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

Financial Statements, Required Supplementary Information, and Supplementary Schedules

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

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

December 31, 2006 and 2005

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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, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the 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, 2006 and 2005, 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 and the schedule of pension funding progress as listed in the accompanying table of contents 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, 2006 and 2005 (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 29, 2007 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

June 29, 2007

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, 2006 and 2005. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights – Fiscal 2006

- Toll transactions and revenues increased slightly on the Western Turnpike (WT) in 2006. The WT toll transactions increased to approximately 105.0 million and net WT toll revenues increased to $115.3 million. The Metropolitan Highway System (MHS) toll transactions decreased slightly to approximately 87.3 million. Net MHS toll revenue decreased to $141.9 million from 2005.
- Rental revenue increased from 2005 by $0.3 million. The contributing factors were that the Authority received $3.0 million from various new air rights agreements which was offset by rents not received from two fiber optics companies that are challenging the rental agreements.
- 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 2006 the Authority has provided $49.1 million in toll discounts to FAST LANE commuters. The percentage of total traffic using FAST LANE grew from an average of 55% in 2005 to 57% in 2006.
- 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 2006 for active employees increased by 10% as compared to 2005; retirees experienced a 0.02% increase during the same time period, primarily due to premium increases.
- Annual contributions to the MTA Employees' Retirement System have increased significantly in 2006. The Authority has increased its annual contributions to address an unfunded liability. In 2005 the appropriation for the retirement system was $3.0 million; for 2006 it was $4.5 million – an increase of 50%.
- Investment earnings increased by 18.7% compared to 2005. Higher interest rates during 2006 were the major contributor to this increase

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.

 (Continued)

- 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.

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.

Financial Analysis of the Authority

Net Assets

The Authority's total net assets at December 31, 2006 were approximately $572.9 million, an 8.0% decrease from December 31, 2005. (See Table A-1.) Total assets decreased 1.7% to approximately $3,201.0 million. Total liabilities decreased slightly (0.2%) to approximately $2,628.2 million. The decrease in net assets is attributable to expenses (both operating and nonoperating) exceeding total revenues by $49.9 million.

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 (0.6%) to approximately $2,633.3 million.

Table A-1

Massachusetts Turnpike Authority's Net Assets

(In thousands, except percentages)

	December 31 2006	December 31 2005	December 31 2004	Percentage change 2006-2005	Percentage change 2005-2004
Current assets unrestricted	$ 172,995	146,612	243,900	18%	(40)%
Restricted assets	425,952	643,653	590,992	(34)	9
Capital assets	2,550,973	2,443,160	2,434,257	4	—
Other	51,122	22,708	31,783	125	(29)
Total assets	3,201,042	3,256,133	3,300,932	(2)	(1)
Current liabilities:					
Other	63,895	57,855	62,875	10	(8)
Liabilities payable from restricted assets	61,707	60,929	59,533	1	2
Noncurrent liabilities:					
Other	178,502	174,492	173,347	2	1
Long-term debt, net	2,324,055	2,340,059	2,355,398	(1)	(1)
Total liabilities	2,628,159	2,633,335	2,651,153	—	(1)
Net assets:					
Invested in capital assets, net of related debt	495,934	374,364	330,848	32	13
Restricted for other purposes	70,800	157,326	214,605	(55)	(27)
Unrestricted	6,149	91,108	104,326	(93)	(13)
Total net assets	$ 572,883	622,798	649,779	(8)%	(4)%

Changes in Net Assets

The decrease in total net assets from December 31, 2005 to December 31, 2006 was approximately $49.9 million (8.0%). (See Table A-2.) The Authority's total operating revenues decreased from 2005 by 0.4% to

(Continued)

approximately $304.9 million. Total operating expenses increased 10.6% from 2005 to approximately $278.9 million. The increase relates principally to increases in health benefits, retirement contributions, additional spending on public protection and the increase in operating and maintenance costs related to Central Artery facilities.

The decrease in total net assets from December 31, 2004 to December 31, 2005 was approximately $27.0 million (4.2%). (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.

TABLE A-2

Changes in the Massachusetts Turnpike Authority's Net Assets

(In thousands, except percentages)

	December 31			Percentage change	Percentage change
	2006	2005	2004	2006-2005	2005-2004
Operating revenues:					
Toll revenue	$ 257,179	258,971	256,911	(1)%	1%
Concession revenue	16,565	15,930	16,552	4	(4)
Other	31,220	31,426	32,116	(1)	(2)
Total operating revenues	304,964	306,327	305,579	—	—
Operating expenses:					
Operating expenses, excluding depreciation	202,997	170,564	159,436	19	7
Depreciation	75,964	81,575	75,427	(7)	8
Total operating expenses	278,961	252,139	234,863	11	7
Operating income	26,003	54,188	70,716	(52)	(23)
Net nonoperating (expenses) income	(75,918)	(81,962)	(93,589)	(7)	(12)
Special items:					
Contributed capital assets	—	793	—	(100)	—
	—	793	—	(100)	—
Changes in net assets	(49,915)	(26,981)	(22,873)	85	18
Total net assets, beginning of year	622,798	649,779	672,652	(4)	(3)
Total net assets, end of year	$ 572,883	622,798	649,779	(8)%	(4)%

The decrease in operating revenue from 2005 to 2006 is primarily due to the I-90 Tunnel incident (see note 10). Turnpike and tunnel toll transactions increased to approximately 192.2 million from 2005 to 2006.

Revenues generated from restaurants, concessions, and service stations were up in 2006. The increase from 2005 to 2006 is a result of additional volume and patronage.

Total operating expenses increased from 2005 to 2006 by approximately $26.8 million or 10.6%. The increase in operating expenses is a result of rising health insurance premiums, retirement contributions, and additional spending on public protection.

The following chart shows the major sources of operating revenue for the year ended December 31, 2006:

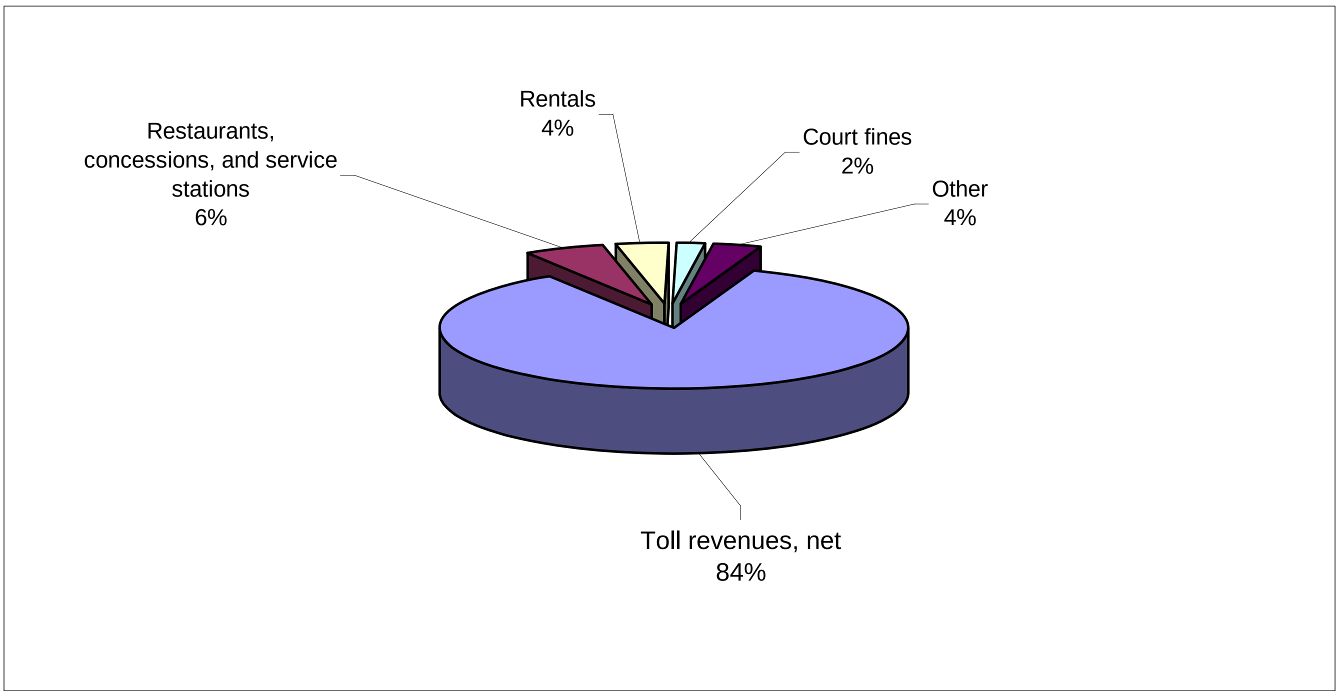

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Table A-3

Operating and Nonoperating Revenues

(In thousands)

		December 31		Increase (decrease)	Increase (decrease)
	2006	**2005**	**2004**	**2006-2005**	**2005-2004**
Operating revenues:					
Toll revenues, net	$ 257,179	258,971	256,911	(1,792)	2,060
Restaurants, concessions, and services stations	16,565	15,930	16,552	635	(622)
Rentals	13,498	13,195	17,393	303	(4,198)
Court fines	5,727	6,380	5,600	(653)	780
Other	11,995	11,851	9,123	144	2,728
Total operating revenues	304,964	306,327	305,579	(1,363)	748
Nonoperating revenues:					
Investment income	30,994	26,117	16,336	4,877	9,781
Grant income	—	733	—	(733)	733
Contract assistance	21,537	21,386	19,508	151	1,878
Total nonoperating revenue	52,531	48,236	35,844	4,295	12,392
Special items:					
Donation of capital asset	—	793	—	(793)	793
Total revenues	$ 357,495	355,356	341,423	2,139	13,933

The following chart shows the major categories of operating expenses for the year ended December 31, 2006:

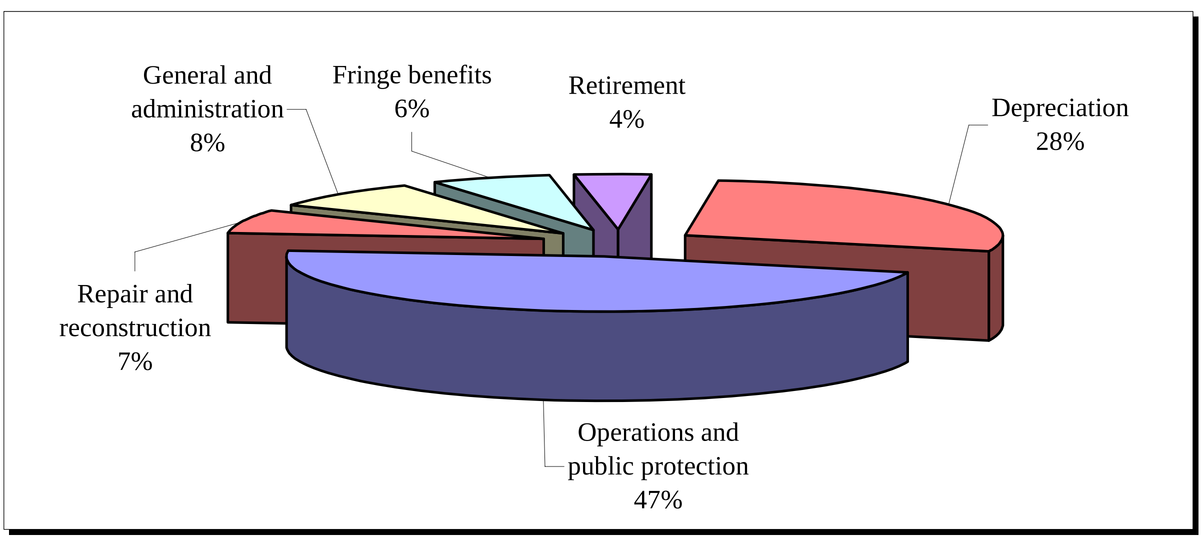

Table A-4

Operating and Nonoperating Expenses

(In thousands)

		December 31			Increase (decrease)	Increase (decrease)
		2006	**2005**	**2004**	**2006-2005**	**2005-2004**
Operating expenses:						
Operations and public protection	$	132,327	109,954	107,043	22,373	2,911
Repair and reconstruction		20,215	19,854	18,532	361	1,322
General and administration		23,158	17,791	15,365	5,367	2,426
Fringe benefits		17,480	14,782	13,018	2,698	1,764
Retirement		9,817	8,183	5,478	1,634	2,705
Depreciation		75,964	81,575	75,427	(5,611)	6,148
Total operating expenses		278,961	252,139	234,863	26,822	17,276
Nonoperating expense:						
Interest expense		128,449	130,198	129,433	(1,749)	765
Total expenses	$	407,410	382,337	364,296	25,073	18,041

Capital Asset and Debt Administration

Capital Programs

The Authority's Capital 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 2006 and 2005, the Authority expended and capitalized approximately $180 million and $90 million, respectively.

The Authority has committed to pay agreed to amounts for certain costs associated with the Central Artery/Tunnel Project construction. See notes 3 and 9 for additional information regarding capital assets and Central Artery commitments.

Debt Administration

Bond sales conducted by the Authority must be approved by the board of directors. 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 supports 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, 2006 and 2005

(In thousands)

Assets		**2006**	**2005**
Current assets:			
Cash and cash equivalents (note 2)	$	2,598	5,178
Unrestricted investments (note 2)		170,397	107,110
Restricted and board-designated cash and cash equivalents (note 2)		64,620	44,133
Restricted and board-designated investments (note 2)		282,568	303,844
Accounts receivable, net of allowance for doubtful accounts of $5,045 in 2006 and $813 in 2005		9,392	9,179
Other receivables:			
Mass Highway		1,929	1,239
Other, net of allowance for doubtful accounts of $808 in 2006 and $589 in 2005 (note 2)		16,474	18,737
Total receivables		27,795	29,155
Prepaid expenses and other assets		2,998	5,169
Total current assets		550,976	494,589
Noncurrent assets:			
Restricted and board-designated investments (note 2)		78,764	295,676
Unrestricted Investments		6,874	—
Other receivables, long-term (note 2)		3,281	12,410
Capital assets, net (note 3)		2,550,973	2,443,160
Prepaid expenses and other assets, long-term		10,174	10,298
Total assets	$	3,201,042	3,256,133
Liabilities			
Current liabilities:			
Accounts payable	$	16,541	15,497
Accrued payroll and related taxes		2,556	1,418
Compensated absences (note 4)		3,881	3,393
Current portion of long-term debt (note 4)		20,555	19,890
Accrued expenses and miscellaneous liabilities		18,565	15,861
Contract retainage		1,797	1,796
Payable from restricted assets:			
Accrued interest on bonds payable		58,545	59,027
Accrued arbitrage liability		3,162	1,902
Total current liabilities		125,602	118,784
Noncurrent liabilities:			
Deposits and deferred revenue		43,671	45,408
Deferred credits (note 2)		60,158	62,175
Compensated absences (note 4)		7,793	7,195
Accrued interest on capital appreciation bonds (note 4)		66,880	59,714
Long-term debt, net (note 4)		2,324,055	2,340,059
Total liabilities		2,628,159	2,633,335
Net Assets			
Invested in capital assets, net of related debt		495,934	374,364
Restricted for other purposes		70,800	157,326
Unrestricted		6,149	91,108
Commitments and contingencies (notes 6, 7, 8, and 9)			
Total net assets	$	572,883	622,798

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, 2006 and 2005

(In thousands)

		2006	**2005**
Operating revenues:			
Toll revenue pledged as security for revenue bonds, net	$	257,179	258,971
Restaurants, concessions, and service stations		16,565	15,930
Other rentals		13,498	13,195
Court fines		5,727	6,380
Other		11,995	11,852
Total operating revenues		304,964	306,328
Operating expenses:			
Operations and public protection		132,327	109,954
Repair and reconstruction		20,215	19,854
General and administration		23,158	17,791
Fringe benefits		17,480	14,782
Retirement		9,817	8,183
Depreciation		75,964	81,575
Total operating expenses		278,961	252,139
Operating income		26,003	54,189
Nonoperating revenue and (expense):			
Investment income		30,994	26,117
Contract assistance (note 9)		21,537	21,386
Grant income		—	733
Interest expense		(128,449)	(130,198)
Total nonoperating expense		(75,918)	(81,962)
Special item:			
Contributed capital assets (note 3)		—	793
Total special item		—	793
Decrease in net assets		(49,915)	(26,980)
Net assets, beginning of year		622,798	649,778
Net assets, end of year	$	572,883	622,798

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, 2006 and 2005

(In thousands)

		2006	2005
Cash flows from operating activities:			
Receipts from toll payers	$	258,761	258,971
Receipts from others		45,963	70,221
Payments to vendors		(72,998)	(81,805)
Payments to employees		(123,704)	(91,260)
Net cash provided by operating activities		108,022	156,127
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(182,494)	(91,193)
Interest paid on bonds and notes		(117,971)	(121,551)
Principal payments on long-term debt		(19,890)	(14,984)
Premium received on swaption		9,133	—
Federal grant contributions		—	733
Transfers to Commonwealth		—	(9,500)
Reimbursements received from Commonwealth		21,537	35,900
Net cash used in capital and related financing activities		(289,685)	(200,595)
Cash flows from investing activities:			
Sales (purchase) of investments, net		168,027	20,887
Interest received		31,543	31,780
Net cash provided by investing activities		199,570	52,667
Net increase in cash and cash equivalents		17,907	8,199
Cash and cash equivalents, beginning of year		49,311	41,112
Cash and cash equivalents, end of year	$	67,218	49,311
Reconciliation of operating income to net cash provided by operating activities:			
Cash flows from operating activities:			
Operating income	$	26,003	54,188
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		75,964	86,126
Changes in operating assets and liabilities:			
Trade receivables		807	9,743
Prepaid expenses and other assets		2,209	(410)
Other receivables – long-term		—	9,130
Prepaid expenses and other assets – long-term		(1,737)	(55)
Accounts payable		(152)	3,257
Accrued payroll		1,138	(682)
Compensated absences		1,086	1,038
Accrued expenses, deferred revenue, and other liabilities		2,704	(4,192)
Deferred credits		—	(2,016)
Net cash provided by operating activities	$	108,022	156,127

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.

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, 2006 and 2005 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, 2006 and 2005, the Authority had unrealized holding gains and losses of approximately $4.9 million and $5.7 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	40 - 60
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, 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 Pension Plans and Accounting" and "Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" are effective December 31, 2006 and December 31, 2007, respectively. The Authority was not required to implement Statement 43.

Statement 45 will require the Authority to account for and report the value of its future other post employment benefit (OPEB) obligations currently, rather than on a pay-as-you-go basis. The Authority has estimated its total unaudited OPEB obligation as of December 31, 2006 to be between $244.3 million (pay-as-you-go) and $119.6 million (pre-funded) depending on the funding policy elected by the Authority. Based on these estimates, the Authority's unaudited actuarially required contribution (ARC) is estimated to be between $14.9 million and $9.4 million, 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 2005 information has been reclassified to conform to the 2006 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, 2006 and 2005, were $61.8 million and $44.6 million, respectively. Of these, $61.5 million and $44.2 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:

2006
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	8.17 million
MHS	General Fund	General Electric Capital Corp.	1.890	June 15, 2006	4.98 million

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

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, 2006

(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	$ 15,907	—	—	15,907	15,907	—	—	—
WT Operating	520	24,792	—	—	24,792	24,792	—	—	—
WT Sr. Debt Service	530	20,287	2,300	—	22,587	22,587	—	—	—
WT Capital Reinvestment	550	3,785	—	—	3,785	3,785	—	—	—
WT General Fund	560	42,098	2,700	200	44,998	44,998	—	—	—
MHS Capital Fund	601	—	—	—	—				
MHS Revenue Fund	615	155	—	—	155	155	—	—	—
MHS Operating	620	12,443	—	—	12,443	12,443	—	—	—
MHS 97 Sr. Debt Service	630	16,874	33,452	—	50,326	50,326	—	—	—
MHS 97 Sr. Debt Service Reserve Fund	635	50	100,312	—	100,362	100,362	—	—	—
MHS 97/99 Sub. Debt Service	640	270	9,457	23,762	33,489	33,489	—	—	—
MHS 97/99 Sub. Debt Service Reserve Fund	645	2,791	15,351	64,665	82,807	18,142	—	—	64,665
MHS Capital Reinvestment	650	14,233	2,461	—	16,694	16,694	—	—	—
MHS General Fund	660	23,545	44,823	38,823	107,191	93,092	7,694	6,405	—
MHS Sr. Rebate Fund	670	4,953	—	—	4,953	4,953	—	—	—
MHS Sub. Rebate Fund	675	279	—	—	279	279	—	—	—
MTA General Fund	690	1,797	9,188	6,850	17,835	10,961	—	6,874	—
		$ 184,259	220,044	134,300	538,603	452,965	7,694	13,279	64,665

Investment type	Fair value	Less than 1 year	1 – 3	4 – 8	More than 9
		Investment maturities (in years)			
Money market mutual funds	$ 184,259	184,259	—	—	—
U.S. agency obligations	215,064	199,071	2,714	13,279	—
Guaranteed investment contracts	77,813	8,168	4,980	—	64,665
Other	61,467	61,467	—	—	—
	$ 538,603	452,965	7,694	13,279	64,665

Investments by Fund

December 31, 2005

(Expressed in thousands)

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
		Investment type				Investment maturities (in years)			
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	Less than 1 year	1 – 3	4 – 8	More than 9
		Investment maturities (in years)			
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

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 Agreement.

(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):

		2006	**2005**
GICs:			
AIG	$	64,665	64,665
General Electric Capital Corp.		13,148	25,638
U.S. agency obligations:			
Federal Home Loan Bank (FHLB)		38,864	174,038
Federal Home Loan Mortgage Corporation (FHLMC)		34,731	30,975
Federal National Mortgage Association (FNMA)		144,150	69,988
	$	295,558	365,304

(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, 2006 and 2005 by the various funds and accounts established by the Authority for debt covenant requirements and other purposes:

		2006	2005
		(In thousands)	
Revenue Fund	$	29,717	20,425
Operating and Maintenance Fund		39,798	42,545
General Fund		216,595	370,397
Rebate Fund		5,232	4,308
Senior Debt Service Fund		72,913	77,148
Senior Debt Service Reserve Fund		100,415	100,372
Subordinated Debt Service Fund		33,567	34,032
Subordinated Debt Service Reserve Fund		82,808	82,174
Maintenance Capital Reinvestment Fund		24,776	24,540
Total	$	605,821	755,941

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

		2006	2005
		(In thousands)	
Unrestricted	$	179,869	112,288
Board-designated for capital and other expenditures		72,021	254,006
Externally restricted by bond and other requirements		353,931	389,647
Total	$	605,821	755,941

(g) Summary of Swap and Swaption Transactions

1999 Tax Basis Swap

The Authority received a premium payment on July 20, 1999 of $5.35 million as part of the swaption 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. The counterparty, Morgan Guaranty Trust Company of New York (MGTC), exercised its option on October 1, 2002. As such, the Authority’s payment obligation is equal to the difference between the BMA and 67% of 3-month LIBOR, multiplied by the $100 million. Conversely, the Authority receives payments under this agreement when 67% of 3-month LIBOR exceeds the BMA.

As of December 31, 2006, the long term ratings for MGTC were AA (Fitch), Aa2 (Moody's) and AA (Standard & Poor's). The following table summarizes the provisions of the 1999 Tax Basis Swap.

Date of trade	Exercise date	Notional amount	Termination date	Variable receivable swap rate	Variable payable swap rate	Premium payment from counterparty		Net fair option value at December 31, 2006	Net fair option value at December 31, 2005
		(000's)					(000's)	(000's)	(000's)
06/18/1999	10/01/2002	$ 100,000	07/01/2029	67% of 3 month LIBOR	BMA	07/20/1999	$ 5,350	(5,114)	(8,848)

2004 Lehman Swap

In December 2004, the Authority entered into a basis swap with Lehman Brothers Special Financing, Inc. (Lehman) as a way to reduce the risk associated with the 1999 Tax Basis Swap with Morgan Guaranty Trust Company (MGTC) that was exercised on October 1, 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 3-month 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% of 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 MGTC.

As of December 31, 2006 and 2005, the long term ratings for Lehman, the counterparty to the transaction, were A1 (Moody's), and A (Standard & Poor's). The following table summarizes the 2004 Lehman basis swap.

Date of trade	Effective date	Notional amount	Termination date	Floating receivable swap rate	Floating payable swap rate	Net fair option value at December 31, 2006	Net fair option value at December 31 2005
		(000's)				(000's)	(000's)
12/23/2004	01/01/2005	$ 100,000	Optional on any Business Day	55% of three-month LIBOR and 0.50%	67% of three-month LIBOR	$ (1,661)	$ (1,365)

2001 UBS Swaptions

In May 2001, the Authority entered a swaption with five tranches with UBS AG. This "swaption" grants UBS the right to enter a swap with the Authority under which the Authority would pay a fixed rate and receive a floating rate from UBS. 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, it was anticipated at the time the Authority entered into the agreement that the resulting synthetic fixed rate debt structure could result in lower debt service payments for the Authority. Additionally, in 2001 UBS paid $6.2 million on behalf of the Authority 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. Under the agreement, UBS makes premium payments on the swaption over eight years totaling $29.1 million, which was originally recorded as a receivable and deferred credit in 2001. The remaining premium receivable recorded by the Authority recorded the following amount as a receivable at December 31, 2006 (in thousands):

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

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, 2006 and 2005 is $25.0 million and $25.8 million, respectively. The following table summarizes the 2001 UBS swaptions.

As of December 31, 2006 and 2005, the long term ratings for UBS, the counterparty to the transaction, 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	Premium payments from counterparty	Net fair option value at December 31, 2006*	Net fair option value at December 31, 2005*
	(000's)						(000's)	(000's)
01/01/2007	$ 207,665	01/01/2037	1997 Series A	4.750%	68% of 1 month LIBOR	06/04/2001 $ 1,751,663 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 01/01/2008 875,897	(31,016)	(35,131)
01/01/2007	83,100	01/01/2037	1997 Series B	4.875	68% of 1 month LIBOR	06/04/2001 673,872 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 01/01/2008 388,650	(13,038)	(14,735)
01/01/2007	43,625	01/01/2029	1997 Series B	5.000	68% of 1 month LIBOR	06/04/2001 303,162 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 01/01/2008 212,112	(6,266)	(7,071)
01/01/2009	371,380	01/01/2039	1999 Series A	4.750	68% of 1 month LIBOR	06/04/2001 2,848,263 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 01/01/2008 1,393,901	(54,689)	(60,648)
01/01/2009	94,230	01/01/2029	1999 Series A	5.000	68% of 1 month LIBOR	06/04/2001 575,495 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	(12,850)	(13,801)
Total fair value							(117,859)	(131,386)

* The net fair option value includes the present value of the unpaid premiums at December 31, 2006 and 2005, respectively.

2002 Lehman Swaptions

In 2002, the Authority entered into an interest rate swaption with five tranches with Lehman Brothers Special Financing Inc. (Lehman). This swaption grants Lehman the right to enter a swap with the Authority under which the Authority would receive from Lehman 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 designed to offset some of the risks inherent in 2001 UBS Swaptions and, as a result, has the effect of mitigating certain risks inherent in that transaction if both are executed. Lehman paid a premium of $6.4 million to the Authority during 2002 and will pay an additional $28.8 million in premiums 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, 2006 (in thousands):

		Amount
Due January 1st:		
2007	$	5,848
		5,848
Less current portion		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, 2006 and 2005 is $31.2 million and $32.2 million, respectively.

As of December 31, 2006 and 2005, the long term ratings for Lehman, the counterparty to the transaction, were A1 (Moody's), A (Standard & Poor's).

First exercise date	Notional amount (000's)	Termination date	Associated bonds	Fixed receivable swap rate	Variable payable swap rate	Premium payments from counterparty		Net fair option value at December 31, 2006* (000's)	Net fair option value at December 31, 2005* (000's)
						12/05/2002	$ 1,739,020		
						01/01/2003	1,431,150		
01/01/2007	$ 207,665	01/01/2037	1997 Series A	5.0%	BMA	01/01/2004	1,600,250	(4,846)	(3,609)
						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	01/01/2037	1997 Series B	5.0	BMA	01/01/2005	621,928	(1,747)	(1,499)
						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	01/01/2029	1997 Series B	5.0	BMA	01/01/2005	340,908	(573)	(487)
						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	01/01/2039	1999 Series A	5.0	BMA	01/01/2005	2,666,048	(10,458)	(7,740)
						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	01/01/2029	1999 Series A	5.0	BMA	01/01/2005	619,901	(1,576)	(1,349)
						01/01/2006	619,901		
						01/01/2007	619,901		
Total fair value								$ (19,200)	(14,684)

* The net fair option value includes the present value of the unpaid premiums at December 31, 2006 and 2005, respectively.

Risk Disclosures

Basis Risk. The Authority is exposed to basis risk in the 1999 Tax Basis swap when 67% of 3 month LIBOR does not exceed BMA.

The Authority is exposed to basis risk in its swaptions if the fixed-to-floating (2002 Lehman) swap does not offset the floating-to-fixed (2001 UBS) swap. This will occur when BMA exceeds 68% of LIBOR by more than 19 basis points. The 19 basis points represents the difference in the fixed rate the Authority will receive from 2002 Lehman (5.00%) and the fixed rate it will pay to UBS (4.81%) if all the swaptions are exercised by the counterparties. The Authority may also be exposed to additional basis risk if the swaptions are not exercised concurrently.

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, 2006 and 2005, the reserve fund balance was $19.0 million and $13.4 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, 2006 and 2005, 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 under the 2001 UBS swap would be less than the amount needed to pay its variable rate bonds. The Authority and its financial advisor take this risk into consideration when analyzing the sufficiency of the hedge reserve fund balance.

Termination Risk. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Termination risk is related to credit risk and represents the risk that a swap is terminated and the swap counterparty is unable to make the termination payment if necessary. The Authority funds the hedge reserve fund to mitigate any exposure resulting from one of the counterparties terminating the agreement or defaulting on terms. Additionally, the Lehman swaption can be terminated by the counterparty if the Authority’s credit rating on certain outstanding bonds is withdrawn, suspended or falls below specified levels (Moody’s – Baa2 or Fitch – BBB). Finally, if at the time of termination the swap has a negative fair value, the Authority would be liable for a payment equal to the swaps’ fair value.

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 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 Net Fair Option Value in the preceding tables. The net 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.

(Continued)

(3) Capital Assets

Capital assets consisted of the following at December 31:

		2006		
	Beginning balance	**Increases**	**Decreases**	**Ending balance**
		(In thousands)		
Capital assets, not being depreciated:				
Land	$ 152,854	—	—	152,854
Construction in progress	174,905	175,340	34,276	315,969
Total capital assets, not being depreciated	327,759	175,340	34,276	468,823
Capital assets, being depreciated:				
Infrastructure	2,310,930	225	—	2,311,155
Improvements	576,013	27,339	—	603,352
Buildings	47,760	159	—	47,919
Equipment	109,304	14,825	—	124,129
Total capital assets, being depreciated	3,044,007	42,548	—	3,086,555
Less accumulated depreciation for:				
Infrastructure	627,740	45,402	—	673,142
Improvements	206,503	18,800	—	225,303
Buildings	24,234	1,144	—	25,378
Equipment	70,129	10,453	—	80,582
Total accumulated depreciation	928,606	75,799	—	1,004,405
Total capital assets, being depreciated, net	2,115,401	(33,251)	—	2,082,150
Capital assets, net	$ 2,443,160	142,089	34,276	2,550,973

(Continued)

	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

(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. See note 11.

(4) Bonds and Notes Payable

Long-term debt at December 31, 2006 and 2005 consisted of the following:

	2006				
	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)	211,180	—	15,775	195,405	16,225
Subordinated debt:					
Metropolitan Highway System:					
1999, Series A, 3.90% to 5.26%, issued March 11, 1999 due 2004 to 2039	778,225	—	4,115	774,110	4,330
1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037	194,680	—	—	194,680	—
Subtotal	2,456,268	—	19,890	2,436,378	20,555
Less unamortized amounts:					
Bond discounts	97,265	—	5,064	92,201	—
Net unamortized excess of reacquisition price over net carrying value of defeased bonds	(946)	—	(513)	(433)	—
Total bonds payable	2,359,949	—	15,339	2,344,610	20,555
Compensated absences, net	10,588	1,086	—	11,674	3,881
Total long-term liabilities	$ 2,370,537	1,086	15,339	2,356,284	24,436

	2005				
	Beginning balance	**Additions**	**Reductions** (In thousands)	**Ending balance**	**Due within one year**
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

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.

Debt service requirements on revenue bonds are as follows:

	Principal	Interest (In thousands)	Total
Year ending December 31:			
2007	$ 20,555	115,927	136,482
2008	21,620	114,770	136,390
2009	49,235	112,224	161,459
2010	49,860	109,645	159,505
2011	52,615	106,917	159,532
2012 – 2016	189,771	515,856	705,627
2017 – 2021	365,502	564,198	929,700
2022 – 2026	239,917	497,454	737,371
2027 – 2031	310,718	418,555	729,273
2032 – 2036	137,945	176,477	314,422
2037 – 2039	998,640	21,522	1,020,162
Total	$ 2,436,378	2,753,545	5,189,923

At December 31, 2006, 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%	$ 22,665
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, 2006 (dollars in thousands):

Description	Redemption date	Redemption price	Principal amount outstanding
Metropolitan Highway System:			
1999 Series A	2009 to 2039	100% to 101%	$ 774,110
1997 Series A and B	2010 to 2037	100% to 102%	194,680
Western Turnpike:			
1997 Series A	2003 to 2017	100	195,405

(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, establishes and amends 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:		
2006	$ 4,500,000	100%
2005	3,000,000	100
2004	1,187,000	100

(6) Other Postemployment Benefits

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 EBIT at their December 2005 board meeting.

The number of REIBT plan participants is 2,115, of which 1,280 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 2006 and 2005.

The Authority expensed, on a pay-as-you-go basis, $5.3 million and $5.2 million in 2006 and 2005, respectively, for these postemployment healthcare benefits.

(7) Leases

(a) Commitments

The Authority has commitments under various operating leases. The principal lease is with the Commonwealth for administrative office space and other facilities and expires in June 2010. Total lease expense in 2006 and 2005 was $866 and $969 thousand, respectively, of which $765 and $881 thousand, respectively, was paid to the Commonwealth. The Commonwealth lease is cancelable by either party with 12 months written notice. The minimum lease payment due in 2007 under the Commonwealth lease is approximately $940 thousand.

(b) Rental Income

The Authority leases property and air rights to others. During 2006 and 2005, the Authority earned $30.1 million and $29.1 million, respectively, in rental income, of which $16.6 million and $15.9 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, 2006 (in thousands):

Years	Amount	Years	Amount
2007	$ 30,336	2052 – 2056	$ 10,728
2008	29,264	2057 – 2061	11,270
2009	29,679	2062 – 2066	13,247
2010	29,970	2067 – 2071	13,178
2011	24,682	2072 – 2076	12,696
2012 – 2016	136,185	2077 – 2081	13,091
2017 – 2021	138,413	2082 – 2086	15,920
2022 – 2026	95,967	2087 – 2091	16,419
2027 – 2031	20,139	2092 – 2096	19,962
2032 – 2036	12,368	2097 – 2100	15,254
2037 – 2041	11,227		
2042 – 2046	8,576		
2047 – 2051	9,014		
Total			$ 717,585

On May 3, 2006, the Authority executed five (5) separate Ground and Air Rights Lease Agreements (collectively, the Leases) for air rights over property of the Authority and air rights over adjacent property owned by the Massachusetts Bay Transportation Authority (MBTA) for the development and construction of the proposed residential and commercial project at Columbus Center (the Project). Each of the Leases is between the Authority and limited liability companies owned and controlled by a joint venture entity established by WDC Development Associates Limited Partnership and its equity partner, California Urban Investment Partners, LLC.

Each of the Leases runs for a term of 99 years and provides for a Base Rent payment to the Authority in the aggregate amount $12.2 million, payable as follows:

- $2.0 million that was paid upon execution of the Leases;
- $2.0 million, payable upon the first draw on a construction loan for any component of the Project. $1.0 million of this amount has been advanced and paid to the Authority in order for the Authority to pay the MBTA pursuant to its Leases with the MBTA;
- $1.1 million payable upon the issuance of the certificates of occupancy for the components of the Project;
- $1.1 million payable upon sell-out of 50% of the residential units in the Project;
- $3.0 million payable upon sell-out of 75% of the residential units in the Project; and
- $3.0 million payable upon sell-out of 90% of the residential units in the Project.

Any unpaid balance of the $12.2 million Base Rent payment shall be automatically due and payable on that date which is seventy (70) months following the execution of the Leases. The Authority is also entitled to receive other contingent payments based on provisions outlined in the Leases.

Concurrent with the execution of the Leases, the Authority entered into air rights leases with the MBTA for that portion of the Project to be located over MBTA owned property. Under these leases, the Authority is obligated to pay and paid $2.0 million in rent payments to the MBTA in 2006. Except for these rent payments, the tenants of the Project will be primarily liable for all payment and performance obligations under the MBTA Leases, and will indemnify the Authority for all obligations and liabilities under the MBTA Leases.

(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 2006 and 2005 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.

Changes in the claims liability insurance reserves in fiscal 2006 and 2005 were as follows (in thousands):

		Health	Workers' compensation
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
Provision to record estimated losses		1,096	3,293
Payments		(1,094)	(3,378)
Liability balance, December 31, 2006	$	500	7,894

(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, 2006 and 2005 approximated $19.5 million and $6.4 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 it's 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, 2006, 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		26,407
Cost recovery		18,836
Other		165,282
Total remaining commitment	$	25,475

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 $55 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 $1.0 million and $2.0 million under this agreement during 2006 and 2005, respectively, representing construction costs paid by the Authority in those fiscal years. As of December 31, 2006 and 2005, the Authority has expended a total of approximately $54.7 million and $53.6 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 $21.5 million and $35.9 million from the Commonwealth during fiscal 2006 and 2005, respectively, for reimbursement of CA/T Project and CANA operation and maintenance costs incurred by the Authority.

(10) Litigation

(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 Ceiling Accident

On July 10, 2006, concrete ceiling panels in the eastbound portal of the I-90 Seaport Access Tunnel (the Tunnel) came loose, fell on a traveling automobile and the roadway, causing bodily injury and the death of the passenger of the automobile and extensive property damage to the Tunnel (the Accident). As a result of the Accident, eastbound, westbound and high occupancy vehicle lanes and associated ramps to the Tunnel were closed for extended periods of time while investigation, repair and remediation work was completed in the Tunnel. State and federal law enforcement officials are investigating the Accident. The Authority has incurred total costs, the amount of which, has not yet been finalized and has notified its insurers of the property damage and loss of revenue caused by the Accident. On or about August 29, 2006, a lawsuit asserting claims arising from the Accident was filed by the estate and the family of the deceased, naming multiple defendants including the Authority. The Authority and its insurer are working to assess the coverage under the policy. On or about November 28, 2006, the Authority and the Commonwealth of Massachusetts filed a lawsuit asserting claims arising from the property damage caused by the Accident.

In 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 and related disclosures. The Authority is cooperating with the SEC.

(11) Subsequent Events

In April 2007, the Authority notified Transcore, Inc. that, effective April 11, 2008, their contract for the Electronic Toll Collection System will be terminated. The Authority has commenced the procurement process for a new provider. The impact on 2007 operations of the Authority, if any, can not be determined.

In May 2007, the Authority entered into a letter agreement with the Commonwealth regarding the responsibility for funding the estimated costs to complete the Central Artery Project. Under this agreement, the Authority has additional responsibility for funding costs of the Project in excess of the current estimate of $14.798 billion as well as transferring the proceeds generated from the sale or other use of certain other facilities transferred to the Authority by the Commonwealth. The Authority has also agreed to other financial and non-financial provisions.

On June 22, 2007, the Commonwealth of Massachusetts transferred an additional portion of the Central Artery project to the Authority. This transfer will result in an addition to the Authority’s capital assets in 2007. However, the value of assets to be transferred has not been determined.

Effective July 1, 2007, the Commonwealth’s Secretary of Transportation will become the Chairman of the Board. Additionally, a new Acting Executive Director has been named.

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

Required Supplementary Information

December 31, 2006

(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)
1/1/2006		Valuation not available						
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.

Schedule I

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

Combining Schedule of Net Assets

December 31, 2006

(In thousands)

Assets		Metropolitan Highway System	Western Turnpike	MTA General Fund	Eliminations	Combined totals
Current assets:						
Cash – unrestricted	$	2,030	518	50	—	2,598
Investments – unrestricted		90,839	68,597	10,961	—	170,397
Restricted cash		57,194	7,426	—	—	64,620
Restricted investments		239,096	43,472	—	—	282,568
Accounts receivable, net of allowance for doubtful accounts of $5,045		6,103	3,289	—	—	9,392
Other receivables:						
Mass Highway		1,929	—	—	—	1,929
Other, net of allowance for doubtful accounts of $808		13,989	2,448	37	—	16,474
Total receivables		22,021	5,737	37	—	27,795
Prepaid expenses and other assets		659	2,339	—	—	2,998
Due from other funds		60,991	43,834	—	(104,825)	—
Total current assets		472,830	171,923	11,048	(104,825)	550,976
Noncurrent assets:						
Restricted investments		78,764	—	—	—	78,764
Unrestricted Investments		—	—	6,874	—	6,874
Other receivables, long-term		3,281	—	—	—	3,281
Capital assets, net		2,210,668	340,305	—	—	2,550,973
Prepaid expenses and other assets, long-term		8,873	1,301	—	—	10,174
Total assets	$	2,774,416	513,529	17,922	(104,825)	3,201,042

(Continued)

Schedule I

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

Combining Schedule of Net Assets

December 31, 2006

(In thousands)

Liabilities	**Metropolitan Highway System**	**Western Turnpike**	**MTA General Fund**	**Eliminations**	**Combined totals**
Current liabilities:					
Accounts payable	$ 13,162	3,379	—	—	16,541
Accrued payroll and related taxes	507	2,049	—	—	2,556
Compensated absences	1,585	2,296	—	—	3,881
Current portion of long-term debt	4,330	16,225	—	—	20,555
Accrued expenses and miscellaneous liabilities	7,344	11,221	—	—	18,565
Contract retainage	713	1,084	—	—	1,797
Due to other funds	68,595	36,230	—	(104,825)	—
Payable from restricted assets:					
Accrued interest on bonds payable	53,082	5,443	20	—	58,545
Accrued arbitrage liability	3,162	—	—	—	3,162
Total current liabilities	152,480	77,927	20	(104,825)	125,602
Deposits and deferred revenue	33,971	9,700	—	—	43,671
Deferred credits	56,146	—	4,012	—	60,158
Compensated absences	2,907	4,886	—	—	7,793
Accrued interest on capital appreciation bonds	66,880	—	—	—	66,880
Long-term debt, net	2,145,818	178,237	—	—	2,324,055
Total liabilities	2,458,202	270,750	4,032	(104,825)	2,628,159
Net Assets					
Invested in capital assets, net of related debt	327,504	168,430	—	—	495,934
Restricted for other purposes	45,533	25,267	—	—	70,800
Unrestricted	(56,821)	49,081	13,889	—	6,149
Total net assets	$ 316,216	242,778	13,889	—	572,883

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, 2006

(In thousands)

		Metropolitan Highway System	Western Turnpike	MTA General Fund	Combined totals
Operating revenues:					
Toll revenue, net	$	141,867	115,312	—	257,179
Restaurants, concessions, and service stations		—	16,565	—	16,565
Rentals		9,874	3,624	—	13,498
Court fines		2,111	3,616	—	5,727
Other		6,803	3,879	1,313	11,995
Total operating revenues		160,655	142,996	1,313	304,964
Operating expenses:					
Operations and public protection		73,506	58,821	—	132,327
Repair and reconstruction		11,106	9,109	—	20,215
General and administration		9,180	13,978	—	23,158
Fringe benefits		6,707	10,773	—	17,480
Retirement		3,285	6,532	—	9,817
Depreciation		53,826	22,138	—	75,964
Total operating expenses		157,610	121,351	—	278,961
Operating income		3,045	21,645	1,313	26,003
Nonoperating revenue and expense:					
Investment income		26,079	3,909	1,006	30,994
Contract assistance		21,537	—	—	21,537
Interest expense		(117,386)	(10,970)	(93)	(128,449)
Total nonoperating (expense) revenue, net		(69,770)	(7,061)	913	(75,918)
Increase (decrease) in net assets		(66,725)	14,584	2,226	(49,915)
Net assets, beginning of year		382,941	228,194	11,663	622,798
Net assets, end of year	$	316,216	242,778	13,889	572,883

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, 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

Schedule III

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 IV

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	2,886	11,852
Total operating revenues	160,286	143,156	2,886	306,328
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	2,886	54,189
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	3,395	(26,980)
Net assets, beginning of year	427,615	213,895	8,268	649,778
Net assets, end of year	$ 382,941	228,194	11,663	622,798

See accompanying independent auditors' report.