



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

Financial Statements, Required Supplementary Information, and
Supplementary Schedules

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

MASSACHUSETTS TURNPIKE AUTHORITY

December 31, 2004 and 2003

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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, 2004 and 2003, 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. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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, 2004 and 2003, 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 10 and the schedule of funding progress on page 38 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, 2004 and 2003 (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 report dated May 31, 2005 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

May 31, 2005

MASSACHUSETTS TURNPIKE AUTHORITY

Required Supplementary Information Management's Discussion and Analysis December 31, 2004 and 2003

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, 2004 and 2003. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights – Fiscal 2004

- In April 2004, the Authority received a one-time, \$5.0 million payment in connection with the termination of an existing lease agreement with the John Hancock Mutual Life Insurance Company. These funds will be used by the Authority to contribute \$5.0 million to the Rose Fitzgerald Kennedy Greenway Conservancy, to match private donations for an endowment to provide long-term funding for the operation and maintenance of the Rose Kennedy Greenway.
- In July 2004, the Authority, the Commonwealth and the City of Boston entered into a Memorandum of Agreement with the Greenway Conservancy outlining the Authority's contributions and commitments relative to the operation and maintenance of Central Artery surface parks along the Greenway.
- During 2004, the Authority's Board extended its FAST LANE toll discount program through 2005, with the intention of funding the program through 2007 using funds from a 2003 Allston land sale. Since the program's inception, from July 2002 through December 2004, the Authority has provided over \$25.7 million in toll discounts for FAST LANE commuters. The percentage of total traffic using FAST LANE grew to 53% in 2004 (up from an average of 51% in 2003).
- Traffic on the Turnpike and tunnels increased by 7.7 million toll transactions in 2004 (compared to 2003), a 4.2% increase. Toll revenue increased by \$12.8 million, a 5.3% increase. The growth in traffic can be attributed to an economic recovery, the rebound of Logan Airport air passenger activity following the events of September 11, 2001, and the first full year effects of the opening of the I-90 Extension and I-93 tunnels as part of the CA/T Project.

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.

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Required Supplementary Information
Management's Discussion and Analysis
December 31, 2004 and 2003

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, 2004 were approximately \$649.8 million, a 3.4% decrease from December 31, 2003. (See Table A-1). Total assets decreased 1.1% to approximately \$3,300.9 million. Total liabilities decreased slightly (0.6%) to approximately \$2,651.2 million. The decrease in net assets is attributable, in part, to payments to the Central Artery Project for Board-designated projects.

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Required Supplementary Information
 Management's Discussion and Analysis
 December 31, 2004 and 2003

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.

Table A-1

Massachusetts Turnpike Authority's Net Assets
 (In thousands, except percentages)

	December 31			Percentage change 2004-2003	Percentage change 2003-2002
	2004	2003	2002		
Current assets unrestricted	\$ 243,900	114,002	134,505	114%	(15)%
Restricted assets	590,992	752,254	689,123	(21)%	9%
Capital assets	2,434,257	2,431,029	2,196,701	0%	11%
Other	31,783	41,577	50,214	(24)%	(17)%
Total assets	3,300,932	3,338,862	3,070,543	(1)%	9%
Current liabilities:					
Other	62,875	80,051	54,202	(21)%	48%
Liabilities payable from restricted assets	59,533	60,554	60,904	(2)%	(1)%
Noncurrent liabilities:					
Other	173,347	155,223	151,010	12%	3%
Long-term debt, net	2,355,398	2,370,382	2,405,766	(1)%	(1)%
Total liabilities	2,651,153	2,666,210	2,671,882	(1)%	(0)%
Net assets:					
Invested in capital assets, net of related debt	330,848	327,530	65,748	1%	398%
Restricted for other purposes	214,605	236,152	196,672	(9)%	20%
Unrestricted	104,326	108,970	136,241	(4)%	(20)%
Total net assets	\$ 649,779	672,652	398,661	(3)%	69%

Changes in Net Assets

The decrease in total net assets from December 31, 2003 to December 31, 2004 was approximately \$22.9 million (3.4%). (See Table A-2.) The Authority's total operating revenues increased from 2003 by 6.3% to approximately \$305.6 million. Total operating expenses increased 3.6% from 2003 to approximately \$234.8 million. The increase relates principally to increases in public safety costs and depreciation expense, offset by a decrease in general and administration costs.

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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.

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

	December 31			Percentage change 2004-2003	Percentage change 2003-2002
	2004	2003	2002		
Operating revenues:					
Toll revenue	\$ 256,911	244,092	214,352	5%	14%
Concession revenue	16,552	18,066	14,404	(8)%	25%
Other	32,116	25,228	27,246	27%	(7)%
Total operating revenues	<u>305,579</u>	<u>287,386</u>	<u>256,002</u>	<u>6%</u>	<u>12%</u>
Operating expenses:					
Operating expenses	159,436	152,997	132,364	4%	16%
Depreciation	75,427	73,632	51,420	2%	43%
Total operating expenses	<u>234,863</u>	<u>226,629</u>	<u>183,784</u>	<u>4%</u>	<u>23%</u>
Operating income	70,716	60,757	72,218	16%	(16)%
Net nonoperating (expenses) income	<u>(93,589)</u>	<u>(97,933)</u>	<u>(93,155)</u>	<u>(4)%</u>	<u>5%</u>
Special items:					
Gain on sale of capital asset	—	75,148	—	(100)%	100%
Contributed capital assets	—	236,019	—	(100)%	100%
	<u>—</u>	<u>311,167</u>	<u>—</u>	<u>(100)%</u>	<u>100%</u>
Changes in net assets	(22,873)	273,991	(20,937)	(108)%	(1,409)%
Total net assets, beginning of year	<u>672,652</u>	<u>398,661</u>	<u>419,598</u>	<u>69%</u>	<u>(5)%</u>
Total net assets, end of year	<u>\$ 649,779</u>	<u>672,652</u>	<u>398,661</u>	<u>(3)%</u>	<u>69%</u>

The increase in operating revenue from 2003 to 2004 is primarily due to continued recovery from September 11, 2001 activity and the first full year effects of the opening of the I-90 Extension and I-93 tunnels. In July 2002, 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.

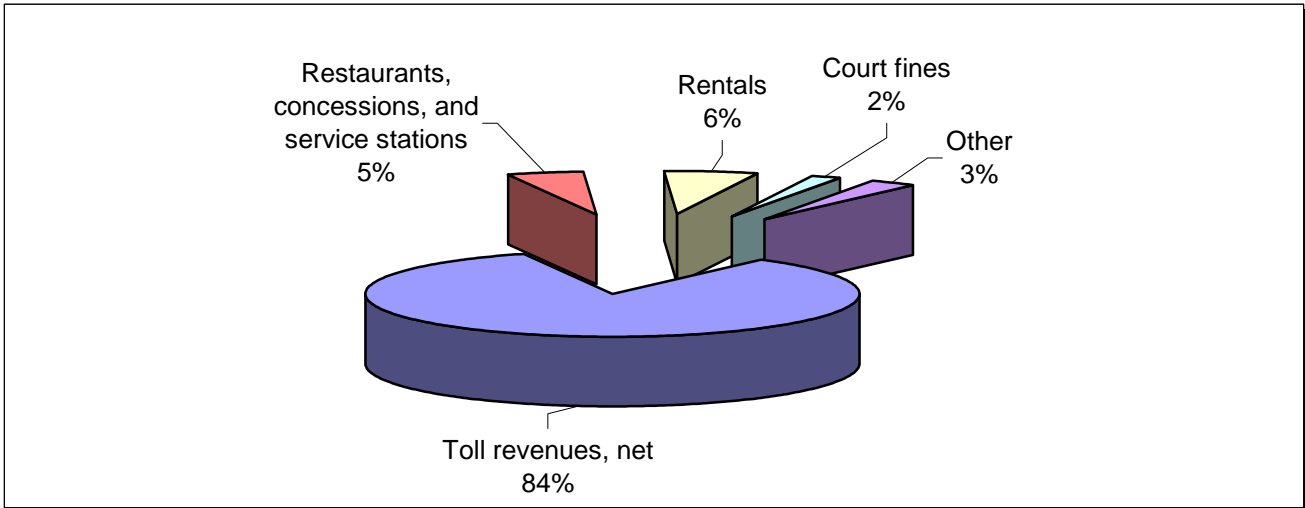
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Revenues generated from restaurants, concessions, and service stations were down in 2004. The decrease from 2003 to 2004 is a result of a bonus payment of which \$3.2 million is included in 2003 and \$1.6 million in 2004.

Total operating expenses increased from 2003 to 2004 by approximately \$8,234 million or 3.6%. The increase in operating expenses is a result of additional insurance costs and depreciation on the transferred assets from MassHighway, rising health insurance costs, additional spending on public protection, and the increase in operating and maintenance costs related to the transition of additional Central Artery/Tunnel facilities to the Authority.

The following chart shows the major sources of operating revenue for the year ended December 31, 2004:



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Table A-3

Operating and Nonoperating Revenues
 (In thousands)

	December 31			Increase (decrease) 2004-2003	Increase (decrease) 2003-2002
	2004	2003	2002		
Operating revenues:					
Toll revenues, net	\$ 256,911	244,092	214,352	12,819	29,740
Restaurants, concessions, and services stations	16,552	18,066	14,404	(1,514)	3,662
Rentals	17,393	11,767	14,888	5,626	(3,121)
Court fines	5,600	4,872	4,327	728	545
Other	9,123	8,589	8,031	534	558
Total operating revenues	305,579	287,386	256,002	18,193	31,384
Nonoperating revenues:					
Investment income	16,336	21,902	33,869	(5,566)	(11,967)
Grant income	—	722	—	(722)	722
Contract assistance	19,508	14,270	5,876	5,238	8,394
	35,844	36,894	39,745	(1,050)	(2,851)
Special items:					
Gain on sale of assets	—	75,148	—	(75,148)	75,148
Donation of capital asset	—	236,019	—	(236,019)	236,019
Total revenues	\$ 341,423	635,447	295,747	(294,024)	339,700

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The following chart shows the major sources of operating expenses for the year ended December 31, 2004:

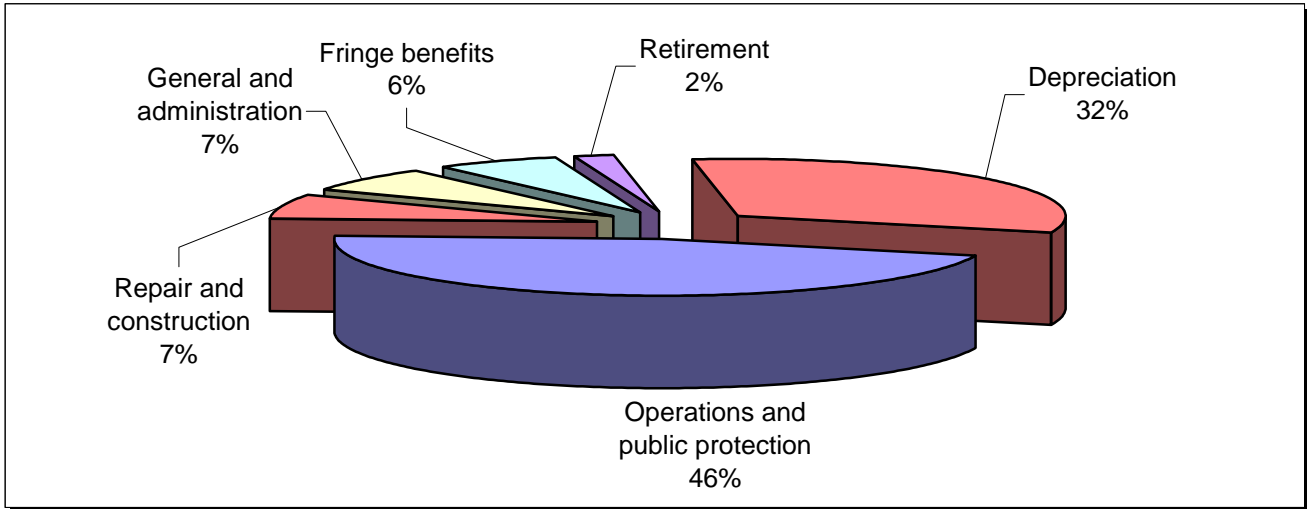


Table A-4

Operating and Nonoperating Expenses
 (In thousands)

	<u>2004</u>	<u>December 31 2003</u>	<u>2002</u>	<u>Increase (decrease) 2004-2003</u>	<u>Increase (decrease) 2003-2002</u>
Operating expenses:					
Operations and public protection	\$ 107,043	99,538	88,569	7,505	10,969
Repair and reconstruction	18,532	19,409	14,318	(877)	5,091
General and administration	15,365	18,061	16,023	(2,696)	2,038
Fringe benefits	13,018	11,905	10,098	1,113	1,807
Retirement	5,478	4,084	3,356	1,394	728
Depreciation	75,427	73,632	51,420	1,795	22,212
Total operating expenses	234,863	226,629	183,784	8,234	42,845
Nonoperating expense:					
Interest expense	129,433	134,827	132,900	(5,394)	1,927
Total expenses	\$ 364,296	361,456	316,684	2,840	44,772

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Management's Discussion and Analysis
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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 2004, the Authority expended approximately \$66 million on capital projects including unexpended funds from prior years. Approximately \$18.5 million of this amount was considered operating expenses and included in "repair and reconstruction" for GAAP reporting purposes, while the remainder of the expenditure 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 2004, the Authority expended approximately \$51.6 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

Credit ratings for the Authority's MHS Bonds are as follows:

	<u>Senior</u>	<u>Subordinated</u>
FitchRatings	BBB+	BBB
Moody's	A3	Baal

Credit ratings for the Western Turnpike bonds are A+ (FitchRatings) and Aa3 (Moody's).

Contacting the Authority's Financial Management

These 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, 2004 and 2003

(In thousands)

Assets	2004	2003
Current assets:		
Cash and cash equivalents (note 2)	\$ 8,082	2
Unrestricted investments (note 2)	168,861	81,165
Restricted and board-designated cash and cash equivalents (note 2)	32,280	126,114
Restricted and board-designated investments (note 2)	396,294	418,145
Accounts receivable:		
Trade	10,566	7,414
Allowance for doubtful accounts	(813)	(813)
Net trade receivables	9,753	6,601
Other receivables:		
Commonwealth of Massachusetts	23,255	2,552
Mass Highway	10,834	1,536
Other (note 2)	18,356	17,159
Total receivables	62,198	27,848
Prepaid expenses and other assets	4,759	4,987
Total current assets	672,474	658,261
Noncurrent assets:		
Restricted and board-designated investments (note 2)	162,418	207,995
Other receivables, long-term (note 2)	21,540	30,671
Capital assets, net (note 3)	2,434,257	2,431,029
Prepaid expenses and other assets, long-term	10,243	10,906
Total assets	\$ 3,300,932	3,338,862
Liabilities		
Current liabilities:		
Accounts payable	\$ 12,240	13,756
Accrued payroll and related taxes	2,100	1,196
Compensated absences (note 4)	3,159	2,918
Current portion of long-term debt (note 4)	19,535	39,935
Accrued expenses and miscellaneous liabilities	23,406	20,114
Contract retainage	2,435	2,132
Payable from restricted assets:		
Accrued interest on bonds payable	59,533	60,554
Total current liabilities	122,408	140,605
Noncurrent liabilities:		
Deposits and deferred revenue	50,216	37,860
Deferred credits (note 2)	64,191	66,207
Compensated absences (note 4)	6,391	5,773
Accrued interest on capital appreciation bonds (note 4)	52,549	45,383
Long-term debt, net (note 4)	2,355,398	2,370,382
Total liabilities	2,651,153	2,666,210
Net Assets		
Invested in capital assets, net of related debt	330,848	327,530
Restricted for other purposes	214,605	236,152
Unrestricted	104,326	108,970
Commitments and contingencies (notes 6, 7, 8, and 9)		
Total net assets	\$ 649,779	672,652

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2004 and 2003

(In thousands)

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Toll revenue pledged as security for revenue bonds, net	\$ 256,911	244,092
Restaurants, concessions, and service stations	16,552	18,066
Other rentals	17,393	11,767
Court fines	5,600	4,872
Other	9,123	8,589
	<u>305,579</u>	<u>287,386</u>
Total operating revenues		
Operating expenses:		
Operations and public protection	107,043	99,538
Repair and reconstruction	18,532	19,409
General and administration	15,365	18,061
Fringe benefits	13,018	11,905
Retirement	5,478	4,084
Depreciation	75,427	73,632
	<u>234,863</u>	<u>226,629</u>
Total operating expenses		
Operating income	<u>70,716</u>	<u>60,757</u>
Nonoperating revenue and expense:		
Investment income	16,336	21,902
Contract assistance (note 9)	19,508	14,270
Grant income	—	722
Interest expense	(129,433)	(134,827)
	<u>(93,589)</u>	<u>(97,933)</u>
Total nonoperating expense		
Special items:		
Gain on sale of capital asset	—	75,148
Contributed capital assets (note 3)	—	236,019
	<u>—</u>	<u>311,167</u>
Total special items		
Increase (decrease) in net assets	(22,873)	273,991
Net assets, beginning of year	<u>672,652</u>	<u>398,661</u>
Net assets, end of year	\$ <u><u>649,779</u></u>	\$ <u><u>672,652</u></u>

See accompanying notes to financial statements.

MASSACHUSETTS TURNPIKE AUTHORITY

Statements of Cash Flows

Years ended December 31, 2004 and 2003

(In thousands)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Receipts from toll payers	\$ 256,911	244,092
Receipts from others	28,449	91,599
Payments to vendors	(57,771)	(78,660)
Payments to employees	(87,041)	(85,376)
	<u>140,548</u>	<u>171,655</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(78,683)	(66,315)
Interest paid on bonds and notes	(118,737)	(123,460)
Principal payments on long-term debt	(35,384)	(13,050)
Proceeds from sale of capital asset	28	75,148
	<u>(232,776)</u>	<u>(127,677)</u>
Cash flows from investing activities:		
(Purchase) sales of investments, net	(14,831)	41,455
Interest received	21,305	21,902
	<u>6,474</u>	<u>63,357</u>
Net (decrease) increase in cash and cash equivalents	<u>(85,754)</u>	<u>107,335</u>
Cash and cash equivalents, beginning of year	<u>126,116</u>	<u>18,781</u>
Cash and cash equivalents, end of year	\$ <u>40,362</u>	\$ <u>126,116</u>
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	\$ 70,716	60,757
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	79,978	78,183
Changes in operating assets and liabilities:		
Trade receivables	(34,350)	24,184
Prepaid expenses and other assets	(5,397)	(932)
Other receivables – long-term	9,131	9,129
Prepaid expenses and other assets – long-term	6,288	(492)
Accounts payable	(1,516)	4,477
Accrued payroll	904	(478)
Compensated absences	859	188
Accrued expenses, deferred revenue, and other liabilities	15,951	(2,176)
Deferred credits	(2,016)	(1,185)
	<u>140,548</u>	<u>171,655</u>
Net cash provided by operating activities	\$ <u>140,548</u>	\$ <u>171,655</u>
Noncash financing activities:		

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

See accompanying notes to financial statements.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

(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 Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority applies all

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Notes to Financial Statements

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Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

At December 31, 2004, the Authority implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

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, 2004 and 2003 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, 2004 and 2003, the Authority had unrealized holding gains and losses of approximately \$(4.9) million and \$2.8 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

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(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.

(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 2003 information has been reclassified to conform to the 2004 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.

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount are

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uninsured and uncollateralized. The deposits at December 31, 2004, were \$37.3 million. Of these, \$33.6 million were exposed to custodial credit risk as uninsured and uncollateralized.

(b) Investments

The Authority does not have a formal investment policy. Presently, only investments named in the respective trust agreements are purchased. All securities at the time of purchase were rated in the highest two rating categories by rating agencies.

In most cases, the Authority has chosen to limit investing to U.S. Government Treasuries or agencies of the U.S. government. U.S. Government Agency Obligations purchased may include, but not be limited to, debt issued by: the Student Loan Marketing Association, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.

There are three guaranteed investment contracts in force as of December 31, 2004, all of which are fully collateralized and appear as follows:

Guaranteed Investment Contracts

	<u>Fund</u>	<u>Investment agreement provider</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>
MHS 1999 Series A	Sub. DSRF	AIG Financial Products	5.951%	January 1, 2029	\$64.67 million
MHS	General Fund	General Electric Capital Corp.	2.130%	November 30, 2007	\$35.67 million
MHS	General Fund	General Electric Capital Corp.	1.890%	December 15, 2008	\$9.96 million

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The Authority's investments at December 31, 2004 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Investments by Fund
December 31, 2004
(Expressed in thousands)

Fund name	Fund	Investment type			Fair value	Investment maturities (in years)			
		Money market mutual funds	US Government agency obligations	Guaranteed investment contracts and other		Less than 1	1 - 3	4 - 8	More than 9
WT Revenue Fund	515	\$ 4,165	—	—	4,165	4,165	—	—	—
WT Operating	520	30,324	—	—	30,324	30,324	—	—	—
WT Sr. Debt Service	530	21,338	—	—	21,338	21,338	—	—	—
WT Capital Reinvestment	550	12,317	—	—	12,317	12,317	—	—	—
WT General Fund	560	22,161	10,224	200	32,585	24,654	7,931	—	—
MHS Capital Fund	601	718	—	—	718	718	—	—	—
MHS Revenue Fund	615	3,066	—	—	3,066	3,066	—	—	—
MHS Operating	620	17,099	—	—	17,099	17,099	—	—	—
MHS 97 Sr. Debt Service	630	629	33,426	—	34,055	34,055	—	—	—
MHS 97 Sr. Debt Service Reserve Fund	635	50	100,311	—	100,361	100,361	—	—	—
MHS 97/99 Sub. Debt Service	640	7,824	26,314	—	34,138	34,138	—	—	—
MHS 97/99 Sub. Debt Service Reserve Fund	645	1,613	15,351	64,665	81,629	16,964	—	—	64,665
MHS Capital Reinvestment	650	12,213	2,629	—	14,842	12,213	2,629	—	—
MHS General Fund	660	70,197	211,626	46,578	328,401	250,247	68,901	9,253	—
MHS Sr. Rebate Fund	670	3,335	—	—	3,335	3,335	—	—	—
MHS Sub. Rebate Fund	675	161	—	—	161	161	—	—	—
MTA General Fund	690	—	9,039	—	9,039	—	2,001	7,038	—
		\$ 207,210	408,920	111,443	727,573	565,155	81,462	16,291	64,665

Investment type	Fair value	Investment maturities (in years)			
		Less than 1 year	1 - 3	4 - 8	More than 9
Money market mutual funds	\$ 207,210	207,210	—	—	—
U.S. agency obligations	408,920	311,567	81,062	16,291	—
Guaranteed investment contracts	110,293	45,628	—	—	64,665
Other	1,150	750	400	—	—
	\$ 727,573	565,155	81,462	16,291	64,665

The 1997 and 1999 MHS Debt Service and Debt Service Reserve funds held by the Trustee are invested in Guaranteed Forward Delivery Agreements established in 1997 and 1999 for the respective funds. The underlying investments for these agreements are in U.S. Government Agency obligations. Each of the agreements requires that all funds in the accounts be collateralized for the life of the agreements. These Agreements provide the Authority with a guaranteed rate of return on trusted deposits held for debt payments until such time as payments are due. These deposits are recorded on the Authority's financial statements at the fair value of the underlying securities.

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Eligible securities purchased under these agreements are limited to those permitted by the MHS Trust Indenture.

(c) Credit Ratings

With respect to MHS and WT operating accounts, all securities purchased, such as FNMA, FHLMC, and FHLB issues, have implied credit ratings of AAA. Trust Funds Securities purchased for the MHS Debt Service and Debt Service Reserve funds include only those Agencies with an implied AAA rating, as this requirement is included in the terms of the respective agreements noted in the table above. The GICs are generally not rated.

Institutional Money Market mutual funds purchased for both Trust and Operating Funds are AAA rated.

(d) Concentration of Credit Risk - Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. The issuers where securities at year end exceeded 5% of the total investments are as follows (in thousands):

GICs:		
AIG	\$	64,665
General Electric Capital Corp.		45,628
U.S. Agency Obligations:		
Federal Home Loan Bank (FHLB)		201,315
Federal Home Loan Mortgage Corporation (FHLMC)		64,111
Federal National Mortgage Association (FNMA)		143,494
	\$	<u>519,213</u>

(e) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority follows the guidelines in the Authority's trust agreements, and does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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(f) Cash and Investments by Fund

The following summarizes cash and investments as of December 31, 2004 and 2003 by the various funds and accounts established by the Authority for debt covenant requirements and other purposes:

	<u>2004</u>	<u>2003</u>
	(In thousands)	
Revenue Fund	\$ 18,005	39,751
Operating and Maintenance Fund	60,313	47,841
General Fund	384,739	398,778
Rebate Fund	3,497	7,845
Senior Debt Service Fund	55,393	64,196
Senior Debt Service Reserve Fund	100,364	103,481
Subordinated Debt Service Fund	34,138	57,225
Subordinated Debt Service Reserve Fund	81,629	81,914
Maintenance Capital Reinvestment Fund	29,857	32,390
	<u>767,935</u>	<u>833,421</u>
Total	\$ <u>767,935</u>	<u>833,421</u>

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

	<u>2004</u>	<u>2003</u>
	(In thousands)	
Unrestricted	\$ 176,943	81,167
Board-designated for capital and other expenditures	266,813	339,088
Externally restricted by bond and other requirements	324,179	413,166
	<u>767,935</u>	<u>833,421</u>
Total	\$ <u>767,935</u>	<u>833,421</u>

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(g) Summary of Swaption Transactions

1999 Tax Basis Swap

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. 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, 2004 the long-term ratings for MGTC were AA- (Fitch) Aa2 (Moody's) and AA- (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, 2004 (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	\$(9,502)

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Notes to Financial Statements

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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, 2004 (in thousands):

	<u>Amount</u>
Due January 1st:	
2005	\$ 3,281
2006	3,281
2007	3,281
2008	3,281
	<u>13,124</u>
Less current portion	<u>3,281</u>
	<u>\$ 9,843</u>

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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, 2004 and 2003 is \$26.6 million and \$27.5 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, 2004 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, 2004* (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	\$(24,288)
						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	(10,373)
						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	(5,122)
						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	(40,242)
						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	(9,497)
						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, 2004.

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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, 2004 (in thousands):

	<u>Amount</u>
Due January 1st:	
2005	\$ 5,849
2006	5,849
2007	<u>5,848</u>
	17,546
Less current portion	<u>5,849</u>
	<u>\$ 11,697</u>

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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, 2004 is \$33.2 million.

The Authority entered into the following five swaptions on 12/02/2002. The counterparty is Lehman Brothers Special Financing Inc. As of December 31, 2004 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, 2004* (000's)
01/01/2007	\$207,665,000	01/01/2037	1997 Series A	5.0%	BMA	12/05/2002	\$1,739,020	\$(4,701)
						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	(1,774)
						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	(604)
						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	(9,124)
						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	(1,733)
						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, 2004.

2004 Lehman Swap

In December 2004, the Authority entered into a basis swap with Lehman Brothers as a way to reduce the negative risk associated with the 1999 JP Morgan Guaranty Trust Company Swaption that was exercised in 2002. Under the contract with MGTC, the Authority's payment obligation would be equal to the difference between the Bond Market Association Municipal Swap Index (BMA) and 67% of the London Interbank Offered Rate (LIBOR), multiplied by \$100 million. In the current low interest rate environment, 67% of LIBOR has not equaled BMA. Therefore, the Authority has been a payer under the contract. The Lehman swap overlays a basis swap on the three-month London LIBOR component of the MGTC swap to adjust the way the Authority receives its floating payment. Instead of receiving 67% or three-month LIBOR, the Authority will receive from Lehman 55% of

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three-month LIBOR plus 50 basis points and pay Lehman 67% of three-month LIBOR that it was receiving from JP Morgan. The following chart summarizes the 2004 Lehman basis swap.

The counterparty for the following Swap is Lehman Brothers Special Financing Inc. As of December 31, 2004, the long-term ratings for Lehman were A1 (Moody's), and A (Standard & Poor's).					
Date of Trade	Effective Date	Notional Amount	Termination Date	Floating Receivable Swap Rate	Floating Payable Swap Rate
12/23/2004	01/01/2005	\$100,000,000	Optional on any Business Day	55% of three-month LIBOR and 0.50%	67% of three-month LIBOR

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 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, 2004 and 2003, the reserve fund balance was \$13.1 million and \$12.9 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, 2004 and 2003, 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

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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.

(3) Capital Assets

Capital assets consisted of the following at December 31:

	2004			Ending balance
	Beginning balance	Increases	Decreases	
	(In thousands)			
Capital assets, not being depreciated:				
Land	\$ 150,624	1,140	—	151,764
Construction in progress	143,618	64,845	42,482	165,981
Total capital assets, not being depreciated	<u>294,242</u>	<u>65,985</u>	<u>42,482</u>	<u>317,745</u>
Capital assets, being depreciated:				
Infrastructure	2,296,754	12,901	—	2,309,655
Improvements	472,091	31,216	—	503,307
Buildings	47,760	—	—	47,760
Equipment	91,909	11,063	68	102,904
Total capital assets, being depreciated	<u>2,908,514</u>	<u>55,180</u>	<u>68</u>	<u>2,963,626</u>
Less accumulated depreciation for:				
Infrastructure	527,927	47,643	—	575,570
Improvements	172,609	16,103	—	188,712
Buildings	21,939	1,153	—	23,092
Equipment	49,252	10,528	40	59,740
Total accumulated depreciation	<u>771,727</u>	<u>75,427</u>	<u>40</u>	<u>847,114</u>
Total capital assets, being depreciated, net	<u>2,136,787</u>	<u>(20,247)</u>	<u>28</u>	<u>2,116,512</u>
Capital assets, net	<u>\$ 2,431,029</u>	<u>45,738</u>	<u>42,510</u>	<u>2,434,257</u>

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

	2003			Ending balance
	Beginning balance	Increases	Decreases	
	(In thousands)			
Capital assets, not being depreciated:				
Land	\$ 73,527	77,097	—	150,624
Construction in progress	855,325	43,293	755,000	143,618
Total capital assets, not being depreciated	928,852	120,390	755,000	294,242
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	1,941,041	967,473	—	2,908,514
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	673,192	98,535	—	771,727
Total capital assets, being depreciated, net	1,267,849	868,938	—	2,136,787
Capital assets, net	\$ 2,196,701	989,328	755,000	2,431,029

(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

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

- 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.

During calendar 2004, there were no assets transferred that were 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, 2004 and 2003

(4) Bonds and Notes Payable

Long-term debt at December 31, 2004 and 2003 consisted of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>2004</u>		<u>Ending balance</u>	<u>Due within one year</u>
			<u>Reductions</u>	(In thousands)		
Revenue bonds:						
Metropolitan Highway System:						
1997, Series A, 5.05% to 5.65%, issued September 24, 1997 due 2010 to 2037	\$ 1,183,047	—	—		1,183,047	—
1997, Series C, 5.40% to 5.55%, issued September 24, 1997 due 2016 to 2023	89,136	—	—		89,136	—
Western Turnpike:						
1997, Series A, 5.55%, issued September 24, 1997 due 2017 (mandatory sinking fund requirements from 1999 to 2017)	239,900	—	13,795		226,105	14,925
Subordinated debt:						
Metropolitan Highway System:						
1999, Series A, 3.90% to 5.26%, issued March 11, 1999 due 2004 to 2039	808,975	—	26,140		782,835	4,610
1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037	194,680	—	—		194,680	—
Subtotal	2,515,738	—	39,935		2,475,803	19,535
Less unamortized amounts:						
Bond discounts	107,393	—	5,064		102,329	—
Net unamortized excess of reacquisition price over net carrying value of deceased bonds	(1,972)	—	(513)		(1,459)	—
Total bonds payable	2,410,317	—	35,384		2,374,933	19,535
Compensated absences	8,691	859	—		9,550	3,159
Total long-term liabilities	\$ 2,419,008	859	35,384		2,384,483	22,694

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

	2003				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u> (In thousands)	<u>Ending balance</u>	<u>Due within one year</u>
Revenue bonds:					
Metropolitan Highway System:					
1997, Series A, 5.05% to 5.65%, issued September 24, 1997 due 2010 to 2037	\$ 1,183,047	—	—	1,183,047	—
1997, Series C, 5.40% to 5.55%, issued September 24, 1997 due 2016 to 2023	89,136	—	—	89,136	—
Western Turnpike:					
1997, Series A, 5.55%, issued September 24, 1997 due 2017 (mandatory sinking fund requirements from 1999 to 2017)	252,950	—	13,050	239,900	13,795
Subordinated debt:					
Metropolitan Highway System:					
1999, Series A, 3.90% to 5.26%, issued March 11, 1999 due 2004 to 2039	808,975	—	—	808,975	26,140
1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 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 reacquisition price over net carrying value of defeased bonds	(2,484)	—	(512)	(1,972)	—
Total bonds payable	2,418,816	—	8,499	2,410,317	39,935
Compensated absences	8,503	188	—	8,691	2,918
Total long-term liabilities	\$ 2,427,319	188	8,499	2,419,008	42,853

Interest is payable semiannually on all debt, except on Capital Appreciation Bonds which accrued over the lives of the Bonds and is payable upon maturity of the Bonds.

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

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

Debt service requirements on revenue bonds are as follows:

	<u>Principal</u>	<u>Interest</u> (In thousands)	<u>Total</u>
Year ending December 31:			
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>2,475,803</u>	<u>2,988,608</u>	<u>5,464,411</u>

At December 31, 2004, 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	2005 to 2008	100% to 101%	\$ 43,235
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, 2004 (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%	\$ 782,835
1997 Series A and B	2010 to 2037	100% to 102%	194,680
Western Turnpike:			
1997 Series A	2003 to 2017	100%	226,105

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements
December 31, 2004 and 2003

(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, 2004, 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 4% through 2007 and 5% thereafter. Both (a) and (b) include an inflation component of 3.5% through 2007 and 4.5% thereafter. 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:

	Annual pension cost (APC)	Percentage of APC contributed
Fiscal year ending December 31:		
2004	\$ 1,187,000	100%
2003	722,000	100
2002	637,000	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, 2004 and 2003

approximately \$3.2 million and \$3.1 million at December 31, 2004 and 2003. No employer contributions were made to the Plan in 2004 and 2003.

(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 2,124 of which 1,296 are active employees. Plan members contribute 10% to 20% of premiums depending on their union or nonunion status and the type of Plan selected. There was no contribution for 2004 and 2003.

The Authority expensed, on a pay-as-you-go basis, \$4.1 million and \$3.6 million in 2004 and 2003, respectively, for these postemployment healthcare benefits.

(7) Leases

(a) Commitments

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 2004 and 2003 was \$953 thousand and \$953 thousand, respectively, of which \$855 thousand and \$854 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):

2005	\$	<u>437</u>
Total	\$	<u><u>437</u></u>

(b) Rental Income

The Authority leases property and air rights to others. During 2004 and 2003, the Authority earned \$32.4 million and \$29.8 million respectively, in rental income, of which \$16.5 million and \$18.1 million, respectively, was received for restaurant, concessions, and service station rentals.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of December 31, 2004 (in thousands):

<u>Years</u>	<u>Amount</u>	<u>Years</u>	<u>Amount</u>
2005	\$ 27,567	2045-2049	\$ 7,286
2006	28,195	2050-2054	7,286
2007	28,127	2055-2059	7,286
2008	28,708	2060-2064	7,168
2009	29,148	2065-2069	7,100
2010-2014	128,226	2070-2074	7,100
2015-2019	133,878	2075-2079	7,100
2020-2024	127,733	2080-2084	7,100
2025-2029	34,157	2085-2089	7,100
2030-2034	10,819	2090-2094	7,100
2035-2039	7,286	2095-2099	6,860
2040-2044	7,286	2100-2101	1,250
Total			\$ <u><u>670,866</u></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 2004 and 2003 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, 2004 and 2003

Changes in the claims liability insurance reserves in fiscal 2004 and 2003 were as follows (in thousands):

	<u>Health</u>	<u>Workers' compensation</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	301	8,791
Provision to record estimated losses	1,372	3,073
Payments	<u>(1,320)</u>	<u>(4,124)</u>
Liability balance, December 31, 2004	\$ <u>353</u>	<u>7,740</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, 2004 and 2003 approximated \$14.6 million and \$14 million, respectively.

During the construction of the Central Artery/Third Harbor Tunnel (CA/T) Project, the Authority has been responsible for and funded a portion of the cost of the Project. Through the October 2004 Finance Plan, the Authority had agreed to fund a total of \$1.858 billion of project and related costs. Of this amount, \$1.355 billion was contributed to the Project and \$200 million was contributed to the Commonwealth's Transportation Infrastructure Fund. The Authority funded these contributions through the issuance of various bonds.

The Authority's remaining commitment to the Project of \$303 million is expected to be paid principally from the sale of various Authority-owned real estate (\$246 million – note that \$152 million of the proceeds from sale of the Allston Landing were received in 2003); interest earnings (\$4 million); and other available cash (\$53 million). Through December 31, 2004, the Authority has incurred and paid Project expenses that have reduced this commitment as follows (amounts in thousands):

Committed amount	\$ 303,000
Amount expended:	
Legal and claims and changes	11,667
Cost recovery	7,353
Other	<u>692</u>
Total remaining commitment	\$ <u>283,288</u>

All amounts shown above as expended, were funded by the proceeds from the Allston Landing sale. The Authority has capitalized these amounts as part of construction in progress on the accompanying balance sheet.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 2004 and 2003

Subsequent to year-end, the CA/T Project prepared and submitted its April 1, 2005 “Cost/Schedule Status” report. Recognizing that the Authority would likely not realize \$94 million from the sale of real estate assets in the short term, the CA/T funding sources were adjusted accordingly. To replace the \$94 million from real estate sales, the Project intends to use excess earnings from the Transportation Infrastructure Fund (\$67 million) and additional interest earnings from the Allston Landing proceeds (\$27 million), increasing the Authority’s Allston Landing commitment from \$156 million to \$183 million. In total, the Authority’s commitment to the CA/T Project will be reduced by \$67 million.

Also subsequent to year end, the cost recovery program was transferred to the Office of the Attorney General of the Commonwealth and the Authority paid \$9.5 million of the Allston Landing proceeds to fund this effort.

The Authority has committed to pay an amount not to exceed \$62 million for certain construction 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 \$5.1 million and \$16 million under this agreement during 2004 and 2003, respectively, representing construction costs paid by the Authority in those fiscal years. As of December 31, 2004 and 2003, the Authority has expended a total of approximately \$51.6 million and \$45.5 million under 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 \$5 million and \$14.3 million from the Commonwealth during fiscal 2004 and 2003, respectively, for reimbursement of CA/T Project and CANA operation and maintenance costs incurred by the Authority. Additionally, as of June 30, 2004, the Authority has an accounts receivable from the Commonwealth of \$23.2 million related to these reimbursements, of which \$19.5 million has been recognized as revenue during 2004.

MASSACHUSETTS TURNPIKE AUTHORITY

Required Supplementary Information

December 31, 2004

(In thousands)

Schedule of Funding Progress

(1) Actuarial valuation date	(2) Actuarial value of Plan assets*	(3) Actuarial accrued liability (AAL)	(4) (Overfunded) unfunded (UAAL) AAL(2) – (3)	(5) Actuarial value of assets as a percentage of AAL (funded ratio) (2)/(3)	(6) Annual covered payroll	(7) (UAAL) AAL as a percentage of covered payroll (4)/(6)
1/1/2004	\$ 194,784	224,272	29,488	86.9	\$ 64,285	45.9
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)

* Five-year smoothed market value.

See accompanying independent auditors' report.

MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Net Assets

December 31, 2004

(In thousands)

Assets	<u>Metropolitan Highway System</u>	<u>Western Turnpike</u>	<u>MTA General Fund</u>	<u>Eliminations</u>	<u>Combined totals</u>
Current assets:					
Cash - unrestricted	\$ 8,071	11	—	—	8,082
Investments - unrestricted	99,628	69,233	—	—	168,861
Restricted cash	21,822	5,896	4,562	—	32,280
Restricted investments	372,730	23,564	—	—	396,294
Accounts receivable:					
Trade	5,732	4,834	—	—	10,566
Allowance for doubtful accounts	(260)	(553)	—	—	(813)
Net trade	5,472	4,281	—	—	9,753
Other receivables:					
Commonwealth of Massachusetts	23,255	—	—	—	23,255
Mass Highway	10,834	—	—	—	10,834
Other	16,817	1,524	15	—	18,356
Total receivables	56,378	5,805	15	—	62,198
Prepaid expenses and other assets	1,992	2,767	—	—	4,759
Due from other funds	1,061,935	33,595	—	(1,095,530)	—
Total current assets	1,622,556	140,871	4,577	(1,095,530)	672,474
Noncurrent assets:					
Restricted investments	145,448	7,931	9,039	—	162,418
Other receivables, long-term	21,540	—	—	—	21,540
Capital assets	2,536,157	745,214	—	—	3,281,371
Less accumulated depreciation	454,178	392,936	—	—	847,114
Total capital assets, net	2,081,979	352,278	—	—	2,434,257
Prepaid expenses and other assets, long-term	8,851	1,392	—	—	10,243
Total assets	\$ 3,880,374	502,472	13,616	(1,095,530)	3,300,932

MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Net Assets

December 31, 2004

(In thousands)

Liabilities	Metropolitan Highway System	Western Turnpike	MTA General Fund	Eliminations	Combined totals
Current liabilities:					
Accounts payable	\$ 8,598	3,642	—	—	12,240
Accrued payroll and related taxes	623	1,477	—	—	2,100
Compensated absences	995	2,164	—	—	3,159
Current portion of long-term debt	4,610	14,925	—	—	19,535
Accrued expenses and miscellaneous liabilities	12,964	9,464	978	—	23,406
Contract retainage	774	1,661	—	—	2,435
Due to other funds	1,068,565	26,965	—	(1,095,530)	—
Payable from restricted assets:					
Accrued interest on bonds payable	53,259	6,274	—	—	59,533
Total current liabilities	<u>1,150,388</u>	<u>66,572</u>	<u>978</u>	<u>(1,095,530)</u>	<u>122,408</u>
Deposits and deferred revenue	43,034	7,182	—	—	50,216
Deferred credits	59,822	—	4,369	—	64,191
Compensated absences	1,606	4,785	—	—	6,391
Accrued interest on capital appreciation bonds	52,549	—	—	—	52,549
Long-term debt, net	<u>2,145,360</u>	<u>210,038</u>	<u>—</u>	<u>—</u>	<u>2,355,398</u>
Total liabilities	<u>3,452,759</u>	<u>288,577</u>	<u>5,347</u>	<u>(1,095,530)</u>	<u>2,651,153</u>
Net Assets					
Invested in capital assets, net of related debt	182,194	148,654	—	—	330,848
Restricted for other purposes	175,810	38,795	—	—	214,605
Unrestricted	<u>69,611</u>	<u>26,446</u>	<u>8,269</u>	<u>—</u>	<u>104,326</u>
Total net assets	<u>\$ 427,615</u>	<u>213,895</u>	<u>8,269</u>	<u>—</u>	<u>649,779</u>

See accompanying independent auditors' report.

MASSACHUSETTS TURNPIKE AUTHORITY
Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Year ended December 31, 2004
(In thousands)

	Metropolitan Highway System	Western Turnpike	MTA General Fund	Combined totals
Operating revenues:				
Toll revenue, net	\$ 141,948	114,963	—	256,911
Restaurants, concessions, and service stations	—	16,552	—	16,552
Rentals	12,747	4,646	—	17,393
Court fines	2,062	3,538	—	5,600
Other	5,790	3,333	—	9,123
Total operating revenues	<u>162,547</u>	<u>143,032</u>	<u>—</u>	<u>305,579</u>
Operating expenses:				
Operations and public protection	54,268	52,775	—	107,043
Repair and reconstruction	10,256	8,276	—	18,532
General and administration	4,801	10,864	(300)	15,365
Fringe benefits	4,328	8,691	(1)	13,018
Retirement	1,917	3,561	—	5,478
Depreciation	52,620	22,807	—	75,427
Total operating expenses	<u>128,190</u>	<u>106,974</u>	<u>(301)</u>	<u>234,863</u>
Operating income	<u>34,357</u>	<u>36,058</u>	<u>301</u>	<u>70,716</u>
Nonoperating revenue and expense:				
Investment income	14,934	1,048	354	16,336
Contract assistance	19,508	—	—	19,508
Grant income	—	—	—	—
Interest expense	(116,541)	(12,665)	(227)	(129,433)
Total nonoperating (expense) revenue, net	<u>(82,099)</u>	<u>(11,617)</u>	<u>127</u>	<u>(93,589)</u>
Income (loss) before interfund transfers	<u>(47,742)</u>	<u>24,441</u>	<u>428</u>	<u>(22,873)</u>
Interfund transfers	14	(6)	(8)	—
Increase (decrease) in net assets	<u>(47,728)</u>	<u>24,435</u>	<u>420</u>	<u>(22,873)</u>
Net assets, beginning of year	<u>475,343</u>	<u>189,460</u>	<u>7,849</u>	<u>672,652</u>
Net assets, end of year	<u>\$ 427,615</u>	<u>213,895</u>	<u>8,269</u>	<u>649,779</u>

See accompanying independent auditors' report.

MASSACHUSETTS TURNPIKE AUTHORITY

Combining Schedule of Net Assets

December 31, 2003

(In thousands)

Assets	<u>Metropolitan Highway System</u>	<u>Western Turnpike</u>	<u>MTA General Fund</u>	<u>Eliminations</u>	<u>Combined totals</u>
Current assets:					
Cash - unrestricted	\$ 1	1	—	—	2
Investments - unrestricted	53,462	27,703	—	—	81,165
Restricted cash	113,949	12,165	—	—	126,114
Restricted investments	345,432	59,354	13,359	—	418,145
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	570,131	138,299	13,359	(63,528)	658,261
Noncurrent assets:					
Restricted investments	207,995	—	—	—	207,995
Other receivables, 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)

Liabilities	Metropolitan Highway System	Western Turnpike	MTA General Fund	Eliminations	Combined totals
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	2,145,519	224,863	—	—	2,370,382
Total liabilities	<u>2,420,824</u>	<u>303,405</u>	<u>5,509</u>	<u>(63,528)</u>	<u>2,666,210</u>
Net Assets					
Invested in capital assets, net of related debt	192,809	134,721	—	—	327,530
Restricted for other purposes	200,005	36,147	—	—	236,152
Unrestricted	82,529	18,591	7,850	—	108,970
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.

MASSACHUSETTS TURNPIKE AUTHORITY
Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Year ended December 31, 2003
(In thousands)

	Metropolitan Highway System	Western Turnpike	MTA General Fund	Combined totals
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 (loss) 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.



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

Members of the Board of Directors
Massachusetts Turnpike Authority:

We have audited the financial statements of the Massachusetts Turnpike Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of and for the years ended December 31, 2004 and 2003 and have issued our report thereon dated May 31, 2005. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting or its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated May 31, 2005.



This report is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 31, 2005