REQUEST FOR PROPOSALS FOR

ANNUAL INDEPENDENT AUDIT SERVICES

ISSUING OFFICE

PENNSYLVANIA TURNPIKE COMMISSION

OPERATION REVIEW DEPARTMENT

RFP NUMBER
06-105-3546

DATE OF ISSUANCE

OCTOBER 8, 2007

REQUEST FOR PROPOSALS FOR
ANNUAL INDEPENDENT AUDIT SERVICES
RFP# 06-105-3546

TABLE OF CONTENTS

PART I
GENERAL INFORMATION FOR VENDORS

I-1. Purpose.

This request for proposals (RFP) provides interested vendors with sufficient information to enable them to prepare and submit proposals for consideration by the Pennsylvania Turnpike Commission (Commission) to satisfy a need for annual independent audit services.

I-2. Issuing Office.

This RFP is issued for the Commission by the Operations Review Department. Contact Information is as follows:

Randy L. Mellinger
Pennsylvania Turnpike Commission
Physical Address:
700 South Eisenhower Blvd.
Middletown, PA 17057
U.S. Mail Address
P.O. Box 67676
Harrisburg, PA 17106-7676
E-mail to: rmelling@paturnpike.com
Phone: 717-939-9551 extension 2730
Fax: 717-986-9676

The Issuing Office is the sole point of contact in the Commission for this RFP.

I-3. Scope.

This RFP contains instructions governing the proposals to be submitted and the material to be included therein; a description of the service to be provided; requirements which must be met to be eligible for consideration; general evaluation criteria; and other requirements to be met by each proposal.

I-4. Problem Statement.

The Pennsylvania Turnpike Commission desires to engage a qualified firm of certified public accountants ("Independent Auditor") to audit its fiscal 2008, 2009 and 2010 financial statements. The Commission's fiscal year end is May 31. The selected firm will conduct the audit and provide audited statements no later than August 15, 2008, 2009, and 2010 respectively. The selected firm will perform related services such as assisting the Commission with its Comprehensive Annual Financial Report for each of the three fiscal years. A work statement is provided in Part V.

In addition to the services discussed above, the selected firm may also be requested under the terms of the agreement to provide additional auditing services and guidance to the Commission. Examples of such additional services may include the performance of specific business and information technology audits, providing guidance to the Operations Review Department and Information Technology Security Departments relating to SAP system auditing and security and participating in the implementation of additional SAP modules or related third party software packages including the VIRSA Governance and Internal Controls suite (version 5.0).

The Commission's aim is to select an Independent Auditor who demonstrates a strong record of experience in auditing similar type entities.

I-5. Type of Contract.

It is proposed that if a contract is entered into as a result of this RFP, it will be a fixed fee contract. The Commission may in its sole discretion undertake negotiations with Proposers whose proposals as to price and other factors show them to be qualified, responsible, and capable of performing the work.

I-6. Rejection of Proposals.

The Commission reserves the right to reject any and all proposals received as a result of this request, or to negotiate separately with competing vendors.

I-7. Subcontracting.

Any use of subcontractors by a Proposer must be identified in the proposal. During the contract period use of any subcontractors by the selected Proposer, which were not previously identified in the proposal, must be approved in advance in writing by the Commission.

A firm that responds to this solicitation as a prime may not be included as a designated subcontractor to another firm that responds to the same solicitation. **Multiple responses under any of the foregoing situations may cause the rejection of all responses of the firm or firms involved.** This does not preclude a firm from being set forth as a designated subcontractor to more than one prime contractor responding to the project advertisement.

I-8. Incurring Costs.

The Commission is not liable for any costs the Proposer incurs in preparation and submission of its proposal, in participating in the RFP process or in anticipation of award of contract.

I-9. Mandatory Pre-proposal Conference.

A **mandatory** pre-proposal conference will be held **Friday, October 19, 2007 at 10:00 AM. This conference will be held in the Large Board Room at the Pennsylvania Turnpike Commission's Central Administration Building; 700 South Eisenhower Boulevard, Middletown, PA 17057**. The purpose of this conference is to clarify any points in the RFP, which may not have been clearly understood. Questions should be forwarded to the Issuing Office prior to the meeting to ensure sufficient analysis can be made before an answer is supplied. Written questions should be submitted to the Issuing Office at the mailing address or e-mail address indicated above to be received no later than **12:00 Noon, Monday, October 15, 2007**. In view of the limited facilities available for the conference, it is requested representation be limited to three (3) individuals per Proposer. The preproposal conference is for information only. Answers furnished during the conference will not be official until verified, in writing, by the Issuing Office. All questions and written answers will be issued as an addendum to and become part of this RFP.

<u>FAILURE TO BE REPRESENTED AND SIGNED IN AT THIS MANDATORY PRE-PROPOSAL CONFERENCE WILL BE CAUSE FOR REJECTION OF PROPOSAL.</u>

I-10. Addenda to the RFP.

If it becomes necessary to revise any part of this RFP before the proposal response date, addenda will be posted to the Commission's website under the original RFP document. It is the responsibility of the Proposer to periodically check the website for any new information or addenda to the RFP. The Commission may revise a published advertisement. If the Commission revises a published advertisement less than ten days before the RFP due date, the due date will be extended to maintain the minimum ten-day advertisement duration if the revision alters the project scope or selection criteria. Firms are responsible to monitor advertisements/addenda to ensure the submitted proposal complies with any changes in the published advertisement.

I-11. Response

To be considered, proposals must be delivered to the Pennsylvania Turnpike Commission's **Contract Administration Department, Attention Gail Reed, Contract Administrator,** on or before **12:00 Noon; Friday, November 9, 2007.** The Pennsylvania Turnpike Commission is located at 700 South Eisenhower Blvd., Middletown, PA 17057. Please note that use of **U.S. Mail delivery does not guarantee delivery to this address by the above-listed time for submission. Proposers mailing proposals should allow sufficient delivery time to ensure timely receipt of their proposals**. The Commission has no control over the delivery schedule of proposals via third party couriers or US Mail. Responding vendors should take this information into consideration when submitting proposals to the Commission's Contract Administration Department. If the Commission office location to which proposals are to be delivered is closed on the proposal response date, due to inclement weather, natural disaster, or any other cause, the deadline for submission shall be automatically extended until the next Commission business day on which the office is open. Unless the Proposers are otherwise notified by the Commission, the time for submission of proposals shall remain the same.

I-12. Proposals.

To be considered, vendors should submit a complete response to this RFP, using the format provided in PART II. Each proposal should be submitted in six (6) copies to the Contract Administration Department. No other distribution of proposals will be made by the vendor. Each proposal page should be numbered for ease of reference. Proposals must be signed by an official authorized to bind the vendor to its provisions and include the vendor's Federal Identification Number. For this RFP, the proposal must remain valid for at least 60 days. Moreover, the contents of the proposal of the selected vendor will become contractual obligations if a contract is entered into.

Each and every vendor submitting a proposal specifically waives any right to withdraw or modify it, except as hereinafter provided. Proposals may be withdrawn by written or telefax notice received at the Commission's address for proposal delivery prior to the exact hour and date specified for proposal receipt. However, if the vendor chooses to attempt to provide such written notice by telefax transmission, the Commission shall not be responsible or liable for errors in telefax transmission. A proposal may also be withdrawn in person by a vendor or its authorized representative, provided its identity is made known and it signs a receipt for the proposal, but only if the withdrawal is made prior to the exact hour and date set for proposal receipt. A proposal may only be modified by the submission of a new sealed proposal or submission of a sealed modification, which complies with the requirements of this RFP.

I-13. Economy of Preparation.

Proposals should be prepared simply and economically, providing a straightforward, concise description of the Proposer's ability to meet the requirements of the RFP.

I-14. Discussions for Clarification.

Proposer's who submit proposals may be required to make an oral or written clarification of their proposals to the Issuing Office to ensure thorough mutual understanding and Proposer responsiveness to the solicitation requirements. The Issuing Office will initiate requests for clarification.

I-15. Best and Final Offers.

The Issuing Office reserves the right to conduct discussions with Proposers for the purpose of obtaining "best and final offers." To obtain best and final offers from Proposers, the Issuing Office may do one or more of the following: a) enter into pre-selection negotiations; b) schedule oral presentations; and c) request revised proposals. The Issuing Office will limit any discussions to responsible Proposers whose proposals the Issuing Office has determined to be reasonable susceptible of being selected for award.

I-16. Prime Proposer Responsibilities.

The selected Proposer will be required to assume responsibility for all services offered in its proposal whether or not it produces them. Further, the Commission will consider the selected Proposer to be the sole point of contact with regard to contractual matters.

I-17. Proposal Contents.

Proposals will be held in confidence and will not be revealed or discussed with competitors, unless disclosure is required to be made (i) under the provisions of any Commonwealth or United States statute or regulation; or (ii) by rule or order of any court of competent jurisdiction. If a contract is executed, however, the successful proposal submitted in response to this RFP shall be subject to disclosure. All material submitted with the proposal becomes the property of the Pennsylvania Turnpike Commission and may be returned only at the Commission's option. Proposals submitted to the Commission may be reviewed and evaluated by any person other than competing Proposers at the discretion of the Commission. The Commission has the right to use any or all ideas presented in any proposal. Selection or rejection of the proposal does not affect this right.

I-18. Debriefing Conferences.

Proposers whose proposals are not selected will be notified of the name of the selected Proposer and given the opportunity to be debriefed, at the Proposer's request. The Issuing Office will schedule the time and location of the debriefing. The Proposer will not be compared with other Proposers, other than the position of its proposal in relation to all other proposals.

I-19. News Releases.

News releases pertaining to this project will not be made without prior Commission approval, and then only in coordination with the Issuing Office.

I-20. Commission Participation.

Unless specifically noted in this section, Proposers must provide all services to complete the identified work. The Commission will make on-site office facilities available for auditing personnel. Telephone(s) will be provided for work related use. A Commission representative will be available to assist in the scheduling (via Microsoft Outlook) of Commission personnel and conference rooms for meetings if necessary. Personal Computers (PCs) and any project related software are the responsibility of the certified public accounting firm and will not be provided by the Commission.

The independent audit will occur at the Commission's Central Administration Building. The Commission offers flexible working hours to its employees with starting times ranging from 7:00 AM – 9:30 AM and ending times from 3:00 PM – 5:30 PM. Core hours of operation are 8:30 AM – 4:30 PM Monday – Friday. The selected independent auditor will need to plan and staff the audit accordingly so Commission employees are available to assist and answer questions.

The Commission will complete certain schedules (client prepared schedules) as agreed upon by the Commission and the selected auditor. The selected firm must meet with Commission representatives and agree upon the client prepared schedules by April 30th of each year.

I-21. Cost Submittal.

The cost submittal shall be placed in a separately sealed envelope within the sealed proposal and kept separate from the technical submittal. **<u>Failure to meet this requirement may result in disqualification of the proposal.</u>**

I-22. Term of Contract.

The term of the contract will commence on the Effective Date (as defined below) and will end 3 years from the Effective Date. The Effective Date shall be fixed by the Issuing Office after the contract has been fully executed by the contractor and by the Commission and all approvals required by Commission contracting procedures have been obtained.

I-23. Proposer's Representations and Authorizations.

Each Proposer by submitting its proposal understands, represents, and acknowledges that:

a. All information provided by, and representations made by, the Proposer in the proposal are material and important and will be relied upon by the Issuing Office in awarding the contract(s). Any misstatement, omission or misrepresentation shall be treated as fraudulent concealment from the Issuing Office of the true facts relating to the submission of this proposal. A misrepresentation shall be punishable under 18 Pa. C.S. 4904.

b. The price(s) and amount of this proposal have been arrived at independently and without consultation, communication or agreement with any other Proposer or potential Proposer.

c. Neither the price(s) nor the amount of the proposal, and neither the approximate price(s) nor the approximate amount of this proposal, have been disclosed to any other firm or person who is a Proposer or potential Proposer, and they will not be disclosed on or before the proposal submission deadline specified in the cover letter to this RFP.

d. No attempt has been made or will be made to induce any firm or person to refrain from submitting a proposal on this contract, or to submit a proposal higher than this proposal, or to submit any intentionally high or noncompetitive proposal or other form of complementary proposal.

e. The proposal is made in good faith and not pursuant to any agreement or discussion with, or inducement from, any firm or person to submit a complementary or other noncompetitive proposal.

f. To the best knowledge of the person signing the proposal for the Proposer, the Proposer, its affiliates, subsidiaries, officers, directors, and employees are not currently under investigation by any governmental agency and have not in the last four (4) years been convicted or found liable for any act prohibited by State or Federal law in any jurisdiction, involving conspiracy or collusion with respect to bidding or proposing on any public contract, except as disclosed by the Proposer in its proposal.

g. To the best of the knowledge of the person signing the proposal for the Proposer and except as otherwise disclosed by the Proposer in its proposal, the Proposer has no outstanding, delinquent obligations to the Commonwealth including, but not limited to, any state tax liability not being contested on appeal or other obligation of the Proposer that is owed to the Commonwealth.

h. The Proposer is not currently under suspension or debarment by the Commonwealth, or any other state, or the federal government, and if the Proposer cannot certify, then it shall submit along with the proposal a written explanation of why such certification cannot be made.

i. The Proposer has not, under separate contract with the Issuing Office, made any recommendations to the Issuing Office concerning the need for the services described in the proposal or the specifications for the services described in the proposal.

j. Each Proposer, by submitting its proposal, authorizes all Commonwealth agencies to release to the Commission information related to liabilities to the Commonwealth including, but not limited to, taxes, unemployment compensation, and workers' compensation liabilities.

PART II
INFORMATION REQUIRED FROM VENDORS

Proposals must be submitted in the format, including heading descriptions, outlined below. To be considered, the proposal must respond to all requirements in this part of the RFP. Any other information thought to be relevant, but not applicable to the enumerated categories, should be provided as an appendix to the proposal. Each proposal shall consist of two (2) separately sealed submittals. The submittals are as follows: (i) Technical Submittal, in response to Sections II-1 through II-9 hereof; (ii) Cost Submittal, in response to Section II-10 hereof.

The Commission reserves the right to request additional information which, in the Commission's opinion, is necessary to assure that the vendor's competence, number of qualified employees, business organization, and financial resources are adequate to perform according to the RFP.

The Commission may make such investigations as deemed necessary to determine the ability of the Proposer to perform the work, and the Proposer shall furnish to the Issuing Office all such information and data for this purpose as requested by the Commission. The Commission reserves the right to reject any proposal if the evidence submitted by, or investigation of, such Proposer fails to satisfy the Commission that such Proposer is properly qualified to carry out the obligations of the agreement and to complete the work specified.

II-1. Statement of Services.

State in succinct terms your understanding of the services required by this RFP.

II-2. Management Summary.

Include a narrative description of the proposed effort and a list of the items to be delivered or services to be provided.

II-3. Work Plan.

Describe in narrative form your technical plan for accomplishing the audit services. Use the task descriptions listed in Part V of this RFP for the fiscal 2008 audit as your reference point. Also, explain your approach for subsequent audits (fiscal 2009 and 2010) as well as your approach to the additional auditing services and guidance activities discussed in Section I-4 above. Highlight differences between the initial engagement and subsequent engagements. Modifications of the task descriptions are permitted; however, reasons for changes should be fully explained.

II-4. Prior Experience and References.

Include a narrative description of audit experience and qualifications. Specific experience with similar organizations (proprietary-type component units, state and local governments, etc.), SAP Enterprise Software (including VIRSA [Governance Internal Control Suite] or other compliance management software) and GASB reporting requirements should be included. Experience should be related to audits performed by individuals who will be assigned to this project as well as that of your company. Previous audit engagements referred to should be identified and the name of the customer shown, including the address, and telephone number of the responsible official of the customer, company, or agency who may be contacted. Include a minimum of three (3) references.

II-5. Personnel.

Include the number and names where practicable, of auditors (staff, in-charges, managers, partners, etc.) who will be engaged in the work. Indicate the responsibilities each will have in this audit and how long each has been with your company and in their current roles. Include a resume or similar document indicating the level of education and experience for each auditor who will be assigned to this engagement. If you are unable to identify the personnel who will be assigned to this work, please provide a list of requirements (education and experience) needed to obtain each level (staff, in-charge, manager, partner, etc.) in your organization. Identify subcontractors you intend to use and the services they will perform.

II-6. Auditor Information.

All firms submitting proposals should state:

- Whether they meet applicable Pennsylvania State licensing requirements.
- Their policies regarding notification of changes in key personnel.
- Whether they are independent, as defined by applicable auditing standards.
- Any relationship your firm has with the Pennsylvania Turnpike Commission.
- Whether they have been the object of any disciplinary action in the Commonwealth of Pennsylvania during the past four years

II-7. M/W/DBE Participation. Responding firms shall clearly identify DBE/MBE/WBE firms, expected to participate in this contract, in their Proposal. **If further information is desired concerning DBE/MBE/WBE participation**, direct inquiries to the Pennsylvania Turnpike Commission's Contract Administration Department by calling (717) 939-9551 Ext. 4241.

II-8. Locations.

List your firm's total number of locations and employees and the number of locations and employees in Pennsylvania. Also, please list the business address(es) of the personnel who will be assigned to the engagement.

II-9. Peer Review.

A copy of your firm's most recent peer review report should be provided with the technical submittal.

II-10. Cost Submittal.

The information requested in this section shall constitute your cost submittal. **The Cost Submittal shall be placed in a separate sealed envelope within the sealed proposal, separate from the technical submittal.**

Proposers should **not** include any assumptions in their cost submittals. If the proposer includes assumptions in its cost submittal, the Issuing Office may reject the proposal.

The cost submittal should list the proposed fixed fee for annual audit services for the three fiscal years ending May 31, 2008, 2009 and 2010 respectively. The cost submittal should include a detailed itemization (for each fiscal year) of the proposed fixed fee.

- **a.** Itemize the estimated hours and cost per hour required to complete the engagements by level of staff, i.e., partner, manager, in-charge and staff accountants.
- **b.** Itemize travel and subsistence costs. List transportation, lodging and meals & incidental expenses separately. Lodging and meals & incidental expenses should follow the federal government's General Services Administration's (GSA) CONUS per diem rates effective at the time of the proposals. The agreed upon fixed fee will be adjusted each year for changes in the CONUS per diem rates.
- **c.** List the cost of supplies and materials.
- **d.** List all other costs not included in a. – c. This includes overhead, profit, etc.
- **e.** List the sum of the costs in a. – d. The sum should equal the proposed fixed fee for each fiscal year.

The Commission may seek guidance on accounting issues and may require additional services to be performed during the term of this engagement. Please describe guidance/services that are considered part of your fixed fee proposal (other costs included in d. above) and guidance/services that are out of scope, such as those additional services discussed in Section I-4 Problem Statement above. Guidance and services determined to be out of scope, will be compensated at the standard hourly rates set forth in a. above.

The cost submittal should describe your firm's standard progress billing policy/procedures. The Pennsylvania Turnpike Commission will determine if your standard procedure is acceptable. The Commission and the selected Proposer will agree upon final contract terms.

Any costs not provided in the cost proposal will be assumed as no charge to the Commission.

The selected Proposer shall only perform work on this contract after the Effective Date is affixed and the fully-executed contract sent to the selected Proposer. The Commission shall issue a written Notice to Proceed to the selected Proposer authorizing the work to begin on a date which is on or after the Effective Date. The selected Proposer shall not start the performance of any work prior to the date set forth in the Notice of Proceed and the Commission shall not be liable to pay the selected Proposer for any service or work performed or expenses incurred before the date set forth in the Notice to Proceed. No Commission employee has the authority to verbally direct the commencement of any work under this Contract.

PART III
CRITERIA FOR SELECTION

III-1. Mandatory Responsiveness Requirements.

To be eligible for selection, a proposal must be (a) timely received from a Proposer; (b) properly signed by the Proposer; and (c) formatted such that all cost data is kept separate from and not included in the Technical Submittal.

III-2. Evaluations.

Proposals will be reviewed and evaluated by a committee of qualified personnel selected by the Commission. This committee will recommend for selection the proposal that most closely meets the requirements of the RFP and satisfies the Commission’s needs. Award will only be made to a Proposer determined to be responsive and reasonable in accordance with Commonwealth Procurement Code.

III-3. Criteria.

The following criteria will be used, in order of relative importance from the highest to the lowest, in evaluating each proposal:

a. **Understanding the Problem.** This refers to the Proposer’s understanding of the Commission needs that generated the RFP, of the Commission’s objectives in asking for the independent audit services, and of the nature and scope of the work involved.

b. **Proposer Qualifications.** This refers to the ability of the Proposer to meet the terms of the RFP, especially the time constraint and the quality, relevancy, and dates of audits of similar organizations performed by the Proposer. This also includes the Proposer’s financial ability to undertake a project of this size.

c. **Personnel Qualifications.** This refers to the competence of professional personnel who would be assigned to the audit by the Proposer. Qualifications of professional personnel will be measured by experience and education, with particular reference to experience on audits similar to that described in the RFP. Particular emphasis is placed on the qualifications of the manager in-charge assigned to the audit.

d. **Soundness of Approach.** Emphasis here is on the techniques for collecting and analyzing data, sequence and relationships of major steps, and methods for managing the audit. Of equal importance is whether the technical approach is completely responsive to all written specifications and requirements contained in the RFP and if it appears to meet Commission objectives.

e. **Cost.** While this area may be weighted heavily, it will not normally be the deciding factor in the selection process. The Commission reserves the right to select a proposal based upon all the factors listed above, and will not necessarily choose the firm offering the best price. The Commission will select the firm with the proposal that best meets its needs, at the sole discretion of the Commission.

PART IV
BACKGROUND INFORMATION

IV-1. Background.

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 proprietary-type component unit of the Commonwealth of Pennsylvania and presents its financial statements on the accrual basis with a capital maintenance measurement focus. There are 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.

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

A copy of the Commission's fiscal 2007 audited basic financial statements is attached to provide additional information to interested vendors.

IV-2. Financial Management System and Availability of Commission Accounting Records and Data.

All Commission generated accounting data will be made available to the Independent Auditor during the engagement. The Commission is currently implementing the SAP ERP (Enterprise Resource Planning) software suite (version ECC6.0). The go-live date for this implementation project will occur during fiscal year 2007-2008. The SAP ERP software suite includes the following modules:

- General Ledger
- Accounts Payable
- Accounts Receivable
- Fixed Assets
- Financial Supply Chain Management
- Project Systems
- Cost Center Accounting
- Profit Center Accounting
- Materials Management
- Purchasing
- Supplier Relationship Management
- Enterprise Buyer Professional
- Plant Maintenance
- Fleet Management
- Employee Self- Service Workflow
- Business Warehouse
- Benefits

- Personnel Administration
- Personnel Development
- Payroll
- Time Entry
- Cross Application Timesheets
- Organization Management
- Leave Management
- Personnel Cost Planning and Simulation
- Cross Application Timesheet
- Employee Self- Service
- Manager Self-Service
- SAP Portals
- CRM- Call center and marketing
- Workflow

The legacy Financial Management System used at the Commission is American Software Systems (version 20 release 3) operating in a VSE/ESA mainframe environment. This system includes the following modules:

- Foundation Systems
- Material Request System
- Inventory Control & Accounting System
- Bid System
- Purchasing System
- Dock to Stock
- Accounts Payable
- Accounts Receivable
- Capital Project Accounting
- Fixed Assets
- General Ledger

All financial reporting for the legacy system is accomplished via an Oracle-based data mart using Crystal Reports and Excel. The data mart is populated with general ledger data on a monthly basis from the mainframe system.

PART V
WORK STATEMENT

V-1. Objectives.

It is the intent of the Commission to procure the services of a qualified independent certified public accounting firm to audit the Commission's financial statements and perform related services for fiscal years ending May 31, 2008, 2009 and 2010.

V-2. Nature and Scope of the Project.

The selected Independent Auditor will perform annual financial audits of the Commission's records for the fiscal years ending May 31, 2008, 2009 and 2010

The selected firm will ensure the Commission's financial statements, required supplementary information, and notes to the financial statements conform to all applicable GASB pronouncements and requirements and that all of the GFOA's comments and suggestions for improvement in financial reporting techniques from the previous year's CAFR have been appropriately incorporated into the financial statements.

The audits will be conducted in accordance with auditing standards generally accepted in the United States as set forth by the American Institute of Certified Public Accountants.

The Independent Auditor will express an opinion on the fair presentation of the Commission's financial statements. The auditor's opinion is to include the scope of the examination, the fact that the audit was performed in accordance with auditing standards generally accepted in the United States, an opinion as to whether the statements conform to generally accepted accounting principles and a statement on procedures applied to supplementary information required by the Government Accounting Standards Board.

A management letter is required and should include statements on audit findings and recommendations affecting the financial statements, internal control, accounting system, legality of actions, instances of noncompliance with laws and regulations and any other material matters. A draft of the letter is to be reviewed by the Pennsylvania Turnpike Commission's Director of Operations Review. The Independent Auditor will review and perform limited procedures on the Commission's Management's Discussion and Analysis and ensure it is prepared in accordance with GASB 34.

The selected firm will prepare the analysis and actuarial valuation of the Commission's Automobile and General Liability Self-Insured Program for each year that it performs the independent audit. The selected firm will provide a detailed report necessary to assist in the development of the annual financial statement requirements, including GASB No. 10 disclosure requirements on estimated liabilities of the automobile and the general liability claims.

The Independent Auditor will assist the Commission in its preparation of the Comprehensive Annual Financial Report (CAFR) for submission to the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program. Assistance will include: reviewing the CAFR to ensure all GFOA requirements are met; reviewing the CAFR application;

assisting with the preparation and reviewing responses to the GFOA's previous year's comments and suggestions for improvement in financial reporting techniques; completing final word processing and production of the CAFR.

V-3. Time Requirements, Deliverables and Commission Resources.

Each fiscal year's audit shall include routine entrance and exit conferences. The selected Independent Auditor will develop an audit program at the beginning of each fiscal year's audit. The audit program will include a timeline and milestones for completing the audit. The timeline and milestones must be reviewed with and approved by the Commission's Director of Operations Review or his designee. For the initial audit (fiscal 2008), the timing of this meeting will be agreed upon at a later date by the selected vendor and the Commission, but it will occur no later than May 15, 2008. For subsequent years, the review meeting will occur on or before May 31st.

The Commission will make on-site office facilities available for auditing personnel. Telephone(s) will be provided for work related use. A Commission representative will be available to assist in the scheduling (via Microsoft Outlook) of Commission resources and conference rooms for meetings if necessary. Personal Computers (PCs) and any project related software are the responsibility of the auditing firm and will not be provided by the Commission.

- The independent audit will occur at the Commission's Central Office Building. The Commission offers flexible working hours to its employees with starting times ranging from 7:00 AM – 9:30 AM and ending times from 3:00 PM – 5:30 PM. Core hours of operation are 8:30 AM – 4:30 PM Monday – Friday. The selected Independent Auditor will need to plan and staff the audit accordingly so Commission employees are available to assist and answer questions.

- The Commission will complete certain schedules (client prepared schedules) as agreed upon by the Commission and the selected Independent Auditor. The selected auditor must meet with Commission representatives and agree upon the client prepared schedules no later than May 31st of each fiscal year. The Commission will complete the majority of the client prepared schedules by the first business day following the July 4th holiday each year.

- The selected firm will complete preliminary fieldwork by May 31st of each fiscal year. The Commission is anticipating a May 1, 2008 start date for the fiscal 2008 audit. Due to fiscal year end closing, Commission employees will have limited availability during the month of June to address audit questions.

The Independent Auditor will conduct periodic meetings with the Director of Operations Review for the purpose of discussing the audit status and progress in relation to the audit program (timeline and milestones) as well as any issues identified during the performance of the audit. The Independent Auditor will also prepare written progress reports. The progress reports will address the audit timeline, preliminary findings, and any major audit issues that the firm believes to be material. The frequency of the progress reports will be determined during the entrance conference.

The Independent Auditor will complete the audit and provide the Commission with an electronic copy of the typed Audit Report (audited financial statements) no later than August 15th following the close of each fiscal year. The auditor will also provide 30 printed, bound copies of the Audit Report no later than August 22nd following the close of each fiscal year.

The Audit Report will include the following: title page; table of contents; scope, opinion and other necessary paragraphs, Management's Discussion and Analysis; basic financial statements and additional information required to conform to all applicable GASB pronouncements and requirements.

The basic financial statements will include: balance sheets; statements of revenues, expenses, and changes in net assets; statements of cash flows; notes to financial statements; and any additional information required to conform to all applicable GASB pronouncements and requirements.

The Independent Auditor will mail the completed CAFR package (application, responses to previous year's comments and suggestions, and CAFR) to the Commission no later than November 20th following the close of each fiscal year. The auditor will also provide the Commission with an electronic file copy and 30 printed, bound copies of the CAFR by November 20th following the close of each fiscal year.

The Independent Auditor will retain all working papers for a minimum of five (5) years after the issuance of the respective fiscal year Audit Report. Such working papers will be available for examination by authorized representatives of the Pennsylvania Turnpike Commission.

APPENDIX A

BASIC FINANCIAL STATEMENTS

Pennsylvania Turnpike Commission
A Component Unit of the Commonwealth of Pennsylvania
Years Ended May 31, 2007 and 2006
With Report of Independent Auditors

Pennsylvania Turnpike Commission

Basic Financial Statements

Years Ended May 31, 2007 and 2006

Contents

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, 2007 and 2006, 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 audits 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 also 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, 2007 and 2006, 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.

Management's Discussion and Analysis on pages 2 to 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

ΕΨ

September 4, 2007

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, 2007, 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.

Financial Analysis

Comparative Condensed Balance Sheets

	May 31		
	2007	**2006**	**2005**
		(In Thousands)	
Assets			
Current assets	**$ 654,864**	$ 734,753	$ 623,556
Long-term investments	**544,855**	447,092	708,758
Capital assets, net of accumulated depreciation	**3,430,937**	3,022,294	2,803,769
Other assets	**26,290**	23,809	24,547
Total assets	**$ 4,656,946**	$ 4,227,948	$ 4,160,630
Liabilities and net assets			
Current liabilities	**$ 230,368**	$ 203,842	$ 177,605
Bonds payable, net of unamortized premium and unamortized refunding losses	**2,631,488**	2,326,703	2,371,339
Other noncurrent liabilities	**34,942**	30,486	18,383
Total liabilities	**2,896,798**	2,561,031	2,567,327
Net assets:			
Invested in capital assets, net of related debt	**772,709**	666,356	408,557
Restricted	**731,995**	830,412	1,092,830
Unrestricted	**255,444**	170,149	91,916
Total net assets	**1,760,148**	1,666,917	1,593,303
Total liabilities and net assets	**$ 4,656,946**	$ 4,227,948	$ 4,160,630

As noted earlier, net assets serve as an indicator of the Commission’s overall financial position. The Commission’s total net assets were $1,760,148,000, $1,666,917,000, and $1,593,303,000 as of May 31, 2007, 2006, and 2005, respectively. Restricted net assets are reserved for projects defined in trust indentures and applicable bond issue official statements.

Total assets increased by $429.0 million and $67.3 million in fiscal 2007 and fiscal 2006, respectively. The 2007 increase is mainly the result of an increase of $408.6 million in capital assets. The increase in capital assets is the result of an increase of $318.6 million in construction in progress and a $232.6 million increase in infrastructure. The infrastructure increase is largely related to the completion of the Findlay Connector. 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. There was little change in total cash and investments from May 31, 2006 to May 31, 2007; total cash and investments increased $13.1 million or 1.2%.

Financial Analysis (continued)

Total liabilities increased by $335.8 million in fiscal 2007 and decreased by $6.3 million in fiscal 2006. The fiscal 2007 increase is mainly attributable to the Series 2006 Revenue Bonds issued primarily to finance various projects in the Commission's Ten-Year Capital Plan. Current liabilities increased by $26.5 million, which was a result of the increase in capital expenditures. The fiscal 2006 increase was mostly attributable to increases in accounts payable and contract retention resulting from the higher levels of capital spending.

Comparative Statements of Revenues and Expenses

	Year Ended May 31		
	2007	**2006**	**2005**
		(In Thousands)	
Operating:			
Operating revenues	**$ 608,444**	$ 609,608	$ 569,893
Cost of services	**(369,855)**	(362,618)	(269,125)
Depreciation	**(198,414)**	(214,885)	(211,401)
Operating income	**40,175**	32,105	89,367
Nonoperating revenues (expenses):			
Oil company franchise tax revenues	**67,071**	55,749	51,551
Motor license registration fee revenue	**28,000**	28,000	28,000
Investment earnings	**67,689**	60,506	38,927
Other nonoperating revenues	**1,405**	1,789	658
Interest and bond expense	**(135,415)**	(127,565)	(118,373)
Nonoperating income	**28,750**	18,479	763
Change in net assets before capital contributions	**68,925**	50,584	90,130
Capital contributions	**24,306**	23,030	9,647
Change in net assets	**$ 93,231**	$ 73,614	$ 99,777

For fiscal years ended May 31, 2007, 2006, and 2005, operating and nonoperating revenues totaled $772.6 million, $755.7 million, and $689.0 million, respectively, while expenses totaled $703.7 million, $705.1 million, and $598.9 million, respectively.

Financial Analysis (continued)

Total revenues for fiscal 2007 were $16.9 million higher than 2006. The main increase was in the Oil Company Franchise Tax revenues which increased $11.3 million. The Oil Company Franchise Tax rate is set annually based on the average wholesale price of gas. Therefore, because of the increase in gas prices the Oil Company Franchise Tax increased. Operating revenue decreased $1.2 million while nonoperating revenue increased $18.1 million due mainly to the increase in Oil Company Franchise Tax revenue and a $7.2 million increase in investment earnings. Total expenses for 2007 were $1.4 million lower than 2006. Cost of services increased $7.2 million or 2.0% and depreciation decreased $16.5 million or 7.7%. Although $271.2 million of capital assets were added to the depreciable base during the fiscal year ended May 31, 2007, other assets were fully depreciated, which caused the 7.7% decrease in depreciation expense.

Total revenues for fiscal 2006 were $66.7 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 $106.2 million higher than fiscal 2005. Cost of services increased by $93.5 million, depreciation expense 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 was 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 existed in various construction funds.

Financial Analysis (continued)

Capital Assets and Debt Administration

Capital Assets

The Commission’s investment in capital assets as of May 31, 2007 amounted to $6.7 billion of gross asset value with accumulated depreciation of $3.3 billion, leaving a net book value of $3.4 billion. This investment represents 73.7% of the Commission’s total assets compared with 71.5% in 2006. 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, 2006 was $3.0 billion.

Construction in progress at the end of fiscal 2007 was $1,194.4 million, which was $318.6 million higher than the fiscal 2006 amount of $875.8 million. The increase in construction in progress was the result of increased spending on projects that were not completed at year end. In fiscal 2007, $254.3 million of constructed capital assets were completed which was $212.3 million more than the $41.9 million of constructed capital assets that were completed in fiscal 2006. In addition to constructed capital assets, the Commission made capital asset acquisitions totaling more than $34.8 million and $28.4 million in fiscal 2007 and 2006, respectively.

The Commission spent $527 million on capital improvements to the existing mainline system and $190.5 million on the Mon/Fayette Expressway and Southern Beltway roadway expansion (Act 61) projects during fiscal year 2007.

Total reconstruction of the east/west mainline and northeast extension continues to be a main priority of 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 million and $10 million per mile. To date, approximately 48.5 miles of this project has been completed and reconstruction of an additional 16.5 miles has been initiated. The Commission also completed 32 miles of roadway repaving to maintain a quality riding surface, which was confirmed with a systemwide median IRI (International Roughness Index) of 83.

The westbound structure of the new Susquehanna River Bridge was opened to traffic in May 2007 while the eastbound structure followed a month later and was opened in June. Work continues on the project with the demolition of the old bridge. The complete replacement of the Allegheny River Bridge project was given notice-to-proceed in May 2007 with an estimated cost of just over $200 million.

Financial Analysis (continued)

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

The Commission continues to expand and enhance the new toll collection system that includes E-ZPass capability. All interchanges on the mainline (I-76/I-70) and northeast extension (I-476) are equipped with E-ZPass. Installation of E-ZPass continues on the Amos K. Hutchinson Expressway (Turnpike 66) and is expected to be completed in September 2007; installation of E-ZPass on the Beaver Valley Expressway (Turnpike 60) was completed in May 2007.

Facility projects continue to focus on maintaining environmental compliance and the maintenance and repair of existing buildings and building systems. Additionally, the Commission continues to work on toll plaza replacement projects and will complete the Gettysburg, Harrisburg East, and Lebanon/Lancaster interchange projects in fiscal 2008; the Norristown interchange was completed in fiscal 2007.

Equipment purchases continue to 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 Commission's capital plan includes $90 million over the next ten years for equipment.

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 late 2008 or early 2009.

Phase 2 of the Uniontown to Brownsville project, a 7-mile section, will complete the Mon/Fayette Expressway from the West Virginia State Line in Fayette County to PA Route 51 in Washington County. Phase 2 will be bid as soon as the resources are allocated to the project. Preliminary design for the section from PA Route 51 to Interstate 376 in Pittsburgh will be completed in calendar year 2007.

The proposed Southern Beltway will 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. The Findlay Connector (PA 60 to US 22), a 6-mile section of the Southern Beltway from the Pittsburgh International Airport to US 22, was opened for traffic in October 2006. The remaining two sections are currently in the environmental study phase.

Financial Analysis (continued)

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

A federal Environmental Impact Record of Decision was issued for the I-95 Turnpike interchange project in 2004. Project design started in 2004 and construction is planned to begin in 2008. The project will be completed in three stages and is expected to cost more than $1 billion.

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 June 2006, the Commission issued Series A, B, C of 2006 Revenue Bonds in the amount of $353,865,000. The 2006 Series Bonds were issued primarily to finance the cost of funding various capital expenditures as set forth in the Commission’s Ten-Year Capital Plan. Series A are fixed-rate bonds issued for $118,015,000. The Commission entered into a fixed-to-variable rate swap agreement with respect to the Series A of 2006 Revenue Bonds. Series B and C are variable-rate bonds and were issued for $117,925,000 each.

In November 2006, the Commission issued Series A and B Oil Company Franchise Tax Revenue Refunding Bonds in the amount of $240,675,000. The bonds were issued primarily to partially defease the Oil Company Franchise Tax 1998 and 2003 fixed-rate bonds. Series A are fixed-rate bonds issued for $98,705,000. Series B are also fixed-rate and were issued for $141,970,000.

In August 2006, the Commission entered into constant-maturity interest rate swap agreements with four counterparties with respect to the 2001 Series U bonds and 2002 Series A bonds. The notional value was $107,784,000 each for three of the swaps; the notional value was $134,733,000 for the fourth. The Commission receives 60.08% of the 10-year LIBOR rate and pays 67.00% of the one-month LIBOR rate.

In September 2006, the Commission entered into constant-maturity interest rate swap agreements with two counterparties with respect to the 2003 Series C Oil Company Franchise tax bonds. The notional amount for each swap was $80,000,000. The Commission receives 60.15% of the 10-year LIBOR rate and pays 67.00% of the one-month LIBOR rate.

Financial Analysis (continued)

Capital Assets and Debt Administration (continued)

Debt Administration (continued)

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

In December 2006, Governor Ed Rendell announced his intention to seek expressions of interest for a possible sale or lease of the Pennsylvania Turnpike system in order to obtain funds for highway, bridge and transit programs throughout the Commonwealth of Pennsylvania. The Commonwealth hired several firms to perform work related to a possible sale or lease of the Pennsylvania Turnpike; however, the state legislature did not support the plan and alternative proposals were considered. In July 2007, House Bill 1590, titled Act 44 of 2007, was passed by the state legislature and signed by Governor Rendell. The provisions of Act 44 require the Turnpike Commission to enter into a 50-year lease agreement with the Pennsylvania Department of Transportation (PennDOT) for the conversion of Interstate 80 to a toll facility and for the Commission to provide annual payments to PennDOT. The Commission's payments to PennDOT for the fiscal years ending May 31, 2008, 2009, and 2010 will be $750 million, $850 million, and $900 million, respectively. Beginning in 2011, the Turnpike Commission's contribution to PennDOT increases by 2.5% annually. The Commission will issue bonds and beginning in 2009, will raise tolls as necessary to provide the funds required to meet the annual obligations.

Pennsylvania Turnpike Commission

Balance Sheets

(In Thousands)

	May 31	
	2007	**2006**
Assets		
Current assets:		
Cash and cash equivalents	**$ 232,618**	$ 340,835
Short-term investments	**359,045**	335,475
Accounts receivable	**36,454**	33,558
Accrued interest receivable	**10,068**	6,561
Inventories	**16,679**	18,324
Total current assets	**654,864**	734,753
Noncurrent assets:		
Long-term investments	**544,855**	447,092
Capital assets:		
Land	**174,661**	156,816
Buildings	**666,087**	651,848
Improvements other than buildings	**58,831**	56,604
Equipment	**319,524**	305,176
Infrastructure	**4,362,098**	4,129,467
Construction in progress	**1,194,364**	875,755
	6,775,565	6,175,666
Less accumulated depreciation	**3,344,628**	3,153,372
	3,430,937	3,022,294
Other assets:		
Other assets	**385**	383
Deferred bond issuance costs	**25,905**	23,426
Total other assets	**26,290**	23,809
Total noncurrent assets	**4,002,082**	3,493,195
Total assets	**$ 4,656,946**	$ 4,227,948

	May 31	
	2007	**2006**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 154,878**	$ 131,729
Current portion of bonds payable	**52,645**	52,660
Unearned income	**22,845**	19,453
Total current liabilities	**230,368**	203,842
Noncurrent liabilities:		
Bonds payable, less current portion, net of unamortized premium of $49,005 and $34,957 in 2007 and 2006, respectively, and net of unamortized refunding loss of $73,622 and $66,204 in 2007 and 2006, respectively	**2,631,488**	2,326,703
Other noncurrent liabilities	**34,942**	30,486
Total noncurrent liabilities	**2,666,430**	2,357,189
Total liabilities	**2,896,798**	2,561,031
Net assets:		
Invested in capital assets, net of related debt	**772,709**	666,356
Restricted for certain construction and maintenance purposes	**731,995**	830,412
Unrestricted	**255,444**	170,149
Total net assets	**1,760,148**	1,666,917
Total liabilities and net assets	**$ 4,656,946**	$ 4,227,948

See accompanying notes.

Pennsylvania Turnpike Commission

Statements of Revenues, Expenses, and Changes in Net Assets

(In Thousands)

	Year Ended May 31	
	2007	**2006**
Operating revenues:		
Fares – net of discounts of $24,975 and $18,771 for the years ended May 31, 2007 and 2006, respectively	**$ 592,641**	$ 588,637
Other	**15,803**	20,971
	608,444	609,608
Operating expenses:		
Cost of services	**369,855**	362,618
Depreciation	**198,414**	214,885
	568,269	577,503
Operating income	**40,175**	32,105
Nonoperating revenues (expenses):		
Oil company franchise tax revenues	**67,071**	55,749
Motor license registration fee revenue	**28,000**	28,000
Investment earnings	**67,689**	60,506
Other nonoperating revenues	**1,405**	1,789
Interest and bond expenses	**(135,415)**	(127,565)
	28,750	18,479
Change in net assets before capital contributions	**68,925**	50,584
Capital contributions	**24,306**	23,030
Change in net assets	**93,231**	73,614
Net assets at beginning of year	**1,666,917**	1,593,303
Net assets at end of year	**$ 1,760,148**	$ 1,666,917

See accompanying notes.

Pennsylvania Turnpike Commission

Statements of Cash Flows

	Year Ended May 31	
	2007	**2006**
	(In Thousands)	
Operating activities		
Cash received from customer tolls and deposits	**$ 670,787**	$ 663,058
Cash payments for goods and services	**(261,018)**	(246,022)
Cash payments to employees	**(159,493)**	(153,889)
Cash received from other operating activities	**12,321**	14,468
Net cash provided by operating activities	**262,597**	277,615
Investing activities		
Proceeds from sales and maturities of investments	**615,114**	837,724
Interest received on investments	**54,650**	64,262
Purchases of investments	**(726,923)**	(643,425)
Net cash (used in) provided by investing activities	**(57,159)**	258,561
Capital and related financing activities		
Capital grants received	**17,203**	15,878
Construction and acquisition of capital assets	**(601,790)**	(426,220)
Proceeds from sale of capital assets	**1,422**	2,019
Payments for bond expenses	**(4,492)**	(4,708)
Payments for redemption of revenue bonds	**(306,774)**	(531,594)
Interest paid on bonds	**(121,952)**	(117,687)
Proceeds from new bonds	**607,853**	487,790
Net cash used in capital and related financing activities	**(408,530)**	(574,522)
Noncapital financing activities		
Cash proceeds from motor license grant	**28,000**	28,000
Cash proceeds from oil company franchise tax	**66,875**	55,736
Net cash provided by noncapital financing activities	**94,875**	83,736
(Decrease) increase in cash and cash equivalents	**(108,217)**	45,390
Cash and cash equivalents at beginning of year	**340,835**	295,445
Cash and cash equivalents at end of year	**$ 232,618**	$ 340,835

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

Pennsylvania Turnpike Commission

Statements of Cash Flows (continued)

	Year Ended May 31	
	2007	**2006**
	(In Thousands)	
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 40,175**	$ 32,105
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**198,414**	214,885
Change in operating assets and liabilities:		
Accounts receivable	**(1,314)**	(1,817)
Inventories	**1,645**	(1,360)
Other assets	**(2)**	(225)
Accounts payable and accrued liabilities	**22,123**	22,127
Other noncurrent liabilities	**1,556**	11,900
Net cash provided by operating activities	**$ 262,597**	$ 277,615

Noncash Activities

The Commission recorded an increase of $9.3 million and a decrease of $5.4 million in the fair value of its investments for the years ended May 31, 2007 and 2006, respectively.

See accompanying notes.

1. Financial Reporting Entity

The Pennsylvania Turnpike Commission (the Commission) was created as an instrumentality of the Commonwealth of Pennsylvania on May 21, 1937, with powers to construct, operate, and maintain the Turnpike System and to issue Turnpike revenue bonds, repayable solely from tolls and other Commission revenues. The Commission is considered a component unit of the Commonwealth of Pennsylvania (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 Statement No. 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.

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at fair value with the exception of certain nonparticipating contracts such as repurchase agreements that are reported at cost, which does not materially differ from fair value. 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. Unearned income related to E-ZPass customers was $22.8 million and $19.5 million for the years ended May 31, 2007 and 2006, respectively.

2. Summary of Significant 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. Also included is revenue from various sponsorship agreements.

Fare Revenues

Fare revenues are recognized when vehicles exit the Turnpike System. As of May 31, 2007 and 2006, approximately 56.1% and 51.2%, 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.

Nonoperating Revenues

Nonoperating revenues include: Oil Company Franchise Tax revenues, Motor License Registration Fee revenues, investment earnings, and other miscellaneous revenues not associated with the operations of the toll road.

2. Summary of Significant Accounting Policies (continued)

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 $67.1 million and $55.7 million for the fiscal years ended May 31, 2007 and 2006, respectively. These revenues are kept in a separate fund as required by the applicable bond indenture. This fund's assets equaled $666.0 million and $679.4 million as of May 31, 2007 and 2006, 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, 2007 and 2006 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 $247.0 million and $424.2 million as of May 31, 2007 and 2006, 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, 2007 and 2006, the Commission received $18.6 million and $20.7 million, respectively, in reimbursements from federal and state governments.

The Commission has entered into contracts with the operators of service plaza restaurants and service stations to totally reconstruct several service plazas. The service plaza operators provide the capital for the reconstruction in exchange for lower rental rates. The Commission assumes ownership of the reconstructed assets upon completion and records the assets as capital contributions. For the year ended May 31, 2007, the Commission received assets with total fair values of $5.7 million.

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.

2. Summary of Significant 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 1, 1998 (1998 Indenture); a Trust Indenture dated July 1, 2001, which was defeased in August 2005; and a Trust Indenture dated July 1, 2005 (collectively referred to as the Indentures) between the Commission and the Trustee (U.S. Bank Corp., successor to Wachovia Bank). Accordingly, certain activities of the Commission are restricted by the Indentures.

The Commission is required to maintain certain accounts with the Trustee as specified by the Indentures. Funds maintained in such accounts are restricted to use for construction, Turnpike System maintenance and operation, and debt service. Unrestricted funds of $255.4 million and $170.1 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, 2007 and 2006, respectively. See Notes 4 and 6 for additional disclosures.

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.

4. Cash and Investments (continued)

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**
	(In Thousands)	
May 31, 2007		
Demand deposits	**$ 140,531**	**$ 130,469**
May 31, 2006		
Demand deposits	$ 204,664	$ 192,831

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.

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, 2007 is as follows:

		Quality Ratings			
Debt Investments	**Fair Value**	**AAA**	**AA**	**A-1**	***Unrated**
			(In Thousands)		
Government agency securities	$ 691,580	$ 578,628	$ –	$ –	$ 112,952
Corporate obligations	98,079	14,904	19,964	63,211	–
Municipal bonds	20,956	20,956	–	–	–
Guaranteed investment contracts	16,827	–	–	–	16,827

*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.

4. Cash and Investments (continued)

Concentration of Credit Risk

As of May 31, 2007, the Commission had investments of more than 5% of its consolidated portfolio with the following issuers:

Issuer	Total Investments	Percent of Total
	(In Thousands)	
Federal National Mortgage Association	$ 266,165	26.46%
Federal Home Loan Bank	234,448	23.30%
Federal Home Loan Mortgage Corporation	159,348	15.84%

Interest Rate Risk

On May 31, 2007, the effective duration of the Commission's investments, by type, was as follows:

Investment Type	Fair Value	Effective Duration (Years)
	(In Thousands)	
U.S. Treasuries and GNMA mortgages	$ 76,458	1.414
Government agency security	691,580	1.228
Repurchase agreements	102,149	0.000
Municipal bonds	20,956	6.655
Guaranteed investment contracts	16,827	0.481
Corporate obligations	98,079	0.543
Total investment securities and cash equivalents	$ 1,006,049	1.152

In previous years, the Commission reported interest rate risk using the weighted average maturity method. The change to effective duration for fiscal year 2007 was made to be consistent with the Commonwealth of Pennsylvania's reporting method.

4. Cash and Investments (continued)

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

	May 31 2007	May 31 2006
	(In Thousands)	
U.S. Treasuries and GNMA Mortgages	**$ 76,458**	$ 97,872
Government agency securities	**691,580**	552,956
Municipal bonds	**20,956**	20,692
Corporate obligations	**98,079**	94,382
Repurchase agreements	**102,149**	148,004
Guaranteed investment contracts	**16,827**	16,665
Total investment securities and cash equivalents	**1,006,049**	930,571
Demand deposits	**130,469**	192,831
Total cash and cash equivalents and investments	**$ 1,136,518**	$ 1,123,402

5. Capital Assets

A summary of changes to capital assets for the years ended May 31, 2007 and 2006 is as follows:

	Balance June 1, 2006	Additions	Transfers	Retirements	Balance May 31, 2007
			(In Thousands)		
Capitalized assets not being depreciated (cost)					
Land	**$ 156,816**	**$ 17,845**	**$ –**	$ –	**$ 174,661**
Construction in progress	**875,755**	**572,861**	**(254,252)**	**–**	**1,194,364**
Total capital assets not being depreciated	**1,032,571**	**590,706**	**(254,252)**	**–**	**1,369,025**
Capitalized assets being depreciated (cost)					
Buildings	**651,848**	**4,818**	**10,709**	**1,288**	**666,087**
Improvements	**56,604**	**1,567**	**660**	**–**	**58,831**
Machinery and equipment	**305,176**	**10,523**	**10,252**	**6,427**	**319,524**
Infrastructure	**4,129,467**	**–**	**232,631**	**–**	**4,362,098**
Total capital assets being depreciated	**5,143,095**	**16,908**	**254,252**	**7,715**	**5,406,540**
Less accumulated depreciation for:					
Buildings	**198,213**	**18,179**	**–**	**1,025**	**215,367**
Improvements	**39,222**	**2,421**	**–**	**–**	**41,643**
Machinery and equipment	**242,961**	**14,561**	**–**	**6,133**	**251,389**
Infrastructure	**2,672,976**	**163,253**	**–**	**–**	**2,836,229**
Total accumulated depreciation	**3,153,372**	**198,414**	**–**	**7,158**	**3,344,628**
Total capital assets being depreciated, net	**1,989,723**	**(181,506)**	**254,252**	**557**	**2,061,912**
Total capital assets	**$ 3,022,294**	**$ 409,200**	**$ –**	**$ 557**	**$ 3,430,937**

5. Capital Assets (continued)

	Balance June 1, 2005	Additions	Transfers	Retirements	Balance May 31, 2006
			(In Thousands)		
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	643,506	431,261	(41,916)	280	1,032,571
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	5,107,505	9,422	41,916	15,748	5,143,095
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	2,947,242	214,885	–	8,755	3,153,372
Total capital assets being depreciated, net	2,160,263	(205,463)	41,916	6,993	1,989,723
Total capital assets	$ 2,803,769	$ 225,798	$ –	$ 7,273	$ 3,022,294

For the fiscal years ended May 31, 2007 and 2006, the Commission incurred interest costs of $22.5 million and $15.4 million, respectively, which qualified for capitalization. These costs were offset by an approximately equal amount of interest income resulting in a net capitalization of zero for both fiscal years.

6. Bonds Payable

Bonds payable consist of the following:

	May 31	
	2007	**2006**
	(In Thousands)	
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	**176,080**	191,190
2001 Series T: Issued $86,660 in September 2001 at 4.13% to 5.50%, due in varying installments through December 1, 2013	**77,825**	80,200
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	**85,565**	102,380
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
2006 Series A: Issued $118,015 in June 2006 at 5.00%, due in varying installments through December 1, 2026	**118,015**	–
2006 Series B: Issued $117,925 in June 2006 at a variable rate, due in varying installments through December 1, 2022	**115,715**	–
2006 Series C: Issued $117,925 in June 2006 at a variable rate, due in varying installments through December 1, 2022	**115,715**	–
Total revenue bonds payable	**1,655,270**	1,340,125

6. Bonds Payable (continued)

	May 31	
	2007	**2006**
	(In Thousands)	
Tax revenue bonds payable		
1998 Series A Oil Company Franchise Tax Revenue: Issued $310,475 in August 1998 at 3.85% to 5.50%, partially defeased in July 2003 and November 2006, due in varying installments through December 1, 2023	**$ 24,660**	$ 82,760
1998 Series B Oil Company Franchise Tax Revenue: Issued $228,405 in August 1998 at 3.85% to 5.25%, partially defeased in July 2003 and November 2006, due in varying installments through December 1, 2027	**32,280**	62,915
2003 Series A Oil Company Franchise Tax Revenue: Issued $124,730 in August 2003 at 2.50% to 5.25%, partially defeased in November 2006, due in varying installments through December 1, 2024	**61,150**	112,085
2003 Series B Oil Company Franchise Tax Revenue: Issued $197,955 in August 2003 at 2.38% to 5.50%, partially defeased in November 2006, due in varying installments through December 1, 2032	**76,180**	187,165
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
2006 Series A Oil Company Franchise Tax Revenue: Issued $98,705 in November 2006 at 5.00%, due in varying installments through December 1, 2023	**98,705**	–
2006 Series B Oil Company Franchise Tax Revenue: Issued $141,970 in November 2006 at 3.75% to 5.00%, due in varying installments through December 1, 2031	**141,970**	–
Total tax revenue bonds payable	**594,945**	604,925
Registration fee revenue bonds payable		
2005 Series A: Issued $234,135 in August 2005 at 3.25% to 5.25%, due in varying installments through July 15, 2030	**227,110**	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**	231,425
Total registration fee revenue bonds payable	**458,535**	465,560
	2,708,750	2,410,610
Unamortized premium	**49,005**	34,957
Unamortized deferred loss on advanced refundings	**(73,622)**	(66,204)
	2,684,133	2,379,363
Less current portion	**52,645**	52,660
	$ 2,631,488	$ 2,326,703

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, as supplemented; and (4) all investment earnings on all monies held in accounts and funds established by the 1998 Indenture.

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

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.

6. Bonds Payable (continued)

Changes in bonds payable are as follows:

	Balance at June 1, 2006	Additions	Reductions	Balance at May 31, 2007	Due Within One Year
			(In Thousands)		
Revenue bonds payable	**$ 1,340,125**	**$ 353,865**	**$ 38,720**	**$ 1,655,270**	**$ 35,970**
Tax revenue bonds payable	**604,925**	**240,675**	**250,655**	**594,945**	**11,345**
Registration fee bonds payable	**465,560**	**–**	**7,025**	**458,535**	**5,330**
	2,410,610	**594,540**	**296,400**	**2,708,750**	**52,645**
Bond premium (discount)	**34,957**	**17,668**	**3,620**	**49,005**	**–**
Deferred loss on advanced refundings	**(66,204)**	**(12,082)**	**(4,664)**	**(73,622)**	**–**
	$ 2,379,363	**$ 600,126**	**$ 295,356**	**$ 2,684,133**	**$ 52,645**

	Balance at June 1, 2005	Additions	Reductions	Balance at May 31, 2006	Due Within One Year
			(In Thousands)		
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
	2,451,960	465,560	506,910	2,410,610	52,660
Bond premium (discount)	4,499	25,897	(4,561)	34,957	–
Deferred loss on advanced refunding	(36,860)	(33,525)	(4,181)	(66,204)	–
	$ 2,419,599	$ 457,932	$ 498,168	$ 2,379,363	$ 52,660

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

In June 2006, the Commission issued Series A, B, and C of 2006 Revenue Bonds in the total amount of $353,865,000. These bonds were issued primarily to finance the cost of funding various capital expenditures as set forth in the Commission's Ten-Year Capital Plan. The Series A bonds are fixed-rate bonds and were issued in the amount of $118,015,000. Series B and C are variable-rate bonds and were issued in the amount of $117,925,000 each.

In November 2006, the Commission issued Oil Franchise Tax Series A and B Revenue Refunding Bonds in the total amount of $240,675,000. The bonds were issued to partially defease Series A and B of 1998 and Series A and B of 2003 Oil Company Franchise Tax Revenue Bonds. The reacquisition price exceeded the net carrying amount of the Series A bonds by $3,612,073 and the Series B bonds by $8,470,009. These amounts will be amortized over the life of the new bonds. This advance refunding was undertaken to reduce total debt service

6. Bonds Payable (continued)

payments over the next 26 years by $22,738,563 and resulted in an economic gain of $7,266,799. The 2006 Series A and B are fixed rate bonds and were issued in the amounts of $98,705,000 and $141,970,000, respectively.

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 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, 2007 and 2006, the Commission had $1,085.5 million and $862.2 million, respectively, of defeased bonds outstanding.

Debt service requirements subsequent to May 31, 2007 are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
		(In Thousands)	
2008	$ 52,645	$ 120,453	$ 173,098
2009	68,205	117,239	185,444
2010	71,265	114,481	185,746
2011	74,550	111,484	186,034
2012	77,975	108,112	186,087
2013 – 2017	453,465	480,031	933,496
2018 – 2022	438,800	382,020	820,820
2023 – 2027	520,435	279,362	799,797
2028 – 2032	507,010	160,871	667,881
2033 – 2037	325,415	52,246	377,661
2038 – 2042	118,985	11,503	130,488
	$ 2,708,750	$ 1,937,802	$ 4,646,552

6. Bonds Payable (continued)

Interest on the following bonds: 2001 Series R, 2001 Series S, 2001 Series T, 2004 Series A, 2006 Series A, 1998 Series A and B Oil Company Franchise Tax Revenue, 2003 Series A and B Oil Company Franchise Tax Revenue, and 2006 Series A and B Oil Company Franchise Tax Revenue Refunding Bonds is payable semiannually on June 1 and December 1 of each year. Interest on the 1998 Series Q Revenue Bonds, Series U Revenue Bonds, 2002 Series A and B Revenue Bonds, and 2006 Series B and C 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.

Debt service requirements subsequent to May 31, 2007 related to the 1998 Series A and B Oil Company Franchise Tax Revenue Bonds, the 2003 Series A, B, and C Oil Company Franchise Tax Revenue Bonds, and the 2006 Series A and B Oil Company Franchise Tax Revenue Refunding Bonds only are as follows:

Year Ending May 31	**Principal Maturities**	**Interest**	**Total**
		(In Thousands)	
2008	$ 11,345	$ 27,353	$ 38,698
2009	12,560	26,157	38,717
2010	13,075	25,641	38,716
2011	13,685	25,100	38,785
2012	14,340	24,471	38,811
2013 – 2017	82,715	111,700	194,415
2018 – 2022	105,420	89,645	195,065
2023 – 2027	134,760	60,368	195,128
2028 – 2032	168,330	27,521	195,851
2033 – 2037	38,715	1,195	39,910
	$ 594,945	$ 419,151	$ 1,014,096

6. Bonds Payable (continued)

Debt service requirements subsequent to May 31, 2007 related to the 2005 Registration Fee Revenue Bonds only are as follows:

Year Ending May 31	Principal Maturities	Interest	Total
		(In Thousands)	
2008	$ 5,330	$ 19,988	$ 25,318
2009	5,500	19,812	25,312
2010	5,685	19,624	25,309
2011	5,880	19,418	25,298
2012	6,095	19,159	25,254
2013 – 2017	35,350	90,775	126,125
2018 – 2022	45,460	80,374	125,834
2023 – 2027	58,720	66,771	125,491
2028 – 2032	75,850	49,327	125,177
2033 – 2037	95,680	31,480	127,160
2038 – 2042	118,985	11,503	130,488
	$ 458,535	$ 428,231	$ 886,766

6. Bonds Payable (continued)

Swap Payments and Associated Debt

Net swap payments and related debt service requirements subsequent to May 31, 2007, assuming current interest rates remain the same for their term are as follows:

Year Ending May 31	Variable-Rate Bonds Principal Maturities	Variable-Rate Bonds Interest	Fixed Interest Rate Swaps, Net	Total
	(In Thousands)			
2008	$ 17,625	$ 34,835	$ 5,305	$ 57,765
2009	18,470	34,156	5,184	57,810
2010	13,740	33,550	5,076	52,366
2011	11,515	33,076	4,992	49,583
2012	11,845	32,637	4,914	49,396
2013 – 2017	127,505	154,385	23,007	304,897
2018 – 2022	151,695	120,333	16,559	288,587
2023 – 2027	139,015	98,527	12,157	249,699
2028 – 2032	206,725	63,858	6,599	277,182
2033 – 2037	117,955	31,894	2,909	152,758
2038 – 2042	118,985	11,503	1,051	131,539
	$ 935,075	$ 648,754	$ 87,753	$ 1,671,582

Year Ending May 31	Fixed-Rate Bonds Principal Maturities	Fixed-Rate Bonds Interest	Variable Interest Rate Swaps, Net	Total
	(In Thousands)			
2008	$ –	$ 5,901	$ (361)	$ 5,540
2009	–	5,901	(361)	5,540
2010	–	5,901	(361)	5,540
2011	–	5,901	(361)	5,540
2012	–	5,901	(361)	5,540
2013 – 2017	–	29,504	(1,806)	27,698
2018 – 2022	–	29,504	(1,806)	27,698
2023 – 2027	118,015	18,432	(947)	135,500
	$ 118,015	$ 106,945	$(6,364)	$ 218,596

6. Bonds Payable (continued)

Swap Payments and Associated Debt (continued)

As rates vary, variable-rate bond interest payments and net swap payments will vary. Please refer to Note 8 Commitments and Contingencies – Interest Rate Swaps for additional information pertaining to the individual swaps.

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.

7. Retirement Benefits (continued)

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

Year Ended May 31	Commission Required Contribution	% Contributed
	(In Millions)	
2007	**$ 3.3**	**100%**
2006	$ 2.5	100%
2005	$ 1.4	100%
2004	$ .5	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.

8. Commitments and Contingencies (continued)

Construction Commitments

At May 31, 2007, the Commission had contractual commitments for various Turnpike System improvement projects. A summary of construction commitments and their related funding source at May 31, 2007 is as follows:

	Projected Funding Requirements	Contracts Awarded Through May 31, 2007	Incurred Through May 31, 2007
		(In Thousands)	
Mon/Fayette Expressway and Southern Beltway expansion projects	$ 439,780	$ 623,707	$ 335,384
All other construction projects	4,661,046	1,531,409	753,368
	$ 5,100,826	$ 2,155,116	$ 1,088,752

The Mon/Fayette Expressway and Southern Beltway expansion projects are funded by the Registration Fee Revenue Bonds and Oil Company Franchise Tax Revenue Bonds. All other construction projects are funded by operating revenues and various Revenue bonds.

Interest Rate Swaps

In June 2006, the Commission entered into a fixed-to-variable swap agreement with a counterparty with respect to Series A of the 2006 Revenue Bonds. The purpose of this agreement was to provide an overall cost savings for the Commission. The total notional amount of the swap is $118,015,000.

The Commission entered into constant-maturity swap agreements in both August and September 2006 to benefit from expected changes in the 10-year LIBOR versus the one-month LIBOR yield curves. The August agreements were with four different swap providers (counterparties) with respect to the Series U of 2001 and Series A of 2002 Revenue bonds and had a total notional value of $458,085,000. The September agreements were with two different swap providers and were placed with respect to the Series C of 2003 Oil Company Franchise Tax Multi-Modal Revenue bonds; the total notional value of the two agreements is $160,000,000.

8. Commitments and Contingencies (continued)

Interest Rate Swaps (continued)

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.

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.

8. Commitments and Contingencies (continued)

Interest Rate Swaps (continued)

Following is a summary of the swaps in place as of May 31, 2007. These swap agreements contain certain risks as described below.

			Receivable		Payable		
Associated Debt	**Notional Value**	**Final Maturity**	**Floating Rate Index[1]**	**Fixed Rate**	**Floating Rate Index[1]**	**Fixed Rate**	**Fair Value (to) from Counterparty**
Series U 2001	$ 127,365,000	12/01/2019	67.00% of 1-month LIBOR			4.21%	$ (6,337,415)
	42,455,000	12/01/2019					(2,112,755)
	72,066,250	12/01/2030	67.00% of 1-month LIBOR			4.40%	(6,086,624)
Series A 2002	144,070,000	12/01/2030					(12,167,485)
	72,066,250	12/01/2030					(6,086,624)
Series U 2001 and A 2002	107,784,000	12/01/2030	60.08% of 10-year LIBOR		67.00% of 1-month LIBOR		(1,069,508)
Constant maturity	107,784,000	12/01/2030					(1,069,508)
	107,784,000	12/01/2030					(1,069,508)
	134,733,000	12/01/2030					(1,336,895)
	21,391,250	12/01/2012	BMA			4.54%	(477,628)
Series B 2002	42,782,500	12/01/2012					(954,678)
	21,391,250	12/01/2012					(477,674)
Series C 2003	48,000,000	12/01/2032	63.00% of 1-month LIBOR			3.84%	(1,212,324)
	112,000,000	12/01/2032	plus 20 basis points				(2,822,378)
Series C 2003	80,000,000	11/15/2032	60.15% of 10-year LIBOR		67.00% of 1-month LIBOR		(979,164)
Constant maturity	80,000,000	11/15/2032					(979,164)
Series 2005	57,860,000	07/15/2041	BMA			4.20%	(450,438)
	57,845,000						(451,787)
	57,860,000						(450,438)
	57,860,000						(450,438)
Series A 2006	118,015,000	12/01/2026		4.19%	BMA		1,941,191
Series 2008	100,000,000	12/01/2038	BMA			4.89%	(9,292,902)
Forward starting	100,000,000						(9,291,997)
	100,000,000						(9,292,899)
	$ 1,971,112,500						$(72,979,040)

[1] 1-month LIBOR was 5.32% at May 31, 2007.
10-year LIBOR was 5.4565% at May 31, 2007.
BMA was 3.76% at May 31, 2007.

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, 2007, the Commission's credit risk exposure is limited to the Series A 2006 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 ten counterparties at May 31, 2007. The credit ratings of the swap providers as of May 31, 2007 were AAA to A+ and Aaa to A1 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 is exposed to variable interest rates with respect to the fixed-to-variable swap agreement associated with the Series A of 2006 Revenue Bonds. Additionally, the Commission will be exposed to variable interest rates if one or more of the swap providers for the variable-to-fixed swap agreement defaults or if a variable-to-fixed 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.

  The Commission is also exposed to basis risk related to the constant maturity swap agreements. The exposure for the agreements associated with the Series U of 2001 and Series A of 2002 Revenue Bonds is to the extent 67% of one-month LIBOR exceeds 60.08% of 10-year LIBOR while the exposure for the agreements associated with the Series C of 2003 Oil Company Franchise Tax Multi-Modal Revenue Bonds is to the extent 67% of one-month LIBOR exceeds 60.15% of 10-year LIBOR.

8. Commitments and Contingencies (continued)

Interest Rate Swaps (continued)

- ***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.

9. Related Party Transactions

The Commission incurred costs of $30.7 million and $29.0 million related to its use of the Commonwealth's State Police in patrolling the Turnpike System in 2007 and 2006, 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, 2007, 811 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 $5.9 million and $5.5 million in 2007 and 2006, respectively.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in financial reports of state and local government employers. The Commission is required to adopt GASB Statement No. 45 for its fiscal 2008 financial statements.

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 $12.8 million and $13.5 million for loss and loss adjustment expenses on claims relating to self-insurance that have been incurred but not reported as of May 31, 2007 and 2006, respectively. This liability is based on GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be recorded if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is calculated based on the Commission's past loss experience. The liability was discounted using a rate of 3.59% as of May 31, 2007 and 2006. 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, 2007 and 2006. 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.

11. Self-Insurance (continued)

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

	June 1, 2006 Liability	Effects of Discount as of June 1, 2006	Incurred Claims		Paid Claims		Effects of Discount as of May 31, 2007	May 31, 2007 Liability
			Current Year	Prior Years	Current Year	Prior Years		
				(In Thousands)				
Year ended May 31, 2007								
Workers' compensation	**$ 7,225**	**$ 2,021**	**$ 1,334**	**$ 1,930**	**$ 739**	**$ 2,207**	**$ 2,023**	**$ 7,541**
Automobile/general tort	**6,300**	**–**	**106**	**576**	**29**	**1,674**	**–**	**5,279**
	$ 13,525	**$ 2,021**	**$ 1,440**	**$ 2,506**	**$ 768**	**$ 3,881**	**$ 2,023**	**$ 12,820**

	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		
				(In Thousands)				
Year ended May 31, 2006								
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
	$ 14,683	$ 2,297	$ 1,972	$ 300	$ 652	$ 3,054	$ 2,021	$ 13,525

The foregoing reflects an adjustment for a deficiency of $2.5 million and $0.3 million in May 31, 2007 and 2006, respectively, for prior years' incurred claims that resulted from a change in estimate as more information became available.

12. 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 $1,843,218 and $1,719,780 in November 2006 and 2005, respectively.

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.

12. Compensated Absences (continued)

Upon termination of employment, all unused sick and vacation leave is paid to the employee. A summary of changes to compensated absences for the years ended May 31, 2007 and 2006 is as follows:

Fiscal Year Ended May 31,	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
			(In Thousands)		
2007	**$ 15,002**	**$ 10,545**	**$ 9,200**	**$ 16,347**	**$ 9,001**
2006	$ 12,951	$ 10,572	$ 8,521	$ 15,002	$ 7,771

13. 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's Oil Company Franchise Tax. This revenue is pledged against the associated 1998 Series A and B Oil Company Franchise Tax Revenue Bonds, the 2003 Series A, B, and C Oil Company Franchise Tax Revenue Bonds and the 2006 Series A and B Oil Company Franchise Tax Revenue Bonds.

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

13. Segment Information (continued)

Balance Sheet

	May 31, 2007			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Assets				
Current assets:				
Cash and cash equivalents	$ 164,852	$ 48,500	$ 19,266	$ 232,618
Short-term investments	143,294	151,430	64,321	359,045
Accounts receivable	30,893	5,561	–	36,454
Accrued interest receivable	4,585	4,318	1,165	10,068
Inventories	16,679	–	–	16,679
Total current assets	360,303	209,809	84,752	654,864
Noncurrent assets:				
Long-term investments	253,993	261,613	29,249	544,855
Capital assets:				
Land	174,661	–	–	174,661
Buildings	666,087	–	–	666,087
Improvements other than buildings	58,831	–	–	58,831
Equipment	319,524	–	–	319,524
Infrastructure	4,362,098	–	–	4,362,098
Construction in progress	878,657	187,580	128,127	1,194,364
	6,459,858	187,580	128,127	6,775,565
Less accumulated depreciation	3,344,628	–	–	3,344,628
	3,115,230	187,580	128,127	3,430,937
Other assets:				
Other assets	385	–	–	385
Deferred bond issuance costs	13,992	7,020	4,893	25,905
Total other assets	14,377	7,020	4,893	26,290
Total noncurrent assets	3,383,600	456,213	162,269	4,002,082
Total assets	$ 3,743,903	$ 666,022	$ 247,021	$ 4,656,946

Continued on the following page.

13. Segment Information (continued)

Balance Sheet (continued)

	May 31, 2007			
	Mainline	**Oil Franchise**	**Motor License**	**Total**
	(In Thousands)			
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	**$ 124,554**	**$ 24,731**	**$ 5,593**	**$ 154,878**
Current portion of bonds payable	**35,970**	**11,345**	**5,330**	**52,645**
Unearned income	**22,845**	**–**	**–**	**22,845**
Total current liabilities	**183,369**	**36,076**	**10,923**	**230,368**
Noncurrent liabilities:				
Bonds payable, less current portion, net of unamortized premium/discount	**1,600,151**	**585,370**	**445,967**	**2,631,488**
Other noncurrent liabilities	**34,740**	**202**	**–**	**34,942**
Total noncurrent liabilities	**1,634,891**	**585,572**	**445,967**	**2,666,430**
Total liabilities	**1,818,260**	**621,648**	**456,890**	**2,896,798**
Net assets:				
Invested in capital assets, net of related debt	**1,493,102**	**(402,117)**	**(318,276)**	**772,709**
Restricted for certain construction and maintenance purposes	**346,775**	**297,622**	**87,598**	**731,995**
Unrestricted	**85,766**	**148,869**	**20,809**	**255,444**
Total net assets	**1,925,643**	**44,374**	**(209,869)**	**1,760,148**
Total liabilities and net assets	**$ 3,743,903**	**$ 666,022**	**$ 247,021**	**$ 4,656,946**

13. Segment Information (continued)

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended May 31, 2007			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Operating revenues:				
Net fares	$ 592,641	$ –	$ –	$ 592,641
Other	15,803	–	–	15,803
	608,444	–	–	608,444
Operating expenses:				
Cost of services	316,410	52,925	520	369,855
Depreciation	198,414	–	–	198,414
	514,824	52,925	520	568,269
Operating income (loss)	93,620	(52,925)	(520)	40,175
Nonoperating revenues (expenses):				
Oil company franchise tax revenues	–	67,071	–	67,071
Motor license registration fee revenue	–	–	28,000	28,000
Investment earnings	33,613	28,234	5,842	67,689
Other nonoperating revenues	1,405	–	–	1,405
Interest and bond expenses	(84,045)	(28,549)	(22,821)	(135,415)
	(49,027)	66,756	11,021	28,750
Change in net assets before capital contributions	44,593	13,831	10,501	68,925
Capital contributions	19,071	5,235	–	24,306
Change in net assets	63,664	19,066	10,501	93,231
Net assets at beginning of year	1,662,244	48,955	(44,282)	1,666,917
Asset transfers	199,735	(23,647)	(176,088)	–
Net assets at end of year	$ 1,925,643	$ 44,374	$(209,869)	$ 1,760,148

13. Segment Information (continued)

Statement of Cash Flows

	Year Ended May 31, 2007			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Operating activities				
Cash received from customer tolls and deposits	**$ 670,787**	**$ –**	**$ –**	**$ 670,787**
Cash payments for goods and services	**(203,761)**	**(51,095)**	**(6,162)**	**(261,018)**
Cash payments to employees	**(159,493)**	**–**	**–**	**(159,493)**
Cash received from other operating activities	**11,742**	**579**	**–**	**12,321**
Net cash provided by (used in) operating activities	**319,275**	**(50,516)**	**(6,162)**	**262,597**
Investing activities				
Proceeds from sales and maturities of investments	**292,844**	**295,647**	**26,623**	**615,114**
Interest received on investments	**25,719**	**24,060**	**4,871**	**54,650**
Purchases of investments	**(537,365)**	**(147,868)**	**(41,690)**	**(726,923)**
Net cash (used in) provided by investing activities	**(218,802)**	**171,839**	**(10,196)**	**(57,159)**
Capital and related financing activities				
Capital grants received	**12,874**	**4,329**	**–**	**17,203**
Construction and acquisition of capital assets	**(462,996)**	**(144,687)**	**5,893**	**(601,790)**
Proceeds from sale of capital assets	**1,422**	**–**	**–**	**1,422**
Payments for bond expenses	**(2,343)**	**(1,824)**	**(325)**	**(4,492)**
Payments for redemption of revenue bonds	**(38,720)**	**(261,029)**	**(7,025)**	**(306,774)**
Interest paid on bonds	**(72,823)**	**(27,860)**	**(21,269)**	**(121,952)**
Proceeds from new bonds	**356,688**	**251,165**	**–**	**607,853**
Net cash used in capital and related financing activities	**(205,898)**	**(179,906)**	**(22,726)**	**(408,530)**

Continued on the following page.

13. Segment Information (continued)

Statement of Cash Flows (continued)

	Year Ended May 31, 2007			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Noncapital financing activities				
Cash proceeds from motor license grant	$ –	$ –	$ 28,000	$ 28,000
Cash proceeds from oil company franchise tax	–	66,875	–	66,875
Net cash provided by noncapital financing activities	–	66,875	28,000	94,875
Increase (decrease) in cash and cash equivalents	(105,425)	8,292	(11,084)	(108,217)
Cash and cash equivalents at beginning of year	270,277	40,208	30,350	340,835
Cash and cash equivalents at end of year	$ 164,852	$ 48,500	$ 19,266	$ 232,618

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

13. Segment Information (continued)

Statement of Cash Flows (continued)

	Year Ended May 31, 2007			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	**$ 93,620**	**$ (52,925)**	**$ (520)**	**$ 40,175**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	**198,414**	–	–	**198,414**
Change in operating assets and liabilities:				
Accounts receivable	**(1,314)**	–	–	**(1,314)**
Inventories	**1,645**	–	–	**1,645**
Other assets	**(2)**	–	–	**(2)**
Accounts payable and accrued liabilities	**25,356**	**2,409**	**(5,642)**	**22,123**
Other noncurrent liabilities	**1,556**	**–**	**–**	**1,556**
Net cash provided by (used in) operating activities	**$ 319,275**	**$ (50,516)**	**$ (6,162)**	**$ 262,597**
Noncash activities				
Increase in fair value of investments	**$ 3,805**	**$ 4,910**	**$ 537**	**$ 9,252**

13. Segment Information (continued)

Balance Sheet

	May 31, 2006			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
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	383	–	–	383
Deferred bond issuance costs	11,175	7,215	5,036	23,426
Total other assets	11,558	7,215	5,036	23,809
Total noncurrent assets	2,708,819	406,717	377,659	3,493,195
Total assets	$ 3,124,323	$ 679,437	$ 424,188	$ 4,227,948

Continued on the following page.

13. Segment Information (continued)

Balance Sheet (continued)

	May 31, 2006			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	$ 99,183	$ 22,184	$ 10,362	$ 131,729
Current portion of bonds payable	34,300	11,335	7,025	52,660
Deferred revenue	19,453	–	–	19,453
Total current liabilities	152,936	33,519	17,387	203,842
Noncurrent liabilities:				
Bonds payable, less current portion, net of unamortized premium/discount	1,278,846	596,774	451,083	2,326,703
Other noncurrent liabilities	30,297	189	–	30,486
Total noncurrent liabilities	1,309,143	596,963	451,083	2,357,189
Total liabilities	1,462,079	630,482	468,470	2,561,031
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	1,662,244	48,955	(44,282)	1,666,917
Total liabilities and net assets	$ 3,124,323	$ 679,437	$ 424,188	$ 4,227,948

13. Segment Information (continued)

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended May 31, 2006			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Operating revenues:				
Net fares	$ 588,637	$ –	$ –	$ 588,637
Other	20,971	–	–	20,971
	609,608	–	–	609,608
Operating expenses:				
Cost of services	356,947	3,797	1,874	362,618
Depreciation	214,885	–	–	214,885
	571,832	3,797	1,874	577,503
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

13. Segment Information (continued)

Statement of Cash Flows

	Year Ended May 31, 2006			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Operating activities				
Cash received from customer tolls and deposits	$ 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	417,358	287,603	132,763	837,724
Interest received on investments	30,644	25,783	7,835	64,262
Purchases of investments	(285,416)	(294,275)	(63,734)	(643,425)
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
Construction and 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.

13. Segment Information (continued)

Statement of Cash Flows (continued)

	Year Ended May 31, 2006			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
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	$ 270,277	$ 40,208	$ 30,350	$ 340,835

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

13. Segment Information (continued)

Statement of Cash Flows (continued)

	Year Ended May 31, 2006			
	Mainline	Oil Franchise	Motor License	Total
	(In Thousands)			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 37,776	$ (3,797)	$ (1,874)	$ 32,105
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	214,885	–	–	214,885
Change in operating assets and liabilities:				
Accounts receivable	(1,817)	–	–	(1,817)
Inventories	(1,360)	–	–	(1,360)
Other assets	(225)	–	–	(225)
Accounts payable and accrued liabilities	14,593	10,297	(2,763)	22,127
Other noncurrent liabilities	11,900	–	–	11,900
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)

14. Subsequent Events

On July 18, 2007, Governor Rendell signed into law Pennsylvania State Legislature HB1590, titled Act 44 of 2007, which included amendments to existing Title 74, Chapter 13, of the Pennsylvania Tax Reform Code regarding the Pennsylvania Turnpike Commission (Commission).

The provisions require the Commission to enter into a 50-year lease agreement by October 15, 2007, with PennDOT for the conversion of I-80 to a toll facility and to provide annual payments to PennDOT to fund Highway, Bridge, and Transit programs throughout the Commonwealth. For the fiscal years ending May 31, 2008, 2009, and 2010, the Commission is required to provide \$750 million, \$850 million, and \$900 million, respectively, to PennDOT. The payment for the fiscal year ending May 31, 2011, and each fiscal year thereafter for the remainder of the lease term, will be the amount calculated for the previous year increased by 2.5%. The Commission will issue bonds and beginning in 2009, will raise tolls as necessary to provide funds required to meet its payment obligations to PennDOT.

Addendum No. 1

RFP # RFP 06-105-3546

Annual Independent Audit Services

Following are the answers to questions submitted in response to the above referenced RFP as of 11:00 AM, October 19, 2007. All of the questions have been listed verbatim, as received by the Pennsylvania Turnpike Commission.

1. Is a single audit required?

- No, a Single Audit is not required.

2. Do you have a SAS70 performed for the EZ Pass Activities?

- The Service Provider contracted by the PTC to manage our Electronic Toll Collection Program services only the Pennsylvania Turnpike Commission. The Commission contracted with an independent audit firm to conduct an internal control assessment of the Service Provider to gain an understanding of the control environment, test the controls and identify risk resulting form insufficient or improperly implemented and/or non-existent controls.

3. Are all accounting functions centralized?

- Yes, however, the Commission has a third party Customer Service Center that processes E-ZPass related transactions. This third party provides the Commission with summary data that is posted to the Commission's financial records each month.

4. What source information is available to verify the oil company franchise tax revenues and the motor license registration fee revenue?

- The Commission receives letters from the Bureau of Fiscal Management each month stating the amount of money that will be transferred to the Commission.

5. Will you disclose the prior audit fees?

- The fees for the fiscal 2007 audit services were $101,100.

6. Will you establish an OPEB plan, if so will it have a separate report?

- It is the Commission's intent to establish an OPEB trust. We do not plan to issue a separate report.

7. Do you have SAS70s on self insurance?

- No we do not have a SAS70 on Self Insurance.

8. How many hours will Internal Audit provide to assist in audit testing?

The Commission does not have an accurate estimate of hours available for internal audit staff assistance. During recent annual financial audits, Operations Review Department staff performed trust indenture compliance, cash disbursement, payroll and unrecorded liabilities testing while the Toll Revenue Audit Department performed internal audits of key processes in the E-ZPass Customer Service Center and Violations Processing Center that could impact the basic financial statement audit as determined by the Independent Auditor.

9. Can you expand on how you anticipate Act 44 will impact your financial operations besides the issuance of debt?

Since the Commission has only recently signed the lease with PennDOT for the tolling of Route 80, we are unable to expand on how Act 44 will affect our financial operations other than to anticipate an increase in the amount of financial transactions in the general ledger accounts relating to the implementation of the Act's requirements. We are expecting each proposer to discuss their thought as to any impact of Act 44 to the Commission's financial operations.

10. Costs submitted for advisory services, such as technology audits and guidance relating to the SAP system – please explain in further detail the requested services; is cost submitted for this part to include hourly billing rates only or is an estimate of hours also to be included?

The Commission does not have any specific services or audits identified at this time. We anticipate supplementing existing internal audit capabilities on an "as-needed" work order basis to assist in the performance of specialized audits or projects involving SAP, VIRSA or other third party software as well as other audits or reviews requiring specialized auditing expertise that may not be available in-house. For these services, we request only the level of staff available along with their corresponding hourly rates and other relevant costs.

11. Please explain in further detail the extent of schedules and testing performed by Commission staff?

Refer to our response to question #8 for audit testing performed by the Commission. Schedules prepared by the Commission's Accounting Department include the following:

Trial Balances for all Funds
Cash (Including Bank Reconciliations)
Investments
Receivables
Inventories
Capital Assets
Accounts Payable, Accrual & Other Liabilities
Long-Term Debt
Contingent Liabilities
Net Assets
Revenues and Expenses

In addition to the calculation of standard annual audit costs for each contract year, list separately any additional costs for each year that are the result of implementing Act 44 using the same cost elements and format outlined in the items a-e above.

Separately itemize the cost per hour and level of staff available to provide Supplemental Auditing Services described in Section I-4 of the RFP. Since no specific audits have been identified at this time, no estimated hours or total costs are required.

All other terms, conditions and requirements of the original RFP dated October 8, 2007 remain unchanged unless modified by this Addendum.