



**MASSACHUSETTS TURNPIKE AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements, Required Supplementary Information, and  
Supplementary Schedules

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

# MASSACHUSETTS TURNPIKE AUTHORITY

December 31, 2003 and 2002

## Table of Contents

|   | <b>Page</b> |
|---|-------------|
| Independent Auditors' Report  | 1 – 2       |
| Management's Discussion and Analysis – Required Supplementary Information                                   | 3 – 11      |
| Component Unit Financial Statements:  |             |
| Statements of Net Assets  | 12          |
| Statements of Revenues, Expenses, and Changes in Net Assets   | 13          |
| Statements of Cash Flows  | 14          |
| Notes to Financial Statements   | 15 – 35     |
| <b>Required Supplementary Information:</b>  |             |
| Schedule of Funding Progress  | 36          |
| <b>Supplementary Schedules:</b>   |             |
| Schedule I:   |             |
| Combining Schedule of Net Assets as of December 31, 2003  | 37 – 38     |
| Schedule II:  |             |
| Combining Schedule of Revenues, Expenses, and Changes in Net Assets for the year ended<br>December 31, 2003 | 39          |
| Schedule III:   |             |
| Combining Schedule of Net Assets as of December 31, 2002  | 40 – 41     |
| Schedule IV:  |             |
| Combining Schedule of Revenues, Expenses, and Changes in Net Assets for the year ended<br>December 31, 2002 | 42          |



**KPMG LLP**  
99 High Street  
Boston, MA 02110-2371

Telephone 617 988 1000  
Fax 617 988 0800  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

## **Independent Auditors' Report**

Members of the Board of Directors  
Massachusetts Turnpike Authority:

We have audited the accompanying statements of net assets of the Massachusetts Turnpike Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of December 31, 2003 and 2002, 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 Authority'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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Authority at December 31, 2003 and 2002, 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 of America.

The Management's Discussion and Analysis on pages 3 through 11 and the schedule of funding progress on page 36 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audits were made for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The combining schedules of net assets as of December 31, 2003 and 2002 (Schedules I and III, respectively) and the combining schedules of revenues, expenses, and changes in net assets for the years then ended (Schedules II and IV, respectively) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



In accordance with *Government Auditing Standards*, we have also issued a separate report dated September 17, 2004, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

September 17, 2004

## MASSACHUSETTS TURNPIKE AUTHORITY

### Required Supplementary Information Management's Discussion and Analysis

This section of the Massachusetts Turnpike Authority's (the Authority) annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal years that ended on December 31, 2003 and 2002. Please read it in conjunction with the Authority's financial statements, which follow this section.

#### **Financial Highlights – Fiscal 2003**

- In May 2003, the Authority sold its interest in 91 acres of surplus land in Allston for \$75.1 million. This revenue was pledged to Metropolitan Highway System (MHS) bondholders and invested in a manner to provide funding for commuter toll relief through 2007.
- During 2003, the Authority's Board extended its FAST LANE toll discount program through 2004, with the intention of funding the program through 2007 using funds from the Allston land sale. Since the program's inception, in July 2002 through December 2003, the Authority has provided over \$14.5 million in toll discounts to FAST LANE commuters.
- Traffic on the Turnpike and tunnels increased by over 2.6 million toll transactions in 2003 (compared to 2002), a 1.4% increase. Gross toll revenue increased by 13.6%, reflecting both an increase in traffic and the July 1, 2002 toll increase on the MHS.
- In 2003, the Authority recorded the transfer of additional property interests in the Central Artery North Area (CANA) and Ted Williams Tunnel (TWT). The Authority recognized approximately \$236 million as contributed capital assets as a result of the property transfer.

#### **Financial Highlights – Fiscal 2002**

- Total operating revenues of approximately \$256 million increased, compared to 2001, by 9% due to a toll increase effective July 1, 2002. The Metropolitan Highway System toll rates increased by 25 cents per axle on the Boston Extension while tunnel rates were increased by 50% for all classes of vehicles. Customers who participate in the FAST LANE electronic toll program receive a discount equal to 50% of the MHS toll increase.
- Total 2002 operating expenses increased by approximately \$2.0 million or 1% overall, compared to 2001. Severe winter weather and escalating insurance costs contributed to a 4% increase in costs for operations and public protection, which was offset in part by cost reductions in other areas.
- During fiscal 2002, the Authority offered an early retirement incentive to eligible employees. Approximately 100 employees participated in this program, which resulted in a one time cost to the Authority of approximately \$1.8 million.
- In October 2002, Morgan Guaranty Trust Company (MGTC) exercised its option related to an interest rate swap option agreement executed in 1999.
- In November 2002, the Authority entered into an interest rate swap option agreement with Lehman Brothers Special Financing, Inc. Under this agreement the Authority received \$6.4 million in 2002 and will receive an additional \$28.8 million over the next five years. The term of this agreement is for 35 years.
- In February 2002 the Authority received and deferred approximately \$15 million in prepaid rent per the terms of a previously negotiated air rights agreement with a local development company. Consistent with the Authority's MHS Trust Agreement, these funds were invested to provide a revenue stream to satisfy debt service requirements in fiscal years 2003 through 2008.

# MASSACHUSETTS TURNPIKE AUTHORITY

## Required Supplementary Information Management's Discussion and Analysis

### **Overview of the Financial Statements**

The financial section of this report consists of the following parts: management's discussion and analysis (this section), the financial statements and related notes to financial statements and other supplementary information.

The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further supports the information in the basic financial statements.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government enterprise funds and employ the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All resulting assets and liabilities associated with the operation of the Authority are included in the Statement of Net Assets.

### **Financial Analysis of the Authority**

#### *Net Assets*

The Authority's total net assets at December 31, 2003 were approximately \$672.7 million, a 69% increase from December 31, 2002. (See Table A-1). Total assets increased 9% to approximately \$3,338.9 million. Total liabilities decreased slightly (0.2%) to approximately \$2,666.2 million. The increase in net assets is attributable, in part, to the transfer of costs from the Commonwealth related to the CANA and TWT properties and the gain on the sale of the Allston land.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Required Supplementary Information  
Management's Discussion and Analysis

The Authority's total net assets at December 31, 2002 were approximately \$398.7 million, a 5% decrease over December 31, 2001. (See Table A-1.) Total assets increased 0.4% to \$3,070.5 million, and total liabilities increased 1% to \$2,671.9 million.

**Table A-1**  
**Massachusetts Turnpike Authority's Net Assets**  
(In thousands, except percentages)

|   | <u>2003</u>       | <u>2002</u>      | <u>2001</u>      | <b>Percentage<br/>change<br/>2003-2002</b> | <b>Percentage<br/>change<br/>2002-2001</b> |
|---|-------------------|------------------|------------------|--|--|
| Current assets                                  | \$ 114,002        | 134,505          | 123,999          | (15)%                                      | 8%   |
| Restricted assets                               | 752,254           | 689,123          | 709,831          | 9%   | (3)%                                       |
| Capital assets                                  | 2,431,029         | 2,196,701        | 2,194,025        | 11%  | 0%   |
| Other   | 41,577            | 50,214           | 30,345           | (17)%                                      | 65%  |
| <b>Total assets</b>                             | <u>3,338,862</u>  | <u>3,070,543</u> | <u>3,058,200</u> | 9%   | 0%   |
| Current liabilities:                            |                   |                  |                  |  |  |
| Other   | 80,051            | 54,202           | 49,525           | 48%  | 9%   |
| Liabilities payable from restricted assets      | 60,554            | 60,904           | 61,190           | (1)%                                       | (0)%                                       |
| Noncurrent liabilities:                         |                   |                  |                  |  |  |
| Other   | 155,223           | 151,010          | 113,622          | 3%   | 33%  |
| Long-term debt, net                             | 2,370,382         | 2,405,766        | 2,414,265        | (1)%                                       | (0)%                                       |
| <b>Total liabilities</b>                        | <u>2,666,210</u>  | <u>2,671,882</u> | <u>2,638,602</u> | (0)%                                       | 1%   |
| Net assets:                                     |                   |                  |                  |  |  |
| Invested in capital assets, net of related debt | 327,530           | 65,748           | 123,148          | 398%                                       | (47)%                                      |
| Restricted for construction                     | —                 | —                | 37,328           | 0%   | (100)%                                     |
| Restricted for other purposes                   | 87,592            | 40,672           | 44,603           | 115%                                       | (9)%                                       |
| Unrestricted                                    | 257,530           | 292,241          | 214,519          | (12)%                                      | 36%  |
| <b>Total net assets</b>                         | <u>\$ 672,652</u> | <u>398,661</u>   | <u>419,598</u>   | 69%  | (5)%                                       |

*Changes in Net Assets*

The increase in total net assets from December 31, 2002 to December 31, 2003 was approximately \$274.0 million (69%). (See Table A-2.) The Authority's total operating revenues increased from 2002 by 12% to approximately \$287.4 million. Total operating expenses increased 23% from 2002 to approximately \$226.6 million. The increase relates principally to increases in depreciation expense and public safety costs.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Required Supplementary Information  
Management's Discussion and Analysis

The decrease in net assets, from December 31, 2001 to December 31, 2002, was approximately \$20.9 million or (5%). (See Table A-2.) The Authority's total operating revenues increased by 9% to approximately \$256.0 million, and total operating expenses increased 1% to approximately \$183.8 million.

**Table A-2**  
**Changes in the Massachusetts Turnpike Authority's Net Assets**  
(In thousands, except percentages)

|                                     | <u>2003</u>       | <u>2002</u>       | <u>2001</u>       | <u>Percentage<br/>change<br/>2003-2002</u> | <u>Percentage<br/>change<br/>2002-2001</u> |
|-------------------------------------|-------------------|-------------------|-------------------|--|--|
| Operating revenues:                 |                   |                   |                   |  |  |
| Toll revenue                        | \$ 244,092        | 214,352           | 187,805           | 14%  | 14%  |
| Concession revenue                  | 18,066            | 14,404            | 13,952            | 25%  | 3%   |
| Other                               | 25,228            | 27,246            | 33,766            | (7)%                                       | (19)%                                      |
| Total operating revenues            | <u>287,386</u>    | <u>256,002</u>    | <u>235,523</u>    | <u>12%</u>                                 | <u>9%</u>                                  |
| Operating expenses:                 |                   |                   |                   |  |  |
| Operating expenses                  | 152,997           | 132,364           | 131,570           | 16%  | 1%   |
| Depreciation                        | 73,632            | 51,420            | 50,206            | 43%  | 2%   |
| Total operating expenses            | <u>226,629</u>    | <u>183,784</u>    | <u>181,776</u>    | <u>23%</u>                                 | <u>1%</u>                                  |
| Operating income                    | 60,757            | 72,218            | 53,747            | (16)%                                      | 34%  |
| Net nonoperating (expenses) income  | (97,933)          | (93,155)          | (86,999)          | 5%   | 7%   |
| Special items:                      |                   |                   |                   |  |  |
| Gain on sale of capital asset       | 75,148            | —                 | —                 | 100%                                       | 0%   |
| Contributed capital assets          | 236,019           | —                 | —                 | 100%                                       | 0%   |
| Changes in net assets               | <u>311,167</u>    | <u>—</u>          | <u>—</u>          | <u>100%</u>                                | <u>—</u>                                   |
| Changes in net assets               | 273,991           | (20,937)          | (33,252)          | (1,409)%                                   | (37)%                                      |
| Total net assets, beginning of year | <u>398,661</u>    | <u>419,598</u>    | <u>452,850</u>    | <u>(5)%</u>                                | <u>(7)%</u>                                |
| Total net assets, end of year       | \$ <u>672,652</u> | \$ <u>398,661</u> | \$ <u>419,598</u> | <u>69%</u>                                 | <u>(5)%</u>                                |

The increase in operating revenue from 2002 to 2003 is primarily due to the toll increase that was implemented in July 2002 as well as increases in traffic flow. Tolls were increased by 25 cents per axle on the Authority's Boston Extension and 50% at the tunnels. The toll increase was only effective for the MHS. Effective July 1, 2002, the Authority also enacted a discount program to mitigate the increase in tolls for all two axle passenger vehicles utilizing the FAST LANE program. The discount is equal to 50% of the toll increase and is subject to annual review by the board of directors.

## MASSACHUSETTS TURNPIKE AUTHORITY

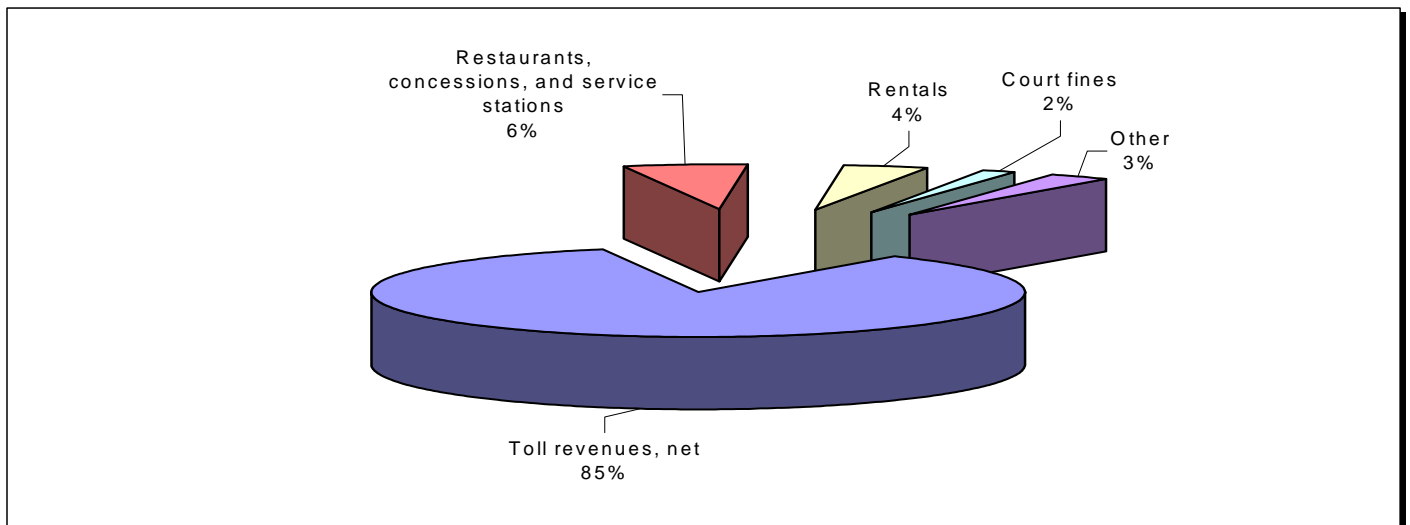
### Required Supplementary Information Management's Discussion and Analysis

Revenues generated from restaurant, concessions, and service stations were up in 2003. The increase from 2002 to 2003 is a result of a fee of \$3.3 million charged for an assignment of an interest from ConocoPhillips to Gulf Oil.

Total operating expenses increased from 2002 to 2003 by approximately \$42 million or 23%. The increase in operating expenses is a result of additional depreciation from the transferred assets from MassHighway, rising insurance costs, additional spending on repair and reconstruction, and the increase in operating and maintenance costs related to the transition of additional Central Artery/Tunnel facilities to the Authority.

The Early Retirement Incentive program (ERI) was implemented in the fourth quarter of 2002. The intent of this program was to reduce salary and benefit costs in subsequent years. The Authority paid out approximately \$1.8 million in unused sick and vacation time to those employees who participated in this program.

The following chart shows the major sources of operating revenue for the year ended December 31, 2003:



**MASSACHUSETTS TURNPIKE AUTHORITY**

Required Supplementary Information  
Management's Discussion and Analysis

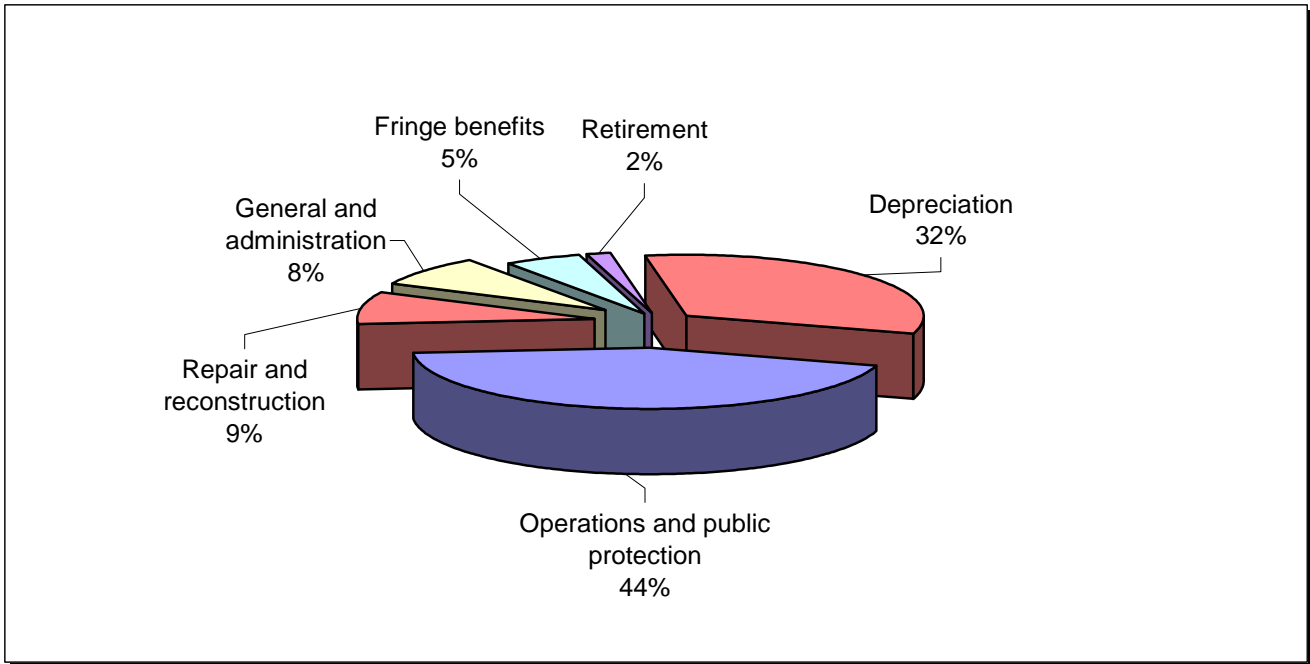
**Table A-3**  
**Operating and Nonoperating Revenues**  
(In thousands)

|   | <u>December 31,</u><br><u>2003</u> | <u>December 31,</u><br><u>2002</u> | <u>December 31,</u><br><u>2001</u> | <u>Increase</u><br><u>(decrease)</u><br><u>2003-2002</u> | <u>Increase</u><br><u>(decrease)</u><br><u>2002-2001</u> |
|---|------------------------------------|------------------------------------|------------------------------------|--|--|
| Operating revenues:                             |                                    |                                    |                                    |  |  |
| Toll revenues, net                              | \$ 244,092                         | 214,352                            | 187,805                            | 29,740   | 26,547   |
| Restaurants, concessions, and services stations | 18,066                             | 14,404                             | 13,952                             | 3,662  | 452  |
| Rentals   | 11,767                             | 14,888                             | 11,808                             | (3,121)  | 3,080  |
| Court fines                                     | 4,872                              | 4,327                              | 4,074                              | 545  | 253  |
| Other   | 8,589                              | 8,031                              | 17,884                             | 558  | (9,853)  |
| <b>Total operating revenues</b>                 | <u>287,386</u>                     | <u>256,002</u>                     | <u>235,523</u>                     | <u>31,384</u>  | <u>20,479</u>  |
| Nonoperating revenues:                          |                                    |                                    |                                    |  |  |
| Investment income                               | 21,902                             | 33,869                             | 33,338                             | (11,967)   | 531  |
| Grant income                                    | 722                                | —                                  | —                                  | 722  | —  |
| Contract assistance                             | 14,270                             | 5,876                              | 12,737                             | 8,394  | (6,861)  |
|   | 36,894                             | 39,745                             | 46,075                             | (2,851)  | (6,330)  |
| Special items:                                  |                                    |                                    |                                    |  |  |
| Gain on sale of assets                          | 75,148                             | —                                  | —                                  | 75,148   | —  |
| Donation of capital asset                       | 236,019                            | —                                  | —                                  | 236,019  | —  |
| <b>Total revenues</b>                           | <u>\$ 635,447</u>                  | <u>295,747</u>                     | <u>281,598</u>                     | <u>339,700</u>   | <u>14,149</u>  |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Required Supplementary Information  
Management's Discussion and Analysis

The following chart shows the major sources of operating expenses for the year ended December 31, 2003:



**Table A-4**  
**Operating and Nonoperating Expenses**  
(In thousands)

|                                  | <u>December 31,</u><br><u>2003</u> | <u>December 31,</u><br><u>2002</u> | <u>December 31,</u><br><u>2001</u> | <u>Increase</u><br><u>(decrease)</u><br><u>2003-2002</u> | <u>Increase</u><br><u>(decrease)</u><br><u>2002-2001</u> |
|----------------------------------|------------------------------------|------------------------------------|------------------------------------|--|--|
| Operating expenses:              |                                    |                                    |                                    |  |  |
| Operations and public protection | \$ 99,538                          | 88,569                             | 83,732                             | 10,969   | 4,837  |
| Repair and reconstruction        | 19,409                             | 14,318                             | 17,140                             | 5,091  | (2,822)  |
| General and administration       | 18,061                             | 16,023                             | 17,367                             | 2,038  | (1,344)  |
| Fringe benefits                  | 11,905                             | 10,098                             | 10,422                             | 1,807  | (324)  |
| Retirement                       | 4,084                              | 3,356                              | 2,909                              | 728  | 447  |
| Depreciation                     | 73,632                             | 51,420                             | 50,206                             | 22,212   | 1,214  |
| Total operating expenses         | <u>226,629</u>                     | <u>183,784</u>                     | <u>181,776</u>                     | 42,845   | 2,008  |
| Nonoperating expense:            |                                    |                                    |                                    |  |  |
| Interest expense                 | <u>134,827</u>                     | <u>132,900</u>                     | <u>133,074</u>                     | 1,927  | (174)  |
| Total expenses                   | <u>\$ 361,456</u>                  | <u>316,684</u>                     | <u>314,850</u>                     | <u>44,772</u>  | <u>1,834</u>   |

## MASSACHUSETTS TURNPIKE AUTHORITY

### Required Supplementary Information Management's Discussion and Analysis

#### **Capital Asset and Debt Administration**

##### *Capital Programs*

In 2001 the Authority initiated a five-year, \$250 million capital reinvestment program for the Western Turnpike and MHS, based on project recommendations from the Authority's engineering consultant. The program is funded on a pay-as-you-go basis from annual operating revenues, in order to avoid interest costs associated with bonding for capital projects. Although the capital plan budgets approximately \$50 million in annual spending, unexpended funds are carried forward into the subsequent years. In 2003, the Authority expended approximately \$54 million on capital projects including unexpended funds from prior years. Approximately \$19 million of this amount was considered operating expenses and included in "repair and reconstruction" for GAAP reporting purposes, while the remainder of the expenditures was capitalized on a GAAP basis and included in capital assets.

In addition, the Authority has committed to pay the Commonwealth of Massachusetts (the Commonwealth) an amount not to exceed \$115 million for certain costs associated with Central Artery/Tunnel Project construction. In 2003, the Authority expended approximately \$16 million under this agreement.

##### *Debt Administration*

Bond sales conducted by the Authority must be approved by the board of directors and must comply with rules and regulations of the United States Securities and Exchange Commission and the United States Treasury Department. Bonds issued by the Authority are not obligations of the Commonwealth or any of its political subdivisions, and neither thereof shall be obligated to pay the principal of, premium or interest on any debt outstanding. As such, neither faith and credit nor taxing power of the Commonwealth or any political subdivisions support those bonds.

Both the MHS and the Western Turnpike bonds are individually secured by the respective system's revenues. As such, each highway system is subject to individual bond covenants and bond ratings.

##### *Credit Rating*

During fiscal year 2002, FitchRatings downgraded the credit ratings on the Authority's MHS bonds, to BBB+ (for Senior Revenue Bonds) and BBB (for Subordinated Revenue Bonds). In January 2003, Moody's Investors Services followed suit, downgrading MHS credit ratings to A3 (Senior) and Baa1 (Subordinated). The primary reasons for the downgrades were: (1) deferral of expected toll increase from January to July 2002, (2) weakening toll revenues as a result of economic slowdown, (3) additional operating pressures as a result of September 11, 2001 terrorist attacks, and (4) increasing Central Artery/Tunnel Project obligations as the Authority assumes responsibility for operations and maintenance of completed facilities.

Both rating agencies affirmed their initial credit ratings for the Western Turnpike bonds, A+ (Fitch Ratings) and Aa3 (Moody's), citing stable traffic demands, strong earnings, and relatively low debt levels.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Required Supplementary Information  
Management's Discussion and Analysis

*Contacting the Authority's Financial Management*

The financial statements are designed to provide our bondholders and other interested parties with an overview of the Authority's financial condition. If you have questions about this report, or need additional information, please contact Mr. Bernard W. Meyler, Jr., CPA, Comptroller at the Massachusetts Turnpike Authority, State Transportation Building, 10 Park Plaza, Suite 4160, Boston, MA 02116.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Statements of Net Assets

December 31, 2003 and 2002

(In thousands)

| <b>Assets</b>  | <b>2003</b>                | <b>2002</b>                |
|--|----------------------------|----------------------------|
| Current assets:  |                            |                            |
| Cash and cash equivalents (note 2)                                 | \$ 2                       | —                          |
| Investments (note 2)   | 81,165                     | 78,418                     |
| Accounts receivable:   |                            |                            |
| Trade  | 7,414                      | 7,952                      |
| Allowance for doubtful accounts                                    | <u>(813)</u>               | <u>(813)</u>               |
| Net trade receivables  | 6,601                      | 7,139                      |
| Other receivables:   |                            |                            |
| Commonwealth of Massachusetts                                      | 2,552                      | 5,876                      |
| Mass Highway   | 1,536                      | 14,598                     |
| Other (note 2)   | <u>17,159</u>              | <u>24,419</u>              |
| Total receivables  | 27,848                     | 52,032                     |
| Prepaid expenses and other assets                                  | <u>4,987</u>               | <u>4,055</u>               |
| Total current assets   | 114,002                    | 134,505                    |
| Noncurrent assets:   |                            |                            |
| Restricted and board-designated cash and cash equivalents (note 2) | 126,114                    | 18,781                     |
| Restricted and board-designated investments (note 2)               | 626,140                    | 670,342                    |
| Other receivables, long term (note 2)                              | 30,671                     | 39,800                     |
| Capital assets, net (note 3)                                       | 2,431,029                  | 2,196,701                  |
| Prepaid expenses and other assets, long term                       | <u>10,906</u>              | <u>10,414</u>              |
| Total assets   | \$ <u><u>3,338,862</u></u> | \$ <u><u>3,070,543</u></u> |
| <b>Liabilities</b>   |                            |                            |
| Current liabilities:   |                            |                            |
| Accounts payable   | \$ 13,756                  | 9,279                      |
| Accrued payroll and related taxes                                  | 1,196                      | 1,674                      |
| Compensated absences (note 4)                                      | 2,918                      | 3,034                      |
| Current portion of long-term debt (note 4)                         | 39,935                     | 13,050                     |
| Accrued expenses and miscellaneous liabilities                     | 20,114                     | 25,388                     |
| Contract retainage   | 2,132                      | 1,777                      |
| Payable from restricted assets:                                    |                            |                            |
| Accrued interest on bonds payable                                  | <u>60,554</u>              | <u>60,904</u>              |
| Total current liabilities  | 140,605                    | 115,106                    |
| Noncurrent liabilities:  |                            |                            |
| Deposits and deferred revenue                                      | 37,860                     | 39,932                     |
| Deferred credits (note 2)  | 66,207                     | 67,392                     |
| Compensated absences (note 4)                                      | 5,773                      | 5,469                      |
| Accrued interest on capital appreciation bonds (note 4)            | 45,383                     | 38,217                     |
| Long-term debt, net (note 4)                                       | <u>2,370,382</u>           | <u>2,405,766</u>           |
| Total liabilities  | <u>2,666,210</u>           | <u>2,671,882</u>           |
| <b>Net Assets</b>  |                            |                            |
| Invested in capital assets, net of related debt                    | 327,530                    | 65,748                     |
| Restricted for other purposes                                      | 87,592                     | 40,672                     |
| Unrestricted   | 257,530                    | 292,241                    |
| Commitments and contingencies (notes 6, 7, 8, and 9)               |                            |                            |
| Total net assets   | \$ <u><u>672,652</u></u>   | \$ <u><u>398,661</u></u>   |

See accompanying notes to financial statements.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2003 and 2002

(In thousands)

|   | <u>2003</u>              | <u>2002</u>              |
|---|--------------------------|--------------------------|
| Operating revenues:                                     |                          |                          |
| Toll revenue pledged as security for revenue bonds, net | \$ 244,092               | 214,352                  |
| Restaurants, concessions, and service stations          | 18,066                   | 14,404                   |
| Other rentals   | 11,767                   | 14,888                   |
| Court fines   | 4,872                    | 4,327                    |
| Other   | 8,589                    | 8,031                    |
|   | <u>287,386</u>           | <u>256,002</u>           |
| Total operating revenues                                |                          |                          |
| Operating expenses:                                     |                          |                          |
| Operations and public protection                        | 99,538                   | 88,569                   |
| Repair and reconstruction                               | 19,409                   | 14,318                   |
| General and administration                              | 18,061                   | 16,023                   |
| Fringe benefits   | 11,905                   | 10,098                   |
| Retirement  | 4,084                    | 3,356                    |
| Depreciation  | 73,632                   | 51,420                   |
|   | <u>226,629</u>           | <u>183,784</u>           |
| Total operating expenses                                |                          |                          |
| Operating income  | <u>60,757</u>            | <u>72,218</u>            |
| Nonoperating revenue and expense:                       |                          |                          |
| Investment income                                       | 21,902                   | 33,869                   |
| Contract assistance (note 9)                            | 14,270                   | 5,876                    |
| Grant income  | 722                      | —                        |
| Interest expense  | (134,827)                | (132,900)                |
|   | <u>(97,933)</u>          | <u>(93,155)</u>          |
| Total nonoperating expense                              |                          |                          |
| Special items:  |                          |                          |
| Gain on sale of capital asset                           | 75,148                   | —                        |
| Contributed capital assets (note 3)                     | 236,019                  | —                        |
|   | <u>311,167</u>           | <u>—</u>                 |
| Total special items                                     |                          |                          |
| Increase (decrease) in net assets                       | 273,991                  | (20,937)                 |
| Net assets, beginning of year                           | <u>398,661</u>           | <u>419,598</u>           |
| Net assets, end of year                                 | \$ <u><u>672,652</u></u> | \$ <u><u>398,661</u></u> |

See accompanying notes to financial statements.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Statements of Cash Flows

Years ended December 31, 2003 and 2002

(In thousands)

|   | <u>2003</u>              | <u>2002</u>              |
|---|--------------------------|--------------------------|
| Cash flows from operating activities:   |                          |                          |
| Receipts from toll payers   | \$ 244,092               | 214,741                  |
| Receipts from others  | 91,599                   | 91,544                   |
| Payments to vendors   | (78,660)                 | (92,725)                 |
| Payments to employees   | (85,376)                 | (87,685)                 |
|   | <u>171,655</u>           | <u>125,875</u>           |
| Net cash provided by operating activities   |                          |                          |
| Cash flows from capital and related financing activities:                               |                          |                          |
| Acquisition and construction of capital assets  | (66,315)                 | (54,096)                 |
| Interest paid on bonds and notes  | (123,460)                | (122,038)                |
| Principal payments on long-term debt  | (13,050)                 | (12,295)                 |
| Proceeds from sale of capital asset   | 75,148                   | —                        |
|   | <u>(127,677)</u>         | <u>(188,429)</u>         |
| Net cash used in capital and related financing activities                               |                          |                          |
| Cash flows from investing activities:   |                          |                          |
| Sales of investments, net   | 41,455                   | 34,027                   |
| Interest received   | 21,902                   | 35,021                   |
|   | <u>63,357</u>            | <u>69,048</u>            |
| Net cash provided by investing activities   |                          |                          |
| Net increase in cash and cash equivalents   | <u>107,335</u>           | <u>6,494</u>             |
| Cash and cash equivalents, beginning of year  | <u>18,781</u>            | <u>12,287</u>            |
| Cash and cash equivalents, end of year  | \$ <u><u>126,116</u></u> | \$ <u><u>18,781</u></u>  |
| Reconciliation of operating income to net cash provided by operating activities:        |                          |                          |
| Cash flows from operating activities:   |                          |                          |
| Operating income  | \$ 60,757                | 72,218                   |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                          |                          |
| Depreciation and amortization   | 78,183                   | 56,714                   |
| Changes in operating assets and liabilities:  |                          |                          |
| Trade receivables   | 24,184                   | (14,668)                 |
| Prepaid expenses and other assets   | (932)                    | (2,663)                  |
| Other receivables – long term   | 9,129                    | (20,115)                 |
| Prepaid expenses and other assets – long term   | (492)                    | 246                      |
| Accounts payable  | 4,477                    | 1,798                    |
| Accrued payroll   | (478)                    | 513                      |
| Compensated absences  | 188                      | (586)                    |
| Accrued expenses, deferred revenue, and other liabilities                               | (2,176)                  | (952)                    |
| Deferred credits  | (1,185)                  | 33,370                   |
|   | <u>171,655</u>           | <u>125,875</u>           |
| Net cash provided by operating activities   | \$ <u><u>171,655</u></u> | \$ <u><u>125,875</u></u> |

Noncash financing activities:

In 2003, the Authority received a contribution of capital assets of \$236,000,000 from the Commonwealth of Massachusetts.

See accompanying notes to financial statements.

# MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

## (1) Summary of Significant Accounting Policies and Practices

### (a) *Description of Business*

The Massachusetts Turnpike Authority (the Authority) was established by Chapter 354 of the Acts of 1952 of the Commonwealth of Massachusetts (the Commonwealth). It is a public instrumentality that was authorized and empowered to construct, maintain, repair, and operate a toll express highway, known as the Massachusetts Turnpike (the Turnpike). Chapter 598 of the Acts of 1958 authorized and empowered the Authority to acquire from the City of Boston, the Sumner Tunnel and to construct an additional vehicular tunnel between Boston proper and East Boston, the Callahan Tunnel, and to operate and maintain both facilities. Chapter 102, as amended by Chapter 273 of the Acts of 1995, authorized the transfer of ownership of the Ted Williams Tunnel from the Commonwealth to the Authority. Since this date, its operations have been included in the accompanying financial statements.

In March 1997, the Commonwealth established pursuant to Chapter 3 of the Acts of 1997, a new enabling act, and repealed the two prior special acts noted above that previously had governed the Authority. The new enabling act establishes two separate systems to be owned and operated by the Authority, the Metropolitan Highway System, and the Western Turnpike.

The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel (CA/T Project), the Central Artery North Area (CANANA), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.

As of July 1, 1997, the Massachusetts Highway Department (MHD) and the Authority entered into the Project Management Agreement whereby the Authority assumed all responsibility for managing and overseeing the remaining construction and other activities related to the CA/T Project, also known as the "Big Dig." The Authority entered into the Project Management Agreement in anticipation of its ultimate ownership and operation of the facilities currently under construction. The Project Management Agreement provides that the Authority is not liable for any CA/T Project costs other than with respect to any payment required under law or any other payment the Authority agreed to make (see note 9).

The Authority is a component unit of the Commonwealth because the Commonwealth appoints the Authority's board of directors and the potential exists for the Authority to provide specific financial benefits to or impose specific financial burdens on the Commonwealth. The Authority's financial statements are incorporated into the financial statements of the Commonwealth.

### (b) *Basis of Presentation*

The Authority's financial statements are reported on the accrual basis of accounting as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund. Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority applies all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from its toll and rental activities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**(c) Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Authority considers unrestricted investments purchased with a maturity date of three months or less to be cash equivalents.

**(d) Investments**

Investment securities at December 31, 2003 and 2002 consist of U.S. Treasury, U.S. Government Agency Obligations and mutual fund investments. All investment securities are recorded at fair value, based on quoted market price. Unrealized holding gains and losses are included in investment income. As of December 31, 2003 and 2002, the Authority had unrealized holding gains and losses of approximately \$2.8 million and \$6.0 million, respectively.

**(e) Restricted and Board-Designated Cash and Investments**

Certain cash, cash equivalents and investments are restricted for use by bond indentures and other external requirements. Other cash, cash equivalents and investments have been designated primarily for expenditures related to future construction or asset acquisitions.

**(f) Capital Assets**

Capital assets are recorded at historical cost. Infrastructure consists of the construction costs to initially build or replace the highways, bridges, structures, pavement, shoulders, service areas, and other similar items. The costs of normal upkeep, maintenance, and repairs, including repaving of roads, are not capitalized. Such costs consist of reconditioning of the highway structure and improvements to protection devices, lighting systems, signage, and other similar costs.

**(g) Depreciation**

The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated average useful lives:

|                                     | <u>Years</u> |
|-------------------------------------|--------------|
| Infrastructure                      | 50           |
| Buildings                           | 30           |
| Improvement to roadways and tunnels | 30           |
| Equipment                           | 5-12         |

**(h) Other Assets**

Other assets consist of the unamortized portion of bond issue costs, which are amortized over the life of the bonds, and amounts held in escrow.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

**(i) Amortization**

Revenue bond discounts are deferred and amortized on a weighted average basis over the term of the bonds. Unamortized amounts are presented as a reduction of the face amount of bonds payable.

Costs related to the issuance of bonds are amortized on a weighted average basis over the life of the bonds. The weighted average amortization method approximates the effective interest method.

The difference between the reacquisition price and net carrying amount of defeased bonds is deducted from, or added to the refunding debt liability and amortized on the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

**(j) Compensated Absences**

Certain employees of the Authority accumulate unused vacation and sick time (subject to certain limitations) to be used at a later date or paid in cash upon termination and/or retirement from the Authority. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date based on years of service (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

**(k) Use of Estimates**

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

**(l) Reclassifications**

Certain 2002 information has been reclassified to conform to the 2003 presentation.

**(2) Deposits and Investments**

The Authority is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities; bonds or notes of public agencies, states, or municipalities; bank time deposits, guaranteed interest contracts, money market accounts, interest rate swap agreements and swaptions, repurchase agreements or commercial paper; and notes, bonds or other obligations of any corporation that has obtained specific ratings.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

**(a) Deposits**

The following is a summary of the Authority's deposits that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name (Category 1), deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name (Category 2), and deposits that are not collateralized (Category 3). Deposits at December 31, 2003 and 2002 are as follows (in thousands):

|          |    | <b>2003</b>     |          |          |                   |                 |
|----------|----|-----------------|----------|----------|-------------------|-----------------|
|          |    | <b>Category</b> |          |          | <b>Total bank</b> | <b>Carrying</b> |
|          |    | <b>1</b>        | <b>2</b> | <b>3</b> | <b>balance</b>    | <b>amount</b>   |
| Deposits | \$ | 300             | —        | 123,664  | 123,964           | 126,116         |

|          |    | <b>2002</b>     |          |          |                   |                 |
|----------|----|-----------------|----------|----------|-------------------|-----------------|
|          |    | <b>Category</b> |          |          | <b>Total bank</b> | <b>Carrying</b> |
|          |    | <b>1</b>        | <b>2</b> | <b>3</b> | <b>balance</b>    | <b>amount</b>   |
| Deposits | \$ | 300             | —        | 16,334   | 16,634            | 18,781          |

Deposits in transit and outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

**(b) Investments**

The Authority's investments are categorized according to the level of custodial credit risk assumed by the Authority. Category 1 includes investments that are insured, registered, or held by the Authority's trustee in the Authority's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered investments held by the counterparty, its trust department or agent but not in the Authority's name. Managed investment pools are not categorized. Investments at December 31, 2003 and 2002 are as follows (in thousands):

|                                    |    | <b>2003</b> |          |          |                   |
|------------------------------------|----|-------------|----------|----------|-------------------|
|                                    |    | <b>1</b>    | <b>2</b> | <b>3</b> | <b>Fair value</b> |
| U.S. Government obligations        | \$ | 115,938     | —        | —        | 115,938           |
| U.S. Government Agency obligations |    | 345,882     | —        | —        | 345,882           |
|                                    | \$ | 461,820     | —        | —        | 461,820           |
| Not categorized:                   |    |             |          |          |                   |
| Money market mutual funds          |    |             |          |          | 245,485           |
| Total                              | \$ |             |          |          | 707,305           |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

|                                    | <b>2002</b>       |                 |                 |                          |
|------------------------------------|-------------------|-----------------|-----------------|--------------------------|
|                                    | <u><b>1</b></u>   | <u><b>2</b></u> | <u><b>3</b></u> | <u><b>Fair value</b></u> |
| U.S. Government obligations        | \$ 170,447        | —               | —               | 170,447                  |
| U.S. Government Agency obligations | <u>411,237</u>    | <u>—</u>        | <u>—</u>        | <u>411,237</u>           |
|                                    | <u>\$ 581,684</u> | <u>—</u>        | <u>—</u>        | <u>581,684</u>           |
| Not categorized:                   |                   |                 |                 |                          |
| Money market mutual funds          |                   |                 |                 | <u>167,076</u>           |
| Total                              |                   |                 |                 | <u>\$ 748,760</u>        |

The following summarizes cash and investments as of December 31, 2003 and 2002 by the various funds and accounts established by the Authority for debt covenant requirements and other purposes:

|  | <u><b>2003</b></u> | <u><b>2002</b></u> |
|--|--------------------|--------------------|
|  | (In thousands)     |                    |
| Revenue Fund                           | \$ 39,751          | 26,777             |
| Operating and Maintenance Fund         | 47,841             | 13,895             |
| General Fund                           | 398,778            | 399,945            |
| Rebate Fund                            | 7,845              | 5,430              |
| Senior Debt Service Fund               | 64,196             | 69,702             |
| Senior Debt Service Reserve Fund       | 103,481            | 103,479            |
| Subordinated Debt Service Fund         | 57,225             | 33,226             |
| Subordinated Debt Service Reserve Fund | 81,914             | 81,456             |
| Maintenance Capital Reinvestment Fund  | <u>32,390</u>      | <u>33,631</u>      |
| Total                                  | <u>\$ 833,421</u>  | <u>767,541</u>     |

The restrictions and board designations placed on these funds are as follows:

|  | <u><b>2003</b></u> | <u><b>2002</b></u> |
|--|--------------------|--------------------|
|  | (In thousands)     |                    |
| Unrestricted   | \$ 81,167          | 78,418             |
| Board-designated for capital and other expenditures  | 339,088            | 340,216            |
| Externally restricted by bond and other requirements | <u>413,166</u>     | <u>348,907</u>     |
| Total  | <u>\$ 833,421</u>  | <u>767,541</u>     |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

(c) **Summary of Swaption Transactions**

*1999 Tax Basis Swap*

In June 1999, the Authority entered into an interest rate swap option agreement with Morgan Guaranty Trust Company of New York (MGTC). This “Swaption” agreement runs through July 1, 2029 and carries a notional amount of \$100 million. The Authority received a premium payment on July 20, 1999 of \$5.35 million as part of the agreement. This premium amount was recorded as a deferred credit and is being recognized as an adjustment of interest expense over the 30-year life of the agreement. MGTC had the right, but not the obligation, to exercise the swap option on January 1, April 1, July 1, and October 1 of any year from July 1, 2002 to July 1, 2029. MGTC had the right to enter the Authority into the swap when the average Bond Market Association Municipal Swap Index (BMA)/London Interbank Offered Rate (LIBOR) ratio exceeds 72% over 12 consecutive weeks beginning April 1, 2002. The Authority’s payment obligation would be equal to the difference between the BMA and 67% of LIBOR, multiplied by the \$100 million. Conversely, the Authority may receive payments under this agreement when 67% of LIBOR exceeds the BMA. MGTC exercised its option on October 1, 2002 and the Authority accrued \$194 and \$56 thousand of interest to be paid in January 2004 and 2003, respectively. The following chart summarizes the 1999 Tax Basis Swap.

| The counterparty for the following Swap is Morgan Guaranty Trust Company of New York (MGTC). As of December 31, 2003 the long term ratings for MGT were A+ (Fitch) A1 (Moody’s) and A (Standard & Poor’s). |               |                 |                  |                            |                            |                           |             |  |
|--|---------------|-----------------|------------------|----------------------------|----------------------------|---------------------------|-------------|--|
| Date of Trade  | Exercise date | Notional Amount | Termination Date | Fixed Receivable Swap Rate | Variable Payable Swap Rate | Payment from Counterparty |             | Net Fair Option Value at December 31, 2003 (000’s) |
| 06/18/1999   | 10/01/2002    | \$100,000,000   | 07/01/2029       | 67% of 1 month LIBOR       | BMA                        | 07/20/1999                | \$5,350,000 | \$(9,671)  |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

*2001 UBS Swaptions*

In May 2001, the Authority entered into five interest rate swap options with UBS AG, the parent company of UBS Paine Webber (UBS). These “swaptions” grant UBS the right to enter a swap with the Authority in which UBS would pay a floating rate and receive a fixed rate from the Authority. The swaption exercise dates and the fixed rates due from the Authority are designed to match the call provisions and rates of certain of the Authority’s bonds. If UBS exercises its option, the Authority expects to refund certain of its fixed rate bonds with floating rate bonds. If this floating-to-fixed swap were to occur, the floating rate received by the Authority under the swap would provide a hedge for the floating rate due on its refunding bonds. In turn, the Authority’s payments to UBS would match the payments expected to be made to fixed rate bond holders. In addition to the savings from the premium paid by the counterparty, the resulting synthetic fixed rate debt structure should result in lower debt service payments for the Authority. Additionally, UBS paid \$6.2 million on behalf of the Authority during FY 2001 to purchase insurance for the payments that the Authority may be required to make under the swaps, if exercised. This amount was recorded in the accompanying financial statements as prepaid insurance and will be amortized over the life of the swap, which is 35 years. The Authority recorded the following amount as a receivable at December 31, 2003 (in thousands):

|                      | <u>Amount</u> |
|----------------------|---------------|
| Due January 1st:     |               |
| 2004                 | \$ 3,281      |
| 2005                 | 3,281         |
| 2006                 | 3,281         |
| 2007                 | 3,281         |
| 2008                 | 3,281         |
|                      | <hr/>         |
|                      | 16,405        |
| Less current portion | <hr/>         |
|                      | 3,281         |
|                      | <hr/>         |
|                      | \$ 13,124     |
|                      | <hr/> <hr/>   |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

A corresponding deferred credit totaling \$29.1 million was recorded at December 31, 2001 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The balance at December 31, 2003 and 2002 is \$27.5 million and \$28.3 million, respectively. The following chart summarizes the 2001 UBS swaptions.

| The Authority entered into the following five swaptions on 05/31/2001. The counterparty is UBS. As of December 31, 2003 the long term ratings for UBS were AA+ (Fitch London), Aa2 (Moody's NY) and AA+ (Standard & Poor's NY). |                 |                  |                  |                         |                               |                            |             |   |
|---|-----------------|------------------|------------------|-------------------------|-------------------------------|----------------------------|-------------|---|
| First Exercise date   | Notional Amount | Termination Date | Associated Bonds | Fixed Payable Swap Rate | Variable Receivable Swap Rate | Payments from Counterparty |             | Net Fair Option Value at December 31, 2003* (000's) |
| 01/01/2007  | \$207,665,000   | 01/01/2037       | 1997 Series A    | 4.750%                  | 68% of 1 month LIBOR          | 06/04/2001                 | \$1,751,663 | \$(16,043)  |
|   |                 |                  |                  |                         |                               | 01/01/2002                 | 875,897     |   |
|   |                 |                  |                  |                         |                               | 01/01/2003                 | 875,897     |   |
|   |                 |                  |                  |                         |                               | 01/01/2004                 | 875,897     |   |
|   |                 |                  |                  |                         |                               | 01/01/2005                 | 875,897     |   |
|   |                 |                  |                  |                         |                               | 01/01/2006                 | 875,897     |   |
|   |                 |                  |                  |                         |                               | 01/01/2007                 | 875,897     |   |
| 01/01/2007  | 83,100,000      | 01/01/2037       | 1997 Series B    | 4.875%                  | 68% of 1 month LIBOR          | 06/04/2001                 | 673,872     | (6,797)   |
|   |                 |                  |                  |                         |                               | 01/01/2002                 | 388,650     |   |
|   |                 |                  |                  |                         |                               | 01/01/2003                 | 388,650     |   |
|   |                 |                  |                  |                         |                               | 01/01/2004                 | 388,650     |   |
|   |                 |                  |                  |                         |                               | 01/01/2005                 | 388,650     |   |
|   |                 |                  |                  |                         |                               | 01/01/2006                 | 388,650     |   |
|   |                 |                  |                  |                         |                               | 01/01/2007                 | 388,650     |   |
| 01/01/2007  | 43,625,000      | 01/01/2029       | 1997 Series B    | 5.000%                  | 68% of 1 month LIBOR          | 06/04/2001                 | 303,162     | (3,284)   |
|   |                 |                  |                  |                         |                               | 01/01/2002                 | 212,112     |   |
|   |                 |                  |                  |                         |                               | 01/01/2003                 | 212,112     |   |
|   |                 |                  |                  |                         |                               | 01/01/2004                 | 212,112     |   |
|   |                 |                  |                  |                         |                               | 01/01/2005                 | 212,112     |   |
|   |                 |                  |                  |                         |                               | 01/01/2006                 | 212,112     |   |
|   |                 |                  |                  |                         |                               | 01/01/2007                 | 212,112     |   |
| 01/01/2009  | 371,380,000     | 01/01/2039       | 1999 Series A    | 4.750%                  | 68% of 1 month LIBOR          | 06/04/2001                 | 2,848,263   | (27,829)  |
|   |                 |                  |                  |                         |                               | 01/01/2002                 | 1,393,901   |   |
|   |                 |                  |                  |                         |                               | 01/01/2003                 | 1,393,901   |   |
|   |                 |                  |                  |                         |                               | 01/01/2004                 | 1,393,901   |   |
|   |                 |                  |                  |                         |                               | 01/01/2005                 | 1,393,901   |   |
|   |                 |                  |                  |                         |                               | 01/01/2006                 | 1,393,901   |   |
|   |                 |                  |                  |                         |                               | 01/01/2007                 | 1,393,901   |   |
| 01/01/2009  | \$94,230,000    | 01/01/2029       | 1999 Series A    | 5.000%                  | 68% of 1 month LIBOR          | 06/04/2001                 | 575,495     | (6,297)   |
|   |                 |                  |                  |                         |                               | 01/01/2002                 | 410,119     |   |
|   |                 |                  |                  |                         |                               | 01/01/2003                 | 410,119     |   |
|   |                 |                  |                  |                         |                               | 01/01/2004                 | 410,119     |   |
|   |                 |                  |                  |                         |                               | 01/01/2005                 | 410,119     |   |
|   |                 |                  |                  |                         |                               | 01/01/2006                 | 410,119     |   |
|   |                 |                  |                  |                         |                               | 01/01/2007                 | 410,119     |   |
| 01/01/2008  | 410,119         |                  |                  |                         |                               |                            |             |   |

\* The net fair option value includes the present value of the unpaid premiums at December 31, 2003.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

*2002 Lehman Swaptions*

In November 2002, the Authority entered into five interest rate swap options with Lehman Brothers Special Financing Inc (Lehman). These “swaptions” grant Lehman the right to enter a swap with the Authority in which Lehman would pay the Authority a fixed rate of 5% and the Authority would pay Lehman a floating rate of BMA. As a fixed-to-floating swap, the transaction was designated to “offset” the 2001 UBS Swaptions and, as a result, has the effect of mitigating certain risks inherent in that transaction if both are executed. Lehman paid \$6.4 million to the Authority during 2002 and will pay an additional \$28.8 million in subsequent years. This amount was recorded in the accompanying financial statements as a receivable and a deferred credit and will be amortized over the life of the swap, which is 35 years. The Authority recorded the following amount as a receivable at December 31, 2003 (in thousands):

|                      | <u>Amount</u>    |
|----------------------|------------------|
| Due January 1st:     |                  |
| 2004                 | \$ 5,849         |
| 2005                 | 5,849            |
| 2006                 | 5,849            |
| 2007                 | 5,849            |
|                      | <u>23,396</u>    |
| Less current portion | 5,849            |
|                      | <u>\$ 17,547</u> |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

A corresponding deferred credit totaling \$35.2 million was recorded at December 31, 2002 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The unamortized balance at December 31, 2003 is \$34.2 million.

| The Authority entered into the following five swaptions on 12/02/2002. The counterparty for is Lehman Brothers Special Financing Inc. As of December 31, 2003 the long term ratings for Lehman were A1 (Moody's), A (Standard & Poor's). |                 |                  |                  |                            |                            |                            |             |   |
|--|-----------------|------------------|------------------|----------------------------|----------------------------|----------------------------|-------------|---|
| First Exercise Date  | Notional Amount | Termination Date | Associated Bonds | Fixed Receivable Swap Rate | Variable Payable Swap Rate | Payments from Counterparty |             | Net Fair Option Value at December 31, 2003* (000's) |
|  |                 |                  |                  |                            |                            |                            |             |   |
| 01/01/2007   | \$207,665,000   | 01/01/2037       | 1997 Series A    | 5.0%                       | BMA                        | 12/05/2002                 | \$1,739,020 | \$ (4,480)  |
|  |                 |                  |                  |                            |                            | 01/01/2003                 | 1,431,150   |   |
|  |                 |                  |                  |                            |                            | 01/01/2004                 | 1,600,250   |   |
|  |                 |                  |                  |                            |                            | 01/01/2005                 | 1,600,250   |   |
|  |                 |                  |                  |                            |                            | 01/01/2006                 | 1,600,250   |   |
| 01/01/2007   | 1,600,250       |                  |                  |                            |                            |                            |             |   |
| 01/01/2007   | 83,100,000      | 01/01/2037       | 1997 Series B    | 5.0%                       | BMA                        | 12/05/2002                 | 691,800     | (1,753)   |
|  |                 |                  |                  |                            |                            | 01/01/2003                 | 623,882     |   |
|  |                 |                  |                  |                            |                            | 01/01/2004                 | 621,928     |   |
|  |                 |                  |                  |                            |                            | 01/01/2005                 | 621,928     |   |
|  |                 |                  |                  |                            |                            | 01/01/2006                 | 621,928     |   |
| 01/01/2007   | 621,928         |                  |                  |                            |                            |                            |             |   |
| 01/01/2007   | 43,625,000      | 01/01/2029       | 1997 Series B    | 5.0%                       | BMA                        | 12/05/2002                 | 381,870     | (749)   |
|  |                 |                  |                  |                            |                            | 01/01/2003                 | 353,257     |   |
|  |                 |                  |                  |                            |                            | 01/01/2004                 | 340,908     |   |
|  |                 |                  |                  |                            |                            | 01/01/2005                 | 340,908     |   |
|  |                 |                  |                  |                            |                            | 01/01/2006                 | 340,908     |   |
| 01/01/2007   | 340,908         |                  |                  |                            |                            |                            |             |   |
| 01/01/2009   | 371,380,000     | 01/01/2039       | 1999 Series A    | 5.0%                       | BMA                        | 12/05/2002                 | 2,897,250   | (8,755)   |
|  |                 |                  |                  |                            |                            | 01/01/2003                 | 2,384,322   |   |
|  |                 |                  |                  |                            |                            | 01/01/2004                 | 2,666,048   |   |
|  |                 |                  |                  |                            |                            | 01/01/2005                 | 2,666,048   |   |
|  |                 |                  |                  |                            |                            | 01/01/2006                 | 2,666,048   |   |
| 01/01/2007   | 2,666,048       |                  |                  |                            |                            |                            |             |   |
| 01/01/2009   | \$94,230,000    | 01/01/2029       | 1999 Series A    | 5.0%                       | BMA                        | 12/05/2002                 | 690,060     | (2,134)   |
|  |                 |                  |                  |                            |                            | 01/01/2003                 | 623,841     |   |
|  |                 |                  |                  |                            |                            | 01/01/2004                 | 619,901     |   |
|  |                 |                  |                  |                            |                            | 01/01/2005                 | 619,901     |   |
|  |                 |                  |                  |                            |                            | 01/01/2006                 | 619,901     |   |
| 01/01/2007   | 619,901         |                  |                  |                            |                            |                            |             |   |

\* The net fair option value includes the present value of the unpaid premiums at December 31, 2003.

*Risk Disclosure*

**Basis Risk.** The Authority is exposed to basis risk in the 1999 Tax Basis swap when 67% of 1 month LIBOR does not exceed BMA.

Although historically BMA has averaged approximately 68% of LIBOR, the Authority is exposed to basis risk in its swaptions if the fixed-to-floating swap does not offset the floating-to-fixed swap. This will occur when BMA exceeds 68% of LIBOR by more than 19 basis points. The 19 basis point cushion represents the difference in the fixed rate the Authority will receive (5.00%) and pay (4.81%) if all the swaptions are exercised by the counterparties. The Authority may also be exposed to additional basis risk if the swaps are not exercised concurrently. The Authority has attempted to

## MASSACHUSETTS TURNPIKE AUTHORITY

### Notes to Financial Statements

December 31, 2003 and 2002

mitigate this risk by structuring the swaptions in such a way that both counterparties are likely to exercise their options at the same time, or not at all.

In addition, the Authority has deposited a portion of the premiums received from each counterparty into a cash "hedge reserve fund" to mitigate any short term exposure to basis risk. As of December 31, 2003 and 2002, the reserve fund balance was \$12.9 million and \$12.8 million, respectively. The Authority and its financial advisor review the balance of this fund on an annual basis and make additions if necessary. As of December 31, 2003 and 2002, management believes the balance in this "hedge reserve fund" was sufficient based on current market conditions.

*Tax Risk.* If maximum tax rates were to decline, it is possible that the 68% of LIBOR the Authority receives would be less than BMA. The Authority and its financial advisor take this risk into consideration when analyzing the sufficiency of the hedge reserve fund balance.

*Credit Risk.* Because all of the Authority's Swaps/Swaptions rely upon the performance of the third parties who serve as counterparties, the Authority is exposed to credit risk, or the risk that a counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the Swaps/Swaptions, as shown in the columns labeled Fair Option Value in the preceding tables. The fair option values were calculated by the Authority's financial advisor on a Mark to Market or Par Value basis. To mitigate credit risk, the Authority's counterparties are all rated in the A category or higher by at least two of the three rating agencies (FitchRatings, Moody's Investors Service, and Standard and Poor's). The Authority also funds the hedge reserve fund to mitigate any exposure resulting from one of the counterparties terminating the agreement or defaulting on terms

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

**(3) Capital Assets**

Capital assets consisted of the following at December 31:

|  | <b>2003</b>                  |                  |                  | <b>Ending<br/>balance</b> |
|--|------------------------------|------------------|------------------|---------------------------|
|  | <b>Beginning<br/>balance</b> | <b>Increases</b> | <b>Decreases</b> |                           |
|  | (In thousands)               |                  |                  |                           |
| Capital assets, not being depreciated:       |                              |                  |                  |                           |
| Land   | \$ 73,527                    | 78,097           | —                | 151,624                   |
| Construction in progress                     | 855,325                      | 42,293           | 755,000          | 142,618                   |
| Total capital assets, not being depreciated  | <u>928,852</u>               | <u>120,390</u>   | <u>755,000</u>   | <u>294,242</u>            |
| Capital assets, being depreciated:           |                              |                  |                  |                           |
| Infrastructure                               | 1,358,594                    | 938,160          | —                | 2,296,754                 |
| Improvements                                 | 457,355                      | 14,736           | —                | 472,091                   |
| Buildings                                    | 47,760                       | —                | —                | 47,760                    |
| Equipment                                    | 77,332                       | 14,577           | —                | 91,909                    |
| Total capital assets, being depreciated      | <u>1,941,041</u>             | <u>967,473</u>   | <u>—</u>         | <u>2,908,514</u>          |
| Less accumulated depreciation for:           |                              |                  |                  |                           |
| Infrastructure                               | 455,837                      | 72,090           | —                | 527,927                   |
| Improvements                                 | 157,264                      | 15,345           | —                | 172,609                   |
| Buildings                                    | 20,783                       | 1,156            | —                | 21,939                    |
| Equipment                                    | 39,308                       | 9,944            | —                | 49,252                    |
| Total accumulated depreciation               | <u>673,192</u>               | <u>98,535</u>    | <u>—</u>         | <u>771,727</u>            |
| Total capital assets, being depreciated, net | <u>1,267,849</u>             | <u>868,938</u>   | <u>—</u>         | <u>2,136,787</u>          |
| Capital assets, net                          | <u>\$ 2,196,701</u>          | <u>989,328</u>   | <u>755,000</u>   | <u>2,431,029</u>          |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

|  | <b>2002</b>                  |                  |                  | <b>Ending<br/>balance</b> |
|--|------------------------------|------------------|------------------|---------------------------|
|  | <b>Beginning<br/>balance</b> | <b>Increases</b> | <b>Decreases</b> |                           |
|  | (In thousands)               |                  |                  |                           |
| Capital assets, not being depreciated:       |                              |                  |                  |                           |
| Land   | \$ 73,527                    | —                | —                | 73,527                    |
| Construction in progress                     | 819,406                      | 35,919           | —                | 855,325                   |
| Total capital assets, not being depreciated  | 892,933                      | 35,919           | —                | 928,852                   |
| Capital assets, being depreciated:           |                              |                  |                  |                           |
| Infrastructure                               | 1,358,629                    | —                | 35               | 1,358,594                 |
| Improvements                                 | 449,828                      | 7,527            | —                | 457,355                   |
| Buildings                                    | 43,259                       | 4,501            | —                | 47,760                    |
| Equipment                                    | 71,148                       | 6,184            | —                | 77,332                    |
| Total capital assets, being depreciated      | 1,922,864                    | 18,212           | 35               | 1,941,041                 |
| Less accumulated depreciation for:           |                              |                  |                  |                           |
| Infrastructure                               | 428,947                      | 26,893           | 3                | 455,837                   |
| Improvements                                 | 142,287                      | 14,977           | —                | 157,264                   |
| Buildings                                    | 19,702                       | 1,081            | —                | 20,783                    |
| Equipment                                    | 30,836                       | 8,472            | —                | 39,308                    |
| Total accumulated depreciation               | 621,772                      | 51,423           | 3                | 673,192                   |
| Total capital assets, being depreciated, net | 1,301,092                    | (33,211)         | 32               | 1,267,849                 |
| Capital assets, net                          | \$ 2,194,025                 | 2,708            | 32               | 2,196,701                 |

# MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(a) ***Contributed Capital Assets***

As of July 1, 1997, the Authority entered into a Project Management Agreement with respect to the CA/T (or 'Big Dig') Project in anticipation of the Authority's ultimate ownership and operation of the assets being constructed. These assets being constructed include the following major components:

- Ted Williams Tunnel
- I-90 Connector
- Leonard P. Zakim/Bunker Hill Bridge
- Central Artery/I-93 Tunnel
- Central Artery North Area (CANA) – two tunnels beneath City Sq. and a series of temporary connection ramps

As of June 30, 2003 (the Commonwealth's fiscal year end), the construction of these assets has been accounted for in the Commonwealth's financial statements as construction in progress until such time as the title to the assets is transferred to the Authority. Through December 31, 2002, title to only two assets — the Ted Williams Tunnel and CANA — had been transferred to the Authority and, as such, the estimated cost of these assets were recorded as a capital asset in the Authority's December 31, 2002 financial statements.

During calendar 2003, in connection with the imminent completion of the Big Dig, the Commonwealth determined that additional costs associated with the previously transferred assets had been incurred and, as such, the net impact of these additional costs of \$236 million were recorded as being transferred to the Authority from the Commonwealth during the current year. Additionally, it was determined that the estimated cost previously allocated to the Ted Williams Tunnel and CANA required a reallocation based upon the new cost information produced by the Commonwealth in 2003. The impact of this reallocation was to reassign costs between the two assets to which the Authority held title. The overall impact of this reallocation was not material to the financial statements.

In future years, it is expected that the Authority will continue to record contributed capital assets in its financial statements as title to those assets are transferred from the Commonwealth to the Authority.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

**(4) Bonds and Notes Payable**

Long-term debt at December 31, 2003 and 2002 consisted of the following:

|   | 2003                 |           |                              | Ending<br>balance | Due within<br>one year |
|---|----------------------|-----------|------------------------------|-------------------|------------------------|
|   | Beginning<br>balance | Additions | Reductions<br>(In thousands) |                   |                        |
| Revenue bonds:  |                      |           |                              |                   |                        |
| Metropolitan Highway System:  |                      |           |                              |                   |                        |
| 1997, Series A, 5.05% to<br>5.65%, issued<br>September 24, 1997 due<br>2010 to 2037   | \$ 1,183,047         | —         | —                            | 1,183,047         | —                      |
| 1997, Series C, 5.40% to<br>5.55%, issued<br>September 24, 1997<br>due 2016 to 2023   | 89,136               | —         | —                            | 89,136            | —                      |
| Western Turnpike:   |                      |           |                              |                   |                        |
| 1997, Series A, 5.55%,<br>issued September 24,<br>1997 due 2017 (mandatory<br>sinking fund requirements<br>from 1999 to 2017) | 252,950              | —         | 13,050                       | 239,900           | 13,795                 |
| Subordinated debt:  |                      |           |                              |                   |                        |
| Metropolitan Highway System:  |                      |           |                              |                   |                        |
| 1999, Series A, 3.90% to<br>5.26%, issued March 11,<br>1999 due 2004 to 2039  | 808,975              | —         | —                            | 808,975           | 26,140                 |
| 1997 Series B, 5.00% to<br>5.57%, issued<br>September 24, 1997 due<br>2010 to 2037  | 194,680              | —         | —                            | 194,680           | —                      |
| Subtotal  | 2,528,788            | —         | 13,050                       | 2,515,738         | 39,935                 |
| Less unamortized amounts:   |                      |           |                              |                   |                        |
| Bond discounts  | 112,456              | —         | (5,063)                      | 107,393           | —                      |
| Net unamortized excess of<br>reacquisition price over<br>net carrying value of<br>defeased bonds                              | (2,484)              | —         | 512                          | (1,972)           | —                      |
| Total bonds payable   | 2,418,816            | —         | 17,601                       | 2,410,317         | 39,935                 |
| Compensated absences  | 8,503                | 188       | —                            | 8,691             | 2,918                  |
| Total long-term<br>liabilities  | \$ 2,427,319         | 188       | 17,601                       | 2,419,008         | 42,853                 |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

|   | <b>2002</b>                  |                  |                                     |                           |                                |
|---|------------------------------|------------------|-------------------------------------|---------------------------|--------------------------------|
|   | <u>Beginning<br/>balance</u> | <u>Additions</u> | <u>Reductions</u><br>(In thousands) | <u>Ending<br/>balance</u> | <u>Due within<br/>one year</u> |
| Revenue bonds:  |                              |                  |                                     |                           |                                |
| Metropolitan Highway System:  |                              |                  |                                     |                           |                                |
| 1997, Series A, 5.05% to<br>5.65%, issued<br>September 24, 1997 due<br>2010 to 2037   | \$ 1,183,047                 | —                | —                                   | 1,183,047                 | —                              |
| 1997, Series C, 5.40% to<br>5.55%, issued<br>September 24, 1997<br>due 2016 to 2023   | 89,136                       | —                | —                                   | 89,136                    | —                              |
| Western Turnpike:   |                              |                  |                                     |                           |                                |
| 1997, Series A, 5.55%,<br>issued September 24,<br>1997 due 2017 (mandatory<br>sinking fund requirements<br>from 1999 to 2017) | 265,245                      | —                | 12,295                              | 252,950                   | 13,050                         |
| Subordinated debt:  |                              |                  |                                     |                           |                                |
| Metropolitan Highway System:  |                              |                  |                                     |                           |                                |
| 1999, Series A, 3.90% to<br>5.26%, issued March 11,<br>1999 due 2004 to 2039  | 808,975                      | —                | —                                   | 808,975                   | —                              |
| 1997 Series B, 5.00% to<br>5.57%, issued<br>September 24, 1997 due<br>2010 to 2037  | 194,680                      | —                | —                                   | 194,680                   | —                              |
| Subtotal  | 2,541,083                    | —                | 12,295                              | 2,528,788                 | 13,050                         |
| Less unamortized amounts:   |                              |                  |                                     |                           |                                |
| Bond discounts  | 117,519                      | —                | (5,063)                             | 112,456                   | —                              |
| Net unamortized excess of<br>recquisition price over<br>net carrying value of<br>defeased bonds                               | (2,996)                      | —                | 512                                 | (2,484)                   | —                              |
| Total bonds payable   | 2,426,560                    | —                | 7,744                               | 2,418,816                 | 13,050                         |
| Compensated absences  | 9,089                        | —                | 586                                 | 8,503                     | 3,034                          |
| Total long-term<br>liabilities  | \$ 2,435,649                 | —                | 8,330                               | 2,427,319                 | 16,084                         |

Interest is payable semiannually on all debt, except on Series C Capital Appreciation Bonds and \$42.0 million of 1997 Series A Bonds (capital appreciation bonds). Accrued interest on capital appreciation bonds is payable upon maturity of the related bonds.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

Revenue Bonds are collateralized by a lien and a pledge on substantially all of the Authority's cash and revenues.

Debt service requirements on revenue bonds are as follows:

|                          | <u>Principal</u>    | <u>Interest</u><br>(In thousands) | <u>Total</u>     |
|--------------------------|---------------------|-----------------------------------|------------------|
| Year ending December 31: |                     |                                   |                  |
| 2004                     | \$ 39,935           | 119,066                           | 159,001          |
| 2005                     | 19,535              | 118,054                           | 137,589          |
| 2006                     | 19,890              | 117,009                           | 136,899          |
| 2007                     | 20,555              | 115,927                           | 136,482          |
| 2008                     | 21,620              | 114,770                           | 136,390          |
| 2009-2013                | 247,195             | 535,195                           | 782,390          |
| 2014-2018                | 279,580             | 536,827                           | 816,407          |
| 2019-2023                | 355,771             | 581,908                           | 937,679          |
| 2024-2028                | 299,359             | 497,061                           | 796,420          |
| 2029-2033                | 124,013             | 262,998                           | 387,011          |
| 2034-2038                | 946,285             | 108,859                           | 1,055,144        |
| 2039                     | 142,000             | —                                 | 142,000          |
| Total                    | \$ <u>2,515,738</u> | <u>3,107,674</u>                  | <u>5,623,412</u> |

At December 31, 2003, the principal amounts outstanding on revenue bonds and notes outstanding that are considered defeased are as follows (dollars in thousands):

| <u>Description</u>   | <u>Redemption date</u> | <u>Redemption price</u> | <u>Principal amount outstanding</u> |
|----------------------|------------------------|-------------------------|-------------------------------------|
| 1993 Series A Serial | 2004 to 2008           | 100% to 101%            | \$ 52,815                           |
| 1993 Series A Term   | 2013 to 2023           | 100%                    | 263,355                             |

Outstanding bonds that are redeemable before their scheduled due dates are as follows at December 31, 2003 (dollars in thousands):

| <u>Description</u>           | <u>Redemption date</u> | <u>Redemption price</u> | <u>Principal amount outstanding</u> |
|------------------------------|------------------------|-------------------------|-------------------------------------|
| Metropolitan Highway System: |                        |                         |                                     |
| 1999 Series A                | 2009 to 2039           | 100% to 101%            | \$ 808,975                          |
| 1997 Series A and B          | 2010 to 2037           | 100% to 102%            | 1,377,727                           |
| Western Turnpike:            |                        |                         |                                     |
| 1997 Series A                | 2003 to 2017           | 100%                    | 239,000                             |

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

**(5) Employee Benefit Plans**

**(a) Plan Description – Pension Plan**

The Massachusetts Turnpike Authority Employees' Retirement Plan (the Plan) is a single employer contributory defined benefit pension plan administered by the Massachusetts Turnpike Authority Employees' Retirement System (the System). The Plan provides retirement, disability, and death benefits to plan members and beneficiaries.

Massachusetts General Laws (MGL), principally Chapter 32, establish and amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Massachusetts Turnpike Employees' Retirement System at the State Transportation Building, 10 Park Plaza, Boston, Massachusetts 02116.

**(b) Funding Policy**

The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. Depending upon their employment date, active plan members are required to contribute 5% to 9% of their annual covered compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30 thousand. The Authority is required to contribute amounts pursuant to MGL Section 22(6A) of Chapter 32 which is the normal cost plus estimated expenses, less a ten-year level amortization of the January 1, 1998 surplus with interest to July 1999.

**(c) Annual Pension Cost**

The annual required contribution (ARC) for the current year was determined as part of the January 1, 2003, actuarial valuation using the individual entry age normal cost method. The actuarial assumptions included (a) 8.5% investment rate of return, and (b) projected salary increases of 5% per year. Both (a) and (b) include an inflation component of 3%. Liabilities for cost of living increases have been approximated, assuming an annual cost of 3% on the first \$12 thousand annual pension. The ARC equaled the annual pension cost (APC) and the employer contributions for the last three years. Those amounts are as follows:

|                                 | <b>Annual<br/>pension cost<br/>(APC)</b> | <b>Percentage of<br/>APC<br/>contributed</b> |
|---------------------------------|--|--|
| Fiscal year ending December 31: |  |  |
| 2003                            | \$ 722,000                               | 100%   |
| 2002                            | 637,000                                  | 100  |
| 2001                            | 623,000                                  | 100  |

**(d) Healthcare Benefits Plan**

In addition to the pension plan, the Authority has voluntarily established a separate plan to provide certain health care benefits to current employees. The fair value of the assets held in this plan was

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

approximately \$3.1 million and \$2.7 million at December 31, 2003 and 2002. No employer contributions were made to the Plan in 2003 and 2002.

**(6) Other Postemployment Benefits**

In addition to the pension and healthcare benefits described in note 5, the Authority voluntarily established the Retired Employees' Insurance Benefit Trust (REIBT), a plan to provide certain health care benefits to its retired employees. The Authority's contribution to the plan is voluntary, based on an availability of revenues.

The number of plan participants is 1,954 of which 1,259 are active employees. There was no contribution for 2003 and 2002.

Plan members contribute 10% to 20% of premiums depending on their union or nonunion status and the type of plan selected.

The Authority expensed, on a pay-as-you-go basis, \$3.6 million and \$2.9 million in 2003 and 2002, respectively, for these postemployment healthcare benefits. No transfer was received in 2003 and 2002.

**(7) Leases**

The Authority has commitments under operating leases for administrative office space and other facilities. These operating leases expire on various dates through June 2005 and are generally expected to be renewed or replaced by similar leases. Lease expense in 2003 and 2002 was \$953 thousand and \$947 thousand, respectively, of which \$854 thousand and \$862 thousand, respectively, was paid for the benefit of the Commonwealth for office space in a state-owned building. Future minimum lease payments under the above leases are as follows (in thousands):

|       |    |                     |
|-------|----|---------------------|
| 2004  | \$ | 869                 |
| 2005  |    | <u>437</u>          |
| Total | \$ | <u><u>1,306</u></u> |

The Authority leases property and air rights to others. During 2003 and 2002, the Authority earned \$29.8 million and \$29.3 million respectively, in rental income, of which \$18.1 million and \$14.4 million, respectively, was received for restaurant, concessions and service station rentals.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of December 31, 2003 (in thousands):

| <u>Years</u> | <u>Amount</u> | <u>Years</u> | <u>Amount</u>     |
|--------------|---------------|--------------|-------------------|
| 2004         | \$ 25,519     | 2044-2048    | \$ 6,686          |
| 2005         | 25,766        | 2049-2053    | 6,686             |
| 2006         | 26,413        | 2054-2058    | 6,686             |
| 2007         | 26,384        | 2059-2063    | 6,605             |
| 2008         | 26,957        | 2064-2068    | 6,500             |
| 2009-2013    | 121,656       | 2069-2073    | 6,500             |
| 2014-2018    | 119,433       | 2074-2078    | 6,500             |
| 2019-2023    | 123,559       | 2079-2083    | 6,500             |
| 2024-2028    | 46,886        | 2084-2088    | 6,500             |
| 2029-2033    | 11,852        | 2089-2093    | 6,500             |
| 2034-2038    | 6,686         | 2094-2098    | 6,500             |
| 2039-2043    | 6,686         | 2099-2100    | 1,925             |
| Total        |               |              | \$ <u>641,885</u> |

**(8) Risk Management**

The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Routine litigation also includes disputes with contractors, subcontractors, and others arising from the construction or maintenance of the tunnels and turnpike. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors, and omissions; injuries to and illnesses of employees; and natural disasters. Certain risks are self-insured while others are covered by commercial insurance. The Authority has obtained health coverage for most active employees through various commercial health maintenance organizations. The health coverage for certain other active employees as well as coverage for job-related injuries to all employees is self-insured by the Authority, with the risks managed internally. The Authority purchases excess workers' compensation insurance in the commercial market for losses exceeding a retention amount of \$400 thousand. The Authority has obtained insurance coverage from various commercial insurers for all other risks of loss.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Insurance in 2003 and 2002 has not changed significantly from the prior year.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported at year-end and are based on the historical cost of settling similar claims. The Authority records such liabilities as accrued expenses.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Notes to Financial Statements

December 31, 2003 and 2002

Changes in the claims liability insurance reserves in fiscal 2003 and 2002 were as follows (in thousands):

|                                      | <u>Health</u>  | <u>Workers'<br/>compensation</u> |
|--------------------------------------|----------------|----------------------------------|
| Liability balance, December 31, 2001 | \$ 301         | 8,210                            |
| Provision to record estimated losses | 1,553          | 1,718                            |
| Payments                             | <u>(1,553)</u> | <u>(2,538)</u>                   |
| Liability balance, December 31, 2002 | 301            | 7,390                            |
| Provision to record estimated losses | 1,587          | 4,564                            |
| Payments                             | <u>(1,587)</u> | <u>(3,163)</u>                   |
| Liability balance, December 31, 2003 | \$ <u>301</u>  | <u>8,791</u>                     |

**(9) Commitments**

The Authority enters into construction contracts for the Metropolitan Highway System and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 2003 and 2002 approximated \$14 million and \$20 million, respectively.

The Authority has committed to pay the Commonwealth an amount not to exceed \$115 million for certain costs associated with the CA/T Project. These costs will be paid by the Authority over the life of the CA/T Project as specific construction activities occur. The Authority expended approximately \$16 million and \$21 million under this agreement during 2003 and 2002, respectively, representing construction costs paid by the Authority in those fiscal years. As of December 31, 2003, the Authority has expended a total of approximately \$46.5 million towards this commitment.

On July 31, 1998, the Massachusetts legislature enacted Chapter 235 of the Acts of 1998 (Chapter 235), which, among other matters, authorized the Commonwealth, acting through the Secretary of Administration and Finance, to enter into a contract with the Authority providing for payments, by the Commonwealth to the Authority related to the cost of the operation and maintenance of the CA/T Project and CANA, as certified annually by the Authority. Chapter 235 establishes the following payment schedule:

- Not less than \$2 million for the State fiscal year July 1, 1999 – June 30, 2000
- Not less than \$5 million for each fiscal year thereafter prior to the transfer of the final segments of the CA/T Project and CANA to the Authority
- Not more than \$25 million for each fiscal year during and after such transfer.

Chapter 235 provides that the term of the contract shall extend until the end of the 40th fiscal year following the transfer. The Authority received \$14.3 million and \$5.9 million from the Commonwealth during fiscal 2003 and 2002, respectively, for reimbursement of CA/T Project and CANA operation and maintenance costs incurred by the Authority.

**MASSACHUSETTS TURNPIKE AUTHORITY**

Required Supplementary Information

December 31, 2003

(In thousands)

**Schedule of Funding Progress**

| (1)<br>Actuarial<br>valuation<br>date | (2)<br>Actuarial<br>value of<br>Plan assets* | (3)<br>Actuarial<br>accrued<br>liability<br>(AAL) | (4)<br>(Overfunded)<br>unfunded<br>(UAAL)<br>AAL(2) – (3) | (5)<br>Actuarial<br>value of<br>assets as a<br>percentage of<br>AAL (funded<br>ratio) (2)/(3) | (6)<br>Annual<br>covered<br>payroll | (7)<br>(UAAL)<br>AAL as a<br>percentage<br>of covered<br>payroll<br>(4)/(6) |
|---------------------------------------|--|---|---|---|-------------------------------------|---|
| 1/1/2003                              | \$ 170,928                                   | 203,425   | 32,497  | 84.0%   | \$ 58,100                           | 55.9%   |
| 1/1/2002                              | 197,134                                      | 191,249   | (5,885)   | 103.1   | 61,615                              | (9.6)   |
| 1/1/2001                              | 189,054                                      | 183,225   | (5,829)   | 103.2   | 61,725                              | (9.4)   |

\* Five-year smoothed market value.

See accompanying independent auditors' report.

## MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Net Assets

December 31, 2003

(In thousands)

| Assets                                       | <u>Metropolitan<br/>Highway<br/>System</u> | <u>Western<br/>Turnpike</u> | <u>MTA<br/>General<br/>Fund</u> | <u>Eliminations</u> | <u>Combined<br/>totals</u> |
|--|--|-----------------------------|---------------------------------|---------------------|----------------------------|
| Current assets:                              |  |                             |                                 |                     |                            |
| Cash   | \$ 1                                       | 1                           | —                               | —                   | 2                          |
| Investments                                  | 53,462                                     | 27,703                      | —                               | —                   | 81,165                     |
| Accounts receivable:                         |  |                             |                                 |                     |                            |
| Trade  | 4,569                                      | 2,845                       | —                               | —                   | 7,414                      |
| Allowance for doubtful accounts              | (260)                                      | (553)                       | —                               | —                   | (813)                      |
| Net trade                                    | 4,309                                      | 2,292                       | —                               | —                   | 6,601                      |
| Other receivables:                           |  |                             |                                 |                     |                            |
| Commonwealth of Massachusetts                | 2,549                                      | 3                           | —                               | —                   | 2,552                      |
| Mass Highway                                 | 1,536                                      | —                           | —                               | —                   | 1,536                      |
| Other  | 15,641                                     | 1,518                       | —                               | —                   | 17,159                     |
| Total receivables                            | 24,035                                     | 3,813                       | —                               | —                   | 27,848                     |
| Prepaid expenses and other assets            | 2,613                                      | 2,374                       | —                               | —                   | 4,987                      |
| Due from other funds                         | 30,639                                     | 32,889                      | —                               | (63,528)            | —                          |
| Total current assets                         | 110,750                                    | 66,780                      | —                               | (63,528)            | 114,002                    |
| Noncurrent assets:                           |  |                             |                                 |                     |                            |
| Restricted cash                              | 113,949                                    | 12,165                      | —                               | —                   | 126,114                    |
| Restricted investments                       | 553,427                                    | 59,354                      | 13,359                          | —                   | 626,140                    |
| Other receivable, long term                  | 30,671                                     | —                           | —                               | —                   | 30,671                     |
| Capital assets                               | 2,479,728                                  | 723,028                     | —                               | —                   | 3,202,756                  |
| Less accumulated depreciation                | 401,572                                    | 370,155                     | —                               | —                   | 771,727                    |
| Total capital assets, net                    | 2,078,156                                  | 352,873                     | —                               | —                   | 2,431,029                  |
| Prepaid expenses and other assets, long term | 9,214                                      | 1,692                       | —                               | —                   | 10,906                     |
| Total assets                                 | \$ 2,896,167                               | 492,864                     | 13,359                          | (63,528)            | 3,338,862                  |

## MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Net Assets

December 31, 2003

(In thousands)

| <b>Liabilities</b>                              | <b>Metropolitan<br/>Highway<br/>System</b> | <b>Western<br/>Turnpike</b> | <b>MTA<br/>General<br/>Fund</b> | <b>Eliminations</b> | <b>Combined<br/>totals</b> |
|---|--|-----------------------------|---------------------------------|---------------------|----------------------------|
| Current liabilities:                            |  |                             |                                 |                     |                            |
| Accounts payable                                | \$ 9,607                                   | 4,149                       | —                               | —                   | 13,756                     |
| Accrued payroll and related taxes               | 339  | 857                         | —                               | —                   | 1,196                      |
| Compensated absences                            | 966  | 1,952                       | —                               | —                   | 2,918                      |
| Current portion of long-term debt               | 26,140                                     | 13,795                      | —                               | —                   | 39,935                     |
| Accrued expenses and miscellaneous liabilities  | 7,563                                      | 11,657                      | 894                             | —                   | 20,114                     |
| Contract retainage                              | 619  | 1,513                       | —                               | —                   | 2,132                      |
| Due to other funds                              | 36,102                                     | 27,426                      | —                               | (63,528)            | —                          |
| Payable from restricted assets:                 |  |                             |                                 |                     |                            |
| Accrued interest on bonds payable               | 53,829                                     | 6,657                       | 68                              | —                   | 60,554                     |
| Total current liabilities                       | <u>135,165</u>                             | <u>68,006</u>               | <u>962</u>                      | <u>(63,528)</u>     | <u>140,605</u>             |
| Deposits and deferred revenue                   | 31,616                                     | 6,244                       | —                               | —                   | 37,860                     |
| Deferred credits                                | 61,660                                     | —                           | 4,547                           | —                   | 66,207                     |
| Compensated absences                            | 1,481                                      | 4,292                       | —                               | —                   | 5,773                      |
| Accrued interest on capital appreciation bonds  | 45,383                                     | —                           | —                               | —                   | 45,383                     |
| Long-term debt, net                             | <u>2,145,519</u>                           | <u>224,863</u>              | <u>—</u>                        | <u>—</u>            | <u>2,370,382</u>           |
| Total liabilities                               | <u>2,420,824</u>                           | <u>303,405</u>              | <u>5,509</u>                    | <u>(63,528)</u>     | <u>2,666,210</u>           |
| <b>Net Assets</b>                               |  |                             |                                 |                     |                            |
| Invested in capital assets, net of related debt | 192,809                                    | 134,721                     | —                               | —                   | 327,530                    |
| Restricted for other purposes                   | 51,445                                     | 36,147                      | —                               | —                   | 87,592                     |
| Unrestricted                                    | <u>231,089</u>                             | <u>18,591</u>               | <u>7,850</u>                    | <u>—</u>            | <u>257,530</u>             |
| Total net assets                                | <u>\$ 475,343</u>                          | <u>189,459</u>              | <u>7,850</u>                    | <u>—</u>            | <u>672,652</u>             |

See accompanying independent auditors' report.

## Schedule II

## MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended December 31, 2003

(In thousands)

|  | <b>Metropolitan<br/>Highway<br/>System</b> | <b>Western<br/>Turnpike</b> | <b>MTA<br/>General<br/>Fund</b> | <b>Combined<br/>totals</b> |
|--|--|-----------------------------|---------------------------------|----------------------------|
| Operating revenues:                            |  |                             |                                 |                            |
| Toll revenue, net                              | \$ 133,511                                 | 110,581                     | —                               | 244,092                    |
| Restaurants, concessions, and service stations | —  | 18,066                      | —                               | 18,066                     |
| Rentals  | 7,646                                      | 4,121                       | —                               | 11,767                     |
| Court fines                                    | 1,456                                      | 3,416                       | —                               | 4,872                      |
| Other  | 5,462                                      | 3,127                       | —                               | 8,589                      |
| Total operating revenues                       | <u>148,075</u>                             | <u>139,311</u>              | <u>—</u>                        | <u>287,386</u>             |
| Operating expenses:                            |  |                             |                                 |                            |
| Operations and public protection               | 48,523                                     | 51,015                      | —                               | 99,538                     |
| Repair and reconstruction                      | 11,241                                     | 8,168                       | —                               | 19,409                     |
| General and administration                     | 5,138                                      | 12,623                      | 300                             | 18,061                     |
| Fringe benefits                                | 3,370                                      | 8,535                       | —                               | 11,905                     |
| Retirement                                     | 1,412                                      | 2,672                       | —                               | 4,084                      |
| Depreciation                                   | 51,808                                     | 21,824                      | —                               | 73,632                     |
| Total operating expenses                       | <u>121,492</u>                             | <u>104,837</u>              | <u>300</u>                      | <u>226,629</u>             |
| Operating income                               | <u>26,583</u>                              | <u>34,474</u>               | <u>(300)</u>                    | <u>60,757</u>              |
| Nonoperating revenue and expense:              |  |                             |                                 |                            |
| Investment income                              | 20,610                                     | 975                         | 317                             | 21,902                     |
| Contract assistance                            | 14,270                                     | —                           | —                               | 14,270                     |
| Grant income                                   | 162  | 560                         | —                               | 722                        |
| Interest expense                               | (121,202)                                  | (13,431)                    | (194)                           | (134,827)                  |
| Total nonoperating (expense) revenue, net      | <u>(86,160)</u>                            | <u>(11,896)</u>             | <u>123</u>                      | <u>(97,933)</u>            |
| Special items:                                 |  |                             |                                 |                            |
| Gain on sale of capital asset                  | 75,148                                     | —                           | —                               | 75,148                     |
| Donation of capital assets                     | 236,019                                    | —                           | —                               | 236,019                    |
| Total special items                            | <u>311,167</u>                             | <u>—</u>                    | <u>—</u>                        | <u>311,167</u>             |
| Income before interfund transfers              | <u>251,590</u>                             | <u>22,578</u>               | <u>(177)</u>                    | <u>273,991</u>             |
| Interfund transfers                            | 244  | (244)                       | —                               | —                          |
| Increase (decrease) in net assets              | <u>251,834</u>                             | <u>22,334</u>               | <u>(177)</u>                    | <u>273,991</u>             |
| Net assets, beginning of year                  | <u>223,509</u>                             | <u>167,125</u>              | <u>8,027</u>                    | <u>398,661</u>             |
| Net assets, end of year                        | <u>\$ 475,343</u>                          | <u>189,459</u>              | <u>7,850</u>                    | <u>672,652</u>             |

See accompanying independent auditors' report.

## MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Net Assets

December 31, 2002

(In thousands)

| Assets                                       | <u>Metropolitan<br/>Highway<br/>System</u> | <u>Western<br/>Turnpike</u> | <u>MTA<br/>General<br/>Fund</u> | <u>Eliminations</u> | <u>Combined<br/>totals</u> |
|--|--|-----------------------------|---------------------------------|---------------------|----------------------------|
| Current assets:                              |  |                             |                                 |                     |                            |
| Investments                                  | \$ 28,998                                  | 49,420                      | —                               | —                   | 78,418                     |
| Accounts receivable:                         |  |                             |                                 |                     |                            |
| Trade  | 4,300                                      | 3,652                       | —                               | —                   | 7,952                      |
| Allowance for doubtful accounts              | (260)                                      | (553)                       | —                               | —                   | (813)                      |
| Net trade                                    | 4,040                                      | 3,099                       | —                               | —                   | 7,139                      |
| Other receivables:                           |  |                             |                                 |                     |                            |
| Commonwealth of Massachusetts                | 5,876                                      | —                           | —                               | —                   | 5,876                      |
| Mass Highway                                 | 14,598                                     | —                           | —                               | —                   | 14,598                     |
| Other  | 20,676                                     | 3,720                       | 23                              | —                   | 24,419                     |
| Total receivables                            | 45,190                                     | 6,819                       | 23                              | —                   | 52,032                     |
| Prepaid expenses and other assets            | 1,957                                      | 2,098                       | —                               | —                   | 4,055                      |
| Due from other funds                         | 15,763                                     | 21,845                      | —                               | (37,608)            | —                          |
| Total current assets                         | 91,908                                     | 80,182                      | 23                              | (37,608)            | 134,505                    |
| Noncurrent assets:                           |  |                             |                                 |                     |                            |
| Restricted cash                              | 13,953                                     | 4,828                       | —                               | —                   | 18,781                     |
| Restricted investments                       | 615,758                                    | 40,904                      | 13,680                          | —                   | 670,342                    |
| Other receivable, long term                  | 39,800                                     | —                           | —                               | —                   | 39,800                     |
| Capital assets                               | 2,171,168                                  | 698,726                     | —                               | —                   | 2,869,894                  |
| Less accumulated depreciation                | 324,862                                    | 348,331                     | —                               | —                   | 673,193                    |
| Total capital assets, net                    | 1,846,306                                  | 350,395                     | —                               | —                   | 2,196,701                  |
| Prepaid expenses and other assets, long term | 8,699                                      | 1,715                       | —                               | —                   | 10,414                     |
| Total assets                                 | \$ 2,616,424                               | 478,024                     | 13,703                          | (37,608)            | 3,070,543                  |

## MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Net Assets

December 31, 2002

(In thousands)

| Liabilities                                     | Metropolitan<br>Highway<br>System | Western<br>Turnpike | MTA<br>General<br>Fund | Eliminations    | Combined<br>totals |
|---|-----------------------------------|---------------------|------------------------|-----------------|--------------------|
| Current liabilities:                            |                                   |                     |                        |                 |                    |
| Accounts payable                                | \$ 6,154                          | 3,125               | —                      | —               | 9,279              |
| Accrued payroll and related taxes               | 316                               | 1,358               | —                      | —               | 1,674              |
| Compensated absences                            | 992                               | 2,042               | —                      | —               | 3,034              |
| Current portion of long-term debt               | —                                 | 13,050              | —                      | —               | 13,050             |
| Accrued expenses and miscellaneous liabilities  | 10,954                            | 13,540              | 894                    | —               | 25,388             |
| Contract retainage                              | 801                               | 976                 | —                      | —               | 1,777              |
| Due to other funds                              | 20,495                            | 17,113              | —                      | (37,608)        | —                  |
| Payable from restricted assets:                 |                                   |                     |                        |                 |                    |
| Accrued interest on bonds payable               | 53,829                            | 7,019               | 56                     | —               | 60,904             |
| Total current liabilities                       | <u>93,541</u>                     | <u>58,223</u>       | <u>950</u>             | <u>(37,608)</u> | <u>115,106</u>     |
| Deposits and deferred revenue                   | 29,885                            | 10,047              | —                      | —               | 39,932             |
| Deferred credits                                | 62,666                            | —                   | 4,726                  | —               | 67,392             |
| Compensated absences                            | 1,398                             | 4,071               | —                      | —               | 5,469              |
| Accrued interest on capital appreciation bonds  | 38,217                            | —                   | —                      | —               | 38,217             |
| Long-term debt, net                             | 2,167,208                         | 238,558             | —                      | —               | 2,405,766          |
| Total liabilities                               | <u>2,392,915</u>                  | <u>310,899</u>      | <u>5,676</u>           | <u>(37,608)</u> | <u>2,671,882</u>   |
| <b>Net Assets</b>                               |                                   |                     |                        |                 |                    |
| Invested in capital assets, net of related debt | (53,172)                          | 118,920             | —                      | —               | 65,748             |
| Restricted for other purposes                   | 31,825                            | 8,847               | —                      | —               | 40,672             |
| Unrestricted                                    | 244,856                           | 39,358              | 8,027                  | —               | 292,241            |
| Total net assets                                | <u>\$ 223,509</u>                 | <u>167,125</u>      | <u>8,027</u>           | <u>—</u>        | <u>398,661</u>     |

See accompanying independent auditors' report.

## MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended December 31, 2002

(In thousands)

|  | <b>Metropolitan<br/>Highway<br/>System</b> | <b>Western<br/>Turnpike</b> | <b>MTA<br/>General<br/>Fund</b> | <b>Combined<br/>totals</b> |
|--|--|-----------------------------|---------------------------------|----------------------------|
| Operating revenues:                            |  |                             |                                 |                            |
| Toll revenue, net                              | \$ 105,831                                 | 108,521                     | —                               | 214,352                    |
| Restaurants, concessions, and service stations | —  | 14,404                      | —                               | 14,404                     |
| Rentals  | 10,783                                     | 4,105                       | —                               | 14,888                     |
| Court fines                                    | 1,289                                      | 3,038                       | —                               | 4,327                      |
| Other  | 5,091                                      | 2,940                       | —                               | 8,031                      |
| Total operating revenues                       | <u>122,994</u>                             | <u>133,008</u>              | <u>—</u>                        | <u>256,002</u>             |
| Operating expenses:                            |  |                             |                                 |                            |
| Operations and public protection               | 36,975                                     | 51,594                      | —                               | 88,569                     |
| Repair and reconstruction                      | 6,122                                      | 8,196                       | —                               | 14,318                     |
| General and administration                     | 5,006                                      | 11,017                      | —                               | 16,023                     |
| Fringe benefits                                | 2,858                                      | 7,240                       | —                               | 10,098                     |
| Retirement                                     | 1,175                                      | 2,181                       | —                               | 3,356                      |
| Depreciation                                   | 30,541                                     | 20,879                      | —                               | 51,420                     |
| Total operating expenses                       | <u>82,677</u>                              | <u>101,107</u>              | <u>—</u>                        | <u>183,784</u>             |
| Operating income                               | <u>40,317</u>                              | <u>31,901</u>               | <u>—</u>                        | <u>72,218</u>              |
| Nonoperating revenue and expense:              |  |                             |                                 |                            |
| Investment income                              | 31,737                                     | 1,489                       | 643                             | 33,869                     |
| Contract assistance                            | 5,876                                      | —                           | —                               | 5,876                      |
| Interest expense                               | (118,689)                                  | (14,154)                    | (57)                            | (132,900)                  |
| Total nonoperating (expense) revenue, net      | <u>(81,076)</u>                            | <u>(12,665)</u>             | <u>586</u>                      | <u>(93,155)</u>            |
| Income before interfund transfers              | <u>(40,759)</u>                            | <u>19,236</u>               | <u>586</u>                      | <u>(20,937)</u>            |
| Interfund transfers                            | 9,061                                      | —                           | (9,061)                         | —                          |
| (Decrease) increase in net assets              | <u>(31,698)</u>                            | <u>19,236</u>               | <u>(8,475)</u>                  | <u>(20,937)</u>            |
| Net assets, beginning of year                  | 255,207                                    | 147,889                     | 16,502                          | 419,598                    |
| Net assets, end of year                        | <u>\$ 223,509</u>                          | <u>167,125</u>              | <u>8,027</u>                    | <u>398,661</u>             |

See accompanying independent auditors' report.