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

Financial Statements, Required Supplementary Information, and Supplementary Schedules

June 30, 2009

(With Independent Auditors' Report Thereon)

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

Table of Contents

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Independent Auditors' Report

Members of the Board of Directors
Massachusetts Department of Transportation:

We have audited the accompanying statement of net assets of the Massachusetts Turnpike Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As described in note 12, on June 26, 2009, the Governor signed legislation abolishing the Authority and creating the Massachusetts Department of Transportation (MassDOT), into which the assets, liabilities, and operations of the Authority will be transferred, effective November 1, 2009.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at June 30, 2009, and the changes in its financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The Authority has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the basic financial statements.

The schedules of OPEB and pension funding progress on page 32 are not a required part of the basic 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 them.

Our audit was made for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The combining schedule of net assets as of June 30, 2009 (schedule I) and the combining schedule of revenues, expenses, and changes in net assets for the year then ended (schedule II) 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 December 18, 2009 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

December 18, 2009

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

Statement of Net Assets

June 30, 2009

(In thousands)

Assets		
Current assets:		
Cash and cash equivalents (note 2)	$	10,494
Unrestricted investments (note 2)		164,825
Restricted and board-designated cash and cash equivalents (note 2)		38,091
Restricted and board-designated investments (note 2)		331,399
Accounts receivable, net of allowance for doubtful accounts of $585		11,232
Other receivables:		
Mass Highway		7,547
Other, net of allowance for doubtful accounts of $1,038		4,593
Total receivables		23,372
Prepaid expenses and other assets		7,005
Total current assets		575,186
Noncurrent assets:		
Restricted and board-designated investments (note 2)		102,266
Capital assets, net (note 3)		6,543,526
Prepaid expenses and other assets		11,864
Total assets	$	7,232,842
Liabilities		
Current liabilities:		
Accounts payable	$	22,697
Accrued payroll and related taxes		3,142
Compensated absences (note 4)		4,797
Current portion of long-term debt (note 4)		49,860
Accrued expenses and miscellaneous liabilities		25,367
Contract retainage		1,071
Payable from restricted assets:		
Accrued interest on bonds payable		74,068
Accrued arbitrage liability		817
Total current liabilities		181,819
Noncurrent liabilities:		
Deposits and deferred revenue		138,327
Deferred credits (note 2)		26,444
Compensated absences (note 4)		10,891
Net OPEB obligation (note 6)		6,242
Accrued interest on capital appreciation bonds (note 4)		84,794
Long-term debt, net (note 4)		2,213,857
Total liabilities		2,662,374
Net Assets		
Invested in capital assets, net of related debt		4,603,971
Restricted for other purposes		170,485
Unrestricted		(203,988)
Commitments and contingencies (notes 6, 7, 8, and 10)		
Total net assets	$	4,570,468

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2009

(In thousands)

Operating revenues:		
Toll revenue pledged as security for revenue bonds, net	$	278,963
Restaurants, concessions, and service stations		18,299
Other rentals		12,991
Court fines		5,247
Other		14,103
Total operating revenues		329,603
Operating expenses:		
Operations and public protection		143,984
Repair and reconstruction		21,113
General and administration		18,715
Fringe benefits		21,613
Retirement		15,495
Depreciation and amortization		164,651
Total operating expenses		385,571
Operating loss		(55,968)
Nonoperating revenue and (expense):		
Investment income		18,717
Contract assistance (note 10)		25,000
Gain on the sale of asset		500
Attorney General reimbursement		2,000
Interest expense		(110,912)
Total nonoperating expense		(64,695)
Special item:		
Capital assets transferred to Massachusetts Port Authority (note 3)		(94,714)
Total special item		(94,714)
Decrease in net assets		(215,377)
Net assets, beginning of year		4,785,845
Net assets, end of year	$	4,570,468

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2009

(In thousands)

Cash flows from operating activities:		
Receipts from toll payers	$	283,066
Receipts from others		119,309
Payments to vendors		(63,198)
Payments to employees		(137,129)
Net cash provided by operating activities		202,048
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(14,830)
Interest paid on bonds and notes		(128,056)
Principal payments on long-term debt		(49,235)
Attorney General reimbursement		2,000
Reimbursements received from the Commonwealth		25,000
Net cash used in capital and related financing activities		(165,121)
Cash flows from investing activities:		
Sales (purchase) of investments, net		(26,955)
Interest received		18,842
Net cash used in investing activities		(8,113)
Net decrease in cash and cash equivalents		28,814
Cash and cash equivalents, beginning of year		19,771
Cash and cash equivalents, end of year	$	48,585
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating loss	$	(55,968)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		164,651
Changes in operating assets and liabilities:		
Accounts receivables		12,319
Prepaid expenses and other assets		1,127
Prepaid expenses and other assets – long-term		64,927
Accounts payable		(141)
Accrued payroll		313
Compensated absences		3,314
Accrued expenses, deferred revenue, and other liabilities		11,506
Net cash provided by operating activities	$	202,048

Noncash financing activities:

On June 28, 2009, the Authority transferred capital assets with a net book value of $94.7 million to the Massachusetts Port Authority.

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 are recorded at fair value, based on quoted market price. The Authority recorded unrealized holding losses of approximately $19 thousand as of June 30, 2009. This amount is included in investment income.

(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.

(Continued)

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

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

(j) Compensated Absences

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

(k) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 expenditures during the reporting period. Actual results could differ from those estimates.

(l) New Accounting Pronouncements

For fiscal 2009, the Authority is subject to GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Authority has assessed the applicability of this new standard and has determined that no pollution remediation obligations exist at this time.

In addition, in fiscal 2009, the Authority adopted GASB Statement No. 50, *Pension Disclosures*.

(2) Deposits and Investments

The Authority has adopted GASB No. 40, *Deposit and Investment Risk Disclosure*. The standard requires that entities disclose essential risk information about 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 June 30, 2009, were $48.6 million. Of this amount, $0.7 million was insured and $47.7 million 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.

The following guaranteed investment contract (GIC) was in force as of June 30, 2009, all of which is fully collateralized and appears as follows:

	Fund	Investment agreement provider	Rate	Maturity	Amount (In millions)
MHS 1999 Series A	Sub. DSRF	AIG Financial Products	5.951%	January 1, 2029	$ 64.67

In September 2008, as a result of the financial deterioration, AIG, the GIC provider, was required to increase the security collateral held by Wells Fargo to 105% of the GIC's market value. The value of the collateral posted was $69.7 million (108%) as of June 30, 2009. As of November 23, 2009, the value of the collateral posted was $69.7 million.

The Authority's investments at June 30, 2009 are presented below. All investments are presented by investment type and debt securities are presented by maturity.

Investments by Fund

June 30, 2009

(Expressed in thousands)

Fund name	Fund	Investment type: Money market mutual funds	Investment type: U.S. government agency obligations	Investment type: Guaranteed investment contracts	Fair value	Investment maturities (in years): Less than 1	1 – 3	4 – 8	More than 8
WT Revenue Fund	515	$ 3,013	—	—	3,013	3,013	—	—	—
WT Operating	520	20,298	—	—	20,298	20,298	—	—	—
WT Sr. Debt Service	530	17,069	—	—	17,069	17,069	—	—	—
WT Capital Reinvestment	550	1,532	—	—	1,532	1,532	—	—	—
WT General Fund	530	67,942	—	—	67,942	67,942	—	—	—
MHS Capital Fund	601	1,497	—	—	1,497	1,497	—	—	—
MHS Revenue Fund	615	2,731	—	—	2,731	2,731	—	—	—
MHS Operating	620	13,782	—	—	13,782	13,782	—	—	—
MHS 97 Sr. Debt Service	630	61,741	—	—	61,741	61,741	—	—	—
MHS 97 Sr. Debt Service Reserve Fund	635	63,085	37,439	—	100,524	63,085	12,595	24,844	—
MHS 97/99 Sub. Debt Service	640	24,402	25,419	—	49,821	49,821	—	—	—
MHS 97/99 Sub. Debt Service Reserve Fund	645	18,202	—	64,665	82,867	18,202	162	—	64,665
MHS Capital Reinvestment	650	13,616	162	—	13,778	13,616	—	—	—
MHS General Fund	660	137,212	—	—	137,212	137,212	—	—	—
MHS Sr. Rebate Fund	670	4,123	—	—	4,123	4,123	—	—	—
MHS Sub. Rebate Fund	675	557	—	—	557	557	—	—	—
MTA General Fund	690	20,003	—	—	20,003	20,003	—	—	—
		$ 470,805	63,020	64,665	598,490	496,224	12,757	24,844	64,665

Investment type	Fair value	Investment maturities (in years): Less than 1 year	1 – 3	4 – 8	More than 9
Money market mutual funds	$ 470,805	470,805	—	—	—
U.S. agency obligations	63,020	25,419	12,757	24,844	—
Guaranteed investment contracts	64,665	—	—	—	64,665
	$ 598,490	496,224	12,757	24,844	64,665

During fiscal 2009, the 1997 and 1999 MHS Debt Service and Debt Service Reserve funds held by the Trustee have been invested in Forward Delivery Agreements (Agreements). These Agreements administered by Lehman Brothers Special Financing, Inc. (Lehman), 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.

In September 2008, Lehman filed for bankruptcy, which constituted an event of default under a Debt Service Reserve Fund Agreement.

On September 19, 2009, the Authority terminated the Agreement and reinvested the proceeds in agency securities and money market accounts, currently yielding less than the Agreement. As a result of the reinvestment of proceeds at lower yields, the Authority has earned less interest than it would have if the Agreement had remained outstanding.

The Authority will forgo an estimated $25 million in future guaranteed earnings as a result of the termination but retains the ability to reinvest proceeds at current market rates, which may be higher or lower than the guaranteed rate of the Agreement.

The Authority has filed a $50.1 million claim against Lehman as a result of the bankruptcy, which represents lost interest earnings and replacement costs. The actual payment realized may be significantly less than the initial claim amount.

(c) Credit Ratings

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

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

(d) Concentration of Credit Risk – Investments

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

GICs:		
AIG	$	64,665
U.S. agency obligations:		
Federal Home Loan Bank (FHLB)		10,817
Federal Home Loan Mortgage Corporation (FHLMC)		37,439
Federal National Mortgage Association (FNMA)		14,603
	$	127,524

(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 June 30, 2009 by the various funds and accounts established by the Authority for debt covenant requirements and other purposes (in thousands):

Revenue Fund	$	22,097
Operating and Maintenance Fund		49,287
General Fund		228,232
Rebate Fund		4,680
Senior Debt Service Fund		82,517
Senior Debt Service Reserve Fund		100,524
Subordinated Debt Service Fund		58,252
Subordinated Debt Service Reserve Fund		82,867
Maintenance Capital Reinvestment Fund		18,619
Total	$	647,075

The restrictions and board designations placed on these funds are as follows (in thousands):

Unrestricted	$	175,319
Board-designated for capital and other expenditures		31,009
Externally restricted by bond and other requirements		440,747
Total	$	647,075

(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, JP Morgan Chase Bank (JPMC), exercised its option on October 1, 2002. As such, the Authority's payment obligation is equal to the difference between the SIFMA 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 SIFMA.

As of June 30, 2009, the long term ratings for JPMC were AA- (Fitch), Aa1 (Moody's), and AA- (Standard & Poor's). As of October 30, 2009, the ratings were AA-, Aa1, and AA-, respectively. The following table summarizes the provisions of the 1999 Tax Basis Swap.

Date of trade	Exercise date	Notional amount (In thousands)	Termination date	Variable receivable swap rate	Variable payable swap rate	Premium payment from counterparty		Net fair option value at June 30, 2009 (In thousands)
							(In thousands)	
06/18/1999	10/01/2002	$ 100,000	07/01/2029	67% of 3 month LIBOR	SIFMA	07/20/1999	$ 5,350	(11,544)

Based on the credit rating on the Authority's MHS Senior Bonds of A- by Standard and Poor's, the Authority was required to post collateral on behalf of JPMC equal to the market value of the swaption. The market value of the collateral posted was approximately $8.0 million as of December 10, 2009.

2004 Lehman Swap

Lehman Brothers Special Financing, Inc. failed to meet its obligations under the terms of this swap by not remitting the required swap payment for the quarter ended September 30, 2008. In December 2008, the Authority exercised its right to terminate the Lehman swap and made a termination payment of $3.2 million.

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 Authority bonds.

Additionally, in May 2001 UBS paid Ambac Assurance $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 made premium payments on the swaption over eight years totaling $29.1 million. The last premium payment was received by the Authority on January 2, 2008.

The premiums received were recorded as deferred credits and are being amortized over the life of the swap. The unamortized balance at June 30, 2009 is $22.9 million.

Prior to fiscal year 2009, UBS exercised three of the five tranches in the swaption resulting in the commencement of three related swaps. The swaptions exercised were associated with the 1997 Series A and Series B Bonds and had a total notional amount of $334.4 million. The Authority received $4.0 million in premiums as part of the exercise of the swaption and recorded these premiums as a reduction in interest expense. The Authority planned on refunding certain fixed rate bonds with floating rate bonds when UBS exercised its option in an effort to lower overall debt service payments for the Authority. However, the Authority has been able to refund its fixed rate bonds as planned.

During fiscal 2009, UBS exercised the remaining two swaptions related to the 1999 Series A Bonds having a notional amount of $465.6 million. The related swaps became effective on January 1, 2009. The Authority received and deferred exercise premiums of $5.6 million.

On June 24, 2009, Standard & Poor’s downgraded the credit rating of Ambac, the insurer of the UBS swaps, below the threshold at which UBS asserted it was entitled to provide a notice of potential termination of its swap agreements with the Authority. UBS provided such notice on June 24, 2009. The swap agreements provide that, upon valid notice of a termination event, the Authority has 30 days to provide alternate credit support that was acceptable to UBS, provide collateral essentially equal to the fair value of the swaps or obtain an “A” rating or better on all of the Authority’s underlying Metropolitan Highway System (MHS) bonds. Prior to the 30-day deadline, the Authority obtained sufficiently high ratings on its underlying subordinated MHS bonds to cure the asserted termination events with respect to four of the five UBS swaps. The deadline for curing the asserted termination event with respect to the remaining UBS swap was extended several times by mutual agreement and on October 20, 2009, the Authority reached agreement with UBS that one of the ratings currently assigned to the underlying senior MHS bonds was sufficient to cure the asserted termination event. Legislation authorizing a Commonwealth guaranty of the Authority’s swap obligations expired on November 1, 2009. No guaranty was ultimately required to cure the termination event.

As of June 30, 2009, the long-term ratings for UBS, the counterparty to the transaction, were A+ (Fitch), Aa2 (Moody's), and A+ (Standard & Poor's). As of October 30, 2009, the ratings were A+, Aa2, and A+, respectively. The following table summarizes the 2001 UBS swaptions:

First exercise date	Notional amount (in thousands)	Termination date	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Premium payments from counterparty		Net fair option value at June 30, 2009 (in thousands)
						06/04/2001	$ 1,751,663	
						01/01/2002	875,897	
						01/01/2003	875,897	
01/01/2007	$ 207,665	01/01/2037	1997 Series A	4.750%	68% of	01/01/2004	875,897	(72,081)
					1 month	01/01/2005	875,897	
					LIBOR	01/01/2006	875,897	
						01/01/2007	875,897	
						01/01/2008	875,897	
						06/04/2001	673,872	
						01/01/2002	388,650	
						01/01/2003	388,650	
01/01/2007	83,100	01/01/2037	1997 Series B	4.875	68% of	01/01/2004	388,650	(29,114)
					1 month	01/01/2005	388,650	
					LIBOR	01/01/2006	388,650	
						01/01/2007	388,650	
						01/01/2008	388,650	
						06/04/2001	303,162	
						01/01/2002	212,112	
						01/01/2003	212,112	
01/01/2007	43,625	01/01/2029	1997 Series B	5.000	68% of	01/01/2004	212,112	(13,609)
					1 month	01/01/2005	212,112	
					LIBOR	01/01/2006	212,112	
						01/01/2007	212,112	
						01/01/2008	212,112	
						06/04/2001	2,848,263	
						01/01/2002	1,393,901	
						01/01/2003	1,393,901	
01/01/2009	371,380	01/01/2039	1999 Series A	4.750	68% of	01/01/2004	1,393,901	(132,638)
					1 month	01/01/2005	1,393,901	
					LIBOR	01/01/2006	1,393,901	
						01/01/2007	1,393,901	
						01/01/2008	1,393,901	
						06/04/2001	575,495	
						01/01/2002	410,119	
						01/01/2003	410,119	
01/01/2009	94,230	01/01/2029	1999 Series A	5.000	68% of	01/01/2004	410,119	(29,894)
					1 month	01/01/2005	410,119	
					LIBOR	01/01/2006	410,119	
						01/01/2007	410,119	
						01/01/2008	410,119	
			Total fair value					$ (277,336)

2002 Lehman Swaptions

In 2002, the Authority entered into an interest rate swaption with five tranches with Lehman Brothers Special Financing Inc. (Lehman).

In connection with these swaptions, Lehman paid the Authority a premium of $35.2 million. This amount was recorded in the accompanying financial statements as a deferred credit and will be amortized over the 35 year life of the swap. As of June 30, 2009, the deferred credit is fully amortized due to the swap termination.

In September 2008, Lehman filed for bankruptcy and had not exercised any of its options related to this transaction. In December 2008, as a result of the bankruptcy filing, the Authority exercised its right to terminate the Lehman swap and made a termination payment of $3.2 million.

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 SIFMA.

The Authority is also exposed to basis risk in the 2001 UBS swaps. This will occur when the fixed rate on the swaps exceeds 68% of 1 month LIBOR.

Tax Risk – If maximum tax rates were to decline, it is possible that the 68% of one month 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. If any of the swaps are terminated, the related variable rate bonds would no longer be hedged. 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 – The net fair values were calculated by the Authority's financial advisor on a mark to market basis. As of June 30, 2009, the Authority was not exposed to credit risk on its outstanding swaps because they had negative fair values. However, if interest rates and volatilities change and the fair values of the swaps were to become positive, the Authority would be exposed to credit risk in the amount of the positive fair values. 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 & Poor's).

(3) Capital Assets

Capital assets consisted of the following at June 30, 2009 (in thousands):

		Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:					
Land	$	312,747	—	5,451	307,296
Construction in progress		10,782	23,107	24,839	9,050
Total capital assets, not being depreciated		323,529	23,107	30,290	316,346
Capital assets, being depreciated:					
Infrastructure		7,279,323	—	104,908	7,174,415
Improvements		622,452	22,748	—	645,200
Buildings		47,919	—	—	47,919
Equipment		136,716	6,273	14,630	128,359
Total capital assets, being depreciated		8,086,410	29,021	119,538	7,995,893
Less accumulated depreciation for:					
Infrastructure		1,252,048	132,720	15,493	1,369,275
Improvements		255,674	20,249	—	275,923
Buildings		27,099	1,146	—	28,245
Equipment		98,064	10,447	13,241	95,270
Total accumulated depreciation		1,632,885	164,562	28,734	1,768,713
Total capital assets, being depreciated, net		6,453,525	(135,541)	90,804	6,227,180
Capital assets, net	$	6,777,054	(112,434)	121,094	6,543,526

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.

As of June 30, 2003 (the Commonwealth's fiscal year end), the construction of these assets had been accounted for in the Commonwealth's financial statements 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.

From calendar year 2003 through calendar year 2005, the Commonwealth transferred assets totaling approximately $237 million ($236 million in 2003 and $793 thousand in 2005).

In the fiscal period ended June 30, 2008, the Authority received a transfer from the Commonwealth of land and infrastructure with a net book value to the Commonwealth of $4.6 billion. This amount was recorded by the Authority, net of cash contributions made and previously recorded by the Authority, in the amount of $4.4 billion.

In the fiscal period ended June 30, 2009, the Authority transferred certain assets it had constructed or received from the Commonwealth to the Massachusetts Port Authority. This transfer amount was recorded by the Authority at historical cost, net of accumulated depreciation, in the amount of approximately $94.7 million.

(4) Bonds and Notes Payable

Long-term debt consisted of the following at June 30, 2009 (in thousands):

	Beginning balance	Additions	Reductions	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	22,455
1997, Series C, Capital Appreciation Bonds (CAB's) 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)	162,430	—	17,245	145,185	17,820
Subordinated debt:					
Metropolitan Highway System:					
1999, Series A, 3.90% to 5.26%, issued March 11, 1999 due 2004 to 2039	764,910	—	31,990	732,920	6,710
1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037	194,680	—	—	194,680	2,875
Subtotal	2,394,203	—	49,235	2,344,968	49,860
Less unamortized amounts:					
Bond discounts	84,605	—	3,421	81,184	—
Net unamortized excess of reacquisition price over net carrying value of defeased bonds	76	—	9	67	—
Total bonds payable	2,309,522	—	45,805	2,263,717	49,860
Compensated absences, net	12,373	3,315	—	15,688	4,797
Total long-term liabilities	$ 2,321,895	3,315	45,805	2,279,405	54,657

*$42,007 of the $1,183,047 of the 1997, Series A MHS revenue bonds are capital appreciation bonds.

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 (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2010	$ 49,860	110,934	160,794
2011	52,615	108,281	160,896
2012	46,930	105,693	152,623
2013	48,555	103,205	151,760
2014	50,200	100,612	150,812
2015 – 2019	256,408	556,073	812,481
2020 – 2024	257,783	551,821	809,604
2025 – 2029	319,481	489,744	809,225
2030 – 2034	549,420	249,380	798,800
2035 – 2039	713,716	94,544	808,260
Total	$ 2,344,968	2,470,287	4,815,255

At June 30, 2009, 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 Term	2013 to 2023	100%	$ 263,355

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2009 (dollars in thousands):

Description	Redemption date	Redemption price	Principal amount outstanding
Metropolitan Highway System:			
1999 Series A	2010 to 2039	100% to 101%	$ 732,920
1997 Series B	2010 to 2037	100% to 102%	194,680
Western Turnpike:			
1997 Series A	2008 to 2017	100%	$ 145,185

(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 does not issue publicly available audited financial statements 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 year ended June 30, 2009 was determined as part of the January 1, 2008 actuarial valuation using the individual entry age normal cost method. The ARC equaled the annual pension cost (APC) and the employer contributions for the last three years. Those amounts are as follows (in thousands):

	Annual pension cost (APC)	Percentage of APC contributed
Year ending June 30, 2009	$ 7,524	100%
Eighteen-month period ending June 30, 2008	8,512	100
Year ending December 31, 2006	4,500	100

(d) Funded Status and Funding Progress

In fiscal 2009, the Authority adopted GASB Statement No. 50. This new standard now requires entities to report the results of the most recent actuarial valuation in the footnotes. This information was previously only required to be reported as required supplementary information.

The funded status of the System as of January 1, 2008, the most recent actuarial valuation, is as follows (in thousands):

Actuarially accrued liability (AAL)	$	288,569
Actuarial value of plan assets		223,447
Unfunded actuarial accrued liability (UAAL)	$	65,122
Funded ratio (actuarial value of plan assets/AAL)		77.4%
Covered payroll (active plan members)	$	71,887
UAAL as a percentage of covered payroll		90.6%

(e) Actuarial Methods and Assumptions

The actuarial assumptions included (a) 8.25% investment rate of return, and (b) projected salary increases of 5%. Both (a) and (b) include an inflation component of 4.5%. Liabilities for cost of living increases have been approximated, assuming an annual cost of 3% on the first $12 thousand annual pension. The actuarial value of assets was determined using the fair value of investments. The System’s unfunded actuarial accrued liability is being amortized as increasing amortization at 4.5% per year. The remaining amortization period at January 1, 2008 is 21 years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about termination rates, retirement rates, mortality, and salary increases. Amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(6) Other Postemployment Benefits

During the period ended June 30, 2008, the Authority implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

(a) Plan Description

In addition to providing the pension benefits described in note 5, the Authority provides post-employment health care and life insurance benefits (OPEB) for retired employees. The benefits, benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority. As of June 30, 2008, the actuarial valuation date, approximately 979 retirees and 1,057 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

(b) Benefits Provided

The Authority provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

(c) Funding Policy

Plan members contribute between 0% to 20% of premiums depending on their union or nonunion status and the type of Plan selected. The Authority contributed $5.3 million on a pay as you go basis for these postemployment benefits.

(d) Annual OPEB Costs and Net OPEB Obligation

The Authority's 2009 OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Authority's annual OPEB cost for the year ending June 30, 2009, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on an actuarial valuation as of June 30, 2008 (in thousands):

Annual Required Contribution (ARC)	$	10,433
Interest on net OPEB obligation		177
Adjustment to ARC		(120)
Annual OPEB cost		10,490
Contributions made		(6,697)
Change in net OPEB obligation		3,793
Net OPEB obligation – beginning of year		2,449
Net OPEB obligation – end of year	$	6,242

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

		Annual OPEB cost	Percentage of OPEB cost contributed		Net OPEB obligation
Eighteen-month period ending June 30, 2008	$	11,267	78.3%	$	2,449
Year ending June 30, 2009		10,490	63.8		6,242

(e) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of June 30, 2008, was as follows (in thousands):

Actuarially accrued liability (AAL)	$	179,509
Actuarial value of plan assets		51,748
Unfunded actuarial accrued liability (UAAL)	$	127,761
Funded ratio (actuarial value of plan assets/AAL)		28.8%
Covered payroll (active plan members)	$	71,887
UAAL as a percentage of covered payroll		177.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(f) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was $51.7 million. The actuarial assumptions included a 7.25% investment rate of return and an initial annual healthcare cost trend rate of 9.0% which decreases to a 5.0% long-term trend rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming an inflation rate of 4.5%.

As a result of changes in assumptions in the June 30, 2008 actuarial valuation, obligations increased by $51.2 million. This was the net result of an increase in obligations due to raising the valuation-year per capita health costs, an increase in obligations due to a change in the future trend on per capita healthcare costs, based on projections of what is likely to occur in the marketplace, and an increase in obligations due to lowering the discount rate partially offset by a decrease in obligations due to lowering the percent married assumption.

(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 2009 was $934 thousand, of which $855 thousand was paid to the Commonwealth. The Commonwealth lease is cancelable by either party with 12 months written notice. The lease payment due in 2010 under the Commonwealth lease is approximately $944 thousand.

(b) Rental Income

The Authority leases property and air rights to others. During the year ended June 30, 2009, the Authority earned $13.0 million in rental income, of which $18.3 million 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 June 30, 2009 (in thousands):

		Amount
Years:		
2010	$	27,134
2011		23,939
2012		23,975
2013		24,441
2014		24,614
2015 – 2019		125,778
2020 – 2024		113,881
2025 – 2029		29,173
2030 – 2034		13,958
2035 – 2039		12,277
2040 – 2044		9,492
2045 – 2049		9,124
2050 – 2054		10,607
2055 – 2059		11,421
2060 – 2064		13,135
2065 – 2069		14,124
2070 – 2074		13,141
2075 – 2079		13,190
2080 – 2084		15,554
2085 – 2089		16,545
2090 – 2094		19,507
2095 – 2099		20,753
2100		4,177
Total	$	589,940

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.

In March 2008, the Tenants suspended construction of the Project and requested that the Authority agree to an extension of time to complete construction under the Leases. As of October 1, 2008, the Authority had not agreed to the request, construction remains suspended, and no further payments have been made pursuant to the lease agreement.

(Continued)

(8) Risk Management

As part of its normal operations, the Authority encounters the risk of accidental loss stemming from third party liability claims, property loss or damage, and job-related injuries and illnesses. In managing these loss exposures, a combination of risk management measures is applied, including safety and loss prevention programs, emergency planning, contractual risk transfer, self insurance, and insurance.

In connection with the self insurance and insurance programs, the Authority retains part of the losses incurred and internally manages the self insured claims. The self insured retention currently includes $500,000 for worker's compensation per job-related accident, up to $250,000 per occurrence for automobile liability, general liability and other types of third party claims, $250,000 per loss involving damage to buildings and their contents, and $10,500,000 per bridge and tunnel loss. Insurance is purchased above the self-insured amounts, subject to availability and reasonableness of cost.

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. 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. 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.

Settled claims resulting from the risks discussed above have not exceeded the amount of insurance coverage in force in any of the past three fiscal periods. Further, insurance maintained in fiscal 2009 and calendar 2008 has not changed significantly from prior periods.

Changes in the claims liability insurance reserves in the year ended 2009 were as follows (in thousands):

		Workers' compensation
Liability balance, June 30, 2008	$	8,680
Provision to record estimated losses		3,988
Payments		(3,570)
Liability balance, June 30, 2009	$	9,098

(9) Central Artery/Tunnel Repair and Maintenance Trust Fund

On July 23, 2008 the Authority entered into a Memorandum of Understanding (MOU) between the Commonwealth of Massachusetts (the Commonwealth) acting by and through the Executive Office of Transportation and Public Works (EOT) and the Federal Highway Administration (FWHA).

The MOU outlines that Massachusetts General Law, Chapter 10, Section 63A, establishes the Central Artery/Tunnel Project Repair and Maintenance Fund (the Fund) for the purpose of paying the costs of, or reimbursing the Commonwealth or the Authority for costs incurred in connection with repairs and maintenance of the Central Artery and the Ted Williams tunnel, as those terms are defined in section 3 of chapter 81A, which indicates that such repairs and maintenance relate to conditions not caused by ordinary or routine wear and tear. $414.9 million has been placed into the Fund as a result of a cost recovery settlement agreement dated January 23, 2008 between the United States, the Commonwealth, and certain Central Artery/Tunnel Project consultants, and it is anticipated that future cost recoveries will also be placed in the Fund.

The Authority has received and deferred approximately $58 million from EOT during the fiscal period ended June 30, 2009 for reimbursement of Central Artery/Tunnel repair and maintenance costs incurred by the Authority.

(10) 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 June 30, 2009 approximated $67 million.

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. As of June 30, 2009, the Authority's commitment for Project funding had been completed.

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 $191,000 under this agreement during the fiscal period ended June 30, 2008, representing construction costs paid by the Authority in that fiscal period. As of June 30, 2008, the Authority has expended a total of approximately $54.9 million under this commitment.

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

Chapter 235 provides that the term of the contract shall extend until the end of the 40th fiscal year following the transfer. The Authority received $25 million from the Commonwealth during the fiscal period ended June 30, 2009 for reimbursement of CA/T Project and CANA operation and maintenance costs incurred by the Authority.

(11) Litigation

(a) Sandra Murphy, et al. vs. Massachusetts Turnpike Authority

In *Sandra Murphy, et al. v. Massachusetts Turnpike Authority*, Middlesex Superior Court, Civil Action No. 09-01794-B, the plaintiffs have filed suit against the Authority on behalf of a purported "class" consisting of all tollpayers within the Metropolitan Highway System (MHS). The plaintiffs claim that the use of toll money collected on some parts of the MHS to fund operations, maintenance and debt service for other parts of the MHS (specifically, the Central Artery) is unconstitutional.

The plaintiffs' Third Amended Complaint contains five counts. Count I alleges that MHS tolls are an unconstitutional tax, not a lawful fee. Count II alleges that the tolls violate the separation of powers, because the Legislature did not delegate to the Authority the power to tax. Count III alleges that MHS tolls violate the Commerce Clause. Count IV seeks damages under 42 U.S.C. §1983 for the alleged misuse of MHS tolls. Count V seeks an injunction prohibiting the Authority from using MHS tolls on the Central Artery.

At the outset of the case, the plaintiffs brought an *ex parte* motion in Superior Court to place a lien on the Authority's bridges, tunnels and other real property. That motion was denied. The plaintiffs then filed a motion seeking a preliminary injunction prohibiting the Authority from spending any MHS tolls on the "non-tolled segments" of the MHS for the duration of the case. The Superior Court denied that motion as well.

The Authority has filed a Motion to Dismiss, seeking to dismiss all counts of the Third Amended Complaint. A hearing on the Authority's motion was held on October 15, 2009. The Court took the Motion under advisement, and has not yet rendered its decision.

(b) Carol Surprenant, et al. v. Massachusetts Turnpike Authority and Massachusetts Port Authority

In *Carol Surprenant, et al. v. Massachusetts Turnpike Authority and Massachusetts Port Authority*, United States District Court for the District of Massachusetts, No. 09-10428-RGS, the plaintiffs have filed a lawsuit against the Authority and MassPort on behalf of a purported "class" consisting of all tollpayers at the Tobin Memorial Bridge and the Sumner and Ted Williams Tunnels using E-Z Pass or Fast Lane transponders, who do not qualify for the Resident Discount Programs. The plaintiffs claim that the Authority's Annual Fast Lane Tunnel Communities Resident Program is unconstitutional and constitutes discriminatory pricing policies.

The plaintiffs' complaint contains six claims for relief. Claim I alleges that the Resident Discount Program violates Article I, §8, Clause 3, the Commerce Clause by discriminating against out-of-state economic interests to the benefit in in-state economic interests. Claim II alleges that the disparate treatment accorded resident and non-resident travelers utilizing the Tunnels violates the Equal Protection Clause of the Fourteenth Amendment. Claim III alleges that the Resident Discount Program violates the Privileges and Immunities Clause by discriminating against out of state residents. Claim IV alleges that the disparate treatment accorded resident and non-resident travelers utilizing the Tunnels violates the Equal Protection Clause of the Massachusetts Constitution. Claim V seeks the imposition of a construction trust and restitution alleging unjust enrichment, and Claim VI seeks restitution for money had and received.

The Authority has filed a motion to dismiss. A hearing on the Authority's motion was heard on July 29, 2009. The Court took the motion under advisement, and has not yet rendered its decision.

(c) Yerger et al. v. Massachusetts Turnpike Authority

In *Yerger et al. v. Massachusetts Turnpike Authority*, *United States District Court for the District of New Jersey*, No. 2:08 cv 05261, on October 24, 2008 eight individual plaintiffs on behalf of all others similarly situated brought a putative class action lawsuit against the Authority in the United States District Court for the District of New Jersey. The plaintiffs allege that the Fast Lane Discount Program, an electronic toll discount program run by the Authority that provides Fast Lane transponder holders with discounts at four toll plazas in the Boston Metropolitan area, violates the dormant commerce clause, equal protection clause, and privileges and immunities clause of the United States Constitution.

On July 14, 2009, the District Court heard the Authority's motion to dismiss for failure to state a claim. On September 25, 2009 the District Court issued a decision dismissing all claims asserted by the plaintiffs and issued an Order dismissing the Complaint in entirety, with prejudice. On October 19, 2009, the plaintiff's filed a Notice of Appeal with the United States Court of Appeals for the Third Circuit. A briefing schedule has not been set to date.

(d) CA/T Project Obligations/Contract C11A1 Dispute

By letter agreement dated May 17, 2007, the Authority agreed to take responsibility for all costs to complete the Central Artery/Tunnel Project that are in excess of the $14.798 billion budget provided in the CA/T Finance Plan. At this time, the Authority has identified no financial obligations pursuant to this agreement as it is anticipated that all costs to complete the CA/T Project, including costs related to additional exposures for claims, will be within the budgeted amount.

The most significant claim at this time involves Contract C11A1. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of $130.0 million. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board (DRB) panel.

(12) Subsequent Events

(a) Transportation Reform Legislation

On June 18, 2009, the Legislature enacted, and on June 26, 2009 the Governor approved, legislation designed to reform the Commonwealth's transportation system. The legislation creates a new authority to be called the Massachusetts Department of Transportation (MassDOT), to be governed by a five-member board appointed by the Governor. The Governor also appoints a Secretary of MassDOT to serve as the new authority's chief executive officer. MassDOT has an office of planning and programming and four divisions including highways, mass transit, aeronautics, and the Registry of Motor Vehicles that will share administrative functions such as human resources, financial management, information technology and planning. Each division is headed by an administrator appointed by the Secretary of MassDOT. The board of MassDOT began exercising its powers on November 1, 2009.

The transportation reform legislation provides for the dissolution of the Authority and the transfer of its assets, liabilities, obligations, and debt to MassDOT, which will have a separate legal existence from the Commonwealth. MassDOT is to assume the rights, powers, and duties of the Authority upon the transfer on November 1, 2009.

The legislation establishes a Massachusetts Transportation Trust Fund within MassDOT, into which all bridge, tunnel and highway tolls, as well as transit fares, will be deposited. Moneys in the Central Artery and Statewide Road and Bridge Infrastructure Fund are also expected to be transferred to the Massachusetts Transportation Trust Fund. The Trust Fund is to be used for operations, maintenance and capital costs related to the transportation assets under MassDOT's jurisdiction, including MBTA assets and assets of the Authority transferred pursuant to the legislation, as well as debt service on outstanding Authority debt. MassDOT will be authorized to issue special obligation debt secured by moneys in the Trust Fund to refinance Authority debt issued before July 1, 2009. MassDOT debt will not be debt of the Commonwealth.

The legislation contemplates that the Legislature will continue to make capital appropriations for transportation improvements and that such appropriations will continue to be funded through the issuance by the State Treasurer of Commonwealth debt. Currently outstanding capital spending authorizations are to be made available to MassDOT by the Secretary of Administration and Finance.

The legislation also establishes a Commonwealth Transportation Fund as a budgetary fund of the Commonwealth for transportation-related purposes, to receive essentially the same revenues that were deposited in the Highway Fund, including gasoline tax receipts and registry fee revenues.

Legislation approved by the Governor on July 20, 2009 provides that the Commonwealth Transportation Fund will also receive the sales tax receipts dedicated to transportation purposes, with a guaranteed annual payment of $275 million. The guaranteed amount of $275 million includes $100 million earmarked for costs including debt service on Authority debt, $160 million earmarked for the MBTA, and $15 million earmarked for the regional transit authorities.

(b) Commonwealth Assistance

The fiscal 2010 budget included a provision authorizing a contract between the Secretary of Administration and Finance, acting on behalf of the Commonwealth, with the concurrence of the Secretary of Transportation and Public Works, and the Authority providing for the Commonwealth to make payments to the Authority or the Massachusetts Department of Transportation (MassDOT), as appropriate, in the amount of $100 million in each fiscal year for the purpose of defraying costs, including debt service on bonds issued by the Authority or MassDOT to finance or refinance improvements to the Metropolitan Highway System. The contract, which pledges the full faith and credit of the Commonwealth to such payments, was executed on June 30, 2009. The term of the contract extends until fiscal 2039, the last fiscal year in which Metropolitan Highway System bonds issued before July 1, 2009 are scheduled to mature. Payments under the new contract are in addition to the payments required by the contract for financial assistance dated as of February 19, 1999 between the Authority and the Commonwealth.

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

Required Supplementary Information

June 30, 2009

(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)
1/1/2008	$	223,447	288,569	65,122	77.4%	$	71,887	90.6%
1/1/2006		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.

Schedule of OPEB 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)
6/30/2008	$	51,748	179,509	127,761	28.8%	$	71,887	177.7%
12/31/2005	$	48,560	127,242	78,682	38.2	$	69,223	113.7

See accompanying independent auditors' report.

Schedule I

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

Combining Schedule of Net Assets

June 30, 2009

(In thousands)

Assets		Metropolitan Highway System	Western Turnpike	MTA General Fund	Eliminations	Combined totals
Current assets:						
Cash – unrestricted	$	3,261	7,233	—	—	10,494
Investments – unrestricted		55,049	89,773	20,003	—	164,825
Restricted cash		25,157	12,934	—	—	38,091
Restricted investments		311,317	20,082	—	—	331,399
Accounts receivable, net of allowance for doubtful accounts of $585		7,039	4,193	—	—	11,232
Other receivables:						
Mass Highway		7,547	—	—	—	7,547
Other, net of allowance for doubtful accounts of $1,038		3,917	676	—	—	4,593
Total receivables		18,503	4,869	—	—	23,372
Prepaid expenses and other assets		2,773	4,232	—	—	7,005
Due from other funds		36,430	47,900	—	(84,330)	—
Total current assets		452,490	187,023	20,003	(84,330)	575,186
Noncurrent assets:						
Restricted investments		102,266	—	—	—	102,266
Capital assets, net		6,220,278	323,248	—	—	6,543,526
Prepaid expenses and other assets, long-term		10,151	1,713	—	—	11,864
Total assets	$	6,785,185	511,984	20,003	(84,330)	7,232,842

(Continued)

Schedule I

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

Combining Schedule of Net Assets

June 30, 2009

(In thousands)

Liabilities		**Metropolitan Highway System**	**Western Turnpike**	**MTA General Fund**	**Eliminations**	**Combined totals**
Current liabilities:						
Accounts payable	$	14,847	7,850	—	—	22,697
Accrued payroll and related taxes		610	2,532	—	—	3,142
Compensated absences		2,075	2,722	—	—	4,797
Current portion of long-term debt		32,040	17,820	—	—	49,860
Accrued expenses and miscellaneous liabilities		8,143	17,224	—	—	25,367
Contract retainage		409	662	—	—	1,071
Due to other funds		40,943	43,387	—	(84,330)	—
Payable from restricted assets:						
Accrued interest on bonds payable		70,039	4,029	—	—	74,068
Accrued arbitrage liability		817	—	—	—	817
Total current liabilities		169,923	96,226	—	(84,330)	181,819
Deposits and deferred revenue		132,120	6,207	—	—	138,327
Deferred credits		22,877	—	3,567	—	26,444
Compensated absences		4,653	6,238	—	—	10,891
Net OPEB obligation		2,185	4,057	—	—	6,242
Accrued interest on capital appreciation bonds		84,794	—	—	—	84,794
Long-term debt, net		2,087,185	126,672	—	—	2,213,857
Total liabilities		2,503,737	239,400	3,567	(84,330)	2,662,374
Net Assets						
Invested in capital assets, net of related debt		4,408,146	195,825	—	—	4,603,971
Restricted for other purposes		128,819	41,666	—	—	170,485
Unrestricted		(255,517)	35,093	16,436	—	(203,988)
Total net assets	$	4,281,448	272,584	16,436	—	4,570,468

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 June 30, 2009

(In thousands)

	Metropolitan Highway System	Western Turnpike	MTA General Fund	Combined totals
Operating revenues:				
Toll revenue, net	$ 168,190	110,773	—	278,963
Restaurants, concessions, and service stations	—	18,299	—	18,299
Rentals	8,389	4,602	—	12,991
Court fines	1,937	3,310	—	5,247
Other	9,695	4,408	—	14,103
Total operating revenues	188,211	141,392	—	329,603
Operating expenses:				
Operations and public protection	77,288	66,696	—	143,984
Repair and reconstruction	11,934	9,179	—	21,113
General and administration	9,479	9,236	—	18,715
Fringe benefits	9,196	12,417	—	21,613
Retirement	5,425	10,070	—	15,495
Depreciation	143,972	20,679	—	164,651
Total operating expenses	257,294	128,277	—	385,571
Operating income (loss)	(69,083)	13,115	—	(55,968)
Nonoperating revenue and (expense):				
Investment income	16,671	1,574	472	18,717
Contract assistance	25,000	—	—	25,000
Gain on the sale of assets	500	—	—	500
Attorney General reimbursement	2,000	—	—	2,000
Interest expense	(102,560)	(8,636)	284	(110,912)
Total nonoperating (expense) revenue, net	(58,389)	(7,062)	756	(64,695)
(Decrease) increase in net assets before special item	(127,472)	6,053	756	(120,663)
Special item:				
Contributed capital assets	(94,714)	—	—	(94,714)
Increase (decrease) in net assets	(222,186)	6,053	756	(215,377)
Net assets, beginning of year	4,503,634	266,531	15,680	4,785,845
Net assets, end of year	$ 4,281,448	272,584	16,436	4,570,468

See accompanying independent auditors' report.