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

Financial Statements, Required Supplementary Information, and Supplementary Schedules

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

MASSACHUSETTS TURNPIKE AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
December 31, 2005 and 2004

Table of Contents

KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 507 8323
Internet 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, 2005 and 2004, 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, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 through 12 and the schedule of pension funding progress on page 43 are not a required part of the financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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, 2005 and 2004 (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 our report dated June 27, 2006 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.

/s/ KPMG LLP

June 27, 2006 (except for footnote 10,
which is as of September 27, 2006)

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, 2005 and 2004. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights – Fiscal 2005

- The demutualization of MetLife Insurance Co. resulted in the Authority receiving a liquidating distribution of $1,070,291. The distribution was comprised of an employee portion of 20% and an employer portion of 80%. The employee portion is being distributed to active employees as a reduction in their weekly dental payroll contribution and the employer's portion was deposited into the general fund.
- Depreciation expense continues to increase. This increase is due to assets being transferred from the Commonwealth to the Authority in compliance with agreements associated with the Central Artery/Ted Williams Tunnel Project. In fiscal 2005 the Authority received donated assets and land valued at approximately $0.8 million.
- Despite rising oil prices, toll transactions and revenues were slightly higher in 2005
- In 2005 the Authority's Board extended its FAST LANE toll discount program through 2006, using the funds received from a 2003 Allston land sale. From July 2002 through December 2005, the Authority has provided $37.4 million in toll discounts to FAST LANE commuters. The percentage of total traffic using FAST LANE grew from an average of 53% in 2004 to 55% in 2005.
- The continued rising cost of medical coverage has been a factor in the increased costs of benefits for active and retired employees. Health insurance costs in 2005 for active employees increased by 9% as compared to 2004; retirees experienced a 24% increase during the same time period, primarily due to premium increases.
- Annual contributions to the MTA Employees' Retirement System have increased significantly in 2005. The Authority has increased its annual contributions to address an unfunded liability. In 2004, the appropriation for the retirement system was $1.2 million; for 2005 it was $3.0 million - an increase of $1.8 million
- During 2005, the Authority received Federal reimbursements from various agencies that totaled $732,453. The Authority received from the Federal Emergency Management Agency (FEMA) a reimbursement of $0.61 million for snow and ice removal costs incurred during a state of emergency; $1,574 for State Police training exercises; and $0.13 million for expenses associated with the July 2004 Democratic National Committee convention in Boston.
- Investment earnings increased by 60% compared to 2004. Higher interest rates during 2005 were the major contributor to this increase
- The Employees' Medical Benefits Trust Fund was liquidated and the proceeds from the trust were deposited into the general fund. The trust was established to fund an indemnity plan for active employees. This plan is no longer offered to employees as medical costs are funded on a pay-as-you-go basis.

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.

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 U.S. generally accepted accounting principles (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.

(Continued)

Financial Analysis of the Authority

Net Assets

The Authority's total net assets at December 31, 2005 were approximately $622.8 million, a 4.3% decrease from December 31, 2004. (See Table A-1.) Total assets decreased 1.4% to approximately $3,256.1 million. Total liabilities decreased slightly (.6%) to approximately $2,633.3 million. The decrease in net assets is attributable, in part, to payments to the Central Artery/Tunnel Project (CA/T) for Board-designated projects.

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/Tunnel Project for Board-designated projects.

Table A-1

Massachusetts Turnpike Authority's Net Assets

(In thousands, except percentages)

	December 31			Percentage change	Percentage change
	2005	**2004**	**2003**	**2005-2004**	**2004-2003**
Current assets unrestricted	$ 146,612	243,900	114,002	(40)%	114%
Restricted assets	643,653	590,992	752,254	9	(21)
Capital assets	2,443,160	2,434,257	2,431,029	—	—
Other	22,708	31,783	41,577	(29)	(24)
Total assets	3,256,133	3,300,932	3,338,862	(1)	(1)
Current liabilities:					
Other	59,757	62,875	80,051	(5)	(21)
Liabilities payable from restricted assets	59,027	59,533	60,554	(1)	(2)
Noncurrent liabilities:					
Other	174,492	173,347	155,223	1	12
Long-term debt, net	2,340,059	2,355,398	2,370,382	(1)	(1)
Total liabilities	2,633,335	2,651,153	2,666,210	(1)	(1)
Net assets:					
Invested in capital assets, net of related debt	374,364	330,848	327,530	13	1
Restricted for other purposes	157,326	214,605	236,152	(27)	(9)
Unrestricted	91,108	104,326	108,970	(13)	(4)
Total net assets	$ 622,798	649,779	672,652	(4)%	(3)%

Changes in Net Assets

The decrease in total net assets from December 31, 2004 to December 31, 2005 was approximately $27.0 million (4.3%). (See Table A-2.) The Authority's total operating revenues increased from 2004 by 0.24% to approximately $306.3 million. Total operating expenses increased 7.4% from 2004 to approximately $252.1 million. The increase relates principally to increases in health benefits, retirement contributions, and increased depreciation.

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 $234.9 million. The increase relates principally to increases in public safety costs and depreciation expense, offset by a decrease in general and administration costs.

Table A-2

Changes in the Massachusetts Turnpike Authority's Net Assets

(In thousands, except percentages)

	December 31			Percentage change	Percentage change
	2005	**2004**	**2003**	**2005-2004**	**2004-2003**
Operating revenues:					
Toll revenue	$ 258,971	256,911	244,092	1%	5%
Concession revenue	15,930	16,552	18,066	(4)	(8)
Other	31,426	32,116	25,228	(2)	27
Total operating revenues	306,327	305,579	287,386	—	6
Operating expenses:					
Operating expenses, excluding depreciation	170,564	159,436	152,997	7	4
Depreciation	81,575	75,427	73,632	8	2
Total operating expenses	252,139	234,863	226,629	7	4
Operating income	54,188	70,716	60,757	(23)	16
Net nonoperating (expenses) income	(81,962)	(93,589)	(97,933)	(12)	(4)
Special items:					
Gain on sale of capital asset	—	—	75,148	—	(100)
Contributed capital assets	793	—	236,019	—	(100)
	793	—	311,167	—	(100)
Changes in net assets	(26,981)	(22,873)	273,991	18	(108)
Total net assets, beginning of year	649,779	672,652	398,661	(3)	69
Total net assets, end of year	$ 622,798	649,779	672,652	(4)%	(3)%

The increase in operating revenue from 2004 to 2005 is primarily due to continued economic recovery. Turnpike and tunnel toll transactions increased by 251.2 thousand (0.1%) from 2004 to 2005.

Revenues generated from restaurants, concessions, and service stations were down in 2005. The decrease from 2004 to 2005 is a result of an additional payment of $1.6 million that was received in 2004.

Total operating expenses increased from 2004 to 2005 by approximately $17.3 million or 7.4%. The increase in operating expenses is a result of additional depreciation on the transferred assets from the Commonwealth, rising health insurance premiums, retirement contributions, additional spending on public protection, and the increase in operating and maintenance costs related to the transition of additional Central Artery/Tunnel Project facilities to the Authority.

The following chart shows the major sources of operating revenue for the year ended December 31, 2005:

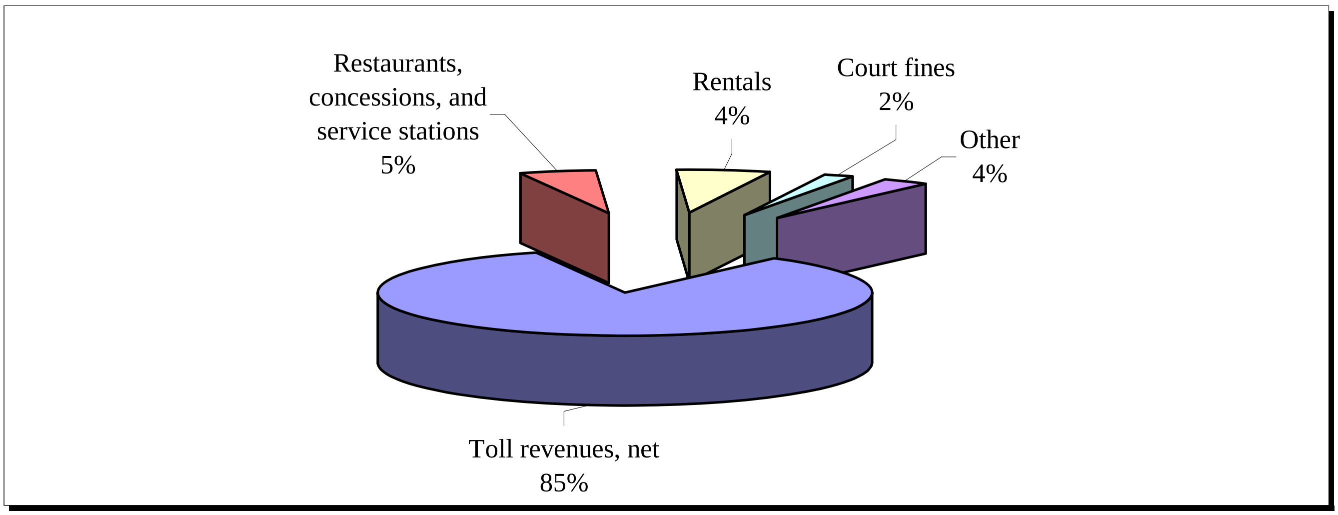

Table A-3

Operating and Nonoperating Revenues

(In thousands)

	December 31 2005	December 31 2004	December 31 2003	Increase (decrease) 2005-2004	Increase (decrease) 2004-2003
Operating revenues:					
Toll revenues, net	$ 258,971	256,911	244,092	2,060	12,819
Restaurants, concessions, and services stations	15,930	16,552	18,066	(622)	(1,514)
Rentals	13,195	17,393	11,767	(4,198)	5,626
Court fines	6,380	5,600	4,872	780	728
Other	11,851	9,123	8,589	2,728	534
Total operating revenues	306,327	305,579	287,386	748	18,193
Nonoperating revenues:					
Investment income	26,117	16,336	21,902	9,781	(5,566)
Grant income	733	—	722	733	(722)
Contract assistance	21,386	19,508	14,270	1,878	5,238
	48,236	35,844	36,894	12,392	(1,050)
Special items:					
Gain on sale of assets	—	—	75,148	—	(75,148)
Donation of capital asset	793	—	236,019	793	(236,019)
Total revenues	$ 355,356	341,423	635,447	13,933	(294,024)

The following chart shows the major categories of operating expenses for the year ended December 31, 2005:

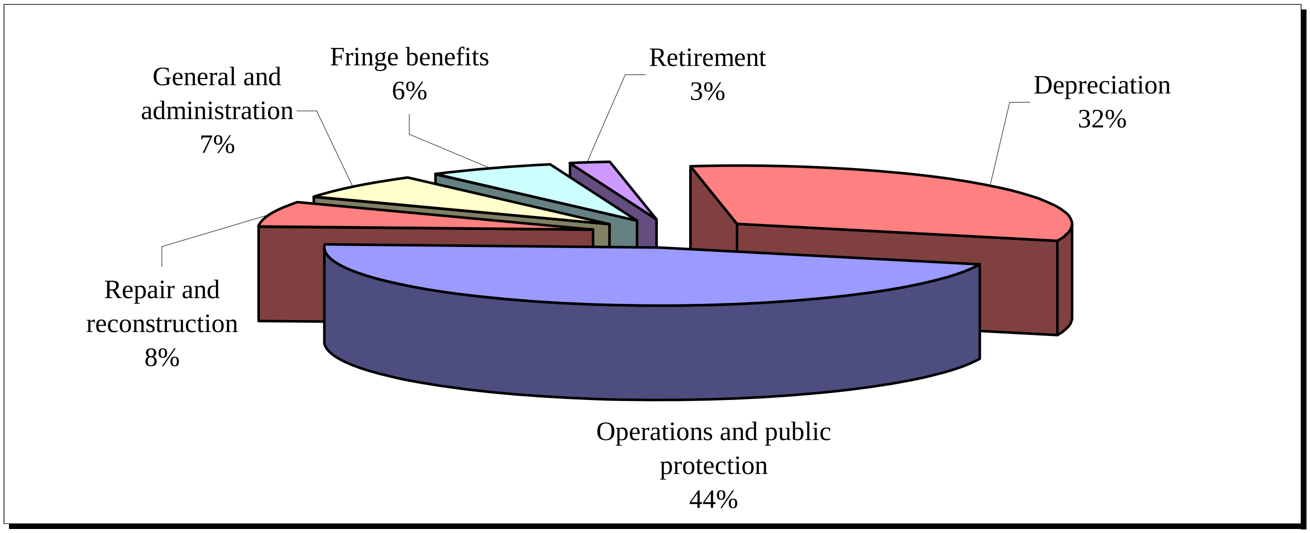

Table A-4

Operating and Nonoperating Expenses

(In thousands)

		December 31			Increase (decrease)	Increase (decrease)
		2005	2004	2003	2005-2004	2004-2003
Operating expenses:						
Operations and public protection	$	109,954	107,043	99,538	2,911	7,505
Repair and reconstruction		19,854	18,532	19,409	1,322	(877)
General and administration		17,791	15,365	18,061	2,426	(2,696)
Fringe benefits		14,782	13,018	11,905	1,764	1,113
Retirement		8,183	5,478	4,084	2,705	1,394
Depreciation		81,575	75,427	73,632	6,148	1,795
Total operating expenses		252,139	234,863	226,629	17,276	8,234
Nonoperating expense:						
Interest expense		130,198	129,433	134,827	765	(5,394)
Total expenses	$	382,337	364,296	361,456	18,041	2,840

(Continued)

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. 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 program budgets approximately $50 million in annual spending, unexpended funds are carried forward into the subsequent years. In 2005, the Authority expended approximately $55.9 on its capital reinvestment program, as well as an additional $54.1 million on other capital projects and commitments associated with the Central Artery/Tunnel Project. $19.9 million of the total capital spending in 2005 was for projects classified as "repair and reconstruction."

The Authority has committed to pay an amount not to exceed $115 million for certain costs associated with the Central Artery/Tunnel Project construction. In 2005, the Authority expended approximately $2.0 million under this agreement. The remaining commitment is $62 million.

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. Refer to footnote 4 for more information.

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 Bonds are as follows:

	Western Turnpike	MHS Senior	MHS Subordinated
FitchRatings	A+	BBB+	BBB
Moody's	Aa3	A3	Baal

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
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Assets

December 31, 2005 and 2004

(In thousands)

Assets		**2005**	**2004**
Current assets:			
Cash and cash equivalents (note 2)	$	5,178	8,832
Unrestricted investments (note 2)		107,110	168,111
Restricted and board-designated cash and cash equivalents (note 2)		44,133	32,280
Restricted and board-designated investments (note 2)		303,844	396,294
Accounts receivable, net of allowance for doubtful accounts of $813 in 2005 and 2004		9,179	9,753
Other receivables:			
Commonwealth of Massachusetts		—	23,255
Mass Highway		1,239	10,834
Other, net of allowance for doubtful accounts of $589 in 2005 and $643 in 2004 (note 2)		18,737	18,356
Total receivables		29,155	62,198
Prepaid expenses and other assets		5,169	4,759
Total current assets		494,589	672,474
Noncurrent assets:			
Restricted and board-designated investments (note 2)		295,676	162,418
Other receivables, long-term (note 2)		12,410	21,540
Capital assets, net (note 3)		2,443,160	2,434,257
Prepaid expenses and other assets, long-term		10,298	10,243
Total assets	$	3,256,133	3,300,932
Liabilities			
Current liabilities:			
Accounts payable	$	15,497	12,240
Accrued payroll and related taxes		1,418	2,100
Compensated absences (note 4)		3,393	3,159
Current portion of long-term debt (note 4)		19,890	19,535
Accrued expenses and miscellaneous liabilities		15,861	23,406
Contract retainage		1,796	2,435
Payable from restricted assets:			
Accrued interest on bonds payable		59,027	59,533
Accrued arbitrage liability		1,902	—
Total current liabilities		118,784	122,408
Noncurrent liabilities:			
Deposits and deferred revenue		45,408	50,216
Deferred credits (note 2)		62,175	64,191
Compensated absences (note 4)		7,195	6,391
Accrued interest on capital appreciation bonds (note 4)		59,714	52,549
Long-term debt, net (note 4)		2,340,059	2,355,398
Total liabilities		2,633,335	2,651,153
Net Assets			
Invested in capital assets, net of related debt		374,364	330,848
Restricted for other purposes		157,326	214,605
Unrestricted		91,108	104,326
Commitments and contingencies (notes 6, 7, 8, and 9)			
Total net assets	$	622,798	649,779

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2005 and 2004

(In thousands)

		2005	2004
Operating revenues:			
Toll revenue pledged as security for revenue bonds, net	$	258,971	256,911
Restaurants, concessions, and service stations		15,930	16,552
Other rentals		13,195	17,393
Court fines		6,380	5,600
Other		11,851	9,123
Total operating revenues		306,327	305,579
Operating expenses:			
Operations and public protection		109,954	107,043
Repair and reconstruction		19,854	18,532
General and administration		17,791	15,365
Fringe benefits		14,782	13,018
Retirement		8,183	5,478
Depreciation		81,575	75,427
Total operating expenses		252,139	234,863
Operating income		54,188	70,716
Nonoperating revenue and (expense):			
Investment income		26,117	16,336
Contract assistance (note 9)		21,386	19,508
Grant income		733	—
Interest expense		(130,198)	(129,433)
Total nonoperating expense		(81,962)	(93,589)
Special item:			
Contributed capital assets (note 3)		793	—
Total special item		793	—
Decrease in net assets		(26,981)	(22,873)
Net assets, beginning of year		649,779	672,652
Net assets, end of year	$	622,798	649,779

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2005 and 2004

(In thousands)

		2005	2004
Cash flows from operating activities:			
Receipts from toll payers	$	258,971	256,911
Receipts from others		70,221	23,449
Payments to vendors		(81,805)	(57,771)
Payments to employees		(91,260)	(87,041)
Net cash provided by operating activities		156,127	135,548
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(91,193)	(78,683)
Interest paid on bonds and notes		(121,551)	(118,737)
Principal payments on long-term debt		(14,984)	(35,384)
Federal grant contributions		733	28
Transfers to Commonwealth		(9,500)	—
Reimbursements received from Commonwealth		35,900	5,000
Net cash used in capital and related financing activities		(200,595)	(227,776)
Cash flows from investing activities:			
Sales (purchase) of investments, net		20,887	(14,081)
Interest received		31,780	21,305
Net cash provided by investing activities		52,667	7,224
Net increase (decrease) in cash and cash equivalents		8,199	(85,004)
Cash and cash equivalents, beginning of year		41,112	126,116
Cash and cash equivalents, end of year	$	49,311	41,112
Reconciliation of operating income to net cash provided by operating activities:			
Cash flows from operating activities:			
Operating income	$	54,188	70,716
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		86,126	79,978
Changes in operating assets and liabilities:			
Trade receivables		9,743	(39,350)
Prepaid expenses and other assets		(410)	(5,397)
Other receivables – long-term		9,130	9,131
Prepaid expenses and other assets – long-term		(55)	6,288
Accounts payable		3,257	(1,516)
Accrued payroll		(682)	904
Compensated absences		1,038	859
Accrued expenses, deferred revenue, and other liabilities		(4,192)	15,951
Deferred credits		(2,016)	(2,016)
Net cash provided by operating activities	$	156,127	135,548

Noncash financing activities:

In 2005, the Authority received a contribution of capital assets of $793 from the Commonwealth of Massachusetts.

See accompanying notes to financial statements.

(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.

The Authority is a component unit of the Commonwealth. The Authority's financial statements are incorporated into the financial statements of the Commonwealth.

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 (CANA), 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).

(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 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, 2005 and 2004 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, 2005 and 2004, the Authority had unrealized holding gains and losses of approximately $5.7 million and $(4.9) 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:

	Years
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.

(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) Implementation of New Accounting Standards

GASB Statement Nos. 43 and 45, *Financial Reporting for Postemployment Benefit Plan Other Than Pensino Plans* and *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* are scheduled to be implemented by the Authority for the years ending December 31, 2006 and December 31, 2007, respectively.

(k) 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.

(l) 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.

(m) Reclassifications

Certain 2004 information has been reclassified to conform to the 2005 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 uninsured and uncollateralized. The deposits at December 31, 2005 and 2004, were $44.6 million and $37.3 million, respectively. Of these, $44.2 million and $33.6 million, respectively were exposed to custodial credit risk as uninsured but collateralized.

(b) Investments

The Authority has implemented an investment policy which incorporates the investment protocols within the Trust Agreements.

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, all of which are fully collateralized and appear as follows:

2005
Guaranteed Investment Contracts

	Fund	Investment agreement provider	Rate	Maturity	Amount
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	June 30, 2006	18.17 million
MHS	General Fund	General Electric Capital Corp.	1.890	June 15, 2006	7.47 million

2004
Guaranteed Investment Contracts

	Fund	Investment agreement provider	Rate	Maturity	Amount
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

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

Investments by Fund

December 31, 2005

(Expressed in thousands)

Fund name	Fund	Investment type: Money market mutual funds	Investment type: US Government agency obligations	Investment type: Guaranteed investment contracts and other	Fair value	Investment maturities (in years): Less than 1	1 – 3	4 – 8	More than 9
WT Revenue Fund	515	$ 4,937	—	—	4,937	4,937	—	—	—
WT Operating	520	13,503	—	—	13,503	13,503	—	—	—
WT Sr. Debt Service	530	19,805	—	—	19,805	19,805	—	—	—
WT Capital Reinvestment	550	10,060	—	—	10,060	10,060	—	—	—
WT General Fund	560	34,973	7,648	200	42,821	34,973	7,648	—	200
MHS Capital Fund	601	6,789	—	—	6,789	6,789	—	—	—
MHS Revenue Fund	615	—	—	—	—	—	—	—	—
MHS Operating	620	14,888	—	—	14,888	14,888	—	—	—
MHS 97 Sr. Debt Service	630	21,396	33,424	—	54,820	54,820	—	—	—
MHS 97 Sr. Debt Service Reserve Fund	635	50	100,311	—	100,361	100,361	—	—	—
MHS 97/99 Sub. Debt Service	640	4,501	29,492	—	33,993	33,993	—	—	—
MHS 97/99 Sub. Debt Service Reserve Fund	645	2,158	15,351	64,665	82,174	17,509	—	—	64,665
MHS Capital Reinvestment	650	242	2,578	—	2,820	242	2,578	—	—
MHS General Fund	660	94,731	77,305	129,438	301,474	94,731	80,044	22,899	103,800
MHS Sr. Rebate Fund	670	4,091	—	—	4,091	4,091	—	—	—
MHS Sub. Rebate Fund	675	218	—	—	218	218	—	—	—
MTA General Fund	690	784	8,892	4,200	13,876	784	1,972	6,920	4,200
		$ 233,126	275,001	198,503	706,630	411,704	92,242	29,819	172,865

Investment type	Fair value	Investment maturities (in years): Less than 1 year	1 – 3	4 – 8	More than 9
Money market mutual funds	$ 233,126	233,126	—	—	—
U.S. agency obligations	275,001	70,378	92,242	29,819	82,562
Guaranteed investment contracts	90,303	—	—	—	90,303
Other	108,200	108,200	—	—	—
	$ 706,630	411,704	92,242	29,819	172,865

Investments by Fund

December 31, 2004

(Expressed in thousands)

		Investment type				Investment maturities (in years)			
Fund name	Fund	Money market mutual funds	US Government agency obligations	Guaranteed investment contracts and other	Fair value	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 maturities (in years)			
Investment type	Fair value	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 trusteed 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.

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):

	2005	2004
GICs:		
AIG	$ 64,665	64,665
General Electric Capital Corp.	25,638	45,628
U.S. agency obligations:		
Federal Home Loan Bank (FHLB)	174,038	201,315
Federal Home Loan Mortgage Corporation (FHLMC)	30,975	64,111
Federal National Mortgage Association (FNMA)	69,988	143,494
	$ 365,304	519,213

(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 attempts to minimize interest rate risk by structuring investment portfolios to anticipate cash requirements and investing in securities guaranteed by the U.S. Government or under the Federal government's oversight.

(f) Cash and Investments by Fund

The following summarizes cash and investments as of December 31, 2005 and 2004 by the various funds and accounts established by the Authority for debt covenant requirements and other purposes:

		2005	2004
		(In thousands)	
Revenue Fund	$	20,425	18,005
Operating and Maintenance Fund		42,545	60,313
General Fund		370,397	384,739
Rebate Fund		4,308	3,497
Senior Debt Service Fund		77,148	55,393
Senior Debt Service Reserve Fund		100,372	100,364
Subordinated Debt Service Fund		34,032	34,138
Subordinated Debt Service Reserve Fund		82,174	81,629
Maintenance Capital Reinvestment Fund		24,540	29,857
Total	$	755,941	767,935

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

		2005	2004
		(In thousands)	
Unrestricted	$	112,288	176,943
Board-designated for capital and other expenditures		254,006	266,813
Externally restricted by bond and other requirements		389,647	324,179
Total	$	755,941	767,935

(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. Morgan Guaranteed Trust Corporation (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, 2005, 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, 2005 (000's)	Net fair option value at December 31, 2004 (000's)
)6/18/1999	10/01/200:	$ 100,000,000	07/01/2029	67% of 1 month LIBOR	BMA	07/20/1999	$ 5,350,000	$ (8,848)	(9,502)

2001 UBS Swaptions

In May 2001, the Authority entered into a swap with five tranches with UBS AG, the parent company of UBS Paine Webber (UBS). This "swaption" grants 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 could 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, 2005 (in thousands):

	Amount
Due January 1st:	
2006	$ 3,281
2007	3,281
2008	3,281
	9,843
Less current portion	3,281
	$ 6,562

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, 2005 and 2004 is $25.8 million and $26.6 million, respectively. The following chart summarizes the 2001 UBS swaptions.

The Authority entered into a swaption with 5 tranches on May 31, 2001. The counterparty is UBS. As of December 31, 2005 and 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, 2005*	Net fair option value at December 31, 2004*
								(000's)	(000's)
01/01/2007	$ 207,665,000	01/01/2037	1997 Series A	4.750%	68% of 1 month LIBOR	06/04/2001 01/01/2002 01/01/2003 01/01/2004 01/01/2005 01/01/2006 01/01/2007 01/01/2008	$ 1,751,663 875,897 875,897 875,897 875,897 875,897 875,897 875,897	$ (35,131)	(24,288)
01/01/2007	83,100,000	01/01/2037	1997 Series B	4.875%	68% of 1 month LIBOR	06/04/2001 01/01/2002 01/01/2003 01/01/2004 01/01/2005 01/01/2006 01/01/2007 01/01/2008	673,872 388,650 388,650 388,650 388,650 388,650 388,650 388,650	(14,735)	(10,373)
01/01/2007	43,625,000	01/01/2029	1997 Series B	5.000%	68% of 1 month LIBOR	06/04/2001 01/01/2002 01/01/2003 01/01/2004 01/01/2005 01/01/2006 01/01/2007 01/01/2008	303,162 212,112 212,112 212,112 212,112 212,112 212,112 212,112	(7,071)	(5,122)
01/01/2009	371,380,000	01/01/2039	1999 Series A	4.750%	68% of 1 month LIBOR	06/04/2001 01/01/2002 01/01/2003 01/01/2004 01/01/2005 01/01/2006 01/01/2007 01/01/2008	2,848,263 1,393,901 1,393,901 1,393,901 1,393,901 1,393,901 1,393,901 1,393,901	(60,648)	(40,242)
01/01/2009	94,230,000	01/01/2029	1999 Series A	5.000%	68% of 1 month LIBOR	06/04/2001 01/01/2002 01/01/2003 01/01/2004 01/01/2005 01/01/2006 01/01/2007 01/01/2008	575,495 410,119 410,119 410,119 410,119 410,119 410,119 410,119	(13,801)	(9,497)

* The net fair option value includes the present value of the unpaid premiums at December 31, 2005 and 2004, respectively.

2002 Lehman Swaptions

In November 2002, the Authority entered into an interest rate swap option with five tranches with Lehman Brothers Special Financing Inc. (Lehman). These "tranches" 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, 2005 (in thousands):

	Amount
Due January 1st:	
2006	$ 5,849
2007	5,848
	11,697
Less current portion	5,849
	$ 5,848

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, 2005 and 2004 is $32.2 million and $33.2 million, respectively.

The Authority entered into a swaption with five tranches on December 02, 2002. The counterparty is Lehman Brothers Special Financing Inc. As of December 31, 2005 and 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 payable swap rate	Variable receivable swap rate	Payments from counterparty		Net fair option value at December 31, 2005* (000's)	Net fair option value at December 31, 2004* (000's)
						12/05/2002	$ 1,739,020		
						01/01/2003	1,431,150		
01/01/2007	$ 207,665,000	01/01/2037	1997 Series A	5.0%	BMA	01/01/2004	1,600,250	$ (3,609)	(4,701)
						01/01/2005	1,600,250		
						01/01/2006	1,600,250		
						01/01/2007	1,600,250		
						12/05/2002	691,800		
						01/01/2003	623,882		
						01/01/2004	621,928		
01/01/2007	83,100,000	01/01/2037	1997 Series B	5.0	BMA	01/01/2005	621,928	(1,499)	(1,774)
						01/01/2006	621,928		
						01/01/2007	621,928		
						12/05/2002	381,870		
						01/01/2003	353,257		
						01/01/2004	340,908		
01/01/2007	43,625,000	01/01/2029	1997 Series B	5.0	BMA	01/01/2005	340,908	(487)	(604)
						01/01/2006	340,908		
						01/01/2007	340,908		
						12/05/2002	2,897,250		
						01/01/2003	2,384,322		
						01/01/2004	2,666,048		
01/01/2009	371,380,000	01/01/2039	1999 Series A	5.0	BMA	01/01/2005	2,666,048	(7,740)	(9,124)
						01/01/2006	2,666,048		
						01/01/2007	2,666,048		
						12/05/2002	690,060		
						01/01/2003	623,841		
						01/01/2004	619,901		
01/01/2009	94,230,000	01/01/2029	1999 Series A	5.0	BMA	01/01/2005	619,901	(1,349)	(1,733)
						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, 2005 and 2004, respectively.

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 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 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, 2005, 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	Net fair option value at December 31, 2005 (000's)	Net fair option value at December 31, 2004 (000's)
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	$ (1,365)	—

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, 2005 and 2004, the reserve fund balance was $13.4 million and $13.1 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, 2005 and 2004, 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.

(3) Capital Assets

Capital assets consisted of the following at December 31:

	2005			
	Beginning balance	**Increases**	**Decreases**	**Ending balance**
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 151,764	1,090	—	152,854
Construction in progress	165,981	86,109	77,185	174,905
Total capital assets, not being depreciated	317,745	87,199	77,185	327,759
Capital assets, being depreciated:				
Infrastructure	2,309,655	1,275	—	2,310,930
Improvements	503,307	72,706	—	576,013
Buildings	47,760	—	—	47,760
Equipment	102,904	6,483	83	109,304
Total capital assets, being depreciated	2,963,626	80,464	83	3,044,007
Less accumulated depreciation for:				
Infrastructure	575,570	52,170	—	627,740
Improvements	188,712	17,791	—	206,503
Buildings	23,092	1,142	—	24,234
Equipment	59,740	10,472	83	70,129
Total accumulated depreciation	847,114	81,575	83	928,606
Total capital assets, being depreciated, net	2,116,512	(1,111)	—	2,115,401
Capital assets, net	$ 2,434,257	86,088	77,185	2,443,160

	2004			
	Beginning balance	**Increases**	**Decreases**	**Ending balance**
	(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	294,242	65,985	42,482	317,745
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	2,908,514	55,180	68	2,963,626
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	771,727	75,427	40	847,114
Total capital assets, being depreciated, net	2,136,787	(20,247)	28	2,116,512
Capital assets, net	$ 2,431,029	45,738	42,510	2,434,257

(a) Contributed Capital Assets

As of July 1, 1997, the Authority entered into a Project Management Agreement with respect to the Central Artery/Tunnel 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.

During calendar 2004, there were no assets transferred that were material to the financial statements. During calendar 2005, the Authority received a parcel of land and certain vehicles from the Commonwealth valued at approximately $793 thousand. 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.

(4) Bonds and Notes Payable

Long-term debt at December 31, 2005 and 2004 consisted of the following:

	2005				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
			(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)	226,105	—	14,925	211,180	15,775
Subordinated debt:					
Metropolitan Highway System:					
1999, Series A, 3.90% to 5.26%, issued March 11, 1999 due 2004 to 2039	782,835	—	4,610	778,225	4,115
1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037	194,680	—	—	194,680	—
Subtotal	2,475,803	—	19,535	2,456,268	19,890
Less unamortized amounts:					
Bond discounts	102,329	—	5,064	97,265	—
Net unamortized excess of reacquisition price over net carrying value of defeased bonds	(1,459)	—	(513)	(946)	—
Total bonds payable	2,374,933	—	14,984	2,359,949	19,890
Compensated absences, net	9,550	1,038		10,588	3,393
Total long-term liabilities	$ 2,384,483	1,038	14,984	2,370,537	23,283

	2004				
	Beginning balance	**Additions**	**Reductions**	**Ending balance**	**Due within one year**
			(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 defeased bonds	(1,972)	—	(513)	(1,459)	—
Total bonds payable	2,410,317	—	35,384	2,374,933	19,535
Compensated absences, net	8,691	859	—	9,550	3,159
Total long-term liabilities	$ 2,419,008	859	35,384	2,384,483	22,694

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.

 (Continued)

Debt service requirements on revenue bonds are as follows:

		Principal	**Interest**	**Total**
			(In thousands)	
Year ending December 31:				
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	$	2,456,268	2,870,554	5,326,822

At December 31, 2005, the principal amounts outstanding on revenue bonds and notes outstanding that are considered defeased are as follows (dollars in thousands):

Description	**Redemption date**	**Redemption price**		**Principal amount outstanding**
1993 Series A Serial	2005 to 2008	100% to 101%	$	33,195
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, 2005 (dollars in thousands):

Description	**Redemption date**	**Redemption price**		**Principal amount outstanding**
Metropolitan Highway System:				
1999 Series A	2009 to 2039	100% to 101%	$	778,225
1997 Series A and B	2010 to 2037	100% to 102%		194,680
Western Turnpike:				
1997 Series A	2003 to 2017	100%		211,180

(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, 2005 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:		
2005	$ 3,000,000	100%
2004	1,187,000	100
2003	722,000	100

(d) Healthcare Benefits Plan

In addition to the pension plan, the Authority has voluntarily established a separate plan to provide certain healthcare benefits to current employees. The fair value of the assets held in this plan was approximately $1.3 million and $3.2 million at December 31, 2005 and 2004, respectively. No employer contributions were made to the Plan in 2005 and 2004.

(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) to provide certain healthcare benefits to its retired employees and the Employees' Medical Benefits Trust (EIBT) to provide a contingency fund for medical expense indemnification. The Authority's contributions to the plans are voluntary, based on the availability of revenues. The Board voted to dissolve the EIBT at their December 2005 board meeting, when the trust was no longer deemed necessary.

The number of REIBT plan participants is 2,157, of which 1,311 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 2005 and 2004.

The Authority expensed, on a pay-as-you-go basis, $5.2 million and $4.1 million in 2005 and 2004, 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 2010 and are generally expected to be renewed or replaced by similar leases. Lease expense in 2005 and 2004 was $969 and $953 thousand, respectively, of which $881 and $855 thousand, respectively, was paid for the benefit of the Commonwealth for office space in a state-owned building. The lease with the Commonwealth is cancelable by either party with 12 months written notice. Future minimum lease payments under the above leases are as follows (in thousands):

2006	$	944

(b) Rental Income

The Authority leases property and air rights to others. During 2005 and 2004, the Authority earned $29.1 million and $33.9 million, respectively, in rental income, of which $15.9 million and $16.6 million, respectively, was received for restaurant, concessions, and service station rentals.

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of December 31, 2005 (in thousands):

Years	Amount	Years	Amount
2006	$ 28,733	2046-2050	$ 9,044
2007	28,657	2051-2055	10,020
2008	29,240	2056-2060	10,265
2009	29,678	2061-2065	11,330
2010	29,837	2066-2070	11,604
2011-2015	125,663	2071-2075	13,130
2016-2020	135,755	2076-2080	13,512
2021-2025	117,852	2081-2085	15,419
2026-2030	21,135	2086-2090	15,896
2031-2035	11,007	2091-2095	18,280
2036-2040	9,044	2096-2100	17,841
2041-2045	9,044		
Total			$ 721,986

(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 2005 and 2004 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.

(Continued)

Changes in the claims liability insurance reserves in fiscal 2005 and 2004 were as follows (in thousands):

		Health	Workers' compensation
Liability balance, December 31, 2003	$	301	8,791
Provision to record estimated losses		1,372	3,073
Payments		(1,320)	(4,124)
Liability balance, December 31, 2004		353	7,740
Provision to record estimated losses		2,062	3,044
Payments		(1,917)	(2,805)
Liability balance, December 31, 2005	$	498	7,979

(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, 2005 and 2004 approximated $6.4 million and $14.6 million, respectively.

During the construction of the Central Artery/Tunnel Project, the Authority has been responsible for and funded a portion of the cost of the Project. In accordance with 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 its Project contributions through the issuance of various bonds.

Subsequent to submission of the October 2004 Finance Plan, the Central Artery/Tunnel 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 Central Artery/Tunnel Project 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 Central Artery/Tunnel Project is reduced by $67 million. This funding plan remains under review by the Executive Office of Administration and Finance (EOAF).

The Authority's remaining commitment to the Project of $236 million is expected to be paid principally from the sale of Authority-owned real estate ($152 million of the proceeds from sale of Allston Landing were received in 2003, interest earnings from the Allston Land sale proceeds ($31 million), and other available cash ($53 million). Through December 31, 2005, the Authority has incurred and paid Project expenses that have reduced this commitment as follows (amounts in thousands):

Committed amount	$	236,000
Amount expended:		
Legal and claims and changes		18,204
Cost recovery		18,706
Other		23,307
Total remaining commitment	$	175,783

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

Also during 2005, 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 $2.0 million and $5.1 million under this agreement during 2005 and 2004, respectively, representing construction costs paid by the Authority in those fiscal years. As of December 31, 2005 and 2004, the Authority has expended a total of approximately $53.6 million and $51.6 million, respectively, 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 $35.9 million and $5.0 million from the Commonwealth during fiscal 2005 and 2004, respectively, for reimbursement of CA/T Project and CANA operation and maintenance costs incurred by the Authority.

(Continued)

(10) Subsequent Events

(a) Lessee Default

On June 1, 2006, Level 3 Communications, LLC and WilTel Communications, LLC (now affiliates) were due to make annual payments on easement agreements (Rental Payments) in effect since 1999 with the Authority (the Agreements). The Rental Payment, totaling approximately $4 million, was withheld. The Authority timely presented default letters to each, and on August 24, 2006 filed an action in the Suffolk Superior Court to recover the Rental Payment together with the default interest provided for in the Agreements and legal fees. On August 25, 2006, Level 3 filed an action in the United States District Court for the District of Massachusetts seeking a declaration that the Rental Payment provision, as well as certain other terms, of the Agreements was unenforceable because they violated Section 253 of the Federal Telecommunications Act. Level 3's action also sought to recover from the Authority some portion of the Rental Payments previously made by it to the Authority since 1999 on grounds of "unjust enrichment." If Level 3 establishes in its action that the Rental Payment provision in the Agreements is unenforceable, it is likely that a substantially reduced annual payment will be found to apply, the amount of which cannot be determined at this time.

(b) Tunnel Collapse

On July 10, 2006, panels in the ceiling of the eastbound I-90 Connector Tunnel that leads to the Ted Williams Tunnel fell, causing the death of an automobile passenger. State and federal law enforcement officials are investigating the incident. The extent of claims that may arise from the July 10, 2006, tunnel ceiling accident is not known. Counsel for the estate of the deceased passenger and family, recently held a press conference announcing the commencement of a wrongful death lawsuit against the Authority and various contractors.

In late August 2006, the Securities & Exchange Commission sent the Authority a letter requesting voluntary provision of documents and information regarding safety reviews of the Central Artery/Tunnel Project during the period January 1, 2004, to the present and related disclosures. The Authority is cooperating with the SEC.

(c) Swap Agreements

Per the terms of its 2001 swaption agreements with the Authority (see note 2g), UBS AG could exercise an option relative to about $334 million in 1997 Series A and Series B bonds as of January 1, 2007, provided that the Authority was notified of this prior to September 5, 2006. UBS AG did not provide notification as of this date. The next exercise notification date is March 3, 2007.

(d) Interim Task Force Report

At the September 20, 2006 Board meeting of the Authority, a task force authorized by the Board to conduct a review of the Authority's operations presented its interim report summarizing their initial findings concerning the Authority's financial condition and strategies, labor contracts, budget priorities and management. A final report is expected by November. Currently the Authority is reviewing the interim report and is considering appropriate action.

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

Required Supplementary Information

December 31, 2005

(In thousands)

Schedule of Pension 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)
1/1/2005	$	196,826	251,898	55,072	78.1	$	70,554	78.1
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
(A Component Unit of the Commonwealth of Massachusetts)

Combining Schedule of Net Assets

December 31, 2005

(In thousands)

Assets		Metropolitan Highway System	Western Turnpike	MTA General Fund	Eliminations	Combined totals
Current assets:						
Cash – unrestricted	$	3,769	1,409	—	—	5,178
Investments – unrestricted		84,357	22,753	—	—	107,110
Restricted cash		25,966	16,178	1,989	—	44,133
Restricted investments		242,536	60,524	784	—	303,844
Accounts receivable, net of allowance for doubtful accounts of $813		5,775	3,404	—	—	9,179
Other receivables:						
Mass Highway		1,239	—	—	—	1,239
Other, net of allowance for doubtful accounts of $589		16,822	1,890	25	—	18,737
Total receivables		23,836	5,294	25	—	29,155
Prepaid expenses and other assets		2,340	2,829	—	—	5,169
Due from other funds		47,465	44,716	—	(92,181)	—
Total current assets		430,269	153,703	2,798	(92,181)	494,589
Noncurrent assets:						
Restricted investments		274,736	7,848	13,092	—	295,676
Other receivables, long-term		12,410	—	—	—	12,410
Capital assets, net		2,098,773	344,387	—	—	2,443,160
Prepaid expenses and other assets, long-term		8,907	1,391	—	—	10,298
Total assets	$	2,825,095	507,329	15,890	(92,181)	3,256,133

(Continued)

Schedule I

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

Combining Schedule of Net Assets

December 31, 2005

(In thousands)

Liabilities		Metropolitan Highway System	Western Turnpike	MTA General Fund	Eliminations	Combined totals
Current liabilities:						
Accounts payable	$	10,638	4,859	—	—	15,497
Accrued payroll and related taxes		416	1,002	—	—	1,418
Compensated absences		1,374	2,019	—	—	3,393
Current portion of long-term debt		4,115	15,775	—	—	19,890
Accrued expenses and miscellaneous liabilities		4,665	11,160	36	—	15,861
Contract retainage		916	880	—	—	1,796
Due to other funds		62,405	29,776	—	(92,181)	—
Payable from restricted assets:						
Accrued interest on bonds payable		53,167	5,860	—	—	59,027
Accrued arbitrage liability		1,902	—	—	—	1,902
Total current liabilities		139,598	71,331	36	(92,181)	118,784
Deposits and deferred revenue		36,578	8,830	—	—	45,408
Deferred credits		57,984	—	4,191	—	62,175
Compensated absences		2,583	4,612	—	—	7,195
Accrued interest on capital appreciation bonds		59,714	—	—	—	59,714
Long-term debt, net		2,145,697	194,362	—	—	2,340,059
Total liabilities		2,442,154	279,135	4,227	(92,181)	2,633,335
Net Assets						
Invested in capital assets, net of related debt		220,310	154,054	—	—	374,364
Restricted for other purposes		129,508	27,818	—	—	157,326
Unrestricted		33,123	46,322	11,663	—	91,108
Total net assets	$	382,941	228,194	11,663	—	622,798

See accompanying independent auditors' report.

Schedule II

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

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

Year ended December 31, 2005

(In thousands)

	Metropolitan Highway System	Western Turnpike	MTA General Fund	Combined totals
Operating revenues:				
Toll revenue, net	$ 144,414	114,557	—	258,971
Restaurants, concessions, and service stations	—	15,930	—	15,930
Rentals	8,572	4,623	—	13,195
Court fines	2,351	4,029	—	6,380
Other	4,949	4,017	2,885	11,851
Total operating revenues	160,286	143,156	2,885	306,327
Operating expenses:				
Operations and public protection	51,923	58,031	—	109,954
Repair and reconstruction	11,979	7,875	—	19,854
General and administration	5,485	12,306	—	17,791
Fringe benefits	6,680	8,102	—	14,782
Retirement	2,864	5,319	—	8,183
Depreciation	53,455	28,120	—	81,575
Total operating expenses	132,386	119,753	—	252,139
Operating income	27,900	23,403	2,885	54,188
Nonoperating revenue and expense:				
Investment income	23,376	2,130	611	26,117
Contract assistance	21,386	—	—	21,386
Grant income	130	603	—	733
Interest expense	(118,259)	(11,837)	(102)	(130,198)
Total nonoperating (expense) revenue, net	(73,367)	(9,104)	509	(81,962)
Special items:				
Donation of capital assets	793	—	—	793
Total special items	793	—	—	793
Increase (decrease) in net assets	(44,674)	14,299	3,394	(26,981)
Net assets, beginning of year	427,615	213,895	8,269	649,779
Net assets, end of year	$ 382,941	228,194	11,663	622,798

See accompanying independent auditors' report.

Schedule III

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

Combining Schedule of Net Assets

December 31, 2004

(In thousands)

Assets		**Metropolitan Highway System**	**Western Turnpike**	**MTA General Fund**	**Eliminations**	**Combined totals**
Current assets:						
Cash – unrestricted	$	8,821	11	—	—	8,832
Investments – unrestricted		98,878	69,233	—	—	168,111
Restricted cash		21,822	5,896	4,562	—	32,280
Restricted investments		372,730	23,564	—	—	396,294
Accounts receivable, net of allowance for doubtful accounts of $813		5,472	4,281	—	—	9,753
Other receivables:						
Commonwealth of Massachusetts		23,255	—	—	—	23,255
Mass Highway		10,834	—	—	—	10,834
Other, net of allowance for doubtful accounts of $643		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, 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

(Continued)

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

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		1,150,388	66,572	978	(1,095,530)	122,408
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		2,145,360	210,038	—	—	2,355,398
Total liabilities		3,452,759	288,577	5,347	(1,095,530)	2,651,153
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		69,611	26,446	8,269	—	104,326
Total net assets	$	427,615	213,895	8,269	—	649,779

See accompanying independent auditors’ report.

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

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	162,547	143,032	—	305,579
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	128,190	106,974	(301)	234,863
Operating income	34,357	36,058	301	70,716
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	(82,099)	(11,617)	127	(93,589)
Income (loss) before interfund transfers	(47,742)	24,441	428	(22,873)
Interfund transfers	14	(6)	(8)	—
Increase (decrease) in net assets	(47,728)	24,435	420	(22,873)
Net assets, beginning of year	475,343	189,460	7,849	672,652
Net assets, end of year	$ 427,615	213,895	8,269	649,779

See accompanying independent auditors’ report.