

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

Basic Financial Statements, Required Supplementary Information and
Other Supplementary Information

June 30, 2017

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

Members of the Board of Directors
Massachusetts Department of Transportation:

Report on the Financial Statements

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), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise MassDOT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units or the Owner Controlled Insurance Program, an Internal Service Fund, which represents 1%, 1% and less than 1% of the total assets, total net position and total revenues of the governmental activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to 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 from material misstatement.

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

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



Opinions

In our opinion, 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, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules listed under Required Supplementary Information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MassDOT's basic financial statements. The Other Supplementary Information (OSI) listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The OSI 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. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the OSI is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017 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 solely 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 the effectiveness of MassDOT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MassDOT's internal control over financial reporting and compliance.

KPMG LLP

December 19, 2017

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2017

(Unaudited)

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, 2017. 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. Additional parts of the basic financial statements are the notes to the financial statements, required supplementary information and other 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 situation 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 Position – Presents all of MassDOT's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as "net position". The net position is widely considered a good measure of MassDOT's financial health as increases and decreases in MassDOT's net position serve as a useful indicator of whether MassDOT's financial position is improving or deteriorating. The reader should consider other nonfinancial factors, such as the condition of MassDOT's infrastructure, ways and structures when evaluating financial information.

Statement of Activities – Presents information showing how MassDOT's net position changed during the most recent fiscal year. Revenues, expenses, and gains/losses are reported for some items that will not result in cash flows until future fiscal periods (i.e., accounts receivable 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 toll revenues, contract assistance from the Commonwealth and other nonexchange revenues) are reported in this section by operational division, which are as follows: Highway, Registry of Motor Vehicles, Rail and Transit, and Aeronautics as well as shared services represented by the Office of the Secretary.

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Business-Type Activities – The Massachusetts Bay Transportation Authority's (MBTA), a component unit, activities are reported here since a 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 and operate similar to private sector companies and the business-type activities described above. The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

The fifteen regional transit authorities are as follows:

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
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 a set of accounts, 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 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

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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) 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 Inspection Trust Fund (MVITF), 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. As such, there is no reconciliation required between the government-wide financial statements' business-type activities and the proprietary funds 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.

MassDOTs' fiduciary funds are Agency funds, which are used to account for assets held in a custodial capacity.

Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

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

The required supplementary information section includes pension schedules, related to MassDOT's proportionate share of net pension liability and pension contributions, as required by GASB Statement No. 68, "Accounting and Financial Reporting for Pensions".

The supplementary information includes a combining balance sheet and a combining 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 (MHS), Western Turnpike (WT), Tobin Bridge and Other Operations.

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(Unaudited)

Government-Wide Financial Analysis

Net Position

The following table reflects the condensed net position based on the statement of net position on page 20.

Condensed Statement of Net Position
June 30, 2017 and 2016
(in millions of dollars)

| | Governmental activities | | Business-type (MBTA) activities | | Total primary government | | Change year over year | |
|--------------------------------------|--------------------------------|-------------|--|-------------|---------------------------------|-------------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | Amount | % |
| Current and noncurrent other assets | \$ 1,774 | 1,806 | 1,371 | 1,437 | 3,145 | 3,243 | (98) | (3)% |
| Capital assets | 24,930 | 24,246 | 9,482 | 9,140 | 34,412 | 33,386 | 1,026 | 3 % |
| Deferred outflows of resources | 341 | 415 | 485 | 460 | 826 | 875 | (49) | (6)% |
| Total assets & deferred outflows | 27,045 | 26,467 | 11,338 | 11,037 | 38,383 | 37,504 | 879 | 2 % |
| Bonds outstanding and notes payable | 1,880 | 1,940 | 5,564 | 5,656 | 7,444 | 7,596 | (152) | (2)% |
| Noncurrent liabilities | 1,222 | 1,272 | 2,557 | 2,328 | 3,779 | 3,600 | 179 | 5 % |
| Other current liabilities | 621 | 597 | 485 | 520 | 1,106 | 1,117 | (11) | (1)% |
| Deferred inflows of resources | 31 | 17 | 12 | 10 | 43 | 27 | 16 | 37 % |
| Total liabilities & deferred inflows | 3,754 | 3,826 | 8,618 | 8,514 | 12,372 | 12,340 | 32 | — % |
| Net position: | | | | | | | | |
| Net investment in capital assets | 23,010 | 22,265 | 4,713 | 4,523 | 27,723 | 26,788 | 935 | 3 % |
| Restricted | 679 | 723 | 20 | 20 | 699 | 743 | (44) | (6)% |
| Unrestricted | (398) | (347) | (2,013) | (2,020) | (2,411) | (2,367) | (44) | 2 % |
| Total net position | \$ 23,291 | 22,641 | 2,720 | 2,523 | 26,011 | 25,164 | 847 | 3 % |

MassDOT's combined assets and deferred outflows (governmental and business-type activities) exceeded its liabilities and deferred inflows at June 30, 2017 by \$26.0 billion (presented as net position). The main component of net position represents the net investment in capital assets, totaling \$27.7 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 finance the debt for these assets. MassDOT uses these capital assets to service the Commonwealth of Massachusetts; therefore, they are not available for future spending.

Governmental activities current and other assets, totaling \$1.8 billion, include restricted and non-restricted cash and investments of \$1.2 billion, net receivables of \$524 million, and other assets of \$4.1 million. Governmental activities long-term liabilities, totaling \$1.2 billion, include all noncurrent liabilities, excluding the long-term portion of bonds outstanding and notes payable. noncurrent liabilities in the condensed statement include \$337 million of derivative instruments, \$206 million in accrued interest on capital appreciation bonds, \$645 million pension obligation, and \$34 million in other liabilities. Other current liabilities totaling \$621 million are due within one year, and exclude the current portion of bonds outstanding and notes payable totaling \$41 million. Other current liabilities include accounts payable and accrued expenses of \$466 million, unearned revenue of \$80 million, accrued interest of \$26 million, Due to Commonwealth of \$15 million and other liabilities of \$34 million. Included within the condensed statement's other liabilities category for both noncurrent liabilities and other current liabilities is environmental remediation, workers' compensation, compensated absences, and claims and judgments.

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The net increase of \$104 million in business-type activities total liabilities and deferred inflows compared to the prior year is attributable in part to increases in OPEB and pension obligations and offset by the refunding of bonds, a reduction in interest payable and liability for derivative instruments. This is offset by an increase in total assets and deferred outflows of \$301 million. The net position in business-type activities increased by \$197 million from the prior year. The increase in net position for business-type activity is attributable to increased operating and nonoperating revenue growth and cost control management of controllable expenses offset by a decrease in capital grants during the year.

Changes in Net Position

MassDOT's total primary government change in net position, noted on the Condensed Statement of Changes in Net Position, increased by \$847 million from fiscal year 2016. For fiscal year 2017 the governmental activities change in net position amounted to an increase of \$650 million and the business-type activities amounted to an increase of \$197 million.

The governmental activities change in net position increased by \$31 million compared to the prior year due to a decrease in revenue of \$179 million and a decrease in expenses by \$210 million. Capital grants and contributions amounted to \$1.8 billion of revenues, or 58% of total governmental activities revenue, a decrease from the prior year in the amount of \$238 million. Program areas accounting for the expenditure decrease include Highway expenditure decreases of \$189 million and Rail and Transit expenditure decreases of \$69 million.

The changes in net position are based upon the Condensed Statement of Activities.

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June 30, 2017

(Unaudited)

Condensed Statement of Activities

June 30, 2017 and 2016

(in millions of dollars)

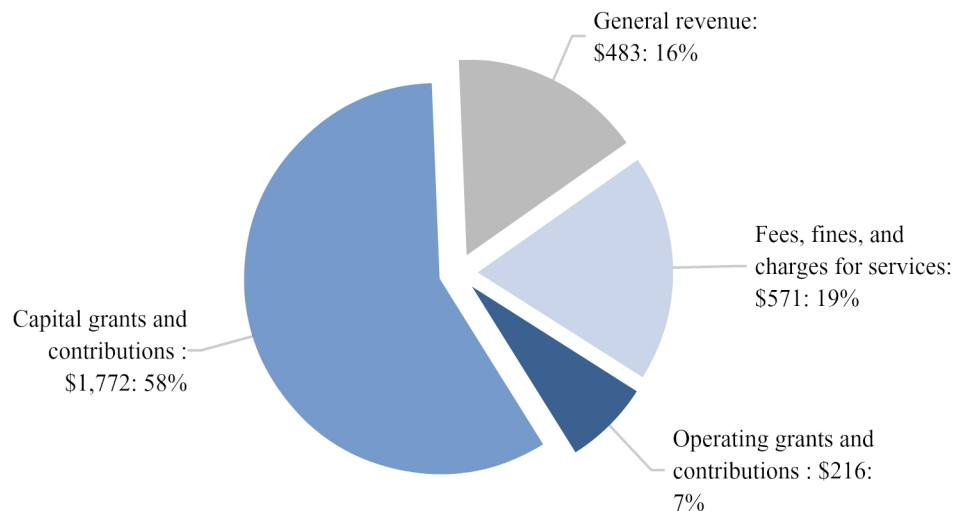
| | Governmental Activities | | Business-type Activity (MBTA) | | Total primary government | | Change year over year | |
|--|------------------------------------|---------------|--|--------------|---|---------------|----------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | Amount | % |
| Revenues: | | | | | | | | |
| Program revenues: | | | | | | | | |
| Fees, fines, and charges for services | \$ 571 | 567 | 730 | 693 | 1,301 | 1,260 | 41 | 3 % |
| Operating grants and contributions | 216 | 192 | — | — | 216 | 192 | 24 | 13 % |
| Capital grants and contributions | 1,772 | 2,010 | 512 | 562 | 2,284 | 2,572 | (288) | (11)% |
| General revenues: | | | | | | | | |
| Operating assistance from the Commonwealth | 484 | 440 | 171 | 156 | 655 | 596 | 59 | 10 % |
| Taxes and assessments | — | — | 1,156 | 1,149 | 1,156 | 1,149 | 7 | 1 % |
| Other income | — | 8 | 9 | (42) | 9 | (34) | 43 | (126)% |
| Unrestricted investment income | (1) | 4 | 17 | 29 | 16 | 33 | (17) | (52)% |
| Total revenues | <u>3,042</u> | <u>3,221</u> | <u>2,595</u> | <u>2,547</u> | <u>5,637</u> | <u>5,768</u> | <u>(131)</u> | <u>(2)%</u> |
| Expenses: | | | | | | | | |
| Highway | 1,481 | 1,670 | — | — | 1,481 | 1,670 | (189) | (11)% |
| Planning and Enterprise Services | 260 | 220 | — | — | 260 | 220 | 40 | 18 % |
| Registry of Motor Vehicles | 99 | 84 | — | — | 99 | 84 | 15 | 18 % |
| Rail and Transit | 434 | 503 | — | — | 434 | 503 | (69) | (14)% |
| Aeronautics | 11 | 17 | — | — | 11 | 17 | (6) | (35)% |
| Debt service-interest | 107 | 108 | — | — | 107 | 108 | (1) | (1)% |
| MBTA | — | — | 2,398 | 2,375 | 2,398 | 2,375 | 23 | 1 % |
| Total expenses | <u>2,392</u> | <u>2,602</u> | <u>2,398</u> | <u>2,375</u> | <u>4,790</u> | <u>4,977</u> | <u>(187)</u> | <u>(2)%</u> |
| Change in net position | 650 | 619 | 197 | 172 | 847 | 791 | 56 | 7 % |
| Net position – beginning | <u>22,641</u> | <u>22,022</u> | <u>2,523</u> | <u>2,351</u> | <u>25,164</u> | <u>24,373</u> | <u>791</u> | <u>3 %</u> |
| Net position – ending | <u>\$ 23,291</u> | <u>22,641</u> | <u>2,720</u> | <u>2,523</u> | <u>26,011</u> | <u>25,164</u> | <u>847</u> | <u>3 %</u> |

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Management's Discussion and Analysis
June 30, 2017
(Unaudited)

Total Revenues

For the fiscal year ended June 30, 2017, total governmental activities revenues (\$3.0 billion) were comprised of general revenues (\$483 million) and program revenues (\$2.6 billion), which include fees, fines and charges for services of \$571 million, operating grants and contributions of \$216 million and capital grants and contributions of \$1.8 billion.

Governmental Activities - Total Revenue
(in millions of dollars)



The governmental activities overall revenue decreased by \$179 million or 6% , from the prior year primarily due to a decrease in capital grants and contributions revenue of \$238 million and an increase of \$31 million in general revenue.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

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Governmental Activities - Program Revenue
(in millions of dollars)

| | Total | | Change year over year | |
|---------------------------------------|-----------------|--------------|----------------------------------|-------------|
| | 2017 | 2016 | Amount | % |
| Program revenues: | | | | |
| Fees, fines, and charges for services | \$ 571 | 567 | 4 | 1 % |
| Operating grants and contributions | 216 | 192 | 24 | 13 % |
| Capital grants and contributions | 1,772 | 2,010 | (238) | (12)% |
| General revenue | 483 | 452 | 31 | 7 % |
| | <u>\$ 3,042</u> | <u>3,221</u> | <u>(179)</u> | <u>(6)%</u> |

Within program revenue, fees, fines, and charges for services were \$571 million .This represents a variety of MassDOT revenues, including tolls (\$434 million), rental/lease (\$52 million), and departmental revenue, such as advertising and highway-related permit fees (\$85 million). Program revenue – fees, fines and charges for services increased \$4 million from the prior year.

Program Revenue - Fees, fines, and charges for services
(in millions of dollars)

| | Total | | Change year over year | |
|--------------|---------------|-------------|----------------------------------|------------|
| | 2017 | 2016 | Amount | % |
| Tolls | 434 | 398 | 36 | 9 % |
| Rental/lease | 52 | 55 | (3) | (5)% |
| Departmental | 85 | 114 | (29) | (25)% |
| | <u>\$ 571</u> | <u>567</u> | <u>4</u> | <u>1 %</u> |

Operating grants and contributions of \$216 million represent both contract assistance for debt service from the Commonwealth and federal grants from various federal agencies, such as Federal Transit Authority, Federal Rail Administration, and Federal Aviation Administration. These contributions are restricted for specific designated purposes and account for approximately 7% of the total MassDOT program revenues. The contributions increased by approximately \$24 million in comparison with fiscal year 2016.

Capital grants and contributions of \$1.8 billion include funding from the Commonwealth and federal agencies for projects such as the Accelerated Bridge Program (ABP), Statewide 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 \$1.3 billion , or 75%, of the overall capital grants and contributions.

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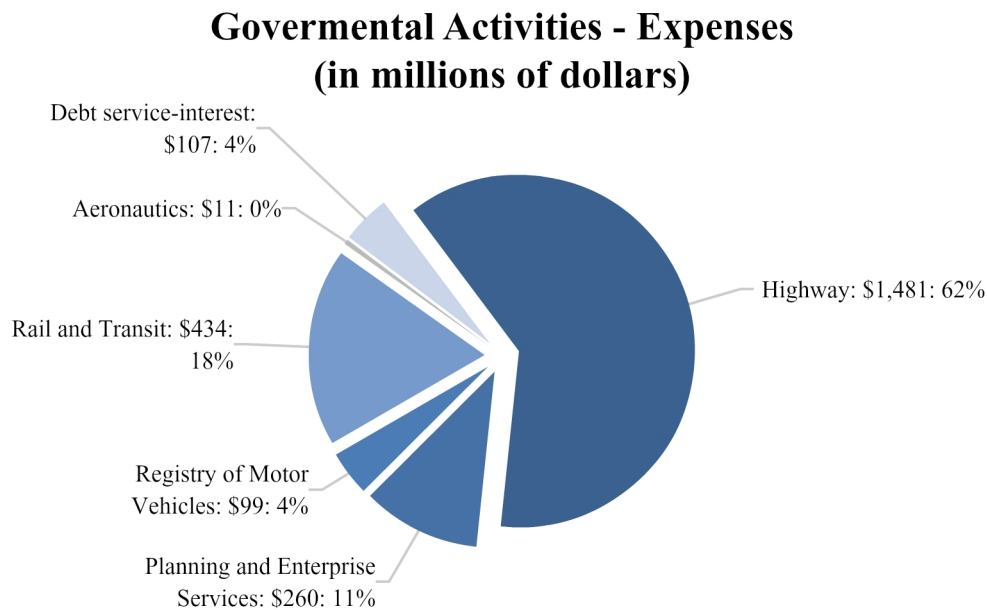
General Revenue

General revenues, totaling \$483 million, include operating assistance from the Commonwealth and investment income. The primary factor for the increase of \$31 million from the prior year relates to supplemental funding for snow and ice expenditures.

Expenses

For the fiscal year ended June 30, 2017, expenses for governmental activities totaled \$2.4 billion. The Highway Division's operations continue to be one of the MassDOT's highest priorities and commitments, representing \$1.5 billion, or 62%, of the total governmental activities expenses.

The balance of 38% is attributable to the Planning and Enterprise Services with \$260 million, the Rail and Transit Division with \$434 million, and debt service-interest expenses of \$107 million. The Registry of Motor Vehicles (RMV) and Aeronautics complete the operational spending pattern with an approximate total of \$110 million.



Overall, MassDOT's governmental activities expenses decreased by \$210 million, or 8% from the prior year. Key elements of this change are a decrease of \$189 million for Highway activities and a decrease of \$69 million for Rail and Transit activities. Infrastructure expenditures decreased in Highway and Rail and Transit from the prior year.

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June 30, 2017
(Unaudited)

Governmental Activities - Expenses (in millions of dollars)

| | Total | | Change year over year | |
|----------------------------------|-----------------|--------------|----------------------------------|-------------|
| | 2017 | 2016 | Amount | % |
| Highway | \$ 1,481 | 1,670 | (189) | (11)% |
| Planning and Enterprise Services | 260 | 220 | 40 | 18 % |
| Registry of Motor Vehicles | 99 | 84 | 15 | 18 % |
| Rail and Transit | 434 | 503 | (69) | (14)% |
| Aeronautics | 11 | 17 | (6) | (35)% |
| Debt service-interest | 107 | 108 | (1) | (1)% |
| | <u>\$ 2,392</u> | <u>2,602</u> | <u>(210)</u> | <u>(8)%</u> |

Business -Type Activity

The net position for business-type activities is \$2.7 billion, an increase of \$197 million from the prior year. The increase is primarily due to increases in transportation revenue, intergovernmental revenues and other nonoperating income. These increases were offset by a swap termination payment of \$33 million and increases in operating expenses of \$23 million due to increases in pension expense, post-employment benefit expense and commuter rail expenses.

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 June 30, 2017, MassDOT's governmental funds (MTTF, Highway capital projects, and other governmental) reported a combined ending fund balance of \$1.13 billion. Of this amount, \$2.4 million is nonspendable and relates to prepaid expenditures. The majority of the remaining fund balance, \$1.1 billion is restricted; this consists of debt service payments and grants or bonded projects that are restricted by external sources and other purposes such as insurance reserve and turnpike operations. Approximately \$649 thousand of the fund balance is assigned leaving a \$18 million unassigned deficit. All these funds are incorporated in the annual budget and approved by the MassDOT Board of Directors. The MTTF (general fund) is the chief operating fund of MassDOT. The MTTF's fund balance has decreased by \$87 million or 11% from the prior year. As of June 30, 2017, the total fund balance was \$694 million, comprised of \$708 million restricted, \$2.4 million nonspendable (prepaid expenditures), \$399 thousand assigned and \$17.4 million unassigned deficit. Subsequent to year end, the Commonwealth legislature passed a supplemental bill providing MassDOT with an additional \$49 million.

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. As of June 30, 2017, the total fund balance was \$49 million, a decrease of \$10 million from the prior fiscal year as a result of expenditures exceeding revenues by \$10 million.

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 expenditures for specified purposes other than debt service or

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capital projects. Projects within this category include federal grants, the Motor Vehicle Inspection Trust Fund (MVITF) activity, and the CARM activity. As of June 30, 2017, the total fund balance was \$390 million.

Proprietary Funds

The Proprietary Funds Statement of Fund Net Position provides 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.

The net position of the MBTA at the end of the year totaled \$2.7 billion, which consisted of \$4.7 billion in net investment in capital assets, \$20 million restricted for other purposes, and a deficit of \$2.0 billion in unrestricted net position. OCIP's net position at the end of the year totaled \$2.4 million, which is considered restricted for purposes of this activity.

Governmental Funds – MTTF General Fund

MTTF Revenues

MTTF (General fund) revenues totaled \$1.1 billion in fiscal year 2017, an increase of \$13 million , or 1%, from fiscal year 2016. The Commonwealth Transportation Fund (CTF) revenues of \$560 million and toll revenues of \$434 million combine for 89% of the total revenues. The remaining 11% or \$118 million consists of grants and contract assistance of \$34 million and other revenues, which includes rental/lease revenue, investment income, advertising, highway-related permit, and other fees, of \$84 million.

The CTF revenues consist of \$100 million dedicated for MHS 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 \$435 million for operations. The operational funding included \$343 million for MassDOTs' operations, \$82 million for RTA's contract assistance, and \$10 million for the Merit Rating Board.

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MTTF General Fund - Revenue
(in millions of dollars)

| | Total | | Change year over year | |
|--|-----------------|--------------|----------------------------------|------------|
| | 2017 | 2016 | Amount | % |
| Tolls | \$ 434 | 395 | 39 | 10 % |
| Commonwealth Transportation Fund | 560 | 565 | (5) | (1)% |
| Other (grants, rental/lease, departmental/other) | 118 | 139 | (21) | (15)% |
| | <u>\$ 1,112</u> | <u>1,099</u> | <u>13</u> | <u>1 %</u> |

The \$434 million in toll revenue consists of pledged revenue for the MHS of \$232 million and \$64 million for the WT, as well as unpledged revenue of \$98 million for WT and \$40 million for the Tobin Bridge operations.

MTTF General Fund Toll Revenue by Roadway
(in millions of dollars)

| | Total | | Change year over year | |
|-----------------------------|---------------|-------------|----------------------------------|------------|
| | 2017 | 2016 | Amount | % |
| Metropolitan Highway System | \$ 232 | 214 | 18 | 8% |
| Western Turnpike | 162 | 147 | 15 | 10% |
| Tobin Bridge | 40 | 34 | 6 | 18% |
| | <u>\$ 434</u> | <u>395</u> | <u>39</u> | <u>10%</u> |

MTTF Expenditures

During fiscal year 2017, the general fund's total expenditures increased by 10% from \$1.1 billion to \$1.2 billion. The Highway division's expenditure increase of 14% (\$93 million) is due to implementation of All Electronic Toll operations.

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MTTF General Fund Expenditures
(in millions of dollars)

| | Total | | Change year over year | |
|----------------------------------|-----------------|--------------|----------------------------------|-------------|
| | 2017 | 2016 | Amount | % |
| Highway | \$ 780 | 687 | 93 | 14 % |
| Planning and Enterprise Services | 137 | 119 | 18 | 15 % |
| Registry of Motor Vehicles | 73 | 70 | 3 | 4 % |
| Rail and Transit | 83 | 86 | (3) | (3)% |
| Aeronautics | 2 | 2 | — | — % |
| Debt Service | 168 | 170 | (2) | (1)% |
| | <u>\$ 1,243</u> | <u>1,134</u> | <u>109</u> | <u>10 %</u> |

MTTF Budgetary Highlights

Funding for MassDOT's general fund (MTTF) operations is dependent in part upon operating assistance from the Commonwealth of Massachusetts' CTF, toll operations, and other departmental revenues.

MassDOT submits its general fund (MTTF) budget to the Standing Committee on Finance and Audit for review and to the MassDOT Board of Directors for final approval. The Board approved a \$1.1 billion operating budget to cover fiscal year 2017 operations.

The following are some of the major fiscal year highlights:

1. The Transportation Finance Act (Chapter 46 of the Acts of 2013) allows MassDOT to transfer excess revenues from the MVITF to the general fund (MTTF), providing all expenses of the motor vehicle inspection program are met. In fiscal year 2017, MassDOT transferred \$44 million from the MVITF to the MTTF.
2. In May 2015 An Act Providing for an Employee Retirement Incentive Program ("ERIP" Chapter 19 of the Acts of 2015) reduced MassDOT's payroll for fiscal year 2016. Eligible employees who participated in the program were required to retire by June 30, 2015. ERIP included a deferred payout mechanism for accrued vacation time and unpaid sick leave. Payments in lieu of any accrued vacation time and any unused sick leave are scheduled to be made in three installments on September 1, 2015 (fiscal year 2016), July 1, 2016 (fiscal year 2017) and July 1, 2017 (fiscal year 2018).
3. In November 2017, MassDOT received supplementary funding in the amount of \$49 million to support snow and ice removal.

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Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, MassDOT's combined capital assets totaling \$34.4 billion (net of depreciation) consisted of \$24.9 billion in governmental activities and \$9.5 billion in business-type activities. This total amount represents a net increase (including additions and deductions) of \$1 billion, or 3% percent, over last year. MassDOT's capital assets include land, construction in progress, infrastructure, buildings and equipment, vehicles, and software as shown in the table below.

MassDOT Capital Assets - At Year End, Net of Depreciation
(in millions of dollars)

| | Governmental activities | | Business-type activities | | Total | |
|--------------------------|--------------------------------|---------------|---------------------------------|--------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 1,005 | 986 | 360 | 385 | 1,365 | 1,371 |
| Construction in progress | 8,168 | 6,909 | 1,812 | 1,232 | 9,980 | 8,141 |
| Infrastructure | 15,624 | 16,219 | 6,220 | 6,319 | 21,844 | 22,538 |
| Buildings and equipment | 90 | 89 | 1,090 | 1,204 | 1,180 | 1,293 |
| Vehicles | 38 | 40 | — | — | 38 | 40 |
| Software | 5 | 2 | — | — | 5 | 2 |
| Total | <u>\$ 24,930</u> | <u>24,245</u> | <u>9,482</u> | <u>9,140</u> | <u>34,412</u> | <u>33,385</u> |

Within governmental activities, construction in progress (CIP) increased by \$1.2 billion due to additions to on going CIP projects, which included \$1.0 billion for assets related to the Accelerated Bridge Program and Highway Repair Projects (Amesbury Whittier Bridge, Boston-Cambridge Longfellow Bridge, Quincy Fore River Bridge, Fall River Braga Bridge and interchange improvements, Woods Memorial Bridge – Everett- Medford, Lexington Bridge as well as Springfield viaduct replacement and 6 bridge locations on I-95 and the addition of a lane in Needham-Wellesley). The governmental activities net book value of infrastructure decreased primarily due to the increase in accumulated depreciation of the existing roads and bridges.

Additional information on MassDOT's capital assets can be found in notes 4 and 20.

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Debt

At year-end, MassDOT had \$7.1 billion in outstanding bonds and notes compared to \$7.2 billion last year.

MassDOT Outstanding Bonds and Notes at Year End
(in millions of dollars)

| | Governmental activities | | Business-type activities | | Total | |
|---|--------------------------------|--------------|---------------------------------|--------------|--------------|--------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| General Transportation System Bonds (GTS) | \$ — | — | 197 | 206 | 197 | 206 |
| Revenue | 1,841 | 1,898 | 4,129 | 4,316 | 5,970 | 6,214 |
| Build America Bonds (BABs) | — | — | 428 | 428 | 428 | 428 |
| Commercial Paper | — | — | 167 | 67 | 167 | 67 |
| Metropolitan Boston Transit Parking (MBTPC) | — | — | 305 | 305 | 305 | 305 |
| Total | <u>\$ 1,841</u> | <u>1,898</u> | <u>5,226</u> | <u>5,322</u> | <u>7,067</u> | <u>7,220</u> |

MassDOT maintains bond ratings of A or higher for its governmental activities bonds. The Capital Appreciation Bonds are rated (AA-) by Standard & Poor's Corporation (S&P), (A3) by Moody's Investors Services Inc., and (A+) by Fitch. MassDOT senior fixed rate bonds are rated (A+) by both S&P and Fitch and (A3) by Moody's. MBTA (business-type activity) bond ratings are as follows by S & P : General Transportation System bonds (A+), Senior Sales Tax Revenue bonds (AA+), Assessment Revenue bonds (AAA), Senior Sales Tax bonds (AA). MBTA bond ratings by Moody's Investor Service are as follows: Assessment Revenue bonds 2016 series A(Aa1), Senior Sales Tax bonds 2016 Series A (Aa2), Commercial Paper (P-1).

Additional information on MassDOT's debt can be found in notes 5 and 21.

Construction Commitments

MassDOT's outstanding commitments for engineering and design and construction contracts were \$5.2 billion at June 30, 2017. Major commitments include funding for the Highway Division in the amount of \$2.1 billion for numerous projects which include construction of the Silverline Gateway Busway, bridge replacement and rehabilitation (Fore River Bridge, Longfellow Bridge, Whittier Bridge), Add-A-Lane I-95 project and rehabilitation of viaduct along I-91. Major commitments include funding for various collaborations with the MBTA for projects such as the Green line extension, Red and Orange line infrastructure improvements and vehicle purchase, and South Coast Rail improvements.

Economic Factors and Next Year's Budgets and Rates

The MassDOT Board approved an original fiscal year 2018 operating expenditure and debt service obligation budget of \$1.1 billion in June 2017, which was revised in November 2017 to \$1.0 billion. The budget reflects the goal of All-Electronic Tolling (AET) to be net revenue neutral. Total revenues which include tolls, fees, permits, court fines, federal grants are budgeted to decrease by 3.8%. Total operating and debt expenditures are budgeted for a 5.8% decrease.

MassDOT continues to aggressively administer its 2010 MHS Variable Rate Demand Bonds bank liquidity facilities. MassDOT replaced five facilities in 2013, three in 2014, and replaced four in April of 2016. The aggregate annual savings are approximately \$2 million for the 2013 and 2014 replacements. 2016 replacements are expected to yield

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approximately \$1 million in savings annually. In 2016 MassDOT re-procured remarketing agent services for the above bonds which will result in anticipated annual savings of approximately \$0.28 million.

Future Pronouncements

GASB has issued the following statements, which require adoption subsequent to June 30, 2017 and are applicable to MasDOT. MassDOT has not yet adopted these statements and is currently assessing the impact of each statement.

| <u>Statement No.</u> | | <u>Adoption Required in Fiscal Year</u> |
|----------------------|---|---|
| 75 | <i>Accounting and Financial Reporting for Postemployment Benefits Other than Pensions</i> | 2018 |
| 81 | <i>Irrevocable Split-Interest Agreements</i> | 2018 |
| 83 | <i>Certain Asset Retirement Obligations</i> | 2019 |
| 84 | <i>Fiduciary Activity</i> | 2020 |
| 85 | <i>Omnibus 2017</i> | 2018 |
| 86 | <i>Certain Debt Extinguishment Issues</i> | 2018 |
| 87 | <i>Leases</i> | 2021 |

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 Position

June 30, 2017

(Dollars in thousands)

| Assets and Deferred Outflows of Resources | Primary government | | | Component units |
|--|-------------------------|--------------------------|-------------|-----------------|
| | Governmental activities | Business-type activities | Total | |
| Current assets: | | | | |
| Cash and short-term investments | \$ 4,313 | 338,403 | 342,716 | 23,874 |
| Restricted cash and investments | 1,186,838 | 47,658 | 1,234,496 | 1,319 |
| Derivative instrument | 8,591 | — | 8,591 | — |
| Receivables, net of allowance for uncollectibles: | | | | |
| Due from Commonwealth | 427,365 | 99,879 | 527,244 | 13,764 |
| Due from federal government | 10,026 | 20,623 | 30,649 | 26,996 |
| Other | 86,130 | 29,253 | 115,383 | 84,787 |
| Other assets | 4,072 | 37,718 | 41,790 | 7,386 |
| Total current assets | 1,727,335 | 573,534 | 2,300,869 | 158,126 |
| Noncurrent assets: | | | | |
| Restricted cash and investments | 46,908 | 771,769 | 818,677 | — |
| Receivables, net of allowance for uncollectibles: | | | | |
| Due from Commonwealth | — | — | — | 5,452 |
| Due from federal government | — | — | — | 3,956 |
| Other | — | — | — | 16,478 |
| Other assets | — | 25,728 | 25,728 | 943 |
| Capital assets: | | | | |
| Nondepreciable | 9,172,799 | 2,172,233 | 11,345,032 | 76,146 |
| Depreciable, net of accumulated depreciation | 15,757,258 | 7,309,953 | 23,067,211 | 455,357 |
| Total noncurrent assets | 24,976,965 | 10,279,683 | 35,256,648 | 558,332 |
| Total assets | 26,704,300 | 10,853,217 | 37,557,517 | 716,458 |
| Deferred Outflows of Resources: | | | | |
| Loss on debt refundings | 56,708 | 195,870 | 252,578 | — |
| Derivative instruments | 105,743 | 2,652 | 108,395 | — |
| Pension related | 178,579 | 286,105 | 464,684 | 10,368 |
| Total deferred outflows of resources | 341,030 | 484,627 | 825,657 | 10,368 |
| Total assets and deferred outflows of resources | \$ 27,045,330 | 11,337,844 | 38,383,174 | 726,826 |
| Liabilities and Deferred Inflows of Resources | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | 465,683 | 256,278 | 721,961 | 60,264 |
| Unearned revenue | 79,635 | — | 79,635 | 522 |
| Due to Commonwealth | 15,000 | — | 15,000 | — |
| Accrued interest payable | 26,497 | 119,753 | 146,250 | 1,228 |
| Bonds and notes payable | 41,085 | 464,660 | 505,745 | 63,857 |
| Capital lease obligations | — | 3,458 | 3,458 | — |
| Other liabilities | 34,889 | 105,481 | 140,370 | 3,928 |
| Total current liabilities | 662,789 | 949,630 | 1,612,419 | 129,799 |
| Noncurrent liabilities: | | | | |
| Accrued interest on capital appreciation bonds | 206,187 | — | 206,187 | — |
| Bonds and notes payable | 1,839,251 | 5,099,190 | 6,938,441 | 50,155 |
| Liability for derivative instruments | 336,734 | 3,967 | 340,701 | — |
| Capital lease obligations | — | 59,640 | 59,640 | — |
| Net OPEB and pension obligation | 645,065 | 2,371,967 | 3,017,032 | 58,145 |
| Other liabilities | 33,839 | 89,898 | 123,737 | 8,369 |
| Unearned revenue | — | 31,939 | 31,939 | 1,101 |
| Total noncurrent liabilities | 3,061,076 | 7,656,601 | 10,717,677 | 117,770 |
| Total liabilities | 3,723,865 | 8,606,231 | 12,330,096 | 247,569 |
| Deferred Inflows of Resources: | | | | |
| Debt instruments | — | 193 | 193 | — |
| Pension related | 30,760 | 11,383 | 42,143 | 1,875 |
| Total liabilities and deferred inflows of resources | \$ 3,754,625 | 8,617,807 | 12,372,432 | 249,444 |
| Net Position | | | | |
| Net investment in capital assets | 23,010,455 | 4,713,587 | 27,724,042 | 524,285 |
| Restricted | 678,739 | 19,711 | 698,450 | 8,315 |
| Unrestricted (Deficit) | (398,489) | (2,013,261) | (2,411,750) | (55,218) |
| Total net position | \$ 23,290,705 | 2,720,037 | 26,010,742 | 477,382 |

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, 2017
(Dollars in thousands)

| Functions/program | Expenses | Program revenues | | | Net (expense)/revenue and changes in net position | | | |
|--|---------------------|---------------------------------------|------------------------------------|----------------------------------|---|--------------------------|-------------------|-----------------|
| | | Fees, fines, and charges for services | Operating grants and contributions | Capital grants and contributions | Primary government | | | Component units |
| | | | | | Governmental activities | Business-type activities | Total | |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Highway | \$ 1,480,547 | 480,929 | 62,545 | 1,336,536 | 399,463 | — | 399,463 | — |
| Planning and Enterprise Services | 260,300 | 64,384 | 12,074 | 114,094 | (69,748) | — | (69,748) | — |
| Registry of motor vehicles | 99,069 | 19,068 | 1,927 | 2,205 | (75,869) | — | (75,869) | — |
| Rail and Transit | 434,331 | 6,434 | 37,699 | 309,996 | (80,202) | — | (80,202) | — |
| Aeronautics | 10,914 | 495 | 31 | 8,733 | (1,655) | — | (1,655) | — |
| Debt service – interest | 106,700 | — | 101,314 | — | (5,386) | — | (5,386) | — |
| Total governmental activities | 2,391,861 | 571,310 | 215,590 | 1,771,564 | 166,603 | — | 166,603 | — |
| Business-type activities : | | | | | | | | |
| Massachusetts Bay | | | | | | | | |
| Transportation Authority | 2,398,758 | 730,418 | — | 511,686 | — | (1,156,654) | (1,156,654) | — |
| Total primary government | <u>\$ 4,790,619</u> | <u>1,301,728</u> | <u>215,590</u> | <u>2,283,250</u> | <u>166,603</u> | <u>(1,156,654)</u> | <u>(990,051)</u> | <u>\$ —</u> |
| Component units: | | | | | | | | |
| Aggregate component units | <u>\$ 486,155</u> | <u>258,608</u> | <u>170,570</u> | <u>80,877</u> | | | | 23,900 |
| General revenues: | | | | | | | | |
| Operating assistance from the Commonwealth | | | | | \$ 484,609 | 171,417 | 656,026 | — |
| Taxes and assessments | | | | | — | 1,156,215 | 1,156,215 | — |
| Other income | | | | | — | 9,093 | 9,093 | — |
| Unrestricted investment income | | | | | (1,178) | 16,692 | 15,514 | — |
| Total general revenues | | | | | 483,431 | 1,353,417 | 1,836,848 | — |
| Change in net position | | | | | 650,034 | 196,763 | 846,797 | 23,900 |
| Net Position – beginning of year (as previously reported by component units) | | | | | 22,640,671 | 2,523,274 | 25,163,945 | 453,482 |
| Restatement by component units | | | | | — | — | — | 2,144 |
| Net Position – end of year | | | | | <u>\$ 23,290,705</u> | <u>2,720,037</u> | <u>26,010,742</u> | <u>477,382</u> |

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)
Governmental Funds Balance Sheet
June 30, 2017
(Dollars in thousands)

| Assets | MTTF (General) | Highway capital projects | Other governmental funds | Total governmental funds |
|--|---------------------------|-------------------------------------|---|---|
| Cash and short-term investments | \$ 3,819 | — | 494 | 4,313 |
| Restricted cash and investments | 782,528 | 53,703 | 392,566 | 1,228,797 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Due from Commonwealth | 49,828 | 377,537 | — | 427,365 |
| Due from federal government | 2,693 | — | 7,333 | 10,026 |
| Other | 86,130 | — | — | 86,130 |
| Due from other funds | 1,495 | — | — | 1,495 |
| Other assets | 2,413 | — | — | 2,413 |
| Total assets | <u>\$ 928,906</u> | <u>431,240</u> | <u>400,393</u> | <u>1,760,539</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenditures | \$ 73,055 | 382,411 | 8,603 | 464,069 |
| Unearned revenue | 79,635 | — | — | 79,635 |
| Due to other funds | — | — | 1,495 | 1,495 |
| Due to Commonwealth | 15,000 | — | — | 15,000 |
| Total liabilities | <u>167,690</u> | <u>382,411</u> | <u>10,098</u> | <u>560,199</u> |
| Deferred Inflows of Resources: | | | | |
| Unavailable Revenue | <u>67,313</u> | <u>—</u> | <u>—</u> | <u>67,313</u> |
| Fund balances: | | | | |
| Nonspendable | 2,413 | — | — | 2,413 |
| Restricted | 708,451 | 48,829 | 390,498 | 1,147,778 |
| Assigned | 399 | — | 250 | 649 |
| Unassigned | (17,360) | — | (453) | (17,813) |
| Total fund balances | <u>693,903</u> | <u>48,829</u> | <u>390,295</u> | <u>1,133,027</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 928,906</u> | <u>431,240</u> | <u>400,393</u> | <u>1,760,539</u> |

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 Position

June 30, 2017

(Dollars in thousands)

| | |
|--|----------------------|
| Total governmental fund balances: | \$ 1,133,027 |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | 24,930,057 |
| Receivables that are measurable but not available are reported as deferred inflows of resources in the governmental funds but recognized as revenue on a full accrual basis. | 67,311 |
| Payables that are measurable but not available are reported as deferred outflows of resources in the governmental funds but recognized as revenue on a full accrual basis. | |
| Capitalized loss on debt refunding in governmental activities that is not capitalized at a fund level in the governmental funds. | 56,708 |
| In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. | (232,684) |
| 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 | (1,880,336) |
| Workers' compensation claims | (21,850) |
| Other claims and judgments | (5,000) |
| Compensated absences | (36,911) |
| Environmental remediation | (2,367) |
| Derivative instruments, net | (222,400) |
| Net pension liability, net | (497,246) |
| 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 position. | 2,396 |
| Net position of governmental activities | <u>\$ 23,290,705</u> |

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, 2017
(Dollars in thousands)

| | MTTF (General) | Highway capital projects | Other governmental funds | Total governmental funds |
|---|---------------------------|-------------------------------------|---|---|
| Revenues: | | | | |
| Toll revenue: | | | | |
| Pledged as security for revenue bonds | \$ 295,434 | — | — | 295,434 |
| Unpledged | 138,097 | — | — | 138,097 |
| Commonwealth transportation fund: | | | | |
| Operations | 434,781 | — | — | 434,781 |
| Metropolitan highway system bonds | 100,000 | — | — | 100,000 |
| Central artery operations and maintenance | 25,000 | — | — | 25,000 |
| Commonwealth grants and contract assistance | 88 | 1,269,058 | 103 | 1,269,249 |
| Federal grants and reimbursements: | | | | |
| Passed through the Commonwealth | — | 501,979 | — | 501,979 |
| Direct | 33,667 | — | 39,227 | 72,894 |
| Rental/lease income | 50,654 | 1,307 | — | 51,961 |
| Investment income | 7,840 | 528 | 1,780 | 10,148 |
| Departmental and other | 26,009 | 1,450 | 57,916 | 85,375 |
| Total revenues | <u>1,111,570</u> | <u>1,774,322</u> | <u>99,026</u> | <u>2,984,918</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Highway | 779,921 | 1,345,881 | 7,420 | 2,133,222 |
| Planning and Enterprise Services | 137,609 | 114,937 | 2,732 | 255,278 |
| Registry of motor vehicles | 72,525 | 2,222 | 16,965 | 91,712 |
| Rail and Transit | 83,679 | 312,287 | 38,109 | 434,075 |
| Aeronautics | 1,882 | 8,798 | — | 10,680 |
| Debt service: | | | | |
| Principal | 56,887 | — | — | 56,887 |
| Interest | 110,853 | — | — | 110,853 |
| Total expenditures | <u>1,243,356</u> | <u>1,784,125</u> | <u>65,226</u> | <u>3,092,707</u> |
| Excess (Deficiency) of revenues over expenditures | <u>(131,786)</u> | <u>(9,803)</u> | <u>33,800</u> | <u>(107,789)</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 44,555 | — | — | 44,555 |
| Transfers out | — | — | (44,555) | (44,555) |
| Total other financing sources (uses) | <u>44,555</u> | <u>—</u> | <u>(44,555)</u> | <u>—</u> |
| Net change in fund balances | <u>(87,231)</u> | <u>(9,803)</u> | <u>(10,755)</u> | <u>(107,789)</u> |
| Fund balances at beginning of year | 781,134 | 58,632 | 401,050 | 1,240,816 |
| Fund balances at end of year | <u>\$ 693,903</u> | <u>48,829</u> | <u>390,295</u> | <u>1,133,027</u> |

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, 2017

(Dollars in thousands)

| | | |
|---|----|-----------|
| Net change in fund balances – total governmental funds | \$ | (107,789) |
| 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 | | 1,337,310 |
| Depreciation | | (652,056) |
| 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 position differs from the change in fund balance by the net book value of the disposed capital assets. | | |
| | | (813) |
| 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 inflows of resources | | |
| | | 50,269 |
| 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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | | |
| These amounts represent the related activity of the current period: | | |
| Bond maturities | | 56,887 |
| Amortization of premiums | | 2,404 |
| Amortization of deferred losses on refunding transactions | | (2,648) |
| Amortization of bond discounts | | (434) |
| Amortization of swap payments received | | 519 |
| Derivatives are reported in the government-wide statements but are not reported in the governmental liability for funds. This amount represents the net changes in the derivative instruments. | | |
| | | (1,997) |
| 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. | | |
| | | 4,312 |
| 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: | | |
| Net pension liability, net | | (49,323) |
| Workers' compensation | | 1,800 |
| Claims and judgments | | 3,215 |
| Compensated absences | | 7,298 |
| Environmental remediation | | 70 |
| 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. | | |
| | | 1,010 |
| Changes in net position of governmental activities | \$ | 650,034 |

See accompanying notes to financial statements.

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

Proprietary Funds
Statement of Net Position
June 30, 2017
(Dollars in thousands)

| | Business-type activities - enterprise fund | Governmental activities - internal service fund |
|--|---|--|
| Assets and Deferred Outflows of Resources | MBTA | |
| Current assets: | | |
| Unrestricted cash and short-term investments | \$ 338,403 | — |
| Restricted cash and investments | 47,658 | 4,949 |
| Receivables, net of allowance for uncollectibles: | | |
| Due from Commonwealth | 99,879 | — |
| Due from federal government | 20,623 | — |
| Other | 29,253 | — |
| Other assets | 37,718 | 1,659 |
| Total current assets | <u>573,534</u> | <u>6,608</u> |
| Noncurrent assets: | | |
| Restricted cash and investments | 771,769 | — |
| Other assets | 25,728 | — |
| Capital assets: | | |
| Nondepreciable | 2,172,233 | — |
| Depreciable, net of accumulated depreciation | 7,309,953 | — |
| Total noncurrent assets | <u>10,279,683</u> | <u>—</u> |
| Total assets | <u>10,853,217</u> | <u>6,608</u> |
| Deferred Outflows of Resources: | | |
| Loss on debt refundings | 195,870 | — |
| Derivative instruments | 2,652 | — |
| Pension related | 286,105 | — |
| Total deferred outflows of resources | <u>484,627</u> | <u>—</u> |
| Total assets and deferred outflows of resources | <u>11,337,844</u> | <u>6,608</u> |
| Liabilities and Deferred Inflows of Resources | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 256,278 | 1,612 |
| Accrued interest | 119,753 | — |
| Bonds payable | 464,660 | — |
| Capital lease obligations | 3,458 | — |
| Other liabilities | 105,481 | 800 |
| Total current liabilities | <u>949,630</u> | <u>2,412</u> |
| Noncurrent liabilities: | | |
| Accrued liabilities | 89,898 | — |
| Bonds payable | 5,099,190 | — |
| Capital lease obligations | 59,640 | — |
| Net OPEB and pension obligation | 2,371,967 | — |
| Liability for derivative instruments | 3,967 | — |
| Other liabilities | — | 1,800 |
| Unearned revenue | 31,939 | — |
| Total noncurrent liabilities | <u>7,656,601</u> | <u>1,800</u> |
| Total liabilities | <u>8,606,231</u> | <u>4,212</u> |
| Deferred Inflows of Resources: | | |
| Debt instruments | 193 | — |
| Pension related | 11,383 | — |
| Total liabilities and deferred inflows of resources | <u>8,617,807</u> | <u>4,212</u> |
| Fund Net Position | | |
| Net investment in capital assets | 4,713,587 | — |
| Restricted | 19,711 | 2,396 |
| Unrestricted | (2,013,261) | — |
| Total fund net position | <u>\$ 2,720,037</u> | <u>2,396</u> |

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 Net Position

Fiscal year ended June 30, 2017

(Dollars in thousands)

| | Business-type activities - enterprise fund | Governmental activities - internal service fund |
|---|---|--|
| | MBTA | |
| Operating revenues: | | |
| Revenue from transportation | \$ 730,418 | — |
| Operating expenses: | | |
| Salaries and benefits | 997,163 | — |
| Materials, supplies and services | 232,897 | — |
| Injuries and damages | 11,323 | (1,008) |
| Commuter railroad and local subsidy expense | 514,626 | — |
| Other | 3,066 | — |
| Depreciation and amortization | 405,500 | — |
| Total operating expenses | 2,164,575 | (1,008) |
| Operating income (loss) | (1,434,157) | 1,008 |
| Nonoperating revenues (expenses): | | |
| Dedicated sales tax | 992,192 | — |
| Contract assistance – Commonwealth of Massachusetts | 171,417 | — |
| Dedicated local assessments | 164,023 | — |
| Fair value change in investment derivatives | 1,653 | — |
| Interest rate swap termination payments | (32,993) | — |
| Other nonoperating income | 40,433 | — |
| Interest income | 16,692 | 2 |
| Interest expense | (234,183) | — |
| Total nonoperating revenues (expenses), net | 1,119,234 | 2 |
| Income (loss) before capital grants and contributions and transfers | (314,923) | 1,010 |
| Capital grants and contributions | 511,686 | — |
| Increase (decrease) in net position | 196,763 | 1,010 |
| Fund net position at beginning of year | 2,523,274 | 1,386 |
| Fund net position at end of year | \$ 2,720,037 | \$ 2,396 |

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, 2017
(Dollars in thousands)

| | Business-type activities - enterprise fund | Governmental activities - internal service fund |
|---|---|--|
| | MBTA | |
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 659,191 | — |
| Receipts from other operations | 61,521 | — |
| Payments to suppliers and vendors | (961,728) | — |
| Payments to employees | (574,155) | — |
| Claims, premiums and judgments paid | — | (771) |
| Net cash used in operating activities | <u>(815,171)</u> | <u>(771)</u> |
| Cash flows from capital and related financing activities: | | |
| Additions to transportation property | (755,827) | — |
| Interest paid | (244,879) | — |
| Decrease in deferred credit/charges | 1,287 | — |
| Commercial paper advances | 100,000 | — |
| Payments on debt | (196,705) | — |
| Payments to escrow for refundings | (595,177) | — |
| Proceeds from bond and note issuances | 569,084 | — |
| Bond construction and reserve account receipts | 88,344 | — |
| Proceeds from bond premiums | 29,632 | — |
| Payments on swap termination | (32,993) | — |
| Payments of capital lease activity | (3,458) | — |
| Capital grants | 510,182 | — |
| Other | (6,140) | — |
| Net cash used in capital and related financing activities | <u>(536,650)</u> | <u>—</u> |
| Cash flows from noncapital financing activities: | | |
| Sales tax and local assessment | 1,327,432 | — |
| Payments to the Commonwealth | (15,583) | — |
| Net cash from noncapital financing activities | <u>1,311,849</u> | <u>—</u> |
| Cash flows from investing activities: | | |
| Investment income | 57,125 | — |
| Net cash from investing activities | <u>57,125</u> | <u>—</u> |
| Net change in cash and short-term investments | 17,153 | (771) |
| Cash and cash equivalents, restricted and other special accounts, beginning of year | 368,908 | 5,720 |
| Cash and cash equivalents, restricted and other special accounts, end of year | <u>\$ 386,061</u> | <u>4,949</u> (a) |
| Reconciliation of operating (loss) income to net cash from operating activities: | | |
| Operating (loss) income | \$ (1,434,157) | 1,008 |
| Adjustments to reconcile operating (loss) income to net cash used in operating activities: | | |
| Charges not requiring current expenditure of cash: | | |
| Depreciation | 405,500 | — |
| Increase in pension liability | 81,528 | — |
| Increase in net OPEB liability | 141,821 | — |
| Changes in all other working capital accounts, except cash and cash equivalents and short-term debt | (9,863) | (1,779) |
| Total adjustments | <u>618,986</u> | <u>(1,779)</u> |
| Net cash used in operating activities | <u>\$ (815,171)</u> | <u>(771)</u> |

(a) This amount is included as restricted cash and investments in the proprietary funds statement of fund net position.

See accompanying notes to financial statements.

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

Fiduciary Funds
Statement of Net Position
June 30, 2017
(Dollars in thousands)

| Assets | | Agency funds |
|---------------------------------|--|---------------------|
| Cash and short-term investments | | \$ 38,162 |
| Other Receivables | | 14,396 |
| Total assets | | <u>52,558</u> |
| Liabilities | | |
| Other liabilities | | <u>\$ 52,558</u> |

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2017

(Dollars in thousands)

(1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

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

MassDOT is governed by an eleven member board, including the Secretary of Transportation who serves as ex officio chair. Ten members are appointed by the Governor. Four members, other than the chair, serve for terms that are coterminous with the Governor. The remaining six members serve for a four-year term. 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).

The Merit Rating Board was transferred to MassDOT's Registry of Motor Vehicles division via Chapter 68, Section 8 of the Acts of 2011.

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

Notes to Financial Statements

June 30, 2017

(Dollars in thousands)

MassDOT has four divisions, including Highway, Rail and Transit, Aeronautics, and the Registry of Motor Vehicles, which includes the Merit Rating Board, that share administrative functions such as human resources, financial management, information technology, and planning through the shared services division, Office of the Secretary. Each division is headed by an administrator appointed by the Secretary of MassDOT.

The Enabling Act 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 Inspection Trust Fund; (6) the Owner Controlled Insurance Program (OCIP) Fund related to the Central Artery/Tunnel Project and (7) various other administrative trusts transferred from the Commonwealth.

The Enabling Act contemplated 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 Enabling Act 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 previously deposited into the Commonwealth's Highway Fund, including gasoline tax receipts and registry fees. The CTF is subject to appropriation by the Legislature and shall be used for transportation related expenses of the executive office of transportation or any successor agency or authority. In addition, it may 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 year 2013 provides that the CTF will also receive monies received from sales of motor vehicles and taxes imposed as excises upon sale and use at retail of motor vehicles. The following amounts are to be annually distributed from the CTF: \$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 fiscal year 2017, MassDOT received \$559,781 from the CTF which was comprised of \$352,781 for operations, \$100,000 for debt service, \$82,000 earmarked for the regional transit authorities, and \$25,000 reimbursement for the cost of the operation and maintenance of the CA/T Project and CANA as authorized by Chapter 235 of the Acts of 1998. Subsequent

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

Notes to Financial Statements

June 30, 2017

(Dollars in thousands)

to year end, the Commonwealth legislature approved supplemental funding of the fiscal year 2017 operating budget totaling \$49,828.

Chapter 194 of the Acts of 2011 established the Transportation Infrastructure and Development Fund for “the purpose of transportation and related infrastructure projects” with the provision that not less than 50 percent shall be dedicated to supplementing construction and reconstruction of municipal ways. The primary source of funding consists of disbursements from the Commonwealth’s Gaming Revenue Fund. For fiscal year 2017, MassDOT received \$0.

MassDOT is a component unit of the Commonwealth and its 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 13.

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 footnotes 14 through 28.

Aggregate Discretely Presented Component Units – MassDOT presents the following fifteen (15) regional transit authorities (RTAs) 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; and the Worcester Regional Transit Authority. MassDOT does not consider any of the discretely presented component units to be major.

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 position and the statement of activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either

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

Notes to Financial Statements

June 30, 2017

(Dollars in thousands)

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 position presents all of the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets 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 position results when constraints placed on asset use is either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- Unrestricted net position consists of net position, which does 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 position, 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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

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

Notes to Financial Statements

June 30, 2017

(Dollars in thousands)

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.

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

Notes to Financial Statements

June 30, 2017

(Dollars in thousands)

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 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

MassDOT's participation in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund is presented as cash and short-term investments (both restricted and unrestricted) in the accompanying financial statements.

MMDT is an internal investment pool that meets the criteria established under GASB 79 to report its investments at amortized cost. As such, the Authority reports its investment in MMDT at amortized which approximates the net asset value of \$1.00 (one dollar) per share. MMDT has a maturity of less than one year and is not rated.

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 can hold certain investments on behalf of MassDOT. In the event investments are held by the Treasurer they appear as "Investments" in the accompanying financial statements. Interest earned on specific MassDOT investments would be allocated to MassDOT. As of June 30, 2017, 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.

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

Notes to Financial Statements

June 30, 2017

(Dollars in thousands)

(f) *Accounts Receivable*

Reimbursements due from the Commonwealth for state and federally funded construction project expenditures are reported as “Due from Commonwealth” in the financial statements and are considered 100% collectible. “Due from federal government” receivables include direct grants or reimbursements and are considered 100% collectible. “Other” receivables include rental/lease receivables and toll related receivables, including postpaid toll transactions and toll violations. Other receivables are reported net of estimated allowances for uncollectible accounts, which are based on historical trends and individual account analysis.

(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 acquisition 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 non-depreciable 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 progress includes all associated cumulative costs of a constructed capital asset. Construction in progress 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) *Fair Value*

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that are required to be made at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure the fair value.

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- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability or similar assets or liabilities either directly or indirectly through corroboration with observable market data.
- Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(i) Other Assets

Other assets consist principally of prepaid expenses.

(j) Unearned Revenue

Unearned revenue in the governmental funds financial statements represents monies received in advance of providing goods or services in accordance with the current financial resources management focus and the modified accrual basis of accounting.

(k) Long-Term Debt

In the government-wide and proprietary funds, long-term debt is reported as liabilities in the statements of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Gains and losses related to refunding transactions are presented as deferred inflows and outflows, respectively, and 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 Enterprise Services expenditures.

(l) 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.

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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.

(m) *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 an approved rate of pay.

In the government-wide and proprietary fund statements of net position, 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.

(n) *Deferred Inflows and Outflows*

MassDOT accounts for certain transactions that result in the consumption or acquisition of resources in one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal year 2017, MassDOT has reported deferred outflows pertaining to its derivative instruments, deferred losses on its debt refunding transactions and pension related activities. Deferred inflows relate to deferred gains on debt refunding transactions and pension related activities.

Deferred inflows of resources in the governmental funds financial statements relate to unavailable revenue for CTF operating assistance and toll violations.

(o) *Pension Benefits*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and additions to/deductions from SERS's fiduciary net position have been determined on the same basis as they are reported by the SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) *Interfund Transfers*

During the course of its operations, resources are permanently reallocated between funds. These transactions are reported as transfers in and transfers out.

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For the year ended June 30, 2017, interfund transfers totaled \$44,555, which included the following:

- MassDOT transferred \$44,082 from the other governmental funds' motor vehicle inspection trust fund (MVITF) to the MTTF general fund to ensure the budget included sufficient revenue for MassDOT operations. Chapter 46 of the Acts of 2013, indicates available funds may be transferred "provided, however, that expenses of the administration and implementation of the motor vehicle inspection program" are met first.
- MassDOT transferred \$473 from the other governmental funds to the MTTF general fund to ensure the budget included sufficient revenue for MassDOT operations.

(q) 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

MassDOT invests 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 investment in MMDT is presented in the accompanying financial statement captions as:

| | | |
|---------------------------------|----|----------------|
| Cash and short-term investments | \$ | 42,474 |
| Restricted cash and investments | | 921,250 |
| | \$ | <u>963,724</u> |

MassDOT has other investments held by bond and other trustees in accordance with bond indentures and other external requirements. For investments held by trustees, MassDOT has implemented investment policies which incorporate the investment protocols within the Trust Agreements.

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

(a) Custodial Credit Risk

At June 30, 2017, 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.

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(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 at June 30, 2017 are presented below by investment type and maturity.

| Investment Type | Fair Value | Investments maturities (in years) | |
|--------------------------------|---------------------|--------------------------------------|---------------|
| | | Less than 1 year | 1-5 |
| U.S. Treasuries | \$ 35,963 | 28,001 | 7,962 |
| U.S. Agencies | 96,279 | 57,333 | 38,946 |
| Money market mutual funds | 134,060 | 134,060 | — |
| Commercial paper | 20,828 | 20,828 | — |
| Guaranteed Investment Contract | 25,317 | 25,317 | — |
| MMDT | 963,724 | 963,724 | — |
| Total | <u>\$ 1,276,171</u> | <u>1,229,263</u> | <u>46,908</u> |

(c) Credit Risk

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

The following table presents the credit quality ratings of the primary government's fixed income investments at June 30, 2017:

| Investment Type | Fair Value | AAA | AA1-AA3 | A1-A3 | Unrated |
|--------------------------------|---------------------|----------------|----------------|---------------|----------------|
| U.S. Treasuries | \$ 35,963 | 35,963 | — | — | — |
| U.S. Agencies | 96,279 | — | 96,279 | — | — |
| Money market mutual funds | 134,060 | 134,060 | — | — | — |
| Commercial paper | 20,828 | — | — | 20,828 | — |
| Guaranteed Investment Contract | 25,317 | — | 25,317 | — | — |
| MMDT | 963,724 | — | — | — | 963,724 |
| Total | <u>\$ 1,276,171</u> | <u>170,023</u> | <u>121,596</u> | <u>20,828</u> | <u>963,724</u> |

Although the MMDT Cash Fund is not rated, the cash portfolio may only invest in securities rated in one of the two highest short-term rating categories by nationally recognized statistical rating organizations or unrated securities of comparable quality. Securities rated in the highest short-term rating category (and unrated securities of comparable quality) are identified as First Tier securities. Securities rated in the second highest short-term rating category (and unrated securities of comparable quality) are identified as Second Tier securities. At June 30, 2017, credit ratings associated with the investments of the Cash Fund were either First Tier (approximately 97%) or Second Tier (approximately 3%).

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(d) Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. At June 30, 2017 no investment category exceeded 5% of the total investments of the primary government.

(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. MassDOT was not exposed to foreign currency risk as of June 30, 2017.

(f) Restricted Cash and Investments by Fund

The following summarizes restricted cash and investments as of June 30, 2017 by the various funds and accounts established by MassDOT for debt covenant requirements and other purposes:

Held by Treasurer Commonwealth

| | |
|---|------------|
| General Fund - Toll related accounts as restricted by bond covenants | \$ 451,805 |
| General Fund - MTTF Other | 23,176 |
| Major Capital Projects - Statewide Road and Bridge Program | 36,225 |
| Major Capital Projects - - Transportation Infrastructure and Development Fund | 17,478 |
| Other Government Funds - Central Artery Repairs and Maintenance | 385,332 |
| Other Government Funds - Motor Vehicle Safety Inspection | 6,314 |
| Other Governmental Funds - Other | 920 |

Held by Bond Trustee

| | |
|---|---------|
| General - Toll related accounts as restricted by bond covenants | 307,547 |
|---|---------|

Held by OCIP Trustee

| | |
|--|---------------------|
| Internal Service Fund - Workers' compensation self - insurance | 4,949 |
| | <u>\$ 1,233,746</u> |

(g) Fair Value Hierarchy and Measurements

MassDOT categorizes its fair value measurements within the fair value hierarchy established by GAAP.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Institutional Money Market Funds – Valued at fair value, which is represented by the quoted price for the fund generally \$1.00 (one dollar). Institutional money market funds are generally classified as Level 1.

U.S. Treasury Securities – Securities issued by the U.S. government, its agencies, authorities and instrumentalities are valued using quoted prices, documented trade history in the security and a pricing model maximizing the use of observable inputs determined by investment managers.

- U.S. Treasury Securities consist principally of U.S. Treasury bills, notes and bonds are generally classified as Level 1 of the fair value hierarchy.

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- U.S. Government sponsored enterprises securities principally of U.S. Government agency obligations including agency-issued debt, agency mortgage pass-through securities, and agency collateralized mortgage obligation (CMOs) are generally categorized in Level 1 of the fair value hierarchy.

Commercial – Commercial paper issued generally by corporate entities or financial institutions are short term investments that are generally classified as Level 1.

Derivative instruments – MassDOT's interest rate swaps and forward delivery agreements are classified as Level 2 as valued using a market approach that considers benchmark interest rates.

The following summarizes the recurring fair value measurement as of June 30, 2017:

| | Fair Value | Level 1 | Level 2 |
|---|----------------------------|----------------|------------------|
| Investments by Fair Value Level | | | |
| Money Market Mutual Funds | \$ 134,060 | 134,060 | — |
| U.S. Treasuries | 35,963 | 35,963 | — |
| U.S. Agencies | 96,279 | 96,279 | — |
| Commercial paper | 20,828 | 20,828 | — |
| Total investments by fair value level | <u>\$ 287,130</u> | <u>287,130</u> | <u>—</u> |
| Investments measured at amortized cost | | | |
| MMDT | 963,724 | | |
| Guaranteed Investment Contract | <u>25,317</u> | | |
| Total investments | <u><u>1,276,171</u></u> | | |
| Derivative instruments | | | |
| Interest rate swaps (liabilities) | \$ (336,734) | — | (336,734) |
| Forward delivery agreement | <u>8,591</u> | — | <u>8,591</u> |
| Total investment derivative instruments | <u><u>\$ (328,143)</u></u> | <u>—</u> | <u>(328,143)</u> |

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates such as LIBOR and SIFMA.

(3) Accounts Receivable

Governmental funds accounts receivable at June 30, 2017 consisted of the following:

| | Gross accounts receivable | Allowance for uncollectibles | Net accounts receivable |
|-----------------------------|------------------------------|---------------------------------|----------------------------|
| Due from Commonwealth | \$ 427,365 | — | 427,365 |
| Due from federal government | 10,026 | — | 10,026 |
| Other receivables | 91,937 | 5,807 | 86,130 |
| | <u>\$ 529,328</u> | <u>5,807</u> | <u>523,521</u> |

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(4) Capital Assets

Capital assets of the governmental activities consisted of the following at June 30, 2017:

| | Beginning balance | Increases | Decreases | Ending balance |
|--|----------------------|-----------|-----------|----------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 986,152 | 19,193 | 116 | 1,005,229 |
| Construction in progress | 6,909,344 | 1,279,284 | 21,058 | 8,167,570 |
| Total capital assets, not being depreciated | 7,895,496 | 1,298,477 | 21,174 | 9,172,799 |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 29,011,977 | 31,327 | — | 29,043,304 |
| Buildings | 164,242 | 4,485 | — | 168,727 |
| Equipment | 123,707 | 5,430 | 950 | 128,187 |
| Vehicles | 147,811 | 14,221 | — | 162,032 |
| Software | 24,141 | 4,544 | — | 28,685 |
| Total capitals assets, being depreciated | 29,471,878 | 60,007 | 950 | 29,530,935 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | 12,793,103 | 625,750 | | 13,418,853 |
| Buildings | 88,089 | 6,014 | | 94,103 |
| Equipment | 110,750 | 2,123 | 137 | 112,736 |
| Vehicles | 108,098 | 16,110 | | 124,208 |
| Software | 21,718 | 2,059 | | 23,777 |
| Total accumulated depreciation | 13,121,758 | 652,056 | 137 | 13,773,677 |
| Total capital assets, being depreciated, net | 16,350,120 | (592,049) | 813 | 15,757,258 |
| Capital assets, net | \$ 24,245,616 | 706,428 | 21,987 | 24,930,057 |

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

| | |
|-------------------------------------|-------------------|
| Highway | \$ 647,425 |
| Planning and Enterprise Services | 1,273 |
| Registry of Motor Vehicles | 52 |
| Rail and Transit | 3,306 |
| | <u>\$ 652,056</u> |

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(5) 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, 2017:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within one year |
|--|----------------------|-----------|------------|-------------------|------------------------|
| Senior revenue bonds: | | | | | |
| Metropolitan Highway System: | | | | | |
| 1997 Series A, Capital Appreciation Bonds (CAB's), 5.60% to 5.65%, issued September 24, 1997, due 2024 to 2029 | \$ 42,007 | — | — | 42,007 | — |
| Metropolitan Highway System: | | | | | |
| 1997 Series C, Capital Appreciation Bonds (CAB's), 5.45% to 5.55%, issued September 24, 1997, due 2016 to 2023 | 75,830 | — | 12,602 | 63,228 | 11,942 |
| Metropolitan Highway System: | | | | | |
| 2010 Refunding, Series A, variable rate bonds, issued May 27, 2010, due 2035 to 2037 | 207,665 | — | — | 207,665 | — |
| Borrowings related to the associated interest rate swap | 3,093 | — | 94 | 2,999 | 98 |
| Metropolitan Highway System: | | | | | |
| 2010 Refunding, Series B, 3.00% to 5.00%, issued May 27, 2010, due 2011 to 2037 | 688,695 | — | 28,035 | 660,660 | 28,600 |
| Western Turnpike: | | | | | |
| 2011 Refunding, Series A, 2.50% to 5.00%, issued November 30, 2011, due 2017 | 7,375 | — | 7,375 | — | — |
| Western Turnpike: | | | | | |
| 2011 Refunding, Series B, 2.408%, issued November 30, 2011, due 2013 to 2017 (Federally Taxable) | 8,875 | — | 8,875 | — | — |
| Total senior revenue bonds | 1,033,540 | — | 56,981 | 976,559 | 40,640 |
| Subordinated revenue bonds: | | | | | |
| Metropolitan Highway System: | | | | | |
| 2010 Refunding, Series A, variable rate bonds, issued April 14, 2010, due 2024 to 2039 | 592,335 | — | — | 592,335 | — |
| Borrowings related to the associated interest rate swap | 11,381 | — | 425 | 10,956 | 445 |
| Metropolitan Highway System: | | | | | |
| 2010 Refunding, Series B, 3.25% to 5.00%, issued April 14, 2010, | 261,220 | — | — | 261,220 | — |
| Total subordinated revenue bonds | 864,936 | — | 425 | 864,511 | 445 |
| Total | 1,898,476 | — | 57,406 | 1,841,070 | 41,085 |
| Less: unamortized bond discounts | (7,241) | — | (434) | (6,807) | — |
| Plus: unamortized premiums | 48,477 | — | 2,404 | 46,073 | — |
| Total bonds payable | 1,939,712 | — | 59,376 | 1,880,336 | 41,085 |
| Other noncurrent liabilities: | | | | | |
| Workers' compensation | 23,650 | 3,359 | 5,159 | 21,850 | 5,159 |
| Judgments and claims | 11,815 | 5,000 | 9,215 | 7,600 | 5,800 |
| Compensated absences | 44,209 | — | 7,298 | 36,911 | 23,484 |
| Environmental remediation | 2,437 | 420 | 490 | 2,367 | 446 |
| Net pension liability | 577,676 | 98,149 | 30,760 | 645,065 | — |
| Total other | 659,787 | 106,928 | 52,922 | 713,793 | 34,889 |
| Total noncurrent | \$ 2,599,499 | 106,928 | 112,298 | 2,594,129 | 75,974 |

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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, 2050 to provide contract assistance toward repayment of the senior bonds (until June 2037) and toward payment of subordinated bonds (until June 2039). 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 bonds.

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

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|-----------------|------------------|
| Year ending June 30, | | | |
| 2018 | \$ 40,542 | 78,243 | 118,785 |
| 2019 | 41,099 | 77,630 | 118,729 |
| 2020 | 42,819 | 76,570 | 119,389 |
| 2021 | 52,550 | 74,944 | 127,494 |
| 2022 | 53,491 | 73,292 | 126,783 |
| 2023-2027 | 354,116 | 282,980 | 637,096 |
| 2028-2032 | 380,983 | 254,624 | 635,607 |
| 2033-2037 | 641,515 | 50,270 | 691,785 |
| 2038-2039 | 220,000 | 2,902 | 222,902 |
| Total | <u>\$ 1,827,115</u> | <u>971,455</u> | <u>2,798,570</u> |

As rates change, interest payments on the 2010 Bonds will vary. Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2017:

| <u>Description</u> | <u>Redemption date</u> | <u>Redemption price</u> | <u>Principal amount outstanding</u> |
|-----------------------------------|------------------------|-------------------------|-------------------------------------|
| Metropolitan Highway System: | | | |
| 2010 Series A - Subordinated Debt | 2024 to 2039 | 100% | \$ 592,335 |
| 2010 Series B - Subordinated Debt | 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 |

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. \$207,665 of the Senior Bonds and \$406,645 of the

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Subordinated 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 2019 and April 2021. Under generally accepted accounting principles, variable rate demand obligations (VRDO's) 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. All security agreements supporting MassDOT variable rate demand obligation do not expire within the twelve month period after June 30, 2017. As such, these amounts have been presented as long term, rather than current, liabilities in the accompanying financial statements.

In 2013, \$185,690 of Subordinated bonds were converted to direct purchase mode to be held by the purchaser for a specific period of time and are not subject to purchase or remarketing at the demand of the holder and therefore do not require a letter of credit or standby bond purchase agreement. The direct purchase agreement on the 2010 Series A-4 Subordinated bonds in the amount of \$92,845 expires in April 2019 while the direct purchase agreement on the 2010 Series A-5 bonds in the amount of \$92,845 expires in April 2020.

Prior Defeasances of Debt

At June 30, 2017, 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 | 2017 to 2023 | 100% | \$128,825 |

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 2010 Series A Senior and Subordinated Revenue Bonds issued by MassDOT to refund long-term debt previously issued by the Turnpike. At June 30, 2017, 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 is considered borrowings and is valued separately from the Swaps. The balance of the borrowings at June 30, 2017 totals \$13,955 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 \$8,591

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as of June 30, 2017. The credit rating of Wells Fargo Bank, N.A. at June 30, 2017, as determined by S&P, was AA minus.

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2017 financial statements are as follows:

| | Changes in fair value | | Fair value at June 30, 2017 | | Notional |
|--|-----------------------|-----------------------|-----------------------------|-----------------------|------------|
| | Classification | Amount debit (credit) | Classification | Amount debit (credit) | |
| Governmental activities: | | | | | |
| Cash flow hedges: | | | | | |
| Pay-fixed interest rate swaps | Deferred outflow | \$ (103,470) | Derivative liability | \$ (327,959) | \$ 770,120 |
| Investment derivatives: | | | | | |
| Pay-fixed interest rate swaps | Investment revenue | (1,814) | Derivative liability | (5,974) | 29,880 |
| Pay-variable interest rate basis swaps | Investment revenue | 89 | Derivative liability | (2,801) | 100,000 |
| Subtotal | | <u>(105,195)</u> | | <u>(336,734)</u> | |
| Forward delivery agreements | Investment revenue | 3,003 | Derivative asset | 8,591 | |
| | | <u>\$ (102,192)</u> | | <u>\$ (328,143)</u> | |

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

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The following table displays the terms of MassDOT's derivative instruments outstanding at June 30, 2017

| Derivative Item | Type | Objective | Effective Date | Notional amount | Term date | Payable swap rate | Receivable swap rate | Premiums received | Fair value at June 30, 2017 |
|-------------------------|---------------------------------------|---|----------------|-----------------|-----------|-------------------|-------------------------------------|-------------------|-----------------------------|
| Cash flow hedges: | | | | | | | | | |
| 1 | Pay-fixed interest rate swap | Hedge interest rate risk from 2010 senior debt (Series A-1 and A-2) | 7/1/2008 | \$207,665 | 1/1/2037 | 4.750% | 68% of 1 month LIBOR (0.83225%) (a) | 10,375 | (86,224) |
| 2 | Pay-fixed interest rate swap | Hedge interest rate risk from 2010 sub. debt (Series A-2) | 1/1/2008 | 83,100 | 1/1/2037 | 4.875% | 68% of 1 month LIBOR | 4,391 | (33,710) |
| 3 | Pay-fixed interest rate swap | Hedge interest rate risk from 2010 sub. debt (Series A-1) | 1/1/2008 | 43,625 | 1/1/2029 | 5.000% | 68% of 1 month LIBOR | 2,312 | (12,132) |
| 4 | Pay-fixed interest rate swap | Hedge interest rate risk from 2010 sub. debt (Series A-3 through A-6) | 1/1/2009 | 341,500 | 1/1/2039 | 4.750% | 68% of 1 month LIBOR | 17,063 | (168,454) |
| 5 | Pay-fixed interest rate swap | Hedge interest rate risk from 2010 sub. debt (Series A-7) | 1/1/2009 | 94,230 | 1/1/2029 | 5.000% | 68% of 1 month LIBOR | 4,577 | (27,439) |
| Investment derivatives: | | | | | | | | | |
| 6 | Pay-fixed interest rate swap | | 1/1/2009 | 29,880 | 1/1/2039 | 4.750% | 68% of 1 month LIBOR | — | (5,974) |
| 7 | Pay-variable interest rate basis swap | | 10/1/2002 | 100,000 | 7/1/2029 | SIFMA (0.91%) (a) | 67% of 3 month LIBOR (0.87044%) (a) | 5,350 | (2,801) |
| | | Subtotal | | | | | | | (336,734) |
| 8 | Forward delivery agreement | | — | — | 1/1/2029 | — | Fixed | — | 8,591 |
| | | | | | | | | | (328,143) |

(a) - Swap Rates as of June 30, 2017

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Swap Payments and Related Debt

Debt service requirements of the 2010 Subordinated Debt Series A-1 through A-7 and 2010 Senior Debt Series A-1 and A-2 (2010 Bonds) and net swap payments for the cash flow hedge swaps, applying the fixed rates (4.75% – 5.00%) of the swaps and assuming 68% of 1 month LIBOR rate (0.83225%) and the variable rates (0.88% – 0.91%) on the 2010 Bonds as of June 30, 2017 are shown in the table below. There is a fixed rate (fee) component on one of the Senior 2010 bonds and two of the Subordinated 2010 bonds related to Direct Purchase contracts. The fixed rate (fee) is as follows: A-4's (0.70% through April 2019) and A-5's (0.80% through April 2020). Such amounts are included in 2010 bonds interest amounts. The following table reflects debt service requirements through the term of the swap:

| | 2010 Bonds Principal | 2010 Bonds Interest | Interest rate swap, net | Total |
|-----------|---------------------------------|--------------------------------|------------------------------------|------------------|
| 2018 | \$ — | 8,437 | 31,791 | 40,228 |
| 2019 | — | 8,437 | 31,791 | 40,228 |
| 2020 | — | 7,971 | 31,791 | 39,762 |
| 2021 | — | 7,255 | 31,791 | 39,046 |
| 2022 | — | 7,045 | 31,790 | 38,835 |
| 2023-2027 | 81,095 | 34,456 | 155,361 | 270,912 |
| 2028-2032 | 113,985 | 29,290 | 131,240 | 274,515 |
| 2033-2037 | 384,920 | 23,288 | 104,042 | 512,250 |
| 2038-2039 | 220,000 | 2,902 | 13,124 | 236,026 |
| | \$ 800,000 | 129,081 | 562,721 | 1,491,802 |

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 interest rate swaps 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 required to be rated in the A category or higher by the three rating agencies.

The following represents the credit ratings of the swap counter parties at June 30, 2017:

| Derivative swap item | Counterparty credit rating(Moody's, S&P and Fitch) |
|---------------------------------|--|
| Derivative 1 | A1, A+, A+ |
| Derivative 2 | A1, A+, A+ |
| Derivative 3 | A1, A+, A+ |
| Derivative 4 | A1, A+, A+ |
| Derivative 5 | A1, A+, A+ |
| Derivative 6 | A1, A+, A+ |
| Derivative 7 | Aa3, A+, AA- |

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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 is 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 2001 UBS swap would be less than the amount needed to pay its variable rate bonds. The MassDOT and its financial advisor take this risk into consideration when analyzing the sufficiency of the hedge reserve fund balance.

Termination Risk – MassDOT or the counter party 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.

(6) Pledged Revenues

MassDOT has pledged toll and certain related revenues, generated from the Metropolitan Highway System (MHS) to repay 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. Certain revenue bonds associated with the original issuance were refunded (current) during April and May of 2010, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a \$100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's \$100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues.

In January 2017 the remaining WT revenue bonds principal balance of \$16,250 and interest of \$557 were paid and toll revenue generated from WT became unpledged.

The remaining principal balance to repay MHS revenue bonds amounts to \$1,827,115. The remaining principal and interest (including net swap payments) related to MHS to be paid on the bonds is \$3,361,291. Principal and interest (including net swap payments) paid and pledged revenue received for the year ended June 30, 2017 were \$167,740 and \$295,434, respectively.

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(7) Governmental Fund Balances

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

| | Governmental Funds - Fund Balance | | | |
|---|--|---|---|--------------|
| | MTTF (general) | Highway capital projects | Other governmental funds | Total |
| Nonspendable: | | | | |
| Prepaid expenditures | \$ 2,413 | — | — | 2,413 |
| Restricted: | | | | |
| Debt service | 307,547 | — | — | 307,547 |
| Turnpike (toll) operations and capital reinvestment | 286,647 | — | — | 286,647 |
| Tobin bridge and metropolitan highway system operations | 111,934 | | — | 111,934 |
| Transportation infrastructure fund | — | 36,216 | — | 36,216 |
| Transportation Infrastructure & Development Fund | — | 12,613 | — | 12,613 |
| Central Artery repairs and maintenance | — | — | 383,862 | 383,862 |
| Motor vehicle safety inspection | — | — | 5,717 | 5,717 |
| Highway | — | — | 477 | 477 |
| Planning and Enterprise Services | 491 | — | 442 | 933 |
| Registry | 1,832 | — | — | 1,832 |
| Total restricted fund balances | 708,451 | 48,829 | 390,498 | 1,147,778 |
| Assigned: | | | | |
| Highway operations | — | — | 250 | 250 |
| Planning and Enterprise Services | 399 | — | — | 399 |
| Total assigned fund balances | 399 | — | 250 | 649 |
| Unassigned | (17,360) | — | (453) | (17,813) |
| Total governmental fund balances | \$ 693,903 | \$ 48,829 | \$ 390,295 | \$ 1,133,027 |

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(8) Employee Benefit Plans

(a) Pension Plan

General Information about the Pension Plan

Plan description: Pensions are provided to eligible MassDOT employees through the Massachusetts State Employees' Retirement System (MSERS), a cost-sharing multiple-employer defined benefit pension plan as defined in GASB Statement No. 67, Financial Reporting for Pension Plans. The MSERS is governed by the Massachusetts State Retirement Board (MSRB), which consists of five members—two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chair of the MSRB. Membership in the MSERS is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. MSERS is part of the Commonwealth of Massachusetts' reporting entity and does not issue a stand-alone audited financial report.

Benefits provided: MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. MGL establishes uniform benefit and contribution requirements for all contributory public employee retirement systems (PERS). These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Contributions: Chapter 32 of the MGL assigns authority to establish and amend contribution requirements of the plan. Active plan members contribute between 5 and 11% of their gross regular compensation. The contribution rate is based on the date plan membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30.

The MGLs governing employer contribution requirements to MSERS are varied and vary among employers to such an extent that there is no uniform contribution method. Consequently, MSERS developed an effective contribution methodology that allocates total actual contributions among the employers in a consistent manner (based on an employer's share of total covered payroll). Any differences between the effective contribution and an employer's actual contributions are considered a nonemployer contribution from the Commonwealth. While certain nonemployer contributions are the legal responsibility of the Commonwealth and are identified by MSERS as special funding situations, MassDOT does not fall within this category. For the June 30, 2016 measurement date, the Commonwealth made contributions on behalf of MassDOT totaling \$8,701 and MassDOT made contributions totaling \$24,891 to the pension plan.

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, MassDOT reported a liability of \$645,065 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 for which update procedures were used to roll forward the total pension liability to the measurement date (June 30, 2016). MassDOT's proportion of the net pension liability is based on actual contributions adjusted for nonemployer contributions (as described above). At June 30, 2016, MassDOT's proportion was 4.67817%, which compared to a proportion of 5.07498% at June 30, 2015.

For the year ended June 30, 2017, MassDOT recognized pension expense of \$84,026. At June 30, 2017, MassDOT reported deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflow of Resources |
|--|--------------------------------------|------------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ 43,303 | \$ — |
| Changes in Assumptions | 71,533 | — |
| Changes in proportion | 7,585 | 30,760 |
| Difference between expected and actual experience | 30,639 | — |
| Contributions subsequent to 6/30/16 measurement date | 25,519 | — |
| | <u>\$ 178,579</u> | <u>\$ 30,760</u> |

Excluding contributions made subsequent to the measurement date, the amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ending June 30, | |
|----------------------|-------------------|
| 2018 | \$ 34,975 |
| 2019 | 34,975 |
| 2020 | 34,079 |
| 2021 | 20,384 |
| 2022 | (2,113) |
| Totals | <u>\$ 122,300</u> |

Actuarial assumptions: The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

1. (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase per year.

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2. Salary increases are based on analyses of past experience but range from 4.00% to 9.0% depending on group and length of service.
3. Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (ORP) to transfer to the Massachusetts State Employees' Retirement System (MSERS) and purchase service for the period while members of the ORP. As a result, the total pension liability of the MSERS has increased by approximately \$400,000 as of June 30, 2016.
4. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct)
 - Post-retirement – reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct)
 - Disability – the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)
5. Experience studies were performed as follows:
 - Dated February 27, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the target asset allocation are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------------------------|----------------------|--|
| Global Equity | 40% | 6.9% |
| Core Fixed Income | 13% | 1.6% |
| Private Equity | 10% | 8.7% |
| Real Estate | 10% | 4.6% |
| Value Added Fixed Income | 10% | 4.8% |
| Hedge Funds | 9% | 4.0% |
| Portfolio Completion Strategies | 4% | 3.6% |
| Timber/Natural Resources | 4% | 5.4% |
| Totals | 100% | |

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit

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payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MassDOT's proportionate share of the net pension liability to changes in the discount rate: The following presents MassDOT's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the MassDOT's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|-------------------------------------|------------------------|
| MassDOT's Proportionate Share of the Net Pension Liability | \$ 840,620 | 645,065 | 479,325 |

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available the Commonwealth of Massachusetts' Comprehensive Annual Financial Report.

(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 8.49% 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, 2017 was approximately \$21,783, which equaled the required contribution.

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(9) Leases

(a) Commitments

MassDOT has commitments under various operating leases. Total lease expense for the year ending June 30, 2017 was \$5,497. The following is a summary of the future minimum lease payments for operating lease obligations:

| Years: | Amount |
|------------|------------------|
| 2018 | \$ 5,750 |
| 2019 | 4,432 |
| 2020 | 4,184 |
| 2021 | 3,806 |
| 2022 | 2,060 |
| Thereafter | 8,924 |
| Total | <u>\$ 29,156</u> |

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, 2017, MassDOT earned \$51,961 in rental income. The following is a schedule by years of minimum future rental income on non-cancelable operating leases as of June 30, 2017:

| Years: | Amount |
|------------|-------------------|
| 2018 | \$ 42,409 |
| 2019 | 35,013 |
| 2020 | 35,041 |
| 2021 | 30,948 |
| 2022 | 29,139 |
| Thereafter | 522,470 |
| Total | <u>\$ 695,020</u> |

(10) 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, 2017.

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 \$2,500 per loss for public official liability (ii) \$10,000 per loss for privacy & network liability, (iii) \$500 per loss involving damage to buildings and their contents, and (iv) \$50,000 per bridge and tunnel loss. Insurance is purchased above self-insured amounts, subject to availability and reasonableness of cost. Liability insurance policies related to

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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, 2017 is \$21,850. 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, 2017.

Changes in the workers' compensation claims liability since July 1, 2015 were as follows:

| | |
|--------------------------------------|------------------|
| Liability balance, July 1, 2015 | \$ 24,152 |
| Provision to record estimated losses | 5,180 |
| Payments | (5,682) |
| Liability balance, June 30, 2016 | <u>\$ 23,650</u> |
| Liability balance, July 1, 2016 | \$ 23,650 |
| Provision to record estimated losses | 3,359 |
| Payments | (5,159) |
| Liability balance, June 30, 2017 | <u>\$ 21,850</u> |

(b) Owner Controlled Insurance Program (OCIP)

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

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The insurance coverage provided by the Commonwealth ended on November 1, 2007, except for general liability completed operations 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 on aggregate per occurrence for worker's compensation and \$2,000 per contractor, \$6,000 on aggregate per occurrence for general liability coverage. MassDOT is responsible for loss costs up to these amounts.

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The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2017 is \$2,600. 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, 2017. Any residual amount remaining at the end of the program will be transferred to the TIF.

Changes in the claims liability since July 1, 2015 were as follows:

| | | |
|--------------------------------------|-----------|--------------|
| Liability balance, July 1, 2015 | \$ | 9,100 |
| Provision to record estimated losses | | 512 |
| Payments | | (6,012) |
| Liability balance, June 30, 2016 | <u>\$</u> | <u>3,600</u> |
| Liability balance, July 1, 2016 | \$ | 3,600 |
| Provision to record estimated losses | | (359) |
| Payments | | (641) |
| Liability balance, June 30, 2017 | <u>\$</u> | <u>2,600</u> |

(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, 2017 approximated \$5,231,162.

(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.

The most significant claim during fiscal year 2017 relates to the design build contract No. 71680, the replacement of the Fore River Bridge with a steel vertical lift bridge. The plaintiff asserts that specifications prescribed Class K steel as the sheave rim material, which rendered the planned sheave design unconstructable. During fabrication, the sheave cracked. MassDOT contends that the cracking occurred due to an improper fabrication method. Currently both parties are in mediation to resolve the dispute.

On September 11, 2015, a judgment, totaling \$8,200, was entered against MassDOT, for damages incurred by the plaintiff in relation to the Central Artery/Tunnel (CA/T) project. MassDOT appealed the verdict and associated legal rulings and commenced alternative dispute resolution proceedings. The parties settled for \$7,500 in fiscal year 2017.

(13) Subsequent Events

Subsequent to year end, the Commonwealth legislature passed supplemental funding for fiscal year 2017 Commonwealth Transportation Fund operations totaling \$49,828.

Subsequent to year-end, MassDOT's fiscal year 2018 operating budget was revised and approved for \$957,743 in expenditures and debt service. The amount will be funded from operating revenue from CTF (\$535,600), pledged and unpledged revenues (\$428,841), motor vehicle inspection trust fund (\$56,592), federal funds (\$21,765) and other revenues (\$51,309) including departmental, leases, investment income and reserves.

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(14) MBTA - The Reporting Entity

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) to finance and operate mass transportation facilities within, and, to a limited extent, outside of its territorial area of 175 cities and towns and is authorized to enter into agreements for providing mass transportation service by private companies, including railroads. The 175 cities and towns are grouped into three categories, based upon the weighting of each member’s allocable percentage of population and assessments: (i) the inner 14 cities and towns; (ii) the outer 51 cities and towns; and (iii) the other 110 served communities.

Chapter 161A is referred to herein, together with Section 35T of Chapter 10 of Massachusetts General Laws, as the “Enabling Act.”

The Authority is governed and its corporate powers exercised by the board of directors (the “Board of Directors” or “Board”) of the Massachusetts Department of Transportation (“MassDOT”). However, during its existence, the Fiscal Management Control Board (FMCB) is afforded all the powers, responsibilities, and obligations relative to the Authority that are vested in the Board with the exception of authorizing the issuance of debt, which remains the responsibility of the Board. Furthermore, the General Manager is hired and retained by the Secretary of Transportation, as the FMCB reports to the Secretary.

The Control Board Act is part of the Commonwealth Fiscal Year 2016 budget, Chapter 46 of the Acts of 2015 of the Commonwealth, effective July 17, 2015. The FMCB is within the Massachusetts Department of Transportation and reports to the Secretary .

In addition, the Control Board may (i) establish separate operating and capital budgets each with clearly designated revenue sources and uses and establish policies and procedures to ensure that no funds are commingled between operating and capital budgets; (ii) establish one-year and five-year operating budgets beginning with Fiscal Year 2017, which are balanced primarily through a combination of internal cost controls and increased own-source revenues and which facilitate the transfer of all MBTA employees from the capital budget to the operating budget; (iii) establish five-year and 20-year capital plans that include a phased program for the complete restoration of the physical assets of the Authority including its vehicle fleet, a plan to address failings within the existing capital program and funding recommendations to meet the region’s transit needs; (iv) establish a rigorous performance management system and performance metrics and targets that address, among other things, maximizing of own-source revenues, increasing ridership, reducing absenteeism, addressing vacancies and attrition, improving employee morale, achieving procurement and contracting improvements and improving customer focus and orientation; (v) review any contract for the provision of services entered into by the Authority, including contracts entered into before the establishment of the Control Board, including, but not limited to, commuter rail and paratransit service contracts, and amend those contracts, as necessary, in accordance with their terms; and (vi) establish, increase, or decrease any fare, fee, rate, or charge for any service, license or activity within the scope of the MBTA. The Control Board may: (i) reorganize or consolidate MBTA departments, divisions or entities, in whole or in part, except the Metropolitan Boston Transit Parking Corporation; (ii) establish any new departments, divisions, or entities as it considers necessary; and (iii) transfer the duties, powers, functions and appropriations of a department, division or entity, except the duties, powers, functions and appropriations of the Metropolitan Boston Transit Parking Corporation, to another. Any reorganization or consolidation that affects MassDOT shall be approved by the Board.

The Control Board consists of five members appointed by the Governor. Three members shall be members of the Board, one shall have experience in transportation finance and one shall have experience in mass transit operation. The Control Board term has been extended by the optional two years at the time of creation and will

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continue until June 30, 2020. On May 25, 2017, the Governor accepted the FMCB's recommendation to extend its governance by two years and will continue until June 30, 2020, as allowed under the authorizing statute. By extending the term, the Authority will maintain momentum toward improving service and investment for riders. The Governor may not extend the FMCB term beyond June 30, 2020.

Following the dissolution of the Control Board, the MassDOT Board will resume sole governance of the Authority. The Board consists of 11-members. The Secretary of Transportation shall serve ex-officio as Chair and ten other members appointed by the Governor, one of whom shall be a rider, as defined in the Enabling Act; one of whom shall have experience in the field of public or private finance; one of whom shall have experience in transportation planning and policy; one of whom shall have experience in civil engineering; one of whom shall have experience in the field of public or private finance or transportation planning and policy; one of whom shall have municipal government experience in one of the fourteen cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the fifty-one cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the other served communities, as defined in the Enabling Act; one of whom shall have municipal government experience in a city or town not part of the area constituting the authority, as defined in the Enabling Act; and one of whom shall be a representative of a labor organization selected from a list of three nominees provided by the Massachusetts State Labor Council, AFL-CIO. Four of the members, other than the Chair, shall serve for terms that are coterminous with the Governor; provided, however, that at least three of the coterminous members shall have experience in transportation policy, public finance or civil engineering and at least one of the coterminous members shall be a rider. The six remaining members appointed by the Governor shall serve for terms of four years. No more than six of the eleven directors, except the ex-officio director, shall be members of the same political party.

Under the Enabling Act, the Advisory Board, consisting of a representative of 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. The Enabling Act does not provide for the Authority to be a debtor under the federal bankruptcy code.

The Control Board shall appear before and provide updates to the Board not less than once per month.

On May 4, 2011, the Authority approved the establishment of 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. The MBTPC Systemwide Senior Lien Parking Revenue Bonds, Series 2011 were issued 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 is authorized under the Systemwide Parking Revenue Bonds Resolution (the "General Resolution") 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 General 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 Governmental Accounting Standards Board (GASB), Statements, of 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 MassDOT, as the Authority is a component unit of MassDOT.

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(15) MBTA - Summary of Significant Accounting Policies

(a) *Basis of 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.

(b) *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.

(c) *Cash*

Cash and cash equivalents include cash on deposit and money market funds.

(d) *Investments*

Investments are generally presented at fair value, other than certain investments that are recorded at amortized cost. The MBTA uses an independent pricing source to determine the fair value of investments at quoted market prices. Changes in fair value are included in nonoperating interest income in the Statement of Revenues, Expenses and Changes in Net Position. The investments recorded at amortized cost are those outlined by GASB standards and include: Investments held by the Authority in nonparticipating interest-earning investment contracts and money market investments and participating interest-earning contracts that have a remaining maturity at the time of purchase of one year or less. The Authority also records its investments in state and local government series obligations at cost due to prohibition of transferability of the obligations. The Authority invests in the Massachusetts Municipal Depository Trust ("MMDT") which is an internal investment pool and is not SEC-registered. The investments held by MMDT are valued at amortized cost.

(e) *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.

(f) *Cash and Investment Accounts*

Certain cash and investments are segregated from operating cash and investments and labeled restricted 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 funds required to be maintained by trust agreements and bond resolutions.

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- 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.

Unrestricted cash and temporary investments are free of any internal or external restrictions. Other cash and temporary investments represent internally restricted funds held for capital maintenance, debt service and other expenses.

(g) Capital Assets

All capital assets exceeding \$5, with a useful life of greater than one year, 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. Ordinary maintenance and repairs are charged to expense as incurred.

Depreciation of capital assets is computed using the straight line method over the estimated useful life of the asset. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2017:

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

(h) Construction in Progress

During fiscal year 2017 \$856,044 was expended towards the completion of major construction projects and improvements in progress. The projects and improvements completed were 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 the debt issuance until the entire drawdown of the proceeds, 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 2017, the Authority had no material capitalized interest.

(i) Materials and Supplies

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

(j) Self-Insurance

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

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(k) Revenue Recognition

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

Under the Enabling Act, the Dedicated Revenues are impressed with a trust for the benefit of Authority bondholders. Furthermore, the Commonwealth covenants that while any Authority bonds or notes secured by the Dedicated Revenues are outstanding and remain unpaid, the Dedicated Revenues shall not be diverted, and, so long as the Dedicated Revenues are necessary for the purpose for which they have been pledged, the rate of the sales tax shall not be reduced below the amount of the Dedicated Sales Tax and annual aggregate Assessments of \$136,027.

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 and registry fee revenue. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of \$275,000. The Authority receives a dedicated revenue stream consisting of the Assessments and the Dedicated Sales Tax (collectively, the "Dedicated Revenues"). The Dedicated Sales Tax is equal to the greater of the base revenue amount (as defined in the Enabling Act) and the amount raised by a 1% statewide sales tax to be funded from existing sales tax receipts, subject to adjustment under certain circumstances set forth in the Enabling Act, plus \$160,000 annually. The Enabling Act was amended on October 31, 2014 to increase the Dedicated Sales Tax by \$160,000 annually, starting in Fiscal Year 2015. This was intended to replace the \$160,000 annual appropriation the MBTA received from Fiscal Years 2010 to 2014. The Transportation Finance Act provided funding for various transportation services and infrastructure needs within the various units of MassDOT. The Commonwealth appropriated the amount of \$171,417 from the CTF to the Authority for fiscal year 2017. 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.

(l) 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*.

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(m) *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, 2017 was \$19,665.

(n) *Lease Accounts*

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

(o) *Pension Plans*

The Authority sponsors three defined benefit pension plans, including the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan. The Authority measures and records a net pension liability on its statement of net position which represents its unfunded pension plans' obligation. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MBTA Retirement Fund, the MBTA Police Association Retirement Plan, and the MBTA Deferred Compensation Plan, and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) *Other Postemployment Benefits*

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*, 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 position when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time (note 27).

(q) *Environmental Remediation Costs*

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup, and site monitoring in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. An operating expense provision and corresponding liability measured at current value using the expected cash flow method and in a range of possible estimated amounts has been recognized for certain pollution remediation obligations. 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 (note 24).

(r) *Derivatives*

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

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(s) Available Unrestricted Resources

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

(t) Deferred Inflows and Outflows

The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2017, the Authority has reported deferred outflows related to its derivative instruments, its pension plans and the deferred losses on debt refunding transactions. The deferred inflows are related to the deferred gains on debt refunding transactions and its pension plans.

(u) Statement of Net Position

The statement of net position presents all of the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- **Net investment in capital assets** 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 position** result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net position** consists of net position which does not meet the definition of the two preceding categories.

(16) MBTA - Deposits and Investments

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

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

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 Investors Service (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.

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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. MMDT is an external investment pool that meets the criteria established by GASB 79 to report its investments at amortized cost. As such, the Authority reports its investment in MMDT at amortized cost which approximates the net asset value of \$1.00 (one dollar) per share. MMDT has a maturity of less than one year and is not rated.

Marketable securities, which consist primarily of U.S. government instruments, are carried at fair value based upon quoted market prices. 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 statement of net position at June 30, 2017:

| | 2017 |
|---|---------------------|
| Restricted: | |
| Bond construction accounts | \$ 95,248 |
| Bond reserve, stabilization, and other accounts | 665,129 |
| Lease deposits | 59,050 |
| Subtotal | 819,427 |
| Unrestricted cash and temporary investments | 338,403 |
| | <u>\$ 1,157,830</u> |

Included in bond reserve, stabilization, and other accounts at June 30, 2017 are investments in Commonwealth debt instruments with a fair value of \$46,231.

In March 2016, the Board of the Authority approved the establishment of a Lockbox Capital Maintenance Fund (the "Fund") that is to be funded by the increase in fare revenue generated by the fare changes effective July 1, 2016. Resources deposited in the Fund will be used for pay-as-you-go capital improvements to the system. Spending from the Fund for any purpose other than capital improvements requires at least a two-thirds vote of the FMCB. The Fund had a balance of over \$79,450 as of June 30, 2017.

(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, 2017 was \$199,204. The bank balance at June 30, 2017 was \$199,875. Of this amount, \$0 was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation limit of \$250 per institution at June 30, 2017.

(b) Interest Rate Risk – Investments

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

The Authority's fixed income investments at June 30, 2017 are presented below. All investments are presented by investment type and maturity.

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| Investment type | Amount | 2017 | | | |
|---------------------------------------|-------------------|----------------------------------|---------------|---------------|----------------|
| | | Investment maturities (in years) | | | |
| | | Less than 1 year | 1 - 3 | 4 - 8 | More than 8 |
| MMDT | \$ 266,308 | 266,308 | — | — | — |
| Money market funds | 414,482 | 414,482 | — | — | — |
| Guaranteed investment contracts | 1,331 | — | — | — | 1,331 |
| U.S. Treasury STRIPS | 59,050 | — | — | — | 59,050 |
| U.S. Treasury Securities | 3,382 | 3,382 | — | — | — |
| U.S. government-sponsored enterprises | 82,004 | 45,564 | 5,982 | — | 30,458 |
| State and Local Government | 62,926 | — | — | 12,180 | 50,746 |
| Municipal bonds | 46,231 | — | — | 15,838 | 30,393 |
| International bank notes | 22,912 | — | 22,912 | — | — |
| Investments | <u>\$ 958,626</u> | <u>729,736</u> | <u>28,894</u> | <u>28,018</u> | <u>171,978</u> |

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of \$1,331 at June 30, 2017. These investments are not rated.

The Authority had \$171,589 in U.S. Treasury STRIPS, U.S. Treasury securities, State and local government series and municipal bonds as of June 30, 2017. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government. The municipal bonds have an implied credit rating of Aaa/AA+.

The Authority has \$82,004 invested in government-sponsored enterprises as of June 30, 2017. These investments have an implied credit rating of AAAa/AA+ or they have been collateralized to AAA.

The Authority has \$266,308 invested in MMDT as of June 30, 2017, 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 \$437,394 invested in money market funds, international bonds, commercial paper, and certificates of deposit as of June 30, 2017. These investments are not rated.

(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 | 2017 | Percentage of portfolio |
|---------------------------------------|------------------------------------|----------|----------------------------|
| Federal National Mortgage Association | Aaa/AA+ | \$67,493 | 7.4% |

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(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, 2017.

(f) Fair Value Hierarchy and Measurements of Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that are required to be made at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure the fair value.

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability or similar assets or liabilities either directly or indirectly through corroboration with the observable market data.
- Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Institutional Money Market Funds – Valued at fair value, which is represented by the quoted price for the fund – generally \$1.00 (one dollar) per share. Money market funds are generally classified as Level 1.

U.S. Treasury Strips - Treasury strips are typically valued based on pricing sources with reasonable level of price transparency or derived from a treasury curve. Treasury strips are generally categorized as Level 2 of the fair value hierarchy.

U.S. Treasury Securities - Securities issued by the U.S. Government, its agencies, authorities and instrumentalities are valued using quoted prices, documented trade history in the security and a pricing model maximizing the use of observable inputs determined by investment managers.

- U.S. Treasury Securities consist principally of U.S. Treasury bills, notes and bonds are generally classified as Level 1 of the fair value hierarchy
- U.S. Government sponsored enterprises securities consist principally of U.S. Government agency obligations including agency-issued debt, agency mortgage pass-through securities, and agency collateralized mortgage obligation (CMOs) are generally categorized in Level 1 of the fair value hierarchy.

Municipal bonds – State and municipal bonds are generally valued based on the independent prices obtained from third party valuation services. Where prices of recently executed market transactions of similar securities and of comparable size are easily observed, those are taken into consideration for arriving at the fair value. When independent prices are available for state and municipal bonds, these are categorized as Level 2 of the fair value hierarchy.

Commercial paper and Nonnegotiable Certificates of Deposit – Commercial paper issued by corporate or government entities and nonnegotiable certificates of deposit with financial institutions are short term investments that are generally classified as Level 1.

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Derivative Instruments – The Authority’s interest rate swaps are classified as Level 2 as valued using a market approach that considers benchmark interest rates.

The Authority categorizes its recurring fair value measurements within the fair value hierarchy as of June 30, 2017 as follows:

| | Fair Value | Level 1 | Level 2 |
|---|-------------------|----------------|----------------|
| Investments by Fair Value Level | | | |
| Money Market Funds | \$ 414,482 | 414,482 | — |
| U.S. Treasury STRIPS | 59,050 | — | 59,050 |
| U.S. Treasury securities | 3,382 | — | 3,382 |
| U.S. Government sponsored enterprises | 82,004 | — | 82,004 |
| Municipal bonds | 46,231 | — | 46,231 |
| International bank note | 22,912 | — | 22,912 |
| | <u>628,061</u> | <u>414,482</u> | <u>213,579</u> |
| Investments measured at amortized cost | | | |
| MMDT | 266,308 | | |
| State & Local Government Series | 62,926 | | |
| Guaranteed investment contracts | 1,331 | | |
| Total Investments | <u>\$ 958,626</u> | <u>414,482</u> | <u>213,579</u> |
| Interest rate swaps | \$ 3,967 | — | 3,967 |

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Authority has no securities classified in Level 3.

Derivative instruments (i.e., interest rate swaps) classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates

(g) Forward Delivery Agreements

The Authority has entered into several forward delivery agreements (“FDAs”) with various counterparties related to its debt service and debt service reserve funds (collectively, “the Funds”). These FDAs provide for the counterparties to pay the Authority a fixed rate of return on the amounts on deposit in the Funds in exchange for the Authority’s obligation to purchase securities at specified dates in the future. Under the FDAs, the Authority receives fixed return rates ranging from 4.000% to 6.281% and commits to purchase the securities at their market value on the specified future dates ranging through June 30, 2017. The credit ratings of the counterparties to the FDAs as of June 30, 2017, as determined by Standard and Poor’s, were from “A” – to “AA”.

The investments purchased by the Authority and held in the Funds as of June 30, 2017 have been recorded at fair value. The FDAs qualify as derivatives under GASB Statement No. 53 and have been valued at fair value as of the date of the Statement of Net Position. At June 30, 2017, the fair value of

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the FDAs represents an asset to the Authority. The fair value of the FDAs is not material to the Authority's financial statements.

(17) MBTA - 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 Capital Investment Program ("CIP"), and are payable through 2041. 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. The total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2017 was \$992,992 and \$164,023, respectively a total of \$1,157,015. Total annual debt service (principal and interest) paid during fiscal year 2017 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was \$413,965, representing 34% of pledged revenues.

The MBTPC pledge of dedicated parking receipts of the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011 and total annual debt service commenced on July 1, 2011. The debt service requirement in fiscal year 2017 was \$15,373, which represents 34% of \$45,046 revenue in the fiscal year 2017.

Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, Prior Obligation Bonds, and MBTPC Bonds outstanding as of June 30, 2017 are \$7,728,997.

(18) MBTA - Net Investment in Direct Financing Lease

The Authority 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 effective on June 6, 2012. The lease is for a subsurface building area with five levels of parking with a capacity for 1,275 automobiles (unaudited). 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 it utilizing the effective interest method 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.

As of June 30, 2017 and through date of the audit opinion date, the lessee has not elected to prepay the outstanding balance of the annual base rent.

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

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| | 2017 |
|--|------------------|
| Total minimum lease payments receivable | \$ 68,981 |
| Less unearned income | (43,253) |
| Net investment in direct financing lease | <u>\$ 25,728</u> |

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(19) MBTA - Lease Obligations

(a) Capital Lease Arrangements

Transportation property and facilities under capital leases are summarized in the capital assets note 20.

The following is a schedule by year of future minimum lease payments under the Authority's capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2017:

| | |
|---|-------------------------|
| Fiscal year(s): | |
| 2018 | \$ 3,496 |
| 2019 | 595 |
| 2020 | — |
| 2021 | — |
| 2022 | — |
| 2023-2025 | — |
| 2026-2030 | 59,048 |
| | <u>63,139</u> |
| Less amount representing interest | (41) |
| Present value of net minimum lease payments | <u>63,098</u> |
| Less current principal maturities | (3,458) |
| Obligations under capital leases | <u><u>\$ 59,640</u></u> |

The liability for these leases changed in 2017 as follows:

| | |
|------------------------------|-------------------------|
| Outstanding at June 30, 2016 | 71,982 |
| Net change in obligation | (8,884) |
| Outstanding at June 30, 2017 | <u><u>\$ 63,098</u></u> |

(b) Operating Leases

As of June 30, 2017 the Authority, as lessor, did not have any outstanding operating lease obligations.

In June 2016, the Authority, as lessor, entered into a 99-year lease with a third party for space at the South Station for an annual lease payment of \$1,000 plus contractual increases over the life of the lease.

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(20) MBTA - Capital Assets

A summary rollforward of capital assets at June 30, 2017 is as follows:

| | Beginning balance June 30, 2016 | Increases | Decreases | Ending balance June 30, 2017 |
|---|--|------------------|------------------|---|
| Capital assets not being depreciated: | | | | |
| Land | \$ 384,946 | — | 25,000 | 359,946 |
| Construction work in progress | 1,232,231 | 856,044 | 275,988 | 1,812,287 |
| Total capital assets not being depreciated | 1,617,177 | 856,044 | 300,988 | 2,172,233 |
| Capital assets being depreciated: | | | | |
| Ways and structures | 10,857,758 | 159,217 | 114 | 11,016,861 |
| Buildings and equipment | 3,022,800 | 41,671 | 185,761 | 2,878,710 |
| Buildings and equipment included in capital lease | 408,587 | — | — | 408,587 |
| Total capital assets being depreciated | 14,289,145 | 200,888 | 185,875 | 14,304,158 |
| Less accumulated depreciation for: | | | | |
| Ways and structures | 4,539,245 | 257,884 | — | 4,797,129 |
| Buildings and equipment | 1,943,586 | 150,782 | 185,761 | 1,908,607 |
| Buildings and equipment included in capital lease | 283,941 | 4,528 | — | 288,469 |
| Total | 6,766,772 | 413,194 | 185,761 | 6,994,205 |
| Other capital assets, net | 7,522,373 | (212,306) | 114 | 7,309,953 |
| Capital assets, net | <u>\$ 9,139,550</u> | <u>643,738</u> | <u>301,102</u> | <u>9,482,186</u> |

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(21) MBTA - Long-Term Debt

(a) Bonds Payable

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

Debt issued by the Authority prior to and outstanding as of July 1, 2000 (the "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, 2017, Prior Obligations in the amount of \$196,835 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.

On July 19, 2016, the MBTA issued Senior Sales Tax Series 2016A capital appreciation bonds in the amount of \$217,694. Principal is payable on July 1, 2021 through July 1, 2033. Capital interest bonds do not make interest payments. Proceeds were used to refund Senior Sales Tax Series 2007A-2.

The Senior Sales Tax Series 2017A was issued for \$232,130 on March 7, 2017. Principal and interest payments commence on July 1, 2017 and continue through July 1, 2026. Semiannual interest payments are made on January 1 and July 1. Proceeds were used to refund Senior Sales Tax Series 2008A-1 and Series 2008A-2.

On July 19, 2016, the MBTA issued Assessment Bonds 2016 series A in the amount of \$119,260. Principal is payable on July 1, 2024 through July 1, 2028. Semiannual interest payments are made on July 1 and January 1. Proceeds were used to refund the Series 2008A Assessment bonds.

GTS bonds, all issued prior to July 1, 2000, are payable in annual installments on March 1 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 properties.

The MBTA issued commercial paper notes (CP) in the amount of \$100,000 during fiscal year 2017. The new notes were split between CP Sales Tax Series A and Series B, with each program increasing notes outstanding by \$50,000.

As of June 30, 2017, \$167,300 of commercial paper was outstanding. As June 30, 2017, the total commercial paper notes included CP Sales Tax Series A in the amount of \$79,775 and CP Sales Tax Series B in the amount of \$87,525. The weighted average annual interest rate for CP Sales Tax Series A and Series B were 0.82% and 0.70%, respectively.

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The Authority's outstanding bonds payable at June 30, 2017 are as follows:

| | Final fiscal year of maturity | Interest rates | Outstanding principal as of June 30, 2017 | Due in fiscal year 2018 |
|---|--|---------------------------|--|--|
| General transportation system bonds: | | | | |
| 1991 Series A Bonds dated November 1, 1991 | 2021 | 7.00% | \$ 36,165 | 8,145 |
| 1994 Series A Refunding Bonds dated June 1, 1994 | 2019 | 7.00% | 1,960 | 975 |
| 1998 Series C Bonds dated November 1, 1998 | 2022 | 5.50% | 4,450 | 535 |
| 2000 Series Variable Rate Demand Obligation dated March 2000* | 2030 | Variable | 154,260 | 7,660 |
| | | | <u>196,835</u> | <u>17,315</u> |
| Revenue Bonds: | | | | |
| 2003 Series A Senior Sales Tax dated January 29, 2003 | 2021 | 5.25% | 95,185 | 16,020 |
| 2003 Series C Senior Sales Tax dated February 3, 2004* * | 2023 | Variable | 129,665 | 17,035 |
| 2004 Series B Senior Sales Tax dated March 9, 2004 | 2030 | 4.00%-5.25% | 301,445 | 47,475 |
| 2004 Series C Senior Sales Tax dated December 22, 2004 | 2024 | 4.00%-5.50% | 162,415 | 47,980 |
| 2005 Series A Senior Sales Tax dated March 24, 2005 | 2031 | 5.00% | 735,450 | — |
| 2005 Series B Senior Sales Tax dated December 21, 2005 | 2029 | 4.10%-5.50% | 91,895 | 65 |
| 2006 Series A Senior Sales Tax dated March 2, 2006 | 2034 | 5.25% | 238,850 | — |
| 2006 Series B Senior Sales Tax dated December 5, 2006 | 2023 | 5.25% | 147,960 | 11,970 |
| 2006 Series C Senior Sales Tax dated June 28, 2006 | 2027 | 5.50% | 8,410 | — |
| 2006 Series A Assessment dated September 13, 2006*** | 2035 | Variable | 161,340 | — |

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| | Final fiscal year of maturity | Interest rates | Outstanding principal as of June 30, 2017 | Due in fiscal year 2018 |
|---|--|---------------------------|--|--|
| Revenue Bonds continued: | | | | |
| 2007 Series A-1 Senior Sales Tax dated May 24, 2007 | 2035 | 5.25% | 205,675 | — |
| 2008 Series B Senior Sales Tax dated April 20, 2008 | 2034 | 3.75%-5.25% | 35,190 | 1,380 |
| 2008 Series A Assessment dated November 13, 2008 | 2035 | 4.37%-5.25% | 16,330 | — |
| 2009 Series B Senior Sales Tax dated February 26, 2009 | 2019 | 3.00%-5.00% | 39,365 | 19,230 |
| 2009 Series D Senior Sales Tax dated October 29, 2009 | 2020 | 3.00%-5.00% | 14,445 | — |
| 2010 Series A Senior Sales Tax dated February 17, 2010**** | 2031 | Variable | 80,255 | 80,255 |
| 2010 Series B Senior Sales Tax dated April 6, 2010 | 2036 | 4.00%-5.00% | 71,055 | 1,460 |
| 2010 Series C Senior Sales Tax dated December 8, 2010 | 2021 | 5.00% | 63,450 | — |
| 2012 Series A Assessment dated June 21, 2012 | 2042 | 4.00%-5.00% | 402,820 | 11,695 |
| 2014 Series A Senior Sales Tax dated April 23, 2014 | 2045 | 3.00%-5.00% | 195,000 | 5,150 |
| 2015 Series A Senior Sales Tax dated October 14, 2015 | 2046 | 2.00%-5.00% | 177,855 | — |
| 2015 Series B Senior Sales Tax dated October 14, 2015 | 2036 | 4.00%-5.00% | 180,550 | — |
| 2016 Series A Senior Sales Tax dated July 19, 2016 | 2035 | Zero Coupon | 222,978 | — |
| 2016 Series A Assessment dated July 19, 2016 | 2029 | 2.00%-5.00% | 119,260 | — |
| 2017 Series A Senior Sales Tax dated March 7, 2017 ***** | 2027 | Variable | 232,130 | 20,330 |
| | | | 4,128,973 | 280,045 |
| Metropolitan Boston Transit Parking (MBTPC) Bonds: | | | | |
| 2011 Series A MBTPC dated June 22, 2011 | 2042 | 4.00%-5.25% | 304,585 | — |
| | | | 304,585 | — |

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| | Final fiscal year of maturity | Interest rates | Outstanding principal as of June 30, 2017 | Due in fiscal year 2018 |
|--|--|---------------------------|--|--|
| Revenue Build America (BABs) Bonds | | | | |
| 2009 Series C Senior Sales Tax dated October 29, 2009 | 2040 | 4.75%-5.569% | \$ 218,300 | — |
| 2010 Series D Senior Sales Tax dated December 8, 2010 | 2041 | 4.546%-5.869% | 210,000 | — |
| | | | <u>428,300</u> | <u>—</u> |
| Commercial Paper | 2018 | 0.12%-0.16% | 167,300 | 167,300 |
| Total bond and notes payable | | | 5,225,993 | <u>\$ 464,660</u> |
| Less current maturities | | | (464,660) | |
| Total long-term | | | 4,761,333 | |
| Plus unamortized bond premiums/discounts, net | | | 337,857 | |
| Total long-term bonds payable | | | <u>\$ 5,099,190</u> | |

* The bonds were issued as variable rate demand obligations (“VRDOs”) and bear interest at a variable rate. As of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A1 VRDO (\$94,000) and 2000 Series A2 VRDO (\$94,000). The interest rates as of June 30, 2017 for the 2000 Series A1 are 0.87% and 0.90% for the 2000 Series A2 VRDO.

** The 2020 maturity in the amount of \$25,005 is variable rate 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.

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 9 basis points. As of June 30, 2017 the variable interest is based on the SIFMA rate, plus 20 basis points. The Authority classifies these bonds short-term, as it does not have a standby purchase agreement and/or a letter of credit providing liquidity support for the remarketing window. The Authority does not foresee the bond being called.

***** This bond bears interest at a variable rate of 70% of (3) month LIBOR plus 48 basis points. The interest rate as of June 30, 2017 was 1.284%. Since this bond is a direct purchase, there is no standby purchase agreement and/or letter of credit providing liquidity support.

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The principal and interest maturities of the bonds and notes payable as of June 30, 2017 are as follows:

| Fiscal Year(s): | <u>Principal</u> | <u>Interest</u> |
|-----------------|---------------------|------------------|
| 2018 | \$ 464,660 | 231,255 |
| 2019 | 258,290 | 222,145 |
| 2020 | 266,155 | 209,644 |
| 2021 | 278,195 | 195,672 |
| 2022 | 291,926 | 181,796 |
| 2023-2027 | 1,259,230 | 724,541 |
| 2028-2032 | 1,161,494 | 425,707 |
| 2033-2037 | 640,223 | 220,644 |
| 2038-2042 | 511,840 | 83,641 |
| 2043-2047 | 93,980 | 7,959 |
| Total | <u>\$ 5,225,993</u> | <u>2,503,004</u> |

A summary roll forward of bonds payable for the year ended June 30, 2017 is as follows:

| | 2017 | | | | | |
|------------------|-------------------------|-------------------------|-------------------------------|---|--|-------------------------|
| | <u>Balance 2016</u> | <u>Bonds issued</u> | <u>Principal payments</u> | <u>Refunded/ redeemed principal</u> | <u>Capital appreciation bond accretion</u> | <u>Balance 2017</u> |
| GTS | \$ 206,465 | — | (9,630) | — | — | 196,835 |
| REVENUE | 4,315,717 | 569,084 | (187,075) | (574,887) | 6,134 | 4,128,973 |
| BABs | 428,300 | — | — | — | — | 428,300 |
| Commercial Paper | 67,300 | 100,000 | — | — | — | 167,300 |
| MBTPC | 304,585 | — | — | — | — | 304,585 |
| | <u>\$ 5,322,367</u> | <u>669,084</u> | <u>(196,705)</u> | <u>(574,887)</u> | <u>6,134</u> | <u>5,225,993</u> |

The following funds are included in restricted assets at June 30, 2017 in connection with the Authority's revenue bond trust agreements and bond resolutions:

| | 2017 | | |
|----------------------|-----------------------------|------------------------|------------------------|
| | <u>Assessment bonds</u> | <u>Sales tax bonds</u> | <u>MBTPC bonds</u> |
| Debt service | \$ 57,166 | 317,740 | 9,177 |
| Debt service reserve | 30,868 | 205,319 | 12,998 |
| | <u>\$ 88,034</u> | <u>523,059</u> | <u>22,175</u> |

The minimum required balance in the debt service reserve funds at June 30, 2017 was \$185,650 for the Sales Tax Series Bonds and \$27,850 for the Assessment Bonds. The minimum required balances in the debt service reserve funds at June 30, 2017 for MBTPC Bonds were \$12,294. The MBTA has complied with its financial bond covenants by maintaining sufficient cash and investments in the debt service reserve funds.

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In order to take advantage of low interest rates and easily accessible short-term capital markets, the Authority issues commercial paper to raise funds in order to meet its capital needs. The Authority has a \$250,000 commercial paper program in total of which \$150,000 is administered by JP Morgan and \$100,000 by Barclays Capital Inc. The Authority's commercial paper program (or BANs) has been assigned short-term ratings of P-1 and A-1+ by Moody's and S&P, respectively. The Authority had \$167,300 in outstanding commercial paper as of June 30, 2017.

(b) Debt Refundings

The Senior Sales Tax Series 2017A bonds were issued in the amount of \$232,130 on March 7, 2017. The first principal and interest payments are both made on July 1, 2017. The final maturity is July 1, 2026. Proceeds were used to refund Senior Sales tax Series 2008A-1 and Series 2008A-2 variable rate demand obligations of \$232,130.

On July 19, 2016, the MBTA issued Senior Sales Tax Series 2016A capital appreciation bonds in the amount of \$217,694. Amortization begins on July 1, 2021 and final maturity is July 1, 2033. These bonds were used to refund the Senior Sales Tax Series 2007A-2 Bonds of \$205,217. The remaining proceeds, along with an additional \$7,700 from accounts of the Senior Debt Service Reserve Fund for the Refunded Bonds under the Sales Tax Bond Trust Agreement, were applied towards the Debt Service Reserve Fund (\$10,651), Underwriters' Compensation (\$1,051), and to pay the costs of issuance (\$659). The cash flow from the Senior Sales Tax Series 2016A (refunding bonds) was \$288,195 and the cash flow from the refunded bonds was \$367,070 resulting in a cash flow savings of \$78,875. The present value savings on the refunding was \$57,383. The accounting loss on the refunding of \$7,817 was deferred outflow and will be amortized over the future life of the bonds.

The Assessment Series 2016A was also issued July 19, 2016 in the amount of \$119,260. The first interest payment date is January 1, 2017 and the first principal payment occurs on July 1, 2024. Final maturity is July 1, 2028. The proceeds from the sale of the bonds, including net original issue premium in the amount of \$29,632, along with \$2,000 of available funds under the Assessment Bond Trust Agreement, were used to refund Assessment Series 2008A (\$137,540) and pay issuance costs (\$878). The cash flow from the Assessment Series 2016A (refunding bonds) was \$172,181 and the cash flow from the refunded bonds was \$256,340 resulting in a cash flow savings of \$84,158. The present value savings on the refunding was \$53,485. The accounting loss on the refunding of \$11,545 was recorded as deferred outflow and will be amortized over the future life of the bonds.

In 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, 2017, \$765,062 of all bonds are considered defeased in-substance and are still outstanding.

(c) Derivative Instruments

The Authority has entered into interest rate 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

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payments are reported as a borrowing and included in the long-term liability unearned revenue on the statements of net position and the Swaps are reported based on the “at the market” rates at the time of execution.

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

| Derivative item | Type | Objective | Effective date | Notional amount | Term date | Fixed payable swap rate | Variable receivable swap rate | Fair value at June 30 2017 |
|-------------------------|--------------------------------|--|----------------|-----------------|-----------|-------------------------|-------------------------------|----------------------------|
| Cash flow hedges: | | | | | | | | |
| 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 | \$ (931) |
| 8 | Pay – fixed interest rate swap | Hedge changes in cash flows on the Senior Sales Tax Series 2010 A | December 2001 | 79,645 | 2030 | 2.00 | SIFMA | (1,721) |
| | | | | | | | | (2,652) |
| Investment derivatives: | | | | | | | | |
| 2 | Pay – fixed interest rate swap | (a) Originally to hedge changes in cash flows on variable rate debt | December 2001 | 75,480 | 2022 | 2.00 | SIFMA | (1,315) |
| | | | | | | | | (1,315) |
| | | | | | | | | \$ (3,967) |

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

The aggregate fair value balance of the derivative instruments at June 30, 2017 is \$(3,967) and is reflected on the Authority’s statements of net position as a liability for derivative instruments. Of this liability, \$(2,652) at June 30, 2017, was offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2017, the Authority determined that the investment derivative instrument does 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 position.

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 the requirements of Governmental Accounting Standards Board (“GASB”), Statements. Expected cash flows are discounted using the U.S. Dollar Swap curve provided by independent third parties such as Bloomberg.

During 2017 the Authority amended several swaps by making net payments to the counterparty of Derivative 2 and Derivative 8 totaling \$32,993. In both swaps, the Authority pays a fixed interest rate

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in exchange for a payment based on a floating rate. Derivative 2 and 8 paid interest rates of 5.20% and 5.61%, respectively prior to amendment. Upon amendment, the fixed rate MBTA pays on both swaps was reduced to 2.00%. The amortization and floating rates of the swaps were not changed. The payment is presented as non-operating expense in the statement of revenues, expenses and changes in net position.

Swap Payments and Associated Debt

As of June 30, 2017, debt service requirements on the floating rate maturity of the 2003 Series C Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming the CPI rate of 2.00% plus 79 basis points through the term of the swap, are as follows. As rates vary, variable rate 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 |
|--|---|--|------------------------------------|---------------|
| 2018 | \$ — | 500 | 335 | 835 |
| 2019 | — | 500 | 335 | 835 |
| 2020 | — | 500 | 335 | 835 |
| 2021 | 25,005 | 500 | 335 | 25,840 |
| | <u>\$ 25,005</u> | <u>2,000</u> | <u>1,340</u> | <u>28,345</u> |

As of June 30, 2017, debt service requirements on the 2010 Series A Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 2.00% and assuming SIFMA index rate of 1.00% and the variable rate on the 2010 Series A Senior Sales Tax Bonds is 0.41% plus 20 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2010 bonds and net swap payments 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 |
|--|---|--|------------------------------------|---------------|
| 2018 | \$ — | 796 | 796 | 1,592 |
| 2019 | — | 796 | 796 | 1,592 |
| 2020 | — | 796 | 796 | 1,592 |
| 2021 | — | 796 | 796 | 1,592 |
| 2022 | — | 796 | 796 | 1,592 |
| 2023–2027 | 41,565 | 3,389 | 3,389 | 48,343 |
| 2028–2032 | 38,080 | 776 | 776 | 39,632 |
| | <u>\$ 79,645</u> | <u>8,145</u> | <u>8,145</u> | <u>95,935</u> |

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Risk Disclosure

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

The following represents the credit ratings of the counterparties as of June 30, 2017:

| Derivative swap item | Counterparty credit rating Moody's/S&P |
|-----------------------------|---|
| Derivative 2 | Aa3/A- |
| Derivative 3 | A3/BBB+ |
| Derivative 8 | Aa3/A- |

Basis Risk – The Authority is exposed to basis risk when the floating rate the Authority receives under the swaps is different from the variable rate on the associated bonds. Should this occur, the expected 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.

(d) Demand Bonds

The 2000 Series were issued as VRDOs. MBTA’s ability to purchase these bonds is secured through Standby Bond Purchase Agreements (“SBPAs”) with nationally recognized financial institutions that expire on September 28, 2018. Under generally accepted accounting principles, VRDOs are generally classified as current liabilities if, among other things, the supporting security agreements expire in less than one year of the date of the financial statements.

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(22) MBTA - Commitments and Contingencies

(a) Capital Investment Program (“CIP”)

The Authority’s continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2017, 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, 2017 | Unexpended costs |
|-------------------------|-----------------------------------|---|-----------------------------|
| Federal grants | \$ 8,351,897 | 7,871,629 | 480,268 |
| State and local sources | 4,258,628 | 3,260,972 | 997,656 |
| Authority bonds | 6,601,091 | 5,942,075 | 659,016 |
| Total | <u>\$ 19,211,616</u> | <u>17,074,676</u> | <u>2,136,940</u> |

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and 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 \$973,201 at June 30, 2017.

(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.

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(23) MBTA - Risk Management

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

Buildings are fully insured to the extent that losses exceed the self-insured retention of \$2,500 for buildings valued over \$25,000 and the self-insured retention of \$1,000 for buildings valued under \$25,000 effective March 1, 2014. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss, and health insurance. 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 until December 31, 2015.

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 2017, expenditures for claims and judgments, excluding workers' compensation, and health and life, were \$6,081. Expenses for claims related to workers' compensation were \$16,638, and expenditures for the self-insured health plans were \$57,727 for the year ended June 30, 2017.

The requirements of Governmental Accounting Standards Board ("GASB"), Statements require 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, 2017 and 2016. Changes in the self insurance liabilities in fiscal years 2017 and 2016 were as follows:

| | 2017 | 2016 |
|------------------------------|-------------------|-------------------|
| Liability, beginning of year | \$ 112,454 | \$ 119,498 |
| Provisions for claims | 112,402 | 79,019 |
| Payments | (80,446) | (86,063) |
| Liability, end of year | <u>\$ 144,410</u> | <u>\$ 112,454</u> |

(24) MBTA - Environmental Remediation Obligations

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

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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.

During the year ended June 30, 2017, the Authority made payments for remediation costs of \$1,487. The Authority performed cost completion estimates totaling (\$28,422) in fiscal year 2017, with the change in the liability in each fiscal year recorded in the other operating expenses in the statement of revenue, expenses, and changes in net position. The accrued total liability as of June 30, 2017 included in the long-term accrued liabilities in the statement of net position was \$5,802.

(25) MBTA - Commuter Railroad

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

On February 5, 2014 the Authority and Keolis Commuter Services (“Keolis”) entered into an operating agreement effective July 1, 2014 to provide commuter railroad service over the Authority’s rail lines. The contract is for a period of eight (8) years, through June 30, 2022. The Authority has a fixed base contract amount of \$2,686,342 over the eight-year term of the agreement. The contract also has a provision for an extension period, comprised of the option to extend for no less than two but no greater than four years extension. The payments for all commuter rail costs incurred by Keolis totaled \$389,106 in fiscal year 2017. The fixed base contract over the term of the contract and four-year extension period termination date of June 30, 2026 is \$4,258,131.

(26) MBTA - Retirement Plans

The Authority provides retirement benefits to employees through six defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Fund, the MBTA Police Association Retirement Plan, the MBTA Deferred Compensation Plan, the MBTA Executive Deferred Compensation Plan, the MBTA Executive Deferred Compensation Annuity Plan, the MBTA Excess Benefit Annuity Plan and the MBTA Deferred Compensation Savings Plan.

The MBTA Retirement Fund, 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. The MBTA Retirement Fund and the MBTA Police Association Retirement Plan, a single employer plan, both provide retirement, disability, and death benefits to their members. The MBTA Retirement Fund 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 Retirement Plan also issues separately audited financial statements that may be obtained by writing to the Board of Directors, MBTA Police Association Retirement Plan, P.O. Box 35, Grafton, Massachusetts 01519.

The MBTA Deferred Compensation Plan, a single-employer plan, provides supplemental pension benefits for certain Local 453, Steelworkers, Transit Employee Administrators (collective bargaining units) and executive employees after retirement. Employees may participate in both the MBTA Retirement Fund and the MBTA

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Deferred Compensation Plan. The MBTA Deferred Compensation Plan is unfunded and does not issue separately audited financial statements.

The remaining defined benefit plans are single employer plans that are unfunded and do not issue separately audited financial statements. These plans collectively have less than ten active and retired participants. A copy of the actuarial report for any of these retirement plans can be obtained by writing to the Office of the Chief Financial Officer, MBTA, Ten Park Plaza, Boston, Massachusetts 02116.

Employees covered by benefit terms. At June 30, 2017, the following employees were covered by the benefit terms:

| | MBTA Retirement Fund | MBTA Police Association Retirement Fund | MBTA Deferred Compensation Plan |
|--|-------------------------------------|--|--|
| Retired employees or beneficiaries receiving benefits | 6,684 | 97 | 938 |
| Active employees | 5,786 | 268 | 681 |
| Inactive employees entitled to, but not yet receiving benefits | 233 | 14 | — |
| Totals: | <u>12,703</u> | <u>379</u> | <u>1,619</u> |

(a) Funding Policy and Annual Pension Cost

The pension agreements between the Authority and Local 589, dated July 1, 2014 for the MBTA Retirement Fund and the MBTA Police Association dated June 30, 2003, designates that the board of trustees of each retirement plan establish the contribution requirements; however, the Authority may amend these requirements.

The historical MBTA Retirement Fund contribution rates are as follows:

| Valuation Date | Effective Date | Contribution Percentage | | |
|---------------------------|---------------------------|--------------------------------|-----------------|--------------|
| | | Employer | Employee | Total |
| 12/31/2014 | 7/1/2015 | 16.0286% | 5.7914% | 21.8200% |
| 12/31/2015 | 7/1/2016 | 18.0386% | 6.4614% | 24.5000% |
| 12/31/2016 | 7/1/2017 | 20.0111% | 7.1189% | 27.1300% |

Actual contributions made in were in accordance with these contribution requirements.

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The historical MBTA Police Association Retirement Plan contribution rates are as follows:

| Valuation Date | Effective Date | Contribution Percentage | | |
|----------------|----------------|-------------------------|----------|----------|
| | | Employer | Employee | Total |
| 12/31/2014 | 7/1/2015 | 13.8900% | 8.5100% | 22.4000% |
| 12/31/2015 | 7/1/2016 | 14.6200% | 8.3600% | 22.9800% |
| 12/31/2016 | 7/1/2017 | 14.1800% | 8.7900% | 22.9700% |

Actual contributions of 12.67% (employer) and 7.28% (employee) for December 31, 2014 were less than the actuarial contribution requirements above. Actual combinations for previous years were equal to the actuarial requirement above.

Contributions are not required to be made for the MBTA Deferred Compensation Plan. Rather benefit payments are made on a “pay as you go” basis.

Net Pension Liability

The Authority’s June 30, 2017 net pension liability for each retirement plan was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that same date.

Actuarial assumptions. The total pension liability in the December 31, 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| Pension | MBTA Retirement Fund | MBTA Police Association Plan | MBTA Deferred Compensation Plan |
|---------------------------|----------------------|------------------------------|---------------------------------|
| Actuarial assumptions: | | | |
| Inflation rate | 3.00% | 3.00% | 3.00% |
| Salary increases | 4.00 | 3.50 | 4.00 |
| Investment rate of return | 8.00* | 7.00* | 3.71* |

*Net of pension plan investment expense, including inflation

For the December 31, 2016 actuarial valuation, mortality rates are used for all active employees and were based on the RP-2000 Blue Collar Mortality Tables with generational projection using the Scale BB. The RP-2000 Blue Collar Tables for Health Males projected by Scale BB generationally are the basis for all retirees and deferred vested participants. The RP-2000 Blue Collar Tables for Health Females projected by Scale BB generationally are the basis for all beneficiary participants. The RP-2000 Tables for Disabled Lives projected by Scale BB generationally are used for the period after disability retirement. Among pre-retirement deaths, 7.5% are assumed to qualify for accidental death benefits.

The actuarial assumptions used in the December 31, 2016 valuation for the MBTA Retirement Fund were based on the results of an actuarial experience study for the four-year period ending December 31, 2015.

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There was no separate experience actuarial study performed for the MBTA Police Association Plan or the MBTA Deferred Compensation Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target allocation as of December 31, 2016 are summarized in the following tables:

MBTA Retirement Fund

| 2016 | |
|----------------------|--|
| | 2016 |
| | Long Term Expected Real Rate of Return |
| Target Allocation | |
| Equity | 43% |
| Fixed Income | 25% |
| Alternatives | 30% |
| Cash | 2% |
| Total | 100% |

MBTA Police Association

| 2016 | |
|----------------------|--|
| | 2016 |
| | Long Term Expected Real Rate of Return |
| Target Allocation | |
| Equity | 66% |
| Fixed Income | 30% |
| Alternatives | 4% |
| Total | 100% |

Discount rate. The discount rate used to measure the total pension liability as of December 31, 2016 was 8.0% for the MBTA Retirement Fund while the discount rate for the MBTA Police Association Retirement Plan was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current MBTA Retirement Fund and MBTA Police Association Retirement Plan members. The discount rate used to measure the total pension liability for the MBTA Deferred Compensation Plan was 3.71%. Since this plan is unfunded, the assumed discount rate has been determined in accordance with the method prescribed by GASB No. 67 and is based on the S&P Municipal Bond 20 Year Grade Rate Index, whose yield to maturity was 3.71% as of December 31, 2016.

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Change in the Net Pension Liability – MBTA Retirement Fund

| | Increase (Decrease) | | |
|--|--|--|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a)-(b) |
| Balances at December 31, 2015 | \$ 2,512,085 | 1,497,848 | 1,014,237 |
| Changes for the year: | | | |
| Service cost | 31,897 | — | 31,897 |
| Interest | 195,768 | — | 195,768 |
| Difference between expected and actual experience | 90,068 | — | 90,068 |
| Contributions - employer | — | 77,239 | (77,239) |
| Contributions - employee | — | 27,792 | (27,792) |
| Net investment Income | — | 86,782 | (86,782) |
| Benefit payments, including refund of employee contributions | (197,562) | (197,562) | — |
| Administrative expense | — | (6,493) | 6,493 |
| Net changes | 120,171 | (12,242) | 132,413 |
| Balances at December 31, 2016 | <u>\$ 2,632,256</u> | <u>\$ 1,485,606</u> | <u>\$ 1,146,650</u> |

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Change in the Net Pension Liability – MBTA Police Association Retirement Plan

| | Increase (Decrease) | | |
|--|--|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (c) |
| Balances at December 31, 2015 | \$ 93,124 | 72,866 | 20,258 |
| Changes for the year: | | | |
| Service cost | 2,177 | — | 2,177 |
| Interest | 6,538 | — | 6,538 |
| Contributions - employer | — | 2,550 | (2,550) |
| Contributions- employee | — | 1,570 | (1,570) |
| Net investment Income | — | 5,313 | (5,313) |
| Difference between expected and actual experience | 1,646 | — | 1,646 |
| Change in assumptions | — | — | — |
| Benefit payments, including refund of employee contributions | (3,850) | (3,850) | — |
| Administrative expense | — | (184) | 184 |
| Net changes | 6,511 | 5,399 | 1,112 |
| Balances at December 31, 2016 | <u>\$ 99,635</u> | <u>78,265</u> | <u>21,370</u> |

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Change in the Net Pension Liability – MBTA Deferred Compensation Plan

| | <u>Increase (Decrease)</u> |
|--|-----------------------------------|
| | Total Pension Liability |
| Balances at December 31, 2015 | \$ 85,788 |
| Changes for the year: | |
| Service cost | 2,035 |
| Interest | 2,687 |
| Difference between expected and actual experience | 5,423 |
| Changes in assumptions | (4,681) |
| Benefit payments, including refund of employee contributions | (5,679) |
| Net changes | <u>(215)</u> |
| Balances at December 31, 2016 | <u><u>\$ 85,573</u></u> |

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Sensitivity of net pension liability to changes in the rate. The following presents the net pension liability of the Authority, calculated using the discount rates disclosed as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate as of December 31, 2016:

| | 2016 | | | |
|------------------------------------|---------------------|---|----------------------------------|---|
| | Current Rate | 1 % Decrease of Current Rate | Current Discount Rate | 1 % Decrease of Current Rate |
| MBTA Retirement Fund | 8.00% | \$ 1,412,017 | \$ 1,146,650 | \$ 920,903 |
| MBTA Police Assoc. Retirement Plan | 7.00% | 34,317 | 21,370 | 10,653 |
| MBTA Deferred Compensation | 3.71% | 95,178 | 85,573 | 77,516 |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017 the Authority recognized pension expense of \$163,642; \$2,868 and \$6,834 for the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan, respectively.

At June 30, 2017 the Authority reported deferred outflows of resources related to these pensions from the following sources:

| | MBTA Retirement Fund | MBTA Police Assoc. Retirement | MBTA Deferred Compensation Plan | Total |
|---|-------------------------------------|--|--|-----------------|
| Deferred Outflows of Resources: | | | | |
| Net difference between projected and actual earnings on pension plan investments | \$ 115,040 | 3,120 | — | 118,160 |
| Changes in assumptions | — | 560 | 630 | 1,190 |
| Contributions subsequent to the measurement date | 44,103 | 1,241 | 2,931 | 48,275 |
| Differences between expected and actual experience | 110,270 | 1,412 | 6,798 | 118,480 |
| Total deferred outflows of resources | <u>269,413</u> | <u>6,333</u> | <u>10,359</u> | <u>286,105</u> |
| Deferred Inflows of Resources: | | | | |
| Differences between expected and actual experience | — | (3,815) | (3,510) | (7,325) |
| Changes in assumptions | (4,058) | — | — | (4,058) |
| Total deferred inflows of resources | <u>(4,058)</u> | <u>(3,815)</u> | <u>(3,510)</u> | <u>(11,383)</u> |
| Less: Contributions subsequent to the measurement date | <u>(44,103)</u> | <u>(1,241)</u> | <u>(2,931)</u> | <u>(48,275)</u> |
| Net deferred outflows and inflows of resources exclusive of employer specific deferrals | <u>\$ 221,252</u> | <u>1,277</u> | <u>3,918</u> | <u>226,447</u> |

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Amounts reported as deferred outflows of resources related to pensions resulting from the Authority contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ending June 30, 2018.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized/ (amortized) into pension expense as follows:

| | MBTA Retirement Fund | MBTA Police Assoc. Retirement Plan | MBTA Deferred Compensation Plan |
|----------------------------|-------------------------------------|---|--|
| Year ended June 30: | | | |
| 2018 | \$ 72,465 | 668 | 2,111 |
| 2019 | 72,465 | 668 | 1,621 |
| 2020 | 52,480 | 506 | 186 |
| 2021 | 23,842 | (426) | — |
| 2022 | — | (376) | — |
| 2023 | — | 237 | — |
| Totals: | <u>\$ 221,252</u> | <u>1,277</u> | <u>3,918</u> |

Payable to the Pension Plans

At June 30, 2017 the Authority reported a payable for \$547 for the outstanding amount of contributions to pension plans required for the year ended June 30, 2017.

(b) The MBTA Deferred Compensation Savings Plan

The Authority provides a defined contribution retirement plan for nonunion and certain grandfathered union management not participating in the MBTA Retirement Fund. 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 6.4614% of total covered payroll with the Authority contributing 8%. The plan had 339 members at June 30, 2017, and the cost of the Plan to the Authority was \$846 for fiscal year 2017. 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. The total asset balance of \$32,718 as of June 30, 2017 were held by a third party administrator who allocates the assets of fully funded member account balance at the direction of individual member discretion.

(27) MBTA - Other Postemployment Benefits

In addition to providing the pension benefits described, the Authority provides 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 July 1, 2016 actuarial valuation, the plan has 8,127 retired and inactive participants and 6,527 active employees that meet the eligibility requirements for participation in the plan. The plan does not issue a separate financial report.

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(a) 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.

(b) Funding Policy

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.

(c) Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the Actuarially Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The July 1, 2016 actuarial valuation established the ARC for fiscal year 2016. 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 21 years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2017, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation:

| | 2017 |
|---|--------------|
| ARC | \$ 236,673 |
| Interest on net OPEB obligation | 28,515 |
| Amortization adjustment to ARC | (62,863) |
| Annual OPEB cost | 202,325 |
| Contributions made | (60,504) |
| Change in net OPEB obligation | 141,821 |
| Net OPEB obligation – beginning of year | 976,553 |
| Net OPEB obligation – end of year | \$ 1,118,374 |

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 |
|-------------------|------------------------|---|------------------------|
| 2017 | \$ 202,325 | 29.9% | \$ 1,118,374 |
| 2016 | 191,163 | 31.2% | 976,553 |
| 2015 | 193,065 | 25.8% | 845,127 |

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(d) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of July 1, 2016, is as follows:

| | |
|---|--------------|
| Actuarial accrued liability ("AAL") | \$ 2,368,814 |
| Actuarial value of plan assets | — |
| Unfunded actuarial accrued liability ("UAAL") | \$ 2,368,814 |
| Funded ratio (actuarial value of plan assets/AAL) | —% |
| Covered payroll (active plan members) | \$ 465,654 |
| UAAL as a percentage of covered payroll | 508.7% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. 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.

(e) 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 July 1, 2016 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 2.92% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate is 7.0% in year one to a 5.0% long-term trend rate for all healthcare benefits in year ten and thereafter. The amortization costs for the initial unfunded actuarial accrued liability (UAAL) is a level dollar closed amortization for a period of 21 years.

(f) Transit Employees Health and Welfare Trust

In fiscal 2015 the Authority and Local 589 (Local Union 589, Amalgamated Transit union, AFL-CIO and CLC) as a result of an arbitration award established a separate trust fund, the Transit Employee Health and Welfare Trust Fund (the "Trust Fund"), to address legislative changes impacting healthcare and other coverage (medical, dental, vision and life insurance) for Local 589 active and retired employees (collectively, the "employees"). The Authority and the employees are required to make contributions to the Trust Fund based on the rates agreed to in the Collective Bargaining Agreement. Contributions, once received by the Trust Fund, must be used exclusively "to provide benefits to eligible participants

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
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Notes to Financial Statements

June 30, 2017

(Dollars in thousands)

and/or appropriate administrative or operating expenditures.” The Trust allows participation of any Authority employee and retiree.

In fiscal 2017, the Authority made contributions to the Trust Fund of \$9,160. The liability for the Authority’s obligation for the benefits administered by this Trust Fund is recorded as part of the OPEB liability. Other than the Authority’s OPEB liability and required contributions, the activities of the Trust Fund have been excluded from the accompanying financial statements. Since inception, the Authority has provided accounting and administrative services to the Trust without compensation and maintained the activities of the Trust Fund in a separate operating banking account.

(28) MBTA – Subsequent Events

Subsequent to year end, on October 12, 2017 the MBTA issues \$300,821 in BANS (Bond Anticipation Notes) to be used exclusively for the Positive Train Control Project; \$118,698 in 2017 Series A-1 Subordinated Sales Tax Sustainability Bonds to be used on sustainable projects for environmentally sustainable projects and \$156,425 in 2017A-2 Subordinated Sales Tax Bonds to fund federal and state reimbursement projects.

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

Required Supplementary Information

Fiscal year ended June 30, 2017

(Dollars in thousands)

(Unaudited)

**SCHEDULE OF MASSDOT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (1) (2)**

| | 2017 | 2016 | 2015 |
|--|-------------|-------------|-------------|
| MassDOT's proportion of the net pension liability | 4.67817% | 5.07498% | 4.98100% |
| MassDOT's proportionate share of the net pension liability | \$ 645,065 | 577,676 | 369,795 |
| MassDOT's covered-employee payroll | \$ 263,416 | 280,329 | 266,308 |
| MassDOT's nonemployer contributions provided by the Commonwealth | \$ 8,701 | 2,648 | 8,199 |
| MassDOT's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 244.88% | 206.07% | 138.86% |
| Plan fiduciary net position as a percentage of the total pension liability | 63.48% | 67.87% | 76.32% |

- (1) Amounts presented were determined as of June 30th of the prior fiscal year.
- (2) Data is being accumulated annually to present 10 years of the reported information.

See accompanying independent auditors' report.

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

Required Supplementary Information

Fiscal year ended June 30, 2017

(Dollars in thousands)

(Unaudited)

SCHEDULE OF MASSDOT CONTRIBUTIONS (1)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|-------------------|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 25,519 | 24,893 | 29,126 | 21,118 | 17,220 |
| Contributions in relation to the contractually required contribution | (25,519) | (24,893) | (29,126) | (21,118) | (17,220) |
| Contribution deficiency (excess) | <u>\$ —</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| MassDOT's covered-employee payroll | <u>\$ 256,471</u> | <u>263,416</u> | <u>263,416</u> | <u>266,308</u> | <u>254,807</u> |
| Contributions as a percentage of covered employee payroll | 9.95% | 9.45% | 10.39% | 7.93% | 6.76% |
| | <u>2012</u> | <u>2011</u> | | | |
| Contractually required contribution | \$ 22,376 | 13,469 | | | |
| Contributions in relation to the contractually required contribution | (22,376) | (13,469) | | | |
| Contribution deficiency (excess) | <u>—</u> | <u>—</u> | | | |
| MassDOT's covered-employee payroll | <u>\$ 249,176</u> | <u>255,095</u> | | | |
| Contributions as a percentage of covered employee payroll | 8.98% | 5.28% | | | |

(1) Data is being accumulated annually to present 10 years of the reported information.

See accompanying independent auditors' report.

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

Massachusetts Transportation Trust Fund
Combining Balance Sheet
June 30, 2017

(Dollars in thousands)

| Assets | Metropolitan Highway System | Western Turnpike | Tobin Bridge | Other operations | Total |
|--|--|-----------------------------|-------------------------|-----------------------------|-------------------|
| Cash and short-term investments | \$ — | — | — | 3,819 | 3,819 |
| Restricted cash and investments | 489,078 | 160,904 | 109,370 | 23,176 | 782,528 |
| Receivables, net of allowance for uncollectibles: | | | | | |
| Due from Commonwealth | — | — | — | 49,828 | 49,828 |
| Due from federal government | — | — | — | 2,693 | 2,693 |
| Other | 51,770 | 25,749 | 4,657 | 3,954 | 86,130 |
| Due from other funds | — | — | — | 1,495 | 1,495 |
| Other assets | 1,413 | 661 | 89 | 250 | 2,413 |
| Total assets | <u>\$ 542,261</u> | <u>187,314</u> | <u>114,116</u> | <u>85,215</u> | <u>928,906</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances: | | | | | |
| Accounts payable and accrued expenditures | \$ 33,551 | 24,177 | 2,061 | 13,266 | 73,055 |
| Unearned revenue | 77,436 | 1,807 | — | 392 | 79,635 |
| Due to Commonwealth | — | — | — | 15,000 | 15,000 |
| Total liabilities | <u>\$ 110,987</u> | <u>25,984</u> | <u>2,061</u> | <u>28,658</u> | <u>167,690</u> |
| Deferred Inflows of Resources: | | | | | |
| Unavailable Revenue | 10,630 | 6,823 | 32 | 49,828 | 67,313 |
| Total liabilities and deferred inflows of resources | <u>\$ 121,617</u> | <u>32,807</u> | <u>2,093</u> | <u>78,486</u> | <u>235,003</u> |
| Fund balances: | | | | | |
| Nonspendable | 1,413 | 661 | 89 | 250 | 2,413 |
| Restricted | 419,231 | 153,846 | 111,934 | 23,440 | 708,451 |
| Assigned | — | — | — | 399 | 399 |
| Unassigned | — | — | — | (17,360) | (17,360) |
| Total fund balances | <u>\$ 420,644</u> | <u>154,507</u> | <u>112,023</u> | <u>6,729</u> | <u>693,903</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 542,261</u> | <u>\$ 187,314</u> | <u>\$ 114,116</u> | <u>\$ 85,215</u> | <u>\$ 928,906</u> |

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, 2017

(Dollars in thousands)

| | Metropolitan Highway System | Western Turnpike | Tobin Bridge | Other operations | Total |
|---|--|-----------------------------|-------------------------|-----------------------------|-------------------|
| Revenues | | | | | |
| Toll revenue: | | | | | |
| Pledged as security for revenue bonds | \$ 231,927 | 63,507 | — | — | 295,434 |
| Unpledged | — | 98,542 | 39,555 | — | 138,097 |
| Commonwealth transportation fund: | | | | | |
| Operations | — | — | — | 434,781 | 434,781 |
| Metropolitan highway system bonds | 100,000 | — | — | — | 100,000 |
| Central artery operations and maintenance | 25,000 | — | — | — | 25,000 |
| Commonwealth grants and contract assistance | — | — | — | 88 | 88 |
| Federal grants and reimbursements: | | | | | |
| Direct | — | — | — | 33,667 | 33,667 |
| Rental/leases income | 8,378 | 27,795 | — | 14,481 | 50,654 |
| Investment income | 4,398 | 1,761 | 863 | 818 | 7,840 |
| Departmental and other | 6,897 | 7,259 | 208 | 11,645 | 26,009 |
| Total revenues | <u>376,600</u> | <u>198,864</u> | <u>40,626</u> | <u>495,480</u> | <u>1,111,570</u> |
| Expenditures | | | | | |
| Current | | | | | |
| Highway** | 224,018 | 198,725 | 17,785 | 339,393 | 779,921 |
| Planning and Enterprise Services | 24,362 | 11,293 | 178 | 101,776 | 137,609 |
| Registry of motor vehicles | — | — | — | 72,525 | 72,525 |
| Rail and Transit | — | — | — | 83,679 | 83,679 |
| Aeronautics | — | — | — | 1,882 | 1,882 |
| Debt service: | | | | | |
| Principal | 40,637 | 16,250 | — | — | 56,887 |
| Interest | 110,296 | 557 | — | — | 110,853 |
| Total expenditures | <u>399,313</u> | <u>226,825</u> | <u>17,963</u> | <u>599,255</u> | <u>1,243,356</u> |
| Excess (deficiency) of revenues over expenditures | (22,713) | (27,961) | 22,663 | (103,775) | (131,786) |
| Other financing sources (uses): | | | | | |
| Transfers in | — | — | — | 44,555 | 44,555 |
| Net change in fund balances | (22,713) | (27,961) | 22,663 | (59,220) | (87,231) |
| Fund balances at beginning of year | 443,357 | 182,468 | 89,360 | 65,949 | 781,134 |
| Fund balances at end of year | <u>\$ 420,644</u> | <u>\$ 154,507</u> | <u>\$ 112,023</u> | <u>\$ 6,729</u> | <u>\$ 693,903</u> |

See accompanying independent auditors' report.

** Pay go Maintenance expenditures of \$250 million is included in total line (\$133 million in MHS & \$117 million WT)