

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

Basic Financial Statements, Required Supplementary Information and
Other Supplementary Information

June 30, 2022

(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 Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise MassDOT's basic financial statements as listed in the table of contents.

We did not audit the financial statements of the discretely presented component units disclosed in note 1(b) to the basic financial statements, which represent 100% of the aggregate discretely presented component units. Those statements, except for Cape Ann Transportation Authority and Metrowest Regional Transit Authority, were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors.

Summary of Opinions

Opinion unit	Type of Opinion
<i>Governmental Activities</i>	<i>Unmodified</i>
<i>Aggregate Discretely Presented Component Units</i>	<i>Qualified</i>
<i>Governmental – General Fund (MTTF)</i>	<i>Unmodified</i>
<i>Governmental – Highway Capital Projects Fund</i>	<i>Unmodified</i>
<i>Governmental – Central Artery Repair and Maintenance Fund</i>	<i>Unmodified</i>
<i>Aggregate Remaining Fund Information</i>	<i>Unmodified</i>

Qualified Opinion on Aggregate Discretely Presented Component Units

In our opinion, except for the possible effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of MassDOT as of June 30, 2022, and the changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Unmodified Opinions on Governmental Activities, Each Major Fund and Aggregate Remaining Fund Information

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of MassDOT as of June 30, 2022, 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.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MassDOT and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinion on Aggregate Discretely Presented Component Units

MassDOT did not obtain audited financial statements for Cape Ann Transportation Authority and Metrowest Regional Transit Authority, which represent 6% of the total assets and 4% of the total revenues of the aggregate discretely presented component units. Accordingly, we were unable to obtain sufficient appropriate audit evidence about the amounts included in the aggregate discretely presented component units for Cape Ann Transportation Authority and Metrowest Regional Transit Authority. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Emphasis of Matter

As discussed in Note 1(t) to the basic financial statements, in 2022, MassDOT adopted Governmental Accounting Board Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MassDOT's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MassDOT's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MassDOT's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

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 supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the information 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 March 23, 2023 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

Boston, Massachusetts
March 23, 2023

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(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, 2022. 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, long-term debt, etc.). This statement also presents a comparison between direct expenses and program revenues for each division of MassDOT.

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(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

The government-wide financial statements present information 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 Planning and Enterprise Services (formerly the Office of the Secretary).

Aggregate 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. 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

In FY2021 and prior, the Massachusetts Bay Transportation Authority (MBTA), an entity which is a political subdivision of the Commonwealth of Massachusetts which operates mass transportation facilities within the Greater Boston area, and, to a limited extent surrounding areas was reported as a blended component unit of MassDOT. In fiscal year 2022, Section 19 of Chapter 29 of the Acts of 2021, included an amendment to Massachusetts General Law Chapter 161A which called for a new governance structure of the MBTA. Based on the legislative amendment and GASB 14 consideration, it was determined that the MBTA would no longer be considered, for financial reporting purposes, a component unit of MassDOT.

Refer to Footnote 1 (b) for details of the impact of the legislative amendment.

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(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

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 governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances include 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; three of them, the Massachusetts Transportation Trust Fund (MTTF), Highway Capital Projects Fund and the Central Artery/Tunnel Project Repair and Maintenance Trust (CARM) Fund are considered major funds for presentation purposes. In FY2021 and prior, the Central Artery/Tunnel Project Repair and Maintenance Trust (CARM) Fund did not meet the criteria to be considered as a major fund for financial reporting. However, upon the change of the component unit status of the MBTA and exclusion from MassDOT's financial statements (see footnote 1b), the CARM fund now meets the major fund criteria. 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 and the Motor Vehicle Inspection Trust Fund (MVITF) are aggregated and presented as other governmental funds.

Proprietary Funds – 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

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Management's Discussion and Analysis

June 30, 2022

(Unaudited)

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. These resources include, but are not limited to fees, fines and investment earnings. 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 Custodial funds which report resources held temporarily before being passed along to the intended beneficiaries.

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"*, and Other Post Employment Benefit (OPEB) schedules related to MassDOT's proportionate share of net OPEB liability and OPEB contributions, as required by GASB 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than 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.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
June 30, 2022
(Unaudited)

Government-Wide Financial Analysis

Net Position

The following table reflects a condensed statement of net position based on the government-wide financial statements.

**Condensed Statement of Net Position
June 30, 2022 and 2021
(in thousands of dollars)**

	Governmental activities		Change year over year	
	2022	2021	Amount	%
Current and noncurrent other assets	\$ 2,880,252	2,237,976	642,276	29 %
Capital assets	26,138,475	25,917,821	220,654	1 %
Deferred outflows of resources	387,998	557,598	(169,600)	(30)%
Total assets & deferred outflows	29,406,725	28,713,395	693,330	2 %
Bonds outstanding and notes payable	1,690,878	1,757,608	(66,730)	(4)%
Noncurrent liabilities	1,576,231	2,139,825	(563,594)	(26)%
Other current liabilities	774,933	764,260	10,673	1 %
Deferred inflows of resources	975,638	178,570	797,068	446 %
Total liabilities & deferred inflows	5,017,680	4,840,263	177,417	4 %
Net position:				
Net investment in capital assets	24,630,541	24,344,993	285,548	1 %
Restricted	1,068,255	996,405	71,850	7 %
Unrestricted (Deficit)	(1,309,751)	(1,468,266)	158,515	(11)%
Total net position	\$ 24,389,045	23,873,132	515,913	2 %

MassDOT's assets and deferred outflows exceeded its liabilities and deferred inflows at June 30, 2022 by \$24.4 billion (presented as net position). The main component of net position represents the net investment in capital assets, totaling \$24.6 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 noncurrent other assets, totaling \$2.9 billion, include restricted and non-restricted cash and investments of \$1.8 billion, net receivables of \$641 million, and other assets of \$3.5 million. Governmental activities long-term liabilities, totaling \$1.6 billion, include all noncurrent liabilities, excluding the long-term portion of bonds outstanding and notes payable. Noncurrent liabilities in the condensed statement include \$55 million of derivative instruments, \$157 million in accrued interest on capital appreciation bonds and derivative borrowings, \$493 million in net pension liability, \$782 million in net OPEB liability, and \$49 million in other liabilities.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

Other current liabilities totaling \$775 million are due within one year, and exclude the current portion of bonds outstanding and notes payable totaling \$50 million. Other current liabilities include accounts payable and accrued expenses of \$496 million, unearned revenue of \$204 million, accrued interest of \$29 million, and other liabilities of \$39 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.

Changes in Net Position

MassDOT's governmental activities change in net position, noted on the Condensed Statement of Changes in Net Position, increased by \$516 million from fiscal 2021. This increase is primarily related to an overall increase in revenues and a decrease in expenses. Also included in this increase is the impact of the implementation of GASB Statement No. 87, *Leases*.

The governmental activities change in net position increased by \$222 million compared to the prior year due to an increase in revenue of \$148 million and a decrease in expenses of \$74 million. Capital grants and contributions amounted to \$2.2 billion of revenues, or 60% of total governmental activities revenue, a decrease from the prior year in the amount of \$106 million.

The following table reflects a condensed statement of activities based on the government-wide financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
June 30, 2022
(Unaudited)

Condensed Statement of Activities
June 30, 2022 and 2021
(in thousands of dollars)

	Governmental Activities		Change year over year	
	2022	2021	Amount	%
Revenues:				
Program revenues:				
Fees, fines, and charges for services	\$ 638,589	541,068	97,521	18 %
Operating grants and contributions	190,184	170,092	20,092	12 %
Capital grants and contributions	2,201,164	2,307,361	(106,197)	(5)%
General revenues:				
Operating assistance from the Commonwealth	627,407	489,249	138,158	28 %
Unrestricted investment income (loss)	(1,026)	757	(1,783)	(236)%
Total revenues	<u>3,656,318</u>	<u>3,508,527</u>	<u>147,791</u>	<u>4 %</u>
Expenses:				
Highway	1,640,197	1,763,270	(123,073)	(7)%
Planning and Enterprise Services	484,191	272,038	212,153	78 %
Registry of Motor Vehicles	131,573	182,380	(50,807)	(28)%
Rail and Transit	795,853	914,967	(119,114)	(13)%
Aeronautics	16,787	14,916	1,871	13 %
Debt service	71,804	66,872	4,932	7 %
Total expenses	<u>3,140,405</u>	<u>3,214,443</u>	<u>(74,038)</u>	<u>(2)%</u>
Change in net position	<u>515,913</u>	<u>294,084</u>	<u>221,829</u>	<u>75 %</u>
Net position – beginning	<u>23,873,132</u>	<u>23,579,048</u>	<u>294,084</u>	<u>1 %</u>
Net position – ending	<u><u>\$24,389,045</u></u>	<u><u>23,873,132</u></u>	<u><u>515,913</u></u>	<u><u>2 %</u></u>

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

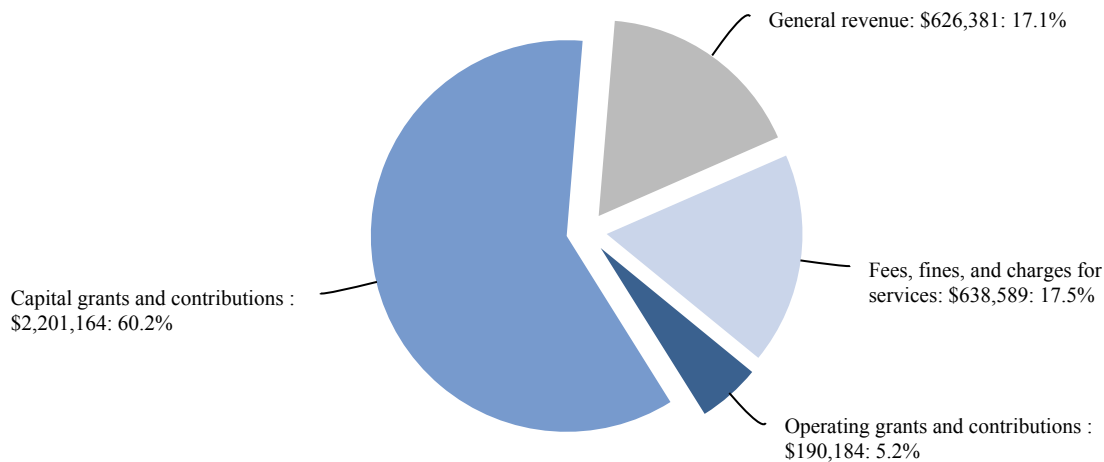
June 30, 2022

(Unaudited)

Total Revenues

For fiscal year 2022, total governmental activities revenues (\$3.7 billion) were comprised of general revenues (\$626 million) and program revenues (\$3.0 billion), which include fees, fines and charges for services of \$639 million, operating grants and contributions of \$190 million and capital grants and contributions of \$2.2 billion.

Governmental Activities - Total Revenue
(in thousands of dollars)



The governmental activities overall revenue increased by \$148 million, or 4%, from the prior year primarily due to an increase in Operating assistance from the Commonwealth of \$138 million and an increase in fees, fines, and charges for services of \$98 million which was then offset by decreases in the other program revenues.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

Governmental Activities - Program Revenue
(in thousands of dollars)

	Total		Change year over year	
	2022	2021	Amount	%
Program revenues:				
Fees, fines, and charges for services	\$ 638,589	541,068	97,521	18 %
Operating grants and contributions	190,184	170,092	20,092	12 %
Capital grants and contributions	2,201,164	2,307,361	(106,197)	(5)%
General revenue	626,381	490,006	136,375	28 %
	<u>\$ 3,656,318</u>	<u>3,508,527</u>	<u>147,791</u>	<u>4 %</u>

Within program revenues, fees, fines, and charges for services amounted to \$639 million, which is a \$98 million increase from the prior year. This represents a variety of MassDOT revenues, including tolls (\$417 million), rental/lease (\$61 million), and departmental revenue, such as advertising and highway-related permit fees (\$160 million). The increase in general revenue primarily represents an increase in legislated operational funding from the Commonwealth Transportation Fund (CTF).

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

	Total		Change year over year	
	2022	2021	Amount	%
Tolls	\$ 416,886	312,030	104,856	34 %
Rental/lease	61,230	58,141	3,089	5 %
Departmental	160,473	170,898	(10,425)	(6)%
	<u>\$ 638,589</u>	<u>541,069</u>	<u>97,520</u>	<u>18 %</u>

Operating grants and contributions of \$190 million represent both contract assistance for debt service from the Commonwealth, investment earnings 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 5% of the total MassDOT program revenues. The contributions increased by approximately \$20 million from the prior year mainly due to a refund received related to the Green line extension project.

Capital grants and contributions of \$2.2 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 account for \$1.3 billion, or 57%, of the overall capital grants

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

and contributions. The primary factor to cause the Capital grants and contributions to decrease by \$106 million from the prior year balance was a decrease in legislated transfers for various highway improvement projects.

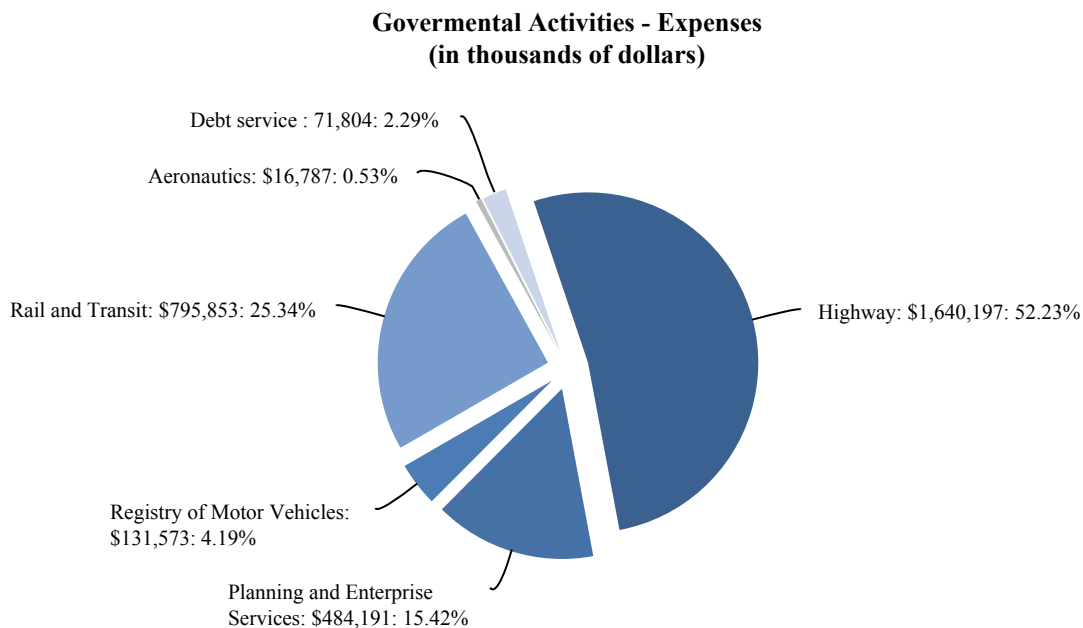
General Revenue

General revenues, totaling \$626 million, include operating assistance and contract assistance from the Commonwealth, and investment income, increased by \$136 million from the prior year. Included in this general revenue was a \$100 million transfer from the Commonwealth Transportation Fund related to the Winter Recovery Assistance Program for various transportation improvement projects.

Expenses

For fiscal year 2022, expenses for governmental activities totaled \$3.1 billion. The Highway Division's operations continue to be one of the MassDOT's highest priorities and commitments, representing \$1.6 billion, or 52%, of the total governmental activities expenses.

The balance of 48% is attributable to Planning and Enterprise Services with \$484 million, the Rail and Transit Division with \$796 million, and debt service-interest expenses of \$66 million. The Registry of Motor Vehicles (RMV) and Aeronautics complete the operational spending pattern with an approximate combined total of \$148 million.



Overall, MassDOT's governmental activities expenses decreased by \$80 million, or 2% from the prior year. Key elements of this change were decreases of \$123 million and \$119 million for Highway activities and Rail & Transit activities respectively, offset by a \$212 million increase in expenses in the Planning and Enterprise services division. The decreases in the Highway and Rail & Transit expenses are attributable to construction projects performed and completed in prior year while the increase in Planning and Enterprise services is attributable to expenses related to improving the Commonwealth's transportation system under the Accelerating Transportation Investment Act.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

Governmental Activities - Expenses
(in thousands of dollars)

	Total		Change year over year	
	2022	2021	Amount	%
Highway	\$ 1,640,197	1,763,270	(123,073)	(7)%
Planning and Enterprise Services	484,191	272,038	212,153	78 %
Registry of Motor Vehicles	131,573	182,380	(50,807)	(28)%
Rail and Transit	795,853	914,967	(119,114)	(13)%
Aeronautics	16,787	14,916	1,871	13 %
Debt service	71,804	66,872	4,932	7 %
	<u>\$ 3,140,405</u>	<u>3,214,443</u>	<u>(74,038)</u>	<u>(2)%</u>

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, 2022, MassDOT's governmental funds (MTTF, Highway Capital Projects, Central Artery/Tunnel Project Repair and Maintenance Trust Fund and other governmental) reported a combined ending fund balance of \$1.3 billion. Of this amount, \$3.5 million is nonspendable and relates to prepaid expenditures. The majority of the remaining fund balance of \$1.4 billion is restricted, which 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 \$512 thousand of the fund balance is assigned leaving a \$192 million unassigned fund balance. 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. As of June 30, 2022, the total fund balance was \$1,215 million, comprised of \$1,019 million restricted, \$3.5 million nonspendable (prepaid expenditures), and \$192 million unassigned.

In addition to the MTTF, MassDOT established the Highway Capital Projects Fund and the Central Artery/Tunnel Project Repair and Maintenance Trust Fund as major governmental funds. 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 and as of June 30, 2022, the total fund balance was \$74 million. The Central Artery/Tunnel Project Repair and Maintenance Trust Fund accounts for costs incurred in connection with the repairs and maintenance of the Central Artery and the Ted Williams Tunnel and mainly reports investment income as allocated by the State Treasurer. As of June 30, 2022, the total fund balance was \$296 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 capital projects. Projects within this category include federal grants and MVITF activity. As of June 30, 2022, the total fund balance was \$24 million.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

Proprietary Funds

The Proprietary Funds Statement of Net Position provides the same type of information found in the government-wide statements, but in more detail. MassDOT's proprietary fund is the Owner Controlled Insurance Program (OCIP), an internal service fund.

OCIP's net position at the end of the year totaled \$1.6 million, which is considered restricted for purposes of this activity.

Fiduciary Funds

The Fiduciary Funds Statement of Fund Net Position provides the same type of information found in the government-wide statements and are reported using accrual accounting. MassDOT's fiduciary funds are Custodial funds and are excluded from the government-wide financial statements because the resources of these funds are not available to support MassDOT's activities. This includes revenues such as assessments, taxes, federal revenues that are held for the benefit of the Regional Transit Authorities, Regional Airports, individuals, organizations and other entities that are not part of MassDOT.

The net position of the custodial funds at the end of the year totaled \$3.6 million.

Governmental Funds – MTTF General Fund

MTTF Revenues

MTTF (General fund) revenues totaled \$1.32 billion in fiscal 2022, an increase of \$233 million, or 21%, from fiscal 2021. The CTF revenues of \$752 million and toll revenues of \$400 million combine for 87% of the total revenues. The remaining 13%, or \$171 million, consists of rental/lease revenue, investment income, advertising, highway related permits, and other fees.

The CTF revenues include \$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 \$627 million for operations. The operational funding included \$522 million for MassDOT operations, \$94 million for RTA's contract assistance, and \$11 million for the Merit Rating Board.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

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June 30, 2022

(Unaudited)

MTTF General Fund - Revenue
(in thousands of dollars)

	Total		Change year over year	
	2022	2021	Amount	%
Tolls	\$ 399,536	314,255	85,281	27 %
Commonwealth Transportation Fund	752,407	614,249	138,158	22 %
Other (grants, rental/lease, departmental/other)	171,147	161,158	9,989	6 %
	<u>\$ 1,323,090</u>	<u>1,089,662</u>	<u>233,428</u>	<u>21 %</u>

The \$400 million in toll revenue consists of pledged revenue of \$201 million for Metropolitan Highway System and unpledged revenue of \$157 million for Western Turnpike and \$42 million for the Tobin Bridge operations.

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

	Total		Change year over year	
	2022	2021	Amount	%
Metropolitan Highway System	\$ 201,033	144,694	56,339	39 %
Western Turnpike	156,672	135,344	21,328	16 %
Tobin Bridge	41,831	34,217	7,614	22 %
	<u>\$ 399,536</u>	<u>314,255</u>	<u>85,281</u>	<u>27 %</u>

MTTF Expenditures

During fiscal 2022, the general fund's total expenditures increased by 4% from the prior year. The increase relates mainly to Highway division, Registry of Motor Vehicles and Rail & Transit expenditures.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

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June 30, 2022

(Unaudited)

**MTTF General Fund Expenditures
(in thousands of dollars)**

	Total		Change year over year	
	2022	2021	Amount	%
Highway	\$ 604,454	568,291	36,163	6 %
Planning and Enterprise Services	131,397	143,991	(12,594)	(9)%
Registry of Motor Vehicles	128,150	159,933	(31,783)	(20)%
Rail and Transit	142,893	97,186	45,707	47 %
Aeronautics	2,550	2,506	44	2 %
Debt Service	150,279	145,248	5,031	3 %
Totals	<u>\$ 1,159,723</u>	<u>1,117,155</u>	<u>42,568</u>	<u>4 %</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 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 \$923 million operating budget to cover fiscal year 2022 operations.

The Transportation Finance Act (Chapter 46 of the Acts of 2013) allows MassDOT to transfer excess revenues from the MVITF to the MTTF, providing all expenses of the motor vehicle inspection program are met. In fiscal year 2022, MassDOT transferred \$53 million from the MVITF to the MTTF to fund a portion of operations.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

Capital Asset and Debt Administration***Capital Assets***

As of June 30, 2022, MassDOT's capital assets had a balance of \$26.1 billion, net of depreciation. This total amount represents a net increase (including additions and deductions) \$221 million or 0.9%, 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 thousands of dollars)

	Governmental activities	
	2022	2021
Land	\$ 1,062,751	1,069,956
Construction in progress	10,376,528	9,916,919
Infrastructure	14,606,641	14,845,653
Buildings and equipment	72,994	70,824
Vehicles	17,141	12,466
Software	2,420	2,003
Total	<u>\$ 26,138,475</u>	<u>25,917,821</u>

Within governmental activities, construction in progress (CIP) increased by \$460 million due to additions to on-going CIP projects, which include assets related to the Accelerated Bridge Program and Highway Repair Projects such as the Southborough-Westborough Bridge rehabilitation, Chelsea route 1 Viaduct rehabilitation, Lynn-Saugus Bridge replacement, Weymouth-Abington route 18 reconstruction, Montgomery-Russel Bridge preservation amongst others.

The governmental activities net book value of infrastructure increased as well due to capital projects completed during the year and now classified as infrastructure. Such projects include Tobin Bridge improvements, Andover-Lawrence interstate 495 improvements, Longmeadow-Springfield interstate maintenance and improvements amongst others.

Additional information on MassDOT's capital assets can be found in note 4.

Debt

At year-end, MassDOT reported \$1.54 billion in outstanding bonds and notes under Governmental Activities compared to \$1.58 billion last year.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2022

(Unaudited)

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

	<u>Governmental activities</u>	
	<u>2022</u>	<u>2021</u>
Revenue	<u>1,542,577</u>	<u>1,588,207</u>
Total	<u>\$ 1,542,577</u>	<u>1,588,207</u>

MassDOT maintains bond ratings of A or higher for its governmental activities bonds. The Capital Appreciation Bonds are rated (A+) by Standard & Poor's Corporation (S&P) and Fitch, and (A2) by Moody's Investors Services (Moody's). MassDOT's senior fixed rate bonds are rated (A+) by both S&P and Fitch, and (A2) by Moody's.

Additional information on MassDOT's debt can be found in note 5.

Construction Commitments

Major MassDOT obligations include funding for design and engineering services that support the MassDOT construction projects as well as the various bridge replacement and critical construction projects in our Highway, Rail, Transit and Aeronautics Divisions. Additionally, there are obligations to the Commonwealth's 351 cities and towns through our Municipal Programs that support local transportation infrastructure improvements. These programs include a distribution of \$200 million in Chapter 90 funds as well as several other locally-focused investment programs like Complete Streets, Municipal Bridge, Local Bottleneck Mitigation, Municipal Pavement and Shared Streets. Major projects underway include:

- The replacement of the North Washington street Bridge in Boston with a new bridge for the 21st century, a complete street over water that works for everyone: people driving, riding the bus, biking, walking, sightseeing, boating, and residents.
- Chelsea Viaduct Bridge Repairs and Related work on Route 1 over various streets which is a critical step towards meeting MassDOT's bridge condition goals and improving safety and The Maurice J. Tobin Bridge and Deck Repairs, which is a rehabilitation in order to remain safe and in service through the 21st Century.
- Interstate 495 Bridge Replacement Br. No. H-12-039 (NB & SB) over the Merrimack River DESIGN BUILD PROJECT - project is replacing and widening existing bridges carrying Interstate 495 northbound and southbound over the Merrimack River in Haverhill to address structural and functional deficiencies.
- Highway Lighting LED Replacements and Improvements in the Ted Williams Tunnel (Interstate 90) - Ted Williams Tunnel lights to be upgraded with LED lighting for substantial energy and maintenance savings and enhanced driving conditions.
- Boston - lighting repairs in the I-93 tunnel.

Major commitments also include funding for various collaborations with the MBTA in the amount of \$1.4 billion for major investments such as the South Coast Rail, Red and Orange Line infrastructure improvements, fare transformation and various Rail & Transit improvements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2020

(Unaudited)

Economic Factors and Next Year's Budgets and Rates

The MassDOT Board approved an original fiscal year 2023 operating expenditure and debt service obligation budget of \$979 million in June 2022, which was revised subsequent to year-end to \$1 billion. Total revenues which include tolls, fees, permits, court fines, and federal grants are budgeted 5% higher compared to prior year. Total operating and debt expenditures excluding snow & ice are budgeted for a 4% increase.

Future Pronouncements

GASB has issued the following statements, which require adoption subsequent to June 30, 2022 and are applicable to MassDOT. MassDOT has not yet adopted these statements and is currently assessing the impact of each statement.

Statement No.		Adoption Required in Fiscal Year
91	<i>Conduit Debt Obligations</i>	2023
94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	2023
96	<i>Subscription-Based Information Technology Arrangements</i>	2023
99	<i>Omnibus 2022</i>	2023
100	<i>Accounting Change and Error Corrections</i>	2023
101	<i>Compensated Absences</i>	2024

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, 2022

(Dollars in thousands)

	Governmental activities	Aggregate Discretely Presented Component units
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and short-term investments	\$ 216,187	37,755
Restricted cash and investments	1,594,239	4,864
Derivative instrument	4,015	—
Receivables, net of allowance for uncollectibles:		
Due from Commonwealth	412,901	10,658
Due from federal government	27,852	26,269
Leases	50,620	31
Other	149,760	85,957
Other assets	3,530	7,747
Total current assets	<u>2,459,104</u>	<u>173,281</u>
Noncurrent assets:		
Receivables, net of allowance for uncollectibles:		
Due from Commonwealth	—	3,307
Due from federal government	—	3,395
Leases	374,660	474
Other	—	21,711
Net OPEB asset	—	958
Lease right of use assets, net	46,488	5,556
Other assets	—	1,010
Capital assets:		
Nondepreciable	11,439,279	55,088
Depreciable, net of accumulated depreciation	14,699,196	483,185
Total noncurrent assets	<u>26,559,623</u>	<u>574,684</u>
Total assets	<u>29,018,727</u>	<u>747,965</u>
Deferred Outflows of Resources:		
Loss on debt refundings	57,236	—
Derivative instruments	17,571	—
OPEB related	173,408	11,286
Pension related	139,783	6,124
Total deferred outflows of resources	<u>387,998</u>	<u>17,410</u>
Total assets and deferred outflows of resources	<u><u>\$ 29,406,725</u></u>	<u><u>765,375</u></u>

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Statement of Net Position (continued)

June 30, 2022

(Dollars in thousands)

	Governmental activities	Aggregate Discretely Presented Component units
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable and accrued expenses	\$ 496,415	61,744
Unearned revenue	203,601	1,963
Accrued interest payable	29,214	1,099
Bonds and notes payable	50,025	79,566
Lease liability	6,489	75
Other liabilities	39,214	4,702
Total current liabilities	<u>824,958</u>	<u>149,149</u>
Noncurrent liabilities:		
Accrued interest	156,549	—
Bonds and notes payable	1,640,853	31,825
Liability for derivative instruments, net	54,829	—
Lease liability	41,137	5,789
Net pension liability	492,780	23,971
Net OPEB liability	781,904	56,585
Other liabilities	49,032	8,631
Unearned revenue	—	3,778
Total noncurrent liabilities	<u>3,217,084</u>	<u>130,579</u>
Total liabilities	<u>4,042,042</u>	<u>279,728</u>
Deferred Inflows of Resources:		
Lease related	418,953	122
OPEB related	319,756	12,179
Pension related	236,929	12,983
Total deferred inflows of resources	<u>\$ 975,638</u>	<u>25,284</u>
Total liabilities and deferred inflows of resources	<u><u>\$ 5,017,680</u></u>	<u><u>305,012</u></u>
Net Position		
Net investment in capital assets	24,630,541	541,459
Restricted	1,068,255	9,960
Unrestricted (Deficit)	(1,309,751)	(91,056)
Total net position	<u><u>\$ 24,389,045</u></u>	<u><u>460,363</u></u>

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, 2022
(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	Aggregate Discretely Presented Component units
					Governmental activities	
Primary government:						
Governmental activities:						
Highway	\$ 1,640,197	473,790	19,371	1,258,740	111,704	—
Planning and Enterprise Services	484,191	137,852	36,904	302,125	(7,310)	—
Registry of motor vehicles	131,573	12,591	2,943	1,505	(114,534)	—
Rail and Transit	795,853	13,855	29,026	624,358	(128,614)	—
Aeronautics	16,787	501	55	14,436	(1,795)	—
Debt service	71,804	—	101,885	—	30,081	—
Total governmental activities	<u>3,140,405</u>	<u>638,589</u>	<u>190,184</u>	<u>2,201,164</u>	<u>(110,468)</u>	<u>—</u>
Aggregate Component units:						
Aggregate discretely presented component units	<u>\$ 531,147</u>	<u>244,012</u>	<u>231,719</u>	<u>71,266</u>		15,850
General revenues:						
Operating assistance from the Commonwealth					\$ 627,407	—
Unrestricted investment income (loss)					(1,026)	—
Total general revenues					<u>626,381</u>	<u>—</u>
Change in net position					515,913	15,850
Net Position – beginning of year					<u>23,873,132</u>	<u>444,513</u>
Net Position – end of year					<u>\$ 24,389,045</u>	<u>460,363</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, 2022
(Dollars in thousands)

Assets	MTTF (General)	Highway capital projects	Central Artery Repair & Maintenance	Other governmental funds	Total governmental funds
Cash and short-term investments	\$ 214,698	—	—	1,489	216,187
Restricted cash and investments	1,215,447	74,192	301,304	870	1,591,813
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth	—	412,901	—	—	412,901
Due from federal government	—	—	—	27,852	27,852
Leases	425,280	—	—	—	425,280
Other	149,760	—	—	—	149,760
Other assets	3,530	—	—	—	3,530
Total assets	<u>2,008,715</u>	<u>487,093</u>	<u>301,304</u>	<u>30,211</u>	<u>2,827,323</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable and accrued expenditures	72,539	412,902	5,043	5,931	496,415
Unearned revenue	203,601	—	—	—	203,601
Total liabilities	<u>276,140</u>	<u>412,902</u>	<u>5,043</u>	<u>5,931</u>	<u>700,016</u>
Deferred Inflows of Resources:					
Unavailable Revenue	99,062	—	—	—	99,062
Lease related	418,953	—	—	—	418,953
Total deferred inflow of resources	<u>518,015</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>518,015</u>
Fund balances:					
Nonspendable	3,530	—	—	—	3,530
Restricted	1,018,749	74,191	296,168	23,861	1,412,969
Assigned	—	—	93	419	512
Unassigned	192,281	—	—	—	192,281
Total fund balances	<u>1,214,560</u>	<u>74,191</u>	<u>296,261</u>	<u>24,280</u>	<u>1,609,292</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,008,715</u>	<u>487,093</u>	<u>301,304</u>	<u>30,211</u>	<u>2,827,323</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, 2022

(Dollars in thousands)

Total governmental fund balances:	\$ 1,609,292
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	26,138,475
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.	99,062
Net lease activity in accordance with GASB 87	(1,139)
Capitalized loss on debt refunding in governmental activities that is not capitalized at a fund level in the governmental funds.	57,236
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.	(185,763)
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	(1,690,878)
Workers' compensation claims	(35,170)
Other claims and judgments	(384)
Compensated absences	(50,424)
Environmental remediation	(1,461)
Derivative instruments, net of deferred inflows and outflows	(33,243)
Net pension liability, net of deferred inflows and outflows	(589,926)
Net OPEB liability, net of deferred inflows and outflows	(928,252)
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.	1,620
Net position of governmental activities	<u>\$ 24,389,045</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, 2022

(Dollars in thousands)

	MTTF (General)	Highway capital projects	Central Artery Repair & Maintenance	Other governmental funds	Total governmental funds
Revenues:					
Toll revenue:					
Pledged as security for revenue bonds	\$ 201,033	—	—	—	201,033
Unpledged	198,503	—	—	—	198,503
Commonwealth transportation fund:					
Operations	627,407	—	—	—	627,407
Metropolitan highway system bonds	100,000	—	—	—	100,000
Central artery operations and maintenance	25,000	—	—	—	25,000
Commonwealth grants and contract assistance	—	1,599,018	—	1,970	1,600,988
Federal grants and reimbursements:					
Passed through the Commonwealth	—	601,909	—	—	601,909
Direct	—	—	—	57,459	57,459
Rental/lease income	60,546	684	—	—	61,230
Investment income (loss)	6,076	238	(13,209)	46	(6,849)
Departmental and other	104,525	—	—	55,948	160,473
Total revenues	<u>1,323,090</u>	<u>2,201,849</u>	<u>(13,209)</u>	<u>115,423</u>	<u>3,627,153</u>
Expenditures:					
Current:					
Highway	604,454	1,257,871	19,306	1,671	1,883,302
Planning and Enterprise Services	131,397	301,973	—	46,985	480,355
Registry of motor vehicles	128,150	1,505	—	14,155	143,810
Rail and Transit	142,893	624,046	—	23,404	790,343
Aeronautics	2,550	14,429	—	—	16,979
Debt service:					
Principal	53,287	1,390	—	—	54,677
Interest	96,992	396	—	—	97,388
Total expenditures	<u>1,159,723</u>	<u>2,201,610</u>	<u>19,306</u>	<u>86,215</u>	<u>3,466,854</u>
Excess (Deficiency) of revenues over expenditures	<u>163,367</u>	<u>239</u>	<u>(32,515)</u>	<u>29,208</u>	<u>160,299</u>
Other financing sources (uses):					
Transfers in	53,185	—	—	—	53,185
Transfers out	—	—	—	(53,185)	(53,185)
Total other financing sources (uses)	<u>53,185</u>	<u>—</u>	<u>—</u>	<u>(53,185)</u>	<u>—</u>
Net change in fund balances	<u>216,552</u>	<u>239</u>	<u>(32,515)</u>	<u>(23,977)</u>	<u>160,299</u>
Fund balances at beginning of year	998,008	73,952	328,776	48,257	1,448,993
Fund balances at end of year	<u>\$ 1,214,560</u>	<u>74,191</u>	<u>296,261</u>	<u>24,280</u>	<u>1,609,292</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, 2022

(Dollars in thousands)

Net change in fund balances – total governmental funds	\$	160,299
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		870,871
Depreciation		(650,217)
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		17,344
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:		
Net lease activity in accordance with GASB 87		(1,138)
Bond maturities		48,441
Amortization of premiums		21,584
Amortization of deferred losses on refunding transactions		(4,647)
Amortization of bond discounts		(485)
Amortization of swap payments received		117
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.		915
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.		12,635
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 of deferred inflows and outflows		33,909
Net OPEB liability, net of deferred inflows and outflows		20,931
Workers' compensation		(16,308)
Compensated absences		2,615
Environmental remediation		459
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.		(1,412)
Changes in net position of governmental activities	\$	<u>515,913</u>

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, 2022
(Dollars in thousands)

	Governmental activities - internal service fund
Assets	
Current assets:	
Restricted cash and investments	2,427
Total current assets	2,427
Total assets	2,427
Liabilities	
Noncurrent liabilities:	
Other liabilities	807
Total noncurrent liabilities	807
Total liabilities	807
Net Position	
Restricted	1,620
Unrestricted	—
Total fund net position	1,620

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, 2022

(Dollars in thousands)

	<u>Governmental activities - internal service fund</u>
Operating expenses:	
Injuries and damages	<u>1,369</u>
Total operating expenses	<u>1,369</u>
Operating loss	<u>(1,369)</u>
Nonoperating revenues (expenses):	
Interest income (loss)	<u>(43)</u>
Total nonoperating revenues (expenses), net	<u>(43)</u>
Decrease in net position	<u>(1,412)</u>
Net position at beginning of year	<u>3,032</u>
Net position at end of year	<u><u>1,620</u></u>

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, 2022

(Dollars in thousands)

	Governmental activities - internal service fund
Cash flows from operating activities:	
Claims, premiums and judgments paid	(1,792)
Net cash used in operating activities	(1,792)
Cash flows from investing activities:	
Investment and other income (loss)	(43)
Net cash used in investing activities	(43)
Net change in cash and short-term investments	(1,835)
Cash and cash equivalents, restricted and other special accounts, beginning of year	4,262
Cash and cash equivalents, restricted and other special accounts, end of year	2,427
Reconciliation of operating (loss) income to net cash used in operating activities:	
Operating (loss) income	(1,369)
Adjustments to reconcile operating (loss) income to net cash used in operating activities:	
Changes in all other working capital accounts, except cash and cash equivalents and short-term debt	(423)
Total adjustments	(423)
Net cash used in operating activities	(1,792)

See accompanying notes to financial statements.

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

Fiduciary Funds
Statement of Fiduciary Net Position
Fiscal year ended June 30, 2022
(Dollars in thousands)

	<u>Custodial Funds</u>
Assets	
Cash and short-term investments	\$ 25,680
Total assets	<u>25,680</u>
Liabilities	
Other liabilities	<u>22,075</u>
Total liabilities	<u>22,075</u>
Net Position	
Restricted for:	
Real estate	3,413
Other governments	<u>192</u>
Total net position	<u><u>\$ 3,605</u></u>

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Fiduciary Funds

Statement of Fiduciary Changes in Net Position

June 30, 2022

(Dollars in thousands)

	<u>Custodial Funds</u>
Additions	
Collections for regional airports	\$ 36,607
Toll collections for other governments	234,969
Real estate escrow collections	970
Miscellaneous	10
Total additions	<u>272,556</u>
 Deductions	
Disbursements to regional airports	36,607
Toll payments to other governments	234,989
Real estate escrows	1,178
Total deductions	<u>272,774</u>
Change in net position	(218)
Net position - beginning	3,823
Net position - ending	<u><u>\$ 3,605</u></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, 2022

(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

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Notes to Financial Statements

June 30, 2022

(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, Planning and Enterprise Services (formerly the 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. The MTTF is to be used for operations, maintenance and capital costs related to the transportation assets under MassDOT's jurisdiction, 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 dedicated to transportation purposes, with a guaranteed annual payment which includes amounts earmarked for MassDOT debt service and 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 2022, MassDOT received \$752,407 from the CTF and the Commonwealth's General fund which was comprised of \$533,407 for operations, \$100,000 for debt service, \$94,000 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.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

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June 30, 2022

(Dollars in thousands)

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 2022, MassDOT did not receive any funding related this Act.

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.

In FY2021 and prior, the Massachusetts Bay Transportation Authority (MBTA), was reported as a blended component unit of MassDOT. In fiscal year 2022, Section 19 of Chapter 29 of the Acts of 2021, included an amendment to Massachusetts General Law Chapter 161A, section 7(a). This amendment called for a new governance structure of the MBTA in which the Board of Directors (the Board) replaced the prior governing body; the Fiscal and Management Control Board (FMCB). The new governing Board shall consist of seven members: the Secretary of Transportation, one person appointed by the Advisory Board and five persons to be appointed by the Governor.

Based on the legislative amendment and GASB 14 consideration, it was determined that the MBTA would no longer be considered, for financial reporting purposes, a component unit of MassDOT.

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.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

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Notes to Financial Statements

June 30, 2022

(Dollars in thousands)

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 aggregate discretely presented component units. Primary government activities are defined as governmental or activities. MassDOT's governmental activities generally are financed through toll revenues, contract assistance from the Commonwealth, and other nonexchange revenues.

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 activities between funds that are reported in different functional categories in the governmental activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

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 are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor funds being combined into a single column.

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(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 major 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 *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.

The *Central Artery/Tunnel Project Repair and Maintenance Trust (CARM) Fund* is used to account for costs incurred related to the repairs and maintenance of the Central Artery and the Ted Williams Tunnel. The fund earns interest and investment income as designated by the State Treasurer.

Additionally, MassDOT reports the following fund types:

Internal Service Fund, or the Owner Controlled Insurance Program (OCIP) which was established to pay contractors' workers' compensation claims related to the Central Artery/Tunnel Project.

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.

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

(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 Statement No. 79 to report its investments at amortized cost. As such, MassDOT 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.

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 is allocated to MassDOT. The investments held by the Treasurer are reported in the Central Artery/Tunnel Project Repair and Maintenance Trust (CARM) Fund and the Central Artery Statewide Road and Bridge Infrastructure Fund, a Highway Capital Projects fund.

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

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

(f) *Accounts Receivable*

Reimbursements due 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, lease receivable 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 governmental column of the government-wide financial statements. Donated capital assets are recorded at acquisition value at the date of donation. Assets transferred to MassDOT from other

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June 30, 2022

(Dollars in thousands)

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.

- 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.

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Notes to Financial Statements

June 30, 2022

(Dollars in thousands)

(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 measurement 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. At June 30, 2021, MassDOT reported no committed fund balances.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under MassDOT's structure, this intent can be expressed by the Secretary of Transportation (and Chief Executive Officer), Chief Financial Officer and Controller. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

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

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

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(Dollars in thousands)

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 2022, MassDOT has reported deferred outflows pertaining to its derivative instruments, deferred losses on its debt refunding transactions, pension related activities and OPEB related activities. Deferred inflows relate to lease and pension and OPEB related activities.

(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) *Other Postemployment Benefits*

The Commonwealth of Massachusetts administers a single-employer defined benefit Postemployment Benefits Other Than Pensions (OPEB) Plan. Benefits are managed by the Group Insurance Commission (GIC) and investments are managed by the Pension Reserves Investment Management Board (PRIM). The OPEB Plan is reported as an OPEB Trust Fund in the Commonwealth's financial statements and does not issue a stand-alone audited financial report. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the Commonwealth of Massachusetts. 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.

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(Dollars in thousands)

(q) *Interfund Transfers*

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

For the year ended June 30, 2022, MassDOT transferred \$53,185 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.

(r) *Leases*

Right of Use Asset (ROU) – These assets are recognized at the lease commencement date and represent MassDOT's right to use an underlying asset for the lease term. ROU assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement and initial direct costs. Amortization of the ROU assets is recorded on a straight-line basis over the shorter of the useful life or the lease term.

Lease Liability – These represent MassDOT's obligation to make lease payments arising from leases other than short term leases. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Present value of lease payments is discounted based on a borrowing rate determined by MassDOT. Short term leases, those with a maximum period of 12 months, are expensed as incurred.

Lease Receivable – These are recorded as the net present value of lease payments expected to be received under all leases other than short term. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. Short term leases, those with a maximum period of 12 months, are recognized as collected. A deferred inflow of resources is recognized ratably over the life of the lease agreement.

(s) *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.

(t) *Recent Accounting Pronouncements*

GASB Statement No. 87, *leases* - In June 2017, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 87, *leases*. The Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset and in accordance with GASB 87, a lease is a contract that conveys the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange-like transaction. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of

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resources. Leases are recognized and measured using facts and circumstances that exist at the beginning of the earliest periods provided.

MassDOT adopted GASB Statement No. 87 as of July 1, 2021 and has applied the provisions of this standard in these financial statements, including footnote disclosures, see note 9. The adoption of this GASB statement had no impact on the previously reported net position.

GASB Statement No. 89, *Accounting for interest costs incurred before the end of a construction period* - This was issued in June 2018 and it establishes accounting requirements for interest cost incurred before the end of a construction period and requires the interest cost to be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

As noted in footnote 1(g), MassDOT does not capitalize interest incurred during construction projects and thus, the requirements of this statement has no impact on MassDOT's financial statements.

GASB Statement No. 92, *Omnibus 2020* - In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain previously issued GASB Statements. This Omnibus addresses eight recent pronouncements, including GASB Statement No. 87, *Leases*, GASB Statement No. 84, *Fiduciary Activities*, and GASB Statement No. 83, *Asset Retirement Obligations* among others.

Application of this statement is effective for MassDOT's fiscal year ending June 30, 2022 and did not have any impact on MassDOT's financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates* - In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This statement addresses agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting entities to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR.

MassDOT adhered to the International Swaps and Derivatives Association (ISDA) fallback protocol, which results in the 1 month LIBOR rate automatically being replaced with the fallback rate, which is the Secured Overnight Financing Rate (SOFR) for USD LIBOR when the 1 month LIBOR is discontinued. Though certain LIBOR settings were discontinued after December 2021, 1 month LIBOR will continue to be published until June 30, 2023. With no further action required on MassDOT's part due to adherence to the ISDA Fallback Protocol, once 1 month LIBOR ceases to be

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published it will be automatically replaced by the SOFR fallback reference rate. This replacement rate does not have any significant impact on the valuation of MassDOT's contracts.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32 - This statement was issued in June 2020, and the primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This statement was issued in June 2020, and the primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Application of this statement is effective for MassDOT's fiscal year ending June 30, 2022 and did not have any impact on MassDOT's financial statements.

(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	\$	241,866
Restricted cash and investments		1,370,130
	\$	<u>1,611,996</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, 2022, 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.

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

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. These investments include certain short-term cash equivalents, various long-term items and restricted assets by maturity in years. MassDOT does not have a formal policy related to interest rate risk.

MassDOT's investments at June 30, 2022 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	\$ 40,961	40,961	—
U.S. Agencies	17,508	17,508	—
Money Market Mutual Funds	78,890	78,890	—
Guaranteed Investment Contracts	86,750	86,750	—
MMDT	1,611,996	1,611,996	—
Total	<u>\$ 1,836,105</u>	<u>1,836,105</u>	<u>—</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, 2022:

Investment Type	Fair Value	AAA	AA1-AA3	Unrated
U.S. Treasuries	\$ 40,961	40,961	—	—
U.S. Agencies	17,508	17,508	—	—
Money Market Mutual Funds	78,890	78,890	—	—
Guaranteed Investment Contract	86,750	—	86,750	—
MMDT	1,611,996	—	—	1,611,996
Total	<u>\$ 1,836,105</u>	<u>137,359</u>	<u>86,750</u>	<u>1,611,996</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, 2022, credit ratings associated with the investments of the Cash Fund were either First Tier or Second Tier.

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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. No investment category other than MMDT exceeded 5% of the total investments of the primary government at June 30, 2022.

(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, 2022.

(f) Restricted Cash and Investments by Fund

The following summarizes restricted cash and investments as of June 30, 2022 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	\$ 969,350
General Fund - MTTF Other	24,415
Major Capital Projects - Statewide Road and Bridge Program	70,959
Major Capital Projects- - Transportation Infrastructure and Development Fund	3,233
Central Artery Repairs and Maintenance	301,304
Other Governmental Funds	870

Held by Bond Trustee

General - Toll related accounts as restricted by bond covenants	221,681
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Held by AIG

Internal Service Fund - Workers' compensation self - insurance	2,427
	<u>\$ 1,594,239</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, 2022.

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 and Agency 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.

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, 2022:

	Fair Value	Level 1	Level 2
Investments by Fair Value Level			
Money Market Mutual Funds	\$ 78,890	78,890	—
U.S. Treasuries	40,961	40,961	—
U.S. Agencies	17,508	17,508	—
Total investments by fair value level	<u>137,359</u>	<u>137,359</u>	<u>—</u>
Investments measured at amortized cost			
MMDT	1,611,996		
Guaranteed Investment Contract	<u>86,750</u>		
Total investments	<u><u>\$ 1,836,105</u></u>		
Derivative instruments			
Interest rate swaps, net (liabilities)	\$ (54,829)	—	(54,829)
Forward delivery agreement and interest rate swaps (asset)	<u>4,015</u>	<u>—</u>	<u>4,015</u>
Total derivative instruments	<u><u>\$ (50,814)</u></u>	<u><u>—</u></u>	<u><u>(50,814)</u></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.

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(3) Accounts Receivable

Governmental funds accounts receivable at June 30, 2022 consisted of the following:

	Gross accounts receivable	Allowance for uncollectibles	Net accounts receivable
Due from Commonwealth	\$ 412,901	—	412,901
Due from federal government	27,852	—	27,852
Lease receivable	425,280		425,280
Other receivables	236,637	86,877	149,760
\$	1,102,670	86,877	1,015,793

(4) Capital Assets

Capital assets of the governmental activities consisted of the following at June 30, 2022:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land	\$ 1,069,956	15,154	22,359	1,062,751
Construction in progress	9,916,919	821,268	361,659	10,376,528
Total capital assets, not being depreciated	10,986,875	836,422	384,018	11,439,279
Capital assets, being depreciated:				
Infrastructure	30,889,874	397,208	—	31,287,082
Buildings	175,298	6,801	—	182,099
Equipment	134,049	1,504	661	134,892
Vehicles	174,379	9,687	3,952	180,114
Software	37,636	3,267	—	40,903
Total capitals assets, being depreciated	31,411,236	418,467	4,613	31,825,090
Less accumulated depreciation for:				
Infrastructure	16,044,221	636,220	—	16,680,441
Buildings	116,071	3,613	—	119,684
Equipment	122,452	2,523	662	124,313
Vehicles	161,913	5,011	3,951	162,973
Software	35,633	2,850	—	38,483
Total accumulated depreciation	16,480,290	650,217	4,613	17,125,894
Total capital assets, being depreciated, net	14,930,946	(231,750)	—	14,699,196
Capital assets, net	\$ 25,917,821	604,672	384,018	26,138,475

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

Highway	\$ 647,854
Planning and Enterprise Services	2,363
	\$ 650,217

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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, 2022:

	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	—
1997 Series C, Capital Appreciation Bonds (CAB's), 5.50% to 5.55% , issued September 24, 1997, due 2016 to 2023	18,938	—	9,711	9,227	9,227
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	2,580	—	117	2,463	123
2019 Refunding, Series A, 5.00%, issued October 23, 2019, due 2021 to 2037	451,315	—	15,135	436,180	20,535
Total senior revenue bonds	722,505	—	24,963	697,542	29,885
Subordinated revenue bonds:					
Metropolitan Highway System:					
2018 Refunding, Series A, 5.00%, issued May 10, 2018, due 2024 to 2029	135,690	—	—	135,690	—
2019 Refunding, Series A, 5.00%, issued January 24, 2019, due 2030 to 2039	371,380	—	—	371,380	—
Borrowings related to the associated interest rate swap	120,317	2,928	—	123,245	—
2019 Refunding, Series B-1, 5.00%, issued January 24, 2019, due 2025 to 2037	51,230	—	—	51,230	—
2019 Refunding, Series B-2, 2.87% to 3.12%, issued January 24, 2019, due 2020 to 2025 (federally taxable)	8,735	—	3,145	5,590	3,240
2019 Refunding, Series C, 5.00%, issued October 23, 2019, due 2021 to 2035	178,350	—	20,450	157,900	16,900
Total subordinated revenue bonds	865,702	2,928	23,595	845,035	20,140
Total	1,588,207	2,928	48,558	1,542,577	50,025
Less: unamortized bond discounts	(2,977)	—	(485)	(2,492)	—
Plus: unamortized premiums	172,378	—	21,585	150,793	—
Total bonds payable	1,757,608	2,928	69,658	1,690,878	50,025
Other noncurrent liabilities:					
Workers' compensation	18,862	22,101	5,793	35,170	5,793
Judgments and claims	1,614	—	423	1,191	384
Compensated absences	53,039	—	2,615	50,424	32,168
Environmental remediation	1,920	—	459	1,461	869
Total other	75,435	22,101	9,290	88,246	39,214
Total noncurrent	\$ 1,833,043	25,029	78,948	1,779,124	89,239

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

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Revenue bonds are secured by a lien and pledge of cash and revenues derived from the Metropolitan Highway System. In addition, the Commonwealth has pledged \$100 million 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 million 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 and Western Turnpike bonds.

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

	Principal	Interest	Total
Year ending June 30,			
2023	\$ 49,902	87,145	137,047
2024	51,825	84,935	136,760
2025	54,163	83,336	137,499
2026	76,120	52,310	128,430
2027	81,625	48,504	130,129
2028 - 2032	328,338	314,858	643,196
2033 - 2037	574,896	120,633	695,529
2038 - 2039	200,000	20,446	220,446
Total	<u>\$ 1,416,869</u>	<u>812,167</u>	<u>2,229,036</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, 2022:

Description	Redemption date	Redemption price	Principal amount outstanding
Metropolitan Highway System:			
2010 Series A - Senior Debt	2035 to 2037	100	\$ 207,665
2019 Series A - Subordinated Debt	2023 to 2039	100	371,380
2019 Series B-1 - Subordinated Debt	2029 to 2037	100	44,885
2019 Series A - Senior Debt	2029 to 2037	100	288,870
2019 Series C - Subordinated Debt	2029 to 2035	100	107,090

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Demand Bonds

Included in long-term debt is \$207,665 of Senior variable rate demand bonds. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The ability of MassDOT, through its Trustee and remarketing agent, to purchase such bonds is secured through letters of credit with a nationally recognized financial institution which expires April 1, 2025. 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. If the letters of credit expired less than one year after year end, they are subject to a "Mandatory Tender for Purchase" requirement that results in the VRDO's being treated as long-term debt. As such, these amounts have been presented as long-term liabilities rather than current liabilities in the accompanying financial statements.

Prior Defeasances of Debt

At June 30, 2022, 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	2022 to 2023	100%	\$24,215

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, 2022, the remaining Swap continues to be an effective hedge of the refunding 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, 2022 totals \$2,463 and is presented as part of bonds payable in the accompanying government-wide financial statements.

In fiscal year 2019, MassDOT terminated Swap agreements and simultaneously entered into two forward swap contracts that commence January 1, 2023. As part of the swap termination, novation payments were made by two counterparties on behalf of MassDOT and are considered premiums received related to the forward swaps. The on behalf payments/premiums are considered borrowings and are valued separately from the swaps. The balance of the borrowings at June 30, 2022 totals \$123,245 and is presented as part of bonds payable in the accompanying government-wide financial statements.

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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 \$4,015 as of June 30, 2022. The credit rating of Wells Fargo Bank, N.A. at June 30, 2022, as determined by S&P, was A+.

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2022, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2022 financial statements are as follows:

Changes in fair value			Fair value at June 30, 2022	
Classification	Amount debit (credit)	Classification	Amount debit (credit)	Notional
Governmental activities:				
Cash flow hedges:				
Pay-fixed and receive- variable interest rate swaps	Deferred outflow	Derivative liability	\$ (55,483)	\$ 561,665
Investment derivatives:				
Pay-fixed and receive- variable interest rate swaps	Investment revenue	Derivative liability	654	17,380
Subtotal	(80,372)		(54,829)	
Forward delivery agreements	Investment revenue	Derivative asset	4,015	
	<u>\$ (75,828)</u>		<u>\$ (50,814)</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, 2022:

Derivative Item	Type	Objective	Effective Date	Notional amount	Term date	Payable swap rate	Receivable swap rate	Fair value at June 30, 2022
Cash flow hedges:								
1	Pay-fixed	Hedge interest rate risk	7/1/2008	\$207,665	1/1/2037	4.750%	68% of 1 month	\$ (60,662)
	interest rate swap	from 2010 senior debt (Series A-1 and A-2)					LIBOR (0.06834%) (a)	
2	Pay-fixed	Hedge interest rate risk	1/1/2023	236,000	1/1/2039	4.750%	68% of 1 month	3,481
	interest rate swap	from 2019 sub. debt (Series A)					LIBOR	
3	Pay-fixed	Hedge interest rate risk	1/1/2023	118,000	1/1/2039	4.750%	68% of 1 month	1,698
	interest rate swap	from 2019 sub. debt (Series A)					LIBOR	
Investment derivatives:								
4	Pay-fixed		1/1/2023	11,587	1/1/2039	4.750%	68% of 1 month	441
	interest rate swap						LIBOR	
5	Pay-fixed		1/1/2023	5,793	1/1/2039	4.750%	68% of 1 month	213
	interest rate swap						LIBOR	
		Subtotal		<u>\$579,045</u>				(54,829)
6	Forward delivery agreement		—	—	1/1/2029	—	Fixed	<u>4,015</u>
								<u>\$ (50,814)</u>

(a) - Swap Rates as of June 30, 2022

Swap Payments and Related Debt

The table below shows debt service requirements for the 2010 Senior A-1 and A-2 bonds and net swap payments for the cash flow hedge applying the synthetic fixed rate of 4.75% on the 2010 Senior bonds assuming a 68% of 1 month LIBOR rate of (0.12150%) and variable rates of (0.84% and 0.92%) on the 2010 Senior A-1 and A-2 as of June 30, 2022, through the term of the swap. The 2019 Series A Subordinated bonds are reflected at 4.75% since these are fixed rate bonds which will be refunded in Fiscal year 2023 and may cause MassDOT to be liable for the same terms of the swap that was suspended and associated with the 2010 Subordinated A-3 through A-6 bonds commencing on January 1, 2023 if the swap is not suspended or fully terminated at the point in time.

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	Principal	Interest	Interest rate swap, net	Total
2023	—	1,831	9,722	11,553
2024	—	1,831	27,363	29,194
2025	—	1,831	27,363	29,194
2026	—	1,831	27,363	29,194
2027 - 2031	27,380	9,153	135,988	172,521
2032 - 2036	205,295	8,983	123,759	338,037
2037 - 2039	346,370	849	30,755	377,974
	<u>\$ 579,045</u>	<u>26,309</u>	<u>382,313</u>	<u>987,667</u>

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

Risk Disclosures

Credit Risk – MassDOT is not exposed to credit risk on its 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, 2022:

Derivative swap item	Counterparty credit rating(Moody's, S&P and Fitch)
Derivative 1 (USB AG)	Aa3, A+, AA-
Derivative 4 (Citibank, N.A.)	Aa3, A+, A+
Derivative 4 (Barclays Bank PLC)	A1, A, A+

Basis Risk – MassDOT is exposed to basis risk related to its pay-fixed and receive-variable interest rate basis swaps. The fixed rate MassDOT pays is 4.75% while it receives 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.

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(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, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a \$100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's \$100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues.

The remaining principal balance to repay MHS revenue bonds amounts to \$1,416,869. The remaining principal and interest (including net swap payments) related to MHS to be paid on the bonds is \$2,611,349. Principal and interest (including net swap payments) paid and pledged revenue received for the year ended June 30, 2022 were \$150,279 and \$201,033, 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	Central Artery Repair & Maintenance	Other governmental funds	Total
Nonspendable:					
Prepaid expenditures	\$ 3,530	—	—	—	3,530
Restricted:					
Debt service	221,681	—	—	—	221,681
Turnpike (toll) operations and capital reinvestment	598,603	—	—	—	598,603
Tobin bridge and metropolitan highway system operations	193,941	—	—	—	193,941
Transportation infrastructure fund	—	70,958	—	—	70,958
Transportation Infrastructure & Development Fund	—	3,233	—	—	3,233
Central Artery repairs and maintenance	—	—	296,168	—	296,168
Motor vehicle safety inspection	—	—	—	2,163	2,163
Planning and Enterprise Services	—	—	—	1,697	1,697
Registry	4,524	—	—	—	4,524
Rail and Transit	—	—	—	20,001	20,001
Total restricted fund balances	<u>1,018,749</u>	<u>74,191</u>	<u>296,168</u>	<u>23,861</u>	<u>1,412,969</u>
Assigned:					
Highway operations	—	—	93	419	512
Total assigned fund balances	<u>—</u>	<u>—</u>	<u>93</u>	<u>419</u>	<u>512</u>
Unassigned	<u>192,281</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>192,281</u>
Total governmental fund balances	<u>\$ 1,214,560</u>	<u>74,191</u>	<u>296,261</u>	<u>24,280</u>	<u>1,609,292</u>

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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 former Massachusetts Turnpike Authority (MTA) employees and retirees became members of MSERS upon the creation of the MassDOT. Other employees who transferred to MassDOT have been, and remain, members of MSERS. The assets and liabilities of the former MTA have been transferred to MSERS.

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. Massachusetts General Laws (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 9% of their gross regular compensation except for State Police which is 12% of 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.

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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, 2021 measurement date, the Commonwealth made contributions on behalf of MassDOT totaling \$13,558 and MassDOT made contributions totaling \$42,611 to the pension plan.

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

At June 30, 2022, MassDOT reported a liability of \$492,780 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2021 for which update procedures were used to roll forward the total pension liability to the measurement date (June 30, 2021). MassDOT's proportion of the net pension liability is based on actual contributions adjusted for nonemployer contributions (as described above). At June 30, 2021, MassDOT's proportion was 4.72169%, which compared to a proportion of 4.65853% at June 30, 2020.

For the year ended June 30, 2022, MassDOT recognized pension expense of \$28,763. At June 30, 2022, MassDOT reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ —	193,199
Changes of assumptions	33,595	—
Changes in proportion	40,070	8,053
Difference between expected and actual experience	17,004	35,677
Contributions subsequent to the measurement date	49,114	—
	<u>\$ 139,783</u>	<u>236,929</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:

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<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ (30,362)
2024	(30,558)
2025	(34,965)
2026	(50,716)
2027	341
Total	<u><u>\$ (146,260)</u></u>

Actuarial assumptions: The total pension liability for the June 30, 2021 measurement date was determined by an actuarial valuation as of January 1, 2021 rolled forward to June 30, 2021. This valuation used the following assumptions:

1. (a) 7.00% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 of allowance each year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2020, set forward 1 year for females
 - Post-retirement – reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2020, set forward 1 year for females
 - Disability – the mortality rate is reflects the post-retirement mortality described above, set forward 1 year.
4. Experience studies were performed as follows:
 - Dated February 27, 2014 and encompasses the period January 1, 2006 to December 31, 2011, updated to reflect actual experience from 2012 through 2020 for post-retirement mortality.

Investment assets of MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. 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 as of June 30, 2021 are summarized in the following table:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	39 %	4.8 %
Core Fixed Income	15	0.3
Private Equity	13	7.8
Portfolio Completion Strategies	11	2.9
Real Estate	10	3.5
Value Added Fixed Income	8	3.9
Timberland / Natural Resources	4	4.3
Totals	<u>100 %</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.00%. 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 the Commonwealth's contributions 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 net position was projected to be available to make all projected future benefit 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 7.00%, 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 (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
MassDOT's Proportionate Share of the Net Pension Liability	\$ 754,273	492,780	277,854

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

(b) Other Postemployment Benefits (OPEB)

Plan Description. MassDOT participates in the Commonwealth's OPEB plan, a single employer defined Postemployment Benefits Other Than Pensions (OPEB) Plan. Benefits are managed by the Commonwealth's Group Insurance Commission (GIC) and investments are managed by the Pension Reserves Investment Management (PRIM) Board.

At the inception of MassDOT, the employees of the former Massachusetts Turnpike Authority became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so.

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The State Retiree Benefits Trust Fund (SRBT) is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions. The SRBT is administered by the Board of Trustees and is reported as an OPEB Trust Fund in the Commonwealth's financial statements and does not issue a stand-alone audited financial report.

Management of the SRBT is vested with a Board of Trustees, which consists of seven members including the Secretary of Administration and Finance (or their designee), the Executive Director of the GIC (or their designee), the Executive Director of PERAC (or their designee), the State Treasurer (or their designee), the Comptroller (or their designee), one person appointed by the Governor and one person appointed by the State Treasurer. The members elect one person to serve as chair of the board.

Benefits provided. Under Chapter 32A of the Massachusetts General Laws the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care/benefits costs, which are comparable to contributions required from employees.

Funding Policy. Employer and employee contributions rates are set in the General Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2021 and as of the valuation date (January 1, 2021), participants contributed 0% to 20% of the premium cost, depending on the date of hire and whether the participant is active, retiree or survivor status. As part of the fiscal 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 7.65% based on current payroll. MassDOT's reimbursement to the Commonwealth for the year ending June 30, 2022 was approximately \$22,325, which equaled the required contribution.

The Massachusetts General Laws (MGLs) governing employer contributions to OPEB determine whether entities are billed for OPEB costs. Consequently, OPEB developed an effective contribution methodology which allocates total actual contributions amongst 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. According to MGL, certain nonemployer contributions are the legal responsibility of the Commonwealth and have accordingly been reflected on the schedule of employer and nonemployer allocations as special funding situations. MassDOT is not a special funding situation.

OPEB Liabilities, OPEB Expense, and Deferred Inflows of Resources Related to Pensions

At June 30, 2022 MassDOT reported a liability of \$781,904 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2021 for which procedures were used to roll forward the total OPEB liability to the measurement date. MassDOT's proportion of the net OPEB liability is based on actual contributions adjusted for nonemployer contributions. At June 30, 2021, MassDOT's proportion was 4.88706%.

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For the year ended June 30, 2022, MassDOT recognized OPEB expense of \$6,673. At June 30, 2022, MassDOT reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Net differences between projected and actual investment earnings on OPEB plan investments	\$ —	9,502
Changes of assumptions	65,667	153,812
Changes in proportion	64,456	18,802
Difference between expected and actual experience	19,960	137,640
Contributions subsequent to the measurement date	23,325	—
	<u>\$ 173,408</u>	<u>319,756</u>

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

Year ending June 30	Amount
2022	\$ (48,077)
2023	(34,680)
2024	(21,170)
2025	(35,011)
2026	(30,735)
Totals	<u>\$ (169,673)</u>

Actuarial Assumptions: The total OPEB liability for the June 30, 2021 measurement date was determined by an actuarial valuation as of January 1, 2021 rolled forward to June 30, 2021. This valuation used the following assumptions:

1. The annual health care cost trend rates were developed based on the most recent published GAO-Getzen trend rate mode, version 2021_b. The short-term trend assumptions were based on a review of the plan's historical trend rates during fiscal years 2020 and 2021, along with industry surveys, separately for non-Medicare and Medicare benefits. The industry surveys were used to predict short-term future per capita cost increases. The most recently published SAO-Getzen model was then used to determine the trend rates beginning in 2024 and thereafter, based on the plan's long-term inflation assumption and reasonable macro-economic assumptions for the growth of health care expenditures during this period relative to the general economy.

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Current and future trend rates for Medicare and non-Medicare are summarized in the table below.

Year	Medicare Benefits	Non-Medicare Benefits
2021	4.40%	7.30%
2022	4.49%	7.06%
2023	4.57%	6.83%
2024	4.66%	6.59%
2025	4.75%	6.36%

Getzen long run growth factors assumptions:

- Inflation: 2.5%
 - Real GDP Growth: 1.5%
 - Excess Medical Growth: 1.1%
2. The mortality rate was in accordance with RP-2014 Blue Collar Mortality Table projected with scale MP-2020 from the central year, with females set forward one year.
3. Participation rates:
- a. 100% of employees currently electing healthcare coverage are assumed to elect coverage at retirement
 - b. 35% of employees currently opting out of active employee health coverage are assumed to elect to enroll in retiree coverage.
 - c. 85% of current and future vested terminated participants will elect health care benefits at age 55, or if later, the participant's current age.
 - d. Retirees who currently elect to waive their coverage are assumed to remain uncovered in the future.
 - e. 100% of spouses are assumed to elect to continue coverage after the retiree's death.
 - f. Current non-Medicare eligible retirees and spouses (if covered) under age 65 who are in a POC/PPO plan are assumed to move to an Indemnity plan if they are Medicare eligible at 65. All others are assumed to remain in their currently elected product type (Indemnity/ POS/ PPO/ HMO)

Future retirees are assumed to enroll in the existing plans in the same proportion as the current retiree mix, as shown in the table below. These proportions are established separately for non-Medicare and Medicare coverage for each product type.

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	Retirement Age	
	Under 65	Age 65 +
Indemnity	28.0 %	96.0 %
POS/PPO	60.0	—
HMO	12.0	4.0

4. Long-term expected rate of return:

The long-term expected rate of return as of June 30, 2021 was 7.00%. Investment assets of the plan are held by the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on OPEB 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 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 PRIT Fund's target asset allocation as of June 30, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	39 %	4.8 %
Core Fixed Income	15	0.3
Private Equity	13	7.8
Portfolio Completion Strategies	11	2.9
Real Estate	10	3.7
Value Added Fixed Income	8	3.9
Timberland/Natural Resources	4	4.3
Total	100.0 %	

Discount rate: The discount rate used to measure the OPEB liability as of June 30, 2021 was 2.77%. The rate was based on a blend of the Bond Buyer Index rate of 2.16% as of the measurement date and the long term expected rate of return on plan investments of 7.00%. The plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2041. Therefore, the long-term expected rate of return on plan investments was not applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2021.

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

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current rate:

	1% Decrease (1.77%)	Current Discount Rate (2.77%)	1% Increase (3.77%)
MassDOT's Proportionate Share of the Net OPEB Liability \$	928,895	781,904	663,505

Sensitivity of MassDOT's proportionate share of the net OPEB liability to changes in the healthcare cost trend rate: The following presents MassDOT's proportionate share of the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Current Rate	1% Increase
MassDOT's Proportionate Share of the Net OPEB Liability \$	640,218	781,904	966,567

(9) Leases

MassDOT has entered various lease arrangements for various terms for assets including land, building, equipment, office space amongst others under non-cancelable lease agreements. In accordance with GASB Statement No. 87, *Leases*, MassDOT has recognized a lease receivable and a deferred inflow of resources for lessor arrangements and a lease liability and an intangible right-to-use asset for lessee arrangements.

(a) Lessee arrangements

MassDOT leases equipment and real estate for various terms under long-term, non cancellable lease agreements which may provide for renewal options.

Total future minimum lease payments under lease agreements are as follows:

Years:	Principal	Interest	Total
2023	\$ 6,489	814	7,303
2024	5,745	709	6,454
2025	5,533	610	6,143
2026	5,327	512	5,839
2027	5,023	416	5,439
Thereafter	19,509	1,116	20,625
Total	<u>\$ 47,626</u>	<u>4,177</u>	<u>51,803</u>

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Right-to-use assets acquired through outstanding leases are shown below, by underlying asset class.

Leased assets being amortized	
Leased equipment.....	\$ 1,010
Leased real estate	52,852
Total Leased Assets Being Amortized	53,862
Less: Accumulated Amortization	
Leased equipment.....	(597)
Leased real estate	(6,777)
Total Accumulated Amortization	(7,374)
Total, net of accumulated amortization	<u>\$ 46,488</u>

A summary of changes in the related lease liabilities is as follows for the year ended June 30, 2022:

	Beginning balance July 1, 2021	Additions	Remeasurements	Deductions	Ending balance June 30, 2022	Amounts due within one year
Lease Liability	\$ 53,861	—	—	6,235	47,626	6,489

A summary of changes in the related lease right of use assets is as follows for the year ended June 30, 2022:

	Beginning balance July 1, 2021	Additions	Remeasurements	Deductions	Ending balance June 30, 2022
Lease right of use asset	\$ 53,861	—	—	7,373	46,488

(b) Lessor Arrangements

MassDOT leases property and air rights to others under various lease agreements. During the year ended June 30, 2022, MassDOT recognized \$44,510 in lease revenue, \$7,799 in interest revenue and \$8,921 in rental income.

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Total future minimum lease payments to be received under lease agreements are as follows:

Fiscal Year	Revenue	Interest	Total
2023	\$ 44,293	\$ 7,253	\$ 51,546
2024	40,676	6,738	47,414
2025	35,938	6,293	42,231
2026	23,735	5,891	29,626
2027	11,756	5,730	17,486
Thereafter	262,555	283,322	545,877
Total	<u>\$ 418,953</u>	<u>\$ 315,227</u>	<u>\$ 734,180</u>

A summary of principal changes in the related lease receivables is as follows for the year ended June 30, 2022:

	Beginning balance July 1, 2021	Increases	Decreases	Ending balance June 30, 2022	Amounts due within one year
Lease Receivable	\$ 463,463	3,704	41,887	425,280	50,620

(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, 2022.

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) \$7,500 per loss for privacy & network liability, (iii) \$250 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 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

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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, 2022 is \$35,170. 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, 2022.

Changes in the workers' compensation claims liability since July 1, 2020 were as follows:

Liability balance, July 1, 2020	\$	21,149
Provision to record estimated losses		4,035
Payments		(6,322)
Liability balance, June 30, 2021	\$	<u>18,862</u>
Liability balance, July 1, 2021	\$	18,862
Provision to record estimated losses		22,101
Payments		(5,793)
Liability balance, June 30, 2022	\$	<u>35,170</u>

(b) Owner Controlled Insurance Program (OCIP)

MassDOT has assumed responsibility for providing workers' compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project (Project) by establishing 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 carried to fund Project liabilities. During fiscal 2018 the Trust was dissolved and MassDOT manages and administers OCIP. Amounts related to OCIP are restricted and cannot be used for other purposes.

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.

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2022 is \$807. 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, 2022. Any residual amount remaining at the end of the program will be transferred to MassDOT's Transportation Infrastructure Fund.

Changes in the claims liability since July 1, 2020 were as follows:

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2022

(Dollars in thousands)

Liability balance, July 1, 2020	\$	1,490
Provision to record estimated losses		(73)
Payments		(187)
Liability balance, June 30, 2021	<u>\$</u>	<u>1,230</u>
Liability balance, July 1, 2021	\$	1,230
Provision to record estimated losses		(285)
Payments		(138)
Liability balance, June 30, 2022	<u>\$</u>	<u>807</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, as well as collaborating with the MBTA on various projects. Significant construction contracts outstanding at June 30, 2022 approximated \$915 million.

(12) Litigation

MassDOT from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which MassDOT's liability is covered in whole or in part by insurance. MassDOT does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements. MassDOT accrued \$384 for legal claims related at June 30, 2022.

(13) Subsequent Events

On November 9, 2022, MassDOT refunded \$371,380 of the Metropolitan Highway System (MHS) 2019 Subordinated Series A Bonds and issued \$371,380 in MHS Revenue Refunding Bonds, Variable Rate Demand Obligations, 2022 Series A-1, A-2 and Series A-3. Interest payments are payable semi-annually on July 1 and January 1, commencing January 1, 2023. Principal payments are payable annually starting on July 1 of 2030. The Bonds mature on July 1, 2039.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Required Supplementary Information

Fiscal year ended June 30, 2022

(Dollars in thousands)

(Unaudited)

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

	2022	2021	2020	2019	2018	2017	2016	2015
	(measurement date June 30, 2021)	(measurement date June 30, 2020)	(measurement date June 30, 2019)	(measurement date June 30, 2018)	(measurement date June 30, 2017)	(measurement date June 30, 2016)	(measurement date June 30, 2015)	(measurement date June 30, 2014)
MassDOT's proportion % of the net pension liability	4.72169 %	4.26585 %	4.26544 %	4.31966 %	4.43888 %	4.67817 %	5.07498 %	4.98100 %
MassDOT's proportionate share of the net pension liability	\$ 492,780	799,297	624,213	571,492	569,276	645,065	577,676	369,795
MassDOT's covered- employee payroll	\$ 290,661	\$ 289,528	255,607	248,834	256,471	263,416	280,329	266,308
MassDOT's nonemployer contributions provided by the Commonwealth	\$ 13,558	\$ 9,577	11,650	10,189	9,185	8,701	2,648	8,199
MassDOT's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.54 %	276.07 %	244.21 %	229.67 %	221.96 %	244.88 %	206.07 %	138.86 %
Plan fiduciary net position as a percentage of the total pension liability	77.54 %	66.48 %	66.28 %	67.91 %	67.21 %	63.48 %	67.87 %	76.32 %

(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)

Required Supplementary Information

Fiscal year ended June 30, 2022

(Dollars in thousands)

(Unaudited)

SCHEDULE OF MASSDOT'S PENSION CONTRIBUTIONS

	2022	2021	2020	2019	2018
Contractually required contribution	\$ 49,114	42,611	40,765	30,826	29,313
Contributions in relation to the contractually required contribution	(49,114)	(42,611)	(40,765)	(30,826)	(29,313)
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
MassDOT's covered-employee payroll	\$305,181	290,661	289,528	255,607	248,834
Contributions as a percentage of covered employee payroll	16.09 %	14.66 %	14.08 %	12.06 %	11.78 %
	2017	2016	2015	2014	2013
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	\$256,471	263,416	280,329	266,308	254,807
Contributions as a percentage of covered employee payroll	9.95 %	9.45 %	10.39 %	7.93 %	6.76 %

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, 2022

(Dollars in thousands)

(Unaudited)

SCHEDULE OF MASSDOT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (1)

	2022	2021	2020	2019	2018
	(measurement date June 30, 2021)	(measurement date June 30, 2020)	(measurement date June 30, 2019)	(measurement date June 30, 2018)	(measurement date June 30, 2017)
MassDOT's proportion % of the net OPEB liability	4.88706 %	4.82515 %	4.4195 %	4.47456 %	4.59294 %
MassDOT's proportionate share of the net OPEB liability	\$ 781,904	\$ 998,381	808,483	\$ 831,094	803,052
MassDOT's covered-employee payroll	\$ 290,661	\$ 289,527	255,607	\$ 248,834	256,471
MassDOT's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	269.01 %	344.83 %	316.30 %	334.00 %	313.12 %
Plan fiduciary net position as a percentage of the total OPEB liability	10.70 %	6.40 %	6.96 %	6.01 %	5.39 %

(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)

Required Supplementary Information

Fiscal year ended June 30, 2022

(Dollars in thousands)

(Unaudited)

SCHEDULE OF MASSDOT'S OPEB CONTRIBUTIONS (1)

	2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 23,325	22,375	21,117	22,478	22,193
Contributions in relation to the actuarially determined contribution	(26,655)	(25,315)	(21,280)	(19,876)	(20,216)
Contribution deficiency (excess)	<u>\$ (3,330)</u>	<u>(2,940)</u>	<u>(163)</u>	<u>2,602</u>	<u>1,977</u>
Covered employee payroll	\$ 305,181	290,661	289,527	255,607	248,834
Contributions as a percentage of covered employee payroll	7.64 %	7.70 %	7.29 %	8.79 %	8.92 %

(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, 2022
(Dollars in thousands)

Assets	Metropolitan Highway System	Western Turnpike	Tobin Bridge	Other operations	Total
Cash and short-term investments	\$ —	—	—	214,698	214,698
Restricted cash and investments	645,197	350,613	195,222	24,415	1,215,447
Leases receivable	83,950	233,224	—	108,106	425,280
Other receivables, net	70,180	45,215	11,706	22,659	149,760
Other assets	2,326	639	196	369	3,530
Total assets	<u>\$ 801,653</u>	<u>629,691</u>	<u>207,124</u>	<u>370,247</u>	<u>2,008,715</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:					
Liabilities:					
Accounts payable and accrued expenditures	24,202	14,807	2,486	31,044	72,539
Unearned revenue	185,985	1,975	—	15,641	203,601
Total liabilities	<u>210,187</u>	<u>16,782</u>	<u>2,486</u>	<u>46,685</u>	<u>276,140</u>
Deferred Inflows of Resources:					
Unavailable Revenue	49,432	39,130	10,500	—	99,062
Lease related	82,701	229,754	—	106,498	418,953
Total deferred inflows of resources	<u>132,133</u>	<u>268,884</u>	<u>10,500</u>	<u>106,498</u>	<u>518,015</u>
Fund balances:					
Nonspendable	2,326	639	196	369	3,530
Restricted	457,007	343,386	193,942	24,414	1,018,749
Unassigned	—	—	—	192,281	192,281
Total fund balances	<u>459,333</u>	<u>344,025</u>	<u>194,138</u>	<u>217,064</u>	<u>1,214,560</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 801,653</u>	<u>629,691</u>	<u>207,124</u>	<u>370,247</u>	<u>2,008,715</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, 2022
(Dollars in thousands)

	Metropolitan Highway System	Western Turnpike	Tobin Bridge	Other operations	Total
Revenues					
Toll revenue:					
Pledged as security for revenue bonds	\$ 201,033	—	—	—	201,033
Unpledged	—	156,672	41,831	—	198,503
Commonwealth transportation fund:					
Operations	—	—	—	627,407	627,407
Metropolitan highway system bonds	100,000	—	—	—	100,000
Central artery operations and maintenance	25,000	—	—	—	25,000
Rental/lease income	10,835	33,293	—	16,418	60,546
Investment income	3,710	1,057	592	717	6,076
Departmental and other	15,692	9,646	2,499	76,688	104,525
Total revenues	<u>356,270</u>	<u>200,668</u>	<u>44,922</u>	<u>721,230</u>	<u>1,323,090</u>
Expenditures					
Current					
Highway**	134,716	164,452	13,722	291,564	604,454
Planning and Enterprise Services	17,715	11,770	900	101,012	131,397
Registry of motor vehicles	—	—	—	128,150	128,150
Rail and Transit	—	—	—	142,893	142,893
Aeronautics	—	—	—	2,550	2,550
Debt service:					
Principal***	49,799	582	27	2,879	53,287
Interest***	96,611	64	3	314	96,992
Total expenditures	<u>298,841</u>	<u>176,868</u>	<u>14,652</u>	<u>669,362</u>	<u>1,159,723</u>
Excess (deficiency) of revenues over expenditures	<u>57,429</u>	<u>23,800</u>	<u>30,270</u>	<u>51,868</u>	<u>163,367</u>
Other financing sources (uses):					
Transfers in	—	—	—	53,185	53,185
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>53,185</u>	<u>53,185</u>
Net change in fund balances	<u>57,429</u>	<u>23,800</u>	<u>30,270</u>	<u>105,053</u>	<u>216,552</u>
Fund balances at beginning of year	401,904	320,225	163,868	112,011	998,008
Fund balances at end of year	<u>\$ 459,333</u>	<u>344,025</u>	<u>194,138</u>	<u>217,064</u>	<u>1,214,560</u>

See accompanying independent auditors' report.

** Pay go Maintenance expenditures of \$159 million are included in total line (\$65 million in MHS & \$94 million WT)

*** The Principal and Interest payment amounts reported under the WT, Tobin and Other operations are related to lessee agreements in accordance with GASB Statement no. 87, leases implementation. Included in the MHS is \$1.36 million of Principal and \$0.14 million of interest payment also related to lessee agreements.