PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania

Basic Financial Statements
Fiscal Years Ended May 31, 2017 and 2016
With Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Commissioners
Pennsylvania Turnpike Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Turnpike Commission (the Commission), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of May 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As more fully explained in Note 9, the Commission has committed to making significant payments under an Amended Lease and Funding Agreement as required under the terms of Acts 44 and 89. The Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt and current lease payments. Our opinion is not modified with respect to this matter.

Other Matters

Audit of Prior-Year Financial Statements

The 2016 financial statements were audited by other auditors and their report thereon, dated September 2, 2016, contained an unmodified opinion on those financial statements in accordance with accounting principles generally accepted in the United States of America. The 2016 Other Supplementary Information was subjected to the auditing procedures by the other auditors, applied in the audits of the basic financial statements and certain additional procedures and was found to be fairly stated, in all material respects, in relation to the 2016 basic financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of commission's proportionate share of net pension liability, the schedule of commission's contributions, and the schedule of funding progress – Postemployment healthcare benefits on pages 4 through 16 and pages 89 through 91 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.

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Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The Section Information on pages 92 through 104 and the Schedules of Cost of Services Detail on page 105 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Section Information and Schedules of Cost of Services Detail are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information for 2017 has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Section Information and Schedules of Cost of Services Detail for 2017 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Mitchell & Titus, LLP

September 6, 2017

The management of the Pennsylvania Turnpike Commission (hereinafter referred to as the Commission) offers this narrative overview and analysis of the Commission's financial activities for the years ended May 31, 2017 and 2016, which should be read in conjunction with the Commission's basic financial statements. Certain amounts presented in the prior period have been reclassified to conform to the current period financial statement presentation.

Overview of the Basic Financial Statements

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

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

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

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

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

Financial Analysis

Comparative Condensed Statements of Net Position

	May 31		
	2017	**2016**	**2015**
		(In Thousands)	
Assets and deferred outflows of resources			
Current assets	$ 1,398,596	$ 1,273,754	$ 1,012,573
Long-term investments	843,616	935,770	822,550
Capital assets, net of accumulated depreciation	5,728,882	5,517,326	5,189,561
Other assets	159,666	155,908	149,275
Total assets	8,130,760	7,882,758	7,173,959
Total deferred outflows of resources	534,504	396,350	273,894
Total assets and deferred outflows of resources	8,665,264	8,279,108	7,447,853
Liabilities and deferred inflows of resources			
Current liabilities	913,350	740,063	697,388
Debt, net of unamortized premium	12,177,627	11,431,859	10,197,258
Net pension liability	379,173	346,946	296,271
Other noncurrent liabilities	246,896	269,409	247,041
Total liabilities	13,717,046	12,788,277	11,437,958
Total deferred inflows of resources	146,890	137,490	124,840
Total liabilities and deferred inflows of resources	13,863,936	12,925,767	11,562,798
Net position			
Net investment in capital assets	(258,038)	(24,520)	271,187
Restricted for construction purposes	330,048	332,920	269,098
Restricted for debt service	44,727	28,878	42,826
Unrestricted	(5,315,409)	(4,983,937)	(4,698,056)
Total net position	$ (5,198,672)	$ (4,646,659)	$ (4,114,945)

The Commission's total net position decreased $552.0 million and $531.7 million for the fiscal years ended May 31, 2017 and 2016, respectively. The large decreases in net position in both fiscal years were largely due to the requirements of Act 44, Act 89 and the Amended Lease and Funding Agreement (Amended Funding Agreement) between the Commission and Pennsylvania Department of Transportation (PennDOT) and costs associated with the related debt. Please refer to Note 9, Commitments and Contingencies, of the financial statements and to the Events That Will Impact Financial Position section of this MD&A for additional information regarding Act 44, Act 89 and the Amended Funding Agreement between the Commission and PennDOT. See also Note 7, Debt, in reference to the related debt.

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

Financial Analysis *(continued)*

The Commission's total assets and deferred outflows of resources increased by $386.2 million in fiscal year 2017. This 2017 increase is mostly related to an increase in capital assets of $211.6 million and a $138.2 million increase in deferred outflows of resources. The increase in capital assets is mostly related to capital asset additions of $621.0 million, offset by assets transferred to PennDOT with a net book value of $54.7 million and $354.3 million of depreciation expense. The increase in deferred outflows of resources is primarily the result of refundings of debt. For additional information, see: Note 5, Capital Assets; Note 7, Debt; and the Capital Assets and Debt Administration section of this MD&A.

The Commission's total assets and deferred outflows of resources increased by $831.3 million in fiscal year 2016. This 2016 increase is mostly related to an increase in cash and investments of $368.7 million, increases in capital assets of $327.8 million, and a $122.5 million increase in deferred outflows of resources. The increase in capital assets is mostly related to capital asset additions of $702.0 million, offset by assets transferred to PennDOT with a net book value of $40.9 million and $332.9 million of depreciation expense. The increase in deferred outflows of resources is primarily the result of refundings of debt and the December 31, 2015 GASB 68 actuarial valuation of the State Employees' Retirement System. For additional information, see: Note 4, Cash and Investments; Note 5, Capital Assets; Note 7, Debt; the Capital Assets and Debt Administration section of this MD&A; and Note 8, Retirement Benefits.

Total liabilities and deferred inflows of resources increased by $938.2 million in fiscal year 2017 and by $1,363.0 million in fiscal year 2016. The increase for both fiscal year 2017 and fiscal year 2016 were mainly related to the issuance of senior debt to finance the costs of various capital expenditures set forth in the Commission's current 10-year plan and the issuance of subordinate debt to finance the costs of making payments to PennDOT in accordance with Act 44, Act 89, and the Amended Funding Agreement. See Note 7, Debt, for additional information regarding the new issuances of debt.

Financial Analysis *(continued)*

	Year ended May 31		
	2017	**2016**	**2015**
		(In Thousands)	
Operating			
Operating revenues	$ 1,134,396	$ 1,052,691	$ 949,735
Cost of services	(517,103)	(471,132)	(459,780)
Depreciation	(354,343)	(332,941)	(337,664)
Operating income	262,950	248,618	152,291
Nonoperating revenues (expenses)			
Investment earnings	14,225	29,069	17,502
Other nonoperating revenues	21,532	21,651	55,992
Act 44 payments to PennDOT	(450,000)	(450,000)	(450,000)
Capital assets transferred to PennDOT	(54,724)	(40,937)	(4,499)
Interest and bond expense	(560,660)	(521,021)	(465,869)
Nonoperating expenses, net	(1,029,627)	(961,238)	(846,874)
Loss before capital contributions and special items	(766,677)	(712,620)	(694,583)
Capital contributions	214,664	180,906	146,472
Decrease in net position	(552,013)	(531,714)	(548,111)
Net position at beginning of year, before restatement	(4,646,659)	(4,114,945)	(3,300,455)
Cumulative effect of change in accounting principle	-	-	(266,379)
Net position at beginning of year, as restated[1]	(4,646,659)	(4,114,945)	(3,566,834)
Net position at end of year	$ (5,198,672)	$ (4,646,659)	$ (4,114,945)

[1]Beginning net position for fiscal year 2015 was restated (reduced by $266.4 million) due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*.

For fiscal years ended May 31, 2017, and 2016, operating and nonoperating revenues totaled $1,170.2 million and $1,103.4 million, respectively, while operating and nonoperating expenses totaled $1,936.8 million and $1,816.0 million, respectively.

Total operating and nonoperating revenues for fiscal year 2017 were $66.8 million or 6.1% higher than fiscal year 2016. This increase in revenue was mainly related to a $80.9 million increase in fare revenues resulting from a January 2017 toll increase of 6.0% for both cash and E-ZPass customers and the full-year impact of the January 2016 toll increase of 6.0% for both cash and E-ZPass customers. In addition, total traffic volumes were up slightly, 0.7%, in fiscal year 2017 compared to fiscal year 2016.

Financial Analysis *(continued)*

Total operating and nonoperating revenues for fiscal year 2016 were $80.2 million, or 7.8% higher than fiscal year 2015. This increase in revenue was mainly related to a $98.0 million increase in fare revenues resulting from a January 2016 toll increase of 6.0% for both cash and E-ZPass customers and the full-year impact of the January 2015 toll increase of 5.0% for both cash and E-ZPass customers. In addition, total traffic volumes were up approximately 3.4% in fiscal year 2016 compared to fiscal year 2015.

Total operating and nonoperating expenses for fiscal year 2017 were $120.8 million higher than fiscal year 2016 primarily due to increases in cost of services of $46.0 million, increases in interest and bond expenses of $39.6 million related to the increase in debt (see Note 7, Debt), an increase in depreciation expense of $21.4 million and an increase in capital assets transferred to PennDOT of $13.8 million. The increase in cost of services is mainly related to an increase in maintenance costs of $12.6 million to maintain the System, an increase in employee benefits due to an increase in pension expense of $10.7 million interest and an increase in professional fees and services of $7.1 million.

Total operating and nonoperating expenses for fiscal year 2016 were $98.2 million higher than fiscal year 2015, primarily due to increases in interest and bond expenses of $55.2 million related to the increase in debt (see Note 7, Debt) and an increase of $36.4 million in capital assets transferred to PennDOT.

Capital contributions increased by $33.8 million in fiscal year 2017 and by $34.4 million in fiscal year 2016, primarily due to increases in reimbursements from other governments (see Note 2).

Capital Assets and Debt Administration

Capital Assets

Capital assets consist of land and intangible assets (right-of-way easements), buildings, improvements, equipment, infrastructure, and assets under construction. Infrastructure assets are typically items that are immovable such as highways, bridges and tunnels. The Commission's investment in capital assets at May 31, 2017 amounted to $11.8 billion of gross asset value with accumulated depreciation of $6.1 billion, leaving a net book value of $5.7 billion. The net book value of capital assets at May 31, 2016 was $5.5 billion. Capital assets represented 66.1% and 66.6% of the Commission's total assets and deferred outflows of resources at May 31, 2017 and May 31, 2016, respectively.

Assets under construction at the end of fiscal year 2017 were $1,357.0 million, which was $26.4 million more than in fiscal year 2016. Assets under construction at the end of fiscal year 2016 were $1,330.6 million, which was $373.6 million more than in fiscal year 2015. In fiscal year 2017, $533.8 million of constructed capital assets were completed, which was $275.4 million more than the $258.4 million of constructed capital assets completed in fiscal year 2016. In addition to constructed capital assets, the Commission had capital assets additions of approximately $60.9 million and $70.0 million in fiscal years 2017 and 2016, respectively, related to purchases, capital contributions and capitalized interest.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Capital Assets (continued)

The highest priority highway program for the Commission is the ongoing full depth roadway total reconstruction of the east/west Turnpike Mainline and Northeast Extension. This work includes the reconstruction and widening of the roadway, the widening of the median, replacement of both Mainline and overhead bridges as well as many safety enhancements. To date, approximately 124 miles of total reconstruction have been completed. Currently, approximately 20 miles are in construction and approximately 90 miles are in design. Also, the Commission completed another six miles of full depth roadway total reconstruction, 12 miles of roadway resurfacing and three interchange resurfacings during fiscal year 2017, helping to maintain a quality-riding surface with a Turnpike System-wide median IRI (International Roughness Index) of 73, which is rated as good.

The Commission completely replaced ten aging original bridges with new bridges, rehabilitated another nine bridges, eliminated two bridges, redecked one bridge and completely painted six bridges. Of the Commission's bridges, 3.6% are rated structurally deficient which is below the national average of 11.4%. All 31 bridges currently rated structurally deficient are either in construction or design for rehabilitation.

The Commission also constructed 13 new retaining walls in calendar year 2016.

Facility projects continue to focus on environmental and safety compliance, and on the maintenance and repair of existing buildings including HVAC, electrical and plumbing systems based on deficiencies identified during facility condition assessments. The Commission completed construction on the new Somerset Materials Testing Laboratory in May 2016. The Commission completed construction of the new Neshaminy Falls Toll Facility in December of 2015. Design of a renovation to the Kegg Maintenance Facility is scheduled to be complete in the fall of 2017, and construction is anticipated to be completed in November 2018. Design for a new District 1 Maintenance Facility to support the Southern Beltway is underway and is scheduled to be completed in the spring of 2018.

A public CNG Fueling Station opened in October 2014 at the New Stanton Service Plaza which included three fueling dispensers – one for passenger vehicles, one for commercial trucks, and one located outside the plaza gate for use by off-Turnpike vehicles. Since opening, over 268,000 gallons of CNG have been sold. Currently, there are five services plazas that have electric vehicle (EV) charging systems available to users on the Turnpike System. They are the Oakmont, New Stanton, Bowmansville, Peter J. Camiel and King of Prussia service plazas.

The Mon/Fayette Expressway is open to traffic from the Pennsylvania/West Virginia line to PA 51 in Jefferson Hills Borough, a distance of 53 miles. The preliminary design for the remainder of the Mon/Fayette Expressway project, extending from PA Route 51 to Interstate Route 376 in Pittsburgh, has been completed. Additional funding is required to complete the design, right-of-way and construction of this section.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Capital Assets (continued)

The Southern Beltway is a series of three independent projects that extend from the Mon/Fayette Expressway near Finleyville to Pennsylvania Route 60 (PA 60) at the Pittsburgh International Airport. One project constructed as part of the Southern Beltway, a six-mile section of toll road in Allegheny County that connects PA 60 to U.S. Route 22 (U.S. 22), is in operation. The project from U.S. 22 to Interstate 79 (I-79) has started construction. When completed, the entire Southern Beltway will utilize cashless tolling. The project from I-79 to Mon/Fayette Expressway has completed the environmental phase and is inactive until additional funding is identified.

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

The PA Turnpike/I-95 Interchange Project involves the construction of a direct interchange connecting the Turnpike Mainline to I-95. The project also includes tolling modifications and reconstruction and widening of the interstates.

The first phase of the Interchange Project includes preparatory work and construction of a portion of the interchange between I-95 and the Turnpike Mainline, including northbound I-95 to the eastbound Turnpike Mainline and southbound I-95 to the westbound Turnpike Mainline, and is currently under construction. This phase included construction of a new mainline toll plaza and a cashless tolling plaza westbound, both of which opened in January 2016. Construction will continue on this phase through 2018. The second phase will include the completion of the reconstruction and widening of the remaining interchange connectors. The third phase will be the construction of an additional bridge over the Delaware River.

The above paragraphs describe the changes in capital assets occurring during the fiscal years ended May 31, 2017 and 2016. Please refer to the capital assets section in the notes to the financial statements (Note 5) for more detailed capital asset schedules.

Debt Administration – Mainline

In June 2015, the Commission issued $385,095,000 2015 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series A-1 Senior Bonds were issued to provide funds to finance the costs of various capital expenditures and advance refund all of the Commission's 2006 Series A Senior Revenue Bonds and for paying the cost of issuing the 2015 Series A-1 Senior Bonds.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Debt Administration – Mainline (continued)

In June 2015, the Commission issued $115,635,000 2015 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2021. The 2015 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable rate debt which included the Commission's 2013 Series B Variable Rate Revenue Bonds ($65,155,000), the Commission's 2014 Series B-1 Variable Rate Revenue Bonds ($15,080,000) and the Commission's 2014 Series B-2 Variable Rate Revenue Bonds ($34,920,000). The bonds were also issued for payment of the costs of issuance for the 2015 Series A-2 Senior Bonds.

In October 2015, the Commission issued $192,215,000 2015 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2015 Series B Subordinate Bonds.

In December 2015, the Commission issued $304,005,000 2015 Series B Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series B Senior Bonds were issued to provide funds to finance the costs of various capital expenditures set forth in the Commission's current or any prior 10-year capital plan and for paying the cost of issuing the 2015 Series B Senior Bonds.

In February 2016, the Commission issued $360,990,000 2016 Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2038. The 2016 Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds ($29,025,000), 2008 Series B-1 Subordinate Revenue Bonds ($52,390,000), 2008 Series C-1 Subordinate Revenue Bonds ($189,875,000), 2009 Series A Subordinate Revenue Bonds ($23,470,000), 2009 Series B Subordinate Revenue Bonds ($76,435,000), 2009 Series D Subordinate Revenue Bonds ($9,975,000) and for paying the cost of issuing the 2016 Series Subordinate Revenue Refunding Bonds.

In March 2016, the Commission issued a $150,000,000 2016 EB5 Loan at a fixed rate with a maturity date of March 18, 2021. This amount is comprised of the 1st-3rd Tranches under the Immigrant Investor Program loan agreement. The 2016 EB5 Loan was issued to fund a portion of the I-95 Interchange Project and for paying the cost of issuing the 2016 EB5 Loan.

In April 2016, the Commission issued $203,700,000 2016 Series A-1 Subordinate Bonds at a fixed rate with a maturity date of December 1, 2046. The 2016 Series A-1 Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2016 Series A-1 Subordinate Bonds.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Debt Administration – Mainline (continued)

In April 2016, the Commission issued $185,455,000 2016 Series A-2 Subordinate Bonds at a fixed rate with a maturity date of June 1, 2033. The 2016 Series A-2 Subordinate Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds ($39,655,000), 2008 Series B-1 Subordinate Revenue Bonds ($61,860,000), 2009 Series A Subordinate Revenue Bonds ($27,275,000), 2009 Series B Subordinate Revenue Bonds ($69,735,000) and for paying the cost of issuing the 2016 Series A-2 Subordinate Bonds.

In May 2016, the Commission issued a $50,000,000 2016 EB5 Loan at a fixed rate with a maturity date of May 12, 2021. This amount is the 4th Tranche under the Immigrant Investor Program loan agreement. The 2016 EB5 Loan was issued to fund a portion of the I-95 Interchange Project and for paying the cost of issuing the 2016 EB5 Loan.

In June 2016, the Commission issued $447,850,000 2016 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2046. The 2016 Series A-1 Senior Bonds were issued primarily to provide funds for various capital expenditures set forth in the Commission's current or any prior 10-year capital plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking of certain bridges and the rehabilitation of certain interchanges. The bonds were also issued for payment of the costs of issuance for the 2016 Series A-1 Senior Bonds.

In June 2016, the Commission issued $140,590,000 2016 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2016 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable rate debt, which included the Commission's 2012 Series B Variable Rate Revenue Bonds ($70,060,000), the Commission's 2014 Series B-1 Variable Rate Revenue Bonds ($35,050,000) and the Commission's 2014 Series B-2 Variable Rate Revenue Bonds ($34,950,000). The bonds were also issued for payment of the costs of issuance for the 2016 Series A-2 Senior Bonds.

In June 2016, the Commission issued $649,545,000 2016 Second Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2039. The 2016 Second Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds ($105,065,000), 2008 Series B-1 Subordinate Revenue Bonds ($50,665,000), 2009 Series A Subordinate Revenue Bonds ($43,355,000), 2009 Series B Subordinate Revenue Bonds ($288,185,000), 2009 Series D Subordinate Revenue Bonds ($16,575,000), 2010 Series B-1 Subordinate Revenue Bonds ($11,850,000), 2010 Series B-2 Subordinate Revenue Bonds ($87,475,000), 2010 Series C-2 Subordinate Revenue Bonds ($17,670,000), 2011 Series A Subordinate Revenue Bonds ($53,375,000), and for paying the cost of issuing the 2016 Second Series Subordinate Revenue Refunding Bonds.

Financial Analysis *(continued)*

Capital Assets and Debt Administration *(continued)*

Debt Administration – Mainline (continued)

In October 2016, the Commission issued $255,455,000 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2041. The 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2009 Series A Subordinate Revenue Bonds ($20,990,000), 2009 Series B Subordinate Revenue Bonds ($112,560,000), 2009 Series D Subordinate Revenue Bonds ($75,700,000), 2010 Series B-2 Subordinate Revenue Bonds ($35,545,000), 2011 Series A Subordinate Revenue Bonds ($7,925,000), and for paying the cost of issuing the 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds.

In October 2016, the Commission issued $75,755,000 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2025. The 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2008 Series A-2 Subordinate Revenue Bonds ($18,905,000), 2008 Series B-2 Subordinate Revenue Bonds ($47,785,000) and for paying the cost of issuing the 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds.

In October 2016, the Commission issued $79,865,000 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2036. The 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2010 Series A-2 Motor License Fund-Enhanced Subordinate Revenue Bonds ($16,520,000), 2010 Series B-2 Motor License Fund-Enhanced Subordinate Revenue Bonds ($9,705,000), 2011 Series A Motor License Fund-Enhanced Subordinate Revenue Bonds ($56,860,000) and for paying the cost of issuing 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds.

In January 2017, the Commission issued $284,275,000 2017 Series A Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2046. The 2017 Series A Subordinate Revenue Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89, including reimbursing the Commission for certain payments previously made by the Commission to PennDOT and for paying the cost of issuing the 2017 Series A Subordinate Revenue Bonds.

In May 2017, the Commission issued $291,850,000 2017 First Series Subordinate Revenue Refunding Bonds at a variable rate with a maturity date of December 1, 2041. The 2017 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2009 Series A Subordinate Revenue Bonds ($71,475,000) and 2009 Series D Subordinate Revenue Bonds ($215,130,000) and for paying the cost of issuing the 2017 First Series Subordinate Revenue Refunding Bonds.

Financial Analysis *(continued)*

Capital Assets and Debt Administration (continued)

Debt Administration – Oil Company Franchise Tax

In September 2016, the Commission issued $198,595,000 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2032. The 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds were issued to provide funds for the advanced refunding of the Commission's 2003 Series C Oil Franchise Tax Senior Revenue Bonds ($160,000,000), the advance refunding of a portion of 2009 Series A-2 Oil Franchise Tax Senior Revenue Bonds ($2,120,000), the current refunding of 2006 Series A Oil Franchise Tax Senior Revenue Bonds ($66,025,000) and for paying the cost of issuing the 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds.

In September 2016, the Commission issued $115,395,000 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2032. The 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the 2009 Series D-2 Oil Franchise Tax Subordinate Revenue Bonds ($860,000), the current refunding of the 2006 Series B Oil Franchise Tax Subordinate Revenue Bonds ($122,205,000), the current refunding of 2003 Series B Oil Franchise Tax Subordinate Revenue Bonds ($16,440,000) and for paying the cost of issuing the 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds.

Debt Administration – Motor License Registration Fee

In October 2015, the Commission converted $231,425,000 Registration Fee Revenue Refunding Bonds Series B, C, and D of 2005 from a weekly rate mode to an index rate mode through a direct placement with DNT Asset Trust.

The preceding paragraphs describe debt activity occurring during the fiscal years ended May 31, 2017 and 2016. Please refer to the debt and commitments and contingencies sections in the notes to the financial statements (Notes 7 and 9) for more detailed schedules and descriptions of long-term debt and swap activity.

Events That Will Impact Financial Position

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

Events That Will Impact Financial Position *(continued)*

The Funding Agreement also granted the Commission the option to lease the portion of Interstate 80 (I-80) located in the Commonwealth from PennDOT upon, among other things, the approval of the Federal Highway Administration (FHWA) of the conversion of such portion into a toll road (the Conversion). The Conversion was not approved by FHWA and neither the Commission nor PennDOT appealed the decision. The Commission did not exercise its option to lease such portion of I-80, and the period during which the Commission could exercise its option under the Funding Agreement lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. Under existing law, including Act 89, all legal, financial and operational responsibility for I-80 remains with PennDOT.

Pursuant to Act 44 and the Funding Agreement, because the Conversion did not occur, the Commission was obligated to make scheduled annual payments, payable in equal quarterly installments, of $450 million to PennDOT through 2057 with $200 million of the scheduled annual payment supporting road and bridge projects and $250 million supporting transit projects throughout the Commonwealth. See paragraphs below as to subsequent changes to such annual payments.

On November 25, 2013, Act 89 was enacted providing substantial revision to the Commission's transportation funding obligations under Act 44 and authorized the Commission and PennDOT to immediately amend the Funding Agreement to reflect the statutory provisions of Act 89. On April 4, 2014, the Commission and PennDOT executed Amendment Number One to the Lease and Funding Agreement (the *Act 89 Amendment* and together with the Act 44 Funding Agreement, the *Amended Funding Agreement*). The Amended Funding Agreement terminates on October 14, 2057. In accordance with Act 89 and the Amended Funding Agreement, the Commission's aggregate annual payment to PennDOT for fiscal year 2014 through fiscal year 2022 is $450 million and, in accordance with Act 89, the Commission must pay at least $30 million of such amount from current revenues. Commencing in fiscal year 2023 through the term of the Amended Funding Agreement, the Commission's aggregate annual payment to PennDOT is $50 million, which shall be paid from then current revenues.

The provisions of Act 44 and the Funding Agreement require that the Commission provide a financial plan to the Secretary of the Budget of the Commonwealth on or before June 1 of each year that describes the Commission's proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenue and expenditures for the ensuing fiscal year. Act 44 provides that the financial plan shall demonstrate that the operation of the Commission can reasonably be anticipated to result in having sufficient funds to make payments due to PennDOT pursuant to the Funding Agreement and Act 44 during the ensuing and future fiscal years. It is important to note that the financial plan does not cover the funding needs for the Mon/Fayette or the Southern Beltway projects.

Events That Will Impact Financial Position *(continued)*

On June 1, 2017, the Commission submitted its financial plan for fiscal year 2018 (the Financial Plan). The Financial Plan incorporates the Commission's adopted Ten Year Capital Plan, which provides for approximately $5.6 billion, net of federal reimbursements, in capital spending over the period from fiscal year 2018 through the fiscal year 2027. The Capital Plan enables the Commission to undertake a number of capital improvements and to pursue new initiatives to maintain and improve the Turnpike System ensuring that it remains in a state of good repair. The Financial Plan indicates that in fiscal year 2017 the Commission fully met its Act 44 obligations and progressed with its Capital Plan. Given the ongoing and moderate recovery of both the national and state economies, the Commission plans to continue the cost containment and efficiency measures it implemented within the past few years. These measures, together with future toll increases, are expected to allow the Commission to meet its financial covenants, Act 44 and Act 89 obligations, and capital needs during fiscal year 2018.

The Financial Plan concludes that the Commission will continue to meet all of its indenture covenants and all of its other obligations through fiscal year 2057. However, as a forward-looking report, the Financial Plan makes certain assumptions, including future toll increases, to reach its conclusion that the financial covenants, Act 44 and Act 89 obligations and capital needs will be met beyond fiscal year 2017. Key among these assumptions is the Commission's ability to raise tolls throughout the Turnpike System. The Financial Plan reflects the full year effects of the January 2017 toll increase and the partial year impacts of a January 2018 toll increase. The Financial Plan assumes the $450 million reduced level of funding obligations required by Act 44 and Act 89 through fiscal year 2022 and the $50 million funding level from fiscal year 2023 through fiscal year 2057. No assurances can be made by the Commission with respect to the assumptions made or conclusions reached in the Financial Plan. A complete copy of the Financial Plan is available on the Commission's website.

The preceding paragraphs provide a brief overview of Act 44 and Act 89 and their requirements. Please refer to the commitments and contingencies section in the notes to the financial statements (Note 9) for additional information regarding the Commission's commitments under the Amended Funding Agreement. Furthermore, legislation may be introduced that could affect the Commission and its obligations pursuant to Act 44 and Act 89. However, the Commission cannot predict what other legislation may be considered by the General Assembly during the 2017-2018 or future legislative sessions or if any other proposals or initiatives may lead to the adoption of legislation that may affect the Commission.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Statements of Net Position
May 31, 2017 and 2016
(in thousands)

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	$ 215,949	$ 169,248
Short-term investments	67,764	40,798
Accounts receivable	69,181	57,257
Accrued interest receivable	1,268	1,457
Inventories	18,973	20,492
Restricted current assets		
Cash and cash equivalents	701,841	805,047
Short-term investments	303,421	165,181
Accounts receivable	16,686	11,271
Accrued interest receivable	3,513	3,003
Total current assets	1,398,596	1,273,754
Noncurrent assets		
Long-term investments		
Long-term investments unrestricted	278,202	279,926
Long-term investments restricted	565,414	655,844
Total long-term investments	843,616	935,770
Capital assets not being depreciated		
Land and intangibles	359,210	333,934
Assets under construction	1,356,951	1,330,627
Capital assets being depreciated		
Buildings	978,186	968,902
Improvements other than buildings	121,137	119,256
Equipment	638,300	619,779
Infrastructure	8,380,745	7,908,360
Total capital assets before accumulated depreciation	11,834,529	11,280,858
Less: Accumulated depreciation	6,105,647	5,763,532
Total capital assets after accumulated depreciation	5,728,882	5,517,326
Other assets		
Prepaid bond insurance costs	5,377	9,788
OPEB asset	122,542	113,930
Other assets	31,747	32,190
Total other assets	159,666	155,908
Total noncurrent assets	6,732,164	6,609,004
Total assets	8,130,760	7,882,758
Deferred outflows of resources from hedging derivatives	106,825	133,791
Deferred outflows of resources from refunding bonds	343,320	196,278
Deferred outflows of resources from pensions	84,359	66,281
Total deferred outflows of resources	534,504	396,350
Total assets and deferred outflows of resources	$ 8,665,264	$ 8,279,108

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

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Statements of Net Position *(continued)*
May 31, 2017 and 2016
(in thousands)

	2017	2016
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities		
Accounts payable and accrued liabilities	$ 449,301	$ 409,529
Current portion of debt	391,375	262,690
Unearned Income	72,674	67,844
Total current liabilities	913,350	740,063
Noncurrent liabilities		
Debt, less current portion, net of unamortized premium of $808,031 and $514,396 in 2017 and 2016, respectively	12,177,627	11,431,859
Net pension liability	379,173	346,946
Other noncurrent liabilities	246,896	269,409
Total noncurrent liabilities	12,803,696	12,048,214
Total liabilities	13,717,046	12,788,277
Deferred inflows of resources from hedging derivatives	2,700	-
Deferred inflows of resources from service concession arrangements	122,694	124,028
Deferred inflows of resources from refunding bonds	3,207	1,269
Deferred inflows of resources from pensions	18,289	12,193
Total deferred inflows of resources	146,890	137,490
Total liabilities and deferred inflows of resources	13,863,936	12,925,767
NET POSITION		
Net investment in capital assets	(258,038)	(24,520)
Restricted for construction purposes	330,048	332,920
Restricted for debt service	44,727	28,878
Unrestricted	(5,315,409)	(4,983,937)
Total net position	$ (5,198,672)	$ (4,646,659)

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

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended May 31, 2017 and 2016
(in thousands)

	2017	2016
Operating revenues		
Fares - net of discounts of $3,915 and $1,505 for the years ended May 31, 2017 and 2016, respectively	$ 1,111,061	$ 1,030,115
Other	23,335	22,576
Total operating revenues	1,134,396	1,052,691
Operating expenses		
Cost of services	517,103	471,132
Depreciation	354,343	332,941
Total operating expenses	871,446	804,073
Operating income	262,950	248,618
Nonoperating revenues (expenses)		
Investment earnings	14,225	29,069
Other nonoperating revenues	21,532	21,651
Act 44 and Act 89 payments to PennDOT	(450,000)	(450,000)
Capital assets transferred to PennDOT	(54,724)	(40,937)
Interest and bond expense	(560,660)	(521,021)
Nonoperating expenses, net	(1,029,627)	(961,238)
Loss before capital contributions	(766,677)	(712,620)
Capital contributions	214,664	180,906
Decrease in net position	(552,013)	(531,714)
Net position at beginning of year	(4,646,659)	(4,114,945)
Net position at end of year	$ (5,198,672)	$ (4,646,659)

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

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Statements of Cash Flows
Years Ended May 31, 2017 and 2016
(in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customer tolls and deposits	$ 1,117,714	$ 1,036,742
Cash payments for goods and services	(328,522)	(301,972)
Cash payments to employees	(158,134)	(161,969)
Cash received from other operating activities	8,926	12,312
Net cash provided by operating activities	639,984	585,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	4,841,067	3,210,832
Interest received on investments	22,255	22,636
Purchase of investments	(4,910,891)	(3,249,460)
Net cash used in by investing activities	(47,569)	(15,992)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants received from other governments	55,265	33,497
Proceeds from Motor License Registration fees	28,000	28,000
Proceeds from Oil Company Franchise Tax	120,754	121,130
Construction and acquisition of capital assets	(599,083)	(687,332)
Proceeds from sale of capital assets	993	1,148
Payments for bond and swap expenses	(4,337)	(5,188)
Payments for debt refundings	(525,419)	(233,170)
Payments for debt maturities	(68,200)	(80,865)
Interest paid on debt	(270,070)	(234,357)
Interest subsidy from Build America Bonds	20,843	20,864
Swap suspension payments received	-	4,800
Proceeds from debt issuances	1,055,718	1,004,735
Draw on Stand by Purchase Agreement	-	231,430
Paid Stand by Purchase Agreement	-	(231,430)
Net cash used in capital and related financing activities	(185,536)	(26,738)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash payments to PennDOT	(450,000)	(450,000)
Payments for bond and swap expenses	(8,128)	(5,046)
Payments for debt refundings	(1,549,690)	(579,695)
Payments for debt maturities	(54,430)	(57,765)
Interest paid on debt	(224,231)	(201,716)
Proceeds from debt issuances	1,823,095	942,360
Net cash used in noncapital financing activities	(463,384)	(351,862)
(Decrease) increase in cash and cash equivalents	(56,505)	190,521
Cash and cash equivalents at beginning of year	974,295	783,774
Cash and cash equivalents at end of year	$ 917,790	$ 974,295

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

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Statements of Cash Flows *(continued)*
Years Ended May 31, 2017 and 2016
(in thousands)

	2017	2016
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 262,950	$ 248,618
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	354,343	332,941
Change in operating assets and liabilities		
Accounts receivable	(11,924)	(10,505)
Inventories	1,520	(1,684)
Other assets	(8,606)	(9,008)
Deferred outflows of resources from pensions	(18,078)	(45,203)
Accounts payable and accrued liabilities	17,042	9,482
Net pension liability	32,227	50,675
Other noncurrent liabilities	4,414	288
Deferred inflows of resources from pensions	6,096	9,509
Net cash provided by operating activities	$ 639,984	$ 585,113
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents	$ 215,949	$ 169,248
Restricted cash and cash equivalents	701,841	805,047
Total cash and cash equivalents	$ 917,790	$ 974,295

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

Noncash Activities

The Commission recorded a net increase of $9.5 million and a net decrease of $4.5 million in the fair value of its investments for the years ended May 31, 2017 and 2016, respectively.

The Commission recorded $34.8 million and $17.6 million for the amortization of bond premiums for the years ended May 31, 2017 and 2016, respectively.

As indicated in Note 7 (Debt), the Commission refunded various bonds in both fiscal years 2017 and 2016. The fiscal year 2017 refundings resulted in an $8.1 million reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds and a $3.1 million reclassification from bond premiums (discounts) to deferred inflows of resources from refundings. The fiscal year 2016 refundings resulted in a $1.1 million reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds. Additionally, the Commission recorded $36.4 million and $19.9 million in expenses for amortization of deferred outflows/inflows of resources from refunding bonds for the years ended May 31, 2017 and 2016, respectively.

The Commission recorded $4.6 million and $3.9 million in expenses for amortization of prepaid bond insurance costs for the years ended May 31, 2017 and 2016, respectively.

The Commission recorded an interest expense reduction of $3.1 million and $2.4 million for the years ended May 31, 2017 and 2016, respectively, related to GASB 53 entries.

The Commission recognized total capital contributions of $214.7 million for fiscal year ended May 31, 2017. Cash received of $204.0 million for fiscal year ended May 31, 2017 is reported in the capital and related financing activities of this statement. The $10.7 million difference between capital contributions and cash received is the result of a $5.5 million increase in receivables related to these capital contributions and a $5.2 million noncash capital contribution related to capital assets provided by service plaza operators. The Commission recognized total capital contributions of $180.9 million for fiscal year ended May 31, 2016. Cash received of $182.6 million for fiscal year ended May 31, 2016 is reported in the capital and related financing activities of this statement. The $1.7 million difference between capital contributions and cash received is the result of a $6.9 million decrease in receivables related to these capital contributions offset by a $5.2 million noncash capital contribution related to capital assets provided by service plaza operators. The Commission entered into agreements with a food and fuel provider to totally reconstruct the service plazas; the service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. See Note 2 for further discussion on capital contributions and Note 6 for further discussion on the service plazas.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of $54.7 million and $40.9 million to PennDOT during the fiscal years ended May 31, 2017 and 2016, respectively.

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

NOTE 1 FINANCIAL REPORTING ENTITY

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

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

Based on the application of the criteria set forth by the Governmental Accounting Standards Board (GASB), the Commission has determined that it has no component units based on its review of GASB Statements No. 14, No. 39 and No. 61.

The Commission is composed of five members, one of whom is the Secretary of Transportation. The others are appointed by the Governor with the approval of two-thirds of the Senate.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Reclassifications

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

Cash Equivalents

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

Investments

Investments are stated at fair value with the exception of certain nonparticipating contracts such as repurchase agreements and other agreements structured as repurchase agreements that are reported at cost, which does not materially differ from fair value. The Commission implemented GASB 72 in fiscal year 2016 and beginning in that year categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. See Note 4 for further discussion.

Capital Assets

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are valued at the lower of average cost (determined on a first-in, first-out method) or market.

Debt Premium/Discount and Prepaid Insurance Costs

Debt premium/discount is being amortized using the effective interest rate method over the varying terms of the bonds issued. Prepaid bond insurance costs (incurred through bond issuances) are being amortized using the straight-line method over the varying terms of the bonds issued.

Unearned Income

Unearned income is primarily related to E-ZPass customer deposits. E-ZPass customers of the Commission are required to deposit funds in advance of anticipated travel. Since this money is collected prior to the customers' travel and revenue recognition, it is recorded as unearned income. The Commission also had unearned income related to microwave tower leases and an upfront payment from a CMS swap in fiscal year 2015. The Commission had total unearned income of $73.8 million and $69.8 million for fiscal years ended May 31, 2017 and 2016, respectively. Unearned income recorded as current liabilities are $72.7 million and $67.8 million for fiscal years ended May 31, 2017 and 2016, respectively. Unearned income recorded as other noncurrent liabilities are $1.1 million and $2.0 million for the fiscal years ended May 31, 2017 and 2016, respectively.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pennsylvania State Employees' Retirement System (SERS) and additions to / deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. 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 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred Outflows/Inflows of Resources

The Statements of Net Position report separate sections for deferred outflows and deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The Commission has four items that qualify for reporting in these categories: deferred outflows/inflows from its hedging derivative instruments, deferred inflows from its service concession arrangements, deferred outflows/inflows on refunding bonds and deferred outflows/inflows related to pensions.

The deferred outflows/inflows of resources related to hedging derivative instruments represent the cumulative change in their fair values. Deferred inflows from the Commission's service concession arrangements represent unamortized capital contributions from service plaza operators and the present value of minimum guaranteed rent payments. Deferred outflows/inflows on refundings are the result of differences in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows/inflows of resources related to pensions are described further in Note 8. The components of deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all SERS members beginning the year in which the deferred amount occurs (current year). The annual difference between the projected and actual earnings on SERS investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year).

Net Position

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Position *(continued)*

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

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

Operating Revenues

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

Fare Revenues

Fare revenues are recognized when vehicles exit the Turnpike System. For fiscal years 2017 and 2016, approximately 77.1% and 74.5%, respectively, of the fare revenues were realized through electronic toll collection. For fiscal years 2017 and 2016, approximately 22.9% and 25.5%, respectively, of the fare revenues were realized through cash or credit card collection.

During fiscal year 2016, the Commission implemented Toll By Plate (TBP), a new license plate tolling system for customers without a valid E-ZPass. The TBP program offers cashless, nonstop travel at the tolling point at the PA Turnpike Bridge over the Delaware River and along the Beaver Valley Expressway. This new system utilizes high speed cameras over the roadway that capture license plate images as vehicles pass through the tolling point. The registered owner of the vehicle then receives a flat rate invoice in the mail. For fiscal years 2017 and 2016, approximately 0.6% and 0.3%, respectively, of the fare revenues were realized through TBP, which are included as part of electronic toll collection.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating Expenses

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

Cost of Services

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

Utilization of Resources

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

Nonoperating Revenues (Expenses)

Nonoperating revenues include: net investment earnings and other miscellaneous revenues not associated with the operations of the Turnpike System. Nonoperating expenses include: Act 44 and Act 89 payments to PennDOT, capital assets transferred to PennDOT, interest and bond expenses, and other miscellaneous expenses not associated with the operations of the Turnpike System.

Act 44 and Act 89 Payments to PennDOT

The Commission and PennDOT entered into a Lease and Funding Agreement, as amended, as required under the terms of Act 44 and Act 89. See Note 9 for more information regarding Act 44 and Act 89.

Capital Assets Transferred to PennDOT

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of $54.7 million to PennDOT during the fiscal year ended May 31, 2017. The Commission transferred assets with a net book value of $40.9 million to PennDOT during the fiscal year ended May 31, 2016.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital Contributions

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

Oil Company Franchise Tax Revenues

The Commission receives 14% of the additional 55 mills of the Commonwealth's Oil Company Franchise Tax revenues pursuant to Act 26 established in 1991. The revenues totaled $123.7 million and $119.8 million for the fiscal years ended May 31, 2017 and 2016, respectively. These revenues are kept in a separate fund as required by the applicable bond indenture.

Motor License Registration Fee Revenues

The Commission received $28.0 million in registration fee revenue during each of the fiscal years ended May 31, 2017 and 2016 from the Commonwealth's Motor License Fund. These revenues are kept in a separate fund as required by the applicable bond indenture.

Reimbursements from Other Governments

The Commission receives grants from other governments for reimbursement of costs for various highway construction projects. During the fiscal years ended May 31, 2017 and 2016, the Commission recognized $57.7 million and $27.9 million, respectively, as capital contributions from the Federal government.

Other Capital Contributions

The Commission entered into contracts with a food and a fuel provider to totally reconstruct the service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission recognized capital contribution revenues of $5.2 million and $5.2 million, related to these agreements for the years ended May 31, 2017 and 2016, respectively. See Note 6 for further discussion on the service plazas.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Adoption of Accounting Pronouncements

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Commission adopted this statement for its fiscal year ended May 31, 2017. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2017 and 2016.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Commission adopted this statement for its fiscal year ended May 31, 2017. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2017 and 2016.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The Commission adopted this statement for its fiscal year ended May 31, 2017. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2017 and 2016.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The Commission adopted this statement for its fiscal year ended May 31, 2017. The adoption of this statement had no impact on the Commission's financial statements for fiscal years ending May 31, 2017 and 2016. See the Required Supplementary Information section of these financial statements for disclosures.

Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Commission is required to adopt Statement No. 74 for its fiscal year ended May 31, 2018.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Commission is required to adopt Statement No. 75 for its fiscal year ended May 31, 2019.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The Commission is required to adopt Statement No. 81 for its fiscal year ended May 31, 2018.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pending Changes in Accounting Principles *(continued)*

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The Commission is required to adopt Statement No. 83 for its fiscal year ended May 31, 2020.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Commission is required to adopt Statement No. 84 for its fiscal year ended May 31, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The Commission is required to adopt Statement No. 85 for its fiscal year ended May 31, 2019.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The Commission is required to adopt Statement No. 86 for its fiscal year ended May 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Commission is required to adopt Statement No. 87 for its fiscal year ended May 31, 2021.

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

NOTE 3 INDENTURE REQUIREMENTS AND RESTRICTIONS

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

- A Senior Trust Indenture dated July 1, 1986 which was amended and restated as of March 1, 2001, as supplemented, between the Commission and the Trustee, U.S. Bank Corp., successor to First Union National Bank;
- An Oil Franchise Tax Trust Indenture dated August 1, 1998, as supplemented, between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to National City Bank of Pennsylvania;
- A Registration Fee Revenue Trust Indenture dated August 1, 2005 between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A., successor to Wachovia Bank, N.A.;

NOTE 3 INDENTURE REQUIREMENTS AND RESTRICTIONS *(continued)*

- A Subordinate Trust Indenture dated April 1, 2008, as supplemented, between the Commission and the Trustee, Wells Fargo Bank, N.A., successor to Commerce Bank, N.A.; and

- A Special Obligation Trust Indenture dated September 1, 2014 between the Commission and the Trustee, Bank of New York Mellon Trust Company, N.A.

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

NOTE 4 CASH AND INVESTMENTS

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

	May 31, 2017	May 31, 2016
	(In Thousands)	
Cash and cash equivalent and investment types		
U.S. Treasuries	$ 383,019	$ 244,409
GNMA mortgages	2,340	3,717
Government agency securities	164,276	239,413
Municipal bonds	99,557	128,341
Corporate obligations	555,789	511,946
Total investment securities	1,204,981	1,127,826
Investment derivatives	9,820	13,923
Cash and cash equivalents	917,790	974,295
Total cash and cash equivalents and investments	$ 2,132,591	$ 2,116,044

Cash and Cash Equivalents

Cash and cash equivalents are held in various financial institutions. Cash and Cash equivalents are comprised of demand deposits, money market funds and other highly liquid investments that mature within three months of acquisition. The Demand Deposits are secured under Pennsylvania Act 72 which secures public deposits in excess of the FDIC insurance limits. Cash equivalents consist of permitted investments in accordance with the Indentures as noted under cash equivalents and investment securities.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash and Cash Equivalents *(continued)*

The following summary presents the Commission's cash and cash equivalents:

	Bank Balance	Book Balance
	(In Thousands)	
May 31, 2017		
Demand deposits	$ 33,009	$ 32,924
Money market funds	562,013	562,086
Cash equivalents	322,780	322,780
Total cash and cash equivalents	$ 917,802	$ 917,790
May 31, 2016		
Demand deposits	$ 22,628	$ 23,723
Money market funds	673,415	673,415
Cash equivalents	277,157	277,157
Total cash and cash equivalents	$ 973,200	$ 974,295

Cash Equivalents and Investment Securities

Following is a description of the valuation methodologies used for investment securities measured at fair value. The Commission implemented GASB 72 in fiscal year 2016, there were no changes in the methodologies used at May 31, 2016 with the exception of the investment derivatives, which is described in Note 9. There were no changes in the methodologies used at May 31, 2017.

- For fiscal years ended May 31, 2017 and 2016, U.S. Treasuries of $383.0 and $244.4 million, respectively, categorized as Level 1 are valued using quoted market prices.

- For fiscal years ended May 31, 2017 and 2016, GNMA mortgages of $2.3 and $3.7 million, respectively, categorized as Level 2 are valued using models based on spreads of comparable securities.

- For fiscal years ended May 31, 2017 and 2016, government agency securities of $164.3 and $239.4 million, respectively, categorized as Level 2 are valued using various market and industry inputs. Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of agency mortgage pass-through pool securities is model-driven based on spreads of a comparable security. Collateralized mortgage obligations are valued using quoted market prices and trade data adjusted by subsequent changes in related indices for identical or comparable securities.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

- For fiscal years ended May 31, 2017 and 2016, municipal bonds of $99.6 and $128.3 million, respectively, categorized as Level 2 are valued using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility.

- For fiscal years ended May 31, 2017 and 2016, corporate obligations of $555.8 and $511.9 million, respectively, categorized as Level 2 are valued using recently executed transactions, market price quotations (where observable), bond spreads, credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond.

- For fiscal years ended May 31, 2017 and 2016, investment derivatives of $9.8 and $13.9 million, respectively, categorized as Level 2 are valued using discounted future net cash flows, mid-market values, nonperformance risk and bid/offer spreads. See Note 9 for further discussion.

The Indentures (as listed in Note 3) permit investments in obligations of, or guaranteed by, the United States of America, its agencies, and its instrumentalities (United States Government obligations); certificates of deposit issued by institutions insured by the FDIC or fully collateralized with United States Government obligations; investment agreements with certain financial institutions; commercial paper and asset-backed securities rated in the highest category by applicable rating agencies; money market funds and auction rate certificates rated in one of the two highest categories by applicable rating agencies; corporate bonds and medium term notes with a minimum rating of “AA-“; investments in bonds or notes issued by any state or municipality which are rated by Moody’s, S&P and Fitch in one of their two highest rating categories; and repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York collateralized with obligations of, or guaranteed by, the United States of America.

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

NOTE 4 CASH AND INVESTMENTS *(continued)*

Cash Equivalents and Investment Securities *(continued)*

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

- U.S. Treasury Bills, Notes, Bonds, Strips;
- Time Deposits issued by a banking association organized and doing business under the laws of the United States of America or of any state that may have a combined capital and surplus of at least $50,000,000;
- Certificates of Deposit that are fully collateralized and issued by a bank, savings and loan or trust company organized under the laws of the United States or any state thereof;
- Investment Agreements with a bank, a bank holding company or a financial institution that has outstanding long-term indebtedness rated “AA” or better by Moody’s and S&P;
- Obligations of any federal agencies which obligations are backed by the full faith and credit of the United States of America;
- Senior debt obligations rated a minimum “Aa2” by Moody’s and “AA” by S&P and issued by government-sponsored enterprises which include Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation; and Federal National Mortgage Association;
- Mortgage-backed securities issued by an approved Federal agency and collateralized mortgage obligations so long as such securities are rated a minimum of “Aa2” by Moody’s and “AA” by S&P;
- Debt obligations of any state or local government entity with securities rated in the “Aa/AA” category;
- Commercial paper rated not less than “A-1/P-1/F-1”, corporate bonds rated “Aa3/AA-“ or better, and asset-backed securities rated “AAA”;
- Repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York, collateralized by investments with a minimum 102% valuation in securities of U.S. Treasury bills, notes, bonds, strips, or obligations of any federal agencies or senior debt obligations described above; and

NOTE 4 CASH AND INVESTMENTS *(continued)*

<u>Cash Equivalents and Investment Securities</u> *(continued)*

- Share or Certificates in any short-term investment fund investing not less than 90% of its assets in obligations of U.S. treasury bills, notes, bonds, strips or time deposits.

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

Investments in any single Federal agency, not carrying the full faith and credit of the U.S. Government, are limited to 35% of the portfolio.

Investments in certificates of deposit and investment agreements are limited to 30% of the portfolio.

Combined exposure to commercial paper, corporate bonds, and asset-backed securities, in aggregate, is limited to 35% of the total portfolio.

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

The Commission's investment policy also limits investments to those issues expected to mature within five years, taking into consideration call, prepayment, or other features that may impact maturity. At May 31, 2017 and 2016, the Commission held three securities totaling $21.9 million and $22.4 million, respectively. Each of these securities had a maturity greater than five years. All of these securities were purchased prior to the Commission's adoption of an Investment Policy.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Credit Risk

The Commission's exposure to credit risk for investment securities is as follows:

Investment Type	Quality Rating as of May 31, 2017					
	AAA	AA	A	A-1	Below A	Total
			(In Thousands)			
Government agency securities	$ 4,870	$ 159,406	$ -	$ -	$ -	$ 164,276
Municipal bonds	9,020	78,741	11,796	-	-	99,557
Corporate obligations	91,567	376,607	32,520	54,713	382	555,789
	$ 105,457	$ 614,754	$ 44,316	$ 54,713	$ 382	$ 819,622

Investment Type	Quality Rating as of May 31, 2016					
	AAA	AA	A	A-1	Below A	Total
			(In Thousands)			
Government agency securities	$ 8,538	$ 230,875	$ -	$ -	$ -	$ 239,413
Municipal bonds	11,823	96,662	19,856	-	-	128,341
Corporate obligations	82,218	374,625	-	54,588	515	511,946
	$ 102,579	$ 702,162	$ 19,856	$ 54,588	$ 515	$ 879,700

Concentration of Credit Risk

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

As of May 31, 2017, the Commission did not have any investments of more than 5% of its consolidated portfolio. As of May 31, 2016, the Commission had investments of more than 5% of its consolidated portfolio with the following issuers:

Issuer	Total Fair Value	Percentage of Total Portfolio
	(in Thousands)	
Federal Home Loan Bank	$ 178,375	8.43%
Federal National Mortgage Association	115,424	5.45%

NOTE 4 CASH AND INVESTMENTS *(continued)*

Interest Rate Risk

The effective duration of the Commission's investments, by type, was as follows:

	As of May 31, 2017	
Investment Type	**Fair Value**	**Effective Duration**
	(In Thousands)	*(In Years)*
U.S. Treasuries	$ 383,019	2.5304
GNMA mortgages	2,340	3.6307
Government agency securities	164,276	2.2602
Municipal bonds	99,557	2.3438
Corporate obligations	555,789	1.5028
Total investment securities	$ 1,204,981	

	As of May 31, 2016	
Investment Type	**Fair Value**	**Effective Duration**
	(In Thousands)	*(In Years)*
U.S. Treasuries	$ 244,409	2.8775
GNMA mortgages	3,717	3.2194
Government agency securities	239,413	1.8555
Municipal bonds	128,341	2.2932
Corporate obligations	511,946	1.8975
Total investment securities	$ 1,127,826	

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At May 31, 2017 and 2016, $32.5 and $22.1 million, respectively, of the Commission's demand deposits were exposed to custodial credit risk, as they were uninsured and collateralized with securities held by an agent of the pledging financial institution but are not in the Commission's name. None of the Commission's investments were exposed to custodial credit risk at May 31, 2017 or 2016.

NOTE 4 CASH AND INVESTMENTS *(continued)*

Investment Derivatives

Following is a summary of the Commission's investment derivatives at May 31, 2017:

	Notional Amount *(Thousands)*	Weighted Avg. Mat. *(Years)*	Effective Date	Maturity Date	Terms	Fair Value *(Thousands)*	Counterparty	Credit Ratings Moody's/ S&P's/Fitch
	$ 67,452	7.4				$ 782	JPMorgan Chase Bank	Aa3/A+/AA-
	60,384	8.1			Pay 67% of 1-month LIBOR, receive	672	Merrill Lynch CS*	Baa1/BBB+/A
	67,452	7.4			60.08% of the 10 year maturity of the	782	PNC Bank	A2/A/A+
	75,478	8.1			USD-ISDA Swap Rate	840	Bank of New York Mellon	Aa2/AA-/AA
A	270,766		7/1/2007	12/1/2030		3,076		
	112,000				Pay SIFMA, receive 63% of 1-month	(3,362)	JPMorgan Chase Bank	Aa3/A+/AA-
	48,000				LIBOR + 20 bps	(1,442)	Bank of New York Mellon	Aa2/AA-/AA
B	160,000	12.1	8/14/2003	12/1/2032		(4,804)		
	80,000				Pay 67% of 1-month LIBOR, receive	1,707	JPMorgan Chase Bank	Aa3/A+/AA-
	80,000				60.15% of the 10 year maturity of the	1,326	Royal Bank of Canada	A1/AA-/AA
C	160,000	12.0	9/19/2006	11/15/2032	USD-ISDA Swap rate	3,033		
D	80,000	1.0	5/15/2014	5/15/2018	Pay 60.15% of the 10 year maturity of the USD-ISDA Swap Rate, receive 67% of 1-month LIBOR	(400)	Wells Fargo	Aa2/AA-/AA
E	127,020	13.8	6/1/2010	6/1/2039	Pay SIFMA, receive 99.68% of 3-month LIBOR	4,118	Goldman Sachs MMDP	Aa2/AA-/NR
F	127,020	13.8	6/1/2010	6/1/2039	Pay SIFMA, receive 99.80% of 3-month LIBOR	4,797	Deutsche Bank	Baa2/A-/A-
						$ 9,820		

1-month LIBOR was 1.06033% at May 31, 2017.
3-month LIBOR was 1.21000% at May 31, 2017.
10-year maturity of the USD-ISDA swap rate was 2.150% at May 31, 2017.
SIFMA was 0.76% at May 31, 2017.

* On November 15, 2012, the Commission executed an amendment to the swap agreements to include Merrill Lynch Derivative Products as guarantor. Merrill Lynch Derivative Products credit ratings were Aa3/AA/NR (Moody's/Standard & Poor's/Fitch) as of May 31, 2017.

See Note 9 for additional disclosures regarding derivative instruments, including a rollforward from the prior-year balances.

NOTE 5 CAPITAL ASSETS

Summaries of changes to capital assets for the years ended May 31, 2017 and 2016 are as follows:

	Balance May 31, 2016	Additions	Transfers	Reductions	Balance May 31, 2017
	(In Thousands)				
Capital assets not being depreciated (cost)					
Land and intangibles	$ 333,934	$ 25,276	$ -	$ -	$ 359,210
Assets under construction	1,330,627	560,091	(533,767)	-	1,356,951
Total capital assets not being depreciated	1,664,561	585,367	(533,767)	-	1,716,161
Capital assets being depreciated (cost)					
Buildings	968,902	2,457	6,827	-	978,186
Improvements other than buildings	119,256	1,876	5	-	121,137
Equipment	619,779	10,329	12,748	4,556	638,300
Infrastructure	7,908,360	20,969	514,187	62,771	8,380,745
Total capital assets being depreciated	9,616,297	35,631	533,767	67,327	10,118,368
Less accumulated depreciation for					
Buildings	377,111	22,720	-	-	399,831
Improvements other than buildings	78,579	4,405	-	-	82,984
Equipment	481,056	36,575	-	4,182	513,449
Infrastructure	4,826,786	290,643	-	8,046	5,109,383
Total accumulated depreciation	5,763,532	354,343	-	12,228	6,105,647
Total capital assets being depreciated, net	3,852,765	(318,712)	533,767	55,099	4,012,721
Total capital assets	$ 5,517,326	$ 266,655	$ -	$ 55,099	$ 5,728,882

	Balance May 31, 2015	Additions	Transfers	Reductions	Balance May 31, 2016
	(In Thousands)				
Capital assets not being depreciated (cost)					
Land and intangibles	$ 310,518	$ 23,416	$ -	$ -	$ 333,934
Assets under construction	956,984	632,034	(258,391)	-	1,330,627
Total capital assets not being depreciated	1,267,502	655,450	(258,391)	-	1,664,561
Capital assets being depreciated (cost)					
Buildings	936,517	6,487	25,898	-	968,902
Improvements other than buildings	117,331	435	1,490	-	119,256
Equipment	591,223	18,850	13,770	4,064	619,779
Infrastructure	7,713,188	20,778	217,233	42,839	7,908,360
Total capital assets being depreciated	9,358,259	46,550	258,391	46,903	9,616,297
Less accumulated depreciation for					
Buildings	354,269	22,842	-	-	377,111
Improvements other than buildings	73,215	5,364	-	-	78,579
Equipment	449,801	34,962	-	3,707	481,056
Infrastructure	4,558,915	269,773	-	1,902	4,826,786
Total accumulated depreciation	5,436,200	332,941	-	5,609	5,763,532
Total capital assets being depreciated, net	3,922,059	(286,391)	258,391	41,294	3,852,765
Total capital assets	$ 5,189,561	$ 369,059	$ -	$ 41,294	$ 5,517,326

NOTE 5 CAPITAL ASSETS *(continued)*

The Commission incurred interest costs of $22.3 million and $21.0 million for the fiscal years ended May 31, 2017 and 2016, respectively, which qualified for capitalization. For fiscal year 2017, there was a $1.3 million interest income offset; therefore, $21.0 million was capitalized. For fiscal year 2016, there was a $0.2 million interest income offset; therefore, $20.8 million was capitalized.

NOTE 6 SERVICE CONCESSION ARRANGEMENTS

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

As of May 31, 2017, the Commission had capitalized $119.4 million in capital assets representing 16 service plazas that had fully completed construction and recorded deferred inflows of resources of $91.0 million related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2017 and in accordance with GASB Statement No. 60, the Commission recognized a receivable and deferred inflow of resources in the amount of $31.7 million for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction.

As of May 31, 2016, the Commission had capitalized $115.0 million in capital assets representing 15 service plazas that had fully completed construction and recorded deferred inflows of resources of $91.9 million related to these assets in accordance with GASB Statement No. 60. Also, as of May 31, 2016 and in accordance with GASB Statement No. 60, the Commission recognized a receivable and deferred inflow of resources in the amount of $32.1 million for the present value of guaranteed minimum rent payments scheduled to begin upon completion of all construction.

NOTE 7 DEBT

Following is a summary of debt outstanding:

	May 31, 2017	May 31, 2016
	(In Thousands)	
Mainline Senior Debt		
2009 Series A Build America Bonds: Issued $275,000 in July 2009 at 6.105%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1.	$ 275,000	$ 275,000
2009 Series B: Issued $375,010 in December 2009 at 3.00% to 5.00%, due in varying installments through December 1, 2025. Interest paid each June 1 and December 1.	312,085	349,755
2010 Series B Build America Bonds: Issued $600,000 in September 2010 at 5.5%, due in varying installments through December 1, 2049. Interest paid each June 1 and December 1.	600,000	600,000
2011 Series A: Issued $68,660 in April 2011 at 4.00% to 5.00% due in varying installments through December 1, 2023. Interest paid each June 1 and December 1.	68,660	68,660
2011 Series E: Issued $110,080 in November 2011 at 3.63% to 5.00%, due in varying installments through December 1, 2030. Interest paid each June 1 and December 1.	110,080	110,080
2012 Series A: Issued $200,215 in July 2012 at 3.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	189,550	193,235
2012 Series B: Issued $70,060 in November 2012 at a variable rate (based on SIFMA + 0.55%, reset weekly, paid the 1st of each month). Fully refunded in June 2016.	-	70,060
2013 Series A: Issued $176,075 in January 2013 at a variable rate (based on SIFMA + 0.60% and 0.68%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2018.	176,075	176,075
2013 Series B: Issued $265,155 in July 2013 at a variable rate (based on SIFMA + 0.40% to 1.27%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2020. Partially refunded in June 2015.	200,000	200,000
2013 Series C: Issued $222,935 in August 2013 at 3.00% to 5.50%, due in varying installments through December 1, 2043. Interest paid each June 1 and December 1.	222,750	222,935
2014 Series A: Issued $236,115 in April 2014 at 4.00% to 5.00%, due in varying installments through December 1, 2044. Interest paid each June 1 and December 1.	236,115	236,115
2014 Series B-1: Issued $444,280 in May 2014 at a variable rate (based on SIFMA + 0.05% to 0.98%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2021. Partially refunded in June 2015 and June 2016.	394,150	429,200
2014 Series B-2: Issued $69,870 in June 2014 at a variable rate (based on SIFMA + 0.05% to 0.30%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2016. Partially refunded in June 2015. Final refunding in June 2016.	-	34,950
2014 Series Refunding: Issued $239,620 in November 2014 at 5.00%, due in varying installments through December 1, 2034. Interest paid each June 1 and December 1.	239,620	239,620
2014 Series C: Issued $294,225 in December 2014 at 2.25% to 5.00%, due in varying installments through December 1, 2044. Interest paid each June 1 and December 1.	294,225	294,225
2015 Series A-1: Issued $385,095 in June 2015 at 4.00% to 5.00%, due in varying installments through December 1, 2045. Interest paid each June 1 and December 1.	385,095	385,095
2015 Series A-2: Issued $115,635 in June 2015 at a variable rate (based on SIFMA + 0.15% to 0.90%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2021.	100,000	100,000
2015 Series B: Issued $304,005 in December 2015 at 2.5% to 5.00%, due in varying installments through December 1, 2045. Interest paid each June 1 and December 1.	304,005	304,005
EB5 Loan (1st-3rd Tranches): Issued $150,000 in March 2016 at 2.00% due on March 18, 2021. Interest is paid each June 1 and December 1.	150,000	150,000
EB5 Loan (4th Tranche): Issued $50,000 in May 2016 at 2.00%, due on May 12, 2021. Interest is paid each June 1 and December 1.	50,000	50,000
2016 Series A-1: Issued $447,850 in June 2016 at 3.00% to 5.00% due in varying installments through December 1, 2046. Interest is paid each June 1 and December 1.	447,850	-
2016 Series A-2: Issued $140,590 in June 2016 at a variable rate (based on 70% of 1-month LIBOR + 0.60% to 0.70%, reset weekly, paid the 1st of each month). Due in varying installments through December 1, 2018.	140,590	-
Total Mainline Senior Debt Payable	4,895,850	4,489,010

NOTE 7 DEBT *(continued)*

	May 31, 2017	May 31, 2016
	(In Thousands)	
Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt)		
Mainline Subordinate Revenue Debt		
2008 Sub-Series A-1 Subordinate Revenue: Issued $176,565 in April 2008 at 4.125% to 5.00%, due in varying installments through June 1, 2038. Interest paid each June 1 and December 1. Partially refunded in February, April and June 2016.	$ 2,820	$ 107,885
2008 Sub-Series A-2 Subordinate Revenue (Federally Taxable): Issued $68,290 in April 2008 at 3.74% to 6.41%, due in varying installments through June 1, 2022. Interest paid each June 1 and December 1. Partially refunded in October 2016.	16,610	40,485
2008 Sub-Series B-1, B-2 Subordinate Revenue (B-2 Federally Taxable): Issued $233,905 in July 2008 at 5.00% to 7.47%, due in varying installments through June 1, 2036. Interest paid each June 1 and December 1. Sub-Series B-1 was partially refunded in February 2016, April 2016, and final refunding in June 2016. Sub-Series B-2 was partially refunded in October 2016.	21,205	119,655
2008 Sub-Series C-1, C-3, C-4 Subordinate Revenue (C-4 Federally Taxable): Issued $411,110 in October 2008 at 4.00% to 6.25%, due in varying installments through June 1, 2038. Interest paid each June 1 and December 1. Sub-Series C-3 refunded July 2009 and Sub-Series C-4 refunded June 2010. Sub-Series C-1 was partially refunded in February 2016.	12,790	18,745
2009 Series A Subordinate Revenue: Issued $308,035 in January 2009 at 3.00% to 5.00%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1. Partially refunded in February 2016, April 2016, June 2016, October 2016, and May 2017.	83,100	225,090
2009 Series B Subordinate Revenue: Issued $856,735 in July 2009 at 3.00% to 5.75%, due in varying installments through June 1, 2039. Interest paid each June 1 and December 1. Partially refunded in February, April, June and October 2016.	204,585	629,910
2009 Series C Subordinate Revenue: Issued $99,998 in July 2009 at 6.25%, due in varying installments through June 1, 2033. Interest to be compounded semi-annually from July 2009 until June 1, 2016, thereafter paid each June 1 and December 1. Series C issued as Capital Appreciation Bonds (CABs). Compounded interest to be paid at maturity or earlier redemption.	152,355	152,355
2009 Series D Subordinate Revenue: Issued $324,745 in October 2009 at 4.00% to 5.50%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1. Partially refunded in February 2016, June 2016, October 2016, and May 2017.	7,365	314,770
2009 Series E Subordinate Revenue: Issued $200,005 in October 2009 at 6.00% to 6.375%, due in varying installments through December 1, 2038. Interest to be compounded semi-annually from October 2009 to December 1, 2017, thereafter paid each June 1 and December 1. Series E issued as CABs. The compounded interest to be paid at maturity or earlier redemption.	319,922	300,733
2010 Sub-Series B-1, B-2 Subordinate Revenue: Issued $273,526 in July 2010 at 5.00%. Sub-Series B-1 due in varying installments through December 1, 2037. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compounded interest paid at maturity or earlier redemption. Sub-Series B-1 was partially refunded in June 2016. Sub-Series B-2 was partially refunded in June and October 2016.	199,250	334,120
2010 Sub-Series C-1, C-2, C-3 Subordinate Revenue: Issued $138,916 in October 2010 at 4.25% to 5.45%. Sub-Series C-1 due in varying installments through December 1, 2040. Sub-Series C-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series C-3 issued as CABs with interest paid at maturity or earlier redemption. Sub-Series C-2 partially refunded in June 2016.	148,636	165,352
2011 Series A Subordinate Revenue: Issued $135,655 in April 2011 at 5.00% to 6.50%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1. Partially refunded in April 2015, June 2016, October 2016.	24,325	85,625
2011 Series B Subordinate Revenue: Issued $126,740 in October 2011 at 2.00% to 5.25%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	109,510	113,060
2012 Series A Subordinate Revenue: Issued $123,545 in April 2012 at 3.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	109,640	113,110
2012 Series B Subordinate Revenue: Issued $121,065 in October 2012 at 2.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	108,910	110,710
2013 Series A Subordinate Revenue: Issued $71,702 in April 2013 at 3.125% to 5.00%, due in varying installments through December 1, 2043. Sub-Series A-1 Serial bond interest paid each June 1 and December 1. Sub-Series A-1 Term bond interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2018, thereafter paid each June 1 and December 1.	79,550	77,486

NOTE 7 DEBT *(continued)*

	May 31, 2017	May 31, 2016
	(In Thousands)	
Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt) (continued)		
Mainline Subordinate Revenue Debt (continued)		
2013 Sub-Series B-1, B-2, B-3 Subordinate Revenue: Issued $108,708 in October 2013 at 2.00% to 6.10%, due in varying installments through December 1, 2043. Sub-Series B-1 interest paid each June 1 and December 1. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2028, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 interest paid each June 1 and December 1.	$ 114,022	$ 112,792
2014 Sub-Series A-1, A-2, A-3 Subordinate Revenue: Issued $148,300 in April 2014 at 2.00% to 5.44%, due in varying installments through December 1, 2043. Sub-Series A-1 interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest compounded semi-annually until June 1, 2024, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 issued as CABs with interest paid at maturity or earlier redemption.	154,152	152,364
2014 Series B Subordinate Revenue: Issued $201,395 in October 2014 at 5.00% to 5.25% due in varying installments through December 1, 2044. Interest paid each June 1 and December 1.	201,395	201,395
2015 Series A-1 Subordinate Revenue: Issued $209,010 in April 2015 at 3.00% to 5.25% due in varying installments through December 1, 2045. Interest is paid each June 1 and December 1.	209,010	209,010
2015 Series A-2 Subordinate Revenue: Issued $50,000 in April 2015 at a variable rate (based on SIFMA + 0.80%, reset weekly, paid the 1st of each month commencing on December 1, 2015). Due in varying installments through December 1, 2045.	50,000	50,000
2015 Series B Subordinate Revenue: Issued $192,215 in October 2015 at 4.00% to 5.00% due in varying installments through December 1, 2045. Interest is paid each June 1 and December 1.	192,215	192,215
2016 Series Refunding Subordinate Revenue: Issued $360,990 in February 2016 at 3.00% to 5.00% due in varying installments through June 1, 2038. Interest is paid each June 1 and December 1.	360,990	360,990
2016 Series A-1 Subordinate Revenue: Issued $203,700 in April 2016 at 3.00% to 5.00% due in varying installments through December 1, 2046. Interest is paid each June 1 and December 1.	203,700	203,700
2016 Series A-2 Subordinate Revenue: Issued $185,455 in April 2016 at 5.00% due in varying installments through June 1, 2033. Interest is paid each June 1 and December 1.	185,455	185,455
2016 Series Second Refunding Subordinate Revenue: Issued $649,545 in June 2016 at 3.00% to 5.00% due in varying installments through June 1, 2039. Interest is paid each June 1 and December 1.	649,545	-
2016 Series A Third Refunding Subordinate Revenue: Issued $255,455 in October 2016 at 3.375% to 5.00% due in varying installments through December 1, 2041. Interest is paid June 1 and December 1.	255,455	-
2016 Series B Third Refunding Subordinate Revenue (Federally Taxable): Issued $75,755 in October 2016 at 1.175% to 2.928% due in varying installments through December 1, 2025. Interest is paid June 1 and December 1.	75,755	-
2017 Series A Subordinate Revenue: Issued $284,275 in January 2017 at 4.00% to 5.50% due in varying installments through December 1, 2046. Interest is paid each June 1 and December 1.	284,275	-
2017 Series First Refunding Subordinate Revenue: Issued $291,850 in May 2017 at a variable rate (based on SIFMA + 0.60% reset weekly, paid the 1st of each month commencing on June 1, 2017). Due in varying installments through December 1, 2041.	291,850	-
Total Mainline Subordinate Revenue Debt Payable	4,828,392	4,577,012
Motor License Fund-Enhanced Subordinate Special Revenue Debt		
2010 Sub-Series A-1, A-2, A-3 Subordinate Motor License Fund-Enhanced Special Revenue: Issued $187,816 in July 2010 at 4.50% to 5.50%. Sub-Series A-1 due in varying installments through December 1, 2038. Interest paid each June 1 and December 1. Sub-Series A-2 issued as convertible CABs. Interest will compound semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series A-3 issued as CABs. Compounded interest to be paid at maturity or earlier redemption. Sub-Series A-2 was partially refunded in October 2016.	205,684	220,308
2010 Sub-Series B-1, B-2, B-3 Subordinate Motor License Fund-Enhanced Special Revenue: Issued $105,299 in October 2010 at 3.95% to 5.125%, due in varying installments through December 1, 2040. Sub-Series B-1 interest paid each June 1 and December 1. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2015, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 issued as CABs with interest paid at maturity or earlier redemption. Sub-Series B-2 was partially refunded in October 2016.	114,415	123,198

NOTE 7 DEBT *(continued)*

	May 31, 2017	May 31, 2016
	(In Thousands)	
Motor License Fund-Enhanced Subordinate Special Revenue Debt (continued)		
2011 Series A Subordinate Motor License Fund-Enhanced Special Revenue: Issued $102,620 in April 2011 at 5.00% to 6.00%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1. Partially refunded in October 2016.	$ 45,760	$ 102,620
2011 Series B Subordinate Motor License Fund-Enhanced Special Revenue: Issued $98,910 in October 2011 at 3.00% to 5.00%, due in varying installments through December 1, 2041. Interest paid each June 1 and December 1.	96,855	97,605
2012 Series A Subordinate Motor License Fund-Enhanced Special Revenue: Issued $94,935 in April 2012 at 2.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	93,570	94,090
2012 Series B Subordinate Motor License Fund-Enhanced Special Revenue: Issued $92,780 in October 2012 at 3.00% to 5.00%, due in varying installments through December 1, 2042. Interest paid each June 1 and December 1.	91,440	92,020
2013 Series A Subordinate Motor License Fund-Enhanced Special Revenue: Issued $92,465 in April 2013 at 3.00% to 5.00%, due in varying installments through December 1, 2043. Interest paid each June 1 and December 1.	92,465	92,465
2013 Sub-Series B-1, B-2, B-3 Subordinate Motor License Fund-Enhanced Special Revenue: Issued $101,731 in October 2013 at 2.00% to 5.875%, due in varying installments through December 1, 2043. Sub-Series B-1 interest paid each June 1 and December 1. Sub-Series B-2 issued as convertible CABs. Interest compounded semi-annually until December 1, 2028, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption. Sub-Series B-3 interest paid each June 1 and December 1.	105,779	104,908
2014 Series A Subordinate Motor License Fund-Enhanced Special Revenue: Issued $59,740 in April 2014 at 4.50% to 4.90%, due in varying installments through December 1, 2044. The Series A were issued as convertible CABs. Interest will compound semi-annually until December 1, 2021, thereafter paid each June 1 and December 1. Compound interest paid at maturity or earlier redemption.	68,940	65,816
2016 First Refunding Subordinate Motor License Fund-Enhanced Special Revenue: Issued $79,865 in October 2016 at 5.00% due in varying installments through December 1, 2036. Interest is paid each June 1 and December 1.	79,865	-
Total Motor License Fund-Enhanced Subordinate Special Revenue Debt	994,773	993,030
Total Mainline Subordinate Debt (consisting of Subordinate Revenue Debt and Motor License Fund-Enhanced Subordinate Special Revenue Debt)	5,823,165	5,570,042
Total Mainline Senior and Subordinate Debt Payable	10,719,015	10,059,052
Oil Company Franchise Tax Senior Debt		
2003 Series C Oil Company Franchise Tax Multi-Modal Revenue: Issued $160,000 in August 2003 at a variable rate, converted to a fixed rate of 5.00% in May 2008, due in varying installments through December 1, 2032. Interest paid each June 1 and December 1. Fully refunded in September 2016.	-	160,000
2006 Series A Oil Company Franchise Tax Revenue Refunding: Issued $98,705 in November 2006 at 5.00%, due in varying installments through December 1, 2023. Interest paid each June 1 and December 1. Fully refunded in December 2016.	-	75,425
2009 Series A, B, C Oil Company Franchise Tax Revenue: Issued $164,181 in October 2009. Series A issued at 2.00% to 5.85%, due in varying installments through December 1, 2023. Series B (Build America Bonds, Issuer Subsidy, Federally Taxable) issued at 5.85%, due in varying installments through December 1, 2037. Interest paid each June 1 and December 1. Series C issued as CABs at 5.30%. Interest on the CABs is deferred until maturity on December 1, 2039. Sub-Series A-2 partially refunded in September 2016.	159,901	162,286
2013 Series A Oil Company Franchise Tax Revenue Refunding: Issued $27,785 in October 2013 at 2.50% to 5.00%, due in varying installments through December 1, 2024. Interest paid each June 1 and December 1.	23,120	23,120
2016 Series A Oil Company Franchise Tax Revenue Refunding: Issued $198,595 in September 2016 at 4.00% to 5.00% due in varying installments through December 1, 2032. Interest paid each June 1 and December 1.	198,595	-
Total Oil Company Franchise Tax Senior Debt Payable	381,616	420,831

NOTE 7 DEBT *(continued)*

	May 31, 2017	May 31, 2016
	(In Thousands)	
Oil Company Franchise Tax Subordinate Debt		
2003 Series B Subordinate Oil Company Franchise Tax Revenue: Issued $197,955 in August 2003 at 2.38% to 5.50%, due in varying installments through December 1, 2032. Interest paid each June 1 and December 1. Partially defeased in November 2006 and partially refunded in October 2013. Final refunding in September 2016.	$ -	$ 16,440
2006 Series B Subordinate Oil Company Franchise Tax Revenue Refunding: Issued $141,970 in November 2006 at 3.75% to 5.00%, due in varying installments through December 1, 2031. Interest paid each June 1 and December 1. Fully refunded in December 2016.	-	129,350
2009 Series D, E Subordinate Oil Company Franchise Tax Revenue: Issued $134,065 in October 2009. Series D issued at 2.00% to 5.00%, due in varying installments through December 1, 2027. Series E (Build America Bonds, Issuer Subsidy, Federally Taxable) issued at 6.378%, due in varying installments through December 1, 2037. Sub-Series D-2 partially refunded in September 2016.	126,035	127,795
2013 Series B Subordinate Oil Company Franchise Tax Revenue: Issued $32,035 in October 2013 at 2.00% and 5.00%, due in varying installments through December 1, 2025. Interest paid each June 1 and December 1.	24,215	24,215
2016 Series B Oil Company Franchise Tax Revenue Refunding: Issued $115,395 in September 2016 at 4.00% to 5.00% due in varying installments through December 1, 2032. Interest paid each June 1 and December 1.	115,395	-
Total Oil Company Franchise Tax Subordinate Debt Payable	265,645	297,800
Total Oil Company Franchise Tax Senior and Subordinate Debt Payable	647,261	718,631
Motor License Registration Fee Debt		
2005 Series A: Issued $234,135 in August 2005 at 3.25% to 5.25%, due in varying installments through July 15, 2030. Interest paid each January 15 and July 15.	163,270	171,045
2005 Series B, C, D: Issued $231,425 in August 2005 and remarketed in October 2015 with a direct placement at a variable rate (based on 70% of LIBOR + 0.85%, reset monthly, paid the 15th of each month), due in varying installments through July 15, 2041.	231,425	231,425
Total Motor License Registration Fee Debt Payable	394,695	402,470
Total Debt Payable	11,760,971	11,180,153
Unamortized premium/discount	808,031	514,396
Total Debt, net of unamortized premium/discount	12,569,002	11,694,549
Less: Current portion	391,375	262,690
Debt, noncurrent portion	$ 12,177,627	$ 11,431,859

SIFMA was 0.76% on May 31, 2017.

1-month LIBOR was 1.06033% on May 31, 2017.

NOTE 7 DEBT *(continued)*

Changes in debt are as follows:

	Balance at June 1, 2016	Additions	Reductions	Balance at May 31, 2017	Due Within One Year
			(In Thousands)		
Mainline debt	$ 10,059,052	$ 2,259,308	$ 1,599,345	$ 10,719,015	$ 365,745
Oil Company Franchise Tax debt	718,631	315,165	386,535	647,261	17,445
Motor License Registration Fee debt	402,470	-	7,775	394,695	8,185
	11,180,153	2,574,473	1,993,655	11,760,971	391,375
Premium (discount), net	514,396	339,637	46,002	808,031	-
Totals	$ 11,694,549	$ 2,914,110	$ 2,039,657	$ 12,569,002	$ 391,375

	Balance at June 1, 2015	Additions	Reductions	Balance at May 31, 2016	Due Within One Year
			(In Thousands)		
Mainline debt	$ 8,984,240	$ 2,001,272	$ 926,460	$ 10,059,052	$ 236,030
Oil Company Franchise Tax debt	735,141	1,115	17,625	718,631	18,885
Motor License Registration Fee debt	409,880	-	7,410	402,470	7,775
	10,129,261	2,002,387	951,495	11,180,153	262,690
Premium (discount), net	306,147	226,958	18,709	514,396	-
Totals	$ 10,435,408	$ 2,229,345	$ 970,204	$ 11,694,549	$ 262,690

Debt service requirements subsequent to May 31, 2017 related to all sections of debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
		(In Thousands)	
2018	$ 391,375	$ 494,655	$ 886,030
2019	350,075	508,224	858,299
2020	319,080	500,774	819,854
2021	585,265	491,175	1,076,440
2022	375,335	473,811	849,146
2023-2027	1,343,494	2,234,669	3,578,163
2028-2032	1,677,910	1,929,339	3,607,249
2033-2037	2,548,898	1,416,136	3,965,034
2038-2042	2,681,292	893,217	3,574,509
2043-2047	1,285,082	242,291	1,527,373
2048-2052	203,165	22,868	226,033
	$ 11,760,971	$ 9,207,159	$ 20,968,130

NOTE 7 DEBT *(continued)*

The Commission's purpose for issuing debt is as follows:

- Mainline Senior Debt is issued for the purpose of financing the costs of various capital projects in the Commission's capital plan and for refunding outstanding Mainline Senior Debt.

- Mainline Subordinate Debt is issued for the purpose of financing a portion of the costs of making payments to the Pennsylvania Department of Transportation in accordance with Act 44 and Act 89 and for refunding outstanding Subordinate Debt. See Note 9 for additional information regarding Act 44 and Act 89.

- Oil Company Franchise Tax Debt and Motor License Registration Fee Debt are issued for the purpose of financing the costs of capital expenditures related to the Mon/Fayette and Southern Beltway expansion projects and to refund outstanding Oil Company Franchise Tax Debt and Motor License Registration Fee Debt.

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

<u>Mainline Debt Requirements and Recent Activity</u>

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

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

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In fiscal year 2013, the Commission entered into a loan agreement to borrow up to $200 million in four tranches of up to $50 million each through the Immigrant Investor Program (known as the EB-5 visa program) administered by the U.S. Citizenship and Immigration Services. The Commission is borrowing this money to fund a portion of the I-95 Interchange Project. Such debt is issued under the Senior Indenture on parity with the Turnpike Revenue Bonds. As of May 31, 2017 and 2016, the Commission has borrowed all $200 million under the agreement.

In August 2016, the Commission entered into a second loan agreement to borrow, over a possible eight-year period, up to $800 million in 16 tranches of up to $50 million each through the EB-5 visa program. The Commission is borrowing this money to fund a portion of the costs of certain capital projects included in the Commission's current Ten Year Capital Plan. Such debt, if borrowed, would be issued under the Senior Indenture on parity with the Turnpike Revenue Bonds. As of May 31, 2017, the Commission has not borrowed any funds under the $800 million loan agreement.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

Under the Commonwealth of Pennsylvania's Act 44 of 2007 (Act 44), the Commission may issue up to $5 billion of Special Revenue Bonds guaranteed by the Commonwealth of Pennsylvania's Motor License Fund. The Special Revenue Bonds authorized by Act 44 are subject to various limitations, including, among others, the following: the aggregate amount of such Special Revenue Bonds is limited to $5 billion; no more than $600 million of Special Revenue Bonds may be issued in any calendar year; debt service on the Special Revenue Bonds shall be payable from any available funds of the Commission, but are additionally secured by amounts payable from the Commonwealth of Pennsylvania's Motor License Fund which is required to pay any debt service shortfall. All Special Revenue Bond debt service payments are subordinate obligations of the Commission payable solely from certain money in, or periodically released from, the General Reserve Fund after meeting all other Commission requirements pursuant to any financial documents, financial covenants, insurance policies, liquidity policies or agreements in effect at the Commission. Pursuant to the Commonwealth of Pennsylvania's Act 89 of 2013, Special Revenue Bonds may not be issued by the Commission to fund any portion of its annual payments obligation to PennDOT after July 1, 2014, although Special Revenue Refunding Bonds may be issued. Through fiscal year ended May 31, 2017, the Commission issued $1,016.2 million of Special Revenue Bonds. During fiscal year 2017, $83.1 million of the Special Revenue Bonds was refunded. The outstanding principal related to these Special Revenue Bonds was $994.8 million at May 31, 2017. The commitment of the Commonwealth of Pennsylvania's Motor License Fund to provide additional security to pay any Special Revenue Bond debt service shortfall shall continue until the retirement or defeasance of any Special Revenue Bonds or until October 13, 2057, whichever is sooner. To date, the Commission has made all required Special Revenue Bond debt service payments. No funds have been drawn or requested from the Commonwealth's Motor License Fund for Special Revenue Bond debt service during the current reporting period or any prior reporting periods. In the event that the Commonwealth's Motor License Fund would be required to make a Special Revenue Bond debt service payment, a provision of the Amended Lease and Funding Agreement, executed between the Commission and PennDOT, requires the Commission to reimburse the Motor License Fund for any Special Revenue Bond debt service payments plus interest accruing to the date of the Commission's failure to pay the debt service. The obligation of the Commission to reimburse the Motor License Fund for any Special Revenue Bond debt service payment is a subordinate obligation of the Commission and is payable only from amounts, if any, in the Commission's General Reserve Fund as permitted by any Commission financing documents, financial covenants, insurance policies, liquidity policies or agreements in effect at the Commission.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In June 2015, the Commission issued $385,095,000 2015 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series A-1 Senior Bonds were issued to provide funds to finance the costs of various capital expenditures and advance refund all of the Commission's 2006 Series A Senior Revenue Bonds and for paying the cost of issuing the 2015 Series A-1 Senior Bonds. The advanced refunding of the 2006 Series A Senior Bonds allowed the Commission to reduce its debt service by approximately $18.2 million. The transaction resulted in an economic gain of approximately $13.7 million.

In June 2015, the Commission issued $115,635,000 2015 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2021. The 2015 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable-rate debt, which included the Commission's 2013 Series B Variable Rate Revenue Bonds ($65,155,000), the Commission's 2014 Series B-1 Variable Rate Revenue Bonds ($15,080,000) and the Commission's 2014 Series B-2 Variable Rate Revenue Bonds ($34,920,000). The bonds were also issued for payment of the costs of issuance for the 2015 Series A-2 Senior Bonds.

In October 2015, the Commission issued $192,215,000 2015 Series B Subordinate Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series B Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2015 Series B Subordinate Bonds.

In December 2015, the Commission issued $304,005,000 2015 Series B Senior Bonds at a fixed rate with a maturity date of December 1, 2045. The 2015 Series B Senior Bonds were issued to provide funds to finance the costs of various capital expenditures set forth in the Commission's current or any prior ten-year capital plan and for paying the cost of issuing the 2015 Series B Senior Bonds.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In February 2016, the Commission issued $360,990,000 2016 Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2038. The 2016 Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds ($29,025,000), 2008 Series B-1 Subordinate Revenue Bonds ($52,390,000), 2008 Series C-1 Subordinate Revenue Bonds ($189,875,000), 2009 Series A Subordinate Revenue Bonds ($23,470,000), 2009 Series B Subordinate Revenue Bonds ($76,435,000), 2009 Series D Subordinate Revenue Bonds ($9,975,000) and for paying the cost of issuing the 2016 Series Subordinate Revenue Refunding Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2008 Series C-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, and 2009 Series D Subordinate Bonds allowed the Commission to reduce its debt service by approximately $82.6 million. The transaction resulted in an economic gain of approximately $57.9 million.

In March 2016, the Commission issued a $150,000,000 2016 EB5 Loan at a fixed rate with a maturity date of March 18, 2021. This amount is comprised of the 1st-3rd Tranches under the Immigrant Investor Program loan agreement. The 2016 EB5 Loan was issued to fund a portion of the I-95 Interchange Project and for paying the cost of issuing the 2016 EB5 Loan.

In April 2016, the Commission issued $203,700,000 2016 Series A-1 Subordinate Bonds at a fixed rate with a maturity date of December 1, 2046. The 2016 Series A-1 Subordinate Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89 and for paying the cost of issuing the 2016 Series A-1 Subordinate Bonds.

In April 2016, the Commission issued $185,455,000 2016 Series A-2 Subordinate Bonds at a fixed rate with a maturity date of June 1, 2033. The 2016 Series A-2 Subordinate Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds ($39,655,000), 2008 Series B-1 Subordinate Revenue Bonds ($61,860,000), 2009 Series A Subordinate Revenue Bonds ($27,275,000), 2009 Series B Subordinate Revenue Bonds ($69,735,000) and for paying the cost of issuing the 2016 Series A-2 Subordinate Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, and 2009 Series B Subordinate Bonds allowed the Commission to reduce its debt service by approximately $26.6 million. The transaction resulted in an economic gain of approximately $20.7 million.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In May 2016, the Commission issued a $50,000,000 2016 EB5 Loan at a fixed rate with a maturity date of May 12, 2021. This amount is the 4th Tranche under the Immigrant Investor Program loan agreement. The 2016 EB5 Loan was issued to fund a portion of the I-95 Interchange Project and for paying the cost of issuing the 2016 EB5 Loan.

In June 2016, the Commission issued $447,850,000 2016 Series A-1 Senior Bonds at a fixed rate with a maturity date of December 1, 2046. The 2016 Series A-1 Senior Bonds were issued primarily to provide funds for various capital expenditures set forth in the Commission's current or any prior 10-year capital plan, including, but not limited to, the reconstruction of roadbed and roadway, the widening, replacing and redecking or certain bridges and the rehabilitation of certain interchanges. The bonds were also issued for payment of the costs of issuance for the 2016 Series A-1 Senior Bonds.

In June 2016, the Commission issued $140,590,000 2016 Series A-2 Senior Bonds at a variable rate with a maturity date of December 1, 2018. The 2016 Series A-2 Senior Bonds were issued primarily for the current refunding of existing variable rate debt which included the Commission's 2012 Series B Variable Rate Revenue Bonds ($70,060,000), the Commission's 2014 Series B-1 Variable Rate Revenue Bonds ($35,050,000) and the Commission's 2014 Series B-2 Variable Rate Revenue Bonds ($34,950,000). The bonds were also issued for payment of the costs of issuance for the 2016 Series A-2 Senior Bonds.

In June 2016, the Commission issued $649,545,000 2016 Second Series Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of June 1, 2039. The 2016 Second Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advance refunding of a portion of the Commission's 2008 Series A-1 Subordinate Revenue Bonds ($105,065,000), 2008 Series B-1 Subordinate Revenue Bonds ($50,665,000), 2009 Series A Subordinate Revenue Bonds ($43,355,000), 2009 Series B Subordinate Revenue Bonds ($288,185,000), 2009 Series D Subordinate Revenue Bonds ($16,575,000), 2010 Series B-1 Subordinate Revenue Bonds ($11,850,000), 2010 Series B-2 Subordinate Revenue Bonds ($87,475,000), 2010 Series C-2 Subordinate Revenue Bonds ($17,670,000), 2011 Series A Subordinate Revenue Bonds ($53,375,000), and for paying the cost of issuing the 2016 Second Series Subordinate Revenue Refunding Bonds. The advance refunding of the 2008 Series A-1 Subordinate Bonds, 2008 Series B-1 Subordinate Bonds, 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, 2009 Series D Subordinate Bonds, 2010 Series B-1 Subordinate Bonds, 2010 Series B-2 Subordinate Bonds, 2010 Series C-2 Subordinate Bonds, and 2011 Series A Subordinate Bonds allowed the Commission to reduce its debt service by approximately $113.5 million. The transaction resulted in an economic gain of approximately $74.4 million.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In October 2016, the Commission issued $255,455,000 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2041. The 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2009 Series A Subordinate Revenue Bonds ($20,990,000), 2009 Series B Subordinate Revenue Bonds ($112,560,000), 2009 Series D Subordinate Revenue Bonds ($75,700,000), 2010 Series B-2 Subordinate Revenue Bonds ($35,545,000), 2011 Series A Subordinate Revenue Bonds ($7,925,000), and for paying the cost of issuing the 2016 Third Series Sub-Series A Subordinate Revenue Refunding Bonds. The advance refunding of the 2009 Series A Subordinate Bonds, 2009 Series B Subordinate Bonds, 2009 Series D Subordinate Bonds, 2010 Series B-2 Subordinate Bonds, and 2011 Series A Subordinate Bonds allowed the Commission to reduce its debt service by approximately $43.6 million. The transaction resulted in an economic gain of approximately $30.4 million.

In October 2016, the Commission issued $75,755,000 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2025. The 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2008 Series A-2 Subordinate Revenue Bonds ($18,905,000), 2008 Series B-2 Subordinate Revenue Bonds ($47,785,000) and for paying the cost of issuing the 2016 Third Series Sub-Series B Subordinate Revenue Refunding Bonds. The advance refunding of the 2008 Series A-2 Subordinate Revenue Bonds and 2008 Series B-2 Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately $8.7 million. The transaction resulted in an economic gain of approximately $8.0 million.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

In October 2016, the Commission issued $79,865,000 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2036. The 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2010 Series A-2 Motor License Fund-Enhanced Subordinate Revenue Bonds ($16,520,000), 2010 Series B-2 Motor License Fund-Enhanced Subordinate Revenue Bonds ($9,705,000), 2011 Series A Motor License Fund-Enhanced Subordinate Revenue Bonds ($56,860,000) and for paying the cost of issuing 2016 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The advanced refunding of the 2010 Series A-2 Motor License Fund-Enhanced Subordinate Revenue Bonds, 2010 Series B-2 Motor License Fund-Enhanced Subordinate Revenue Bonds and 2011 Series A Motor License Fund-Enhanced Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately $13.0 million. The transaction resulted in an economic gain of approximately $9.5 million.

In January 2017, the Commission issued $284,275,000 2017 Series A Subordinate Revenue Bonds at a fixed rate with a maturity date of December 1, 2046. The 2017 Series A Subordinate Revenue Bonds were issued primarily to provide funds to finance the costs of making payments to PennDOT in accordance with Act 44 and Act 89, including reimbursing the Commission for certain payments previously made by the Commission to PennDOT and for paying the cost of issuing the 2017 Series A Subordinate Revenue Bonds.

In May 2017, the Commission issued $291,850,000 2017 First Series Subordinate Revenue Refunding Bonds at a variable rate with a maturity date of December 1, 2041. The 2017 First Series Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the Commission's 2009 Series A Subordinate Revenue Bonds ($71,475,000) and 2009 Series D Subordinate Revenue Bonds ($215,130,000) and for paying the cost of issuing the 2017 First Series Subordinate Revenue Refunding Bonds. The advance refunding of the 2009 Series A Subordinate Revenue Bonds and 2009 Series D Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately $125.6 million. The transaction resulted in an economic gain of approximately $66.5 million.

NOTE 7 DEBT *(continued)*

Mainline Debt Requirements and Recent Activity *(continued)*

Debt service requirements subsequent to May 31, 2017 related to the Mainline debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
		(In Thousands)	
2018	$ 365,745	$ 449,518	$ 815,263
2019	323,290	464,231	787,521
2020	291,030	458,033	749,063
2021	557,685	449,845	1,007,530
2022	346,335	433,905	780,240
2023-2027	1,159,789	2,060,435	3,220,224
2028-2032	1,445,540	1,806,513	3,252,053
2033-2037	2,235,248	1,357,993	3,593,241
2038-2042	2,506,106	839,352	3,345,458
2043-2047	1,285,082	242,291	1,527,373
2048-2052	203,165	22,868	226,033
	$ 10,719,015	$ 8,584,984	$ 19,303,999

Oil Company Franchise Tax Debt Requirements and Recent Activity

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

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

NOTE 7 DEBT *(continued)*

Oil Company Franchise Tax Debt Requirements and Recent Activity *(continued)*

In September 2016, the Commission issued $198,595,000 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2032. The 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds were issued to provide funds for the advanced refunding of the Commission's 2003 Series C Oil Franchise Tax Senior Revenue Bonds ($160,000,000), the advance refunding of a portion of 2009 Series A-2 Oil Franchise Tax Senior Revenue Bonds ($2,120,000), the current refunding of 2006 Series A Oil Franchise Tax Senior Revenue Bonds ($66,025,000) and for paying the cost of issuing the 2016 Series A Oil Franchise Tax Senior Revenue Refunding Bonds. The advanced refunding of the 2003 Series C Oil Franchise Tax Senior Revenue Bonds, 2009 Series A-2 Oil Franchise Tax Senior Revenue Bonds, and the current refunding of 2006 Series A Oil Franchise Tax Senior Bonds allowed the Commission to reduce its debt service by approximately $44.4 million. The transaction resulted in an economic gain of approximately $37.6 million.

In September 2016, the Commission issued $115,395,000 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds at a fixed rate with a maturity date of December 1, 2032. The 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds were issued to provide funds for the advanced refunding of a portion of the 2009 D-2 Oil Franchise Tax Subordinate Revenue Bonds ($860,000), the current refunding of the 2006 Series B Oil Franchise Tax Subordinate Revenue Bonds ($122,205,000), the current refunding of 2003 Series B Oil Franchise Tax Subordinate Revenue Bonds ($16,440,000) and for paying the cost of issuing the 2016 Series B Oil Franchise Tax Subordinate Revenue Refunding Bonds. The advanced refunding of the 2009 Series D-2 Oil Franchise Tax Subordinate Bonds, the current refunding of the 2006 Series B Oil Franchise Tax Subordinate Revenue Bonds and 2003 Series B Oil Franchise Tax Subordinate Revenue Bonds allowed the Commission to reduce its debt service by approximately $31.3 million. The transaction resulted in an economic gain of approximately $24.6 million.

NOTE 7 DEBT *(continued)*

Oil Company Franchise Tax Debt Requirements and Recent Activity *(continued)*

Debt service requirements subsequent to May 31, 2017 related to Oil Company Franchise Tax are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
		(In Thousands)	
2018	$ 17,445	$ 33,193	$ 50,638
2019	18,170	32,490	50,660
2020	18,980	31,696	50,676
2021	18,035	30,786	48,821
2022	18,955	29,870	48,825
2023-2027	124,985	132,765	257,750
2028-2032	156,520	98,699	255,219
2033-2037	217,970	45,584	263,554
2038-2042	56,201	49,707	105,908
	$ 647,261	$ 484,790	$ 1,132,051

Motor License Registration Fee Debt Requirements and Recent Activity

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

In October 2015, the Commission amended the original indenture for the 2005 Registration Fee Revenue Refunding Bonds to allow for the conversion of $231,425,000 Registration Fee Revenue Refunding Bonds Series B, C, and D of 2005 from a weekly rate mode to an index rate mode through a direct placement with DNT Asset Trust.

NOTE 7 DEBT *(continued)*

Motor License Registration Fee Debt Requirements and Recent Activity *(continued)*

Debt service requirements subsequent to May 31, 2017 related to Motor License Registration Fee debt are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
		(In Thousands)	
2018	$ 8,185	$ 11,944	$ 20,129
2019	8,615	11,503	20,118
2020	9,070	11,045	20,115
2021	9,545	10,544	20,089
2022	10,045	10,036	20,081
2023-2027	58,720	41,469	100,189
2028-2032	75,850	24,127	99,977
2033-2037	95,680	12,559	108,239
2038-2042	118,985	4,158	123,143
	$ 394,695	$ 137,385	$ 532,080

Defeased Bonds

In both the current and prior years, the Commission defeased certain revenue bonds by placing funds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds were not included in the Commission's financial statements. At May 31, 2017 and 2016, the Commission had $2,345.4 million and $1,003.9 million, respectively, of defeased bonds outstanding.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt debt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The arbitrage liability recorded as other noncurrent liabilities is $0.3 million and $0.2 million for the fiscal years ended May 31, 2017 and 2016, respectively.

NOTE 7 DEBT *(continued)*

Swap Payments and Associated Debt

Net swap payments and related debt service requirements related to all sections subsequent to May 31, 2017, assuming current interest rates remain the same for the term of the agreements, are as follows:

Year Ending May 31	Principal Maturities	Interest	Hedging Derivative	Total
		(In Thousands)		
2018	$ 140,000	$ 18,835	$ 30,873	$ 189,708
2019	105,590	17,208	30,873	153,671
2020	139,150	15,246	30,857	185,253
2021	200,000	12,093	30,881	242,974
2022	150,000	8,938	30,873	189,811
2023-2027	-	38,073	150,941	189,014
2028-2032	16,760	37,869	122,229	176,858
2033-2037	114,030	32,437	79,257	225,724
2038-2042	392,485	15,984	26,223	434,692
	$ 1,258,015	$ 196,683	$ 533,007	$ 1,987,705

NOTE 7 DEBT *(continued)*

Swap Payments and Associated Debt *(continued)*

Mainline net swap payments and related debt service requirements for the 2013 Series B Senior, 2014 Series B-1 Senior, 2016 Series A-2 Senior and 2017 First Series Subordinate Revenue Refunding bond issues are as follows:

Year Ending May 31	Principal Maturities	Interest	Hedging Derivative	Total
		(In Thousands)		
2018	$ 140,000	$ 15,247	$ 22,955	$ 178,202
2019	105,590	13,621	22,955	142,166
2020	139,150	11,653	22,942	173,745
2021	200,000	8,512	22,959	231,471
2022	150,000	5,351	22,954	178,305
2023-2027	-	20,138	111,350	131,488
2028-2032	-	20,144	83,119	103,263
2033-2037	18,350	19,878	51,521	89,749
2038-2042	273,500	11,826	17,048	302,374
	$ 1,026,590	$ 126,370	$ 377,803	$ 1,530,763

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

Year Ending May 31	Principal Maturities	Interest	Hedging Derivative	Total
		(In Thousands)		
2018	$ -	$ 3,588	$ 7,918	$ 11,506
2019	-	3,587	7,918	11,505
2020	-	3,593	7,915	11,508
2021	-	3,581	7,922	11,503
2022	-	3,587	7,919	11,506
2023-2027	-	17,935	39,591	57,526
2028-2032	16,760	17,725	39,110	73,595
2033-2037	95,680	12,559	27,736	135,975
2038-2042	118,985	4,158	9,175	132,318
	$ 231,425	$ 70,313	$ 155,204	$ 456,942

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

NOTE 8 RETIREMENT BENEFITS

General Information about the Pension Plan

Plan Description

Substantially all employees of the Commission participate in the Pennsylvania State Employees' Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies. Membership in SERS is mandatory for most Commission (and other state) employees. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. SERS issues a publicly available financial report that can be obtained at www.sers.pa.gov.

Benefits Provided

SERS provides retirement, death, and disability benefits. Member retirement benefits are determined by taking years of credited service multiplied by final average salary multiplied by 2% multiplied by class of service multiplier. Commission employees participate in one of the following class of service categories: Class A, Class AA, Class A-3 or Class A-4. According to the State Employees' Retirement Code (SERC), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

Contributions

Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employers' contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2015-2016 was 4.5% and will no longer apply effective July 1, 2017. The Commission's retirement contribution, as a percentage of covered payroll, by class is as follows:

NOTE 8 RETIREMENT BENEFITS *(continued)*

General Information About the Pension Plan *(continued)*

Year Ended June 30	Class A	Class AA	Class A-3	Class A-4
2017	23.96%	29.95%	20.70%	20.70%
2016	19.89%	24.86%	17.18%	17.18%
2015	15.94%	19.92%	13.77%	13.77%

Contributions to the pension plan from the Commission were $33.3 and $27.9 million for the fiscal years ended May 31, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At May 31, 2017, the Commission reported a liability of $379.2 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projected-contribution method. This methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2017-2018, from the December 31, 2016 funding valuation, to the expected funding payroll for the allocation of the 2016 amounts. At December 31, 2016, the Commission's proportion was 1.97%, which was an increase of .06% from its proportion measured as of December 31, 2015.

NOTE 8 RETIREMENT BENEFITS *(continued)*

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

For the fiscal year ended May 31, 2017, the Commission recognized pension expense of $53.5 million. At May 31, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(In Thousands)	
Differences between expected and actual experience	$ 5,473	$ 8,484
Net difference between projected and actual investment earnings on pension plan investments	31,866	-
Changes of assumptions	23,161	-
Differences between employer contributions and proportionate share of contributions	-	1,054
Changes in proportion	7,560	8,751
Commission contributions subsequent to measurement date	16,299	-
	$ 84,359	$ 18,289

The $16.3 million reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended May 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended May 31	*(in Thousands)*
2018	$ 15,448
2019	15,448
2020	13,431
2021	4,799
2022	645

NOTE 8 RETIREMENT BENEFITS *(continued)*

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

At May 31, 2016, the Commission reported a liability of $346.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projected-contribution method. This methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2016-2017, from the December 31, 2015 funding valuation, to the expected funding payroll for the allocation of the 2015 amounts. At December 31, 2015, the Commission's proportion was 1.91%, which was a decrease of .08% from its proportion measured as of December 31, 2014.

For the fiscal year ended May 31, 2016, the Commission recognized pension expense of $42.8 million. At May 31, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(In Thousands)	
Differences between expected and actual experience	$ 7,025	$ -
Net difference between projected and actual investment earnings on pension plan investments	35,326	-
Changes of assumptions	10,307	-
Differences between employer contributions and proportionate share of contributions	-	624
Changes in proportion	-	11,569
Commission contributions subsequent to measurement date	13,623	-
	$ 66,281	$ 12,193

NOTE 8 RETIREMENT BENEFITS *(continued)*

Actuarial Method and Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience* study for the period 2011 – 2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability in 2015 upon adoption.

The board adopted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting. The study can be viewed at www.SERS.pa.gov.

In addition to the five-year experience study, SERS reviews its investment return assumption in light of economic conditions every year as part of its annual valuation. Based on this work, SERS actuary recommended, and SERS Board adopted at the April 2017 meeting, a reduction in the targeted investment return rate assumption to 7.25% for the 2016 actuarial valuation from 7.5% used for the 2015 actuarial valuation based on the experience study. In addition, SERS actuary recommended, and SERS Board adopted, a reduction in the inflation rate to 2.6% for the 2016 valuation from 2.75% used for the 2015 actuarial valuation based on the experience study. The change in inflation rate also impacted the general salary growth rate, which was lowered to 2.9% for the 2016 valuation from 3.05% used for the 2015 valuation based on the experience study.

NOTE 8 RETIREMENT BENEFITS *(continued)*

Actuarial Methods and Assumptions *(continued)*

The following methods and assumptions were used in the actuarial valuation for the December 31, 2016 and 2015 measurement dates (except as noted in the previous paragraph):

Actuarial cost method	Entry age
Amortization method	Straight-line amortization of investments over five years and amortization of assumption changes and non-investment gains/losses over the average expected remaining service lives of all employees that are provided benefits
Investment rate of return	7.25% net of expenses, including inflation
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90%, including inflation
Asset valuation method	Fair (market) value
Inflation	2.60%
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement
Cost-of-living adjustments (COLA)	Ad hoc

The long-term expected real rate of return on pension plan investments is determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of manager fees 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 the pension plan's current and target asset allocation as of December 31, 2016 and 2015 are summarized in the following tables:

NOTE 8 RETIREMENT BENEFITS *(continued)*

Actuarial Methods and Assumptions *(continued)*

As of December 31, 2016:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Private Equity	16.00%	8.00%
Global Public Equity	43.00%	5.30%
Real Estate	12.00%	5.44%
Hedge Funds	12.00%	4.75%
Fixed Income	14.00%	1.63%
Cash	3.00%	-0.25%
Total	100.00%	

As of December 31, 2015:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Alternative Investments	15.00%	8.50%
Global Public Equity	40.00%	5.40%
Real Assets	17.00%	4.95%
Diversifying Assets	10.00%	5.00%
Fixed Income	15.00%	1.50%
Liquidity Reserve	3.00%	0.00%
Total	100.00%	

The information above is based on a 7.5% assumed investment rate of return, which was in place during 2016 and 2015. Targets and/or expected returns may be updated to reflect the new assumed investment rate of return in the upcoming year.

NOTE 8 RETIREMENT BENEFITS *(continued)*

Discount Rate

The discount rate used to measure the total pension liability was 7.25% and 7.50% as of December 31, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on the assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Change in the Discount Rate

The following schedule presents the Commission's proportionate share of the 2016 and 2015 net pension liability calculated using the discount rate of 7.25% and 7.50%, respectively. It also shows what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Commission's share of the net pension liability as of the 12/31/16 measurement date	$ 469,244	$ 379,173	$ 302,040

	1% Decrease 6.50%	12/31/15 Discount Rate 7.50%	1% Increase 8.50%
Commission's share of the net pension liability as of the 12/31/15 measurement date	$ 430,973	$ 346,946	$ 274,898

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued SERS financial report.

NOTE 8 RETIREMENT BENEFITS *(continued)*

Payables to the Pension Plan

As of May 31, 2017 and 2016, the Commission reported a $16.3 million and $5.6 million liability, respectively, within the Accounts payable and accrued liabilities on the Statement of Net Position for the Commission's share of contributions that had not yet been paid to SERS.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Litigation

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

Open Purchase Order Commitments

The Commission had open purchase order commitments of approximately $969.9 million and $925.1 million at May 31, 2017 and 2016, respectively.

Act 44 and Act 89

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

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Act 44 and Act 89 *(continued)*

The Funding Agreement also granted the Commission the option to lease the portion of Interstate 80 (I-80) located in the Commonwealth from PennDOT upon, among other things, the approval of the Federal Highway Administration (FHWA) of the conversion of such portion into a toll road (the Conversion). The Conversion was not approved by FHWA and neither the Commission nor PennDOT appealed the decision. The Commission did not exercise its option to lease such portion of I-80, and the period during which the Commission could exercise its option under the Funding Agreement lapsed on October 14, 2010 without the Commission effectuating Conversion or having the ability to do so in the future. Under existing law, including Act 89, all legal, financial and operational responsibility for I-80 remains with PennDOT.

Pursuant to Act 44 and the Funding Agreement, because the Conversion did not occur, the Commission was obligated to make scheduled annual payments, payable in equal quarterly installments, of $450 million to PennDOT through 2057 with $200 million of the scheduled annual payment supporting road and bridge projects and $250 million supporting transit projects throughout the Commonwealth. See paragraphs below as to subsequent changes to such annual payments.

On November 25, 2013, Act 89 was enacted providing substantial revision to the Commission's transportation funding obligations under Act 44 and authorized the Commission and PennDOT to immediately amend the Funding Agreement to reflect the statutory provisions of Act 89. On April 4, 2014, the Commission and PennDOT executed Amendment Number One to the Lease and Funding Agreement (the *Act 89 Amendment* and together with the Act 44 Funding Agreement, the *Amended Funding Agreement*). The Amended Funding Agreement terminates on October 14, 2057. In accordance with Act 89 and the Amended Funding Agreement, the Commission's aggregate annual payment to PennDOT for fiscal year 2014 through fiscal year 2022 remains at $450 million and, in accordance with Act 89, the Commission must pay at least $30 million of such amount from current revenues. Commencing in fiscal year 2023 through the term of the Amended Funding Agreement, the Commission's aggregate annual payment to PennDOT is $50 million, which shall be paid from then current revenues.

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

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Act 44 and Act 89 *(continued)*

The Commission is required by the terms of the Amended Funding Agreement and Act 44 to fix and adjust tolls at levels that will generate revenues (together with other available moneys) sufficient to pay, among other things, amounts to PennDOT pursuant to the Amended Funding Agreement when due and other obligations of the Commission, and the Commission has covenanted in the Subordinate Indenture to set tolls at a level sufficient to meet its coverage obligations taking into account any additional debt incurred in order to make such payments. The Commission believes that Turnpike System revenues should enable it to satisfy its reduced payment obligations as set forth in the Amended Funding Agreement.

Due to the significance of the quarterly payments under Act 44 and Act 89, the Commission currently does not have excess cash from operations to fully fund its required payments to PennDOT from current revenues. Therefore, the Commission plans to continue to increase toll rates annually and to issue debt through fiscal year 2022 to finance the majority of these payments. There can be no assurance that the Commission will be able to continue to issue debt on terms that are acceptable, or at all, to finance these obligations. The sole and exclusive remedy for the failure to make the required payments to PennDOT under the Amended Funding Agreement is that all actions of the Commission taken by a vote of the Commissioners thereafter must be approved by a unanimous vote of all Commissioners until such time as the payment is made. However, a unanimous vote is not required if it would prevent the Commission from complying with covenants with "current bondholders, debt holders or creditors having such status as of the Effective Date," which under the Amended Funding Agreement is defined as October 14, 2007. These voting procedures have not become effective as the Commission has not missed any payments under the Amended Funding Agreement.

Act 44 and Act 89 provide that all required payments under the Amended Funding Agreement or as required by Act 44 or Act 89 shall be subordinate obligations of the Commission payable solely from the General Reserve Fund after meeting all other Commission requirements pursuant to any financial documents, financial covenants, liquidity policies or agreements in effect at the Commission.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps

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

			Changes in Fair Value		Fair Value at May 31, 2017		
	May 31, 2016	Full Termination*	Classification	Amount	Classification	Amount	Notional
				(In Thousands)		*(In Thousands)*	
Cash flow hedges							
Pay-fixed interest rate swap	$ (133,791)	$ -	Deferred (outflows)/inflows	$ 29,666	Noncurrent liabilities	$ (104,125)	$ 977,305
Investment derivative instruments							
Basis swaps	13,923	-	Investment earnings/(losses)	(4,103)	Long-term liabilities	9,820	924,806
Total PTC	$ (119,868)	$ -		$ 25,563		$ (94,305)	

			Changes in fair value		Fair Value at May 31, 2016		
	May 31, 2015	Full Termination*	Classification	Amount	Classification	Amount	Notional
				(In Thousands)		*(In Thousands)*	
Cash flow hedges							
Pay-fixed interest rate swap	$ (109,323)	$ -	Deferred (outflows)/inflows	$ (24,468)	Noncurrent liabilities	$ (133,791)	$ 685,455
Investment derivative instruments							
Basis and fair value swaps	23,317	(13,260)	Investment earnings/(losses)	3,866	Long-term liabilities	13,923	924,806
Total PTC	$ (86,006)	$ (13,260)		$ (20,602)		$ (119,868)	

* For further detail on this full termination, see the Recent Activity section of this note.

Fair Values

At May 31, 2017 and 2016, the fair values of the Commission's derivative instruments were estimated beginning with the mid-market valuation. The mid-market valuation of the Commission's derivative instruments was estimated using the zero-coupon discounting method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payments on the swaps.

The fair value under GASB 72 then incorporated into the above described mid-market valuation: 1) the credit risk of either the Commission or its counterparty (for a liability position or asset position, respectively) i.e. nonperformance risk; and 2) the bid/offer spread that would be charged to the Commission in order to transact. As the valuations are based on discounting future net cash flows to a single current amount, the approach being utilized is the income approach. The fair values rely primarily on Level 2 Inputs (observable inputs) – such as LIBOR rates to build the yield curve.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

Recent Activity

During fiscal year 2016, the Commission received $4.8 million from executing partial terminations for portions of its SIFMA/LIBOR basis swaps; in exchange for these payments, the periodic cash flows on the swaps were partially terminated until the dates noted in the table below:

Date of Reversal	Initial Notional Amount	Underlying Bonds	Counterparty	Transaction Type	Partial Termination To	Amount Received
7/9/2015	$ 136,700,000	Mainline 2010 B	Deutsche Bank	SIFMA/LIBOR Basis	6/1/2018	$ 2,255,000
11/9/2015	136,700,000	Mainline 2009 A	Goldman Sachs MMDP	SIFMA/LIBOR Basis	9/1/2018	2,545,000
						$ 4,800,000

On June 1, 2015, a portion of the Commission's 2014 Series B-2 Senior Bonds were refunded. Portions of the Commission's 2014 Series B-2 related swaps were deemed terminated and are now associated with portions of the 2013 Series B Bonds. The fair values at the time of the deemed termination were $371,386 with respect to the JP Morgan swap, $185,595 with respect to the Bank of America swap, and $186,207 with respect to the Bank of New York Mellon swap. These amounts are being amortized until December 1, 2030 which is the final maturity of the swaps.

On February 2, 2016, the Commission fully terminated its Mainline SIFMA Fixed Receiver investment derivative with the Bank of New York in exchange for receiving a termination payment totaling $12.8 million. The notional amount and fair value at the time of termination were $118.0 million and $13.3 million, respectively.

On June 21, 2016, the Commission issued 2016 Series A-2 Senior Revenue Bonds primarily to refund various maturing variable rate bonds. The 2016 Series A-2 Bonds specifically included refunding the December 1, 2016 maturities of the 2012 Series B and the 2014 Series B-2 Bonds. As a result, the $86.3 million of the Commission's Mainline LIBOR Fixed Payer swaps associated with those bonds were deemed terminated and are now associated with the 2016 Series A-2 Senior Bonds. The fair values at the time of deemed termination were a negative $2.7 million with respect to the JP Morgan swap, a negative $1.3 million with respect to the Bank of America swap, and a negative $2.5 million with respect to the Bank of New York Mellon swap. These amounts are being amortized until December 1, 2030 which is the final maturity of the swaps.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

Recent Activity (continued)

On September 7, 2016, the Commission issued 2016 Series A Senior Oil Franchise Tax Bonds to provide funds for the advance refunding of its 2003 Series C Senior Oil Franchise Tax Bonds. The Commission's Oil Franchise Tax investment derivatives with a total notional amount of $400.0 million are now associated with the 2009 Series B and 2016 Series A Oil Franchise Tax Bonds.

On April 26, 2017, the Commission entered into a Cancellable LIBOR Fixed Payer swap with Royal Bank of Canada. The swap was executed in order to hedge the interest rate on the Commission's 2017 First Series Refunding Subordinate Revenue Bonds. The Commission purchased an option to terminate the trade at par beginning on June 1, 2022 and semiannually on each December 1st and June 1st thereafter. Under the terms of the transaction, the Commission pays a fixed rate of 2.5125% and receives 70% of 3-month LIBOR. The initial notional amount of this swap was $291.9 million.

Following is a summary of the hedging derivatives in place as of May 31, 2017. All of items are fixed interest rate swap types. These hedging derivatives contain risks and collateral requirements as described below (in thousands):

Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty	Moody's/ S&P/Fitch	Book Fair Value
1. Hedge of changes of cash	$ 100,000	5/20/2014	12/1/2038		Goldman Sachs MMDP	Aa2/AA-/NR	$ (10,975)
flows of 2014 Series B-1 Bonds	100,000	5/20/2014	12/1/2038	Pay 4.887%,	Merrill Lynch CS*	Baa1/BBB+/A	(10,983)
(formerly 2008 Series B-1 &	100,000	5/20/2014	12/1/2038	receive SIFMA	Morgan Stanley CS	A3/BBB+/A	(10,971)
2011 Series C Bonds)	300,000						(32,929)
2. Hedge of changes of cash	21,576	6/2/2014	12/1/2030	Pay 4.403%,	Bank of America*	A1/A+/A+	681
flows of 2016 Series A-2 Bonds	21,576	6/2/2014	12/1/2030	receive 67.00%	Bank of New York Mellon	Aa2/AA-/AA	682
(formerly 2014B-2 & 2012B	43,125	6/2/2014	12/1/2030	of 1-month	JPMorgan Chase Bank	Aa3/A+/AA-	1,337
Bonds)	86,277			LIBOR			2,700
3. Hedge of changes of cash	16,944	7/23/2013	12/1/2030	Pay 4.403%,	Bank of America*	A1/A+/A+	(837)
flows of 2013 Series B Bonds	33,865	7/23/2013	12/1/2030	receive 67.00%	JPMorgan Chase Bank	Aa3/A+/AA-	(1,675)
(formerly 2009 Series C & 2011	16,944	7/23/2013	12/1/2030	of 1-month	Bank of New York Mellon	Aa2/AA-/AA	(837)
Series D Bonds)	67,753			LIBOR			(3,349)
4. Hedge of changes of cash	57,860	12/30/2013	7/15/2041		Bank of New York Mellon	Aa2/AA-/AA	(10,731)
flows on the 2005 Series B, C,	57,845	8/17/2005	7/15/2041	Pay 4.2015%,	JPMorgan Chase Bank	Aa3/A+/AA-	(17,057)
D, Bonds	57,860	8/17/2005	7/15/2041	receive SIFMA	Merrill Lynch CS*	Baa1/BBB+/A	(17,058)
	57,860	8/17/2005	7/15/2041		Morgan Stanley CS	A3/BBB+/A	(17,058)
	231,425						(61,904)
5. Hedge of changes of cash flows on the 2017 Series A Subordinate Bonds	291,850	5/2/2017	12/1/2041	Pay 2.5125%, receive 70.00% of 3-month LIBOR	Royal Bank of Canada	A1/AA-/AA	(8,643)
Total	$ 977,305						$ (104,125)

1-month LIBOR was 1.06033% at May 31, 2017
3-month LIBOR was 1.21000% at May 31, 2017
SIFMA was 0.76% at May 31, 2017

* On November 15, 2012, the Commission executed an amendment to the swap agreements to include Merrill Lynch Derivative Products as guarantor. Merrill Lynch Derivative Products credit ratings were Aa3/AA/NR (Moody's/S&P/Fitch) as of May 31, 2017.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

- ***Credit Risk –*** The Commission is at risk that a counterparty will not fulfill their obligations under the agreement. Specifically, the Commission is exposed to credit risk for hedging derivatives that have positive full values from the counterparty and investment derivatives (see Note 4) that have positive fair values. At May 31, 2017, the Commission is exposed to credit risk with respect to the (A), (C), (E) and (F) investment derivatives listed in Note 4 as well as hedging derivative #2. However, should interest rates change and the fair values of the other swaps become positive, the Commission would have additional credit risk exposure.

  To mitigate the exposure to credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings along with the fair values of the swaps exceeding certain thresholds specified in the swap agreement. The Commission's derivative agreements contain netting provisions, under which transactions executed with a single counterparty within a credit are netted to determine collateral amounts. Collateral would be posted with a third-party custodian and would be in the form of cash, U.S. Treasury Obligations, or U.S. Government Agency Securities. At May 31, 2017, the Commission had net credit risk exposure to three counterparties pursuant to the provisions of the respective derivative agreements. One counterparty has posted collateral in the amount of $5.3 million. The other two counterparties were not required to post collateral as their values at year end were below the collateral threshold levels.

- ***Interest Rate Risk*** – The Commission will be exposed to variable interest rates if the swap provider for a variable-to-fixed swap agreement defaults or if a variable-to-fixed swap is terminated.

- ***Market-access Risk*** – The Commission will be exposed to market-access risk for the hedging derivatives 1, 2 and 3 in the summary of hedging derivatives table because the maturity date of these derivatives is longer than the maturity date of the related debt.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

- ***Basis Risk*** – The Commission is exposed to basis risk on its basis swaps because the variable-rate payments received by the Commission on these derivative instruments are based on rates other than the interest rates the Commission pays on these derivative instruments. See the investment derivative schedule in Note 4 for the terms of the interest rate swap agreements. The Commission's exposure to basis risk for the swaps listed in Note 4 is as follows:

  (A) – To the extent 67% of 1-month LIBOR exceeds 60.08% of the 10-year maturity of the USD-ISDA Swap Rate

  (B) – To the extent SIFMA exceeds 63% of 1-month LIBOR + 20 basis points

  (C) – To the extent 67% of 1-month LIBOR exceeds 60.15% of the 10-year maturity of the USD-ISDA Swap Rate

  (D) – To the extent 60.15% of the 10-year maturity of the USD-ISDA Swap Rate exceeds 67% of 1-month LIBOR

  (E) – To the extent SIFMA exceeds 99.68% of 3-month LIBOR

  (F) – To the extent SIFMA exceeds 99.80% of 3-month LIBOR

- ***Termination Risk*** – The swap agreements may be terminated due to a number of circumstances and the Commission retains the option to terminate the swaps at any time. If a swap agreement is terminated (by either party), the respective variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if at the time of termination, the swap had a negative fair value, the Commission would be liable to the swap counterparty for a liability equal to the swap's full value. It is generally the Commission's intent at the time of swap execution to maintain the swap transactions for the life of the financing.

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Rate Swaps *(continued)*

- ***Collateral Requirements*** – The Commission's derivative instruments related to its Mainline Turnpike Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its senior credit rating falls below specified thresholds. These thresholds vary from agreement to agreement, with most in the "A3" (Moody's Investors Service) and "A-" (Standard & Poor's and Fitch Rating Service) levels. The Commission's Mainline senior bond rating was "A1" from Moody's and "A" from Standard & Poor's and "A+" from Fitch at May 31, 2017. The Commission's Mainline subordinate bond rating was "A3" from Moody's and "A-" from Standard & Poor's and "A-" from Fitch at May 31, 2017. Based on May 31, 2017 full values, the Commission could be required to post $167.2 million in collateral for its derivate instruments if its ratings fall below the agreement thresholds.

  The Commission's derivative instruments related to its Oil Company Franchise Tax Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its credit rating falls below specifies thresholds. These thresholds vary from agreement to agreement, with most in the "A3" (Moody's Investors Service) and "A-" (Standard & Poor's and Fitch Rating Service) levels. The Commission's Oil Company Franchise Tax senior bond rating is currently "Aa3" from Moody's and "AA" from Standard & Poor's. Based on May 31, 2017 full values, the Commission could be required to post $3.5 million in collateral for its derivative instruments if its ratings fall below the agreements thresholds.

  The Commission's derivative instruments related to its Motor Vehicle Registration Fee Revenue Bonds require the Commission to post collateral in the form of eligible securities or cash if its credit rating falls below specified thresholds and/or in the event of certain uncured insurer events of default. These thresholds vary from agreement to agreement. The Commission's Motor Vehicle Registration Fee Revenue bond rating was "Aa3" from Moody's, "A" from Standard & Poor's and "AA-" from Fitch at May 31, 2017. Based on May 31, 2017 full values, the Commission could be required to post $80.5 million in collateral for its derivative instruments if its ratings fall below the agreement thresholds.

NOTE 10 RELATED-PARTY TRANSACTIONS

The Commission incurred charges of $49.7 million and $48.4 million for the fiscal years ended May 31, 2017 and 2016, respectively, primarily related to its use of the Commonwealth's State Police in patrolling the Turnpike System.

NOTE 11 POSTEMPLOYMENT BENEFITS

Plan Description

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

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

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

Management and Supervisory Union Employees/Retirees

The benefits funded by the Trust include certain post-employment medical, prescription drug, dental and vision benefits to management and supervisory union employees based upon their date of hire and years of service. Eligibility categories include:

- Employees hired before March 1, 2016, who have reached 20 years of service and are under age 60; benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older. The last five years of service must be with the Commission.

- Employees hired on or after March 1, 2016, who have reached 30 years of service and are under age 60; benefit eligibility changes from 30 to 25 years for retirees 60 years of age or older. The last 10 years of service must be with the Commission. (Some current and previous Commonwealth employees hired on or after this date would be grandfathered under the first eligibility category.)

The same coverage is provided to surviving spouses or domestic partners and dependents of management and supervisory union retirees who retired on or after March 1, 2001. Surviving spouses or domestic partners of retirees who retired prior to March 1, 2001 may purchase medical coverage at the group rate and dependents are offered coverage under COBRA. Medicare Part B premiums are paid by the retiree, spouse or dependent if age 65 or over, or under age 65 and disabled.

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*

Plan Description *(continued)*

Non-Supervisory Union Employees/Retirees

The benefits also include certain post-employment medical and prescription drug benefits to non-supervisory union employees who had satisfied the eligibility requirements in the applicable collective bargaining agreement.

- For Local 30 professionals who were hired prior to January 1, 2011 and Local 250 and 77 employees who were hired prior to February 1, 2016, the earlier of completion of 20 years of Credited Service or the later of attainment of age 60 and completion of 10 years of Credited Service. The last five years of Credited Service must be with the Commission.

- For Local 30 professionals who were hired on or after January 1, 2011 and Local 250 and 77 employees who were hired on or after February 1, 2016, the earlier of completion of 30 years of Credited Service or the later of attainment of age 60 and completion of 25 years of Credited Service. The last 10 years of Credited Service must be with the Commission.

The same coverage is provided to spouses or domestic partners and dependents of eligible non-supervisory union retirees until the death of the retiree. Surviving spouses or domestic partners are required to contribute the full cost of coverage and dependents are offered coverage under COBRA.

Funding Policy

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

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*

Annual OPEB Cost and Net OPEB Asset

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

	Year ended May 31		
	2017	**2016**	**2015**
	(Dollar Amounts in Thousands)		
Normal cost	$ 10,501	$ 10,975	$ 9,536
Trust expense assumption	150	150	150
Amortization	(153)	(394)	2,235
Interest	623	637	762
Annual required contribution (ARC)	11,121	11,368	12,683
Interest on net OPEB asset	(7,405)	(6,820)	(5,540)
Adjustment to ARC	15,848	14,596	13,255
Annual OPEB cost	19,564	19,144	20,398
Employer contributions	28,176	28,143	46,180
Increase in net OPEB asset	8,612	8,999	25,782
Net OPEB asset - beginning of year	113,930	104,931	79,149
Net OPEB asset - end of year	$ 122,542	$ 113,930	$ 104,931
Percentage of annual OPEB cost contributed	144.0%	147.0%	226.4%

The ARC and its components (normal cost, trust expense assumption, Unfunded Actuarial Accrued Liability (UAAL [or Funding Excess] amortization, and mid-year contribution interest) in the table presented above were obtained from the actuarial valuations, prepared by an independent actuary. The fiscal year 2017 ARC and Annual OPEB cost amounts were obtained from a January 1, 2016 valuation. The fiscal year 2016 ARC and Annual OPEB cost amounts were obtained from a January 1, 2015 interim valuation. The fiscal year 2015 ARC and Annual OPEB cost amounts were obtained from a January 1, 2014 valuation.

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*

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

Retiree and spouse contribution rates at May 31, 2017 are as follows:

- Management and supervisory union employees and union employees who retired prior to July 1, 1998 and October 1, 1997, respectively – the retiree/spouse contributes the full cost of coverage less the Commission's monthly subsidy of $19.28 once the retiree turns 65.

- Union employees who retired on October 1, 1997 or later – the retiree/spouse contributes the full cost of coverage less the Commission's monthly subsidy of $73.50 when the retiree or spouse reach age 65.

- Management and supervisory union employees who retire on or after March 1, 2016, and Local 250 and 77 employees who retire after February 1, 2016, as well as Local 30 professionals who retire after January 1, 2014, must participate in a wellness program or contribute 5% of the premium if less than age 65. This mandate also applies to spouses under age 65 and other adult dependents age 19 to 26.

- Surviving spouses and domestic partners are paying 100% of the premiums, except for surviving spouses of Management and supervisory union employees who retired after March 1, 2001.

Funding Status and Funding Progress

The funding status of the plan, by actuarial valuation date, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (Funding Excess)	Funded Ratio	Covered Payroll	Unfunded AAL (Funding Excess) as a Percentage of Covered Payroll
		(Dollar Amounts in Thousands)				
January 1, 2016	$ 331,568	$ 330,395	$ (1,173)	100.4%	$ 124,458	-0.9%
January 1, 2014	271,265	283,133	11,868	95.8%	126,699	9.4%

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

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*

Actuarial Methods and Assumptions

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

A summary of the actuarial methods and assumptions used in the January 1, 2016 valuation is as follows:

Actuarial cost method	Projected-unit credit
Discount rate	6.5%
Rate of return on assets	6.5%
Inflation rate	2.5%
Amortization method	Level dollar
Amortization period:	
▪ UAAL as of March 1, 2012	10 years (closed)
▪ Subsequent changes	10 years (open)
Asset valuation method	Fair value
Benefit assumption – increases/decreases	No changes

NOTE 11 POSTEMPLOYMENT BENEFITS *(continued)*

Actuarial Methods and Assumptions *(continued)*

Health Cost Trend: The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except real GDP of 1.8% and inflation of 2.5% for medical and prescription drug benefits. Further adjustments apply based on percentage of costs associated with administrative expenses, aging factors, potential excise taxes due to healthcare reform, and other healthcare reform provisions. The health cost trend assumption for medical and prescription benefits at sample years is as follows:

Valuation Year	Pre-65 Trend	Post-65 Trend
2016	6.2%	7.9%
2017	5.9%	6.6%
2018	5.2%	5.2%
2019	5.2%	5.2%
2020	5.2%	5.2%
2025	5.2%	5.2%
2030	5.6%	5.3%
2035	6.1%	5.3%
2040	5.7%	5.1%
2050	5.5%	5.0%
2060	5.4%	5.2%
2070	4.6%	4.9%

The health cost trend assumption for dental and vision benefits and premiums are assumed to be 4.0% per year.

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

NOTE 12 SELF-INSURANCE

The Commission is exposed to various risks of losses such as theft of, damage to, and destruction of assets, errors and omissions, torts, injuries to employees and natural disasters. The Commission has purchased commercial all risk property insurance and stop loss insurance for employee medical and prescription benefits coverage. The Commission remains self-insured for dental and vision benefits, torts and injuries to employees as well as medical and prescription benefits up to stop loss coverages. No settlements exceeded insurance coverage for each of the past three years.

NOTE 12 SELF-INSURANCE *(continued)*

The Commission recorded a liability of $44.3 million and $40.1 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2017 and 2016, respectively. The self-insurance liabilities recorded as accounts payable and accrued liabilities are $4.4 million and $4.8 million for the fiscal years ended May 31, 2017 and 2016, respectively. The self-insurance liabilities recorded as other noncurrent liabilities are $39.9 million and $35.3 million for the fiscal years ended May 31, 2017 and 2016, respectively. This liability is based on GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be recorded if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is calculated based on the Commission's past loss experience. The liability for vehicle and general tort was not discounted. The liability for workers' compensation was discounted using a rate of 2.50% for the fiscal years ended May 31, 2017 and 2016. The liability includes amounts for claims adjustment expense and is net of any salvage and subrogation. Salvage and subrogation were not material for the years ended May 31, 2017 and 2016. The Commission believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss adjustment expenses.

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

NOTE 12 SELF-INSURANCE *(continued)*

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

	June 1, 2016 Liability	Effects of Discount as of June 1, 2016	Incurred Claims: Current Year	Incurred Claims: Prior Years	Paid Claims: Current Year	Paid Claims: Prior Years	Effects of Discount as of May 31, 2017	May 31, 2017 Liability
Year ended May 31, 2017				*(In Thousands)*				
Workers' compensation	$ 10,705	$ 1,142	$ 868	$ 2,331	$ (311)	$ (4,052)	$ (993)	$ 9,690
Motor vehicle/general tort	29,435	-	48	5,581	(31)	(469)	-	34,564
	$ 40,140	$ 1,142	$ 916	$ 7,912	$ (342)	$ (4,521)	$ (993)	$ 44,254

	June 1, 2015 Liability	Effects of Discount as of June 1, 2015	Incurred Claims: Current Year	Incurred Claims: Prior Years	Paid Claims: Current Year	Paid Claims: Prior Years	Effects of Discount as of May 31, 2016	May 31, 2016 Liability
Year ended May 31, 2016				*(In Thousands)*				
Workers' compensation	$ 8,889	$ 1,831	$ 2,181	$ 3,904	$ (719)	$ (4,239)	$ (1,142)	$ 10,705
Motor vehicle/general tort	29,892	-	137	(140)	(112)	(342)	-	29,435
	$ 38,781	$ 1,831	$ 2,318	$ 3,764	$ (831)	$ (4,581)	$ (1,142)	$ 40,140

The foregoing reflects an adjustment for a deficiency of $7.9 million and $3.8 million for the fiscal years ended May 31, 2017 and 2016, respectively, for prior years' incurred claims that resulted from a change in estimate as more information became available.

NOTE 13 COMPENSATED ABSENCES

Sick leave is earned at a rate of 3.08 hours every two weeks, or 10 days per year. Unused sick leave may be carried over from year to year, up to a maximum of 18 days. In November of each year, employees are reimbursed for all accumulated unused sick leave above the maximum. Sick leave payouts were $1.8 and $1.7 million in November 2016 and 2015, respectively.

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

Upon termination of employment, all unused sick and vacation leave is paid to the employee. The compensated absences liabilities are $15.9 million and $16.0 million for fiscal years ended May 31, 2017 and 2016, respectively. The compensated absences liabilities recorded as accounts payable and accrued liabilities are $8.7 million and $8.8 million for the fiscal years ended May 31, 2017 and 2016, respectively. The compensated absences liabilities recorded as other noncurrent liabilities are $7.2 million and $7.2 million for the fiscal years ended May 31, 2017 and 2016, respectively.

NOTE 13 COMPENSATED ABSENCES *(continued)*

A summary of changes to compensated absences for the years ended May 31, 2017 and 2016 is as follows:

Fiscal Year Ended May 31	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
			(In Thousands)		
2017	$ 15,970	$ 12,256	$ 12,365	$ 15,861	$ 8,723
2016	16,098	12,091	12,219	15,970	8,783

NOTE 14 LETTERS OF CREDIT

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

Pennsylvania insurance law requires a letter of credit, surety bond, or escrow from entities that self-insure their Workers' Compensation. As of May 31, 2017, the Commission has three (3) standby letters of credit to satisfy the PA Turnpike's collateral requirement under the expired Owner Controlled Insurance Program (OCIP) with Zurich American Insurance; there have been no draws against these letters of credit. The Letters of Credit are as follows:

- $245,000 letter of credit with PNC Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase I OCIP.
- $600,000 letter of credit with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Uniontown to Brownsville Phase II OCIP.
- $102,000 letter of credit with Wells Fargo Bank, N.A. for beneficiary Zurich American Insurance for the Susquehanna River Bridge and Valley Forge to Norristown Widening OCIPs.

In May 2017, in lieu of a letter of credit, the Commission placed $2.0 million into an escrow account with Wells Fargo (naming Liberty Mutual as beneficiary) for the new OCIP on the U.S. 22 to I-79 portion of the Southern Beltway currently under construction.

NOTE 15 SUBSEQUENT EVENTS

On March 21, 2017, the Commission authorized the issuance of the Pennsylvania Turnpike Commission's variable or fixed rate revenue bonds in an aggregate initial principal amount not to exceed $500 million (based on par amount), for the purpose of financing the costs of various capital expenditures for the Pennsylvania Turnpike Commission's current 10-year capital plan. The Commission expects to close on the bonds in October 2017.

On July 27, 2017, the Commission issued $750,510,000 2017 Series B Subordinate Revenue Bonds consisting of $379,115,000 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds, $371,395,000 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds and $45,390,000 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds. The 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds were issued to finance a portion of the costs of making payments to PennDOT in accordance with Act 44 and Act 89, to fund necessary reserves to the extent required for the 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds and to pay the costs of issuing the 2017 Series B Sub-Series B-1 Subordinate Revenue Bonds. The 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds were issued to provide funds to finance the costs of advance refunding various Commission outstanding bonds and to pay the cost of issuing the 2017 Series B Sub-Series B-2 Subordinate Revenue Bonds. The 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds were issued to provide funds to finance the costs of advance refunding various Commission outstanding bonds and to pay the cost of issuing the 2017 First Series Motor License Fund-Enhanced Subordinate Special Revenue Refunding Bonds.

On August 15, 2017, the Commission authorized the issuance of the Pennsylvania Turnpike Commission's variable rate revenue bonds or notes, in one or more series or sub-series, taxable or tax exempt, in an aggregate initial principal amount not to exceed $250 million (based on par amount), for the purpose of financing the current refunding of all or a portion of certain outstanding variable rate revenue bonds previously issued by the Commission.

On August 24, 2017, the Commission received its first bond rating from Kroll Bond Rating Agency (KBRA). KBRA assigned a long-term credit rating of AA- and a Stable outlook to the Commission's upcoming 2017 Series A-1 Senior Revenue Bonds and 2017 Series A-2 Senior Revenue Refunding Bonds, which are expected to be issued during the third quarter of calendar year 2017. KBRA also assigned a long-term credit rating of AA- and a Stable outlook to all Commission outstanding Senior Revenue Bonds on a parity basis.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Schedule of Commission's Proportionate Share of the Net Pension Liability
Pennsylvania State Employees' Retirement System

Last 10 Fiscal Years*
(Dollar Amounts in Thousands)

	2017	2016	2015
Commission's proportion of the net pension liability	1.96867410%	1.90799267%	1.99409814%
Commission's proportionate share of the net pension liability	$ 379,173	$ 346,946	$ 296,271
Commission's covered payroll	123,365	121,085	121,579
Commission's proportionate share of the net pension liability as a percentage of its covered payroll	307.36%	286.53%	243.69%
Plan fiduciary net position as a percentage of the total pension liability	57.8%	58.9%	64.8%

* The amounts presented for each fiscal year were determined as of the measurement date (12/31) that occurred within the Commission's fiscal year. The Commission adopted GASB 68 on a prospective basis in fiscal year 2015; therefore, only the available years are presented in the above schedule.

PENNSYLVANIA TURNPIKE COMMISSION
A Component Unit of the Commonwealth of Pennsylvania
Schedule of Commission's Contributions
Pennsylvania State Employees' Retirement System

Last 10 Fiscal Years*
(Dollar Amounts in Thousands)

	2017	2016	2015
Contractually required contribution	$ 33,303	$ 27,864	$ 22,588
Contributions in relation to the contractually required contribution	(33,303)	(27,864)	(22,588)
Contribution deficiency (excess)	$ -	$ -	$ -
Commission's covered payroll	$ 121,778	$ 121,060	$ 121,009
Contributions as a percentage of covered payroll	27.35%	23.02%	18.67%

* The Commission adopted GASB 68 on a prospective basis in fiscal year 2015; therefore, only the available years are presented in the above schedule.

Schedule of Funding Progress – Post employment Healthcare Benefits
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (Funding Excess)	Funded Ratio	Covered Payroll	Unfunded AAL (Funding Excess) as a Percentage of Covered Payroll
January 1, 2016	$ 331,568	$ 330,395	$ (1,173)	100.4%	$ 124,458	-0.9%
January 1, 2014	271,265	283,133	11,868	95.8%	126,699	9.4%
March 1, 2012	152,341	250,750	98,409	60.8%	124,241	79.2%

The following is a listing of changes in assumptions used in the January 1, 2016 valuation compared with previous valuations. See Note 11 for additional information.

- The eligibility conditions for Local 250 and 77 union employees hired on or after February 1, 2016 and management and supervisory union employees hired on or after March 1, 2016 was modified to the earlier of completion of 30 years of Credited Service or the later of attainment of age 60 and completion of 25 years of Credited Service. The last 10 years of Credited Service must be with the Commission.

- Local 30 Professionals who retire on or after January 1, 2014 and all other union, management and supervisory union employees who retire on or after February 1, 2016, must participate in the wellness program if less than age 65, including spouses under age 65 and other dependents age 19 to 26 or contribute 5% of the monthly premium based on the selected coverage level.

- Per capita claims costs were updated based on recent experience of Commission retirees and the healthcare trend rate was updated to use the Society of Actuaries-Getzen Model version 2014.

- The discount rate was reduced from 7% to 6.5% per annum.

Following is a listing of changes in assumptions used in the January 1, 2014 valuation compared with previous valuations

- Per capita claims costs were updated based on recent experience of Commission retirees and the healthcare trend was updated.

- Assumed health plan elections for members attaining age 65 were modified from 2/3rd electing Signature 65 and 1/3rd electing Freedom Blue (without Rx) to 60% electing Signature 65 and 40% electing Freedom Blue (without Rx).

- The assumed percentage of eligible female members covering a spouse decreased from 50% to 40%.

OTHER SUPPLEMENTARY INFORMATION

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

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

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

The Motor License section consists of an annual income of $28.0 million, which has been provided to the Commission pursuant to Section 20 of Act 3 of the Commonwealth of Pennsylvania. This income is pledged against the Motor License Registration Fee Debt as listed in Note 7.

Schedule of Net Position

	May 31, 2017			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets:				
Cash and cash equivalents	$ 215,949	$ -	$ -	$ 215,949
Short-term investments	67,764	-	-	67,764
Accounts receivable	69,181	-	-	69,181
Accrued interest receivable	1,268	-	-	1,268
Inventories	18,973	-	-	18,973
Restricted current assets				
Cash and cash equivalents	599,188	87,253	15,400	701,841
Short-term investments	260,856	40,567	1,998	303,421
Accounts receivable	5,057	11,629	-	16,686
Accrued interest receivable	2,329	1,001	183	3,513
Total current assets	1,240,565	140,450	17,581	1,398,596
Noncurrent assets				
Long-term investments				
Long-term investments unrestricted	278,202	-	-	278,202
Long-term investments restricted	348,086	173,988	43,340	565,414
Total long-term investments	626,288	173,988	43,340	843,616
Capital assets not being depreciated				
Land and intangibles	359,210	-	-	359,210
Assets under construction	1,356,951	-	-	1,356,951
Capital assets being depreciated				
Buildings	978,186	-	-	978,186
Improvements other than buildings	121,137	-	-	121,137
Equipment	638,300	-	-	638,300
Infrastructure	8,380,745	-	-	8,380,745
Total capital assets before accumulated depreciation	11,834,529	-	-	11,834,529
Less: Accumulated depreciation	6,105,647	-	-	6,105,647
Total capital assets after accumulated depreciation	5,728,882	-	-	5,728,882
Other assets				
Prepaid bond insurance costs	3,877	34	1,466	5,377
OPEB Asset	122,542	-	-	122,542
Other assets	31,747	-	-	31,747
Total other assets	158,166	34	1,466	159,666
Total noncurrent assets	6,513,336	174,022	44,806	6,732,164
Total assets	7,753,901	314,472	62,387	8,130,760
Deferred outflows of resources from hedging derivates	44,921	-	61,904	106,825
Deferred outflows of resources from refunding bonds	310,684	13,481	19,155	343,320
Deferred outflows of resources from pensions	84,359	-	-	84,359
Total deferred outflows of resources	439,964	13,481	81,059	534,504
Total assets and deferred outflows of resources	$ 8,193,865	$ 327,953	$ 143,446	$ 8,665,264

Schedule of Net Position *(continued)*

	May 31, 2017			
	Mainline	**Oil Franchise**	**Motor License**	**Total**
	(In Thousands)			
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current liabilities				
Accounts payable and accrued liabilities	$ 418,830	$ 26,779	$ 3,692	$ 449,301
Current portion of debt	365,745	17,445	8,185	391,375
Unearned income	71,942	732	-	72,674
Total current liabilities	856,517	44,956	11,877	913,350
Noncurrent liabilities				
Debt, less current portion, net of unamortized premium	11,070,932	702,800	403,895	12,177,627
Net pension liability	379,173	-	-	379,173
Other noncurrent liabilities	177,418	335	69,143	246,896
Total noncurrent liabilities	11,627,523	703,135	473,038	12,803,696
Total liabilities	12,484,040	748,091	484,915	13,717,046
Deferred inflows of resources from hedging derivatives	2,700	-	-	2,700
Deferred inflows of resources from service concession arrangements	122,694	-	-	122,694
Deferred inflows of resources from refunding bonds	-	3,207	-	3,207
Deferred inflows of resources from pensions	18,289	-	-	18,289
Total deferred inflows of resources	143,683	3,207	-	146,890
Total liabilities and deferred inflows of resources	12,627,723	751,298	484,915	13,863,936
NET POSITION				
Net investment in capital assets	849,221	(708,561)	(398,698)	(258,038)
Restricted for construction purposes	-	272,819	57,229	330,048
Restricted for debt service	32,330	12,397	-	44,727
Unrestricted	(5,315,409)	-	-	(5,315,409)
Total net position	$ (4,433,858)	$ (423,345)	$ (341,469)	$ (5,198,672)

Schedule of Revenues, Expenses, and Changes in Net Position

	May 31, 2017			
	Mainline	**Oil Franchise**	**Motor License**	**Total**
		(In Thousands)		
Operating revenues				
Net fares	$ 1,111,061	$ -	$ -	$ 1,111,061
Other	23,335	-	-	23,335
Total operating revenues	1,134,396	-	-	1,134,396
Operating expenses				
Cost of services	514,310	2,793	-	517,103
Depreciation	354,343	-	-	354,343
Total operating expenses	868,653	2,793	-	871,446
Operating income (loss)	265,743	(2,793)	-	262,950
Nonoperating revenues (expenses)				
Investment earnings (loss)	13,971	(313)	567	14,225
Other nonoperating revenues	16,978	4,554	-	21,532
Act 44 and Act 89 payments to PennDOT	(450,000)	-	-	(450,000)
Capital assets transferred to PennDOT	(54,724)	-	-	(54,724)
Interest and bond expense	(524,730)	(17,732)	(18,198)	(560,660)
Nonoperating expenses, net	(998,505)	(13,491)	(17,631)	(1,029,627)
Loss before capital contributions	(732,762)	(16,284)	(17,631)	(766,677)
Capital contributions	62,967	123,697	28,000	214,664
(Decrease) increase in net position	(669,795)	107,413	10,369	(552,013)
Net position at beginning of year	(3,868,714)	(427,785)	(350,160)	(4,646,659)
Intersection transfers	104,651	(102,973)	(1,678)	-
Net position at end of year	$ (4,433,858)	$ (423,345)	$ (341,469)	$ (5,198,672)

Schedule of Cash Flows

	May 31, 2017			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customer tolls and deposits	$ 1,117,714	$ -	$ -	$ 1,117,714
Cash payments for goods and services	(327,191)	(1,331)	-	(328,522)
Cash payments to employees	(156,679)	(1,455)	-	(158,134)
Cash received from other operating activities	8,926	-	-	8,926
Net cash provided by (used in) operating activities	642,770	(2,786)	-	639,984
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	4,585,619	218,855	36,593	4,841,067
Interest received on investments	17,425	4,320	510	22,255
Purchases of investments	(4,661,446)	(209,521)	(39,924)	(4,910,891)
Net cash provided by (used in) investing activities	(58,402)	13,654	(2,821)	(47,569)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants received from other governments	55,265	-	-	55,265
Proceeds from Motor License Registration fees	-	-	28,000	28,000
Proceeds from Oil Company Franchise Tax	-	120,754	-	120,754
Construction and acquisition of capital assets	(522,966)	(76,117)	-	(599,083)
Proceeds from sale of capital assets	993	-	-	993
Payments for bond and swap expenses	(2,690)	(1,643)	(4)	(4,337)
Payments for debt refundings	(140,060)	(385,359)	-	(525,419)
Payments for debt maturities	(41,540)	(18,885)	(7,775)	(68,200)
Interest paid on debt	(213,989)	(36,000)	(20,081)	(270,070)
Interest subsidy from Build America Bonds	16,289	4,554	-	20,843
Proceeds from debt issuances	670,726	384,992	-	1,055,718
Net cash (used in) provided by capital and related financing activities	(177,972)	(7,704)	140	(185,536)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash payments to PennDOT	(450,000)	-	-	(450,000)
Payments for bond and swap expenses	(8,128)	-	-	(8,128)
Payments for debt refundings	(1,549,690)	-	-	(1,549,690)
Payments for debt maturities	(54,430)	-	-	(54,430)
Interest paid on debt	(224,231)	-	-	(224,231)
Proceeds from debt issuances	1,823,095	-	-	1,823,095
Net cash used in noncapital financing activities	(463,384)	-	-	(463,384)
Increase in cash and cash equivalents	(56,988)	3,164	(2,681)	(56,505)
Cash and cash equivalents at beginning of year	872,125	84,089	18,081	974,295
Cash and cash equivalents at end of year	$ 815,137	$ 87,253	$ 15,400	$ 917,790

	May 31, 2017			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 265,743	$ (2,793)	$ -	$ 262,950
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	354,343	-	-	354,343
Change in operating assets and liabilities				
Accounts receivable	(11,924)	-	-	(11,924)
Inventories	1,520	-	-	1,520
Other assets	(8,606)	-	-	(8,606)
Deferred outflows of resources from pensions	(18,078)	-	-	(18,078)
Accounts payable and accrued liabilities	17,035	7	-	17,042
Net pension liability	32,227	-	-	32,227
Other noncurrent liabilities	4,414	-	-	4,414
Deferred inflows of resources from pensions	6,096	-	-	6,096
Net cash provided by (used in) operating activities	$ 642,770	$ (2,786)	$ -	$ 639,984
Reconciliation of cash and cash equivalents to the statements of net position				
Cash and cash equivalents	$ 215,949	$ -	$ -	$ 215,949
Restricted cash and cash equivalents	599,188	87,253	15,400	701,841
Total cash and cash equivalents	$ 815,137	$ 87,253	$ 15,400	$ 917,790

Noncash activities

The Commission recorded a net increase of $9.5 million in the fair value of its investments for the year ended May 31, 2017. Increases (Decreases) by section were: Mainline, $3.9 million; and Oil Franchise, $5.6 million.

The Commission recorded $34.8 million for the amortization of bond premium for the year ended May 31, 2017. Amortization by section was: Mainline, $29.8 million; Oil Franchise, $4.3 million and Motor License, $0.7 million.

As indicated in Note 7 (Debt), the Commission refunded various bonds in fiscal year 2017. The fiscal year 2017 refundings resulted in an $8.1 million reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds and a $3.1 million reclassification from bond premiums (discounts) to deferred inflows of resources from refundings. Reclassification by section was: Mainline, $2.2 million; and Oil Franchise, $5.9 million. Additionally, the Commission recorded $36.4 million for the amortization of deferred outflows/inflows of resources from refunding bonds for the year ended May 31, 2017. Amortization by section was: Mainline, $35.0 million; Oil Franchise, $0.6 million and Motor License, $0.8 million.

The Commission recorded $4.6 million for the amortization of prepaid bond insurance costs for the year ended May 31, 2017. Amortization by section was: Mainline, $3.3 million; Oil Franchise, $1.2 million and Motor License, $0.1 million.

Noncash activities *(continued)*

The Commission recorded an interest expense reduction of $2.9 million in the Mainline section and $0.2 million in the Motor License section for the year ended May 31, 2017 related to GASB 53 entries.

The Commission recognized total capital contributions of $214.7 million for fiscal year ended May 31, 2017. Cash received of $204.0 million for fiscal year ended May 31, 2017 is reported in the Capital and related financing activities of this schedule. The $10.7 million difference between capital contributions and cash received is the result of a $5.5 million (Mainline section $2.5 million; Oil Franchise section $3.0 million) increase in receivables related to these capital contributions and a $5.2 million Mainline noncash capital contribution related to capital assets provided by service plaza operators. The Commission entered into agreements with a food and fuel provider to totally reconstruct the service plazas; the service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. See Note 2 for further discussion on capital contributions and Note 6 for further discussion on the service plazas.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of $54.7 million from its Mainline section to PennDOT during the fiscal year ended May 31, 2017.

The Commission records intersection activity related to revenue, expense, asset and liability transfers between its sections. Some of the intersection entries are related to cash transfers; others are noncash transfers as required. Net intersection transfers for the year ended May 31, 2017 were: to Mainline, $104.7 million; from Oil Franchise, $103.0 million; and from Motor License, $1.7 million.

Schedule of Net Position

	May 31, 2016			
	Mainline	Oil Franchise	Motor License	Total
		(In Thousands)		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets				
Cash and cash equivalents	$ 169,248	$ -	$ -	$ 169,248
Short-term investments	40,798	-	-	40,798
Accounts receivable	57,257	-	-	57,257
Accrued interest receivable	1,457	-	-	1,457
Inventories	20,492	-	-	20,492
Restricted current assets				
Cash and cash equivalents	702,877	84,089	18,081	805,047
Short-term investments	151,900	11,981	1,300	165,181
Accounts receivable	2,585	8,686	-	11,271
Accrued interest receivable	1,877	997	129	3,003
Total current assets	1,148,491	105,753	19,510	1,273,754
Noncurrent assets				
Long-term investments				
Long-term investments unrestricted	279,926	-	-	279,926
Long-term investments restricted	399,894	215,246	40,704	655,844
Total long-term investments	679,820	215,246	40,704	935,770
Capital assets not being depreciated				
Land and intangibles	333,934	-	-	333,934
Assets under construction	1,330,627	-	-	1,330,627
Capital assets being depreciated				
Buildings	968,902	-	-	968,902
Improvements other than buildings	119,256	-	-	119,256
Equipment	619,779	-	-	619,779
Infrastructure	7,908,360	-	-	7,908,360
Total capital assets before accumulated depreciation	11,280,858	-	-	11,280,858
Less: Accumulated depreciation	5,763,532	-	-	5,763,532
Total capital assets after accumulated depreciation	5,517,326	-	-	5,517,326
Other assets				
Prepaid bond insurance costs	6,997	1,264	1,527	9,788
OPEB assets	113,930	-	-	113,930
Other assets	32,190	-	-	32,190
Total other assets	153,117	1,264	1,527	155,908
Total noncurrent assets	6,350,263	216,510	42,231	6,609,004
Total assets	7,498,754	322,263	61,741	7,882,758
Deferred outflows of resources from hedging derivates	58,545	-	75,246	133,791
Deferred outflows of resources from refunding bonds	170,705	5,626	19,947	196,278
Deferred outflows of resources from pensions	66,281	-	-	66,281
Total deferred outflows of resources	295,531	5,626	95,193	396,350
Total assets and deferred outflows of resources	$ 7,794,285	$ 327,889	$ 156,934	$ 8,279,108

	May 31, 2016			
	Mainline	**Oil Franchise**	**Motor License**	**Total**
	(In Thousands)			
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current liabilities				
Accounts payable and accrued liabilities	$ 387,033	$ 18,650	$ 3,846	$ 409,529
Current portion of debt	236,030	18,885	7,775	262,690
Unearned income	67,112	732	-	67,844
Total current liabilities	690,175	38,267	11,621	740,063
Noncurrent liabilities				
Debt, less current portion, net of unamortized premium	10,303,989	715,071	412,799	11,431,859
Net pension liability	346,946	-	-	346,946
Other noncurrent liabilities	185,668	1,067	82,674	269,409
Total noncurrent liabilities	10,836,603	716,138	495,473	12,048,214
Total liabilities	11,526,778	754,405	507,094	12,788,277
Deferred inflows of resources from service concession arrangements	124,028	-	-	124,028
Deferred inflows of resources from refunding bonds	-	1,269	-	1,269
Deferred inflows of resources from pensions	12,193	-	-	12,193
Total deferred inflows of resources	136,221	1,269	-	137,490
Total liabilities and deferred inflows of resources	11,662,999	755,674	507,094	12,925,767
NET POSITION				
Net investment in capital assets	1,098,109	(716,101)	(406,528)	(24,520)
Restricted for construction purposes	-	276,552	56,368	332,920
Restricted for debt service	17,114	11,764	-	28,878
Unrestricted	(4,983,937)	-	-	(4,983,937)
Total net position	$ (3,868,714)	$ (427,785)	$ (350,160)	$ (4,646,659)

Schedule of Revenues, Expenses, and Changes in Net Position

	May 31, 2016			
	Mainline	Oil Franchise	Motor License	Total
		(In Thousands)		
Operating revenues				
Net fares	$ 1,030,115	$ -	$ -	$ 1,030,115
Other	22,576	-	-	22,576
Total operating revenues	1,052,691	-	-	1,052,691
Operating expenses				
Cost of services	469,996	1,136	-	471,132
Depreciation	332,941	-	-	332,941
Total operating expenses	802,937	1,136	-	804,073
Operating income (loss)	249,754	(1,136)	-	248,618
Nonoperating revenues (expenses)				
Investment earnings	18,899	9,749	421	29,069
Other nonoperating revenues	17,092	4,559	-	21,651
Act 44 and Act 89 payments to PennDOT	(450,000)	-	-	(450,000)
Capital assets transferred to PennDOT	(40,937)	-	-	(40,937)
Interest and bond expense	(466,463)	(35,570)	(18,988)	(521,021)
Nonoperating expenses, net	(921,409)	(21,262)	(18,567)	(961,238)
Loss before capital contributions	(671,655)	(22,398)	(18,567)	(712,620)
Capital contributions	33,103	119,803	28,000	180,906
(Decrease) increase in net position	(638,552)	97,405	9,433	(531,714)
Net position at beginning of year	(3,267,060)	(483,837)	(364,048)	(4,114,945)
Intersection transfers	36,898	(41,353)	4,455	-
Net position at end of year	$ (3,868,714)	$ (427,785)	$ (350,160)	$ (4,646,659)

	May 31, 2016			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customer tolls and deposits	$ 1,036,742	$ -	$ -	$ 1,036,742
Cash payments for goods and services	(301,744)	(228)	-	(301,972)
Cash payments to employees	(161,016)	(953)	-	(161,969)
Cash received from other operating activities	12,312	-	-	12,312
Net cash provided by (used in) operating activities	586,294	(1,181)	-	585,113
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	2,842,981	321,961	45,890	3,210,832
Interest received on investments	18,420	3,778	438	22,636
Purchases of investments	(2,870,198)	(334,281)	(44,981)	(3,249,460)
Net cash provided by (used in) investing activities	(8,797)	(8,542)	1,347	(15,992)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants received from other governments	33,497	-	-	33,497
Proceeds from Motor License Registration fees	-	-	28,000	28,000
Proceeds from Oil Company Franchise Tax	-	121,130	-	121,130
Cash transfer for Continuing Covenant Agreement	-	(2,137)	2,137	-
Cash transfer for closing fees for interest rate conversion	-	(332)	332	-
Cash transfers for debt service payments	-	(4,000)	4,000	-
Construction and acquisition of capital assets	(653,655)	(33,677)	-	(687,332)
Proceeds from sale of capital assets	1,148	-	-	1,148
Payments for bond and swap expenses	(4,321)	(44)	(823)	(5,188)
Payments for debt refundings	(233,170)	-	-	(233,170)
Payments for debt maturities	(55,830)	(17,625)	(7,410)	(80,865)
Interest paid on debt	(177,069)	(36,953)	(20,335)	(234,357)
Interest subsidy from Build America Bonds	16,305	4,559	-	20,864
Swap suspension payments received	4,800	-	-	4,800
Proceeds from debt issuances	1,004,735	-	-	1,004,735
Draw on Stand by Purchase Agreement	-	-	231,430	231,430
Paid Stand by Purchase Agreement	-	-	(231,430)	(231,430)
Net cash (used in) provided by capital and related financing activities	(63,560)	30,921	5,901	(26,738)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash payments to PennDOT	(450,000)	-	-	(450,000)
Payments for bond and swap expenses	(5,046)	-	-	(5,046)
Payments for debt refundings	(579,695)	-	-	(579,695)
Payments for debt maturities	(57,765)	-	-	(57,765)
Interest paid on debt	(201,716)	-	-	(201,716)
Proceeds from debt issuances	942,360	-	-	942,360
Net cash used in noncapital financing activities	(351,862)	-	-	(351,862)
Increase in cash and cash equivalents	162,075	21,198	7,248	190,521
Cash and cash equivalents at beginning of year	710,050	62,891	10,833	783,774
Cash and cash equivalents at end of year	$ 872,125	$ 84,089	$ 18,081	$ 974,295

	May 31, 2016			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 249,754	$ (1,136)	$ -	$ 248,618
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	332,941	-	-	332,941
Change in operating assets and liabilities				
Accounts receivable	(10,505)	-	-	(10,505)
Inventories	(1,684)	-	-	(1,684)
Other assets	(9,008)	-	-	(9,008)
Deferred outflows of resources from pensions	(45,203)	-	-	(45,203)
Accounts payable and accrued liabilities	9,527	(45)	-	9,482
Net pension liability	50,675	-	-	50,675
Other noncurrent liabilities	288	-	-	288
Deferred inflows of resources from pensions	9,509	-	-	9,509
Net cash provided by (used in) operating activities	$ 586,294	$ (1,181)	$ -	$ 585,113
Reconciliation of cash and cash equivalents to the statements of net position				
Cash and cash equivalents	$ 169,248	$ -	$ -	$ 169,248
Restricted cash and cash equivalents	702,877	84,089	18,081	805,047
Total cash and cash equivalents	$ 872,125	$ 84,089	$ 18,081	$ 974,295

Noncash activities

The Commission recorded a net decrease of $4.5 million in the fair value of its investments for the year ended May 31, 2016. Increases (Decreases) by section were: Mainline, $(0.2) million; Oil Franchise, $(4.4) million and Motor License, $0.1 million.

The Commission recorded $17.6 million for the amortization of bond premium for the year ended May 31, 2016. Amortization by section was: Mainline, $15.4 million; Oil Franchise, $1.5 million and Motor License, $0.7 million.

As indicated in Note 7 (Debt), the Commission refunded various bonds in fiscal year 2016. The fiscal year 2016 refundings resulted in a $1.1 million Mainline reclassification from bond premiums (discounts) to deferred outflows of resources from refunding bonds. Additionally, the Commission recorded $19.9 million for the amortization of deferred outflows/inflows of resources from refunding bonds for the year ended May 31, 2016. Amortization by section was: Mainline, $18.8 million; Oil Franchise, $0.3 million and Motor License, $0.8 million.

The Commission recorded $3.9 million for the amortization of prepaid bond insurance costs for the year ended May 31, 2016. Amortization by section was: Mainline, $3.7 million; Oil Franchise, $0.1 million and Motor License, $0.1 million.

The Commission recorded an interest expense reduction of $2.2 million in the Mainline section and $0.2 million in the Motor License section for the year ended May 31, 2016 related to GASB 53 entries.

Noncash activities (continued)

The Commission recognized total capital contributions of $180.9 million for fiscal year ended May 31, 2016. Cash received of $182.6 million for fiscal year ended May 31, 2016 is reported in the Capital and related financing activities of this schedule. The $1.7 million difference between capital contributions and cash received is the result of a $6.9 million (Mainline section $5.6 million; Oil Franchise section $1.3 million) decrease in receivables related to these capital contributions offset by a $5.2 million Mainline noncash capital contribution related to capital assets provided by service plaza operators. The Commission entered into agreements with a food and fuel provider to totally reconstruct the service plazas; the service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. See Note 2 for further discussion on capital contributions and Note 6 for further discussion on the service plazas.

The Commission and PennDOT entered into an agreement regarding ownership of overhead bridges that carry state roads. Per the agreement, once the Commission replaces these overhead bridges, and after final inspections and supplemental agreements are signed by both parties, ownership and maintenance responsibilities of the bridges are transferred from the Commission to PennDOT. The Commission transferred assets with a net book value of $40.9 million from its Mainline section to PennDOT during the fiscal year ended May 31, 2016.

The Commission records intersection activity related to revenue, expense, asset and liability transfers between its sections. Some of the intersection entries are related to cash transfers; others are noncash transfers as required. Net intersection transfers for the year ended May 31, 2016 were: to Mainline, $36.9 million; from Oil Franchise, $41.4 million; and to Motor License, $4.5 million.

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

Fiscal Year Ended May 31, 2017

	Mainline Operating	Mainline Capital	Total Mainline	Oil Franchise	Motor License	Total
General and administrative	$ 47,861	$ 100,813	$ 148,674	$ 1,827	$ -	$ 150,501
Traffic engineering and operations	3,813	1,743	5,556	-	-	5,556
Service centers	32,304	-	32,304	-	-	32,304
Employee benefits	113,986	11,569	125,555	966	-	126,521
Toll collection	60,112	1,665	61,777	-	-	61,777
Maintenance	66,191	2,219	68,410	-	-	68,410
Facilities and energy mgmt. operations	11,266	13,545	24,811	-	-	24,811
Turnpike patrol	47,223	-	47,223	-	-	47,223
Total cost of services	$ 382,756	$ 131,554	$ 514,310	$ 2,793	$ -	$ 517,103

Fiscal Year Ended May 31, 2016

	Mainline Operating	Mainline Capital	Total Mainline	Oil Franchise	Motor License	Total
General and administrative	$ 40,725	$ 80,728	$ 121,453	$ 691	$ -	$ 122,144
Traffic engineering and operations	4,654	1,483	6,137	-	-	6,137
Service centers	28,304	-	28,304	-	-	28,304
Employee benefits	107,646	9,927	117,573	445	-	118,018
Toll collection	59,387	4,888	64,275	-	-	64,275
Maintenance	64,545	1,319	65,864	-	-	65,864
Facilities and energy mgmt. operations	10,886	9,343	20,229	-	-	20,229
Turnpike patrol	46,161	-	46,161	-	-	46,161
Total cost of services	$ 362,308	$ 107,688	$ 469,996	$ 1,136	$ -	$ 471,132

Note: Certain amounts in the above table were reclassified to conform to the current period financial statements presentation.