



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Supplementary Schedules

June 30, 2011

(With Independent Auditors' Report Thereon)

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

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## Independent Auditors' Report

Members of the Board of Directors  
Massachusetts Department of Transportation:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth of Massachusetts, as of June 30, 2011 and for the year then ended, which collectively comprise MassDOT's basic financial statements, as listed in the table of contents. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of entities which represent 94% and 95% of the total assets and total revenues of the aggregate discretely presented component units or the Owner Controlled Insurance Program, an Internal Service Fund, which represent 7% and less than 1% of the total assets and total revenues of the aggregate remaining fund information and less than 1% of the total assets and total revenues of the governmental activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities and funds, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MassDOT's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in note 1(k), MassDOT adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of MassDOT at June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.



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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise MassDOT's basic financial statements. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011 on our consideration of MassDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

December 22, 2011

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

STATEMENT OF NET ASSETS

JUNE 30, 2011  
(Dollars in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
Current assets:				
Cash and short-term investments	\$ 75,674	121,518	197,192	23,388
Restricted cash and investments	1,194,778	92,966	1,287,744	19,075
Derivative instrument	1,559	-	1,559	-
Receivables, net of allowance for uncollectibles:				
Due from Commonwealth	324,062	121,608	445,670	70,613
Due from federal government	16,377	10,907	27,284	28,497
Other	17,942	26,051	43,993	52,166
Other assets	2,707	112,581	115,288	6,734
Total current assets	1,633,099	485,631	2,118,730	200,473
Noncurrent assets:				
Restricted cash and investments	14,974	720,990	735,964	-
Other assets	7,171	112,598	119,769	12,363
Capital assets:				
Nondepreciable	3,768,672	884,642	4,653,314	50,137
Depreciable, net of accumulated depreciation	18,419,090	7,318,120	25,737,210	271,912
Total noncurrent assets	22,209,907	9,036,350	31,246,257	334,412
Deferred outflows from derivative instruments	37,147	85,185	122,332	-
Total assets and deferred outflows	23,880,153	9,607,166	33,487,319	534,885
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	396,254	147,858	544,112	34,810
Deferred revenue	45,989	-	45,989	693
Due to Commonwealth	2,583	-	2,583	7,979
Accrued interest	32,046	128,514	160,560	2,059
Bonds and notes payable	51,798	602,235	654,033	134,263
Capital lease obligations	-	39,228	39,228	-
Other liabilities	38,893	65,811	104,704	3,749
Total current liabilities	567,563	983,646	1,551,209	183,553
Noncurrent liabilities:				
Accrued interest on capital appreciation bonds	99,126	-	99,126	-
Bonds payable	2,125,411	5,063,111	7,188,522	34,035
Capital lease obligations	-	163,266	163,266	-
Net OPEB and pension obligation	-	424,714	424,714	7,757
Liability for derivative instruments	269,734	105,252	374,986	-
Other liabilities	124,602	105,345	229,947	7,827
Total noncurrent liabilities	2,618,873	5,861,688	8,480,561	49,619
Total liabilities	3,186,436	6,845,334	10,031,770	233,172
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	20,027,048	3,309,160	23,336,208	320,598
Restricted for other purposes	873,607	19,306	892,913	4,163
Unrestricted (deficit)	(206,938)	(566,634)	(773,572)	(23,048)
Total net assets	\$ 20,693,717	2,761,832	23,455,549	301,713

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDING JUNE 30, 2011  
(Dollars in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense)/Revenue and Changes in Net Assets			
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business- Type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
Highway	\$ 1,462,806	326,849	21,916	1,402,691	288,650	-	288,650	-
Planning and programming	148,878	70,524	11,335	85,444	18,425	-	18,425	-
Registry of motor vehicles	73,749	32,429	3,563	607	(37,150)	-	(37,150)	-
Mass Transit	125,990	942	37,856	49,591	(37,601)	-	(37,601)	-
Aeronautics	17,335	13	-	17,101	(221)	-	(221)	-
Debt service - interest	109,222	-	101,992	-	(7,230)	-	(7,230)	-
Total governmental activities	1,937,980	430,757	176,662	1,555,434	224,873	-	224,873	-
Business-type activities:								
Massachusetts Bay Transportation Authority	1,961,878	511,135	-	239,361	-	(1,211,382)	(1,211,382)	-
Total primary government	\$ 3,899,858	941,892	176,662	1,794,795	224,873	(1,211,382)	(986,509)	-
<b>Component units:</b>								
Aggregate component units	\$ 320,639	161,526	129,257	71,562				41,706
<i>General revenues:</i>								
Operating assistance from the Commonwealth					248,207	-	248,207	-
Taxes and assessments					-	1,077,486	1,077,486	-
Other income					-	19,266	19,266	-
Unrestricted investment income					2,415	32,470	34,885	-
Total General Revenues					250,622	1,129,222	1,379,844	-
Change in net assets					475,495	(82,160)	393,335	41,706
Net assets - beginning of year					20,218,222	2,843,992	23,062,214	260,007
Net assets - end of year					\$ 20,693,717	2,761,832	23,455,549	301,713

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

GOVERNMENTAL FUNDS  
BALANCE SHEET

JUNE 30, 2011  
(Dollars in thousands)

	MTTF (General)	Highway Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and short-term investments	\$ 73,274	-	2,400	75,674
Restricted cash and investments	654,552	69,826	440,016	1,164,394
Receivables, net of allowance for uncollectibles:				
Due from Commonwealth	-	324,062	-	324,062
Due from federal government	-	-	16,377	16,377
Other	12,942	-	10,000	22,942
Other assets	2,395	-	-	2,395
<b>TOTAL ASSETS</b>	<b>\$ 743,163</b>	<b>393,888</b>	<b>468,793</b>	<b>1,605,844</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued expenditures	\$ 28,073	325,060	25,906	379,039
Deferred revenue	45,989	-	10,000	55,989
Due to Commonwealth	2,583	-	-	2,583
<b>TOTAL LIABILITIES</b>	<b>76,645</b>	<b>325,060</b>	<b>35,906</b>	<b>437,611</b>
<b>FUND BALANCES:</b>				
Nonspendable	2,395	-	-	2,395
Restricted	596,627	68,828	429,179	1,094,634
Assigned	60,490	-	3,836	64,326
Unassigned	7,006	-	(128)	6,878
<b>TOTAL FUND BALANCES</b>	<b>666,518</b>	<b>68,828</b>	<b>432,887</b>	<b>1,168,233</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 743,163</b>	<b>393,888</b>	<b>468,793</b>	<b>1,605,844</b>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS

JUNE 30, 2011  
(Dollars in thousands)

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Total governmental fund balances (page 5)	\$ 1,168,233
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	22,187,762
Receivables that are measurable but not available are deferred in the governmental funds but recognized as revenue on a full accrual basis	10,000
In the statement of net assets, bond issue costs are amortized over the life of bonds, whereas in the governmental funds bond issue costs are expensed as incurred	2,272
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.	(131,172)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds and notes payable, net	(2,177,209)
Workers' compensation claims	(23,425)
Other claims and judgments	(75,000)
Compensated absences	(40,970)
Derivative instruments, net	(231,028)
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	<u>4,254</u>
Net assets of governmental activities (page 3)	\$ <u><u>20,693,717</u></u>

See notes to basic financial statements.



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE FISCAL ENDING JUNE 30, 2011  
(Dollars in thousands)

	MTTF (General)	Highway Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Toll revenue:				
Pledged as security for revenue bonds	\$ 291,934	-	-	291,934
Unpledged	31,020	-	-	31,020
Commonwealth transportation trust fund:				
Operations	248,207	-	-	248,207
Metropolitan highway system bonds	100,000	-	-	100,000
Central artery operations and maintenance	25,000	-	-	25,000
Commonwealth grants and contract assistance	3,836	936,425	1,121	941,382
Federal grants and reimbursements:				
Passed through the Commonwealth	-	458,410	-	458,410
Direct	-	159,166	41,687	200,853
Rental/lease income	40,588	-	-	40,588
Investment income	3,128	524	2,883	6,535
Departmental and other	34,334	176	37,704	72,214
<b>TOTAL REVENUES</b>	<b>778,047</b>	<b>1,554,701</b>	<b>83,395</b>	<b>2,416,143</b>
<b>EXPENDITURES</b>				
Current:				
Highway	335,799	1,397,189	27,095	1,760,083
Planning and programming	60,813	85,723	3,269	149,805
Registry of motor vehicles	56,535	609	16,273	73,417
Mass transit	44,235	49,753	32,002	125,990
Aeronautics	311	16,244	777	17,332
Debt service:				
Principal	18,785	-	-	18,785
Interest	80,439	-	-	80,439
<b>TOTAL EXPENDITURES</b>	<b>596,917</b>	<b>1,549,518</b>	<b>79,416</b>	<b>2,225,851</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>181,130</b>	<b>5,183</b>	<b>3,979</b>	<b>190,292</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	395	10,608	11,003
Transfers out	(1,055)	(9,553)	-	(10,608)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,055)</b>	<b>(9,158)</b>	<b>10,608</b>	<b>395</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>180,075</b>	<b>(3,975)</b>	<b>14,587</b>	<b>190,687</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>486,443</b>	<b>72,803</b>	<b>418,300</b>	<b>977,546</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 666,518</b>	<b>68,828</b>	<b>432,887</b>	<b>1,168,233</b>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDING JUNE 30, 2011

(Dollars in thousands)

Net change in fund balances - total governmental funds (page 7)	\$ 190,687
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.	
Capital outlays	998,223
Depreciation	(671,891)
In the statement of activities, only the gain/(loss) on the disposal of capital assets is reported, whereas in the governmental funds the proceeds from the disposal increase financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the disposed capital assets.	(1,020)
Certain revenues in the statement of activities that do not provide current financial resources are not recognized in the statement of revenues, expenditures and changes in fund balances. As a result, the recognition of revenue for certain accounts receivable differ between the two statements. This amount represents the net change in deferred revenue.	(5,000)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.	
Bond maturities	18,785
Amortization and net effect of premiums, deferred losses on refunding transactions, discounts and bond issue costs	(978)
Derivatives are reported in the government-wide statements but are not reported in the governmental funds. This amount represents the net changes in the liability for derivative instruments and the amortization of hedging derivative premiums.	2,821
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.	(28,398)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes in accruals:	
Workers' compensation	1,650
Compensated absences	(742)
Claims and judgments	(25,000)
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The net activity of the internal service fund is reported with governmental activities.	(3,642)
Changes in net assets of governmental activities (page 4)	\$ <u>475,495</u>
See notes to basic financial statements.	

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF FUND NET ASSETS  
JUNE 30, 2011  
(Dollars in thousands)

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	MBTA	
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
Current assets:		
Unrestricted cash and short-term investments	\$ 121,518	-
Restricted cash and investments	92,966	45,359
Lease accounts	36,540	-
Receivables, net of allowance for uncollectibles:		
Due from Commonwealth	121,608	-
Due from federal government	10,907	-
Other	26,051	-
Other assets	76,041	210
Total current assets	485,631	45,569
Noncurrent assets:		
Restricted cash and investments	720,990	-
Lease accounts	84,485	-
Deferred bond issue costs	28,113	-
Capital assets:		
Nondepreciable	884,642	-
Depreciable, net of accumulated depreciation	7,318,120	-
Total noncurrent assets	9,036,350	-
Deferred outflows from derivative instruments	85,185	-
Total assets and deferred outflows	9,607,166	45,569
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	147,858	17,215
Accrued interest	128,514	-
Bonds payable	602,235	-
Capital lease obligations	39,228	-
Other liabilities	65,811	9,700
Total current liabilities	983,646	26,915
Noncurrent liabilities:		
Bonds payable	5,063,111	-
Capital lease obligations	163,266	-
Net OPEB and pension obligation	424,714	-
Liability for derivative instruments	105,252	-
Other liabilities	105,345	14,400
Total noncurrent liabilities	5,861,688	14,400
Total liabilities	6,845,334	41,315
<b>FUND NET ASSETS</b>		
Invested in capital assets, net of related debt	3,309,160	-
Restricted for other purposes	19,306	4,254
Unrestricted	(566,634)	-
Total net assets	\$ 2,761,832	4,254

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE FISCAL YEAR ENDING JUNE 30, 2011  
(Dollars in thousands)

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	MBTA	
<b>OPERATING REVENUES</b>		
Revenue from transportation	\$ 448,814	-
Other	62,321	-
<b>TOTAL OPERATING REVENUES</b>	511,135	-
<b>OPERATING EXPENSES</b>		
Salaries and benefits	715,873	-
Materials, supplies and services	198,375	-
Injuries, damages and claims	3,270	3,713
Commuter railroad and local subsidy	398,010	-
Other	5,020	-
Depreciation and amortization	358,679	-
<b>TOTAL OPERATING EXPENSES</b>	1,679,227	3,713
<b>OPERATING INCOME (LOSS)</b>	(1,168,092)	(3,713)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Dedicated sales tax	767,057	-
Contract assistance - Commonwealth of Massachusetts	160,000	-
Dedicated local assessments	150,429	-
Fair value change in investment derivatives	1,809	-
Other income	17,457	395
Investment income	32,470	71
Interest expense	(282,651)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET</b>	846,571	466
<b>LOSS BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND TRANSFERS</b>	(321,521)	(3,247)
Capital grants and contributions	239,361	-
Transfers out	-	(395)
<b>CHANGE IN FUND NET ASSETS</b>	(82,160)	(3,642)
<b>FUND NET ASSETS AT BEGINNING OF YEAR</b>	2,843,992	7,896
<b>FUND NET ASSETS AT END OF YEAR</b>	\$ 2,761,832	4,254

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDING JUNE 30, 2011  
(Dollars in thousands)

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	MBTA	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 517,754	-
Payments to suppliers and vendors	(761,711)	-
Payments to employees	(457,665)	-
Claims, premiums and judgments paid	-	(27,309)
	<u>          </u>	<u>          </u>
NET CASH USED IN OPERATING ACTIVITIES	(701,622)	(27,309)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Sales tax and local assessment	1,076,220	-
Reimbursable payments	6,051	-
Transfers out	-	-
	<u>          </u>	<u>          </u>
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	1,082,271	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from the issuance of bonds and notes	258,860	-
Premium from the issuance of bonds and notes	18,498	-
Net proceeds (payments) of capital lease activity	(96,536)	-
Capital grants	235,463	-
Acquisition and construction of capital assets	(415,854)	-
Principal payments on bonds and notes	(105,600)	-
Proceeds (payments) from/to bond construction and reserve accounts	(77,254)	-
Interest expense	(274,470)	-
Increase in deferred credits/charges	3,319	-
Increase in lease deposit/account	93,744	-
Other	(4,811)	-
	<u>          </u>	<u>          </u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(364,641)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	-	44,316
Purchases of investments	-	(32,541)
Investment income (loss)	49,927	71
	<u>          </u>	<u>          </u>
NET CASH FROM INVESTING ACTIVITIES	49,927	11,846
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	65,935	(15,464)
CASH AND CASH EQUIVALENTS, RESTRICTED AND OTHER SPECIAL ACCOUNTS, BEGINNING OF YEAR	<u>148,549</u>	<u>53,390</u>
CASH AND CASH EQUIVALENTS, RESTRICTED AND OTHER SPECIAL ACCOUNTS, END OF YEAR	<u>\$ 214,484</u>	<u>37,927 (a)</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (1,168,092)	(3,713)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Charges not requiring current expenditure of cash:		
Depreciation	358,679	-
Increase in pension liability	14,805	-
Increase in net OPEB liability	82,644	-
Changes in all other working capital accounts, except cash and cash equivalents and short-term debt	<u>10,342</u>	<u>(23,596)</u>
Total adjustments	<u>466,470</u>	<u>(23,596)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (701,622)</u>	<u>(27,309)</u>

Supplemental disclosure of cash flow activities:

Sales tax bonds in the aggregate principal amount of \$63,450 were issued to defease \$68,000 of bonds outstanding, and \$304,805 in MBTPC bonds were issued to defease \$276,175 of bonds outstanding.

Residual market credits issued by a third party and retained by MassDOT totaled \$395.

(a) This amount is included as restricted cash and investments in the statement of net assets.

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS

JUNE 30, 2011  
(Dollars in thousands)

<b>ASSETS</b>	Other Post- Employment Benefits Trust	Agency Funds
Cash and short-term investments	\$ 8,199	84,544
Investments:		
U.S. Treasury bonds	4,895	-
U.S. Agency securities	12,316	-
Corporate bonds	7,629	-
Other fixed income securities	3,904	-
Equity securities	30,210	-
Receivables:		
Interest and other	179	23,433
	<u>67,332</u>	<u>107,977</u>
Total assets		
	<u>67,332</u>	<u>107,977</u>
<b>LIABILITIES</b>		
Payable for investments purchased	6,499	-
Other liabilities	-	107,977
	<u>6,499</u>	<u>107,977</u>
Total liabilities		
	<u>6,499</u>	<u>107,977</u>
<b>NET ASSETS</b>		
Held in trust for other post employment benefits	\$ <u>60,833</u>	<u>-</u>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

FIDUCIARY FUND  
STATEMENT OF CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDING JUNE 30, 2011  
(Dollars in thousands)

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	<u>Other Post- Employment Benefits Trust</u>
<b>ADDITIONS</b>	
Net investment income:	
Net appreciation/(depreciation) in fair value of investments	\$ 3,874
Interest	1,026
Dividends	<u>1,226</u>
Total investment income	6,126
Less investment expense	<u>(148)</u>
Net investment income	5,978
NET ASSETS AT BEGINNING OF YEAR	<u>54,855</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 60,833</u></u>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
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June 30, 2011

(Dollars in thousands)

**(1) Summary of Significant Accounting Policies and Practices**

**(a) Description of Business**

The Massachusetts Department of Transportation (MassDOT) was established by Chapter 25 of the Acts of 2009 of the Commonwealth of Massachusetts (as amended, the Transportation Reform Act), which was enacted and approved in June 2009. The Transportation Reform Act was designed to reform the transportation system of the Commonwealth of Massachusetts (the Commonwealth) and created the new authority, MassDOT, through enactment of Chapter 6C of Massachusetts General Laws (the Enabling Act). MassDOT has a separate legal existence from the Commonwealth and is governed by a five-member board appointed by the Governor. The Governor has appointed a Secretary of MassDOT, who serves as MassDOT's chief executive officer. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009.

MassDOT was created through the transfer of the assets, liabilities and equity of:

1. The former Massachusetts Turnpike Authority (including both the Metropolitan Highway System and the Western Turnpike), which was dissolved as part of the legislation
  - a. The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel (CA/T Project), the Central Artery North Area (CANAN), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.
  - b. MassDOT assumed the rights, powers, and duties of the former Massachusetts Turnpike Authority upon the November 1, 2009 transfer
2. The operations of the Massachusetts Highway Department of the Commonwealth
3. The operations of the Massachusetts Aeronautic Commission
4. The operations of the Registry of Motor Vehicles of the Commonwealth
5. Certain assets of the Department of Conservation and Recreation (DCR) of the Commonwealth

In addition, the Tobin Bridge (including its associated land and buildings) was transferred from the Massachusetts Port Authority (effective January 1, 2010).

MassDOT has an office of planning and programming and four divisions including highways, mass transit, aeronautics, and the registry of motor vehicles that share administrative functions such as human resources, financial management, information technology, and planning. Each division is headed by an administrator appointed by the Secretary of MassDOT.



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The legislation established the Massachusetts Transportation Trust Fund (MTTF) within MassDOT, into which all bridge, tunnel and highway tolls, together with certain other funds, are deposited. Transit fares of the Massachusetts Bay Transportation Authority (MBTA) may be deposited into the MTTF upon agreement of MassDOT and the MBTA.

The MTTF is to be used for operations, maintenance and capital costs related to the transportation assets under MassDOT's jurisdiction, including MBTA assets and assets of MassDOT transferred pursuant to the legislation, as well as debt service on outstanding MassDOT debt (previously held by the dissolved Massachusetts Turnpike Authority). MassDOT debt is not debt of the Commonwealth. The MTTF is not subject to appropriation and year-end balances do not revert to the Commonwealth.

Other activities transferred from the Commonwealth to MassDOT include the following: (1) the Central Artery and Statewide Road and Bridge Infrastructure Fund; (2) the Central Artery Repairs and Maintenance Trust Fund; (3) the Highway Capital Projects Fund; (4) the Federal Highway Construction Program; (5) the Motor Vehicle Safety Inspection Trust Fund; (6) the Owner Controlled Insurance Program (OCIP) Fund related to the Central Artery/Tunnel Project and (7) various other administrative trusts that the former Highway Department of the Commonwealth maintained.

Other activities transferred from the former Massachusetts Turnpike Authority include the Other Post-Employment Benefits Trust.

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

The legislation also established the Commonwealth Transportation Fund (CTF) as a budgetary fund of the Commonwealth for transportation-related purposes, which receives essentially the same revenues that were deposited into the Commonwealth's Highway Fund, including gasoline tax receipts and registry fees. The CTF shall be subject to appropriation and shall be used for transportation related expenses of the executive office of transportation or any successor agency or authority, including to pay or reimburse the Commonwealth's General Fund for payment of debt service on bonds issued by or otherwise payable pursuant to a lease or other contract assistance agreement by the Commonwealth for transportation purposes.

Legislation approved by the Governor in fiscal 2010 provides that the CTF will also receive the sales tax receipts (0.385%) dedicated to transportation purposes, with a guaranteed annual payment of \$275,000. The guaranteed amount of \$275,000 includes \$100,000 earmarked for costs including debt service on MassDOT debt, \$160,000 earmarked for the MBTA, and \$15,000 earmarked for the regional transit authorities.

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In addition, the CTF is used to pay debt service (present and future) associated with highway maintenance and construction projects and provides the funding of MassDOT's annual operating budget. For the year ended June 30, 2011, MassDOT received \$363,207 from the CTF for operations (\$248,207), debt service (\$100,000) and the regional transit authorities (\$15,000).

Finally, MGL Chapter 235 authorizes the Commonwealth to annually reimburse MassDOT for the cost of the operation and maintenance of the CA/T Project and CANA. MassDOT received \$25,000 during the year ended June 30, 2011 for such reimbursement.

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

**(b) Basis of Presentation**

The accompanying financial statements of MassDOT have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, MassDOT has included all funds, organizations, agencies, boards and commissions considered part of the MassDOT legal entity. MassDOT has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with MassDOT is such that exclusion would cause MassDOT's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present MassDOT (the primary government) and its component units. The information pertaining to the primary government appears in footnotes 1 through 12.

*Blended Component Units* – Blended component units are entities that are legally separate from MassDOT, but are so related to MassDOT, that they are, in substance, the same as MassDOT because their governing board is the same as that of MassDOT or the entities provide services entirely or almost entirely to MassDOT. The Massachusetts Bay Transportation Authority (MBTA) is the only legally separate entity that meets the criteria as a blended component unit. The information pertaining to the MBTA appears in footnote 13.

*Aggregate Discretely Presented Component Units* – MassDOT presents the following fifteen (15) regional transit authorities (RTAs) and one transportation association in the aggregate as component units in the accompanying financial statements: Berkshire Regional Transit Authority; Brockton Area Transit Authority; Cape Ann Transportation Authority; Cape Cod Regional Transit Authority; Franklin Regional Transit Authority; Greater Attleboro-Taunton Regional Transit Authority; Lowell Regional Transit Authority; Montachusett Regional Transit Authority; Metrowest Regional Transit Authority; Merrimack Valley Regional Transit Authority; Nantucket Regional Transit Authority; Pioneer Valley Transit Authority; Route 3 North Transportation Improvement Association; Southeastern Regional Transit Authority; Martha's Vineyard Transit Authority; the

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Worcester Regional Transit Authority; and Route 3 North Transportation Improvements Association, Inc. MassDOT does not consider any of the discretely presented component units to be major.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, MassDOT's proprietary funds and applicable component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. MassDOT's governmental activities generally are financed through toll revenues, contract assistance from the Commonwealth, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of net assets presents all of the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is MassDOT's policy to use restricted resources first, then unrestricted resources as needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods or services provided by a given function; (2) grants and contributions that are restricted to meeting the operational requirements of a specific function and (3) grants and contributions that are restricted to meeting the capital requirements of a specific function. Other

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items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type activities.

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the statement of net assets, except for the residual amounts due between governmental and business-type activities.

**Fund Financial Statements**

MassDOT reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor funds being combined into a single column.

MassDOT is not required to and does not have a legally adopted annual budget for any of its governmental funds.

**(c) *Measurement Focus and Basis of Accounting***

The Government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements account for the general governmental activities of MassDOT. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include expenditure driven federal grants and amounts due from the Commonwealth. MassDOT considers all revenues available if they are collected within 60 days after fiscal year end. For federal expenditure driven grants, revenue is recognized when the qualifying expenditures have been incurred and other eligibility requirements are met and amounts are considered available. Expenditures are recorded in

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the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities and expenditures when due. Compensated absences, claims and judgments, termination benefits, and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

MassDOT reports the following fund types:

**Governmental Fund Types**

The General Fund is the primary operating fund of MassDOT. It is used to account for and report all financial resources not accounted for and reported in another fund. The MTTF is considered the general fund for MassDOT.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Within the governmental fund types, MassDOT has established the following major fund, in addition to the MTTF:

*Highway Capital Projects Fund*, a capital projects fund, accounts for highway construction projects financed primarily through federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth.

**Proprietary Fund Types**

Proprietary funds account for programs financed in whole or in part by fees charged to external parties for goods and services. MassDOT reports the MBTA (a blended component unit) as a major enterprise fund. MassDOT also operates one internal service fund – the Owner Controlled Insurance Program.

Revenues and expenses of proprietary funds are classified as operating or nonoperating as follows – operating revenues and expenses generally result from providing services or producing and delivering goods. All other revenues and expenses are reported as nonoperating.

**Fiduciary Fund Types**

Fiduciary funds account for assets held in a trustee capacity for others that cannot be used to support MassDOT's programs.

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MassDOT reports an Employee Benefits Trust Fund for the assets held in trust for the payment of other post employment benefits (OPEB) for former employees/retirees of the Massachusetts Turnpike Authority. See note 7(c) for additional information.

MassDOT also reports an Agency Fund, which is used to account for assets held in a custodial capacity. Agency funds do not present the results of operations or have a measurement focus.

**(d) *Cash and Short-Term Investments***

The Treasurer of the Commonwealth (Treasurer) maintains an internal investment pool that invests in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund. MassDOT's participation in this pool is presented as cash and short-term investments (both restricted and unrestricted) in the accompanying financial statements.

The securities owned by the Cash Fund are valued at amortized cost which approximates market value. Interest earned on the investment pool is allocated to MassDOT on a pro rata basis.

Restricted cash and short-term investments also include certain amounts restricted for use by bond indentures and other external requirements. Such amounts are held by the Treasurer in the MMDT Cash Fund as well as amounts held by bond and other trustees.

**(e) *Investments***

Investment securities are recorded at fair value, based on quoted market price.

The Treasurer of the Commonwealth holds certain investments on behalf of MassDOT. The amount held by the Treasurer appears as "Investments" in the accompanying financial statements. Interest earned on specific MassDOT investments is allocated to MassDOT. As of June 30, 2011, the Treasurer held no investments on behalf of MassDOT.

Restricted investments include amounts restricted for use by bond indentures and other external requirements and include certain investments held by bond and other trustees.

For purposes of the statements of cash flows, unrestricted investments purchased with a maturity date of three months or less are considered cash equivalents.

**(f) *Accounts Receivable***

Reimbursements due to MassDOT from the Commonwealth for state and federally funded construction project expenditures are reported as "Due from Commonwealth" in the financial statements. Amounts due from the Commonwealth are considered 100% collectible.

**(g) *Capital Assets***

Capital assets include land, construction in progress, buildings, equipment, vehicles, software and infrastructure (e.g., roads, bridges, ramps, and other similar items). Such assets are reported in the

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applicable governmental or business-type activity columns of the government-wide financial statements and proprietary funds and are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation. Assets transferred to MassDOT from other governments (subsequent to its formation) are recorded at net carrying value (historical cost less accumulated depreciation) at the date of transfer.

Equipment, vehicles, computer equipment and software purchases that equal or exceed \$50 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100 are capitalized. All land and nondepreciable land improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<b>Type of asset</b>	<b>Estimated useful life (in years)</b>
Buildings	40
Infrastructure – roads, bridges, and tunnels	40
Equipment	10
Computer hardware and software	3 to 7
Vehicles	5

In the government-wide financial statements, depreciation expense is charged to the function to which the capital assets relate.

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved and a depreciable capital asset is reported at the point at which an asset is placed in service for its intended use. Interest incurred during the construction phase of capital assets is not capitalized as the debt related to the construction appears on the books of the Commonwealth.

**(h) Other Assets**

Other assets in the government-wide financial statements consist principally of prepaid expenses and the unamortized portion of bond issue costs.

**(i) Deferred Revenue**

Deferred revenue in the governmental fund financial statements represents monies received in advance of providing goods or services or receivables accrued that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Certain deferred revenue related to receivables not considered available is recognized

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as revenue in the conversion to the government-wide financial statements, which follow the accrual basis of accounting.

**(j) Long-Term Debt**

In the government-wide and proprietary funds, long-term debt is reported as liabilities in the statements of net assets. Bond premiums, discounts and issue costs are deferred and amortized over the life of the bonds using the straight-line method. Deferred gains and losses related to refunding transactions are amortized using the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

In the governmental funds, the face amount of long-term debt is reported as other financing sources when the debt is issued. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as planning and programming expenditures.

**(k) Fund Balances**

During the year ended June 30, 2011, MassDOT implemented GASB Statement No. 54 (GASBS 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of GASBS 54 resulted in the reorganization of the fund balance section of the governmental fund financial statements into the following categories: (1) nonspendable; (2) restricted; (3) committed; (4) assigned; and (5) unassigned. Fund balances are allocated to these categories based on the level of spending constraints. Details related to the new fund balance classifications are provided at note 6. The implementation of GASBS 54 did not impact the beginning fund balances of the governmental funds.

The following fund balance classifications describe the relative strength of spending constraints:

*Nonspendable* – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact.

*Restricted* – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – represents amounts that can be used only for specific purposes imposed by a formal action of MassDOT's Board of Directors, which is the highest level of decision-making authority. Committed amounts may be established, modified, or rescinded only through actions approved by the Board of Directors.

*Assigned* – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under MassDOT's structure, this intent can be expressed by the Secretary of Transportation (and Chief Executive Officer), Chief Financial Officer



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and Controller. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

*Unassigned* – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

**(l) *Compensated Absences***

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the government-wide and proprietary fund statements of net assets, compensated absences are recorded as an expense and liability as the benefits accrue.

For the governmental fund financial statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when they become due and payable upon retirement, termination, or death.

**(m) *Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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**(2) Deposits and Investments**

The Treasurer of the Commonwealth maintains an internal investment pool, in which MassDOT participates, that invests solely in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund. Authorized investments for the MMDT Cash Fund include primarily U.S. government and government agency obligations, certificates of deposits, commercial paper, notes and repurchase agreements, all with maturities of one year or less. MassDOT's pro rata share of the internal investment pool is presented in the accompanying financial statements as:

Cash and short-term investments	\$ 160,217
Restricted cash and investments	<u>866,828</u>
	<u>\$ 1,027,045</u>

MassDOT follows Chapter 32 of the Massachusetts General Laws with regard to the investment practices of the OPEB Trust. Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec 23(3), the "Prudent Person" rule.

MassDOT investments consist of amounts invested by the Treasurer in the MMDT Cash Fund on behalf of MassDOT as well as investments held by the bond and other trustees in accordance with bond indentures and other external requirements.

For investments held by trustees, including investments held by the OPEB Trust, MassDOT has implemented investment policies which incorporate the investment protocols within the Trust Agreements.

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

**(a) Custodial Credit Risk**

At June 30, 2011, all of MassDOT's bank balances were insured and not exposed to custodial credit risk. For deposits held by MMDT Cash Fund, MassDOT had minimal exposure to custodial credit risk.

MassDOT had no custodial credit risk for investments as all investments were either insured or held in MassDOT's name.

**(b) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. These investments include certain short – term cash equivalents, various long-term items

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and restricted assets by maturity in years. MassDOT does not have a formal policy related to interest rate risk.

MassDOT's investments, including investments in the OPEB Trust, at June 30, 2011 are presented below by investment type and maturity.

Investment type	Fair value	Investment maturities (in years)			
		Less than 1 year	1 – 5	6 – 10	More than 10
U.S. Treasuries	\$ 4,895	—	3,899	289	707
U.S. Agencies	147,345	120,054	15,105	1,142	11,044
Money market mutual funds	170,737	170,737	—	—	—
Commercial paper	45,352	45,352	—	—	—
Fixed income securities	11,532	93	3,528	3,278	4,633
MMDT	1,027,045	1,027,045	—	—	—
	1,406,906	\$ 1,363,281	22,532	4,709	16,384
Other investments:					
Equity securities	30,210				
Total investments	\$ 1,437,116				

(c) **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table presents the credit quality ratings of the primary government's fixed income investments at June 30, 2011:

Investment type	Fair value	Quality ratings					
		AAA	AA1-AA3	A1-A3	BAA1-BAA3	BA1-BD	Unrated
Money market mutual funds	\$ 170,737	170,737	—	—	—	—	—
Commercial paper	45,352	45,352	—	—	—	—	—
Fixed income securities	11,532	2,502	1,408	3,220	3,294	145	963
MMDT	1,027,045	—	—	—	—	—	1,027,045
	\$ 1,254,666	218,591	1,408	3,220	3,294	145	1,028,008

Although the MMDT Cash Fund is not rated, credit ratings associated with the investments of the Cash Fund were either P1 (approximately 98%) or P2 (approximately 2%).

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**(d) Concentration of Credit Risk – Investments**

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. The investment in the Federal Home Loan Bank (\$82,427) is the only issuer where securities at year end exceeded 5% of the total investments of the primary government.

The MMDT Cash Fund has no concentration of credit risk exposure.

**(e) Restricted Cash and Investments by Fund**

The following summarizes restricted cash and investments as of June 30, 2011 by the various funds and accounts established by MassDOT for debt covenant requirements and other purposes:

Held by Treasurer of the Commonwealth:

General Fund – Toll related accounts as restricted by bond covenants	\$ 323,894
General Fund – Rose Kennedy Greenway	33,092
Major Capital Projects – Statewide Road and Bridge Program	69,826
Other Governmental Funds – Central Artery Repairs and Maintenance	408,598
Other Governmental Funds – Motor Vehicle Safety Inspection	28,453
Other Governmental Funds – Other	2,964

Held by Bond Trustee:

General Fund – Toll related accounts as restricted by bond covenants	297,566
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Held by OCIP Trustee:

Internal Service Fund – Workers' compensation self-insurance	<u>45,359</u>
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Total	\$ <u><u>1,209,752</u></u>
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**(3) Capital Assets**

Capital assets of the governmental activities consisted of the following at June 30, 2011:

	<b>Beginning balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance</b>
Capital assets, not being depreciated:				
Land	\$ 764,488	5,849	1,020	769,317
Construction in progress	2,065,317	993,829	59,791	2,999,355
Total capital assets, not being depreciated	2,829,805	999,678	60,811	3,768,672
Capital assets, being depreciated:				
Infrastructure	27,828,351	50,307	—	27,878,658
Buildings	118,513	4,439	—	122,952
Equipment	107,330	231	—	107,561
Vehicles	72,174	829	760	72,243
Software	6,268	2,530	—	8,798
Total capital assets, being depreciated	28,132,636	58,336	760	28,190,212
Less accumulated depreciation for:				
Infrastructure	8,890,903	658,288	—	9,549,191
Buildings	55,715	2,367	—	58,082
Equipment	90,687	5,731	—	96,418
Vehicles	57,166	3,712	760	60,118
Software	5,520	1,793	—	7,313
Total accumulated depreciation	9,099,991	671,891	760	9,771,122
Total capital assets, being depreciated, net	19,032,645	(613,555)	—	18,419,090
Capital assets, net	\$ 21,862,450	386,123	60,811	22,187,762

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Highway	\$ 669,637
Office of planning and programming	2,246
Registry of motor vehicles	8
	<u>671,891</u>
	\$ <u>671,891</u>

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**(4) Bonds, Notes and Other Long-Term Liabilities**

Long-term debt and other long-term liabilities of the governmental activities consisted of the following at June 30, 2011:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Senior revenue bonds:					
Metropolitan Highway System:					
1997 Series A, Capital Appreciation Bonds (CABs), 5.60% to 5.65%, issued September 24, 1997, due 2024 to 2029	\$ 42,007	—	—	42,007	—
Metropolitan Highway System:					
2010 Refunding, Series A, variable rate issued May 27, 2010, due 2035 to 2037	207,665	—	—	207,665	—
Borrowings related to associated interest rate swap	3,574	—	72	3,502	75
Metropolitan Highway System:					
2010 Refunding, Series B, 2.00% to 5.00%, issued May 27, 2010, due 2011 to 2037	882,310	—	420	881,890	32,900
Metropolitan Highway System:					
1997 Series C, CABs, 5.40% to 5.55%, issued September 24, 1997, due 2016 to 2023	89,136	—	—	89,136	—
Western Turnpike:					
1997 Series A, 5.55%, issued September 24, 1997, due 2017 (mandatory sinking fund requirements 1999 to 2017)	127,365	—	18,365	109,000	18,385
Total senior revenue bonds	<u>1,352,057</u>	<u>—</u>	<u>18,857</u>	<u>1,333,200</u>	<u>51,360</u>
Subordinated revenue bonds:					
Metropolitan Highway System:					
2010 Refunding, Series A, variable rate issued April 14, 2010, due 2024 to 2039	592,335	—	—	592,335	—
Borrowings related to associated interest rate swap	13,413	—	419	12,994	438
Metropolitan Highway System:					
2010 Refunding, Series B, 3.25% to 5.00%, issued April 14, 2010, due 2019 to 2035	261,220	—	—	261,220	—
Total subordinated revenue bonds	<u>866,968</u>	<u>—</u>	<u>419</u>	<u>866,549</u>	<u>438</u>
Total	<u>2,219,025</u>	<u>—</u>	<u>19,276</u>	<u>2,199,749</u>	<u>51,798</u>
Less unamortized amounts:					
Bond discounts	(10,341)	—	(527)	(9,814)	—
Deferred losses on refunding	(75,230)	—	(2,645)	(72,585)	—
Plus unamortized premiums	62,157	—	2,298	59,859	—
Total bonds payable	<u>2,195,611</u>	<u>—</u>	<u>18,402</u>	<u>2,177,209</u>	<u>51,798</u>
Other long-term liabilities:					
Workers' compensation	25,075	4,825	6,475	23,425	6,475
Judgments and claims	83,200	29,184	13,284	99,100	9,700
Compensated absences, net	40,228	1,924	1,182	40,970	22,718
Total other long-term obligations	<u>148,503</u>	<u>35,933</u>	<u>20,941</u>	<u>163,495</u>	<u>38,893</u>
Total long-term liabilities	<u>\$ 2,344,114</u>	<u>35,933</u>	<u>39,343</u>	<u>2,340,704</u>	<u>90,691</u>

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

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Revenue bonds are secured by a lien and pledge of cash and revenues derived from the Metropolitan Highway System and Western Turnpike. In addition, the Commonwealth has pledged \$100,000 per fiscal year until June 30, 2039 to provide contractual assistance with repayment of the bonds. These contractual payments constitute dedicated payments from the Commonwealth that are deposited directly to the Subordinated Debt Service Fund. The amount of pledged revenue is approximately equal to the remaining principal and interest requirements of the outstanding Metropolitan Highway System and Western Turnpike bonds.

Debt service requirements, excluding derivative borrowings, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2012	\$ 51,285	63,522	114,807
2013	53,835	60,658	114,493
2014	56,045	57,964	114,009
2015	77,780	55,085	132,865
2016	58,801	72,970	131,771
2017 – 2021	235,402	348,654	584,056
2022 – 2026	313,127	288,945	602,072
2027 – 2031	378,428	238,402	616,830
2032 – 2036	569,780	44,691	614,471
2037 – 2039	388,770	962	389,732
Total	<u>\$ 2,183,253</u>	<u>1,231,853</u>	<u>3,415,106</u>

As rates change, interest payments on the 2010 Bonds will vary.

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2011:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>	<u>Principal amount outstanding</u>
Metropolitan Highway System:			
2010 Series A – Subordinated Debt	2024 to 2039	100%	\$ 592,335
2010 Series B – Subordinated Debt	2031 to 2035	100	261,220
2010 Series A – Senior Debt	2035 to 2037	100	207,665
2010 Series B – Senior Debt	2030 to 2037	100	881,890
Western Turnpike:			
1997 Series A	2008 to 2017	100%	\$ 109,000

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***Demand Bonds***

Included in long-term debt is \$207,665 of Senior and \$592,335 of Subordinated variable rate demand bonds. The bonds were issued in May and April 2010, respectively, and the proceeds of the bonds were used to refund certain revenue bonds issued previously by the Massachusetts Turnpike Authority. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The ability of MassDOT, through its Trustee and remarketing agent, to purchase such bonds is secured through letters of credit and standby bond purchase agreements with various nationally recognized financial institutions that expire between April 2012 and May 2013. Under generally accepted accounting principles, variable rate demand obligations (VRDOs) are generally classified as current, rather than long term, liabilities if, among other things, the supporting security agreements expire less than one year after year end. Although \$279,920 of the VRDOs are secured by agreements that expire in April 2012, they are also subject to a 'Mandatory Tender for Purchase' requirement that becomes effective prior to the April 2012 expiration date. This requirement, when effective, results in these VRDOs being treated as long term debt. As such, these amounts have been presented as long term, rather than current, liabilities in the accompanying financial statements.

***Prior Defeasances of Debt***

At June 30, 2011, the principal amounts outstanding on revenue bonds and notes that are considered defeased are as follows:

<b>Description</b>	<b>Redemption date</b>	<b>Redemption price</b>	<b>Principal amount outstanding</b>
1993 Series A Term	2013 to 2023	100%	\$ 224,895

***Subsequent Event – Current Refunding***

On November 15, 2011, MassDOT issued \$90,110 in revenue bonds to refund (current) \$109,000 of outstanding 1997 (Series A) bonds (issued by the former Massachusetts Turnpike Authority) with an average interest rate of 5.55%. \$7,375 (Series A) of the 2011 bonds is tax-exempt and \$82,735 (Series B) of the 2011 bonds is federally taxable. The average interest rate of the 2011 bonds is 2.23%.

The net proceeds of \$89,099 (after payment of \$1,011 in underwriting fees other issuance costs, plus premium of \$1,079) plus an additional \$21,410 of 1997 sinking fund monies were used to retire the outstanding 1997 (Series A) bonds and the related accrued interest.

As a result of this refunding, MassDOT will reduce its total gross debt service payments over the next 6 years by approximately \$9,900 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$9,425.



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***Derivative Instruments***

**Interest Rate Swaps/Swaptions**

The former Massachusetts Turnpike Authority (the Turnpike) entered into swaptions, which upon exercise became interest rate swaps (hereinafter referred to as Swaps) to (1) lock in long-term fixed rate payments and (2) hedge changes in cash flows on variable-rate bonds due to interest rate risk. As of November 1, 2009 (MassDOT's inception), these Swaps were classified as investment derivatives, as they were not associated with a then existing asset or liability of MassDOT. During the year ended June 30, 2010, these Swaps became associated with and were determined to be effective hedges of the bonds issued by MassDOT to refund long-term debt previously issued by the Turnpike. At June 30, 2011, the Swaps continue to be effective hedges of the refunded bonds.

Additionally, the Turnpike received premiums in connection with these Swaps upon issuance of the related swaptions. A portion of the premiums are considered borrowings and are valued separately from the Swaps. The balance of the borrowings at June 30, 2011 totals \$16,496 and is presented as part of bonds payable in the accompanying government-wide financial statements.

**Forward Delivery Agreement**

MassDOT's bond trustee has invested certain of the debt service funds it holds through a Forward Delivery Agreement (Agreement). The Agreement, administered by Wells Fargo Bank, N.A., provides MassDOT with a guaranteed rate of return on trustee deposits held for debt payments until such time as payments are due. These deposits are recorded on MassDOT's financial statements at the fair value of the underlying securities provided by Wells Fargo through the Agreement. The Agreement qualifies as an investment derivative instrument and is reported at its fair value of \$1,559 as of June 30, 2011. The credit rating of Wells Fargo Bank, N.A. at June 30, 2011, as determined by S&P, was AA. Subsequent to year-end, the credit rating was downgraded to AA-.

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The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 financial statements are as follows:

Changes in fair value			Fair value at June 30, 2011		
	Classification	Amount debit (credit)		Amount debit (credit)	Notional
Governmental activities:					
Cash flow hedges:					
Pay-fixed interest					
rate swaps	Deferred outflow	\$ (43,466)	Derivative liability	\$ (259,363)	800,000
Investment derivatives:					
Pay-fixed interest					
rate swap	Investment revenue	(594)	Derivative liability	(2,116)	—
Pay-variable interest					
rate basis swap	Investment revenue	(2,811)	Derivative liability	(8,255)	100,000
Subtotal		(46,871)		(269,734)	
Forward delivery					
agreement	Investment revenue	1,073	Derivative asset	1,559	—
		\$ (45,798)		\$ (268,175)	

The fair values of the interest rate swaps and the Forward Delivery Agreement were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the derivative, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the derivatives.

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The following table displays the terms of MassDOT's derivative instruments outstanding at June 30, 2011:

Derivative item	Type	Objective	Effective date	Notional amount	Term. date	Payable swap rate	Receivable swap rate	Premiums received	Fair value at June 30, 2011
Cash flow hedges:									
1	Pay-fixed interest rate swap	Hedge interest rate risk from the 2011 senior debt (Series A-1 and A-2)	7/1/2008	\$ 207,665	1/1/2037	5.000%	68% of 1 month LIBOR (0.15741%) (a)	\$ 10,375	(69,322)
2	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-2)	1/1/2008	83,100	1/1/2037	5.000	68% of 1 month LIBOR	4,391	(26,556)
3	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-1)	1/1/2008	43,625	1/1/2029	5.000	68% of 1 month LIBOR	2,312	(12,086)
4	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-3 through A-6)	1/1/2009	371,380	1/1/2039	5.000	68% of 1 month LIBOR	17,063	(124,900)
5	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-7)	1/1/2009	94,230	1/1/2029	5.000	68% of 1 month LIBOR	4,577	(26,499)
Investment derivatives:									
6	Pay-fixed interest rate swap		1/1/2009	—	1/1/2039	5.000	68% of 1 month LIBOR	—	(2,116)
7	Pay-variable interest rate basis swap		10/1/2002	100,000	7/1/2029	67% of 3 month LIBOR	SIFMA (0.25%) (a)	5,350	(8,255)
Subtotal									(269,734)
8	Forward delivery agreement		—	—	1/1/2029	—	Fixed 5.96%	—	1,559
Total									<u>\$ (268,175)</u>

(a) Rates as of June 30, 2011.

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**Swap Payments and Related Debt**

Debt service requirements of the 2010 Subordinated Debt Series A-1 through A-7 and 2010 Senior Debt Series A-1 and A-2 (2010 Bonds) and net swap payments for the cash flow hedge swaps, applying the fixed rates (4.75% – 5.00%) of the swaps and assuming 68% of 1-month LIBOR rate (0.15741%) and the variable rates (0.03% – 0.07%) on the 2010 Bonds as of June 30, 2011 remain the same through the term of the swap, are as follows:

	<b>2010 Bonds principal</b>	<b>2010 Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2012	\$ —	1,009	37,189	38,198
2013	—	439	37,189	37,628
2014	—	439	37,189	37,628
2015	—	439	37,189	37,628
2016	—	440	37,189	37,629
2017 – 2021	—	2,197	185,946	188,143
2022 – 2026	50,700	2,176	184,229	237,105
2027 – 2031	127,305	1,857	160,497	289,659
2032 – 2036	245,835	1,539	142,740	390,114
2037 – 2040	376,160	341	40,332	416,833
Totals	\$ <u>800,000</u>	<u>10,876</u>	<u>899,689</u>	<u>1,710,565</u>

As rates change, interest payments on the 2010 Bonds and net swap payments will vary.

**Risk Disclosures**

*Credit Risk* – MassDOT is not exposed to credit risk on its hedging derivatives as none of these instruments are in an asset position. However, if interest rates and volatilities change and the fair values of the swaps were to become positive, MassDOT would be exposed to credit risk in the amount of the positive fair values. To mitigate credit risk, MassDOT's counterparties are all rated in the A category or higher by the three rating agencies.

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The following represents the credit ratings of the swap counterparties at June 30, 2011:

<b>Derivative swap item</b>	<b>Counterparty credit rating (Moody's, S&amp;P and Fitch)</b>
Derivative 1	Aa3, A+, A+
Derivative 2	Aa3, A+, A+
Derivative 3	Aa3, A+, A+
Derivative 4	Aa3, A+, A+
Derivative 5	Aa3, A+, A+
Derivative 6	Aa3, A+, A+
Derivative 7	Aa1, AA-, AA-

*Basis Risk* – MassDOT is exposed to basis risk related to its pay-variable receive-variable interest rate basis swap because the pay-variable rate is based on 67% of 3 month LIBOR and the receive-variable rate is based on SIFMA. MassDOT is also exposed to basis risk from cash flow hedges because the floating rate being hedged on the bonds is determined on a basis different from the floating rate on the swaps of 68% of 1 month LIBOR.

*Tax Risk* – If maximum tax rates were to decline, it is possible that the 68% of one month LIBOR the MassDOT receives under the 2001 UBS swap would be less than the amount needed to pay its variable rate bonds. The MassDOT and its financial advisor take this risk into consideration when analyzing the sufficiency of the hedge reserve fund balance.

*Termination Risk* – MassDOT or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the related variable rate bonds would no longer be hedged. Finally, if at the time of termination the swap has a negative fair value, MassDOT would be liable for a payment equal to the swaps' fair value.

**(5) Pledged Revenues**

MassDOT has pledged toll and certain related revenues, generated from the Metropolitan Highway System (MHS) and Western Turnpike (WT), to repay \$2,200,000 in revenue bonds after deducting the amount necessary to pay all operating and maintenance costs, capital reinvestment and the maintenance of certain debt service reserve funds as required by the applicable bond covenants. The bonds were originally issued to provide financing for construction related to the MHS and WT. Certain revenue bonds associated with the original issuance were refunded (current) during April and May of 2010, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a \$100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's \$100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues. The total principal and interest (including net swap payments) remaining to be paid on the bonds is \$4,315,000. Principal and interest (including net swap payments) paid and pledged revenue received for the year ended June 30, 2011 were \$99,224 and \$291,934, respectively.

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**(6) Governmental Fund Balances**

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	<b>MTTF (General)</b>	<b>Highway capital projects</b>	<b>Other governmental funds</b>	<b>Total</b>
Nonspendable:				
Prepaid expenditures	\$ 2,395	—	—	2,395
Restricted:				
Debt service	297,566	—	—	297,566
Toll operations and capital reinvestment	265,645	—	—	265,645
Greenway maintenance and preservation	33,092	—	—	33,092
Transportation infrastructure fund	—	68,828	—	68,828
Central Artery repairs and maintenance	—	—	399,064	399,064
Motor vehicle safety inspection	—	—	27,421	27,421
Registry operations	—	—	1,510	1,510
Highway operations	324	—	1,145	1,469
Transit operations	—	—	39	39
Total restricted fund balances	596,627	68,828	429,179	1,094,634
Assigned:				
Tobin Bridge	39,805	—	—	39,805
Insurance reserve	10,317	—	—	10,317
Turnpike operations	9,800	—	—	9,800
Planning and programming	—	—	19	19
Highway operations	568	—	2,956	3,524
Registry operations	—	—	861	861
Transit operations	—	—	—	—
Total assigned fund balances	60,490	—	3,836	64,326
Unassigned	7,006	—	(128)	6,878
Total governmental fund balances	\$ 666,518	68,828	432,887	1,168,233

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**(7) Employee Benefit Plans**

**(a) Pension Plan**

*Plan Description.* MassDOT participates in the SERS, a defined benefit pension plan administered by the Massachusetts State Retirement System. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The SERS does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

*Funding Policy.* Plan members are required to contribute 5% to 14% of their annual covered salary, depending upon the date of hire. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 5.28%. The contribution requirements of plan members and the Commonwealth are established and may be amended by the SERS Board of Trustees. MassDOT's reimbursement to the Commonwealth for the year ending June 30, 2011 was \$13,469, which equaled the required contribution.

**(b) Other Postemployment Benefits (OPEB)**

*Plan Description.* MassDOT participates in the Commonwealth's OPEB plan, an agent multiple-employer OPEB plan administered by Commonwealth's Group Insurance Commission (GIC) and governed by the Trustees of the State Retiree Benefits Trust Fund. The Commonwealth's OPEB plan provides retiree health benefits to plan members and beneficiaries. The Commonwealth's OPEB plan does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

*Funding Policy.* Plan members are required to contribute 0% to 25% of the premium cost, depending on the date of hire and whether the participant is active, retiree or survivor status. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 8.38% based on current payroll. The contribution requirements of plan members are set in General Laws. MassDOT's reimbursement to the Commonwealth for the year ending June 30, 2011 was \$21,375, which equaled the required contribution.

**(c) OPEB Trust Fund**

At the inception of MassDOT, the OPEB Trust Fund, an irrevocable trust fund established to fund the OPEB liability of the then current and former retirees and employees of the Massachusetts Turnpike Authority, was transferred to MassDOT who has the fiduciary responsibility for the assets of the Trust. However, legislation required that the OPEB liability for these same individuals become an obligation of the Commonwealth. For fiscal 2011, the Commonwealth has made benefit payments related to the retirees of the former Massachusetts Turnpike Authority but has not been reimbursed for those payments by either MassDOT or the Trust. As of December 22, 2011, it has not been determined whether or how the assets of the Trust can be moved to the Commonwealth and, as such, the OPEB Trust has been presented as a fiduciary fund of MassDOT.

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**(8) Leases**

**(a) Commitments**

MassDOT has commitments under various operating leases. Total lease expense for the year ending June 30, 2011 was \$15,187. The following is a summary of the future minimum lease payments for operating lease obligations. Capital lease obligations are not material to MassDOT's financial statements.

	<u>Amount</u>
Years:	
2012	\$ 14,436
2013	11,031
2014	9,324
2015	8,752
2016	3,276
2017 – 2020	<u>2,358</u>
Total	<u>\$ 49,177</u>

**(b) Rental Income**

MassDOT leases property and air rights to others. For the year ended June 30, 2011, MassDOT earned \$40,588 in rental income. The following is a schedule by years of minimum future rental income on noncancelable operating leases as of June 30, 2011:

	<u>Amount</u>
Years:	
2012	\$ 37,780
2013	35,315
2014	45,414
2015	35,541
2016	32,233
Thereafter	<u>681,787</u>
Total	<u>\$ 868,070</u>

**(9) Risk Management**

As part of its normal operations, MassDOT encounters the risk of accidental loss stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, MassDOT applies a combination of risk management measures, including safety and loss prevention program, emergency planning, contractual risk transfer, self insurance (internal retention) and



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commercial insurance. Settled claims resulting from the risks discussed above did not exceed the amount of insurance coverage in force during the year ended June 30, 2011.

In connection with the self insurance and insurance programs, MassDOT retains part of the losses incurred and internally manages the self insured claims. The current MassDOT self insured retention includes (i) up to \$25,000 per occurrence for automobile liability and general liability, (ii) \$10,000 per loss for public official liability and privacy & network liability, (iii) \$250 per loss involving damage to buildings and their contents, and (iv) \$25,500 per bridge and tunnel loss. Insurance is purchased above self-insured amounts, subject to availability and reasonableness of cost. Liability insurance policies related to the former Massachusetts Turnpike Authority's exposures in prior periods (for incurred but not reported claims) have been assigned to MassDOT and remain in force.

**(a) Workers' Compensation**

MassDOT's fully self-insured workers' compensation program is administered by the Commonwealth of Massachusetts' Human Resources Division (HRD). HRD assumed responsibility for making fair and timely payments of indemnity and medical benefits to injured MassDOT employees, maintaining the claim and financial records and for negotiating appropriate settlements for all workers' compensation claims. This includes all legacy claims from the predecessor entities.

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. MassDOT records such liabilities as other liabilities.

The estimated workers' compensation liability for occurrences through June 30, 2011 is \$23,425. This amount is based on the results of a review performed by an independent actuarial firm retained by MassDOT, and represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2011.

Changes in the workers' compensation claims liability since November 1, 2009 were as follows:

Liability balance, November 1, 2009	\$	22,330
Provision to record estimated losses		7,185
Payments		(4,440)
Liability balance, June 30, 2010	\$	<u>25,075</u>
Liability balance, July 1, 2010	\$	25,075
Provision to record estimated losses		4,825
Payments		(6,475)
Liability balance, June 30, 2011	\$	<u><u>23,425</u></u>

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**(b) Owner Controlled Insurance Program (OCIP)**

MassDOT has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project (Project) by establishing an OCIP. A Trust, managed and administered by an independent third party (trustee), was established to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The insurance coverage provided by the Commonwealth ended on October 31, 2007, except for general liability coverage, which ended November 1, 2010.

These insurance programs within the OCIP are structured as retrospectively rated insurance programs with retained loss limits of \$1,000 per claim, \$3,000 per occurrence for worker's compensation and \$2,000 per contractor, \$6,000 per occurrence for general liability coverage. MassDOT is responsible for loss costs up to these amounts.

At the request of the Commonwealth on March 10, 2008, the OCIP's insurance company committed to transfer project surplus funds (\$43,600) that were not required to meet unpaid liabilities based on the June 30, 2007 actuarial projection. In fiscal year 2010, the final withdrawal of \$14,200 was made and deposited into MassDOT's Transportation Infrastructure Fund (TIF), which is reported in the major capital projects fund. As of June 30, 2011, MassDOT management believes that the balance remaining in the OCIP will be sufficient to fund unpaid liabilities. Any residual amount remaining at the end of the program will be transferred to the TIF.

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2011 is \$24,100. This amount is based on the results of a review performed by an independent actuarial firm and it represents an estimate of liabilities incurred based on past experience for claims incurred and not reported as of June 30, 2011.

Changes in the claims liability since November 1, 2009 were as follows:

Liability balance, November 1, 2009	\$	31,600
Provision to record estimated losses		8,854
Payments		(7,254)
Liability balance, June 30, 2010	\$	<u>33,200</u>
Liability balance, July 1, 2010	\$	33,200
Provision to record estimated losses		4,184
Payments		(13,284)
Liability balance, June 30, 2011	\$	<u>24,100</u>

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**(10) Commitments**

MassDOT enters into construction contracts for roads, bridges, highways (including the Metropolitan Highway System and Western Turnpike) with various construction and engineering companies. Significant construction contracts outstanding at June 30, 2011 approximated \$2,000,000.

**(11) Litigation**

MassDOT from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which MassDOT's liability is covered in whole or in part by insurance. MassDOT does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

MassDOT has agreed to take responsibility for all costs to complete the Central Artery/Tunnel Project that are in excess of the \$14,798,000 budget provided in the CA/T Finance Plan. At this time, MassDOT has identified no financial obligations pursuant to this agreement as it is anticipated that all costs to complete the CA/T Project, including costs related to additional exposures for claims, will be within the budgeted amount.

The most significant claim at this time involves Contract C11A1. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of \$130,000. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board (DRB) panel. As of June 30, 2011, MassDOT has accrued \$75,000 related to these claims.

The former Massachusetts Turnpike Authority had an investment agreement with Lehman Brothers Special Financing, Inc. (Lehman). In September 2008, Lehman filed for bankruptcy resulting in an event of default under this agreement. In connection with this default, MassDOT has filed a \$50,100 claim against Lehman to recover lost interest earnings and other investment costs. The actual payment realized may be significantly less than the initial claim amount. As of December 22, 2011, this claim is still pending and the outcome is not known.

**(12) Subsequent Events**

***Adoption of Fiscal Year 2012 Budget***

Subsequent to year-end, MassDOT's fiscal year 2012 budget was approved for \$715,605. This amount will be funded from operating revenues (\$387,671) and the CTF (\$327,934) as appropriated by the Massachusetts Legislature.

**(13) The Massachusetts Bay Transportation Authority**

The Massachusetts Bay Transportation Authority (the Authority) was originally created in 1964 as a body politic and corporate and a political subdivision of the Commonwealth of Massachusetts (the Commonwealth).

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The Enabling Act was amended in connection with the reform of the Commonwealth's transportation system. While the Authority remains a separate entity within the newly established Massachusetts Department of Transportation (MassDOT), effective November 1, 2009 the governing board of the Authority was abolished and replaced by a new five member board appointed by the Governor of the Commonwealth. The members of the board serve four-year terms and are eligible for reappointment. Of the appointees of the Governor, two shall be experts in the field of public or private transportation finance, two shall have practical experience in transportation planning and policy and one shall be a registered civil engineer with at least 10 years experience. One of the directors shall be appointed chairperson of the board provided however that said designee shall not be an employee of the Authority, MassDOT or any division thereof. The board has the power to appoint and employ a general manager and other officers. The advisory board, consisting of a representative from each of the cities and towns paying assessments, shall have certain specified powers, including the power to review the Authority's long-term capital program and annual operating budget.

On May 27, 2011, the Authority created Metropolitan Boston Transit Parking Corporation (MBTPC) a private Massachusetts nonprofit corporation organized under the provisions of Chapter 180 of Massachusetts General Laws, for the limited purpose of taking action necessary to provide for issuance of bonds on behalf of the Authority secured by the revenues from the parking system of the Authority. MBTPC began operations on June 22, 2011. The Authority is the sole member of MBTPC and the Board of Directors consists of three ex officio management employees of the Authority. MBTPC has no employees. MBTPC has the ability to issue debt payable and has assumed certain rights to receive gross revenues from the parking system of the Authority under a Transfer and Disposition Agreement. The obligations of the corporation, the bonds and Transfer and Disposition Agreement are limited obligations, payable solely from the assets of MBTPC, which are pledged under the Resolution and recourse shall be limited to such assets. Due to its relationship with the Authority, the MBTPC is considered a blended component of the Authority.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity*, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units, other than the MBTPC, were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the MassDOT, as the Authority is a component unit of the MassDOT.

**(14) MBTA – Summary of Significant Accounting Policies**

**(a) Financial Reporting**

The Authority applies U.S. generally accepted accounting principles (GAAP) as prescribed by GASB. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services to member communities. All other revenues and expenses are reported as nonoperating revenues and expenses.

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Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. After this date, only GASB pronouncements are followed.

**(b) Capital Assets**

Capital assets over \$5 are stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs.

Depreciation is provided on the straight-line method over the asset's estimated useful life. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2011 and 2010:

	<b>Estimated useful life</b>
Ways and structures	10 – 60 years
Building and equipment	3 – 25 years

**(c) Construction in Progress**

During 2011 and 2010, major construction projects aggregating \$368,126 and \$364,514, respectively, were completed and transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of borrowing until completion of the project, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal years 2011 and 2010, the Authority had no material capitalized interest.

Additionally, the Authority, under various interagency agreements, performs construction work on behalf of other state agencies and states. Such construction costs are reimbursed upon completion of the work. Costs incurred during 2011 and 2010 were \$150 and \$151, respectively. Amounts owed to the Authority for these costs and prior years costs as of June 30, 2011 and 2010 were \$518 and \$412, respectively, and are presented in accounts receivable in the accompanying statements of net assets.

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**(d) Self-Insurance**

The Authority is fully self-insured for various risks including workers compensation, injuries and damages, and employee health claims. The Authority also self-insures a portion of casualty, liability claims, and property losses.

**(e) Capital Grants and Contributions**

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

**(f) Revenue Recognition**

The Authority realizes revenue from a variety of different sources including but not limited to dedicated sales tax revenue, dedicated assessment revenue, dedicated state appropriated funds, fare revenue and nonfare revenues such as real estate, parking and advertising revenues.

The dedicated sales tax revenue consists of the greater of the one percent of statewide sales tax, excluding the meals tax or a base revenue amount. The base revenue amount generally increases by the percentage change in inflation, as measured by the Boston Consumer Price Index (CPI), although not to exceed three percent annually. The Authority recognizes the greater of its share of the month's total actual receipts of sales tax revenue of the Commonwealth or the base revenue amount as nonoperating revenue on an accrual basis.

The dedicated assessment revenue consists of the obligation of 175 cities and towns in the Authority's expanded district to pay assessments for transportation services and benefits rendered. The Commonwealth deducts the assessments from each municipality's local aid payments; as such these payments are received from the Commonwealth. The Authority recognizes the assessments on an accrual basis as nonoperating revenue.

The Transportation Reform Act established the Commonwealth Transportation Fund (CTF), a budgetary fund of the Commonwealth for transportation related purposes, to receive essentially the same revenues previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenues. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of \$275 million. The Commonwealth appropriated \$160,000 from the CTF to the Authority for fiscal years 2011 and 2010. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

The Authority generates significant revenue from the operation of its transportation system, including both fare revenue and nonfare revenue such as those derived from real estate, parking and advertising. Fare revenue is recorded on an accrual basis as operating revenue when fare media is

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purchased by riding customers through fare vending equipment and pass programs administered by the Authority. Real estate, parking and advertising revenue is recorded on an accrual basis as operating revenue upon reporting of independent contractors managing these revenue streams on behalf of the Authority.

**(g) *Statements of Cash Flows***

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, which are reported as temporary cash investments.

**(h) *Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**(i) *Compensated Absences***

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2011 and 2010 was \$16,920 and \$17,009, respectively.

**(j) *Restricted Cash and Investment Accounts***

Certain cash and investments are segregated from operating cash due to certain internal or external restrictions as follows:

- Bond Construction Accounts – represent unexpended bond proceeds.
- Lease Deposits – represent investments (Treasury STRIPS and a collateralized investment agreement) held by trustees that will be used to make scheduled equity payments on the Authority's capital leases.
- Bond Reserve Accounts – represent cash funds required to be maintained by trust agreements.
- Stabilization Accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Other Accounts – represent internally restricted funds held for capital maintenance, debt service, and other expenses.

**(k) *Lease Accounts***

Lease accounts represent amounts owed by third parties that are required to be used to pay lease payments under payment undertaking agreements on the Authority's capital leases (note 19).

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**(l) *Materials and Supplies***

Materials and supplies are stated at average cost and include items to support the Authority's operations.

**(m) *Postemployment Benefits***

Postemployment benefits, primarily healthcare, are recognized on an accrual basis. The accrual is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

**(n) *Environmental Remediation Costs***

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup and site monitoring using the expected cash flow technique and in a range of possible estimated amounts. The remediation obligation estimates are subject to change over time due to price fluctuations, changes in technology, changes in potential responsible parties, statutes or regulations or other factors, which could result in the revision of these estimates.

**(o) *Derivatives***

Derivative instruments are reported as assets or liabilities at fair value on the statement of net assets. Changes in fair value may be reported in the statement of revenue, expenses, and changes in net assets, or as deferred inflows or deferred outflows of resources in the statement of net assets depending upon whether the derivative instrument qualifies for hedge accounting.

**(p) *Available Unrestricted Resources***

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

**(q) *Reclassifications***

Certain prior year accounts have been reclassified to conform to the 2011 presentation.

**(15) MBTA – Deposits and Investments**

The Authority's investment policy is to only invest in securities named in the respective trust agreements.

The Authority is authorized by its board of directors to make deposits into checking and savings accounts and to invest in direct obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, investment agreements, municipal bonds, repurchase agreements secured by U.S. government and agency obligations, and certain other investments permitted under the trust indentures.



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Obligations of any agency or instrumentality of the United States of America including, but not limited to the following, may be acceptable as collateral to secure certificates of deposit or other instruments:

- (A) Federal Home Loan Banks
- (B) Federal Land Banks
- (C) Federal Intermediate Credit Banks
- (D) Bank for Cooperatives
- (E) Federal National Mortgage Association
- (F) Federal Farm Credit Banks

The Authority may invest in prime commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's Investor Services (Moody's) or A-1 by Standard and Poor's (S&P). These instruments can vary in maturity; however, no more than 10% of the investment funds shall be invested in the commercial paper of a single corporation.

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, established under General Laws, Chapter 29, Section 38A.

Marketable securities, which consist primarily of U.S. government instruments, are carried at fair value based upon quoted market prices. The Authority's investment in MMDT is carried at unit value, which approximates fair value. Other short-term money market-like investments, including forward delivery agreements and auction rate securities, are carried at cost that approximates fair value. Nonparticipating interest-earning contracts, including certificates of deposit and guaranteed investment contracts, are carried at cost.

Deposits and investments consisted of the following amounts presented in the accompanying statements of net assets at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Restricted:		
Bond construction accounts	\$ 182,743	177,334
Bond reserve, stabilization, and other accounts	557,674	485,836
Lease deposits	<u>73,539</u>	<u>101,034</u>
Subtotal	813,956	764,204
Unrestricted cash and temporary cash investments	<u>121,518</u>	<u>112,985</u>
	<u>\$ 935,474</u>	<u>877,189</u>

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**(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 and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority's deposits at June 30, 2011 and 2010 was \$88,453 and \$77,188, respectively. The bank balance at June 30, 2011 and 2010 was \$88,302 and \$78,981, respectively. Of this amount, \$7,987 and \$3,201, respectively, was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation (FDIC) limit of \$250 at June 30, 2011 and 2010.

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

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

The Authority's fixed income investments at June 30, 2011 and 2010 are presented below. All investments are presented by investment type and maturity.

Investment type	Fair value	2011			
		Investment maturities (in years)			
		Less than 1 year	1 – 3	4 – 8	More than 8
MMDT	\$ 103,942	103,942	—	—	—
Money market funds	187,979	187,979	—	—	—
Guaranteed investment contracts	3,231	—	—	—	3,231
Treasury STRIPS	73,539	12,390	27,046	—	34,103
Government-sponsored enterprises	369,404	333,765	—	7,169	28,470
Other treasury obligations	101,926	—	—	—	101,926
Certificates of deposit	7,000	7,000	—	—	—
Investments	\$ 847,021	645,076	27,046	7,169	167,730

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Investment type	Fair value	2010			
		Investment maturities (in years)			
		Less than 1 year	1 – 3	4 – 8	More than 8
MMDT	\$ 95,593	95,593	—	—	—
Money market funds	334,629	334,629	—	—	—
Guaranteed investment contracts	3,704	—	—	—	3,704
Treasury STRIPS	121,251	26,282	30,426	26,395	38,148
Government-sponsored enterprises	179,069	171,848	—	—	7,221
Other treasury obligations	60,755	—	—	—	60,755
Certificates of deposit	5,000	5,000	—	—	—
Investments	<u>\$ 800,001</u>	<u>633,352</u>	<u>30,426</u>	<u>26,395</u>	<u>109,828</u>

**(c) Credit Ratings**

The Authority holds guaranteed investment contracts and forward delivery agreements (none held at June 30, 2011) with a fair value of \$3,231 and \$3,704 at June 30, 2011 and 2010, respectively. These investments are not rated.

The Authority had \$175,465 and \$182,006 in Treasury STRIPS and other treasury obligations as of June 30, 2011 and 2010, respectively. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government.

The Authority has \$369,404 and \$179,069 invested in Government-Sponsored Enterprises (GSE) as of June 30, 2011 and 2010, respectively. These investments have an implied credit rating of AAA or they have been collateralized to AAA.

The Authority has \$103,942 and \$95,593 invested in MMDT as of June 30, 2011 and 2010, respectively, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

The Authority also has \$194,979 and \$339,629 invested in money market funds and certificates of deposit as of June 30, 2011 and 2010, respectively. These investments are not rated.

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**(d) Concentration of Credit Risk – Investments**

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment in a single issuer. The issuers where securities at year-end exceeded 5% of the total investments, other than U.S. government obligations and mutual funds, are as follows:

	<b>Credit rating by Moody's/S&amp;P</b>	<b>2011</b>	<b>Percentage of portfolio</b>
Federal National Mortgage Association	Aaa/AAA	\$ 136,519	16.1%
Federal Home Loan Mortgage Corporation	Aaa/AAA	133,540	15.8
		<u>\$ 270,059</u>	<u>31.9%</u>
	<b>Credit rating by Moody's/S&amp;P</b>	<b>2010</b>	<b>Percentage of portfolio</b>
Federal Home Loan Banks	Aaa/AAA	\$ 80,228	10.0%
Federal National Mortgage Association	Aaa/AAA	55,317	6.9
		<u>\$ 135,545</u>	<u>16.9%</u>

**(e) Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority was not exposed to foreign currency risk as of June 30, 2011 and 2010.

**(16) MBTA – Commuter Railroad**

Under the Authority's Enabling Act, Massachusetts General Laws, Chapter 161A, Section 3(f), the Authority may enter into agreements with private transportation companies, railroads, and other concerns providing for joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

The Authority entered into an operating agreement with Massachusetts Bay Commuter Railroad Company (MBCRC) beginning July 1, 2003 for a period of five years to provide commuter railroad service over the Authority's rail lines. This contract was extended through fiscal year 2013. The Authority will pay MBCRC a total fixed base contract amount of \$2,358,866 over the approved ten-year period, with remaining payments at June 30, 2011 totaling \$559,692.

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**(17) MBTA – Long-Term Debt**

**(a) Bonds Payable**

The Enabling Act authorizes the Authority to issue general obligation debt, revenue, or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts, or other assets or funds of the Authority beginning July 1, 2000.

Debt issued by the Authority and outstanding at June 30, 2000 (prior obligations) is backed by the full faith and credit of the Commonwealth to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2011, prior obligations in the amount of \$578,645 are outstanding.

Debt issued by the Authority after June 30, 2000 (new debt) will not be supported by the Commonwealth's guarantee. Additionally, the Authority is not expected to receive any principal or interest subsidies from the Commonwealth for the repayment of the prior obligations and new debt of the Authority, unless authorized by special legislation.

During fiscal year 2011, the Authority issued the following bonds: the 2010 Series C Sales Tax Bonds in the amount of \$63,450, the 2010 Series D Sales Tax Bonds (BABs) in the principal amount of \$210,000 and the MBTPC in the principal amount of \$304,585.

Principal on the 2010 Series C Sales Tax Bonds is payable beginning July 1, 2018 and on each July 1<sup>st</sup> through July 1, 2020. Interest on these bonds is payable semiannually on July 1 and January 1. The Series C Sales Tax Bonds were issued to fund a portion of the Authority's Capital Investment Program (CIP).

Principal on the 2010 Series D Sales Tax Bonds is payable beginning July 1, 2021 and on each July 1<sup>st</sup> through July 1, 2040 except for July 1 of 2022 through 2025. Interest on these bonds is paid semiannually on July 1 and January 1. The 2010 Series D Sales Tax Bonds were issued as Build America Bonds pursuant to the American Recovery and Reinvestment Act (ARRA) and receive a cash subsidy from the U.S. Treasury in connection therewith. The 2010 Series D Sales Tax Bonds were issued to fund a portion of the Authority's CIP.

Principal on the 2011 Series A Metropolitan Boston Transit Parking Corporation is payable beginning July 1, 2022 and on each July 1<sup>st</sup> through July 1, 2041. Interest on these bonds is semiannually on July 1 and January 1 each year. The bond issue is funded from the parking system daily revenue of approximately 44,000 parking spaces at 95 different facilities including seven structured garages and 88 surface lots, all of which are owned by the Authority. The debt service on this issue is funded by the pledged revenues from these lots with any excess revenue refunded back to the Authority, with any deficiency occurrences cured by the Authority. The 2011 Series A were issued to refund the 2004 Series A Assessment Bonds, the 2005 Series A Assessment Bonds, the 2008 Series A Assessment Bonds, the 2002 Series A Sales Tax Bonds, the 2003 Series A Sales Tax Bonds, the 2004 Series C Sales Tax Bonds, the 2006 Series B Sales Tax Bonds, the 2006 Series C

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Sales Tax Bonds, the 2008 Series B Sales Tax Bonds, the 2009 Series D Sales Tax Bonds, the 1991 Series A General Transportation System (GTS) Bonds, the 1992 Series C GTS Bonds and the 1995 Series A GTS Bonds.

During fiscal year 2010, the Authority issued the following bonds: the 2009 Series C Sales Tax Bonds (BABs) in the principal amount of \$218,300, the 2009 Series D Sales Tax Bonds in the amount of \$39,840, the 2010 Series A Sales Tax Bonds (Windows VRDO) in the principal amount of \$80,255 and the 2010 Series B Sales Tax Bonds in the principal amount of \$79,020.

Principal on the 2009 Series C Sales Tax Bonds is payable beginning July 1, 2020 and on each July 1st through July 1, 2039. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series C Sales Tax Bonds were issued as Build America Bonds pursuant to the ARRA and receive a cash subsidy from the U.S. Treasury in connection therewith. The 2009 Series C Sales Tax Bonds were issued to fund a portion of the Authority's CIP.

Principal on the 2009 Series D Sales Tax Bonds is payable beginning July 1, 2014 and on each July 1st through July 1, 2019. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series D Sales Tax Bonds were issued to fund a portion of the Authority's CIP expenditures.

Principal on the 2010 Series A Sales Tax Bonds (Windows VRDO) is payable beginning July 1, 2024 and on each July 1st through July 1, 2030. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series A Sales Tax Bonds (Windows VRDO) were issued to refinance the 2009 Series A Senior Sales Tax Bonds that were subject to a mandatory tender on February 17, 2010.

Principal on the 2010 Series B Sales Tax Bonds is payable beginning July 1, 2011 and on each July 1st through July 1, 2035, except for July 1, 2031 and July 1, 2032. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series B Sales Tax Bonds were issued to refund the 2000 Series A Assessment Bonds and the 2005 Series A Senior Sales Tax Bonds.

GTS bonds, all issued prior to July 1, 2000, are payable in annual installments on March 1st and interest is payable semiannually on March 1 and September 1. The GTS bonds were issued to provide funds for the financing of the Authority's transportation property.

The Authority issued commercial paper notes (BANs) in the amount of \$25,000 during fiscal year 2011 to fund payment on prior obligations of the Authority. The balance of \$118,375 and \$93,375 was outstanding as of June 30, 2011 and 2010, respectively. The total BANs included CP Sales Tax Series A in the amount of \$46,125 with a weighted average nominal rate 0.448% and CP Sales Tax Series B in the amount of \$72,250 with a weighted average nominal rate 0.292%.

Grant Anticipation Notes (GANs) were issued in 2004 and the principal is payable in annual installments on September 1st; interest is payable semiannually on March 1 and September 1. The GANs were issued to provide funds for the financing of the Authority's transportation properties.

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Boston Metropolitan District (BMD) bonds were issued for transit purposes prior to the formation of the Authority in 1964. Certain series of BMD bonds were refunded after 1964.

The Authority's bonds outstanding at June 30, 2011 are as follows:

	<b>Final year of maturity</b>	<b>Interest rates</b>	<b>Outstanding principal as of June 30, 2011</b>	<b>Due in fiscal year 2012</b>
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	\$ 5,175	1,725
1991 Series A Bonds dated November 15, 1991	2021	7.00	41,595	5,430
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20	125,200	—
1992 Series C Bonds dated November 15, 1992	2013	6.10	5,185	5,185
1993 Series A Refunding Bonds dated June 1, 1993	2012	5.50	5,950	5,950
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25 – 7.00	44,585	15,840
1995 Series A Bonds dated April 1, 1995	2015	5.75 – 5.88	35,715	12,090
1998 Series A Bonds dated February 15, 1998	2015	5.50	35,470	8,165
1998 Series C Bonds dated November 1, 1998	2022	5.25 – 5.75	72,050	21,095

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	<u>Final year of maturity</u>	<u>Interest rates</u>	<u>Outstanding principal as of June 30, 2011</u>	<u>Due in fiscal year 2012</u>
1999 Series Variable Rate Demand Obligation dated June 29, 1999*	2014	Variable	\$ 19,720	6,130
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	188,000	2,335
			<u>578,645</u>	<u>83,945</u>
Boston Metropolitan District (BMD) bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	8,130	2,050
			<u>8,130</u>	<u>2,050</u>
Revenue bonds:				
2002 Series A Senior Sales Tax Bond dated November 1, 2002	2017	3.88 – 5.00	9,790	—
2003 Series A Senior Sales Tax Bond dated January 29, 2003	2021	4.00 – 5.25	136,145	5,955
2003 Series C Senior Sales Tax Bond dated February 3, 2004**	2023	2.20 – 6.00	218,620	770
2004 Series A Senior Sales Tax Bond dated February 3, 2004	2016	5.00 – 5.25	16,455	—
2004 Series B Senior Sales Tax Bond dated March 9, 2004	2030	3.00 – 5.25	488,060	33,315
2004 Series A Assessment Bond dated June 10, 2004	2021	3.00 – 5.25	28,735	9,105
2004 Series C Senior Sales Tax dated December 22, 2004	2024	3.50 – 5.50	319,320	—
2005 Series A Senior Sales Tax dated March 24, 2005	2031	5.00	735,450	—
2005 Series A Assessment Bond dated September 8, 2005	2035	3.20 – 5.00	146,450	5,000
2005 Series B Senior Sales Tax dated December 21, 2005	2029	3.40 – 5.50	92,225	50
2006 Series A Senior Sales Tax Bond dated March 2, 2006	2034	5.25	238,850	—
2006 Series B Senior Sales Tax Bond dated December 5, 2006	2023	5.00 – 5.25	202,830	—



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	<b>Final year of maturity</b>	<b>Interest rates</b>	<b>Outstanding principal as of June 30, 2011</b>	<b>Due in fiscal year 2012</b>
2006 Series C Senior Sales Tax Bond dated June 28, 2006	2027	4.00% – 5.00% \$	109,365	—
2006 Series A Assessment Bonds dated September 13, 2006***	2035	4.67 – 5.25	161,340	—
2007 Series A-1 Senior Sales Tax Bond dated May 24, 2007	2034	5.25	205,675	—
2007 Series A-2 Senior Sales Tax Bond dated May 24, 2007	2037	Zero Coupon	161,745	—
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083 – 3.834	131,910	131,910
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083 – 3.834	124,000	124,000
2008 Series B Senior Sales Tax Bond dated April 30, 2008	2033	3.00 – 5.25	48,605	—
2008 Series A Assessment Bond dated November 13, 2008	2034	4.00 – 5.25	290,350	—
2009 Series B Senior Sales Tax dated February 26, 2009	2018	3.00 – 5.00	39,365	—
2009 Series D Senior Sales Tax dated October 29, 2009	2019	3.00 – 5.00	14,445	—
2010 Series A Senior Sales Tax dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax dated April 6, 2010	2035	2.00 – 5.00	79,020	1,260
2010 Series C Senior Sales Tax dated December 8, 2010	2020	5.00	63,450	—
			<u>4,142,455</u>	<u>391,620</u>
Metropolitan Boston Transit Parking Corporation (MBTPC) Bonds:				
2011 Series A MBTPC dated June 22, 2011	2041	4.00 – 5.25	304,585	—
			<u>304,585</u>	<u>—</u>

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	<u>Final year of maturity</u>	<u>Interest rates</u>	<u>Outstanding principal as of June 30, 2011</u>	<u>Due in fiscal year 2012</u>
Revenue Build America				
Bonds (BABs):				
2009 Series C Senior Sales Tax dated October 29, 2009	2039	4.75% – 5.57%	\$ 218,300	—
2010 Series D Senior Sales Tax dated December 8, 2010	2040	4.546 – 5.869	<u>210,000</u>	<u>—</u>
			<u>428,300</u>	<u>—</u>
Grant Anticipation Notes (GANs):				
2004 Series A Grant Anticipation Notes dated August 5, 2004	2011	2.75 – 5.00	6,245	6,245
Bond Anticipation Notes (BANs)	2011	0.26 – 0.60	<u>118,375</u>	<u>118,375</u>
Total bond and notes payable			5,586,735	\$ <u><u>602,235</u></u>
Less current maturities			<u>(602,235)</u>	
Total long-term bonds payable			4,984,500	
Plus unamortized bond premiums			317,078	
Less unamortized bond discounts/losses on bond refundings, net			<u>(238,467)</u>	
Total long-term bonds payable			\$ <u><u>5,063,111</u></u>	

\* These bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. The interest rates as of June 30, 2011 and 2010 are 0.07% and 0.26% for the 1999 Series VRDO; 2.00% and 0.25% for the 2000 Series VRDO; 0.06% and 0.20% for the 2008 Series A-1 Senior Sales Tax Bond; and 0.06% and 0.20% for the 2008 Series A-2 Senior Sales Tax Bond, respectively.

\*\* The 2020 maturity in the amount of \$25,005 is variable debt based on the MUNI-CPI rate, plus 79 basis points.

\*\*\* The 2024 maturity in the amount of \$19,260 and the 2025 maturity in the amount of \$5,000 is variable debt based on the MUNI-CPI rate, plus 123 basis points

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\*\*\*\* This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 0.09%.

The annual maturities of bonds and notes payable as of June 30, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal year(s):		
2012	\$ 602,235	268,561
2013	198,665	252,983
2014	177,165	242,511
2015	172,350	232,298
2016	149,600	222,257
2017 – 2021	1,072,615	958,267
2022 – 2026	1,065,045	717,424
2027 – 2031	1,071,534	466,506
2032 – 2036	797,974	231,567
2037 – 2041	256,138	68,983
2042	23,414	585
Total	<u>\$ 5,586,735</u>	<u>3,661,942</u>

A summary rollforward of bonds for the years ended June 30, 2011 and 2010 is as follows:

	2011					
	Balance 2010	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2011
GTS	\$ 743,220	—	40,750	123,825	—	578,645
BMD	10,190	—	2,060	—	—	8,130
Revenue	4,337,363	63,450	45,400	220,350	7,392	4,142,455
BABs	218,300	210,000	—	—	—	428,300
GANs	23,635	—	17,390	—	—	6,245
BANs	93,375	25,000	—	—	—	118,375
MBTPC	—	304,585	—	—	—	304,585
	<u>\$ 5,426,083</u>	<u>603,035</u>	<u>105,600</u>	<u>344,175</u>	<u>7,392</u>	<u>5,586,735</u>

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		2010				
	Balance 2009	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2010
GTS	\$ 855,535	—	112,315	—	—	743,220
BMD	12,260	—	2,070	—	—	10,190
Revenue	4,306,104	199,115	13,895	161,015	7,054	4,337,363
BABs	—	218,300	—	—	—	218,300
GANs	40,300	—	16,665	—	—	23,635
BANs	93,375	20,000	20,000	—	—	93,375
	<u>\$ 5,307,574</u>	<u>437,415</u>	<u>164,945</u>	<u>161,015</u>	<u>7,054</u>	<u>5,426,083</u>

The following funds, included in restricted assets at June 30, 2011 and 2010, are in connection with the Authority's revenue bond trust agreements:

	2011				2010		
	Assessment bonds	Sales Tax bonds	MBTPC bonds	GANs	Assessment bonds	Sales Tax bonds	GANs
Debt service	\$ 32,082	221,261	—	171	27,279	161,360	171
Debt service reserve	64,329	192,821	12,294	8,040	75,444	182,257	8,334
	<u>\$ 96,411</u>	<u>414,082</u>	<u>12,294</u>	<u>8,211</u>	<u>102,723</u>	<u>343,617</u>	<u>8,505</u>

The minimum required balances in the debt service reserve funds at June 30, 2011 and 2010 were \$189,405 and \$190,100 for the Sales Tax bonds and \$58,986 and \$69,375 for the Assessment bonds, respectively. The minimum required balance in the debt service reserve funds at June 30, 2011 and 2010 for GANs is \$625 and \$2,344, respectively. The minimum required balance in the debt service reserve funds at June 30, 2011 for MBTPC is \$12,294. The Authority has complied with its financial bond covenants.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to pay its capital costs. The Authority has a \$250 million commercial paper program. \$150 million is administered by JPMorgan and \$100 million by Barclays Capital Inc. The Authority's commercial paper (or BANs) is rated P-1 by Moody's and A-1+ by S&P. The Authority had \$118,375 in outstanding commercial paper as of June 30, 2011.

**(b) Debt Refundings**

In current and prior years, the Authority defeased in-substance several GTS, Sales Tax Series, and Assessment Series bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2011 and 2010, \$1,283,455 and \$1,610,475 of these bonds, considered

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defeased in-substance, are still outstanding, respectively. On June 30, 2011 and 2010, \$4,060 in BMD bonds are considered defeased in-substance, and are still outstanding.

In December 2010, the Authority refunded \$23,425 of the 1993 Series A GTS Bonds, \$22,860 of the 1994 Series A GTS Bonds and \$21,715 of the 1998 Series C GTS Bonds with the issuance of the 2010 Series C Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the \$68,000 in bonds is approximately \$16,478. The accounting loss of \$8,194 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2010 Series C Sales Tax Bonds.

In June 2011, the Authority refunded \$16,850 of the 2004 Series A Assessment Bonds, \$45,800 of the 2005 Series A Assessment Bonds, \$64,070 of the 2008 Series A Assessment Bonds, \$8,740 of the 2002 Series A Sales Tax Bonds, \$22,650 of the 2003 Series A Sales Tax Bonds \$3,955 of the 2004 Series C Sales Tax Bonds, \$5,170 of the 2006 Series B Sales Tax Bonds, \$26,555 of the 2006 Series C Sales Tax Bond, \$1,165 of the 2008 Series B Sales Tax Bonds, \$25,395 of the 2009 Series B Sales Tax Bond, \$33,405 of the 1991 Series A GTS Bonds, \$5,500 of the 1992 Series C GTS Bonds and \$16,920 of the 1995 Series A GTS Bonds with the issuance of the 2011 Series A MBTPC Systemwide Parking Revenue Bonds. The accounting loss of \$28,080 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2011 Series A MBTPC Bonds.

In February 2010, the Authority refunded \$79,645 of the 2009 A Sales Tax Bonds with the issuance of 2010 Series A Sales Tax Bonds variable rate demand obligation.

In April 2010, the Authority refunded \$41,785 of the 2000 Series A Assessment Bonds and refunded \$39,585 of the 2005 Series A Senior Sales Tax Bonds with the issuance of the 2010 Series B Senior Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the \$81,370 in bonds is approximately \$6,517. The accounting loss of \$1,969 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2010 Series B Senior Sales Tax Bonds.

**(c) *Derivative Instruments***

The Authority has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps). When the Authority has entered into Swaps, the Authority has done so in order to: (1) provide lower cost fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long-term fixed rate returns on invested assets in its required reserve funds; (3) create synthetic refinancing with cash flow savings realized as the Authority designates; or (4) create a synthetic fixed rate for the purchase of vehicular fuel for fixed periods of time rather than being exposed to unpredictable variations in fuel prices on the spot market. All Swaps for which the Authority received an upfront payment are considered hybrid instruments. The premiums/up-front payments are reported as a borrowing and included in the long-term liability deferred revenue and other on the statement of net assets and the Swaps are reported based on the at-the-market rates at the time of execution.

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**Summary of Swap Transactions by Category**

*Synthetic Fixed Rate Swap Transactions*

Derivative item	Type	Objective	Effective date	Current notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Upfront payment from counterparty	Fair value at June 30	
									2011	2010
Cash flow hedges:										
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	\$ 188,000	2030	5.00%	67% of LIBOR	\$ 12,230	(39,437)	(45,426)
3	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Senior Sales Tax Series 2003 C	February 2004	25,005	2020	4.00	CPI+79 basis points	N/A	(469)	(1,857)
4	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	19,260	2024	5.00	CPI+123 basis points	607	296	(731)
5	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	5,000	2025	5.00	CPI+123 basis points	142	89	(179)
6	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-1	October 2008	131,910	2021	4.00	SIFMA	3,067	(13,420)	(13,608)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	124,000	2026	3.00	62% of LIBOR plus 24 basis points	116	(9,830)	(12,581)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	6.00	SIFMA	4,140	(22,414)	(24,283)
									<u>(85,185)</u>	<u>(98,665)</u>
Investment derivatives:										
2	Pay – fixed interest rate swap	(a) Originally to hedge changes in cash flows on variable rate debt	February 2003	87,805	2022	5.00	SIFMA	4,586	(18,017)	(19,544)
9	Receive – fixed interest rate swap	(b) Hedge changes in cash flows on the debt service reserve funds of the 2000 Assessment and Sales Tax Bonds	December 2000	49,123	2030	6.00	SIFMA	1,265	(2,050)	(2,333)
									<u>(20,067)</u>	<u>(21,877)</u>
									<u>\$ (105,252)</u>	<u>(120,542)</u>

(a) The 2003 B-1 and 2003 B-2 hedged bonds were legally redeemed in March 2008 through the issuance of commercial paper.

(b) This is a swaption with exercise dates of January 1 and July 1 from July 2010 through July 2030.

The aggregate fair value balance of the derivative instruments at June 30, 2011 and 2010 is \$(105,252) and \$(120,542), respectively, and is reflected on the Authority's statement of net assets

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as liability for derivative instruments. Of this liability, \$85,185 and \$98,665 at June 30, 2011 and 2010, respectively, were offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2011 and 2010, the Authority determined that the investment derivative instruments do not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net assets.

The fair values of the interest rate swaps were calculated by a third party derivative advisor where each leg of the swap is valued utilizing the present value of expected future cash flows based on the contractual terms of each swap or an “at the market rate” in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Expected cash flows are discounted using the US Dollar Swap curve provided by independent third parties such as Bloomberg.

*Swap Payments and Associated Debt*

As of June 30, 2011, debt service requirements of the GTS Series 2000 VRDO Bonds (2000 Bonds) and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of LIBOR Rate is 0.1243% and the variable rate on the 2000 Bonds is 2.00% through the term of the swap, were as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2000 Bonds principal</b>	<b>2000 Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2012	\$ 2,335	3,713	9,052	15,100
2013	5,460	3,604	8,786	17,850
2014	5,845	3,487	8,501	17,833
2015	6,250	3,362	8,197	17,809
2016	6,690	3,228	7,870	17,788
2017 – 2021	41,170	13,783	33,601	88,554
2022 – 2026	57,735	8,717	21,250	87,702
2027 – 2030	62,515	1,981	4,830	69,326
Totals	<u>\$ 188,000</u>	<u>41,875</u>	<u>102,087</u>	<u>331,962</u>

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As of June 30, 2011, debt service requirements on the 2003 Series C Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming CPI rate of 7.711% plus 79 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2003 Series C Sales Tax Bonds principal</b>	<b>2003 Series C Sales Tax Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2012	\$ —	2,126	(1,093)	1,033
2013	—	2,126	(1,093)	1,033
2014	—	2,126	(1,093)	1,033
2015	—	2,126	(1,093)	1,033
2016	—	2,126	(1,093)	1,033
2017 – 2021	25,005	7,794	(4,008)	28,791
	<u>\$ 25,005</u>	<u>18,424</u>	<u>(9,473)</u>	<u>33,956</u>

As of June 30, 2011, debt service requirements on 2006 Series A Assessment Bonds and net swap payments, applying the fixed rate on the swap of 4.66% and assuming the CPI rate of 7.711% plus 123 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2006 Series A Assessment Bonds principal</b>	<b>2006 Series A Assessment Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2012	\$ —	447	(214)	233
2013	—	447	(214)	233
2014	—	447	(214)	233
2015	—	447	(214)	233
2016	—	447	(214)	233
2017 – 2021	—	2,235	(1,070)	1,165
2022 – 2026	5,000	1,788	(856)	5,932
	<u>\$ 5,000</u>	<u>6,258</u>	<u>(2,996)</u>	<u>8,262</u>



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As of June 30, 2011, debt service requirements on 2006 Series A Assessment Bonds and net swap payments, applying the fixed rate on the swap of 4.67% and assuming the CPI rate of 7.711% plus 123 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2006 Series A Assessment Bonds principal</b>	<b>2006 Series A Assessment Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2012	\$ —	1,722	(823)	899
2013	—	1,722	(823)	899
2014	—	1,722	(823)	899
2015	—	1,722	(823)	899
2016	—	1,722	(823)	899
2017 – 2021	—	8,610	(4,113)	4,497
2022 – 2026	19,260	5,166	(2,468)	21,958
	<u>\$ 19,260</u>	<u>22,386</u>	<u>(10,696)</u>	<u>30,950</u>

As of June 30, 2011, debt service requirements on 2008 Series A-1 Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the SIFMA index rate is 0.09% and the variable rate on 2008 Series A-1 bonds is 0.06% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2008 Series A-1 Sales Tax Bonds principal</b>	<b>2008 Series A-1 Sales Tax Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2012	\$ —	79	4,939	5,018
2013	—	79	4,939	5,018
2014	135	79	4,934	5,148
2015	735	79	4,906	5,720
2016	765	78	4,877	5,720
2017 – 2021	101,740	211	13,178	115,129
2022	28,535	—	—	28,535
	<u>\$ 131,910</u>	<u>605</u>	<u>37,773</u>	<u>170,288</u>

As of June 30, 2011, debt service requirements on 2008 Series A-2 Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.083% and assuming the 62% of LIBOR plus 24

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basis points is 0.3550% and the variable rate on 2008 Series A-2 bonds is 0.06% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2008 Series A-2 Sales Tax Bonds principal</b>	<b>2008 Series A-2 Sales Tax Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2012	\$ 485	74	3,369	3,928
2013	500	74	3,356	3,930
2014	515	74	3,342	3,931
2015	535	73	3,327	3,935
2016	550	73	3,312	3,935
2017 – 2021	3,030	359	16,318	19,707
2022 – 2026	99,500	207	9,426	109,133
2027	18,885	—	—	18,885
	<u>\$ 124,000</u>	<u>934</u>	<u>42,450</u>	<u>167,384</u>

As of June 30, 2011, debt service requirements on 2010 Series A Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.09% and the variable rate on 2010 Series A Bonds is 0.09% plus 9 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2011 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2010 Series A Sales Tax Bonds principal</b>	<b>2010 Series A Sales Tax Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2012	\$ —	143	4,396	4,539
2013	—	143	4,396	4,539
2014	—	143	4,396	4,539
2015	—	143	4,396	4,539
2016	—	143	4,396	4,539
2017 – 2021	—	717	21,982	22,699
2022 – 2026	19,590	664	20,375	40,629
2027 – 2031	60,055	229	7,010	67,294
	<u>\$ 79,645</u>	<u>2,325</u>	<u>71,347</u>	<u>153,317</u>

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*Risk Disclosure*

*Credit Risk* – Because all of the Authority’s Swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of exposure to this risk at the reporting date is the fair value of the swaps in an asset position, as shown in the columns labeled fair value in the tables above. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties for long-term swaps are rated in the A category by both Moody’s and S&P. To further mitigate credit risk, the Authority’s swap documents require counterparties to post collateral for the Authority’s benefit if they are downgraded below a designated threshold.

The following represents the credit ratings of the counterparties as of June 30, 2011:

<u>Derivative swap item</u>	<u>Counterparty credit rating Moody’s/S&amp;P</u>
Derivative 1	Aa3/A+
Derivative 2	Aa1/AA-
Derivative 3	A2/A
Derivative 4	Aa3/A+
Derivative 5	Aa3/A+
Derivative 6	Aa3/A+
Derivative 7	Aa3/A+
Derivative 8	Aa1/AA-
Derivative 9	Aa3/A+

*Basis Risk* – The Authority is exposed to basis risk when the floating rate the Authority receives under the swaps is different from the variable rate on the associated bonds. Should this occur, the expected saving may not be realized. Refer to tables above for basis for swap and bond variable rates and the actual rates in place at year end.

*Termination Risk* – The Authority’s swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. If at the time of the termination a swap has a negative value, the Authority would be liable to the counterparty for a payment equal to the fair value of such swap.

*Rollover Risk* – Rollover risk is the risk that occurs when the term of the swap does not match the term or maturity of the debt associated with the hedge. The Authority is subject to rollover risk for

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those swaps that hedge its variable rate demand obligations in the event the Authority is not able to remarket those instruments as anticipated.

**(18) MBTA – Retirement Plans**

The Authority provides retirement benefits to employees through four defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Plan, the MBTA Police Association Plan, the MBTA Deferred Compensation Plan, the MBTA Qualified Deferred Compensation Plan, and the MBTA Deferred Compensation Savings Plan. The Authority also provides supplemental pension benefits after retirement.

The MBTA Retirement Plan, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. This retirement plan and the MBTA Police Association Plan, a single-employer plan, provide retirement, disability, and death benefits. The MBTA Retirement Plan issues separately audited financial statements that may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Plan does not issue separately audited financial statements.

The MBTA Deferred Compensation Plan, a single-employer plan, provides supplemental pension benefits for certain executive and Local 453 (collective bargaining unit) employees after retirement. Employees may participate in both the MBTA Retirement Plan and the MBTA Deferred Compensation Plan. The MBTA Deferred Compensation Plan does not issue separately audited financial statements.

The Authority created a qualified deferred compensation plan effective January 1, 2001. The plan is designed to supplement the Authority's Retirement Plan (Main Fund). Covered employees include all actively employed nonunion employees who are participating in the Authority's Main Fund or the Police Association Retirement Plan. Employees are eligible after five years with the Authority, if they have reached age 30 and are paid as part of the executive payroll. The plan currently provides benefits for 187 retirees. The MBTA Qualified Deferred Compensation Plan does not issue separately audited financial statements. An actuarial valuation was performed on this plan; however, the cost of this plan to the Authority for fiscal year 2011 was minimal and no contributions were made to this plan in fiscal year 2011. In addition, the net pension obligation is considered immaterial.

**(a) *Funding Policy and Annual Pension Cost***

The board of trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members, as of May 8, 2010, to contribute 5.124% with the Authority currently paying an amount equal to 14.026% of total payroll. The members contributed 4.301% prior to May 8, 2010 with the Authority paying an amount equal to approximately 11.559% of total payroll. The actuarial required contribution rate for the Authority was 17.7367%. The contribution requirements for the Police Association Plan were 16.583% for the Authority and 7.285% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made in 2011 and 2010 were in accordance with these contribution requirements. The MBTA Retirement Plan requires members, as of July 2, 2011, to contribute 5.149% with the Authority currently paying an amount equal to 14.101% of total payroll.

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Deferred compensation contributions are made on a “pay-as-you-go” basis. The Authority’s annual pension cost for the years ended June 30, 2011 and 2010 and related information for each plan is as follows:

<b>2011</b>			
<b>Pension</b>	<b>MBTA Retirement Plan</b>	<b>MBTA Police Association Plan</b>	<b>MBTA Deferred Compensation Plan</b>
Annual pension cost – authority	\$ 66,075	2,798	5,770
Contributions made – authority	52,516	2,137	5,185
Actuarial valuation date/update	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	30 years	30 years	30 years
Asset valuation method	5-year moving	5-year moving	5-year moving
Actuarial assumptions:			
Interest rate	7.50%	7.00%	8.00%
Projected salary increases	4.00	4.50	4.00

  

<b>2010</b>			
<b>Pension</b>	<b>MBTA Retirement Plan</b>	<b>MBTA Police Association Plan</b>	<b>MBTA Deferred Compensation Plan</b>
Annual pension cost – authority	\$ 53,887	2,468	5,602
Contributions made – authority	42,920	2,140	4,904
Actuarial valuation date/update	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	30 years	30 years	30 years
Asset valuation method	5-year moving	5-year moving	5-year moving
Actuarial assumptions:			
Interest rate	7.50%	7.00%	8.00%
Projected salary increases	4.00	4.50	4.00

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Changes in the net pension obligation for these plans for the years ended June 30, 2011 and 2010 are as follows:

		<b>2011</b>		
		<b>MBTA Retirement Plan</b>	<b>MBTA Police Association Plan</b>	<b>MBTA Deferred Compensation Plan</b>
<b>Pension</b>				
Net pension obligation, beginning of year	\$	(33,015)	(1,165)	(8,676)
Annual pension cost		(66,075)	(2,798)	(5,770)
Contributions and other adjustments		52,516	2,137	5,185
Net pension obligation, end of year	\$	<u>(46,574)</u>	<u>(1,826)</u>	<u>(9,261)</u>

  

		<b>2010</b>		
		<b>MBTA Retirement Plan</b>	<b>MBTA Police Association Plan</b>	<b>MBTA Deferred Compensation Plan</b>
<b>Pension</b>				
Net pension obligation, beginning of year	\$	(22,048)	(837)	(7,978)
Annual pension cost		(53,887)	(2,468)	(5,602)
Contributions and other adjustments		42,920	2,140	4,904
Net pension obligation, end of year	\$	<u>(33,015)</u>	<u>(1,165)</u>	<u>(8,676)</u>

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**(b) Three-Year Trend Information**

	<u>Year ending</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
MBTA Retirement Plan	June 30, 2009	\$ 44,642	80%	\$ (22,048)
	June 30, 2010	53,887	80	(33,015)
	June 30, 2011	66,075	79	(46,574)
MBTA Police Association Plan	June 30, 2009	\$ 2,230	99%	\$ (837)
	June 30, 2010	2,468	87	(1,165)
	June 30, 2011	2,798	76	(1,826)
MBTA Deferred Compensation Plan	June 30, 2009	\$ 5,320	90%	\$ (7,978)
	June 30, 2010	5,602	88	(8,676)
	June 30, 2011	5,770	90	(9,261)

**(c) Actuarial Funded Status**

**MBTA Retirement and Police Association Plans**

<u>Valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>(Funded) unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
Retirement Plan:						
December 31, 2009	\$ 1,667,362	2,216,721	549,359	75.22%	\$ 350,619	156.68%
Police Association Plan:						
December 31, 2009	49,795	68,104	18,309	73.12	16,598	110.31

**MBTA Deferred Compensation Plan**

The MBTA Deferred Compensation Plan is not currently funded; as a result, the normal schedule of funding progress would show no provision having been made for the cost of this plan.

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In the table below, column (b) which normally would have contained the plan's assets, contains instead the net pension obligation (amounts previously charged against operations but not yet contributed to the plan). This alternative presentation shows how much of the cost of the program has been charged against operations in prior years.

<u>Valuation date</u>	<u>Actuarial accrued liability (a)</u>	<u>Net pension obligation (b)</u>	<u>Actuarial accrued liability (c) (a)-(b)</u>	<u>Recognized ratio (d) (b)/(a)</u>	<u>Unrecognized ratio (e) (c)/(a)</u>	<u>Covered payroll (f)</u>
July 1, 2010	\$ 47,206	8,676	38,530	18.4%	81.6%	\$ 36,168

**(d) The MBTA Deferred Compensation Savings Plan**

The Authority provides a defined contribution retirement plan for nonunion and grandfathered union management not participating in the MBTA Retirement Plan. Authority employee trustees administer the plan and recommend benefit amendments that require approval from the Authority's general manager. The plan requires members to contribute 4% of total covered payroll with the Authority contributing 8%. The plan has approximately 252 and 268 members at June 30, 2011 and 2010, respectively, and the cost of the Plan to the Authority was \$663 and \$653 for fiscal years 2011 and 2010, respectively. Member contributions vest to plan members immediately, while contributions made by the Authority vest to plan members as follows: 50% after three years; 75% after four years; and 100% after five years of credited service.

**(19) MBTA – Lease Obligations**

**(a) Lease-In/Lease-Out (LILO)**

The Authority has entered into various lease/sublease financing arrangements for heavy rail, commuter rail cars, and buildings. These agreements provide for the lease of the property and equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for various periods. At the time of these transactions, funds were deposited with financial institutions sufficient to meet all payment obligations under the terms of the lease agreements and U.S. Treasury STRIPS were purchased in an amount sufficient to satisfy each agreement's purchase option price provided for in the leases.

**(b) Sale-In/Lease-Out (SILO)**

Guaranteed debt and equity payment undertaking agreements were in place at AAA/Aaa-rated financial institutions, until this institution's credit rating was downgraded. Pursuant to requirements of these agreements, collateral was posted in July 2008, for the Authority's benefit. The Authority and the equity investor agreed, subsequent to June 30, 2009, to terminate these payment undertaking agreements and replace the guarantor with an obligation assumed by the Authority. The net economic gain for terminating these agreements to the Authority was \$797, which was recorded to the Authority's deferred lease benefit accounts, in fiscal year 2010.



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**(c) Cross-Border Leases and Other Capital Lease Arrangements**

The Authority has entered into cross-border leases related to the financing of heavy rail cars. Provisions in these leases allow for the Authority to sell and lease back the equipment over a period of years. Additionally, the lease agreements include a purchase option granting the Authority the right to purchase the equipment at the end of the lease terms. The Authority has deposited funds with financial institutions sufficient to meet all of its payment obligations under the terms of the leases. Because the transaction does not meet the criteria for an “in-substance defeasance,” funds on deposit and the related lease liability have been included in the accompanying financial statements.

Transportation property and facilities under capital leases are summarized in the capital assets note.

The following is a schedule by year of future minimum lease payments under the LILO, cross-border, and other capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2011:

Fiscal year(s):	
2012	\$ 61,334
2013	41,012
2014	73,267
2015	12,128
2016	597
2017 – 2021	212
2022 – 2023	34,102
	<hr/> 222,652
Less amount representing interest	<hr/> (20,158)
Present value of net minimum lease payments	202,494
Less current principal maturities	<hr/> (39,228)
Obligations under capital leases	<hr/> <hr/> \$ 163,266

The liability for these leases changed in 2011 and 2010 as follows:

Outstanding – June 30, 2009	\$ 296,039
Net change in obligation	<hr/> 2,991
Outstanding – June 30, 2010	299,030
Net change in obligation	<hr/> (96,536)
Outstanding – June 30, 2011	<hr/> <hr/> \$ 202,494

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**(d) Operating Leases**

The Authority has entered into several sale-leaseback agreements with major financial institutions (the lessors) covering equipment and rolling stock. The leases mature through 2013. At the end of the lease terms, the Authority may purchase the vehicles at prices equal to the lesser of a stated percentage (40% – 70%) of the lessors' original purchase price or residual fair market value, as defined.

The leases have been accounted for as operating leases. Prior to July 1, 2000, payments for these leases were eligible for 90% reimbursement from the Commonwealth. After July 1, 2000, the Authority is no longer entitled to and has not received any of this assistance from the Commonwealth. However, these leases will continue to be guaranteed by the Commonwealth.

Future minimum operating lease payments at June 30, 2011 are as follows:

Fiscal year:	
2012	\$ 6,267
2013	<u>6,177</u>
	<u>\$ 12,444</u>

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**(20) MBTA – Capital Assets**

Capital assets at June 30, 2011 and 2010 are as follows:

	<b>Beginning balance June 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance June 30, 2011</b>
Capital assets not being depreciated:				
Land	\$ 312,212	3,012	1,135	314,089
Construction work in progress	479,187	459,492	368,126	570,553
Total capital assets not being depreciated	<u>791,399</u>	<u>462,504</u>	<u>369,261</u>	<u>884,642</u>
Other capital assets:				
Ways and structures	9,183,206	206,131	—	9,389,337
Buildings and equipment	2,331,497	116,480	—	2,447,977
Buildings and equipment included in capital lease	407,513	—	4,892	402,621
Total	<u>11,922,216</u>	<u>322,611</u>	<u>4,892</u>	<u>12,239,935</u>
Less accumulated depreciation for:				
Ways and structures	3,155,800	209,290	—	3,365,090
Buildings and equipment	1,131,588	146,291	—	1,277,879
Buildings and equipment included in capital lease	280,779	2,959	4,892	278,846
Total	<u>4,568,167</u>	<u>358,540</u>	<u>4,892</u>	<u>4,921,815</u>
Other capital assets, net	<u>7,354,049</u>	<u>(35,929)</u>	<u>—</u>	<u>7,318,120</u>
Capital assets, net	<u>\$ 8,145,448</u>	<u>426,575</u>	<u>369,261</u>	<u>8,202,762</u>

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	<b>Beginning balance June 30, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance June 30, 2010</b>
Capital assets not being depreciated:				
Land	\$ 308,648	4,213	649	312,212
Construction work in progress	468,772	374,929	364,514	479,187
Total capital assets not being depreciated	777,420	379,142	365,163	791,399
Other capital assets:				
Ways and structures	8,897,344	285,862	—	9,183,206
Buildings and equipment	2,275,661	74,712	18,876	2,331,497
Buildings and equipment included in capital lease	413,940	—	6,427	407,513
Total	11,586,945	360,574	25,303	11,922,216
Less accumulated depreciation for:				
Ways and structures	2,952,887	202,913	—	3,155,800
Buildings and equipment	1,024,536	125,928	18,876	1,131,588
Buildings and equipment included in capital lease	270,908	16,298	6,427	280,779
Total	4,248,331	345,139	25,303	4,568,167
Other capital assets, net	7,338,614	15,435	—	7,354,049
Capital assets, net	\$ 8,116,034	394,577	365,163	8,145,448

**(21) MBTA – Risk Management**

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers compensation, unemployment, and employee health insurance claims.

Buildings are fully insured to the extent that losses exceed the self insured retention of \$2,500 effective March 1, 2010, \$5,000 between March 1, 2007 and February 28, 2010, and \$350 per incident prior to March 1, 2007. The Authority is self-insured for workers compensation, unemployment claims, vehicle damage and loss, and health insurance. The Authority pays 85% of all health premiums up to a maximum of \$200 per individual for all Blue Cross plans and \$100 per individual for Harvard and Tufts plans. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth (GIC). The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered

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by the GIC. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness.

The Authority self-funds a \$7,500 per occurrence deductible for general liability. The Authority has a program of excess public liability insurance to provide for \$67,500 of layered coverage on a per occurrence and annual aggregate basis. In the opinion of the general counsel to the Authority, payments of claims by the Authority for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

During fiscal years 2011 and 2010, expenditures for claims and judgments, excluding workers compensation, and health and life, were \$15,215 and \$14,054, respectively. Expenditures for claims related to workers compensation were \$11,125 and \$10,897, and expenditures for the self-insured health plans were \$125,618 and \$128,458 for the years ended June 30, 2011 and 2010, respectively.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that liabilities for self-insured claims be 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. The Authority reserves such liabilities, which consist of workers compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2011, 2010, and 2009. Changes in the self-insurance liabilities in fiscal years 2011, 2010, and 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Liability, beginning of year	\$ 97,535	98,280	97,145
Provisions for claims	151,958	153,409	151,190
Payments	<u>(151,990)</u>	<u>(154,154)</u>	<u>(150,055)</u>
Liability, end of year	\$ <u>97,503</u>	<u>97,535</u>	<u>98,280</u>

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**(22) MBTA – Commitments and Contingencies**

**(a) Capital Investment Program (CIP)**

The Authority's continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2011 and 2010, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

<b>Funding source</b>	<b>Approved project costs</b>	<b>Expenditures through June 30, 2011</b>	<b>Unexpended costs</b>
Federal grants	\$ 6,284,651	6,099,699	184,952
State and local sources	1,882,706	1,747,409	135,297
Authority bonds	5,888,119	5,352,803	535,316
Total	<u>\$ 14,055,476</u>	<u>13,199,911</u>	<u>855,565</u>

<b>Funding source</b>	<b>Approved project costs</b>	<b>Expenditures through June 30, 2010</b>	<b>Unexpended costs</b>
Federal grants	\$ 6,055,445	5,928,534	126,911
State and local sources	1,736,144	1,658,316	77,828
Authority bonds	5,655,607	5,204,027	451,580
Total	<u>\$ 13,447,196</u>	<u>12,790,877</u>	<u>656,319</u>

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration (FTA). In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Other cases and claims include disputes with contractors and others arising out of the Authority's CIP. In the opinion of the general counsel to the Authority, amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other funds available to the Authority for the respective projects.

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The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately \$272,227 and \$212,087 at June 30, 2011 and 2010, respectively.

**(b) Legal and Other**

The Authority is involved in numerous lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the general counsel to the Authority, payments of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

**(23) MBTA – Other Postemployment Benefits**

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

**(a) Plan Description**

In addition to providing the pension benefits described, the Authority provides postemployment healthcare and life insurance benefits (OPEB) for retired employees under any of the medical benefit programs then offered and available by the Authority. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of the June 30, 2009 actuarial valuation, approximately 5,051 retirees and 5,576 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

**(b) Benefits Provided**

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

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(Dollars in thousands)

**(c) *Funding Policy***

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the GIC for health, life and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. In fiscal year 2011 approximately 400 Nonaffiliated retirees transferred to the GIC on January 1, 2010.

Retirees' pre- and post-65 entering into GIC health insurance coverage with a retirement date on or before July 1, 1994 contribute 10% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement prior to August 10, 2009 contribute 15% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement on or after August 10, 2009 but on or before October 1, 2009 with a retirement date on or before January 31, 2010 contribute 15% of the cost of the health plan. Retirees who file for retirement after October 1, 2009 will contribute 20% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

Currently, the remaining affiliated population covered by collective bargaining agreements, have not transitioned into the GIC due to the expiration dates and/or rollover provisions in their collective bargaining agreements. The provisions of the MBTA plans utilized by these retirees provides that any retiree pre age 65 with a retirement date on or before July 7, 2008 does not contribute to the cost of the health plans. Retirees, pre age 65, who retired after July 7, 2008, contribute 10% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis. The health coverage for post-age-65 retirees' remains 100% Authority paid.



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(Dollars in thousands)

**(d) Annual OPEB Costs and Net OPEB Obligation**

The Authority's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The June 30, 2009 actuarial valuation established the ARC for fiscal years 2011 and 2010. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2011 and 2010, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

	<u><b>2011</b></u>	<u><b>2010</b></u>
ARC	\$ 146,389	146,389
Interest on net OPEB obligation	12,457	8,917
Amortization adjustment to ARC	<u>(17,824)</u>	<u>(12,758)</u>
Annual OPEB cost	141,022	142,548
Contributions made	<u>(58,378)</u>	<u>(61,712)</u>
Change in net OPEB obligation	82,644	80,836
Net OPEB obligation – beginning of year	<u>284,409</u>	<u>203,573</u>
Net OPEB obligation – end of year	<u><u>\$ 367,053</u></u>	<u><u>284,409</u></u>

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

<u><b>Fiscal year ended</b></u>		<u><b>Annual OPEB cost</b></u>		<u><b>Percentage of OPEB cost contributed</b></u>		<u><b>Net OPEB obligation</b></u>
2011	\$	141,022		41.3%	\$	367,053
2010		142,547		43.3		284,409

The Authority's net OPEB obligation as of June 30, 2011 and 2010 is recorded as "Other postemployment benefits" line item.

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**(e) *Funded Status and Funding Progress***

The funded status of the plan was based on an actuarial valuation as of June 30, 2009 is as follows:

Actuarial accrued liability (AAL)	\$ 1,555,394
Actuarial value of plan assets	—
	<hr/>
Unfunded actuarial accrued liability (UAAL)	\$ 1,555,394
	<hr/>
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll (active plan members)	\$ 428,007
UAAL as a percentage of covered payroll	363.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**(f) *Actuarial Methods and Assumptions***

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

In the June 30, 2009 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 4.38% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 8.75% for retirees in year one, 8.25% for all in year two, 7.75% in year three, 7.25% in year four, 6.75% in year five, 6.25% in year six, 5.75% in year seven, 5.25% in year eight and 5.00% long-term trend rate for all healthcare benefits thereafter. The amortization costs for the initial unfunded actuarial accrued liability (UAAL) is a level dollar closed amortization for a period of 30 years.

**(24) MBTA – Environmental Remediation Obligations**

Effective July 1, 2008, the Authority implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The statement requires a government entity to estimate its expected outlays for pollution remediation if it knows that a site is polluted based on specific recognition triggers and disclose those obligations associated

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with clean up efforts. In compliance with the statement, the Authority has restated beginning net assets and established a liability on its balance sheet for current and future expenses.

The Authority is responsible for the cleanup of leaking fuel storage tanks in facilities owned by the Authority, or parcels of land acquired as part of transit expansions. The Authority is currently managing six active storage tank sites in various stages of remediation and monitoring. The Authority has a number of years experience in managing these cleanups and the assessment of costs these types of cleanups. The amount of the estimated pollution remediation liability assumes there will be no major increases in the cost of providing these cleanup services.

The Authority is responsible for a facility where Polychlorinated Biphenyls (PCBs) have been detected in the building caulk. Caulk containing PCBs is frequently found in buildings built or renovated between 1950 and 1978. PCB containing caulk is no longer manufactured and is required to be removed under federal regulations. The maintenance building was found to contain such PCB containing caulk and as a result, a remediation program is now underway as part of the rehabilitation of the building.

In response to a Federal Clean Air Act (CAA) enforcement action for excessive train engine idling, the U.S. EPA and the U.S. Department of Justice have negotiated a judicial consent decree with the Authority and MBCRC (operator of commuter rail service). The terms of the settlement include a cash fine of \$225 (to be paid by MBCRC); installation of less polluting auxiliary diesel engines on 14 commuter rail locomotives (to be covered by federal grants and MBCRC's operating contract) switch to a cleaner burning fuel (ultra-low-sulfur diesel) additional cost covered under the MBTA's fuel contract; upgrade or install electric plug-ins at MBTA layover facility (estimated cost to be over \$2 million). This settlement was resolved according to the decree during fiscal year 2011.

During the year ended June 30, 2011, the following changes occurred in the liabilities:

	<b>Balance as of July 1, 2010</b>	<b>Additions/ revisions</b>	<b>Payments/ revisions</b>	<b>Balance as of June 30, 2011</b>
Storage tank remediation sites	\$ 13,950	(3,852)	(1,252)	8,846
Sites with PCB remediation	9,500	(2,900)	(600)	6,000
U.S. government violations	5,193	(5,193)	—	—
	<u>\$ 28,643</u>	<u>(11,945)</u>	<u>(1,852)</u>	<u>14,846</u>

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The payments for remediation costs combined with revised cost completion estimates totaled \$13,797 in fiscal year 2011, and \$16,045 additional liability incurred in fiscal year 2010 is recorded in the other operating expenses in the statement of revenue, expenses and changes of net assets. The accrued total liability as of June 30, 2011 and 2010 included in the long-term accrued liabilities in the statement of net assets was \$14,846 and \$28,643, respectively.

**(25) MBTA – Pledged Revenues**

The Authority has pledged, as security for Sales Tax Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority's approved CIP, and are payable through 2041 as of June 30, 2011. Total principal and interest remaining on Sales Tax Bonds, Assessment Bonds, Prior Obligation Bonds and MBTPC Bonds outstanding as of June 30, 2011 are \$8,619,139. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. As of June 30, 2011, the total amount of dedicated sales tax revenues and assessment revenues received for fiscal year 2011 was \$765,795 and \$150,148, respectively, a total of \$915,943. As of June 30, 2010, the total amount of dedicated sales tax revenues and assessment revenue received for fiscal year 2010 was \$771,932 and \$149,233, respectively, a total of \$921,165. As of June 30, 2011, total annual debt service paid for fiscal year 2011 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was \$377,601. As of June 30, 2010, total annual debt service paid for fiscal year 2010 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was \$374,931. As of June 30, 2011 and 2010, therefore, debt service represented 41% and 41% of pledged revenues, respectively.

The MBTPC pledge of dedicated parking receipts the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011. The total annual debt service commences as of July 1, 2011 with a debt service requirement of \$15,758 in fiscal year 2012, which represents 39% of the estimated revenue in the fiscal year 2012 operating budget.

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**MASSACHUSETTS TRANSPORTATION TRUST FUND**  
**COMBINING BALANCE SHEET**

JUNE 30, 2011  
(Dollars in thousands)

	Metropolitan Highway System	Western Turnpike	Other Operations	Total
<b>ASSETS</b>				
Cash and short-term investments	\$ -	-	73,274	73,274
Restricted cash and investments	484,864	136,596	33,092	654,552
Receivables, net of allowance for uncollectibles:				
Other	12,344	172	426	12,942
Other assets	1,731	443	221	2,395
<b>TOTAL ASSETS</b>	<b>\$ 498,939</b>	<b>137,211</b>	<b>107,013</b>	<b>743,163</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued expenditures	\$ 16,918	5,567	5,588	28,073
Deferred revenue	44,083	1,614	292	45,989
Due to Commonwealth	1,292	1,291	-	2,583
<b>TOTAL LIABILITIES</b>	<b>62,293</b>	<b>8,472</b>	<b>5,880</b>	<b>76,645</b>
<b>FUND BALANCES:</b>				
Nonspendable	1,731	443	221	2,395
Restricted	434,915	128,296	33,416	596,627
Assigned	-	-	60,490	60,490
Unassigned	-	-	7,006	7,006
<b>TOTAL FUND BALANCES</b>	<b>436,646</b>	<b>128,739</b>	<b>101,133</b>	<b>666,518</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 498,939</b>	<b>137,211</b>	<b>107,013</b>	<b>743,163</b>

See accompanying independent auditors' report.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

MASSACHUSETTS TRANSPORTATION TRUST FUND  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDING JUNE 30, 2011  
(Dollars in thousands)

	Metropolitan Highway System	Western Turnpike	Other Operations	Total MTTF
<b>REVENUES</b>				
Toll revenue:				
Pledged as security for revenue bonds	\$ 178,174	113,760	-	291,934
Unpledged	-	-	31,020	31,020
Commonwealth transportation trust fund:				
Operations	-	-	248,207	248,207
Metropolitan highway system bonds	100,000	-	-	100,000
Central artery operations and maintenance	25,000	-	-	25,000
Commonwealth grants and contract assistance	-	-	3,836	3,836
Rental/lease income	10,245	25,277	5,066	40,588
Investment income	2,739	307	82	3,128
Departmental and other	16,689	10,090	7,555	34,334
<b>TOTAL REVENUES</b>	<b>332,847</b>	<b>149,434</b>	<b>295,766</b>	<b>778,047</b>
<b>EXPENDITURES</b>				
Current:				
Highway	103,782	87,475	144,542	335,799
Planning and programming	34,024	11,015	15,774	60,813
Registry of motor vehicles	-	-	56,535	56,535
Mass transit	-	-	44,235	44,235
Aeronautics	-	-	311	311
Debt service:				
Principal	420	18,365	-	18,785
Interest	73,371	7,068	-	80,439
<b>TOTAL EXPENDITURES</b>	<b>211,597</b>	<b>123,923</b>	<b>261,397</b>	<b>596,917</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>121,250</b>	<b>25,511</b>	<b>34,369</b>	<b>181,130</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(1,055)	(1,055)
<b>NET CHANGE IN FUND BALANCES</b>	<b>121,250</b>	<b>25,511</b>	<b>33,314</b>	<b>180,075</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>315,396</b>	<b>103,228</b>	<b>67,819</b>	<b>486,443</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 436,646</b>	<b>128,739</b>	<b>101,133</b>	<b>666,518</b>

See accompanying independent auditors' report.