

PENNSYLVANIA TURNPIKE COMMISSION
A COMPONENT UNIT OF THE COMMONWEALTH OF PENNSYLVANIA

Comprehensive Annual Financial Report

Fiscal years ended May 31, 2006 and 2005

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Pennsylvania Turnpike Commission
A Component Unit of the Commonwealth of Pennsylvania

Comprehensive Annual Financial Report

Fiscal years ended May 31, 2006 and 2005

Prepared by:

Sharon S. Jones, Manager of Revenue Accounting
Gina E. Sheller, Manager of General Accounting
Anthony Q. Maun, Director of Accounting and Payroll

Robert J. Smith, Director of Finance

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Introductory Section

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Our Mission:

To operate and manage a safe, reliable, cost effective and valued toll road system.

**Pennsylvania Turnpike Commission**

America's First Superhighway

August 4, 2006

To the Bondholders of the Pennsylvania Turnpike Commission:

Introduction

The comprehensive annual financial report of the Pennsylvania Turnpike Commission (Commission) for the fiscal year ended May 31, 2006, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Commission. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the Commission's organization chart, a list of principal officials, and the 2005 Certificate of Achievement. The financial section includes the independent auditors' report on the financial statements, management's discussion and analysis (MD&A), and the financial statements. The statistical section includes selected financial, traffic, technical, and chronological information, generally presented on a multiyear basis.

The MD&A is required by GAAP and serves as an introduction to the Commission's basic financial statements. It includes an overview and analysis of the financial activities for the years ended May 31, 2006 and 2005 and should be read in conjunction with the Commission's basic financial statements. Likewise, this letter of transmittal is designed to complement the MD&A, which can be found immediately following the report of the independent auditors.

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

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

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

Turnpike System

The present Pennsylvania Turnpike System is composed of a 360-mile mainline section traversing the southern portion of Pennsylvania from east to west identified as the Turnpike Mainline and a 110-mile north-south section identified as the Northeast Extension. A north-south connection, known as the Beaver Valley Expressway, is approximately 16 miles in length and intersects the Turnpike Mainline. The Amos K. Hutchinson Bypass is approximately 13 miles in length and adjoins the Turnpike Mainline near the New Stanton Interchange. In addition, an initial six-mile section of the Mon/Fayette Project was opened as part of the Pennsylvania Turnpike System in 1990, the eight-mile Mason-Dixon link of the Mon/Fayette Expressway was opened on March 1, 2000, and a four-mile section, from Interstate 70 to Coyle Curtain Road, was opened on May 11, 2001. A 13-mile section of the Mon/Fayette Expressway, connecting I-70 to SR 51, was opened in April 2002. When completed, the Mon/Fayette Expressway will extend from Interstate Route 68 in West Virginia to Interstate Route 376 near Pittsburgh, a distance of 65 miles.

The Turnpike Mainline connects with the Ohio Turnpike at its western terminus and with the New Jersey Turnpike at its eastern terminus. Its total length is approximately 360 miles. The Turnpike Mainline commences on the eastern boundary of Pennsylvania at the Delaware River Bridge, which connects the Pennsylvania Turnpike System to the New Jersey Turnpike. The Turnpike Mainline traverses the state in a westerly direction generally paralleling the southern border of the state immediately north of Philadelphia and south of Harrisburg to the vicinity of Somerset. West of Somerset, the highway follows a northwesterly direction to the northeast of Pittsburgh and to the Ohio state line, south of Youngstown, Ohio.

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

The Pennsylvania Turnpike was constructed prior to development of the National Interstate Highway System; however, portions have been designated as Interstate Routes. The Turnpike Mainline has been designated as Interstate Route 276 between the Valley Forge Interchange, Exit 326 and the Delaware River Bridge, Exit 359. The portion of the Turnpike Mainline west of the Valley Forge Interchange to the western terminus at the Ohio State line has been designated as Interstate Route 76. In addition, the Turnpike Mainline segment between the New Stanton and Breezewood Interchanges, Exits 75 through 161, respectively, has been designated as Interstate Route 70/76. The Northeast Extension has recently been designated as Interstate Route 476. No Federal Highway Trust Fund monies have been used for the construction of the Turnpike Mainline, Northeast Extension, Beaver Valley Expressway, or the Amos K. Hutchinson Bypass sections of the Turnpike.

The Pennsylvania Turnpike System was constructed and opened to traffic in sections. The original Turnpike Mainline section between Irwin and Carlisle, Exits 67 through 226, respectively, was opened in 1940. Ten years later, in 1950, the 100-mile section between Carlisle and King of Prussia, Exits 226 through 326, was completed and opened for traffic. After 1950, construction of new sections of the Pennsylvania Turnpike System occurred at more frequent intervals with the Turnpike Mainline segment in service as of May 1956. The initial section of the Northeast Extension between the Turnpike Mainline and the temporary interchange just south of the Lehigh Tunnel was opened in 1955. The final section, from the interchange south of the Lehigh Tunnel to Scranton, was completed and opened for traffic in November 1957.

The Delaware River Bridge, which connects the Turnpike Mainline with the New Jersey Turnpike System, is owned jointly by the Pennsylvania Turnpike Commission and the New Jersey Turnpike Authority and was opened for traffic in May 1956.

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

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

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

In November 2004, the E-ZPass system was expanded to two additional interchanges 122 Keyser Avenue and 131 Clarks Summit on the Northeast extension.

A second interchange, Mid-County, was improved by the opening of express E-ZPass lanes in October 2005. Plans to expand E-ZPass to the extensions in the western portion of the state began with the opening of E-ZPass lanes at the Amos K. Hutchinson Bypass (Turnpike 66) mainline interchange in June 2006. E-ZPass lanes will continue to be added to all interchanges on this section and to all interchanges on the Beaver Valley Expressway (Turnpike 60) throughout 2006 and 2007.

Long-Range Financial Planning Process

Annually, the Commission prepares a Ten Year Financial and Operating Budget Plan. This plan is a long-term operating outlook developed to serve as the fundamental basis for the long-range planning process that includes a priority programming capital plan and a strategic plan of finance.

The annual operating budget is part of the ten year plan and must be approved by the Commissioners before the start of the next fiscal year. The 2006 fiscal year operating budget was approved for \$239.5 million and supports the achievement of the short-term and long-term goals specified in the ten year plan. The annual operating budget is a statement of the expenses to maintain, support, and operate the roadway and facilities. The information is presented on a department basis, consistent with levels of service provided and reflects expenses on a monthly basis.

A capital budget process (more commonly referred to as the 10-year capital plan) is prepared in addition to the annual operating budget. The capital plan includes such expenses as the cost of resurfacing, replacing or reconstructing the existing turnpike system, including roadway, bridges, toll plazas, maintenance buildings and various other assets. The capital plan is comprised of projects managed in three separate groupings: highway program, information technology program and infrastructure program. The 2006-2015 capital plan proposes capital expenditures of more than \$4 billion and is allocated 86% highway, 9% infrastructure and 5% information technology. The capital plan, including all final projects must be adopted by the Commission.

Capital Improvements Program

Act 61 Projects

In 1985, the General Assembly of the Commonwealth enacted legislation, which among other things, authorized and empowered the Commission to undertake the construction of new projects and to operate them as part of the Pennsylvania Turnpike System. This legislation, known as the “Turnpike Organization, Extension and Toll Road Conversion Act,” also known as Act 1985-61 (Act 61), included several groups of projects for the Pennsylvania Turnpike System. Act 61 grouped the improvement and extension authorizations into four major groups of projects. The initial group of projects includes, among others, the following, a portion of which have been financed and completed with bond proceeds: the Beaver Valley Climbing Lane, the Downingtown Interchange, the Fort Washington, Willow Grove and Philadelphia Interchanges, the Mid-County Expressway Connection (Montgomery County), the Beaver Valley Expressway, the Amos K. Hutchinson Bypass (formerly the Greensburg (North-South) Bypass), the Keyser Avenue Interchange (Wilkes-Barre/Scranton Area) and an additional tube at the Lehigh Tunnel on the Northeast Extension.

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

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

Mon/Fayette Expressway and Southern Beltway

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

Two other projects will complete the Mon/Fayette Expressway. Phase 1 of the Uniontown to Brownsville project, an 8.4-mile section from Pittsburgh Road to US 40, is now under construction and anticipated to open to traffic in 2009. Phase 2 of the Uniontown to Brownsville project, a 7-mile section, will complete the Mon/Fayette Expressway from the West Virginia line in Fayette County to PA 51 in Washington County. Phase 2 will be bid as soon as resources are allocated to the project. Preliminary design for the section from PA Route 51 to Interstate 376 in Pittsburgh has begun and is anticipated to be completed late in the 2006 calendar year.

The proposed Southern Beltway will be constructed from the Mon/Fayette Expressway, near Finleyville, extending as part of a beltway south of Pittsburgh to Pennsylvania Route 60 at the Pittsburgh International Airport. It is presently planned for construction in three sections. Two of these sections are now in the environmental study phase. One section, Route 22 to the Pittsburgh International Airport, is currently under construction and is scheduled to open to traffic in the fall of 2006.

The total estimated cost to complete the Mon/Fayette Expressway and the Southern Beltway projects sponsored by the Pennsylvania Turnpike Commission is approximately \$3.8 billion. The proceeds of the Commission's Oil Franchise Tax Revenue Bonds of 2003 and 1998, and Registration Fee Revenue Bonds Series 2005, have been pledged toward the construction of these projects. Additional financing includes reimbursements from Federal Highway Administration funds. The funds received from these sources are maintained in separate accounts and are segregated from all mainline revenues and projects. Once the Mon/Fayette and Southern Beltway are built, toll revenues will be used to maintain and operate them.

Economic Conditions and Outlook

The Commonwealth of Pennsylvania is one of the most populous states, ranking sixth behind California, Texas, New York, Florida, and Illinois. With a population of over 12 million, Pennsylvania has maintained a 4.2% average of the total United States population over the past ten years. Pennsylvania is an established state with a diversified economy. Pennsylvania had been historically identified as a heavy industry state. That reputation has changed over the last 30 years as the coal, steel, and railroad industries declined and the Commonwealth's business environment readjusted with a more diversified economic base. This economic readjustment was a direct result of a long-term shift in jobs, investment, and workers away from the northeast part of the nation. Currently, the major sources of growth in Pennsylvania are in the service sector, including trade, medical, health services, education, and financial institutions.

Pennsylvania's agricultural industries remain an important component of the Commonwealth's economic structure, accounting for more than \$5.5 billion in crop and livestock products annually. In 2005, agribusiness and food-related industries reached record export sales of more than \$1.5 billion. Over 59,000 farms form the backbone of the Commonwealth's agricultural economy. Farmland in Pennsylvania includes more than four million acres of harvested cropland and three million acres of pasture and farm woodlands—nearly one-third of the Commonwealth's total land area. Agricultural

diversity in the Commonwealth is demonstrated by the fact that Pennsylvania ranks among the top ten states in the production of a number of agricultural products. Agriculture exports have grown by more than 6% since 2002.

Over the ten years ending 2004, nonagricultural employment in Pennsylvania increased an average annual rate of 0.8% compared with a 0.5% rate for the Middle Atlantic region and a 1.3% rate for the U.S. Non-manufacturing employment in Pennsylvania increased in recent years and reached 87.8% of total employment by 2004. Consequently, manufacturing employment constitutes a diminished share of total employment within the Commonwealth and has fallen behind both the services sector and the trade sector as the largest single source of employment within the Commonwealth. In 2004, the services sector accounted for 42.9% of all nonagricultural employment while the trade sector accounted for 16.6%.

Human resources are plentiful in Pennsylvania with an overall population of over 12 million. The labor force is estimated at over 6 million people. The high level of education embodied in the Commonwealth's workforce fosters a wide variety of employment capabilities. Pennsylvania's basic and higher education statistics compare favorably with other states in the nation. Approximately 86% of adults have earned the minimum of a high school degree. In addition, approximately 24% of adults have earned a bachelor's degree or higher, which is consistent with national averages. The per capita income was \$33,348 or 101.25% of the national average in 2004. Personal income increased 5.5% over the past year, and makes up 4.3% of the United States personal income. The unemployment rate in Pennsylvania has been close to the national average for the past 10 years.

Pennsylvania's extensive public and private forests provide a vast source of material for the lumber, furniture, and paper products industries. The forestry and related industries account for 1.5% of employment with economic activity of nearly \$4.5 billion in domestic and international trade. Pennsylvania ranks number one among the 50 states in the production of exported hardwood, exporting more than \$350 million of lumber and wood products annually. Additionally, the Commonwealth derives a good water supply from underground sources, abundant rainfall, and a large number of rivers, streams, and lakes. Other natural resources include major deposits of coal, petroleum, and natural gas. Annually, about 80 million tons of anthracite and bituminous coal, 180 billion cubic feet of natural gas, and about 1.8 million barrels of oil are extracted from Pennsylvania.

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

Internal Control

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

Trust Indentures

Operations of the Commission are substantially controlled by the provisions of a Trust Indenture, dated July 1, 1986, which has been amended and restated as of March 1, 2001, a Trust Indenture dated August 1998 (1998 Indenture) which has been amended as of August 1, 2003, and a Trust Indenture dated July 1, 2001, which was defeased in August 2005, and a Trust Indenture dated August 1, 2005 (collectively referred to as the Indentures). The Indentures require, among other things, the establishment and maintenance of various accounts, which are restricted to use for construction, Turnpike System maintenance and operation, and debt service.

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

Cash and Investment Management

Cash and cash equivalents totaled \$340.8 million at May 31, 2006 and consisted mostly of demand deposits, commercial paper and repurchase agreements. The Indentures require that repurchase agreements be either insured or collateralized by a pledge of direct obligations of the United States Government or the Commonwealth of Pennsylvania, or otherwise in accordance with the laws of the Commonwealth of Pennsylvania governing trust funds of public bodies.

Short-term and long-term funds were invested primarily in U.S. Treasuries, Government agency obligations, municipal bonds and corporate bonds, and totaled \$335.5 million and \$447.1 million, respectively, at May 31, 2006.

Risk Management

The Commission maintains a Risk Management Department that is responsible for, among other things, minimizing the risks associated with operation of the Turnpike System. The Risk Management Department is responsible for ensuring that all Commission assets have proper insurance coverage to protect the Commission and our bondholders. In accordance with the Trust Indentures, the Commission is required to maintain insurance on various assets. Currently, the Commission maintains insurance in the following categories:

- Builders Risk Insurance during the construction of any projects financed under the Trust Indentures.
- Physical loss or damage insurance on all tunnels, certain bridges, buildings, and toll plazas on the turnpike.
- Use and occupancy insurance covering loss of revenues due to interruption in the use of the turnpike resulting from damage to or destruction of any part of the system.
- Property Damage and Public Liability Insurance.

The Commission is self-insured for torts, injuries to employees, and injuries to third parties due to accidents caused by Commission automobiles.

Other Information

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Pennsylvania Turnpike Commission for its comprehensive annual financial report for the fiscal year ended May 31, 2005. This was the 18th consecutive year that the Commission has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Independent Audit

The Trust Indentures require an annual audit by independent certified public accountants. The accounting firm of Ernst & Young LLP was engaged by the Commission to perform the audit for the fiscal year ended May 31, 2006. The auditors' report on the financial statements is included in the financial section of this report.

Acknowledgments

The timely preparation of the comprehensive annual financial report was made possible through the assistance of Gina E. Sheller, Sharon S. Jones, Catherine L. Sabo and Laura M. Quick of the Accounting Department; Anthony Q. Maun, Director of Accounting and Payroll; and Robert J. Smith, Director of Finance. We express our sincere appreciation for the contributions made by these individuals in the preparation of this report.

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

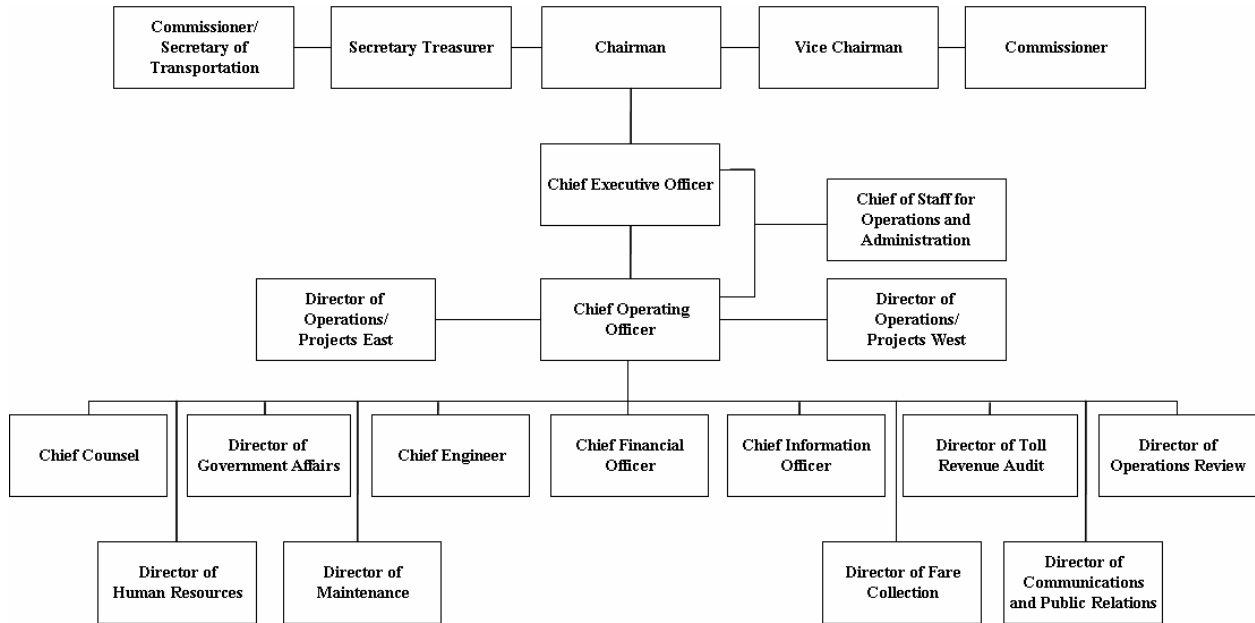
A handwritten signature in black ink, reading "J. Blair Fishburn". The signature is written in a cursive, flowing style with a long horizontal line extending to the right.

J. Blair Fishburn
Chief Financial Officer

Pennsylvania Turnpike Commission

Organization Chart

May 31, 2006



Pennsylvania Turnpike Commission

List of Principal Officials

May 31, 2006

Title	Name
Commission Chairman	Mitchell Rubin
Commission Vice Chairman	Timothy J. Carson
Commission Secretary Treasurer	J. William Lincoln
Commissioner	Pasquale T. Deon, Sr.
Commissioner/Secretary of Transportation	Allen D. Biehler
Chief Executive Officer	Joseph G. Brimmeier
Chief Operating Officer	Kevin F. Longenbach
Chief of Staff for Operations and Administration	Deborah L. Davis
Chief Counsel	Doreen A. McCall
Chief Engineer	Alexander R. Jansen
Chief Financial Officer	J. Blair Fishburn
Chief Information Officer	Jeffrey J. Mesaric
Director of Operations/Projects – East	Carmen J. Marrone
Director of Operations/Projects – West	Jeffrey L. Bortz
Director of Communications & Public Relations	William J. Capone
Director of Fare Collection	Richard S. DiPiero
Director of Human Resources	Patricia F. Schlegel
Director of Government Affairs	John T. Martino
Director of Maintenance	John A. Stewart
Director of Operations Review	Michael D. Begler
Director of Toll Revenue Audit	Brenda L. Szeles-Bratina

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pennsylvania Turnpike Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
May 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Fudge

President

Jeffrey R. Emer

Executive Director

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Financial Section

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Report of Independent Auditors

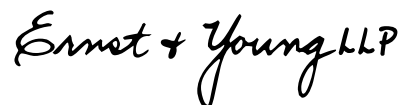
The Commissioners
Pennsylvania Turnpike Commission

We have audited the accompanying balance sheets of the Pennsylvania Turnpike Commission, a component unit of the Commonwealth of Pennsylvania, as of May 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Pennsylvania Turnpike Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Commission's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Turnpike Commission as of May 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pennsylvania Turnpike Commission's basic financial statements. The introductory section, Management Discussion and Analysis, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, Management Discussion and Analysis and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



August 4, 2006

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Pennsylvania Turnpike Commission
Management's Discussion and Analysis

May 31, 2006

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 year ended May 31, 2006, which should be read in conjunction with the Commission's basic financial statements.

Overview of the Basic Financial Statements

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

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

The statement of revenues, expenses, and changes in net assets shows the result of the Commission's total operations during the fiscal year and reflects both operating and nonoperating activities. Changes in net assets (increases or decreases) reflect the current fiscal period's operating impact upon the overall financial position of the Commission.

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

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

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Financial Analysis

Comparative Condensed Balance Sheets

	2006	May 31 2005	2004
<i>(In Thousands)</i>			
Assets			
Current assets	\$ 734,753	\$ 623,556	\$ 323,271
Long-term investments	447,092	708,758	789,107
Capital assets, net of accumulated depreciation	3,022,294	2,803,769	2,674,605
Other assets	90,013	61,407	62,264
Total assets	\$ 4,294,152	\$ 4,197,490	\$ 3,849,247
Liabilities and net assets			
Current liabilities	\$ 211,073	\$ 183,384	\$ 153,053
Bonds payable, net of unamortized premium and discount	2,392,907	2,408,199	2,188,756
Other noncurrent liabilities	23,255	12,604	13,912
Total liabilities	2,627,235	2,604,187	2,355,721
Net assets:			
Invested in capital assets, net of related debt	666,356	408,557	470,593
Restricted	830,412	1,092,830	934,108
Unrestricted	170,149	91,916	88,825
Total net assets	1,666,917	1,593,303	1,493,526
Total liabilities and net assets	\$ 4,294,152	\$ 4,197,490	\$ 3,849,247

As noted earlier, net assets serve as an indicator of the Commission's overall financial position. The Commission's total net assets were \$1,666,917,000, \$1,593,303,000, and \$1,493,526,000 as of May 31, 2006, 2005, and 2004, respectively. Restricted net assets are reserved for projects defined in trust indentures and applicable bond issue official statements.

Total assets increased by \$96.7 million and \$348.2 million in fiscal 2006 and fiscal 2005, respectively. The 2006 increase is mainly the net result of an increase of \$218.5 million in capital assets, offset by a decrease of \$154.9 million in cash and investments used to fund capital spending. Other assets also increased by \$28.6 million as a result of the defeasance of the 2001 Motor Vehicle bonds. The 2005 increase is mainly in the cash and investment (\$216.8 million) and capital assets (\$129.2 million) classifications and was the result of two events: the issuance of the 2004 Series A Revenue Bonds and the August 1, 2004 toll increase. Both events are discussed below.

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Financial Analysis (continued)

Total liabilities increased by \$23.0 million and \$248.5 million in fiscal 2006 and fiscal 2005, respectively. The fiscal 2006 increase was mostly attributable to increases in accounts payable and contract retention resulting from the higher levels of capital spending in the current fiscal year. The fiscal 2005 increase was mostly attributable to the issuance of the 2004 Series A Revenue Bonds, which resulted in a \$230.9 million increase in the bonds and bonds interest payable categories.

Comparative Statements of Revenues and Expenses

	Year ended May 31		
	2006	2005	2004
	<i>(In Thousands)</i>		
Operating:			
Operating revenues	\$ 612,408	\$ 571,474	\$ 427,778
Cost of services	(365,418)	(270,706)	(237,385)
Depreciation	(214,885)	(211,401)	(229,548)
Operating income (loss)	32,105	89,367	(39,155)
Nonoperating revenues (expenses):			
Oil company franchise tax revenues	55,749	51,551	47,062
Motor license registration fee revenue	28,000	28,000	28,000
Investment earnings	60,506	38,927	30,901
Other nonoperating revenues	1,789	658	1,453
Interest and bond expense	(127,565)	(118,373)	(120,895)
Nonoperating income	18,479	763	(13,479)
Change in net assets before capital contributions	50,584	90,130	(52,634)
Capital contributions	23,030	9,647	14,787
Change in net assets	\$ 73,614	\$ 99,777	\$ (37,847)

For fiscal years ended May 31, 2006, 2005, and 2004, operating and nonoperating revenues totaled \$758,452,000, \$690,610,000, and \$535,194,000, respectively, while expenses totaled \$707,868,000, \$600,480,000, and \$587,828,000, respectively.

Total revenues for fiscal 2006 were \$67.8 million higher than prior year with increases in net fare revenue of \$43.5 million, which was the result of having the August 1, 2004 toll rate schedule in effect for the full year versus ten months in the prior year and a \$26.9 million increase in nonoperating income. Total expenses were \$107.4 million higher than fiscal 2005. Cost of services increased by \$94.7 million, depreciation expense

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Financial Analysis (continued)

by \$3.5 million, and interest and bond expenses by \$9.2 million. The increase in cost of services was mostly related to non-capitalizable projects for maintaining the road and facilities, which increased by \$76.2 million or 167%. Depreciation expense increased \$3.5 million over the prior year, compared with a decrease of \$18.1 million from 2004 to 2005. Total capital additions during the fiscal year were more than \$440 million, compared with \$341 million of additions in 2005.

For fiscal 2006, nonoperating income was \$146.0 million, which was \$26.9 million higher than the \$119.1 million in fiscal 2005. This increase is attributable to a \$21.6 million or 55.4% increase in investment income and a \$4.2 million or 8.1% increase in Oil Company Franchise Tax revenues. Interest and bond expenses increased by \$9.2 million, netting to an increase of \$17.7 million in nonoperating revenue and expenses combined. The increase in interest and bond expenses results from the defeasance of the 2001 Registration Fee bonds by the 2005 Registration Fee bonds. The improvement in investment income was the result of a \$26.3 million increase in interest income, offset by a decrease of \$5.8 million in the fair value of investments. This increase is the result of funds invested in State and Local Government Series (SLGS) to lock in favorable interest rates when available while maintaining necessary liquidity in order to reduce certain amounts of negative arbitrage that currently exist in various construction funds.

Total revenues for fiscal 2005 were \$150.3 million higher than prior year with most of the additional revenues coming from a toll increase. On August 1, 2004, the Commission increased its toll rates for the first time in 13 years. The new toll rates were established to match the rate of inflation over the past 13 years with passenger and commercial rates increasing an average of 1.8 and 5.3 cents per mile, respectively. The additional earnings from the new rates will go to capital improvements and reconstruction of the Turnpike and will allow the Commission to double its rate of capital spending over the next 10 years. The toll increase had a favorable impact on the Commission's fiscal 2005 operating results with operating revenues increasing \$143.7 million or 33.6% over the prior year. This increase was mostly related to a \$136.4 million increase in net fare revenue, which exceeded projections by \$46 million. The fiscal 2005 operating revenue increase more than offset the \$33.3 million, or 14.0%, increase in cost of services. The increase in cost of services was related to non-capitalizable projects for maintaining the road and facilities. The net result was a \$128.5 million increase in operating income over prior year.

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Financial Analysis (continued)

The increases in operating revenues and cost of services in fiscal 2005 netted to a 58% increase in operating income before depreciation. Although \$335.2 million of capital assets were added to the depreciable base during the fiscal year ended May 31, 2005, there was a decrease of \$18.1 million in depreciation expense from the prior year because other assets were fully depreciated.

For fiscal 2005, nonoperating income was \$10.4 million, which was \$9.1 million higher than the \$1.3 million in fiscal 2004. This increase is mostly attributable to an \$8.0 million or 26.0% increase in investment income, a \$4.5 million or 9.5% increase in Oil Company Franchise Tax revenues, and a \$2.5 million or 2.1% decrease in interest and bond expenses. The improvement in investment income was the result of a \$0.4 million increase in fair value of investments versus an \$11.1 million decrease in fiscal 2004. The above increases were partially offset by a \$5.1 million decrease in federal and state grants and reimbursements.

Capital Assets and Debt Administration

Capital Assets

The Commission's investment in capital assets as of May 31, 2006 amounted to \$6.2 billion of gross asset value with accumulated depreciation of \$3.2 billion, leaving a net book value of \$3.0 billion. This investment represents more than 70% of the Commission's total assets, up from 66% in fiscal 2005. Capital assets consist of land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are typically items that are immovable such as highways, bridges, and tunnels. The net book value of capital assets at May 31, 2005 was \$2.8 billion.

The implementation of the August 2004 toll increase has enabled the Commission to begin work on a number of projects that had previously been placed on hold. During fiscal years 2006 and 2005, the Commission spent \$386.7 million and \$257.4 million, respectively, on capital and maintenance projects to the existing mainline system. The Commission also spent \$154.2 million and \$121.8 million during fiscals 2006 and 2005 respectively, on Mon-Fayette Expressway and Southern Beltway roadway expansion (Act 61) projects.

Construction in progress at the end of fiscal 2006 was \$876 million, which was \$371 million higher than the fiscal 2005 amount of \$505 million. The increase in construction in progress was the result of increased spending on projects that were not

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

completed at year end. In fiscal 2006, \$42 million of constructed capital assets were completed which was \$284 million less than the \$326 million of constructed capital assets that were completed in fiscal 2005. In addition to constructed capital assets, the Commission made capital asset acquisitions totaling more than \$28 million and \$15 million in fiscal 2006 and 2005, respectively.

Total reconstruction of the east/west mainline and northeast extension continues to be a main priority for the Commission. This work includes full depth reconstruction of the roadway, widening of the median, and replacement of both mainline and overhead bridges and is estimated to cost between \$8 and \$10 million per mile. To date, approximately 45 miles of this project have been completed and approximately 20 miles are currently in construction. The Commission also completed 29 miles of roadway repaving which, in addition to the total reconstruction project, has allowed the Commission to maintain a quality-riding surface, which was confirmed with a system wide median IRI (International Roughness Index) of 83.

Work continues on the Susquehanna River bridge replacement. Bridge replacements will follow on the Lehigh River and Pohopoco River bridges and the Trout Run Bridge on the northeast extension.

The Commission continues to expand and enhance the electronic toll collection system that includes E-ZPass capability. As part of this effort, the current toll equipment supporting the mainline system will be replaced with PC-based lane controllers and 330 lanes will be retrofitted with the new controllers. Currently, all interchanges on the mainline (I-76/I-70) and northeast extension (I-476) are equipped with E-ZPass. Installation of electronic toll collection systems, including E-ZPass, is currently underway on the Amos K. Hutchinson Expressway (Turnpike 66) and is expected to be completed in summer of 2007. Installation of this equipment is scheduled to begin on the Beaver Valley Expressway (Turnpike 60) in summer of 2006.

Current toll plaza projects in process include the replacement of the Gettysburg, Harrisburg East, Lebanon/Lancaster, and Norristown interchanges. Funding of approximately \$282 million has been budgeted to repair and replace the aging facilities of the Commission. Purchases of equipment and vehicles ensure that an aging fleet of dump trucks and other equipment is replaced in a systematic manner so that maintenance staff will be properly equipped to maintain the roadway. The infrastructure program includes \$78 million over the next ten years for equipment.

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

Approximately one-half of the 70-mile Mon-Fayette Expressway project is open and operating. Phase 1 of the Uniontown to Brownsville project, an 8.4-mile section from Pittsburgh Road to US 40, is now under construction and anticipated to open to traffic in 2009. Phase 2 of the Uniontown to Brownsville project, a 7-mile section, will complete the Mon/Fayette Expressway from the West Virginia line in Fayette County to PA 51 in Washington County. Phase 2 will be bid as soon as resources are allocated to the project. Preliminary design for the section from PA Route 51 to Interstate 376 in Pittsburgh has begun and is anticipated to be completed late in the 2006 calendar year.

The proposed Southern Beltway is planned to be constructed in three sections from the Mon/Fayette Expressway, near Finleyville, extending as part of the beltway south of Pittsburgh, to PA Route 60 at the Pittsburgh International Airport. Construction of the Findlay Connector portion of the Southern Beltway project that will connect the Pittsburgh International Airport to PA Route 22 is continuing and is expected to be completed and open for traffic in the fall of 2006. The Southern Beltway sections from US 22 to I-79 and I-79 to the Mon Fayette Expressway are currently in the environmental study phase.

A federal Environmental Impact Record of Decision was issued for the I-95 Turnpike interchange project in late 2004, and final design for the project has been initiated.

The above paragraphs describe the changes in capital assets occurring during the fiscal year. Please refer to the capital assets section in the notes to the financial statements (Note 5) for more detailed capital asset schedules.

Debt Administration

In August 2005, the Commission issued Series A, B, C, and D of 2005 Registration Fee Revenue Bonds in the amount of \$465,560,000. The 2005 Series Bonds were issued primarily to defease the Commission's Series 2001 Registration Fee Revenue Bonds. The Commission expects to realize a \$33.6 million reduction in its debt service requirements through 2041 as a result of this defeasance. The Series A bonds are fixed rate bonds and were issued in the amount of \$234,135,000. Series B, C, and D are variable rates bonds and were issued in the amounts of \$77,140,000, \$77,140,000, and \$77,145,000, respectively. Additionally, the Commission entered into swap agreements with four counterparties, with a total notional value of \$231,425,000.

Pennsylvania Turnpike Commission

Management's Discussion and Analysis (continued)

Capital Assets and Debt Administration (continued)

Debt Administration (continued)

In May 2006, the Commission entered into amended Forward Starting Interest Rate Swap Agreements (2006 agreements) with three swap providers (counterparties). The 2006 agreements amend 2004 agreements with the same three counterparties and were issued as a hedge for the projected June 2008 issuance of Series A of 2008 Mainline Revenue Bonds. The notional amount of each swap agreement is \$100 million, for a combined total of \$300 million. As a result of these swap agreements, the Commission anticipates issuing variable rate bonds and swap the interest rate to a synthetic fixed interest rate of 4.887%.

The above paragraphs describe debt and swap activity occurring during the fiscal year. Please refer to the bonds payable and commitments and contingencies sections in the notes to the financial statements (Notes 6 and 8) for more detailed schedules and descriptions of long-term debt and swap activity.

Events That Will Impact Financial Position

On June 22, 2006, the Commission issued Series A, B, and C of 2006 Mainline Revenue Bonds in the amount of \$353,865,000. The bonds are payable in varying installments through December 1, 2026. The bonds were issued to fund various capital projects through 2016 as set forth in the Commission's Ten Year Capital Plan.

A strategic plan is utilized to guide and establish actions to be executed by staff to ensure that the organization stays focused on its strategic objectives and its stated organizational vision and mission. All capital projects are reviewed to ensure that the primary focus of all capital spending is consistent with, and supports, the strategic plan.

The Commission's Highway Long Range Plan documents roadway condition assessments and overall highway priorities for maintaining and improving the quality and safety of all roadways, bridges, tunnels, and interchanges, and it is utilized to guide staff in updating the highway portion of the capital plan and measuring progress. As part of this plan, the Commission updated its mainline capacity needs analysis. The capacity analysis identified needs through 2025 and projects deficiencies through this time period. A toll collection long-range planning effort was initiated to outline the long-term needs and goals for the future of the Commission's toll collection efforts consistent with the vision of establishing a non-stop free-flowing toll road system. Funding is in the capital plan to undertake a facilities long-range master plan for the Commission's maintenance facilities system wide. These efforts will enhance the capital planning efforts to ensure the future physical integrity of the Commission's toll road system.

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Pennsylvania Turnpike Commission

Balance Sheets

	May 31	
	2006	2005
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 340,835	\$ 295,445
Short-term investments	335,475	274,060
Accounts receivable	33,558	30,948
Accrued interest receivable	6,561	6,139
Inventories	18,324	16,964
Total current assets	<u>734,753</u>	<u>623,556</u>
Noncurrent assets:		
Long-term investments	447,092	708,758
Capital assets:		
Land	156,816	138,148
Buildings	651,848	643,545
Improvements other than buildings	56,604	54,547
Equipment	305,176	300,191
Infrastructure	4,129,467	4,109,222
Construction in progress	875,755	505,358
	<u>6,175,666</u>	<u>5,751,011</u>
Less accumulated depreciation	3,153,372	2,947,242
	<u>3,022,294</u>	<u>2,803,769</u>
Other assets:		
Other assets	66,587	37,018
Deferred bond issuance costs	23,426	24,389
Total other assets	<u>90,013</u>	<u>61,407</u>
Total noncurrent assets	<u>3,559,399</u>	<u>3,573,934</u>
Total assets	<u>\$ 4,294,152</u>	<u>\$ 4,197,490</u>

	May 31	
	2006	2005
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 138,960	\$ 119,273
Current portion of bonds payable	52,660	48,260
Unearned income	19,453	15,851
Total current liabilities	<u>211,073</u>	<u>183,384</u>
Noncurrent liabilities:		
Bonds payable, less current portion, net of unamortized premium of \$34,957 and \$4,499 in 2006 and 2005, respectively	2,392,907	2,408,199
Other noncurrent liabilities	23,255	12,604
Total noncurrent liabilities	<u>2,416,162</u>	<u>2,420,803</u>
Total liabilities	<u>2,627,235</u>	<u>2,604,187</u>
Net assets:		
Invested in capital assets, net of related debt	666,356	408,557
Restricted for certain construction and maintenance purposes	830,412	1,092,830
Unrestricted	170,149	91,916
Total net assets	<u>1,666,917</u>	<u>1,593,303</u>
Total liabilities and net assets	<u><u>\$ 4,294,152</u></u>	<u><u>\$ 4,197,490</u></u>

See accompanying notes.

Pennsylvania Turnpike Commission

Statements of Revenues, Expenses, and Changes in Net Assets

	Year ended May 31	
	2006	2005
	<i>(In Thousands)</i>	
Operating revenues:		
Fares – net of discounts of \$18,771 and \$15,971 for the years ended May 31, 2006 and 2005, respectively	\$ 588,637	\$ 545,158
Other	23,771	26,316
	612,408	571,474
Operating expenses:		
Cost of services	365,418	270,706
Depreciation	214,885	211,401
	580,303	482,107
Operating income	32,105	89,367
Nonoperating revenues (expenses):		
Oil company franchise tax revenues	55,749	51,551
Motor license registration fee revenue	28,000	28,000
Investment earnings	60,506	38,927
Other nonoperating revenues	1,789	658
Interest and bond expenses	(127,565)	(118,373)
	18,479	763
Change in net assets before capital contributions	50,584	90,130
Capital contributions	23,030	9,647
Change in net assets	73,614	99,777
Net assets at beginning of year	1,593,303	1,493,526
Net assets at end of year	\$ 1,666,917	\$ 1,593,303

See accompanying notes.

Pennsylvania Turnpike Commission

Statements of Cash Flows

	Year ended May 31	
	2006	2005
	<i>(In Thousands)</i>	
Operating activities		
Cash received from tolls/customers	\$ 663,058	\$ 603,181
Cash payments for goods and services	(246,022)	(145,596)
Cash payments to employees	(153,889)	(144,533)
Cash received from other operating activities	14,468	13,983
Net cash provided by operating activities	<u>277,615</u>	<u>327,035</u>
Investing activities		
Proceeds from sales and maturities of investments, excluding cash equivalents	19,498,979	12,732,039
Interest received on investments	64,262	41,255
Purchases of investments	(19,304,680)	(12,877,737)
Net cash provided by (used in) investing activities	<u>258,561</u>	<u>(104,443)</u>
Capital and related financing activities		
Capital grants received	15,878	8,896
Acquisition of capital assets	(426,220)	(351,467)
Proceeds from sale of capital assets	2,019	1,072
Payments for bond expenses	(4,708)	(4,946)
Payments for redemption of revenue bonds	(531,594)	(44,160)
Interest paid on bonds	(117,687)	(111,349)
Proceeds from new bonds	487,790	267,332
Net cash used in capital and related financing activities	<u>(574,522)</u>	<u>(234,622)</u>
Noncapital financing activities		
Cash proceeds from motor license grant	28,000	28,000
Cash proceeds from oil company franchise tax	55,736	51,020
Net cash provided by noncapital financing activities	<u>83,736</u>	<u>79,020</u>
Increase in cash and cash equivalents	45,390	66,990
Cash and cash equivalents at beginning of year	295,445	228,455
Cash and cash equivalents at end of year	<u>\$ 340,835</u>	<u>\$ 295,445</u>

Continued on the following page – see accompanying schedule of reconciliation.

Pennsylvania Turnpike Commission

Statements of Cash Flows (continued)

	Year ended May 31	
	2006	2005
	<i>(In Thousands)</i>	
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 32,105	\$ 89,367
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	214,885	211,401
Change in operating assets and liabilities:		
Accounts receivable, net of nonoperating receivables	(1,817)	(7,630)
Inventories	(1,360)	(188)
Other assets	(225)	-
Accounts payable and accrued liabilities, excluding interest and bond expense payables	29,358	35,376
Other noncurrent liabilities	4,669	(1,291)
Net cash provided by operating activities	<u>\$ 277,615</u>	<u>\$ 327,035</u>

Noncash Activities

The Commission recorded a decrease of \$5.4 million and an increase of \$0.4 million in the fair value of its investments for the years ended May 31, 2006 and 2005, respectively.

See accompanying notes.

Pennsylvania Turnpike Commission

Notes to Financial Statements

May 31, 2006

1. Financial Reporting Entity

The Pennsylvania Turnpike Commission (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 (Commonwealth).

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

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

2. Summary of Significant Accounting Policies

Application of FASB Pronouncements

The Commission has elected not to apply any FASB statements or interpretations issued after November 30, 1989.

Basis of Accounting

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

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.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Investments

Investments are stated at fair value with the exception of certain nonparticipating contracts such as repurchase agreements, which are reported at cost. Fair values are based on published market rates.

Capital Assets

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 cost 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. The following lives are used:

Buildings	10 – 40 years
Improvements	15 – 20 years
Machinery and equipment	3 – 40 years
Infrastructure	20 – 50 years

Inventories

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

Bond Premium/Discount and Issuance Costs

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

Unearned Income

E-ZPass customers of the Turnpike 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.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Operating Revenues

Revenues associated with operations of the toll road 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.

Fare Revenues

Fare revenues are recognized when vehicles exit the Turnpike System. As of May 31, 2006 and 2005, approximately 51% and 44%, respectively, of the fare revenues were realized through electronic toll collection; the remainder was realized through cash collection or a credit card program for commercial vehicles.

Operating Expenses

Operating expenses relate directly to operating and maintaining the toll road. 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: salaries, wages, benefits, and purchased services, along with 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.

Compensated Absences

Sick leave is earned at a rate of 3.08 hours every two weeks, or ten days per year. Unused sick leave may be carried over from year to year up to a maximum of 18 days. In November of each year, employees are reimbursed for all accumulated unused sick leave above the maximum. Sick leave payouts were \$1,719,780 and \$1,649,288 in November 2005 and 2004, respectively.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Compensated Absences (continued)

Vacation leave is earned at varying rates, depending on years of service. Management employees earn between 4.62 and 8.93 hours every two weeks. Union employees earn between 2.16 and 8.93 hours every two weeks.

Upon termination of employment, all unused sick and vacation leave is paid to the employee. Accrued vacation and sick leave liabilities were \$15,001,536 and \$12,951,096 as of May 31, 2006 and 2005, respectively, and are classified as current liabilities.

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 are recorded as nonoperating revenue and totaled \$55.7 million and \$51.6 million for the fiscal years ended May 31, 2006 and 2005, respectively. These revenues are kept in a separate fund as required by the applicable bond indenture. This fund's assets equaled \$679.4 million and \$647.2 million as of May 31, 2006 and 2005, respectively, and consisted essentially of cash and investments.

Motor License Registration Fee Revenues

The Commission received \$28.0 million in grants during each of the fiscal years ended May 31, 2006 and 2005 from the Commonwealth's Motor License Fund. The revenue from these grants has been recorded as nonoperating revenue. The Commission has elected to account for this grant in a separate fund. This fund's assets totaled \$456.9 million and \$412.5 million as of May 31, 2006 and 2005, respectively.

Capital Contributions

The Commission receives grants from other governments for reimbursement of costs for various highway construction projects. During the years ended May 31, 2006 and 2005, the Commission received \$20.7 million and \$9.6 million, respectively, in reimbursements from federal and state governments.

The Commission received donations of land from various sources to assist in the construction of a portion of the Southern Beltway known as the Findlay Connector. The donated land was recorded as capital contributions. For the year ended May 31, 2006, the Commission received donated land with total fair values of \$2.3 million.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Derivatives

The Commission enters into various interest rate swaps in order to manage risks associated with interest on its bond portfolio. As currently allowed under accounting principles generally accepted in the United States, the Commission does not record the fair value or changes in the fair value of interest rate swaps in its financial statements. See Note 8 for relevant disclosures.

Reclassifications

Certain prior year amounts were reclassified to conform to the current year presentation.

3. Indenture Requirements and Restrictions

The Commission's revenue bonds have been issued under the provisions of a Trust Indenture, dated July 1, 1986, which was amended and restated as of March 1, 2001; a Trust Indenture dated August 1998 (1998 Indenture), which was amended as of August 1, 2003; a Trust Indenture dated July 1, 2001, which was defeased in August 2005; and a Trust Indenture dated August 1, 2005 (collectively referred to as the Indentures) between the Commission and the Trustees (Wachovia Bank and U.S. Bank Corp.). Accordingly, certain activities of the Commission are restricted by the Indentures.

The Commission is required to maintain certain accounts with the Trustees as specified by the Indentures. Funds maintained in such accounts are restricted to use for construction, Turnpike System maintenance and operation, and debt service. Nonrestricted funds of \$170.1 million and \$91.9 million represent residual amounts after all mandatory transfers have been made as required by the Indentures and were included in cash, investments, and accounts receivable at May 31, 2006 and 2005, respectively. See Notes 4 and 6 for additional disclosures.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

4. Cash and Investments

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

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

	Total Bank Balance	Total Book Balance
	<i>(In Thousands)</i>	
May 31, 2006		
Demand deposits	\$ 204,664	\$ 192,831
May 31, 2005		
Demand deposits	\$ 167,654	\$ 171,453

The Indentures permit investments in obligations of, or guaranteed by, the United States of America, its agencies, and its instrumentalities (United States Government obligations); certificates of deposit issued by institutions insured by the FDIC or fully collateralized with United States Government obligations; investment agreements with certain financial institutions; commercial paper and asset-backed securities rated in the highest category by applicable rating agencies; money market funds and auction rate certificates rated in one of the two highest categories by applicable rating agencies; corporate bonds and medium term notes with a minimum rating of AA-; investments in long-term debt obligations of any state or political subdivision but only to the extent that the applicable rating agency has assigned a rating to such obligations, which at the time of purchase is not lower than the highest underlying rating assigned to any series of Commission bonds then outstanding; and repurchase agreements with banks or primary government dealers reporting to the Federal Reserve Bank of New York collateralized with obligations of, or guaranteed by, the United States of America. The indentures also require that no investment have an original maturity greater than 15 years.

Bond 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.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

4. Cash and Investments (continued)

The Commission has an investment policy that its external money managers must follow. The policy is consistent with the indentures regarding permitted investments; however, it imposes the following additional limitations:

- Investments in government agencies are limited to 35% of the portfolio.
- Investments in certificates of deposit and investment agreements are limited to 30% of the portfolio.
- Investments in commercial paper, corporate bonds, and asset-backed securities, in aggregate, are limited to 35% of the 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.

Credit Risk

The Commission's exposure to credit risk as of May 31, 2006 is as follows:

Debt Investments	Fair Value	Quality Ratings			
		AAA	AA	A-1	*Unrated
<i>(In Thousands)</i>					
Government agency securities	\$ 552,956	\$ 431,700	\$ —	\$ —	\$ 121,256
Corporate obligations	94,382	10,913	20,329	63,140	—
Municipal bonds	20,692	20,692	—	—	—
Guaranteed investment contracts	16,665	—	—	—	16,665

*Unrated debt investments are securities that are not rated by the NRSROs.

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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

4. Cash and Investments (continued)

Concentration of Credit Risk

As of May 31, 2006, the Commission had investments of more than 5% of its consolidated portfolio with the following issuers:

Issuer	Total Investments	Percent of Total
	<i>(In Thousands)</i>	
Federal National Mortgage Association	\$ 167,960	18.0%
Federal Home Loan Bank	174,073	18.7%
Federal Home Loan Mortgage Corporation	169,286	18.2%

Interest Rate Risk

The Commission manages interest rate risk through weighted average maturity (WAM). Weighted average maturity is calculated taking into consideration call dates, prepayment assumptions, and other features that affect the actual maturity dates of the securities in the consolidated portfolios. On May 31, 2006, the Commission's WAM was as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
	<i>(In Thousands)</i>	
U.S. Treasuries and GNMA mortgages	\$ 97,872	1.813
Government agency security	552,956	1.242
Repurchase agreements	148,004	0.016
Municipal bonds	20,692	17.859
Guaranteed investment contracts	16,665	0.500
Corporate bonds	94,382	0.769
Total investment securities and cash equivalents	<u>\$ 930,571</u>	1.415

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

4. Cash and Investments (continued)

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

	May 31	
	2006	2005
	<i>(In Thousands)</i>	
U.S. Treasuries and GNMA Mortgages	\$ 97,872	\$ 399,154
Government agency securities	552,956	411,945
Municipal bonds	20,692	45,668
Corporate obligations	94,382	92,208
Repurchase agreements	148,004	123,992
Guaranteed investment income contracts	16,665	33,843
Total investment securities and cash equivalents	930,571	1,106,810
Demand deposits	192,831	171,453
Total cash and cash equivalents and investments	\$ 1,123,402	\$ 1,278,263

5. Capital Assets

For the fiscal year ended May 31, 2005, \$0.9 million of net interest costs were capitalized and included in capital assets. The amount capitalized includes interest costs of \$6.8 million offset by \$5.9 million of interest earned during the year ended May 31, 2005 on related investments acquired with revenue bond proceeds. No interest costs were capitalized for the fiscal year ended May 31, 2006.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

5. Capital Assets (continued)

A summary of changes to capital assets for the years ended May 31, 2006 and 2005 is as follows:

	Balance June 1, 2005	Additions	Transfers	Retirements	Balance May 31, 2006
<i>(In Thousands)</i>					
Capitalized assets not being depreciated (cost)					
Land	\$ 138,148	\$ 18,948	\$ -	\$ 280	\$ 156,816
Construction in progress	505,358	412,313	(41,916)	-	875,755
Total capital assets not being depreciated	<u>643,506</u>	<u>431,261</u>	<u>(41,916)</u>	<u>280</u>	<u>1,032,571</u>
Capitalized assets being depreciated (cost)					
Buildings	643,545	-	8,303	-	651,848
Improvements	54,547	-	2,057	-	56,604
Machinery and equipment	300,191	9,422	4,779	9,216	305,176
Infrastructure	4,109,222	-	26,777	6,532	4,129,467
Total capital assets being depreciated	<u>5,107,505</u>	<u>9,422</u>	<u>41,916</u>	<u>15,748</u>	<u>5,143,095</u>
Less accumulated depreciation for:					
Buildings	180,182	18,031	-	-	198,213
Improvements	36,794	2,428	-	-	39,222
Machinery and equipment	234,681	17,035	-	8,755	242,961
Infrastructure	2,495,585	177,391	-	-	2,672,976
Total accumulated depreciation	<u>2,947,242</u>	<u>214,885</u>	<u>-</u>	<u>8,755</u>	<u>3,153,372</u>
Total capital assets being depreciated, net	<u>2,160,263</u>	<u>(205,463)</u>	<u>41,916</u>	<u>6,993</u>	<u>1,989,723</u>
Total capital assets	<u>\$ 2,803,769</u>	<u>\$ 225,798</u>	<u>\$ -</u>	<u>\$ 7,273</u>	<u>\$ 3,022,294</u>

	Balance June 1, 2004	Additions	Transfers	Retirements	Balance May 31, 2005
<i>(In Thousands)</i>					
Capitalized assets not being depreciated (cost)					
Land	\$ 132,277	\$ 6,103	\$ -	\$ 232	\$ 138,148
Construction in progress	505,778	325,820	(326,240)	-	505,358
Total capital assets not being depreciated	<u>638,055</u>	<u>331,923</u>	<u>(326,240)</u>	<u>232</u>	<u>643,506</u>
Capitalized assets being depreciated (cost)					
Buildings	638,979	-	4,566	-	643,545
Improvements	53,486	-	1,061	-	54,547
Machinery and equipment	291,241	8,133	1,447	630	300,191
Infrastructure	3,789,194	862	319,166	-	4,109,222
Total capital assets being depreciated	<u>4,772,900</u>	<u>8,995</u>	<u>326,240</u>	<u>630</u>	<u>5,107,505</u>
Less accumulated depreciation for:					
Buildings	162,330	17,852	-	-	180,182
Improvements	34,457	2,337	-	-	36,794
Machinery and equipment	207,874	27,316	-	509	234,681
Infrastructure	2,331,689	163,896	-	-	2,495,585
Total accumulated depreciation	<u>2,736,350</u>	<u>211,401</u>	<u>-</u>	<u>509</u>	<u>2,947,242</u>
Total capital assets being depreciated, net	<u>2,036,550</u>	<u>(202,406)</u>	<u>326,240</u>	<u>121</u>	<u>2,160,263</u>
Total capital assets	<u>\$ 2,674,605</u>	<u>\$ 129,517</u>	<u>\$ -</u>	<u>\$ 353</u>	<u>\$ 2,803,769</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable

Bonds payable consist of the following:

	May 31	
	2006	2005
	<i>(In Thousands)</i>	
Revenue bonds payable:		
1998 Series Q: Issued \$53,000 in July 1998 at a variable rate, due in varying installments through June 1, 2028	\$ 53,000	\$ 53,000
2001 Series R: Issued \$186,025 in March 2001 at 5.00%, due in varying installments through December 1, 2030	186,025	186,025
2001 Series S: Issued \$244,925 in May 2001 at 3.40% to 5.60%, due in varying installments through June 1, 2015	191,190	205,545
2001 Series T: Issued \$86,660 in September 2001 at 4.10% to 5.50%, due in varying installments through December 1, 2013	80,200	82,460
2001 Series U: Issued \$169,820 in September 2001 at a variable rate, due in varying installments through December 1, 2019	169,820	169,820
2002 Series A: Issued \$288,265 in September 2002 at a variable rate, due in varying installments through December 1, 2030	288,265	288,265
2002 Series B: Issued \$160,880 in September 2002 at a variable rate, due in varying installments through December 1, 2012	102,380	118,450
2004 Series A: Issued \$269,245 in June 2004 at 5.00% to 5.50%, due in varying installments through December 1, 2034	269,245	269,245
Total revenue bonds payable	1,340,125	1,372,810
Tax revenue bonds payable:		
1998 Series A and B Oil Company Franchise Tax Revenue: Issued \$538,880 in August 1998 at 3.85% to 5.50%, partially defeased in July 2003, due in varying installments through December 1, 2027	145,675	149,910
2003 Series A and B Oil Company Franchise Tax Revenue: Issued \$322,685 in August 2003 at 2.50% to 5.50%, due in varying installments through December 1, 2032	299,250	305,975
2003 Series C Oil Company Franchise Tax Multi-Modal Revenue: Issued \$160,000 in August 2003 at a variable rate, due in varying installments through December 1, 2032	160,000	160,000
Total tax revenue bonds payable	604,925	615,885
Registration fee revenue bonds payable:		
2001 Series: Issued \$476,065 in July 2001 at 3.00% to 5.50%, due in varying installments through July 15, 2041	–	463,265
2005 Series A: Issued \$234,135 in August 2005 at 3.25% to 5.25%, due in varying installments through July 15, 2030	234,135	–
2005 Series B, C, and D: Issued \$231,425 in August 2005 at a variable rate, due in varying installments through July 15, 2041	231,425	–
Total registration fee revenue bonds payable	465,560	463,265
Unamortized premium	34,957	4,499
Less current portion	2,445,567	2,456,459
	52,660	48,260
	\$ 2,392,907	\$ 2,408,199

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

As disclosed in Note 3, the Commission's Trust Indentures impose certain restrictions and requirements. The Amended and Restated Trust Indenture of 2001 requires that tolls be adequate to provide funds to cover current expenses and (1) provide funds in an amount not less than the greater of 130% of the maximum principal and interest requirements for the succeeding year, or (2) 100% of the maximum principal and interest payments for the next fiscal year plus the amount required for maintenance of the Turnpike System as determined by the Commission's Consulting Engineer. If any deficiencies occur, the Commission is authorized to raise tolls appropriately.

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, amended August 1, 2003; and (4) all investment earnings on all monies held in accounts and funds established by the 1998 Indenture, amended August 1, 2003.

The 1998 Indenture, amended August 1, 2003, requires the Commission to petition the General Assembly of the Commonwealth of Pennsylvania for additional funds in the event that the Commission's allocation of the Oil Company Franchise Tax is inadequate to pay maximum principal and interest payments for the succeeding year.

Pursuant to Section 20 of Act 3, the Commonwealth appropriates \$28,000,000 of Act 3 revenues to the Commission annually. The \$28,000,000 is payable to the Commission in the amount of \$2,333,333 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.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

Changes in bonds payable are as follows:

	Balance at June 1, 2005	Additions	Reductions	Balance at May 31, 2006	Due Within One Year
	<i>(In Thousands)</i>				
Revenue bonds payable	\$ 1,372,810	\$ -	\$ 32,685	\$ 1,340,125	\$ 34,300
Tax revenue bonds payable	615,885	-	10,960	604,925	11,335
Registration fee bonds payable	463,265	465,560	463,265	465,560	7,025
	<u>2,451,960</u>	<u>465,560</u>	<u>506,910</u>	<u>2,410,610</u>	<u>52,660</u>
Bond premium (discount)	4,499	25,897	(4,561)	34,957	-
	<u>\$ 2,456,459</u>	<u>\$ 491,457</u>	<u>\$ 502,349</u>	<u>\$ 2,445,567</u>	<u>\$ 52,660</u>

	Balance at June 1, 2004	Additions	Reductions	Balance at May 31, 2005	Due Within One Year
	<i>(In Thousands)</i>				
Revenue bonds payable	\$ 1,132,655	\$ 269,245	\$ 29,090	\$ 1,372,810	\$ 32,685
Tax revenue bonds payable	626,485	-	10,600	615,885	10,960
Registration fee bonds payable	467,735	-	4,470	463,265	4,615
	<u>2,226,875</u>	<u>269,245</u>	<u>44,160</u>	<u>2,451,960</u>	<u>48,260</u>
Bond premium (discount)	6,041	(528)	1,014	4,499	-
	<u>\$ 2,232,916</u>	<u>\$ 268,717</u>	<u>\$ 45,174</u>	<u>\$ 2,456,459</u>	<u>\$ 48,260</u>

The issuance of new bonds is conducted in accordance with the terms of the applicable trust indenture and approval of the Commissioners.

In August 2005, the Commission issued Series A, B, C, and D of 2005 Registration Fee Revenue Bonds in the total amount of \$465,560,000. The 2005 Series bonds were issued primarily to defease the Commission's Series 2001 Registration Fee Revenue Bonds. The reacquisition price exceeded the net carrying amount of the Series 2001 Registration Fee Revenue Bonds by \$33,525,347. This amount is being amortized over the life of the 2005 Series bonds. This advance refunding was undertaken to reduce total debt service payments over the next 35 years by \$33,561,245 and resulted in an economic gain of \$19,967,984. The Series A bonds are fixed rate bonds and were issued in the amount of \$234,135,000. Series B, C, and D are variable rate bonds and were issued in the amounts of \$77,140,000, \$77,140,000, and \$77,145,000, respectively.

In June 2004, the Commission issued \$269.2 million in Series A Revenue Bonds. The bonds were issued with interest rates from 5.00% to 5.50% and are payable in varying installments maturing December 1, 2034.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

In prior years as well as the current year, 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, 2006 and 2005, the Commission had \$862.2 million and \$414.2 million, respectively, of defeased bonds outstanding.

Debt service requirements subsequent to May 31, 2006 are as follows:

<u>Year ending May 31</u>	<u>Principal Maturities</u>	<u>Interest</u>	<u>Total</u>
	<i>(In Thousands)</i>		
2007	\$ 52,660	\$ 103,933	\$ 156,593
2008	53,070	101,858	154,928
2009	55,505	99,656	155,161
2010	58,055	97,432	155,487
2011	60,755	94,978	155,733
2012 – 2016	357,070	426,630	783,700
2017 – 2021	351,000	344,517	695,517
2022 – 2026	381,795	268,612	650,407
2027 – 2031	446,405	177,229	623,634
2032 – 2036	454,470	68,715	523,185
2037 – 2041	113,910	14,751	128,661
2042 – 2043	25,915	450	26,365
	<u>\$ 2,410,610</u>	<u>\$ 1,798,761</u>	<u>\$ 4,209,371</u>

Interest on the following bonds: 2001 Series R, 2001 Series S, 2001 Series T, 2004 Series A, 1998 Series A and B Oil Company Franchise Tax Revenue, and 2003 Series A and B Oil Company Franchise Tax Revenue is payable semiannually on June 1 and December 1 of each year. Interest on the 1998 Series Q Revenue Bonds, Series U Revenue Bonds, and 2002 Series A and B Revenue Bonds is payable the first of every month. Interest on the 2003 Series C Oil Company Franchise Tax Revenue bonds is payable every seven days for Subseries C-1 and C-2 and every 35 days for Subseries C-3 and C-4. Interest on the 2005 Series A Registration Fee Revenue Bonds is payable semiannually on January 15 and July 15 of each year. Interest on the 2005 Series B, C, and D Registration Fee Revenue Bonds is payable on the 15th of every month.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

6. Bonds Payable (continued)

Debt service requirements subsequent to May 31, 2006 related to the 1998 Series A and B Oil Company Franchise Tax Revenue Bonds and the 2003 Series A, B, and C Oil Company Franchise Tax Revenue Bonds only are as follows:

Year ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2007	\$ 11,335	\$ 26,935	\$ 38,270
2008	11,770	26,536	38,306
2009	12,260	26,067	38,327
2010	12,775	25,563	38,338
2011	13,350	25,034	38,384
2012 – 2016	77,390	114,873	192,263
2017 – 2021	99,705	93,222	192,927
2022 – 2026	128,455	64,751	193,206
2027 – 2031	123,375	33,108	156,483
2032 – 2034	114,510	3,743	118,253
	<u>\$ 604,925</u>	<u>\$ 439,832</u>	<u>\$ 1,044,757</u>

Debt service requirements subsequent to May 31, 2006 related to the 2005 Registration Fee Revenue Bonds only are as follows:

Year ending May 31	Principal Maturities	Interest	Total
<i>(In Thousands)</i>			
2007	\$ 7,025	\$ 19,605	\$ 26,630
2008	5,330	19,387	24,717
2009	5,500	19,211	24,711
2010	5,685	19,022	24,707
2011	5,880	18,816	24,696
2012 – 2016	33,670	89,502	123,172
2017 – 2021	43,190	79,692	122,882
2022 – 2026	55,790	66,769	122,559
2027 – 2031	72,065	50,075	122,140
2032 – 2036	91,600	32,545	124,145
2037 – 2041	113,910	14,751	128,661
2042	25,915	450	26,365
	<u>\$ 465,560</u>	<u>\$ 429,825</u>	<u>\$ 895,385</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

7. Retirement Benefits

Substantially all employees of the Commission participate in the Commonwealth of Pennsylvania State Employees' Retirement System (System), a cost-sharing multiple-employer public employee retirement system that was established under the provisions of Public Law 858, No. 331.

Membership in the System is mandatory for most Commission employees. The System provides retirement, death, and disability benefits, which were established by and can be amended according to statute. Retirement benefits vest after 5 years of credited service. Employees who retire at age 60 or with 35 years of service if under age 60, are entitled to an unreduced annual retirement benefit.

Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish or amend benefit provisions. Act 2001-9, signed into law on May 17, 2001, established Class AA membership whereby, generally, annual full retirement benefits for electing active members is 2.5% of the member's highest three-year average salary (final average salary) multiplied by years of service. Commission employees hired after June 30, 2001 are Class AA members. Members hired on or before June 30, 2001 had the option, but were not required, to elect Class AA membership. Those members not electing Class AA membership are considered Class A. The general annual benefit for full retirement for Class A members is 2% of the member's final average salary multiplied by years of service.

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

Participating agency contributions, including those for the Commission, are also mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to System members.

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

7. Retirement Benefits (continued)

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

Year ended May 31	Commission Required Contribution	% Contributed
	<i>(Dollars are in Millions)</i>	
2006	\$ 2.5	100%
2005	\$ 1.4	100%
2004	\$.5	100%
2003	\$.0	100%

A copy of the System's annual financial statements can be obtained by writing to: State Employees' Retirement System, 30 North Third Street, P.O. Box 1147, Harrisburg, Pennsylvania 17108-1147.

8. Commitments and Contingencies

Litigation

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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Construction Commitments

At May 31, 2006, the Commission had contractual commitments for various Turnpike System improvement projects. A summary of construction commitments and their related funding source at May 31, 2006 is as follows:

	Scheduled Completion Date	Estimated Project Cost	Contracts Awarded Through May 31, 2006	Incurred Through May 31, 2006
<i>(In Thousands)</i>				
Funded previously by 1998 Bonds and currently with Registration Fee Revenue Bonds 2005 Series and 2003 Bonds:				
Mon/Fayette Extension	2012	\$ 654,700	\$ 918,859	\$ 461,719
Funded by operations and various bond proceeds:				
Other construction projects	Various	4,550,613	1,643,481	864,972
		\$ 5,205,313	\$ 2,562,340	\$ 1,326,691

Interest Rate Swaps

In August 2004, the Commission entered into three forward starting interest rate swap agreements with three different swap providers (counterparties). These swaps were placed on future turnpike revenue bonds to be issued in June 2006, for a total notional amount of \$240 million. The Commission, however, has subsequently decided not to use the 2004 Swap Agreements as a hedge with respect to the June 2006 bonds. Therefore, in May 2006, the Commission entered into amended forward starting interest rate swap agreements (2006 agreements) with the same three counterparties. The 2006 agreements were issued as an anticipatory hedge for the projected June 2008 issuance of Series A of 2008 Mainline Revenue Bonds. The notional amount of each swap agreement was increased to \$100 million, for a combined total of \$300 million. Each swap was priced to provide a credit from the counterparties to the Commission in the amount of \$3.473 million, for a combined credit of \$10.419 million, in lieu of a termination payment due from the Commission. The Commission has agreed to pay a fixed interest rate of 4.887% to the three swap counterparties; this rate would have been approximately 4.6% had the above mentioned credits not been incorporated into the swap agreements.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Interest Rate Swaps (continued)

In August 2005, the Commission entered into four interest rate swap agreements on a portion of its debt to synthetically convert variable interest rates to fixed interest rates and thus hedge its variable rate exposure as well as preserve lower interest rates. These swaps were placed on the Registration Fee Revenue Refunding Bonds, Series B, Series C, and Series D of 2005 with four different swap providers (counterparties). Based on these swap agreements, the Commission owes interest calculated at a fixed rate to the counterparties to the swaps. In return, the counterparties owe the Commission interest based on a variable rate that approximates the rate on the bonds. Only the net difference in interest payments is actually exchanged with the counterparties. The total notional amount of these swaps was approximately \$231 million at May 31, 2006. The \$231 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. Additionally, the Commission continues to pay interest to the bondholders at the variable rate on the bonds.

The Commission has an interest rate swap management policy that establishes guidelines for the use and management of all interest rate management agreements. The policy sets forth the manner of execution of swaps and agreements; and provides for security and payment provisions, risk considerations, and certain other relevant provisions.

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Interest Rate Swaps (continued)

Following is a summary of the swaps in place as of May 31, 2006. These swap agreements contain certain risks as described below.

Swap	Notional Value	Final Maturity	Floating Rate Index (Receivable)	Fixed Rate (Payable)	Fair Value (to) from Counterparty
Series U 2001	\$ 127,365,000	12/1/2019	67% of 1 mo. LIBOR ⁽¹⁾	4.214%	\$ (5,211,323)
	42,455,000	12/1/2019			(1,736,931)
Series A 2002	72,066,250	12/1/2030	67% of 1 mo. LIBOR ⁽¹⁾	4.403%	(5,140,843)
	144,070,000	12/1/2030			(10,281,252)
	72,066,250	12/1/2030			(5,140,740)
Series B 2002	25,595,000	12/1/2012	BMA ⁽²⁾	4.538%	(536,509)
	51,190,000	12/1/2012			(1,072,374)
	25,595,000	12/1/2012			(536,579)
Series C 2003	48,000,000	12/1/2032	63% of 1 mo. LIBOR(1) plus 20 basis points	3.838%	(508,858)
	112,000,000	12/1/2032			(1,191,317)
Series 2005	57,860,000	7/15/2041	BMA ⁽²⁾	4.202%	2,037,928
	57,845,000				2,036,965
	57,860,000				2,037,928
	57,860,000				2,037,928
Series 2008 Forward starting	100,000,000	12/1/2038	BMA ⁽²⁾	4.887%	(4,120,523)
	100,000,000				(4,120,230)
	100,000,000				(4,120,523)
Total	<u>\$1,251,827,500</u>				<u>\$ (35,567,253)</u>

⁽¹⁾ 1 month LIBOR was 5.11% at May 31, 2006.

⁽²⁾ BMA was 3.22% at May 31, 2006.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

8. Commitments and Contingencies (continued)

Interest Rate Swaps (continued)

- **Credit Risk** – The Commission is exposed to credit risk for swaps that have positive fair values. As of May 31, 2006, the Commission's credit risk exposure is limited to the Series 2005 swaps. However, should interest rates change and the fair values of the other swaps become positive, the Commission would have additional credit risk exposure. The Commission had eight counterparties at May 31, 2006. The credit ratings of the swap providers as of May 31, 2006 were AAA to A+ and Aaa to Aa3 by Standard & Poor's and Moody's, respectively. To mitigate the potential for credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Collateral would be posted with a third-party custodian and would be in the form of cash, U.S. Treasury Obligations, or U.S. Government Agency Securities.
- **Interest Rate Risk** – The Commission will be exposed to variable interest rates if one or more of the swap providers defaults or if a swap is terminated.
- **Basis Risk** – The underlying variable rates for the Commission's Series U and Series A bonds are based on Bond Market Association (BMA) while the Series U and Series A swaps are based on a percentage of LIBOR. Therefore, the Commission is exposed to basis risk to the extent BMA exceeds 67% of one month LIBOR. The underlying variable rates for the Commission's 2003 Series C bonds are based on auction rates. The auction rates approximate BMA. The Series C swaps, with a combined notional value of \$160 million, are based on a percentage of LIBOR plus 20 basis points. Therefore, the Commission is exposed to basis risk to the extent auction rates exceed 63% of one month LIBOR plus 20 basis points.
- **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 fair value. It is the Commission's intent to maintain the swap transactions for the life of the financing.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

9. Related Party Transactions

The Commission incurred costs of \$29.0 million and \$25.3 million related to its use of the Commonwealth's State Police in patrolling the Turnpike System in 2006 and 2005, respectively.

10. Postretirement Benefits

The Commission offers certain postretirement medical, prescription drug, dental and eye care benefits to management employees who have reached 20 years of service and are under age 60. Benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older.

The Commission offers certain postretirement medical and prescription drug benefits to union employees who have reached 20 years of service and are under age 60. Benefit eligibility changes from 20 to 10 years of service for retirees 60 years of age or older.

As of May 31, 2006, 798 retirees were eligible for such benefits. The Commission has elected to account for the postretirement benefits as expenses are incurred. The Commission's expense for postretirement benefits was \$5.5 million and \$4.2 million in 2006 and 2005, respectively.

11. Self-Insurance

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

The Commission recorded a liability of \$13.5 million and \$14.7 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2006 and 2005, 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

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

11. Self-Insurance (continued)

experience. The liability was discounted using a rate of 3.59% as of May 31, 2006 and 2005. 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, 2006 and 2005. The Commission believes the liability established is reasonable and appropriate to provide for settlement of losses and related loss adjustment expenses.

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

The following summary provides aggregated information on self-insurance liabilities:

	Year ended May 31, 2006							
	June 1, 2005 Liability	Effects of Discount as of June 1, 2005	Incurred Claims		Paid Claims		Effects of Discount as of May 31, 2006	May 31, 2006 Liability
			Current Year	Prior Years	Current Year	Prior Years		
Workers' compensation	\$ 7,583	\$ 2,297	\$ 1,922	\$ 618	\$ 603	\$ 2,571	\$ 2,021	\$ 7,225
Automobile/general tort	7,100	—	50	(318)	49	483	—	6,300
	<u>\$ 14,683</u>	<u>\$ 2,297</u>	<u>\$ 1,972</u>	<u>\$ 300</u>	<u>\$ 652</u>	<u>\$ 3,054</u>	<u>\$ 2,021</u>	<u>\$ 13,525</u>

(In Thousands)

	Year ended May 31, 2005							
	June 1, 2004 Liability	Effects of Discount as of June 1, 2004	Incurred Claims		Paid Claims		Effects of Discount as of May 31, 2005	May 31, 2005 Liability
			Current Year	Prior Years	Current Year	Prior Years		
Workers' compensation	\$ 8,265	\$ 2,655	\$ 1,403	\$ 403	\$ 413	\$ 2,433	\$ 2,297	\$ 7,583
Automobile/general tort	7,914	—	208	206	114	1,114	—	7,100
	<u>\$ 16,179</u>	<u>\$ 2,655</u>	<u>\$ 1,611</u>	<u>\$ 609</u>	<u>\$ 527</u>	<u>\$ 3,547</u>	<u>\$ 2,297</u>	<u>\$ 14,683</u>

(In Thousands)

The foregoing reflects an adjustment for a deficiency of \$0.3 million and \$0.6 million in May 31, 2006 and 2005, respectively, for prior years' incurred claims that resulted from a change in estimate as more information became available.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information

The Pennsylvania Turnpike Commission consists of three segment types. These segments are based on the types of revenues and the associated bond issues. The Mainline consists of income and expenses directly associated with the operations of the toll road. In addition, all bonds pledged against this revenue source are included in this segment.

The Oil Company Franchise segment consists of revenues received from the Commission's allocation of the Commonwealth Oil Company Franchise Tax. This revenue is pledged against the associated 1998 Series A and Series B Oil Company Franchise Tax Revenue Bonds and the 2003 Series A, Series B, and Series C Oil Company Franchise Tax Revenue Bonds.

The Motor License segment consists of an annual income of \$28 million which has been awarded to the Commission pursuant to Section 20 of Act 3 of the Commonwealth of Pennsylvania. This income is pledged against the Registration Fee Revenue Bonds 2005 Series.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information (continued)

Balance Sheet

May 31, 2006

	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Assets				
Current assets:				
Cash and cash equivalents	\$ 270,277	\$ 40,208	\$ 30,350	\$ 340,835
Short-term investments	97,588	222,446	15,441	335,475
Accounts receivable	28,632	4,926	–	33,558
Accrued interest receivable	683	5,140	738	6,561
Inventories	18,324	–	–	18,324
Total current assets	415,504	272,720	46,529	734,753
Noncurrent assets:				
Long-term investments	51,195	333,381	62,516	447,092
Capital assets:				
Land	156,816	–	–	156,816
Buildings	651,848	–	–	651,848
Improvements other than buildings	56,604	–	–	56,604
Equipment	305,176	–	–	305,176
Infrastructure	4,129,467	–	–	4,129,467
Construction in progress	499,527	66,121	310,107	875,755
	5,799,438	66,121	310,107	6,175,666
Less accumulated depreciation	3,153,372	–	–	3,153,372
	2,646,066	66,121	310,107	3,022,294
Other assets:				
Other assets	33,838	–	32,749	66,587
Deferred bond issuance costs	11,175	7,215	5,036	23,426
Total other assets	45,013	7,215	37,785	90,013
Total noncurrent assets	2,742,274	406,717	410,408	3,559,399
Total assets	\$ 3,157,778	\$ 679,437	\$ 456,937	\$ 4,294,152

Continued on the following page.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information (continued)

Balance Sheet (continued)

May 31, 2006

	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 106,414	\$ 22,184	\$ 10,362	\$ 138,960
Current portion of bonds payable	34,300	11,335	7,025	52,660
Deferred revenue	19,453	–	–	19,453
Total current liabilities	<u>160,167</u>	<u>33,519</u>	<u>17,387</u>	<u>211,073</u>
Noncurrent liabilities:				
Bonds payable, less current portion, net of unamortized premium/discount	1,312,301	596,774	483,832	2,392,907
Other noncurrent liabilities	23,066	189	–	23,255
Total noncurrent liabilities	<u>1,335,367</u>	<u>596,963</u>	<u>483,832</u>	<u>2,416,162</u>
Total liabilities	<u>1,495,534</u>	<u>630,482</u>	<u>501,219</u>	<u>2,627,235</u>
Net assets:				
Invested in capital assets, net of related debt	1,344,094	(534,773)	(142,965)	666,356
Restricted for certain construction and maintenance purposes	281,343	470,008	79,061	830,412
Unrestricted	36,807	113,720	19,622	170,149
Total net assets	<u>1,662,244</u>	<u>48,955</u>	<u>(44,282)</u>	<u>1,666,917</u>
Total liabilities and net assets	<u>\$ 3,157,778</u>	<u>\$ 679,437</u>	<u>\$ 456,937</u>	<u>\$ 4,294,152</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information (continued)

Statement of Revenues, Expenses, and Changes in Net Assets

	Year ended May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 588,637	\$ –	\$ –	\$ 588,637
Other	23,771	–	–	23,771
	612,408	–	–	612,408
Operating expenses:				
Cost of services	359,747	3,797	1,874	365,418
Depreciation	214,885	–	–	214,885
	574,632	3,797	1,874	580,303
Operating income (loss)	37,776	(3,797)	(1,874)	32,105
Nonoperating revenues (expenses):				
Oil company franchise tax revenues	–	55,749	–	55,749
Motor license registration fee revenue	–	–	28,000	28,000
Investment earnings	34,533	15,708	10,265	60,506
Other nonoperating revenues	1,620	169	–	1,789
Interest and bond expenses	(75,754)	(28,893)	(22,918)	(127,565)
	(39,601)	42,733	15,347	18,479
Change in net assets before capital contributions	(1,825)	38,936	13,473	50,584
Capital contributions	14,985	4	8,041	23,030
Change in net assets	13,160	38,940	21,514	73,614
Net assets at beginning of year	1,639,144	15,741	(61,582)	1,593,303
Asset transfers	9,940	(5,726)	(4,214)	–
Net assets at end of year	\$ 1,662,244	\$ 48,955	\$(44,282)	\$ 1,666,917

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information (continued)

Statement of Cash Flows

	Year ended May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Operating activities				
Cash received from tolls/customers	\$ 663,058	\$ –	\$ –	\$ 663,058
Cash payments for goods and services	(243,785)	6,498	(8,735)	(246,022)
Cash payments to employees	(153,889)	–	–	(153,889)
Cash received from other operating activities	10,368	2	4,098	14,468
Net cash provided by (used in) operating activities	275,752	6,500	(4,637)	277,615
Investing activities				
Proceeds from sales and maturities of investments, excluding cash equivalents	17,070,483	287,603	2,140,893	19,498,979
Interest received on investments	30,644	25,783	7,835	64,262
Purchases of investments	(16,938,541)	(294,275)	(2,071,864)	(19,304,680)
Net cash provided by investing activities	162,586	19,111	76,864	258,561
Capital and related financing activities				
Capital grants received	11,820	93	3,965	15,878
Acquisition of capital assets	(278,661)	(59,311)	(88,248)	(426,220)
Proceeds from sale of capital assets	2,019	–	–	2,019
Payments for bond expenses	(1,817)	(1,429)	(1,462)	(4,708)
Payments for redemption of revenue bonds	(32,685)	(10,960)	(487,949)	(531,594)
Interest paid on bonds	(64,969)	(28,474)	(24,244)	(117,687)
Proceeds from new bonds	–	–	487,790	487,790
Net cash used in capital and related financing activities	(364,293)	(100,081)	(110,148)	(574,522)

Continued on the following page.

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

12. Segment Information (continued)

Statement of Cash Flows (continued)

	Year ended May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Noncapital financing activities				
Cash proceeds from motor license grant	\$ –	\$ –	\$ 28,000	\$ 28,000
Cash proceeds from oil company franchise tax	–	55,736	–	55,736
Net cash provided by noncapital financing activities	–	55,736	28,000	83,736
Increase (decrease) in cash and cash equivalents	74,045	(18,734)	(9,921)	45,390
Cash and cash equivalents at beginning of year	196,232	58,942	40,271	295,445
Cash and cash equivalents at end of year	<u>\$ 270,277</u>	<u>\$ 40,208</u>	<u>\$ 30,350</u>	<u>\$ 340,835</u>

Continued on the following page – see accompanying schedule of reconciliation.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information (continued)

Statement of Cash Flows (continued)

	Year ended May 31, 2006			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 37,776	\$ (3,797)	\$ (1,874)	\$ 32,105
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	214,885	–	–	214,885
Change in operating assets and liabilities:				
Accounts receivable, net of nonoperating receivables	(1,817)	–	–	(1,817)
Inventories	(1,360)	–	–	(1,360)
Other assets	(225)	–	–	(225)
Accounts payable and accrued liabilities, excluding interest and bond expense payables	21,824	10,297	(2,763)	29,358
Other noncurrent liabilities	4,669	–	–	4,669
Net cash provided by (used in) operating activities	\$ 275,752	\$ 6,500	\$ (4,637)	\$ 277,615
Noncash activities				
Increase (decrease) in fair value of investments	\$ 2,221	\$ (7,172)	\$ (449)	\$ (5,400)

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

12. Segment Information (continued)

Balance Sheet

May 31, 2005

	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Assets				
Current assets:				
Cash and cash equivalents	\$ 196,232	\$ 58,942	\$ 40,271	\$ 295,445
Short-term investments	67,389	189,484	17,187	274,060
Accounts receivable	25,988	4,858	102	30,948
Accrued interest receivable	636	4,881	622	6,139
Inventories	16,964	-	-	16,964
Total current assets	307,209	258,165	58,182	623,556
Noncurrent assets:				
Long-term investments	211,271	370,001	127,486	708,758
Capital assets:				
Land	138,148	-	-	138,148
Buildings	643,545	-	-	643,545
Improvements other than buildings	54,547	-	-	54,547
Equipment	300,191	-	-	300,191
Infrastructure	4,109,222	-	-	4,109,222
Construction in progress	271,973	11,561	221,824	505,358
	5,517,626	11,561	221,824	5,751,011
Less accumulated depreciation	2,947,242	-	-	2,947,242
	2,570,384	11,561	221,824	2,803,769
Other assets:				
Other assets	37,018	-	-	37,018
Deferred bond issuance costs	11,852	7,522	5,015	24,389
Total other assets	48,870	7,522	5,015	61,407
Total noncurrent assets	2,830,525	389,084	354,325	3,573,934
Total assets	\$ 3,137,734	\$ 647,249	\$ 412,507	\$ 4,197,490

Continued on the following page.

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information (continued)

Balance Sheet (continued)

May 31, 2005

	Mainline	Oil Franchise	Motor License	Total
	<i>(In Thousands)</i>			
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 90,036	\$ 12,063	\$ 17,174	\$ 119,273
Current portion of bonds payable	32,685	10,960	4,615	48,260
Deferred revenue	15,851	–	–	15,851
Total current liabilities	138,572	23,023	21,789	183,384
Noncurrent liabilities:				
Bonds payable, less current portion, net of unamortized premium/discount	1,347,610	608,289	452,300	2,408,199
Other noncurrent liabilities	12,408	196	–	12,604
Total noncurrent liabilities	1,360,018	608,485	452,300	2,420,803
Total liabilities	1,498,590	631,508	474,089	2,604,187
Net assets:				
Invested in capital assets, net of related debt	1,238,800	(600,167)	(230,076)	408,557
Restricted for certain construction and maintenance purposes	399,306	544,097	149,427	1,092,830
Unrestricted	1,038	71,811	19,067	91,916
Total net assets	1,639,144	15,741	(61,582)	1,593,303
Total liabilities and net assets	\$ 3,137,734	\$ 647,249	\$ 412,507	\$ 4,197,490

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information (continued)

Statement of Revenues, Expenses, and Changes in Net Assets

	Year ended May 31, 2005			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Operating revenues:				
Net fares	\$ 545,158	\$ –	\$ –	\$ 545,158
Other	26,316	–	–	26,316
	<u>571,474</u>	<u>–</u>	<u>–</u>	<u>571,474</u>
Operating expenses:				
Cost of services	269,020	1,393	293	270,706
Depreciation	211,401	–	–	211,401
	<u>480,421</u>	<u>1,393</u>	<u>293</u>	<u>482,107</u>
Operating income (loss)	91,053	(1,393)	(293)	89,367
Nonoperating revenues (expenses):				
Oil company franchise tax revenues	–	51,551	–	51,551
Motor license registration fee revenues	–	–	28,000	28,000
Investment earnings	8,749	18,322	11,856	38,927
Other nonoperating revenues	658	–	–	658
Interest and bond expenses	(64,635)	(29,983)	(23,755)	(118,373)
	<u>(55,228)</u>	<u>39,890</u>	<u>16,101</u>	<u>763</u>
Change in net assets before capital contributions	35,825	38,497	15,808	90,130
Capital contributions	4,832	–	4,815	9,647
Change in net assets	<u>40,657</u>	<u>38,497</u>	<u>20,623</u>	<u>99,777</u>
Net assets at beginning of year	1,593,019	(21,846)	(77,647)	1,493,526
Asset transfers	5,468	(910)	(4,558)	–
Net assets at end of year	<u>\$ 1,639,144</u>	<u>\$ 15,741</u>	<u>\$(61,582)</u>	<u>\$ 1,593,303</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

12. Segment Information (continued)

Statement of Cash Flows

	Year ended May 31, 2005			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Operating activities				
Cash received from tolls/customers	\$ 603,181	\$ –	\$ –	\$ 603,181
Cash payments for goods and services	(148,856)	(491)	3,751	(145,596)
Cash payments to employees	(143,885)	(325)	(323)	(144,533)
Cash received from other operating activities	12,596	–	1,387	13,983
Net cash provided by (used in) operating activities	323,036	(816)	4,815	327,035
Investing activities				
Proceeds from sales and maturities of investments, excluding cash equivalents	12,014,577	212,316	505,146	12,732,039
Interest received on investments	8,702	19,750	12,803	41,255
Purchases of investments	(12,247,889)	(232,254)	(397,594)	(12,877,737)
Net cash (used in) provided by investing activities	(224,610)	(188)	120,355	(104,443)
Capital and related financing activities				
Capital grants received	3,137	–	5,759	8,896
Acquisition of capital assets	(230,916)	(11,714)	(108,837)	(351,467)
Proceeds from sale of capital assets	105	967	–	1,072
Payments for bond expenses	(4,539)	(365)	(42)	(4,946)
Payments for redemption of revenue bonds	(29,090)	(10,600)	(4,470)	(44,160)
Interest paid on bonds	(59,021)	(28,873)	(23,455)	(111,349)
Proceeds from new bonds	267,332	–	–	267,332
Net cash used in capital and related financing activities	(52,992)	(50,585)	(131,045)	(234,622)

Continued on the following page.

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

12. Segment Information (continued)

Statement of Cash Flows (continued)

	Year ended May 31, 2005			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Noncapital financing activities				
Interfund transfers	\$ —	\$ (3)	\$ 3	\$ —
Cash proceeds from motor license grant	—	—	28,000	28,000
Cash proceeds from oil company franchise tax	—	51,020	—	51,020
Net cash provided by noncapital financing activities	—	51,017	28,003	79,020
Increase (decrease) in cash and cash equivalents	45,434	(572)	22,128	66,990
Cash and cash equivalents at beginning of year	150,798	59,514	18,143	228,455
Cash and cash equivalents at end of year	\$ 196,232	\$ 58,942	\$ 40,271	\$ 295,445

Continued on the following page – see accompanying schedule of reconciliation.

Pennsylvania Turnpike Commission
Notes to Financial Statements (continued)

12. Segment Information (continued)

Statement of Cash Flows (continued)

	Year ended May 31, 2005			Total
	Mainline	Oil Franchise	Motor License	
	<i>(In Thousands)</i>			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 91,053	\$ (1,393)	\$ (293)	\$ 89,367
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	211,401	-	-	211,401
Change in operating assets and liabilities:				
Accounts receivable, net of nonoperating receivables	(7,630)	-	-	(7,630)
Inventories	(188)	-	-	(188)
Other assets	-	-	-	-
Accounts payable and accrued liabilities, excluding interest and bond expense payables	29,691	577	5,108	35,376
Other noncurrent liabilities	(1,291)	-	-	(1,291)
Net cash provided by (used in) operating activities	<u>\$ 323,036</u>	<u>\$ (816)</u>	<u>\$ 4,815</u>	<u>\$ 327,035</u>
Noncash activities				
Increase (decrease) in fair value of investments	<u>\$ 1,859</u>	<u>\$ (1,402)</u>	<u>\$ (67)</u>	<u>\$ 390</u>

Pennsylvania Turnpike Commission

Notes to Financial Statements (continued)

13. Subsequent Events

On June 22, 2006, the Commission issued Series A, B, and C of 2006 Revenue Bonds. Series A are fixed rate bonds, maturing December 1, 2026, and were issued in an amount of \$118,015,000. Series B and C are multi-modal bonds and were issued for \$117,925,000 each, maturing on December 1, 2022. The proceeds of the bond issuance will be used to pay bond issuance costs and finance costs of various capital expenditures as set forth in the Commission's Ten Year Capital Plan.

On June 7, 2006, the Commission entered into a fixed-to-variable swap agreement with a counterparty with respect to the Series A of 2006 Revenue Bonds. The total notional amount of the swap is \$118,015,000.

Statistical Section

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Pennsylvania Turnpike Commission

Summary of Revenues and Expenses (000s Omitted)

Fiscal years ended May 31

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating revenues:										
Net fares	\$ 320,140	\$ 335,326	\$ 350,565	\$ 367,336	\$ 365,900	\$ 375,751	\$ 387,222	\$ 408,744	\$ 545,158	\$ 588,637
Other	10,250	11,235	12,700	11,623	12,741	12,320	17,534	19,034	26,316	23,771
Total operating revenues	330,390	346,561	363,265	378,959	378,641	388,071	404,756	427,778	571,474	612,408
Operating expenses:										
Cost of services	158,705	165,763	190,179	180,671	212,365	216,077	234,092	237,385	270,706	365,418
Depreciation	155,574	144,782	132,866	139,962	156,180	183,707	229,485	229,548	211,401	214,885
Total operating expenses	314,279	310,545	323,045	320,633	368,545	399,784	463,577	466,933	482,107	580,303
Operating income (loss)	16,111	36,016	40,220	58,326	10,096	(11,713)	(58,821)	(39,155)	89,367	32,105
Nonoperating revenues										
(expenses):										
Oil company franchise tax revenues	42,313	41,431	41,891	42,143	44,379	45,512	46,288	47,062	51,551	55,749
Motor license registration fee revenues	—	—	—	—	28,000	28,000	28,000	28,000	28,000	28,000
Investment earnings	26,194	22,274	36,079	37,626	67,474	60,783	58,704	30,901	38,927	60,506
Other nonoperating revenues	—	—	—	—	—	—	3,692	1,453	658	1,789
Interest and bond expenses	(54,426)	(58,769)	(79,895)	(78,679)	(55,696)	(115,279)	(105,079)	(120,895)	(118,373)	(127,565)
Change in net assets before capital contributions	30,192	40,952	38,295	59,416	94,253	7,303	(27,216)	(52,634)	90,130	50,584
Capital contributions	—	—	—	—	11,920	8,197	7,135	14,787	9,647	23,030
Change in net assets before extraordinary item	30,192	40,952	38,295	59,416	106,173	15,550	(20,081)	(37,847)	99,777	73,614
Extraordinary item	—	(2,775)	—	—	—	—	—	—	—	—
Change in net assets	\$ 30,192	\$ 38,177	\$ 38,295	\$ 59,416	\$ 106,173	\$ 15,500	\$ (20,081)	\$ (37,847)	\$ 99,777	\$ 73,614

Source: Pennsylvania Turnpike Commission

Certain amounts have been reclassified to be consistent with the current year.

Pennsylvania Turnpike Commission

Revenue Bond Coverage
(000s Omitted)

Fiscal years ended May 31

	Revenues	Direct Operating Expenses	Net Revenues Available for Debt Service Payments	Principal Payments	Interest Payments	Total Payments	Coverage
1997	\$ 398,897	\$ 158,705	\$ 240,192	\$ 22,845	\$ 71,058	\$ 93,903	2.56
1998	410,266	165,763	244,503	28,240	70,615	98,855	2.47
1999	441,235	190,179	251,056	29,085	72,406	101,491	2.47
2000	458,728	180,671	278,057	36,775	85,704	122,479	2.27
2001	501,891	213,902	287,989	39,120	84,079	123,199	2.34
2002	519,160	217,653	301,507	31,650	103,007	134,657	2.24
2003	529,608	234,187	295,421	43,050	107,116	150,166	1.97
2004	561,075	240,144	320,931	46,135	112,467	158,602	2.02
2005	699,868	273,384	426,484	44,160	111,349	155,509	2.74
2006	784,538	374,032	410,506	43,645	117,687	161,332	2.54

Source: Pennsylvania Turnpike Commission

Certain amounts have been reclassified to be consistent with the current year.

Pennsylvania Turnpike Commission

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

Fiscal years ended May 31

	Number of Vehicles	Mainline Bonds Outstanding	Outstanding Debt Per Vehicle	Mainline Debt Service Payments	Debt Service Payments Per Vehicle
1999	156,232	\$ 1,045,955	\$ 6.69	\$ 87,008	\$ 0.56
2000	160,103	1,017,955	6.36	87,524	0.55
2001	163,365	1,418,910	8.69	88,245	0.54
2002	172,794	1,167,210	6.75	85,280	0.49
2003	179,399	1,160,435	6.47	87,378	0.49
2004	188,019	1,132,655	6.02	81,060	0.43
2005	188,425	1,372,810	7.29	88,111	0.47
2006	185,901	1,340,125	7.21	97,654	0.53

Source: Pennsylvania Turnpike Commission

Data is not available for years prior to fiscal 1999.

Pennsylvania Turnpike Commission

Schedule of Net Assets
(000s Omitted)

Fiscal years ended May 31

	2001	2002	2003	2004	2005	2006
Invested in capital assets, net of related debt	\$ 920,839	\$ 548,893	\$ 580,281	\$ 470,592	\$ 408,557	\$ 666,356
Restricted	405,740	788,468	700,912	934,108	1,092,830	830,412
Unrestricted	209,375	214,093	250,180	88,825	91,916	170,149
Total net assets	<u>\$ 1,535,954</u>	<u>\$ 1,551,454</u>	<u>\$ 1,531,373</u>	<u>\$ 1,493,525</u>	<u>\$ 1,593,303</u>	<u>\$ 1,666,917</u>

Source: Pennsylvania Turnpike Commission

Data is not available for years prior to fiscal 2001.

Pennsylvania Turnpike Commission

Ten Largest Commercial Customers (000s Omitted)

Fiscal years ended May 31

	2006		2005		2004		2003		2002		2001		2000	
	Annual Fares	Rank	Annual Fares	Rank	Annual Fares	Rank	Annual Fares	Rank	Annual Fares	Rank	Annual Fares	Rank	Annual Fares	Rank
Heavy Vehicle Electronic License Plate, Inc.	\$ 26,548	1	\$ 10,371	1	\$		\$		\$		\$		\$	
New York State Motor Truck Association	9,632	2	6,111	2	1,840	5								
J. B. Hunt Transport, Inc.	4,247	3	3,691	3	2,664	3	2,381	4	1,017	10			2,662	3
United Parcel Service, Inc.	3,278	4	3,372	4	2,839	2	2,616	1	3,050	1	3,101	2	3,012	2
Werner Enterprises, Inc.	2,685	5	2,503	6	2,932	1	2,499	2	2,482	3	2,394	3	2,498	4
FedEx Ground	1,737	6	1,578	8			1,128	10						
Yellow Transportation, Inc.	1,688	7	1,501	10	1,326	8	1,166	9					1,232	8
UPS Ground Freight, Inc.	1,640	8												
Heartland Express, Inc.	1,495	9												
PJAX, Inc.	1,421	10												
Schneider National Carriers			3,218	5	2,649	4	2,435	3	2,938	2	3,231	1	3,406	1
Overnite Transportation			1,755	7	1,515	7	1,220	8	1,099	9	1,055	10	911	10
U.S. Xpress Leasing			1,563	9	1,727	6	1,587	5	1,390	6	1,298	7	1,201	9
ABF Freight System, Inc.					1,289	9	1,331	7	1,374	7	1,433	5		
Swift Transportation Co.					1,178	10								
Roadway Express, Inc.							1,555	6	1,596	4	1,617	4	1,629	5
Consolidated Freightways									1,473	5	1,371	6	1,330	6
Federal Express									1,141	8				
Arkansas-Best Freight													1,319	7
Yellow Freight System, Inc.											1,184	8		
M.S. Carriers, Inc.											1,087	9		
	<u>\$ 54,371</u>		<u>\$ 35,663</u>		<u>\$ 19,959</u>		<u>\$ 17,918</u>		<u>\$ 17,560</u>		<u>\$ 17,771</u>		<u>\$ 19,200</u>	

Source: Pennsylvania Turnpike Commission

Data is not available for years prior to 2000.

Pennsylvania Turnpike Commission

Percentage of ETC Traffic by IAG Agency

Fiscal years ended May 31

	2006	2005	2004
Pennsylvania	54.27%	54.60%	53.74%
New Jersey Agencies*	17.60%	17.92%	19.45%
Delaware River Port Authority	4.32%	5.83%	6.99%
New York State Thruway	3.88%	3.69%	3.48%
Port Authority NY & NJ	3.62%	4.00%	4.34%
MTA Bridges & Tunnels	2.88%	3.02%	3.14%
Delaware River Joint Toll Bridge Comm	1.21%	1.09%	0.90%
Maryland Transportation Authority	1.04%	0.86%	0.62%
Delaware DOT	1.03%	0.96%	0.37%
Virginia DOT	0.44%	0.20%	0.00%

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

Source: Pennsylvania Turnpike Commission

Data is not available for years prior to fiscal 2004.

Pennsylvania Turnpike Commission

Number of Employees by Functional Area

Fiscal years ended May 31

Union and Management – Number of Employees

	2000	2001	2002	2003	2004	2005	2006
Management	373	383	385	392	402	469	480
Union	2,003	2,027	2,165	1,951	1,928	1,775	1,779
Total	2,376	2,410	2,550	2,343	2,330	2,244	2,259

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

Source: Pennsylvania Turnpike Commission

Data is not available for years prior to fiscal 2000.

Employee Statistics by Functional Area

	2006	2005	2004	2003
Fare collection	937	919	972	1,094
Maintenance	774	726	747	803
Other	548	599	611	446
Total	2,259	2,244	2,330	2,343

Source: Pennsylvania Turnpike Commission

Data is not available for years prior to fiscal 2003.

Pennsylvania Turnpike Commission

Vehicle Class Definitions
(Class Determines Fare)

Fiscal years ended May 31

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

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

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

Length: 85 feet

Weight: 125,000 lbs.

Axle weight: 22,400 lbs.

Height: 13 feet 6 inches

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

Note: Some exceptions may apply. For additional information regarding these exceptions, visit our website at www.paturnpike.com or call our Customer Assistance Center.

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

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission

Traffic Statistics (000s Omitted)

Fiscal years ended May 31

	Number of Vehicles	Gross Fare Revenue	Gross Fare Revenue Per Vehicle	Revenue Miles	Revenue Per Mile
Class 1 (Passenger)					
1997	126,654	\$ 179,303	\$ 1.42	3,752,124	\$ 0.05
1998	132,472	\$ 186,290	\$ 1.41	3,906,200	\$ 0.05
1999	136,399	\$ 191,804	\$ 1.41	4,033,446	\$ 0.05
2000	138,762	\$ 195,301	\$ 1.41	4,089,528	\$ 0.05
2001	140,777	\$ 199,991	\$ 1.42	4,121,689	\$ 0.05
2002	150,496	\$ 212,765	\$ 1.41	4,494,885	\$ 0.05
2003	156,220	\$ 219,201	\$ 1.40	4,604,731	\$ 0.05
2004	163,612	\$ 230,356	\$ 1.41	4,515,417	\$ 0.05
2005	163,316	\$ 302,738	\$ 1.85	4,393,196	\$ 0.07
2006	160,590	\$ 328,807	\$ 2.05	4,419,609	\$ 0.07
Classes 2-9 (Commercial)					
1997	17,479	\$ 150,554	\$ 8.61	982,894	\$ 0.15
1998	18,627	\$ 159,514	\$ 8.56	1,044,002	\$ 0.15
1999	19,833	\$ 169,852	\$ 8.56	1,118,232	\$ 0.15
2000	21,341	\$ 184,352	\$ 8.64	1,202,179	\$ 0.15
2001	22,588	\$ 178,353	\$ 7.90	1,186,919	\$ 0.15
2002	22,298	\$ 175,476	\$ 7.87	1,178,514	\$ 0.15
2003	23,179	\$ 180,299	\$ 7.78	1,229,094	\$ 0.15
2004	24,407	\$ 189,960	\$ 7.78	1,218,841	\$ 0.16
2005	25,109	\$ 258,391	\$ 10.29	1,228,114	\$ 0.21
2006	25,311	\$ 278,600	\$ 11.01	1,272,915	\$ 0.22
Total					
1997	144,133	\$ 329,857	\$ 2.29	4,735,018	\$ 0.07
1998	151,099	\$ 345,804	\$ 2.29	4,950,202	\$ 0.07
1999	156,232	\$ 361,656	\$ 2.31	5,151,678	\$ 0.07
2000	160,103	\$ 379,653	\$ 2.37	5,291,707	\$ 0.07
2001	163,365	\$ 378,344	\$ 2.32	5,308,608	\$ 0.07
2002	172,794	\$ 388,241	\$ 2.25	5,673,399	\$ 0.07
2003	179,399	\$ 399,500	\$ 2.23	5,833,825	\$ 0.07
2004	188,019	\$ 420,316	\$ 2.24	5,734,258	\$ 0.07
2005	188,425	\$ 561,129	\$ 2.98	5,621,310	\$ 0.10
2006	185,901	\$ 607,407	\$ 3.27	5,692,524	\$ 0.11

Source: Pennsylvania Turnpike Commission

Refer to page 82 for vehicle class definitions.

Pennsylvania Turnpike Commission

Revenue Composition as a Percentage of Total Revenue

Fiscal years ended May 31

	Class 1 (Passenger)	Classes 2-9 (Commercial)	Total	Electronic Toll Collection (ETC)	Non ETC	Total
1997	54.36%	45.64%	100.00%	0.00%	100.00%	100.00%
1998	53.87%	46.13%	100.00%	0.00%	100.00%	100.00%
1999	53.03%	46.97%	100.00%	0.00%	100.00%	100.00%
2000	51.44%	48.56%	100.00%	0.00%	100.00%	100.00%
2001	52.86%	47.14%	100.00%	2.78%	97.22%	100.00%
2002	54.80%	45.20%	100.00%	9.69%	90.31%	100.00%
2003	54.87%	45.13%	100.00%	20.87%	79.13%	100.00%
2004	54.81%	45.19%	100.00%	36.02%	63.98%	100.00%
2005	53.95%	46.05%	100.00%	43.77%	56.23%	100.00%
2006	54.13%	45.87%	100.00%	51.15%	48.85%	100.00%

Note: PTC began a phased-in implementation of ETC in fiscal year 2001.

Source: Pennsylvania Turnpike Commission

Refer to page 82 for vehicle class definitions.

Pennsylvania Turnpike Commission

Traffic Composition as a Percentage of Total Vehicles

Fiscal years ended May 31

	Class 1 (Passenger)	Classes 2-9 (Commercial)	Total	Electronic Toll Collection (ETC)	Non ETC	Total
1997	87.87%	12.13%	100.00%	0.00%	100.00%	100.00%
1998	87.67%	12.33%	100.00%	0.00%	100.00%	100.00%
1999	87.31%	12.69%	100.00%	0.00%	100.00%	100.00%
2000	86.67%	13.33%	100.00%	0.00%	100.00%	100.00%
2001	86.17%	13.83%	100.00%	5.45%	94.55%	100.00%
2002	87.10%	12.90%	100.00%	18.49%	81.51%	100.00%
2003	87.08%	12.92%	100.00%	25.12%	74.88%	100.00%
2004	87.02%	12.98%	100.00%	31.23%	68.77%	100.00%
2005	86.67%	13.33%	100.00%	36.83%	63.17%	100.00%
2006	86.38%	13.62%	100.00%	41.91%	58.09%	100.00%

Note: PTC began a phased-in implementation of ETC in fiscal year 2001.

Source: Pennsylvania Turnpike Commission

Refer to page 82 for vehicle class definitions.

Pennsylvania Turnpike Commission

Miscellaneous Statistics

Fiscal year ended May 31, 2006

Length of Highway:	Delaware River to Ohio Line	360 miles
	Northeast Extension	110 miles
	Southwestern Expansions	60 miles
		<u>530 miles</u>
Number of Interchanges:	Delaware River to Ohio Line	32
	Northeast Extension	10
	Southwestern Expansions	17
		<u>59</u>
Number of Maintenance Facilities		21
Number of Service Plazas:	Delaware River to Ohio Line	19
	Northeast Extension	2
		<u>21</u>
Average Traffic Volume:	Vehicles per day (FY 2006)	509,318
	Vehicles per year (FY 2006)	186 million
	Vehicles in 1941 (first full year of operation)	2.4 million
Number of Miles Traveled on Turnpike:	Revenue miles (FY 2006)	5.7 billion

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission

Technical Data

Fiscal year ended May 31, 2006

Right-of-Way Width:	Minimum	200 feet
Turnpike Width:	Delaware River to Ohio Line (4 lanes)	78 feet
	Northeastern Extension Junction to Philadelphia Interchange (6 lanes)	106 feet
	Northeastern Extension (4 lanes)	72 feet
	Southwestern Expansion	132 feet
Lane Width:	Standard	10 feet
	Northeastern Extension Junction to Philadelphia Interchange	12 feet
	Width of climbing lane at various locations (both lanes)	24 feet
Curves:	Maximum (approximately 955 feet minimum radius) on Allegheny Mountain climbing lanes only	6 degrees
	Western Extension (Irwin – Ohio Line)	4 degrees
	Eastern, Delaware River, Northeastern Extension, and Remainder of Turnpike	3 degrees
Grades:	Maximum (three-foot rise for every 100 feet of forward travel)	3 percent
Tunnels:	Blue Mountain	4,339 feet
	Kittatinny	4,727 feet
	Tuscarora	5,326 feet
	Allegheny	6,070 feet
	Lehigh	4,461 feet
Major Bridges:	Delaware River	6,571 feet
	Schuylkill River	1,228 feet
	Susquehanna River	4,526 feet
	Allegheny River	2,186 feet
	Beaver River	1,546 feet
	Lehigh River South Crossing	1,494 feet
	Clarks Summit	1,627 feet
	Mahoning River (Twin Bridges)	1,700 feet
	Joe Montana (Twin Bridges)	2,507 feet
Highest Elevation:	Milepost 100.45	2,603.33 feet above sea level
Mainline Interchanges:		
	Largest	17 lanes
	Most Heavily Used	1,198,067 vehicles per month
	Least Heavily Used	Willow Hill 16,076 vehicles per month

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission

Chronology, Turnpike Construction

May 31, 2006

Turnpike Section	Length (Miles)	Construction Cost (Millions)	Bill Signed	Ground- breaking	Open to Traffic
Original Turnpike: Carlisle – Irwin	160	\$ 76	May 21, 1937	Oct. 27, 1938	Oct. 1, 1940
Philadelphia Extension: Carlisle – Valley Forge	100	87	May 16, 1940	Sept. 28, 1948	Nov. 20, 1950
Western Extension: Irwin – Ohio Line	67	77.5	June 11, 1941	Oct. 24, 1949	Dec. 26, 1951
Delaware River Extension: Valley Forge – Delaware River	33	65	May 23, 1951	Nov. 20, 1952	Nov. 17, 1954
Delaware River Bridge	1.5	Not available	May 23, 1951	June 22, 1954	May 23, 1956
Northeastern Extension: East/West Turnpike to Scranton	110	233	Sept. 27, 1951	Mar. 25, 1954	Nov. 7, 1957
Mon/Fayette Expressway – California Interchange	6	7	Sept. 1985	June 9, 1988	Oct. 12, 1990
Beaver Valley Expressway	16	240	Sept. 1985	Oct. 20, 1989	Nov. 20, 1992
Mid-County Interchange	–	80	Sept. 1985	Dec. 20, 1989	Dec. 15, 1992
Amos K. Hutchinson Bypass	13	271	Sept. 1985	Aug. 20, 1990	Dec. 9, 1993
Keyser Avenue Interchange	–	47	Sept. 1985	Not available	Feb. 1, 1995
Mon/Fayette Expressway – Mason-Dixon Link	8	132	Sept. 1985	Nov. 1, 1994	Mar. 1, 2000
Mon/Fayette Expressway – I-70 to Coyle Curtain Road	4	90	Sept. 1985	June 19, 1997	May 11, 2001
Mon/Fayette Expressway – Coyle Curtain Road to SR 51	13	604	Sept. 1985	Sept. 1997	Apr. 12, 2002

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission

Chronology, Turnpike Improvements

May 31, 2006

Date	Improvement
September 6, 1962	Groundbreaking on Laurel Hill Bypass and boring of second Allegheny Tunnel
October 30, 1964	Laurel Hill Bypass (3.1 miles) opened, eliminating two-lane 4,541 foot-long Laurel Hill tunnel
March 15, 1965	Second Allegheny Tunnel opened; original tunnel closed for refurbishing
December 1965	Median barriers completed on entire east-west turnpike
April 1966	Work begins at second tunnels at Blue, Kittatinny, and Tuscarora Mountains
August 25, 1966	Original Allegheny Tunnel reopened
November 26, 1968	Sideling Hill Bypass (13.3 miles) opened, eliminating two two-lane tunnels: Ray's Hill (3,532 feet) and Sideling Hill (6,782 feet)
November 26, 1968	Second Blue, Kittatinny, and Tuscarora Tunnels opened
August 14, 1969	Median barrier completed on entire Turnpike
December 2, 1981	Completion of three climbing lane projects (Allegheny, Indian Creek, and Jacob's Creek)
May 20, 1982	Computerization and renovation of toll collection system begins
March 10, 1986	Six-lane widening project begins (junction of Northeastern Extension to Philadelphia Interchange)
July 22, 1987	Computerized toll collection system placed into service
November 27, 1987	Opening of six-lane section near Philadelphia
June 9, 1988	Groundbreaking on the Mon/Fayette, six-mile link between I-70 and U.S. 40
February 14, 1989	Groundbreaking for second Lehigh Tunnel
October 20, 1989	Groundbreaking for Mahoning River Bridge
December 19, 1989	Groundbreaking for Mid-County Interchange
June 14, 1990	Groundbreaking for Beaver Valley Expressway
August 15, 1990	Groundbreaking for Amos K. Hutchinson Bypass
October 12, 1990	Opening of the first six-mile section of the Mon-Valley/Fayette Expressway linking I-70 and U.S. 40 in Washington County
November 22, 1991	Complete installation of call boxes along the Turnpike System
November 22, 1991	Opening of the second Lehigh Tunnel
November 20, 1992	Opening of the Beaver Valley Expressway (Toll 60, James E. Ross Highway), the world's first weigh barrier toll system
December 15, 1992	Opening of the new Mid-County Interchange
December 9, 1993	Opening of Amos K. Hutchinson Bypass
November 1, 1994	Groundbreaking on first section of the Mon/Fayette Expressway, at Fairchance
February 1, 1995	Opening of the Keyser Avenue Interchange
May 26, 1995	Opening of the Allentown and Sideling Hill Farmers' Markets
June 2, 1995	Groundbreaking on the Mon/Fayette Route 70 to Route 51 Transportation project
November 1, 1996	Northeast extension designated I-476
March 1, 2000	Opening of Mon/Fayette Expressway — Mason-Dixon Link
August 25, 2000	Completion of total reconstruction MP 94 — 99
December 2, 2000	Implementation of E-ZPass (electronic toll collection system) for passenger vehicles in southeastern and south central PA (interchanges 242 – 56)
May 7, 2001	Reopening of the newly renovated and expanded central office administration building in Highspire, PA
May 11, 2001	Opening of I-70 to Coyle Curtain Road section of the Mon/Fayette Expressway

Pennsylvania Turnpike Commission

Chronology, Turnpike Improvements (continued)

May 31, 2006

Date	Improvement
May 19, 2001	Expansion of E-ZPass system to six additional interchanges 226, 236, and 74 (Mahoning Valley) to 115 (Wyoming Valley) Toll Plaza on the Northeast extension
August 17, 2001	Completion of total reconstruction MP 186 – 199
November 2001	Interchange dual-numbering system installation completed
December 15, 2001	E-ZPass lanes for passenger vehicles available at all of the Turnpike's Mainline Interchanges
April 12, 2002	Opening of Coyle Curtain Road to SR 51 section of the Mon/Fayette Expressway
June 1, 2002	Implementation of a Wide Area Network (WAN)
August 23, 2002	Completion of total reconstruction MP 75 – 85
December 15, 2002	E-ZPass lanes for commercial vehicles available at all of the Turnpike's Mainline Interchanges
June 1, 2003	Opening of the new Warrendale Interchange
November 12, 2003	Groundbreaking for Southern Beltway Findlay Connector (PA-60 to US 22)
June 2, 2004	Opening of the first express E-ZPass lane at Warrendale Interchange (eastbound)
June 26, 2004	Opening of the second express E-ZPass lane at Warrendale Interchange (westbound)
November 23, 2004	Expansion of E-ZPass system to two additional interchanges 122 Keyser Avenue and 131 Clarks Summit on the Northeast Extension
December 9, 2004	Electronic bar code scanners installed at all interchanges
January 19, 2005	Implementation of the Tag Teller program
April 1, 2005	Completion of total reconstruction MP 110 – 120
October 12, 2005	Express E-ZPass lanes opened at Mid County Interchange
November 28, 2005	Fog warning system between Breezewood Interchange and Sideling Hill Service Plaza
January 2, 2006	One way tolling (eastbound) at Gateway Interchange (free westbound)
April 1, 2006	Groundbreaking for Mon/Fayette Uniontown to Brownsville project
June 2, 2006	Expansion of E-ZPass system to the AKH mainline interchange

Source: Pennsylvania Turnpike Commission

Pennsylvania Turnpike Commission

Chronology, Speed Limits

May 31, 2006

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

Source: Pennsylvania Turnpike Commission