus 20bp USD-LIBOR-BBA	Aa2/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2014B3 bonds	50,000	Aug. 4, 2014	Jan. 1, 2024	Pay 3.35%, receive 67% of 1 month USD-LIBOR-BBA	A1/A+/A+
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015A bonds	87,500	Apr. 1, 2016	Jan. 1, 2024	Pay 2.98%, receive 67% of 1 month USD-LIBOR-BBA	A1/AA-/AA A1/A-/A

December 31, 2016						
Type	Objective	Notional amount	Effective date	Maturity date	Terms	Counterparty credit rating
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015B bonds	50,000	Feb. 11, 2009	Jan. 1, 2024	Pay 3.331%, receive 75% of 1 month USD-LIBOR-BBA	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015C bonds	43,750	Feb. 11, 2009	Jan. 1, 2024	Pay 3.2488%, receive 67% of 1 month USD-LIBOR-BBA	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015D bonds	43,750	Feb. 11, 2009	Jan. 1, 2024	Pay 3.2525%, receive 67% of 1 month USD-LIBOR-BBA	A1/A-/A
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015F bonds	72,350	May. 21, 2013	Jan. 1, 2022	Pay 3.4486%, receive until 73.2% of 1 month USD-LIBOR-BBA	Aa2/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015G bonds	25,000	Sep. 1, 2015	Jan. 1, 2024	Pay 3.35%, receive 67% of 1 month USD-LIBOR-BBA	Aa2/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2015H bonds	48,235	Sep. 1, 2015	Jan. 1, 2022	Pay 3.305%, receive 67% of 1 month USD-LIBOR-BBA	Aa2/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2016B bonds	75,025	May. 21, 2013	Jan. 1, 2023	Pay 3.4486%, receive 73.2% of 1 month of USD-LIBOR-BBA	Aa2/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2016C bonds	50,015	Sep. 1, 2015	Jan. 1, 2023	Pay 3.4486%, receive 63% of 1 month plus 20bp USD-LIBOR-BBA	Aa2/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2016D bonds	50,000	Sep. 1, 2015	Jan. 1, 2024	Pay 3.35%, receive 67% of 1 month USD-LIBOR-BBA	Aa2/AA-/AA
Investment derivative instruments:						
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2000 B-G bonds	\$ 240,000	Sep. 1, 2015	Jan. 1, 2030	Pay 4.312%, receive 64.459% of 5-year LIBOR	Aa2/AA-/AA
Pay-fixed, receive-variable interest rate swap	Hedge of interest rate risk on the Series 2000 B-G bonds	160,000	May. 21, 2013	Jan. 1, 2030	Pay 4.312%, receive 64.459% of 5-year LIBOR	Aa2/AA-/AA

On October 26, 2017, the Authority issued the Series 2017C1-6 and Series 2017D1-4 Bonds in accordance with its refunding plan. Concurrently, the Authority entered into an amendment on its existing Series 2000B-G Interest Rate Swap agreements with Wells Fargo Bank, N.A. The Series 2000B-G Interest Rate Swap agreement was re-identified to the Series 2017C1-6 Bonds. As part of the amendment to the Swap agreements, the variable rate received by the Authority was changed from 64.459% of 5 year LIBOR to 70% of 1 month LIBOR on the \$240,000 notional value Swap agreement, and 70% of 1 month LIBOR on the \$160 million notional value Swap agreement. Because of this change in variable rate received, the swaps as of December 31, 2017 are considered effective under GASB 53. The interest rate swap agreement relating to the Series 2013D-3 and Series 2013E-3 Bonds with Wells Fargo Bank, N.A. was re-identified to the Series 2017D-1 Bonds and the interest rate swap agreement relating to the Series 2014B-3 Bonds with Citibank, N.A. was re-identified to the Series 2017D2-4 Bonds.

(a) *Risks*

Credit risk: The Authority is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Authority's policy to require counterparty collateral posting provisions in its derivative instruments. These terms require full collateralization of the fair value of derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below BBB-as issued by Standard & Poor's or Baa3 as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. All of the Authority's derivative investments provide for the netting of the value of asset and liability positions with the same counterparty upon termination. There were no derivative instruments in asset positions as of December 31, 2017 and 2016, respectively.

Basis risk: The Authority as of December 31, 2017 is not exposed to basis risk. During 2017, the Authority amended all interest rate swaps that had basis risk to receive a variable rate based on the same rate or index as the hedged variable rate debt. The Authority was exposed to basis risk as of December 31, 2016 on its pay-fixed, receive-variable interest rate swaps that hedge its Series 2000B-G, 2013D, 2013E and 2015F Bonds because the variable-rate payments received by the Authority on these hedging derivative instruments generally are based on a rate or index other than interest rates the Authority pays on its hedged variable-rate debt, which is remarketed every 7 days. As of December 31, 2016, the weighted average interest rate on the Authority's hedged variable-rate debt is 1.37%, while 64.459% of USD five-year LIBOR is 1.24%, 73.2% of one-month LIBOR is 0.51%, and 63% of one-month LIBOR plus 20 basis points is 0.64%.

Termination risk: The Authority or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

(b) *Contingencies*

All of the Authority's derivative instruments, except for the \$25,000, \$48,235, \$50,015, \$50,000 and \$101,750 notional value swaps that hedge the Series 2015G, 2015H, 2016C, 2016D and 2017D Bonds, respectively, include provisions that require the Authority to post collateral in the event its credit rating falls below BBB as issued by Standard & Poor's or Baa2 as issued by Moody's Investors Service. For the Series 2015G, 2015H, 2016C, 2016D and 2017D Swap Agreements only, the rating on the respective Series 2015G, 2015H, 2016C, 2016D and 2017D Bonds would have to drop below A2 from Moody's, below A from S&P and below A from Fitch for any collateral posting requirements to be imposed upon the Authority under such agreements. The collateral posted is to be in the form of U.S. Treasury securities in the amount of the fair value of derivative instruments in liability positions. If the Authority does not post collateral, the derivative instrument may be terminated by the counterparty. As of December 31, 2017 and 2016, the aggregate fair value of all derivative instruments in liability positions with these collateral posting provisions, based on their stated fixed rates, is approximately \$131,687 and \$166,582, respectively. If the collateral posting requirements were triggered as of December 31, 2017 and 2016, the Authority would be required to post \$131,687 and \$166,582,

respectively, in collateral to its counterparties. The Authority's credit rating is A2 Moody's, A+ S&P and A Fitch; therefore, no collateral has been posted as of December 31, 2017 or 2016, respectively.

(c) **Hybrid Instrument Borrowings**

The interest rate swaps hedging the series noted below include fixed rates that were off-market at the execution of the interest rate swaps or current hedging relationship. For financial reporting purposes these interest rate swaps are considered hybrid instruments and are allocated between borrowings with an aggregate original amount of \$209,431 and \$134,179 as of December 31, 2017 and 2016, respectively, reflecting the difference between the fair value of the instrument at execution and an interest rate swap with a fixed rate that was considered at-the-market at execution. Activity for the hybrid instrument borrowings for the years ended December 31, 2017 and 2016 was as follows:

	December 31, 2016	Reidentifications	Additions/ Reductions	December 31, 2017	Current portion
Hybrid instrument borrowings:					
Series 2013 B	\$ 9,090	—	(4,534)	4,556	4,556
Series 2013 C1	11,088	—	(5,531)	5,557	5,555
Series 2013 C2	13,758	—	(6,862)	6,896	6,895
Series 2013D	9,956	(8,715)	(1,241)	—	—
Series 2015A	9,606	—	(866)	8,740	1,213
Series 2015B	5,966	—	(718)	5,248	726
Series 2015C	5,129	—	(620)	4,509	626
Series 2015D	5,137	—	(620)	4,517	626
Series 2015F	10,618	—	(1,717)	8,901	1,737
Series 2016B	8,954	—	(40)	8,914	1,432
Series 2017C1 (1)	—	45,888	—	45,888	246
Series 2017C2 (1)	—	30,605	—	30,605	622
Series 2017D1	—	8,715	—	8,715	415
	<u>\$ 89,302</u>	<u>76,493</u>	<u>(22,749)</u>	<u>143,046</u>	<u>24,649</u>

(1) During 2017, the Authority amended the variable rate received on its derivative instruments previously considered investments under GASB 53. Since the variable rate received is now based on the same index as the interest rate on the hedged bonds, the derivative instruments are now considered effective under GASB 53 and are reported within the hybrid instrument borrowing balance for the Authority.

	December 31, 2015	Reidentifications	Additions/ Reductions	December 31, 2016	Current portion
Hybrid instrument borrowings:					
Series 2013 B	\$ 13,601	—	(4,511)	9,090	4,534
Series 2013 C1	16,594	—	(5,506)	11,088	5,531
Series 2013 C2	20,588	—	(6,830)	13,758	6,862
Series 2013D	22,192	(8,954)	(3,282)	9,956	38
Series 2015A	10,654	—	(1,048)	9,606	866
Series 2015B	6,621	—	(655)	5,966	718
Series 2015C	5,306	—	(177)	5,129	620
Series 2015D	5,314	—	(177)	5,137	620
Series 2015F	10,656	—	(38)	10,618	1,717
Series 2016B	—	8,954	—	8,954	40
	<u>\$ 111,526</u>	<u>—</u>	<u>(22,224)</u>	<u>89,302</u>	<u>21,546</u>

The following table sets forth as of December 31, 2017, payments of principal and interest on the hybrid instrument borrowings for the next five years and thereafter. The total payments generally reflect the difference between the stated fixed rate of the hybrid instrument and the at-the-market fixed rate at the execution of the instrument or current hedging relationship.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
December 31:			
2018	\$ 24,649	795	25,444
2019	13,547	1,731	15,278
2020	13,735	1,543	15,278
2021	13,926	1,352	15,278
2022	14,119	1,159	15,278
2023–2027	42,843	3,333	46,176
2028–2030	20,227	648	20,875
	<u>\$ 143,046</u>	<u>10,561</u>	<u>153,607</u>

(8) Debt Compliance

The Revenue Requirement under Section 713(b) of the Turnpike Revenue Bond Resolution states that in each calendar year, Net Revenues shall at least equal the Net Revenue Requirement for such year. Under Section 101 of said Resolution, Net Revenues are defined as “for any calendar year or other period of time, the Pledged Revenues during such year or period less the amounts of the Operating Expenses for such year or period.” The Net Revenue Requirement means with respect to any period of time, “an amount equal to the greater of (i) the sum of Aggregate Debt Service, Maintenance Reserve Payments, Special Project Reserve Payments and payments, if any, to the Charges Fund for such period or (ii) 1.20 times the Aggregate Debt Service for such period (excluding, for the purposes of clause (ii) only, any payment due and payable by the Authority under a Qualified Swap upon an early termination thereof).”

The net revenue requirement was met under test (i) and (ii) above for 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
(i):		
Net revenue available for Debt Service	\$ 1,290,374	1,294,591
Less net revenue requirements computed under test (the sum of aggregate debt service, maintenance reserve, special project reserve and charges fund payments)	<u>(979,546)</u>	<u>(901,460)</u>
Excess net revenue	<u>\$ 310,828</u>	<u>393,131</u>
(ii):		
Net revenue available for Debt Service	\$ 1,290,374	1,294,591
Less net revenue requirements computed under test (120% x aggregate debt service requirements of \$822,984 and \$773,078 in 2017 and 2016, respectively)	<u>(987,581)</u>	<u>(927,694)</u>
Excess net revenue	<u>\$ 302,793</u>	<u>366,897</u>

The debt service coverage ratio (Net Revenue divided by Debt Service) was 1.57 and 1.67 in 2017 and 2016, respectively.

(9) Changes in Long-Term Liabilities

Long term liabilities primarily include bonds payable, hybrid instrument borrowing, other long term obligations, other post-employment benefit liability, interest rate swap liabilities and net pension liability. Bond payable (note 6) and hybrid instrument borrowing (note 7) are detailed in their respective footnotes. Other long term obligations include pollution remediation liability (note 10), self-insurance liability (note 13), reserve for E-Z Pass tag swap to cover the costs of a program which periodically replaces New Jersey E-Z Pass customer transponders that have reached the end of their useful lives, reserves which mainly include reserves for future self-insured claim settlements, and working capital. The liability for compensated absences which cover employees accrued sick and vacation banks, and other liabilities which include FICA tax liability on the accrued sick and vacation banks, arbitrage liability and other reserves. The other post-employment benefits liability is recorded as per GASB 45 (note 12), the interest rate swap liability is recorded as per GASB 53 (note 7), and finally the net pension liability is recorded as per GASB 68 (note 13).

The chart below shows the additions to and reductions from the above mentioned categories of long term liabilities and the balances as of December 31, 2017 and 2016, respectively.

	<u>December 31,</u> <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2017</u>	<u>Current</u> <u>portion</u>
Bonds payable, net	\$ 11,071,121	3,315,064	(2,775,456)	11,610,729	218,475
Hybrid instrument borrowing	89,302	85,208	(31,464)	143,046	24,649
Other long-term obligations:					
Pollution remediation liability	25,790	308	(2,160)	23,938	2,376
Self-insurance	42,516	2,322	(3,496)	41,342	—
Reserve for E-ZPass tag swap	20,035	3,500	(6,196)	17,339	—
Reserves	17,563	9,435	(8,574)	18,424	—
Compensated absences	18,219	19,040	(21,032)	16,227	3,573
Other liabilities	2,754	2	(184)	2,572	—
Other postemployment benefits	432,545	104,486	(42,933)	494,098	—
Interest rate swap liabilities	29,190	10,908	(19,184)	20,914	—
Net pension liability	561,453	—	(122,960)	438,493	—
Total	<u>\$ 12,310,488</u>	<u>3,550,273</u>	<u>(3,033,639)</u>	<u>12,827,122</u>	<u>249,073</u>

	<u>December 31,</u> <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2016</u>	<u>Current</u> <u>portion</u>
Bonds payable, net	\$ 11,251,163	350,446	(530,488)	11,071,121	197,740
Hybrid instrument borrowing	111,526	8,954	(31,178)	89,302	21,546
Other long-term obligations:					
Pollution remediation liability	28,696	1,106	(4,012)	25,790	2,790
Self-insurance	59,345	23,208	(40,037)	42,516	—
Reserve for E-ZPass tag swap	21,099	5,500	(6,564)	20,035	—
Reserves	14,576	4,491	(1,504)	17,563	—
Compensated absences	18,688	17,776	(18,245)	18,219	3,419
Other liabilities	2,786	15	(47)	2,754	—
Other postemployment benefits	375,864	100,182	(43,501)	432,545	—
Interest rate swap liabilities	40,199	11,961	(22,970)	29,190	—
Net pension liability	435,015	126,438	—	561,453	—
Total	<u>\$ 12,358,957</u>	<u>650,077</u>	<u>(698,546)</u>	<u>12,310,488</u>	<u>225,495</u>

(10) Pollution Remediation Obligations

The Authority accounts for its pollution remediation obligations (PRO) in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49). As a result, the Authority has recorded in the statements of net position a PRO liability in the amount of \$23,938 and \$25,790 as of December 31, 2017 and 2016, respectively. The Authority’s PRO liability is measured based on the expected costs of future activities, estimating a reasonable range of potential outlays and multiplying those outlays by their probability of occurring. The estimate of the liability does not include cost components that are not yet reasonably measurable.

The Authority owns numerous properties with environmental issues that meet the criteria for “obligating events” and disclosure under GASB 49. The matters relate to soil and groundwater contamination at various facilities along the New Jersey Turnpike and Garden State Parkway including maintenance districts, toll facilities, service areas and other Authority owned facilities. The following table summarizes the Authority’s expected outlays and payments for pollution remediation as of December 31:

	<u>2017</u>	<u>2016</u>
Right of Way	\$ 13,450	13,350
Service areas	9,252	10,725
Maintenance districts	748	890
Toll facilities	373	675
Other facilities	<u>115</u>	<u>150</u>
Liability for pollution obligations remediation	<u>\$ 23,938</u>	<u>25,790</u>

(11) Pension and Deferred Compensation

1) Plan description

Permanent full-time employees of the Authority are covered by the State of New Jersey Public Employees' Retirement System (PERS), a plan that has been characterized for financial accounting purposes as a cost-sharing multiple-employer defined benefit pension plan. PERS is a contributory defined-benefit plan established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage to substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not a member of another State administered retired system. Membership is mandatory and vesting occurs after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The risks of participating in a cost-sharing multiple-employer plan are different from those of participating in a single-employer plan in the following aspects:

- Assets contributed to the multiple-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating entity stops contributing to the multiple-employer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.
- If an entity petitions to stop participating in the multiple-employer plan, the entity may be required to pay the plan a withdrawal liability based on the funded status of the plan.

These aspects of cost-sharing multiple-employer plan participation are consistent with the manner of administration of the PERS. These aspects are not required by law but are part of the PERS administrative practices. Neither the financial accounting treatment of the PERS, nor their administrative practices, nor this note shall be deemed a representation that the PERS are subject to any laws that require the multiple-employer plan attributes that are set forth above.

2) Benefits provided

A summary of the PERS eligibility requirements is as follows:

	TIER 1 (Enrolled before July 1, 2007)	TIER 2 (Eligible for enrollment on or after July 1, 2007 and before November 2, 2008)	TIER 3 (Eligible for enrollment on or after November 2, 2008 and on or before May 22, 2010)	TIER 4 (Eligible for enrollment after May 22, 2010 and before June 28, 2011)	TIER 5 (Eligible for enrollment on or after June 28, 2011)
ELIGIBILITY	Minimum base salary of \$1,500 required for PERS Tier 1 enrollment. IRS Annual Compensation Limit on maximum salary generally apply (\$270 for 2017; \$265 for 2016; \$265 for 2015).	Minimum base salary of \$2 required for PERS Tier 2 enrollment. PERS salary limited to Social Security maximum wage (\$127 for 2017; \$118 for 2016; \$118 for 2015). PERS members are eligible for participation in the Defined Contribution Retirement Program (DCRP) for salary over the maximum wage limit.	Minimum base salary required for PERS Tier 3 enrollment. (\$8 for 2017 and 2016; \$8 for 2015). Employees with base salary between \$5,000 and current minimum PERS Tier 3 salary are eligible for participation in the Defined Contribution Retirement Program (DCRP). PERS salary limited to Social Security maximum wage (\$127 for 2017, \$118 for 2016; \$118 for 2015). PERS members are eligible for participation in the DCRP for salary over the maximum wage limit.	PERS Tier 4 enrollment requires a minimum of 35 hours per week for State Employees, or 32 hours per week for Local Government or Local Education Employees. No minimum salary requirement. Employees who do not work the minimum required hours but who earn base salary of at least \$5 are eligible for participation in the Defined Contribution Retirement Program (DCRP). PERS salary limited to Social Security maximum wage (\$127 for 2017; \$118 for 2016; \$118 for 2015). PERS members are eligible for participation in the DCRP for salary over the maximum wage limit.	PERS Tier 5 enrollment requires a minimum of 35 hours per week for State Employees, or 32 hours per week for Local Government or Local Education Employees. No minimum salary requirement. Employees who do not work the minimum required hours but who earn base salary of at least \$5 are eligible for participation in the Defined Contribution Retirement Program (DCRP). PERS salary limited to Social Security maximum wage (\$127 for 2017; \$118 for 2016; \$118 for 2015). PERS members are eligible for participation in the DCRP for salary over the maximum wage limit.
SERVICE RETIREMENT	Minimum age of 60, no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Minimum age of 60, no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Minimum age of 62, no minimum service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Minimum age of 62, no minimum service required. Annual Benefit = Years of Service ÷ 60 X Final Average (5 yrs.) Salary.	Minimum age of 65, no minimum service required. Annual Benefit = Years of Service ÷ 60 X Final Average (5 yrs.) Salary.
DEFERRED RETIREMENT	Collectible at age 60, at least 10 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary	Collectible at age 60, at least 10 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Collectible at age 62, at least 10 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary.	Collectible at age 62, at least 10 years of service required. Annual Benefit = Years of Service ÷ 60 X Final Average (5 yrs.) Salary.	Collectible at age 65, at least 10 years of service required. Annual Benefit = Years of Service ÷ 60 X Final Average (5 yrs.) Salary.
EARLY RETIREMENT	At least 25 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary. No minimum age; however, if under age 55, the benefit is reduced 3 percent per month (1/4 of 1 percent per month) for each year under age 55.	At least 25 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary. No minimum age; however, if under age 60, the benefit is reduced 1 percent per year (1/12 of 1 percent per month) for each year under age 60 but over age 55; and 3 percent per year (1/4 of 1 percent per month) for each year under age 55.	At least 25 years of service required. Annual Benefit = Years of Service ÷ 55 X Final Average (3 yrs.) Salary. No minimum age; however, if under age 62, the benefit is reduced 1 percent per year (1/12 of 1 percent per month) for each year under age 62 but over age 55; and 3 percent per year (1/4 of 1 percent per month) for each year under age 55.	At least 25 years of service required. Annual Benefit = Years of Service ÷ 60 X Final Average (5 yrs.) Salary. No minimum age; however, if under age 62, the benefit is reduced 1 percent per year (1/12 of 1 percent per month) for each year under age 62 but over age 55; and 3 percent per year (1/4 of 1 percent per month) for each year under age 55.	At least 30 years of service required. Annual Benefit = Years of Service ÷ 60 X Final Average (5 yrs.) Salary. No minimum age; however, if under age 65, the benefit is reduced 3 percent per year (1/4 of 1 percent per month) for each year under age 65.
VETERAN RETIREMENT	At least 25 years of service at age 55 or older; or at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; or At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.	At least 25 years of service at age 55 or older; or at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; or At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.	At least 25 years of service at age 55 or older; or at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; or At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.	At least 25 years of service at age 55 or older; or at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; or At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.	At least 25 years of service at age 55 or older; or at least 20 years of service at age 60 or older. Annual Benefit = 54.5 percent X last year or highest 12 months of salary; or At least 35 years of service at age 55 or older. Annual Benefit = Years of Service ÷ 55 X Highest 12 Months of Salary.
ORDINARY DISABILITY RETIREMENT	If approved: Annual benefit = 43.6 percent X Final Average (3 yrs.) Salary.	If approved: Annual benefit = 43.6 percent X Final Average (3 yrs.) Salary.	If approved: Annual benefit = 43.6 percent X Final Average (3 yrs.) Salary.	PERS Tier 4 members may be eligible for Disability Insurance Coverage.	PERS Tier 5 members may be eligible for Disability Insurance Coverage.
ACCIDENTAL DISABILITY RETIREMENT	If approved: Annual Benefit = 72.7 percent X Annual Salary at time of accident.	If approved: Annual Benefit = 72.7 percent X Annual Salary at time of accident.	If approved: Annual Benefit = 72.7 percent X Annual Salary at time of accident.	Not Applicable	Not Applicable

3) Contributions

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2017 and 2016, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Covered Authority employees are required to contribute a percentage of their salary toward their pension benefits. P.L. 2011, c78, effective June 28, 2011, increased the active member contribution rate from 5.5% of annual compensation to 6.5% plus an additional 1% phased in over 7 years. The payment of automatic cost of living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law. Employee contributions were \$9,478 and \$9,271 for the years ended December 31, 2017 and 2016, respectively. The percentage of employee's contribution rate as a percentage of covered payroll for 2017 and 2016 was 7.27%, and 7.13%, respectively. The payroll subject to pension for the Authority's employees covered by PERS was approximately \$130,400 and \$130,000 for the years ended December 31, 2017 and 2016. The Authority's total payroll for the years ended December 31, 2017 and 2016 was approximately \$162,000 and \$158,000, respectively.

The Authority is required by statute to contribute to the employee's pension benefits based on an annual actuarial calculation. The valuation is a determination of the financial condition of the retirement system. The PERS employer pension contribution rates were 12.91% and 12.46% for the years ended December 31, 2017 and 2016, respectively. The Authority's required annual contributions to the PERS were \$17,450 and \$16,841 for the years ended December 31, 2017 and 2016, respectively. The percentage of employer's contribution rate as a percentage of total payroll for 2017 and 2016 was 10.77% and 10.66%, respectively. The Authority's required annual contributions represent less than 2% of total contributions by municipalities and local groups to the PERS.

Pension expense recognized in accordance with the requirements of GASB 68 was \$28,185 and \$50,639 at December 31, 2017 and 2016, respectively.

4) Net Pension Liability and Deferred Outflows/Inflows of Resources Related to Pensions

December 31, 2017 and 2016, the Authority reported a liability of \$438,493 and \$561,453, respectively, for its proportionate share of the collective PERS net pension liability. The net pension liability was measured as of June 30, 2017 and June 30, 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 and July 1, 2015, respectively with amounts rolled forward to the measurement date using update procedures. For purposes of measuring the net pension liability, the plan's fiduciary net position has been determined on the same basis as they are reported for PERS. Benefit payments are recognized when due and payable in accordance with the benefit terms and investments are measured at their fair value. At June 30, 2017, the Authority's proportion of the total plan was 1.19%, which was a decrease of 0.13% from 1.32% which was the Authority's proportion measured as of June 30, 2016. The employer allocation percentages are based on the ratio of the contributions of an individual employer to the total contributions to PERS during the measurement period. At December 31, 2017 and 2016, respectively, the Authority reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 10,325	—	10,441	—
Net difference between projected and actual earnings on pension plan investments	2,986	—	21,409	—
Changes in employer proportion	—	11,249	—	12,073
Changes in assumptions	88,341	88,018	116,303	—
Employer contribution made subsequent to the measurement date	8,726	—	8,421	—
Total	<u>\$ 110,378</u>	<u>99,267</u>	<u>156,574</u>	<u>12,073</u>

Included in deferred outflows of resources related to pensions at December 31, 2017 and 2016 is \$8,726 and \$8,421, respectively, from contributions made by the Authority subsequent to the respective measurement date that will be recognized as a reduction of the net pension liability in the following fiscal year. Other amounts reported as

deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>2017</u>
Year ended June 30:	
2018	\$ 6,880
2019	12,134
2020	6,639
2021	(13,889)
2022	<u>(9,379)</u>
Total	<u>\$ 2,385</u>

5) Significant Assumptions and Other Inputs Used to Measure Total Pension Liability

The collective total pension liability for the June 30, 2017 and 2016 measurement date was determined by an actuarial valuation as of July 1, 2016 and 2015, respectively, which was rolled forward to June 30, 2017 and 2016. The respective actuarial valuations used the following actuarial assumptions.

	<u>2017</u>	<u>2016</u>
Inflation rate	2.25%	3.08%
Salary increases:		
Through 2026	1.65-4.15% based on age	1.65-4.15% based on age
Thereafter	2.65-5.15% based on age	2.65-5.15% based on age
Investment rate of return	7.00%	7.65%

For the July 1, 2016 and 2015 valuations, preretirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on the future financial statements.

(a) *Long-Term Expected Rate of Return*

The long-term expected rate of return was 7.00% and 7.65% for the June 30, 2017 and 2016 valuations, respectively. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 and 2016 are summarized in the following table:

Asset class	2017		Asset class	2016	
	Target allocation	Long-term expected real rate of return		Target allocation	Long-term expected real rate of return
Absolute return/risk mitigation	5.00%	5.51%	Cash	5.00%	0.87%
Cash equivalents	5.50	1.00	U.S. treasuries	1.50	1.74
U.S. Treasuries	3.00	1.87	Investment grade credit	8.00	1.79
Investment grade credit	10.00	3.78	Mortgages	2.00	1.67
Public high yield	2.50	6.82	High yield bonds	2.00	4.56
Global diversified credit	5.00	7.10	Inflation-indexed bonds	1.50	3.44
Credit oriented hedge funds	1.00	6.60	Broad U.S. equities	26.00	8.53
Debt related private equity	2.00	10.63	Developed foreign equities	13.25	6.83
Debt related real estate	1.00	6.61	Emerging market equities	6.50	9.95
Private real asset	2.50	11.83	Private equity	9.00	12.40
Equity related real estate	6.25	9.23	Hedge funds/absolute return	12.50	4.68
U.S. equity	30.00	8.19	Real estate (property)	2.00	6.91
Non-U.S. developed markets equity	11.50	9.00	Commodities	0.50	5.45
Emerging markets equity	6.50	11.64	Global debt ex US	5.00	(0.25)
Buyouts/venture capital	8.25	13.08	REIT	5.25	5.63

(b) *Discount Rate*

2017

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

2016

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributes. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

(c) *Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Authority's proportionate share of the net pension liability of the participating employers as of June 30, 2017 and 2016, respectively, calculated using the discount rate as disclosed above as well as what the proportionate net pension liability would be if it was calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current discount rate</u>	<u>1% Increase</u>
2017 (4.00%, 5.00%, and 6.00%)	543,981	438,493	350,609
2016 (2.98%, 3.98%, and 4.98%)	687,995	561,453	456,982

PERS issues a stand-alone financial report that is available to the public. The report may be accessed via the State of New Jersey's website at: <http://www.state.nj.us/treasury/pensions/documents/financial/gasb/gasb68-pers18.pdf>

Deferred Compensation Plan

The Authority adopted the New Jersey Turnpike Authority Employees' Deferred Compensation Plan (Deferred Compensation Plan) effective as of January 1, 1999, in accordance with the provisions of Section 27:23-1, et seq., of the New Jersey Revised Statutes and as provided in Section 457 of the Internal Revenue Code of 1986, as amended (Code). The Deferred Compensation Plan was amended and restated effective as of January 1, 2011. All permanent employees are eligible to participate in the plan, which permits participants to defer annually a portion of their salary. The Authority does not make any contributions to the plan. Employees of the South Jersey Transportation Authority and the Burlington County Bridge Commission are also eligible to participate in the plan. All amounts of compensation deferred under the plan, all property and rights purchased with these amounts, and all income attributable to these amounts, property, or rights are solely the property of the employees.

(12) Other Postemployment Benefits

The Authority provides medical, prescription drug, vision, dental and Medicare Part B reimbursement to retirees and their covered dependents, in accordance with the terms of the applicable collective bargaining agreements or Authority personnel policies for non-bargaining unit members. The Authority maintains single-employer, self-funded health plans administered by third party claims administrators. All active employees who retire from the New Jersey Turnpike Authority and meet the eligibility criteria will receive these benefits. The plan does not issue a stand-alone report.

The Authority currently funds the cost to provide postemployment benefits on a pay-as-you-go basis. For the years ended December 31, 2017 and 2016, approximately 245 and 213 retirees, respectively, contributed to their healthcare cost, in accordance with the provisions of agreements in effect at the time of their retirement and P.L. 2011, c.78, effective June 28, 2011.

The Authority establishes and has the power to amend benefits and contribution obligations, subject to collective negotiations agreements to the extent they do not conflict with P.L. 2012, c. 78 mandated by the State of New Jersey.

As required by the accounting standards of GASB 45, the Authority must report costs associated with "other postemployment benefits" (OPEB). OPEB costs are actuarially calculated based on benefits that current and retired employees have accrued as a result of years of service. The Standard sets the method for determining the Authority's postemployment benefits accrual, the Annual Required Contribution (ARC), to include both the value of benefits earned during the year (Normal Cost) and an amortizing of the unfunded actuarial accrued liability over a period not to exceed thirty years. The unfunded actuarial accrued liability is amortized using a level percentage of payroll for a period of 30 years with assumed payroll increases of 3% per year.

The following table shows the components of the Authority’s annual OPEB cost as of December 31, 2017 and 2016:

	December 31	
	2017	2016
Annual required contribution (ARC)	\$ 104,375	100,099
Interest on net OPEB obligation	17,302	12,796
Adjustment to annual required contribution	(17,191)	(12,713)
Total annual OPEB cost (AOC)	104,486	100,182
Contributions made	42,933	43,501
Increase in net OPEB obligation	61,553	56,681
Net OPEB obligation, beginning of year	432,545	375,864
Net OPEB obligation, end of year	\$ 494,098	432,545

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation (NOO) the for years ending December 31, 2017, 2016 and 2015, respectively, were as follows:

Year ending	Annual OPEB cost	Percentage of annual OPEB cost contributed*	Net OPEB obligation
December 31, 2017	\$ 104,486	41.1 %	\$ 494,098
December 31, 2016	100,182	43.4	432,545
December 31, 2015	100,182	44.1	375,864

* Based on expected benefit payments plus Retiree Drug Subsidy for the applicable year end.

The covered payroll (annual payroll of active employees covered by the plan) as of January 1, 2017 was \$121,717, and the ratio of the UAAL to covered payroll was 1208%.

At January 1, 2017, the actuarial accrued liability (AAL) for postemployment benefits earned was approximately \$1,470,000, based on certain actuarial methods and assumptions. Since this liability has not been pre-funded as of the valuation date, the unfunded actuarial accrued liability (UAAL) was approximately \$1,470,000. The AAL represents approximately 74% of the present value of all projected benefits.

The actuarial valuation date is January 1, 2017. 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 employer and the plan members to 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 assets.

For the most recent actuarial valuation dated January 1, 2017, the projected unit credit cost method was used as the actuarial cost method. The actuarial assumptions included an investment rate of return of 4% (inclusive of an inherent inflation rate of 2%), and an annual healthcare cost trend rate of 9.5% medical and grading down to an ultimate rate of 5% after 9 years. For prescription drug benefits, the initial trend rate is negative 5%, increasing to a 10.5% and again declining to 5% as a long-term trend rate after 11 years. For Medicare Part B reimbursement and for dental benefits the trend rate is 5.0% and for vision benefits the trend is 3.0%. The amortization method used was the level percentage of payroll, for a period of 30 years open, with an assumption that payroll increases by 3% per year.

The unfunded actuarial accrued liability (UAAL) as of January 1, 2017 is \$1,470,359, an increase of \$45,088 from the prior valuation UAAL of \$1,425,271. This increase is due to the demographic changes since last valuation dated January 1, 2015, and the changes in valuation assumptions such as per capita health costs and revisions of the premium rates on which the retiree contributions are based.

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information as of January 1, 2017 and whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

At the January 28, 2014 Board of Commissioners Meeting, the Authority approved a plan to establish an Internal Revenue Code (IRC) Section 115 Trust to hold employer contributions for other post-retirement benefits (OPEB) obligations. The plan approved by the Board of Commissioners includes (1) the establishment of an OPEB Committee comprised of Authority personnel, (2) the issuance of Request For Proposals for an institutional trustee and an investment manager/advisor for the plan assets, (3) the development of an OPEB Trust agreement with outside counsel, (4) obtaining a private letter ruling from the Internal Revenue Service, and (5) obtaining all necessary legal opinions from outside general counsel and bond counsel. As of December 31, 2017, the trust has not been established.

(13) Risk Management and Self-Insurance

The Authority maintains a comprehensive insurance program, which affords various coverages including but not limited to, excess liability (general, automobile, and police professional), excess workers compensation, property insurance (including bridge and non-bridge properties and business interruption insurance), employee medical benefits insurance, public officials and employment practices liability insurance, commercial crime and cyber liability insurance, and owner controlled insurance programs (OCIPs). During the year 2017, the Authority increased the limits on a few of its insurance lines, specifically Property insurance, Cyber insurance and Fiduciary insurance coverage. Bridge and Property insurance coverage was enhanced with a higher limit for terrorism. Cyber insurance policies were also upgraded with additional enhancements.

The OCIPs provided general liability and workers compensation coverage, as well as other insurance coverages for construction contracts included in the Authority's \$7 Billion Capital Improvement Program for the benefit of the Authority and its contractors, subcontractors, consultants and sub-consultants for claims related to various construction contracts at customary ranges of coverage limits and self-insured retentions and/or deductibles. The Authority ceased enrolling new contracts in the OCIP in April 2014. Additionally, the OCIPs ceased providing coverage after July 15, 2017, but the OCIP program remains in place to administer general liability, workers compensation and other claims.

The following chart provides additional information as to risks insured for the protection of the Authority, general limits of coverage and applicable deductibles/self-insured retentions. Certain defined risks are subject to sub-limits and more specific deductibles/self-insured retentions and all insurances are subject to terms and conditions as set forth in the policies.

Type of insurance coverage	Deductible/retention
Excess Liability (general liability)	\$ 2,000 per occurrence (\$3,000 aggregate)
Excess Liability (automobile liability)	5,000 per occurrence
Excess Liability (State police)	2,000 per occurrence
Bridge and Property (1)	2,000 per occurrence
Commercial Crime	50 per occurrence
Cyber Insurance	250 per occurrence
Employee Medical Benefits	350 per claimant
Public Official and Employment Practices Liability	500 per occurrence
Professional Liability Insurance Architects & Engineers	100 for project values up to \$500,000 and 250 for project values greater than \$500,000
Excess Workers Compensation	1,250 per occurrence
OCIP (Interchange 6-9 Widening Project – general and workers compensation)	500 per occurrence
OCIP (other construction projects – general and workers compensation)	500 per occurrence

(1) Bridge and property insurance includes business interruption insurance which is subject to a two day waiting period with respect to approximately 42% of the pro-rata share of the primary policy insurers and a five day waiting period with respect to approximately 58% of the pro rata share of the primary policy insurers. In the event a covered loss continues beyond the respective waiting periods, coverage starts from the first day of the loss, subject to the \$2,000 deductible.

On January 20, 2017, the Delaware River Turnpike Bridge between New Jersey and Pennsylvania, which permits traffic on the Authority's Pearl Harbor Memorial Turnpike Extension to connect with the Pennsylvania Turnpike, was fully closed for emergency repairs. After the completion of certain repairs and extensive examination and testing, the bridge was fully reopened to traffic on March 9, 2017. In December 2017, the Authority filed a claim for \$21,411 under its Bridge and Property Insurance, including business interruption insurance, for all physical damage costs, related extra expenses and lost revenue due to the damage and subsequent closure of the Delaware River Turnpike Bridge.

Claim liabilities are recorded when it is probable that a loss occurred and the amount of that loss can be reasonably estimated. The liabilities include a provision for case reserves as well as incurred but not reported and future development of known cases. The following tables present the changes in claims liabilities for the years ended December 31, 2017 and 2016:

	<u>December 31, 2016</u>	<u>Change in estimate</u>	<u>Payments</u>	<u>December 31, 2017</u>
General liability	\$ 4,061	2,522	(2,335)	4,248
Auto liability	1,091	671	(601)	1,161
Workers' compensation	21,645	4,788	(4,173)	22,260
Owner controlled insurance program (OCIP)	15,719	35,316	(37,362)	13,673
Total	<u>\$ 42,516</u>	<u>43,297</u>	<u>(44,471)</u>	<u>41,342</u>

	<u>December 31, 2015</u>	<u>Change in estimate</u>	<u>Payments</u>	<u>December 31, 2016</u>
General liability	\$ 3,356	874	(169)	4,061
Auto liability	777	860	(546)	1,091
Workers' compensation	25,814	858	(5,027)	21,645
Owner controlled insurance program (OCIP)	29,398	20,616	(34,295)	15,719
Total	<u>\$ 59,345</u>	<u>23,208</u>	<u>(40,037)</u>	<u>42,516</u>

(14) Blended Component Unit – Garden State Arts Foundation, Inc.

The Garden State Arts Foundation, Inc. (formerly known as the Garden State Arts Center Foundation) was established in 1984 pursuant to the provisions of Title 15A, Corporations-Non-Profit, of the New Jersey State Statutes. The purpose of the Foundation is to receive contributions from the public or other entities, engage in such fundraising activities as the members deem appropriate, fund and administer an annual scholarship program to provide scholarships to students pursuing an undergraduate degree with a performing arts concentration at four-year New Jersey colleges and universities, support the study of performing arts in New Jersey and support educational and charitable activities. The Foundation provides free entertainment at the PNC Bank Arts Center and various outreach locations throughout the State of New Jersey for New Jersey's senior citizens, school children, and other deserving residents. The Foundation's members include the Commissioners of the New Jersey Turnpike Authority. The Foundation is qualified as a tax-exempt organization as defined by Section 501(c) (3) of the Internal Revenue Code.

The condensed statements of net position and statements of revenues, expenses, and changes in net position of the Foundation as of and for the years ended December 31, 2017 and 2016 are as follows:

Summary of Net Position

Assets	2017	2016
Current assets	\$ 735	805
Total assets	<u>\$ 735</u>	<u>805</u>
Liabilities		
Current liabilities	\$ 16	7
Total liabilities	<u>\$ 16</u>	<u>7</u>
Net Position		
Net position:		
Unrestricted	\$ 719	798
Total net position	<u>\$ 719</u>	<u>798</u>

Summary of Revenues, Expenses, and Changes in Net Position

	2017	2016
Operating revenues	\$ 628	627
Operating expenses	<u>713</u>	<u>571</u>
Operating income (loss)	(85)	56
Nonoperating revenues	<u>6</u>	<u>5</u>
Increase (decrease) in net position	(79)	61
Net position as of beginning of year	<u>798</u>	<u>737</u>
Net position as of end of year	<u>\$ 719</u>	<u>798</u>

(15) Litigation

The Authority is a party to various legal actions and regulatory reviews arising in the ordinary course of its operations which includes investigation, remediation of existing and projected action level environmental conditions. The Authority is contingently liable under pending lawsuits and claims, relating principally to construction programs and personal injury claims, in which the Authority is named a defendant. The Authority is also subject to regulatory directives or environmental claims by third parties to investigate and/or remediate suspected or known contamination that is claimed to be the Authority's responsibility. The Authority believes the aggregate liability of the Authority under such actions, even if adversely determined, would not have a material adverse effect on the financial position of the Authority; and sufficient funds are expected to be available to satisfy any payments required in connection therewith.

On May 24, 2017, a Petition for Rule Change seeking to have the Authority revoke its rule imposing a \$50 administrative fee in connection with collecting unpaid tolls from toll violators of the Turnpike System was filed with the Authority. In the Petition, the petitioners argue that the administrative fee is unreasonable and therefore not authorized by the Act. The Petition also includes a demand for a refund of the administrative fees collected by the

Authority to the extent unreasonable, which amount the petitioners claim is nearly \$200,000. In October 2017, the Authority denied the Petition. On December 1, 2017, the petitioners filed an appeal of that denial with the Appellate Division of the Superior Court of the State of New Jersey. The Authority is currently waiting for the Appellate Division to issue a briefing schedule. In connection with such appeal, the Authority intends to vigorously defend its conclusion that the \$50 administrative fee is reasonable and consistent with the Act. Additionally, the Authority believes that in the unlikely event that a court should ultimately rule that some portion of the \$50 administrative fee is not reasonable and must be refunded by the Authority, the aggregate amount required to be refunded would be substantially less than the amount claimed by the petitioners given the total aggregate amount of administrative fees collected by the Authority since the fee was raised to \$50 is substantially less than \$200,000.

On December 1, 2017, the law firm representing the petitioners also filed a class action lawsuit in the United States District Court for the District of New Jersey alleging, among other things, that the \$50 administrative fee violates the Fair Debt Collections Practices Act (the "FDCPA") and the Eighth Amendment to the United States Constitution. On January 17, 2018, the Federal Court entered an order that stayed the class action lawsuit pending a decision in the Appeal discussed above. If and when the class action lawsuit is restored to active status, the Authority intends to vigorously defend its conclusion that the \$50 administrative fee does not violate the FDCPA or the United States Constitution.

The Authority is also defending several lawsuits arising from its operations of the State Police assigned to provide police services on the Turnpike and Garden State Parkway pursuant to the Authority's contract with the New Jersey State Police, which includes an indemnification provision requiring the Authority to defend and indemnify the State troopers individually as well as the State Police and the State against claims related to their conduct in the course of their duties. The Authority, under the indemnification provisions of the contract, may be responsible for a State trooper's liability for negligent acts, but not for intentional wrongful acts or acts beyond the scope of employment. The Authority believes the aggregate liability of the Authority under such actions, even if adversely determined, would not have a material adverse effect on the financial position of the Authority and sufficient funds are expected to be available to satisfy any payments required in connection therewith.

Soil and/or groundwater contamination found on off-site properties and waterway contamination that resulted from or is inferred to be the result of operations conducted at roadway facilities has led to litigation by others against the Authority and may lead to additional litigation in the future. Claims for reimbursement of remediation costs filed by the parties undertaking remediation activities at these properties may be forthcoming. In some cases the Authority may be required to undertake, fund or reimburse others for remediation activities at properties where the contamination has been discovered. The ultimate cost, if any, of these potential liabilities is unknown at this time.

(16) Related Parties

Under the regular course of operations, the Authority enters into various agreements with the State of New Jersey (the State). A summary of transactions with the State in 2017 and 2016 is as follows:

	December 31	
	2017	2016
Due from the State - Project reimbursements	\$ 2,693	448
Due to the State - Potential unemployment claims	\$ 2,843	2,758
Payments to the State - Operating expenses		
State police services	\$ 60,808	62,460
PERS billing	17,450	16,841
Other State payments	668	504
Payments to the State - Nonoperating expenses		
Transportation Trust Fund Agreement	\$ 22,000	22,000
State Transportation Projects Funding Agreement (2011-2016)	—	162,000
State Transportation Projects Funding Agreement (2016-2021)	204,000	102,000
Feeder Road Maintenance Agreement	6,500	8,000
Total payments to the State - Nonoperating expenses	\$ 232,500	294,000
Payments to the State - Capitalized expenses		
State police services	\$ 5,625	8,186

From time to time the Authority enters into various memorandums of agreement with the State that cover cost-sharing or cost-reimbursement work, for various construction projects, including a pass-through of Federal funding. These agreements generally require the Authority to invoice the State for its share of the construction or engineering work performed under the agreements.

The Authority is a participating employer in the State’s Unemployment Insurance program and reimburses the State for unemployment claims made by its eligible former employees.

The Authority has an agreement with the State of New Jersey Department of Law and Public Safety (State Police) to patrol the Turnpike and the Parkway. As per this agreement the Authority makes payments for the State Police services received. These payments include, but are not limited to salary and overtime expenses, travel expenses, training costs, health benefit costs, fringe benefits and other indirect costs. A portion of these payments made to the State Police are charged back to capital projects based on the State Police services used for the capital and construction projects.

The Authority is a participating employer in the State’s PERS plan and annually contributes the employer’s portion as billed by the State (note 11).

Under the terms of an agreement dated April 27, 1984 and amendments dated August 1, 1995 and March 27, 2000, the Authority makes annual payments to the State of New Jersey to assist in transportation purposes. These payments are \$22,000 annually and are due until all obligations of the New Jersey Transportation Trust Fund Authority, as set forth in the 2000

Amendment, are paid for or such payment has been provided for. The payments are made from the General Reserve Fund and are subordinate to debt service payments on all outstanding bonds and all other obligations under the Authority's General Bond Resolution.

Under the terms of a State Transportation Projects Funding Agreement dated September 30, 2011, the Authority made annual payments to the State of New Jersey for the development of State transportation purposes. These payments totaled \$324,000 in 2015 and \$162,000 in 2016. The agreement terminated on June 30, 2016.

On June 28, 2016, the Authority entered into a new State Transportation Funding Agreement with the Treasurer of the State of New Jersey. Under this new Funding Agreement, the Authority will make payments to the State of New Jersey to be used for statewide transportation purposes for a five year period which began on July 1, 2016 and ends on June 30, 2021. The Authority has and will make annual payments, payable quarterly, of \$204,000 per year in the State fiscal years June 30, 2017 and 2018, and \$129,000 per year in the State fiscal years 2019, 2020, and 2021. The total payments over the five-year period will be \$795,000. The payments totaled \$204,000 in calendar year 2017. The payments are made from the General Reserve Fund and are subordinate to debt service payments on all outstanding bonds and all other obligations under the Authority's General Bond Resolution.

The Authority also made annual payments to the State totaling \$6,500 in 2017 and \$8,000 in 2016 for feeder road maintenance provided by the New Jersey Department of Transportation. The Authority entered into a Feeder Road Maintenance and Cost Sharing Agreement with the State for the period July 1, 2016 through June 30, 2023, a term of seven years. Under the terms of the Feeder Road Agreement, the State will continue to reconstruct, maintain and repair 280 miles of feeder roads leading to 20 interchanges on the New Jersey Turnpike and 36 interchanges on the Garden State Parkway. The Authority will reimburse the State on an annual basis, payable quarterly, \$8,000 in the State fiscal year 2017, \$5,000 in the State fiscal year 2018, \$4,000 in the State fiscal year 2019, \$2,750 in the State fiscal year 2020, and \$2,500 in State fiscal year 2021, 2022 and 2023, for a total of \$27,250 over the seven year term. This Feeder Road Agreement replaced a prior agreement for the period July 1, 2016 – June 30, 2016 under which the Authority made an annual payment of \$8,000, payable quarterly, for feeder road maintenance work performed by the State.

(17) Commitments

The Authority has open commitments related to construction contracts totaling approximately \$469,876 and \$742,045 as of December 31, 2017 and 2016, respectively. This work relates to the Authority's \$7 Billion Capital Improvement Program and will be completed over the next several years.

On December 7, 2017, the Authority entered into a 25 year lease agreement with Live Nation Worldwide, Inc. (Tenant), which commences on January 1, 2018, to lease the Amphitheater located at PNC Bank Arts Center. As per the agreement, the tenant is responsible to pay the greater of the minimum fixed rent or minimum percentage rental amount for each lease year. In addition the tenant has agreed to fund capital improvements to the Amphitheater in the amount of \$11,000 payable in the equal installments starting March 1, 2018 and ending on March 1, 2021. As per the agreement, the Authority is committed to deposit an equal amount within 30 days after the tenant makes the payment towards capital improvements.

(18) Service Area Agreements

On September 12, 2017, the Authority entered into a 27 year agreement with HMS Host Tollroads Inc. (HMS) and a 25 year agreement with Sunoco Retail LLC (Sunoco) for the operation and remodeling of service areas along the Turnpike and the Parkway. On the Turnpike, HMS operates the food concessions at all 12 service areas and Sunoco provides gasoline, diesel fuel and minor repair services at all service areas. On the Parkway, HMS operates 5 service areas. The agreement allows HMS to provide food services at the Authority service areas in exchange for the greater of a minimum annual guaranteed payment or a percentage of gross sales, and a significant additional contribution to rebuild 8 new restaurant buildings and refurbish 6 existing restaurant buildings. The HMS agreement also provides for it to make annual contributions over the life of the contract for ongoing maintenance and capital improvements to the restaurant facilities. The agreement with Sunoco allows it to provide fuel services at the Authority service areas in exchange for the greater of a minimum annual guaranteed payment or a percentage of gross sales, and a significant additional contribution to rebuild/remodel 20 fuel service facilities over the next 7 years. Sunoco will also provide an annual contribution over the life of the agreement for ongoing maintenance and capital improvements to the fuel service facilities. Construction is expected to begin in 2018 on the Thomas Edison Service Area on the Turnpike and the Monmouth location on the Parkway. All locations are expected to be completed by 2024.

(19) Subsequent Events

The Authority evaluated events subsequent to December 31, 2017 and through June 26, 2018, the date on which the financial statements were approved for issuance and determined that no additional matters required disclosure.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)
Required Supplementary Information (Unaudited)
Schedule of Funding Progress – Other Postemployment Benefits Plan
December 31, 2017
(In thousands)

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability – projected unit credit (b)	Unfunded actuarial accrued liability (b)–(a)	Funded ratio (a)/(b)	Covered payroll (c)	Unfunded actuarial accrued liability as a percentage of covered payroll (b) – (a)/(c)
01/01/2013	\$ —	1,091,162	1,091,162	—	110,791	985%
01/01/2015	—	1,425,271	1,425,271	—	128,816	1,106
01/01/2017	—	1,470,359	1,470,359	—	121,717	1,208

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)
Required Supplementary Information (Unaudited)
Schedules of Proportionate Share, Employer Contributions and Notes
State of New Jersey Public Employees' Retirement System
December 31, 2017
(In thousands)

Schedule of Proportionate Share of Net Pension Liability at June 30 (measurement date)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportion of net pension liability – Local Group	1.8837%	1.8957%	1.9379%	1.9564%	1.9846%
Proportion of net pension liability – Total Plan	1.1904	1.3225	1.5352	1.6194	1.4164
Proportionate share of net pension liability	\$ 438,493	561,453	435,015	366,300	379,299
Covered-employee payroll (approximate)	130,400	130,000	130,000	132,600	134,600
Proportionate share of net pension liability as a percentage of covered-employee payroll	336.27%	431.89%	334.63%	276.24%	281.80%
Plan fiduciary net position as a percentage of total pension liability	36.78%	31.20%	38.21%	42.74%	40.71%

Schedule of Employer Contributions for the year ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contributions	\$ 17,450	16,841	16,660	16,129	14,954	18,395	17,923	14,169	12,991	9,693
Contributions in relation to the contractually required contributions	17,450	16,841	16,660	16,129	14,954	18,395	17,923	14,169	12,991	9,693
Contribution deficiency (excess)	\$ —	—	—	—	—	—	—	—	—	—
Covered-employee payroll (approximate)	130,400	130,000	130,000	132,600	134,600	135,000	147,000	166,000	164,881	161,925
Contributions as a percentage of covered-employee payroll	13.38%	12.95%	12.82%	12.16%	11.11%	13.63%	12.19%	8.54%	7.88%	5.99%

Notes

Changes in benefit terms – There were no significant changes in benefits for any of the actuarial valuations used to determine required contributions.

Changes in assumptions – There were no significant changes in assumptions except for the annual change in the discount rate as follows:

June 30, 2017: 5.00%
June 30, 2016: 3.98%
June 30, 2015: 4.90%
June 30, 2014: 5.39%
June 30, 2013: 5.55%

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)
Schedule of Net Position – Reconciliation of Bond Resolution to GAAP
December 31, 2017
(With summarized comparative financial information as of December 31, 2016)
(In thousands)

Assets	Revenue	Construction	Maintenance reserve	Special project reserve	General reserve	Charges	Debt service	Debt reserve	Total bond resolution	Garden State Arts Foundation	GAAP Adjustments	Total 2017 GAAP Financials	Total 2016 GAAP Financials
Current assets:													
Cash	\$ 171,793	—	1,078	3,606	6,604	—	—	—	183,081	626	—	183,707	202,305
Restricted cash	—	59,466	—	—	—	—	29	—	59,495	—	—	59,495	117,334
Investments (1)	298,192	—	66,256	73,574	291,730	—	—	—	729,752	—	—	729,752	674,006
Restricted investments	—	—	—	—	—	—	466,713	267,192	733,905	—	—	733,905	645,411
Receivables, net of allowance	67,305	—	—	148	299	—	—	—	67,752	108	—	67,860	73,736
Inventory	23,075	—	—	—	—	—	—	—	23,075	—	—	23,075	22,692
Due from State of New Jersey	377	—	—	—	2,316	—	—	—	2,693	—	—	2,693	448
Restricted deposits	2,435	3,702	—	—	24,069	—	—	—	30,206	—	—	30,206	30,189
Prepaid expenses	9,078	—	—	—	—	—	—	—	9,078	1	—	9,079	4,650
Interfund	(195,612)	6,891	(810)	584	191,344	—	(439)	(1,958)	—	—	—	—	—
Total current assets	376,643	70,059	66,524	77,912	516,362	—	466,303	265,234	1,839,037	735	—	1,839,772	1,770,771
Noncurrent assets:													
Restricted investments	—	425,612	—	—	—	—	—	333,596	759,208	—	—	759,208	440,753
Capital assets, net of accumulated depreciation	—	11,103,029	434,928	88,282	201,154	—	—	—	11,827,393	—	13,673	11,841,066	11,455,725
Total noncurrent assets	—	11,528,641	434,928	88,282	201,154	—	—	333,596	12,586,601	—	13,673	12,600,274	11,896,478
Total assets	\$ 376,643	11,598,700	501,452	166,194	717,516	—	466,303	598,830	14,425,638	735	13,673	14,440,046	13,667,249
Deferred Outflows													
Deferred outflows:													
Deferred amounts on refunding and derivative instruments	\$ —	—	—	—	—	—	—	—	—	—	281,059	281,059	132,231
Deferred amount relating to pensions	—	—	—	—	—	—	—	—	—	—	110,378	110,378	156,574
Total deferred outflows	\$ —	—	—	—	—	—	—	—	—	—	391,437	391,437	288,805
Liabilities													
Current liabilities:													
Accounts payable and accrued expenses	\$ 64,676	45,633	12,790	4,852	6,644	—	—	—	134,595	16	16,847	151,458	172,155
Funds held in trust	205,118	24,465	1,578	1,507	676	—	—	—	233,344	—	—	233,344	239,720
Due to State of New Jersey	2,843	—	—	—	—	—	—	—	2,843	—	—	2,843	2,758
Accrued interest payable	—	—	—	—	—	—	247,828	—	247,828	—	—	247,828	268,050
Unearned revenue	4,628	—	—	—	10,692	—	—	—	15,320	—	—	15,320	30,466
Current portion of bonds payable	—	218,475	—	—	—	—	—	—	218,475	—	—	218,475	197,740
Current portion of hybrid instrument borrowing	—	—	—	—	—	—	—	—	—	—	24,649	24,649	21,546
Current portion of other long-term liabilities	3,573	—	—	—	8	—	—	—	3,581	—	2,368	5,949	6,209
Total current liabilities	280,838	288,573	14,368	6,359	18,020	—	247,828	—	855,986	16	43,864	899,866	938,644
Noncurrent liabilities:													
Bonds payable, net	—	11,392,254	—	—	—	—	—	—	11,392,254	—	—	11,392,254	10,873,381
Hybrid instrument borrowing	—	—	—	—	—	—	—	—	—	—	118,397	118,397	67,756
Other long-term obligations	42,929	—	—	—	24,077	—	—	—	67,006	—	46,887	113,893	120,668
Other postemployment benefit liability	—	—	—	—	91,325	—	—	—	91,325	—	402,773	494,098	432,545
Interest rate swaps liabilities	—	—	—	—	—	—	—	—	—	—	20,914	20,914	29,190
Net pension liability	—	—	—	—	—	—	—	—	—	—	438,493	438,493	561,453
Total noncurrent liabilities	42,929	11,392,254	—	—	115,402	—	—	—	11,550,585	—	1,027,464	12,578,049	12,084,993
Total liabilities	\$ 323,767	11,680,827	14,368	6,359	133,422	—	247,828	—	12,406,571	16	1,071,328	13,477,915	13,023,637
Deferred Inflows													
Deferred inflows:													
Accumulated increase in fair value of hedging derivatives	\$ —	—	—	—	—	—	—	—	—	—	6,288	6,288	2,035
Deferred amount relating to pensions	—	—	—	—	—	—	—	—	—	—	99,267	99,267	12,073
Total deferred inflows	\$ —	—	—	—	—	—	—	—	—	—	105,555	105,555	14,108
Net Position													
Net position:													
Net investment in capital assets	\$ —	(82,127)	434,928	88,282	201,154	—	—	598,830	1,241,067	—	138,012	1,379,079	1,064,121
Restricted under trust agreements	—	—	—	—	24,069	—	218,475	—	242,544	—	—	242,544	221,811
Unrestricted	52,876	—	52,156	71,553	358,871	—	—	—	535,456	719	(909,785)	(373,610)	(367,623)
Total net position	\$ 52,876	(82,127)	487,084	159,835	584,094	—	218,475	598,830	2,019,067	719	(771,773)	1,248,013	918,309

(1) Included in investments above at December 31, 2017 is \$10,747 the Authority has designated as reserved for national toll interoperability requirements under Federal Law P.L. 112-131, the Moving Ahead for Progress in the 21st Century Act (Map-21) \$(10,500), and emergency maintenance work \$(247). In 2017 the amount reserved for the \$7 Billion CIP was spent resulting in a reduction in investments of \$20,000.

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)
Schedule of Revenues, Expenses, and Changes in Net Position – Reconciliation of Bond Resolution to GAAP
Year ended December 31, 2017
(With summarized comparative financial information for the year ended December 31, 2016)
(In thousands)

	Revenue	Construction	Maintenance reserve	Special project reserve	General reserve	Charges	Debt service	Debt reserve	Total bond resolution	Garden State Arts Foundation	GAAP Adjustments	Total 2017 GAAP Financials	Total 2016 GAAP Financials
Operating revenues:													
Toll revenue	\$ 1,579,896	—	—	—	—	—	—	—	1,579,896	—	—	1,579,896	1,570,662
E-ZPass fees	60,505	—	—	—	—	—	—	—	60,505	—	—	60,505	61,053
Concession revenue	35,591	—	—	—	—	—	—	—	35,591	—	—	35,591	38,192
Miscellaneous revenue	21,973	—	—	—	—	—	—	—	21,973	628	—	22,601	19,446
Total operating revenues	1,697,965	—	—	—	—	—	—	—	1,697,965	628	—	1,698,593	1,689,353
Operating expenses:													
Maintenance of roadway, buildings and equipment	215,130	—	9,981	9,313	16,150	—	—	—	250,574	—	10,727	261,301	255,506
Toll collection	146,150	—	—	—	4,502	—	—	—	150,652	—	9,729	160,381	183,184
State police and traffic control	79,232	—	—	798	1,056	—	—	—	81,086	—	1,407	82,493	84,784
Technology	21,722	—	—	1,547	1,444	—	—	—	24,713	—	2,081	26,794	41,413
General administrative costs	45,891	—	—	21	5,171	—	—	—	51,083	713	2,115	53,911	50,582
Depreciation	—	250,572	32,864	8,866	12,687	—	—	—	304,989	—	—	304,989	301,120
Total operating expenses	508,125	250,572	42,845	20,545	41,010	—	—	—	863,097	713	26,059	889,869	916,589
Operating income (loss)	1,189,840	(250,572)	(42,845)	(20,545)	(41,010)	—	—	—	834,868	(85)	(26,059)	808,724	772,764
Nonoperating revenues (expenses):													
Build America Bonds subsidy	76,153	—	—	—	—	—	—	—	76,153	—	—	76,153	76,071
Federal and State reimbursements	2,764	—	—	—	—	—	—	—	2,764	—	—	2,764	9,287
Payments to the State of New Jersey	—	—	—	—	(232,500)	—	—	—	(232,500)	—	—	(232,500)	(294,000)
Interest expense, Turnpike Revenue Bonds	—	46,326	—	—	—	—	(604,509)	—	(558,183)	—	136,270	(421,913)	(319,192)
Other bond expenses	—	(6,064)	—	—	(1,403)	(117)	—	—	(7,584)	—	—	(7,584)	(1,043)
Loss on disposal of capital assets	—	—	—	—	—	—	—	—	—	—	—	—	(164)
Investment income	1,264	5,277	612	643	3,193	—	2,403	9,615	23,007	6	64,516	87,529	12,217
Arts Center	4,061	—	—	—	—	—	—	—	4,061	—	—	4,061	4,079
Total nonoperating revenues (expenses), net	84,242	45,539	612	643	(230,710)	(117)	(602,106)	9,615	(692,282)	6	200,786	(491,490)	(512,745)
Income before capital contribution and interfund transfers	1,274,082	(205,033)	(42,233)	(19,902)	(271,720)	(117)	(602,106)	9,615	142,586	(79)	174,727	317,234	260,019
Capital contributions													
Income before interfund transfers	1,274,082	(205,033)	(42,233)	(19,902)	(259,250)	(117)	(602,106)	9,615	155,056	(79)	174,727	329,704	260,019
Interfund transfers	(1,274,082)	164,922	116,139	39,053	307,634	115	622,841	(110)	(23,488)	—	23,488	—	—
Net change in fund balance/change in net position	—	(40,111)	73,906	19,151	48,384	(2)	20,735	9,505	131,568	(79)	198,215	329,704	260,019
Net position (deficit) – beginning of year	52,876	(42,016)	413,178	140,684	535,710	2	197,740	589,325	1,887,499	798	(969,988)	918,309	658,290
Net position (deficit) – end of year	\$ 52,876	(82,127)	487,084	159,835	584,094	—	218,475	598,830	2,019,067	719	(771,773)	1,248,013	918,309

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)
Schedule of Cash Flows – Reconciliation of Bond Resolution to GAAP

Year ended December 31, 2017
(With summarized comparative financial information for the year ended December 31, 2016)
(In thousands)

	Revenue	Construction	Maintenance reserve	Special project reserve	General reserve	Charges	Debt service	Debt reserve	Total bond resolution	Garden State Arts Foundation	GAAP Adjustments	Total 2017 GAAP Financials	Total 2016 GAAP Financials
Cash flows from operating activities:													
Receipts from customers and other operating activities	\$ 1,706,316	—	—	—	—	—	—	—	1,706,316	524	—	1,706,840	1,692,162
Payments to suppliers	(249,740)	—	(9,981)	(11,351)	(26,974)	—	—	—	(298,046)	(704)	—	(298,750)	(273,787)
Payments to employees	(178,187)	—	—	—	—	—	—	—	(178,187)	—	—	(178,187)	(157,809)
Payments for self insured health benefits claims	(76,113)	—	—	—	—	—	—	—	(76,113)	—	—	(76,113)	(76,081)
Net cash provided by (used in) operating activities	1,202,276	—	(9,981)	(11,351)	(26,974)	—	—	—	1,153,970	(180)	—	1,153,790	1,184,485
Cash flows from noncapital financing activities:													
Receipts from Federal and State reimbursements	204	—	—	—	—	—	—	—	204	—	—	204	2,709
Payments to State of New Jersey	—	—	—	—	(232,500)	—	—	—	(232,500)	—	—	(232,500)	(294,000)
Proceeds from Arts Center	4,061	—	—	—	—	—	—	—	4,061	—	—	4,061	4,079
Net cash provided by (used in) noncapital financing activities	4,265	—	—	—	(232,500)	—	—	—	(228,235)	—	—	(228,235)	(287,212)
Cash flows from capital and related financing activities:													
Proceeds acquired from new capital debt	—	3,354,519	—	—	—	—	—	—	3,354,519	—	(137,000)	3,217,519	344,312
Purchases and sales of capital assets, net	—	(539,650)	(84,727)	(18,060)	(63,794)	—	—	—	(706,231)	—	113,512	(592,719)	(801,089)
Principal paid on capital debt	—	(197,740)	—	—	—	—	—	—	(197,740)	—	—	(197,740)	(142,115)
Principal paid on defeased capital debt	—	(2,525,615)	—	—	—	—	—	—	(2,525,615)	—	—	(2,525,615)	(343,686)
Proceeds from Build America Bonds subsidy	76,153	—	—	—	—	—	—	—	76,153	—	—	76,153	76,071
Interest paid on capital debt	—	—	—	—	—	—	(624,731)	—	(624,731)	—	—	(624,731)	(586,732)
Payments for bond expenses	—	(6,064)	—	—	(1,403)	(117)	—	—	(7,584)	—	—	(7,584)	(1,043)
Proceeds from capital contributions	—	—	—	—	12,470	—	—	—	12,470	—	—	12,470	—
Interfund Transfers related to capital and related financing activities	(1,229,231)	169,062	117,568	38,153	258,747	54	622,200	(41)	(23,488)	—	23,488	—	—
Net cash (used in) provided by capital and related financing activities	(1,153,078)	254,512	32,841	20,093	206,020	(63)	(2,531)	(41)	(642,247)	—	—	(642,247)	(1,454,282)
Cash flows from investing activities:													
Purchases of investments	(3,855,091)	(1,608,275)	(410,918)	(498,658)	(2,874,607)	(664)	(988,266)	(364,317)	(10,600,796)	—	—	(10,600,796)	(9,458,263)
Sales and maturities of investments	3,802,156	1,293,567	384,553	481,146	2,916,269	727	989,597	354,986	10,223,001	—	—	10,223,001	9,983,087
Interest received	1,115	2,468	499	561	2,940	—	1,089	9,372	18,044	6	—	18,050	14,704
Net cash (used in) provided by investing activities	(51,820)	(312,240)	(25,866)	(16,951)	44,602	63	2,420	41	(359,751)	6	—	(359,745)	539,528
Net decrease in cash	1,643	(57,728)	(3,006)	(8,209)	(8,852)	—	(111)	—	(76,263)	(174)	—	(76,437)	(17,481)
Cash and restricted cash – beginning of year	170,150	117,194	4,084	11,815	15,456	—	140	—	318,839	800	—	319,639	337,120
Cash and restricted cash – end of year	\$ 171,793	59,466	1,078	3,606	6,604	—	29	—	242,576	626	—	243,202	319,639
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	\$ 1,189,840	(250,572)	(42,845)	(20,545)	(41,010)	—	—	—	834,868	(85)	(26,059)	808,724	772,764
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:													
Depreciation expense	—	250,572	32,864	8,866	12,687	—	—	—	304,989	—	—	304,989	301,120
Changes in assets and liabilities:													
Receivables	8,428	—	—	(148)	(1,986)	—	—	—	6,294	(103)	—	6,191	15,241
Inventories	(383)	—	—	—	—	—	—	—	(383)	—	—	(383)	(2,587)
Prepaid expenses	(4,442)	—	—	—	—	—	—	—	(4,442)	—	—	(4,442)	(573)
Accounts payable and accrued expenses	(1,094)	—	—	170	799	—	—	—	(125)	8	(7,905)	(8,022)	19,407
Unearned revenue	(77)	—	—	—	(15,069)	—	—	—	(15,146)	—	—	(15,146)	(11,881)
Other liabilities	10,004	—	—	306	197	—	—	—	10,507	—	(18,758)	(8,251)	3,511
Other postemployment benefit liability	—	—	—	—	17,500	—	—	—	17,500	—	44,051	61,551	56,681
Net pension liability	—	—	—	—	—	—	—	—	—	—	(122,960)	(122,960)	126,438
Deferred outflows of resources related to pension	—	—	—	—	—	—	—	—	—	—	46,196	46,196	(91,148)
Deferred inflows of resources related to pension	—	—	—	—	—	—	—	—	—	—	87,194	87,194	(1,582)
Pollution remediation liability	—	—	—	—	(92)	—	—	—	(92)	—	(1,759)	(1,851)	(2,906)
Net cash provided by (used in) operating activities	\$ 1,202,276	—	(9,981)	(11,351)	(26,974)	—	—	—	1,153,970	(180)	—	1,153,790	1,184,485

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Net Revenue Requirement

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Test 1:		
Total operating revenues - bond resolution	\$ 1,697,965	1,688,726
Build America Bonds subsidy	76,153	76,071
Federal and State reimbursements	2,764	9,287
Less Federal and State reimbursement - construction fund	—	(2,709)
Total investment income - bond resolution	23,007	15,290
Less earnings on construction investments	(5,277)	(2,514)
Fair market value adjustments	(174)	(414)
Arts center	4,061	4,079
	<u>1,798,499</u>	<u>1,787,816</u>
Total pledged revenues		
Less revenue operating expenses - revenue fund	<u>(508,125)</u>	<u>(493,225)</u>
Net revenue available for debt service	1,290,374	1,294,591
Less net revenue requirements:		
Interest expense – debt service	(604,509)	(575,338)
Principal payment – debt service	(218,475)	(197,740)
Revenue transfer to charges	(115)	(94)
Revenue transfer to maintenance reserve	(116,751)	(89,370)
Revenue transfer to special project reserve	<u>(39,696)</u>	<u>(38,918)</u>
Excess net revenues	<u>\$ 310,828</u>	<u>393,131</u>
Test 2:		
Total operating revenues - bond resolution	\$ 1,697,965	1,688,726
Build America Bonds subsidy	76,153	76,071
Federal and State reimbursements	2,764	9,287
Less Federal and State reimbursement - construction fund	—	(2,709)
Total investment income - bond resolution	23,007	15,290
Less earnings on construction investments	(5,277)	(2,514)
Fair market value adjustments	(174)	(414)
Arts center	4,061	4,079
	<u>1,798,499</u>	<u>1,787,816</u>
Total pledged revenues		
Less revenue operating expenses - revenue fund	<u>(508,125)</u>	<u>(493,225)</u>
Net revenue available for debt service	1,290,374	1,294,591
Less 1.2 times aggregate debt service	<u>(987,581)</u>	<u>(927,694)</u>
Excess net revenues	<u>\$ 302,793</u>	<u>366,897</u>
Debt service coverage ratio	1.57	1.67

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Investments

December 31, 2017

(In thousands)

	<u>Interest rate</u>	<u>Maturity</u>	<u>Par value</u>	<u>Carrying value</u>
Revenue:				
Certificate of deposit	1.51%	7/27/2018	\$ 50,000	50,329
Commercial paper	1.24-1.81	1/4/18-6/27/18	86,609	86,441
Federal agency note	1.12-1.50	1/4/18-6/26/18	108,350	108,079
U.S. Treasury bill	1.00-1.19	1/4/18-1/25/18	53,348	53,343
			<u>298,307</u>	<u>298,192</u>
Construction:				
Certificate of deposit	1.24%-1.40%	2/8/18-5/21/18	95,000	95,808
Commercial paper	1.34-1.64	1/5/18/6/14/18	150,000	149,590
Federal agency note	1.04-1.41	1/5/18-6/7/18	180,687	180,214
			<u>425,687</u>	<u>425,612</u>
Maintenance reserve:				
Commercial paper	1.19%-1.22%	1/23/18-2/6/18	11,700	11,689
Federal agency note	1.05-1.27	1/5/18-4/24/18	29,932	29,875
U.S. Treasury bill	1.11-1.30	1/25/18-5/24/18	24,778	24,692
			<u>66,410</u>	<u>66,256</u>
Special project reserve:				
Commercial paper	1.20%-1.80%	1/16/18-4/26/18	43,230	43,117
Federal agency note	1.11-1.34	1/5/18-5/4/18	16,500	16,470
U.S. Treasury bill	1.08	2/1/2018	14,000	13,987
			<u>73,730</u>	<u>73,574</u>
General reserve:				
Commercial paper	1.35%-1.90%	1/16/18-6/29/18	231,262	229,953
Federal agency note	1.08-1.35	1/4/18-5/23/18	27,985	27,955
U.S. Treasury bill	1.02-1.46	1/4/18-6/28/18	34,000	33,822
			<u>293,247</u>	<u>291,730</u>
Debt service:				
Commercial paper	1.21%-1.28%	1/2/2018	36,734	36,732
Federal agency note	0.68-1.09	1/2/2018	243,420	243,413
U.S. Treasury bill	1.00-1.13	1/2/2018	186,573	186,568
			<u>466,727</u>	<u>466,713</u>
Debt reserve:				
Certificate of deposit	1.30%-2.00%	4/11/18-12/15/2020	344,084	344,759
Federal agency note	1.05	4/25/2018	104,919	104,948
Commercial paper	1.44	1/1/2018	100,000	100,721 (1)
Time deposit	1.44	1/1/2018	50,000	50,360 (1)
			<u>599,003</u>	<u>600,788</u>
Total			\$ <u>2,223,111</u>	<u>2,222,865</u>

Above is the detail of investments listed on the Schedule of Net Position – Reconciliation of Bond Resolution to GAAP (Schedule 3) for Total Bond Resolution.

- (1) Under a \$150,000 notional value forward delivery agreement, Deutsche Bank delivers investment securities to the Debt Reserve Fund held by the Co-Trustee, U.S.Bank, and pays the Authority a fixed interest rate of 1.44%. The agreement expires on July 1, 2019. The actual investment securities delivered by Deutsche Bank to U.S.Bank for deposit into the Debt Reserve Fund are held in the Authority's name and are reflected as the actual securities held in the schedule above.

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Investments

December 31, 2016

(In thousands)

	<u>Interest rate</u>	<u>Maturity</u>	<u>Par value</u>	<u>Carrying value</u>
Revenue:				
Certificate of deposit	1.15%–1.21%	3/24/17–7/28/17	\$ 80,000	80,313
Commercial paper	0.43–0.65	1/5/2017	5,000	5,000
Federal agency note	0.27–0.45	1/5/17–2/17/17	39,775	39,770
U.S. Treasury bill	0.20–0.42	1/5/17–2/16/17	120,043	120,026
			<u>244,818</u>	<u>245,109</u>
Construction:				
Certificate of deposit	0.63%–0.86%	1/4/17–1/18/17	75,000	75,104
Federal agency note	0.35–0.41	1/23/2017	21,000	20,995
U.S. Treasury bill	0.43	2/2/2017	12,000	11,995
			<u>108,000</u>	<u>108,094</u>
Maintenance reserve:				
Commercial paper	0.50%	2/3/2017	2,002	2,001
Federal agency note	0.23–0.47	1/3/17–2/21/17	35,788	35,780
U.S. Treasury bill	0.39	2/16/2017	2,000	1,999
			<u>39,790</u>	<u>39,780</u>
Special project reserve:				
Commercial paper	0.40%–0.80%	1/3/17–2/28/17	32,000	31,981
Federal agency note	0.25–0.43	1/10/17–3/2/17	14,000	13,995
U.S. Treasury bill	0.34–0.50	1/26/17–2/16/17	10,000	10,004
			<u>56,000</u>	<u>55,980</u>
General reserve:				
Commercial paper	0.60%–1.05%	1/13/17–3/10/17	112,000	111,927
Federal agency note	0.32–0.55	1/5/17–6/20/17	187,660	187,466
U.S. Treasury bill	0.25–0.50	1/5/17–3/9/17	33,746	33,744
			<u>333,406</u>	<u>333,137</u>
Charges:				
Federal agency note	0.40%	1/3/2017	63	63
			<u>63</u>	<u>63</u>
Debt service:				
Federal agency note	0.15%–0.60%	1/3/2017	466,737	466,730
			<u>466,737</u>	<u>466,730</u>
Debt reserve:				
Certificate of deposit	1.11%–2.00%	11/10/17 – 12/15/20	334,754	335,361
Commercial paper	1.44	1/1/2017	149,999	151,079 (1)
Federal agency note	1.05	4/25/2018	104,919	104,774
			<u>589,672</u>	<u>591,214</u>
Total			\$ <u>1,838,486</u>	<u>1,840,107</u>

Above is the detail of investments listed on the Schedule of Net Position – Reconciliation of Bond Resolution to GAAP (Schedule 3) for Total Bond Resolution.

- (1) Under a \$150,000 notional value forward delivery agreement, Deutsche Bank delivers investment securities to the Debt Reserve Fund held by the Co-Trustee, U.S.Bank, and pays the Authority a fixed interest rate of 1.44%. The agreement expires on July 1, 2019. The actual investment securities delivered by Deutsche Bank to U.S.Bank for deposit into the Debt Reserve Fund are held in the Authority's name and are reflected as the actual securities held in the schedule above.

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Depositories

December 31, 2017 and 2016

(In thousands)

	2017			2016		
	Book balance	Bank balance	Market value of securities pledged to secure deposits	Book balance	Bank balance	Market value of securities pledged to secure deposits
JP Morgan Chase:						
Revenue	\$ 141,429	118,847	—	115,018	97,788	—
Construction	13,516	13,516	—	79,470	81,039	—
Maintenance reserve	1,078	1,078	—	4,084	4,194	—
	<u>156,023</u>	<u>133,441</u>	<u>143,697</u>	<u>198,572</u>	<u>183,021</u>	<u>189,398</u>
Bank of America:						
Revenue	22,032	22,565	—	34,359	35,526	—
	<u>22,032</u>	<u>22,565</u>	<u>24,139</u>	<u>34,359</u>	<u>35,526</u>	<u>36,690</u>
Wells Fargo:						
Revenue	7,695	5,143	—	20,085	17,610	—
Special project reserve	3,606	3,736	—	11,815	12,028	—
General reserve	6,586	7,136	—	15,361	15,392	—
	<u>17,887</u>	<u>16,015</u>	<u>20,533</u>	<u>47,261</u>	<u>45,030</u>	<u>48,211</u>
Bank of New York Mellon:						
Revenue	15	25	—	80	126	—
	<u>15</u>	<u>25</u>	<u>463</u>	<u>80</u>	<u>126</u>	<u>549</u>
TD Bank, NA:						
Revenue	250	419	—	250	455	—
	<u>250</u>	<u>419</u>	<u>984</u>	<u>250</u>	<u>455</u>	<u>1,000</u>
Investors Bank						
Construction	44,265	44,265	—	35,093	35,093	—
	<u>44,265</u>	<u>44,265</u>	<u>43,673</u> (1)	<u>35,093</u>	<u>35,093</u>	<u>36,719</u>
Total Subject to Pledged Securities	<u>240,472</u>	<u>216,730</u>	<u>\$ 233,489</u>	<u>315,615</u>	<u>299,251</u>	<u>\$ 312,567</u>
Bank of New York Mellon – Trust:						
Construction:	1,685	2,373		2,631	2,631	
General reserve	18	18		95	95	
Debt service	29	20		140	88	
	<u>1,732</u>	<u>2,411</u> (2)		<u>2,866</u>	<u>2,814</u> (2)	
Toll collection and other imprest funds:						
Revenue	372	—		358	—	
	<u>372</u> (3)	<u>—</u>		<u>358</u> (3)	<u>—</u>	
Total subject to bond resolution	<u>242,576</u>	<u>219,141</u>		<u>318,839</u>	<u>302,065</u>	
TD Bank, NA:						
Garden State Arts Center Foundation	4	76		132	147	
	<u>4</u>	<u>76</u> (4)		<u>132</u>	<u>147</u> (4)	
Investors Bank:						
Garden State Arts Center Foundation	438	521		455	455	
	<u>438</u>	<u>521</u> (4)		<u>455</u>	<u>455</u> (4)	
Northfield Bank:						
Garden State Arts Center Foundation	184	184		213	213	
	<u>184</u>	<u>184</u> (4)		<u>213</u>	<u>213</u> (4)	
	<u>\$ 243,202</u>	<u>219,922</u>		<u>319,639</u>	<u>302,880</u>	

(1) As of December 31, 2017, the market value of the securities was below the book/bank balance of deposits. On January 5, 2018, additional collateral was posted so that once again the market value of the pledged securities exceeded the book/bank balance.

(2) Funds held by Trustee are not subject to collateral requirements, under the Bond Resolution.

(3) Cash on hand, not at bank.

(4) Garden State Arts Foundation bank account balances are not subject to the collateral posting requirements of the Bond Resolution.

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Cost of Investment in Facilities

December 31, 2017

(With summarized comparative financial information for the year ended December 31, 2016)

(In thousands)

	Completed construction funds	\$7 Billion Capital Improvement Program	Construction funded by revenue	Maintenance reserve	Special project reserve	General reserve	GAAP Adjustments	2017 Total	2016 Total
Land	\$ 660,554	163,778	—	—	—	8,128	—	832,460	830,612
Construction-In-Progress	—	1,503,580	468	6,998	7,762	29,479	13,673	1,561,960	1,258,316
Roadways	3,185,140	2,324,785	—	223,936	2,288	17,632	—	5,753,781	5,668,995
Bridges	1,910,857	2,815,853	—	330,669	64	32,178	—	5,089,621	4,967,830
Buildings	375,089	362,895	—	—	20,608	82,656	—	841,248	761,004
Equipment	577,829	720,620	—	—	119,352	114,468	—	1,532,269	1,434,250
Cost of investment in facilities	6,709,469	7,891,511	468	561,603	150,074	284,541	13,673	15,611,339	14,921,007
Accumulated depreciation	(2,950,509)	(547,910)	—	(126,675)	(61,792)	(83,387)	—	(3,770,273)	(3,465,282)
Capital assets, net of accumulated depreciation	\$ 3,758,960	7,343,601	468	434,928	88,282	201,154	13,673	11,841,066	11,455,725
Completed construction funds:									
Original turnpike extensions and additional lanes	\$ 59,657								
Revenues invested in facilities	38,561								
1966 Turnpike Improvement	153,178								
1971 Turnpike Improvement	15,780								
1973 Improvement and Funding Program	26,264								
1985-1990 Widening Project	309,822								
Business Plan for the 90's	751,694								
Former NJHA Construction	508,389								
2000 Construction Fund	1,241,278								
2003 Construction Fund	15,858								
2004 Construction Fund	401,967								
2005 Construction Fund	75,357								
2008/2009 Bond anticipation note	161,155								
	\$ 3,758,960								

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Bond Indebtedness

December 31, 2017

(In thousands)

	Amount outstanding December 31, 2016	Refunded or acquired and canceled in current year	Mandatory redemption/ sinking fund installments	Debt issuance	Amortization of premiums and discounts	Amount outstanding December 31, 2017
Turnpike revenue bonds:						
Series 2000B-G	\$ 400,000	(400,000)	—	—	—	—
Series 2004C-2	132,850	—	—	—	—	132,850
Series 2005A	173,650	—	—	—	—	173,650
Series 2005B	32,500	—	—	—	—	32,500
Series 2005D1-D4	208,735	—	—	—	—	208,735
Series 2009E	300,000	(300,000)	—	—	—	—
Series 2009F	1,375,000	—	—	—	—	1,375,000
Series 2009G	34,770	—	(15,645)	—	—	19,125
Series 2009H	306,170	(269,475)	—	—	—	36,695
Series 2009I	178,005	(178,005)	—	—	—	—
Series 2010A	1,850,000	—	—	—	—	1,850,000
Series 2012A	141,255	(126,255)	—	—	—	15,000
Series 2012B	804,435	—	—	—	—	804,435
Series 2013A	1,395,050	(1,072,505)	(5,095)	—	—	317,450
Series 2013B	100,000	—	(47,500)	—	—	52,500
Series 2013C	271,000	—	(129,500)	—	—	141,500
Series 2013D	77,625	(77,625)	—	—	—	—
Series 2013E	51,750	(51,750)	—	—	—	—
Series 2013F	90,880	—	—	—	—	90,880
Series 2014A	1,000,000	—	—	—	—	1,000,000
Series 2014B-3	50,000	(50,000)	—	—	—	—
Series 2014C	201,860	—	—	—	—	201,860
Series 2015A	92,500	—	—	—	—	92,500
Series 2015B	50,000	—	—	—	—	50,000
Series 2015C	43,750	—	—	—	—	43,750
Series 2015D	43,750	—	—	—	—	43,750
Series 2015E	750,000	—	—	—	—	750,000
Series 2015F	72,350	—	—	—	—	72,350
Series 2015G	25,000	—	—	—	—	25,000
Series 2015H	48,235	—	—	—	—	48,235
Series 2016A	149,995	—	—	—	—	149,995
Series 2016B	75,025	—	—	—	—	75,025
Series 2016C	50,015	—	—	—	—	50,015
Series 2016D	50,000	—	—	—	—	50,000
Series 2017A	—	—	—	600,000	—	600,000
Series 2017B	—	—	—	646,765	—	646,765
Series 2017C	—	—	—	400,000	—	400,000
Series 2017D	—	—	—	179,375	—	179,375
Series 2017E	—	—	—	359,680	—	359,680
Series 2017F	—	—	—	167,845	—	167,845
Series 2017G	—	—	—	726,640	—	726,640
	<u>10,626,155</u>	<u>(2,525,615)</u>	<u>(197,740)</u>	<u>3,080,305</u>	<u>—</u>	<u>10,983,105</u>
Premiums and discounts, net	444,966	—	—	234,758	(52,100)	627,624
	<u>\$ 11,071,121</u>	<u>(2,525,615)</u>	<u>(197,740)</u>	<u>3,315,063</u>	<u>(52,100)</u>	<u>11,610,729</u>

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Bond Indebtedness

December 31, 2016

(In thousands)

	Amount outstanding December 31, 2015	Refunded or acquired and canceled in current year	Mandatory redemption/ sinking fund installments	Debt issuance	Amortization of premiums and discounts	Amount outstanding December 31, 2016
Turnpike revenue bonds:						
Series 1991C	\$ 67,160	—	(67,160)	—	—	—
Series 2000B-G	400,000	—	—	—	—	400,000
Series 2003B	70,005	—	(70,005)	—	—	—
Series 2004B	168,646	(168,646)	—	—	—	—
Series 2004C-2	132,850	—	—	—	—	132,850
Series 2005A	173,650	—	—	—	—	173,650
Series 2005B	32,500	—	—	—	—	32,500
Series 2005D1-D4	208,735	—	—	—	—	208,735
Series 2009E	300,000	—	—	—	—	300,000
Series 2009F	1,375,000	—	—	—	—	1,375,000
Series 2009G	34,770	—	—	—	—	34,770
Series 2009H	306,170	—	—	—	—	306,170
Series 2009I	178,005	—	—	—	—	178,005
Series 2010A	1,850,000	—	—	—	—	1,850,000
Series 2012A	141,255	—	—	—	—	141,255
Series 2012B	804,435	—	—	—	—	804,435
Series 2013A	1,400,000	—	(4,950)	—	—	1,395,050
Series 2013B	100,000	—	—	—	—	100,000
Series 2013C	271,000	—	—	—	—	271,000
Series 2013D	152,650	(75,025)	—	—	—	77,625
Series 2013E	101,765	(50,015)	—	—	—	51,750
Series 2013F	90,880	—	—	—	—	90,880
Series 2014A	1,000,000	—	—	—	—	1,000,000
Series 2014B-2	50,000	(50,000)	—	—	—	—
Series 2014B-3	50,000	—	—	—	—	50,000
Series 2014C	201,860	—	—	—	—	201,860
Series 2015A	92,500	—	—	—	—	92,500
Series 2015B	50,000	—	—	—	—	50,000
Series 2015C	43,750	—	—	—	—	43,750
Series 2015D	43,750	—	—	—	—	43,750
Series 2015E	750,000	—	—	—	—	750,000
Series 2015F	72,350	—	—	—	—	72,350
Series 2015G	25,000	—	—	—	—	25,000
Series 2015H	48,235	—	—	—	—	48,235
Series 2016A	—	—	—	149,995	—	149,995
Series 2016B	—	—	—	75,025	—	75,025
Series 2016C	—	—	—	50,015	—	50,015
Series 2016D	—	—	—	50,000	—	50,000
	<u>10,786,921</u>	<u>(343,686)</u>	<u>(142,115)</u>	<u>325,035</u>	<u>—</u>	<u>10,626,155</u>
Premiums and discounts, net	464,242	—	—	25,411	(44,687)	444,966
	<u>\$ 11,251,163</u>	<u>(343,686)</u>	<u>(142,115)</u>	<u>350,446</u>	<u>(44,687)</u>	<u>11,071,121</u>

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Refunded Bond and Note Indebtedness

December 31, 2017

(With summarized comparative financial information as of December 31, 2016)

(In thousands)

Note:

As of December 31, 2017 and 2016, refunded bond and note indebtedness which is still outstanding in fully collateralized escrow accounts is as follows:

Refunded series	Refunded amount	Matured/ redeemed	2017 outstanding	2016 outstanding
Parkway revenue bonds:				
Series 1989, Serial bonds 5.75% Redemption January 1, 2018 through January 1, 2019	\$ 35,080	—	35,080	35,080
Turnpike revenue bonds:				
Series 2004B Turnpike Revenue Bonds, redemption January 1, 2017	168,646	(168,646)	—	168,646
Series 2009E Turnpike Revenue Bonds, redemption January 1, 2019	300,000	—	300,000	—
Series 2009H Turnpike Revenue Bonds, redemption January 1, 2019	269,475	—	269,475	—
Series 2009I Turnpike Revenue Bonds, redemption January 1, 2020	178,005	—	178,005	—
Series 2012A Turnpike Revenue Bonds, redemption January 1, 2022	126,255	—	126,255	—
Series 2013A Turnpike Revenue Bonds, redemption January 1, 2020 through July 1, 2022	1,072,505	—	1,072,505	—
Total	\$ 2,149,966	(168,646)	1,981,320	203,726

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

NEW JERSEY TURNPIKE

Schedule of Toll Revenue

Years ended December 31, 2017 and 2016

(Unaudited)

(In thousands)

Class	Description	2017		2016	
		Toll revenue	Number of vehicles	Toll revenue	Number of vehicles
1	Passenger car, motorcycle, taxi or hearse, light truck	\$ 797,953	227,978	789,477	223,634
2	Vehicles having two axles other than type described under Class 1	64,460	8,676	63,453	8,489
3	Vehicle (vehicles), single or in combination, having three axles	29,672	3,632	28,942	3,532
4	Vehicle (vehicles), single or in combination, having four axles	35,639	2,877	34,626	2,763
5	Vehicle (vehicles), single or in combination, having five axles	233,919	15,345	230,812	15,034
6	Vehicle (vehicles), single or in combination, having six or more axles	7,783	411	6,671	352
7	Buses having two axles	2,334	448	2,224	428
8	Buses having three axles	14,026	1,298	13,753	1,261
	Nonrevenue vehicles	—	1,559	—	1,571
		<u>1,185,786</u>	<u>262,224</u>	<u>1,169,958</u>	<u>257,064</u>
	Nonrevenue vehicles	—	(1,559)	—	(1,571)
	Toll adjustments and discounts	(4,237)	—	(3,520)	—
	Net Uncollected Tolls	<u>(29,811)</u>	<u>—</u>	<u>(21,880)</u>	<u>—</u>
		<u>\$ 1,151,738</u>	<u>260,665</u>	<u>1,144,558</u>	<u>255,493</u>

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
 (A Component Unit of the State of New Jersey)

GARDEN STATE PARKWAY

Schedule of Toll Revenue

Years ended December 31, 2017 and 2016

(Unaudited)

(In thousands)

Class	Description	2017		2016	
		Toll revenue	Number of vehicles	Toll revenue	Number of vehicles
1	Passenger car, motorcycle, taxi or hearse, light truck	\$ 420,385	387,787	416,990	384,586
2	Vehicles having two axles other than type described under Class 1	1,938	830	2,202	925
3	Vehicle (vehicles), single or in combination, having three axles	3,469	1,144	3,376	1,106
4	Vehicle (vehicles), single or in combination, having four axles	3,830	888	3,502	817
5	Vehicle (vehicles), single or in combination, having five axles	2,778	583	2,692	564
6	Vehicle (vehicles), single or in combination, having six or more axles	126	21	130	22
7	Buses having two axles	1,788	687	1,638	634
8	Buses having three axles	2,589	956	2,588	956
	Nonrevenue vehicles	—	1,532	—	1,458
		<u>436,903</u>	<u>394,428</u>	<u>433,118</u>	<u>391,068</u>
	Nonrevenue vehicles	—	(1,532)	—	(1,458)
	Toll adjustments and discounts	(318)	—	(286)	—
	Net Uncollected Tolls	<u>(8,427)</u>	<u>—</u>	<u>(6,728)</u>	<u>—</u>
		<u>\$ 428,158</u>	<u>392,896</u>	<u>426,104</u>	<u>389,610</u>

See accompanying independent auditors' report.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)
Schedule of Expenditures of Federal Awards
Year ended December 31, 2017

<u>Federal grantor/pass-through grantor/ program or cluster title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Total federal expenditures</u>
U.S. Department of Homeland Security: Pass through the State of New Jersey, Department of Law and Public Safety: Disaster Grants – Public Assistance (Presidentially Declared Disasters) (note 3)	97.036	UH1WX	\$ <u>2,559,865</u>
Total expenditures of federal awards			\$ <u><u>2,559,865</u></u>

See accompanying notes to schedule of expenditures of federal awards.

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2017

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the New Jersey Turnpike Authority (the Authority) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the net position, changes in net position, or cash flows of the Authority.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority did not pass through any federal funds to subrecipients for the year ended December 31, 2017. The Authority has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

(3) Disaster Grants – Public Assistance

As a result of Winter Storm Jonas, the Authority will receive \$2,559,865 in disaster relief assistance. The expenditures were incurred in 2016 and the Authority received approval of the award from the Federal Emergency Management Agency in 2017. Therefore, the amount awarded is reported on the Schedule for the year ended December 31, 2017.



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Commissioners
New Jersey Turnpike Authority:

We have audited, in accordance with the 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, the financial statements of the New Jersey Turnpike Authority (the Authority), which comprise the Authority's basic financial statements, as listed in the table of contents as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

June 26, 2018



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New Jersey Headquarters
51 John F. Kennedy Parkway
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Commissioners
New Jersey Turnpike Authority:

Report on Compliance for Each Major Federal Program

We have audited the New Jersey Turnpike Authority 's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2017. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major



federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended December 31, 2017, and have issued our report thereon dated June 26, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the (consolidated) financial statements as a whole.

KPMG LLP

June 26, 2018

NEW JERSEY TURNPIKE AUTHORITY
(A Component Unit of the State of New Jersey)

Schedule of Findings and Questioned Costs

December 31, 2017

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major programs:
 - Disaster Grants – Public Assistance (Presidentially Declared Disaster) (97.036)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **No. The Authority did not qualify as a low risk auditee as Single Audits were not performed in each of two preceding years, as the Authority did not expend Federal awards in excess of the threshold that would have required a Single Audit in 2015.**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

No matters to report.

(3) Findings and Questioned Costs Relating to Federal Awards

No matters to report.