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

Basic Financial Statements, Required Supplementary Information and Supplementary Schedules

June 30, 2012

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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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, 2012 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 96% 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 4% 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 1% of 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.

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 as of June 30, 2012, 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.

KPMG

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MassDOT's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

December 14, 2012

Management of the Massachusetts Department of Transportation (MassDOT) provides this Management's Discussion and Analysis to assist readers of its financial statements to better understand the financial activities of MassDOT for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with MassDOT's basic financial statements, which follow this section.

Overview of the Financial Statements

MassDOT's financial statements present two types of statements, each with a different view of MassDOT's finances. This approach focuses on both MassDOT as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about MassDOT as a whole. The fund financial statements focus on the individual parts of MassDOT, reporting MassDOT's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison, and enhance MassDOT's accountability. Also included in the report is the financial information about activities for which MassDOT acts solely as a trustee or agent for the benefit of those outside of the government. Two additional parts of the basic financial statements are the notes to the financial statements and the supplementary information, which is used to assist readers and investors in reviewing MassDOT's general fund operations in more detail.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of MassDOT as a whole, with the exception of fiduciary activities, and use accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about MassDOT's financial position and are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are reported regardless of the timing of cash flows. The government-wide financial statements include the following two statements:

> **Statement of Net Assets** – Presents all of MassDOT's assets and liabilities, with the difference being reported as "net assets". The amount of net assets is widely considered a good measure of MassDOT's financial health as increases and decreases in MassDOT's net assets serve as a useful indicator of whether MassDOT's financial position is improving or deteriorating. The reader should also consider other nonfinancial factors, such as the condition of MassDOT's infrastructure, ways and structures.

> **Statement of Activities** – Presents information showing how the government's net assets changed during the most recent fiscal year. Revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods (i.e., prepaid toll collections or earned but unused sick and vacation time). This statement also presents a comparison between direct expenses and program revenues for each division of MassDOT.

The government-wide financial statements present information in three columns in order to summarize MassDOT's activities. The types of activities presented are as follows:

> **Governmental Activities** – Most of MassDOT's basic services (which are primarily funded by fees, charges for services, and state and federal grants) are reported in this section by operational division, which

are as follows: Highway, Registry of Motor Vehicles, Mass Transit, Aeronautics, as well as shared services represented by Planning and Programming. It should be noted that beginning in fiscal year 2013, the Office of Planning and Programming will be renamed to the Office of the Secretary, and Mass Transit will be renamed as Rail and Transit.

Business-Type Activities – The Massachusetts Bay Transportation Authority (MBTA) activities are reported here since all or a significant portion of their costs are recovered through user fees and charges to external users of goods and services.

Discretely Presented Component Units – Separate legal entities for which MassDOT has financial accountability are included in this section. These entities consist of fifteen regional transit authorities (listed below) as well as the Route 3 North Transportation Improvements Association and operate similar to private sector companies and the business-type activities described above.

The fifteen regional transit authorities are as follows:

Berkshire Regional Transit Authority
Brockton Area Transit Authority
Cape Ann Transit Authority
Cape Cod Regional Transit Authority
Franklin Regional Transit Authority
Greater Attleboro/Taunton Transit Authority
Lowell Regional Transit Authority
Martha's Vineyard Transit Authority
Merrimack Valley Regional Transit Authority
Metrowest Regional Transit Authority
Montachusett Regional Transit Authority
Nantucket Regional Transit Authority
Pioneer Valley Transit Authority
Southeastern Regional Transit Authority
Worcester Regional Transit Authority

Fund Financial Statements

Users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been allocated to specific projects or activities. MassDOT uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

All of the funds of MassDOT can be divided into three categories as follows:

Governmental Funds – Most of the basic services provided by MassDOT are financed through governmental funds, which are defined as funds, focused on near-term inflows and outflows of resources to be spent. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. The focus is also on the balances left at the end of the fiscal year

(Continued)

available for spending. This information is useful in evaluating MassDOT's near-term financing requirements, and it is based on the modified accrual basis of accounting. Such statements provide a detailed short-term view of MassDOT's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison will assist the reader in understanding the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliations are presented on the page immediately following each respective governmental funds financial statement.

MassDOT has several governmental funds; two of them, the Massachusetts Transportation Trust Fund (MTTF – General) and Highway Capital Projects fund, are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds, which primarily consist of federal grant programs, the Motor Vehicle Safety Inspection Trust Fund and the Central Artery/Tunnel Project Repair and Maintenance Trust (CARM) Fund, are aggregated and presented as other governmental funds.

Proprietary Funds – MassDOT maintains two types of proprietary funds. The enterprise fund is used to report the same function presented as business-type activities in the government-wide financial statements. MassDOT reports the MBTA as a major enterprise fund. An internal service fund is used to account for the Owner Controlled Insurance Program that was established to pay contractors' workers' compensation claims related to the Central Artery/Tunnel Project. The services provided by the internal service fund benefit the governmental function and, as a result, are included within governmental activities in the government-wide financial statements.

Proprietary funds financial statements provide the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation required between the government-wide financial statements for the business-type activities and the enterprise fund financial statements.

Fiduciary Funds – Such funds are used to account for resources held for the benefit of parties outside MassDOT. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support MassDOT's own programs. The full accrual basis of accounting is used for fiduciary funds.

MassDOT's fiduciary funds include the Other Post Employment Benefits (OPEB) Trust Fund and Agency funds, which are used to account for assets held in a custodial capacity.

(Continued)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data reported in the government-wide and fund financial statements.

Supplementary Information

The basic financial statements are followed by supplementary information. This section includes a combining balance sheet and schedule of revenues, expenditures and changes in fund balances for MassDOT's general fund (MTTF). The supplementary information provides details for the MTTF's Metropolitan Highway System, Western Turnpike, and Other operations.

Government-Wide Financial Analysis

Net Assets

The following table reflects the condensed net assets based on the statement of net assets found on page 17.

Condensed Schedule of Net Assets

June 30, 2012 and 2011

(In millions)

		Governmental activities June 30		Business-type activity (MBTA) June 30		Total primary government June 30	
		2012	**2011**	**2012**	**2011**	**2012**	**2011**
Current and other assets	$	1,891	1,692	1,569	1,404	3,460	3,096
Capital assets		22,134	22,188	8,159	8,203	30,293	30,391
Total assets		24,025	23,880	9,728	9,607	33,753	33,487
Long-term liabilities		2,906	2,709	6,729	5,862	9,635	8,571
Other liabilities		418	477	395	984	813	1,461
Total liabilities		3,324	3,186	7,124	6,846	10,448	10,032
Net assets:							
Invested in capital assets, net of debt		20,024	20,027	3,285	3,309	23,309	23,336
Restricted		767	874	19	19	786	893
Unrestricted (Deficit)		(90)	(207)	(700)	(566)	(790)	(773)
Total net assets	$	20,701	20,694	2,604	2,762	23,305	23,456

While the total net assets for governmental activities remained relatively flat from fiscal year 2011 to fiscal year 2012, the net asset balance for business-type activities decreased by $158 million, primarily due to increased labor and benefit costs, third party contracted transportation service costs, fuel and material costs. Net assets for business–type activities only account for 11% of the total primary government net assets.

(Continued)

MassDOT's combined net assets (governmental and business-type activities) exceeded its liabilities at June 30, 2012 by $23.3 billion (presented as net assets). The main component of net assets represents the amount invested in capital assets, net of related outstanding debt used to acquire those assets, totaling $23.3 billion. The majority of capital assets were transferred to MassDOT by the Commonwealth in fiscal year 2010 as a result of Transportation Reform pursuant to the enabling legislation M.G.L. Ch.6C; however, the Commonwealth continues to report the debt for these assets. MassDOT uses these capital assets to serve the Commonwealth of Massachusetts; therefore, they are not available for future spending.

Of the total governmental activities assets of $24.0 billion, there is $1.9 billion in current and other assets, which is comprised of cash and investments of $1.5 billion (up 5% from the prior year), net receivables of $311 million, and derivative instruments and other assets of $234 million.

Governmental activities long-term liabilities, totaling $2.9 billion, include $2.1 billion in bonds and notes payable; $455 million in liabilities related to derivative instruments and $325 million in other liabilities consisting of accrued interest on capital appreciation bonds and other liabilities. The major increase in the long-term liabilities is due to an increase in derivative instruments of $185 million.

The net increase of $112 million in business-type activity bonds compared to the prior year is attributable to the 2012 Series A Assessment Bonds which were issued in part to fund a portion of the Authority's Capital Investment Program (CIP) and to partially refund the 2002 Series A Sales Tax Bonds, the 2006 Series C Sales Tax Bonds, the 2004 Series A Assessment Bonds, the 2005 Series A Assessment Bonds, the 2008 Series A Assessment Bonds, and to retire $33 million of Bond Anticipation Notes issued on March 1, 2012.

Changes in Net Assets

MassDOT's total net assets decreased by $151 million in fiscal year 2012, of which the governmental activities net assets increased $7 million and the business-type activity decreased $158 million.

(Continued)

This summary of net changes is based upon the statement found on page 18.

Condensed Schedule of Changes in Net Assets

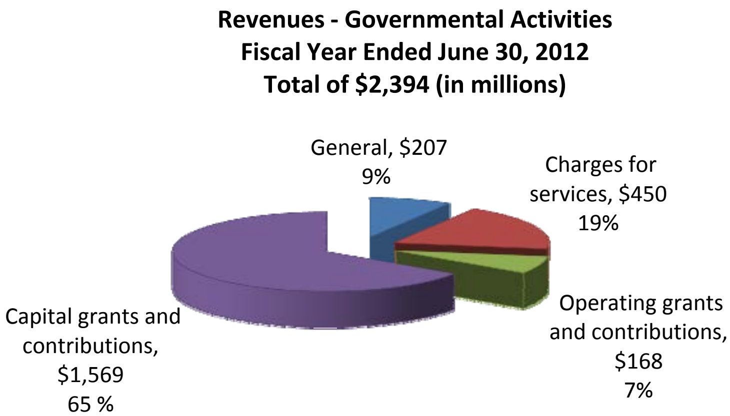
June 30, 2012 and 2011

(In millions)

	Governmental activities		Business-type activity (MBTA)		Total primary government	
	June 30		June 30		June 30	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Fees, Fines, and Charges for services	$ 450	431	529	511	979	942
Operating grants and contributions	168	177	—	—	168	177
Capital grants and contributions	1,569	1,556	247	239	1,816	1,795
General revenues:						
Operating assistance from the Commonwealth	204	248	—	—	204	248
Taxes and assessments	—	—	1,091	1,078	1,091	1,078
Other income	—	—	34	19	34	19
Unrestricted investment income	3	2	44	32	47	34
Total revenues	2,394	2,414	1,945	1,879	4,339	4,293
Expenses:						
Highway	1,840	1,463	—	—	1,840	1,463
Planning and programming	142	149	—	—	142	149
Registry of Motor Vehicles	77	74	—	—	77	74
Mass Transit	152	126	—	—	152	126
Aeronautics	15	17	—	—	15	17
Debt service-interest	161	109	—	—	161	109
MBTA	—	—	2,103	1,961	2,103	1,961
Total expenses	2,387	1,938	2,103	1,961	4,490	3,899
Change in net assets	7	476	(158)	(82)	(151)	394
Net assets – beginning	20,694	20,218	2,762	2,844	23,456	23,062
Net assets – ending	$ 20,701	20,694	2,604	2,762	23,305	23,456

Total Revenues

Total governmental activities revenues ($2.4 billion) for MassDOT are comprised of general revenues ($207 million) and program revenues ($2.2 billion), which include fees, fines and charges for services of $450 million, operating grants and contributions of $168 million and capital grants and contributions of $1.6 billion.



General Revenue

General revenues, totaling $207 million, include operating assistance from the Commonwealth, in the amount of $204 million, or 99%, and unrestricted investment income in the amount of $3 million, or 1%. The operating assistance decreased by $44 million (18%) from the prior year mainly due to a reduction of $53 million in supplemental funding for snow and ice activities because of the mild winter and an increase of $9 million in funding for the Merit Rating Board. The Merit Rating Board was previously a separate Commonwealth agency until Chapter 68 of the Acts of 2012, Section 8 updated the MassDOT governing legislation, M.G.L. Chapter 6C, to assume the operations of the Merit Rating Board within the Registry of Motor Vehicles division.

Program Revenue

Fees, fines and charges for services totaled $450 million, an increase of $19 million from the prior year, and represent a variety of MassDOT revenues. The Highway division's portion of $356 million includes toll revenue, rental/lease revenue, and departmental revenue such as advertising and highway-related permit fees. The Planning and Programming's portion of $63 million includes toll revenue, rental/lease revenue and departmental revenue such as fees. The fees, fines and charges category increased mainly due to an increase of $11 million in miscellaneous charges attributable primarily to legal settlements/judgments.

Operating grants and contributions of $168 million represent federal grants from various federal agencies, such as the Federal Transit Authority and the Federal Aviation Administration. These amounts are restricted by conditions specified in each grant and account for approximately 7% of the total MassDOT program revenues.

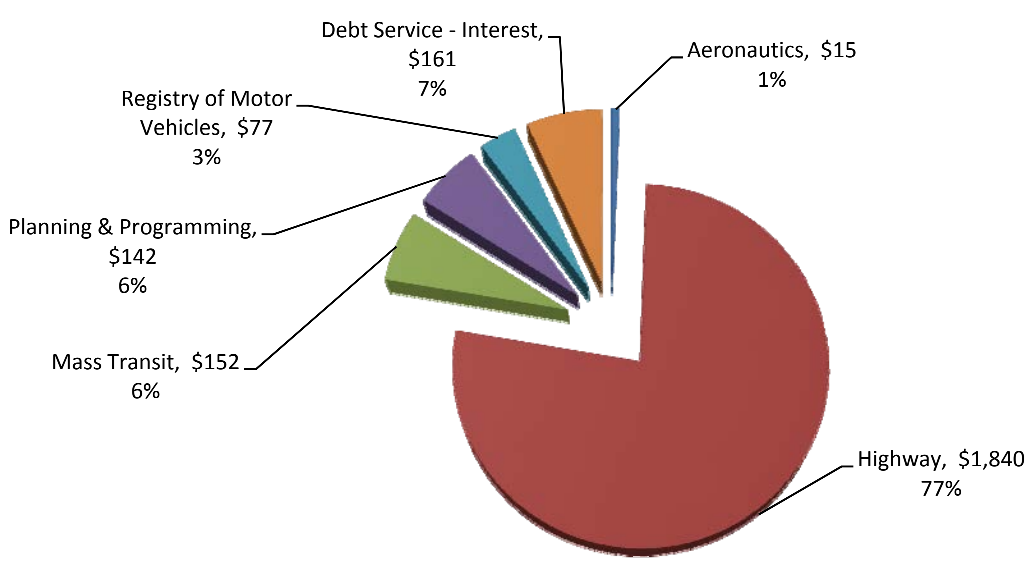
Capital grants and contributions of $1.569 billion include funding from the Commonwealth and federal agencies for projects such as the Accelerated Bridge Program (ABP), the state wide road and bridge program, Chapter 90 local aid, Regional Transit Authority capital assistance and other capital programs. The majority of these programs are within the Highway division, which accounts for $1.4 billion, or 90%, of the overall capital grants and contributions.

Expenses

For the fiscal year ended June 30, 2012, expenses for governmental activities totaled $2.4 billion. Overall, MassDOT's expenses increased by $449 million, or 23%, over the prior year. The increase is attributable in part to a $378 million increase in Highway division expenses due to a higher capitalization rate of infrastructure spending in fiscal year 2011, as well as a $52 million increase in interest paid for outstanding debt obligations.

The Highway division's operations continue to be one of MassDOT's highest priorities and commitments, representing $1.8 billion, or 77%, of the total governmental activities expenses. Another 19% of the total expenses are attributable to interest on long-term debt related to the toll operations ($161 million), the Office of Planning and Programming ($142 million) and the Mass Transit division ($152 million). The Registry of Motor Vehicles and Aeronautics divisions complete the operational spending pattern with 4%, or $92 million.

Expenses - Governmental Activities
Fiscal Year Ended June 30, 2012
Total of $2,387 (in millions)



Business-Type Activities

Net assets for business-type activities decreased by $158 million from $2.76 billion to $2.60 billion, which is a 5.7% decrease in net assets from the prior year. The decrease is primarily due to increased labor costs of $10 million and benefit costs of $67 million, contracted transit service costs of $33 million, fuel and materials costs of $13 million, injuries and damages of $10 million and interest costs of $2 million.

Government Funds Financial Analysis

As noted earlier, MassDOT uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

As of the end of the current fiscal year, MassDOT's governmental funds reported a combined ending fund balance of $1.2 billion. Of this amount, $2 million has been categorized as nonspendable which consists of prepaid expenditures. Another $1.2 billion was restricted, which consists of debt service reserves and grants or bonded projects whereby the expenditure of such resources are controlled by external sources. $26 million has been assigned for specific purposes such as insurance reserve and turnpike operations. These funds are incorporated in the annual budget and approved by the MassDOT Board of Directors. The remainder of fund balance ($17 million) is considered "Unassigned" and has increased by $10 million due to a combination of an increase in miscellaneous revenue (primarily due to one-time legal settlements) and lower than expected spending in snow and ice operations during fiscal year 2012.

The MTTF (general fund) is the chief operating fund of MassDOT. At the end of the current year, total fund balance was $753 million, comprised of $713 million, or 94%, as restricted, $21 million as assigned, $17 million as unassigned and $2 million as nonspendable. The MTTF's fund balance increased by $87 million, or 12%, over the prior year. The increase is primarily due to a one-time $15 million settlement of a bankruptcy claim the former Massachusetts Turnpike Authority filed against Lehman Brothers Special Financing, Inc. and lower than expected spending in toll road maintenance as well as snow and ice operations.

As a measure of liquidity, it may be useful to compare both unassigned and total fund balances to total fund expenditures within the general fund. Unassigned fund balance represents 3% of total general fund expenditures, while the total fund balance represents 114% of the total general fund expenditures.

In addition to the MTTF, MassDOT has established the Highway Capital Projects fund as a major governmental fund. The Highway 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. At the end of fiscal year 2012, the total fund balance was $53 million. This reflects a decrease over the prior fiscal year of $16 million, which is entirely due to expenditures exceeding revenues in MassDOT's transportation infrastructure fund.

The other governmental funds are special revenue funds 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. Projects within this category include Federal Grants, Motor Vehicle Inspection Trust activity, and the Central Artery/Tunnel Project Repair and Maintenance Trust activity. At the end of fiscal year 2012, the total fund balance was $437.8 million.

Proprietary Funds

MassDOT's Proprietary Funds provide the same type of information found in the government-wide statements, but in more detail. MassDOT's proprietary funds include the MBTA (a blended component unit), as a major enterprise fund, and the Owner Controlled Insurance Program (OCIP), an internal service fund.

Net assets of the MBTA at the end of the year totaled $2.6 billion, which consisted of $3.3 billion invested in capital assets, net of related debt, $19 million restricted for other purposes, and a deficit of $701 million in unrestricted net assets. OCIP's net assets at the end of the year were $6 million, an increase of $2 million from the prior year; all net assets are considered restricted for other purposes in this fund.

Governmental Funds – MTTF General Fund

MTTF Budgetary Highlights

MassDOT submits its general fund (MTTF) budget to the Standing Committee on Finance and Audit in June for review and to the MassDOT Board of Directors in July for final adoption. The following are some of the major fiscal year highlights:

1. The original budget of $715.6 million was approved by the Board of Directors in July of 2011, and the supplemental funds of $1 million allotted to Merit Rating Board operations brought the final budget to $716.6 million.

2. The Merit Rating Board (MRB) was transferred to MassDOT's Registry of Motor Vehicles division, via Chapter 68 of the Acts of 2011, in fiscal year 2012 and therefore the operational budget now resides within this division.

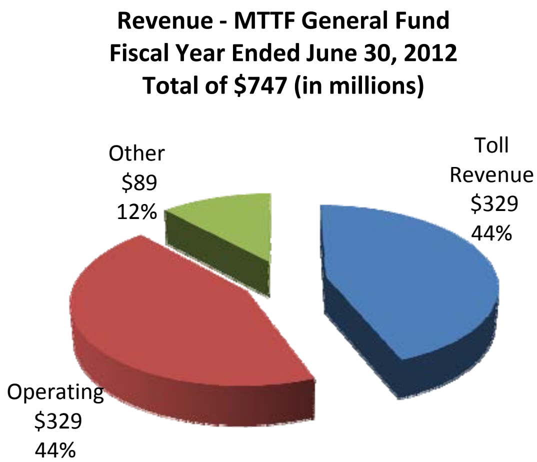
3. The Commonwealth appropriated $15 million for the regional transit authorities (RTA). This assistance was appropriated directly to the RTAs in fiscal year 2011 but provided directly to MassDOT in fiscal year 2012.

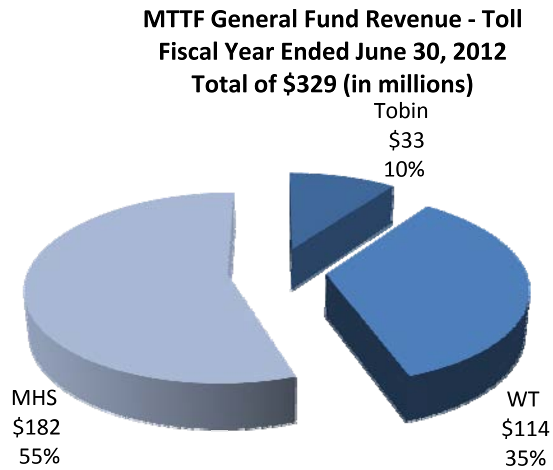
4. The toll revenue budget was increased by 4.4%.

5. Funds appropriated for MassDOT operations, excluding the MRB were reduced from $195 million in fiscal year 2011 to $180 million in fiscal year 2012.

MTTF Revenues

Fiscal year 2012 revenues for the MTTF totaled $747 million. This represents a decrease of $32 million, or 4%, from fiscal year 2011. The Commonwealth Transportation Fund (CTF) revenues of $329 million and toll revenues of $329 million combine for 88% of the total revenues. The remaining 12% consists of rental/lease revenue, investment income, and departmental and other revenues including advertising, highway-related permit, and other fees. The CTF revenues consist of $100 million dedicated for Metropolitan Highway System bonds (through Chapter 27, Section 9 of the Acts of 2009), $25 million for the operations and maintenance of portions of the Central Artery and the Central Artery North Area, and $204 million in operations funding, including $180 million for operations, $15 million for RTA's contract assistance, and $9 million for MRB. Toll revenues consist of pledged revenue for the Metropolitan Highway System (MHS) of $182 million, and $114 million for the Western Turnpike (WT), as well as unpledged revenue of $33 million related to the Tobin Bridge operations.





MTTF Expenditures

During fiscal year 2012, the general fund total expenditures increased by 11% from $597 million to $660 million. The major contributing factors were an increase in debt service principal and interest payments related to the Metropolitan Highway System and the increase of Mass Transit's spending by $15 million in 2012 due to the additional funding provided to the regional transit authorities.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2012, MassDOT's combined capital assets, totaling $30.3 billion (net of depreciation), consisted of $22.1 billion in governmental activities and $8.2 billion in business-type activities. MassDOT's capital assets include land, construction in progress, infrastructure, ways and structures, buildings, equipment, vehicles, and software as shown in the following table.

MassDOT Capital Assets – at Year End, Net of Depreciation

(In millions)

	Governmental activities		Business-type activity (MBTA)		Totals	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Land	$ 778	769	312	314	1,090	1,083
Construction in progress	3,497	2,999	525	571	4,022	3,570
Infrastructure, ways and structures	17,766	18,329	6,177	6,024	23,943	24,353
Buildings	62	65	1,026	1,170	1,088	1,235
Machinery and equipment	28	25	119	124	147	149
Software	3	1	—	—	3	1
Total	$ 22,134	22,188	8,159	8,203	30,293	30,391

Within governmental activities, construction in progress (CIP) increased by $498 million due to improvements on on-going CIP projects, totaling $704 million, which was partially offset by completed projects transferred to infrastructure. Among those completed projects were ABP projects as well as statewide road and bridge and toll-road related projects. The governmental activities net infrastructure costs decreased mainly due to the increase in accumulated depreciation of the existing roads and bridges, partially offset by the increase from previously mentioned completed projects that transitioned from CIP to infrastructure.

Additional information on MassDOT's capital assets can be found in notes 3 and 22.

Debt

At year-end, MassDOT had $7.8 billion in outstanding bonds and notes compared to $7.76 billion last year.

MassDOT outstanding bonds and notes at Year End

(In millions)

		Governmental activities		Business-type activity (MBTA)		Totals	
		2012	**2011**	**2012**	**2011**	**2012**	**2011**
General Transportation System Bonds (GTS)	$	—	—	495	579	495	579
Boston Metropolitan District (BMD)		—	—	6	8	6	8
Revenue Bonds		2,147	2,200	4,329	4,142	6,476	6,342
Revenue Build America (BABs)		—	—	428	428	428	428
Grant Anticipation Notse (GANs)		—	—		6	—	6
Bond Anticipation Notes (BANs)		—	—	118	118	118	118
Metropolitan Boston Transit Parking (MBTPC)		—	—	305	305	305	305
Total	$	2,147	2,200	5,681	5,586	7,828	7,786

MassDOT maintains bond ratings of A or higher for its governmental activities bonds. Moody's Investors Services Inc. (Moody's) rates the MassDOT Capital Appreciation Bonds as A3, whereas Standard & Poor's Corporation (S&P) and Fitch rate them as A+. MassDOT senior fixed-rate bonds are rated A3 by Moody's and A+ by S&P. MBTA (business-type activities) bond ratings for Revenue bonds and BABs are AAA, GTS bonds are AA+, and MBTPC are A+.

Additional information on MassDOT's debt can be found in notes 4 and 18.

Economic Factors and Next Year's Budgets and Rates

Funding for MassDOT's general fund (MTTF) operations is dependent in part upon operating assistance from the Commonwealth of Massachusetts' Commonwealth Transportation Trust Fund (CTF). The fiscal year 2012 operating assistance of $327.9 million, excluding supplemental funds, represented 46% of the overall operating budget of $715.6 million. The CTF assistance in fiscal year 2013 has decreased 3%, or $9 million, to $318.8 million; the majority of this decrease will be within nontoll operations, which supports the operating divisions, including snow and ice operations and Regional Transit Authority contract assistance. The general fund's second primary source of funding is toll revenues; the 2013 budget increase, from $327.1 million to $333.6 million, shows a modest 1% increase in tolls along with an expected $3 million increase in merchant fees.

The fiscal year 2013 MTTF budget approved by the MassDOT Board of Directors is $792.8 million. The budget is $77.2 million more than FY 12 and includes increases to the Mass Transit budget for an allocation to the MBTA ($54 million) and an increase for the Regional Transit Authorities ($8.4 million), as well as an increase to Office of the Secretary (former Planning and Programming) payroll and fringe due to the transfer of employees funded from the capital budget to the operating budget ($14.8 million).

MassDOT’s capital budget for fiscal year 2013 is expected to increase by 1% from $1.78 billion to $1.8 billion and is primarily funded by Federal Highway Grants and Reimbursements and the Commonwealth’s contract assistance. For fiscal year 2013, the Commonwealth contract assistance is projected to increase by $100 million to $1.2 billion, while the overall Federal reimbursement is projected to slightly decrease by $17 million to $569 million, mostly due to the near completion of programs, funded by ARRA.

MassDOT has committed to using Federal Highway Reimbursements to repay the Commonwealth’s Grant Anticipation Notes (GANs) issued for the Central Artery Tunnel project and Accelerated Bridge Program. MassDOT has been setting aside (obligating) federal funds earlier than needed to ensure it can meet its obligation to pay the principal portion of the GANs.

Future Pronouncements

GASB has issued Statement Nos. 55-68, which have various effective dates. These Statements are not expected to have a significant impact on MassDOT’s financial statements.

Contacting MassDOT’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of MassDOT’s finances and to show MassDOT’s accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to MassDOT’s Chief Financial Officer at: 10 Park Plaza, Suite 5450, Boston, Massachusetts, 02116.

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

Statement of Net Assets

June 30, 2012

(Dollars in thousands)

		Primary government			
Assets and Deferred Outflows		**Governmental activities**	**Business-type activities**	**Total**	**Component units**
Current assets:					
Cash and short-term investments	$	46,400	193,914	240,314	19,137
Restricted cash and investments		1,178,638	61,210	1,239,848	18,263
Derivative instrument		6,215	—	6,215	—
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth		280,630	120,115	400,745	67,523
Due from federal government		10,455	14,838	25,293	34,338
Other		19,681	29,991	49,672	56,457
Other assets		6,137	90,693	96,830	5,569
Total current assets		1,548,156	510,761	2,058,917	201,287
Noncurrent assets:					
Restricted cash and investments		121,016	826,665	947,681	—
Other assets		2,139	89,837	91,976	13,079
Capital assets:					
Nondepreciable		4,275,604	837,711	5,113,315	27,433
Depreciable, net of accumulated depreciation		17,858,886	7,321,057	25,179,943	343,559
Total noncurrent assets		22,257,645	9,075,270	31,332,915	384,071
Deferred outflows from derivative instruments		219,493	141,260	360,753	—
Total assets and deferred outflows	$	24,025,294	9,727,291	33,752,585	585,358
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	$	338,850	242,355	581,205	51,886
Deferred revenue		50,297	—	50,297	1,023
Accrued interest		29,098	127,980	157,078	1,680
Bonds and notes payable		55,582	401,275	456,857	130,539
Capital lease obligations		—	24,407	24,407	—
Other liabilities		36,556	—	36,556	503
Total current liabilities		510,383	796,017	1,306,400	185,631
Noncurrent liabilities:					
Accrued interest on capital appreciation bonds		162,499	—	162,499	—
Bonds payable		2,070,694	5,375,685	7,446,379	33,719
Capital lease obligations		—	124,760	124,760	—
Net OPEB and pension obligation		—	572,217	572,217	9,309
Liability for derivative instruments		454,573	160,097	614,670	—
Other liabilities		125,672	95,063	220,735	6,799
Total noncurrent liabilities		2,813,438	6,327,822	9,141,260	49,827
Total liabilities	$	3,323,821	7,123,839	10,447,660	235,458
Net Assets					
Invested in capital assets, net of related debt	$	20,024,196	3,284,688	23,308,884	367,297
Restricted for other purposes		767,051	19,359	786,410	6,137
Unrestricted (Deficit)		(89,774)	(700,595)	(790,369)	(23,534)
Total net assets	$	20,701,473	2,603,452	23,304,925	349,900

See accompanying notes to financial statements.

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

Statement of Activities

Fiscal year ended June 30, 2012

(Dollars in thousands)

		Program revenues			Net (expense)/revenue and changes in net assets			
					Primary government			
Functions/programs	**Expenses**	**Fees, fines, and charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**	**Component units**
Primary government:								
Governmental activities:								
Highway	$ 1,840,291	355,490	26,995	1,405,571	(52,235)	—	(52,235)	—
Planning and programming	141,786	62,964	8,524	86,622	16,324	—	16,324	—
Registry of motor vehicles	77,438	31,298	753	911	(44,476)	—	(44,476)	—
Mass Transit	151,749	414	29,520	61,953	(59,862)	—	(59,862)	—
Aeronautics	14,778	4	—	14,194	(580)	—	(580)	—
Debt service – interest	160,751	—	102,556	—	(58,195)	—	(58,195)	—
Total governmental activities	2,386,793	450,170	168,348	1,569,251	(199,024)	—	(199,024)	—
Business-type activities:								
Massachusetts Bay Transportation Authority	2,102,853	528,906	—	246,574	—	(1,327,373)	(1,327,373)	—
Total primary government	$ 4,489,646	979,076	168,348	1,815,825	(199,024)	(1,327,373)	(1,526,397)	—
Component units:								
Aggregate component units	$ 342,307	171,463	134,862	84,169	—	—	—	48,187
General revenues:								
Operating assistance from the Commonwealth					$ 203,935	—	203,935	—
Taxes and assessments					—	1,091,217	1,091,217	—
Other income					—	33,829	33,829	—
Unrestricted investment income					2,845	43,947	46,792	—
Total general revenues					206,780	1,168,993	1,375,773	—
Change in net assets					7,756	(158,380)	(150,624)	48,187
Net assets – beginning of year					20,693,717	2,761,832	23,455,549	301,713
Net assets – end of year					$ 20,701,473	2,603,452	23,304,925	349,900

See accompanying notes to financial statements.

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

Governmental Funds

Balance Sheet

June 30, 2012

(Dollars in thousands)

Assets		MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Cash and short-term investments	$	44,058	—	2,342	46,400
Restricted cash and investments		790,546	54,390	433,930	1,278,866
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth		—	280,630	—	280,630
Due from federal government		—	—	10,455	10,455
Other		14,681	—	5,000	19,681
Other assets		2,395	—	—	2,395
Total assets	$	851,680	335,020	451,727	1,638,427
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued expenditures	$	47,960	281,838	8,950	338,748
Deferred revenue		50,297	—	5,000	55,297
Total liabilities		98,257	281,838	13,950	394,045
Fund balances:					
Nonspendable		2,395	—	—	2,395
Restricted		712,619	53,182	432,724	1,198,525
Assigned		21,173	—	5,053	26,226
Unassigned		17,236	—	—	17,236
Total fund balances		753,423	53,182	437,777	1,244,382
Total liabilities and fund balances	$	851,680	335,020	451,727	1,638,427

See accompanying notes to 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, 2012

(Dollars in thousands)

Total governmental fund balances (page 19):	$	1,244,382
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		22,134,490
Receivables that are measurable but not available are deferred in the governmental funds but recognized as revenue on a full accrual basis.		5,000
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		2,427
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.		(191,597)
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		(2,126,276)
Workers' compensation claims		(22,477)
Other claims and judgments		(75,000)
Compensated absences		(44,968)
Environmental remediation		(1,983)
Derivative instruments, net		(228,865)
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.		6,340
Net assets of governmental activities (page 17)	$	20,701,473

See accompanying notes to 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

Fiscal year ended June 30, 2012

(Dollars in thousands)

	MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Revenues:				
Toll revenue:				
Pledged as security for revenue bonds	$ 295,660	—	—	295,660
Unpledged	33,081	—	—	33,081
Commonwealth transportation fund:				
Operations	203,935	—	—	203,935
Metropolitan highway system bonds	100,000	—	—	100,000
Central artery operations and maintenance	25,000	—	—	25,000
Commonwealth grants and contract assistance	39	1,017,274	7,677	1,024,990
Federal grants and reimbursements:				
Passed through the Commonwealth	—	483,365	—	483,365
Direct	—	68,277	32,335	100,612
Rental/lease income	39,773	—	—	39,773
Investment income	2,177	184	1,955	4,316
Departmental and other	46,914	—	39,741	86,655
Total revenues	746,579	1,569,100	81,708	2,397,387
Expenditures:				
Current:				
Highway	336,312	1,429,311	15,421	1,781,044
Planning and programming	52,716	88,097	4,639	145,452
Registry of motor vehicles	59,806	926	16,280	77,012
Mass transit	59,235	63,008	29,459	151,702
Aeronautics	345	14,282	151	14,778
Debt service:				
Principal	51,285	—	—	51,285
Interest	100,549	—	—	100,549
Total expenditures	660,248	1,595,624	65,950	2,321,822
Excess (Deficiency) of revenues over expenditures	86,331	(26,524)	15,758	75,565
Other financing sources (uses):				
Transfers in	—	10,878	—	10,878
Transfers out	—	—	(10,868)	(10,868)
Issuance of refunding bonds	90,110	—	—	90,110
Premium from issuance of refunding bonds	1,079	—	—	1,079
Debt service – principal – current refunding	(90,615)	—	—	(90,615)
Total other financing sources (uses)	574	10,878	(10,868)	584
Net change in fund balances	86,905	(15,646)	4,890	76,149
Fund balances at beginning of year	666,518	68,828	432,887	1,168,233
Fund balances at end of year	$ 753,423	53,182	437,777	1,244,382

See accompanying notes to 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

Fiscal year ended June 30, 2012

(Dollars in thousands)

Net change in fund balances – total governmental funds (page 21)	$	76,149
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		733,911
Depreciation		(706,929)
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.		(80,253)
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.		
Proceeds of refunding bonds (current)		(90,110)
Bond maturities		141,900
Amortization and net effect of premiums, deferred losses on refunding transactions, discounts and bond issue costs		(1,216)
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.		2,675
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.		(60,425)
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		949
Compensated absences		(3,998)
Environmental remediation		(1,983)
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.		2,086
Changes in net assets of governmental activities (page 18)	$	7,756

See accompanying notes to financial statements.

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

Proprietary Funds

Statement of Fund Net Assets

June 30, 2012

(Dollars in thousands)

Assets and Deferred Outflows		**Business-type activities - enterprise fund MBTA**	**Governmental activities - internal service fund**
Current assets:			
Unrestricted cash and short-term investments	$	193,914	—
Restricted cash and investments		61,210	20,788
Lease accounts		21,164	—
Receivables, net of allowance for uncollectibles:			
Due from Commonwealth		120,115	—
Due from federal government		14,838	—
Other		29,991	—
Other assets		69,529	3,453
Total current assets		510,761	24,241
Noncurrent assets:			
Restricted cash and investments		826,665	—
Lease accounts		61,954	—
Deferred bond issue costs		27,883	—
Capital assets:			
Nondepreciable		837,711	—
Depreciable, net of accumulated depreciation		7,321,057	—
Total noncurrent assets		9,075,270	—
Deferred outflows from derivative instruments		141,260	
Total assets and deferred outflows	$	9,727,291	24,241
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$	242,355	101
Accrued interest		127,980	—
Bonds payable		401,275	—
Capital lease obligations		24,407	—
Other liabilities		—	6,400
Total current liabilities		796,017	6,501
Noncurrent liabilities:			
Bonds payable		5,375,685	—
Capital lease obligations		124,760	—
Net OPEB and pension obligation		572,217	—
Liability for derivative instruments		160,097	—
Other liabilities		95,063	11,400
Total noncurrent liabilities		6,327,822	11,400
Total liabilities	$	7,123,839	17,901
Fund Net Assets			
Invested in capital assets, net of related debt	$	3,284,688	—
Restricted for other purposes		19,359	6,340
Unrestricted		(700,595)	—
Total net assets	$	2,603,452	6,340

See accompanying notes to 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

Fiscal year ended June 30, 2012

(Dollars in thousands)

	Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund
Operating revenues:		
Revenue from transportation	$ 465,755	—
Other	63,151	—
Total operating revenues	528,906	—
Operating expenses:		
Salaries and benefits	786,912	—
Materials, supplies and services	212,146	—
Injuries, damages and claims	13,122	(2,065)
Commuter railroad and local subsidy	431,262	—
Other	8,292	—
Depreciation and amortization	366,559	—
Total operating expenses	1,818,293	(2,065)
Operating income (loss)	(1,289,387)	2,065
Nonoperating revenues (expenses):		
Dedicated sales tax	779,092	—
Contract assistance – Commonwealth of Massachusetts	160,000	—
Dedicated local assessments	152,125	—
Fair value change in investment derivatives	1,230	—
Other income	32,599	10
Investment income	43,947	21
Interest expense	(284,560)	—
Total nonoperating revenues (expenses), net	884,433	31
Income (loss) before capital grants and contributions and transfers	(404,954)	2,096
Capital grants and contributions	246,574	—
Transfers out	—	(10)
Change in fund net assets	(158,380)	2,086
Fund net assets at beginning of year	2,761,832	4,254
Fund net assets at end of year	$ 2,603,452	6,340

See accompanying notes to financial statements.

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

Proprietary Funds

Statement of Cash Flows

Fiscal year ended June 30, 2012

(Dollars in thousands)

		Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund	
Cash flows from operating activities:				
Receipts from customers and users	$	532,508	—	
Payments to suppliers and vendors		(808,357)	—	
Payments to employees		(469,901)	—	
Claims, premiums and judgments paid		—	(24,583)	
Net cash used in operating activities		(745,750)	(24,583)	
Cash flows from noncapital financing activities:				
Sales tax and local assessment		1,092,710	—	
Reimbursable payments		18,728	—	
Net cash from noncapital financing activities		1,111,438	—	
Cash flows from capital and related financing activities:				
Proceeds from the issuance of bonds and notes		410,645	—	
Premium from the issuance of bonds and notes		52,362	—	
Net proceeds (payments) of capital lease activity		(53,327)	—	
Capital grants		242,643	—	
Acquisition and construction of capital assets		(389,842)	—	
Principal payments on bonds and notes		(401,950)	—	
Proceeds (payments) from/to bond construction and reserve accounts		(91,034)	—	
Interest expense		(277,348)	—	
Increase in deferred credits/charges		(54,513)	—	
Increase in lease deposit/account		50,640	—	
Other		124,910	—	
Net cash used in capital and related financing activities		(386,814)	—	
Cash flows from investing activities:				
Proceeds from sales of investments		—	35,836	
Purchases of investments		—	(40,177)	
Investment income (loss)		61,766	9	
Net cash from investing activities		61,766	(4,332)	
Net change in cash and short-term investments		40,640	(28,915)	
Cash and cash equivalents, restricted and other special accounts, beginning of year		214,484	37,927	
Cash and cash equivalents, restricted and other special accounts, end of year	$	255,124	9,012	(a)
Reconciliation of operating income (loss) to net cash from operating activities:				
Operating income (loss)	$	(1,289,387)	2,065	
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Charges not requiring current expenditure of cash:				
Depreciation		366,559	—	
Increase in pension liability		24,303	—	
Increase in net OPEB liability		123,200	—	
Changes in all other working capital accounts, except cash and cash equivalents and short-term deb		29,575	(26,648)	
Total adjustments		543,637	(26,648)	
Net cash used in operating activities	$	(745,750)	(24,583)	

Supplemental disclosure of cash flow activities:
Sales tax bonds in the aggregate principal amount of $410,645 were issued to defease $175,770, of bonds outstanding, and to redeem $33,000 in bond anticipation notes
Residual market credits issued by a third party and retained by MassDOT totaled $10.

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

See accompanying notes to financial statements.

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

Fiduciary Funds

Statement of Net Assets

June 30, 2012

(Dollars in thousands)

Assets		**Other post-employment benefits trust**	**Agency funds**
Cash and short-term investments	$	8,775	81,437
Investments:			
U.S. Treasury bonds		5,598	—
U.S. agency securities		12,930	—
Corporate bonds		8,138	—
Other fixed income securities		3,916	—
Equity securities		31,733	—
Receivables:			
Interest and other		1,347	22,739
Total assets		72,437	104,176
Liabilities			
Payable for investments purchased		8,264	—
Other liabilities		785	104,176
Total liabilities		9,049	104,176
Net Assets			
Held in trust for other post employment benefits	$	63,388	—

See accompanying notes to financial statements.

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

Fiduciary Fund

Statement of Changes in Net Assets

Fiscal year ended June 30, 2012

(Dollars in thousands)

		Other post-employment benefits trust
Additions:		
Net investment income:		
Net appreciation in fair value of investments	$	1,611
Interest		911
Dividends		1,099
Total investment income		3,621
Less investment expense		(281)
Net investment income		3,340
Deductions:		
Employee benefits		785
Changes in net assets		2,555
Net assets at beginning of year		60,833
Net assets at end of year	$	63,388

See accompanying notes to financial statements.

(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 (CANA), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.

   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. The operations of the Executive Office of Transportation of the Commonwealth

6. 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.

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 debt service on MassDOT debt, $160,000 earmarked for the MBTA, and $15,000 earmarked for the regional transit authorities.

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, 2012, MassDOT received $303,935 from the CTF for operations

($203,935, which includes $15,000 earmarked for the regional transit authorities) and debt service ($100,000).

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, 2012 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 14.

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 15.

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; Southeastern Regional Transit Authority; Martha's Vineyard Transit Authority; the 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 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 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.

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, 2012, 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 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:

Type of asset	Estimated useful life (in years)
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 funds 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 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

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 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.

(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	$	127,837
Restricted cash and investments		960,500
	$	1,088,337

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.

(Dollars in thousands)

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, 2012, 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 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, 2012 are presented below by investment type and maturity.

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1 year**	**1 – 5**	**6 – 10**	**More than 10**
U.S. Treasuries	$ 5,598	—	3,429	259	1,910
U.S. agencies	186,745	52,870	121,033	853	11,989
Money market mutual funds	153,327	153,327	—	—	—
Commercial paper	20,784	20,784	—	—	—
Fixed income securities	12,054	221	4,272	2,962	4,599
MMDT	1,088,337	1,088,337	—	—	—
	1,466,845	$ 1,315,539	128,734	4,074	18,498
Other investments:					
Equity securities	31,733				
Total investments	$ 1,498,578				

(c) Credit Risk

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

(Dollars in thousands)

The following table presents the credit quality ratings of the primary government's fixed income investments at June 30, 2012:

		Quality ratings					
Investment type	**Fair value**	**AAA**	**AA1-AA3**	**A1-A3**	**BAA1-BAA3**	**BA1-BD**	**Unrated**
Money market mutual funds	$ 153,327	153,327	—	—	—	—	—
Commercial paper	20,784	—	—	20,784	—	—	—
Fixed income securities	12,054	2,993	677	3,469	4,697	47	171
MMDT	1,088,337	—	—	—	—	—	1,088,337
	$ 1,274,502	156,320	677	24,253	4,697	47	1,088,508

Although the MMDT Cash Fund is not rated, credit ratings associated with the investments of the Cash Fund were either P1 (approximately 91%) or P2 (approximately 9%).

(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 ($131,171) 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, 2012 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	$ 472,180
Major Capital Projects – Statewide Road and Bridge Program	54,390
Other Governmental Funds – Central Artery Repairs and Maintenance	386,370
Other Governmental Funds – Motor Vehicle Safety Inspection	45,354
Other Governmental Funds – Other	2,206
Held by Bond Trustee:	
General Fund – Toll related accounts as restricted by bond covenants	318,366
Held by OCIP Trustee:	
Internal Service Fund – Workers' compensation self-insurance	20,788
Total	$ 1,299,654

(Dollars in thousands)

(3) Capital Assets

Capital assets of the governmental activities consisted of the following at June 30, 2012:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land	$ 769,317	9,166	—	778,483
Construction in progress	2,999,355	704,162	206,396	3,497,121
Total capital assets, not being depreciated	3,768,672	713,328	206,396	4,275,604
Capital assets, being depreciated:				
Infrastructure	27,878,658	151,386	24,404	28,005,640
Buildings	122,952	2,285	—	125,237
Equipment	107,561	2,560	56	110,065
Vehicles	72,243	10,699	406	82,536
Software	8,798	3,997	—	12,795
Total capital assets, being depreciated	28,190,212	170,927	24,866	28,336,273
Less accumulated depreciation for:				
Infrastructure	9,549,191	691,843	608	10,240,426
Buildings	58,082	4,644	—	62,726
Equipment	96,418	4,128	56	100,490
Vehicles	60,118	4,218	—	64,336
Software	7,313	2,096	—	9,409
Total accumulated depreciation	9,771,122	706,929	664	10,477,387
Total capital assets, being depreciated, net	18,419,090	(536,002)	24,202	17,858,886
Capital assets, net	$ 22,187,762	177,326	230,598	22,134,490

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

Highway	$ 704,068
Office of planning and programming	2,853
Registry of motor vehicles	8
	$ 706,929

(Dollars in thousands)

(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, 2012:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
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	3,502	—	74	3,428	78
Metropolitan Highway System:					
2010 Refunding, Series B, 3.00% to 5.00%, issued May 27, 2010, due 2011 to 2037	881,890	—	32,900	848,990	35,480
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)	109,000	—	109,000	—	—
Western Turnpike:					
2011 Refunding, Series A, 2.50% to 5.0%, issued November 30, 2011, due 2017	—	7,375	—	7,375	—
Western Turnpike:					
2011 Refunding, Series B, 0.942% to 2.408% issued November 30, 2011, due 2017 (Federally Taxable)	—	82,735	—	82,735	19,565
Total senior revenue bonds	1,333,200	90,110	141,974	1,281,336	55,123
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	12,994	—	439	12,555	459
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	866,549	—	439	866,110	459
Total	2,199,749	90,110	142,413	2,147,446	55,582
Less unamortized amounts:					
Bond discounts	(9,814)	(532)	(986)	(9,360)	—
Deferred losses on refunding	(72,585)	(582)	(2,841)	(70,326)	—
Plus unamortized premiums	59,859	1,079	2,422	58,516	—
Total bonds payable	2,177,209	90,075	141,008	2,126,276	55,582

(Continued)

(Dollars in thousands)

		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Other long-term liabilities:						
Workers' compensation	$	23,425	4,714	5,662	22,477	5,662
Judgments and claims		99,100	15,515	21,815	92,800	6,400
Compensated absences, net		40,970	5,788	1,790	44,968	23,898
Environmental remediation		—	3,071	1,088	1,983	596
Total other long-term obligations		163,495	29,088	30,355	162,228	36,556
Total long-term liabilities	$	2,340,704	119,163	171,364	2,288,503	92,138

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.

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 Commonwealth has also pledged $25,000 per fiscal year until June 30, 2037 to provide contract assistance toward repayment of the senior bonds. These contractual payments constitute dedicated payments from the Commonwealth and are deposited into the Senior 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:

		Principal	Interest	Total
Year ending June 30:				
2013	$	55,045	58,409	113,454
2014		56,710	56,404	113,114
2015		77,685	54,285	131,970
2016		58,020	72,853	130,873
2017		56,887	72,140	129,027
2018 – 2022		230,501	348,517	579,018
2023 – 2027		354,117	255,373	609,490
2028 – 2032		380,983	231,242	612,225
2033 – 2037		641,515	31,738	673,253
2038 – 2039		220,000	595	220,595
Total	$	2,131,463	1,181,556	3,313,019

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

(Dollars in thousands)

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2012:

Description	Redemption date	Redemption price		Principal amount outstanding
Metropolitan Highway System:				
2010 Series A – Subordinated Debt	2024 to 2039	100%	$	592,335
2010 Series B – Subordinated Debt	2021 to 2035	100		238,210
2010 Series A – Senior Debt	2035 to 2037	100		207,665
2010 Series B – Senior Debt	2021 to 2037	100		593,285

(a) 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 2013 and December 2014. 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 $520,080 of the VRDOs are secured by agreements that expire on or before May 27, 2013, they are also subject to a ‘Mandatory Tender for Purchase’ requirement that becomes effective prior to the May 27, 2013 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.

(b) Prior Defeasances of Debt

At June 30, 2012, the principal amounts outstanding on revenue bonds and notes that are considered defeased are as follows:

Description	Redemption date	Redemption price		Principal amount outstanding
1993 Series A Term	2013 to 2023	100%	$	210,770

(c) Current Refunding

On November 30, 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 2012 bonds is tax-exempt and $82,735

(Series B) of the 2012 bonds is federally taxable. The average interest rate of the 2012 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. The refunding also resulted in MassDOT recording a deferred accounting loss of $582.

(d) 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, 2012, 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, 2012 totals $15,982 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 $6,215 as of June 30, 2012. The credit rating of Wells Fargo Bank, N.A. at June 30, 2012, as determined by S&P, was AA-.

(Continued)

(Dollars in thousands)

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 financial statements are as follows:

	Changes in fair value		Fair value at June 30, 2012		
	Classification	**Amount debit (credit)**	**Classification**	**Amount debit (credit)**	**Notional**
Governmental activities:					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow	$ 182,346	Derivative liability	(441,708)	800,000
Investment derivatives:					
Pay-fixed interest rate swap	Investment revenue	3,600	Derivative liability	(5,716)	29,880
Pay-variable interest rate basis swap	Investment revenue	(1,106)	Derivative liability	(7,149)	100,000
Subtotal		184,840		(454,573)	
Forward delivery agreement	Investment revenue	(4,656)	Derivative asset	6,215	—
		$ 180,184		(448,358)	

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.

(Dollars in thousands)

The following table displays the terms of MassDOT's derivative instruments outstanding at June 30, 2012:

Derivative item	Type	Objective	Effective date	Notional amount	Term. date	Payable swap rate	Receivable swap rate	Premiums received	Fair value at June 30, 2012
Cash flow hedges:									
1	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 senior debt (Series A-1 and A-2)	7/1/2008	$ 207,665	1/1/2037	4.750%	68% of 1 montl LIBOR (0.16711%) (a)	$ 10,375	(120,091)
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	4.875	68% of 1 month LIBOR	4,391	(44,768)
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	(18,516)
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	4.750	68% of 1 month LIBOR	17,063	(217,430)
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	(40,903)
Investment derivatives:									
6	Pay-fixed interest rate swap		1/1/2009	29,880	1/1/2039	4.750	68% of 1 month LIBOR	—	(5,716)
7	Pay-variable interest rate basis swap		10/1/2002	100,000	7/1/2029	SIFMA (0.18%) (a)	67% of 3 month LIBOR (.30860%) (a)	5,350	(7,149)
		Subtotal							(454,573)
8	Forward delivery agreement		—	—	1/1/2029	—	Fixed 5.96%	—	6,215
		Total							$ (448,358)

(a) Rates as of June 30, 2012.

(Dollars in thousands)

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 (0.16711%) and the variable rates (0.14% – 0.23%) on the 2010 Bonds as of June 30, 2012 remain the same through the term of the swap, are as follows:

		2010 Bonds principal	2010 Bonds interest	Interest rate swap, net	Total
2013	$	—	1,396	37,112	38,508
2014		—	1,396	37,112	38,508
2015		—	1,396	37,112	38,508
2016		—	1,396	37,112	38,508
2017		—	1,396	37,112	38,508
2018 – 2022		—	6,983	185,558	192,541
2023 – 2027		81,095	6,849	181,393	269,337
2028 – 2032		113,985	5,908	153,404	273,297
2033 – 2037		384,920	4,757	121,669	511,346
2038 – 2040		220,000	595	15,353	235,948
Totals	$	800,000	32,072	842,937	1,675,009

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.

The counterparty for derivatives 1 through 6 is the same financial institution. The following represents the credit ratings of the swap counterparties at June 30, 2012:

Derivative swap item	Counterparty credit rating (Moody's, S&P and Fitch)
Derivative 1 – 6	A2, A, A
Derivative 7	Aa3, A+, A+

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 SIFMA and the receive-variable rate on

67% of 3 month LIBOR. 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 cash flow hedge swaps 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 and November of 2011, 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 $4,156,000. Principal and interest (including net swap payments) paid and pledged revenue received for the year ended June 30, 2012 were $151,834 and $295,660, respectively.

(Continued)

(Dollars in thousands)

(6) Governmental Fund Balances

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

	MTTF (general)	Highway capital projects	Other governmental funds	Total
Nonspendable:				
Prepaid expenditures	$ 2,395	—	—	2,395
Restricted:				
Debt service	318,366	—	—	318,366
Turnpike (toll) operations and capital reinvestment	328,985	—	—	328,985
Tobin Bridge and Metropolitan Highway System operations	64,322	—	—	64,322
Transportation infrastructure fund	—	53,182	—	53,182
Central Artery repairs and maintenance	—	—	385,613	385,613
Motor vehicle safety inspection	—	—	44,953	44,953
Registry operations	—	—	196	196
Highway operations	946	—	1,923	2,869
Transit operations	—	—	39	39
Total restricted fund balances	712,619	53,182	432,724	1,198,525
Assigned:				
Insurance reserve	10,434	—	—	10,434
Turnpike operations	9,907	—	—	9,907
Planning and programming	—	—	19	19
Highway operations	832	—	3,581	4,413
Registry operations	—	—	1,453	1,453
Transit operations	—	—	—	—
Total assigned fund balances	21,173	—	5,053	26,226
Unassigned	17,236	—	—	17,236
Total governmental fund balances	$ 753,423	53,182	437,777	1,244,382

(Continued)

(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 8.98%. 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, 2012 was $22,376, 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 8.10% 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, 2012 was $20,181, 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 2012, 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 14, 2012, 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.

(Dollars in thousands)

(8) Leases

(a) Commitments

MassDOT has commitments under various operating leases. Total lease expense for the year ending June 30, 2012 was $14,780. The following is a summary of the future minimum lease payments for operating lease obligations.

		Amount
Years:		
2013	$	11,576
2014		9,642
2015		9,002
2016		3,460
2017		1,359
2018 – 2020		1,355
Total	$	36,394

Capital lease obligations are not material to MassDOT's financial statements.

(b) Rental Income

MassDOT leases property and air rights to others. For the year ended June 30, 2012, MassDOT earned $39,773 in rental income. The following is a schedule by years of minimum future rental income on noncancelable operating leases as of June 30, 2012:

		Amount
Years:		
2013	$	53,816
2014		48,031
2015		38,039
2016		34,594
2017		30,554
Thereafter		660,261
Total	$	865,295

(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 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, 2012.

(Dollars in thousands)

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, 2012 is $22,477. 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, 2012.

Changes in the workers' compensation claims liability since July 1, 2010 were as follows:

Liability balance, July 1, 2010	$	25,075
Provision to record estimated losses		4,825
Payments		(6,475)
Liability balance, June 30, 2011	$	23,425
Liability balance, July 1, 2011	$	23,425
Provision to record estimated losses		4,714
Payments		(5,662)
Liability balance, June 30, 2012	$	22,477

(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.

(Dollars in thousands)

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, 2012, 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, 2012 is $17,800. 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, 2012.

Changes in the claims liability since July 1, 2010 were as follows:

Liability balance, July 1, 2010	$	33,200
Provision to record estimated losses		4,184
Payments		(13,284)
Liability balance, June 30, 2011	$	24,100
Liability balance, July 1, 2011	$	24,100
Provision to record estimated losses		(6,725)
Payments		425
Liability balance, June 30, 2012	$	17,800

(Dollars in thousands)

(10) Environmental Remediation

Governmental Accounting Standard Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASBS 49) provides guidance in estimating and reporting the potential costs of pollution remediation. While GASBS 49 does not require MassDOT to search for pollution, it does require MassDOT to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- MassDOT is compelled to take pollution remediation action because of an imminent endangerment;
- MassDOT is found in violation of a pollution prevention–related permit or license;
- MassDOT is named, or evidence indicates that it will be named, by a regulator as a responsible party by a regulator;
- MassDOT is named, or has evidence that it will be named in a lawsuit to enforce a cleanup, or
- MassDOT commences or legally obligates itself to commence pollution remediation.

MassDOT reports a pollution remediation liability as of June 30, 2012 of $1,983 using the expected cash flow technique. Under the technique, MassDOT estimated a reasonable range of potential outlays and multiplied those outlays by their probability of occurring. This liability could change over time due to price fluctuations, changes in remediation technology, changes in potential responsible parties, results of environmental studies, or changes in laws and regulations governing the remediation efforts.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway at various MassDOT's sites. An example of such activities involved the installation of a groundwater treatment system in the town of Barre, Route 122 at Route 32, as well as a large volume of soil removal in various sites due to chemical contamination.

During the fiscal year, MassDOT had the following activity related to pollution remediation:

Environmental remediation liability, beginning of year	$	—
Expected additional future outlays, increasing liability estimates		3,071
Fiscal year 2012 outlays for environmental remediation		1,088
Environmental remediation liability, end of year	$	1,983

The payments for remediation costs incurred in fiscal year 2012 are recorded in the Highway division expenses in the statement of activities. The accrued total liability as of June 30, 2012 is presented in other liabilities in the statement of net assets. Expected payments of $596 due within one year is shown in the current liabilities, whereas the remaining portion of estimated liability of $1,387 is included in noncurrent portion of long-term liabilities.

(11) 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, 2012 approximated $2,000,000.

(12) 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 $157,000. 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, 2012, MassDOT has accrued $75,000 related to these claims.

(13) Subsequent Events

Adoption of Fiscal Year 2013 Budget

Subsequent to year-end, MassDOT's fiscal year 2013 budget was approved for $792,782. This amount will be funded from operating revenues ($477,242), reserves ($15,250) and the CTF as appropriated by the Massachusetts Legislature ($300,290).

On August 10, 2012, the Governor approved Chapter 242 of the Acts of 2012, the Transportation Bond Bill passed by the Legislature funding various transportation initiatives within the Commonwealth. Section 3(b) of the legislation revised the governance of MassDOT, to be governed by a seven-member board appointed by the Governor. Each member shall be appointed for a four–year term, with the Secretary of Transportation serving as an ex officio director. Four of the five members of the prior board of MassDOT from November 2009 were reappointed with two new members appointed as of September 11, 2012.

(14) 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).

(Continued)

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.

(15) 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.

(Dollars in thousands)

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, 2012:

	Estimated useful life
Ways and structures	10 – 60 years
Building and equipment	3 – 25 years

(c) Construction in Progress

During 2012, major construction projects aggregating $502,413, 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 year 2012, the Authority had no material capitalized interest.

(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 revenue such as real estate, parking and advertising revenues.

The dedicated sales tax revenue consists of the greater of 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 revenue previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenue. 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 year 2012. 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 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, 2012 was $18,193.

(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 20).

(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 future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that the Authority does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the statement of net assets over time.

(Continued)

(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 information has been reclassified to conform to the 2012 presentation.

(16) 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.

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.

(Dollars in thousands)

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 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, 2012:

		2012
Restricted:		
Bond construction accounts	$	246,763
Bond reserve, stabilization, and other accounts		560,225
Lease deposits		80,887
Subtotal		887,875
Unrestricted cash and temporary cash investments		193,914
	$	1,081,789

Included in bond reserve, stabilization, and other accounts at June 30, 2012 are investments in Commonwealth debt instruments with a fair value of $49,904.

(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, 2012 was $145,674. The bank balance at June 30, 2012 was $140,523. Of this amount, $9,400 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, 2012.

(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.

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2012 are presented below. All investments are presented by investment type and maturity.

	2012				
		Investment maturities (in years)			
Investment type	**Amount**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$ 218,093	218,093	—	—	—
Money market funds	316,601	316,601	—	—	—
Guaranteed investment contracts	1,342	—	—	—	1,342
Treasury STRIPS	80,887	2,229	27,500	—	51,158
Government-sponsored enterprises	291,967	257,065	—	7,169	27,733
Other treasury obligations	106,112	852	—	—	105,260
Certificates of deposit	2,008	2,008	—	—	—
Investments	$ 1,017,010	796,848	27,500	7,169	185,493

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of $1,342 at June 30, 2012. These investments are not rated.

The Authority had $186,999 in Treasury STRIPS and other treasury obligations as of June 30, 2012. 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 $291,967 invested in Government-Sponsored Enterprises (GSE) as of June 30, 2012. These investments have an implied credit rating of AAA or they have been collateralized to AAA.

The Authority has $218,093 invested in MMDT as of June 30, 2012, 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 $318,609 invested in money market funds and certificates of deposit as of June 30, 2012. These investments are not rated.

(Dollars in thousands)

(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:

	Credit rating by Moody's/S&P		2012	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	$	188,615	18.6%
		$	188,615	18.6

(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, 2012.

(17) 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, 2012 totaling $286,004.

(18) 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, 2012, prior obligations in the amount of $494,700 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 2012, the Authority issued the following bonds: the 2012 Series A Assessment Bonds in the amount of $410,645.

Principal on the 2012 Series A Assessment Bonds is payable beginning with a single payment due January 1, 2013 and thereafter payments resume on July 1, 2015 and occur on each July 1st through July 1, 2041 except for July 1 of 2025 through 2035. Interest on these bonds is paid semiannually on July 1 and January 1. The 2012 Series A Assessment Bonds were issued in part to fund a portion of the Authority's Capital Investment Program (CIP) and to partially refund the 2002 Series A Sales Tax Bonds, the 2006 Series C Sales Tax Bonds, the 2004 Series A Assessment Bonds, the 2005 Series A Assessment Bonds, the 2008 Series A Assessment Bonds, and to retire $33,000 of Bond Anticipation Notes issued on March 1, 2012.

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 in the amount of $78,000 during fiscal year 2012 to fund payment on prior obligations of the Authority and it was repaid prior to June 30, 2012. The balance of $118,375 was outstanding as of June 30, 2012. The total commercial paper notes included CP Sales Tax Series A in the amount of $46,125 with a weighted average nominal rate 0.712% and CP Sales Tax Series B in the amount of $72,250 with a weighted average nominal rate 0.483%.

Grant Anticipation Notes (GANs) were issued in 2004 and the principal was payable in annual installments on September 1st; interest was payable semiannually on March 1 and September 1. The balance of $6,245 at June 30, 2011 was paid in full during fiscal year 2012. The GANs were issued to provide funds for the financing of the Authority's transportation properties.

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.

(Dollars in thousands)

The Authority's bonds outstanding at June 30, 2012 are as follows:

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2012	Due in fiscal year 2013
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	$ 3,450	1,725
1991 Series A Bonds dated November 15, 1991	2021	7.00%	36,165	—
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20%	125,200	36,780
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.00%	28,745	16,825
1995 Series A Bonds dated April 1, 1995	2015	5.75% – 5.88%	23,625	9,465
1998 Series A Bonds dated February 15, 1998	2015	5.50%	27,305	8,620
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	50,955	20,495
1999 Series Variable Rate Demand Obligation dated June 29, 1999*	2014	Variable	13,590	6,570
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	185,665	5,460
			494,700	105,940
Boston Metropolitan District (BMD) bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	6,080	2,040
			6,080	2,040

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2012	Due in fiscal year 2013
Revenue bonds:				
2002 Series A Senior Sales Tax Bonds dated November 1, 2002	2017	3.88% – 5.00%	$ 9,165	9,165
2003 Series A Senior Sales Tax Bonds dated January 29,2003	2021	4.00% – 5.25%	130,190	25,840
2003 Series C Senior Sales Tax Bonds dated February 3, 2004**	2023	Variable	217,850	795
2004 Series A Senior Sales Tax Bonds dated February 3, 2004	2016	5.00% – 5.25%	16,455	2,190
2004 Series B Senior Sales Tax Bonds dated March 9, 2004	2030	3.00% – 5.25%	454,745	26,530
2004 Series A Assessment Bonds dated June 10, 2004	2021	3.00% – 5.25%	13,015	9,535
2004 Series C Senior Sales Tax Bonds dated December 22, 2004	2024	3.50% – 5.50%	319,320	—
2005 Series A Senior Sales Tax Bonds dated March 24, 2005	2031	5.00%	735,450	—
2005 Series A Assessment Bonds dated September 8, 2005	2035	3.20 – 5.00%	66,845	7,000
2005 Series B Senior Sales Tax Bonds dated December 21, 2005	2029	3.40 – 5.50%	92,175	50
2006 Series A Senior Sales Tax Bonds dated March 2, 2006	2034	5.25%	238,850	—
2006 Series B Senior Sales Tax Bonds dated December 5, 2006	2023	5.00 – 5.25%	202,830	4,505
2006 Series C Senior Sales Tax Bonds dated June 28, 2006	2027	4.00 – 5.00%	68,885	2,595
2006 Series A Assessment Bonds dated September 13, 2006***	2035	Variable	161,340	—
2007 Series A-1 Senior Sales Tax Bonds dated May 24, 2007	2034	5.25%	205,675	—
2007 Series A-2 Senior Sales Tax Bonds dated May 24, 2007	2037	Zero Coupon	169,491	—

(Continued)

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2012	Due in fiscal year 2013
Revenue bonds:				
2008 Series A-1 Senior Sales Tax Bonds dated April 2, 2008*	2021	Variable	$ 131,910	—
2008 Series A-2 Senior Sales Tax Bonds dated April 2, 2008*	2026	Variable	123,515	500
2008 Series B Senior Sales Tax Bonds dated April 30, 2008	2033	3.00% – 5.25%	48,605	1,200
2008 Series A Assessment Bonds dated November 13, 2008	2034	4.00% – 5.25%	236,905	—
2009 Series B Senior Sales Tax Bonds dated February 26, 2009	2018	3.00% – 5.00%	39,365	—
2009 Series D Senior Sales Tax Bonds dated October 29, 2009	2019	3.00% – 5.00%	14,445	—
2010 Series A Senior Sales Tax Bonds dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax Bonds dated April 6, 2010	2035	2.00% – 5.00%	77,760	1,280
2010 Series C Senior Sales Tax Bonds dated December 8, 2010	2020	5.00%	63,450	—
2012 Series A Assessment Bonds dated June 21, 2012	2041	5.00%	410,645	3,480
			4,329,136	174,920
Metropolitan Boston Transit Parking (MBTPC) Bonds:				
2011 Series A MBTPC Bonds dated June 22, 2011	2041	4.00% – 5.25%	304,585	—
			304,585	—

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2012	Due in fiscal year 2013
Revenue Build America (BABs) Bonds:				
2009 Series C Senior Sales Tax Bonds dated October 29, 2009	2039	4.75% – 5.57%	$ 218,300	—
2010 Series D Senior Sales Tax Bonds dated December 8, 2010	2040	4.546% – 5.869%	210,000	—
			428,300	—
Commercial Paper Notes:				
Bond Anticipation Notes (BANs)	2012	0.48% – 0.71%	118,375	118,375
Total bonds and notes payable			5,681,176	$ 401,275
Less current maturities			(401,275)	
Total long-term bonds payable			5,279,901	
Plus unamortized bond premiums			345,933	
Less unamortized bond discounts/losses on bond refundings, net			(250,149)	
Total long-term bonds payable			$ 5,375,685	

* These bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. The interest rates as of June 30, 2012 are 0.25% for the 1999 Series VRDO; as of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO ($94.0m) and 2000 Series A-2 VRDO ($94.0m). The interest rates as of June 30, 2012 for the 2000 Series A-1 are 0.25%; 0.15% for the 2000 Series A-2 VRDO; 0.19% for the 2008 Series A-1 Senior Sales Tax Bond and 0.15% 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.

(Dollars in thousands)

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 0.09%. The Authority classifies these bonds short-term as it does not have a standby purchase agreement for the remarketing window. The Authority does not foresee the bonds being called.

The annual maturities of bonds and notes payable as of June 30, 2012 are as follows:

	Principal	Interest
Fiscal year(s):		
2013	$ 401,275	266,955
2014	177,815	261,318
2015	175,980	251,072
2016	150,145	241,008
2017	201,415	231,531
2018 – 2022	1,288,855	985,146
2023 – 2027	1,140,399	720,821
2028 – 2031	1,048,953	458,428
2033 – 2037	723,866	240,784
2038 – 2042	372,473	62,059
Total	$ 5,681,176	3,719,122

A summary rollforward of bonds for the year ended June 30, 2012 is as follows:

	2012					
	Balance 2011	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2012
GTS	$ 578,645	—	83,945	—	—	494,700
BMD	8,130	—	2,050	—	—	6,080
Revenue	4,142,455	410,645	55,940	175,770	7,746	4,329,136
BABs	428,300	—	—	—	—	428,300
GANs	6,245	—	6,245	—	—	—
BANs	118,375	78,000	—	78,000	—	118,375
MBTPC	304,585	—	—	—	—	304,585
	$ 5,586,735	488,645	148,180	253,770	7,746	5,681,176

(Dollars in thousands)

The following funds, included in restricted assets at June 30, 2012 are in connection with the Authority's revenue bond trust agreements:

	2012			
	Assessment bonds	**Sales tax bonds**	**MBTPC bonds**	**GANs**
Debt service	$ 33,437	199,349	7,925	—
Debt service reserve	57,898	216,273	12,762	—
	$ 91,335	415,622	20,687	—

The minimum required balances in the debt service reserve funds at June 30, 2012 were $186,866 for the Sales Tax Series Bonds and $34,903 for the Assessment Bonds. The minimum required balance in the debt service reserve funds at June 30, 2012 for GANs is $0. The minimum required balance in the debt service reserve funds at June 30, 2012 for MBTPC Bonds 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, 2012.

(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, 2012, $1,414,765 of these bonds, considered defeased in-substance, are still outstanding, respectively. On June 30, 2012, $4,060 in BMD bonds are considered defeased in-substance, and are still outstanding.

In June 2012, the Authority refunded $625 of the 2002 Series A Series Sales Tax Bonds, $40,480 of the 2006 Series C Senior Sales Tax Bonds, $6,615 of the 2004 Series A Assessment Bonds, $74,605 of the 2005 Series A Assessment Tax Bonds and $53,445 of the 2008 Series A Assessment Bonds, with the issuance of the 2012 Series A Assessment Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the $175,770 in bonds is approximately $9,308. The accounting loss of $29,641 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2012 Series A Assessment 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 statements of net assets and the Swaps are reported based on the at-the-market rates at the time of execution.

(Dollars in thousands)

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 counter party	Fair value at June 30 2012
Cash flow hedges:									
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	$ 185,665	2030	5.00%	67% of LIBOR	$ 12,230	(58,009)
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	4.13	CPI+79 basis points	N/A	(1,374)
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	4.67	CPI+123 basis points	607	(370)
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	4.66	CPI+123 basis points	142	(87)
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	3.83	SIFMA	3,067	(22,533)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	123,515	2026	3.08	62% of LIBOR plus 24 basis points	116	(22,728)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	5.61	SIFMA	4,140	(36,159)
									(141,260)
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	5.20	SIFMA	4,586	(18,837)
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	5.60	SIFMA	1,265	—
									(18,837)
									$ (160,097)

(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 swaption was terminated with the counterparty as of December 1, 2011.

The aggregate fair value balance of the derivative instruments at June 30, 2012 is $(160,097), and is reflected on the Authority's statements of net assets as liability for derivative instruments. Of this liability, $141,260 at June 30, 2012, were offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2012, 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.

(Dollars in thousands)

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 U.S. Dollar Swap curve provided by independent third parties such as Bloomberg.

Swap Payments and Associated Debt

As of June 30, 2012, 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 is 0.165% and the variable rate on the 2000 Bonds is 0.200% 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.

Fiscal year(s) ending June 30		2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2013	$	5,460	368	8,890	14,718
2014		5,845	357	8,619	14,821
2015		6,250	345	8,330	14,925
2016		6,690	332	8,021	15,043
2017		7,160	318	7,690	15,168
2018 – 2022		44,050	1,349	32,613	78,012
2023 – 2027		61,775	831	20,079	82,685
2028 – 2031		48,435	166	4,009	52,610
Totals	$	185,665	4,066	98,251	287,982

(Dollars in thousands)

As of June 30, 2012, debt service requirements on the 2003 Series C Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming CPI rate of 3.556% 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.

Fiscal year(s) ending June 30		2003 Series C Senior Sales Tax Bonds principal	2003 Series C Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2013	$	—	1,087	(54)	1,033
2014		—	1,087	(54)	1,033
2015		—	1,087	(54)	1,033
2016		—	1,087	(54)	1,033
2017		—	1,087	(54)	1,033
2018 – 2021		25,005	3,260	(144)	28,121
	$	25,005	8,695	(414)	33,286

As of June 30, 2012, debt service requirements on the 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 3.556% 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.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2013	$	—	239	(6)	233
2014		—	239	(6)	233
2015		—	239	(6)	233
2016		—	239	(6)	233
2017		—	239	(6)	233
2018 – 2022		—	1,197	(32)	1,165
2023 – 2026		5,000	718	(19)	5,699
	$	5,000	3,110	(81)	8,029

(Dollars in thousands)

As of June 30, 2012, debt service requirements on the 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 3.556% 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.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2013	$	—	922	(22)	900
2014		—	922	(22)	900
2015		—	922	(22)	900
2016		—	922	(22)	900
2017		—	922	(22)	900
2018 – 2022		—	4,609	(112)	4,497
2023 – 2025		19,260	1,844	(45)	21,059
	$	19,260	11,063	(267)	30,056

As of June 30, 2012, debt service requirements on the 2008 Series A-1 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the SIFMA index rate is 0.180% and the variable rate on the 2008 Series A-1 Senior Sales Tax Bonds is 0.19% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-1 Senior Sales Tax Bonds principal	2008 Series A-1 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2013	$	—	251	4,820	5,071
2014		135	250	4,815	5,200
2015		735	249	4,788	5,772
2016		765	248	4,760	5,773
2017		18,990	211	4,066	23,267
2018 – 2022		111,285	457	8,795	120,537
	$	131,910	1,666	32,044	165,620

As of June 30, 2012, debt service requirements on the 2008 Series A-2 Senior 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 basis points is 0.392% and the variable rate on 2008 Series A-2 Senior Sales Tax Bonds is

(Dollars in thousands)

0.150% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30	2008 Series A-2 Senior Sales Tax Bonds principal	2008 Series A-2 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2013	$ 500	185	3,310	3,995
2014	515	184	3,296	3,995
2015	535	183	3,282	4,000
2016	550	182	3,267	3,999
2017	570	181	3,251	4,002
2018 – 2022	3,130	893	16,010	20,033
2023 – 2027	117,715	342	6,129	124,186
	$ 123,515	2,150	38,545	164,210

As of June 30, 2012, debt service requirements on 2010 Series A Senior Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.18% and the variable rate on the 2010 Series A Senior Sales Tax Bonds is 0.18% plus 9 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2010 bonds will vary.

Fiscal year(s) ending June 30	2010 Series A Senior Sales Tax Bonds principal	2010 Series A Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2013	$ —	215	4,325	4,540
2014	—	215	4,325	4,540
2015	—	215	4,325	4,540
2016	—	215	4,325	4,540
2017	—	215	4,325	4,540
2018 – 2022	—	1,075	21,624	22,699
2023 – 2027	30,265	915	18,400	49,580
2028 – 2031	49,380	210	4,214	53,804
	$ 79,645	3,275	65,863	148,783

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, 2012:

Derivative swap item	Counterparty credit rating Moody's/S&P
Derivative 1	A2/A
Derivative 2	Aa3/A+
Derivative 3	A3/A
Derivative 4	A2/A+
Derivative 5	A2/A+
Derivative 6	A2/A+
Derivative 7	A2/A+
Derivative 8	A2/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 savings 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 those swaps that hedge its variable rate demand obligations in the event the Authority is not able to remarket those instruments as anticipated.

(19) 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 ten 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 2012 was minimal and no contributions were made to this plan in fiscal year 2012. 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 July 2, 2011 to contribute 5.149% with the Authority currently paying an amount equal to 14.101% of total payroll. The members contributed 5.124% prior to July 2, 2011 with the Authority paying an amount equal to approximately 14.026% of total payroll. The actuarial required contribution rate for the Authority was 19.8865%. The contribution requirements for the Police Association Plan were 15.413% in 2012 for the Authority and 7.285% for employees in 2012. Both were determined in accordance with actuarial valuations. Actual contributions made in 2012 were in accordance with these contribution requirements.

(Dollars in thousands)

Deferred compensation contributions are made on a "pay-as-you-go" basis. The Authority's annual pension cost for the year ended June 30, 2012 and related information for each plan is as follows:

		2012		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – Authority	$	74,587	2,520	7,520
Contributions made – Authority		52,865	2,072	5,387
Actuarial valuation date/update		June 30, 2012	June 30, 2012	June 30, 2012
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	4-year moving	5-year moving
Actuarial assumptions:				
Interest rate		7.50%	7.00%	7.50%
Projected salary increases		4.00	3.50	4.00

Changes in the net pension obligation for these plans for the year ended June 30, 2012 are as follows:

		2012		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(46,574)	(1,826)	(9,261)
Annual pension cost		(74,587)	(2,520)	(7,520)
Contributions and other adjustments		52,865	2,072	5,387
Net pension obligation, end of year	$	(68,296)	(2,274)	(11,394)

(Dollars in thousands)

(b) Three-Year Trend Information

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
MBTA Retirement Plan	June 30, 2010	$ 53,887	80%	$ (33,015)
	June 30, 2011	66,075	79	(46,574)
	June 30, 2012	74,587	71	(68,296)
MBTA Police Association Plan	June 30, 2010	$ 2,468	87%	$ (1,165)
	June 30, 2011	2,798	76	(1,826)
	June 30, 2012	2,520	82	(2,274)
MBTA Deferred Compensation Plan	June 30, 2010	$ 5,602	88%	$ (8,676)
	June 30, 2011	5,770	90	(9,261)
	June 30, 2012	7,520	72	(11,394)

(c) Actuarial Funded Status

MBTA Retirement and Police Association Plans

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	(Funded) unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Retirement Plan:						
December 31, 2010	$ 1,649,129	2,341,344	692,215	70.4%	$ 356,609	194.1%
Police Association Plan:						
December 31, 2010	52,837	70,900	18,063	74.5%	17,187	105.1%

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.

(Dollars in thousands)

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.

Valuation date	Actuarial accrued liability (a)	Net pension obligation (b)	Actuarial accrued liability (c) (a)-(b)	Recognized ratio (d) (b)/(a)	Unrecognized ratio (e) (c)/(a)	Covered payroll (f)
July 1, 2011	$ 58,980	9,261	49,719	15.7%	84.3%	$ 44,592

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(d) 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 5.149% of total covered payroll with the Authority contributing 8%. The plan has approximately 268 members at June 30, 2012, and the cost of the Plan to the Authority was $708 for fiscal year 2012. 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.

(20) 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) Cross-Border Leases and Other Capital Lease Arrangements

The Authority had entered into cross-border leases related to the financing of heavy rail cars. Provisions in these leases allowed for the Authority to sell and lease back the equipment over a period of years. Additionally, the lease agreements included a purchase option granting the Authority the right to purchase the equipment at the end of the lease terms. The Authority had 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 were included in the accompanying financial statements for fiscal year 2011. On December 16, 2011, the Authority exercised its purchase option and effectively terminated its cross-border lease.

(Dollars in thousands)

Transportation property and facilities under capital leases are summarized in the capital assets note (note 22).

The following is a schedule by year of future minimum lease payments under the LILO and other capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2012:

Fiscal year(s):		
2013	$	35,780
2014		57,085
2015		12,395
2016		597
2017		162
2018 – 2022		50
2023 – 2024		51,157
		157,226
Less amount representing interest		(8,059)
Present value of net minimum lease payments		149,167
Less current principal maturities		(24,407)
Obligations under capital leases	$	124,760

The liability for these leases changed in 2012 as follows:

Outstanding – June 30, 2011	$	202,494
Net change in obligation		(53,327)
Outstanding – June 30, 2012	$	149,167

(c) 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 in 2013, with minimum lease payments totaling $6,177. 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.

(Dollars in thousands)

(21) Net Investment in Direct Financing Lease

The Authority has entered into a direct financing lease related to the underground parking garage structure located at Nashua Street and Legends Way in the city of Boston as of June 6, 2012. The lease is for a subsurface building area with five levels of parking with a capacity for 1,275 automobiles. The lease agreement is for a 75–year term with an initial rent payment of $50,000 paid on the commencement date of the lease. Future annual base rent payments will commence on the tenth anniversary of the lease, June 6, 2022, and continue for a 30–year period. The lessee has the right within five years following the effective date to prepay the then outstanding balance of the annual base rent, without penalty, in the amount of $21,700 plus 5% annual interest compounded from the effective date of the lease to the date of prepayment. After the fifth year of the initial term has passed, no prepayment of the then outstanding balance will be allowed or accepted. The Authority has deferred the unearned interest income and will recognize on a straight–line basis over the lease term until such time as the lessee determines whether the operational impact of the exercise of the option is prudent and feasible.

The following lists the components of the net investment in direct financing lease as of June 30, 2012.

Total minimum lease payments to be received	$	118,981
Less payment on lease at execution		(50,000)
Net minimum lease payments receivable:		68,981
Less unearned income		(48,900)
Net investment in direct financing lease	$	20,081

(Dollars in thousands)

(22) Capital Assets

Capital assets at June 30, 2012 are as follows:

		Beginning balance June 30, 2011	Increases	Decreases	Ending balance June 30, 2012
Capital assets not being depreciated:					
Land	$	314,089	(1,551)	155	312,383
Construction work in progress		570,553	457,188	502,413	525,328
Total capital assets not being depreciated		884,642	455,637	502,568	837,711
Other capital assets:					
Ways and structures		9,389,337	372,971	—	9,762,308
Buildings and equipment		2,447,977	65,890	113,188	2,400,679
Buildings and equipment included in capital lease		402,621	—	5,612	397,009
Total		12,239,935	438,861	118,800	12,559,996
Less accumulated depreciation for:					
Ways and structures		3,365,090	220,407	—	3,585,497
Buildings and equipment		1,277,879	145,526	48,809	1,374,596
Buildings and equipment included in capital lease		278,846	—	—	278,846
Total		4,921,815	365,933	48,809	5,238,939
Other capital assets, net		7,318,120	72,928	69,991	7,321,057
Capital assets, net	$	8,202,762	528,565	572,559	8,158,768

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

(Dollars in thousands)

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 year 2012, expenditures for claims and judgments, excluding workers' compensation, and health and life, were $13,970. Expenditures for claims related to workers' compensation were $7,989, and expenditures for the self-insured health plans were $137,825 for the year ended June 30, 2012.

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, 2012 and 2011. Changes in the self-insurance liabilities in fiscal years 2012 and 2011 were as follows:

		2012	2011
Liability, beginning of year	$	97,503	97,535
Provisions for claims		159,784	151,958
Payments		(155,482)	(151,990)
Liability, end of year	$	101,805	97,503

(24) 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, 2012, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

Funding source		Approved project costs	Expenditures through June 30, 2012	Unexpended costs
Federal grants	$	6,325,634	6,145,651	179,983
State and local sources		2,067,610	1,944,711	122,899
Authority bonds		5,827,272	5,356,399	470,873
Total	$	14,220,516	13,446,761	773,755

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.

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 $256,390 at June 30, 2012.

(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 the Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

(25) 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 revenue, expenses, and changes in net assets when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund its 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, 2011 actuarial valuation, approximately 5,296 retirees and 5,307 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

(b) Benefits Provided

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

(c) Funding Policy

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. A total of 1,969 affiliated active employees and retirees transferred to the GIC during fiscal year 2012. On January 1, 2010, 578 nonaffiliated employees and retirees transferred to GIC.

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 provide 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.

(Continued)

(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, 2011 actuarial valuation established the ARC for fiscal year 2012. 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, 2012, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

		2012
ARC	$	192,594
Interest on net OPEB obligation		12,553
Amortization adjustment to ARC		(21,537)
Annual OPEB cost		183,610
Contributions made		(60,410)
Change in net OPEB obligation		123,200
Net OPEB obligation – beginning of year		367,053
Net OPEB obligation – end of year	$	490,253

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

Fiscal year ended		**Annual OPEB cost**	**Percentage of OPEB cost contributed**		**Net OPEB obligation**
2012	$	183,610	32.9%	$	490,253
2011		141,022	41.3		367,053

The Authority's net OPEB obligation as of June 30, 2012 is recorded as "Other postemployment benefits" line item.

(Dollars in thousands)

(e) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of June 30, 2011, is as follows:

Actuarial accrued liability (AAL)	$	2,016,063
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	2,016,063
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	418,388
UAAL as a percentage of covered payroll		481.9%

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(f) Actuarial Methods and Assumptions

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

In the June 30, 2011 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 3.42% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 7.75% for retirees in year one, 7.25% for all in year two, 6.75% in year three, 6.25% in year four, 5.75% in year five, 5.25% in year six, 5.00% in year seven, 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.

(Continued)

(26) 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 with cleanup efforts.

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 for 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.

(Continued)

(Dollars in thousands)

During the year ended June 30, 2012, the following changes occurred in the liabilities:

		Balance as of July 1, 2011	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2012
Storage tank remediation sites	$	8,846	(1,948)	(1,252)	5,646
Sites with PCB remediation		6,000	1,100	(600)	6,500
	$	14,846	(848)	(1,852)	12,146

The payments for remediation costs combined with revised cost completion estimates totaling $2,700 in fiscal year 2012, is recorded in the other operating expenses in the statements of revenue, expenses and changes in net assets. The accrued total liability as of June 30, 2012 included in the long-term accrued liabilities in the statement of net assets was $12,146.

(27) Pledged Revenues

The Authority has pledged, as security for Sales Tax Series 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. Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, Prior Obligation Bonds and MBTPC Bonds outstanding as of June 30, 2012 are $9,281,923. 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, 2012, the total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2012 was $781,073 and $151,612, respectively, a total of $932,685. As of June 30, 2012, total annual debt service paid for fiscal year 2012 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $424,468. As of June 30, 2012, therefore, debt service represented 46% of pledged revenues.

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 commenced on July 1, 2011 with a debt service requirement of $15,758 in fiscal year 2012, which represents 40% of $39,477 revenue in the fiscal year 2012.

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

Massachusetts Transportation Trust Fund

Combining Balance Sheet

June 30, 2012

(Dollars in thousands)

Assets		**Metropolitan Highway System**	**Western Turnpike**	**Other operations**	**Total**
Cash and short-term investments	$	—	—	44,058	44,058
Restricted cash and investments		565,154	161,071	64,321	790,546
Receivables, net of allowance for uncollectibles:					
Other		12,113	1,120	1,448	14,681
Other assets		1,717	489	189	2,395
Total assets	$	578,984	162,680	110,016	851,680
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued expenditures	$	23,973	18,151	5,836	47,960
Deferred revenue		46,782	3,198	317	50,297
Total liabilities		70,755	21,349	6,153	98,257
Fund balances:					
Nonspendable		1,717	489	189	2,395
Restricted		506,512	140,842	65,265	712,619
Assigned		—	—	21,173	21,173
Unassigned		—	—	17,236	17,236
Total fund balances		508,229	141,331	103,863	753,423
Total liabilities and fund balances	$	578,984	162,680	110,016	851,680

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

Fiscal year ended June 30, 2012

(Dollars in thousands)

		Metropolitan Highway System	Western Turnpike	Other operations	Total MTTF
Revenues:					
Toll revenue:					
Pledged as security for revenue bonds	$	181,826	113,834	—	295,660
Unpledged		—	—	33,081	33,081
Commonwealth transportation fund:					
Operations		—	—	203,935	203,935
Metropolitan highway system bonds		100,000	—	—	100,000
Central artery operations and maintenance		25,000	—	—	25,000
Commonwealth grants and contract assistance		—	—	39	39
Rental/lease income		11,912	23,848	4,013	39,773
Investment income		1,134	359	684	2,177
Departmental and other		26,615	10,575	9,724	46,914
Total revenues		346,487	148,616	251,476	746,579
Expenditures:					
Current:					
Highway		123,260	101,831	111,221	336,312
Planning and programming		23,807	10,770	18,139	52,716
Registry of motor vehicles		—	—	59,806	59,806
Mass transit		—	—	59,235	59,235
Aeronautics		—	—	345	345
Debt service:					
Principal		32,900	18,385	—	51,285
Interest		94,937	5,612	—	100,549
Total expenditures		274,904	136,598	248,746	660,248
Excess (deficiency) of revenues over expenditures		71,583	12,018	2,730	86,331
Other financing sources (uses):					
Issuance of refunding bonds		—	90,110	—	90,110
Premium from issuance of refunding bonds		—	1,079	—	1,079
Debt service – principal – current refunding		—	(90,615)	—	(90,615)
Total other financing sources (uses)		—	574	—	574
Net change in fund balances		71,583	12,592	2,730	86,905
Fund balances at beginning of year		436,646	128,739	101,133	666,518
Fund balances at end of year	$	508,229	141,331	103,863	753,423

See accompanying independent auditors' report.