OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT

Reporting Entity Fiscal Year 2018 Annual Report

Reporting Agency Overview

Reporting Agency Name

Massachusetts Port Authority

General Description

Massport operates an integrated transportation system that delivers world-class safety, security, facilities, and customer services in an environmentally responsible manner. The Authority's facilities include airport properties, comprising Boston-Logan International Airport, Worcester Regional Airport and Laurence G. Hanscom Field ("Hanscom Field"); maritime properties including the Paul W. Conley Marine Terminal ("Conley Terminal"); the Flynn Cruiseport Boston at the Black Falcon Terminal ("Flynn Cruiseport Boston"); and various maritime and industrial port properties, located in Charlestown, South Boston and East Boston; and various commercial and residential properties, located primarily in South Boston and East Boston. Massport is a key economic development engine for the Commonwealth that generates $18,000,000,000 of economic impact for the Commonwealth annually through our transportation assets.

Agency Mission

A world class organization of people moving people and goods – and connecting Massachusetts and New England to the world – safely and securely and with a commitment to our neighboring communities.

Agency Budget funded by the Commonwealth of Massachusetts

$0.00

Agency Total Budget ***(including Commonwealth of Massachusetts funding)***

Massport's approved budget for the fiscal year beginning July 1, 2017 is $783,000,000 and is the result of a collaborative and deliberative process with a clear focus on our strategic objectives. This budget will enhance safety and security at our facilities and will support Massport's overall mission to grow the regional economy by allowing us to invest in our transportation infrastructure to serve current and future demand, support our business partners, invest in our employees, and enhance the quality of life in our impacted neighborhoods and communities while protecting the environment. Overall, the Fiscal Year 2018 budget directs resources and capital investment to fulfill major policy objectives while balancing the need to maintain long-term financial stability and preserve our AA bond ratings.

Agency Budget funded by the Commonwealth of Massachusetts *Expended*

$0.00

Program / Initiative Information

Program / Inititiave #1

Name

Safety and Security

Program Citation (Legislation) - if applicable

Not Applicable

Legislation Website Link - if applicable

Not Applicable

Bill Item Number - if applicable

Not Applicable

Program / Initiative Website Link - if one exists

Not Applicable

Description of Program / Initiative

The safety and security of our transportation facilities is Massport's highest priority objective. Our transportation assets are vital to growing and expanding the reach of the Massachusetts economy. Massport invests in physical infrastructure and telecommunications to support emergency response and security screening and collaborates with the Transportation Security Administration, Federal Aviation Administration, Customs and Border Patrol, other governmental agencies and academia to deploy the latest processes, technology and assets as we continuously work to enhance safety and security. Our commitment to safety, security and emergency preparedness imparts public confidence and ensures the continued economic contributions of our facilities.

Fiscal Year 2018 Line Item Number (#### - ####) - if applicable

Not Applicable

Fiscal Year 2018 Budget

Not Applicable

Total Fiscal Year 2018 Budget expended

Not Applicable

Total Budget (Total $, including other sources)

Not Applicable

Details of additional funding sources

Program costs are shared across multiple departments and are not budgeted/tracked.

Program / Inititiave #2

Name

Customer Service

Program Citation (Legislation) - if applicable

Not Applicable

Legislation Website Link - if applicable

Not Applicable

Bill Item Number - if applicable

Not Applicable

Program / Initiative Website Link - if one exists

Not Applicable

Description of Program / Initiative

Providing exceptional customer service at our facilities is essential for ensuring their continued economic contributions to the Commonwealth. Significant business activity growth at Logan Airport and Massport's maritime properties provides economic opportunities for the region, and requires Massport to make significant investments in passenger terminals, airfields, port infrastructure and ground transportation to maintain high customer service levels. Massport strives to continuously improve the passenger experience by upgrading its facilities and service offerings and employing new technologies as outlined in Massport's Strategic Plan. One specific example of customer service that Massport provides to its customers in conjunction with the MBTA is free bus service on the SilverLine 1 route from Logan Airport into Boston. The MBTA provides this service, and Massport reimburses them for the cost.

Fiscal Year 2018 Line Item Number (#### - ####) - if applicable

Not Applicable

Fiscal Year 2018 Budget

Not Applicable

Total Fiscal Year 2018 Budget expended

Not Applicable

Total Budget (Total $, including other sources)

Not Applicable

Details of additional funding sources

Program costs are shared across multiple departments and are not budgeted/tracked.

Program / Inititiave #3

Name

Worcester Regional Airport

Program Citation (Legislation) - if applicable

Not Applicable

Legislation Website Link - if applicable

Not Applicable

Bill Item Number - if applicable

Not Applicable

Program / Initiative Website Link - if one exists

Not Applicable

Description of Program / Initiative

The Worcester Regional Airport is a critical transportation resource for the Central Massachusetts region. Massport's mission for the Worcester Regional Airport is to provide commercial airline service and premier general aviation facilities to the Greater Worcester region. To achieve this goal Massport has invested over $32,000,000 with plans to invest over $100,000,000 in infrastructure, operations and marketing of the facility by 2020. Over a 10-year period, this investment and growth in commercial airline services is expected to contribute $369,000,000 of economic activity and 388 jobs to Central Massachusetts.

Fiscal Year 2018 Line Item Number (#### - ####) - if applicable

Not Applicable

Fiscal Year 2018 Budget

$32,489,766 ($10,670,766 operating expense plus $21,819,000 capital expense)

Total Fiscal Year 2018 Budget expended

$25,694,057 ($10,690,057 operating expense plus $15,004,000 capital expense)

Total Budget (Total $, including other sources)

$32,489,766 ($10,670,766 operating expense plus $21,819,000 capital expense)

Details of additional funding sources

Not Applicable

Program / Inititiave #4

Name

Be an Economic Engine for the Commonwealth

Program Citation (Legislation) - if applicable

Not Applicable

Legislation Website Link - if applicable

Not Applicable

Bill Item Number - if applicable

Not Applicable

Program / Initiative Website Link - if one exists

Not Applicable

Description of Program / Initiative

Massport plays a critical role in the region's economy. In total, Massport's premier transportation facilities generate $18,000,000,000 of economic activity each year and support more than 181,000 jobs. Businesses across the Commonwealth rely on Logan International Airport and Conley Container Terminal to ship and receive goods globally. The state's tourism industry benefits from the millions of visitors who travel from around the globe through Logan Airport or Flynn Cruiseport Boston annually. Massport also supports employment in the Commonwealth not only through the jobs at Massport's facilities – with over 18,000 people employed at Logan and 1,300 employed at Massport – but also blue collar jobs in two important "clusters": seafood processing in the Seaport District and manufacturing across the Commonwealth. The Boston seafood processing cluster that exists on Massport property in the Seaport District anchors nearly 100,000 seafood industry jobs in Massachusetts. Cargo container processing at Conley Terminal supports Massachusetts' growing manufacturing economy by facilitating imports and exports for Massachusetts businesses and sustains 3,500 good-paying jobs for the region. Finally, real estate developments on Massport owned properties in South Boston and East Boston are part of Massport's economic engine by creating jobs and bringing businesses and visitors to Boston's waterfront areas.

Fiscal Year 2018 Line Item Number (#### - ####) - if applicable

Not Applicable

Fiscal Year 2018 Budget

Not Applicable

Total Fiscal Year 2018 Budget expended

Not Applicable

Total Budget (Total $, including other sources)

Not Applicable

Details of additional funding sources

Program costs are shared across multiple departments and are not budgeted/tracked.

Program / Inititiave #5

Name

Improve Maritime Operations

Program Citation (Legislation) - if applicable

Not Applicable

Legislation Website Link - if applicable

Not Applicable

Bill Item Number - if applicable

Not Applicable

Program / Initiative Website Link - if one exists

Not Applicable

Description of Program / Initiative

Massport has made significant progress towards enhancing maritime activities in the Port of Boston, which supports more than 7,000 blue collar jobs and $4,600,000,000 in annual economic output. Massport's investment in its maritime businesses, which consist of the Conley Container Terminal, Flynn Cruiseport Boston, the Autoport in Charlestown, and seafood processing tenants in South Boston, are driving business growth, providing jobs and economic benefits for the Commonwealth.

Conley Terminal, the only full-service, deep-water port in New England, is currently served weekly by 12 of the world's largest international container shipping lines. It helps the region remain competitive by facilitating the domestic and international shipping needs of hundreds of Massachusetts businesses by handling more than 13,000,000 metric tons of containerized and bulk cargo annually. Massport and the Commonwealth are partnering to help fund the $350,000,000 Army Corps of Engineers' Boston Harbor Dredging Project, to deepen the harbor to 50 feet so it can accommodate the larger ships being deployed by the container shipping lines. In another partnership, the Commonwealth authorized investment of $107,500,000 million through the 2016 Economic Development Bill to help fund a $250,000,000 project to construct a new deeper berth and larger cranes to service the bigger ships and maintain the economic benefits provided by Conley Terminal.

The Flynn Cruiseport Boston celebrated its 30th anniversary in 2016. Three of the world's largest cruise lines and a luxury cruise liner operate homeport cruises from Boston with itineraries to Bermuda and eastern Canada/New England. Numerous other port-of-call ships visit the Flynn Cruiseport throughout the the season. These cruises bring to Boston more than 350,000 annual visitors, who patronize area restaurants, retail shops and attractions, bolstering the region's tourism industry.

Fiscal Year 2018 Line Item Number (#### - ####) - if applicable

Not Applicable

Fiscal Year 2018 Budget

Not Applicable

Total Fiscal Year 2018 Budget expended

Not Applicable

Total Budget (Total $, including other sources)

Not Applicable

Details of additional funding sources

Program costs are shared across multiple departments and are not budgeted/tracked.

Program / Inititiave #6

Name

Community Collaboration - Good Neighbor

Program Citation (Legislation) - if applicable

Not Applicable

Legislation Website Link - if applicable

Not Applicable

Bill Item Number - if applicable

Not Applicable

Program / Initiative Website Link - if one exists

Not Applicable

Description of Program / Initiative

While there are economic development advantages to having Massport's facilities, like Logan Airport, in close proximity to major business centers in the Commonwealth, there are also challenges as Massport's operations may impact neighboring communities. Massport tries to balance the impacts to local communities with the needs of travelers and shippers and has a long history of community engagement and investing to improve the economic vibrancy of our neighboring communities and improve quality of life. Working hand in hand with community leaders, Massport has created more than 40 acres of public parks and green spaces including Piers Park and Bremen Street Park in East Boston and the Butler Memorial Park and Maritime Park in South Boston. Massport also creates economic benefits through funding summer job programs for students in

Fiscal Year 2018 Line Item Number (#### - ####) - if applicable

Not Applicable

Fiscal Year 2018 Budget

Not Applicable

Total Fiscal Year 2018 Budget expended

Not Applicable

Total Budget (Total $, including other sources)

Not Applicable

Details of additional funding sources

Program costs are shared across multiple departments and are not budgeted/tracked.

Program / Inititiave #7

Name

Hanscom Field

Program Citation (Legislation) - if applicable

Not Applicable

Legislation Website Link - if applicable

Not Applicable

Bill Item Number - if applicable

Not Applicable

Program / Initiative Website Link - if one exists

Not Applicable

Description of Program / Initiative

Hanscom Field is a full service general aviation (GA) airport and New England's premier business aviation facility. Located approximately 20 miles northwest of Boston and situated near several major roadways (Route 2/2A, Route 128/I-95, and Route 3), Hanscom is an important component of the regional transportation network. Due to its strategic location in an area dominated by technology companies and its proximity to Boston, Hanscom Field is a popular choice for business executives who want easy access to Eastern Massachusetts and is home to private and corporate aircraft of all sizes. To continue to foster Hanscom's economic significance to the region, Massport partners with the corporate and general aviation industry to make needed investments such as the newly opened Rectrix and Jet Aviation FBO facilities. On an annual basis Hanscom Field (including the operations of the Air Force Base) contributes $1,300,000,000 to the Massachusetts economy and supports more than 12,000 jobs in the Commonwealth.

Fiscal Year 2018 Line Item Number (#### - ####) - if applicable

Not Applicable

Fiscal Year 2018 Budget

$33,187,236 ($13,755,236 operating expense plus $19,432,000 capital expense)

Total Fiscal Year 2018 Budget expended

$28,184,678 ($14,533,678 operating expense plus $13,651,000 capital expense)

Total Budget (Total $, including other sources)

$33,187,236 ($13,755,236 operating expense plus $19,432,000 capital expense)

Details of additional funding sources

Not Applicable

Program / Inititiave #8

Name

Financial Health & Internal Controls

Program Citation (Legislation) - if applicable

Not Applicable

Legislation Website Link - if applicable

Not Applicable

Bill Item Number - if applicable

Not Applicable

Program / Initiative Website Link - if one exists

Not Applicable

Description of Program / Initiative

Massport’s stewardship of public transportation assets requires strong financial discipline and internal controls. The Authority has an obligation to maintain current assets and build new assets to continue meeting the transportation needs of the Commonwealth and providing jobs and economic benefits.

Massport generates all of its own revenues to support its $783,000,000 operating budget and invest in its $2,400,000,000 capital program. On an annual basis, Massport undertakes approximately $250,000,000 of capital improvements and $150,000,000 of state of good repair expenditures. Operating income generated by Logan Airport essentially offsets the losses generated by other Massport businesses, resulting in a razor thin net operating margins. Raising airline rates and parking fees enables us to continue investing in the transportation infrastructure that is critical to the

Fiscal Year 2018 Line Item Number (#### - ####) - if applicable

Not Applicable

Fiscal Year 2018 Budget

Not Applicable

Total Fiscal Year 2018 Budget expended

Not Applicable

Total Budget (Total $, including other sources)

Not Applicable

Details of additional funding sources

Program costs are shared across multiple departments and are not budgeted/tracked.

OUTCOMES OF GOALS LISTED WITHIN AGENCY'S FISCAL YEAR 2018
OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT ANNUAL PLAN

Goal: Safety & Security

Opportunities for All Category: [x] Business [x] Citizens [ ] Communities

Relevant Program(s) & Initiative(s)	Metrics	Completed?	Results -or- Reason why not complete
Receive annual Federal Aviation Administration Operating Certificate for Massport airports.	FAA Part 139 Certificates of Approval.	Yes	Part 139 Inspections for Logan, Hanscom and Worcester are completed for 2017 and all three airports remain compliant.
Receive annual U.S. Coast Guard Certification of Compliance with Marine Transportation and Security Act.	Certificate of Compliance from the U.S. Coast Guard.	Yes	Audit completed and U.S. Coast Guard Certificate of Compliance received.
Increase emergency preparedness.	Conduct five exercises to address specific emergency preparedness needs.	Yes	Exercises completed include (1) Zone Management table top exercises; (2) Interoperable Communications; (3) Logan Emergency Access Plan Full Scale Exercise 2017; (4) 2017 Aviation Security; (5) Logan Emergency Access Plan Restoring Operations Tabletop Exercise and numerous other drills and exercises were completed.
Increase emergency preparedness.	Conduct a patient tracking workshop in partnership with Boston EMS, MassDEP, U.S. State Department and foreign consulates	Partially	Planning for a patient tracking workshop in conjunction with Boston Emergency Medical Services, Mass Dept. of Public Health, US Dept. of State and Foreign consulates using the scenario of mass casualties and fatalities is on-going.
Enhance security measures at Massport facilities.	Develop a Central Receiving and Distribution Program for Logan Airport to eliminate curbside deliveries.	Partially	Concessionaire contracted with a logistics company to develop a Central Receiving and Distribution Program in Fiscal Year 18. Program to be implemented at Logan Airport in Fall 2018.

Enhance security measures at Massport facilities.	Coordinate with the Customs and Border Patrol (CBP) to complete operational functionality of the Passport Cargo Container Inspection and Screening Facility at Conley Terminal.	Yes	Maritime Security conducted an exercise at the Passport Building and tested security measures for monitoring the facility in accordance with the facility security plan.

Goal: Customer Service

Opportunities for All Category: [x] Business [x] Citizens [ ] Communities

Relevant Program(s) & Initiative(s)	Metrics	Completed?	Results -or- Reason why not complete
Build customer amenities to improve service at Logan Airport and other Massport facilities	Start construction of the Terminal B Optimization project to accommodate the merger of American Airlines and US Airways.	Yes	Construction is ongoing and will be completed in Fiscal Year 19.
Build customer amenities to improve service at Logan Airport and other Massport facilities	Amend the Logan Airport Parking Freeze to add 5,000 new parking spaces.	Yes	Logan Airport Parking Freeze was amended in Fiscal Year 18.
Build customer amenities to improve service at Logan Airport and other Massport facilities	Secure state and federal environmental permits for up to 5,000 new parking spaces at Logan pending amendment of the Logan Airport Parking Freeze.	Partially	Draft Environmental Impact Report is being prepared and will be filed in Fiscal Year 19.
Build customer amenities to improve service at Logan Airport and other Massport facilities	Provide enhanced Wi-Fi services to passengers, tenants, and vendors by upgrading Logan's airport-wide Wi-Fi infrastructure.	Yes	New Wi-Fi infrastructure with dramatically increased speeds is operational in all terminals.
Build customer amenities to improve service at Logan Airport and other Massport facilities	Expand Digital Signage including new Flight Information Displays (FIDS), new interactive way-finding stations and the "InfoBar" concept to new locations at Logan Airport.	Yes	The first LED roadway sign was installed over the Route 1A airport entrance to support terminal airlines. A new Flight Information Display Screen and InfoBar were installed to support the Terminal B 37/38 connector project.

Build customer amenities to improve service at Logan Airport and other Massport facilities	Execute a lease for the Logan Airport In-Terminal Concessions Program to expand and upgrade offerings to airport customers.	Yes	A lease agreement was executed with a new concession management company and a new concession program was implemented in all terminals.

Goal: Worcester Regional Airport

Opportunities for All Category: [x] Business [x] Citizens [ ] Communities

Relevant Program(s) & Initiative(s)	Metrics	Completed?	Results -or- Reason why not complete
Invest in assets to improve commercial service and general aviation activities at this Massport facility.	Complete construction of the CAT III Instrument Landing System and Taxiway project.	Yes	The CAT III Instrument Landing System and Taxiway project was completed and the CAT III system was placed into service in March 2018.
Increase the economic impact of Worcester Regional Airport	Support JetBlue to upgrade existing services or add a new destination.	Yes	In May, JetBlue successfully launched a third daily flight with nonstop service to New York JFK. American Airlines announced new nonstop service to Philadelphia, effective October 2018.
Increase the economic impact of Worcester Regional Airport	Exceed 120,000 passengers in CY 2017.	No	Worcester served 110,000 passengers in Calendar Year 2017.
Increase the economic impact of Worcester Regional Airport	Support general aviation in partnership with Rectrix Aviation to establish a fleet base and maintenance operations at Worcester.	Partially	Massport coordinated with Rectrix and contractors on the final design and construction of a new fuel farm at Worcester Regional Airport. Construction to be completed in Fall 2018.

Goal: Be an Economic Engine for the Commonwealth

Opportunities for All Category: [x] Business [x] Citizens [ ] Communities

Relevant Program(s) & Initiative(s)	Metrics	Completed?	Results -or- Reason why not complete
Increase the economic impact of Logan Airport.	Reach 38 million passengers at Logan Airport in CY 2017.	Yes	Logan exceeded the goal by serving 38,400,000 passengers in Calendar Year 2017.

Increase the economic impact of Logan Airport.	Secure at least one new international non-stop service at Logan.	Yes	Six new international services announced: TACV Cape Verde (eff. 1/18); Level Airlines Barcelona (eff. 3/18); LATAM Sao Paulo (eff. 7/18); Avianca San Salvador (eff. 8/18); JetBlue Havana (eff 11/2018); and Sichuan Airlines Chengdu (eff. Spring 2019).
Increase the economic impact of Logan Airport.	Start the design and construction of the Terminal E Modernization Project (Phase 1) to accommodate growth in international passengers.	Partially	Program definition for the Terminal E project was completed in Fiscal Year 18 and preliminary design will be completed in Fall 2018.
Support tourism and economic development in the Seaport District	Complete and execute a development agreement and ground lease for a Summer Street Hotel.	Yes	A lease for the Omni Hotel development was executed in July 2018. Initial site work and excavation for foundations commenced in July.
Support tourism and economic development in the Seaport District	Complete construction of the South Boston Waterfront Transportation Center to expand parking and transportation options in the Seaport District.	Yes	The South Boston Waterfront Transportation Center was opened for operation in May 2018.
Support tourism and economic development in the Seaport District	Seek additional cruise business to increase the economic impact of Cruiseport Boston by adding new/larger ships and new itineraries through the Cruise Incentive Program.	Yes	The 2018 season includes new itineraries to Cuba and the Caribbean, and a new line going to Bermuda.
Support the fishing and seafood processing industries.	Negotiate and execute agreements with selected developers (Cape Cod Shellfish and Pilot Development) for the development of the Massport Marine Terminal.	Partially	Pilot Development to enter into a ground lease by November 1, 2018. Cape Cod Shellfish to enter into a Development Agreement by December 31, 2018.

Support the fishing and seafood processing industries.	Sponsor the Boston Fisheries Foundation 2017 Seafood Festival.	Yes	On August 13th, the 6th annual Boston Seafood Festival was held on the Boston Fish Pier. An estimated 6,000 people attended the event, which featured local restaurants promoting sustainable seafood to the public in a fun, engaging and educational way.

Goal: Improve Maritime Operations

Opportunities for All Category: [x] Business [x] Citizens [ ] Communities

Relevant Program(s) & Initiative(s)	Metrics	Completed?	Results -or- Reason why not complete
Increase cargo ship container volumes and cruise passengers at our facilities in the Port of Boston.	Service at least 138,500 containers at Conley Terminal.	Yes	In Fiscal Year 18, Conley Terminal serviced 161,130 containers, a 10.7% increase over Fiscal Year 17.
Increase cargo ship container volumes and cruise passengers at our facilities in the Port of Boston.	Surpass 390,000 cruise passengers at Flynn Cruiseport Boston during the 2017 Cruise Season.	No	For the 2017 cruise season, Flynn Cruiseport Boston served 388,222 passengers just under the goal, but still the highest passenger volume on record.
Increase cargo ship container volumes and cruise passengers at our facilities in the Port of Boston.	Advance the Boston Harbor Dredging Project by starting the maintenance dredging and securing federal funding for improvement dredging.	Yes	The US Army Corps Fiscal Year 18 work plan included $58,000,000 for Boston Harbor Dredging. Maintenance dredging was complted in December 2017 and improvement dredging began in July 2018.

Goal: Community Collaboration – Good Neighbor

Opportunities for All Category: [ ] Business [x] Citizens [x] Communities

Relevant Program(s) & Initiative(s)	Metrics	Completed?	Results -or- Reason why not complete

Establish partnerships with organizations in neighboring communities around shared goals to enhance quality-of-life and economic vibrancy.	Create summer jobs at Massport facilities for the youth from neighboring communities.	Yes	In Fiscal Year 18, Massport created 95 summer jobs for youth from neighboring communities. In addition, Massport partnered with organizations in neighboring communities to fund 338 summer jobs in the communities.
Establish partnerships with organizations in neighboring communities around shared goals to enhance quality-of-life and economic vibrancy.	Open the Thomas J. Butler Memorial Park in South Boston.	Yes	The 4.5 acre park Thomas J. Butler Memorial Park with a path for runners and walkers, trees and flowers, seating and lighting, bike racks and a separately enclosed dog park, was officially opened in November 2017.
Establish partnerships with organizations in neighboring communities around shared goals to enhance quality-of-life and economic vibrancy.	Select a consultant team and complete the program definition phase for the Piers Park II project along the East Boston waterfront.	Partially	Consultant contract was executed in March 2018. Project kickoff with the East Boston Piers Park Advisory Committee was held in April, 2018. Project definition is underway and on schedule to be completed in 2019.

Goal: Hanscom Field

Opportunities for All Category: [x] Business [ ] Citizens [ ] Communities

Relevant Program(s) & Initiative(s)	Metrics	Completed?	Results -or- Reason why not complete
Increase private capital investment and promote stronger community dialogue.	Complete construction of the Hangar 12 redevelopment.	Partially	Hangar 12 construction is ongoing and on schedule for a Fall 2018 completion.
Increase private capital investment and promote stronger community dialogue.	Develop new general aviation facilities on the North Airfield Campus.	Partially	In Fiscal Year 18, a Draft Environmental Assessment (EA) for the project was submitted, public hearing was held and public comments were received. Final EA will be submitted to FAA in Fiscal Year 19. Responses to the Developer Request For Proposal were received during Q4 with selection anticipated in early Fiscal Year 19.

Goal: Financial Health & Internal Controls

Opportunities for All Category: x Business x Citizens x Communities

Relevant Program(s) & Initiative(s)	Metrics	Completed?	Results -or- Reason why not complete
Develop financial plans necessary to maintain strong financial results and lower internal audit findings	Balance budget and develop Five Year financial plan	Yes	The five year Financial Plan for the $2,400,000,000 Capital Program was approved by the Board in February. An $823,000,000 Fiscal Year 19 operating budget was submitted to and approved by the Board in June.
Develop financial plans necessary to maintain strong financial results and lower internal audit findings	Maintain AA Bond Ratings	Yes	Massport's AA bond ratings were affirmed by Fitch (August 2018) and Standard & Poors (October 2018).
Develop financial plans necessary to maintain strong financial results and lower internal audit findings	Reduce number of internal audit findings	Yes	Open internal audit issues were reduced to 32, at the end of Fiscal Year 18, below the goal of 50.

INVESTMENTS AND GRANTS AWARDED OR PROVIDED BY THE AGENCY DURING FISCAL YEAR 2018

Award Overview
Not Applicable

TECHNICAL ASSISTANCE PROVIDED BY THE AGENCY DURING FISCAL YEAR 2018

Overview
Not Applicable

LOANS, REAL ESTATE LOANS, WORKING CAPITAL LOANS AND GUARANTEES APPROVED BY THE AGENCY IN FISCAL YEAR 2018

Overview
Not Applicable

OTHER FINANCIAL ASSISTANCE PROVIDED

Overview
Not Applicable

PATENTS & PRODUCTS RESULTING FROM AGENCY-FUNDED ACTIVITIES

Name of Recipient
Not Applicable

OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT

POINT OF CONTACTS

Point of Contact for Head of Agency

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Title

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MASSACHUSETTS PORT AUTHORITY

Financial Statements, Required Supplementary Information, and Supplementary Schedules

Years Ended June 30, 2018 and 2017

(With Report of Independent Auditors)

MASSACHUSETTS PORT AUTHORITY

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Report of Independent Auditors

To the Members of the Massachusetts Port Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Port Authority (the Authority), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Pronouncement

As discussed in Note 1 to the financial statements, as of July 1, 2016, the Authority adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

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Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis, the schedule of pension contributions, schedule of changes in the net pension liability and related ratios, schedule of OPEB contributions, and schedule of changes in the net OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst & Young LLP

September 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the activities and financial performance of the Massachusetts Port Authority (the Authority) provides an introduction to the financial statements of the Authority for the fiscal years ended June 30, 2018 and 2017. This discussion was prepared by management, and it should be read in conjunction with the audited financial statements and notes that follow this section.

Overview of the Financial Statements

The Authority's financial statements consist of: (1) the Statements of Net Position; (2) the Statements of Revenues, Expenses and Changes in Net Position; and (3) the Statements of Cash Flows. These financial statements have been prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

The comparative Statements of Net Position depict the Authority's financial position as of a point in time, specifically June 30, 2018, 2017 and 2016, and include all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Authority. Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. The Authority's net position is divided into three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Please see Note 1 in the financial statements attached hereto for a discussion on the Authority's net position.

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

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

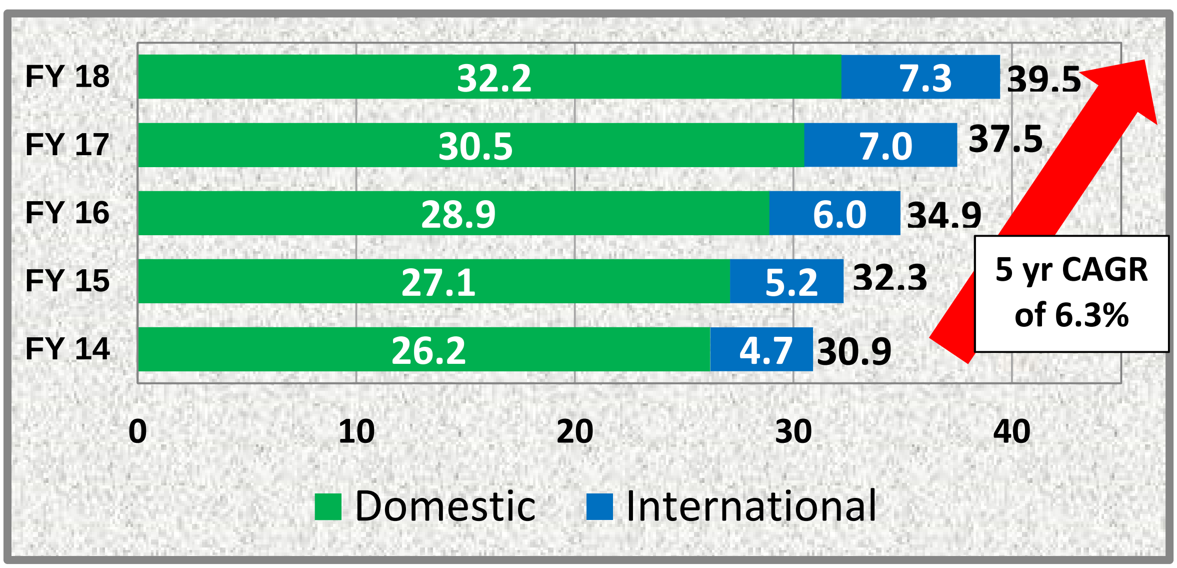
Business Activity Highlights for Fiscal Year 2018

Logan Airport sets new record by serving 39.5 million passengers, 2.0 million more passengers than prior year

- **Passengers** ↑ **5.4%** versus prior year.
- Domestic passengers of 32.2 million were up 1.7 million or 5.8%. Major contributors to growth were JetBlue Airways (+0.8 million passengers), Delta Air Lines (+0.4 million passengers) and Spirit Airlines (+0.2 million passengers).
- International passengers of 7.3 million were up 0.3 million or 3.7%. Factors contributing to the increase included new services by low cost carriers Norwegian Airlines and WestJet Airlines, the full year impact of Avianca's Bogota service initiated in late FY 2017, growth by Cathay Pacific to Hong Kong and the addition of service by Delta Air Lines to Dublin.
- Record number of 132 nonstop destinations served; 75 domestic and 57 international.
- Logan Express High Occupancy Vehicle (HOV) bus ridership between Logan Airport and Braintree, Framingham, Peabody and Woburn grew by 5.7%, in line with Logan Airport passenger growth.

LOGAN INTERNATIONAL AIRPORT

Passengers Served (Millions)

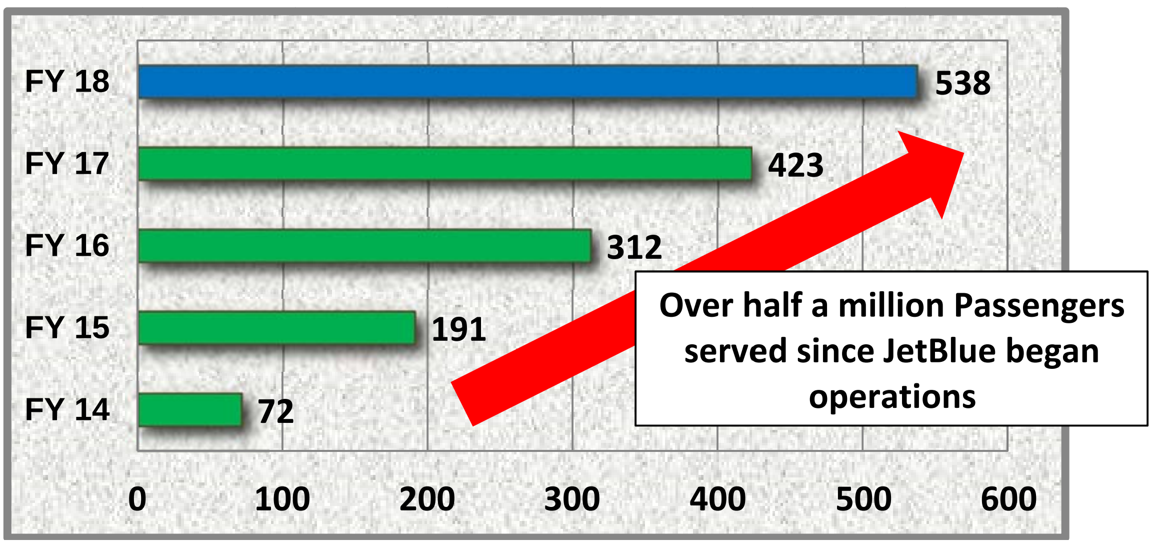


Worcester Regional Airport welcomes new JetBlue service to New York – JFK and American Airlines announces service

- **New airlines to serve Worcester by 1** as American Airlines announced plans to introduce service between Worcester and its Philadelphia hub beginning in October 2018.
- Load Factors on Orlando and Ft. Lauderdale flights remained above 80%.
- Completed installation of CAT III Instrument Landing System to allow aircraft to use the airport during periods of poor visibility.

WORCESTER REGIONAL AIRPORT

Cumulative JetBlue Passengers (thousands)



Conley Terminal continued record-setting growth by handling 283,720 TEUs (Twenty-foot Equivalent Units)

- **TEU volume 10.4%** versus prior year.
- Higher volume driven by strong New England economy, the efficiency of the terminal as demonstrated by minimal congestion for truckers accessing the terminal, highly productive workforce as evidenced by an average of 33 container lifts per hour per crane, and a strong focus on customer service.

- The trend toward larger container ships continued in FY18 as Conley was visited on May 23 by the largest ship ever to call on the terminal, the *Seaspan Elbe*, with a capacity of 10,000 TEUs.

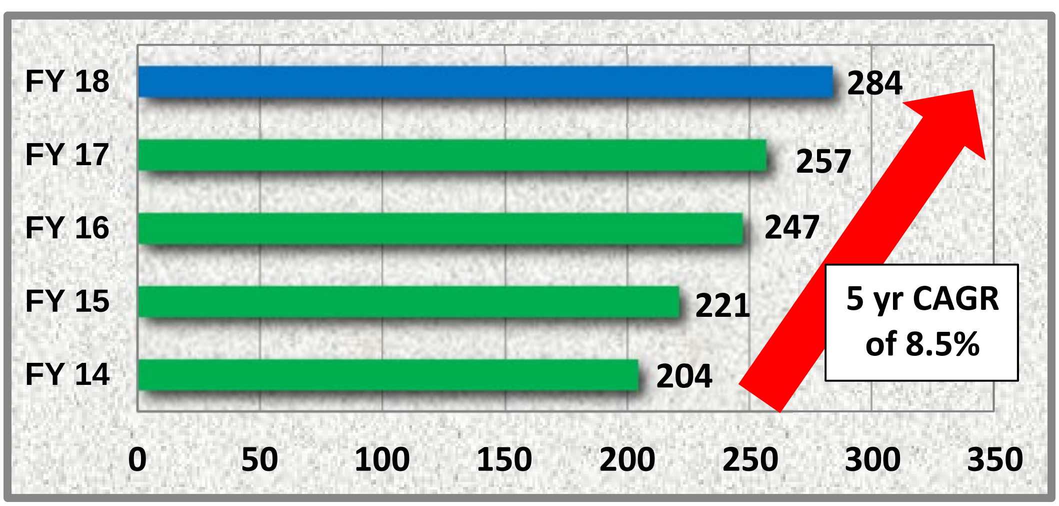
- Significant progress was made to accommodate the larger container ships during FY18. The Boston Harbor Dredging project advanced with the completion of the maintenance dredging component, which increased the depth of the inner portion of the harbor. The improvement dredging component to deepen the outer portion of the harbor leading into Conley Terminal was bid in FY18 and actual dredging began in July 2018. It is expected to be completed by the Army Corp of Engineers in FY22. When finished, the South North channel depth will be increased to 51 feet, and the Main Shipping Channel (MSC) and turning basin will be deepened and widened to 47 feet.

- The Conley Terminal modernization initiative, funded in part with a $42 million FASTLANE grant from the federal government, also advanced during FY18. At Berth 12, 20 new fenders capable of accommodating the larger cargo vessels were installed to replace the older obsolete ones. At Berth 11, structural improvements began and a contract to deepen that berth was awarded. Finally, the procurement process to replace all 14 of the yard tractors began, with the first seven scheduled for delivery in November 2018.

- Construction of the new deep-water Berth 10 began in June 2018, and the Authority is in the process of acquiring three new cranes capable of servicing the larger container ships. This work is being partially funded with $107.5 million of state funds.

CONLEY CONTAINER TERMINAL

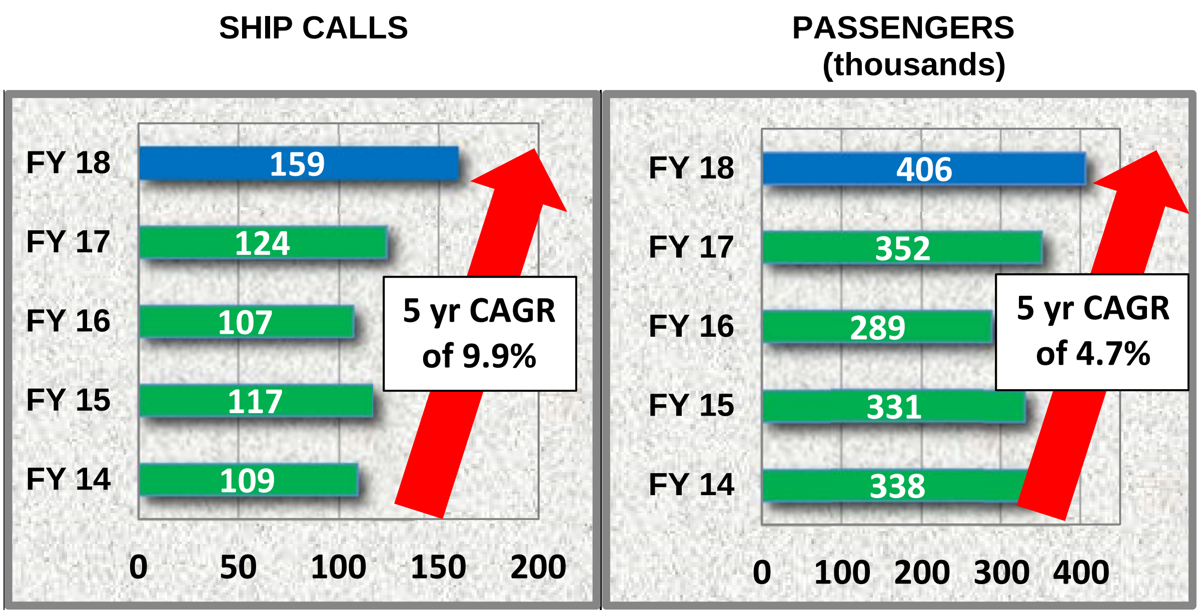
TEUs PROCESSED (thousands)



Flynn Cruiseport sets new record by serving 159 Cruise Ships and 406,369 Passengers

- Number of **ship calls** ⬆ **28.2%** or 35 ships versus prior year.
- **Cruise passengers** ⬆ **15.5%** or 54,455 passengers versus prior year.
- Ship and Passenger volume increased due to an earlier start to cruise season 2018 and more ship calls early and late in the season as well as introduction of new itineraries such as Cuba.
- Flynn Cruiseport Boston welcomed three new cruise lines during FY18, including TUI with Mein Schiff 6, Hurtigruten with the MS Fram, and Noble Caledonia with the Hebridean Sky.

FLYNN CRUISEPORT BOSTON



Real Estate opens South Boston Waterfront Transportation Center (SBWTC); Construction begins on other parcels

- The South Boston Waterfront Transportation Center opened for business in May 2018. This facility includes a 1,550-space garage to support the rapid growth in the Seaport District, and also serves as a mobility hub for the community with a connection to the MBTA and other transportation modes. It is located near the Boston Convention and Exhibition Center and next to the new Omni Hotel that is under construction.

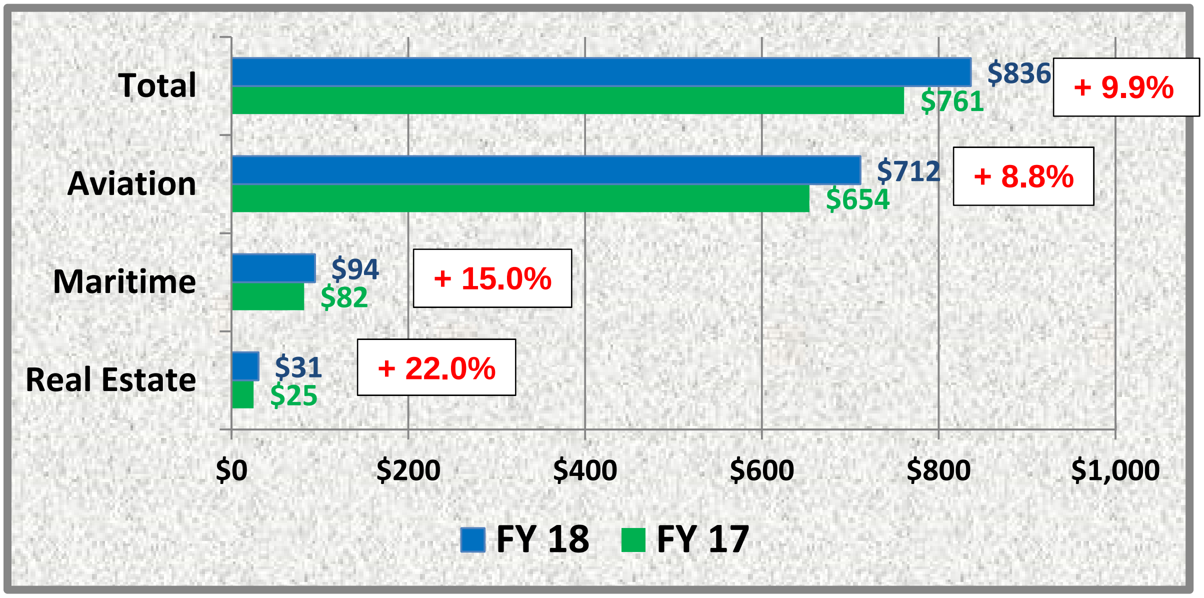
- Held groundbreaking ceremony for the 1,000+ room Omni Hotel being constructed on land owned by the Authority across from the Boston Convention and Exhibition Center. In addition to providing hotel capacity to support convention center demand, the Authority's decision to select Omni was based in part on first of its kind diversity and inclusion criteria to have minority-owned businesses participate in the equity, design, construction, development and hotel operations.
- Developers began construction on two properties in South Boston, a mixed-use development on land owned by the Authority known as Parcel K that will have a Hyatt Place hotel as well as an apartment complex, and on Gables Seaport, which is the next phase of the Waterside Place apartment complex.

Financial Highlights for Fiscal Year 2018

Operating Revenue increased $75 million to $836 million

- **Total Operating Revenue** ↑ **9.9%** versus prior year.
- Aviation revenue up $57.7 million or 8.8% due to recovery of operating and capital costs from airlines, $11 million in additional parking revenue due mainly to a $3.00 rate increase, and volume-related revenues such as concessions driven by the 5.4% increase in passengers. This revenue is being used to fund Massport's strategic initiatives and its FY18 – FY22 capital program of $2.4 billion that was approved by the board of directors.
- Maritime revenue up $12.3 million or 14.9% due to a 10% increase in container volume, 15% increase in cruise passengers, and 3%-8% increases in demurrage, usage, wharfage and dockage rates effective January 1, 2018. This revenue is being used to fund Boston Harbor dredging, new cranes, new berths and other improvements for Conley Terminal with an estimated total cost of $850 million.
- Real Estate revenue up $5.5 million or 22.0% due to a one-time closing payment by a developer and higher ground rents, which will be used to support the Conley Terminal strategic plan.

OPERATING REVENUES
($ Millions)



Expenses increased $30 million to $757 million

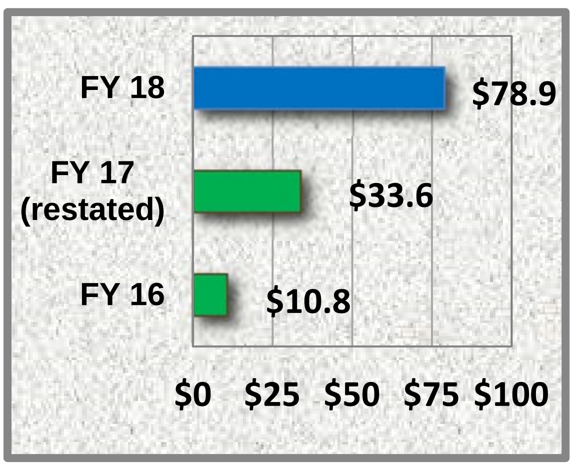
- Higher business activity caused expenses to increase by $5.9 million for items including stevedoring, shuttle bus operation, overtime for container handling, cruise terminal operations and Logan Airport traffic control, credit card processing fees and airport terminal cleaning.
- Payroll expense increased by $5.5 million or 3.0% due primarily to the annual merit and collectively bargained wage increases.
- Utilities expenses were higher by $5.3 million or 16.8% due to a 23% increase in electricity rates.
- Weather-related expenses were up $3.2 million due to 60 inches of snow in fiscal year 2018 versus 48 inches in fiscal year 2017.
- Supplies, Materials, Repairs and Services expenses increased by $3.6 million to enable the airports and port to operate safely and efficiently.
- Miscellaneous expenses were up $5.2 million due primarily to Logan Terminal B and C roadway work, training of a new State Police class, and asset write down for Logan Airport Hangar 16.
- Pension and Other Post-Employment Benefits (OPEB) expense decreased by $9.9 million or 25.4% due to favorable net investment returns of 16.51% (Pension) and 7.59% (OPEB).

- PILOT (Payment in Lieu-of-Taxes) expense was higher by $1.1 million due to the annual increase attributed to growth in the Consumer Price Index and community mitigation payments.
- Depreciation and Amortization expense increased $9.3 million or 3.7% due to $294.3 million of new investment in the Authority's assets.

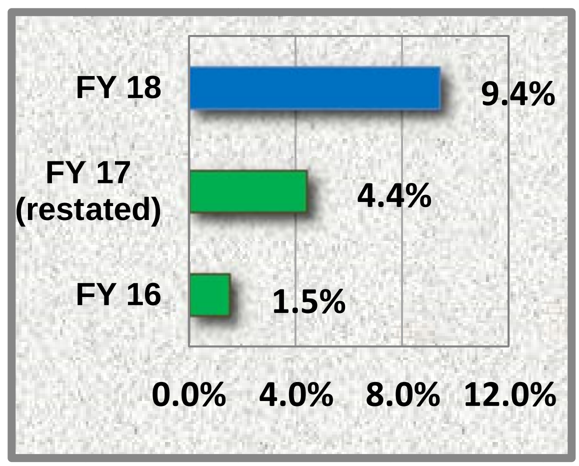
Operating income was $78.9 million, up from $33.6 million in prior year

- In order to fund Massport's $2.4 billion capital program, management's plan called for revenue growth from airline cost recovery, a Logan Airport parking fee increase, and higher business volume revenues to exceed expense growth of 4% resulting in operating income margin expansion.
- FY2018 operating income margin of 9.4% higher than the restated FY2017 margin of 4.4%, but still well below peer airport levels.

OPERATING INCOME
($ Millions)



OPERATING MARGIN



Net Position increased by 7.8%

- Net position is a key indicator of the financial health of the Authority and is comprised primarily of capital assets owned by the Authority. Growth in these capital assets as the Authority invests more in its businesses has resulted in a steady increase in net position over the last several years.
- The fiscal year 2018 increase in net position of $156.2 million was due to $78.9 million of operating income, $51.9 million of non-operating income, and $25.4 million of capital grant revenue.

- Expansion of the Authority's net income will be used to fund the $2.4 billion of capital programs. It will fund critical strategic initiatives such as adding parking capacity and reducing roadway congestion at Logan Airport, the expansion of Terminal E to accommodate more international flights, and the dredging of Boston Harbor and modernization of Conley Terminal to support the industry trend toward larger 10,000+ TEU container ships.
- The impact of GASB 75, which required the Authority to restate fiscal year 2017 results to include the OPEB liability, was a reduction to net position by $165.1 million.

Condensed Statement of Revenues, Expenses and Changes in Net Position
($ millions)

	FY 2018	FY 2017 *(Restated)*	$ Change	% Change
Operating revenues	$ 836.4	$ 760.9	$ 75.5	9.9%
Operating expenses including depreciation and amortization	757.5	727.3	30.2	4.2%
Operating income	**78.9**	**33.6**	**45.3**	**134.8%**
Total non-operating revenues (expenses), net	51.9	43.1	8.8	20.4%
Capital grant revenues	25.4	12.6	12.8	101.6%
Increase (decrease) in net position	**156.2**	**89.3**	66.9	74.9%
Net position, beginning of year	2,008.1	1,918.8	89.3	4.7%
Net position, end of year	**$ 2,164.3**	**$ 2,008.1**	**$ 156.2**	**7.8%**

Note: Fiscal year 2017 results were restated to conform to GASB No. 75 standards for reporting OPEB costs.

	FY 2017 *(Restated)*	FY 2016	$ Change	% Change
Operating revenues	$ 760.9	$ 699.5	$ 61.4	8.8%
Operating expenses including depreciation and amortization	727.3	688.7	38.6	5.6%
Operating income	**33.6**	**10.8**	**22.8**	**211.1%**
Total non-operating revenues (expenses), net	43.1	38.5	4.6	11.9%
Capital grant revenues	12.6	56.0	(43.4)	-77.5%
Increase (decrease) in net position	**89.3**	**105.3**	(16.0)	-15.2%
Net position, beginning of year	2,083.9	1,978.6	105.3	5.3%
Cumulative effect of implementing GASB no. 75	(165.1)	0.0	0.0	0.0%
Net position, beginning of year	1,918.8	0.0	0.0	0.0%
Net position, end of year	**$ 2,008.1**	**$ 2,083.9**	**($ 75.8)**	**-3.6%**

Detailed descriptions of operating revenues and expenses, and non-operating revenues and expenses are described in the following sections.

OPERATING REVENUES

The Authority's operating revenues for fiscal year 2018 were $836.4 million, an increase of $75.5 million or 9.9% over fiscal year 2017. This growth was primarily the result of additional concession revenue driven by the 5.4% increase in passengers at Logan Airport, higher parking revenue due to a fee increase to fund strategic initiatives, higher container volume at Conley Terminal, and the recovery of operating and capital investment expenses from the airlines in the form of higher Landing Fees and Terminal Rent. This revenue increase will help fund the Authority's $2.4 billion capital program.

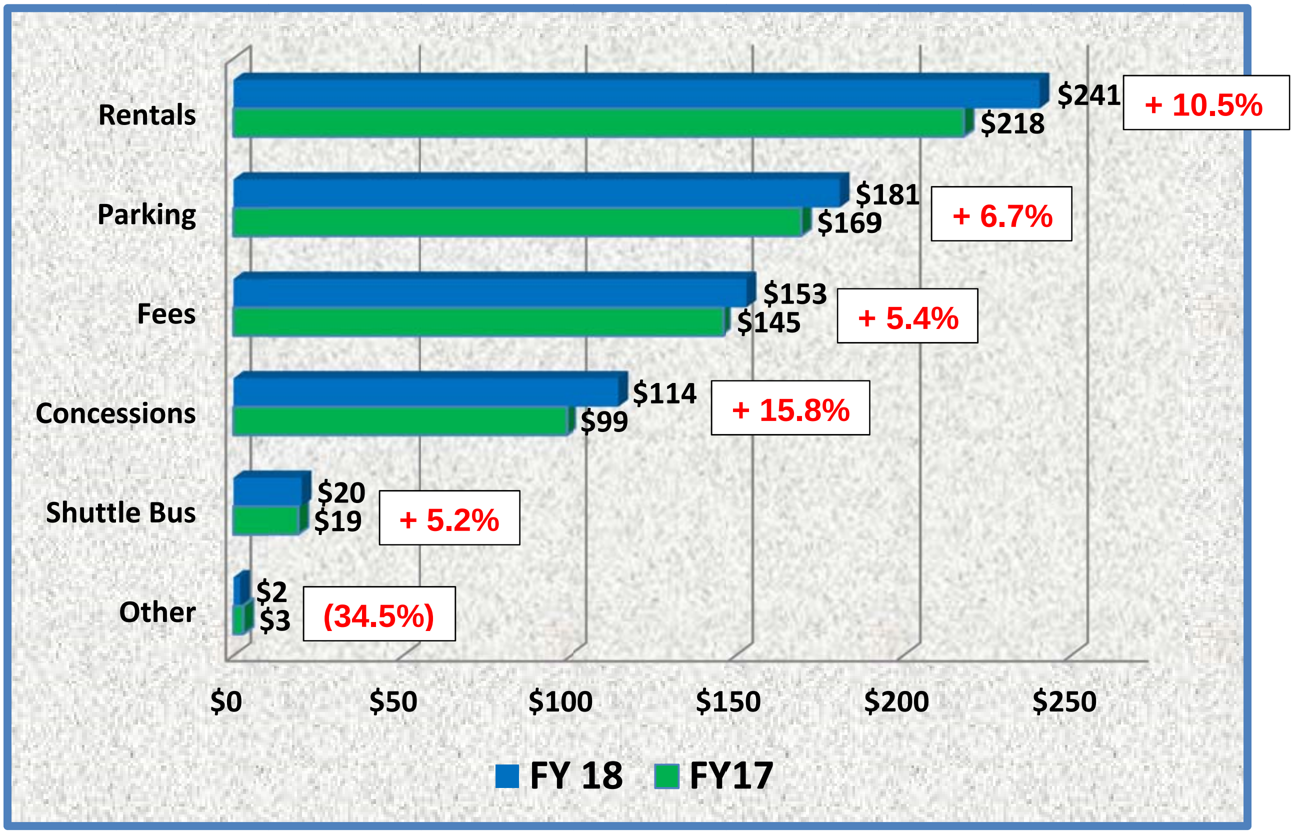
Operating Revenues
($ millions)

	FY 2018	FY 2017	$ Change	% Change
Aviation Rentals	$ 240.8	$ 217.9	$ 22.9	10.5%
Aviation Parking	180.8	169.4	11.4	6.7%
Aviation Fees	153.2	145.4	7.8	5.4%
Aviation Concessions	114.5	98.9	15.6	15.8%
Shuttle Bus	20.3	19.3	1.0	5.2%
Aviation Operating Grants and Other	1.9	2.9	(1.0)	-34.5%
Total Aviation Revenues	**$ 711.5**	**$ 653.8**	**$ 57.7**	**8.8%**
Maritime Fees, Rentals and Other	94.4	82.1	12.3	15.0%
Real Estate Fees, Rentals and Other	30.5	25.0	5.5	22.0%
Total	**$ 836.4**	**$ 760.9**	**$ 75.5**	**9.9%**

	FY 2017	FY 2016	$ Change	% Change
Aviation Rentals	$ 217.9	$ 198.1	$ 19.8	10.0%
Aviation Parking	169.4	154.6	14.8	9.6%
Aviation Fees	145.4	139.4	6.0	4.3%
Aviation Concessions	98.9	87.4	11.5	13.2%
Shuttle Bus	19.3	18.0	1.3	7.2%
Aviation Operating Grants and Other	2.9	2.8	0.1	3.6%
Total Aviation Revenues	**$ 653.8**	**$ 600.3**	**$ 53.5**	**8.9%**
Maritime Fees, Rentals and Other	82.1	74.7	7.4	9.9%
Real Estate Fees, Rentals and Other	25.0	24.5	0.5	2.0%
Total	**$ 760.9**	**$ 699.5**	**$ 61.4**	**8.8%**

AVIATION REVENUES

Aviation Revenues by Category
($ Millions)



Fiscal Year 2018 Compared to 2017

The Authority's aviation revenues are derived from its three airport facilities: Logan Airport, Hanscom Field and Worcester Regional Airport. The Authority earned $711.5 million in revenues from its aviation operations in fiscal year 2018.

Aviation Revenues
($ millions)

	FY 2018	FY 2017
Logan	$ 695.4	$ 639.3
Hanscom	14.3	12.9
Worcester	1.8	1.6
Total	$ 711.5	$ 653.8

Logan Airport Revenues

Logan Airport generated $695.4 million in revenues in fiscal year 2018, a $56.1 million, or 8.8% increase over last year due to another record-breaking year of 39.5 million passengers that favorably impacted concessions and other passenger volume driven revenues. Other major contributors to the increase were a $3.00 parking rate increase and the recovery of terminal operating and capital costs from the airlines using the airport.

Logan Airport Revenues
($ millions)

	FY 2018	FY 2017
Logan Rentals	$ 233.3	$ 211.3
Logan Parking	180.3	168.9
Logan Fees	146.0	138.9
Logan Concessions	113.6	98.0
Shuttle Bus	20.3	19.3
Logan Operating Grants and Other	1.9	2.9
Total	$ 695.4	$ 639.3

Aviation rentals revenues are earned through terminal building, non-terminal building and ground lease agreements. Revenue from Logan Airport rentals was $233.3 million, a $22.0 million or 10.4% increase over prior year. Terminal rent accounts for 77.4% of this revenue, and increased by $18.9 million. This was driven primarily by the recovery of terminal operating and capital costs from the airlines in the form of higher terminal rental rates. Some of the capital projects responsible for the cost and associated recovery increase include the Terminal E Renovation and Enhancement project, the Terminal B, C and E Heating, Ventilation and Air Conditioning (HVAC) system upgrade, and Improvements to the Customs and Border Patrol (CBP) area in Terminal E. The other contributor was the 3.7% increase in international passengers as the airlines pay an arrival and departure fee per international passenger to use Terminal E.

Aviation parking revenues are primarily generated from the Authority's on-airport and off-airport parking facilities. This revenue is essential to fund the Authority's $2.4 billion capital investment program. In fiscal year 2018, Logan parking revenue was $180.3 million, up $11.4 million or 6.7% versus prior year due primarily to a $3.00 rate increase at all Logan parking facilities that was introduced at the beginning of fiscal year 2018. Commercial parking on-site at Logan Airport accounted for $9.6 million of the increase and grew by 6.2%, while employee parking increased by $1.2 million. Parking revenue from the three off-airport Logan Express parking locations was $6.2 million, up $0.7 million or 12.7% due to a 6% increase in passengers and an increase in the average number of days parked to 5.5.

Revenues from aviation fees consist of revenues earned from aircraft landing fees, utility reimbursements, and other aviation related fees such as aircraft parking and fueling. During fiscal year 2018, Logan Airport aviation fees were $146.0 million, a $7.1 million or 5.1% increase over prior year. Logan Airport aircraft landing fees, which account for 81.6% of Logan aviation fees, were higher by $6.0 million or 5.3% versus fiscal year 2017. These landing fees are collected from scheduled and non-scheduled airlines based on the landed weight of aircraft serving Logan Airport. The landing fee rate is determined annually based on full cost recovery of landing field operating and capital costs required to operate and maintain the airfield at Logan Airport in a safe and efficient manner for the Authority's airline customers. The increase in costs recovered in fiscal year 2018 was driven by higher operating costs for items including repairs, maintenance, snow removal and utilities, as well as an increase in capital costs for items including Logan Airport Terminal E ramp area renovations and enhancements, new in-ground snow melters and the rehabilitation of two taxiways.

Logan Airport Aviation Fees

($ millions)

	FY 2018	FY 2017
Landing Fees	$ 119.2	$ 113.2
Utilities	15.7	15.3
Other	11.1	10.4
Total	$ 146.0	$ 138.9

Aviation concessions revenues are earned from airport terminal retail operations, on-airport car rental transactions, and the activities of ground transportation and other service providers including taxis, bus, limousine, Transportation Network Companies (TNCs), aircraft ground handling, and in-flight catering. In fiscal year 2018, Logan Airport earned $113.6 million from concessions compared to $98.0 million in fiscal year 2017, an increase of $15.6 million or 15.9%. Revenues from in-terminal concessions totaled $48.5 million, an increase of $8.5 million or 21.2% compared to the prior year. This increase was mainly due to a $5.5 million increase in food and beverage and retail revenues due to the 5.4% increase in passengers coupled with a new concessions management agreement with MarketPlace Logan LLC that went into effect in FY18. This agreement is providing new restaurant and retail offerings for Logan Airport customers while also allowing the Authority to enjoy a larger share of the revenue versus prior management agreements. Duty Free revenues increased by $1.4 million and foreign exchange revenues increased by $0.7 million in FY18 due in part to more international passengers, and advertising revenue was up by $0.9 million due to a higher volume of ads at Logan Airport.

During fiscal year 2018, Logan Airport earned $34.0 million from rental car companies, an increase of $0.7 million or 2.0% primarily due to a 5.3% growth in revenue per transaction versus the prior year partially offset by fewer transactions. Ground transportation fees collected from Taxis, Limos, and TNCs totaled $15.2 million, an increase of $3.7 million or 31.8% driven by a 23% increase in pick-ups. This increase in revenue is being used to fund modifications to Logan Airport's roadways as the increase in vehicle volume is significantly increasing roadway congestion. Other concession revenues from commercial services and ground servicing increased by $2.7 million or 20.7% due to higher levels of passengers and aircraft operations.

Logan Airport Concession Fees
($ millions)

	FY 2018	FY 2017
In-Terminal	$ 48.5	$ 40.0
Rental Car	34.0	33.3
Ground Transportation & Other	31.1	24.7
Total	$ 113.6	$ 98.0

The Authority earned $20.3 million of revenue in fiscal year 2018 for the Logan Airport shuttle bus operations, an increase of $1.1 million over last year. Shuttle bus operations are comprised of an on-airport shuttle that links the terminal buildings, rental car center, and MBTA station, as well as the bus operations from four off-airport Logan Express sites in the Boston metropolitan region and Boston's Back Bay area. Revenue from the on-airport shuttle bus increased by $0.7 million or 11.7% due to the recovery of operating expenses required to maintain the Rental Car Facility. Logan Express revenue from the four sites at Braintree, Framingham, Peabody and Woburn increased by $0.2 million due to a 5.7% increase in ridership.

During fiscal year 2018, Logan Airport received $1.9 million in revenues from federal operating grants compared to $2.9 million in the prior year. The $1.0 million decline was due to $1.1 million in reimbursements received in fiscal year 2017 from FEMA for Blizzard Juno in fiscal year 2015.

Logan Airport Shuttle Bus and Other Revenues
($ millions)

	FY 2018	FY 2017
Shuttle Bus	$ 20.3	$ 19.2
Other	1.9	2.9
Total	$ 22.2	$ 22.1

Hanscom Field and Worcester Regional Airport Revenues

Hanscom Field revenues were $14.3 million in fiscal year 2018, up $1.4 million or 10.9% from the prior year. The increase was due to higher ground rent of $0.9 million primarily from the new Jet Aviation Hangar and FBO Terminal, which opened in June 2017. Aircraft fuel flowage and landing fees at the airport also contributed to the revenue increase. Worcester Regional Airport had $1.8 million in operating revenues in fiscal year 2018, up $0.2 million due to higher aircraft fuel flowage, utility reimbursement, parking and other miscellaneous items.

Hanscom and Worcester Revenues
($ millions)

	FY 2018	FY 2017
Hanscom	$ 14.3	$ 12.9
Worcester	1.8	1.6
Total	$ 16.1	$ 14.5

Fiscal Year 2017 Compared to 2016

The Authority earned $653.8 million in revenues from its aviation operations in fiscal year 2017, up $53.5 million or 8.9% compared to prior year.

Revenue from Logan Airport rentals was $211.3 million, a $19.8 million or 10.3% increase over prior year. Terminal rent accounts for 76.5% of this revenue, and increased by $19.5 million. This was driven primarily by the recovery of terminal operating and capital costs from the airlines in the form of higher terminal rental rates. The other major contributor was the 15.9% increase in international passengers as the airlines pay an arrival and departure fee per international passenger to use Terminal E.

Aviation parking revenues are primarily generated from the Authority's on-airport and off-airport parking facilities. Logan parking revenue was $168.9 million, up $14.8 million or 9.6% versus prior year due primarily to a rate increase at all Logan parking facilities. Parking revenue from the three off-airport Logan Express locations was $5.5 million, up $0.7 million or 14.1% due to a 6% increase in passenger use and a longer duration in the average number of days parked.

During fiscal year 2017, Logan Airport aviation fees were $138.9 million, a $5.2 million or 3.9% increase over prior year. Logan Airport aircraft landing fees, which account for more than 80% of Logan aviation fees, were higher by $8.7 million or 8.3% in fiscal year 2017 and reflect operating and capital cost recovery.

Logan concessions revenues earned from airport terminal food, beverage and retail operations, on-airport car rental transactions, the activities of ground transportation and other service providers including taxis, bus, limousine, TNCs, aircraft ground handling, advertising and in-flight catering totaled $98.0 million in fiscal year 2017. This was $11.4 million or 13.2% higher than the $86.6 million in fiscal 2016 due to the 7.4% increase in passengers, stronger advertising sales, and higher rental car revenues per transaction.

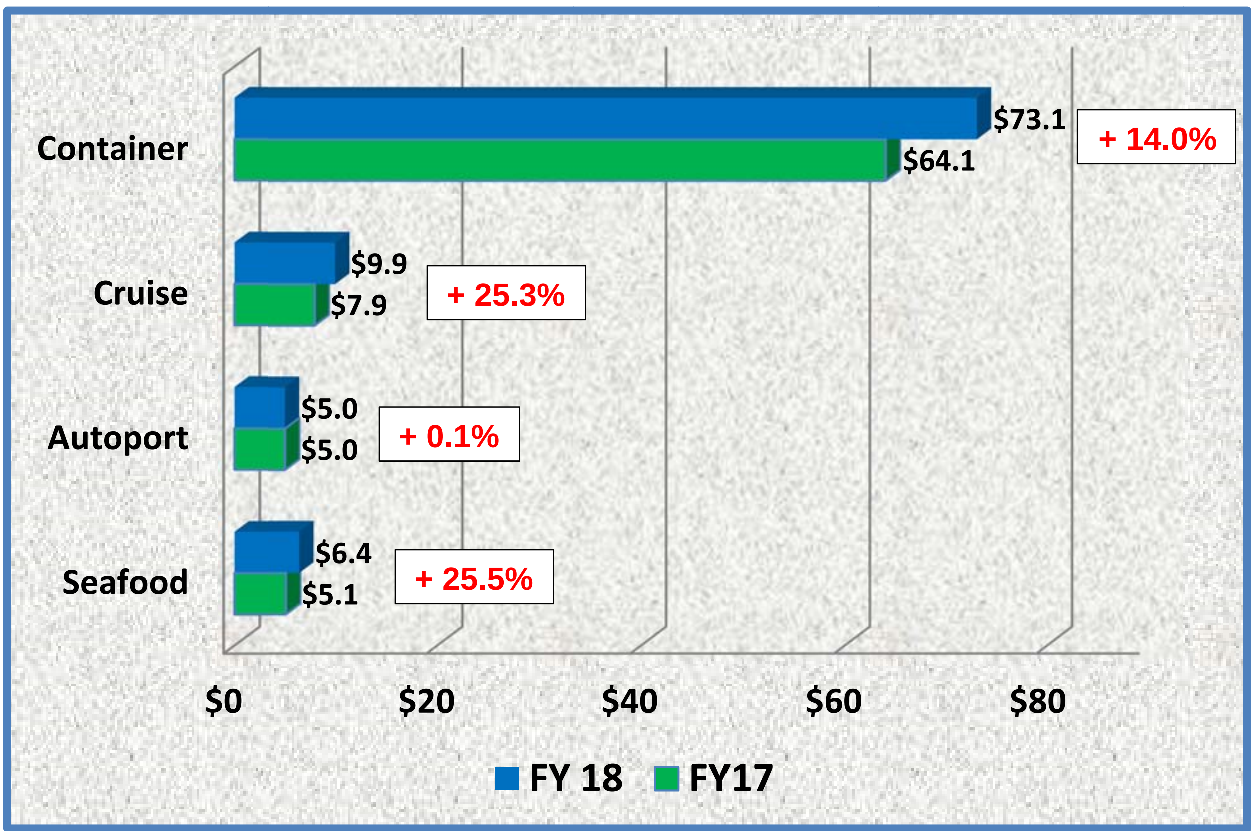
Logan Airport shuttle bus operations generated $1.2 million over prior year due to an increase in Logan Express ridership. Federal operating grant revenue was $0.3 million higher.

Hanscom Field revenues were up $0.7M or 5.7% from prior year due to higher aircraft fuel flowage and landing fees at the airport, while Worcester Regional Airport revenues were comparable to prior year.

MARITIME REVENUES

Maritime Revenues by Category

($ Millions)



Fiscal Year 2018 Compared to 2017

Maritime fees, rentals and other revenues are collected primarily from container shipping lines, cruise ship lines and other customers that use the Authority's Port facilities. The Authority's maritime business includes cargo container ship operations at Conley Terminal, cruise activity at the Flynn Cruiseport, rental facilities for seafood processors and commercial parking at the Boston Fish Pier in South Boston, and the Moran Terminal, which houses an automobile import/export facility and other port properties in Charlestown. The Authority collected $94.4 million in fees, rentals and other income from its maritime operations in fiscal year 2018.

Maritime Revenues
($ millions)

	FY 2018	FY 2017
Containers	$ 73.1	$ 64.1
Cruise	9.9	7.9
Seafood	6.4	5.1
Autoport	5.0	5.0
Total	$ 94.4	$ 82.1

During fiscal year 2018, the container business at Conley Terminal earned $73.1 million in revenues, which was $9.0 million or 14.0% higher than the prior year. Revenue is generated through the collection of fees from ocean shipping lines for the loading and unloading of containers at Conley Terminal and for related services through tariffs and contracts with the shipping lines and shippers using the Port. Conley Terminal processed a record 283,720 TEUs, a 10.4% increase over the prior year.

Revenues from operations at the Flynn Cruiseport were $9.9 million in fiscal year 2018, up $2.0 million or 25.3% versus prior year. The Authority collects per passenger fees as well as dockage, water and equipment rental charges from home-port and port-of-call cruise ships that dock at the Cruiseport. Fiscal year 2018 cruise passengers increased by 15.5% over prior year as the benefits from marketing incentive programs to reward cruise lines for meeting certain targets and expanding itineraries continued to have a positive impact. Ship calls increased by 28% as the length of the cruise season increased and there were more sailings in the shoulder seasons.

Seafood revenues grew to $6.4 million in fiscal year 2018, up 25.5% from the prior year. Revenues are earned through space and ground rents from seafood processing and office tenants, commissions, utility charges, fees and parking lots at the Fish Pier. The $1.3 million increase in seafood revenues in fiscal year 2018 is due to a $0.5 million increase in rental income, contractual increases in ground lease revenues of $0.4 million, higher parking revenue of $0.2 million and utility fee reimbursements of $0.2 million.

The Autoport earned $5.0 million in fiscal year 2018, which was comparable to the fiscal year 2017 amount. Revenue increases from ground leases, commissions on fuel sales and utility reimbursement fees were offset by a reduction in supplemental revenue due to the payment of property taxes to the City of Boston.

Fiscal Year 2017 Compared to 2016

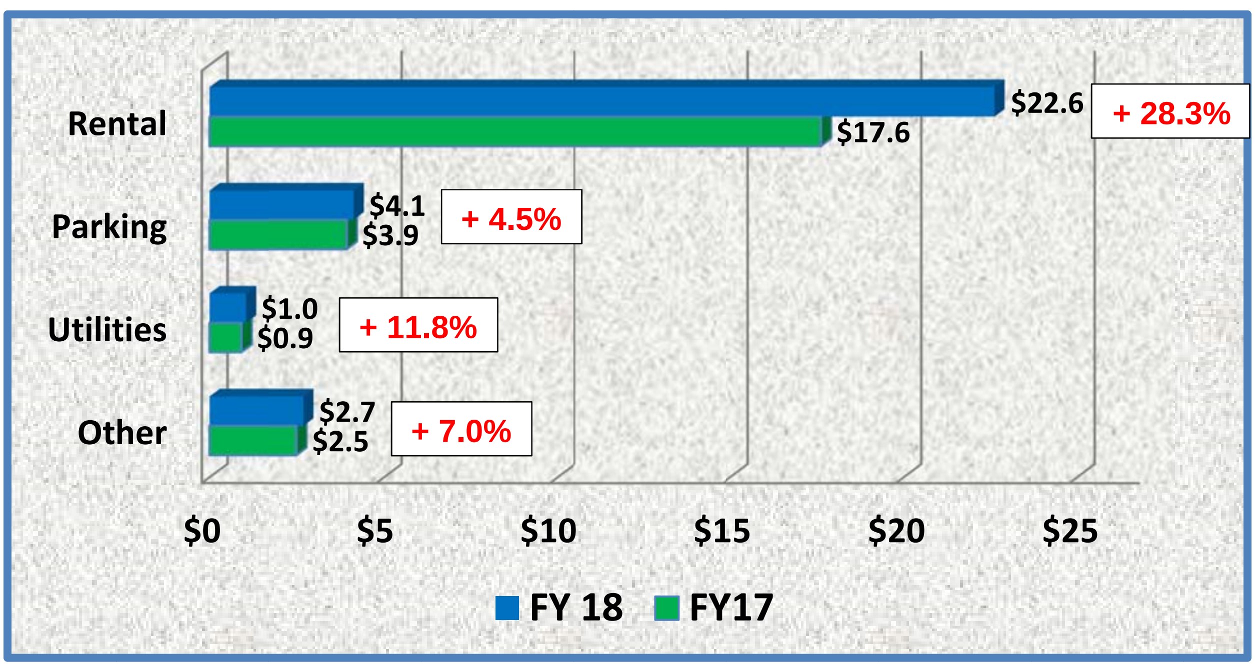
The Authority collected $82.1 million in fees, rentals and other income from its maritime operations in fiscal year 2017. This was $7.4 million or 9.9% higher than the prior year.

Container revenues were higher by $4.8 million or 8.1% as Conley Terminal set a new record by processing 256,951 TEUs, a 3.9% increase over prior year. Cruiseport revenues increased by $2.1 million or 36.1% due to 21.7% more passengers as the result of a new marketing incentive program and a full season of sailings by Norwegian Cruise Lines' Norwegian Dawn. Seafood and Autoport revenues increased by a combined $0.5 million primarily due to higher ground lease and utility reimbursement revenues.

REAL ESTATE REVENUES

Real Estate Revenues by Category

($ Millions)



Fiscal Year 2018 Compared to 2017

The Authority's commercial real estate line of business earns revenues from ground leases, district service fees and parking on properties owned by the Authority in South Boston, East Boston and Charlestown. Revenues from the Authority's real estate activities totaled $30.5 million in fiscal year 2018, up $5.5 million or 22.0% versus prior year.

Real Estate Revenues
($ millions)

	FY 2018	FY 2017
Real Estate	$ 30.5	$ 25.0

The increase in revenue was primarily due to a $5.0 million increase in ground rent income due to a one-time closing payment on a parcel in South Boston from a developer, along with annual escalations to existing leases. Parking revenue increased by $0.2 million due in part to the opening of the South Boston Waterfront Transportation Center in May 2018. This new facility has 1,550 spaces, and will be supplemented during FY2019 with branding, public realm, and other enhancements. Other revenue increases included higher utility fee reimbursements of $0.1 million and other miscellaneous increases of $0.2 million.

Fiscal Year 2017 Compared to 2016

Revenues from the Authority's real estate activities in fiscal year 2017 totaled $25.0 million and reflected an increase of $0.5 million versus fiscal year 2016. The increase was primarily due to a $0.3 million increase in ground rent income due to annual adjustments to leases, higher utility fee reimbursements of $0.1 million and other miscellaneous increases of $0.1 million.

OPERATING EXPENSES

The Authority's total operating expenses in fiscal year 2018 were $757.5 million, an increase of $30.2 million or 4.2% over the prior year. The increase was due primarily to a $27.8 million or 8.0% increase in operations and maintenance expenses to support higher business activity. Pension and other post-employment benefits expense declined by a combined $9.9 million or 25.4% due to favorable net investment returns of 16.51% (Pension) and 7.59% (OPEB). Depreciation and amortization expense increased by $9.3 million or 3.7% as $294.3 million of assets were placed into service.

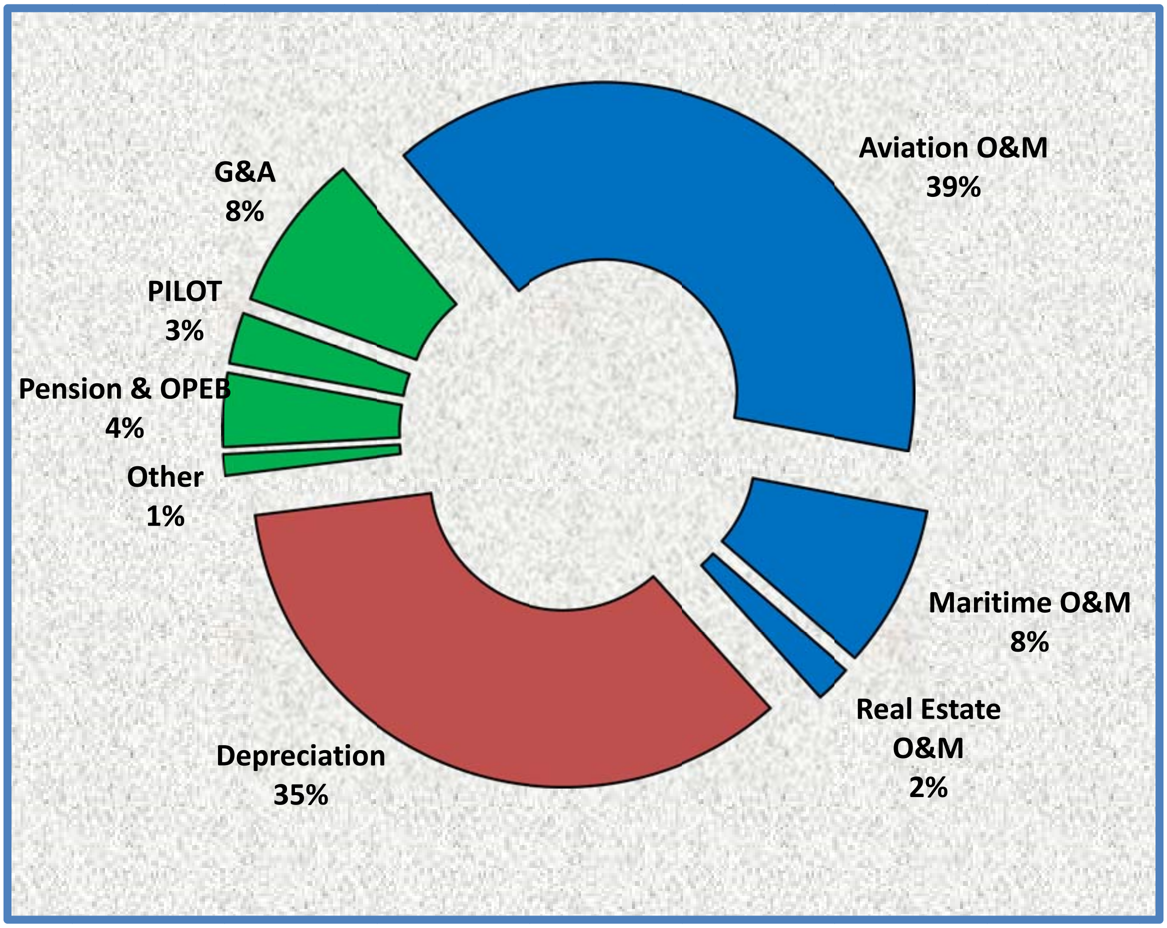
Operating Expenses
($ millions)

	FY 2018	FY 2017 (Restated)	$ Change	% Change
Aviation Operations and Maintenance	$ 296.2	$ 274.5	$ 21.7	7.9%
Maritime Operations and Maintenance	64.0	59.6	4.4	7.4%
Real Estate Operations and Maintenance	14.9	13.2	1.7	12.9%
General and Administrative	62.5	59.4	3.1	5.2%
Payments in Lieu of Taxes	20.4	19.3	1.1	5.7%
Pension and Other Post-employment Benefits	29.0	38.9	(9.9)	-25.4%
Other	8.4	9.6	(1.2)	-12.5%
Depreciation and Amortization	262.1	252.8	9.3	3.7%
Total Operating Expenses	**$ 757.5**	**$ 727.3**	**$ 30.2**	**4.2%**

	FY 2017 (Restated)	FY 2016	$ Change	% Change
Aviation Operations and Maintenance	$ 274.5	$ 261.1	$ 13.4	5.1%
Maritime Operations and Maintenance	59.6	53.4	6.2	11.6%
Real Estate Operations and Maintenance	13.2	11.9	1.3	10.9%
General and Administrative	59.4	58.2	1.2	2.1%
Payments in Lieu of Taxes	19.3	19.4	(0.1)	-0.5%
Pension and Other Post-employment Benefits	38.9	29.7	9.2	31.0%
Other	9.6	7.6	2.0	26.3%
Depreciation and Amortization	252.8	247.5	5.3	2.1%
Total Operating Expenses	**$ 727.3**	**$ 688.7**	**$ 38.6**	**5.6%**

Note: Fiscal Year 2016 Pension and Other Post-employment Benefits expense does not reflect the changes in accounting for OPEB costs proscribed by GASB No. 75.

FY18 Operating Expenses by Category
(% of Total Expenses)



<u>Aviation Operations and Maintenance Expenses – FY 2018</u>

In fiscal year 2018, aviation operations and maintenance expenses were $296.2 million, an increase of $21.7 million or 7.9% over the previous year. The breakdown of aviation operations and maintenance expenses by each of Massport's aviation facilities is provided below:

Aviation Operating and Maintenance Expenses
($ millions)

	FY 2018	FY 2017	FY 2016
Logan	$ 277.4	$ 257.8	$ 245.1
Hanscom	11.8	10.2	9.3
Worcester	7.0	6.5	6.7
Total	$ 296.2	$ 274.5	$ 261.1

Logan Airport Operations and Maintenance Expenses – FY 2018

Operations and maintenance expenses for Logan Airport in fiscal year 2018 were $277.4 million and accounted for approximately 93.7% of all aviation operations and maintenance expenses and 74.0% of the Authority's total operations and maintenance expenses. In fiscal year 2018, operations and maintenance expenses for Logan Airport increased by $19.6 million, or 7.6% over the prior year.

Increased business activity resulted in a $2.7 million cost increase for items including shuttle bus operations, terminal building cleaning, overtime for Logan Airport ground traffic control and credit card processing fees for parking operations. Utility expenses increased by $3.5 million due to a 23% increase in the cost of electricity. Payroll expense was higher by $4.3 million due to merit increases and collectively bargained wage adjustments. Weather-related costs increased by $2.5 million as the Authority required more overtime, materials and services to keep the airport open and safe due to 60 inches of snowfall in FY18 versus 48 inches in FY17. Expenses were also higher by $2.8 million for remediation work required on the old Air Traffic Control tower and other assets at Logan Airport slated for demolition or renovation. Miscellaneous expenses were up $4.6 million due primarily to Logan Terminal B and C roadway work, training of a new State Police class, and a one-time asset write down of $0.7 million for Logan Airport Hangar 16.

Logan Airport Operations and Maintenance Expenses – FY 2017

Operations and maintenance expenses for Logan Airport in fiscal year 2017 were $257.8 million and accounted for approximately 94% of all aviation operations and maintenance expenses and 74% of the Authority's total operations and maintenance expenses. They increased by $12.7 million, or 5.2% over the prior year.

Increased business activity resulted in a $2.6 million cost increase for items including shuttle bus operations, ground transportation staff, terminal building cleaning and credit card processing fees. Airfield and structural repairs and maintenance resulted in a $2.8 million increase, and utility expenses increased by $2.6 million. Payroll expense was higher by $2.5 million and security-related costs increased by $2.1 million.

Hanscom Field and Worcester Airport Operations and Maintenance Expenses – FY 2018

In fiscal year 2018, operations and maintenance expenses for Hanscom Field were $11.8 million, an increase of $1.6 million or 15.7% over the prior year. The majority of the increase was due to $1.0 million for property repairs related to flooding from the July 13, 2017 rain storm, and most of this expense is being recovered through an insurance claim. The remaining $0.5 million increase was attributable to higher payroll and benefits expense.

Operations and maintenance expenses for Worcester Regional Airport were $7.0 million, a $0.5 million or 7.7% increase. Contributors to the expense increase included $0.2 million for higher payroll and benefits expense, $0.1 million for higher utility costs, and $0.2 million for additional materials, supplies and other miscellaneous expenses.

<u>Hanscom Field and Worcester Airport Operations and Maintenance Expenses – FY 2017</u>

In fiscal year 2017, operations and maintenance expenses for Hanscom Field were $10.2 million, an increase of $0.9 million or 10.7% over the prior year. The increase was due to $1.0 million for environmental remediation expenses related to the demolition of a hangar.

Operations and maintenance expenses for Worcester Regional Airport were $6.5 million, a decrease of $0.2 million or 4.2% due primarily to lower equipment rental expense of $0.2 million as fire rescue equipment that was rented in fiscal year 2016 was replaced with purchased equipment in fiscal year 2017.

<u>Maritime Operations and Maintenance Expenses – FY 2018</u>

Maritime operations and maintenance expenses were $64.0 million, $4.4 million or 7.4% higher than the prior year. Higher business activity resulted in a $3.2 million increase in expenses, $2.9 million of which was for stevedoring container handling costs to support the 10.4% increase in container volume while the remainder was for overtime required to support record container and cruise activity. Other increases included $0.6 million for higher weather-related expenses due to 60 inches of snow in FY18 versus 48 inches in FY17, an increase of $0.5 million for utility expenses due to higher electricity costs, and payroll and benefits expense of $0.3 million.

<u>Maritime Operations and Maintenance Expenses – FY 2017</u>

Maritime operations and maintenance expenses in FY2017 were $59.6 million, $6.2 million or 11.6% higher than the prior year. Maritime incurred an additional $2.5 million of stevedoring expense driven by the 3.9% increase in TEUs coupled with additional weekend container ship visits causing higher stevedoring pay. Other increases included $1.5 million for the Sail Boston event for overtime, security screening, equipment rental and other expenses, $0.9 million for maintenance improvements to the Flynn Cruiseport, $0.7 million for additional services related to equipment maintenance and snow removal, and higher payroll and benefits expense of $0.4 million.

<u>Real Estate Operations and Maintenance Expenses – FY 2018</u>

Real Estate operations and maintenance costs in fiscal year 2018 were $14.9 million, up by $1.7 million or 12.9% versus the prior year. Repair expenses were up by $0.6 million due to damages to the pier at 88 Black Falcon caused by a container ship that broke free from Conley Terminal in a storm. The Authority has filed an insurance claim to recoup these costs. Professional fees increased by $0.4 million for engineering and legal resources to help advance the development of several parcels of land. The Authority incurred a $0.3 million asset write off as part of a parcel development, and payroll and benefits expenses were higher by $0.3 million.

Real Estate Operations and Maintenance Expenses – FY 2017

Real Estate operations and maintenance costs in fiscal year 2017 were $13.2 million, up by $1.3 million or 10.9% versus the prior year. The increase was due to higher security costs of $0.3 million for state police growth in the Seaport District, higher payroll and benefits expense of $0.2 million, $0.4 million for repairs related to roadway surfaces and higher public affairs expense for special events, and $0.1 million for increased utilities costs.

General and Administrative Expenses – FY 2018

The Authority's general and administrative costs were $62.5 million in fiscal year 2018, $3.1 million or 5.2% higher than fiscal year 2017. The drivers of the increase include additional payroll costs for administrative employees of $1.7 million primarily for merit based pay increases as new hiring was minimal, and a $0.4 million increase in materials and supplies expense mainly related to computers and copy machines.

The following table shows the allocation of the Authority's general and administrative expenses by business line for fiscal years 2018, 2017 and 2016.

General and Administrative Expenses
($ millions)

	FY 2018	FY 2017 (Restated)	FY 2016
Logan	$ 43.6	$ 42.5	$ 42.3
Hanscom	2.3	2.1	1.9
Worcester	2.8	2.3	2.0
Maritime	8.5	8.1	8.2
Real Estate	5.3	4.4	3.8
Total	**$ 62.5**	**$ 59.4**	**$ 58.2**

General and Administrative Expenses – FY 2017

The Authority's restated FY2017 general and administrative costs were $59.4 million, $1.2 million or 2.1% higher than fiscal year 2016. The GASB 75 restatement related to health care benefits resulted in an expense increase of $0.3 million over FY2016. Payroll costs for administrative employees were higher by $1.6 million for merit based pay increases, and benefits expense was up by $0.5 million. These increases were partially offset by a $1.3 million decrease in Airline Business Incentive Program expenses due primarily to the completion of incentive programs for Turkish Airlines and Emirates Airlines in fiscal year 2016.

PILOT, Pension & OPEB and Other Expenses – FY 2018

In fiscal year 2018, the Authority's PILOT payments to the City of Boston and the Town of Winthrop totaled $20.4 million and reflect a $1.1 million or 5.7% increase versus fiscal year 2017. The City of Boston's PILOT payments are contractually linked to the annual rise in the Consumer Price Index (CPI), which added $0.4 million of new costs. The remainder of the increase is related to community mitigation payments to organizations such as the East Boston Foundation for new facilities being constructed at Logan Airport.

The Authority's expenses for pension and OPEB were $29.0 million, a decrease of $9.9 million or 25.4% compared to fiscal year 2017. The Authority's pension expense decreased by $10.9 million, primarily due to a 16.51% favorable net return on pension plan assets versus the 7.25% rate used to project the pension liability. The Authority's OPEB expense increased by $1.0 million due to a 7.59% favorable net return on the OPEB assets versus the 7.25% rate used to project the OPEB liability net of amortization of prior year losses. The investment return on the pension assets was higher than the return for the OPEB assets as the measurement period for the pension assets was calendar year ended December 31, 2017, while the measurement period for OPEB was fiscal year ended June 30, 2017.

The following table shows the allocation of PILOT, Pension, OPEB, and other expenses by business line for fiscal years 2018 and 2017.

FY18 - PILOT, Pension, OPEB, and Other Expenses
($ millions)

	PILOT	PENSION	OPEB	OTHER	TOTAL
Logan	$ 18.2	$ 7.0	$ 15.9	$ 5.8	$ 46.9
Hanscom	0.0	0.3	0.6	0.3	1.2
Worcester	0.0	0.3	0.4	0.2	0.9
Maritime	1.3	0.8	2.4	1.8	6.3
Real Estate	0.9	0.4	0.9	0.3	2.5
Total	**$ 20.4**	**$ 8.8**	**$ 20.2**	**$ 8.4**	**$ 57.8**

FY17 - PILOT, Pension, OPEB, and Other Expenses
($ millions)

	PILOT	PENSION	OPEB (Restated)	OTHER	TOTAL
Logan	$ 17.2	$ 15.6	$ 15.1	$ 7.4	$ 55.3
Hanscom	0.0	0.6	0.6	0.2	1.4
Worcester	0.0	0.7	0.3	0.2	1.2
Maritime	1.3	1.9	2.4	1.6	7.2
Real Estate	0.8	0.9	0.8	0.2	2.7
Total	**$ 19.3**	**$ 19.7**	**$ 19.2**	**$ 9.6**	**$ 67.8**

PILOT, Pension & OPEB and Other Expenses – FY 2017

In fiscal year 2017, the Authority's PILOT payments to the City of Boston and the Town of Winthrop totaled $19.3 million and reflect a 0.5% or $0.1 million decrease versus fiscal year 2016. The decrease reflects the end of a 10-year agreement that required the Authority to pay a $0.7 million per year supplemental payment to the City of Boston from FY07 through FY16. The City of Boston's PILOT payments are contractually linked to the CPI, which added $0.4 million of new costs, and also incorporate an agreement for mitigation payments to the East Boston Foundation for new facilities being constructed at Logan Airport. The amount of these mitigation payments increased by $250,000 in fiscal year 2017.

The Authority's expenses for pension and OPEB were $38.9 million, an increase of $9.2 million or 31.0% compared to fiscal year 2016. The Authority's net pension liability increased $33.4 million, primarily due to a reduction in the plan's discount rate resulting in a $4.1 million pension expense increase in FY2017. The Authority's OPEB expense increased by $5.1 million due to revisions to the mortality tables used in calculating benefits and the addition of approximately 100 beneficiaries previously omitted from the prior year's actuarial OPEB valuation.

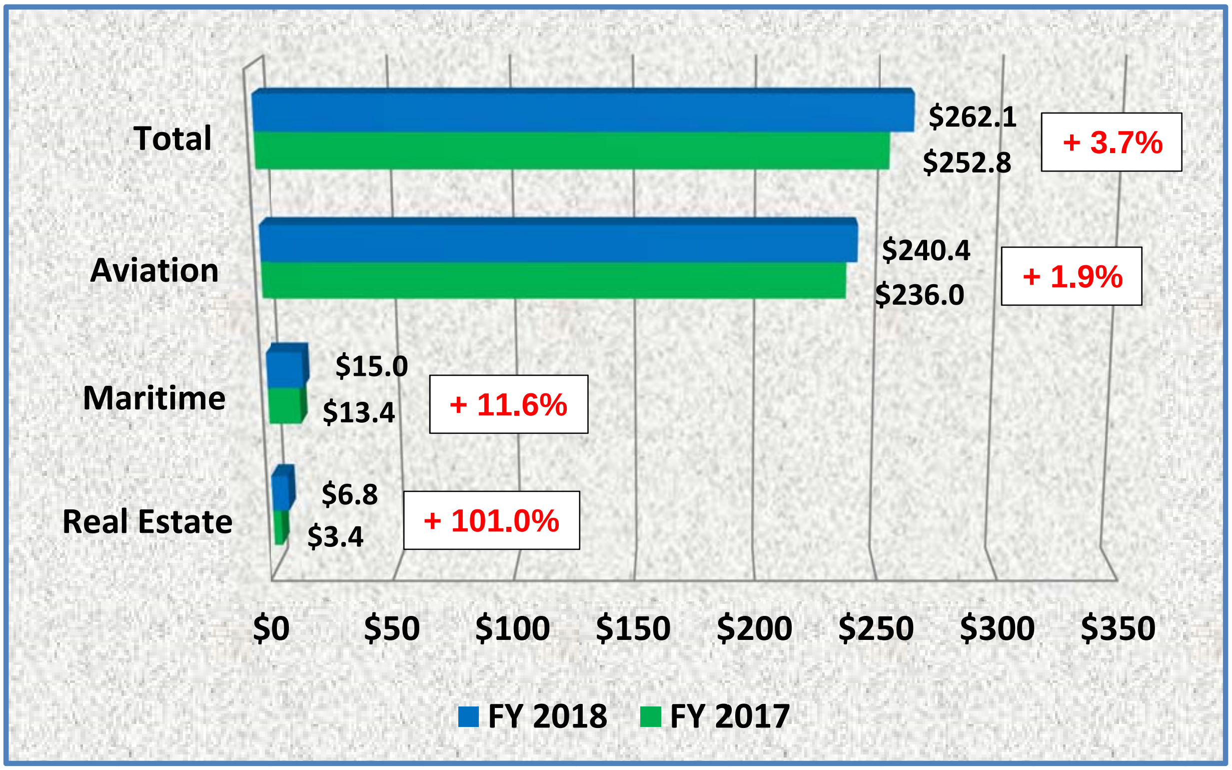
Please see Note 6 (Pension Plan), Note 7 (OPEB) and Note 10 (PILOT) in the attached financial statements.

Depreciation and Amortization Expenses – FY 2018

The Authority recognized $262.1 million in depreciation and amortization expenses in fiscal year 2018, an increase of $9.3 million or 3.7% compared to fiscal year 2017. This increase is the result of $294.3 million in new assets being placed into service. During fiscal year 2018, the Authority completed and placed into service assets in the Real Estate business unit including the South Boston Waterfront Transportation Center at a cost of $84.4 million, assets in the Maritime unit including the Conley Terminal Dedicated Freight Corridor at a cost of $36.8 million, and assets in the Aviation unit including the CAT III Instrument Landing System at

Worcester Airport at a cost of $30.2 million and modifications to Gates 37 and 38 at Logan Airport at a cost of $19.4 million. These amounts represent the amount of capital actually placed into service and not necessarily the total project cost.

Depreciation and Amortization Expense
($ millions)



<u>**Depreciation and Amortization Expenses – FY 2017**</u>

The Authority recognized $252.8 million in depreciation and amortization expenses in fiscal year 2017, an increase of $5.3 million or 2.1% compared to fiscal year 2016. This increase is the result of $384.9 million in new assets being placed into service. During fiscal year 2017, the Authority completed and placed into service projects including the Logan Airport Terminal E Renovation and Enhancement at a cost of $155.8 million, the final portion of the Checked Baggage Inspection System (CBIS) at Logan Airport at a cost of $52.2 million, phase two of the Heating, Ventilation and Air Conditioning (HVAC) system replacement at Logan Airport Terminals B, C and E at a cost of $14.8 million, and the Rehabilitation of Runway 4L/22R at Logan Airport at a cost of $14.7 million.

NON-OPERATING REVENUES (EXPENSES) AND CAPITAL CONTRIBUTIONS

The Authority recognized a net $51.9 million in non-operating revenues in fiscal year 2018, an increase of $8.8 million, or 20.4%, over fiscal year 2017. Non-operating revenues in fiscal year 2017 were $43.1 million, an increase of $4.6 million or 11.9% over the $38.5 million recognized in fiscal year 2016.

Non-operating Revenues and Expenses and Capital Contributions
($ millions)

	FY 2018	FY 2017	$ Change	% Change
Passenger facility charges	$ 81.0	$ 76.3	$ 4.7	6.2%
Customer facility charges	33.0	33.1	(0.1)	-0.3%
Investment income	18.6	13.1	5.5	42.0%
Other income (expense), net	(1.0)	(0.3)	(0.7)	233.3%
Terminal A debt service contributions	(12.2)	(11.9)	(0.3)	2.5%
Interest expense	(67.5)	(67.2)	(0.3)	0.4%
Total Non-operating Revenues (Expenses)	**$ 51.9**	**$ 43.1**	**$ 8.8**	**20.4%**
Capital Contributions	**$ 25.4**	**$ 12.6**	**$ 12.8**	**101.6%**

	FY 2017	FY 2016	$ Change	% Change
Passenger facility charges	$ 76.3	$ 70.7	$ 5.6	7.9%
Customer facility charges	33.1	32.3	0.8	2.5%
Investment income	13.1	9.5	3.6	37.9%
Other income (expense), net	(0.3)	1.5	(1.8)	-120.0%
Terminal A debt service contributions	(11.9)	(11.9)	0.0	0.0%
Interest expense	(67.2)	(63.6)	(3.6)	5.7%
Total Non-operating Revenues (Expenses)	**$ 43.1**	**$ 38.5**	**$ 4.6**	**11.9%**
Capital Contributions	**$ 12.6**	**$ 56.0**	**($ 43.4)**	**-77.5%**

For fiscal year 2018, PFCs were $81.0 million, a $4.7 million or 6.2% increase over the prior year due to increased passenger activity at Logan Airport. Revenues from CFCs totaled $33.0 million, basically flat versus prior year as rental car transaction days at Logan Airport's Rental Car Center were relatively constant with prior year. The Authority also generated $18.6 million of investment income, an increase of $5.5 million due to higher interest rates on fixed income investments and an increase in the Authority's cash balance available for investment. Other expense was $1.0 million, which was $0.7 million higher than prior year due to miscellaneous items including settlement claims, gains or losses on short term investments and gains or losses on sale of equipment. The Authority made a voluntary contribution of

$12.2 million in PFCs to the Terminal A debt service fund to help reduce terminal rental rates, which was slightly higher than the contribution made in the prior year. Interest expense on long term debt was $67.5 million, which was $0.3 million or 0.4% higher than fiscal year 2017.

For fiscal year 2017, PFCs were $76.3 million, a $5.6 million or 7.9% increase over the prior year due to increased passenger activity at Logan Airport. Revenues from CFCs totaled $33.1 million, $0.8 million higher than the prior year due to a 2.0% increase in rental car transaction days at Logan Airport's Rental Car Center. The Authority also generated $13.1 million of investment income, an increase of $3.6 million due to higher interest rates on fixed income investments and an increase in the Authority's cash balance available for investment. Other income (expense), which is comprised of settlement claims, gains or losses on short term investments, gains or losses on the sale of equipment, and any other Authority income, was ($0.3) million, a decrease of $1.8 million due in part to a decrease in the fair market value on its investments as higher interest rates reduced bond prices. The Authority also made a voluntary contribution of $11.9 million in PFCs to the Terminal A debt service fund to help reduce terminal rental rates, which was comparable to the contribution made in the prior year. Interest expense on long term debt was $67.2 million, which was $3.6 million or 5.7% higher than fiscal year 2016.

Capital Contributions

The majority of the Authority's capital contributions are grants awarded by the Federal Aviation Administration (FAA) and by the Maritime Administration (MARAD) unit of the United States Department of Transportation. The FAA grants are for the Airport Improvement Program (AIP) to construct runways, taxiways, apron lighting, residential sound proofing projects, and other capital related projects, primarily at Logan Airport. The MARAD grant is a FASTLANE grant that is being used to improve Conley Terminal. The Authority also receives capital contributions from the Department of Homeland Security, as well as grants from the Federal Emergency Management Administration, the Environmental Protection Agency and the Massachusetts Executive Office of Public Safety and Security related to the State Homeland Security Program, which safeguards the Airport and Port of Boston.

Capital contributions in fiscal year 2018 were $25.4 million, an increase of $12.8 million versus the prior year. The major components of the 2018 revenues were from the FAA AIP grant program for project expenditures related to runway rehabilitation and improvements at Logan Airport and the CAT III ILS project at Worcester Regional Airport, and from MARAD for the rehabilitation of Conley Terminal Berths 11 and 12 and the replacement of RTG (Rubber Tired Gantry) drives. The $12.8 million increase versus last year was primarily due to $10.2 million of MARAD FASTLANE grant funding, which began in FY 2018, and $2.3 million of additional FAA AIP funding versus the prior year.

The majority of the $12.6 million of fiscal year 2017 revenues were from the FAA AIP grant program for project expenditures related to runway rehabilitation and improvements at Logan Airport and the CAT III ILS project at Worcester Regional Airport. The $43.4 million decline versus the prior year was primarily due to the CBIS project as the Authority received $37.8 million of Transportation Security Administration (TSA) reimbursements for this project in fiscal year 2016 versus no reimbursements in fiscal year 2017 as that project was completed.

THE AUTHORITY'S STATEMENTS OF NET POSITION

The Statements of Net Position present the financial position of the Authority at the end of each fiscal year. The Statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Authority. Net Position is the difference between total assets plus deferred outflows of resources less total liabilities and deferred inflows of resources and is an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2018, 2017 and 2016 is as follows:

Condensed Statements of Net Position for FY 2018 and FY 2017
($ millions)

	FY 2018	FY 2017 (Restated)	$ Change	% Change
Assets				
Current assets	$ 948.4	$ 803.9	$ 144.5	18.0%
Capital assets, net	3,216.3	3,142.5	73.8	2.3%
Other non-current assets	402.6	420.1	(17.5)	-4.2%
Total Assets	**4,567.3**	**4,366.5**	**200.8**	**4.6%**
Deferred Outflows of Resources				
Deferred loss on refunding of bonds	16.2	18.0	(1.8)	-10.0%
Deferred outflows of resources related to Pension plan	13.9	37.3	(23.4)	-62.7%
Deferred outflows of resources related to OPEB	29.0	37.7	(8.7)	-23.1%
Total Deferred Outflows of Resources	**59.1**	**93.0**	**(33.9)**	**-36.5%**
Liabilities				
Current liabilities	$ 360.6	$ 308.0	$ 52.6	17.1%
Bonds payable, including current portion	1,835.3	1,850.7	(15.4)	-0.8%
Other non-current liabilities	233.8	285.9	(52.1)	-18.2%
Total Liabilities	**2,429.7**	**2,444.6**	**(14.9)**	**-0.6%**
Deferred Inflows of Resources				
Deferred gain on refunding of bonds	6.1	6.8	(0.7)	-10.3%
Deferred inflows of resources related to Pension plan	25.4	0.0	25.4	100.0%
Deferred inflows of resources related to OPEB	0.8	0.0	0.8	100.0%
Total Deferred Inflows of Resources	**32.3**	**6.8**	**25.5**	**375.0%**
Total Net Position	**$ 2,164.3**	**$ 2,008.1**	**$ 156.2**	**7.8%**

Column totals might not add due to rounding.

The Authority ended fiscal year 2018 with total assets of $4,567.3 million, an increase of $200.8 million or 4.6% over the prior year. This increase is primarily due to growth in current assets due to higher investment balances from bond proceeds and additional income from FY18 operations. Deferred outflows of resources for fiscal year 2018 were $59.1 million, a $33.9 million decrease from the previous year due to a reduction in the deferred outflows on the OPEB and Pension Plan investments from favorable investment gains on plan assets and less amortization of prior year losses. The Authority's total assets consist primarily of capital assets, net, which represent approximately $3,216.3 million or 69.5% of the Authority's total assets and deferred outflows of resources as of June 30, 2018.

The Authority's total liabilities as of June 30, 2018 were $2,429.7 million, a decrease of $14.9 million or 0.6% due mainly to the decline in the Authority's pension and OPEB liabilities due to favorable investment returns. The Authority's liabilities consist primarily of bonds payable (including current portion), which accounted for 74.5% of the Authority's total liabilities and deferred inflows at June 30, 2018.

The Authority's total net position for fiscal year 2018 was $2,164.3 million, a $156.2 million or 7.8% increase over the prior year. This increase reflects the Authority's net operating income of $78.9 million, net non-operating income of $51.9 million and capital contributions of $25.4 million. The growth in net position will be used to fund the Authority's strategic initiatives.

Condensed Statements of Net Position for FY 2017 and FY 2016
($ millions)

	FY 2017 (Restated)	FY 2016	$ Change	% Change
Assets				
Current assets	$ 803.9	$ 632.3	$ 171.6	27.1%
Capital assets, net	3,142.5	3,086.9	55.6	1.8%
Other non-current assets	420.1	496.7	(76.6)	-15.4%
Total Assets	**4,366.5**	**4,215.9**	**150.6**	**3.6%**
Deferred Outflows of Resources				
Deferred loss on refunding of bonds	18.0	17.9	0.1	0.6%
Deferred outflows of resources related to Pension plan	37.3	47.0	(9.7)	-20.6%
Deferred outflows of resources related to OPEB	37.7	0.0	37.7	100.0%
Total Deferred Outflows of Resources	**93.0**	**64.9**	**28.1**	**43.3%**
Liabilities				
Current liabilities	$ 308.0	$ 331.9	($ 23.9)	-7.2%
Bonds payable, including current portion	1,850.7	1,724.5	126.2	7.3%
Other non-current liabilities	285.9	132.4	153.5	115.9%
Total Liabilities	**2,444.6**	**2,188.8**	**255.8**	**11.7%**
Deferred Inflows of Resources				
Deferred gain on refunding of bonds	6.8	8.1	(1.3)	-16.0%
Total Deferred Inflows of Resources	**6.8**	**8.1**	**(1.3)**	**-16.0%**
Total Net Position	**$ 2,008.1**	**$ 2,083.9**	**($ 75.8)**	**-3.6%**

The Authority ended fiscal year 2017 with total assets of $4,366.5 million, an increase of $150.6 million or 3.6% over the prior year. This increase was primarily due to growth in current assets due to higher investment balances. Deferred outflows of resources for fiscal year 2017 were $93.0 million, a $28.1 million increase from the previous year due primarily to the recording of the $37.7 million deferred outflow of resources related to OPEB as required by GASB 75. The Authority's total assets consist primarily of capital assets, which represent approximately $3,142.5 million or 70.5% of the Authority's total assets and deferred outflows of resources as of June 30, 2017.

The Authority's total liabilities as of June 30, 2017 were $2,444.6 million, an increase of $255.8 million or 11.7% due mainly to the growth in the Authority's debt to finance strategic initiatives and the reporting for the first time of the net OPEB liability as required by GASB 75. The Authority's liabilities consist primarily of bonds payable (including current portion), which accounted for 75.5% of the Authority's total liabilities and deferred inflows at June 30, 2017.

The Authority's total net position for fiscal year 2017 was $2,008.1 million, a $75.8 million or 3.6% decrease compared to the prior year. This decrease reflects the impact of GASB 75 of $165.1 million partially offset by net operating income of $33.6 million, net non-operating income of $43.1 million and capital contributions of $12.6 million. The growth in net position will be used to fund the Authority's strategic initiatives.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018 and 2017, the Authority had $3,216.3 million and $3,142.5 million of capital assets (net of depreciation), respectively. These include land, construction in process, buildings, runways, roadways, machinery and equipment, air rights and parking rights. The Authority's net capital assets increased by $73.8 million or 2.3% in fiscal year 2018 primarily as the result of $337.3 million in capital expenditures partially offset by $262.1 million of depreciation expense.

In fiscal year 2018, the Authority placed $294.3 million of new assets into service. Major projects included the South Boston Waterfront Transportation Center which includes 1,550 parking spaces and other transportation amenities at a cost of $84.4 million, the Conley Terminal Dedicated Freight Corridor at a cost of $36.8 million, the CAT III Instrument Landing System at Worcester Airport to enable aircraft to land at that airport in poor visibility conditions at a cost of $30.2 million, and modifications to Gates 37 and 38 at Logan Airport at a cost of $19.4 million.

The Authority placed $384.9 million of assets into service for completed capital projects during fiscal year 2017. Major projects included the Logan Airport Terminal E Renovation and Enhancement at a cost of $155.8 million and the final component of the new Checked Baggage Inspection System (CBIS) at a cost of $52.2 million. Other assets placed into service in fiscal year 2017 included a new Heating, Ventilation and Air Conditioning (HVAC) system for Terminals B, C, and E at Logan Airport at a costs of $14.8 million and the rehabilitation of Runway 4L/22R at Logan Airport at a cost of $14.7 million.

Capital assets, net comprised approximately 69.5%, 70.5% and 72.1% of the Authority's total assets and deferred outflows of resources at June 30, 2018, 2017 and 2016, respectively. During fiscal years 2018, 2017 and, 2016, the Authority spent approximately $293.2 million, $322.7 million and $351.0 million, respectively, constructing new assets and improving existing assets already in service, inclusive of construction in process.

The Authority's capital assets are principally funded by the proceeds of revenue bonds, Authority generated revenues, PFCs, CFCs, and federal and state grants. The Authority's aviation facilities account for approximately 90% of all capital assets. The following chart provides a breakdown of total capital assets at June 30 2018, 2017 and 2016.

Capital Assets by Type
($ thousands)

	FY 2018	FY 2017	FY 2016	% Change 2018-2017	% Change 2017-2016
Land	$ 230,600	$ 230,593	$ 226,497	0.0%	1.8%
Construction in progress	192,782	149,730	225,930	28.8%	-33.7%
Buildings	1,727,729	1,727,657	1,594,212	0.0%	8.4%
Runways and other pavings	389,082	364,152	356,538	6.8%	2.1%
Roadways	345,881	327,839	351,920	5.5%	-6.8%
Machinery and equipment	258,063	262,306	243,958	-1.6%	7.5%
Air rights	52,143	58,628	64,711	-11.1%	-9.4%
Parking rights	20,047	21,588	23,131	-7.1%	-6.7%
Capital assets, net	**$ 3,216,327**	**$ 3,142,493**	**$ 3,086,897**	**2.3%**	**1.8%**

Please see Note 4, Capital Assets in the attached financial statements.

Debt Administration

The Authority's bond sales must be approved by the Members of the Authority (the "Board") and must comply with the rules and regulations of the United States Treasury Department. The Authority, through its 1978 Trust Agreement, has a covenant to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a debt service coverage ratio higher than its 1978 Trust Agreement requirement to maintain its high investment grade bond ratings and keep capital costs low. As of June 30, 2018, 2017, and 2016, the Authority's debt service coverage under the 1978 Trust Agreement was 3.43, 3.27 and 2.98 respectively.

The 1999 PFC Trust Agreement requires a First Lien Sufficiency covenant ratio in excess of 1.05. There was no PFC debt as of June 30, 2018 as all debt was paid off on July 3, 2017. As of June 30, 2017 and 2016, the Authority's PFC First Lien Sufficiency covenant under the PFC Trust Agreement was 63.44 and 10.68 respectively. The ratio was much higher as of June 30, 2017 because the Authority's remaining long term PFC debt was paid off in full on July 3, 2017.

The CFC Trust Agreement requires that the Authority maintain a debt service coverage ratio of at least 1.30. As of June 30, 2018, 2017, and 2016, the CFC debt service coverage ratio was 2.65, 2.60 and 2.50 respectively.

The Authority had net bonds payable outstanding as of June 30, 2018 in the amount of $1,684.0 million, a net decrease of $34.8 million compared to fiscal year 2017. During fiscal year 2018, the Authority issued $169.5 million of Massachusetts Port Authority Revenue Bonds Series 2017-A with an original issue premium of $27.2 million. Approximately $91.4 million of the proceeds from the Series 2017-A Bonds was used to refund the entire outstanding balances of the Authority's 2007 Series C and 2010 Series D bonds, resulting in a net present value benefit to the Authority of $2.8 million. The remaining $91.0 million of Series 2017-A proceeds is being used to finance capital improvements, with the primary project being the consolidation and optimization of Terminal B at Logan Airport. Due to the "private activity" nature of the construction projects, the bonds were sold as Alternative Minimum Tax (AMT) bonds.

The Authority had net bonds payable outstanding as of June 30, 2017 in the amount of $1,718.8 million, a net increase of $93.3 million compared to fiscal year 2016. During fiscal year 2017, the Authority issued $230.3 million of Massachusetts Port Authority Revenue Bonds in two series. The proceeds from the Series 2016 A Revenue Refunding Bonds, in the principal amount of $50.0 million, were used to refund a portion of the outstanding balance of the Authority's 2007 Series A bonds and the entire outstanding balance of the Authority's 2008 Series A bonds, resulting in a net present value benefit to the Authority of $6.8 million. The Series 2016 B Revenue Bonds were issued in the amount of $180.3 million and were used to finance capital improvements, including renovations and enhancements to Terminal E and the consolidation of Terminal B. Due to the "private activity" nature of the construction projects, they were sold as Alternative Minimum Tax (AMT) bonds.

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

Please see Note 5, Bonds and Notes Payable in the attached Financial Statements.

THE AUTHORITY'S CONDENSED CASH FLOWS

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

Statements of Cash Flows
($ millions)

	FY 2018	FY 2017	$ Change	% Change
Net cash provided by operating activities	$ 334.0	$ 315.1	$ 18.9	6.0%
Net cash (used in) capital and related financing activities	(228.1)	(164.3)	(63.8)	38.8%
Net cash (used in) investing activities	(166.3)	(128.3)	(38.0)	29.6%
Net (decrease)/increase in cash and cash equivalents	(60.4)	22.5	(82.9)	-368.4%
Cash and cash equivalents, beginning of year	273.0	250.5	22.5	9.0%
Cash and cash equivalents, end of year	**$ 212.6**	**$ 273.0**	**($ 60.4)**	**-22.1%**

	FY 2017	FY 2016	$ Change	% Change
Net cash provided by operating activities	$ 315.1	$ 280.7	$ 34.4	12.3%
Net cash (used in) capital and related financing activities	(164.3)	(318.3)	154.0	-48.4%
Net cash (used in) investing activities	(128.3)	(125.1)	(3.2)	2.6%
Net (decrease)/increase in cash and cash equivalents	22.5	(162.7)	185.2	-113.8%
Cash and cash equivalents, beginning of year	250.5	413.2	(162.7)	-39.4%
Cash and cash equivalents, end of year	**$ 273.0**	**$ 250.5**	**$ 22.5**	**9.0%**

The Authority's cash and cash equivalents at June 30, 2018 was $212.6 million, a decrease of $60.4 million, or 22.1% from the $273.0 million in cash and cash equivalents reported in fiscal year 2017. The Authority generated $334.0 million in cash from operations during fiscal year 2018 compared to $315.1 million in the prior year, an increase of $18.9 million, or 6.0%, primarily from increased business activity at Logan Airport, record container volumes at Conley Terminal, and activity at its other facilities. The Authority used $228.1 million in cash for capital and related financing activities to finance the Authority's capital program and to pay debt service expenses during the year. This was a $63.8 million increase in the use of cash from the $164.3 million in cash used for capital and related financing activities in fiscal year 2017 due mainly to lower proceeds from the issuance of bonds, net. The Authority used $166.3 million in cash from investments towards its capital and operating needs, an increase of $38.0 million from the amount of cash used for investing activities in fiscal year 2017.

The Authority's cash and cash equivalents at June 30, 2017 was $273.0 million, an increase of $22.5 million, or 9.0% from the $250.5 million in cash and cash equivalents reported in fiscal year 2016. The Authority generated $315.1 million in cash from operations during fiscal year 2017 compared to $280.7 million in the prior year, an increase of $34.4 million, or 12.3%, primarily from increased business activity at Logan Airport, record container volumes at Conley Terminal, and activity at its other facilities. The Authority used $164.3 million in cash for capital and related financing activities to finance the Authority's capital program and to pay debt service expenses during the year. This was a $154.0 million decrease in the use of cash from the $318.3 million in cash used for capital and related financing activities in fiscal year 2016, which included a debt refunding payment. The Authority used $128.3 million in cash from investments towards its capital and operating needs, an increase of $3.2 million from the amount of cash used for investing activities in fiscal year 2016.

Contacting the Authority's Financial Management

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

MASSACHUSETTS PORT AUTHORITY

Statements of Net Position

June 30, 2018 and 2017

(In thousands)

	2018	2017 (Restated)
Current assets:		
Cash and cash equivalents	$ 73,299	$ 82,095
Investments	170,039	132,021
Restricted cash and cash equivalents	139,285	190,914
Restricted investments	478,519	317,441
Accounts receivable		
Trade, net	68,085	67,630
Grants receivable	9,948	5,811
Total receivables (net)	78,033	73,441
Prepaid expenses and other assets	9,171	7,964
Total current assets	948,346	803,876
Noncurrent assets:		
Investments	132,105	152,661
Restricted investments	261,576	259,040
Prepaid expenses and other assets	5,796	5,637
Investment in joint venture	3,130	2,843
Capital assets-not being depreciated	423,382	380,323
Capital assets-being depreciated-net	2,792,945	2,762,170
Total noncurrent assets	3,618,934	3,562,674
Total assets	4,567,280	4,366,550
Deferred outflows of resources		
Deferred loss on refunding of bonds	16,243	17,983
Deferred outflows of resources related to pensions	13,869	37,298
Deferred outflows of resources related to OPEB	28,974	37,729
Total deferred outflows of resources	59,086	93,010
Current liabilities:		
Accounts payable and accrued expenses	160,488	133,949
Compensated absences	1,327	1,400
Contract retainage	6,022	8,729
Current portion of long term debt	62,951	123,000
Commercial notes payable	142,000	109,000
Accrued interest on bonds payable	40,552	39,015
Unearned revenues	10,185	15,939
Total current liabilities	423,525	431,032
Noncurrent liabilities:		
Accrued expenses	11,300	14,621
Compensated absences	17,566	17,908
Net pension liability	34,927	88,322
Net OPEB liability	143,858	150,451
Contract retainage	5,778	1,236
Long-term debt, net	1,772,365	1,727,665
Unearned revenues	20,419	13,374
Total noncurrent liabilities	2,006,213	2,013,577
Total liabilities	2,429,738	2,444,609
Deferred inflows of resources		
Deferred gain on refunding of bonds	6,074	6,809
Deferred inflows of resources related to pensions	25,390	—
Deferred inflows of resources related to OPEB	831	—
Total deferred inflows of resources	32,295	6,809
Net position		
Net investment in capital assets	1,379,079	1,290,338
Restricted		
Bond funds	212,738	209,333
Project funds	271,003	196,738
Passenger facility charges	51,133	102,914
Customer facility charges	67,161	48,550
Other purposes	31,233	28,101
Total restricted	633,268	585,636
Unrestricted	151,986	132,168
Total net position	$ 2,164,333	$ 2,008,142

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

MASSACHUSETTS PORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017 (Restated)
Operating revenues:		
Aviation rentals	$ 240,798	$ 217,906
Aviation parking	180,803	169,354
Aviation shuttle bus	20,303	19,278
Aviation fees	153,236	145,418
Aviation concessions	114,492	98,913
Aviation operating grants and other	1,911	2,909
Maritime fees, rentals and other	94,351	82,088
Real estate fees, rents and other	30,497	25,037
Total operating revenues	836,391	760,903
Operating expenses:		
Aviation operations and maintenance	296,186	274,506
Maritime operations and maintenance	63,976	59,629
Real estate operations and maintenance	14,852	13,215
General and administrative	62,470	59,342
Payments in lieu of taxes	20,408	19,276
Pension and other post-employment benefits	28,952	38,903
Other	8,449	9,631
Total operating expenses before depreciation and amortization	495,293	474,502
Depreciation and amortization	262,162	252,846
Total operating expenses	757,455	727,348
Operating income	78,936	33,555
Nonoperating revenues and (expenses):		
Passenger facility charges	81,016	76,296
Customer facility charges	33,003	33,055
Investment income	18,577	13,093
Net decrease in the fair value of investments	(4,373)	(4,501)
Other revenues	1,364	4,062
Settlement of claims	2,019	248
Terminal A debt service contribution	(12,232)	(11,941)
Other expenses	(195)	(198)
Gain on sale of equipment / property	182	125
Interest expense	(67,490)	(67,157)
Total nonoperating revenues (expenses), net	51,871	43,082
Increase in net position before capital contributions	130,807	76,637
Capital contributions	25,384	12,635
Increase in net position	156,191	89,272
Net position, beginning of year	2,008,142	1,918,870
Net position, end of year	$ 2,164,333	$ 2,008,142

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

MASSACHUSETTS PORT AUTHORITY
Statements of Cash Flows
Years ended June 30, 2018 and 2017
(In thousands)

	2018	2017 (Restated)
Cash flows from operating activities:		
Cash received from customers and operating grants	$ 833,354	$ 765,757
Payments to vendors	(298,606)	(255,538)
Payments to employees	(165,669)	(161,571)
Payments in lieu of taxes	(19,383)	(19,276)
Other post-employment benefits	(15,682)	(14,300)
Net cash provided by operating activities	334,014	315,072
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(293,228)	(322,735)
Proceeds from the issuance of bonds	196,155	268,866
Principal payments on refunded debt	(94,855)	(63,382)
Interest paid on bonds and notes	(82,151)	(78,220)
Principal payments on long-term debt	(109,425)	(75,240)
Proceeds from commercial paper financing	64,000	9,000
Principal payments on commercial paper	(31,000)	(25,000)
Terminal A debt service contribution	(12,232)	(11,941)
Proceeds from passenger facility charges	79,908	72,039
Proceeds from customer facility charges	32,546	33,059
Proceeds from capital contributions	20,698	28,851
Settlement of claims	1,274	248
Proceeds from sale of equipment	170	178
Net cash used in capital and related financing activities	(228,140)	(164,277)
Cash flows from investing activities:		
Purchases of investments, net	(887,039)	(726,630)
Sales of investments, net	703,791	586,428
Realized (loss)/gain on sale of investments	(20)	(34)
Interest received on investments	16,969	11,987
Net cash used in investing activities	(166,299)	(128,249)
Net increase (decrease) in cash and cash equivalents	(60,425)	22,546
Cash and cash equivalents, beginning of year	273,009	250,463
Cash and cash equivalents, end of year	$ 212,584	$ 273,009
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	$ 78,936	$ 33,555
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	262,162	252,846
Provision for uncollectible accounts	439	1,642
Changes in operating assets and liabilities:		
Trade receivables	406	(4,835)
Prepaid expenses and other assets	3,574	3,481
Accounts payable and accrued expenses	(12,494)	10,657
Net pension liability and deferred inflows/outflows	(4,576)	6,141
Net OPEB liability and deferred inflows/outflows	2,993	3,563
Compensated absences	(415)	(227)
Unearned revenue	2,989	8,249
Net cash provided by operating activities	$ 334,014	$ 315,072
Noncash investing activities:		
Net increase in the fair value of investments	$ (5,666)	$ (1,314)

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

1. Summary of Significant Accounting Policies and Practices

Reporting Entity

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

The Authority has no stockholders or equity holders, and the Authority's financial statements are not a component unit of the Commonwealth's financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended and supplemented (the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association (as successor in interest to State Street Bank and Trust Company), as trustee (the "Trustee"), the Passenger Facility Charges ("PFC") Revenue Bond Trust Agreement dated May 6, 1999, as amended and supplemented (the "PFC Trust Agreement"), between the Authority and The Bank of New York Mellon, as trustee (the "PFC Trustee"), which was superseded by the PFC Depositary Agreement dated July 3, 2017, and the Customer Facility Charges ("CFC") Revenue Bond Trust Agreement dated May 18, 2011, as amended and supplemented (the "CFC Trust Agreement"), between the Authority and U.S. Bank National Association, as trustee (the "CFC Trustee"), govern all funds, with limited exceptions, received by the Authority pursuant to the Enabling Act.

In April 1981, the Authority adopted a retiree benefit plan whereby the Authority assumed the full cost of group health insurance including basic life insurance, dental insurance and catastrophic illness coverage to those retirees and surviving spouses (and qualifying dependents) who have retired under the Authority's retirement system (collectively referred to as the "OPEB Plan"). In June 2009 and May 2016, the Board made changes to the plan benefits to be paid by the Authority for certain existing and future retirees. For additional details, see Note 7.

In June 2008, the Authority created the Retiree Benefits Trust (the "RBT" or the "Trust") to fund its OPEB Plan obligations. It was established as an irrevocable governmental trust under Section 115 of the Internal Revenue Code. In no event shall any part of the principal or income of the RBT be paid or revert back to the Authority or be used for any purpose whatsoever other than for the exclusive benefit of retirees and their beneficiaries.

Basis of Accounting

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

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

Accounting per Applicable Trust Agreements

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

Prior to July 3, 2017, all PFC revenue was deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Trust Agreement and was utilized to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement. Any remaining funds were transferred to the PFC Capital Fund. The Authority paid the final maturities of the PFC Revenue Bonds outstanding of $52.9 million on July 3, 2017 and established a new PFC Depositary Agreement with The Bank of New York, Mellon, as custodian (the "PFC Custodian").

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

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

a) Net Position

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

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt and the deferred outflows / inflows of resources attributable to the acquisition, construction or improvement of those assets.
- Restricted: Net position of assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets include the construction funds held pursuant to the 1978 Trust Agreement, the PFC Trust Agreement (which was

superseded by the PFC Depositary Agreement dated July 3, 2017), the CFC Trust Agreement and the self insurance fund.

- Unrestricted: Net position of assets that are not subject to externally imposed stipulations. Net amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources not included in the determination of net investment in capital assets or restricted components of net position. Unrestricted net position may be designated for specific purposes by action of management or the Members of the Authority (the "Board") or may otherwise be limited by contractual agreements with outside parties. When both restricted and unrestricted resources are available for a particular restricted use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as needed.

b) Deferred outflows/inflows of resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. At June 30, 2018 and 2017, the Authority has several items that qualify for reporting in this category. The first deferred outflow results from refunding long term debt and is the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to the difference in the expected versus actual experience of the Pension Plan and the OPEB Trust. This amount is deferred and amortized over approximately seven years. The third item is related to the change in Pension Plan assumptions, the reduction in the discount rate, which is being amortized over approximately seven years. The fourth item is related to OPEB Trust contributions made subsequent to the measurement date which will reduce the net OPEB liability in fiscal year 2019.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2018 and 2017, the Authority has two items that qualify for reporting in this category. The first deferred inflow of resources results from refunding long term debt and is the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to the net deferred gain on Pension Plan and OPEB Trust investments, which is being amortized over a five year period.

c) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments, including restricted assets, with an original maturity date of 30 days or less to be cash equivalents.

d) *Investments*

Investments with a maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with a maturity date of less than one year are carried at amortized cost, which approximates fair value. Fair value is determined based on quoted market prices. The Authority recorded to investment income an unrealized decrease in the fair value of investments of $4.4 million and a realized loss of $0.02 million at June 30, 2018 and an unrealized decrease in the fair value of investments of $4.5 million and a realized gain of $0.03 million at June 30, 2017.

e) *Restricted Cash and Investments*

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

f) *Capital Assets*

Capital assets are recorded at cost and include land, land improvements, buildings, machinery and equipment, runways, roadways and other paving and non-maintenance dredging. Such costs include, where appropriate, capitalized interest and related legal costs. The costs of normal upkeep, maintenance, maintenance dredging and repairs are not capitalized.

The capitalization threshold is noted below:

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

The Authority capitalizes certain interest costs associated with taxable and tax-exempt borrowing, less any interest earned on the proceeds of those borrowings, during the period of construction. Interest expense of $10.4 million and $8.6 million, reduced by interest income of $537.8 thousand and $282.0 thousand resulted in capitalized interest of $9.9 million and $8.3 million for the years ended June 30, 2018 and 2017, respectively.

g) Depreciation

The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated useful lives:

Asset Category	Years
Buildings	25
Runways (original construction)	25
Other airfield paving	12
Roadway	25
Dredging	15
Machinery and equipment	5 to 10

h) Other Assets and Prepaid Items

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

i) Amortization

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

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

j) Revenue Recognition

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

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

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

The Authority presents its accounts receivable at the expected net realizable value. Accordingly, the Authority has recorded an allowance for doubtful accounts against its accounts receivable of $4.4 million and $3.5 million at June 30, 2018 and 2017, respectively.

k) Passenger Facility Charges

In 1993, the Authority received initial approval from the Federal Aviation Administration ("FAA") to impose a $3.00 PFC on all outbound tickets purchased at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. Effective October 1, 2005, the Authority received approval from the FAA to increase the PFC collection to $4.50. All PFC's collected by the Authority are presently deposited under the PFC Depositary Agreement with The Bank of New York Mellon, as PFC Custodian.

Through June 30, 2018, the Authority had cumulative PFC cash collections of $1,203.1 million, including interest thereon.

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

At June 30, 2018, the Authority's collection authorization and total use approval is $1.65 billion.

As of June 30, 2018 and 2017, $0.0 million and $52.9 million of PFC bonds were outstanding, respectively.

Revenues derived from the collection of PFCs are recognized on the accrual basis, based on the month the charges were levied and collected by the airlines. Due to their restricted use, PFCs are categorized as non-operating revenues. The Authority recognized $81.0

million and $76.3 million in PFC revenue for the fiscal years ended June 30, 2018 and 2017, respectively.

l) Customer Facility Charges

Effective December 1, 2008, the Board established a CFC of $4.00 per day for rental cars which originated out of Logan Airport. Effective December 1, 2009, this charge was increased to $6.00 per day. The proceeds of the CFC are being used to finance the Rental Car Center (the "RCC") and associated bus purchases. Revenues derived from the collection of CFCs are recognized on the accrual basis, based on the month the charges were levied and collected by the rental car companies. Due to their restricted use, CFCs are categorized as non-operating revenues. Pursuant to the CFC Trust Agreement, the Authority issued two series of Special Facilities Revenue Bonds in June 2011 (the "Series 2011 Bonds"). The Series 2011 Bonds were issued for the purpose of providing funds sufficient, together with other available funds of the Authority, to finance the development and construction of the RCC and related improvements at Logan Airport, fund certain deposits to the Debt Service Reserve Fund and the Supplemental Reserve Fund, and pay certain costs of issuance of the Series 2011 Bonds. The Series 2011 Bonds and any additional bonds that may be issued under the CFC Trust Agreement on parity with the Series 2011 Bonds are secured by CFC Pledged Revenues and by Contingent Rent, if any, payable by the rental car companies and other funds. The Series 2011 Bonds are not secured by any other revenues of the Authority.

The Authority recognized $33.0 million and $33.1 million in CFC revenue for the fiscal years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018 and 2017, $194.6 million and $198.2 million of CFC bonds were outstanding, respectively.

m) Capital Contributions

The Authority receives capital contributions from various federal agencies and the Commonwealth in support of specific operational programs and its Capital Program. Grant revenues are recognized as related expenditures are incurred and all eligibility requirements are met. Grants for capital asset acquisition, facility development, runway/ airfield rehabilitation and long-term planning are reported as capital contributions. Capital contributions are reported in the Statement of Revenues, Expenses and Changes in Net Position after non-operating revenues and expenses and their use is restricted. In fiscal years 2018 and 2017, the Authority recognized $25.4 million and $12.6 million of capital contributions, respectively. The 2018 and the 2017 capital contributions were generated from reimbursements under the FAA AIP grant program and the Nationally Significant Freight and Highway Project Program - Fastlane.

n) Compensated Absences

The Authority accrues for vacation and sick pay liabilities when they are earned by the employee. The liability for vested vacation and sick pay is reflected in the accompanying statements of net position as compensated absences. The current portion of compensated absences at June 30, 2018 and 2017 was $1.3 million and $1.4 million, respectively. The table below presents the Authority's compensated absences activity at June 30, 2018 and 2017 and for the years then ended (in thousands):

		2018	2017
Liability balance, beginning of year	$	19,308	19,536
Vacation and sick pay earned during the year		16,471	16,107
Vacation and sick pay used during the year		(16,886)	(16,335)
Liability balance, end of year	$	18,893	19,308

o) Pensions

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 Massachusetts Port Authority Employees Retirement System (the "Plan") and additions to/deductions from Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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) Postemployment Benefits Other Than Pensions (OPEB)

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 Massachusetts Port Authority Retiree Benefits Trust (the "Trust") and additions to/deductions from Trust's fiduciary net position have been determined on the same basis as they are reported by the Trust. For this purpose, the Trust recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

q) Use of Estimates

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

r) New Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB")* ("GASB No. 75"). The objective of this Statement is to address reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

The requirements of GASB 75 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with OPEB through OPEB plans that are administered through trusts that meet certain criteria and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

GASB 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined OPEB plans, GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employer service. Note disclosure and required supplementary information requirements about OPEB are also addressed.

GASB 75 replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The requirements of Statement 45 remain applicable for OPEB that are not covered by the scope of this Statement.

The Authority adopted GASB 75 effective July 1, 2016. In connection with the adoption of this new standard all accounts were analyzed by management in order to assess the impact on the financial statements. The implementation of GASB 75 resulted in the Authority reporting a Net OPEB Liability of $121.2 million as of July 1, 2016. The Authority's Net Position as of July 1, 2016 and the Authority's Statement of Net Position as of June 30, 2017 and Statement of Revenues and Expenses and Changes in Net Position for the year ended June 30, 2017 have been restated to reflect the required adjustments.

(in thousands)	As Previously Reported	Adjustment	Restated
As of July 1, 2016:			
Net Position	$ 2,083,942	$ (165,072)	$ 1,918,870
For the year ended June 30, 2017:			
General and administrative	59,142	200	59,342
Pension and other post employment benefits	37,603	1,300	38,903
Total operating expense	725,848	1,500	727,348
Operating income	35,055	(1,500)	33,555
Increase in Net Position	90,772	(1,500)	89,272
As of June 30, 2017:			
Net OPEB liability	-	150,451	150,451
Net OPEB asset	53,850	(53,850)	-
Deferred outflows of resources related to OPEB	-	37,729	37,729
Net Position	$ 2,174,714	$ (166,572)	$ 2,008,142

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities,* ("GASB No. 84"). This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post employment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018.

The Authority is currently evaluating the impact of the implementation of GASB No. 84 on its financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017* ("GASB No. 85").The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB.

Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.

- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. The Authority adopted this Statement as of July 1, 2016 and there was no significant impact on its financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues,* ("GASB No. 86")*.*The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. The Authority adopted this Statement and there was no impact on its financial statements.

In June 2017, GASB issued Statement No. 87, *Leases,* ("GASB No. 87")*.*The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019.

The Authority is currently evaluating the impact of the implementation of GASB No. 87 on its financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* ("GASB No. 88") The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

The Authority is currently evaluating the impact of the implementation of GASB No. 88 on its financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before The End Of A Construction Period,* ("GASB No. 89") 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. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period 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.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

The Authority is currently evaluating the impact of the implementation of GASB No. 89 on its financial statements.

In September 2018, GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* ("GASB No. 90"). The primary objectives of this Statement are to improve the consistency and comparability of government's majority equity interest in legally separate organizations and to improve the relevance of financial statement information for certain component units.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

The Authority is currently evaluating the impact of the implementation of GASB No. 90 on its financial statements.

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

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

	2018	2017
Increase in Net Position per GAAP	$ 156,191	$ 89,272
Additions:		
Depreciation and amortization	262,162	252,846
Interest expense	67,490	67,157
Payments in lieu of taxes	20,408	19,276
Other operating expenses	10,398	3,789
Terminal A bonds - debt service contribution	12,232	11,941
OPEB expenses, net	4,480	4,903
Settlement of claims	(2,019)	(248)
Pension expense	(4,576)	6,141
Less:		
Passenger facility charges	(81,016)	(76,296)
Customer facility charges	(33,003)	(33,055)
Self insurance expenses	(61)	(245)
Capital grant revenue	(25,384)	(12,635)
Net decrease (increase) in the fair value of investments	4,354	4,501
Loss (gain) on sale of equipment	(182)	(125)
Other (revenues) expenses	(1,654)	3,945
Other non-operating revenues	(1,169)	(3,865)
Investment income	(6,293)	(5,191)
Net Revenue per the 1978 Trust Agreement	$ 382,358	$ 332,111

Total net revenues, as defined by the 1978 Trust Agreement, pledged for the repayment of bonds issued under the 1978 Trust Agreement were $382.4 million and $332.1 million for the years ended June 30, 2018 and 2017, respectively.

3. Deposits and Investments

The Authority's investments are made in accordance with the provisions of the 1978 Trust Agreement, the PFC Trust Agreement (which was superseded by the PFC Depositary Agreement in July 2017 and the CFC Trust Agreement along with the investment policy adopted by the Board (the "Investment Policy"). The goals of the Investment Policy are, in order of importance, to preserve capital, to provide liquidity and to generate interest income.

As of June 30, 2018 and 2017, all investments were held on behalf of the Authority by the Trustee, the PFC Custodian the CFC Trustee or custodians in the Authority's name. The 1978 Trust Agreement, the PFC Depositary Agreement and the CFC Trust Agreement require that securities collateralizing repurchase agreements must continuously have a fair value at least equal to the cost of the agreement plus accrued interest.

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

The total accumulated unrealized gain (loss) due to the changes in fair value of investments related to investments with maturities in excess of one year was a loss of approximately $5.7 million as of June 30, 2018 and a loss of approximately $1.3 million as of June 30, 2017.

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2018 and 2017 (in thousands):

2018	Credit Rating (1)		Cost		Fair Value	Effective Duration
Massachsetts Municipal Depository Trust (6)	Unrated	$	181,981	$	181,981	0.003
Federal Home Loan Bank	AA+ / Aaa		49,006		48,753	0.989
Federally Deposit Insurance Corporation	Unrated (2)		1,001		1,001	0.003
Federal Home Loan Mortgage Corp.	AA+ / Aaa		41,799		41,452	0.946
Federal National Mortgage Association	AA+ / Aaa		81,155		80,395	1.350
Federal Farm Credit	AA+ / Aaa		18,055		17,990	0.791
Guaranteed Investment Contracts (GIC) (6)	AA+ / A1 (4)		44,818		44,818	10.229
Cash Deposit	Unrated		1,818		1,818	0.003
Certificates of Deposit	AAA / Aaa (3)		33,327		33,327	0.351
Commercial Paper	A-1/ P-1 (5)		423,452		423,452	0.271
Government Fund-Morgan Stanley / Wells Fargo	AAA / Aaa (5)		22,591		22,591	0.003
Municipal Bond	AAA/ Aa1		99,734		98,697	1.179
Money Market Funds	Unrated		2,231		2,231	0.003
Insured Cash Sweep	Unrated (2)		2,962		2,962	0.003
Treasury Notes	AA+ / Aaa		12,036		11,985	0.862
Corporate Bonds	AA- / Aa2 (7)		244,523		241,370	2.254
		$	1,260,489	$	1,254,823	

2017	Credit Rating (1)		Cost		Fair Value	Effective Duration
Massachsetts Municipal Depository Trust (6)	Unrated	$	233,906	$	233,906	0.003
Federal Home Loan Bank	AA+ / Aaa		97,379		97,197	0.989
Federally Deposit Insurance Corporation	Unrated (2)		5,003		5,003	0.003
Federal Home Loan Mortgage Corp.	AA+ / Aaa		50,904		50,728	0.946
Federal National Mortgage Association	AA+ / Aaa		98,923		98,484	1.350
Federal Farm Credit	AA+ / Aaa		36,085		36,025	0.791
Guaranteed Investment Contracts (GIC) (6)	AA+ / A1 (4)		43,051		43,051	10.229
Cash Deposit	Unrated		1,085		1,085	0.003
Certificates of Deposit	AAA / Aaa (3)		58,838		58,838	0.351
Commercial Paper	A-1/ P-1 (5)		188,769		188,769	0.271
Government Fund-Morgan Stanley / Wells Fargo	AAA / Aaa (5)		31,740		31,740	0.003
Municipal Bond	AAA/ Aa1		117,603		117,498	1.179
Money Market Funds	Unrated		3,015		3,015	0.003
Insured Cash Sweep	Unrated (2)		3,263		3,263	0.003
Treasury Notes	AA+ / Aaa		33,027		33,012	0.862
Corporate Bonds	AA- / Aa2 (7)		132,894		132,558	2.254
		$	1,135,485	$	1,134,172	

1. The ratings are from S&P or Moody's as of the fiscal year presented.
2. FDIC Insured Deposits Accounts.
3. Collateralized by Federal Agency Notes or Letter of Credit backed by each reserve.
4. Underlying rating of security held.
5. Credit quality of fund holdings.
6. MMDT and GIC are carried at cost, which approximates fair value in the tables.
7. The Authority owns a diverse portfolio of corporate bonds with S&P credit ratings ranging from A to AAA and Moody's credit ratings ranging from A1 to Aaa. These corporate bonds have an average credit rating of AA- / Aa2.

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

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Securities maturing in 1 year or more	$ 398,566	$ 393,681	$ 412,899	$ 411,701
Securities maturing in less than 1 year	649,339	648,558	449,577	449,462
Cash and cash equivalents	212,584	212,584	273,009	273,009
	$ 1,260,489	$ 1,254,823	$ 1,135,485	$ 1,134,172

Credit Risk

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

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

a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. Bank deposits in excess of the insured amount are uninsured and uncollateralized.

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

The Authority's cash on deposits in the banks noted above at June 30, 2018 and 2017 was $1.8 million and $1.1 million, respectively, and of these amounts, $1.3 million and $1.0

million was insured in each year, and no amount was collateralized at June 30, 2018 or 2017.

b) *Custodial Credit Risk – Investments*

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

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

Additionally, the Authority is authorized to invest in the Massachusetts Municipal Depository Trust ("MMDT"), a pooled money market like investment fund managed by the Commonwealth of Massachusetts, established under the General Laws, Chapter 29, Section 38A. MMDT investments are carried at amortized cost, which approximates fair value which is the same as the value of the pool. The Authority can purchase and sell its investments at any time without penalty.

The following guaranteed investment contracts were in force as of June 30, 2018 and 2017, respectively; they are uncollateralized and recorded at cost:

Investment Agreement Provider	Rate	Maturity	2018	2017
Trinity Plus Funding Company	4.357%	January 2, 2031	$ 19,843	$ 19,003
GE Funding Capital Markets	3.808%	December 31, 2030	24,975	24,048
Total			$ 44,818	$ 43,051

c) *Concentration of Credit Risk – Investments*

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

Commercial Paper Issuer		2018		2017
Bank of Tokyo Mitsubishi UFJ	$	61,482	$	54,819
BNP Paribas		29,767		-
Canadian Imperial		10,456		-
Dexia		61,264		-
General Electric		40,876		-
JP Morgan Chase		61,530		47,832
Credit Agricole		61,563		31,843
Rabobank		3,961		-
Toyota Motor Corporation		30,858		54,275
ING Funding		61,695		-
Total	$	423,452	$	188,769
% of Portfolio		34.00%		16.70%

d) Credit Ratings– Investments

The 1978 Trust Agreement, the PFC Depositary Agreement, the CFC Trust Agreement and the Investment Policy generally limit the Authority in the types of investments it can purchase to the two highest rating categories without regard to gradations within the rating categories by both Moody's (Aaa, Aa1, Aa2, and Aa3) and S&P (AAA, AA+, AA, and AA-) and in corporate bonds rated in one of the three highest rating categories without regard to gradations within such categories by Moody's and S&P.

Investments in bank certificates of deposits were fully collateralized. Also, the Authority invested in MMDT, managed by the State Treasury, which is not rated.

e) Interest Rate Risk – Investments

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

f) Cash, Cash Equivalents and Investments by Fund

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

	2018		2017	
1978 Trust	**Cost**	**Fair Value**	**Cost**	**Fair Value**
Improvement and Extension Fund	$ 306,833	$ 304,378	$ 277,639	$ 277,012
Capital Budget Account	135,774	135,774	68,323	68,323
Debt Service Reserve Funds	113,714	112,827	114,717	114,509
Debt Service Funds	83,226	83,226	77,137	77,137
Maintenance Reserve Fund	208,620	207,405	172,845	172,539
Operating/Revenue Fund	71,063	71,063	89,765	89,764
Subordinated Debt Funds	47,218	47,218	45,449	45,449
Self-Insurance Account	32,047	31,689	31,492	31,474
2015 B Project Fund	-	-	16,749	16,749
2016 B Project Fund	17,143	17,143	53,912	53,908
2017 B Project Fund	63,063	63,063	-	-
Other Funds	49,777	49,777	20,409	20,409
1999 PFC Trust /PFC Depositary				
Debt Service Reserve Funds	-	-	551	551
Debt Service Funds	-	-	54,388	54,388
Other PFC Funds	38,600	38,453	37,544	37,517
2011 CFC Trust				
Debt Service Reserve Funds	28,023	27,821	27,977	27,959
CFC Maintenance Reserve Fund	2,587	2,585	1,696	1,696
Debt Service Funds	9,519	9,519	9,402	9,402
Other CFC Funds	53,282	52,882	35,490	35,386
Total	$ 1,260,489	$ 1,254,823	$ 1,135,485	$ 1,134,172

g) *Fair Value Measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of a fair value measurement in both cases is the same—that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The following tables show the fair value and the fair value measurements for our cash and cash equivalents and investments:

Cash, Cash equivalents and Investments Measured at Fair Value (in thousands)

As of June 30, 2018	Fair Value	Level 1	Level 2	Level 3
Federal Home Loan Bank	$ 48,753	$ -	$ 48,753	$ -
Federally Insured Cash Account	1,001	1,001	-	-
Federal Home Loan Mortgage Corp.	41,452	-	41,452	-
Federal National Mortgage Association	80,395	-	80,395	-
Federal Farm Credit	17,990	-	17,990	-
Cash Deposit	1,818	1,818	-	-
Certificates of Deposit	33,327	33,327	-	-
Commercial Paper	423,452	-	423,452	-
Government Fund-Morgan Stanley / Wells Fargo	22,591	22,591	-	-
Municipal Bond	98,697	-	98,697	-
Money Market Funds	2,231	2,231	-	-
Insured Cash Sweep	2,962	2,962	-	-
Treasury Notes	11,985	-	11,985	-
Corporate Bonds	241,370	-	241,370	-
Total Cash, Cash equivalents and Investments Measured at Fair Value	$ 1,028,024	$ 63,930	$ 964,094	$ -

Cash, Cash equivalents and Investments Measured at Fair Value (in thousands)

As of June 30, 2017	Fair Value	Level 1	Level 2	Level 3
Federal Home Loan Bank	$ 97,197	$ -	$ 97,197	$ -
Federally Insured Cash Account	5,003	5,003	-	-
Federal Home Loan Mortgage Corp.	50,728	-	50,728	-
Federal National Mortgage Association	98,484	-	98,484	-
Federal Farm Credit	36,025	-	36,025	-
Cash Deposit	1,085	1,085	-	-
Certificates of Deposit	58,838	58,838	-	-
Commercial Paper	188,769	-	188,769	-
Government Fund-Morgan Stanley / Wells Fargo	31,740	31,740	-	-
Municipal Bond	117,498	-	117,498	-
Money Market Funds	3,015	3,015	-	-
Insured Cash Sweep	3,263	3,263	-	-
Treasury Notes	33,012	-	33,012	-
Corporate Bonds	132,558	-	132,558	-
Total Cash, Cash equivalents and Investments Measured at Fair Value	$ 857,215	$ 102,944	$ 754,271	$ -

Cash and Money Market Funds

As of June 30, 2018 and 2017, the Authority held positions in various cash and money market funds and the fair values of those funds were $63.9 million and $102.9 million, respectively. The fair values of the cash and money market funds were valued using quoted market prices (Level 1).

Federal Agency Notes

As of June 30, 2018 and 2017, the Authority held positions in federal agency notes and the fair values were $188.6 million and $282.4 million, respectively. The fair values of the federal agency notes were based on a market approach using quoted prices by a third party for markets that are not active (Level 2).

Commercial Paper Notes

As of June 30, 2018 and 2017, the Authority held positions in commercial paper notes and the fair values were $423.5 million and $188.8 million, respectively. The fair values of the commercial paper notes were based on a market approach using quoted prices by a third party for markets that are not active (Level 2).

Municipal Bonds

As of June 30, 2018 and 2017, the Authority held positions in municipal bonds and the fair values were $98.7 million and $117.5 million, respectively. The fair values of the municipal bonds were based on a market approach using quoted prices by a third party for markets that are not active (Level 2).

Treasury Notes

As of June 30, 2018 and 2017, the Authority held positions in Treasury Notes and the fair values were $12.0 million and $33.0 million, respectively. The fair values of the Treasury Notes were based on a market approach using quoted prices by a third party for markets that are not active (Level 2).

Corporate Bonds

As of June 30, 2018 and 2017, the Authority held positions in corporate bonds and the fair values were $241.4 and $132.6 million. The fair values of the corporate bonds was based on a market approach using quoted prices by a third party for markets that are not active (Level 2).

4. Capital Assets

Capital assets consisted of the following at June 30, 2018 and 2017 (in thousands):

	June 30, 2017	Additions and Transfers In	Deletions and Transfers Out	June 30, 2018
Capital assets not being depreciated				
Land	$ 230,593	$ 7	$ —	$ 230,600
Construction in progress	149,730	337,320	294,268	192,782
Total capital assets not being depreciated	380,323	337,327	294,268	423,382
Capital assets being depreciated				
Buildings	3,440,430	128,337	4,508	3,564,259
Runway and other paving	878,224	69,824	—	948,048
Roadway	718,290	48,775	11	767,054
Machinery and equipment	630,754	47,098	957	676,895
Air rights	184,905	226	—	185,131
Parking rights	46,261	—	—	46,261
Total capital assets being depreciated	5,898,864	294,260	5,476	6,187,648
Less accumulated depreciation:				
Buildings	1,712,773	126,929	3,172	1,836,530
Runway and other paving	514,072	44,894	—	558,966
Roadway	390,451	30,728	6	421,173
Machinery and equipment	368,448	51,334	950	418,832
Air rights	126,277	6,711	—	132,988
Parking rights	24,673	1,541	—	26,214
Total accumulated depreciation	3,136,694	262,137	4,128	3,394,703
Total capital assets being depreciated, net	2,762,170	32,123	1,348	2,792,945
Capital assets, net	$ 3,142,493	$ 369,450	$ 295,616	$ 3,216,327

Depreciation and amortization for fiscal year 2018 and 2017 was $262.2 million and $252.8 million, respectively.

	June 30, 2016	Additions and Transfers In	Deletions and Transfers Out	June 30, 2017
Capital assets not being depreciated				
Land	$ 226,497	$ 4,388	$ 292	$ 230,593
Construction in progress	225,930	308,789	384,989	149,730
Total capital assets not being depreciated	452,427	313,177	385,281	380,323
Capital assets being depreciated				
Buildings	3,187,058	260,994	7,622	3,440,430
Runway and other paving	830,546	47,678	—	878,224
Roadway	713,641	4,649	—	718,290
Machinery and equipment	565,267	66,547	1,060	630,754
Air rights	184,173	732	—	184,905
Parking rights	46,261	—	—	46,261
Total capital assets being depreciated	5,526,946	380,600	8,682	5,898,864
Less accumulated depreciation:				
Buildings	1,592,846	124,246	4,319	1,712,773
Runway and other paving	474,008	40,064	—	514,072
Roadway	361,721	28,730	—	390,451
Machinery and equipment	321,309	48,146	1,007	368,448
Air rights	119,462	6,815	—	126,277
Parking rights	23,130	1,543	—	24,673
Total accumulated depreciation	2,892,476	249,544	5,326	3,136,694
Total capital assets being depreciated, net	2,634,470	131,056	3,356	2,762,170
Capital assets, net	$ 3,086,897	$ 444,233	$ 388,637	$ 3,142,493

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

	2018	2017
Facilities completed by operation:		
Airports	$ 5,752,753	$ 5,592,547
Port	665,495	536,910
Capital assets (excluding construction in progress)	$ 6,418,248	$ 6,129,457

During fiscal year 2017, the Authority completed and placed into service portions of its new Checked Baggage Inspection System ("CBIS"). The write off of the old CBIS generated a $3.3 million current period expense in fiscal year 2017, which is included in depreciation expense.

5. Bonds and Notes Payable

Long-term debt at June 30, 2018 consisted of the following and represents maturities on the Authority's fiscal year basis (in thousands):

	June 30, 2017	Additions	Reductions	June 30, 2018	Due within one year
Revenue Bonds:					
Senior Debt-1978 Trust Agreement:					
2007, Series A, 4.00% to 4.50%, issued May 31, 2007 due 2017 to 2038	$ 1,275	$ —	$ 1,275	$ —	$ —
2007, Series C, 4.00% to 5.00%, issued May 31, 2007 due 2017 to 2028	23,615	—	23,615	—	—
2008, Series C, 4.60% to 5.00%, issued July 9, 2008 due 2017 to 2021	12,850	—	5,020	7,830	5,275
2010, Series A, 3.00% to 5.00%, issued August 5, 2010 due 2017 to 2041	90,160	—	2,135	88,025	2,220
2010, Series B, 3.00% to 5.00%, issued August 5, 2010 due 2017 to 2041	128,175	—	1,865	126,310	1,920
2010, Series C, 4.00% to 5.00%, issued August 5, 2010 due 2017 to 2019	7,340	—	3,530	3,810	3,810
2010, Series D, Multi-Modal variable, issued August 5, 2010 due 2017 to 2030	78,690	—	78,690	—	—
2012, Series A, 3.00% to 5.00%, issued July 11, 2012 due 2017 to 2043	96,305	—	5,975	90,330	1,560
2012, Series B, 3.00% to 5.00%, issued July 11, 2012 due 2017 to 2033	158,830	—	2,425	156,405	7,150
2014, Series A, 2.00% to 5.00%, issued July 17, 2014 due 2018 to 2045	45,455	—	825	44,630	845
2014, Series B, 4.00% to 5.00%, issued July 17, 2014 due 2018 to 2045	48,230	—	855	47,375	890
2014, Series C, 2.00% to 5.00%, issued July 17, 2014 due 2017 to 2036	144,020	—	7,180	136,840	7,400
2015, Series A, 5.00%, issued July 15, 2015 due 2019 to 2045	104,480	—	—	104,480	—
2015, Series B, 5.00%, issued July 15, 2015 due 2019 to 2045	67,005	—	—	67,005	—
2015, Series C, 2.12% to 2.83%, issued June 30, 2015 due 2026 to 2030	156,965	—	14,070	142,895	14,370
2016, Series A, 3.00% to 5.00%, issued July 20, 2016 due 2018 to 2038	49,970	—	290	49,680	1,320
2016, Series B, 4.00% to 5.00%, issued July 20, 2016 due 2043 and 2046	180,285	—	—	180,285	—
2017, Series A, 4.00% to 5.00%, issued July 19, 2017 due 2044 and 2047	—	169,500	—	169,500	5,565
Subtotal Senior Debt	$ 1,393,650	$ 169,500	$ 147,750	$ 1,415,400	$ 52,325

	June 30, 2017	Additions	Reductions	June 30, 2018	Due within one year
Subordinated debt- 1978 Trust Agreement:					
2000, Series A,B & C, 6.45%, issued December 29, 2000 due 2031	$ 40,000	$ —	$ —	$ 40,000	$ —
2001, Series A,B & C, 6.45%, issued January 2, 2001 due 2031	34,000	—	—	34,000	—
Subtotal Subordinate Debt	74,000	—	—	74,000	—
Senior Debt - PFC Trust Agreement:					
2007, Series B, 4.00% to 5.00%, issued May 31, 2007 due 2016 to 2018	$ 9,760	$ —	$ 9,760	$ —	$ —
2007, Series D, 5.00%, issued May 31, 2007 due 2016 to 2018	43,150	—	43,150	—	—
Subtotal PFC Senior Debt	52,910	—	52,910	—	—
Senior Debt - CFC Trust Agreement:					
2011, Series A, 5.125%, issued June 8, 2011 due 2038 to 2042	$ 58,030	$ —	$ —	$ 58,030	$ —
2011, Series B, 3.53% to 6.352%, issued June 8, 2011 due 2017 to 2038	140,165	—	3,620	136,545	3,780
Subtotal CFC Senior Debt	198,195	—	3,620	194,575	3,780
Total Bonds Payable	$ 1,718,755	$ 169,500	$ 204,280	$ 1,683,975	$ 56,105
Less unamortized amounts:					
Bond premium (discount), net	131,910	27,248	7,817	151,341	6,846
Total Bonds Payable, net	$ 1,850,665	$ 196,748	$ 212,097	$ 1,835,316	$ 62,951

The Authority's bonds payable at June 30, 2018 contain no variable rate debt. The bonds payable at June 30, 2017 included $78.7 million of variable rate demand bonds ("VRDB") consisting of Series 2010 D. The VRDBs had remarketing features which allow bondholders the right to return, or put, the bonds to the Authority. On August 7, 2013, the Authority entered into a five year irrevocable letter of credit agreement with State Street Bank, in support of the VRDBs. This agreement required repayment of the tendered, unremarketed VRDBs and any associated obligations on the bonds tendered. This agreement terminated in connection with the refunding of the Series 2010 D bonds and subsequent redemption thereof on July 20, 2017.

The VRDBs were issued as multi-modal bonds, thus allowing the Authority to reissue and refund through one of several modes. As a result, the Authority had classified $7.3 million to its current portion of long term debt, in addition to the amounts identified in the schedules of the Authority's bonds payable at June 30th due within one year, for the fiscal year ending June 30, 2017.

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

	June 30, 2017	Additions	Reductions	June 30, 2018	Due within one year
Senior Debt-1978 Trust Agreement:	$ 1,393,650	$ 169,500	$ 147,750	$ 1,415,400	$ 52,325
Subordinated Debt- 1978 Trust Agreement	74,000	—	—	74,000	—
Senior Debt - PFC Trust Agreement:	52,910	—	52,910	—	—
Senior Debt - CFC Trust Agreement:	198,195	—	3,620	194,575	3,780
	$ 1,718,755	$ 169,500	$ 204,280	$ 1,683,975	$ 56,105

	June 30, 2016	Additions	Reductions	June 30, 2017	Due within one year
Senior Debt-1978 Trust Agreement:	$ 1,274,590	$ 230,255	$ 111,195	$ 1,393,650	$ 60,185
Subordinated Debt- 1978 Trust Agreement	74,000	—	—	74,000	—
Senior Debt - PFC Trust Agreement:	75,235	—	22,325	52,910	52,910
Senior Debt - CFC Trust Agreement:	201,680	—	3,485	198,195	3,620
	$ 1,625,505	$ 230,255	$ 137,005	$ 1,718,755	$ 116,715

Debt service requirements on revenue bonds (1978 Trust and CFC Trust) outstanding at June 30, 2018 are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2018	$ 56,105	$ 80,679	$ 136,784
2019	54,215	79,000	133,215
2020	57,000	76,824	133,824
2021	58,160	74,550	132,710
2022	61,000	72,039	133,039
2023 – 2027	323,740	318,960	642,700
2028 – 2032	355,775	237,376	593,151
2033 – 2037	256,325	149,758	406,083
2038 – 2042	265,770	85,954	351,724
2043 – 2047	195,885	21,083	216,968
Total	$ 1,683,975	$ 1,196,223	$ 2,880,198

a) Senior Debt - 1978 Trust Agreement

On July 19, 2017, the Authority issued $169.5 million of Massachusetts Port Authority Revenue Bonds in one series. The Series 2017 A Bonds were issued in the principal amount of $169.5 million with an original issue premium of approximately $27.2 million and an interest rate of 5.0%. The 2017 A Bonds were issued, in part, to refund all of the currently outstanding Series 2007 C Revenue Refunding Bonds and all of the currently outstanding variable rate Series 2010 D Multi-Modal Revenue Refunding Bonds and resulted in a net present value savings of $2.8 million.

Additionally, the Authority expects to use approximately $91.0 million of the proceeds of the 2017 A Bonds to finance a portion of the Authority's FY18-22 Capital Program. Due to the "private activity" nature of the construction projects, these bonds were sold as AMT bonds.

On July 20, 2016, the Authority issued $230.3 million of Massachusetts Port Authority Revenue Bonds in two series. The Series 2016 A Revenue Refunding Bonds were issued in the principal amount of $50.0 million with an original issue premium of approximately $12.6 million and interest rates ranging from 3.0% to 5.0%. The 2016 A Bonds were issued to refund a portion of the currently outstanding Bonds, Series 2007 A Revenue Bonds on an advance basis and all of the currently outstanding variable rate demand revenue bonds, Series 2008 A.

The Series 2016 B Revenue Bonds were issued in the principal amount of $180.3 million with an original issue premium of approximately $26.8 million and interest rates ranging from 4.0% to 5.0%. The 2016 B Bonds were issued to finance a portion of the Authority's FY16-FY20 Capital Program in part through the repayment of $25.0 million of then outstanding Series 2012 B Tax Exempt Commercial Paper notes, which had been used to finance a portion of the Authority's FY16-FY20 Capital Program prior to the date of issuance of the Series 2016 B Bonds. Due to the “private activity” nature of the construction projects, these bonds were sold as AMT bonds.

The Authority, through its 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a debt service coverage ratio higher than its Trust Agreement requirement to maintain its investment grade bond ratings. As of June 30, 2018 and 2017, the Authority’s debt service coverage under the 1978 Trust Agreement was 3.43 and 3.27, respectively.

b) *Subordinate Debt - 1978 Trust Agreement*

Subordinate debt is payable solely from funds on deposit in the Improvement and Extension Fund and is not subject to the pledge of the 1978 Trust Agreement or the CFC Trust Agreement. The Authority invested $12.0 million in January 2001 which at maturity will provide for the $74.0 million principal payments of the subordinate debt at their respective maturities on December 31, 2030 and January 1, 2031. As of June 30, 2018, the value of the two GICs was approximately $44.8 million as compared to $43.1 million as of June 30, 2017.

c) *Senior Debt - PFC Trust Agreement*

As of July 3, 2017, there are no PFC Revenue Bonds outstanding under the PFC Trust Agreement, as the Authority paid the final maturities outstanding of $52.9 million on July 3, 2017. Massport currently has authority to impose and use a $4.50 PFC and, in accordance with the PFC Depositary Agreement. The Authority maintains the ability to file new PFC applications with the FAA as well as the ability to issue new PFC bonds under the PFC Trust Agreement.

The Authority’s PFC debt was backed by a pledge of the $4.50 PFC collections. The Authority earned PFC Revenues, as defined by the PFC Trust Agreement, of approximately $76.3 million during fiscal year 2017. The amount includes approximately $0.5 million of investment income on PFC receipts during fiscal year 2017.

The PFC Trust Agreement required a First Lien Sufficiency covenant ratio in excess of 1.05. As of June 30, 2017, the Authority’s PFC First Lien Sufficiency covenant ratio under the PFC Trust Agreement was 63.44.

d) *Senior Debt - CFC Trust Agreement*

The Authority’s outstanding CFC debt continues to be backed by a pledge of the $6.00 CFC collections. The Authority earned CFC Revenues, as defined in the CFC Trust Agreement, of approximately $34.3 million and $33.8 million during fiscal years 2018 and 2017, respectively. These amounts include approximately $1.3 million and $0.8 million of investment income on CFC receipts during each of the fiscal years 2018 and 2017, respectively.

The CFC Trust Agreement requires that the Authority maintain a debt service coverage ratio of at least 1.3. As of June 30, 2018 and 2017, the CFC debt service coverage ratio was 2.65 and 2.60, respectively.

e) Special Facility Bonds

To provide for the construction and improvement of various facilities at Logan Airport, the Authority has four outstanding series of special facilities revenue bonds as of June 30, 2018. The Authority's special facilities revenue bonds are all special limited obligations of the Authority, and are payable and secured solely from and by certain revenues of a separate trustee. The Authority's special facilities revenue bonds do not constitute a debt or pledge of the full faith and credit of the Authority, or the Commonwealth of Massachusetts or any subdivision thereof and, accordingly, have not been reflected in the accompanying financial statements. As of June 30, 2018 and 2017, the aggregate principal amount of the Authority's special facilities revenue bonds outstanding was approximately $464.4 million and $529.4 million, respectively. The Authority has no obligation for $86.4 million of Special Facility Bonds related to BosFuel and only limited obligation for the remaining $378.0 million of special facility bonds related to Terminal A described below.

Approximately $378.0 million of the Authority's outstanding special facility bonds as of June 30, 2018 relate to the Delta Airlines Series 2001 A, B, and C bonds issued in connection with Delta Airlines construction of Terminal A. During September 2005, Delta Airlines entered into bankruptcy and as of April 2007 re-emerged out of bankruptcy. The Authority is under no obligation to assume any liability for the Terminal A Special Facility Bonds or to direct revenue, other than an obligation to remit to the trustee of the Terminal A bonds a portion of the Terminal A airline revenue, to service the debt. The Authority and Delta Airlines negotiated a restated and amended lease (the "Amended Lease") for Terminal A pursuant to which Delta Airlines reduced the number of gates that it occupied in Terminal A. The Amended Lease was approved by the bankruptcy court and was effective as of July 1, 2006 for an initial term of ten years. Effective July 1, 2016, the lease was amended to extend the term with automatic one year extensions until terminated by either party.

f) Commercial Notes Payable

The Authority's commercial notes payable as of June 30, 2018 and 2017 were as follows (in thousands):

	2018	2017
Commercial paper notes	$ 109,000	$ 125,000
Commercial paper notes issued	64,000	9,000
Principal paid on commercial paper notes	(31,000)	(25,000)
Commercial paper notes	$ 142,000	$ 109,000

In March 2014, the Authority expanded its commercial paper program to $150 million. Commercial notes payable have been issued under the terms of the 1978 Trust Agreement and are backed by the proceeds of the Improvement and Extension Fund or anticipated bond funds. The allowable maximum principal amount outstanding at any time, in the aggregate principal amount, cannot exceed the lesser of 10% of the Authority's outstanding long-term debt or $150.0 million, and is backed by a Letter of Credit Agreement with the TD Bank N.A. expiring in June 2022.

The $142.0 million and $109.0 million of the commercial notes payable as of June 30, 2018 and 2017 have been used to fund PFC eligible projects; therefore the Authority anticipates that PFC revenues will be the source to pay such redemptions. The blended interest rate on the Series 2012 A Notes was 1.485% and 1.106% during fiscal years 2018 and 2017, respectively. The blended interest rate on the Series 2012 B Notes was 1.599% and 1.189% during fiscal years 2018 and 2017, respectively. The Authority's commercial notes payable mature in July, August and September of 2018.

During fiscal year 2018 and fiscal year 2017, the Authority did not have any interest rate swaps or other interest rate hedging arrangements.

g) Arbitrage – Rebate Liability

The United States Treasury has issued regulations on calculating the rebate due to the United States Government on arbitrage liability and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage liability arises when the Authority temporarily invests the proceeds of tax exempt debt in securities with higher yields. The Authority has no estimated liability as of June 30, 2018 and 2017, respectively.

6. Pension Plan

a) Plan Description

The Massachusetts Port Authority Employees' Retirement System (the Plan) is a single employer plan established on July 18, 1978, effective January 1, 1979, by enactment of Chapter 487 (an amendment to Chapter 32) of the General Laws of The Commonwealth of Massachusetts to provide retirement benefits for substantially all employees of the Massachusetts Port Authority (the Authority), and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. Prior to this enactment, Authority employees were members of the Commonwealth of Massachusetts Contributory Retirement System and the funding of the pension liability was on a "pay-as-you-go" method. Pursuant to this enactment, the employees' then present rights and benefits were transferred to the new retirement system. The Plan is a contributory defined benefit plan to which the Authority and its employees contribute such amounts as are necessary to provide assets sufficient to meet benefits to be paid to plan participants. The Plan is administered by the Massachusetts Port Authority Employees' Retirement System Board (the Board).

b) Benefits provided

Benefits are paid by the Plan from plan assets available for plan benefits. Plan participants are entitled at normal retirement age to benefit payments based upon length of service and earnings levels. Vesting occurs after 10 years of service.

Benefits to participants who retired prior to January 1, 1979 are paid by the Massachusetts State Board of Retirement. The Massachusetts State Board of Retirement is reimbursed for all such benefits paid after December 31, 1978 as these benefits represent obligations of the Plan.

Under Chapter 32, Section 3(8) (c), of the General Laws of The Commonwealth of Massachusetts (Chapter 32), the Plan is reimbursed for benefits paid to participants entitled to receive benefits for previous participation in other Massachusetts Chapter 32 plans. The Plan is also obligated to pay a proportionate share of benefits to participants entitled to receive benefits for subsequent participation in other Massachusetts Chapter 32 plans.

Also under Chapter 32, for members leaving the Authority’s employment to work for other Massachusetts governmental units, the Plan transfers their accumulated account balances and creditable service to the retirement system of the new employer. Other such retirement systems are in turn required to make comparable transfers to the Plan for employees coming to work for the Authority.

Optional payment methods may be elected, including the contingent annuitant method, which provides for reduced payments during the life of the plan participant and continued payments to the participant’s beneficiary after the death of the participant.

At January 1, 2018 and 2017, the Plan’s membership consisted of:

	2018	2017
Retirees and beneficiaries receiving benefits	779	749
Terminated employees entitled to benefits but not yet receiving them	72	78
Current members:		
Active	1,268	1,245
Inactive	136	115
Total membership	2,255	2,187

c) Contributions required and contributions made

Contributions are made by the Authority based on amounts required to be funded as determined by annual actuarial valuations and are designed to fund the Plan on a level cost basis, as a percentage of pay, over the average remaining working lifetime of the active participants and to fund operating costs of the Plan. For the years ended June 30, 2018 and 2017, the Authority was required and did contribute to the Plan $13.4 million and $13.6

million, respectively. The Authority's annual contribution is made in July of each fiscal year therefore eliminating any deferred outflows related to the timing of contributions. The Authority bears the risk that plan assets might decline due to fluctuations in the fair value of the Plan's investments and contributions by the Authority will increase as part of its annual assessment.

Employees who became members prior to January 1, 1975 contribute 5% of their regular compensation through payroll deductions. Employees whose membership commenced on or after January 1, 1975 but prior to January 1, 1984 contribute 7%. Those employees whose membership began on or after January 1, 1984 but prior to July 1, 1996 contribute 8%. Employees hired after July 1, 1996 contribute 9% of their regular compensation. Employees who are hired after December 31, 1978 contribute an additional 2% of regular compensation over $30,000. These contributions accumulate and, subject to certain restrictions set forth in Chapter 32, are refundable to employees upon termination of employment by the Authority or payable to another retirement system should the employee transfer to another government unit covered by Chapter 32 of the General Laws of The Commonwealth of Massachusetts.

Contributions totaling $24.6 million ($13.4 million employer and $11.2 million employee) and $24.2 million ($13.6 million employer and $10.6 million employee) were recognized by the Plan for plan years 2017 and 2016, respectively.

d) Investment valuation

Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price. Mutual funds and commingled funds, including real estate and alternative investments, are valued based on net asset or unit value at year-end.

e) Pension plan fiduciary net position

Detailed information about the Plan's fiduciary net position is available in a separately issued report. The report may be obtained by writing to the Massachusetts Port Authority Employees' Retirement System, One Harborside Drive, Suite 200S, East Boston, MA 02128-2909 or please see the Authority's website, www.massport.com.

f) Net Pension Liability

The components of the net pension liability of the System as of December 31, 2017 and 2016, is as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2015	$ 618,537	$ 526,622	$ 91,915
Service cost	15,920	—	15,920
Interest	44,962	—	44,962
Changes between expected and actual experience	2,592	—	2,592
Changes in assumptions	(1,479)	—	(1,479)
Contributions – employer	—	13,552	(13,552)
Contributions – employees	—	10,660	(10,660)
Net investment income	—	42,565	(42,565)
Benefits payments	(28,604)	(28,604)	0
Administrative expenses	—	(1,189)	1,189
Balance at December 31, 2016	651,928	563,606	88,322
Service cost	16,419	—	16,419
Interest	47,341	—	47,341
Changes between expected and actual experience	(1,474)	—	(1,474)
Contributions – employer	—	13,362	(13,362)
Contributions – employees	—	11,242	(11,242)
Net investment income	—	92,226	(92,226)
Benefits payments	(30,731)	(30,731)	0
Administrative expenses	—	(1,149)	1,149
Balance at December 31, 2017	$ 683,483	$ 648,556	$ 34,927

g) Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2017 and update procedures were used to roll forward the total pension liability forward from the valuation date (1/1/17) to the measurement date (12/31/17). The following actuarial assumptions were applied to the periods included in the measurement for 2017 and 2016:

- *Inflation – 3.0%*
- *Salary increases – 4.5%*
- *Investment rate of return – 7.25%, net of plan investment expense*
- *Cost–of–living increases – 3.0% on a maximum base of $14,000*
- *Mortality*:
  - Healthy – RP 2000 Table (sex-distinct) projected with Scale BB and Generational Mortality. Post-retirement the RP 2000 healthy annuitant Table (sex-distinct) projected with Scale BB Generational Mortality.
  - Disabled-RP 2000 healthy annuitant Table (sex-distinct) and Generational Mortality set-forward 2 years. Mortality for accidental disability is assumed to be 50% from the same cause as the disability.
- Long-term Expected Rate of Return:

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

	Long-term expected real rate of return	
Asset class	**2017***	**2016***
Domestic equity	5.01 %	5.10 %
International equity	5.21	5.29
Fixed income	2.34	2.38
Real estate	5.20	4.90
Private equity	7.68	7.90

* amounts are net of inflation assumption of 2.32%

h) Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2017 and 2016 was 7.25% and 7.25%, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected further benefit payments of current plan members. Therefore, the long-term expected rate of return on the plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

i) Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Plan as of December 31, 2017 and 2016, calculated using the discount rate of 7.25% for 2017 and 2016, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage point lower (6.25% for 2017 and 2016) or one-percentage point higher (8.25% for 2017 and 2016) than the current rate (in thousands):

Fiscal Year End	1% decrease (6.250%)	Current discount rate (7.250%)	1% increase (8.250%)
2018	$ 116,065	$ 34,927	$ (31,954)

Fiscal Year End	1% decrease (6.250%)	Current discount rate (7.250%)	1% increase (8.250%)
2017	$ 166,752	$ 88,322	$ 23,780

j) Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the years ended June 30, 2018 and 2017, the Authority recognized pension expense of $8.8 million and $19.7 million, respectively.

At June 30, 2018 and 2017 the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 753	$ —	$ 2,446	$ —
Differences arising from the recognition of changes in assumptions	13,116	—	16,217	—
Net difference between projected and actual earnings on pension Plan investments	—	25,390	$ 18,635	—
Total	$ 13,869	$ 25,390	$ 37,298	$ —

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2019	$ 2,078
2020	741
2021	(7,923)
2022	(7,171)
2023	867
Thereafter	(113)

7. Other Postemployment Benefits (OPEB)

a) Plan Description

In addition to providing the pension benefits described in Note 6, the Authority provides post-employment health care and life insurance benefits ("OPEB") for retired employees. The OPEB Plan is a single-employer plan and offers retirees a choice of medical plans, as well as two dental plans, and basic life insurance. The benefit levels, employer contributions and future employee contributions are governed by the Authority and can be amended by the Authority.

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

In May 2016, the Board made changes to the plan benefits to be paid by the Authority for certain future retirees. Persons who commenced employment with the Authority during the period from October 1, 2009 through May 25, 2016, and who, as of the date such employment commenced, had accrued ten (10) years or more of creditable service pursuant to M.G.L.c. 32, would upon retirement, be eligible to receive 80% of the premium cost for those benefits with the balance paid for by the retiree; provided, however, that employees who retire with at least thirty (30) years of creditable service would be eligible to receive 85% of the premium cost of such benefits with the balance paid for by the retiree. For purposes of calculating the percentage of the subsidy (80% or 85%), years of creditable service shall be calculated at separation from employment with the Authority. The spouse and dependents of eligible retirees will qualify for the same premium subsidy and retiree health benefits as the retiree. Eligible retirees, but not their spouse or dependents, will also qualify for a 100% subsidy from the Authority for retiree basic life insurance.

b) Benefits provided

The medical plans are either HMOs, PPOs or indemnity plans, and some are designed to work with Medicare benefits, such a Medicare supplement or Medicare HMO plans. The basic life insurance provides a $5,000 death benefit to the retiree. Spouses and dependents are not eligible for this death benefit upon their death. To comply with the requirements of GASB No. 75, the Authority performed an actuarial valuation at January 1, 2017, and used June 30, 2017 as the measurement date. The Authority issues publicly available audited financial statements for the Trust. The report may be obtained by writing to the Massachusetts Port Authority, Attn: John P. Pranckevicius, CPA, Director of Administration and Finance and Secretary-Treasurer, One Harborside Drive, Suite 200S, East Boston, MA 02128-2909. Those statements are prepared with an "economic resources" measurement focus on the accrual basis of accounting in accordance with U.S generally accepted accounting principles. Employer contributions are recognized when the employer has made formal commitments to provide the contributions and benefits are recorded when due and payable in accordance with the terms of the Trust. Investments are reported at fair value. Mutual funds and commingled funds are valued based on fair value and alternative investments are valued based on net asset or unit value at year-end. The Trust did not own any individual securities and no long term contracts for contributions to the Trust existed at June 30, 2018 or 2017.

At June 30, 2018 and 2017, the Trust's membership consisted of:

	2018	2017
Active Employees		
Pre-Medicare (hired prior to 3/31/1986)	57	74
Post-Medicare (hired after 3/31/1986)	1,234	1,205
Total	1,291	1,279
Inactive Participants (Vested)	65	68
Retired, Disabled, Survivors and Beneficiaries	935	903
Total Membership	2,291	2,250

c) Contributions required and contributions made

Contributions are made by the Authority based on amounts required to be funded as determined by annual actuarial valuations and are designed to fund the Trust on a level cost basis, and to fund operating costs of the Trust. For the years ended June 30, 2017 and 2016, the Authority contributed to the Trust $14.3 million and $12.0 million, respectively and these amounts are recorded in the Statement of Net Position as a deferred outflow of resources as of June 30, 2017 and July 1, 2016. The Authority's annual contribution is made monthly throughout the fiscal year. The Authority bears the risk that trust assets might decline due to fluctuations in the fair value of the Trust's investments and contributions by the Authority will increase as part of its annual assessment.

d) OPEB Trust deposits and investments

i) OPEB Trust Investment Policy

The Trust's investments are made in accordance with the provisions of the Trust Investment Policy (the "Investment Policy") which was adopted on May 8, 2009 and amended on December 8, 2014 by the Retiree Benefits Trust Committee (the "Committee").

The goals of the Investment Policy are to invest for the sole purpose of funding the OPEB Plan obligation of the Authority in a prudent manner, and to conserve and enhance the value of the Trust assets through appreciation and income generation, while maintaining a moderate investment risk. In addition, the investment policy was developed to achieve a long-term return commensurate with contemporary economic conditions and equal to or exceed the investment objectives set forth in the investment policy, currently set at 7.25%.

The Trust has retained an investment consultant to work in a fiduciary capacity to ensure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

The Trust is currently invested in commingled funds which hold stocks (domestic and international) and fixed income securities and a REIT index fund. Additionally, during FY 2016, the Trust invested in two private equity real estate funds. The exposure limits per the Trust Investment Policy are as follows:

			Asset Weightings (as of December 8, 2014)		
Asset Class	**Exposure**	**Exposure**	**Minimum Exposure**	**Maximum Exposure**	**Target Allocation**
Domestic equity	39.8%	38.1%	28%	48%	38.0%
Fixed income	30.6%	33.5%	17%	47%	32.0%
International equity	20.0%	19.2%	10%	30%	20.0%
Cash and cash equivalents	0.2%	1.0%	0%	20%	10.0%
Alternatives:			0%	15%	7.5%
REIT index fund	2.8%	3.2%			
Real estate private equit	6.6%	5.0%			
Total Alternatives	9.4%	8.2%			

The current investment philosophy represents a long-term perspective. When asset weightings fall outside the Investment Policy Range, the investment advisor shall advise the Committee on potential investment courses of action and the Committee may elect to rebalance the Trust asset mix.

The following summarizes the Trust's cash, cash equivalents and investments by type held at June 30, 2017 and 2016 (in thousands):

	Credit Rating		2017 Fair Value	Credit Rating		2016 Fair Value
Cash and Cash Equivalents						
MMDT	Unrated	$	1,525	Unrated	$	870
First American Government Fund	Unrated		120	Unrated		200
US Bank Money Market Fund			—	Unrated		551
Total Cash and Cash Equivalents		$	1,645		$	1,621
Investments						
Vanguard Index Funds	Unrated	$	107,429	Unrated	$	93,263
Vanguard Total Bond Market Fund	AA		18,946	AA		20,794
Vanguard Intermediate Term Investment Grade Fund	A		9,558	A		6,308
Vanguard Short Term Bond Index Fu	AA		8,234	AA		12,032
Aberdeen Emerging Markets Fund	Unrated		7,958	Unrated		5,115
Alliance Bernstein High Income	BBB		9,475	BBB		6,179
TCW Emerging Markets Income	BB		4,624	BB		4,054
PL Floating Rate Income Fund	B		5,487	B		5,114
Real Estate Private Equity Funds	Unrated		12,235	Unrated		8,060
Total Investments		$	183,946		$	160,919

The following discusses the Trust's exposure to common deposit and investment risks related to custodial credit, credit, concentration of credit, interest rate and foreign currency risks as of June 30, 2017 and 2016.

ii) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of a depository financial institution, the Trust's deposits may not be returned. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Trust and are held by either the depository financial institution or the depository financial institution's trust department or agent but not in the Trust's name.

The Trust manages custodial credit risk by limiting its investments to highly rated institutions and or requiring high quality collateral be held by the Trustee in the name of the Trust. All investments are held by a third party in the Trust's name. These investments are recorded at fair value.

Additionally, the Trust is authorized to invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money market like investment fund managed by the Commonwealth of Massachusetts, established under the General Laws, Chapter 29, Section 38A. MMDT investments are carried at amortized cost, which approximates fair value which is the same as the value of the pool. The Trust can purchase and sell its investments in this fund at any time without penalty.

iii) Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations.

For the years ended June 30, 2017 and 2016, the Trust's fixed income investments totaled $56.3 million and $54.4 million, respectively. At June 30, 2017 and 2016, these investments were split between six commingled mutual funds. The investment policy limits fixed income securities of any one issuer to below 5% of the total bond portfolio at the time of purchase and this limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The diversification restrictions for individual stocks and fixed income securities purchased and held in the total portfolio shall not apply to similar investment instruments held in a commingled fund or an SEC registered mutual fund specifically approved by the Committee. The Trust invests primarily commingled funds and SEC registered mutual funds. The overall rating of the fixed income assets, as calculated by the Advisor, shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization. In cases where the yield spread adequately compensates for additional risk, investments classified at below investment grade can be purchased or held to maturity up to a maximum of 30% of the total market value of the fixed income securities of the Fund. The percentage of the fixed income portfolio below investment grade at June 30, 2017 and 2016 was 22.72% and 20.34%, respectively.

iv) Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Trust's investment in a single issuer. Investments of Trust assets are diversified in accordance with the Investment Policy that defines rules for the funds, including having no stock holding or fixed income holding with a 5% or greater portfolio weighting (except U.S. Treasury or securities backed by the federal government), holding no more than 2% of the outstanding shares of an individual stock, and holding no more than 25% of the portfolio in any one industry. Trust assets were in compliance with the Investment Policy at June 30, 2017 and 2016, respectively.

v) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is confined to the fixed income and cash portions of the portfolio and is managed within the portfolio using the effective duration methodology. This methodology is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes. The weighted duration of the fixed income portfolio at June 30, 2017 and 2016 was 4.68 and 4.32 years, respectively.

The individual fund durations are as follows at June 30, 2017 and 2016, respectively:

	2017 Fair Value	Effective Duration	2016 Fair Value	Effective Duration
Fixed Income Investments				
Vanguard Total Bond Market Fund	$ 18,947	6.10	$ 20,794	5.50
Vanguard Intermediate Term Investment Grade Fund	9,558	5.50	6,308	5.50
Vanguard Short Term Bond Index Fund	8,234	2.80	12,032	2.70
Alliance Bernstein High Income	9,475	4.18	6,179	3.96
TCW Emerging Markets Income	4,624	6.72	4,054	6.72
PI Floating Rate Income Fund	5,487	0.33	5,114	0.36
Total Fixed Income Investments	$ 56,325		$ 54,481	

vi) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Trust invests in funds that hold stocks in either emerging or developed markets outside of the United States that may have an impact on the fair value of the investments and thus contribute currency risk due to their international equity holdings.

vii) Rate of Return

As required per GASB Statement 74, , the annual money weighted rate of return on trust investments, net of trust expenses was 11.88% and 1.53% for the years ended June 30, 2017 and 2016, respectively. The money weighted rate of return expresses investment performance net of investment expenses adjusted for the changing amounts actually invested. The Trust's annual rate of return, measured for financial performance purposes, was 12.1% and 1.7%, gross of fees, for fiscal years 2017 and 2016, respectively.

viii) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of a fair value measurement in both cases is the same—that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The Trust has the following fair value measurements for investments at June 30, 2017 and 2016:

Investments Measured by Fair Value Level ($ 000)

As of June 30, 2017	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Investments				
Vanguard Index Funds	$ 107,429	$ 107,429	$ -	$ -
Vanguard Total Bond Market Fund	18,946	18,946	-	-
Vanguard Intermediate Term Investment Grade Fund	9,558	9,558	-	-
Vanguard Short Term Bond Index Fund	8,234	8,234	-	-
Aberdeen Emerging Markets Fund	7,958	7,958	-	-
AllianceBernstein High Income	9,475	9,475	-	-
TCW Emerging Markets Income	4,624	4,624	-	-
PI Floating Rate Income Fund	5,487	5,487	-	-
Total investments measured by fair value level	171,711	171,711	-	-
Investments Measured at the Net Asset Value (NAV)				
Real Estate Private Equity Funds:				
Boyd Watterson GSA Fund	5,592			
Equus Fund X	6,643			
Total investments measured at the NAV	12,235			
Total Investments	$ 183,946	$ 171,711	$ -	$ -

Investments Measured by Fair Value Level ($ 000)

As of June 30, 2016	Fair Value	Level 1	Level 2	Level 3
Investments				
Vanguard Index Funds	$ 93,263	$ 93,263	$ -	$ -
Vanguard Total Bond Market Fund	20,794	20,794	-	-
Vanguard Intermediate Term Investment Grade Fund	6,308	6,308	-	-
Vanguard Short Term Bond Index Fund	12,032	12,032	-	-
Aberdeen Emerging Markets Fund	5,115	5,115	-	-
AllianceBernstein High Income	6,179	6,179	-	-
TCW Emerging Markets Income	4,054	4,054	-	-
PI Floating Rate Income Fund	5,114	5,114	-	-
Total investments measured by fair value level	152,859	152,859	-	-
Investments measured at the net asset value (NAV)				
Real Estate Private Equity Funds:				
Boyd Watterson GSA Fund	5,120			
Equus Fund X	2,940			
Total investments measured at the NAV	8,060			
Total investments	$ 160,919	$ 152,859	$ -	$ -

Comingled Mutual Funds

As of June 30, 2017 and 2016, the Authority held positions in several comingled mutual funds as noted above and the fair values were $171.7 million and $152.9 million, respectively. The fair values of the comingled mutual funds were valued using quoted market prices (Level 1).

The valuation method for investments measured at the net asset value (NAV) per share or its equivalent is presented in the following table:

	Investments Measured at NAV ($000)						
					Unfunded	Redemption	Redemption
		2017		2016	Commitments	Frequency	Notice Period
Real Estate Private Equity Funds							
Boyd Watterson GSA Fund (	$	5,592	$	5,120	—	—	60 days
Equus Fund X(2)		6,643		2,940	—	—	—
Total investments measured at the NAV	$	12,235	$	8,060			

1 This fund invests primarily in real estate leased to the U.S. federal government. The fair value of the investment has been determined using the NAV per share (or its equivalent) of the Fund's ownership interest in partners' capital. The Trust can withdraw from the fund with 60 days notice prior to a calendar quarter end and the minimum withdrawal of $250,000.

2 This fund invests in U.S. commercial real estate. The fair value of the investment has been determined using the NAV per share (or its equivalent) of the Fund's ownership interest in partners' capital. The Partnership agreement stipulates a partnership dissolution on a date five years after the end of the Investment Period; provided, however, that the General Partner may, in its sole discretion, extend the term for up to two additional one year periods.

e) Net OPEB Liability

The total OPEB liability at June 30, 2018 was determined by an actuarial valuation as of January 1, 2017 and update procedures were used to roll forward the total OPEB liability from the valuation date (1/1/17) to the measurement date (6/30/17). The total OPEB liability at June 30, 2017 was determined by an actuarial valuation as of January 1, 2016 and update procedures were used to roll backward the total OPEB liability from the valuation date (1/1/16) to the measurement date (6/30/16).

The components of the net OPEB liability of the Trust as of June 30, 2018 and 2017, is as follows (in thousands):

	Increase (Decrease)		
	Total OPEB Liability (a)	**Trust Fiduciary Net Position (b)**	**Net OPEB Liability (a) - (b)**
Balance at June 30, 2016	$ 279,789	$ 158,630	$ 121,159
Service cost	5,891	—	5,891
Interest	20,285	—	20,285
Contributions – employer	—	13,340	(13,340)
Contributions – employees	—	209	(209)
Difference between expected and actual experience	18,841	—	18,841
Net investment income	—	2,348	(2,348)
Benefits payments	(11,987)	(11,987)	—
Administrative expenses	—	(172)	172
Balance at June 30, 2017	$ 312,819	$ 162,368	$ 150,451
Service cost	6,405	—	6,405
Interest	22,693	—	22,693
Contributions – employer	—	15,787	(15,787)
Contributions – employees	—	248	(248)
Net investment income	—	19,829	(19,829)
Benefits payments	(12,643)	(12,643)	—
Administrative expenses	—	(173)	173
Balance at June 30, 2018	$ 329,274	$ 185,416	$ 143,858

f) Actuarial Assumptions

The following actuarial assumptions were applied to the periods included in the measurement for 2017 and 2016:

- *Inflation – 3.0%*
- *Salary increases – 4.5%*
- *Investment rate of return – 7.25%, net of Trust investment expense*
- *Health care trend rates – Initial annual health care cost trend rate range from 1.1% to 9.0% which decrease to a long-term trend rate between 5.0% and 6.0% for all health care benefits after ten years. The initial annual dental cost trend rates range from 0.0% to 7.0% which decrease to a long-term trend rate between 5.0% and 5.3% for all dental benefits after 10 years.*
- *Mortality*:
  - Healthy – RP 2000 Table (sex-distinct) projected with Scale BB and Generational Mortality. Post-retirement the RP 2000 healthy annuitant Table (sex-distinct) projected with Scale BB Generational Mortality.
  - Disabled-RP 2000 healthy annuitant Table (sex-distinct) and Generational Mortality set-forward 2 years. Mortality for accidental disability is assumed to be 50% from the same cause as the disability.
- *Other information:*

  As of January 1, 2016, employees hired after September 30, 2009 are not eligible for post-retirement medical insurance until age 60 with 10 year of service.

  As of January 1, 2013, the mortality assumption was changed to the RP2000 Table and the retirement, disability and withdrawal assumptions were changed based on an experience study.

- Long-term Expected Rate of Return:

  The long-term expected rate of return on Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Trust investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The best estimates of arithmetic long-term expected real rates of return for each major asset class are summarized in the following table:

Asset class	Long-term expected real rate of return 2017	2016
Domestic equity		
Vanguard Total Stock Market Index	6.48 %	6.48 %
Fixed income		
Vanguard Total Bond Market Fund	3.13	3.13
Vanguard Short Term Bond Index Fund	3.13	3.13
Vanguard Intermediate Term Investment Grade	4.00	4.00
Alliance Bernstein High Income	4.75	4.75
PI Floating Rate Income Fund	2.89	2.89
TCW Emerging Markets Income	5.25	5.25
International equity		
Vanguard Total International Stock Index	6.65	6.65
Vanguard Developed Market Stock Index	6.65	6.65
Aberdeen Emerging Markets Fund	7.20	7.63
Cash and cash equivalents	0.75	0.75
Alternatives		
REIT index fund	4.62	4.62
Real estate private equity	7.65	7.65

g) Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2018 and 2017 was 7.25%, respectively. The projection of cash flows used to determine the discount rate assumed that Trust member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected further benefit payments of current Trust members. Therefore, the long-term expected rate of return on the plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

h) Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Authority as of June 30, 2018 and 2017, calculated using the discount rate of 7.25% for 2018 and 2017, as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is one-percentage point lower (6.25% for 2018 and 2017) or one-percentage point higher (8.25% for 2018 and 2017) than the current rate (in thousands):

Fiscal Year End	1% decrease (6.250%)	Current discount rate (7.250%)	1% increase (8.250%)
2018	$ 192,188	$ 143,858	$ 105,549

Fiscal Year End	1% decrease (6.250%)	Current discount rate (7.250%)	1% increase (8.250%)
2017	$ 196,996	$ 150,451	$ 113,564

i) Sensitivity of the Net OPEB Liability to Changes in Health Care Cost Rates

The following presents the net OPEB liability of the Authority as of June 30, 2018 and 2017, calculated using healthcare cost trend rates of 9.0% decreasing to 5.0% as well as what the net OPEB liability (asset) would be if it were calculated using a health care cost trend rate that is one-percentage point lower or one-percentage point higher than the current rate:

Fiscal Year End	1% decrease (8.0% decreasing to 4.0%)	Healthcare Cost Trend rate (9.0% decreasing to 5.0%)	1% increase (10.0% decreasing to 6.0%)
2018	$ 100,533	$ 143,858	$ 199,282

Fiscal Year End	1% decrease (8.0% decreasing to 4.0%)	Healthcare Cost Trend rate (9.0% decreasing to 5.0%)	1% increase (10.0% decreasing to 6.0%)
2017	$ 111,339	$ 150,451	$ 200,379

j) OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the years ended June 30, 2018 and 2017, the Authority recognized OPEB expense of $20.2 million and $19.2 million, respectively.

At June 30, 2018 and 2017 the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13,292	$ —	$ 16,066	$ —
Net difference between projected and actual earnings on OPEB investments	—	831	7,363	—
OPEB contribution subsequent to measurement date	15,682	—	14,300	—
Total	$ 28,974	$ 831	$ 37,729	$ —

In accordance with GASB Statement No. 75, the Authority reported $15,682 as deferred outflows of resources related to the Authority's OPEB contribution subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year ended June 30:	
2019	$ 3,027
2020	3,027
2021	3,027
2022	1,187
2023	2,193

8. Leases

a) Commitments

The Authority has commitments under various operating leases, which contain escalation clauses, as lessee. The following is a schedule by years of minimum rental payments under noncancelable operating leases as of June 30, 2018 (in thousands):

Years	Amount	Years	Amount
2019	$ 2,168	2039 – 2043	$ 4,880
2020	1,708	2044 – 2048	4,880
2021	1,488	2049 – 2053	4,880
2022	1,432	2054 – 2058	4,880
2023	1,432	2059 – 2063	4,880
2024 – 2028	5,792	2064 – 2068	4,880
2029 – 2033	4,880	2069 – 2072	2,602
2034 – 2038	4,880		
		Total	$ 55,662

Rent expense and other operating lease related payments were $6.9 million and $10.9 million for fiscal years 2018 and 2017, respectively.

b) Rental Income

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

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of June 30, 2018 (in thousands):

Years	Amount	Years	Amount
2019	$ 96,451	2054 – 2058	$ 60,616
2020	83,375	2059 – 2063	64,031
2021	77,826	2064 – 2068	65,809
2022	69,084	2069 – 2073	69,978
2023	60,076	2074 – 2078	72,048
2024 – 2028	195,128	2079 – 2083	76,099
2029 – 2033	102,620	2084 – 2088	67,491
2034 – 2038	92,358	2089 – 2093	69,553
2039 – 2043	93,005	2094 – 2098	64,439
2044 – 2048	76,899	2099 – 2103	4,154
2049 – 2053	62,061	2104 – 2107	1,401
		Total	$ 1,624,502

Rental income and concession income, including contingent payments received under these provisions, were approximately $386.2 million and $341.9 million for the fiscal years 2018 and 2017, respectively.

9. Risk Management

The Authority, as mandated by the 1978 Trust Agreement, maintains a self insurance account for general liability and workers compensation within the Operating Fund. The self insurance accruals are determined based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The accrued liability was approximately $8.1 million as of June 30, 2018 and 2017, respectively, and is included as a component of accrued expenses in the accompanying financial statements. This liability is fully funded as of June 30, 2018 and 2017.

Changes in the accrued liability accounts, related to self insurance, in fiscal year 2018, 2017 and 2016 were as follows (in thousands):

	2018	2017	2016
Liability balance, beginning of year	$ 8,053	$ 7,986	$ 7,625
Provision to record estimated losses	3,538	3,308	2,706
Payments	(3,516)	(3,241)	(2,345)
Liability balance, end of year	$ 8,075	$ 8,053	$ 7,986

As part of its normal operations, the Authority encounters the risk of accidental losses stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, a combination of risk management measures is applied, including safety and loss prevention programs, emergency planning, contractual risk transfer, self insurance, and insurance.

In connection with the self insurance and insurance programs, the Authority retains part of the losses incurred and internally manages the self insured claims. The self insured retention currently includes: $1.0 million for worker's compensation per job related accident for Massport employees and International Longshoreman's Association Members; $1,000 per occurrence for automobile liability; aviation general liability and airport terrorism insurance; $0.25 million for airside incidents and for non-airside auto losses; $25 thousand for Comprehensive Marine Liability, Terminal Operator's Liability, Stevedore's liability; and $0.25 million for property losses per occurrence. Insurance is purchased above the self-insured amounts, subject to availability and the reasonableness of cost. Liabilities for self insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported at year-end and are based on the historical cost of settling similar claims. The Authority records such liabilities as accrued expenses. The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

Settled claims resulting from the risks discussed above have not exceeded the amount of insurance coverage in force in any of the past three fiscal years. Further, insurance maintained in fiscal years 2018 and 2017 has not changed significantly from prior periods.

10. Payments in Lieu of Taxes

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

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

Pursuant to the terms of the amended Boston PILOT Agreement (the "Amended Boston PILOT Agreement"), the term of the Amended Boston PILOT Agreement terminates on June 30, 2022 subject to (1) mutual rights annually to terminate the Amended Boston PILOT Agreement and (2) automatic one year extensions of the term each July 1. In November 2016, the City of Boston notified the Authority of its election to terminate the Boston PILOT Agreement on June 30, 2022, and the parties expect to commence negotiations on a successor agreement or an amendment to the existing agreement. The Amended Boston PILOT Agreement provides for the Authority to pay (i) an annual base amount (the "Base Amount") of $14.0 million, which, commencing in fiscal year 2007, increases annually by the annual percentage change in the consumer price index, provided that such increase shall be no less than 2% nor greater than 8% per year, (ii) for ten years ending in fiscal year 2016, an amount of $700,000, which shall not be increased or adjusted, and (iii) a community portion (the "Community Portion").

In fiscal year 2006, the Authority and the Town of Winthrop entered into an Amended and Restated Payment-In-Lieu-Of-Taxes Agreement (the "Amended Winthrop PILOT Agreement"), which extended the base in-lieu-of-tax payments through fiscal year 2025. The Amended Winthrop PILOT Agreement provides for the Authority to make an annual payment of $900,000.

PILOT expenses to the City of Boston for fiscal years 2018 and 2017 were $19.0 million and $18.4 million, respectively. PILOT expenses to the Town of Winthrop for fiscal years 2018 and 2017 were $0.9 million for each year.

11. Commitments

a) Contractual Obligations for Construction

The Authority enters into construction contracts with various construction and engineering companies. Construction contracts outstanding were approximately $261.8 million and $304.5 million as of June 30, 2018 and 2017, respectively.

b) Seaport Bond Bill

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

c) Boston Harbor Dredging Project

During fiscal year 2018, the Authority entered into an agreement with the Department of the Army and the Commonwealth of Massachusetts, Department of Transportation related to the Boston Harbor Deep Draft Improvement Project and the construction of the Dredged or excavated Material Facility at Boston Harbor, Massachusetts. This project includes the deepening and widening of the Broad Sound North Channel to 51 feet, the deepening and widening of the Main Ship Channel (MSC) and turning basin to 47 feet. The non-federal share is split between the Authority and the Commonwealth. The project is expected to be completed in fiscal year 2022.

12. Litigation

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

13. Pollution Remediation Obligation

The Authority is currently involved in six separate pollution remediation obligations that meet the requirements for accounting treatment under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* ("GASB No. 49"). These obligations are generally related to the removal and/or treatment of contaminated soil, groundwater and petroleum products associated with fuel storage and conveyance. GASB No. 49 dictates that for each obligating event, an estimate of the expected pollution remediation outlays is required to be accrued as a liability and expensed in the current period. Re-measurement of the liability is required when new information indicates increases or decreases in estimated outlays.

The estimated liability as of June 30, 2018 and 2017 is $4.6 million and $1.2 million, respectively, which represents the approximate amounts the Authority expects to pay for future remediation activities. The Authority paid approximately $0.8 million and $1.1 million in fiscal years 2018 and 2017, respectively. This estimate was generated using input and guidance from internal management and professional consultants, and represents a wide array of remediation activities ranging from onetime events to longer-term sustained monitoring activity. The Authority will continue to closely monitor each of these obligations, working toward regulatory closure, and will make any necessary adjustments to the potential liability as new information becomes available.

14. Interagency Agreements

a) *Investment in Joint Venture*

In May 1996, the Authority entered into an interagency agreement with the Massachusetts Highway Department ("MHD") and Massachusetts Bay Transportation Authority ("MBTA") for the construction of a Regional Transportation Center ("RTC") in Woburn, Massachusetts ("Interagency Agreement"). Under the terms of the Interagency Agreement, the Authority has paid one third of the costs of acquiring the site and constructing the RTC and will share in a like proportion in the profits and losses of the RTC. During fiscal years 2018 and 2017, the Authority recognized income of approximately $0.3 million and $0.2 million, respectively, representing its share of the earnings of the RTC.

b) *Logan Airport Silver Line Transportation Agreement*

In December 2005, the Authority entered into a ten year agreement with the MBTA to provide public transportation between South Station in Boston, Massachusetts and Logan Airport along a route called the Silver Line. Pursuant to this agreement, the Authority purchased eight buses at a cost of $13.3 million, and the MBTA agreed to operate and maintain the Authority's Silver Line buses for a cost of $2.0 million per year, paid in equal monthly installments. In August 2015, this agreement was extended for an additional five year period and modified to provide that the Authority would be responsible for paying the FAA approved rate of 76.06% of the costs to operate and maintain the Silver Line buses and 76.06% of the costs of the future rebuild of the Silver Line buses. During fiscal years 2018 and 2017, the estimated costs to operate and maintain the Silver Line buses was

$2.86 million and $3.0 million, respectively, and the Authority also incurred expenses of $1.8 million and $2.5 million, respectively, to rebuild four Silver Line Buses in each year.

15. Subsequent Events

a) Bond Offering

In February 2018, the Board authorized the issuance and sale of up to $107.5 million of subordinated obligations, Series 2018 – A (AMT) to finance the design and construction of Berth 10 and the acquisition of 3 STS cranes. This transaction is expected to close in the fourth quarter of calendar 2018.

MASSACHUSETTS PORT AUTHORITY

Required Supplementary Information (Unaudited)

Schedule of Pension Contributions

June 30, 2018

(In thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 13,362	$ 13,552	$ 10,845	$ 11,146	$ 11,960	$ 9,594	$ 5,710	$ 4,924	$ 7,621	$ 401
Actual contribution in relation to the actuarially determined contribution	13,362	13,552	10,845	11,146	11,960	9,594	5,710	4,924	7,621	401
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 110,173	$ 106,444	99,190	$ 94,340	$ 90,042	$ 87,476	$ 85,941	$ 89,950	$ 89,704	$ 85,120
Contributions as a percentage of covered payroll	12.1%	12.7%	10.9%	11.8%	13.3%	11.0%	6.6%	5.5%	8.5%	0.5%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated annually as of January 1, 18 months prior to the end of the fiscal year in which the contributions are reported. Contributions are made on July 1, of each year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen entry age
Amortization method	20 Level dollar, closed
Remaining amortization period	Multiple bases with remaining periods from 8 to 20 years
Asset valuation method	Beginning in 2008, fair value of assets using a five year smoothing period. Prior to 2008, used four year asset smoothing period
Inflation rate	3.0%
Salary increases	2013 valuation: 4.5%; 2009 valuation: 4.75; prior to 2009: 5.00%
Investment rate of return	2016 valuation 7.25%; 2015 valuation: 7.5%; 2012 valuation: 7.625%; 2010 valuation: 7.75%; 2009 valuation: 8.0%; prior to 2009: 7.75%
Retirement age	In the 2013 valuation, additional retirement assumptions were added for employees hired after April 1, 2012 and subject to pension reform and the assumption was changed due to an experience study. In the 2008 valuation the retirement assumption was extended to age 70 for Group 1 employees.
Disability and withdrawal	Changed in the 2013 valuation due to an experience study.
mortality	In the 2013 valuation, mortality was changed to RP2000 projected generationally with scale BB In the 2012 valuation, mortality was changed to RP2000 projected 22 years using scale AA. In the 2009, 2010 and 2011 valuations mortality was changed to RP2000 projected nine, ten and eleven years, respectively, using scale AA.

Other information

As of January 1, 2016, employees hired after September 30, 2009 and not eligible for post-retirement medical insurance until age 60, retirement age begins at age 60 with 10 years of service.

As of January 1, 2013, the mortality assumption was changed to the RP2000 Generational Table and the retirement, disability and withdrawal assumptions were changed based on an experience study.

As of January 1, 2012, the mortality assumption was changed to the RP2000 Table projected forward 22 years with Scale AA, interest rate changed to 7.625% (from 7.75%) and salary rate to 4.50% (from 4.75%). Vacation buyback factor was increased from 1.00% to 1.25%.

As of January 1, 2011, the mortality assumption was changed to the RP2000 Table projected forward 11 years with Scale AA.

As of January 1, 2010, the mortality assumption was changed to the RP2000 Table projected forward 10 years with Scale AA, interest rate was changed to 7.75% (from 8.00%).

As of January 1, 2009, the mortality assumption was changed to the RP2000 Table projected forward 9 years with Scale AA, interest rate was changed to 8.00% (from 7.75%), salary rate was changed to 4.75% (from 5.00%), contribution timing was changed to the beginning of the fiscal year from monthly.

As of January 1, 2008, the retirement age assumption was extended to age 70 for Group 1 employees, disabled mortality changed to a 2 year set forward and the asset valuation method was changed to a 5 year smoothing.

MASSACHUSETTS PORT AUTHORITY

Required Supplementary Information (Unaudited)

Schedule of Changes in the Net Pension Liability and Related Ratios

June 30, 2018

(In thousands)

	2018	2017	2016	2015
TOTAL PENSION LIABILITY				
Service cost	$ 16,419	$ 15,920	$ 14,875	$ 13,056
Interest	47,341	44,962	41,160	40,956
Differences between expected and actual experience	(1,474)	2,592	(1,395)	1,929
Change of assumptions	-	(1,479)	24,098	-
Benefit payments , including refunds of employee contributions	(30,731)	(28,604)	(26,106)	(24,357)
Net change in total pension liability	31,555	33,391	52,632	31,584
Total pension liability - beginning	651,928	618,537	565,905	534,321
Total pension liability - ending	$ 683,483	$ 651,928	$ 618,537	$ 565,905
PLAN FIDUCIARY NET POSITION				
Contributions - employer	$ 13,362	$ 13,552	$ 10,845	$ 11,146
Contributions - employee	11,242	10,660	9,948	9,628
Net Investment Income	92,226	42,565	(4,572)	32,062
Benefit payments , including refunds of employee contributions	(30,731)	(28,604)	(26,106)	(24,357)
Administrative expense	(1,149)	(1,189)	(1,189)	(1,417)
Net change in plan fiduciary net position	84,950	36,984	(11,074)	27,062
Plan fiduciary net position - beginning	563,606	526,622	537,696	510,634
Plan fiduciary net position - end	$ 648,556	$ 563,606	$ 526,622	$ 537,696
Massport net pension liability - ending	$ 34,927	$ 88,322	$ 91,915	$ 28,209
Plan fiduciary net position as a percentage of the total pension liability	94.9%	86.5%	85.1%	95.0%
Covered payroll	114,385	112,167	103,212	99,113
Massport's net pension liability as a percentage of covered payroll	30.5%	78.7%	89.1%	28.5%

MASSACHUSETTS PORT AUTHORITY
Required Supplementary Information (Unaudited)
Schedule of OPEB Contributions

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 15,177	$ 18,084	$ 14,390	$ 13,187	$ 14,738
Authority contribution	15,682	14,300	12,000	12,000	14,000
Contribution deficiency (excess)	$ (505)	$ 3,784	$ 2,390	$ 1,187	$ 738
Covered - employee payroll	$ 135,585	$ 131,477	$ 119,153	$ 117,277	$ 110,167
Contributions as a % of covered employee payroll	11.6%	10.9%	10.1%	10.2%	12.7%

	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 14,006	$ 18,444	$ 17,229	$ 18,345	$ 17,263
Authority contribution	20,851	13,807	17,100	15,338	14,905
Contribution deficiency (excess)	$ (6,845)	$ 4,637	$ 129	$ 3,007	$ 2,358
Covered - employee payroll	$ 102,487	$ 98,201	$ 99,457	$ 97,980	$ 97,946
Contributions as a % of covered employee payroll	20.3%	14.1%	17.2%	15.7%	15.2%

Methods and assumptions used to determine contribution rates:

Valuation date:

Actuarially determined contribution rates are calculated as of January 1, six months prior to the beginning of the fiscal year in which contributions are reported. The January 1, 2016 valuation established the rate for the fiscal year 2017 contribution and the January 1, 2017 valuation established the fiscal year 201 contribution. The following assumptions were used for the periods included in the funding for 2018 and 2017

Actuarial cost method: Contribution: Projected Unit Credit
Net OPEB Liability: Entry Age Normal

Amortization method: 30 year level, closed, 20 years remaining

Asset valuation method: Fair value

Inflation: 3.0%

Salary increases: 4.5%, including inflation 2013 forward
4.75%, including inflation 2009 to 2012

Investment rate of return: 7.25% annually, net of plan investment expenses for funded program 2016 forward
7.50% annually, net of plan investment expenses for funded program 2015
7.75% annually, net of plan investment expenses for funded program pre 2013
4.00% annually, net of plan investment expenses for unfunded program 2013 or
4.25% annually, net of plan investment expenses for unfunded program pre 2013

Health care trend rates Initial annual health care cost trend rate range of 1.7% to 9.0% which decreases to a long-term trend rate between 5.0% and 6.0% for all health care benefits after ten years. The initial annual dental cost trend rates range from 0.0% to 7.0% which decrease to a long term trend rate between 5.0% and 6.0% for all dental benefits after ten years.

Mortality: Healthy-RP 2000 Table (sex distinct) projected with Scale BB and Generational Mortality
Post-retirement the RP 2000 healthy annuitant Table (sex-distinct) projected with Scale BB Generational Mortality
Disabled-RP 2000 healthy annuitant Table (sex-distinct) and Generational Mortality set-forward 2 years. Mortality for accidental disability is assumed to be 50% from the same cause as the disability.

Notes to Schedule

Benefit changes - none

Changes in assumptions - Mortality table changes from Scale AA to BB in FY 2017

Other information

As of January 1, 2016, employees hired after September 30, 2009 and not eligible for post-retirement medical insurance until age 60, retirement age begins at age 60 with 10 years of service

As of January 1, 2013, the mortality assumption was changed to the RP2000 Generational Table and the retirement, disability and withdrawal assumptions were changed based on an experience study

As of January 1, 2012, the mortality assumption was changed to the RP2000 Table projected forward 22 years with Scale AA.

As of January 1, 2011, the mortality assumption was changed to the RP2000 Table projected forward 11 years with Scale AA.

As of January 1, 2010, the mortality assumption was changed to the RP2000 Table projected forward 10 years with Scale AA.

As of January 1, 2009, the mortality assumption was changed to the RP2000 Table projected forward 9 years with Scale AA.

MASSACHUSETTS PORT AUTHORITY

Required Supplementary Information (Unaudited)

Schedule of Changes in the Net OPEB Liability and Related Ratios

June 30, 2018

(in thousands)

	2018	2017
Total OPEB liability:		
Service cost	$ 6,405	$ 5,891
Interest	22,693	20,285
Differences between expected and actual experience	—	18,841
Change of assumptions	—	—
Benefits payments	(12,643)	(11,987)
Net change in total OPEB liability	16,455	33,030
Total OPEB liability – beginning	312,819	279,789
Total OPEB liability – ending (a)	$ 329,274	$ 312,819
Trust fiduciary net position:		
Contributions – employer	15,787	13,340
Contributions – employees	248	209
Net investment income	19,829	2,348
Benefits payments	(12,643)	(11,987)
Administrative expenses	(173)	(172)
Net change in fiduciary net position	23,048	3,738
Trust fiduciary net position – beginning	162,368	158,630
Trust fiduciary net position – ending (b)	$ 185,416	$ 162,368
Authority's net OPEB liability – end of year (a-b)	$ 143,858	$ 150,451
Trust fiduciary net position as a percentage of the total OPEB liability	56.3%	51.9%
Covered - employee payroll	$ 131,477	$ 119,153
Net OPEB liability as a percentage of covered- employee payroll	91.4%	79.2%

This schedule is intended to present 10 years of data. Additional years will be presented when available.

Notes to Schedule

This schedule is presented based on a measurement date that is 1 year in arrears.

Benefit changes - none

Schedule I

MASSACHUSETTS PORT AUTHORITY

Combining Schedule of Net Position

June 30, 2018

(In thousands)

	Authority Operations	PFC Program	CFC Program	Combined Totals
Current assets:				
Cash and cash equivalents	$ 73,299	$ —	$ —	$ 73,299
Investments	170,039	—	—	170,039
Restricted cash and cash equivalents	117,633	11,626	10,026	139,285
Restricted investments	426,434	12,168	39,917	478,519
Accounts receivable				
Trade, net	51,860	12,788	3,437	68,085
Grants	9,948	—	—	9,948
Total receivables, net	61,808	12,788	3,437	78,033
Prepaid expenses and other assets	9,114	—	57	9,171
Total current assets	858,327	36,582	53,437	948,346
Noncurrent assets:				
Investments	132,105	—	—	132,105
Restricted investments	204,053	14,659	42,864	261,576
Prepaid expenses and other assets, long-term	4,767	—	1,029	5,796
Investment in joint venture	3,130	—	—	3,130
Capital assets-not being depreciated	423,347	—	35	423,382
Capital assets-being depreciated-net	2,146,162	396,159	250,624	2,792,945
Total noncurrent assets	2,913,564	410,818	294,552	3,618,934
Total assets	3,771,891	447,400	347,989	4,567,280
Deferred outflows of resources				
Deferred loss on refunding of bonds	16,243	—	—	16,243
Deferred outflows of resources related to pensions	13,869	—	—	13,869
Deferred outflows of resources related to OPEB	28,974	—	—	28,974
Total deferred outflows of resources	59,086	—	—	59,086
Current liabilities:				
Accounts payable and accrued expenses	160,331	107	50	160,488
Compensated absences	1,327	—	—	1,327
Contract retainage	6,022	—	—	6,022
Current portion of long-term debt	59,222	—	3,729	62,951
Commercial notes payable	142,000	—	—	142,000
Accrued interest payable	34,896	—	5,656	40,552
Unearned revenues	10,185	—	—	10,185
Total current liabilities	413,983	107	9,435	423,525
Noncurrent liabilities				
Accrued expenses	10,846	—	454	11,300
Compensated absences	17,566	—	—	17,566
Net pension liability	34,927	—	—	34,927
Net OPEB liability	143,858	—	—	143,858
Contract retainage	5,778	—	—	5,778
Long-term debt, net	1,582,683	—	189,682	1,772,365
Unearned revenues	20,419	—	—	20,419
Total noncurrent liabilities	1,816,077	—	190,136	2,006,213
Total liabilities	2,230,060	107	199,571	2,429,738
Deferred inflows of resources				
Deferred gain on refunding of bonds	6,074	—	—	6,074
Deferred inflows of resources related to pensions	25,390	—	—	25,390
Deferred inflows of resources related to OPEB	831	—	—	831
Total deferred inflows of resources	32,295	—	—	32,295
Net investment in capital assets	901,662	396,160	81,257	1,379,079
Restricted for other purposes				
Bond funds	212,738	—	—	212,738
Project funds	271,003	—	—	271,003
Passenger facility charges	—	51,133	—	51,133
Customer facility charges		—	67,161	67,161
Other purposes	31,233	—	—	31,233
Total restricted	514,974	51,133	67,161	633,268
Unrestricted	151,986	—	—	151,986
Total net position	$ 1,568,622	$ 447,293	$ 148,418	$ 2,164,333

See accompanying independent auditors' report.

MASSACHUSETTS PORT AUTHORITY

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

Year ended June 30, 2018

(In thousands)

	Authority Operations	PFC Program	CFC Program	Combined Totals
Operating revenues:				
Aviation rentals	$ 240,798	$ —	$ —	$ 240,798
Aviation parking	180,803	—	—	180,803
Aviation shuttle bus	20,303	—	—	20,303
Aviation fees	153,236	—	—	153,236
Aviation concessions	114,492	—	—	114,492
Aviation operating grants and other	1,911	—	—	1,911
Maritime fees, rentals and other	94,351	—	—	94,351
Real estate fees, rents and other	30,497	—	—	30,497
Total operating revenues	836,391	—	—	836,391
Operating expenses:				
Aviation operations and maintenance	296,186	—	—	296,186
Maritime operations and maintenance	63,976	—	—	63,976
Real estate operations and maintenance	14,852	—	—	14,852
General and administrative	62,470	—	—	62,470
Payments in lieu of taxes	20,408	—	—	20,408
Pension and other post-employment benefits	28,952	—	—	28,952
Other	8,449	—	—	8,449
Total operating expenses before depreciation and amortization	495,293	—	—	495,293
Depreciation and amortization	203,483	44,496	14,183	262,162
Total operating expenses	698,776	44,496	14,183	757,455
Operating income (loss)	137,615	(44,496)	(14,183)	78,936
Nonoperating revenues and (expenses):				
Passenger facility charges	—	81,016	—	81,016
Customer facility charges	—	—	33,003	33,003
Investment income	16,512	764	1,301	18,577
Net (decrease)/increase in the fair value of investments	(3,769)	(120)	(484)	(4,373)
Other revenues	1,315	—	49	1,364
Settlement of claims	2,019	—	—	2,019
Terminal A debt service contribution	—	(12,232)	—	(12,232)
Other expenses	—	—	(195)	(195)
Gain on sale of equipment	182	—	—	182
Interest expense	(54,215)	(1,856)	(11,419)	(67,490)
Total nonoperating (expense) revenue, net	(37,956)	67,572	22,255	51,871
Increase in net position before capital contributions	99,659	23,076	8,072	130,807
Capital contributions	25,384	—	—	25,384
Increase in net position	125,043	23,076	8,072	156,191
Net position, beginning of year	1,443,579	424,217	140,346	2,008,142
Net position, end of year	$ 1,568,622	$ 447,293	$ 148,418	$ 2,164,333

See accompanying independent auditors' report.

MASSACHUSETTS PORT AUTHORITY

Combining Schedule of Net Position

June 30, 2017

(Restated)

(In thousands)

	Authority Operations	PFC Program	CFC Program	Combined Totals
Current assets:				
Cash and cash equivalents	$ 82,095	$ —	$ —	$ 82,095
Investments	132,021		—	132,021
Restricted cash and cash equivalents	113,659	60,952	16,303	190,914
Restricted investments	278,257	21,283	17,901	317,441
Accounts receivable				
Trade, net	52,706	11,749	3,175	67,630
Grants	5,811	—	—	5,811
Total receivables, net	58,517	11,749	3,175	73,441
Prepaid expenses and other assets	7,907	—	57	7,964
Total current assets	672,456	93,984	37,436	803,876
Noncurrent assets:				
Investments	152,661	—	—	152,661
Restricted investments	208,582	10,220	40,238	259,040
Prepaid expenses and other assets, long-term	4,550	—	1,087	5,637
Investment in joint venture	2,843	—	—	2,843
Capital assets-not being depreciated	380,311	12	—	380,323
Capital assets-being depreciated-net	2,123,162	374,201	264,807	2,762,170
Total noncurrent assets	2,872,109	384,433	306,132	3,562,674
Total assets	3,544,565	478,417	343,568	4,366,550
Deferred outflows of resources				
Deferred loss on refunding of bonds	17,983	—	—	17,983
Deferred outflows of resources related to pensions	37,298	—	—	37,298
Deferred outflows of resources related to OPEB	37,729	—	—	37,729
Total deferred outflows of resources	93,010	—	—	93,010
Current liabilities:				
Accounts payable and accrued expenses	133,941	—	8	133,949
Compensated absences	1,400	—	—	1,400
Contract retainage	8,729	—	—	8,729
Current portion of long-term debt	66,521	52,910	3,569	123,000
Commercial notes payable	109,000	—	—	109,000
Accrued interest payable	31,994	1,290	5,731	39,015
Unearned revenues	15,939	—	—	15,939
Total current liabilities	367,524	54,200	9,308	431,032
Noncurrent liabilities				
Accrued expenses	14,118	—	503	14,621
Compensated absences	17,908	—	—	17,908
Net pension liability	88,322	—	—	88,322
Net OPEB liability	150,451	—	—	150,451
Contract retainage	1,236	—	—	1,236
Long-term debt, net	1,534,254	—	193,411	1,727,665
Unearned revenues	13,374	—	—	13,374
Total noncurrent liabilities	1,819,663	—	193,914	2,013,577
Total liabilities	2,187,187	54,200	203,222	2,444,609
Deferred inflows of resources				
Deferred gain on refunding of bonds	6,809	—	—	6,809
Deferred inflows of resources related to OPEB	—	—	—	—
Total deferred inflows of resources	6,809	—	—	6,809
Net investment in capital assets	877,239	321,303	91,796	1,290,338
Restricted for other purposes				
Bond funds	209,333	—	—	209,333
Project funds	196,738	—	—	196,738
Passenger facility charges	—	102,914	—	102,914
Customer facility charges		—	48,550	48,550
Other purposes	28,101	—	—	28,101
Total restricted	434,172	102,914	48,550	585,636
Unrestricted	132,168	—	—	132,168
Total net position	$ 1,443,579	$ 424,217	$ 140,346	$ 2,008,142

See accompanying independent auditors' report.

Schedule IV

MASSACHUSETTS PORT AUTHORITY

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

Year ended June 30, 2017

(Restated)

(In thousands)

	Authority Operations	PFC Program	CFC Program	Combined Totals
Operating revenues:				
Aviation rentals	$ 217,906	$ —	$ —	$ 217,906
Aviation parking	169,354	—	—	169,354
Aviation shuttle bus	19,278	—	—	19,278
Aviation fees	145,418	—	—	145,418
Aviation concessions	98,913	—	—	98,913
Aviation operating grants and other	2,909	—	—	2,909
Maritime fees, rentals and other	82,088	—	—	82,088
Real estate fees, rents and other	25,037	—	—	25,037
Total operating revenues	760,903	—	—	760,903
Operating expenses:				
Aviation operations and maintenance	274,506	—	—	274,506
Maritime operations and maintenance	59,629	—	—	59,629
Real estate operations and maintenance	13,215	—	—	13,215
General and administrative	59,342	—	—	59,342
Payments in lieu of taxes	19,276	—	—	19,276
Pension and other post-employment benefits	38,903	—	—	38,903
Other	9,631	—	—	9,631
Total operating expenses before depreciation and amortization	474,502	—	—	474,502
Depreciation and amortization	194,895	43,768	14,183	252,846
Total operating expenses	669,397	43,768	14,183	727,348
Operating income (loss)	91,506	(43,768)	(14,183)	33,555
Nonoperating revenues and (expenses):				
Passenger facility charges	—	76,296	—	76,296
Customer facility charges	—	—	33,055	33,055
Investment income	11,093	1,226	774	13,093
Net (decrease)/increase in the fair value of investments	(4,005)	(92)	(404)	(4,501)
Other revenues	3,969	—	93	4,062
Settlement of claims	248	—	—	248
Terminal A debt service contribution	—	(11,941)	—	(11,941)
Other expenses	—	—	(198)	(198)
Gain on sale of equipment	125	—	—	125
Interest expense	(51,470)	(4,118)	(11,569)	(67,157)
Total nonoperating (expense) revenue, net	(40,040)	61,371	21,751	43,082
Increase in net position before capital contributions	51,466	17,603	7,568	76,637
Capital contributions	12,635	—	—	12,635
Increase in net position	64,101	17,603	7,568	89,272
Net position, beginning of year	1,379,478	406,614	132,778	1,918,870
Net position, end of year	$ 1,443,579	$ 424,217	$ 140,346	$ 2,008,142

See accompanying independent auditors' report.