



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

Basic Financial Statements, Required Supplementary Information and
Supplementary Schedules

June 30, 2015

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

Members of the Board of Directors
Massachusetts Department of Transportation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Massachusetts Department of Transportation (MassDOT), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise MassDOT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of entities which represent 96%, 95% and 97% of the total assets, total net position and total revenues of the aggregate discretely presented component units or the Owner Controlled Insurance Program, an Internal Service Fund, which represents 3%, 1% and less than 1% of the total assets, total net position and total revenues of the aggregate remaining fund information and less than 1% of total assets, total net position and total revenues of the governmental activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities and funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of MassDOT, as of June 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Adoption of New Accounting Pronouncement

As discussed in Note 1(q) and 15(m) to the financial statements, in 2015, MassDOT adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MassDOT's basic financial statements. The combining balance sheet and combining schedule of revenues, expenditures, and changes in fund balances on pages 109 and 110 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet and combining schedule of revenues, expenditures, and changes in fund balances are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally



accepted in the United States of America. In our opinion, the combining balance sheet and combining schedule of revenues, expenditures, and changes in fund balances are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016 on our consideration of MassDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MassDOT's internal control over financial reporting and compliance.

KPMG LLP

April 29, 2016

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

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

Management of the Massachusetts Department of Transportation (MassDOT) provides this Management's Discussion and Analysis to assist readers of its financial statements to better understand the financial activities of MassDOT for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with MassDOT's basic financial statements, which follow this section.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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(Unaudited)

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

Governmental Activities – Most of MassDOT's basic services (which are primarily funded by toll revenues, contract assistance from the Commonwealth and other nonexchange revenues) are reported in this section by operational division, which are as follows: Highway, Registry of Motor Vehicles, Rail and Transit, and Aeronautics as well as shared services represented by the Office of the Secretary.

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

Discretely Presented Component Units – Separate legal entities for which MassDOT has financial accountability are included in this section. These entities consist of fifteen regional transit authorities (listed below) as well as the Route 3 North Transportation Improvements Association and operate similar to private sector companies and the business-type activities described above. Effective June 30, 2015, the Route 3 North Transportation Improvements Association was dissolved and its assets were transferred to MassDOT. The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

The fifteen regional transit authorities are as follows:

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

Fund Financial Statements

Users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been allocated

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to specific projects or activities. MassDOT uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

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

Governmental Funds – Most of the basic services provided by MassDOT are financed through governmental funds, which are defined as a set of accounts, focused on near-term inflows and outflows of resources to be spent. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating MassDOT's near-term financing requirements and it is based on the modified accrual basis of accounting. Such statements provide a detailed short-term view of MassDOT's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

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

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

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

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

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

MassDOT's fiduciary funds are the Other Post-Employment Benefits (OPEB) Trust Fund and Agency funds, which are used to account for assets held in a custodial capacity. During fiscal year 2015, the assets of the Trust were transferred to the Commonwealth's State Retiree Benefits Trust Fund.

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

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

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

The supplementary information includes a combining balance sheet and a combining schedule of revenues, expenditures and changes in fund balances for MassDOT's general fund (MTTF). The supplementary information provides details for the MTTF's Metropolitan Highway System (MHS), Western Turnpike (WT), Tobin Bridge and Other Operations.

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(Unaudited)

Government-Wide Financial Analysis

Net Position

The following table reflects the condensed net position based on the statement of net position found on page 23. Figures for fiscal year 2014 do not reflect the impact of the restatement for pension liability due to GASB 68 implementation, however, Note 1(q) identifies the cumulative effect of implementing GASB 68 on net pension liability, which would be classified in the long-term liabilities and deferred inflows category in the below condensed statement of net position.

Condensed Statement of Net Position								
June 30, 2015 and 2014								
(in millions)								
	Governmental activities		Business-type (MBTA) activities		Total primary government		Change year over year	
	2015	2014	2015	2014	2015	2014	Amount	%
Current and other assets	\$ 1,864	1,804	1,316	1,410	3,180	3,214	(34)	-1%
Capital assets	23,637	22,798	8,889	8,563	32,526	31,361	1,165	4%
Deferred outflows of resources	232	167	423	315	655	482	173	36 %
Total assets & deferred outflows	<u>25,733</u>	<u>24,769</u>	<u>10,628</u>	<u>10,288</u>	<u>36,361</u>	<u>35,057</u>	<u>1,304</u>	<u>4%</u>
Bonds outstanding and notes payable	2,000	2,080	5,635	5,827	7,635	7,907	(272)	-3%
Long-term liabilities and deferred inflows	1,076	571	2,115	1,140	3,191	1,711	1,480	86%
Other current liabilities	635	643	527	476	1,162	1,119	43	4 %
Total liabilities & deferred inflows	<u>3,711</u>	<u>3,294</u>	<u>8,277</u>	<u>7,443</u>	<u>11,988</u>	<u>10,737</u>	<u>1,251</u>	<u>12%</u>
Net position:								
Net investment in capital assets	21,681	20,763	4,203	3,792	25,884	24,555	1,329	5%
Restricted	743	811	20	19	763	830	(67)	-8%
Unrestricted	(402)	(99)	(1,872)	(966)	(2,274)	(1,065)	(1,209)	114 %
Total net position*	<u>\$ 22,022</u>	<u>21,475</u>	<u>2,351</u>	<u>2,845</u>	<u>24,373</u>	<u>24,320</u>	<u>53</u>	<u>0%</u>

* Fiscal year 2014 amounts have not been restated for the impact of GASB 68.

MassDOT's combined assets and deferred outflows (governmental and business-type activities) exceeded its liabilities and deferred inflows at June 30, 2015 by \$24.4 billion (presented as net position). The main component of net position represents the net investment in capital assets, totaling \$25.9 billion. The majority of capital assets were transferred to MassDOT by the Commonwealth in fiscal year 2010 as a result of transportation reform pursuant to the enabling legislation M.G.L. Ch.6C; however, the Commonwealth continues to finance the debt for these assets. MassDOT uses these capital assets to service the Commonwealth of Massachusetts; therefore, they are not available for future spending.

Governmental activities current and other assets, totaling \$1.9 billion, include restricted and non-restricted cash and investments of \$1.3 billion, net receivables of \$523 million, and other assets of \$5 million. Governmental activities long-term liabilities, totaling \$1.1 billion, include all noncurrent liabilities, excluding the long-term portion of bonds outstanding and notes payable totaling \$1.94 billion. Long-term liabilities in the condensed statement include \$364 million of derivative instruments, \$215 million in accrued interest on capital appreciation

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bonds, \$370 million in OPEB and pension obligation, and \$51 million in other liabilities. Also included are pension related deferred inflows of \$76 million. Other current liabilities totaling \$635 million are due within one year, and exclude the current portion of bonds outstanding and notes payable totaling \$59 million. Other current liabilities include accounts payable and accrued expenses of \$509 million, unearned revenue of \$65 million, accrued interest of \$26 million and other liabilities of \$35 million. Included within the condensed statement's other liabilities category for both long-term liabilities and deferred inflows and other current liabilities is environmental remediation, workers' compensation, compensated absences, and claims and judgments.

The net increase of \$834 million in business-type activities total liabilities and deferred inflows compared to the prior year is attributable in part to increases in OPEB and pension obligations. This is offset by an increase in total assets and deferred outflows of \$340 million.

Changes in Net Position

MassDOT's total primary government change in net position, noted on the Condensed Statement of Changes in Net Position on page 10, increased by \$1,153 million in fiscal year 2015. For fiscal year 2015 the governmental activities change in net position amounted to \$965 million and the business-type activities amounted to \$188 million. GASB 68 "Accounting and Financial Reporting for Pensions" and GASB 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date" were implemented during fiscal year 2015, which resulted in the establishment of a net pension liability and deferred inflows and deferred outflows of resources related to pension activities. As a result, MassDOT decreased its 2015 beginning net position by \$1.1 billion, \$418 million in the governmental activities and \$682 million in the business-type activity. Further information related to the change in beginning net position is detailed in Note 1(q).

The governmental activities change in net position increased by \$405 million compared to the prior year due to an increase in revenue of \$882 million and an increase in expenditures by \$477 million. \$678 million, or 77%, of the revenue increase is attributable to capital grants and contributions. Program areas accounting for the expenditure increase include Highway expenditure increases of \$325 million and Rail and Transit expenditure increases of \$98 million.

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Management's Discussion and Analysis

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(Unaudited)

The changes in net position are based upon the Statement of Activities found on page 24.

Condensed Statement of Changes in Net Position
June 30, 2015 and 2014

(in millions)

	Governmental Activities		Business-type activity (MBTA)		Total primary government		Change year over year	
	2015	2014	2015	2014	2015	2014	Amount	%
Revenues:								
Program revenues:								
Fees, fines, and charges for services	\$ 538	484	661	643	1,199	1,127	72	6%
Operating grants and contributions	216	184	-	-	216	184	32	17%
Capital grants and contributions	2,442	1,764	567	503	3,009	2,267	742	33%
General revenues:								
Operating assistance from the Commonwealth	495	379	122	275	617	654	(37)	-6%
Taxes and assessments	-	-	1,131	957	1,131	957	174	18%
Other income	-	-	19	24	19	24	(5)	-21%
Unrestricted investment income	3	1	18	28	21	29	(8)	-28%
Total revenues	<u>3,694</u>	<u>2,812</u>	<u>2,518</u>	<u>2,430</u>	<u>6,212</u>	<u>5,242</u>	<u>970</u>	<u>19%</u>
Expenses:								
Highway	1,854	1,529	-	-	1,854	1,529	325	21 %
Office of the Secretary	202	156	-	-	202	156	-	0%
Registry of Motor Vehicles	97	80	-	-	97	80	17	21%
Rail and Transit	456	358	-	-	456	358	98	27%
Aeronautics	10	17	-	-	10	17	(7)	-41%
Debt service-interest	110	112	-	-	110	112	-	0%
MBTA	-	-	2,330	2,200	2,330	2,200	130	6%
Total expenses	<u>2,729</u>	<u>2,252</u>	<u>2,330</u>	<u>2,200</u>	<u>5,059</u>	<u>4,452</u>	<u>607</u>	<u>14%</u>
Change in net position	965	560	188	230	1,153	790	363	46%
Net position – beginning*	<u>21,057</u>	<u>20,915</u>	<u>2,163</u>	<u>2,615</u>	<u>23,220</u>	<u>23,530</u>	<u>(310)</u>	<u>-1%</u>
Net position – ending	<u>\$ 22,022</u>	<u>21,475</u>	<u>2,351</u>	<u>2,845</u>	<u>24,373</u>	<u>24,320</u>	<u>53</u>	<u>0%</u>

* Fiscal year 2015 restated due to implementation of GASB 68.

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Management's Discussion and Analysis

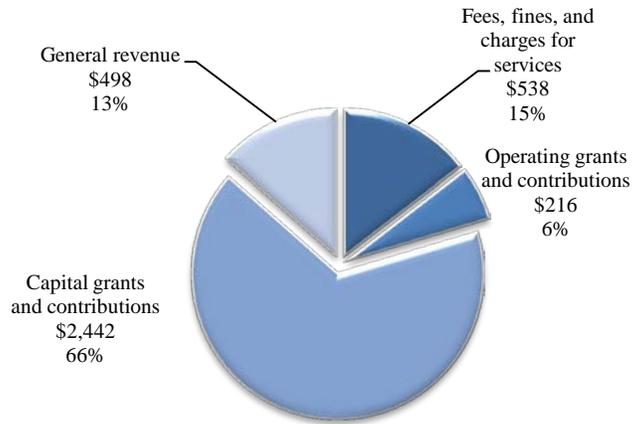
June 30, 2015

(Unaudited)

Total Revenues

For the fiscal year ended June 30, 2015, total governmental activities revenues (\$3.7 billion) were comprised of general revenues (\$498 million) and program revenues (\$3.2 billion), which include fees, fines and charges for services of \$538 million, operating grants and contributions of \$216 million and capital grants and contributions of \$2.4 billion.

Governmental Activities - Total Revenue
(in millions)



The governmental activities overall revenue increased by \$882 million, or 31%, from the prior year due to an increase in program revenue of \$764 million and \$118 million in general revenue.

Governmental Activities - Program Revenue
(in millions)

	Total		Change year over year	
	2015	2014	Amount	%
Program revenues				
Fees, fines, and charges for services \$	538	484	54	11%
Operating grants and contributions	216	184	32	17%
Capital grants and contributions	2,442	1,764	678	38%
General revenue	498	380	118	31%
	<u>\$ 3,694</u>	<u>2,812</u>	<u>882</u>	<u>31%</u>

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Within program revenue, fees, fines, and charges for services were \$538 million. This represents a variety of MassDOT revenues, including tolls (\$381 million), rental/lease (\$44 million), and departmental revenue, such as advertising and highway-related permit fees (\$113 million). This revenue increased \$54 million from the prior year, primarily within the departmental revenue category (\$45 million), which had two distinct changes in particular revenue streams. The transportation infrastructure and development fund received its first disbursement of gaming revenue of \$25 million during fiscal year 2015, while modifications to MassDOT's motor vehicle inspection fee rates, which were raised from \$29 to \$35 per inspection effective July 1, 2014, resulted in an increase of \$25 million. These two major modifications were offset by decreases in revenue due to one-time revenue received in 2014.

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

	Total		Change year over year	
	2015	2014	Amount	%
Tolls	\$ 381	360	21	6%
Rental/lease	44	56	(12)	-21%
Departmental	113	68	45	66%
	<u>\$ 538</u>	<u>484</u>	<u>54</u>	<u>11%</u>

Operating grants and contributions of \$216 million represent both contract assistance for debt service from the Commonwealth and federal grants from various federal agencies, such as Federal Transit Authority, Federal Rail Administration, and Federal Aviation Administration. These contributions are restricted for specific designated purposes and account for approximately 6% of the total MassDOT program revenues. The contributions increased by approximately \$32 million in comparison with fiscal year 2014.

Capital grants and contributions of \$2.4 billion include funding from the Commonwealth and federal agencies for projects such as the Accelerated Bridge Program (ABP), Statewide Road and Bridge Program, Chapter 90 Local Aid, Regional Transit Authority capital assistance and other capital programs. The majority of these programs are within the Highway division, which accounts for \$1.9 billion, or 77%, of the overall capital grants and contributions.

General Revenue

General revenues, totaling \$498 million, include operating assistance from the Commonwealth and investment income. The primary factor to cause the operating assistance increase of \$118 million from the prior year was the transfer of employees from capital to operating, which resulted in an increase in the non-toll general operating assistance.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
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Management's Discussion and Analysis

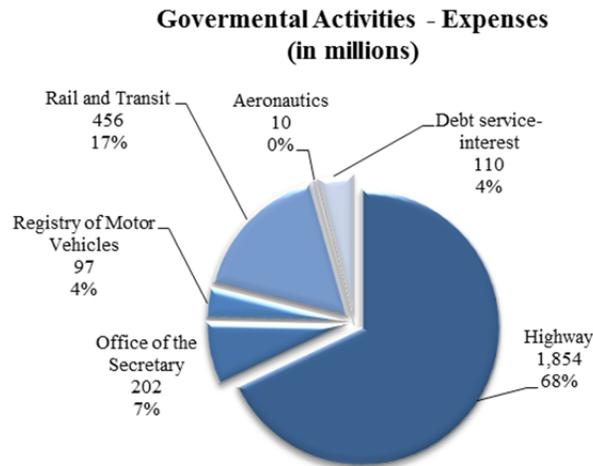
June 30, 2015

(Unaudited)

Expenses

For the fiscal year ended June 30, 2015, expenses for governmental activities totaled \$2.7 billion. The Highway Division's operations continue to be one of the MassDOT's highest priorities and commitments, representing \$1.9 billion, or 68%, of the total governmental activities expenses.

The balance of 32% is attributable to the Office of the Secretary with \$202 million, the Rail and Transit Division with \$456 million, and debt service-interest expenses of \$110 million. The Registry of Motor Vehicles (RMV) and Aeronautics complete the operational spending pattern with an approximate total of \$107 million.



Overall, MassDOT's governmental activities expenses increased by \$477 million, or 21%, from the prior year. Key elements of this change are an increase of \$98 million for transit activities and \$325 million for highway activities.

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June 30, 2015

(Unaudited)

Governmental Activities - Expenses
(in millions)

	Total		Change year over year	
	2015	2014	Amount	%
Highway	\$ 1,854	1,529	325	21%
Office of the Secretary	202	156	46	30%
Registry of Motor Vehicles	97	81	16	20%
Rail and Transit	456	358	98	27%
Aeronautics	10	17	(7)	-42%
Debt service-interest	110	112	(2)	-2%
	<u>\$ 2,729</u>	<u>2,252</u>	<u>477</u>	<u>21%</u>

Business-Type Activity

The net position for business-type activities is \$2.4 billion, an increase of \$188 million from the prior year restated net position. The implementation of GASB 68 "Accounting and Financial Reporting for Pensions" resulted in the decrease of the prior year net position and establishment of its net pension liability totaling \$682 million. The Authority's operating expenses of \$2.1 billion exceeded its operating revenue by \$1.4 billion, due to increased salaries/benefits and materials, supplies, and services. Non-operating revenue of \$1.3 billion and non-operating expenses of \$274 million along with capital grants and contributions of \$567 million reversed the operating loss and resulted in the increase in net position.

Government Funds Financial Analysis

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

Governmental Funds

As of June 30, 2015, MassDOT's governmental funds (MTTF, Highway capital projects, and other governmental) reported a combined ending fund balance of \$1.2 billion. Of this amount, \$3 million is nonspendable and relates to prepaid expenditures. Another \$1.2 billion is restricted; this consists of debt service payments and grants or bonded projects that are dictated by external sources and other purposes such as insurance reserve and turnpike operations. Of the \$13 million assigned, \$5 million is to support the Office of the Secretary's MBTA Financial Control Board and \$5 million will go towards a Highway Apprenticeship program. All these funds are incorporated in the annual budget and approved by the MassDOT Board of Directors. The negative \$13 million remainder of the fund balance is classified as "Unassigned" and is due to snow and ice operation expenditures exceeding the Commonwealth's operating assistance. Subsequent to year end, the state legislature passed a supplemental bill providing MassDOT with an additional \$32 million.

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The MTTF (general fund) is the chief operating fund of MassDOT. The MTTF's fund balance has decreased by \$22 million or 3% over the prior year. As of June 30, 2015, the total fund balance was \$766 million, comprised of \$765 million restricted, \$3 million nonspendable, \$11 million assigned and negative \$13 million unassigned.

In addition to the MTTF, MassDOT has established the Highway Capital Projects fund as a major governmental fund. The Highway Capital Projects fund accounts for highway construction projects financed primarily through federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth. As of June 30, 2015, the total fund balance was \$62 million, an increase of \$6 million from the prior fiscal year. This increase is primarily the result of \$25 million disbursements from the Commonwealth's gaming revenue fund for the purpose of transportation and related infrastructure projects including supplementing the construction and reconstruction of municipal ways offset by the use of \$19 million of available funds.

The other governmental funds are special revenue funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Projects within this category include federal grants, the Motor Vehicle Inspection Trust Fund (MVITF) activity, and the CARM activity. As of June 30, 2015, the total fund balance was \$397 million.

Proprietary Funds

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

The net position of the MBTA at the end of the year totaled \$2.4 billion, which consisted of \$4.2 billion in net investments in capital assets, \$19 million restricted for other purposes, and a deficit of \$1.9 billion in unrestricted net position. OCIP's net position at the end of the year totaled \$3 million, which is considered restricted for purposes of this activity.

Governmental Funds – MTTF General Fund

MTTF Revenues

MTTF (General fund) revenues totaled \$1.1 billion in fiscal year 2015, an increase of \$205 million, or 23%, from fiscal year 2014. The Commonwealth Transportation Fund (CTF) revenues of \$621 million and toll revenues of \$377 million combine for 90% of the total revenues. The remaining 10% consists of grants and contract assistance of \$34 million and other revenues, which including rental/lease revenue, investment income, advertising, highway-related permit, and other fees, of \$73 million. Grants and contract assistance increased from \$2 million to \$34 million in 2015 due to the transfer of payroll expenditures from capital to operating, which resulted in federal highway reimbursements to the general fund.

The CTF revenues consist of \$100 million dedicated for MHS bonds (through Chapter 27, Section 9 of the Acts of 2009), \$25 million for the operations and maintenance of portions of the Central Artery and the Central Artery North Area, and \$496 million for operations. The operational funding included \$391 million for MassDOT's

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operations, \$40 million for RTA's contract assistance, \$9 million for the Merit Rating Board, and \$56 million for snow and ice operations.

MTTF General Fund - Revenue
(in millions)

	Total		Change year over year	
	2015	2014	Amount	%
Toll	\$ 377	357	20	6%
Commonwealth transportation fund	621	472	149	32%
Other (grants, rental/lease, departmental/other)	107	71	36	51%
	<u>\$ 1,105</u>	<u>900</u>	<u>205</u>	<u>23%</u>

The \$377 million in toll revenue consists of pledged revenue for the MHS of \$204 million and \$139 million for the WT, as well as unpledged revenue of \$34 million for the Tobin Bridge operations.

MTTF General Fund Toll Revenue by Roadway
(in millions)

	Total		Change year over year	
	2015	2014	Amount	%
Metropolitan highway system	\$ 204	196	8	4%
Western Turnpike	139	130	9	7%
Tobin Bridge	34	31	3	10%
	<u>\$ 377</u>	<u>357</u>	<u>20</u>	<u>6%</u>

MTTF Expenditures

During fiscal year 2015, the general fund's total expenditures increased by 26% from \$934 million to \$1.2 billion. The Highway division's expenditure increase of 55% (\$271 million) is due to a \$21 million increase in snow and ice expenditures and \$200 million increase for operations, including the transfer of employees from capital funding to operating funding. The Rail and Transit division's expenditures decreased by 45% (\$68 million) since forward funding to Regional Transit Authorities was completed prior to fiscal year 2015.

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MTTF General Fund Expenditures
(in millions)

	Total		Change year over year	
	2015	2014	Amount	%
Highway	\$ 765	494	271	55%
Office of the Secretary	87	75	12	16%
Registry of motor vehicles	71	63	8	13%
Rail and Transit	82	150	(68)	-45%
Aeronautics	1	1	-	0%
Debt service (principal and interest)	171	151	20	13%
	<u>\$ 1,177</u>	<u>934</u>	<u>243</u>	<u>26%</u>

MTTF Budgetary Highlights

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

MassDOT submits its general fund (MTTF) budget to the Standing Committee on Finance and Audit for review and to the MassDOT Board of Directors for final approval. The Board approved a \$1.2 billion operating budget to cover fiscal year 2015 operations.

The following are some of the major fiscal year highlights:

1. The Transportation Finance Act (Chapter 46 of the Acts of 2013) was signed in to law in July of 2013 generating additional revenues for the Commonwealth Trust Fund (CTF), which allowed MassDOT to move forward with the reforms and initiatives, such as;
 - Move personnel costs from the capital budget to the operating budget, a structural shift that will free up capital funding for projects. All employees' personnel costs were transferred to the operating budget by the start of fiscal year 2015.
 - Registry fee increases implemented July 1, 2014:
 - Road Test fees were increased from \$20 to \$35
 - Passenger Registrations (two year) were increased from \$50 to \$60
 - Passenger Registrations (one year) were increased from \$25 to \$30
 - Vehicle Inspections were increased from \$29 to \$35

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2. The CTF operating transfer to the MTTF was increased by \$125 million in fiscal year 2015 in part to fund the reforms described in item 1 above. Subsequent to the passage of the fiscal year 2015 budget by the Legislature, a 9C reduction of \$26 million was implemented, reducing the incremental increase for the CTF operating transfer to \$99 million. This increase does not take supplemental appropriations into consideration.
3. Due to record snowfall in fiscal year 2015, snow and ice operations cost a total of \$162 million, which required \$82 million in supplemental funding, which includes \$32 million in supplemental funding received in November 2015, and \$21 million in other financing sources, specifically transfers from the MVITF.
4. In addition to previously mentioned reforms, the Transportation Finance bill also allowed MassDOT to transfer excess revenues from the MVITF to the general fund (MTTF), providing all expenses of the motor vehicle inspection program are met. In fiscal year 2015, MassDOT transferred \$41 million from the MVITF to the MTTF; 51% of which defrayed spending due to snow and ice operations.
5. The MassDOT Board approved the utilization of \$89 million of MHS reserves to pay the Perini Kiewit Cashman settlement, which was the major factor in the fiscal year 2015 deficiency of revenues over expenditures totaling \$78 million.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2015, MassDOT's combined capital assets totaling \$32.5 billion (net of depreciation) consisted of \$23.6 billion in governmental activities and \$8.9 billion in business-type activities. This total amount represents a net increase (including additions and deductions) of \$1.2 billion, or 4% percent, over last year. MassDOT's capital assets include land, construction in progress, infrastructure, ways and structures, buildings, equipment, vehicles, and software as shown in the table below.

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

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 982	920	376	365	1,358	1,285
Construction in progress	6,174	4,883	970	864	7,144	5,747
Infrastructure, ways and structures	16,330	16,880	6,372	6,317	22,702	23,197
Buildings and equipment	97	62	1,170	1,017	1,267	1,079
Vehicles	50	48	-	-	50	48
Software	4	5	-	-	4	5
Total	\$ 23,637	22,798	8,889	8,563	32,526	31,361

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Within governmental activities, construction in progress (CIP) increased by \$1.3 billion due to additions to on-going CIP projects, which included the \$392 million Route 3 North transfer and approximately \$309 million for assets related to the Accelerated Bridge Program's 5 mega-projects (Amesbury Whittier Bridge, Boston-Cambridge Longfellow Bridge, Quincy Fore River Bridge, Fall River Braga Bridge, and Shrewsbury-Worcester Burns Bridge). The \$35 million increase in governmental activities' buildings and equipment was primarily due to the transfer of the State Transportation Building from the Commonwealth. The governmental activities net book value of infrastructure decreased primarily due to the increase in accumulated depreciation of the existing roads and bridges.

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

Debt

At year-end, MassDOT had \$7.3 billion in outstanding bonds and notes compared to \$7.5 billion last year.

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

	Governmental Activities		Business-type activities (MBTA)		Total	
	2015	2014	2015	2014	2015	2014
General Transportation System Bonds (GTS)	\$ -	-	230	297	230	297
Boston Metropolitan District (BMD)	-	-	-	2	-	2
Revenue	1,957	2,035	4,272	4,367	6,229	6,402
Revenue Build America (BABs)	-	-	428	428	428	428
Bond Anticipation Notes (BANs)	-	-	94	101	94	101
Metropolitan Boston Transit Parking (MBTPC)	-	-	305	305	305	305
	<u>\$ 1,957</u>	<u>2,035</u>	<u>5,329</u>	<u>5,500</u>	<u>7,286</u>	<u>7,535</u>

MassDOT maintains bond ratings of A or higher for its governmental activities bonds. The Capital Appreciation Bonds are rated (AA-) by Standard & Poor's Corporation (S&P), (A3) by Moody's Investors Services Inc., and (A+) by Fitch. MassDOT senior fixed rate bonds are rated (A+) by both S&P and Fitch and (A3) by Moody's. MBTA (business-type activity) bond ratings are as follows by Moody's Investor Services: General Transportation System bonds (Aa1), Senior Sales Tax Revenue bonds (Aa2), Assessment Revenue bonds (Aa1), Revenue Build America bonds (Aa2), Bond Anticipation Notes (P-1) and Metropolitan Boston Transit Parking bonds (A1).

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

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Construction Commitments

MassDOT's outstanding commitments for engineering and design and construction contracts were \$4.5 billion at June 30, 2015.

Major commitments approved by the Board of Directors during fiscal year 2015 include funding for the Needham-Wellesley Add-a-Lane I-95 project (\$138 million), All Electronic Tolling System (AET) (\$130 million) and various collaborations with the MBTA for projects such as the Green line extension, Red and Orange line infrastructure improvements and vehicle purchase, and South Coast Rail improvements (\$2.2 billion).

Economic Factors and Next Year's Budgets and Rates

The MassDOT Board approved an original fiscal year 2016 operating expenditure and debt service obligation budget of \$1.4 billion in June 2015. That budget reflected the Transportation Finance Act's mandate to end the practice of funding operating costs, such as salaries, rent, utilities, etc. with capital funds, within a three-year period. At the start of fiscal year 2015, all employees had been transferred to operating funds and thus these costs were already incorporated into the fiscal year 2016 budget. However, the fiscal year 2016 budget now included approximately \$38.4 million in non-payroll expenses (office supplies, utilities, fuel, IT consultants) that had previously been funded by capital funds. An increase in Commonwealth assistance and departmental revenue, expected due to fee increases implemented in response to the Transportation Finance Act, was to provide funding for these expenses. The fiscal year 2016 budget also accounted for the All Electronic Tolling implementation that is set to expand from the Tobin Bridge to the Western Turnpike and the Metropolitan Highway System. Also included in the budget was funding to update Registry of Motor Vehicle branches to allow for improvements to customer service and reduce wait times.

At the time the original budget was approved, the impact of "An Act Relative to State Personnel" (Acts 2015, Chapter 19), which sought to realize cost savings by way of reducing the number of state personnel through a retirement incentive program, wherein employees would retire on June 30, 2015, was unknown. After MassDOT implemented the program (more than 400 employees participated), the MassDOT Board approved a revised operating expenditure and debt service obligation budget of \$1.3 billion. The revised budget reflected a total reduction of \$40 million, of which \$28 million was related to payroll and fringe costs.

MassDOT continues to aggressively administer its 2010 MHS Variable Rate Demand Bonds bank liquidity facilities. MassDOT replaced five facilities in 2013, three in 2014, and replaced four in April of 2016. The aggregate annual savings are approximately \$2 million for the 2013 and 2014 replacements. 2016 replacements are expected to yield approximately \$1 million in savings annually. In 2016 MassDOT re-procured remarketing agent services for the above bonds which will result in anticipated annual savings of approximately \$0.28 million. Note 13 subsequent events has more information related to actions taken in April 2016.

Future Pronouncements

GASB has issued the following statements and MassDOT is currently assessing the impact of each statement.

In March 2015, GASB issued Statement No. 72, "Fair Value Measurement and Application" (GASB 72), which

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defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. It will apply to MassDOT's financial statements and is effective for fiscal years beginning after June 15, 2015 (fiscal year 2016).

In June 2015, GASB issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", (GASB 73). The Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, "Accounting and Financial Reporting for Pensions", as well as for the assets accumulated for purposes of providing those pensions. It will apply to MassDOT's financial statements and is effective for fiscal years beginning after June 15, 2015 (fiscal year 2016).

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB 74). The Statement replaces Statements No. 43, "Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans", as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". It includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans", as amended, Statement 43, and Statement No. 50, "Pension Disclosures". The Statement also requires new note disclosures and new required supplementary information. It will apply to MassDOT's financial statements and is effective for fiscal years beginning after June 15, 2016 (fiscal year 2017).

In June 2015, GASB approved Statement No. 75, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" (GASB 75), which revises and establishes new financial reporting requirements for most governments and governmental agencies that provide postemployment benefits other than pensions to their employees. It will apply to MassDOT's financial statements and is effective for fiscal years beginning after June 15, 2017 (fiscal year 2018). GASB 75 replaces the requirements of Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions", as amended, and Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB". Statement No. 75 will require MassDOT to recognize a liability for postemployment benefits other than pensions. The Statement also requires new note disclosures and new required supplementary information.

In June 2015, GASB approved Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" (GASB 76). The objective of the Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. It will apply to MassDOT's financial statements and is effective for fiscal years beginning after June 15, 2015 (fiscal year 2016).

In August 2015, GASB issued Statement No. 77, "Tax Abatement Disclosures" (GASB 77). This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement

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agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. Management believes GASB 77 will not impact the financial statements.

In December 2015, GASB issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" (GASB 78). The Statement addresses a practice issue regarding the scope and applicability of Statement No. 68, "Accounting and Financial Reporting for Pensions". The issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided such pensions. It is effective for fiscal years beginning after December 15, 2015 (fiscal year 2017).

In December 2015, GASB issued Statement No. 79, "Certain External Investment Pools and Pool Participants" (GASB 79). The Statement addresses how certain state and local government external investment pools and participants in external investment pools may measure and report their investments in response to changes contained in an SEC rule due to take effect in April 2016. GASB 79 permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes. The Statement also requires new note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. It is effective for fiscal years beginning after June 15, 2015 (fiscal year 2016).

In January 2016, GASB issued Statement No. 80, "Blending Requirements for Certain Component Units" (GASB 80), an amendment of GASB No. 14, "The Financial Reporting Entity". GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The Statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. MassDOT is not a sole corporate member of a not-for-profit corporation; therefore, management believes GASB 80 will not impact the financial statements.

Contacting MassDOT's Financial Management

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

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Statement of Net Position

June 30, 2015

(Dollars in thousands)

Assets and Deferred Outflows of Resources	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Current assets:				
Cash and short-term investments	\$ 4,426	307,209	311,635	29,093
Restricted cash and investments	1,262,907	94,738	1,357,645	2,602
Derivative instrument	7,684	-	7,684	-
Receivables, net of allowance for uncollectibles:				
Due from Commonwealth	465,364	104,820	570,184	11,315
Due from federal government	23,597	17,924	41,521	31,582
Other	33,953	35,125	69,078	72,920
Other assets	5,448	37,223	42,671	6,311
Total current assets	1,803,379	597,039	2,400,418	153,823
Noncurrent assets:				
Restricted cash and investments	60,156	695,196	755,352	-
Receivables, net of allowance for uncollectibles:				
Due from federal government	-	-	-	1,172
Other	-	-	-	12,343
Other assets	-	23,472	23,472	1,489
Capital assets:				
Nondepreciable	7,156,466	1,346,091	8,502,557	72,827
Depreciable, net of accumulated depreciation	16,480,963	7,542,555	24,023,518	374,173
Total noncurrent assets	23,697,585	9,607,314	33,304,899	462,004
Total assets	25,500,964	10,204,353	35,705,317	615,827
Deferred Outflows of Resources:				
Loss on debt refundings	62,028	198,563	260,591	-
Derivative instruments	133,030	102,504	235,534	4
Pension related	37,188	122,123	159,311	2,440
Total deferred outflows of resources	232,246	423,190	655,436	2,444
Total assets and deferred outflows of resources	\$ 25,733,210	10,627,543	36,360,753	618,271
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Accounts payable and accrued expenses	\$ 508,666	285,189	793,855	54,011
Unearned revenue	64,766	-	64,766	526
Accrued interest payable	26,166	132,020	158,186	821
Bonds and notes payable	58,516	325,125	383,641	51,895
Capital lease obligations	-	4,427	4,427	-
Other liabilities	35,510	105,205	140,715	3,620
Total current liabilities	693,624	851,966	1,545,590	110,873
Noncurrent liabilities:				
Accrued interest on capital appreciation bonds	214,838	-	214,838	-
Bonds and notes payable	1,941,759	5,309,625	7,251,384	47,643
Liability for derivative instruments	364,421	113,246	477,667	-
Capital lease obligations	-	61,246	61,246	-
Net OPEB and pension obligation	369,795	1,807,238	2,177,033	43,158
Other liabilities	50,939	133,107	184,046	8,422
Total noncurrent liabilities	2,941,752	7,424,462	10,366,214	99,223
Total liabilities	3,635,376	8,276,428	11,911,804	210,096
Deferred Inflows of Resources:				
Gain on Debt Refunding	-	223	223	77
Pension related	75,900	51	75,951	1,871
Total liabilities and deferred inflows of resources	\$ 3,711,276	8,276,702	11,987,978	212,044
Net Position				
Net investment in capital assets	21,680,437	4,203,133	25,883,570	450,423
Restricted	743,242	19,475	762,717	5,402
Unrestricted (Deficit)	(401,745)	(1,871,767)	(2,273,512)	(49,598)
Total net position	\$ 22,021,934	2,350,841	24,372,775	406,227

See accompanying notes to financial statements.

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Statement of Activities

Fiscal year ended June 30, 2015

(Dollars in thousands)

Functions/programs	Expenses	Program revenues			Net (expense)/revenue and changes in net position			Component units
		Fees, fines, and charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
Highway	\$ 1,854,277	462,035	63,568	1,879,828	551,154	-	551,154	-
Office of the Secretary	201,800	50,312	6,601	153,736	8,849	-	8,849	-
Registry of motor vehicles	96,760	18,621	2,196	11,887	(64,056)	-	(64,056)	-
Rail and Transit	455,826	6,576	40,770	387,155	(21,325)	-	(21,325)	-
Aeronautics	10,337	452	25	9,851	(9)	-	(9)	-
Debt service – interest	110,237	-	102,364	-	(7,873)	-	(7,873)	-
Total governmental activities	2,729,237	537,996	215,524	2,442,457	466,740	-	466,740	-
Business-type activities:								
Massachusetts Bay Transportation Authority	2,330,330	661,522	-	567,082	-	(1,101,726)	(1,101,726)	-
Total primary government	\$ 5,059,567	1,199,518	215,524	3,009,539	466,740	(1,101,726)	(634,986)	-
Component units:								
Aggregate component units	\$ 426,085	220,432	158,129	77,782				30,258
General revenues:								
Operating assistance from the Commonwealth					\$ 495,150	122,553	617,703	-
Taxes and assessments					-	1,130,796	1,130,796	-
Other income (expense)					-	18,763	18,763	-
Unrestricted investment income					2,841	17,770	20,611	-
Total general revenues					497,991	1,289,882	1,787,873	-
Change in net position					964,731	188,156	1,152,887	30,258
Net Position – beginning of year (as restated)					21,057,203	2,162,685	23,219,888	375,969
Net Position – end of year					\$ 22,021,934	2,350,841	24,372,775	406,227

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
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Governmental Funds

Balance Sheet

June 30, 2015

(Dollars in thousands)

Assets	MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Cash and short-term investments	\$ 2,806	-	1,620	4,426
Restricted cash and investments	853,998	61,985	396,540	1,312,523
Receivables, net of allowance for uncollectibles:				
Due from Commonwealth	31,519	433,845	-	465,364
Due from federal government	3,895	-	19,702	23,597
Other	33,953	-	-	33,953
Due from other funds	9,128	-	-	9,128
Other assets	2,573	-	-	2,573
Total assets	<u>\$ 937,872</u>	<u>495,830</u>	<u>417,862</u>	<u>1,851,564</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable and accrued expenditures	\$ 61,371	433,893	12,109	507,373
Unearned revenue	64,766	-	-	64,766
Due to other funds	-	-	9,128	9,128
Total liabilities	<u>126,137</u>	<u>433,893</u>	<u>21,237</u>	<u>581,267</u>
Deferred Inflows of Resources:				
Unavailable Revenue	<u>45,399</u>	-	-	<u>45,399</u>
Fund balances:				
Nonspendable	2,573	-	-	2,573
Restricted	765,691	61,937	395,293	1,222,921
Assigned	11,225	-	1,332	12,557
Unassigned	(13,153)	-	-	(13,153)
Total fund balances	<u>766,336</u>	<u>61,937</u>	<u>396,625</u>	<u>1,224,898</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 937,872</u>	<u>495,830</u>	<u>417,862</u>	<u>1,851,564</u>

See accompanying notes to financial statements.

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

Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position

June 30, 2015

(Dollars in thousands)

Total governmental fund balances (page 25):	\$	1,224,898
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		23,637,429
Receivables that are measurable but not available are reported as deferred inflows of resources in the governmental funds but recognized as revenue on a full accrual basis.		45,399
Capitalized loss on debt refunding in governmental activities that is not capitalized at a fund level in the governmental funds.		62,028
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.		(241,004)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and notes payable, net		(2,000,275)
Workers' compensation claims		(24,152)
Other claims and judgments		(8,215)
Compensated absences		(43,650)
Environmental remediation		(1,332)
Derivative instruments, net		(223,707)
Net pension liability, net		(408,507)
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.		3,022
Net position of governmental activities (page 23)	\$	22,021,934

See accompanying notes to financial statements.

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

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Fiscal year ended June 30, 2015

(Dollars in thousands)

	<u>MTTF (General)</u>	<u>Highway capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Toll revenue:				
Pledged as security for revenue bonds	\$ 342,340	-	-	342,340
Unpledged	34,287	-	-	34,287
Commonwealth transportation fund:				
Operations	495,631	-	-	495,631
Metropolitan highway system bonds	100,000	-	-	100,000
Central artery operations and maintenance	25,000	-	-	25,000
Commonwealth grants and contract assistance	32	1,529,208	164	1,529,404
Federal grants and reimbursements:				
Passed through the Commonwealth	-	468,040	-	468,040
Direct	34,357	-	42,461	76,818
Rental/lease income	42,775	1,007	-	43,782
Investment income	3,425	72	2,035	5,532
Departmental and other	27,626	28,069	57,324	113,019
Total revenues	<u>1,105,473</u>	<u>2,026,396</u>	<u>101,984</u>	<u>3,233,853</u>
Expenditures:				
Current:				
Highway	764,799	1,499,182	8,698	2,272,679
Office of the Secretary	87,170	107,727	4,019	198,916
Registry of motor vehicles	70,506	12,026	16,131	98,663
Rail and Transit	82,134	391,678	40,713	514,525
Aeronautics	1,243	9,966	-	11,209
Debt service:				
Principal	77,685	-	-	77,685
Interest	93,275	-	-	93,275
Total expenditures	<u>1,176,812</u>	<u>2,020,579</u>	<u>69,561</u>	<u>3,266,952</u>
Excess (Deficiency) of revenues over expenditures	<u>(71,339)</u>	<u>5,817</u>	<u>32,423</u>	<u>(33,099)</u>
Other financing sources (uses):				
Transfers in	43,463	-	-	43,463
Transfers out	-	-	(43,463)	(43,463)
Capital contributions	5,405	-	-	5,405
Total other financing sources (uses)	<u>48,868</u>	<u>-</u>	<u>(43,463)</u>	<u>5,405</u>
Net change in fund balances	<u>(22,471)</u>	<u>5,817</u>	<u>(11,040)</u>	<u>(27,694)</u>
Fund balances at beginning of year	<u>788,807</u>	<u>56,120</u>	<u>407,665</u>	<u>1,252,592</u>
Fund balances at end of year	<u>\$ 766,336</u>	<u>61,937</u>	<u>396,625</u>	<u>1,224,898</u>

See accompanying notes to financial statements.

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

Reconciliation of the Statement of Revenues, Expenditures And
Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Fiscal year ended June 30, 2015

(Dollars in thousands)

Net change in fund balances – total governmental funds (page 27)	\$	(27,694)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period:</p>		
Capital outlays		1,061,680
Depreciation		(661,382)
Contributed capital assets are reported in the statement of activities as capital contributions but are not reported in the governmental funds		439,732
In the statement of activities, only the gain/(loss) on the disposal of capital assets is reported, whereas in the governmental funds the proceeds from the disposal increase financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the disposed capital assets.		(891)
Certain revenues in the statement of activities that do not provide current financial resources are not recognized in the statement of revenues, expenditures and changes in fund balances. As a result, the recognition of revenue for certain accounts receivable differ between the two statements. This amount represents the net change in deferred inflows of resources		4,086
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period:</p>		
Bond maturities		77,685
Amortization of premiums		2,510
Amortization of deferred losses on refunding transactions		(2,704)
Amortization of bond discounts		(497)
Amortization of swap payments received		473
Derivatives are reported in the government-wide statements but are not reported in the governmental liability for funds. This amount represents the net changes in the derivative instruments and the amortization of hedging derivative premiums.		2,710
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.		(16,745)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes in accruals:</p>		
Net pension liability, net		9,080
Workers' compensation		(2,007)
Compensated absences		3,936
Claims and judgments		80,485
Environmental remediation		76
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The net activity of the internal service fund is reported with governmental activities.		(5,802)
Changes in net position of governmental activities (page 24)	\$	<u>964,731</u>

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

Proprietary Funds
Statement of Fund Net Position
June 30, 2015
(Dollars in thousands)

	Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund
Assets and Deferred Outflows of Resources		
Current assets:		
Unrestricted cash and short-term investments	\$ 307,209	-
Restricted cash and investments	94,738	10,540
Receivables, net of allowance for uncollectibles:		
Due from Commonwealth	104,820	-
Due from federal government	17,924	-
Other	35,125	-
Other assets	37,223	2,875
Total current assets	597,039	13,415
Noncurrent assets:		
Restricted cash and investments	695,196	-
Lease accounts	23,472	-
Capital assets:		
Nondepreciable	1,346,091	-
Depreciable, net of accumulated depreciation	7,542,555	-
Total noncurrent assets	9,607,314	-
Total assets	10,204,353	13,415
Deferred Outflows of Resources:		
Loss on debt refundings	198,563	-
Derivative instruments	102,504	-
Pension related	122,123	-
Total deferred outflows of resources	423,190	-
Total assets and deferred outflows of resources	\$ 10,627,543	13,415
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable and accrued expenses	\$ 285,189	1,293
Accrued interest	132,020	-
Bonds payable	325,125	-
Capital lease obligations	4,427	-
Other liabilities	105,205	6,000
Total current liabilities	851,966	7,293
Noncurrent liabilities:		
Bonds payable	5,309,625	-
Capital lease obligations	61,246	-
Net OPEB and pension obligation	1,807,238	-
Liability for derivative instruments	113,246	-
Other liabilities	133,107	3,100
Total noncurrent liabilities	7,424,462	3,100
Total liabilities	8,276,428	10,393
Deferred Inflows of Resources:		
Debt instruments	223	-
Pension related	51	-
Total liabilities and deferred inflows of resources	\$ 8,276,702	10,393
Fund Net Position		
Net investment in capital assets	\$ 4,203,133	-
Restricted	19,475	3,022
Unrestricted	(1,871,767)	-
Total fund net position	\$ 2,350,841	3,022

See accompanying notes to financial statements.

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

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Position

Fiscal year ended June 30, 2015

(Dollars in thousands)

	Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund
	<hr/>	<hr/>
Operating revenues:		
Revenue from transportation	\$ 661,522	-
Total operating revenues	<hr/> 661,522	<hr/> -
Operating expenses:		
Salaries and benefits	896,063	-
Materials, supplies and services	256,441	-
Injuries and damages	23,435	5,782
Commuter railroad and local subsidy expense	484,298	-
Other	6,630	-
Depreciation and amortization	389,155	-
Total operating expenses	<hr/> 2,056,022	<hr/> 5,782
Operating income (loss)	<hr/> (1,394,500)	<hr/> (5,782)
Nonoperating revenues (expenses):		
Dedicated sales tax	970,637	-
Contract assistance – Commonwealth of Massachusetts	122,553	-
Dedicated local assessments	160,159	-
Fair value change in investment derivatives	1,623	-
Other nonoperating income	17,140	-
Interest income	17,770	(20)
Interest expense	(274,308)	-
Total nonoperating revenues (expenses), net	<hr/> 1,015,574	<hr/> (20)
Income (loss) before capital grants and contributions and transfers	<hr/> (378,926)	<hr/> (5,802)
Capital grants and contributions	567,082	-
Increase (decrease) in net position	<hr/> 188,156	<hr/> (5,802)
Fund net position at beginning of year (as restated)	<hr/> 2,162,685	<hr/> 8,824
Fund net position at end of year	<hr/> <hr/> \$ 2,350,841	<hr/> <hr/> 3,022

See accompanying notes to financial statements.

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

Proprietary Funds

Statement of Cash Flows

Fiscal year ended June 30, 2015

(Dollars in thousands)

	Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund
Cash flows from operating activities:		
Receipts from customers and users	\$ 603,291	-
Receipts from other operations	59,721	-
Payments to suppliers and vendors	(874,191)	-
Payments to employees	(569,249)	-
Claims, premiums and judgments paid	-	(3,943)
Net cash used in operating activities	(780,428)	(3,943)
Cash flows from capital and related financing activities:		
Additions to transportation property	(712,923)	-
Interest paid	(265,738)	-
(Increase)decrease in deferred credit/charges	181	-
Commercial paper advances	60,000	-
Payments on debt	(240,295)	-
Receipts from (payments to) bond construction and reserve accounts	137,759	-
Payments of capital lease activity	(5,174)	-
Decrease in lease deposit/account	(7,252)	-
Capital grants	581,326	-
Other	(1,411)	-
Net cash used in capital and related financing activities	(453,527)	-
Cash flows from noncapital financing activities:		
Sales tax and local assessment	1,235,968	-
Reimbursable payments	31,486	-
Net cash from noncapital financing activities	1,267,454	-
Cash flows from investing activities:		
Proceeds from sales of investments	-	3,448
Purchases of investments	-	(4,058)
Investment income (loss)	14,165	(19)
Net cash from investing activities	14,165	(629)
Net change in cash and short-term investments	47,664	(4,572)
Cash and cash equivalents, restricted and other special accounts, beginning of year	354,283	11,053
Cash and cash equivalents, restricted and other special accounts, end of year	\$ 401,947	6,481 (a)
Reconciliation of operating (loss) to net cash from operating activities:		
Operating (loss)	\$ (1,394,500)	(5,782)
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Charges not requiring current expenditure of cash:		
Depreciation	389,155	-
Increase in pension liability	104,298	-
Increase in net OPEB liability	143,234	-
Changes in all other working capital accounts, except cash and cash equivalents and short-term debt	(22,615)	1,839
Total adjustments	614,072	1,839
Net cash used in operating activities	\$ (780,428)	(3,943)

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

See accompanying notes to financial statements.

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

Fiduciary Funds

Statement of Net Position

June 30, 2015

(Dollars in thousands)

Assets	Other post- employment benefits trust	Agency funds
Cash and short-term investments	\$ -	39,183
Investments:		
Receivables:		
Other	-	16,746
Total assets	<u>-</u>	<u>55,929</u>
Liabilities		
Other liabilities	<u>-</u>	<u>55,929</u>
Net Position		
Restricted for other post employment benefits	<u>\$ -</u>	<u>-</u>

See accompanying notes to financial statements.

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

Fiduciary Funds

Statement of Changes in Net Position

Fiscal year ended June 30, 2015

(Dollars in thousands)

	<u>Other post- employment benefits trust</u>
Additions:	
Net investment income:	
Net (depreciation) in fair value of investments	\$ (394)
Interest	367
Dividends	610
Total investment income	<u>583</u>
Less investment expense	<u>(231)</u>
Net investment income	352
Deductions:	
Employee benefits	1,933
Trust transfer to State Retirement Board	<u>75,205</u>
Change in net position	<u>(76,786)</u>
Net position at beginning of year	<u>76,786</u>
Net position at end of year	<u>\$ -</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2015

(Dollars in thousands)

(1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

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

Per Section 2 of the Enabling Act, MassDOT is governed by a seven-member board appointed by the Governor. Each member shall be appointed for a four-year term, with the Secretary of Transportation serving as an ex officio director. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009.

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

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

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

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

Notes to Financial Statements

June 30, 2015

(Dollars in thousands)

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

Effective June 30, 2015, the assets of the Route 3 North Transportation Improvements Association, a discretely presented component unit, were transferred to MassDOT.

On December 31, 2014, the Commonwealth transferred the State Transportation Building (10 Park Plaza, Boston, Massachusetts) to MassDOT.

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

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

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

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

Other activities transferred from the former Massachusetts Turnpike Authority included the Other Post-Employment Benefits Trust. During fiscal year 2015 and as more fully described in note 8c, the assets of the Trust were transferred to the Commonwealth's State Retiree Benefits Trust Fund.

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

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

Notes to Financial Statements

June 30, 2015

(Dollars in thousands)

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

Legislation approved by the Governor in fiscal year 2013 provides that the CTF will also receive monies received from sales of motor vehicles and taxes imposed as excises upon sale and use at retail of motor vehicles. The following amounts are to be annually distributed from the fund: \$160,000 earmarked for the MBTA and \$15,000 earmarked for the regional transit authorities. In addition, the CTF is used to pay debt service (present and future) associated with highway maintenance and construction projects and provides the funding of MassDOT's annual operating budget. For fiscal year 2015, MassDOT received \$588,631 from the CTF for 2015 operations, which included \$423,631 for operations, \$100,000 for debt service, \$40,000 earmarked for the regional transit authorities, and \$25,000 reimbursement for the cost of the operation and maintenance of the CA/T Project and CANA as authorized by Chapter 235 of the Acts of 1998. Additionally, MassDOT received \$32,000 in snow and ice supplemental funding for fiscal year 2014 operations. Subsequent to year end, the state legislature approved supplemental funding of the fiscal year 2015 operating budget totaling \$31,519.

Chapter 194 of the Acts of 2011 established the Transportation Infrastructure and Development Fund for "the purpose of transportation and related infrastructure projects" with the provision that not less than 50 percent shall be dedicated to supplementing construction and reconstruction of municipal ways. The primary source of funding consists of disbursements from the Commonwealth's Gaming Revenue Fund. For fiscal year 2015, MassDOT received \$25,375, which marked the first year of receipts.

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

(b) Basis of Presentation

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

For financial reporting purposes, MassDOT has included all funds, organizations, agencies, boards and commissions considered part of the MassDOT legal entity. MassDOT has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with MassDOT is such that exclusion would cause MassDOT's financial statements to be misleading or incomplete. As required by GAAP, these financial

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

Notes to Financial Statements

June 30, 2015

(Dollars in thousands)

statements present MassDOT (the primary government) and its component units. The information pertaining to the primary government appears in footnotes 1 through 13.

Blended Component Units – Blended component units are entities that are legally separate from MassDOT, but are so related to MassDOT, that they are, in substance, the same as MassDOT because their governing board is the same as that of MassDOT or the entities provide services entirely or almost entirely to MassDOT. The Massachusetts Bay Transportation Authority (MBTA) is the only legally separate entity that meets the criteria as a blended component unit. The information pertaining to the MBTA appears in footnotes 14 through 28.

Aggregate Discretely Presented Component Units – MassDOT presents the following fifteen (15) regional transit authorities (RTAs) and one transportation association in the aggregate as component units in the accompanying financial statements: Berkshire Regional Transit Authority; Brockton Area Transit Authority; Cape Ann Transportation Authority; Cape Cod Regional Transit Authority; Franklin Regional Transit Authority; Greater Attleboro-Taunton Regional Transit Authority; Lowell Regional Transit Authority; Montachusett Regional Transit Authority; Metrowest Regional Transit Authority; Merrimack Valley Regional Transit Authority; Nantucket Regional Transit Authority; Pioneer Valley Transit Authority; Southeastern Regional Transit Authority; Martha’s Vineyard Transit Authority; and the Worcester Regional Transit Authority; and Route 3 North Transportation Improvements Association. MassDOT does not consider any of the discretely presented component units to be major.

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

Government-Wide Financial Statements

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

The statement of net position presents all of the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

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

Notes to Financial Statements

June 30, 2015

(Dollars in thousands)

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods or services provided by a given function; (2) grants and contributions that are restricted to meeting the operational requirements of a specific function and (3) grants and contributions that are restricted to meeting the capital requirements of a specific function. Other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type activities.

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

Fund Financial Statements

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

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

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

(c) *Measurement Focus and Basis of Accounting*

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

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

Notes to Financial Statements

June 30, 2015

(Dollars in thousands)

Governmental fund financial statements account for the general governmental activities of MassDOT. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include expenditure driven federal grants and amounts due from the Commonwealth. MassDOT considers all revenues available if they are collected within 60 days after fiscal year end. For federal expenditure driven grants, revenue is recognized when the qualifying expenditures have been incurred and other eligibility requirements are met and amounts are considered available. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities and expenditures when due. Compensated absences, claims and judgments, termination benefits, and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

MassDOT reports the following fund types:

Governmental Fund Types

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

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

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

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

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

Proprietary Fund Types

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

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

Fiduciary Fund Types

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

MassDOT reports an Employee Benefits Trust Fund for the assets held in trust for the payment of other post-employment benefits (OPEB) for former employees/retirees of the Massachusetts Turnpike Authority. See note 8 for additional information.

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

(d) Cash and Short-Term Investments

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

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

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

(e) Investments

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

The Treasurer of the Commonwealth can hold certain investments on behalf of MassDOT. In the event investments are held by the Treasurer they appear as "Investments" in the accompanying financial statements. Interest earned on specific MassDOT investments would be allocated to MassDOT. As of June 30, 2015, the Treasurer held no investments on behalf of MassDOT.

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

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

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(f) *Accounts Receivable*

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

(g) *Capital Assets*

Capital assets include land, construction in progress, buildings, equipment, vehicles, software and infrastructure (e.g., roads, bridges, ramps, and other similar items). Such assets are reported in the applicable governmental or business-type activity columns of the government-wide financial statements and proprietary funds and are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation. Assets transferred to MassDOT from other governments (subsequent to its formation) are recorded at net carrying value (historical cost less accumulated depreciation) at the date of transfer.

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

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

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

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

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

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(h) Other Assets

Other assets consist principally of prepaid expenses.

(i) Unearned Revenue

Unearned revenue in the governmental funds financial statements represents monies received in advance of providing goods or services or receivables accrued that do not meet the available criterion in accordance with the current financial resources management focus and the modified accrual basis of accounting.

(j) Long-Term Debt

In the government-wide and proprietary funds, long-term debt is reported as liabilities in the statements of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight-line method. Gains and losses related to refunding transactions are presented as deferred inflows and outflows, respectively, and amortized using the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

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

(k) Fund Balances

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

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

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

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

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

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

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

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

(l) *Compensated Absences*

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

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

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

(m) *Deferred Inflows and Outflows*

MassDOT accounts for certain transactions that result in the consumption or acquisition of resources in one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal year 2015, MassDOT has reported deferred outflows pertaining to its derivative instruments, deferred losses on its debt refunding transactions and pension related activities. Deferred inflows relate to deferred gains on debt refunding transactions and pension related activities.

Deferred inflows of resources in the governmental funds financial statements relate to unavailable revenue for Commonwealth Transportation Fund assistance (operations) and toll violations.

(n) *Pension Benefits*

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

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(o) *Interfund Transfers*

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

For the year ended June 30, 2015, interfund transfers totaled \$43,463, which consisted of the following:

- MassDOT transferred \$40,891 from the other governmental funds' motor vehicle inspection trust fund (MVITF) to the MTTF general fund to ensure the budget included sufficient revenue for MassDOT operations. Chapter 46 of the Acts of 2013, indicates available funds may be transferred "provided, however, that expenses of the administration and implementation of the motor vehicle inspection program" are met first.
- MassDOT had a one-time transfer of \$2,572 from the driver licensing expendable trust (other governmental funds) to the MTTF general fund.

(p) *Use of Estimates*

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

(q) *Implementation of New Accounting Principles*

For the year ended June 30, 2015, MassDOT implemented the following pronouncements issued by the GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*

The implementation GASB Statement No. 69 had no reporting impact.

The implementation of GASB Statement No. 68 and No. 71 resulted in, among other things, the establishment of a net pension liability in the Statement of Net Position, as well as the deferred inflows of resources and deferred outflows of resources related to pension activities. As a result, MassDOT has restated its 2015 beginning net position to reflect the implementation of the GASB Statements.

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The cumulative effect of change in accounting principle is as follows:

	Governmental Activities	Business-Type Activities	Discretely Presented Component Units
Net position, June 30, 2014, as previously reported	\$ 21,474,790	\$ 2,845,059	\$ 403,989
Cumulative effect of implementing GASB 68, net pension liability	(417,587)	(682,374)	(28,020)
Net position, June 30, 2014, as restated	<u>\$ 21,057,203</u>	<u>\$ 2,162,685</u>	<u>\$ 375,969</u>

(2) Deposits and Investments

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

Cash and short-term investments	\$ 43,609
Restricted cash and investments	1,010,323
	<u>\$ 1,053,932</u>

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

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

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

(a) Custodial Credit Risk

At June 30, 2015, all of MassDOT's bank balances were insured and not exposed to custodial credit risk. For deposits held by MMDT Cash Fund, MassDOT had minimal exposure to custodial credit risk.

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

(b) Interest Rate Risk

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

MassDOT's investments at June 30, 2015 are presented below by investment type and maturity.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasuries.....	\$ 16,074	-	16,074	-	-
U.S. Agencies.....	75,762	31,680	44,082	-	-
Money market mutual funds.....	169,873	169,873	-	-	-
Commercial paper.....	24,466	24,466	-	-	-
Fixed income securities.....	25,018	25,018	-	-	-
Certificates of Deposit.....	1,491	1,491	-	-	-
MMDT.....	1,053,932	1,053,932	-	-	-
Total	\$ 1,366,616	1,306,460	60,156	-	-

(c) Credit Risk

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

The following table presents the credit quality ratings of the primary government's fixed income investments at June 30, 2015:

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Investment Type	Fair Value	Quality Ratings				Unrated
		AAA	AA1-AA3	A1-A3	BAA1-BAA3	
Certificates of Deposit	\$ 1,491	-	-	-	-	1,491
Money market mutual funds	169,873	169,873	-	-	-	-
US Treasuries	16,074	16,074	-	-	-	-
US Agencies	75,762	3,486	68,705	-	-	3,571
Commercial paper	24,466	-	-	24,466	-	-
Fixed income securities	25,018	-	25,018	-	-	-
MMDT	1,053,932	-	-	-	-	1,053,932
Total	\$ 1,366,616	189,433	93,723	24,466	-	1,058,994

Although the MMDT Cash Fund is not rated, the cash portfolio may only invest in securities rated in one of the two highest short-term rating categories by nationally recognized statistical rating organizations or unrated securities of comparable quality. Securities rated in the highest short-term rating category (and unrated securities of comparable quality) are identified as First Tier securities. Securities rated in the second highest short-term rating category (and unrated securities of comparable quality) are identified as Second Tier securities. At June 30, 2015, credit ratings associated with the investments of the Cash Fund were either First Tier (approximately 97%) or Second Tier (approximately 3%).

(d) Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. At June 30, 2015 no investment category exceeded 5% of the total investments of the primary government.

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

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(e) Restricted Cash and Investments by Fund

The following summarizes restricted cash and investments as of June 30, 2015 by the various funds and accounts established by MassDOT for debt covenant requirements and other purposes:

Held by Treasurer of the Commonwealth:		
General Fund – Toll related accounts as restricted by bond covenants	\$	529,311
General Fund - MTF Other		22,487
Major Capital Projects – Statewide Road and Bridge Program		36,610
Major Capital Projects - Gaming		25,375
Other Governmental Funds – Central Artery Repairs and Maintenance		385,407
Other Governmental Funds – Motor Vehicle Inspection		9,299
Other Governmental Funds – Other		1,834
Held by Bond Trustee:		
General Fund – Toll related accounts as restricted by bond covenants		302,200
Held by OCIP Trustee:		
Internal Service Fund – Workers’ compensation self-insurance		10,540
	\$	1,323,063

(3) Accounts Receivable

Governmental funds accounts receivable at June 30, 2015 consisted of the following:

	Gross accounts receivable	Allowance for uncollectible	Net accounts receivable
Due from Commonwealth	\$ 465,364		465,364
Due from federal government	23,597		23,597
Other receivables	40,922	(6,969)	33,953
Total	\$ 529,883	(6,969)	522,914

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(4) Capital Assets

Capital assets of the governmental activities consisted of the following at June 30, 2015:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, not being depreciated	\$			
Land	919,943	63,280	891	982,332
Construction in progress	4,883,205	1,375,258	84,329	6,174,134
Total capital assets, not being depreciated	<u>5,803,148</u>	<u>1,438,538</u>	<u>85,220</u>	<u>7,156,466</u>
Capital assets, being depreciated:				
Infrastructure	28,365,031	86,282	-	28,451,313
Buildings	126,379	36,194	-	162,573
Equipment	117,055	6,602	-	123,657
Vehicles	128,128	14,456	-	142,584
Software	20,338	3,669	88	23,919
Total capital assets, being depreciated	<u>28,756,931</u>	<u>147,203</u>	<u>88</u>	<u>28,904,046</u>
Less accumulated depreciation for:				
Infrastructure	11,485,084	636,299	-	12,121,383
Buildings	75,712	5,376	-	81,088
Equipment	106,120	2,386	-	108,506
Vehicles	79,665	12,896	-	92,561
Software	15,208	4,425	88	19,545
Total accumulated depreciation	<u>11,761,789</u>	<u>661,382</u>	<u>88</u>	<u>12,423,083</u>
Total capital assets, being depreciated, net	<u>16,995,142</u>	<u>(514,179)</u>	<u>-</u>	<u>16,480,963</u>
Capital assets, net	<u>\$ 22,798,290</u>	<u>924,359</u>	<u>85,220</u>	<u>23,637,429</u>

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

Aeronautics	\$	43
Highway		655,583
Office of the Secretary		4,132
Registry of Motor Vehicles		36
Rail and Transit		1,588
	\$	<u>661,382</u>

During 2015, MassDOT received a total of \$439,732 in capital contributions as part of the Route 3 North (\$392,480) construction in progress and State Transportation Building (\$47,252) building and construction in progress asset transfers. These contributions are reported as Highway and Office of the Secretary, respectively, capital grants and contributions in the statement of activities.

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(5) Bonds, Notes and Other Long-Term Liabilities

Long-term debt and other long-term liabilities of the governmental activities consisted of the following at June 30, 2015:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Senior revenue bonds:					
Metropolitan Highway System:					
1997 Series A, Capital Appreciation Bonds (CABs), 5.60% to 5.65%, issued September 24, 1997, due 2024 to 2029	\$ 42,007	—	—	42,007	—
Metropolitan Highway System:					
2010 Refunding, Series A, variable rate issued May 27, 2010, due 2035 to 2037	207,665	—	—	207,665	—
Borrowings related to associated interest rate swap	3,267	—	85	3,182	89
Metropolitan Highway System:					
2010 Refunding, Series B, 3.00% to 5.00%, issued May 27, 2010, due 2011 to 2037	775,720	—	59,590	716,130	27,435
Metropolitan Highway System:					
1997 Series C, CABs, 5.40% to 5.55%, issued September 24, 1997, due 2016 to 2023	89,136	—	—	89,136	13,306
Western Turnpike:					
2011 Refunding, Series A, 2.50% to 5.0%, issued November 30, 2011, due 2011 to 2017	7,375	—	—	7,375	—
Western Turnpike:					
2011 Refunding, Series B, 0.942% to 2.408% issued November 30, 2011, due 2011 to 2017 (Federally Taxable)	44,250	—	18,095	26,155	17,280
Total senior revenue bonds	<u>1,169,420</u>	<u>—</u>	<u>77,770</u>	<u>1,091,650</u>	<u>58,110</u>

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	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Subordinated revenue bonds:					
Metropolitan Highway System:					
2010 Refunding, Series A, variable rate issued April 14, 2010, due 2024 to 2039	\$ 592,335	—	—	592,335	—
Borrowings related to associated interest rate swap	12,175	—	388	11,787	406
Metropolitan Highway System:					
2010 Refunding, Series B, 3.25% to 5.00%, issued April 14, 2010, due 2019 to 2035	261,220	—	—	261,220	—
Total subordinated	<u>865,730</u>	<u>—</u>	<u>388</u>	<u>865,342</u>	<u>406</u>
Total	2,035,150	—	78,158	1,956,992	58,516
Less: unamortized bond discounts	(8,200)	—	(497)	(7,703)	—
Plus: unamortized premiums	53,496	—	2,510	50,986	—
Total bonds payable	<u>2,080,446</u>	<u>—</u>	<u>80,171</u>	<u>2,000,275</u>	<u>58,516</u>
Other long-term liabilities:					
Workers' compensation	22,145	7,538	5,531	24,152	5,531
Judgments and claims	95,200	13,898	91,783	17,315	6,000
Compensated absences	47,586	5,696	9,632	43,650	23,633
Environmental remediation	1,408	404	480	1,332	346
Net pension liability	417,587	28,245	76,037	369,795	—
Total other	<u>583,926</u>	<u>55,781</u>	<u>183,463</u>	<u>456,244</u>	<u>35,510</u>
Total long-term	<u>\$ 2,664,372</u>	<u>55,781</u>	<u>263,634</u>	<u>2,456,519</u>	<u>94,026</u>

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

Revenue bonds are secured by a lien and pledge of cash and revenues derived from the Metropolitan Highway System and Western Turnpike. In addition, the Commonwealth has pledged \$100,000 per fiscal year until June 30, 2039 to provide contractual assistance with repayment of the bonds. These contractual payments constitute dedicated payments from the Commonwealth that are deposited directly to the Subordinated Debt Service Fund. The Commonwealth has also pledged \$25,000 per fiscal year until June 30, 2037 to provide contract assistance toward repayment of the senior bonds. These contractual payments constitute dedicated payments from the Commonwealth and are deposited into the Senior Debt Service Fund. The amount of

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pledged revenue is approximately equal to the remaining principal and interest requirements of the outstanding Metropolitan Highway System and Western Turnpike bonds.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2016	\$ 58,021	74,343	132,364
2017	56,887	73,630	130,517
2018	40,542	72,693	113,235
2019	41,099	71,602	112,701
2020	42,819	70,212	113,031
2021 – 2025	277,067	326,748	603,815
2026 – 2030	373,768	250,462	624,230
2031 – 2035	516,765	65,954	582,719
2036 – 2039	535,055	2,421	537,476
Total	<u>\$ 1,942,023</u>	<u>1,008,065</u>	<u>2,950,088</u>

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

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2015:

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

Demand Bonds

Included in long-term debt is \$207,665 of Senior and \$592,335 of Subordinated variable rate demand bonds. The bonds were issued in May and April 2010, respectively, and the proceeds of the bonds were used to refund certain revenue bonds issued previously by the Massachusetts Turnpike Authority. \$100,000 of the Senior bonds and \$406,645 of the subordinated bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The ability of MassDOT, through its Trustee and remarketing agent, to purchase such bonds is secured through letters of credit and standby bond purchase agreements with various nationally recognized financial institutions that expire between April 2016 and April 2020. Under generally

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accepted accounting principles, variable rate demand obligations (VRDO's) are generally classified as current, rather than long-term, liabilities if, among other things, the supporting security agreements expire less than one year after year end. Although \$226,725 of the VRDO's is secured by agreements that expire in April 2016 and May 2016, they are also subject to a "Mandatory Tender for Purchase" requirement that becomes effective prior to the expiration date of the agreement. This requirement, when effective, results in these VRDO's being treated as long term debt. As such, these amounts have been presented as long term, rather than current, liabilities in the accompanying financial statements.

In 2013, \$107,665 of Senior bonds and \$185,690 of Subordinated bonds were converted to direct purchase mode to be held by the purchaser for a specific period of time and are not subject to purchase or remarketing at the demand of the holder and therefore do not require a letter of credit or standby bond purchase agreement. The \$107,665 Series A-2 Senior Bonds have been purchased through May 2018. The direct purchase agreement on the 2010 Series A-4 Subordinated bonds in the amount of \$92,845 expires in April 2019 while the direct purchase agreement on the 2010 Series A-5 bonds in the amount of \$92,845 expires in April 2020.

Prior Defeasances of Debt

At June 30, 2015, the principal amounts outstanding on revenue bonds and notes that are considered defeased are as follows:

<u>Description</u>	<u>Redemption date</u>	<u>Redemption price</u>	<u>Principal amount outstanding</u>
1993 Series A Term	2016 to 2023	100% \$	164,020

Derivative Instruments

Interest Rate Swaps/Swaptions

The former Massachusetts Turnpike Authority (the Turnpike) entered into swaptions, which upon exercise became interest rate swaps (hereinafter referred to as Swaps) to (1) lock in long-term fixed rate payments and (2) hedge changes in cash flows on variable-rate bonds due to interest rate risk. As of November 1, 2009 (MassDOT's inception), these Swaps were classified as investment derivatives, as they were not associated with a then existing asset or liability of MassDOT. During the year ended June 30, 2010, these Swaps became associated with and were determined to be effective hedges of the bonds issued by MassDOT to refund long-term debt previously issued by the Turnpike. At June 30, 2015, the Swaps continue to be effective hedges of the refunded bonds.

Additionally, the Turnpike received premiums in connection with these Swaps upon issuance of the related swaptions. A portion of the premiums are considered borrowings and are valued separately from the Swaps. The balance of the borrowings at June 30, 2015 totals \$14,969 and is presented as part of bonds payable in the accompanying government-wide financial statements.

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Forward Delivery Agreement

MassDOT's bond trustee has invested certain of the debt service funds it holds through a Forward Delivery Agreement (Agreement). The Agreement, administered by Wells Fargo Bank, N.A., provides MassDOT with a guaranteed rate of return on trustee deposits held for debt payments until such time as payments are due. These deposits are recorded on MassDOT's financial statements at the fair value of the underlying securities provided by Wells Fargo through the Agreement. The Agreement qualifies as an investment derivative instrument and is reported at its fair value of \$7,684 as of June 30, 2015. The credit rating of Wells Fargo Bank, N.A. at June 30, 2015, as determined by S&P, was AA minus.

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2015 financial statements are as follows:

	<u>Changes in fair value</u>		<u>Fair value at June 30, 2015</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount debit (credit)</u>	<u>Classification</u>	<u>Amount debit (credit)</u>	
Governmental activities:					
Cash flow hedges:					
Pay-fixed interest					
rate swaps	Deferred outflow	\$ 30,290	Derivative liability	\$ (355,246)	770,120
Investment derivatives:					
Pay-fixed interest					
rate swap	Investment revenue	1,474	Derivative liability	(5,399)	29,880
Pay-variable interest					
rate basis swap	Investment revenue	<u>(3,084)</u>	Derivative liability	<u>(3,776)</u>	100,000
Subtotal		28,680		(364,421)	
Forward delivery					
agreement	Investment revenue	<u>(1,100)</u>	Derivative asset	<u>7,684</u>	—
		<u>\$ 27,580</u>		<u>\$ (356,737)</u>	

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

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The following table displays the terms of MassDOT's derivative instruments outstanding at June 30, 2015:

Derivative item	Type	Objective	Effective date	Notional amount	Termination date	Payable swap rate	Receivable swap rate	Premiums received	Fair value at June 30, 2015
Cash flow hedges:									
1	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 senior debt (Series A-1 and A-2)	7/1/2008	\$ 207,665	1/1/2037	4.750 %	68% of 1 month LIBOR (0.12682%) (a)	\$ 10,375	\$ (97,154)
2	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-2)	1/1/2008	83,100	1/1/2037	4.875	68% of 1 month LIBOR	4,391	(35,972)
3	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-1)	1/1/2008	43,625	1/1/2029	5.000	68% of 1 month LIBOR	2,312	(14,037)
4	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-3 through A-6)	1/1/2009	341,500	1/1/2039	4.750	68% of 1 month LIBOR	17,063	(176,666)
5	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-7)	1/1/2009	94,230	1/1/2029	5.000	68% of 1 month LIBOR	4,577	(31,417)
Investment derivatives:									
6	Pay-fixed interest rate swap		1/1/2009	29,880	1/1/2039	5.000	68% of 1 month LIBOR	-	(5,399)
7	Pay-variable interest rate basis swap		10/1/2002	100,000	7/1/2029	SIFMA (0.07%) (a)	67% of 3 month LIBOR (.18974) (a)	5,350	(3,776) <u>(364,421)</u>
8	Forward delivery agreement		-	-	1/1/2029		Fixed 5.96%	-	<u>7,684</u> <u>\$ (356,737)</u>

(a) Rates as of June 30, 2015

Swap Payments and Related Debt

Debt service requirements of the 2010 Subordinated Debt Series A-1 through A-7 and 2010 Senior Debt Series A-1 and A-2 (2010 Bonds) and net swap payments for the cash flow hedge swaps, applying the fixed rates (4.75% – 5.00%) of the swaps and assuming 68% of 1-month LIBOR rate (0.12682%) and the variable rates (0.05% – 0.12682%) on the 2010 Bonds as of June 30, 2015 are shown in the table below. There is also a

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fixed rate (fee) component on one of the Senior 2010 bonds and two of the Subordinated 2010 bonds related to Direct Purchase contracts. The fixed rate (fee) is as follows: A-2's (0.75% through May 2018), A-4's (0.70% through April 2019) and A-5's (0.80% through April 2020). The following table reflects debt service requirements through the term of the swap, are as follows:

	2010 Bonds principal	2010 Bonds interest	Interest rate swap, net	Total
2016	\$ —	2,887	37,434	40,321
2017	—	2,887	37,434	40,321
2018	—	2,887	37,434	40,321
2019	—	2,409	37,434	39,843
2020	—	1,614	37,434	39,048
2021 – 2025	29,095	3,642	186,859	219,596
2026 – 2030	132,305	3,190	167,271	302,766
2031 – 2035	116,155	2,799	139,602	258,556
2036 – 2039	522,445	1,177	57,077	580,699
Totals	\$ <u>800,000</u>	<u>23,492</u>	<u>737,979</u>	<u>1,561,471</u>

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

Risk Disclosures

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

The following represents the credit ratings of the swap counterparties at June 30, 2015:

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Derivative swap item	Counterparty credit rating (Moody's, S&P and Fitch)
Derivative 1	A1, A, A
Derivative 2	A1, A, A
Derivative 3	A1, A, A
Derivative 4	A1, A, A
Derivative 5	A1, A, A
Derivative 6	A1, A, A
Derivative 7	Aa2, A+, AA-

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

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

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

(6) Pledged Revenues

MassDOT has pledged toll and certain related revenues, generated from the Metropolitan Highway System (MHS) and Western Turnpike (WT), to repay \$1,942,023 in revenue bonds after deducting the amount necessary to pay all operating and maintenance costs, capital reinvestment and the maintenance of certain debt service reserve funds as required by the applicable bond covenants. The bonds were originally issued to provide financing for construction related to the MHS and WT. Certain revenue bonds associated with the original issuance were refunded (current) during April and May of 2010, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a \$100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's \$100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues. The total principal and interest (including net swap payments) remaining to be paid on the bonds is \$3,688,067. Principal and interest (including net swap payments) paid and pledged revenue received for the year ended June 30, 2015 were \$170,960 and \$342,340, respectively.

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(7) Governmental Fund Balances

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

Governmental Funds – Fund Balance				
	MTTF (general)	Highway capital projects	Other governmental funds	Total
Nonspendable:				
Prepaid expenditures	\$ 2,573	-	-	2,573
Restricted:				
Debt service	302,200	-	-	302,200
Turnpike (toll) operations and capital reinvestment	389,923	-	-	389,923
Tobin bridge and metropolitan highway system operations	71,909	-	-	71,909
Transportation infrastructure fund	-	36,562	-	36,562
Federal Highway construction program	-	-	-	-
Transportation Infrastructure & Development Fund	-	25,375	-	25,375
Central Artery repairs and maintenance	-	-	385,041	385,041
Motor vehicle safety inspection	-	-	8,847	8,847
Aeronautics	-	-	-	-
Highway	-	-	1,356	1,356
Office of the Secretary	-	-	-	-
Registry	791	-	-	791
Rail and Transit	868	-	49	917
Total restricted fund balances	<u>765,691</u>	<u>61,937</u>	<u>395,293</u>	<u>1,222,921</u>
Assigned:				
Insurance reserve	-	-	-	-
Turnpike operations	-	-	-	-
Aeronautics	-	-	-	-
Highway operations	5,400	-	1,167	6,567
Office of the Secretary	5,129	-	-	5,129
Registry operations	196	-	165	361
Rail and transit operations	500	-	-	500
Total assigned fund balances	<u>11,225</u>	<u>-</u>	<u>1,332</u>	<u>12,557</u>
Unassigned	<u>(13,153)</u>	<u>-</u>	<u>-</u>	<u>(13,153)</u>
Total governmental fund balances	<u>\$ 766,336</u>	<u>61,937</u>	<u>396,625</u>	<u>1,224,898</u>

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(8) Employee Benefit Plans

(a) Pension Plan

General Information about the Pension Plan

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

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

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

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

Contributions: Chapter 32 of the MGL assigns authority to establish and amend contribution requirements of the plan. Active plan members contribute between 5 and 11% of their gross regular compensation. The contribution rate is based on the date plan membership commences. Members hired

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on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30,000.

The MGLs governing employer contribution requirements to MSERS are varied and vary among employers to such an extent that there is no uniform contribution method. Consequently, MSERS developed an effective contribution methodology that allocates total actual contributions among the employers in a consistent manner (based on an employer's share of total covered payroll). Any differences between the effective contribution and an employer's actual contributions are considered a nonemployer contribution from the Commonwealth. While certain nonemployer contributions are the legal responsibility of the Commonwealth and are identified by MSERS as special funding situations, MassDOT does not fall within this category. However, the Commonwealth made contributions on behalf of MassDOT totaling \$8,199 during the year ended June 30, 2015. MassDOT's contributions to the pension plan for the year ended June 30, 2015 totaled \$29,126.

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

At June 30, 2015, MassDOT reported a liability of \$369,795 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 for which update procedures were used to roll forward the total pension liability to the measurement date (June 30, 2014). MassDOT's proportion of the net pension liability is based on actual contributions adjusted for nonemployer contributions (as described above). At June 30, 2014, MassDOT's proportion was 4.98100 percent, which compared to a proportion of 4.92739 percent at June 30, 2013.

For the year ended June 30, 2015, MassDOT recognized pension expense of \$28,244. At June 30, 2015, MassDOT reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 75,900
Changes in Assumptions	4,157	-
Changes in proportion	3,905	-
Contributions made subsequent to measurement date	29,126	-
	\$ 37,188	\$ 75,900

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

Fiscal Year Ending June 30	
2016	\$ (17,183)
2017	(17,183)
2018	(17,183)
2019	(17,183)
2020	<u>894</u>
Total	<u>\$ (67,838)</u>

Actuarial assumptions: The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

1. (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - Pre-retirement - RP-2000 Employees table projected 20 years with Scale AA (gender distinct)
 - Post-retirement – Healthy Annuitant table projected 15 years with Scale AA (gender distinct)
 - Disability – the mortality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2012 to January 1, 2014.

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

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43%	7.2%
Core Fixed Income	13%	2.5%
Hedge Funds	10%	5.5%
Private Equity	10%	8.8%
Real Estate	10%	6.3%
Value Added Fixed Income	10%	6.3%
Timber/Natural Resources	4%	5.0%
Totals	100%	

Discount rate: The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MassDOT's proportionate share of the net pension liability to changes in the discount rate: The following presents MassDOT's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the MassDOT's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
MassDOT's Proportionate Share of the Net Pension Liability	\$ 535,358	\$ 369,795	\$ 227,682

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

(b) Other Postemployment Benefits (OPEB)

Plan Description. MassDOT participates in the Commonwealth's OPEB plan, an agent multiple-employer OPEB plan administered by Commonwealth's Group Insurance Commission (GIC) and governed by the Trustees of the State Retiree Benefits Trust Fund. The Commonwealth's OPEB plan

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provides retiree health benefits to plan members and beneficiaries. The Commonwealth's OPEB plan does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

Funding Policy. Plan members are required to contribute 0% to 25% of the premium cost, depending on the date of hire and whether the participant is active, retiree or survivor status. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 6.51% based on current payroll. The contribution requirements of plan members are set in General Laws. MassDOT's reimbursement to the Commonwealth for the year ending June 30, 2015 was \$18,251, which equaled the required contribution.

(c) ***OPEB Trust Fund***

At the inception of MassDOT, the OPEB Trust Fund, an irrevocable trust fund established to fund the OPEB liability of the then current and former retirees and employees of the Massachusetts Turnpike Authority, was transferred to MassDOT who had the fiduciary responsibility for the assets of the Trust. However, legislation required that the OPEB liability for these same individuals become an obligation of the Commonwealth.

On December 17, 2014, the OPEB Trustees voted to transfer the assets of the trust to the Commonwealth's State Retiree Benefits Trust Fund. The transfer was conditional upon the execution of the following: an Asset Transfer and Indemnification Agreement, inter-agency agreement regarding the process for administering the Sick Bank Benefits, and the Trustee's identification and payment of all reasonable outstanding expenses. These conditions were met and the transfer was completed during fiscal year 2015.

(9) **Leases**

(a) ***Commitments***

MassDOT has commitments under various operating leases. Total lease expense for the year ending June 30, 2015 was \$13,020. The following is a summary of the future minimum lease payments for operating lease obligations:

	Amount
Years:	
2016	\$ 5,333
2017	2,317
2018	1,493
2019	576
2020	155
2021-2025	3
Total	\$ 9,877

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

(b) Rental Income

MassDOT leases property and air rights to others. For the year ended June 30, 2015, MassDOT earned \$43,782 in rental income. The following is a schedule by years of minimum future rental income on non-cancelable operating leases as of June 30, 2015:

Years:	<u>Amount</u>
2016	\$ 37,804
2017	33,403
2018	32,912
2019	32,834
2020	33,094
Thereafter	<u>583,894</u>
Total	<u>\$ 753,941</u>

(10) Risk Management

As part of its normal operations, MassDOT encounters the risk of accidental loss stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, MassDOT applies a combination of risk management measures, including safety and loss prevention program, emergency planning, contractual risk transfer, self-insurance (internal retention) and commercial insurance. Settled claims resulting from the risks discussed above did not exceed the amount of insurance coverage in force during the year ended June 30, 2015.

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

(a) Workers' Compensation

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

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Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported at year-end and are based on the historical cost of settling similar claims. MassDOT records such liabilities as other liabilities.

The estimated workers' compensation liability for occurrences through June 30, 2015 is \$24,152. This amount is based on the results of a review performed by an independent actuarial firm retained by MassDOT, and represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2015.

Changes in the workers' compensation claims liability since July 1, 2013 were as follows:

Liability balance, July 1, 2013	\$	21,998
Provision to record estimated losses		5,119
Payments		<u>(4,972)</u>
Liability balance, June 30, 2014	\$	<u>22,145</u>
Liability balance, July 1, 2014	\$	22,145
Provision to record estimated losses		7,538
Payments		<u>(5,531)</u>
Liability balance, June 30, 2015	\$	<u>24,152</u>

(b) Owner Controlled Insurance Program (OCIP)

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

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

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

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2015 is \$9,100. This amount is based on the results of a review performed by an independent actuarial firm and it represents an estimate of liabilities incurred based on past experience for claims incurred and not

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reported as of June 30, 2015. Any residual amount remaining at the end of the program will be transferred to the TIF.

Changes in the claims liability since July 1, 2013 were as follows:

Liability balance, July 1, 2013	\$	10,400
Provision to record estimated losses		(1,429)
Payments		(2,471)
Liability balance, June 30, 2014	\$	<u>6,500</u>
Liability balance, July 1, 2014	\$	6,500
Provision to record estimated losses		5,683
Payments		(3,083)
Liability balance, June 30, 2015	\$	<u>9,100</u>

(11) Commitments

MassDOT enters into construction contracts for roads, bridges, highways (including the Metropolitan Highway System and Western Turnpike) with various construction and engineering companies. Significant construction contracts outstanding at June 30, 2015 approximated \$4,451,521.

(12) Litigation

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

On September 11, 2015, a judgment, totaling \$8,215, was entered against MassDOT, for damages incurred by the plaintiff in relation to the Central Artery/Tunnel (CA/T) project. The parties continue settlement discussions; however, both parties filed notices of appeal in October 2015. This judgment has been accrued for in the accompanying financial statements.

(13) Subsequent Events

Supplemental Funding

Subsequent to year end, the state legislature passed supplemental funding for fiscal year 2015 Commonwealth Transportation Fund operations totaling \$31,519

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Adoption of Fiscal Year 2016 Budget

Subsequent to year-end, MassDOT's fiscal year 2016 operating budget was approved for \$1,371,078. This amount will be funded from operating revenues from the CTF (\$633,773), which includes potential supplemental funding for snow and ice operations (\$50,000), pledged and unpledged revenues (\$422,857), motor vehicle inspection trust fund (\$54,607), federal funds (\$61,287), and other revenues (\$198,554) including departmental, leases, investment income, and reserves.

Board of Directors

On July 17, 2015, Chapter 46 of the Acts of 2015 was signed into law by the Governor. Section 10 changes the MassDOT board configuration from a seven-member board to an eleven-member board. Ten members of the board are appointed by Governor and the Secretary serves ex officio as chair. Four members will serve terms coterminous with the governor, while the remaining six members will be appointed to four year terms.

Bonds

In April 2016, the direct purchase agreement related to \$108 million of MHS senior bonds was cancelled. The bonds became subject to purchase or remarketing at the demand of the holder. As required, MassDOT secured a letter of credit related to these bonds which expires May 2020. Also in April 2016, letters of credit and standby bond purchase agreements related to demand bonds (see note 5) were extended through May 2019 and April 2021.

(14) MBTA - The Reporting Entity

The Massachusetts Bay Transportation Authority (the Authority) was originally created in 1964 as a body politic and corporate and a political subdivision of the Commonwealth of Massachusetts (the Commonwealth) to finance and operate mass transportation facilities within, and, to a limited extent, outside of its territorial area of 175 cities and towns and is authorized to enter into agreements for providing mass transportation service by private companies, including railroads. The 175 cities and towns are grouped into three categories, based upon the weighting of each member's allocable percentage of population and assessments: (i) the inner 14 cities and towns; (ii) the outer 51 cities and towns; and (iii) the other 110 served communities.

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

The Authority is governed and its corporate powers exercised by the board of directors (the "Board of Directors" or "Board") of the Massachusetts Department of Transportation ("MassDOT"). However, during its existence, the Control Board is afforded all the powers, responsibilities, and obligations relative to the Authority that are vested in the Board.

The Control Board Act is part of the Commonwealth Fiscal Year 2016 budget, Chapter 46 of the Acts of 2015 of the Commonwealth, effective July 17, 2015. The Control Board is within the Massachusetts Department of Transportation and reports to the Secretary of Transportation (the "Secretary"). The Control Board is afforded all powers, responsibilities and obligations relative to the MBTA that are vested in the Board, with certain limited exceptions.

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

The Control Board consists of five members appointed by the Governor. Three members shall be members of the Board, one shall have experience in transportation finance and one shall have experience in mass transit operation. The Control Board will continue until June 30, 2018; unless extended an additional two years if, prior to June 30, 2018, the Control Board finds in a recommendation to the Governor that such two-year period is in the best interest of the public and necessary to achieve operational stability and to establish performance metrics for the Authority. Upon such recommendation, the Governor may approve the extension but in no event shall the Control Board continue beyond June 30, 2020.

Following the dissolution of the Control Board, the MassDOT Board will resume sole governance of the Authority. The Board consists of 11-members. The Secretary of Transportation shall serve ex-officio as Chair and ten other members appointed by the Governor, one of whom shall be a rider, as defined in the Enabling Act; one of whom shall have experience in the field of public or private finance; one of whom shall have experience in transportation planning and policy; one of whom shall have experience in civil engineering; one of whom shall have experience in the field of public or private finance or transportation planning and policy; one of whom shall have municipal government experience in one of the fourteen cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the fifty-one cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the other served communities, as defined in the Enabling Act; one of whom shall have municipal government experience in a city or town not part of the area constituting the authority, as defined in the Enabling Act; and one of whom shall be a representative of a labor organization selected from a list of three nominees provided

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by the Massachusetts State Labor Council, AFL-CIO. Four of the members, other than the Chair, shall serve for terms that are coterminous with the Governor; provided, however, that at least three of the coterminous members shall have experience in transportation policy, public finance or civil engineering and at least one of the coterminous members shall be a rider. The six remaining members appointed by the Governor shall serve for terms of four years. No more than six of the eleven directors, except the ex-officio director, shall be members of the same political party.

Under the Enabling Act, the Advisory Board, consisting of a representative of each of the cities and towns paying Assessments, shall have certain specified powers, including the power to review the Authority's long term capital program and annual operating budget. The Enabling Act does not provide for the Authority to be a debtor under the federal bankruptcy code.

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

On May 4, 2011, the Authority approved the establishment of Metropolitan Boston Transit Parking Corporation (MBTPC) a private Massachusetts nonprofit corporation organized under the provisions of Chapter 180 of Massachusetts General Laws, for the limited purpose of taking action necessary to provide for issuance of bonds on behalf of the Authority secured by the revenues from the parking system of the Authority. The MBTPC Systemwide Senior Lien Parking Revenue Bonds, Series 2011 were issued on June 22, 2011. The Authority is the sole member of MBTPC and the Board of Directors consists of three ex officio management employees of the Authority. MBTPC has no employees. MBTPC is authorized under the Systemwide Parking Revenue Bonds Resolution (the General Resolution) to issue debt payable and has assumed certain rights to receive gross revenues from the parking system of the Authority under a Transfer and Disposition Agreement. The obligations of the corporation, the bonds and Transfer and Disposition Agreement are limited obligations, payable solely from the assets of MBTPC, which are pledged under the General Resolution and recourse shall be limited to such assets. Due to its relationship with the Authority, the MBTPC is considered a blended component of the Authority.

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

(15) MBTA - Summary of Significant Accounting Policies

(a) Basis of Financial Reporting

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

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(b) Use of Estimates

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

(c) Statements of Cash Flows

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

(d) Restricted Cash and Investment Accounts

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

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

(e) Capital Assets

All capital assets exceeding \$5, with a useful life of greater than one year, are stated at historical cost. These costs include the Authority’s labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs. Ordinary maintenance and repairs are charged to expense as incurred.

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Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2015:

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

(f) Construction in Progress

During fiscal year 2015 \$726,229 was expended towards the completion of major construction projects and improvements in progress. The projects and improvements completed were transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of the debt issuance until the entire drawdown of the proceeds, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal year 2015, the Authority had no material capitalized interest.

(g) Materials and Supplies

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

(h) Self-Insurance

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

(i) Revenue Recognition

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

Under the Enabling Act, the Dedicated Revenues are impressed with a trust for the benefit of Authority bondholders. Furthermore, the Commonwealth covenants that while any Authority bonds or notes secured by the Dedicated Revenues are outstanding and remain unpaid, the Dedicated Revenues shall not be diverted, and, so long as the Dedicated Revenues are necessary for the purpose for which they have

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been pledged, the rate of the sales tax shall not be reduced below the amount of the Dedicated Sales Tax and annual aggregate Assessments of \$136,027.

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

The Transportation Reform Act established the Commonwealth Transportation Fund (CTF), a budgetary fund of the Commonwealth for transportation-related purposes, to receive essentially the same revenue previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenue. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of \$275,000. The Authority receives a dedicated revenue stream consisting of the Assessments and the Dedicated Sales Tax (collectively, the "Dedicated Revenues"). The Dedicated Sales Tax is equal to the greater of the base revenue amount (as defined in the Enabling Act) and the amount raised by a 1% statewide sales tax to be funded from existing sales tax receipts, subject to adjustment under certain circumstances set forth in the Enabling Act, plus \$160,000 annually. The Enabling Act was amended on October 31, 2014 to increase the Dedicated Sales Tax by \$160,000 annually, starting in Fiscal Year 2015. This was intended to replace the \$160,000 annual appropriation the MBTA received from Fiscal Years 2010 to 2014. The *Transportation Finance Act* provided funding for various transportation services and infrastructure needs within the various units of MassDOT. The Commonwealth appropriated the amount of \$122,553 from the CTF to the Authority for fiscal year 2015. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

The Authority generates significant revenue from the operation of its transportation system, including both fare revenue and nonfare revenue such as those derived from real estate, parking, and advertising. Fare revenue is recorded on an accrual basis as operating revenue when fare media is purchased by riding customers through fare vending equipment and pass programs administered by the Authority. Real estate, parking, and advertising revenue is recorded on an accrual basis as operating revenue upon reporting of independent contractors managing these revenue streams on behalf of the Authority.

(j) Capital Grants and Contributions

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

(k) Compensated Absences

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2015 was \$19,991.

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(l) Lease Accounts

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

(m) Pension Plans

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which changed the way in which the Authority reports its participation in its defined benefit pension plans, including the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan. Among the changes, GASB Statement No. 68 requires the Authority to record a liability on the statement of net position for its unfunded pension plans' obligation. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MBTA Retirement Fund, the MBTA Police Association Retirement Plan, and the MBTA Deferred Compensation Plan, and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(n) Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenue, expenses, and changes in net position when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time (note 27).

(o) Environmental Remediation Costs

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup, and site monitoring in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. An operating expense provision and corresponding liability measured at current value using the expected cash flow method and in a range of possible estimated amounts has been recognized for certain pollution remediation obligations. The remediation obligation estimates are subject to change over time due to price fluctuations, changes in technology, changes in potential responsible parties, statutes or regulations, or other factors, which could result in the revision of these estimates (note 24).

(p) Derivatives

Derivative instruments are reported as assets or liabilities at fair value on the statement of net position. Changes in fair value may be reported in the statement of revenue, expenses, and changes in net position,

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or as deferred inflows or deferred outflows of resources in the statement of net position depending upon whether the derivative instrument qualifies for hedge accounting.

(q) Available Unrestricted Resources

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

(r) Deferred Inflows and Outflows

The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2015, the Authority has reported deferred outflows related to its derivative instruments, its pension plans and the deferred losses on debt refunding transactions. The deferred inflows are related the deferred gains on debt refunding transactions and its pension plans.

(s) Statement of Net Position

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

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

(16) MBTA - Deposits and Investments

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

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

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

- (A) Federal Home Loan Banks
- (B) Federal Land Banks
- (C) Federal Intermediate Credit Banks

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- (D) Bank for Cooperatives
- (E) Federal National Mortgage Association
- (F) Federal Farm Credit Banks

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

Additionally, the Authority is authorized to invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money-market-like investment fund managed by the Commonwealth, established under General Laws, Chapter 29, Section 38A.

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

Deposits and investments consisted of the following amounts presented in the accompanying statement of net position at June 30, 2015:

	2015
Restricted:	
Bond construction accounts	\$ 80,919
Bond reserve, stabilization, and other accounts	655,899
Lease deposits	53,116
Subtotal	789,934
Unrestricted cash and temporary cash investments	307,209
	\$ 1,097,143

Included in bond reserve, stabilization, and other accounts at June 30, 2015 are investments in Commonwealth debt instruments with a fair value of \$45,892.

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(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority's deposits at June 30, 2015 was \$267,735. The bank balance at June 30, 2015 was \$270,871. Of this amount, \$24,894 was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation limit of \$250 per institution at June 30, 2015.

(b) Interest Rate Risk – Investments

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

The Authority's fixed income investments at June 30, 2015 are presented below. All investments are presented by investment type and maturity.

Investment type	Amount	Investment maturities (in years)			
		Less than 1 year	1 – 3	4 – 8	More than 8
MMDT	\$ 119,582	119,582	—	—	—
Money market funds	195,679	195,679	—	—	—
Guaranteed investment contracts	1,335	—	—	—	1,335
U.S. Treasury STRIPS	53,116	—	—	—	53,116
U.S. Treasury securities	62,926	—	—	—	62,926
U.S. government-sponsored enterprises	208,145	153,785	7,605	—	46,755
Municipal bonds	45,892	—	—	—	45,892
International bank notes	41,807	41,807	—	—	—
Commercial paper and certificates of deposit	100,926	100,926	—	—	—
Investments	\$ 829,408	611,779	7,605	—	210,024

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of \$1,335 at June 30, 2015. These investments are not rated.

The Authority had \$161,934 in U.S. Treasury STRIPS, U.S. Treasury securities and municipal bonds as of June 30, 2015. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government. The municipal bonds have an implied credit rating of Aaa/AA+.

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The Authority has \$208,145 invested in government-sponsored enterprises as of June 30, 2015. These investments have an implied credit rating of AAa/AA+ or they have been collateralized to AAA.

The Authority has \$119,582 invested in MMDT as of June 30, 2015 respectively, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

The Authority also has \$338,412 invested in money market funds, international bonds, commercial paper, and certificates of deposit as of June 30, 2015. These investments are not rated.

(d) Concentration of Credit Risk – Investments

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

	Credit rating by Moody’s/S&P	2015	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	\$ <u>135,600</u>	16.4%

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority was not exposed to foreign currency risk as of June 30, 2015.

(17) MBTA - Pledged Revenues

The Authority has pledged, as security for Sales Tax Series Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority’s approved Capital Investment Program (CIP), and are payable through 2041. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. As of June 30, 2015, the total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2015 was \$960,585 and \$159,910, respectively, a total of \$1,120,495. Total annual debt service paid during fiscal year 2015 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was \$498,462, representing 42% of pledged revenues.

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The MBTPC pledge of dedicated parking receipts of the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011 and total annual debt service commenced on July 1, 2011. The debt service requirement in fiscal year 2015 was \$15,373, which represents 37% of \$41,540 parking revenue earned in the fiscal year 2015.

Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, Prior Obligation Bonds, and MBTPC Bonds outstanding as of June 30, 2015 is \$8,498,497.

(18) MBTA - Net Investment in Direct Financing Lease

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

As of June 30, 2015 and through date of the audit opinion date, the lessee has not elected to prepay the outstanding balance of the annual base rent.

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

	<u>2015</u>
Total minimum lease payments receivable	\$ 68,981
Less unearned income	<u>(45,509)</u>
Net investment in direct financing lease	<u>\$ 23,472</u>

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(19) MBTA - Lease Obligations

(a) Capital Lease Arrangements

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

The following is a schedule by year of future minimum lease payments under the Authority's capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2015:

Fiscal year(s):			
2016		\$	4,562
2017			4,134
2018			3,514
2019			604
2020			—
2021–2025			—
2026–2030			<u>53,115</u>
			65,929
Less amount representing interest			<u>(256)</u>
Present value of net minimum lease payments			65,673
Less current principal maturities			<u>(4,427)</u>
Obligations under capital leases		\$	<u><u>61,246</u></u>

The liability for these leases changed in 2015 as follows:

Outstanding at June 30, 2014			73,458
Net change in obligation			<u>(7,785)</u>
Outstanding at June 30, 2015	\$		<u><u>65,673</u></u>

(b) Operating Leases

As of June 30, 2015, the Authority did not have any outstanding operating lease obligations.

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(20) MBTA - Capital Assets

Capital assets at June 30, 2015 are as follows:

	<u>June 30,</u> <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,</u> <u>2015</u>
Capital assets not being depreciated:				
Land	\$ 364,594	14,111	2,730	375,975
Construction work in progress	863,649	836,684	730,217	970,116
Total capital assets not being depreciated	<u>1,228,243</u>	<u>850,795</u>	<u>732,947</u>	<u>1,346,091</u>
Capital assets being depreciated:				
Ways and structures	10,362,411	299,881	—	10,662,292
Buildings and equipment	2,548,247	297,139	1,706	2,843,680
Buildings and equipment included in capital lease	405,439	4,655	312	409,782
Total capital assets being depreciated	<u>13,316,097</u>	<u>601,675</u>	<u>2,018</u>	<u>13,915,754</u>
Less accumulated depreciation for:				
Ways and structures	4,045,210	244,747	—	4,289,957
Buildings and equipment	1,659,623	144,668	1,706	1,802,585
Buildings and equipment included in capital lease	276,578	4,391	312	280,657
Total	<u>5,981,411</u>	<u>393,806</u>	<u>2,018</u>	<u>6,373,199</u>
Other capital assets, net	7,334,686	207,869	—	7,542,555
Capital assets, net	<u>\$ 8,562,929</u>	<u>1,058,664</u>	<u>732,947</u>	<u>8,888,646</u>

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(21) MBTA - Long-Term Debt

(a) Bonds Payable

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

Debt issued by the Authority prior to and outstanding as of July 1, 2000 (the Prior Obligations) is backed by the full faith and credit of the Commonwealth to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2015, Prior Obligations in the amount of \$229,915 are outstanding.

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

No bonds were issued by the Authority during fiscal year 2015. However, the Authority issued Senior Sales Tax 2015 Series A and 2015 Series B bonds on October 14, 2015. See note 28.

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

The Authority issued commercial paper notes in the amount of \$60,000 during fiscal year 2015 to fund debt service payment on Prior Obligations of the Authority. The Authority paid off \$66,675 during fiscal year 2015. The balance of \$94,350 was outstanding as of June 30, 2015. At June 30, 2015, the total commercial paper notes included CP Sales Tax Series A in the amount of \$29,775 with a weighted average nominal rate 0.076212% and CP Sales Tax Series B in the amount of \$64,575 with a weighted average nominal rate 0.083875%.

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The Authority's outstanding bonds payable at June 30, 2015 are as follows:

	<u>Final fiscal year of maturity</u>	<u>Interest rates</u>	<u>Outstanding principal as of June 30, 2015</u>	<u>Due in fiscal year 2016</u>
General transportation system bonds:				
1991 Series A Bonds dated November 1, 1991	2021	7.00%	\$ 36,165	—
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20%	14,480	14,480
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25-7.00%	3,885	960
1998 Series C Bonds dated November 1, 1998	2022	5.25-5.75%	7,275	1,320
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	<u>168,110</u>	<u>6,690</u>
			<u>229,915</u>	<u>23,450</u>
Revenue bonds:				
2003 Series A Senior Sales Tax Bond dated January 29, 2003	2021	4.00%-5.25%	102,245	1,115
2003 Series C Senior Sales Tax Bond dated February 3, 2004**	2023	Variable	173,440	21,350
2004 Series A Senior Sales Tax Bond dated February 3, 2004	2016	5.00%-5.25%	14,265	6,950
2004 Series B Senior Sales Tax Bonds dated March 9, 2004	2030	3.00%-5.25%	369,440	25,995
2004 Series C Senior Sales Tax Bonds dated December 22, 2004	2024	3.00%-5.50%	269,780	49,425
2005 Series A Senior Sales Tax Bonds dated March 24, 2005	2031	5.00%	735,450	—
2005 Series A Assessment Bonds dated September 8, 2005	2035	3.20%-5.00%	57,010	1,510
2005 Series B Senior Sales Tax Bonds dated December 21, 2005	2029	3.40% – 5.50%	92,015	60
2006 Series A Senior Sales Tax Bonds dated March 2, 2006	2034	5.25%	238,850	—
2006 Series B Senior Sales Tax Bonds dated December 5, 2006	2023	5.00% – 5.25%	177,305	14,295
2006 Series C Senior Sales Tax Bonds dated June 28, 2006	2027	4.00%-5.00%	66,290	—
2006 Series A Assessment Bonds dated September 13, 2006***	2035	Variable	161,340	—

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	<u>Final fiscal year of maturity</u>	<u>Interest rates</u>	<u>Outstanding principal as of June 30, 2015</u>	<u>Due in fiscal year 2016</u>
Revenue bonds:				
2007 Series A-1 Senior Sales Tax Bonds dated May 24, 2007	2034	5.25%	205,675	—
2007 Series A-2 Senior Sales Tax Bonds dated May 24, 2007	2037	Zero Coupon	195,027	—
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083%-3.834%	131,040	765
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083%-3.834%	121,965	550
2008 Series B Senior Sales Tax Bond dated April 30, 2008	2033	3.00%-5.25%	44,890	1,320
2008 Series A Assessment Bond dated November 13, 2008	2034	4.00% – 5.25%	236,905	—
2009 Series B Senior Sales Tax dated February 26, 2009	2018	3.00% – 5.00%	39,365	—
2009 Series D Senior Sales Tax dated October 29, 2009	2019	3.00% – 5.00%	14,445	—
2010 Series A Senior Sales Tax dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax dated April 6, 2010	2035	2.00% – 5.00%	73,845	1,375
2010 Series C Senior Sales Tax dated December 8, 2010	2020	5.00%	63,450	—
2012 Series A Assessment Bond dated June 21, 2012	2024	5.00%	407,165	2,360
2014 Series A Sales Tax Bonds dated April 23, 2014	2045	4.00% – 5.00%	<u>200,000</u>	<u>—</u>
			<u>4,271,457</u>	<u>207,325</u>
Metropolitan Boston Transit Parking (MBTPC) Bonds:				
2011 Series A MBTPC dated June 22, 2011	2041	4.00% – 5.25%	<u>304,585</u>	<u>—</u>
			<u>304,585</u>	<u>—</u>

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	<u>Final fiscal year of maturity</u>	<u>Interest rates</u>	<u>Outstanding principal as of June 30, 2015</u>	<u>Due in fiscal year 2016</u>
Revenue Build America (BABs)				
Bonds:				
2009 Series C Senior Sales Tax dated October 29, 2009	2039	4.75% – 5.57%	218,300	—
2010 Series D Senior Sales Tax dated December 8, 2010	2040	4.546% – 5.869%	<u>210,000</u>	<u>—</u>
			<u>428,300</u>	<u>—</u>
Bond Anticipation Notes (BANs):				
Bond Anticipation Notes (BAN)	2016	0.09% – 0.11%	<u>94,350</u>	<u>94,350</u>
Total bond and notes payable			5,328,607	\$ <u><u>325,125</u></u>
Less current maturities			<u>(325,125)</u>	
Total long-term			5,003,482	
Plus unamortized bond premiums			306,596	
Less unamortized bond discounts			<u>(453)</u>	
Total long-term bonds payable			\$ <u><u>5,309,625</u></u>	

* The bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. As of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO (\$94,000) and 2000 Series A-2 VRDO (\$94,000). The interest rates as of June 30, 2015 for the 2000 Series A-1 are 0.13%; 0.06% for the 2000 Series A-2 VRDO; 0.06% for the 2008 Series A-1 Senior Sales Tax Bond, and 0.09% for the 2008 Series A-2 Senior Sales Tax Bond.

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

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

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 9 basis points. As of June 30, 2015 the variable interest is based on the SIFMA rate, plus 20 basis points. The Authority classifies these bonds short-term, as it does not have a standby purchase agreement and/or a letter of credit providing liquidity support for the remarketing window. The Authority does not foresee the bond being called.

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The principal and interest maturities of the bonds and notes payable as of June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal year(s):		
2016	\$ 325,125	254,916
2017	196,705	245,364
2018	217,105	234,998
2019	258,290	222,905
2020	267,810	209,445
2021–2025	1,291,026	878,645
2026–2030	1,133,825	604,084
2031–2035	903,424	345,787
2036–2040	515,872	157,200
2041–2045	219,425	16,546
Total	\$ <u>5,328,607</u>	<u>3,169,890</u>

A summary roll forward of bonds payable for the year ended June 30, 2015 is as follows:

	<u>2015</u>					
	<u>Balance 2014</u>	<u>Bonds issued</u>	<u>Principal payments</u>	<u>Refunded/ redeemed principal</u>	<u>Capital appreciation bond accretion</u>	<u>Balance 2015</u>
GTS	\$ 296,640	—	66,725	—	—	229,915
BMD	2,010	—	2,010	—	—	—
Revenue	4,367,429	—	104,885	—	8,913	4,271,457
BABs	428,300	—	—	—	—	428,300
BANs	101,025	60,000	66,675	—	—	94,350
MBTPC	304,585	—	—	—	—	304,585
	\$ <u>5,499,989</u>	<u>60,000</u>	<u>240,295</u>	<u>—</u>	<u>8,913</u>	<u>5,328,607</u>

The following funds are included in restricted assets at June 30, 2015 in connection with the Authority's revenue bond trust agreements and bond resolutions:

	<u>2015</u>		
	<u>Assessment bonds</u>	<u>Sales tax bonds</u>	<u>MBTPC bonds</u>
Debt service	\$ 51,561	250,273	9,381
Debt service reserve	68,334	214,060	13,347
	\$ <u>119,895</u>	<u>464,333</u>	<u>22,728</u>

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The minimum required balance in the debt service reserve funds at June 30, 2015 was \$184,971 for the Sales Tax Series Bonds and \$35,272 for the Assessment Bonds, respectively. The minimum required balances in the debt service reserve funds at June 30, 2015 for MBTPC Bonds were \$12,294. The Authority has complied with its financial bond covenants by maintaining sufficient cash and investments in the debt service reserve funds.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to meet its capital needs. The Authority has a \$250,000 commercial paper program in total of which \$150,000 is administered by JP Morgan and \$100,000 by Barclays Capital Inc. The Authority's commercial paper program (or BANs) has been assigned short-term ratings of P-1 and A-1+ by Moody's and S&P, respectively. The Authority had \$94,350 in outstanding commercial paper as of June 30, 2015.

(b) Debt Refundings

The Authority has defeased in-substance several GTS, Sales Tax Series, and Assessment Series Bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2015 \$642,135 of these bonds are considered defeased in-substance and are still outstanding.

No bonds were refunded by the Authority in fiscal year 2015.

(c) Derivative Instruments

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

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Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Derivative item	Type	Objective	Effective date	Current notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Upfront payment from counterparty	Fair value at June 30 2015
Cash flow hedges:									
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	\$ 168,110	2030	5.00%	67% of LIBOR	\$ 12,230	(39,858)
3	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Senior Sales Tax Series 2003 C	February 2004	25,005	2020	4.13	CPI+79 basis points		(2,080)
4	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	19,260	2024	4.67	CPI+123 basis points	N/A	(1,804)
5	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	5,000	2025	4.66	CPI+123 basis points	607	(493)
6	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-1	October 2008	131,040	2021	3.83	SIFMA	142	(14,016)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	121,965	2026	3.08	62% of LIBOR plus 24 basis points	3,067	(15,647)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	5.61	SIFMA	116	(28,606)
								4,140	(102,504)
Investment derivatives:									
2	Pay – fixed interest rate swap	(a) Originally to hedge changes in cash flows on variable rate debt	February 2003	75,480	2022	5.20	SIFMA	4,586	(10,742)
									(10,742)
								\$	(113,246)

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

The aggregate fair value balance of the derivative instruments at June 30, 2015 is \$(113,246) and is reflected on the Authority's statements of net position as a liability for derivative instruments. Of this liability, \$(102,504) at June 30, 2015, is offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2015, the Authority determined that the investment derivative instrument does not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net position.

The fair values of the interest rate swaps were calculated by a third-party derivative advisor where each leg of the swap is valued utilizing the present value of expected future cash flows based on the contractual terms of each swap or an "at the market rate" in accordance the requirements of Governmental Accounting Standards Board (GASB), Statements. Expected cash flows are discounted using the U.S. Dollar Swap curve provided by independent third parties such as Bloomberg.

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Swap Payments and Associated Debt

As of June 30, 2015, debt service requirements of the 2000 Series GTS VRDO Bonds (2000 Bonds) and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of LIBOR is 0.1250% and the variable rate on the 2000 Bonds is 0.095% through the term of the swap, are as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

Fiscal year(s) ending June 30	2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2016	\$ 6,690	158	8,087	14,935
2017	7,160	151	7,753	15,064
2018	7,660	144	7,396	15,200
2019	8,195	137	7,014	15,346
2020	8,770	129	6,605	15,504
2021–2025	53,960	503	25,815	80,278
2026–2030	75,675	202	10,336	86,213
Totals	\$ 168,110	1,424	73,006	242,540

As of June 30, 2015, debt service requirements on the 2003 Series C Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming CPI rate of 0.295% plus 79 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary.

Fiscal year(s) ending June 30	2003 Series C Senior Sales Tax Bonds principal	2003 Series C Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2016	\$ —	271	761	1,032
2017	—	271	761	1,032
2018	—	271	761	1,032
2019	—	271	761	1,032
2020	25,005	271	761	26,037
	\$ 25,005	1,355	3,805	30,165

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As of June 30, 2015, debt service requirements on the 2006 Series A Assessment Bonds, maturing July 1, 2025, and net swap payments, applying the fixed rate on the swap of 4.66% and assuming the CPI rate of 0.295% plus 123 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year(s) ending June 30	2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2016	\$ —	76	157	233
2017	—	76	157	233
2018	—	76	157	233
2019	—	76	157	233
2020	—	76	157	233
2021–2025	5,000	380	785	6,165
	<u>\$ 5,000</u>	<u>760</u>	<u>1,570</u>	<u>7,330</u>

As of June 30, 2015, debt service requirements on the 2006 Series A Assessment Bonds, maturing July 1, 2024, and net swap payments, applying the fixed rate on the swap of 4.67% and assuming the CPI rate of 0.295% plus 123 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year(s) ending June 30	2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2016	\$ —	294	605	899
2017	—	294	605	899
2018	—	294	605	899
2019	—	294	605	899
2020	—	294	605	899
2021–2025	19,260	1,176	2,420	22,856
	<u>\$ 19,260</u>	<u>2,646</u>	<u>5,445</u>	<u>27,351</u>

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As of June 30, 2015, debt service requirements on the 2008 Series A-1 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the SIFMA index rate is 0.07% and the variable rate on the 2008 Series A-1 Senior Sales Tax Bonds is 0.06% through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30	2008 Series A-1 Senior Sales Tax Bonds principal	2008 Series A-1 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2016	\$ 765	78	4,904	5,747
2017	18,990	67	4,188	23,245
2018	19,745	55	3,446	23,246
2019	20,545	43	2,672	23,260
2020	21,375	30	1,869	23,274
2021–2024	49,620	17	1,073	50,710
	<u>\$ 131,040</u>	<u>290</u>	<u>18,152</u>	<u>149,482</u>

As of June 30, 2015, debt service requirements on the 2008 Series A-2 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.083% and assuming the 62% of LIBOR plus 24 basis points is 0.3556% and the variable rate on 2008 Series A-2 Senior Sales Tax Bonds is 0.09% through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30	2008 Series A-2 Senior Sales Tax Bonds principal	2008 Series A-2 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2016	\$ 550	109	3,311	3,970
2017	570	109	3,296	3,975
2018	585	108	3,280	3,973
2019	605	108	3,263	3,976
2020	625	107	3,247	3,979
2021–2025	74,220	401	12,136	86,757
2026–2029	44,810	17	515	45,342
	<u>\$ 121,965</u>	<u>959</u>	<u>29,048</u>	<u>151,972</u>

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As of June 30, 2015, debt service requirements on 2010 Series A Senior Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.07% and the variable rate on the 2010 Series A Senior Sales Tax Bonds is 0.07% plus 20 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2010 bonds will vary.

Fiscal year(s) ending June 30	2010 Series A Senior Sales Tax Bonds principal	2010 Series A Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2016	\$ —	215	4,412	4,627
2017	—	215	4,412	4,627
2018	—	215	4,412	4,627
2019	—	215	4,412	4,627
2020	—	215	4,412	4,627
2021–2025	9,515	1,050	21,533	32,098
2026–2030	70,130	505	10,361	80,996
	<u>\$ 79,645</u>	<u>2,630</u>	<u>53,954</u>	<u>136,229</u>

Risk Disclosure

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

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The following represents the credit ratings of the counterparties as of June 30, 2015:

<u>Derivative swap item</u>	<u>Counterparty credit rating Moody's/S&P</u>
Derivative 1	A2/A
Derivative 2	Aa3/A+
Derivative 3	A3/A
Derivative 4	A2/A+
Derivative 5	A2/A+
Derivative 6	A2/A+
Derivative 7	A2/A+
Derivative 8	A2/A+

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

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

Rollover Risk – Rollover risk is the risk that occurs when the term of the swap does not match the term or maturity of the debt associated with the hedge. The Authority is subject to rollover risk for those swaps that hedge its variable rate demand obligations in the event the Authority is not able to remarket those instruments as anticipated.

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(22) MBTA - Commitments and Contingencies

(a) Capital Investment Program (CIP)

The Authority's continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2015, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

<u>Funding source</u>	<u>Approved project costs</u>	<u>Expenditures through June 30, 2015</u>	<u>Unexpended costs</u>
Federal grants	\$ 7,509,940	7,199,454	310,486
State and local sources	3,139,994	2,523,448	616,546
Authority bonds	6,150,412	5,803,758	346,654
Total	<u>\$ 16,800,346</u>	<u>15,526,660</u>	<u>1,273,686</u>

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

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

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately \$934,095 at June 30, 2015.

(b) Legal and Other

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

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

(23) MBTA - Risk Management

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

Buildings are fully insured to the extent that losses exceed the self-insured retention of \$2,500 for buildings valued over \$25,000 and the self-insured retention of \$1,000 for buildings valued under \$25,000 effective March 1, 2014. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss, and health insurance. The Authority paid 85% of all health premiums up to a maximum of \$200 per individual for all Blue Cross plans and \$100 per individual for Harvard and Tufts plans who remained under the self-insured health plans until June 30, 2015. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth (GIC). The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered by the GIC. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness until December 31, 2015.

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

During fiscal year 2015, expenditures for claims and judgments, excluding workers' compensation, and health and life, were \$5,867. Expenses for claims related to workers' compensation were \$14,581, and expenditures for the self-insured health plans were \$76,432.

The requirements of Governmental Accounting Standards Board (GASB), Statements require that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers' compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2015. Changes in the self-insurance liabilities in fiscal year 2015 is as follows:

		<u>2015</u>
Liability, beginning of year	\$	111,430
Provisions for claims		104,948
Payments		<u>(96,880)</u>
Liability, end of year	\$	<u><u>119,498</u></u>

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(24) MBTA - Environmental Remediation Obligations

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

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

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

During the year ended June 30, 2015, the following changes occurred in the liabilities:

	Balance as of July 1, 2014	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2015
Storage tank remediation sites	\$ 14,154	—	1,052	13,102
Contamination soil sites	2,000	11,000	—	13,000
Sites with PCB remediation	10,500	—	—	10,500
Vapor intrusion 21E	1,500	—	—	1,500
	<u>\$ 28,154</u>	<u>11,000</u>	<u>1,052</u>	<u>38,102</u>

The payments for remediation costs combined with revised cost completion estimates totaling \$9,948 in fiscal year 2015 is recorded in the other operating expenses in the statements of revenue, expenses, and changes in net position. The accrued total liability as of June 30, 2015 included in the long-term accrued liabilities in the statement of net position was \$38,102.

(25) MBTA - Commuter Railroad

Under the Authority's Enabling Act, Massachusetts General Laws, Chapter 161A, Section 3(f), the Authority may enter into agreements with private transportation companies, railroads, and other concerns providing for

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joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

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

(26) MBTA - Retirement Plans

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

The MBTA Retirement Fund, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. The MBTA Retirement Fund and the MBTA Police Association Retirement Plan, a single-employer plan, both provide retirement, disability, and death benefits to their members. The MBTA Retirement Fund issues separately audited financial statements that may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Retirement Plan also issues separately audited financial statements that may be obtained by writing to the Board of Directors, MBTA Police Association Retirement Plan, P.O. Box 2215, Hyannis, Massachusetts 02601.

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

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

Employees covered by benefit terms. At June 30, 2015, the following employees were covered by the benefit terms:

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	MBTA	Police	MBTA
	Retirement	Retirement	Deferred
	Fund	Fund	Compensation
	Fund	Fund	Plan
Retired employees or beneficiaries receiving benefits	6,271	85	917
Active employees	5,726	255	696
Inactive employees entitled to, but not yet receiving benefits	73	4	—
Totals:	12,070	344	1,613

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

The pension agreements between the Authority and Local 589, dated July 1, 2014 for the MBTA Retirement Fund and the MBTA Police Association dated June 30, 2003, designates that the board of trustees of each retirement plan establish the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Fund’s member contribution rate was increased from 5.5589% to 5.7989% of pretax compensation effective July 1, 2014. The Authority’s contribution rate was increased from 15.3311% to 16.0511% effective July 1, 2014. These contribution rates were calculated based on the December 31, 2013 actuarial valuation of the MBTA Retirement Fund. Effective July 1, 2015 contribution requirements for the MBTA Retirement Fund will be 16.0286% for the Authority and 5.7914% for members. The contribution requirements for the MBTA Police Association Retirement Plan for 2014 were 13.89% for the Authority and 8.51% for participants. Both were determined in accordance with actuarial valuation of December 31, 2013. Actual contributions made in were in accordance with these contribution requirements. Contributions are not required to be made for the MBTA Deferred Compensation Plan. Rather benefit payments are made on a “pay-as-you-go” basis.

Net Pension Liability

The Authority’s net pension liability for each retirement plan was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014.

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

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<u>Pension</u>	<u>MBTA Retirement Fund</u>	<u>MBTA Police Association Plan</u>	<u>MBTA Deferred Compensation Plan</u>
Actuarial assumptions:			
Inflation rate	3.0 percent	3.0 percent	3.0 percent
Salary increases	4.0 percent	3.5 percent	3.0 percent
Investment rate of return	8.0 percent, net of pension plan investment expense, including inflation	7.0 percent, net of pension plan investment expense, including inflation	3.34 percent as the plan is not funded.

Mortality rates were based on the UP 1994 Mortality Tables for Males or Females, as appropriate, projected to year 2020 with adjustments for mortality improvements based on Scale AA. A special mortality table is used for the period after disability retirement. Among pre-retirement deaths, 7.5% are assumed to qualify for accidental death benefits.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the five-year period ending December 31, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target allocation as of December 31, 2014 are summarized in the following tables:

MBTA Retirement Fund

	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Equity	43%	8.46%
Fixed Income	27%	1.83%
Alternatives	30%	7.92%
Total	<u>100%</u>	

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<u>MBTA Police Association Retirement Plan</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Equity	64.80%	8.46%
Fixed Income	30.60%	1.83%
Alternatives	4.60%	7.92%
Total	<u>100%</u>	

Discount rate. The discount rate used to measure the total pension liability was 8.0% for the MBTA Retirement Fund while the discount rate for the MBTA Police Association Retirement Plan was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current MBTA Retirement Fund and MBTA Police Association Retirement Plan members. The discount rate used to measure the total pension liability for the MBTA Deferred Compensation Plan was 3.34%. Since this plan is unfunded, the assumed discount rate has been determined in accordance with the method prescribed by GASB No. 68 and is based on the S&P Municipal Bond 20 Year Grade Rate Index, whose yield to maturity was 3.34% as of December 31, 2014.

Change in the Net Pension Liability – MBTA Retirement Fund

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balances at December 31, 2013	\$ 2,364,133	1,606,684	757,449
Changes for the year:			
Service cost	34,501	—	34,501
Interest	184,667	—	184,667
Difference between expected and actual experience	48,560	—	48,560
Contributions - employer	—	70,603	(70,603)
Contributions - employee	—	25,318	(25,318)
Net investment Income	—	73,543	(73,543)
Benefit payments, including refund of employee contributions	(184,130)	(184,130)	—
Administrative expense	—	(4,053)	4,053
Net changes	<u>83,598</u>	<u>(18,719)</u>	<u>102,317</u>
Balances at December 31, 2014	\$ <u>2,447,731</u>	<u>1,587,965</u>	<u>859,766</u>

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2013	\$ 88,103	68,074	20,029
Changes for the year:			
Service cost	1,772	—	1,772
Interest	6,173	—	6,173
Differences between expected and actual experience	(60)	—	(60)
Contributions - employer	—	2,280	(2,280)
Contributions - employee	—	1,337	(1,337)
Net investment Income	—	3,966	(3,966)
Benefit payments, including refund of employee contributions	(3,417)	(3,417)	—
Administrative expense	—	(122)	122
Net changes	4,468	4,044	424
Balances at December 31, 2014	\$ 92,571	72,118	20,453

Change in the Net Pension Liability – MBTA Deferred Compensation Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2013	\$ 80,335	—	80,335
Changes for the year:			
Service cost	1,715	—	1,715
Interest	2,592	—	2,592
Differences between expected and actual experience	2,767	—	2,767
Contributions - employer	—	5,517	(5,517)
Benefit payments, including refund of employee contributions	(5,517)	(5,517)	—
Net changes	1,557	—	1,557
Balances at December 31, 2014	\$ 81,892	—	81,892

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

	<u>Current Rate</u>	<u>1% Decrease of Current Rate</u>	<u>Current Discount Rate</u>	<u>1% Increase of Current Rate</u>
MBTA Retirement Fund	8.00%	\$ 1,097,133	\$ 859,766	\$ 656,157
MBTA Police Assoc. Retirement Plan	7.00%	32,261	20,453	10,593
MBTA Deferred Compensation	3.34%	90,885	81,892	74,327

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

For the year ended June 30, 2015 the Authority recognized pension expense of \$92,973, \$2,110 and \$4,860 for the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan, respectively. At June 30, 2015 the Authority reported deferred outflows of resources related to these pensions from the following sources:

	<u>MBTA Retirement Fund</u>	<u>MBTA Police Assoc. Retirement Plan</u>	<u>MBTA Deferred Compensation Plan</u>	<u>Total</u>
Deferred Outflow/(Inflow)				
Net difference between projected and actual earnings on pension plan investments	\$ 41,098	\$ 645	\$ —	\$ 41,743
Differences between expected and actual experience	38,848	(51)	2,214	41,011
	<u>\$ 79,946</u>	<u>\$ 594</u>	<u>\$ 2,214</u>	<u>\$ 82,754</u>

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Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	MBTA Retirement Fund	MBTA Police Assoc. Retirement Plan	MBTA Deferred Compensation Plan
Year ended June 30:			
2016	\$ 19,986	\$ 153	\$ 553
2017	19,986	153	553
2018	19,986	153	553
2019	19,988	153	555
2020	—	(9)	—
2021	—	(9)	—
Totals:	<u>\$ 79,946</u>	<u>\$ 594</u>	<u>\$ 2,214</u>

The Authority has also recorded a deferred outflow of \$39,318 to recognize contributions to the plans made from January 1, 2015 through June 30, 2015 as follows:

MBTA Retirement Fund	\$35,267
MBTA Police Association Retirement Plan	1,153
MBTA Deferred Compensation Plan	<u>2,898</u>
Total	<u>\$39,318</u>

Payable to the Pension Plans

At June 30, 2015 the Authority reported a payable for \$542 for the outstanding amount of contributions to pension plans required for the year ended June 30, 2015.

Restatement of Net Pension

The implementation of GASB No. 68 required a restatement of the Authority's net position as of July 1, 2014 as follows:

Net pension liability	\$ 857,812
Deferred outflows	(37,114)
Net pension obligation	<u>(138,324)</u>
Total restatement	<u>\$ 682,374</u>

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(b) *The MBTA Deferred Compensation Savings Plan*

The Authority provides a defined contribution retirement plan for nonunion and grandfathered union management not participating in the MBTA Retirement Fund. Authority employee trustees administer the plan and recommend benefit amendments that require approval from the Authority's general manager. The plan requires members to contribute 5.799% of total covered payroll with the Authority contributing 8%. The plan had 282 members at June 30, 2015, and the cost of the Plan to the Authority was \$818 for fiscal year 2015. Member contributions vest to plan members immediately, while contributions made by the Authority vest to plan members as follows: 50% after three years, 75% after four years, and 100% after five years of credited service. The total asset balance of \$31,054 is held by a third party administrator who allocates the assets of fully funded member account balance at the direction of individual member discretion.

(27) MBTA - Other Postemployment Benefits

In addition to providing the pension benefits described, the Authority provides OPEB for retired employees under any of the medical benefit programs then offered and available by the Authority. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of the June 30, 2014 actuarial valuation, the plan has 7,938 retired and inactive participants and 6,241 active employees that meet the eligibility requirements for participation in the plan. The plan does not issue a separate financial report.

(a) *Benefits Provided*

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

(b) *Funding Policy*

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the GIC for health, life, and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. A total of 4,301 affiliated active employees and retirees enrolled in the GIC as of June 30, 2014. On July 1, 2014, a total of 6,230 of employees and retirees transferred to GIC benefit plans. The remaining employees are expected to transition on July 1, 2015.

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

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Currently, the remaining affiliated population of 1,001 covered by collective bargaining agreements has not transitioned into the GIC due to the expiration dates and/or rollover provisions in their collective bargaining agreements. The provisions of the MBTA plans utilized by these retirees provide that any retiree pre- age-65 with a retirement date on or before July 7, 2008 does not contribute to the cost of the health plans. Retirees, pre- age-65, who retired after July 7, 2008, contribute 10% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis. The health coverage for post-age-65 retirees remains 100% Authority paid.

(c) Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The June 30, 2013 actuarial valuation established the ARC for fiscal year 2014 and the June 30, 2014 actuarial valuation established the ARC for fiscal year 2015. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30-years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2015 and 2014, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

	<u>2015</u>	<u>2014</u>
ARC	\$ 214,901	165,507
Interest on net OPEB obligation	20,495	17,903
Amortization adjustment to ARC	<u>(42,331)</u>	<u>(35,893)</u>
Annual OPEB cost	193,065	147,517
Contributions made	<u>(49,831)</u>	<u>(58,757)</u>
Change in net OPEB obligation	143,234	88,760
Net OPEB obligation – beginning of year	<u>701,893</u>	<u>613,133</u>
Net OPEB obligation – end of year	<u>\$ 845,127</u>	<u>701,893</u>

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

<u>Fiscal year ended</u>		<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>		<u>Net OPEB obligation</u>
2015	\$	193,065	25.8%	\$	845,127
2014		147,517	39.8		701,893
2013		180,595	32.0		613,133

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The Authority's net OPEB obligation as of June 30, 2015 and 2014 is recorded as "Other postemployment benefits" line item.

(d) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of June 30, 2014, is as follows:

Actuarial accrued liability (AAL)	\$	2,315,626
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	\$	2,315,626
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	\$	442,214
UAAL as a percentage of covered payroll		523.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(e) Actuarial Methods and Assumptions

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

In the June 30, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 2.92% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate ranges from 4.1% to 5.4% in year one to a 5.00% long-term trend rate for all healthcare benefits in year ten and thereafter. The amortization costs for the initial unfunded actuarial accrued liability (UAAL) is a level dollar closed amortization for a period of 30 years.

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(Dollars in thousands)

(28) MBTA - Subsequent Events

On October 14, 2015, the Authority issued Senior Sales Tax Series 2015A and Series 2015B for \$358,405. Principal is payable on July 1, 2019 through July 1, 2045. The first interest payment on these bonds is January 1, 2016. The Series 2015A sales tax bonds were issued for use to finance systemwide improvements, vehicle replacements and other capital projects. The 2015B sales tax bonds were issued to refund \$57,880 of 2006 Series C Senior Sales Tax Bonds, \$55,500 of 2005 Series A Assessment Bonds, and \$83,035 of 2008 Series A Assessment Bonds.

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

Required Supplementary Information

Fiscal year ended June 30, 2015

(Dollars in thousands)

(Unaudited)

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

	<u>2015</u>
MassDOT's proportion of the net pension liability	4.98100%
MassDOT's proportionate share of the net pension liability	\$ 369,795
MassDOT's covered-employee payroll	\$ 266,308
MassDOT's nonemployer contributions provided by the Commonwealth	\$ 8,199
MassDOT's proportionate share of the net pension liability as a percentage of its covered-employee payroll	138.86%
Plan fiduciary net position as a percentage of the total pension liability	76.32%

(1) Amounts presented were determined as of June 30th of the prior fiscal year.

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

See accompanying independent auditors' report.

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

Required Supplementary Information

Fiscal year ended June 30, 2015

(Dollars in thousands)
(Unaudited)

SCHEDULE OF MASSDOT CONTRIBUTIONS (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 29,126	21,118	17,220	22,376	13,469
Contributions in relation to the contractually required contribution	<u>(29,126)</u>	<u>(21,118)</u>	<u>(17,220)</u>	<u>(22,376)</u>	<u>(13,469)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
MassDOT's covered-employee payroll	\$ 280,329	266,308	254,807	249,176	255,095
Contributions as a percentage of covered employee payroll	10.39%	7.93%	6.76%	8.98%	5.28%

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

See accompanying independent auditors' report.

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

Massachusetts Transportation Trust Fund

Combining Balance Sheet

June 30, 2015

(Dollars in thousands)

Assets	Metropolitan Highway System	Western Turnpike	Tobin Bridge	Other operations	Total
Cash and short-term investments	\$ -	-	-	2,806	2,806
Restricted cash and investments	556,922	202,506	72,083	22,487	853,998
Receivables, net of allowance for uncollectibles:					
Due from Commonwealth	-	-	-	31,519	31,519
Due from federal government	107	-	-	3,788	3,895
Other	22,926	6,928	1,721	2,378	33,953
Due from other funds	-	-	-	9,128	9,128
Other assets	1,670	558	88	257	2,573
Total assets	<u>\$ 581,625</u>	<u>209,992</u>	<u>73,892</u>	<u>72,363</u>	<u>937,872</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable and accrued expenditures	\$ 26,538	13,448	1,650	19,735	61,371
Unearned revenue	62,716	1,756	-	294	64,766
Total liabilities	<u>89,254</u>	<u>15,204</u>	<u>1,650</u>	<u>20,029</u>	<u>126,137</u>
Deferred Inflows of Resources:					
Unavailable Revenue	8,132	5,504	244	31,519	45,399
Fund balances:					
Nonspendable	1,670	558	88	257	2,573
Restricted	482,569	188,726	71,910	22,486	765,691
Assigned	-	-	-	11,225	11,225
Unassigned	-	-	-	(13,153)	(13,153)
Total fund balances	<u>484,239</u>	<u>189,284</u>	<u>71,998</u>	<u>20,815</u>	<u>766,336</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 581,625</u>	<u>209,992</u>	<u>73,892</u>	<u>72,363</u>	<u>937,872</u>

See accompanying independent auditors' report.

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

Massachusetts Transportation Trust Fund

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Fiscal year ended June 30, 2015

(Dollars in thousands)

	Metropolitan Highway System	Western Turnpike	Tobin Bridge	Other operations	Total MTTF
Revenues					
Toll revenue:					
Pledged as security for revenue bonds	\$ 203,492	138,848	-	-	342,340
Unpledged	-	-	34,287	-	34,287
Commonwealth transportation fund:					
Operations	-	-	-	495,631	495,631
Metropolitan highway system bonds	100,000	-	-	-	100,000
Central artery operations and maintenance	25,000	-	-	-	25,000
Commonwealth grants and contract assistance	-	-	-	32	32
Federal grants and reimbursements:					
Direct	124	-	-	34,233	34,357
Rental/lease income	7,807	26,193	-	8,775	42,775
Investment income	2,761	385	130	149	3,425
Departmental and other	8,816	8,137	5	10,668	27,626
Total revenues	<u>348,000</u>	<u>173,563</u>	<u>34,422</u>	<u>549,488</u>	<u>1,105,473</u>
Expenditures:					
Current:					
Highway	250,541	130,305	24,990	358,963	764,799
Office of the Secretary	23,396	9,736	153	53,885	87,170
Registry of motor vehicles	-	-	-	70,506	70,506
Rail and Transit	-	-	-	82,134	82,134
Aeronautics	-	-	-	1,243	1,243
Debt service:					
Principal	59,590	18,095	-	-	77,685
Interest	92,035	1,240	-	-	93,275
Total expenditures	<u>425,562</u>	<u>159,376</u>	<u>25,143</u>	<u>566,731</u>	<u>1,176,812</u>
Excess (deficiency) of revenues over expenditures	(77,562)	14,187	9,279	(17,243)	(71,339)
Other financing sources (uses):					
Transfers in	-	-	-	43,463	43,463
Capital contributions	-	-	-	5,405	5,405
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,868</u>	<u>48,868</u>
Net change in fund balances	(77,562)	14,187	9,279	31,625	(22,471)
Fund balances at beginning of year	561,801	175,097	62,719	(10,810)	788,807
Fund balances at end of year	\$ <u>484,239</u>	<u>189,284</u>	<u>71,998</u>	<u>20,815</u>	<u>766,336</u>

See accompanying independent auditors' report.