

# OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT

## FISCAL 2013 ANNUAL REPORT GUIDANCE

The Office of Performance Management & Oversight (OPMO) measures the performance of all public and quasi-public entities engaged in economic development. All agencies are required to submit an Annual Report, which includes all of the following information and demonstrates progress made against the Annual Plan submitted for the same year.

Based on review of Performance to Plan, the Office of Performance Management and Oversight will annually re-evaluate the goals and measures established by the agencies. The Office will recommend changes to goals and measures as appropriate to align with the statewide economic development policy and plan.

The annual reports of each agency will be published on the official website of the Commonwealth, and be electronically submitted to the clerks of the Senate and House of Representatives, the Chairs of the House and Senate Committees on Ways and Means and the House and Senate Chairs of the Joint Committee on Economic Development and Emerging Technologies.

### Filing Instructions:

The Fiscal Year 2013 report is due no later than **Friday, November 1, 2013**. An electronic copy of the report and attachments A & B should be e-mailed to [Anne.Struthers@state.ma.us](mailto:Anne.Struthers@state.ma.us).

### 1) AGENCY INFORMATION

**Agency Name** Massachusetts Port Authority

**Agency Head** Thomas Glynn

**Title** CEO & Executive Director

**Website** [www.massport.com](http://www.massport.com)

**Address** One Harborside Drive, Suite 200S, East Boston, MA 02128-2909

### 2) MISSION STATEMENT

Please include the Mission Statement for your organization below.

The mission of the Massachusetts Port Authority is to enhance the standard of living for residents of New England by promoting economic opportunity and the freedom to travel safely, securely, and efficiently. We do this through the operation of world class transportation facilities and real estate developments. In meeting this responsibility to connect New England with the world, we strive to be a good steward by providing efficient and cost effective transportation services to our customers in a manner that preserves the quality of life for our neighbors by minimizing the impacts of operations on the environment and local communities.

### 3) PERFORMANCE ON GOALS AND OBJECTIVES

Please provide details on the agency's progress and accomplishments for Fiscal Year 2013 as it relates to the Fiscal Year 2013 Plan submitted by your agency. This information should be included as **Attachment A and should include prior year perspective**. In addition to your Performance to Plan Report, Questions 5 through 10 provides guidance on the specific information required under Chapter 240 of the Acts of 2010.

### 4) ACCOUNTING

Please provide financial information for your agency. Below please give a summary of *Receipts and Expenditures* during the fiscal year, and include the *Assets and Liabilities* at the end of the fiscal year. Please include the most recent audited financial report for the agency as **Attachment B**.

	AMOUNT
Receipts	\$571,823,000
Expenditures	\$569,428,000
Assets	\$3,772,700,000
Liabilities	\$1,966,000,000

### 5) INVESTMENTS OR GRANTS TO BUSINESSES OR INDIVIDUALS

Does your agency make **investments** and/or provide **grants** to businesses or individuals? Yes  No   
 If **Yes**, please provide detailed information on investments and/or grants made during FY13 in the **Performance on Goals and Objectives** section of this report. Information should include the number, nature and amounts of investments made and grants awarded by your agency along with job, investment and/or other economic development impact. Please list the name(s) of the investment and/or grant programs offered by your agency in the space provided below:

N/A

## 6) DEBT OR EQUITY INVESTMENT DETAILS

Is your agency involved in **debt** or **equity investments** for businesses? Yes  No

If **Yes**, please provide detailed information on debt and/or equity investments made during FY13 in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the debit and/or equity investments programs offered by your agency in the space provided below:

N/A

## 7) LOAN DETAILS

Is your agency involved in **real estate loans**, **working capital loans**, or any **other type of loan** or **guarantee**? Yes  No

If **Yes**, please provide detailed information on loan(s) and/or guarantee(s) made during FY13 in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the types of loan(s) and/or guarantee(s) offered by your agency in the space provided below:

N/A

## 8) OTHER FORMS OF FINANCING OR FINANCIAL ASSISTANCE?

If your agency provides any other form of financing or financial assistance, please include FY13 details in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the types of other forms of financing offered by your agency in the space provided below:

N/A

## 9) PATENTS OR PRODUCTS

Does your agency track **patents** or **products** resulting from agency-funded activities? Yes  No

If **Yes**, please include details in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the agency-funded activities of your agency that promote patent and product advancement in the space provided below:

N/A

## 10) TECHNICAL ASSISTANCE

If your agency provides technical assistance, please provide detailed information on technical assistance provided during FY13 in **the Performance on Goals and Objectives** section of this report along with job, investment, and/or other economic development impact. Please list the name(s) of the technical assistance programs offered by your agency in the space provided below:

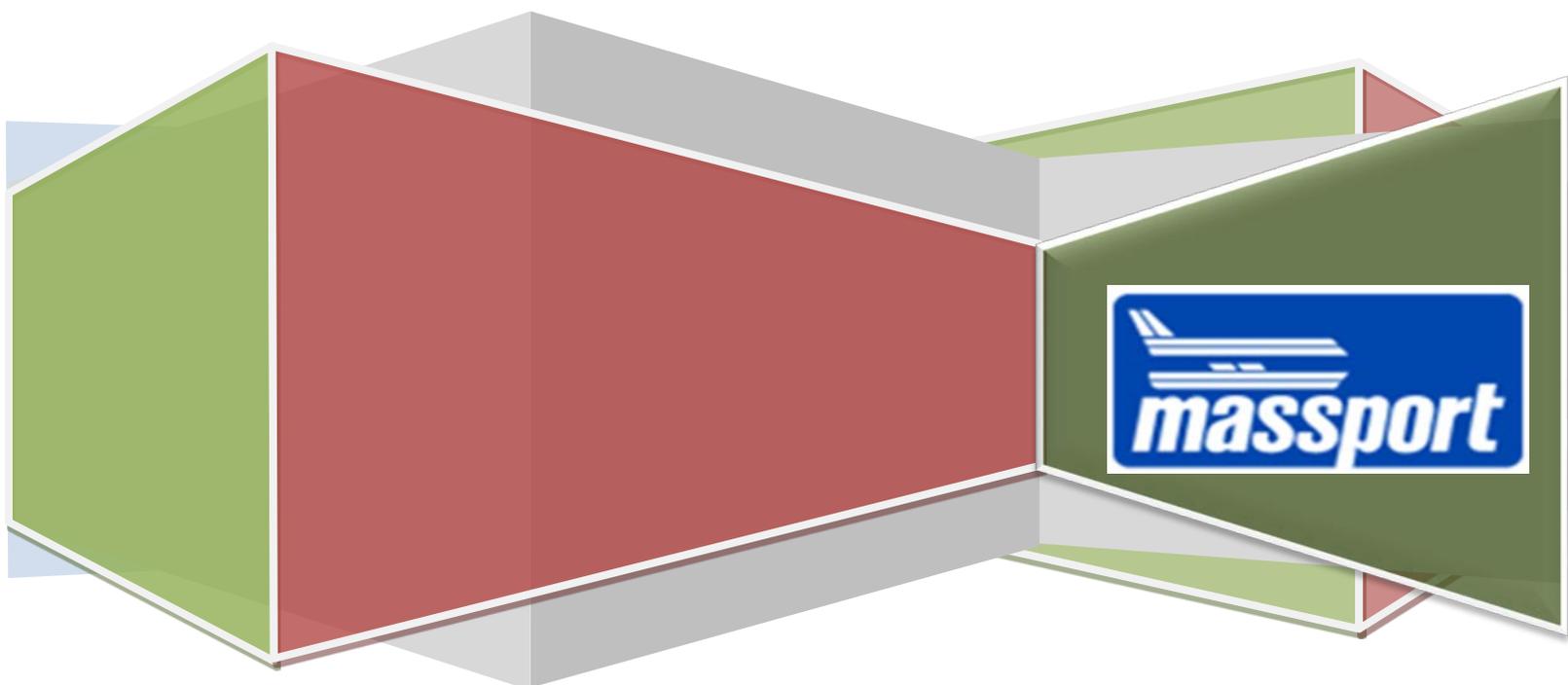
N/A

Office of Performance Management & Oversight

# Massachusetts Port Authority

Fiscal 2013

Economic Development Business Plan



# Massachusetts Port Authority

**Mission Statement** The Massachusetts Port Authority operates an integrated transportation network that delivers world-class safety, security, facilities, and customer services in an environmentally responsible manner. Massport is a key economic development engine for Massachusetts and New England.

**Business Plan Summary** – The following table summarizes objectives, programs, and initiatives planned for FY14 and performance measurements by which to evaluate progress.

Goals	Strategy	Performance Measurement
<b>1. Safety and Security</b>	<p>Receive annual Federal Aviation Administration Operating Certificate for Massport airports.</p> <p>Enhance camera coverage on Massport owned facilities</p>	<ul style="list-style-type: none"> <li>• Certificates of Approval by the FAA. <b>Certification received.</b></li> <li>• % increase in camera coverage on Massport facilities. <b>Increased coverage by 66% in specified areas.</b></li> </ul>
<b>2. Customer Service</b>	<p>Build customer amenities to improve Logan airport and Cruiseport Boston services</p>	<ul style="list-style-type: none"> <li>• Completion of Consolidated Rental Car Facility at Logan Airport. <b>Opened Sept 2013.</b></li> <li>• Encourage usage of free outbound Silverline service. <b>Still promoted and offered.</b></li> <li>• Enhance Cruiseport Boston amenities. <b>Started design phase on adjacent terminal.</b></li> </ul>
<b>3. Worcester Regional Airport (WRA)</b>	<p>Invest in assets to improve commercial service and general aviation activities at this Massport facility</p>	<ul style="list-style-type: none"> <li>• Facilitate the arrival of Jet Blue service to WRA.</li> <li>• Begin process to implement a Category III High Intensity Instrument Landing System. <b>On schedule.</b></li> <li>• Approve construction on a \$5 million private investment for new airplane hangar space. <b>Approved</b></li> </ul>
<b>4. Be an Economic Engine for the Commonwealth</b>	<p>Increase the number of jobs created from construction and investment. Increase the number of direct flights to currently un-served international markets</p>	<ul style="list-style-type: none"> <li>• Job creation from construction. <b>Created 877 jobs.</b></li> <li>• Job creation in South Boston Innovation District. <b>(Under development)</b></li> <li>• Increase international air service at</li> </ul>

# Massachusetts Port Authority

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		Logan Airport. <b>Added COPA Airlines.</b>
<b>5. Improve Maritime Operations</b>	To increase ship container volumes and cruise passengers at our facilities in the Port of Boston	<ul style="list-style-type: none"> <li>• # of Containers serviced by Maritime. <b>Exceeded goal by 10%</b></li> <li>• # of Cruise passengers serviced by CruisePort Boston. <b>Exceeded goal by 12.5%</b></li> </ul>
<b>6. Enhance Community Collaboration</b>	To enhance community collaboration through capital investments and other Massport services	<ul style="list-style-type: none"> <li>• Amount of private investment in East Boston (Portside at Pier 1). <b>Started construction of Phase I in Dec 2012</b></li> <li>• Implement Greenway Project. <b>Board approved \$7 million budget and Land Assembly Agreement completed</b></li> <li>• South Boston Conley By-pass Road. <b>ENF filed in May 2013</b></li> <li>• Conley Terminal crane painting improvement. <b>Will obtain funding in FY14</b></li> </ul>
<b>7. Hanscom Airport</b>	To increase private capital investment and promote stronger community dialogue	<ul style="list-style-type: none"> <li>• Attract private investment into the airport facility. <b>Executed lease with Rectrix who is building new hangar.</b></li> <li>• Increased presence and dialogue with the community</li> </ul>
<b>8. Strengthen Massport's Financial Health</b>	To develop financial plans necessary to maintain strong financial results and lower internal audit findings	<ul style="list-style-type: none"> <li>• Balanced budget and Five Year financial plan. <b>Completed</b></li> <li>• Maintain AA Bond Ratings. <b>Maintained</b></li> <li>• Reduced # of audit findings. <b>Reduced outstanding audit issues by 64%</b></li> </ul>

**Business Plan Detail** – The following section provides additional information on the primary goals of the Massachusetts Port Authority.

**MASSACHUSETTS PORT AUTHORITY**

Financial Statements, Required Supplementary Information, and  
Supplementary Schedules

Years Ended June 30, 2013 and 2012

(With Report of Independent Auditors)

# MASSACHUSETTS PORT AUTHORITY

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## Report of Independent Auditors

The Members of the Massachusetts Port Authority

We have audited the accompanying financial statements of the Massachusetts Port Authority (the Authority), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority at June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Adoption of GASB No. 65, “Items Previously Reported as Assets and Liabilities”**

As discussed in Note 1 to the financial statements, the Authority changed its classification of deferred losses on refunded bonds from long-term debt to deferred outflows as a result of the adoption of GASB No. 65, “Items Previously Reported as Assets and Liabilities” effective during 2013. Our opinion is not modified with respect to this matter.

## **Required Supplementary Information**

U.S. generally accepted accounting principles require that Management’s Discussion and Analysis, the Schedule of Pension Funding Progress and the Schedule of OPEB Funding Progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Auditing Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such

information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst & Young LLP*

September 30, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Introduction*

The following discussion and analysis of the financial performance and activity of the Massachusetts Port Authority (the "Authority") is intended to provide an introduction and an overview of the financial statements of the Authority as of and for the fiscal years ended June 30, 2013, 2012 and 2011, respectively. This discussion should be read in conjunction with the audited financial statements attached hereto. Management has established and maintains certain internal controls and procedures designed to ensure that the annual financial statements are free from material misstatement and that all required disclosures are made in its annual financial statements. Management has reviewed the Authority's current internal controls and procedures and believes that such controls and procedures are adequate in order to record, process, summarize and report to management material information required to be disclosed by the Authority in its annual financial statements.

The Authority owns Logan International Airport ("Logan Airport"), Hanscom Field, Worcester Regional Airport ("Worcester Airport"), Conley Terminal and various other maritime properties (the "Port"). As of January 1, 2010, the Authority transferred the Tobin Bridge to the Massachusetts Department of Transportation ("MassDOT") and on July 1, 2010, the Authority purchased Worcester Regional Airport as required under the Transportation Reform Act of 2009. The Authority has no taxing power and is not taxpayer funded. It uses revenues from landing fees, parking fees, fees from terminal and other rentals, revenues from concessions, tolls, ground rents, and other charges to fund operating expenses. The Authority's revenues also fund its capital expenditures and include other sources such as federal grants, passenger facility charges ("PFCs"), and customer facility charges ("CFCs"). The Authority issues revenue bonds which are secured solely by the Authority's Revenues, as defined by the 1978 Trust Agreement, the PFC Trust Agreement and the CFC Trust Agreement, respectively. The Authority's bonds do not constitute a debt or a pledge of the full faith and credit of the Commonwealth of Massachusetts or of any other political subdivision thereof.

### **The Financial Statements**

The Authority's financial statements include three financial statements: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These financial statements have been prepared in accordance with U.S. generally accepted accounting principles of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The comparative Statements of Net Position depict the Authority's financial position as of a point in time, specifically June 30, 2013, and 2012, and include all assets, deferred outflows and liabilities of the Authority. The net position represents the residual interest in the Authority's assets and deferred outflows after liabilities are deducted. The Authority's net position is divided into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Please see Note 1 in the financial statements attached hereto for a discussion on the Authority's net position.

The Statements of Revenues, Expenses and Changes in Net Position report operating revenues, operating expenses, non-operating revenue and expenses, and other changes in net position for the fiscal year ending June 30, 2013. Revenues and expenses are categorized as either operating or non-operating based upon management's policies as established in accordance with definitions set forth by the GASB. Certain sources of the Authority's revenues, including PFCs, CFCs, investment income and capital grants are reported as non-operating revenues and their uses are restricted and generally are not available for operating purposes.

(Continued)

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments resulting from operating activities, capital and related financing activities, and investing activities.

### **Financial Highlights**

- The Board voted in September of 2012 to appoint Mr. Thomas P. Glynn, as Chief Executive Officer and Executive Director of the Authority.
- Logan Airport serviced a record 29.4 million passengers in fiscal year 2013. This represents an increase of passenger use of 125,000 or 0.4% when compared to fiscal year 2012. Logan Airport's passenger growth reflects the continued expansion of low cost and legacy carrier air service to preferred destinations, an increase in market share from other New England regional airports, an increase in international traffic and service areas, and the recovering regional economy.
- Maritime serviced 110,163 containers at Conley Terminal in fiscal year 2013, a 2.5% increase over fiscal year 2012. In fiscal year 2013, Cruiseport Boston serviced 369,428 cruise passengers, a 2.8% reduction over fiscal year 2012 primarily due to fewer cruise ships docking.
- Two major private commercial developments with a total value of over \$185 million broke ground during the year on land owned by the Authority: in July 2012, a 230 plus unit residential high rise in South Boston called Waterside Place and in January 2013, a 176 unit residential complex in East Boston called Portside at Pier One.
- The Authority's operating revenues in fiscal year 2013 grew 2.4% to \$571.8 million, an increase of \$13.4 million over fiscal year 2012. Operating expenses (excluding depreciation and amortization) were \$370.4 million, an increase of only 2.9% or \$10.5 million over last year as management worked to control expenses during the year. Depreciation and amortization expenses increased \$17.8 million to \$199.0 million in fiscal year 2013.
- The Authority's net position grew to \$1.83 billion, a \$43.8 million or 2.5% increase over last year. This 2.5% increase in net position during fiscal year 2013 was generated by operating revenues exceeding operating expenses by \$2.4 million, net non-operating revenues contributing \$21.2 million and capital grant revenues used for facility improvements totaling \$20.2 million.
- The Authority issued two series of revenue bonds in July 2012. The \$116.8 million of Series A bonds were issued to fund certain projects within the Authority's Capital Program and Series B bonds were refunding bonds issued in aggregate of \$158.8 million generating over \$14.7 million in present value savings.

## Increase in Net Position

The Authority's net position increased \$43.8 million or 2.5% during fiscal year 2013. The increase in net position in fiscal year 2013 was a result of operating revenues exceeding operating expenses and depreciation and amortization expense by \$2.4 million. Net non-operating revenues generated during fiscal year 2013 were \$21.2 million primarily through the collection of PFCs and CFCs. Also, the Authority received \$20.2 million in capital grants used primarily to finance various airport airfield projects.

## The Authority's Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>(in millions)</u>		<u>2013 vs. 2012</u>	
	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ 571.8	\$ 558.4	\$ 13.4	2.4%
Operating expenses	370.4	359.9	10.5	2.9%
Depreciation and amortization	199.0	181.2	17.8	9.8%
Operating income	2.4	17.3	(14.9)	-86.1%
Total nonoperating revenues (expenses), net	21.2	31.2	(10.0)	-32.1%
Capital grant revenue	20.2	40.8	(20.6)	-50.5%
Increase in net position	43.8	89.3	(45.5)	-51.0%
Net position, beginning of year	1,784.7	1,695.4	89.3	5.3%
Net position, end of year	<u>\$ 1,828.5</u>	<u>\$ 1,784.7</u>	<u>\$ 43.8</u>	<u>2.5%</u>

During fiscal year 2012, the Authority's net position increased by \$89.3 million or 5.3%. The Authority generated operating income of \$17.3 million, \$31.2 million in net non-operating revenue, primarily through the collection of PFC and CFC revenues, and \$40.8 million in capital grant revenues which the Authority used primarily to finance various airport airfield projects.

## The Authority's Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>(in millions)</u>		<u>2012 vs. 2011</u>	
	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ 558.4	\$ 537.6	\$ 20.8	3.9%
Operating expenses	359.9	354.8	5.1	1.4%
Depreciation and amortization	181.2	169.4	11.8	7.0%
Operating income	17.3	13.4	3.9	29.1%
Total nonoperating revenues (expenses), net	31.2	27.9	3.3	11.8%
Capital grant revenue	40.8	22.5	18.3	81.3%
Increase in net position	89.3	63.8	25.5	40.0%
Net position, beginning of year	1,695.4	1,631.6	63.8	3.9%
Net position, end of year	<u>\$ 1,784.7</u>	<u>\$ 1,695.4</u>	<u>\$ 89.3</u>	<u>5.3%</u>

(Continued)

## Operating Revenues

Operating revenues of the Authority consist primarily of fees, rentals, concessions and operating grants. Fees and other services (“Fee Revenue”) are comprised essentially of parking fees, landing fees, and container handling fees. Rental revenues are earned through lease agreements for building and ground rents across the Authority’s asset base, including Logan Airport, Hanscom Field, Worcester Airport and Port properties. Concession revenues consist primarily of fees earned from ground services for airport passengers, including car rentals, taxis, bus services, limousine services, and retail operations. The following table is a discussion of the Authority’s major operating revenues as shown on the Authority’s Condensed Statements of Revenues, Expenses and Changes in Net Position.

### The Authority’s Operating Revenues

	(in millions)		2013 vs. 2012	
	2013	2012	\$ Change	% Change
Operating revenues:				
Fees and other services	\$ 289.4	\$ 283.4	\$ 6.0	2.1%
Rentals	184.7	180.6	4.1	2.3%
Concessions	72.5	68.2	4.3	6.3%
Other, including operating grants	25.2	26.2	(1.0)	-3.8%
Total operating revenues	<u>\$ 571.8</u>	<u>\$ 558.4</u>	<u>\$ 13.4</u>	<u>2.4%</u>

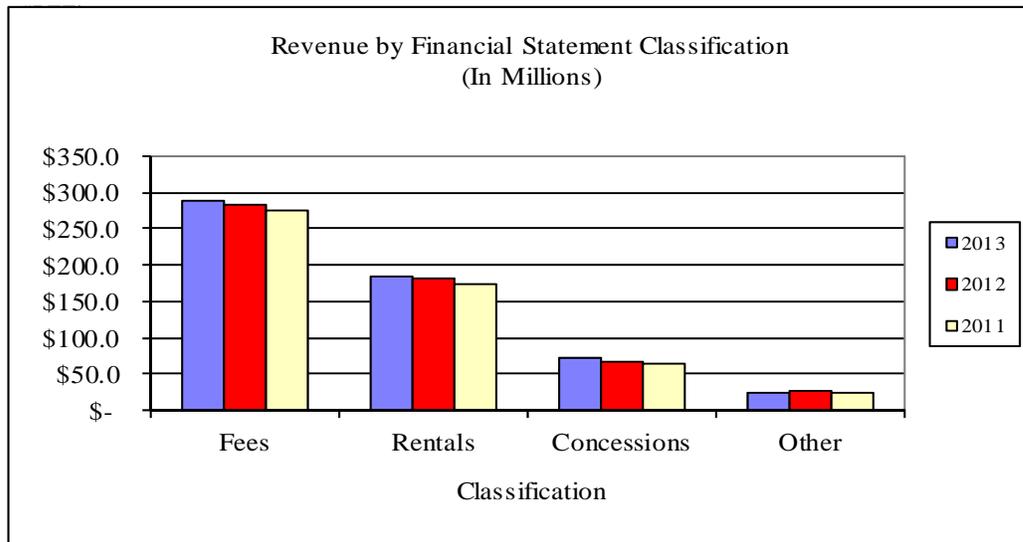
The Authority’s operating revenues for fiscal year 2013 were \$571.8 million, an increase of \$13.4 million or 2.4% from fiscal year 2012. The increase in operating revenue is mainly attributable to the record 29.4 million total passengers serviced at Logan Airport in fiscal year 2013. Fees and other services increased by \$6.0 million, or 2.1% in fiscal year 2013 due mainly to higher parking revenues generated from increased parking activity and an increase in commercial parking rates at Logan Airport that took effect in March 2012. Rental revenue increased \$4.1 million, or 2.3% over fiscal year 2012. This increase is due to higher Logan Airport terminal rents, and an increase in commercial real estate rental revenues generated on South Boston properties and other Maritime facilities. Concession revenues increased \$4.3 million, or 6.3% in fiscal year 2013 due to increased rental car concession revenues, terminal advertising, and terminal concession sales within Logan Airport’s terminals. Other income decreased by \$1.0 million, or 3.8 % in fiscal year 2013, from Logan instituting free outbound Silver Line bus service and reduced overnight aircraft parking fees.

### The Authority’s Operating Revenues

	(in millions)		2012 vs. 2011	
	2012	2011	\$ Change	% Change
Operating revenues:				
Fees and other services	\$ 283.4	\$ 274.5	\$ 8.9	3.2%
Rentals	180.6	174.4	6.2	3.6%
Concessions	68.2	64.0	4.2	6.6%
Other, including operating grants	26.2	24.7	1.5	6.1%
Total operating revenues	<u>\$ 558.4</u>	<u>\$ 537.6</u>	<u>\$ 20.8</u>	<u>3.9%</u>

The Authority’s operating revenues for fiscal year 2012 were \$558.4 million, an increase of \$20.8 million or 3.9% from fiscal year 2011. The increase in operating revenue is mainly attributable to the record 29.3 million total passengers serviced at Logan Airport in fiscal year 2012. Fees and Other Services revenues totaled \$283.4 million during fiscal year 2012, an increase of \$8.9 million or 3.2% when compared to

\$274.5 million generated during fiscal year 2011. Parking revenues increased \$9.7 million or 8.3% due to increased passengers and a 12.5% increase in the daily commercial parking rate that took effect in March 2012 at Logan Airport. Landing fees were 3.5% lower than the previous year as an increase in landed weights was offset by a lower landing fee charged the airlines. Revenues from container activity were slightly higher as the Port serviced 107,477 containers in fiscal year 2012 as compared to 106,857 containers serviced in fiscal year 2011. Overall utility revenues were lower by about 4.5% as low natural gas prices and the warm winter season helped keep utility costs low. These savings were in part passed onto Airline tenants.

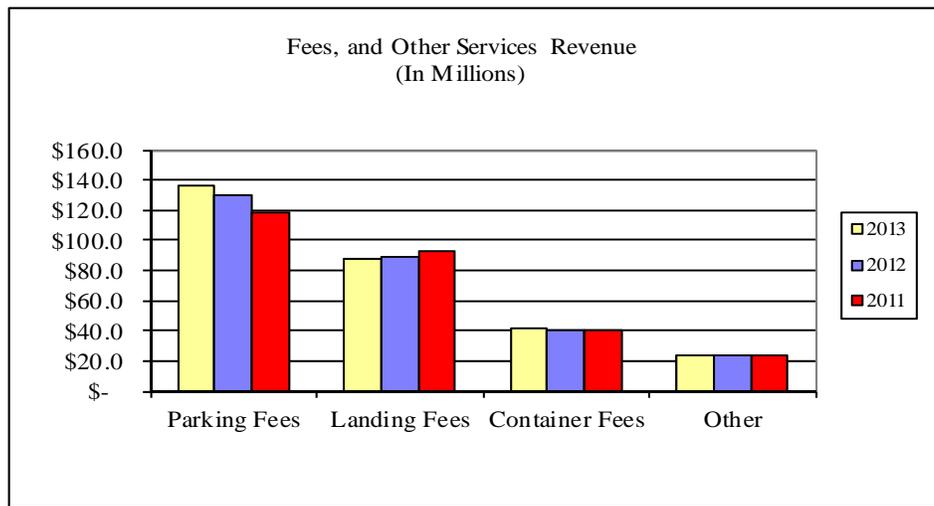


### ***Fees and Other Services***

**Parking Fees:** During fiscal year 2013, the Authority collected \$131.9 million in parking revenue at Logan Airport, an increase of \$6.1 million or 4.9% compared to fiscal year 2012. This increase in parking revenues is attributable to a full year effect of the 12.5% increase in the daily commercial parking rate that took effect in March 2012 and a 0.4% increase in passenger volume at Logan Airport. Parking exits at Logan Airport for fiscal year 2013 were 2.57 million, a 2.5% decrease from the prior fiscal year, although revenue per exit was \$47.80, a 7.9% increase over the prior fiscal year.

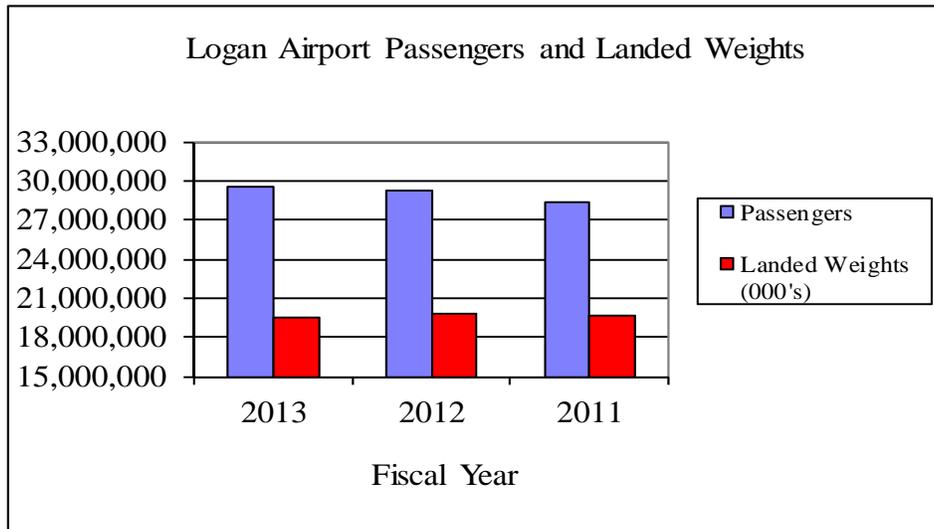
During fiscal year 2012, the Authority collected \$125.8 million in parking revenue, an increase of \$9.7 million or 8.3% compared to fiscal year 2011. This increase in parking revenues is attributable to a 12.5% increase in the daily commercial parking rate that took effect in March 2012 and a 3.1% increase in passenger volume at Logan Airport. Parking exits at Logan Airport for fiscal year 2012 were 2.64 million, a 0.05% increase over fiscal year 2011 and revenue per exit was \$44.31, an 8.3% increase from fiscal year 2011.

The following table is a presentation of the revenue components included in Fee Revenue by the Authority's primary business operations:



**Landing Fees:** Landing fees are principally generated from scheduled airlines and non-scheduled commercial aviation and are based on the landed weight of the aircraft at Logan Airport. The Logan Airport landing fee is determined annually based on full cost recovery to maintain the landing field. Landing fees earned from airline activity were \$86.5 million during fiscal year 2013, a 2.0% decrease compared to \$88.3 million earned during fiscal year 2012. Logan Airport handled 19.49 billion pounds of landed weights during fiscal year 2013, which was a 1.8% decrease from the 19.85 billion pounds handled in fiscal year 2012. Logan Airport serviced 351,000 aircraft operations at its runways (takeoffs and landings). This was a decrease of 3.8% from the 365,000 aircraft operations serviced in fiscal year 2012. The decrease in landed weight and operations is partly attributable to the consolidation of certain airline routes. Hanscom Field and Worcester Airport landing fees totaled \$0.9 million in fiscal year 2013 and \$1.0 million in fiscal year 2012.

In fiscal year 2012, Logan Airport landing fee revenue was \$88.3 million, a 3.5% decrease over fiscal year 2011 landing fee revenue of \$91.5 million. The reduction in revenues can be attributed to lower capital financing costs and reduced operating expenses from favorable winter conditions. During fiscal year 2012, Logan Airport handled 19.85 billion pounds, an increase from the 19.71 billion pounds of landed weights handled in fiscal year 2011. Logan Airport runways serviced 365,000 aircraft operations in fiscal year 2012, an increase of 3,000 aircraft operations over the 362,000 aircraft operations serviced in fiscal year 2011. The increase is mainly attributable to the growth of low cost carrier service at Logan Airport. Hanscom Field and Worcester Airport landing fees totaled \$1.0 million in fiscal year 2012 and \$0.9 million in fiscal year 2011.



**Container Fees:** Container fees generated at Conley Terminal are fees charged to the shipping lines for the loading and unloading of containers from their vessels. During fiscal year 2013 container fees generated \$42.0 million in revenues. This is an increase of \$1.4 million over the \$40.4 million generated in fiscal year 2012. Conley Terminal handled 110,163 containers in fiscal year 2013, an increase of approximately 3,000 containers over the 107,477 containers handled in fiscal year 2012. This increase in container volume contributed to an increase in container fees for Conley Terminal.

During fiscal year 2012 Container fees generated \$40.4 million in revenue from shipping lines. This was an increase of \$0.3 million over the \$40.1 million in container fees generated in fiscal year 2011. Conley Terminal handled 107,477 containers at the Port in fiscal year 2012. This was a 0.6% increase over the 106,857 containers serviced in fiscal year 2011.

**Rentals**

The Authority’s rental revenues for fiscal year 2013 totaled \$184.7 million, a \$4.1 million or 2.3% increase over fiscal year 2012. Logan Airport accounts for \$160.0 million or 86.6% of the \$184.7 million in total rental revenue recorded in the Authority’s financial statements. Maritime operations account for \$19.6 million and Hanscom for \$4.9 million. Airport rental revenue is earned from airlines and other tenants for the terminal buildings, cargo and hangar space they occupy on airport property.

Rental revenues at Logan Airport were \$160.0 million, an increase of \$4.4 million or 2.8% in fiscal year 2013, when compared to the \$155.6 million in fiscal year 2012. The \$4.4 million increase in rental revenues generated at Logan Airport reflects the recovery of operating costs and capital on various terminal improvements made throughout Logan Airport’s terminals and the new hanger agreement with jetBlue airlines. In addition, the Authority collects rental revenue on Port properties and other land that it owns. During fiscal year 2013, the Authority earned approximately \$16.5 million in rental revenue on Port properties, an increase of approximately \$0.4 million or 2.5% over fiscal year 2012. Other rental revenues from Maritime properties, Hanscom Field and Worcester Airport were \$8.3 million in fiscal year 2013. This was a decrease of \$0.6 million or 6.7% over the amount collected in fiscal year 2012 due mainly to a new lease agreement at the Autoport where the lessor assumed additional operating and capital cost commitments. Rental revenue for Maritime Operations, Hanscom Field and Worcester Airport in fiscal year 2013 was \$3.2 million, \$4.9 million and \$0.2 million, respectively.

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The Authority's rental revenues for fiscal year 2012 totaled \$180.6 million, a \$6.2 million or 3.6% increase over fiscal year 2011. During fiscal year 2012, Logan Airport rental revenues were \$155.6 million, an increase of \$5.7 million or 3.8% when compared to fiscal year 2011. The Port properties rental revenues of \$16.1 million were \$1.3 million or 8.8 % higher when compared to fiscal year 2011. The combined total of rental revenue from Maritime Operations, Hanscom Field, and Worcester Airport was \$8.9 million in fiscal year 2012, a 8.7% or \$0.8 million decrease from the amount collected in fiscal year 2011. Rental revenue for Maritime Operations, Hanscom Field and Worcester Airport in fiscal year 2012 was \$4.0 million, \$4.6 million, and \$0.26 million, respectively.

### *Concessions*

During fiscal year 2013, the Authority earned \$72.5 million in concessions revenue compared to \$68.2 million in fiscal year 2012, an increase of \$4.3 million or 6.3%. Concessions revenue consists of fees earned from ground services for airport passengers such as car rentals, taxis, bus and limousine services, as well as retail operations within the Airport's terminals. During fiscal year 2013, the Authority earned approximately \$38.4 million in ground service fees compared to \$36.3 million in fiscal year 2012. This represented an increase of \$2.1 million or 5.8% in ground service fees, primarily from an increase in rental car activity at Logan Airport. During fiscal year 2013, other concession revenues generated from food and beverage, news and gifts, foreign exchange, duty free shops, specialty shops and other concessions totaled \$34.1 million or 6.9% more than the \$31.9 million generated in fiscal year 2012. Higher passenger volumes at Logan Airport increased terminal sales and a new contract from a duty free vendor generated more revenue for the Authority.

During fiscal year 2012, the Authority's concessions revenue totaled \$68.2 million, an increase of \$4.2 million or 6.6% when compared to fiscal year 2011. During fiscal year 2012, the Authority's ground service fees increased \$1.3 million or 3.7% over fiscal year 2011. In fiscal year 2012, other concession revenues also increased by \$2.9 million or 10.0% over fiscal year 2011. The concessions revenue increase during fiscal year 2012 was primarily the result of higher passenger volumes at Logan Airport which increased terminal sales, and a new foreign currency exchange service contract.

### ***Operating Expenses (including depreciation and amortization)***

Fiscal year 2013 total operating expenses were \$569.4 million and are comprised of \$272.6 million in operations and maintenance, \$49.0 million in general and administrative expenses, \$48.8 million in other operating expenses, and \$199.0 million in depreciation and amortization expenses. This is a \$28.3 million increase or 5.2% over fiscal year 2012. Total operating expenses exclusive of depreciation and amortization was \$370.4 million, a 2.9% or \$10.5 million increase over the \$359.9 million in total operating expenses (excluding depreciation and amortization) incurred in fiscal year 2012.

### **The Authority's Condensed Operating Expenses**

	<u>(in millions)</u>		<u>2013 vs. 2012</u>	
	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Operating expenses:				
Operations and maintenance	\$ 272.6	\$ 265.6	\$ 7.0	2.6%
General and administrative	49.0	44.0	5.0	11.4%
Other operating expenses	48.8	50.3	(1.5)	-3.0%
Depreciation and amortization	199.0	181.2	17.8	9.8%
Total operating expenses	<u>\$ 569.4</u>	<u>\$ 541.1</u>	<u>\$ 28.3</u>	<u>5.2%</u>

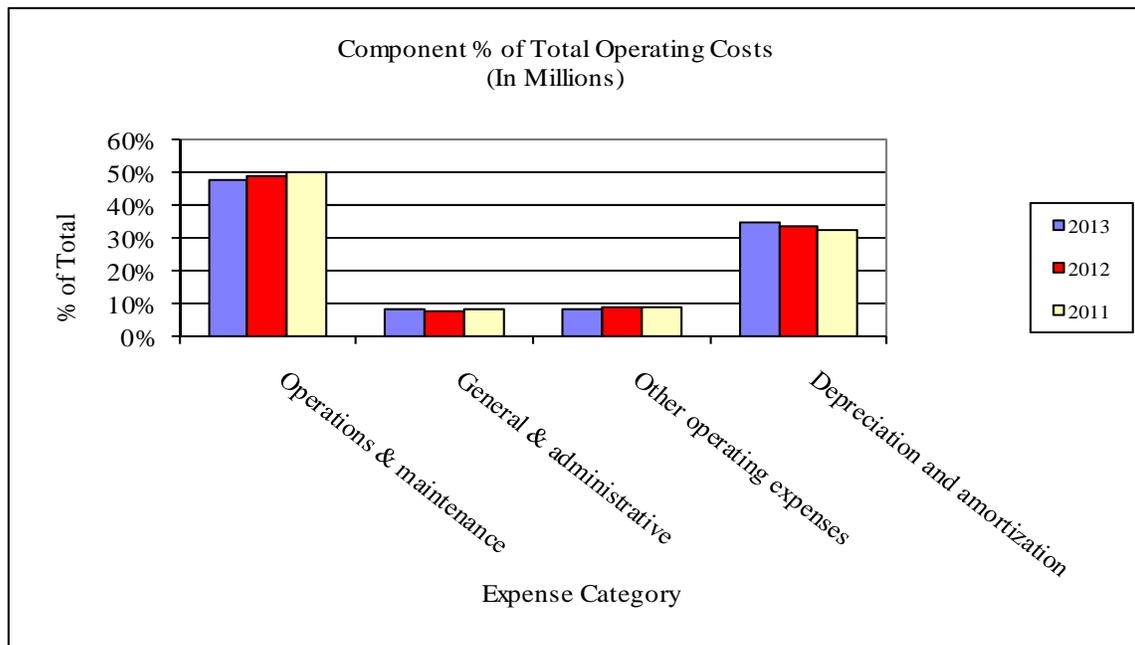
	<u>(in millions)</u>		<u>2012 vs. 2011</u>	
	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Operating expenses:				
Operations and maintenance	\$ 265.6	\$ 262.4	\$ 3.2	1.2%
General and administrative	44.0	46.0	(2.0)	-4.3%
Other operating expenses	50.3	46.4	3.9	8.4%
Depreciation and amortization	181.2	169.4	11.8	7.0%
Total operating expenses	<u>\$ 541.1</u>	<u>\$ 524.2</u>	<u>\$ 16.9</u>	<u>3.2%</u>

Fiscal year 2012 total operating expenses were \$541.1 million and are comprised of \$265.6 million in operations and maintenance, \$44.0 million in general and administrative expenses, \$50.3 million in other operating expenses, and \$181.2 million in depreciation and amortization expenses. This is a \$16.9 million increase or 3.2% over fiscal year 2011. Total operating expenses exclusive of depreciation and amortization was \$359.9 million, a 1.4% or \$5.1 million increase over the \$354.8 million in total operating expenses (excluding depreciation and amortization) incurred in fiscal year 2011.

Fiscal year 2011 total operating expenses were \$524.2 million and are comprised of \$262.4 million in operations and maintenance, \$46.0 million in general and administrative expenses, \$46.4 million in other operating expenses, and \$169.4 million in depreciation and amortization expenses. This is a \$16.7 million increase or 3.3% over fiscal year 2010. Total operating expenses exclusive of depreciation and amortization were \$354.8 million, a 3.3% or \$11.4 million increase over the \$343.4 million in total operating expenses (excluding depreciation and amortization) incurred in fiscal year 2010.

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The following depicts the Authority's significant operating cost components by Condensed Operating Expenses:



### Operations and Maintenance

During fiscal year 2013, the Authority incurred \$272.6 million in operations and maintenance costs, which represents an increase of \$7.0 million or 2.6% from fiscal year 2012. Employee wages and fringe benefits costs increased \$4.3 million during fiscal year 2013. This increase is primarily attributable to the hiring of additional State Police and Fire Rescue personnel to fill vacancies, and annual collective bargaining wage increases for represented employees and merit increases for non-represented personnel. The Authority also made a onetime lease termination of tenancy payment in the amount of \$1.4 million. Increased container volumes added stevedoring expenses of \$0.4 million and snow removal costs were \$2.7 million higher than last year due to severe winter weather in the Northeast. Lastly, utility costs increased \$1.7 million from increased tenant usage and slightly higher per unit costs. The Authority generated \$2.8 million in cost reductions by restructuring Logan's new low emission airport shuttle bus program, and other miscellaneous savings from lower structural and runway repairs. Operations and maintenance expenses represent 47.9% of the Authority's total operating expenses. These expenses relate to the operations and maintenance of each of the Authority's facilities which includes Logan Airport, Hanscom Field, Worcester Airport, and the Port of Boston.

During fiscal year 2012, the Authority incurred \$265.6 million in operations and maintenance costs, which represent an increase of \$3.2 million or 1.2% from fiscal year 2011. The increase is primarily the result of an increase in service costs for busing, maintenance, terminal cleaning, and repairs to runways and facilities due to an increase in use mainly attributable to the 3.1% increase in passenger activity at Logan Airport. Operations and maintenance expenses represent 49.1% of the Authority's total operating expenses.

During fiscal year 2011, the Authority incurred \$262.4 million in operations and maintenance costs, an increase of \$12.7 million or 5.1% from fiscal year 2010. The increase was primarily the result of

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approximately \$5.0 million in snow removal costs from severe winter conditions, \$2.8 million in earned benefits associated with an increase in employee health insurance premium rates and increased enrollment and professional training, \$2.2 million of terminal and facilities maintenance, fleet repairs, and miscellaneous general expenses to service the 2.1 million more airline passengers at Logan Airport, \$1.7 million for pollution remediation, and \$1.0 million in stevedoring expenses related to cargo volumes and supplies to outfit newly purchased cranes. Fiscal year 2011 also included a full year of Worcester Airport costs totaling \$3.3 million and a reduction of expense from the Tobin Bridge transfer in fiscal year 2010 of \$3.1 million. Operations and maintenance expenses represent 50.1% of the Authority's total operating expenses.

### **General and Administrative**

During fiscal year 2013, the Authority incurred \$49.0 million in general and administrative expenses, an increase of \$5.0 million or 11.4% compared to fiscal year 2012. Employee wages and benefits for general and administrative employees increased \$1.6 million due to merit increases for non-represented personnel, and an increase in healthcare insurance premium rates. Professional services increased \$1.7 million for engineering, financial, and strategic planning consultants. The Authority's International Incentive Program added \$0.5 million in new expenses to account for the addition of Japan Airlines to Logan Airport. Other miscellaneous services such as fire boat dock repairs and maintenance contracts increased \$1.2 million. General and administrative expenses represent 8.6% of the Authority's operating expenses.

During fiscal year 2012, the Authority incurred \$44.0 million in general and administrative expenses, a decrease of \$2.0 million or 4.3% compared to fiscal year 2011. The decrease in expenses is primarily attributable to lower employee wages, and benefits for general and administrative employees due to vacancies, and the reductions in payments to professional consultants. These expense reductions were offset by higher maintenance and support service agreements. General and administrative expenses as a percent of the Authority's total expense declined slightly to 8.1% of total expenses in fiscal year 2012, as compared to 8.8% in fiscal year 2011.

During fiscal year 2011, the Authority incurred \$46.0 million in general and administrative expenses, an increase of \$4.3 million or 10.3% compared to fiscal year 2010. Increases include \$2.0 million due to higher health care rates, earned benefits, and career training and development, \$1.5 million for website and financial system development, computer purchases, IT and operational security analysis, mitigation payments, marketing promotions and commercial advertising, and other costs. Fiscal year 2011 also included a full year of Worcester Airport costs totaling \$1.6 million and a reduction of expense from the Tobin Bridge transfer in fiscal year 2010 of \$1.2 million. General and administrative expenses as a percent of the Authority's total expense remained constant at 8.8% and 8.2% for fiscal years 2011 and 2010, respectively.

### **Other Operating Expenses**

Other operating expenses consist of insurance, pension and other post employment benefit payments, payment in lieu of taxes (PILOT), and recoveries or provisions for uncollectible accounts. For fiscal year 2013 other operating expenses totaled \$48.8 million, a \$1.5 million or 3.0% decrease over the \$50.3 million in total other operating expenses incurred by the Authority in fiscal year 2012. Insurance expense totaled \$8.0 million in fiscal year 2013 which was equal to the \$8.0 million paid in insurance premiums in fiscal year 2012. Pension and OPEB payments were \$23.1 million, a \$0.5 million or a 2.1% decrease over the \$23.6 million paid in fiscal year 2012. The Authority's PILOT payments were \$18.1 million in fiscal year 2013. This is an increase of 2.8% or \$0.5 million over the amount paid in fiscal year 2012, and reflects the CPI adjustment incorporated in the agreements with the surrounding communities. The

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Authority also recognized a recovery of previously determined uncollectible accounts of \$0.4 million in fiscal year 2013. This recovery reflects management's expected receipt of payments from customer's accounts that had been previously been determined uncollectible in fiscal year 2012.

During fiscal year 2012, the Authority incurred \$50.3 million in other operating expenses. This was an increase of \$3.9 million or 8.4% over the \$46.4 million incurred in total other operating expenses in fiscal year 2011. Insurance premiums paid in fiscal year 2012 were \$8.0 million, an increase of \$0.7 million or 9.6% over the \$7.3 million in insurance premiums paid in fiscal year 2011. The increase reflects a higher cost of premiums for property insurance coverage. Pension and OPEB payments of \$23.6 million were \$2.2 million or 10.3% higher than the \$21.4 million paid in fiscal year 2011. The increase reflects the higher pension assessments resulting from the investment losses from the 2008 market decline. The Authority made PILOT payments totaling \$17.6 million in fiscal year 2012, a \$0.3 million or 1.7% increase over the \$17.3 million paid to surrounding communities in fiscal year 2011. This increase reflects the CPI contractual increase in the contract. The provision for uncollectible accounts was \$1.1 million, a \$0.7 million increase over the \$0.4 million recognized in fiscal year 2011. This increase is related to higher reserves required for pending bankruptcies.

### **Depreciation and Amortization**

The Authority recognized \$199.0 million in depreciation and amortization expense in fiscal year 2013, an increase of \$17.8 million or 9.8% compared to fiscal year 2012. This increase is the result of \$232.4 million in new assets being placed into service during fiscal year 2013, which generated \$13.5 million in current year depreciation expense. Additionally, during fiscal year 2013, the Authority changed the estimated useful life of runway repaving which added approximately \$14.3 million to the current year expense. This was offset by approximately \$10.0 million of depreciation expenses related to assets that became fully depreciated at the beginning of fiscal year 2013. In comparison, during fiscal year 2012 and 2011, the Authority recognized depreciation and amortization expenses of \$181.2 million and \$169.4 million, respectively. During this same period, the Authority placed into service new assets totaling \$131.0 million and \$187.3 million, respectively.

## Non-operating Revenues (Expenses) and Capital Grant Revenue

The Authority recognized a net \$21.2 million in non-operating revenues in fiscal year 2013, a decrease of \$10.0 million or 32.1% over the \$31.2 million recognized in fiscal year 2012. Non-operating revenues in fiscal year 2012 were \$31.2 million, an increase of \$3.3 million or 11.8% over the \$27.9 million recognized in fiscal year 2011. The following provides a brief explanation of the account changes by category for the last three fiscal years.

	<b>(in millions)</b>		<b>2013 vs. 2012</b>	
	<b>2013</b>	<b>2012</b>	<b>\$ Change</b>	<b>% Change</b>
Passenger facility charges	\$ 60.1	\$ 59.2	\$ 0.9	1.5%
Customer facility charges	29.4	28.7	0.7	2.4%
Investment income	8.3	10.2	(1.9)	-18.6%
Other income/(expense), net	(3.4)	1.5	(4.9)	-326.7%
Terminal A debt service contributions	(12.1)	(9.1)	(3.0)	33.0%
Interest expense	(61.1)	(59.3)	(1.8)	3.0%
Total nonoperating revenues (expenses)	\$ 21.2	\$ 31.2	\$ (10.0)	-32.1%
Capital grant revenue	\$ 20.2	\$ 40.8	\$ (20.6)	-50.5%

	<b>(in millions)</b>		<b>2012 vs. 2011</b>	
	<b>2012</b>	<b>2011</b>	<b>\$ Change</b>	<b>% Change</b>
Passenger facility charges	\$ 59.2	\$ 58.5	\$ 0.7	1.2%
Customer facility charges	28.7	26.2	2.5	9.5%
Investment income	10.2	11.7	(1.5)	-12.8%
Other income/(expense), net	1.5	(1.7)	3.2	-188.2%
Terminal A debt service contributions	(9.1)	(6.1)	(3.0)	49.2%
Interest expense	(59.3)	(60.7)	1.4	-2.3%
Total nonoperating revenues (expenses)	\$ 31.2	\$ 27.9	\$ 3.3	11.8%
Capital grant revenue	\$ 40.8	\$ 22.5	\$ 18.3	81.3%

For fiscal year 2013, non-operating revenues (expenses) is comprised of PFC and CFC revenue which represented \$89.5 million, a \$1.6 million or 1.8% increase from fiscal year 2012 revenues of \$87.9 million. Investment income of \$8.3 million was down \$1.9 million from fiscal year 2012 as interest rates remained low and the Authority's investment balances were lower than the prior year. Other income/expense, net consists of settlement of claims, gains or losses on short term investments, and any gains or losses on the sale of equipment. During fiscal year 2013, the Authority incurred \$3.4 million in other expense, a decrease of \$4.9 million from the \$1.5 million in other income generated in fiscal year 2012. The increase in other non-operating expense is primarily the results of realizing a \$3.1 million loss in the fair value of investments held by the Authority and a \$0.8 million ConRAC mitigation payment. Also, during fiscal year 2013, the Authority made a voluntary contribution of \$12.1 million in PFCs to the Terminal A debt service fund. This \$12.1 million voluntary contribution was \$3.0 million higher than the amount contributed in fiscal year 2012 which reflects a full year of principal payments on Terminal A debt service. Interest expense on long term debt was \$61.1 million, an increase of \$1.8 million or 3.0% from fiscal year 2012. The increase is attributed to the issuance of new bonds in July 2013.

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For fiscal year 2012, non-operating revenues (expenses) is comprised of PFC and CFC revenue which represented \$87.9 million, a \$3.2 million or 3.8% increase from fiscal year 2011 revenues of \$84.7 million. Investment income of \$10.2 million was down \$1.5 million from fiscal year 2011 as interest rates remained low. Other non-operating income (expense), net consists of settlement of claims, gains or losses on the fair value of investments, and any gains or losses on the sale of equipment. During fiscal year 2012, the Authority realized other non-operating income, net of \$1.5 million, an increase of \$3.2 million primarily from the gain on the fair value of investments held by the Authority. Also, during fiscal year 2012, the Authority made a voluntary contribution of \$9.1 million in PFCs to the Terminal A debt service fund. This \$9.1 million voluntary contribution was \$3.0 million higher than the amount contributed in fiscal year 2011. Interest expense on long term debt was \$59.3 million, a decrease of \$1.4 million or 2.3% from fiscal year 2011. The decline in interest expense for this period is attributable to declining interest rates on the \$126.5 million in variable rate bonds outstanding and a reduction in the principal amount of debt outstanding.

### ***Capital Grant Revenue***

The majority of the Authority's capital grants are awarded by the FAA for the Airport Improvement Program to construct runways, taxiways, apron lighting, residential sound proofing projects, and other capital related projects, primarily at Logan Airport. The Authority also receives grant funds from the Department of Homeland Security, the Federal Emergency Management Administration, the Environmental Protection Agency and the Massachusetts Executive Office of Public Safety and Security related to the Port Security Grant Program which safeguards the Port of Boston.

Capital grant revenue received in fiscal year 2013 was \$20.2 million, a decrease of \$20.6 million or 50.5% from the amount received in fiscal year 2012. The reduction in capital grant revenue was a result of construction costs for the Runway Safety End on Runway 33L that was completed in fiscal year 2012 and the corresponding grant revenue being received in fiscal year 2012. The remainder of projects eligible to be reimbursed by capital grant revenues is ongoing and is expected to be reimbursed in future years.

Capital grant revenue received in fiscal year 2012 totaled \$40.8 million, an increase of \$18.3 million or 81.3% from the \$22.5 million received in fiscal year 2011. The majority of the Authority's capital grants were awarded by the FAA for the Airport Improvement Program to construct runways, taxiways, apron lighting, residential sound proofing projects and other capital related projects primarily at Logan Airport.

### **The Authority's Statements of Net Position**

The Statements of Net Position present the financial position of the Authority at the end of the fiscal years. The Statements include all assets and liabilities of the Authority. Net Position is the difference between total assets and total liabilities and is an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net position at June 30, 2013, 2012 and 2011 is as follows:

## The Authority's Condensed Statements of Net Position

	(in millions)		2013 vs. 2012	
	2013	2012	\$ Change	% Change
<u>Assets</u>				
Current assets	\$ 503.6	\$ 603.2	\$ (99.6)	-16.5%
Capital assets, net	2,769.6	2,653.3	116.3	4.4%
Other non-current assets	499.5	439.2	60.3	13.7%
Total Assets	3,772.7	3,695.7	77.0	2.1%
<u>Deferred outflows of resources</u>				
Deferred loss on refunding of bonds	21.8	22.1	(0.3)	-1.4%
Total deferred outflows of resources	21.8	22.1	(0.3)	-1.4%
<u>Liabilities</u>				
Current liabilities	\$ 255.0	\$ 257.8	\$ (2.8)	-1.1%
Bonds and notes payable, including current portion	1,656.6	1,612.8	43.8	2.7%
Other non-current liabilities	54.4	62.5	(8.1)	-13.0%
Total Liabilities	\$ 1,966.0	\$ 1,933.1	\$ 32.9	1.7%
Total Net Position	\$ 1,828.5	\$ 1,784.7	\$ 43.8	2.5%

The Authority ended fiscal year 2013 with total assets and deferred outflows of resources of \$3.79 billion, total liabilities of \$1.97 billion and total net position of \$1.83 billion. This is an increase of 2.5% or \$43.8 million and is comprised of net operating income of \$2.4 million, net non-operating income of \$21.2 million and capital grant revenue of \$20.2 million. The Authority's assets consist primarily of capital assets, which represent approximately \$2.77 billion or 73.0% of the Authority's total assets and deferred outflows of resources as of June 30, 2013.

	(in millions)		2012 vs. 2011	
	2012	2011	\$ Change	% Change
<u>Assets</u>				
Current assets	\$ 603.2	\$ 599.4	\$ 3.8	0.6%
Capital assets, net	2,653.3	2,579.8	73.5	2.8%
Other non-current assets	439.2	451.0	(11.8)	-2.6%
Total Assets	3,695.7	3,630.2	65.5	1.8%
<u>Deferred outflows of resources</u>				
Deferred loss on refunding of bonds	22.1	23.8	(1.7)	-7.1%
Total deferred outflows of resources	22.1	23.8	(1.7)	-7.1%
<u>Liabilities</u>				
Current liabilities	\$ 257.8	\$ 212.2	\$ 45.6	21.5%
Bonds and notes payable, including current portion	1,612.8	1,687.9	(75.1)	-4.4%
Other non-current liabilities	62.5	58.5	4.0	6.8%
Total Liabilities	\$ 1,933.1	\$ 1,958.6	\$ (25.5)	-1.3%
Total Net Position	\$ 1,784.7	\$ 1,695.4	\$ 89.3	5.3%

The Authority ended fiscal year 2012 with total assets and deferred outflows of resources of \$3.72 billion, total liabilities of \$1.93 billion, and total net position of \$1.78 billion. This is an increase of 5.3% or \$89.3 million and is comprised of net operating income of \$17.3 million, net non-operating income of \$31.2 million and capital grant revenue of \$40.8 million. The Authority's assets consist primarily of

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capital assets, which represent approximately \$2.65 billion or 71.4% of the Authority's total assets and deferred outflows of resources as of June 30, 2012.

The Authority ended fiscal year 2011 with total assets and deferred outflows of resources of \$3.65 billion, total liabilities of \$1.96 billion, and total net position of \$1.70 billion. This is an increase of 3.9% or \$63.8 million and is comprised of net operating income of \$13.4 million, net non-operating income of \$27.9 million and capital grant revenue of \$22.5 million. The Authority's assets consist primarily of capital assets, which represent approximately \$2.58 billion or 70.6% of the Authority's total assets and deferred outflows of resources as of June 30, 2011.

The Authority's liabilities consists primarily of bonds payable (including current portion), which account for 84.3%, 83.4% and 86.2% of total liabilities at June 30, 2013, 2012 and 2011, respectively. Notes payable and accrued interest payable are included in current liabilities and represented approximately 6.9%, 7.0% and 6.2% of total liabilities at June 30, 2013, 2012 and 2011, respectively.

## **Capital Assets and Debt Administration**

### ***Capital Assets***

As of June 30, 2013 and 2012, the Authority had approximately \$2.77 billion and \$2.65 billion of capital assets (net of depreciation), respectively. These include land, construction in process, buildings, runways, roadways, machinery and equipment, air rights and parking rights. The Authority's net capital assets increased approximately \$116.3 million, or 4.4% in fiscal year 2013.

Major construction projects completed during fiscal year 2013 at Logan Airport included Runway 33L, safety end improvements that installed a larger safety area and utilizes a larger Emergency Material Arrest Systems ("EMAS"), the rehabilitation of Runway 15R/33L, and the Chelsea Airport By-pass Road, a dedicated truck and bus traffic route to and from the Airport to Chelsea. These projects were placed into service and contributed to the increase in the Authority's capital assets. Projects under construction during fiscal year 2013 were the ConRAC which will become operational in the fall of 2013, the renovation and improvement of Terminal B to serve United Airlines and the optimization of the Checked Baggage Inspection System.

Capital assets comprised approximately 73.0% of the Authority's total assets and deferred outflows of resources at June 30, 2013 and 71.4% and 70.6% of the Authority's total assets and deferred outflows of resources at June 30, 2012 and 2011, respectively. During fiscal years 2013, 2012 and, 2011, the Authority spent approximately \$308.7 million, \$225.7 million, and \$225.1 million, respectively, constructing new assets and improving existing assets already in service, inclusive of construction in process.

Major construction projects completed or in process during fiscal year 2012 at Logan Airport included the ConRAC, the Green Bus Depot which will be the onsite maintenance facility for all Massport owned buses, runway safety end improvements that will reinstall the use of EMAS for Runway 33L, the Terminal C Central Checkpoint reconfiguration and rehabilitation, the Terminal B garage renovation project and roadway improvement program, and the Chelsea Airport By-pass Road. During fiscal year 2012, construction began on Rehabilitation of Run/Way 15R/33L.

Major construction projects completed or in process during fiscal year 2011 at Logan Airport included the Terminal C Central Checkpoint renovation, the completion of the new Economy Parking Facility, the Terminal B garage renovation, the modification of Gate 1 at Terminal E, the restrooms renovation at Terminals B and C and the rehabilitation and improvement of runways and taxiways. During fiscal year

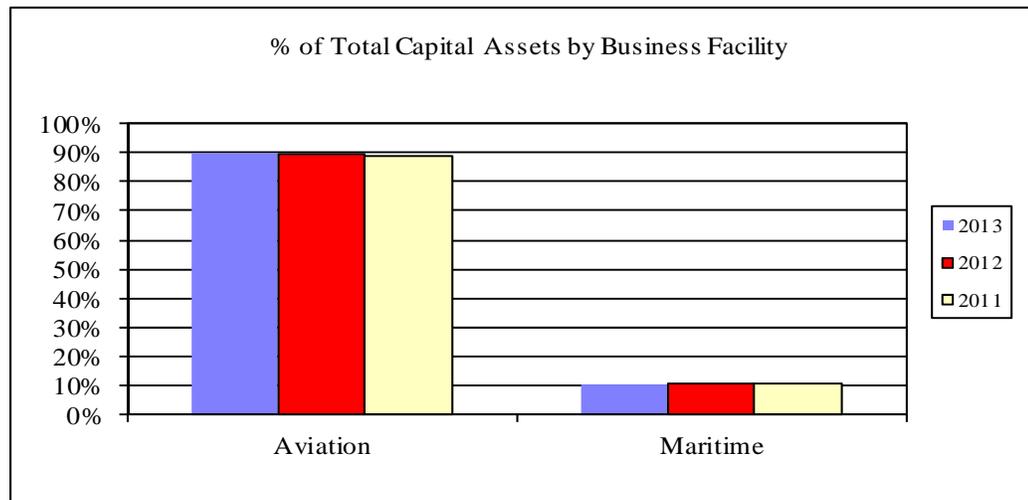
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2011, construction commenced on two major projects: the ConRAC and the runway safety ends for 33L. The major projects associated with the Maritime Facilities involved the renovation of its cruise terminal, acquisitions of new dock and yard cranes for the Conley Terminal as well as rehabilitation to existing cranes. The Authority also invested in the newly acquired Worcester Airport located in the central region of Massachusetts.

The Authority's capital assets are principally funded by the proceeds of revenue bonds, Authority generated revenues, PFCs, CFCs, and from federal and state grant revenues.

Following is a breakdown of capital assets at June 30:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Percentage Change 2013-2012</u>	<u>Percentage Change 2012-2011</u>
Land	\$ 174,754	\$ 173,036	\$ 173,023	0.99%	0.01%
Construction in progress	341,977	257,828	130,798	32.64%	97.12%
Buildings	1,240,570	1,271,832	1,291,616	-2.46%	-1.53%
Runway and other paving	426,889	375,997	392,542	13.54%	-4.21%
Roadway	362,085	362,968	381,431	-0.24%	-4.84%
Machinery and equipment	113,078	94,745	86,670	19.35%	9.32%
Air rights	82,555	87,578	92,845	-5.74%	-5.67%
Parking rights	27,757	29,299	30,841	-5.26%	-5.00%
Capital assets, net	<u>\$ 2,769,665</u>	<u>\$ 2,653,283</u>	<u>\$ 2,579,766</u>	<u>4.39%</u>	<u>2.85%</u>



## ***Debt Administration***

The Authority's bond sales must be approved by its Members and must comply with the rules and regulations of the United States Treasury Department. The Authority, through its 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a debt service coverage ratio higher than its Trust Agreement requirement to maintain its investment grade bond ratings. As of June 30, 2013, 2012, and 2011, the Authority's debt service coverage under the 1978 Trust Agreement was 2.47, 2.21, and 2.07, respectively. The 1999 PFC Trust Agreement requires a First Lien Sufficiency covenant ratio in excess of 1.05. As of June 30, 2013, 2012, and 2011, the Authority's PFC First Lien Sufficiency covenant under the PFC Trust Agreement was 4.37, 3.73, and 4.09, respectively.

The CFC Trust Agreement requires that the Authority maintain debt service coverage of at least 1.3. As of June 30, 2013, and 2012, the CFC debt service coverage was 2.87, and 2.78. Due to the timing of the issuance of the CFC Bonds, no debt service was due in fiscal year 2011, therefore debt service coverage was not required to be calculated in fiscal year 2011.

The Authority has net bonds payable outstanding as of June 30, 2013 in the amount of approximately \$1.58 billion, a net increase of approximately \$19.8 million compared to fiscal year 2012. During fiscal year 2013, the Authority issued \$275.6 million of the Massachusetts Port Authority Revenue Bonds in two series. The Series 2012 A Revenue Bonds, in the principal amount of \$116.8 million were issued to finance capital improvements to Terminals B and C, hangar upgrades, and replace substations from Terminals B and E. Due to the "private activity" nature of the construction projects, they were sold as AMT bonds. The Series 2012 B Bonds were refunding bonds issued in the amount of \$158.8 million and were used to refund a portion of the 2003 A and 2003 C Bonds. Additionally, during fiscal year 2013, the Authority made principal payments of \$75.7 million.

The Authority had net bonds payable outstanding as of June 30, 2012 in the amount of approximately \$1.56 billion, a net decrease of approximately \$69.8 million compared to fiscal year 2011. The decrease was the result of principal paid during fiscal year 2012.

The Authority's net bonds payable outstanding as of June 30, 2011 was approximately \$1.63 billion, a net increase of approximately \$214.1 million from fiscal year 2010. The increase was primarily the result of the issuance of two bond sales during the year that included the Special Facilities Revenue Bonds ("ConRAC" Project) Series A and B totaling \$214.1 million and the Series 2010 A bonds totaling \$97.9 million, offset by principal payments of \$71.2 million, and net refunding of approximately \$11.5 million.

The Official Statements relating to the Authority's Bond issuances are available from the Authority or by accessing the Authority's website.

## **Net Position**

The Authority's net position, which represents the residual interest in the Authority's assets after liabilities are deducted, is \$1.83 billion as of June 30, 2013, an increase of \$43.8 million, or 2.5% from fiscal year 2012. Of this amount, \$1.13 billion is invested in capital assets net of debt, an increase of \$72.5 million compared to fiscal year 2012 amount of \$1.06 billion. The Authority's restricted net position of \$515.5 million as of June 30, 2013 is subject to the pledge of the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement or custodial agreements in the Authority's name. The Authority's restricted net position decreased \$67.8 million as of June 30, 2013. The decrease is primarily attributable to use of CFC cash balances for the construction of the Authority's new Rental Car Facility to be opened in the fall of 2013. The Authority's unrestricted net position for fiscal year ending June 30,

2013 was \$181.5 million, an increase of \$39.1 million, or 27.5% when compared to the \$142.4 million of unrestricted net position reported in fiscal year ending June 30, 2012. This increase is attributable to net operating revenues exceeding expenses for the year, lower debt service costs and the use of bond proceeds to fund certain capital projects resulting in an increase in a higher cash balance retained in the Authority's unrestricted fund account.

Net position at June 30, 2012 was \$1.78 billion, an increase of \$89.3 million as compared to the \$1.70 billion reported in fiscal year 2011. Net position invested in capital assets, net of related debt was \$1.06 billion for the fiscal year ending June 30, 2012, an increase of \$3.9 million compared to fiscal year 2011 amount of \$1.055 billion. The Authority's restricted net position totaled \$583.2 million as of June 30, 2012 and was subject to the pledge of the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement or custodial agreements in the Authority's name. Restricted net position as of June 30, 2012 increased by \$97.2 million, or 20.0% compared to the \$486.0 million reported in fiscal year 2011. The increase is primarily attributable to the increase in the capital projects funds used by the Authority to finance capital projects approved by the Board during the year. The Authority's unrestricted net position of \$142.4 million in fiscal year 2012 decreased by \$11.8 million or 7.7% as cash was transferred to the capital project funds approved by the Board to fund the Capital Programs during the fiscal year 2012.

### The Authority's Condensed Cash Flows

The following summary shows the major sources and uses of cash during the following fiscal years:

	(in millions)		2013 vs. 2012	
	2013	2012	\$ Change	% Change
Net cash provided by operating activities	\$ 189.4	\$ 210.7	\$ (21.3)	-10.1%
Net cash used in capital and related financing activities	(238.0)	(235.5)	(2.5)	1.1%
Net cash (used in)/provided by investing activities	101.4	(15.6)	117.0	-750.0%
Net (decrease)/increase in cash and cash equivalents	52.8	(40.4)	93.2	-230.7%
Cash and cash equivalents, beginning of year	190.5	230.9	(40.4)	-17.5%
Cash and cash equivalents, end of year	\$ 243.3	\$ 190.5	\$ 52.8	27.7%

	(in millions)		2012 vs. 2011	
	2012	2011	\$ Change	% Change
Net cash provided by operating activities	\$ 210.7	\$ 176.3	\$ 34.4	19.5%
Net cash (used in)/provided by capital and related financing activities	(235.5)	38.4	(273.9)	-713.3%
Net cash used in investing activities	(15.6)	(136.6)	121.0	-88.6%
Net (decrease)/increase in cash and cash equivalents	(40.4)	78.1	(118.5)	-151.7%
Cash and cash equivalents, beginning of year	230.9	152.8	78.1	51.1%
Cash and cash equivalents, end of year	\$ 190.5	\$ 230.9	\$ (40.4)	-17.5%

The Authority's cash and cash equivalents at the end of June 30, 2013 is \$243.3 million. This is an increase of \$52.8 million, or 27.7% from the \$190.5 million in cash and cash equivalents reported in fiscal year 2012. The Authority generated \$189.4 million in cash from operations during fiscal year 2013. This was \$21.3 million or 10.1% lower than the previous fiscal year's cash provided by operating

(Continued)

activities totaling \$210.7 million. This decrease in cash from operating activities was the result of an increase in payments to vendors, the Authority contributing an additional \$7.0 million to the OPEB Trust in fiscal year 2013, and payments made to employees. The Authority used \$238.0 million in cash for capital and related financing activities to finance the Authority's capital program and to pay debt service expenses during the year. This is a \$2.5 million increase in the use of cash over the \$235.5 million in cash generated for capital and related financing activities in fiscal year 2012. The Authority provided \$101.4 million in cash from investing purposes to be used for future capital and operating needs, a decrease of \$117.0 million over the amount of cash provided for investing activities in fiscal year 2012.

The Authority's cash and cash equivalents at the end of June 30, 2012 is \$190.5 million. This is a decrease of \$40.4 million, or 17.5% from the \$230.9 million in cash and cash equivalents reported in fiscal year 2011. The Authority generated \$210.7 million in cash from operations during fiscal year 2012. This was \$34.4 million, or 19.5% higher than the previous fiscal year's cash provided by operating activities totaling \$176.3 million. This increase in cash from operating activities was generated from the record 29.3 million passengers serviced at Logan Airport, as well as a 12.5% increase in the daily commercial parking rate that took effect in March 2012 at Logan Airport. Also, operating and general administrative costs collectively increased 0.4% during the year as compared to fiscal year 2011. The Authority used \$235.5 million in cash for capital and related financing activities to finance the Authority's capital program and to pay debt service expenses during the year. This is a \$273.9 million increase in the use of cash over the \$38.4 million in cash generated for capital and related financing activities in fiscal year 2011. The Authority used \$15.6 million in cash for investing purposes to be used for future capital and operating needs, a decrease of \$121.0 million over the amount of cash used for investing activities in fiscal year 2011.

### **Contacting the Authority's Financial Management**

For additional information concerning the Authority, please see the Authority's website, [www.massport.com](http://www.massport.com). Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Investor Relations". The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 568-5000. Questions may be directed to John P. Prankevicius, CPA, Director of Administration and Finance and Secretary-Treasurer for the Massachusetts Port Authority.

**MASSACHUSETTS PORT AUTHORITY**

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
		(restated)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 45,651	\$ 43,013
Investments	27,976	42,130
Restricted cash and cash equivalents	197,649	147,537
Restricted investments	160,783	296,451
Accounts receivable		
Trade, net	54,320	50,903
Grants receivable	7,114	7,929
Total receivables (net)	<u>61,434</u>	<u>58,832</u>
Prepaid expenses and other assets	<u>10,078</u>	<u>15,207</u>
Total current assets	503,571	603,170
Noncurrent assets:		
Investments	91,827	53,493
Restricted investments	342,856	327,213
Prepaid expenses and other assets	9,464	12,959
Investment in joint venture	2,137	2,075
Net OPEB asset	53,188	43,533
Capital assets, net	<u>2,769,665</u>	<u>2,653,283</u>
Total noncurrent assets	3,269,137	3,092,556
Total assets	<u>3,772,708</u>	<u>3,695,726</u>
Deferred outflows of resources		
Deferred loss on refunding of bonds	<u>21,847</u>	<u>22,064</u>
Total deferred outflows of resources	<u>21,847</u>	<u>22,064</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	102,743	105,197
Compensated absences	1,550	1,610
Contract retainage	8,092	8,073
Current portion of long term debt	81,770	92,372
Commercial notes payable	100,000	100,000
Accrued interest on bonds payable	36,587	36,140
Deferred income	<u>6,054</u>	<u>6,741</u>
Total current liabilities	336,796	350,133
Noncurrent liabilities:		
Accrued expenses	18,143	27,287
Compensated absences	19,873	20,591
Contract retainage	5,485	2,275
Long-term debt, net	1,574,869	1,520,504
Deferred income	<u>10,828</u>	<u>12,268</u>
Total noncurrent liabilities	<u>1,629,198</u>	<u>1,582,925</u>
Total liabilities	<u>1,965,994</u>	<u>1,933,058</u>
<b>Net position</b>		
Net investment in capital assets	1,131,577	1,059,110
Restricted		
Bond funds	159,634	186,227
Project funds	208,948	218,907
Passenger facility charges	72,501	55,095
Customer facility charges	23,849	70,711
Other purposes	<u>50,526</u>	<u>52,332</u>
Total restricted	515,458	583,272
Unrestricted	<u>181,526</u>	<u>142,350</u>
Total net position	<u>\$ 1,828,561</u>	<u>\$ 1,784,732</u>

The accompanying notes are an integral part of these financial statements.

**MASSACHUSETTS PORT AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Operating revenues:		(restated)
Fees and other services	\$ 289,384	\$ 283,364
Rentals	184,744	180,568
Concessions	72,542	68,239
Other	22,515	23,926
Operating grants	<u>2,638</u>	<u>2,357</u>
Total operating revenues	<u>571,823</u>	<u>558,454</u>
Operating expenses:		
Operations and maintenance	272,611	265,607
General and administrative	48,950	43,987
Insurance	8,020	8,059
Pension	9,614	5,710
Other post-employment benefits	13,450	17,850
Payments in lieu of taxes	18,090	17,642
(Recovery) / provision for uncollectible accounts	(353)	1,085
Depreciation and amortization	<u>199,046</u>	<u>181,166</u>
Total operating expenses	<u>569,428</u>	<u>541,106</u>
Operating income	<u>2,395</u>	<u>17,348</u>
Nonoperating revenues and (expenses):		
Passenger facility charges	60,105	59,212
Customer facility charges	29,354	28,749
Investment income	8,336	10,176
Net (decrease) / increase in the fair value of investments	(2,821)	255
Other revenues	187	618
Settlement of claims	567	640
Terminal A debt service contribution	(12,114)	(9,105)
Other expenses	(1,279)	(398)
(Loss) / gain on sale of equipment	(64)	354
Interest expense	<u>(61,071)</u>	<u>(59,307)</u>
Total nonoperating revenues, net	<u>21,200</u>	<u>31,194</u>
Increase in net position before capital grant revenue	23,595	48,542
Capital grant revenue	<u>20,234</u>	<u>40,750</u>
Increase in net position	43,829	89,292
Net position, beginning of year	<u>1,784,732</u>	<u>1,695,440</u>
Net position, end of year	<u>\$ 1,828,561</u>	<u>\$ 1,784,732</u>

The accompanying notes are an integral part of these financial statements.

**MASSACHUSETTS PORT AUTHORITY**

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers and operating grants	\$ 571,716	\$ 561,879
Payments to vendors	(218,147)	(198,951)
Payments to employees	(125,256)	(120,828)
Payments in lieu of taxes	(18,090)	(17,642)
Other post-employment benefits	(20,851)	(13,807)
Net cash provided by operating activities	<u>189,372</u>	<u>210,651</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(308,693)	(225,738)
Proceeds from the issuance of bonds, net	313,408	—
Principal payments on refunded debt	(180,100)	—
Interest paid on bonds and notes	(84,102)	(69,835)
Principal payments on long-term debt	(75,745)	(70,770)
Proceeds from commercial paper financing	15,000	100,000
Principal payments on commercial paper	(15,000)	(89,000)
Terminal A debt service contribution	(12,114)	(9,105)
Proceeds from passenger facility charges	60,270	59,687
Proceeds from customer facility charges	27,650	28,352
Proceeds from capital grants	20,768	39,907
Settlement of claims	567	640
Proceeds from sale of equipment	93	383
Net cash used in capital and related financing activities	<u>(237,998)</u>	<u>(235,479)</u>
Cash flows from investing activities:		
Purchases of investments, net	(693,176)	(824,217)
Sales of investments, net	785,081	797,775
Interest received on investments	9,471	10,857
Net cash provided by (used in) investing activities	<u>101,376</u>	<u>(15,585)</u>
Net increase (decrease) in cash and cash equivalents	52,750	(40,413)
Cash and cash equivalents, beginning of year	190,550	230,963
Cash and cash equivalents, end of year	\$ <u>243,300</u>	\$ <u>190,550</u>
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	\$ 2,395	\$ 17,348
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	199,046	181,166
(Recovery) / provision for uncollectible accounts	(353)	1,085
Changes in operating assets and liabilities:		
Trade receivables	(2,539)	(5,027)
Prepaid expenses and other assets	1,019	2,642
Net OPEB asset	(10,546)	1,708
Accounts payable and accrued expenses	3,255	7,614
Compensated absences	(778)	578
Deferred revenue	(2,127)	3,537
Net cash provided by operating activities	\$ <u>189,372</u>	\$ <u>210,651</u>
Noncash investing activities:		
Net increase (decrease) in the fair value of investments	\$ <u>(828)</u>	\$ <u>1,993</u>

The accompanying notes are an integral part of these financial statements.

# MASSACHUSETTS PORT AUTHORITY

Notes to Financial Statements

June 30, 2013 and 2012

## 1. Summary of Significant Accounting Policies and Practices

### Reporting Entity

The Massachusetts Port Authority (the “Authority”) is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the “Commonwealth”) created and existing pursuant to Chapter 465 of the Acts of 1956, as amended, (the “Enabling Act”). The Authority controls, operates and manages Boston-Logan International Airport (“Logan Airport”), Laurence G. Hanscom Field, Worcester Regional Airport, the Port of Boston and other facilities in the Port of Boston.

The Authority has no stockholders or equity holders, and the Authority’s financial statements are not a component unit of the Commonwealth’s financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended and supplemented (the “1978 Trust Agreement”), between the Authority and U.S. Bank National Association (as successor in interest to State Street Bank and Trust Company), as trustee (the “Trustee”), the Passenger Facility Charges (“PFC”) Revenue Bond Trust Agreement dated May 6, 1999, as amended and supplemented (the “PFC Trust Agreement”), between the Authority and The Bank of New York Mellon, as trustee (the “PFC Trustee”) and the Customer Facility Charges (“CFC”) Revenue Bond Trust Agreement dated May 18, 2011, as amended and supplemented (the “CFC Trust Agreement”), between the Authority and U.S. Bank National Association as trustee (the “CFC Trustee”), govern all funds, with limited exceptions, received by the Authority pursuant to the Enabling Act.

In April 1981, the Authority adopted a retiree benefit plan whereby the Authority assumed the full cost of group health insurance including basic life insurance, dental insurance and catastrophic illness coverage to those retirees and surviving spouses (and qualifying dependents) who have retired under the Authority’s retirement system (collectively referred to as the “OPEB Plan”).

In June 2008, the Authority created the Retiree Benefits Trust (the “RBT” or the “Trust”) to fund its OPEB Plan obligations. It was established as an irrevocable governmental trust under Section 115 of the Internal Revenue Code. The Trust is legally separate from the Authority and is reported as a Fiduciary Trust Fund of the Authority under accounting principles promulgated by the Governmental Accounting Standards Board (“GASB”). In no event shall any part of the principal or income of the RBT be paid or revert back to the Authority or be used for any purpose whatsoever other than for the exclusive benefit of retirees and their beneficiaries.

### Basis of Accounting

The Authority’s activities are accounted in a manner similar to that often utilized in the private sector. The Authority’s financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus in accordance with U.S. generally accepted accounting principles (“GAAP”).

Revenues from airlines, rentals, parking fees, and concessions are reported as operating revenues. Capital grants, financing or investing related transactions are reported as non-operating revenues and expenses. All expenses related to operating the Authority’s facilities are reported as operating expenses.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

### **Accounting per Applicable Trust Agreements**

Under the 1978 Trust Agreement, cash of the Authority is deposited daily into the Revenue Fund established pursuant to the 1978 Trust Agreement and is transferred to the cash concentration account. All such revenues are then transferred to the various funds established pursuant to the 1978 Trust Agreement. After providing for operating expenses, including pension expense and transfers to the self insurance account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding revenue bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund, the Capital Budget Fund, if applicable, and finally, the Improvement and Extension Fund.

PFC revenue is deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Revenue Bond Trust Agreement and is utilized to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement. Any remaining funds are transferred to the PFC Capital Fund.

CFC revenue is deposited in the CFC Revenue Fund established pursuant to the CFC Trust Agreement and is utilized to pay debt service on CFC Special Facilities Bonds as required in the CFC Trust Agreement. Any remaining funds are transferred to the CFC Stabilization Fund.

See Note 2 for a reconciliation between the increase in net position as calculated per GAAP and net revenues as calculated per accounting practices prescribed by the 1978 Trust Agreement.

### **Net Position**

The Authority follows the “business type” activity requirements of GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, which requires that resources be classified for accounting and reporting purposes into the following three net position components:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt and the deferred outflows / inflows attributable to the acquisition, construction or improvement of those assets.
- Restricted: Net position of assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets include the construction funds held pursuant to the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement and the self insurance fund.
- Unrestricted: Net position of assets that are not subject to externally imposed stipulations. Net amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources not included in the determination of net invested in capital assets or restricted components of net position. Unrestricted net position may be designated for specific purposes by action of management or the Members of the Authority (the “Board”) or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for a particular restricted use, it is the Authority’s policy to use restricted resources first, and then unrestricted resources as needed.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

### **Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any deferred inflows of resources for the years ended June 30, 2013 and 2012.

### Net position flow assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which resources are considered to be applied.

#### **(a) Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Authority considers all highly liquid investments, including restricted assets, with a maturity date of thirty days or less to be cash equivalents.

#### **(b) Investments**

Investments with a maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with a maturity date of less than one year are carried at amortized cost, which approximates fair value. Fair value equals quoted market prices. The Authority recorded unrealized holding loss of \$2.8 million at June 30, 2013 and unrealized holding gains of approximately \$0.3 million at June 30, 2012.

#### **(c) Restricted Cash and Investments**

Certain cash, cash equivalents and investments are restricted for use by the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement, and other external requirements. These amounts have been designated primarily for expenditures related to future construction or asset acquisitions, debt service and debt service reserves.

**MASSACHUSETTS PORT AUTHORITY**

Notes to Financial Statements

June 30, 2013 and 2012

*(d) Capital Assets*

Capital assets are recorded at historical cost. Such costs include, where appropriate, capitalized interest and related legal costs. The costs of normal upkeep, maintenance, and repairs are not capitalized.

The capitalization threshold is noted below:

<u>Asset Category</u>	<u>Dollar Threshold</u>
Buildings	\$ 10,000
Machinery & Equipment	5,000
Equipment Repair/Overhaul (Major)	25,000
Runway, Roadways & Other Paving	50,000
Land	NA
Land Improvements	50,000

The Authority capitalizes certain interest costs associated with taxable and tax exempt borrowing, less any interest earned on the proceeds of those borrowings, during the period of construction. Interest expense of \$12.0 million and \$12.7 million, reduced by interest income of \$0.02 million and \$0.7 million, resulted in capitalized interest of \$12.0 million for each of the years ended June 30, 2013 and 2012, respectively.

*(e) Depreciation*

The Authority provides for depreciation using the straight-line method. During fiscal year 2013, the Authority changed the estimated useful life of runway repaving which added approximately \$14.3 million to the fiscal 2013 expense. Depreciation is intended to distribute the cost of depreciable properties over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Buildings	25
Runways (original construction)	25
Other airfield paving	12
Roadway	25
Machinery and equipment	5 to 10
Land use rights	30

*(f) Other Assets and Prepaid Items*

Other assets consist of certain payments to vendors reflecting costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

### *(g) Amortization*

Revenue bond discounts and premiums are deferred and amortized on a straight line basis over the term of the bonds, as this approximates the effective interest method. Unamortized amounts are presented as a (reduction) / addition of the face amount of bonds payable.

The difference between the reacquisition price and net carrying amount of defeased bonds is amortized on the straight-line method over the shorter of the maturity of the new debt or the defeased debt and is recorded as deferred outflows of resources on the statement of net position.

### *(h) Revenue Recognition*

Fees, and other services consist of parking fees, landing fees, and container handling fees. Revenues from parking fees and container handling fees are recognized at the time the service is provided. Landing fees are recognized as part of operating revenue when airline related facilities are utilized and are principally based on the landed weight of the aircraft. The scheduled airline fee structure is determined and approved annually by the Board and is based on full cost recovery pursuant to an arrangement between the Authority and the respective airlines.

Rental and concession fees are generated from airlines, rental cars, and other commercial tenants. Rental revenue on leases is recognized over the term of the associated lease. Concession revenue is recognized partially based on self reported concession revenue by the tenants and partially based on minimum rentals. Deferred revenue consists primarily of amounts received in advance for future rents or other services. These amounts are recognized as revenue as they are earned over the applicable period.

Rates and charges are set annually based on the budgeted operating costs and actual capital costs. A true-up calculation is performed for landing fees, terminal rents, and baggage fees at year-end based on the actual results. In the event the actual costs are more than the budgeted amounts for the year, the Authority will recover additional rates and charges. In the event the actual costs are less than the budgeted amounts, the Authority will issue credits to the respective airlines.

The Authority presents its accounts receivable at the expected net realizable value. Accordingly, the Authority recorded an allowance for doubtful accounts against its accounts receivable of \$1.5 million and \$2.2 million at June 30, 2013 and 2012, respectively.

Revenue related to grants is recognized when the grant agreement is approved and eligible expenditures are incurred.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

*(i) Passenger Facility Charges*

In 1993, the Authority received initial approval from the Federal Aviation Administration (“FAA”) to impose a \$3.00 PFC at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. Effective October 1, 2005, the Authority received approval from the FAA to increase the PFC collection to \$4.50. All PFC’s collected by the Authority are presently pledged under the PFC Trust Agreement with the Bank of New York Mellon.

Through June 30, 2013, the Authority had cumulative cash collections of \$850.0 million in PFCs, including interest thereon.

The Authority submitted a request that was approved by the FAA in April 2011 that increased the collection authorization to \$1.35 billion.

As part of the Final Agency Decision issued by the FAA in 2011, the Authority was authorized, but not required, to use up to \$14.4 million per year in PFCs to pay approximately one-third of the debt service on the Terminal A Special Facility bonds. The Authority chose to make this use of PFC revenue in order to offset the increase in Terminal A rates and charges that would have resulted from the scheduled increase in Terminal A debt service associated with the beginning of principal payments on January 1, 2012 for the Terminal A bonds. This use of PFCs will maintain the rate consistency across all terminals and facilitate the Authority’s ability to assign carriers to Terminal A.

Additionally, in March 2012, the FAA issued a Final Agency Decision approving the use of \$18.3 million PFCs for the Runway 33L Safety Ends. This increased the Authority’s total use approval to \$1.35 billion.

As of June 30, 2013 and 2012, \$127.4 million and \$143.5 million of PFC bonds were outstanding, respectively.

Revenues derived from the collection of PFCs are recognized on the accrual basis, based on the month the charges were levied and collected by the airlines. Due to their restricted use, PFCs are categorized as nonoperating revenues. The Authority recognized \$60.1 million and \$59.2 million in PFC revenue for the fiscal years ended June 30, 2013 and 2012, respectively.

**MASSACHUSETTS PORT AUTHORITY**

Notes to Financial Statements

June 30, 2013 and 2012

**(j) Customer Facility Charges**

Effective December 1, 2008, the Board established a CFC of \$4.00 per day for rental cars which originated out of Logan Airport. Effective December 1, 2009, this charge was increased to \$6.00 per day. The proceeds of the CFC are being used to evaluate, design and construct a Consolidated Rental Car Facility (the “ConRAC”). Revenues derived from the collection of CFCs are recognized on the accrual basis, based on the month the charges were levied and collected by the rental car companies. Due to their restricted use, CFCs are categorized as non-operating revenues. Pursuant to the CFC Trust Agreement dated May 18, 2011 between the Authority and U.S. Bank National Association, as trustee, the Authority issued two series of Special Facilities Revenue Bonds (the “Series 2011 Bonds”). The Series 2011 Bonds were issued for the purpose of providing funds sufficient, together with other available funds of the Authority, to finance the development and construction of the ConRAC and related improvements at Logan Airport, fund certain deposits to the Debt Service Reserve Fund and the Supplemental Reserve Fund, and pay certain costs of issuance of the Series 2011 Bonds. The Series 2011 Bonds and any additional bonds that may be issued under the CFC Trust Agreement on parity with the Series 2011 Bonds are secured by CFC Pledged Revenues and by Contingent Rent from the rental car companies if any, and other funds. The Series 2011 Bonds are not secured by any other revenues of the Authority. The Authority recognized \$29.4 million and \$28.7 million in CFC revenue for the fiscal years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, \$211.5 million and \$214.1 million of CFC bonds were outstanding, respectively.

**(k) Compensated Absences**

The Authority accrues for vacation and sick pay liabilities when they are earned by the employee. The liability for vested vacation and sick pay is reflected in the accompanying statements of net position as compensated absences. The table below presents the Authority’s compensated absences activity at June 30, 2013 and 2012 and for the year then ended (in thousands):

	<u>2013</u>	<u>2012</u>
Liability balance, beginning of year	\$ 22,201	\$ 21,623
Vacation and sick pay earned during the year	12,066	12,324
Vacation and sick pay used during the year	<u>(12,844)</u>	<u>(11,746)</u>
Liability balance, end of year	<u>\$ 21,423</u>	<u>\$ 22,201</u>

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

**(l) Use of Estimates**

The preparation of financial statements in conformity with GAAP 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.

**(m) Financial Statement Reclassification and Revision**

Certain amounts in the fiscal year 2012 financial statements have been reclassified to conform to fiscal year 2013 presentation.

**(n) New Accounting Pronouncements**

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (“GASB No. 60”). The Statement is effective for financial statements with periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (“SCAs”), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. It alleviates the confusion that arises when determining what guidance should be applied in complex circumstances that are not specifically addressed by existing standards. This Statement contributes to the assessment of interperiod equity by reporting up-front payments or the present value of installment payments primarily as deferred inflows of resources, reflecting the acquisition of resources that are applicable to a future reporting period. The provisions of this Statement result in a faithful representation of a governmental operator’s rights under SCAs by reporting rights to access SCA facilities as intangible assets. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

The Authority does not have any SCAs; therefore the adoption of GASB 60 did not have any impact on the Authority’s financial statements.

## MASSACHUSETTS PORT AUTHORITY

### Notes to Financial Statements

June 30, 2013 and 2012

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (“GASB No. 61”). The Statement is effective for financial statements with periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.

The requirements of this Statement result in the financial reporting entity’s financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

The adoption of this Statement had no impact on the financial statements of the Authority.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB No. 63”). The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of financial position in a separate section following assets. Similarly, amounts required to be as deferred inflows of resources should be reported in a separate sections following liabilities. The statement of net position should report the residual amount as a net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

The adoption of GASB 63 resulted in a change in the presentation of the balance sheets to what is now referred to as the statement of net position and the term “net assets” is changed to “net position” throughout the financial statements.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB No. 65”). The Statement is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**MASSACHUSETTS PORT AUTHORITY**

Notes to Financial Statements

June 30, 2013 and 2012

The Authority adopted GASB Statement No. 65 effective July 1, 2011. In connection with the adoption of this new standard all accounts were analyzed by management in order to assess the impact on the financial statements. The implementation of this new standard resulted in the modification of the method previously used to account for the cost of issuance associated with the Authority's numerous bond issuances, commitment and financing fees received by the Authority in connection with the bonds, and the expenses and costs incurred on the bond refunding. In accordance with the requirements of this new standard, the Authority's statement of net position and the Authority's statement of revenues, expenses and changes in net position were restated to reflect the required adjustments. As a result, the following restatements have been made to the Authority's financial statements.

<u><b>As of July 1, 2011:</b></u>	<u><b>Reported</b></u>	<u><b>Adjustment</b></u>	<u><b>Restated</b></u>
<b>Net Position</b>	\$ 1,699,146	\$ (3,706)	\$ 1,695,440
 <u><b>For the year ended June 30, 2012:</b></u>			
<b>Interest expense</b>	58,952	355	59,307
<b>Increase (decrease) in Net Position</b>	89,647	(355)	89,292
 <u><b>As of June 30, 2012:</b></u>			
<b>Prepaid expenses and other assets, short-term</b>	15,461	(254)	15,207
<b>Prepaid expenses and other assets, long-term</b>	16,766	(3,807)	12,959
<b>Net Position</b>	\$ 1,788,793	\$ (4,061)	\$ 1,784,732

Additionally, the deferred losses on refunded bonds in the amount of \$21.8 million and \$22.1 million at June 30, 2013 and 2012, respectively, were reclassified from long term debt to deferred outflows of resources on the statement of net position.

In April 2012, GASB issued Statement No. 66, *Technical Corrections-2012 - an amendment of GASB Statements No. 10 and No. 62* ("GASB No. 66"). The Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The requirements of this Statement resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The provisions of this Statement are effective for the financial statement periods beginning after December 15, 2012.

The Authority's implementation of GASB No. 66 did not have a material impact on its financial statements.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

In June 2012, GASB issued Statement No 67, *Financial Reporting for Pension Plans* (“GASB No. 67”). The objective of this Statement is to improve the usefulness of pension information included in the general purpose financial statements of state and local governmental pension plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial periods beginning after June 15, 2013.

The Authority is currently evaluating the impact the adoption of this Statement will have on its financial statements as a result of the implementation of GASB No. 67.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB No. 68”). The objective of this Statement is to improve the information provided in government financial reports about pension related financial support provided benefits to the employees of other entities. The provisions of this Statement are effective for financial periods beginning after June 15, 2014.

The Authority is currently evaluating the impact the adoption of this Statement will have on its financial statements as a result of the implementation of GASB No. 68.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB No. 69”). This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based on their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

## MASSACHUSETTS PORT AUTHORITY

### Notes to Financial Statements

June 30, 2013 and 2012

The Authority is currently evaluating the impact of the implementation of GASB No. 69 on its financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB No. 70”). Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements.

Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee may be applied prospectively.

The Authority is currently evaluating the impact of the implementation of GASB No. 70 on its financial statements.

## MASSACHUSETTS PORT AUTHORITY

### Notes to Financial Statements

June 30, 2013 and 2012

#### 2. Reconciliation between increase in net position as calculated under GAAP and net revenue as calculated under accounting practices prescribed by the 1978 Trust Agreement.

Presented below are the calculations of the net revenues of the Authority under the 1978 Trust Agreement. Net revenue calculated based on the 1978 Trust Agreement is used in determining the Authority's compliance with the debt service coverage ratio.

	<b>2013</b>	<b>2012</b>
<b>Increase in Net Position per GAAP</b>	\$ 43,829	\$ 89,292
Additions (1):		
Depreciation and amortization	199,046	181,166
Interest expense	61,071	59,307
Payments in lieu of taxes	18,090	17,642
Other operating expenses	3,129	4,324
Terminal A bonds - debt service contribution by PFC fund	12,114	9,105
OPEB expenses, net	450	5,859
Less (2):		
Passenger facility charges	(60,105)	(59,212)
Customer facility charges	(29,354)	(28,749)
Self insurance expenses	(678)	(266)
Capital grant revenue	(20,234)	(40,750)
Net decrease / (increase) in the fair value of investments	2,821	(255)
Loss / (gain) on sale of equipment	64	(354)
Other (revenues) / expenses	(2,877)	1,331
Other non-operating revenues	(187)	(220)
Settlement of claims	(567)	(640)
Investment income	(4,168)	(3,481)
 <b>Net Revenue per the 1978 Trust Agreement</b>	 <b>\$ 222,444</b>	 <b>\$ 234,099</b>

1. Expenses recognized under GAAP which are excluded under the 1978 Trust Agreement.
2. Revenues recognized under GAAP which are excluded under the 1978 Trust Agreement.

Total net revenues, as defined by the 1978 Trust Agreement, pledged for the repayment of bonds issued under the 1978 Trust Agreement were \$222.4 million and \$234.1 million for the years ended June 30, 2013 and 2012, respectively.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

### 3. 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's investments are made in accordance with the provisions of the 1978 Trust Agreement, the PFC Trust Agreement and the CFC Trust Agreement along with the investment policy adopted by the Board (the "Investment Policy"). The goals of the Investment Policy are, in order of importance, to preserve capital, to provide liquidity and to generate interest income.

As of June 30, 2013 and 2012, all investments were held on behalf of the Authority by the Trustee, the PFC Trustee, the CFC Trustee or custodians in the Authority's name. The 1978 Trust Agreement, the PFC Trust Agreement and the CFC Trust Agreement require that securities collateralizing repurchase agreements must continuously have a fair value at least equal to the cost of the agreement plus accrued interest.

The Authority's investments in forward delivery agreements are in the form of a guaranteed investment contract ("GIC") which provides for, among other things, the sequential delivery of securities to be sold to the Trustee, PFC Trustee, or CFC Trustee, as applicable, periodically at a discount from maturity value such that the aggregate discount equals the interest rate previously agreed to between the Authority and the provider of the guaranteed investment contract.

The total accumulated unrealized (loss) / gain due to the changes in fair value of investments related to investments with maturities in excess of one year was approximately a loss of \$0.8 million as of June 30, 2013 and a gain of \$2.0 million as of June 30, 2012, respectively.

**MASSACHUSETTS PORT AUTHORITY**

Notes to Financial Statements

June 30, 2013 and 2012

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2013 and 2012 (in thousands):

<b>2013</b>	<b>Credit Rating (1)</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Effective Duration</b>
MMDT	Unrated	\$ 152,182	\$ 152,182	0.003
Federal Home Loan Bank	AA+/Aaa	67,025	67,200	1.683
Federal Deposit Insurance Corporation	Unrated (2)	15,003	15,003	0.003
Forward Delivery Agreements	AA+ / Aaa	19,500	19,500	3.121
Federal Home Loan Mortgage Corp.	AA+ / Aaa	91,052	91,097	1.163
Federal National Mortgage Association	AA+ / Aaa	143,283	142,460	1.362
Federal Farm Credit	AA+ / Aaa	22,752	22,838	1.815
Guaranteed Investment Contracts (ParkEx)	AA+ / Aa3 (4)	36,661	36,661	12.195
Cash Deposit	Unrated	18,965	18,965	0.003
Certificates of Deposit	AAA / Aaa (3)	10,050	10,050	0.250
Commercial Paper	A-1 / P-1 (5)	199,345	199,480	0.303
Morgan Stanley Government Fund	AAA / Aaa (5)	1,072	1,072	0.003
Municipal Bond	AA+ / Aa1	88,107	87,732	2.185
Treasury Note	AAA / Aaa	2,573	2,502	5.918
		<u>\$ 867,570</u>	<u>\$ 866,742</u>	

<b>2012</b>	<b>Credit Rating (1)</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Effective Duration</b>
MMDT	Unrated	\$ 174,013	\$ 174,013	0.003
Federal Home Loan Bank	AA+/Aaa	67,325	67,623	2.041
Federal Deposit Insurance Corporation	AA/Aaa	19,984	20,225	0.473
Forward Delivery Agreements	AA+/Aaa	60,008	60,008	1.458
Federal Home Loan Mortgage Corp.	AA+/Aaa	70,102	70,627	1.932
Federal National Mortgage Association	AA+/Aaa	110,099	110,509	2.097
Federal Farm Credit	AA+/Aaa	28,789	28,996	1.684
Guaranteed Investment Contracts (ParkEx)	AA+/Aa3 (3)	35,226	35,226	12.869
Cash Deposits	Unrated	15,464	15,464	0.003
Certificates of Deposits	AAA/Aaa (2)	9,060	9,060	0.178
Commercial Paper	A-1+/P-1 (4)	250,222	250,222	0.297
Morgan Stanley Government Fund	AAA/Aaa (4)	1,073	1,073	0.003
Municipal Bond	AA+/Aa1	66,478	66,791	3.185
		<u>\$ 907,843</u>	<u>\$ 909,837</u>	

1. The ratings shown are from S&P or Moody's as of the fiscal year shown.
2. Collateralized by Federal Agency Notes or Letter of Credit backed by each reserve.
3. Underlying rating of security held.
4. Credit quality of fund holdings.

**MASSACHUSETTS PORT AUTHORITY**

Notes to Financial Statements

June 30, 2013 and 2012

The table below presents the Authority’s cash and cash equivalents and investments based on maturity date (in thousands):

	<b>2013</b>		<b>2012</b>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Securities maturing in 1 year or more	\$ 435,650	\$ 434,683	\$ 378,966	\$ 380,706
Securities maturing in less than 1 year	188,620	188,759	338,327	338,581
Cash and cash equivalents	<u>243,300</u>	<u>243,300</u>	<u>190,550</u>	<u>190,550</u>
	<u>\$ 867,570</u>	<u>\$ 866,742</u>	<u>\$ 907,843</u>	<u>\$ 909,837</u>

**Credit Risk**

Credit risk is the risk that the Authority will be negatively impacted due to the default of the security issuer or investment counterparty.

The Authority’s 1978 Trust Agreement, PFC Trust Agreement and CFC Trust Agreement each stipulate that, in addition to U.S. Treasury and government agency obligations, only certain highly rated securities are eligible investments, including bonds or obligations of any state or political subdivision thereof, rated in the two highest rating categories without regard to gradations within rating categories, by both Moody’s (AAA, Aa1, Aa2 and Aa3) and S&P (AAA, AA+, AA, and AA-); commercial paper of a U.S. corporation, finance company or money market funds rated in the highest rating category, without regard to gradations within categories, by both Moody’s and S&P; and investment contracts with banks whose long-term unsecured debt rating is in one of the two highest rating categories by both Moody’s and S&P.

**(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 Authority maintains depository accounts with Bank of America, N.A., Wells Fargo, and the Bank of New York Mellon, the PFC Trustee. The Authority maintains a payroll disbursement, lockbox and collection accounts (for other than PFCs) with the Bank of America, N.A. None of these accounts are collateralized.

The Authority’s cash on deposits in the banks noted above at June 30, 2013 and 2012 were \$19.9 million and \$15.7 million, respectively. Of these amounts, \$1.0 million was insured, and no amount was collateralized at June 30, 2013 or 2012.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

### **(b) Custodial Credit Risk – Investments**

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority would not be able to recover the value of its investments or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Authority and are held by either the counterparty or, the counterparty's trust department or agent, but not in the Authority's name.

The Authority is authorized by the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement and the Investment Policy to invest in obligations of the U.S. Treasury, including obligations of its agencies and instrumentalities, bonds and notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and commercial paper of a U.S. corporation or finance company. All investments are held by a third party in the Authority's name. These investments are recorded at fair value.

Additionally, the Authority is authorized to invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money market like investment fund managed by the Commonwealth of Massachusetts, established under the General Laws, Chapter 29, Section 38A. MMDT investments are carried at amortized cost, which approximates fair value which is the same as the value of the pool.

The following guaranteed investment contracts were in force as of June 30, 2013 and 2012, respectively; they are uncollateralized and recorded at cost:

<b>Investment Agreement</b>				
<b>Provider</b>	<b>Rate</b>	<b>Maturity</b>	<b>2013</b>	<b>2012</b>
Trinity Plus Funding Company	4.360%	January 2, 2031	\$ 15,987	\$ 15,312
GE Funding Capital Markets	3.808%	December 31, 2030	20,673	19,914
	<b>Total</b>		<b>\$ 36,660</b>	<b>\$ 35,226</b>

### **(c) Concentration of Credit Risk – Investments**

Concentration of credit risk is assumed to arise when the amount of investments that the Authority has with any one issuer exceeds 5 percent of the total value of the Authority's investments. The Authority consults with its investment Advisor to select Commercial Paper Issuers with strong credit ratings. The portions of the Authority-wide portfolio, excluding investments issued by MMDT, the FDIC, or U.S. Government guaranteed obligations and the underlying securities held under forward delivery agreements at cost, that exceed 5% of the portfolio are as follows:

**MASSACHUSETTS PORT AUTHORITY**

Notes to Financial Statements

June 30, 2013 and 2012

<b>Commercial Paper Issuer</b>	<b>2013</b>	<b>2012</b>
Bank of Tokyo Mitsui	\$ 39,971	\$ 34,599
BNP Paribas Finance	24,921	-
Deutsche Bank	-	39,910
HSBC	27,492	24,977
ING FDG	-	37,901
Nordea Bank	-	29,978
Rabobank	19,046	39,927
Toyota Motor Corporation	43,962	42,930
UBS	43,953	-
Total	\$ 199,345	\$ 250,222
% of Portfolio	22.98%	27.56%

**(d) Credit Ratings**

As a result of the S&P's credit rating downgrade of several U.S. Treasury supported federal agencies in August 2011, certain investments owned and purchased by the Authority since that date were lowered and their ratings are reflected herein. Prior to the August 2011 downgrade it was management's practice to purchase debt securities that had an implied credit rating of AAA, or that were collateralized to AAA. Investments in bank certificates of deposits were fully collateralized. Also, the Authority invested in the Massachusetts Municipal Depository Trust (MMDT), managed by the State Treasury, which is not rated.

The 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement and the Board approved an Investment Policy that limits the Authority in the types of investments it can purchase to the two highest rating categories without regard to gradations within the rating categories by both S&P (AAA, AA+, AA, and AA-) and Moody's (Aaa, Aa1, Aa2, and Aa3).

**(e) Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Authority has set targets for the preferred maturity structure of the investments held in each fund and account, and also sets targets each quarter for the effective duration for each fund that reflect the need for liquidity and the expected tradeoffs between yield and term for each different fund and account. It is the Authority's practice to hold investments until maturity in order to insulate the Authority's investment earnings from interest rate risk. The Authority mitigates interest rate risk by managing the weighted average maturity of each portfolio type to best meet its liquidity needs.

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Notes to Financial Statements

June 30, 2013 and 2012

*(f) Cash, Cash Equivalents and Investments by Fund*

The following summarizes cash and investments, at cost and fair value, as of June 30, by the various funds and accounts established by the Authority for debt covenant requirements and other purposes (in thousands):

	<b>2013</b>		<b>2012</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<b>1978 Trust</b>				
Improvement and Extension Fund	\$ 117,670	\$ 117,717	\$ 83,039	\$ 83,302
Capital Budget Account	153,130	153,356	148,822	149,094
Debt Service Reserve Funds	102,659	101,547	111,554	112,287
Debt Service Funds	69,351	69,351	82,268	82,268
Maintenance Reserve Fund	88,280	88,259	100,013	100,179
Operating/Revenue Fund	47,733	47,736	55,334	55,334
Subordinated Debt Funds	39,056	39,056	37,623	37,623
Self-Insurance Account	27,352	27,396	30,282	30,510
2010 A Construction Fund	226	226	3,439	3,439
2012 A Project Fund	53,936	53,902	-	-
Other Funds	15,817	15,817	14,230	14,231
<b>1999 PFC Trust</b>				
Debt Service Reserve Funds	28,147	28,342	27,971	27,984
Debt Service Funds	19,558	19,558	20,312	20,312
Other PFC Funds	19,169	19,176	8,234	8,234
<b>2011 CFC Trust</b>				
2011-A & B CFC Project Funds	24,699	24,714	88,774	88,774
Debt Service Reserve Funds	24,037	23,904	24,097	24,264
Debt Service Funds	7,613	7,613	7,007	7,007
Other CFC Funds	29,137	29,072	64,844	64,995
Total	<u>\$ 867,570</u>	<u>\$ 866,742</u>	<u>\$ 907,843</u>	<u>\$ 909,837</u>

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

### 4. Capital Assets

Capital assets consisted of the following at June 30, 2013 and 2012 (in thousands):

	<u>June 30, 2012</u>	<u>Additions and Transfers In</u>	<u>Deletions and Transfers Out</u>	<u>June 30, 2013</u>
Capital assets not being depreciated				
Land	\$ 173,036	\$ 1,718	\$ —	\$ 174,754
Construction in progress	257,828	318,288	234,139	341,977
Total capital assets not being depreciated	<u>430,864</u>	<u>320,006</u>	<u>234,139</u>	<u>516,731</u>
Capital assets being depreciated				
Buildings	2,485,423	42,005	63	2,527,365
Runway and other paving	677,138	99,654	3,612	773,180
Roadway	615,045	24,287	—	639,332
Machinery and equipment	273,509	63,426	543	336,392
Air rights	176,802	3,049	—	179,851
Parking rights	46,261	—	—	46,261
Total capital assets being depreciated and amortized	<u>4,274,178</u>	<u>232,421</u>	<u>4,218</u>	<u>4,502,381</u>
Less accumulated depreciation:				
Buildings	1,213,591	73,267	63	1,286,795
Runway and other paving	301,141	46,477	1,327	346,291
Roadway	252,077	25,170	—	277,247
Machinery and equipment	178,764	44,935	385	223,314
Air rights	89,224	8,072	—	97,296
Parking rights	16,962	1,542	—	18,504
Total accumulated depreciation and amortization	<u>2,051,759</u>	<u>199,463</u>	<u>1,775</u>	<u>2,249,447</u>
Total capital assets being depreciated and amortized, net	<u>2,222,419</u>	<u>32,958</u>	<u>2,443</u>	<u>2,252,934</u>
Capital assets, net	<u>\$ 2,653,283</u>	<u>\$ 352,964</u>	<u>\$ 236,582</u>	<u>\$ 2,769,665</u>

Depreciation and amortization for fiscal year 2013 and 2012 was \$199.0 million and \$181.2 million, respectively.

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Notes to Financial Statements

June 30, 2013 and 2012

	<u>June 30, 2011</u>	<u>Additions and Transfers In</u>	<u>Deletions and Transfers Out</u>	<u>June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ 173,023	\$ 13	\$ —	\$ 173,036
Construction in progress	<u>130,798</u>	<u>258,018</u>	<u>130,988</u>	<u>257,828</u>
Total capital assets not being depreciated	<u>303,821</u>	<u>258,031</u>	<u>130,988</u>	<u>430,864</u>
Capital assets being depreciated				
Buildings	2,411,225	79,963	5,765	2,485,423
Runway and other paving	667,323	9,895	80	677,138
Roadway	609,943	6,419	1,317	615,045
Machinery and equipment	241,829	32,006	326	273,509
Air rights	174,110	2,692	—	176,802
Parking rights	<u>46,261</u>	<u>—</u>	<u>—</u>	<u>46,261</u>
Total capital assets being depreciated and amortized	<u>4,150,691</u>	<u>130,975</u>	<u>7,488</u>	<u>4,274,178</u>
Less accumulated depreciation for:				
Buildings	1,119,609	97,575	3,593	1,213,591
Runway and other paving	274,781	26,409	49	301,141
Roadway	228,512	24,179	614	252,077
Machinery and equipment	155,159	23,902	297	178,764
Air rights	81,265	7,959	—	89,224
Parking rights	<u>15,420</u>	<u>1,542</u>	<u>—</u>	<u>16,962</u>
Total accumulated depreciation and amortization	<u>1,874,746</u>	<u>181,566</u>	<u>4,553</u>	<u>2,051,759</u>
Total capital assets being depreciated and amortized, net	<u>2,275,945</u>	<u>(50,591)</u>	<u>2,935</u>	<u>2,222,419</u>
Capital assets, net	<u>\$ 2,579,766</u>	<u>\$ 207,440</u>	<u>\$ 133,923</u>	<u>\$ 2,653,283</u>

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June 30, 2013 and 2012

Capital assets (excluding construction in progress) at June 30 comprised of the following (in thousands):

	<u>2013</u>		<u>2012</u>
Facilities completed by operation:			
Airports	\$ 4,193,108	\$	3,967,585
Port	<u>484,027</u>		<u>479,629</u>
Capital assets (excluding construction in progress)	<u>\$ 4,677,135</u>	\$	<u>4,447,214</u>

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Notes to Financial Statements

June 30, 2013 and 2012

**5. Bonds and Notes Payable**

Long-term debt at June 30, 2013 consisted of the following and represents maturities on the Authority's fiscal year basis (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Revenue Bonds:					
Senior Debt-1978 Trust Agreement:					
1998, Series A, 5.75%, issued January 29, 1998 due 2012	\$ 19,165	\$ —	\$ 19,165	\$ —	\$ —
2003, Series A, 3.00% to 5.00%, issued May 22, 2003 due 2013 to 2034	190,040	—	182,195	7,845	5,190
2003, Series C, 5.00%, issued May 22, 2003 due 2013 to 2019	37,145	—	10,435	26,710	7,885
2005, Series A, 3.50% to 5.00%, issued May 5, 2005 due 2013 to 2036	172,590	—	3,900	168,690	4,090
2005, Series C, 3.50% to 5.00%, issued May 5, 2005 due 2013 to 2030	211,255	—	8,990	202,265	10,105
2007, Series A, 3.75% to 4.50%, issued May 31, 2007 due 2013 to 2038	47,760	—	1,050	46,710	1,090
2007, Series C, 4.00% to 5.00%, issued May 31, 2007 due 2013 to 2028	30,825	—	1,310	29,515	1,370
2008, Series A Multi-Modal, variable, issued June 19, 2008 due 2013 to 2039	23,200	—	500	22,700	2,567
2008, Series C, 4.00% to 5.00%, issued July 9, 2008 due 2013 to 2021	34,945	—	1,085	33,860	3,545
2010, Series A, 3.25% to 5.00%, issued August 5, 2010 due 2014 to 2041	97,905	—	—	97,905	1,825
2010, Series B, 3.00% to 5.00%, issued August 5, 2010 due 2013 to 2040	136,640	—	1,580	135,060	1,625
2010, Series C, 5.00%, issued August 5, 2010 due 2013 to 2019	21,585	—	2,485	19,100	2,630
2010, Series D, Multi-Modal variable, issued August 5, 2010 due 2013 to 2030	103,305	—	4,415	98,890	14,065
2012, Series A, 3.00% to 5.00%, issued July 11, 2012 due 2014 to 2041	—	116,785	—	116,785	—
2012, Series B, 3.00% to 5.00%, issued July 11, 2012 due 2017 to 2032	—	158,830	—	158,830	—
Subtotal Senior Debt	1,126,360	275,615	237,110	1,164,865	55,987

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### Notes to Financial Statements

June 30, 2013 and 2012

	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Due within one year</b>
<b>Subordinated Debt- 1978 Trust Agreement:</b>					
2000, Series A,B & C, 6.45%, issued December 29, 2000 due 2031	\$ 40,000	—	—	40,000	—
2001, Series A,B & C, 6.45%, issued January 2, 2001 due 2032	34,000	—	—	34,000	—
Subtotal Subordinated Debt	74,000	—	—	74,000	—
	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Due within one year</b>
<b>Senior Debt - PFC Trust Agreement:</b>					
2007, Series B, 4.00% to 5.00%, issued May 31, 2007 due 2013 to 2018	\$ 33,050	\$ —	\$ 4,285	\$ 28,765	\$ 4,460
2007, Series D, 3.80% to 5.50%, issued May 31, 2007 due 2013 to 2018	64,830	—	100	64,730	100
2010, Series E, 5.00%, issued August 5, 2010 due 2013 to 2018	45,635	—	11,775	33,860	12,365
Subtotal PFC Senior Debt	143,515	—	16,160	127,355	16,925
<b>Senior Debt - CFC Trust Agreement:</b>					
2011, Series A, 5.125%, issued June 8, 2011 due 2038 to 2042	58,030	—	—	58,030	—
2011, Series B, 0.900% to 6.352%, issued June 8, 2011 due 2013 to 2038	156,030	—	2,575	153,455	3,185
Subtotal CFC Senior Debt	214,060	—	2,575	211,485	3,185
Total Bonds Payable	1,557,935	275,615	255,845	1,577,705	76,097
<b>Unamortized amounts:</b>					
Bond premium/(discount), net	54,941	38,892	14,898	78,935	5,674
Total Bonds Payable, net	\$ 1,612,876	\$ 314,507	\$ 270,743	\$ 1,656,640	\$ 81,771

Included in the Authority's bonds payable are \$121.6 million and \$126.5 million of variable rate demand bonds ("VRDB") as of June 30, 2013 and 2012, respectively. The VRDBs have remarketing features which allow bondholders the right to return, or put, the bonds to the Authority. The Authority had entered into a three year irrevocable letter of credit agreement with Bank of America that expired on August 12, 2013 and required repayment of the tendered, unremarketed VRDBs and any associated obligations on the bonds tendered. Should the VRDBs be tendered and the letter of credit exercised, the tendered bonds would be converted to bank bonds, possibly requiring one tenth of the tendered bonds to become due within 270 days. As such, the Authority would look to identify an alternative financing arrangement in advance of the bank bonds debt service payment becoming due to satisfy this obligation. On August 7, 2013, the Authority entered into a five year irrevocable letter of credit agreement with State Street Bank, replacing the Bank of

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### Notes to Financial Statements

June 30, 2013 and 2012

America letter of credit agreement, in support of the Authority's variable rate demand bonds, Series 2008 A and Series 2010 D.

The subject debt was issued as multi-modal bonds, thus allowing the Authority to reissue and refund through one of several modes. As a result, the Authority has classified \$11.7 million and \$12.2 million to its current portion of long term debt, in addition to the amounts identified in the schedules of the Authority's bonds payable at June 30<sup>th</sup> due within one year, for the fiscal years ending June 30, 2013 and 2012, respectively.

The following summarizes the Authority's revenue bonds activity at June 30 (in thousands):

	<b>2012 Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2013 Ending balance</b>	<b>Due within one year</b>
Senior Debt-1978 Trust Agreement:	\$ 1,126,360	\$ 275,615	\$ 237,110	\$ 1,164,865	\$ 55,987
Subordinated Debt- 1978 Trust Agreement	74,000	—	—	74,000	—
Senior Debt - PFC Trust Agreement:	143,515	—	16,160	127,355	16,925
Senior Debt - CFC Trust Agreement:	<u>214,060</u>	<u>—</u>	<u>2,575</u>	<u>211,485</u>	<u>3,185</u>
	<u>\$ 1,557,935</u>	<u>\$ 275,615</u>	<u>\$ 255,845</u>	<u>\$ 1,577,705</u>	<u>\$ 76,097</u>
	<b>2011 Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>2012 Ending balance</b>	<b>Due within one year</b>
Senior Debt-1978 Trust Agreement:	\$ 1,180,460	\$ —	\$ 54,100	\$ 1,126,360	\$ 69,169
Subordinated Debt- 1978 Trust Agreement	74,000	—	—	74,000	—
Senior Debt - PFC Trust Agreement:	159,250	—	15,735	143,515	16,160
Senior Debt - CFC Trust Agreement:	<u>214,060</u>	<u>—</u>	<u>—</u>	<u>214,060</u>	<u>2,575</u>
	<u>\$ 1,627,770</u>	<u>\$ —</u>	<u>\$ 69,835</u>	<u>\$ 1,557,935</u>	<u>\$ 87,904</u>

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Notes to Financial Statements

June 30, 2013 and 2012

Debt service requirements on revenue bonds (1978 Trust, PFC Trust and CFC Trust) outstanding at June 30, 2013 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2014	\$ 64,435	\$ 72,700	\$ 137,135
2015	67,790	70,798	138,588
2016	72,070	67,965	140,035
2017	73,200	64,802	138,002
2018	106,440	61,526	167,966
2019 – 2023	270,395	262,094	532,489
2024 – 2028	296,700	202,880	499,580
2029 – 2033	312,910	130,673	443,583
2034 – 2038	191,950	57,852	249,802
2039 – 2043	121,815	15,563	137,378
Total	<u>\$ 1,577,705</u>	<u>\$ 1,006,853</u>	<u>\$ 2,584,558</u>

**a) Senior Debt - 1978 Trust Agreement**

On July 11, 2012, the Authority issued \$275.6 million of Massachusetts Port Authority Revenue Bonds in two series. The Series 2012 A Revenue Bonds, in the principal amount of \$116.8 million were issued with an original issue premium of approximately \$11.5 million and interest rates ranging from 3.0% to 5.0%. The projects financed with Series A bond proceeds include capital improvements to Terminals B and C, hanger upgrades, and replacement substations for Terminals B and E. Due to the “private activity” nature of the construction projects, these bonds were sold as AMT bonds.

The Authority also issued \$158.8 million in Revenue Refunding Bonds, Series 2012 B. The Series 2012 B Bonds had an original issue premium of approximately \$27.4 million and refunded a portion of the 2003 A bonds and 2003 C bonds. The current refunding resulted in the recognition of an accounting gain of \$1.6 million, which will be amortized over the life of the defeased bonds. The aggregate difference in debt service between the refunded 2003 A and 2003 C bonds and the refunding debt service was \$19.0 million. This refunding had an economic loss and achieved a net present value savings of \$14.7 million or 8.2%. The annual savings for fiscal year 2013 through fiscal year 2033 are approximately \$0.817 million.

The Authority, through its 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a debt service coverage ratio higher than its Trust Agreement requirement to maintain its investment grade bond ratings. As of June 30, 2013 and 2012, the Authority’s debt service coverage under the 1978 Trust Agreement was 2.47 and 2.21, respectively.

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### Notes to Financial Statements

June 30, 2013 and 2012

**b) Subordinate Debt - 1978 Trust Agreement**

Subordinate debt is payable solely from funds on deposit in the Improvement and Extension Fund and is not subject to the pledge of the 1978 Trust Agreement, the PFC Trust Agreement or the CFC Trust Agreement. The Authority invested \$12.0 million in January 2001 which at maturity will provide for the \$74.0 million principal payments of the subordinate debt at their respective maturities on December 31, 2030 and January 1, 2031. As of June 30, 2013, the value of the two GICs was approximately \$36.7 million as compared to \$35.2 million as of June 30, 2012.

**c) Senior Debt - PFC Trust Agreement**

The Authority's outstanding PFC debt continues to be backed by a pledge of the \$4.50 PFC collections. The Authority earned PFC Revenues, as defined by the PFC Trust Agreement, of approximately \$60.2 million and \$59.3 million during fiscal years 2013 and 2012, respectively. These amounts include approximately \$0.1 million of investment income on PFC receipts during each of the fiscal years 2013 and 2012, respectively.

The PFC Trust Agreement requires a First Lien Sufficiency covenant ratio in excess of 1.05. As of June 30, 2013 and 2012, the Authority's PFC First Lien Sufficiency covenant under the PFC Trust Agreement was 4.37 and 3.73, respectively.

**d) Senior Debt - CFC Trust Agreement**

On June 8, 2011, the Authority issued its Special Facilities Revenue Bonds (ConRAC Project), Series 2011 A in the amount of \$58.0 million with an original issue discount of approximately \$1.5 million, and its Special Facilities Revenue Bonds (ConRAC Project), Series 2011 B (Federally Taxable) in the amount of \$156.0 million at par, pursuant to the CFC Trust Agreement (collectively, the "Series 2011 Bonds"). The Series 2011 Bonds were issued for the purpose of providing funds sufficient, together with other available funds, to finance the development and construction of a new ConRAC facility and related improvements at Logan Airport, fund certain deposits to the Debt Service Reserve Fund and the Supplemental Reserve Fund, and pay certain costs of issuance of the Series 2011 Bonds. The Series 2011 Bonds and any additional bonds that may be issued under the CFC Trust Agreement on parity with the Series 2011 Bonds are secured by CFC Pledged Revenues and by Contingent Rent from the rental car companies, if any, and other funds. The Series 2011 Bonds are not secured by any other revenues of the Authority. The Series 2011 Bonds are payable solely from the CFC Pledged Receipts pledged under the CFC Trust Agreement and from certain funds and accounts held by the Trustee.

All of the Authority's outstanding ConRAC debt is backed by a pledge of the \$6.00 CFC collections. The Authority earned CFC Revenues, as defined by the CFC Trust Agreement, of approximately \$30.1 million and \$29.6 million during fiscal years 2013 and 2012, respectively. These amounts include approximately \$0.8 million of investment income on CFC receipts during each of the fiscal years 2013 and 2012.

The CFC Trust Agreement requires that the Authority maintain debt service coverage of at least 1.3. In fiscal years 2013 and 2012, the CFC debt service coverage was 2.87 and 2.78, respectively.

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June 30, 2013 and 2012

*e) Defeased Bonds*

In prior years, the Authority has defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the trustee for such bonds to provide for all future debt service payments on the defeased bonds. Accordingly, the trust fund assets and the liability for the defeased bonds are not included in the Authority's financial statements. The total defeased, but unredeemed, bonds at June 30, 2013, were approximately \$6.4 million.

*f) Special Facility Bonds*

To provide for the construction and improvement of various facilities at Logan Airport, the Authority has issued eight series of special facilities revenue bonds. The Authority's special facilities revenue bonds are all special limited obligations of the Authority, and are payable and secured solely from and by certain revenues of a separate trustee. The Authority's special facilities revenue bonds do not constitute a debt or pledge of the full faith and credit of the Authority, or the Commonwealth of Massachusetts or any subdivision thereof and, accordingly, have not been reflected in the accompanying financial statements. As of June 30, 2013 and 2012, the aggregate principal amount of the Authority's special facilities revenue bonds outstanding was approximately \$664.4 million and \$683.2 million, respectively. The Authority has no obligation for \$196.5 million of Special Facility Bonds and only limited obligation for the \$467.9 million of special facility bonds related to Terminal A described below.

Approximately \$467.9 million of the Authority's special facility bonds relate to the Delta Airlines Series 2001 A, B, and C bonds issued in connection with Delta Airlines construction of Terminal A. During September 2005, Delta Airlines entered into bankruptcy and as of April 2007 re-emerged out of bankruptcy. The Authority is under no obligation to assume any liability for the Terminal A Special Facility bonds or to direct revenue, other than an obligation to remit to the trustee of the Terminal A bonds a portion of the Terminal A airline revenue, to service the debt. The Authority and Delta Airlines negotiated a restated and amended lease (the "Amended Lease") for Terminal A pursuant to which Delta Airlines reduced the number of gates that it occupied in Terminal A. The Amended Lease was approved by the bankruptcy court and was effective as of July 1, 2006.

*g) Commercial Notes Payable*

The Authority's commercial notes payable as of June 30, 2013 and 2012 were as follows (in thousands):

	<b>2013</b>		<b>2012</b>
Commercial paper notes	\$ 100,000	\$	89,000
Commercial paper notes issued	15,000		100,000
Principal paid on commercial paper notes	(15,000)		(89,000)
Commercial paper notes	\$ 100,000	\$	100,000

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Commercial notes payable have been issued under the terms of the 1978 Trust Agreement and are backed by the proceeds of the Improvement and Extension Fund or anticipated bond funds. The allowable maximum principal amount outstanding at any time, in the aggregate principal amount, cannot exceed the lesser of 10% of the Authority's outstanding long-term debt or \$100.0 million, and is backed by a Letter of Credit Agreement with the TD Bank expiring in June 2015.

The commercial notes payable have been used to fund PFC eligible projects; therefore the Authority anticipates that PFC revenues will be the source to pay such redemptions. The Authority does expect to make principal payments on the existing commercial notes payable, which are 2012 Series A and B, during fiscal year 2014. The blended interest rate on Series 2012 A Notes was 0.731% during fiscal year 2013 and 0.75% and during May 15, 2012 through June 30, 2012 of fiscal year 2012. The blended interest rate on the Series 2012 B Notes was 0.736% during fiscal year 2013 and 0.77% during May 15, 2012 through June 30, 2012 of fiscal year 2012.

The blended interest rate on Series 2003 A Notes was 0.17% and 0.33% and Series 2003 B Notes was 0.19% and 0.35% during July 1, 2011 through May 14, 2012 of fiscal year 2012 and all fiscal year 2011, respectively.

During fiscal year 2013 and fiscal year 2012, the Authority did not participate in any interest rate swaps.

### ***h) Arbitrage – Rebate Liability***

The United States Treasury has issued regulations on calculating the rebate due to the United States Government on arbitrage liability and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage liability arises when the Authority temporarily invests the proceeds of tax exempt debt in securities with higher yields. The Authority has an estimated liability on June 30, 2013 and 2012 of \$12.1 million. Of this amount, \$11.3 million is associated with the Authority's Subordinate Bond Series 2000 A & B, and Series 2001A, B & C.

## **6. Employee Benefit Plans**

### ***a) Plan Description – Pension Plan***

The Massachusetts Port Authority Employees' Retirement System plan (the "Plan") is a single employer contributory defined benefit pension plan administered by the Massachusetts Port 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 publicly available audited financial statements for the Plan. The report may be obtained by writing to the Massachusetts Port Authority Employees' Retirement System, One Harborside Drive, Suite 200S, East Boston, MA 02128-2909. These statements are prepared on the accrual basis of accounting. Employer contributions are recognized when the employer has made formal commitments to provide the contributions. Member contributions are recognized by the Plan as compensation is earned by the Authority's employees. Retirement benefits and refunds are recorded when due and payable in accordance with the terms of the Plan.

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Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price. The Plan has no investments, at fair value, that exceed 5% of the Plan's total investments as of December 31, 2012 and 2011 other than investments in mutual funds, external investment pools and other pooled investments. No long term contracts for contributions to the Plan existed at December 31, 2012 and 2011.

### *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 \$30.0 thousand. The Authority is required to contribute amounts pursuant to Section 22(6A) of MGL Chapter 32.

### *c) Annual Pension Cost*

The annual required contribution ("ARC") for the year ended June 30, 2013 was determined as part of the January 1, 2012 actuarial valuation. In the January 1, 2012 actuarial valuation, the actuarial cost method utilized to determine contributions to the Plan for the year ended December 31, 2012 is the Frozen-Entry-Age Actuarial Cost Method, using a closed amortization period in level amounts over a period of twenty years, the methodology required by the Plan under its charter. Five-year smoothing is the method used to determine the actuarial value of assets.

The actuarial assumptions included (a) 7.625% investment rate of return, and (b) projected salary increases of 4.50%, both (a) and (b) include an inflation component of 3.0%. Liabilities for cost of living increases have been approximated, assuming an annual cost of 3.0% on the first \$13.0 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 (in thousands):

<b>Year ended December 31,</b>	<b>Annual pension cost (APC)</b>	<b>Percentage of APC contributed</b>
2012	\$ 9,594	100%
2011	5,710	100
2010	4,924	100

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

### 7. Other Postemployment Benefits

During the year ended June 30, 2008, the Authority established the Retiree Benefits Trust (the "Trust") and 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 Statements of Revenues, Expenses, and Changes in Net Position when future retirees earn 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 Statements of Net Position over time.

#### a) Plan Description

In addition to providing the pension benefits described in Note 6, the Authority provides post-employment health care and life insurance benefits ("OPEB") for retired employees. The benefit levels, employer contributions and future employee contributions are governed by the Authority and can be amended by the Authority. As of June 30, 2013, approximately 781 retirees and 1,200 active and inactive employees meet the eligibility requirements.

In June 2009, the Board made changes to the plan benefits to be paid by the Authority for certain existing and future retirees. All current retired members of the Authority and all existing Authority employees who were vested as of October 1, 2009 would be eligible to have 100% of their premium cost subsidized. Employees not yet vested but employed by the Authority on October 1, 2009 would, upon retirement be eligible to receive 85% of the premium cost for benefits with the balance paid for by the retiree. For employees hired on or after October 1, 2009, the Board voted to implement a sliding scale subsidy for retiree health care premiums (ranging from 0%-85%) based on creditable service at retirement age (retirees must be age 60 or older to receive the subsidy), and whether or not the employee retired within sixty days after leaving the Authority. The Board also voted to eliminate retiree dental and life insurance coverage, as well as Medicare Part B premium subsidy for this group of employees.

The OPEB Plan is a single-employer plan and offers retirees a choice of medical plans, as well as two dental plans, and basic life insurance. The medical plans are either HMOs, PPOs or indemnity plans, and some are designed to work with Medicare benefits, such a Medicare supplement or Medicare HMO plans. The basic life insurance provides a \$5,000 death benefit to the retiree. Spouses and dependents are not eligible for this death benefit upon their death. To comply with the requirements of GASB 45, the Authority performed an actuarial valuation at January 1, 2013. The Authority issues publicly available audited financial statements for the Trust. The report may be obtained by writing to the Massachusetts Port Authority, Attn: John P. Prankevicius, CPA, Director of Administration and Finance and Secretary-Treasurer, One Harborside Drive, Suite 200S, East Boston, MA 02128-2909. These statements are prepared on the accrual basis of accounting. Employer contributions are recognized when the employer has made formal commitments to provide the contributions and benefits are recorded when due and payable in accordance with the terms of the Trust. Investments are reported at fair value. Mutual funds and commingled funds are valued based

**MASSACHUSETTS PORT AUTHORITY**

Notes to Financial Statements

June 30, 2013 and 2012

on net asset or unit value at year-end. No long term contracts for contributions to the Trust existed at June 30, 2013 or 2012.

***b) Annual OPEB Costs and Net OPEB Obligation***

The Authority’s 2013 and 2012 OPEB expense is calculated based on the 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 years ending June 30, 2013, 2012, and 2011, the amount actually contributed to the plan, and the change in the Authority’s net OPEB obligation based on an actuarial valuation as of January 1, 2013 (in thousands).

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Required Contribution (ARC)	\$ 14,006	\$ 18,444	\$ 17,229
Interest on net OPEB obligation	(3,265)	(3,032)	(3,311)
Adjustment to ARC	2,709	2,438	2,609
Annual OPEB cost	<u>13,450</u>	<u>17,850</u>	<u>16,527</u>
Current premiums on a pay-as-you-go basis			
Subsidy	2,254	2,335	1,943
Contributions made	<u>20,851</u>	<u>13,807</u>	<u>17,100</u>
Change in net OPEB obligation	9,655	(1,708)	2,516
Net OPEB Asset – beginning of year	<u>43,533</u>	<u>45,241</u>	<u>42,725</u>
Net OPEB Asset – end of year	<u>\$ 53,188</u>	<u>\$ 43,533</u>	<u>\$ 45,241</u>
% of Annual OPEB cost contributed	155.0%	77.4%	103.5%

***c) Funded Status and Funding Progress***

The funded status of the plan, based on an actuarial valuation as of January 1, 2013, was as follows (in thousands):

Actuarially accrued liability (“AAL”)	\$ 224,488
Actuarial value of plan assets	<u>105,622</u>
Unfunded actuarial accrued liability (“UAAL”)	<u>\$ 118,866</u>
Funded ratio (actuarial value of plan assets/AAL)	47.1%
Covered payroll (active plan members)	\$ 95,400
UAAL as a percentage of covered payroll	124.6%

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

**MASSACHUSETTS PORT AUTHORITY**

Notes to Financial Statements

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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.

***d) 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. 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.

The January 1, 2013 actuarial valuation used the projected unit credit cost method. The actuarial value of assets was \$105.6 million. The actuarial assumptions included a 7.50% investment rate of return and an initial annual healthcare cost trend rate range of 9.0% which decreases to a 5.0% long-term trend rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payrolls for a period of 30 years, on a closed basis. At June 30, 2013, 25 years are remaining to be amortized. This has been calculated assuming an inflation rate of 3.25%.

**8. Leases**

***a) Commitments***

The Authority has commitments under various operating leases, which contain escalation clauses, as lessee. The following is a schedule by years of minimum rental payments under noncancelable operating leases as of June 30, 2013 (in thousands):

<u>Years</u>	<u>Amount</u>	<u>Years</u>	<u>Amount</u>
2014	\$ 26,189	2034 – 2038	\$ 4,436
2015	23,554	2039 – 2043	4,436
2016	22,991	2044 – 2048	4,436
2017	22,926	2049 – 2053	4,436
2018	14,613	2054 – 2058	4,436
2019 – 2023	15,596	2059 – 2063	4,436
2024 – 2028	4,436	2064 – 2068	4,436
2029 – 2033	4,436	2069 – 2070	1,479
		Total	\$ <u>167,272</u>

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## Notes to Financial Statements

June 30, 2013 and 2012

Rent expense and other operating lease related payments were \$28.0 million and \$30.8 million for fiscal years 2013 and 2012, respectively.

### *b) Rental Income*

The Authority leases a major portion of its Aviation and Port properties to various tenants. Many of these operating leases provide for periodic adjustments to rental rates, including certain provisions for contingent payments based on specified percentages of the tenant's gross revenue.

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of June 30, 2013 (in thousands):

Years	Amount	Years	Amount
2014	\$ 86,467	2049 – 2053	\$ 50,113
2015	70,482	2054 – 2058	45,940
2016	45,347	2059 – 2063	47,745
2017	40,080	2064 – 2068	48,293
2018	35,921	2069 – 2073	50,320
2019 – 2023	161,998	2074 – 2078	50,969
2024 – 2028	100,269	2079 – 2083	51,955
2029 – 2033	92,977	2084 – 2088	41,920
2034 – 2038	86,727	2089 – 2093	38,494
2039 – 2043	87,975	2094 – 2098	31,144
2044 – 2048	72,863	2099 – 2103	3,883
		2104 – 2107	906
		Total	\$ 1,342,788

Rental income and concession income, including contingent payments received under these provisions, were approximately \$257.3 million and \$248.8 million for the fiscal years 2013 and 2012, respectively.

## **9. Risk Management**

The Authority, as mandated by the 1978 Trust Agreement, maintains a self insurance account for general liability and workers compensation within the Operating Fund. The self insurance accruals are determined based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The accrued liability was approximately \$7.3 million and \$6.8 million as of June 30, 2013 and 2012, respectively, and is included as a component of accrued expenses in the accompanying financial statements. This liability is fully funded as of June 30, 2013 and 2012.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

Changes in the accrued liability accounts, related to self insurance, in fiscal year 2013 and 2012 were as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Liability balance, beginning of year	\$ 6,843	\$ 5,569
Provision to record estimated losses	1,279	3,488
Payments	<u>(869)</u>	<u>(2,214)</u>
Liability balance, end of year	<u>\$ 7,253</u>	<u>\$ 6,843</u>

As part of its normal operations, the Authority encounters the risk of accidental losses 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: \$0.75 million for worker's compensation per job related accident for Massport employees and \$1.0 million for port officers and ILA Members, \$1,000 per occurrence for automobile liability; aviation general liability and airport terrorism insurance, \$25,000 for airside incidents and \$0.50 million for non-airside auto losses; \$0.25 million for Comprehensive Marine Liability, Terminal Operator's Liability, Stevedore's liability and \$0.25 million for property losses per occurrence. Insurance is purchased above the self-insured amounts, subject to availability and the 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 years 2013 and 2012 has not changed significantly from prior periods.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

### 10. Payments in Lieu of Taxes

The Authority's Enabling Act, the 1978 Trust Agreement and the PILOT Agreements authorize and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the "PILOT Agreements") to make annual payments in lieu of taxes to the City of Boston and the Town of Winthrop.

The PILOT Agreements provide that annual payments may not exceed the balance of revenues remaining after deposits to pay operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

Pursuant to the terms of the amended Boston PILOT Agreement (the "Amended Boston PILOT Agreement"), the term of the Amended Boston PILOT Agreement terminates to June 30, 2019 subject to (1) mutual rights annually to terminate the Amended PILOT Agreement and (2) automatic one year extensions of the term each July 1. The Amended Boston PILOT Agreement provides for the Authority to pay (i) an annual base amount (the "Base Amount") of \$14 million, which, commencing in fiscal year 2007, increases annually by the annual percentage change in the consumer price index, provided that such increase shall be no less than 2%, nor greater than 8%, per year, and (ii) for ten years, an amount of \$700,000, which shall not be increased or adjusted. In accordance with the Transportation Reform Act, as of January 1, 2010, the portion of the Authority's PILOT obligations to the City of Boston attributable to the Tobin Bridge was assumed by MassDOT.

In fiscal year 1992, the Authority and the City of Chelsea entered into a Further Extension of Term and Amendment Agreement (the "Amended Chelsea PILOT Agreement"), which extended the base in-lieu-of-tax payments through fiscal year 2012. In accordance with the Transportation Reform Act, as of January 1, 2010, the portion of the Authority's in-lieu-of-tax payment obligations to the City of Chelsea attributable to the Tobin Bridge was assumed by MassDOT. In addition to the Amended Chelsea PILOT Agreement, in June 2008 the Authority amended a planning and development agreement with the City of Chelsea (the "Planning and Development Agreement") which provides for the Authority to make annual payments of \$600,000, which are not payments in lieu of taxes under the Enabling Act and were not assumed by MassDOT. In March 2013, the Board voted to extend the term of the Planning and Development Agreement through fiscal year 2015.

In fiscal year 2006, the Authority and the Town of Winthrop entered into an Amended and Restated Payment-In-Lieu-Of-Taxes Agreement (the "Amended Winthrop PILOT Agreement"), which extended the base in-lieu-of-tax payments through fiscal year 2025. The Amended Winthrop PILOT Agreement provides for the Authority to make an annual payment of \$900,000, which will be adjusted in fiscal years 2016 through 2025 if the average annual percentage change in the consumer price index in fiscal year 2006 through 2015 is less than 2% or more than 8%.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

PILOT payments to the City of Boston for fiscal year 2013 and 2012 were \$17.2 million and \$16.7 million, respectively. PILOT payments to the Town of Winthrop for fiscal year 2013 and 2012 were \$0.9 million for each year.

### 11. Commitments

#### *a) Contractual Obligations for Construction*

The Authority enters into construction contracts with various construction and engineering companies. Construction contracts outstanding were approximately \$296.9 million and \$221.2 million as of June 30, 2013 and 2012, respectively.

#### *b) Seaport Bond Bill*

The Seaport Bond Bill was enacted in 1996 and among other things, provides for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston Yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provides up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston Yard in Boston permitting double stack shipments. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads. The Authority believes that the likelihood that any such Master Agreement will be executed and Authority funds committed for double stack improvements within the next fiscal year is remote.

### 12. Litigation

#### *a) Events of September 11, 2001*

The Authority has been engaged in routine litigation as well as litigation involving the terrorist attacks of September 11, 2001.

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, N.Y. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport.

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act of 2001 (“ATSSSA”), which provides, among other things, that victims who suffered physical injury or death as a result of the events of September 11, 2001 (“9/11”) could file a claim with a newly created Victim Compensation Fund (the “Fund”). Those who sought such compensation waived the right to file a civil lawsuit. The Fund does not apply to claims for property damage, business interruption, or the like. Approximately 98% of claimants eligible for compensation from the Fund filed a claim with the Fund.

In November 2001, Congress passed the Aviation and Transportation Security Act (“ATSA”), which amended ATSSSA to provide a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of 9/11. Specifically, the liability of an airport sponsor for those events “shall not be in an amount greater than the limits of liability insurance coverage

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

maintained by that . . . airport sponsor”. The Authority has insurance in effect to cover these incidents in the amount of \$500.0 million per occurrence and consequently, under ATSA the Authority’s liability, if any, would be limited to such amounts. To the Authority’s knowledge, the Authority’s insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual or entity claiming to have suffered a loss.

Furthermore, to the Authority’s knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority’s rights as a named additional insured under other policies of insurance, including policies of the Authority’s tenants and licensees.

On July 27, 2011, the court dismissed the last remaining wrongful death case against the Authority. A number of other wrongful death and property damage lawsuits against the Authority and other defendants have been settled. These settlements have been achieved without any financial contribution from the Authority or its insurer, even though the settling plaintiffs have provided the Authority with a release of all claims related to the events of 9/11. On July 18, 2013, the Authority was dismissed from the remaining property damage lawsuits (both brought by World Trade Center Properties, LLC) (“WTC Properties”). WTC Properties has stated that it intends to appeal this ruling.

Absent the limitation of liability in ATSSSA, the amount of potential damages that could have been awarded against the Authority if it were found liable in these lawsuits, based on the total amount of liability claimed, is an amount that would have had a significant, materially adverse effect on the financial condition of the Authority. While the Authority cannot predict the outcome of any of these lawsuits or subsequent challenges, if any, to ATSSSA, it believes it has meritorious defenses to these actions and will continue to review and assess the various claims asserted and vigorously defend against them.

### ***b) Environmental Contamination***

The Authority is currently involved in eight separate pollution remediation obligations that meet the requirements for accounting treatment under GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (“GASB 49”). These obligations are generally related to the removal and/or treatment of contaminated soil, groundwater and petroleum products associated with fuel storage and conveyance. GASB 49 dictates that for each obligating event, an estimate of the expected pollution remediation outlays is required to be accrued as a liability and expensed in the current period. Re-measurement of the liability is required when new information indicates increases or decreases in estimated outlays.

# MASSACHUSETTS PORT AUTHORITY

## Notes to Financial Statements

June 30, 2013 and 2012

The estimated liability as of June 30, 2013 and 2012 is \$3.9 million and \$4.2 million, respectively, which represents the approximate amounts the Authority expects to pay for future remediation activities. The Authority paid approximately \$0.7 million and \$0.7 million in fiscal years 2013 and 2012, respectively. This estimate was generated using input and guidance from internal management and professional consultants, and represents a wide array of remediation activities ranging from one time events to longer-term sustained monitoring activity. The Authority will continue to closely monitor each of these obligations, working toward regulatory closure, and will make any necessary adjustments to the potential liability as new information becomes available.

### *c) Other Litigation*

The Authority also is engaged in numerous 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. Others include such matters as disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of the Authority's properties; disputes over leases and concessions; property, theft and damage claims arising from the Authority's operations, employment matters and workers compensation, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will be material to the results of operations.

## **13. Interagency Agreements**

### *a) Investment in Joint Venture*

In May 1996, the Authority entered into an interagency agreement with the Massachusetts Highway Department ("MHD") and Massachusetts Bay Transportation Authority ("MBTA") for the construction of a Regional Transportation Center ("RTC") in Woburn, Massachusetts ("Interagency Agreement"). Under the terms of the Interagency Agreement, the Authority has paid one third of the costs of acquiring the site and constructing the RTC, and will share in a like proportion in the profits and losses of the RTC. During fiscal years 2013 and 2012, the Authority recognized income of approximately \$0.1 and \$0.1 million, respectively, representing its share of the earnings of the RTC.

### *b) Logan Airport Silver Line Transportation Agreement*

The Authority entered into an agreement with the MBTA to provide public transportation between South Station in Boston, Massachusetts and Logan Airport along a route called the Silver Line.

Pursuant to this agreement the Authority has purchased and accepted delivery of eight buses for a cost of \$13.3 million.

In addition, the MBTA and the Authority have entered into a ten year agreement ending on December 30, 2015. Under this agreement, the MBTA will operate and maintain the Authority's Silver Line buses for a cost of \$2.0 million per year, paid in equal monthly installments.

**MASSACHUSETTS PORT AUTHORITY**  
Required Supplementary Information  
Schedule of Pension Funding Progress / OPEB Funding Progress  
June 30, 2013  
(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)
1/1/2012	\$ 422,999	436,468	13,469	96.9%	\$ 84,045	16.0%
1/1/2011	420,801	419,272	(1,529)	100.4%	82,541	(1.9)%
1/1/2010	410,469	407,857	(2,612)	100.6	86,438	(3.0)
1/1/2009	342,953	327,829	(15,124)	104.6	85,944	(17.6)
1/1/2008	396,930	387,223	(9,707)	102.5	81,120	(12.0)
1/1/2007	368,346	357,507	(10,839)	103.0	76,835	(14.1)
1/1/2006	327,714	317,033	(10,681)	103.4	73,514	(14.5)

**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)
1/1/2013	\$ 105,622	224,488	118,866	47.1%	\$ 95,400	124.6%
1/1/2011	76,693	237,462	160,769	32.3%	95,400	168.5%
6/30/2009	48,931	219,619	170,688	22.3	95,749	178.3
7/01/2006	-	167,521	167,521	-	87,630	191.2

Analysis of the dollar amounts of net assets available for benefits, Actuarial Accrued Liability (AAL), and assets in excess of AAL in isolation can be misleading. Expressing the Actuarial Value of Assets available for benefits as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is AAL and annual covered payroll are both affected by inflation. Expressing the AAL in excess of assets as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the lower this percentage, the stronger the Plan.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, the size or composition of the population covered by the Plan, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the AAL as a factor.

See accompanying independent auditors' report.

MASSACHUSETTS PORT AUTHORITY

Schedule I

Combining Schedule of Net Position

June 30, 2013

(In thousands)

<b>Assets</b>	<b>Authority Operations</b>	<b>PFC Program</b>	<b>CFC Program</b>	<b>Combined Totals</b>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 45,651	\$ —	\$ —	\$ 45,651
Investments	27,976	—	—	27,976
Restricted cash and cash equivalents	131,592	30,137	35,920	197,649
Restricted investments	131,766	8,994	20,023	160,783
Accounts receivable				—
Trade, net	42,215	8,459	3,646	54,320
Grants	6,536	—	578	7,114
Total receivables, net	48,751	8,459	4,224	61,434
Prepaid expenses and other assets	9,886	137	55	10,078
Total current assets	395,622	47,727	60,222	503,571
<b>Noncurrent assets:</b>				
Investments	91,827	—	—	91,827
Restricted investments	285,550	27,945	29,361	342,856
Prepaid expenses and other assets, long-term	7,800	347	1,317	9,464
Investment in joint venture	2,137	—	—	2,137
Net OPEB asset	53,188	—	—	53,188
Capital assets, net	2,085,648	436,961	247,056	2,769,665
Total noncurrent assets	2,526,150	465,253	277,734	3,269,137
Total assets	2,921,772	512,980	337,956	3,772,708
<b>Deferred outflows of resources</b>				
Deferred loss on refunding of bonds	20,664	1,183	—	21,847
Total deferred outflows of resources	20,664	1,183	—	21,847
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	95,519	12	7,212	102,743
Compensated absences	1,550	—	—	1,550
Retainage	8,092	—	—	8,092
Current portion of long-term debt	60,247	18,389	3,134	81,770
Commercial notes payable	100,000	—	—	100,000
Accrued interest payable	27,572	3,117	5,898	36,587
Deferred income	6,054	—	—	6,054
Total current liabilities	299,034	21,518	16,244	336,796
<b>Noncurrent liabilities</b>				
Accrued expenses	17,754	389	—	18,143
Compensated absences	19,873	—	—	19,873
Retainage	275	—	5,210	5,485
Long-term debt, net	1,254,754	113,181	206,934	1,574,869
Deferred income	10,828	—	—	10,828
Total noncurrent liabilities	1,303,484	113,570	212,144	1,629,198
Total liabilities	1,602,518	135,088	228,388	1,965,994
<b>Net position</b>				
Net investment in capital assets	739,284	306,574	85,719	1,131,577
<b>Restricted for other purposes</b>				
Bond funds	159,634	—	—	159,634
Project funds	208,948	—	—	208,948
Passenger facility charges	—	72,501	—	72,501
Customer facility charges	—	—	23,849	23,849
Other purposes	50,526	—	—	50,526
Total restricted	419,108	72,501	23,849	515,458
Unrestricted	181,526	—	—	181,526
Total net position	\$ 1,339,918	\$ 379,075	\$ 109,568	\$ 1,828,561

See accompanying independent auditors' report.

Schedule II

MASSACHUSETTS PORT AUTHORITY

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

Year ended June 30, 2013

(In thousands)

	<b>Authority Operations</b>	<b>PFC Program</b>	<b>CFC Program</b>	<b>Combined Totals</b>
Operating revenues:				
Fees and other services	\$ 289,384	\$ —	\$ —	\$ 289,384
Rentals	184,744	—	—	184,744
Concessions	72,542	—	—	72,542
Other	22,515	—	—	22,515
Operating grants	2,638	—	—	2,638
Total operating revenues	<u>571,823</u>	<u>—</u>	<u>—</u>	<u>571,823</u>
Operating expenses:				
Operations and maintenance	272,611	—	—	272,611
General and administrative	48,950	—	—	48,950
Insurance	8,020	—	—	8,020
Pension	9,614	—	—	9,614
Other post-employment benefits	13,450	—	—	13,450
Payments in lieu of taxes	18,090	—	—	18,090
Recovery for uncollectible accounts	(353)	—	—	(353)
Depreciation and amortization	159,980	38,704	362	199,046
Total operating expenses	<u>530,362</u>	<u>38,704</u>	<u>362</u>	<u>569,428</u>
Operating income (loss)	<u>41,461</u>	<u>(38,704)</u>	<u>(362)</u>	<u>2,395</u>
Nonoperating revenues and (expenses):				
Passenger facility charges	—	60,105	—	60,105
Customer facility charges	—	—	29,354	29,354
Investment income	6,447	1,118	771	8,336
Net (decrease)/increase in the fair value of investments	(2,511)	189	(499)	(2,821)
Other revenues	187	—	—	187
Settlement of claims	567	—	—	567
Terminal A debt service contribution	—	(12,114)	—	(12,114)
Other expenses	(73)	(192)	(1,014)	(1,279)
Loss on sale of equipment	(64)	—	—	(64)
Interest expense	(54,657)	(6,167)	(247)	(61,071)
Total nonoperating (expense) revenue, net	<u>(50,104)</u>	<u>42,939</u>	<u>28,365</u>	<u>21,200</u>
Increase (decrease) in net position before capital grant revenue	<u>(8,643)</u>	<u>4,235</u>	<u>28,003</u>	<u>23,595</u>
Capital grant revenue	19,656	—	578	20,234
Increase (decrease) in net position	<u>11,013</u>	<u>4,235</u>	<u>28,581</u>	<u>43,829</u>
Net position, beginning of year	<u>1,328,905</u>	<u>374,840</u>	<u>80,987</u>	<u>1,784,732</u>
Net position, end of year	<u>\$ 1,339,918</u>	<u>\$ 379,075</u>	<u>\$ 109,568</u>	<u>\$ 1,828,561</u>

See accompanying independent auditors' report.

## MASSACHUSETTS PORT AUTHORITY

Combining Schedule of Net Position

June 30, 2012

(In thousands)

<b>Assets</b>	<b>Authority Operations</b>	<b>PFC Program</b>	<b>CFC Program</b>	<b>Combined Totals</b>
Current assets:				(restated)
Cash and cash equivalents	\$ 43,013	\$ —	\$ —	\$ 43,013
Investments	42,130	—	—	42,130
Restricted cash and cash equivalents	94,809	28,801	23,927	147,537
Restricted investments	186,669	—	109,782	296,451
Accounts receivable				—
Trade, net	39,322	8,624	2,957	50,903
Grants	7,929	—	—	7,929
Total receivables, net	47,251	8,624	2,957	58,832
Prepaid expenses and other assets	14,273	238	696	15,207
Total current assets	428,145	37,663	137,362	603,170
Noncurrent assets:				
Investments	53,493	—	—	53,493
Restricted investments	248,153	27,729	51,331	327,213
Prepaid expenses and other assets, long-term	11,170	417	1,372	12,959
Investment in joint venture	2,075	—	—	2,075
Net OPEB asset	43,533	—	—	43,533
Capital assets, net	2,064,766	460,477	128,040	2,653,283
Total noncurrent assets	2,423,190	488,623	180,743	3,092,556
Total assets	2,851,335	526,286	318,105	3,695,726
Deferred outflows of resources				
Deferred loss on refunding of bonds	20,604	1,460	—	22,064
Total deferred outflows of resources	20,604	1,460	—	22,064
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	88,742	(10)	16,465	105,197
Compensated absences	1,610	—	—	1,610
Retainage	8,073	—	—	8,073
Current portion of long-term debt	72,224	17,624	2,524	92,372
Commercial notes payable	100,000	—	—	100,000
Accrued interest payable	26,705	3,525	5,910	36,140
Deferred income	6,741	—	—	6,741
Total current liabilities	304,095	21,139	24,899	350,133
Noncurrent liabilities				
Accrued expenses	27,091	196	—	27,287
Compensated absences	20,591	—	—	20,591
Retainage	125	—	2,150	2,275
Long-term debt, net	1,178,865	131,570	210,069	1,520,504
Deferred income	12,268	—	—	12,268
Total current liabilities	1,238,940	131,766	212,219	1,582,925
Total liabilities	1,543,035	152,905	237,118	1,933,058
<b>Net position</b>				
Net investment in capital assets	729,089	319,745	10,276	1,059,110
Restricted for other purposes				
Bond funds	186,227	—	—	186,227
Project funds	218,907	—	—	218,907
Passenger facility charges	—	55,095	—	55,095
Customer facility charges	—	—	70,711	70,711
Other purposes	52,332	—	—	52,332
Total restricted	457,466	55,095	70,711	583,272
Unrestricted	142,350	—	—	142,350
Total net position	\$ 1,328,905	\$ 374,840	\$ 80,987	\$ 1,784,732

See accompanying independent auditors' report.

**MASSACHUSETTS PORT AUTHORITY**  
Combining Schedule of Revenues, Expenses, and Changes in Net Position  
Year ended June 30, 2012  
(In thousands)

	<b>Authority Operations</b>	<b>PFC Program</b>	<b>CFC Program</b>	<b>Combined Totals</b> (restated)
Operating revenues:				
Fees and other services	\$ 283,364	\$ —	\$ —	\$ 283,364
Rentals	180,568	—	—	180,568
Concessions	68,239	—	—	68,239
Other	23,926	—	—	23,926
Operating grants	2,357	—	—	2,357
Total operating revenues	<u>558,454</u>	<u>—</u>	<u>—</u>	<u>558,454</u>
Operating expenses:				
Operations and maintenance	264,033	1,574	—	265,607
General and administrative	43,987	—	—	43,987
Insurance	8,059	—	—	8,059
Pension	5,710	—	—	5,710
Other post-employment benefits	17,850	—	—	17,850
Payments in lieu of taxes	17,642	—	—	17,642
Provision for uncollectible accounts	1,085	—	—	1,085
Depreciation and amortization	130,938	50,145	83	181,166
Total operating expenses	<u>489,304</u>	<u>51,719</u>	<u>83</u>	<u>541,106</u>
Operating income (loss)	<u>69,150</u>	<u>(51,719)</u>	<u>(83)</u>	<u>17,348</u>
Nonoperating revenues and (expenses):				
Passenger facility charges	(46)	59,258	—	59,212
Customer facility charges	—	—	28,749	28,749
Investment income	8,242	1,132	802	10,176
Net (decrease)/increase in the fair value of investments	(428)	13	670	255
Other revenues	74	544	—	618
Settlement of claims	640	—	—	640
Terminal A debt service contribution	—	(9,105)	—	(9,105)
Other expenses	—	(184)	(214)	(398)
Gain on sale of equipment	354	—	—	354
Interest expense	(49,965)	(8,879)	(463)	(59,307)
Total nonoperating (expense) revenue, net	<u>(41,129)</u>	<u>42,779</u>	<u>29,544</u>	<u>31,194</u>
Increase (decrease) in net position before capital grant revenue	28,021	(8,940)	29,461	48,542
Capital grant revenue	<u>40,584</u>	<u>—</u>	<u>166</u>	<u>40,750</u>
Increase (decrease) in net position	68,605	(8,940)	29,627	89,292
Net position, beginning of year	1,260,300	383,780	51,360	1,695,440
Net position, end of year	<u>\$ 1,328,905</u>	<u>\$ 374,840</u>	<u>\$ 80,987</u>	<u>\$ 1,784,732</u>

See accompanying independent auditors' report.