



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

Financial Statements and Supplementary Schedules

June 30, 2010

(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:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth of Massachusetts, as of June 30, 2010 and for the eight-month period then ended, which collectively comprise MassDOT's basic financial statements, as listed in the table of contents. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of entities which represent 94% and 95% of the total assets and total revenues of the aggregate discretely presented component units or the Owner Controlled Insurance Program, an Internal Service Fund, which represent 13% and less than 1% of the total assets and total revenues of the aggregate remaining fund information and less than 1% of the total assets and total revenues of the governmental activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities and funds, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MassDOT's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in note 1(a), MassDOT commenced operations on November 1, 2009. Also as discussed in note 1(m), MassDOT adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* as of November 1, 2009.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of MassDOT at June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the eight-month period then ended in conformity with U.S. generally accepted accounting principles.



MassDOT has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise MassDOT's basic financial statements. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2011 on our consideration of MassDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

January 10, 2011

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

STATEMENT OF NET ASSETS

JUNE 30, 2010  
(Dollars in thousands)

ASSETS AND DEFERRED OUTFLOWS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Current assets:</b>				
Cash and short-term investments	\$ 115,919	112,985	228,904	15,161
Restricted cash and investments	963,493	35,564	999,057	23,135
Derivative instrument	2,632	-	2,632	-
Receivables, net of allowance for uncollectibles:				
Due from Commonwealth	246,553	120,342	366,895	66,823
Due from federal government	308	7,009	7,317	32,947
Other	64,371	14,820	79,191	52,845
Other assets	4,184	107,748	111,932	5,723
Total current assets	1,397,460	398,468	1,795,928	196,634
<b>Noncurrent assets:</b>				
Restricted cash and investments	118,045	728,640	846,685	-
Other assets	12,139	181,442	193,581	11,520
<b>Capital assets:</b>				
Nondepreciable	2,829,805	791,399	3,621,204	28,691
Depreciable, net of accumulated depreciation	19,032,645	7,354,049	26,386,694	249,921
Total noncurrent assets	21,992,634	9,055,530	31,048,164	290,132
Deferred outflows from derivative instruments	80,613	98,665	179,278	-
Total assets and deferred outflows	23,470,707	9,552,663	33,023,370	486,766
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	442,185	121,308	563,493	33,769
Deferred revenue	46,807	-	46,807	652
Accrued interest	10,814	127,725	138,539	2,304
Bonds and notes payable	19,276	266,975	286,251	136,383
Capital lease obligations	-	36,871	36,871	-
Other liabilities	44,494	65,530	110,024	578
Total current liabilities	563,576	618,409	1,181,985	173,686
<b>Noncurrent liabilities:</b>				
Accrued interest on capital appreciation bonds	91,960	-	91,960	-
Bonds payable	2,176,335	5,255,145	7,431,480	36,600
Capital lease obligations	-	262,159	262,159	-
Net OPEB and pension obligation	-	327,265	327,265	6,477
Liability for derivative instruments	316,605	120,542	437,147	-
Other liabilities	104,009	125,151	229,160	9,996
Total noncurrent liabilities	2,688,909	6,090,262	8,779,171	53,073
Total liabilities	3,252,485	6,708,671	9,961,156	226,759
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	19,666,839	3,308,851	22,975,690	276,975
Restricted for other purposes	942,819	19,251	962,070	2,722
Unrestricted (deficit)	(391,436)	(484,110)	(875,546)	(19,690)
Total net assets	\$ 20,218,222	2,843,992	23,062,214	260,007

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

STATEMENT OF ACTIVITIES

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010

(Dollars in thousands)

Functions/Programs	Program Revenues				Net (Expense)/Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
Highway	\$ 1,340,232	246,031	126,581	809,148	(158,472)	-	(158,472)	-
Planning and programming	81,447	-	-	38,832	(42,615)	-	(42,615)	-
Registry of motor vehicles	49,338	21,247	2,946	-	(25,145)	-	(25,145)	-
Mass Transit	36,427	-	13,305	64,175	41,053	-	41,053	-
Aeronautics	5,237	-	-	5,059	(178)	-	(178)	-
Debt service - interest	97,319	-	-	-	(97,319)	-	(97,319)	-
Total governmental activities	<u>1,610,000</u>	<u>267,278</u>	<u>142,832</u>	<u>917,214</u>	<u>(282,676)</u>	<u>-</u>	<u>(282,676)</u>	<u>-</u>
Business-type activities:								
Massachusetts Bay Transportation Authority	1,929,968	499,642	-	234,733	-	(1,195,593)	(1,195,593)	-
Total primary government	<u>3,539,968</u>	<u>766,920</u>	<u>142,832</u>	<u>1,151,947</u>	<u>(282,676)</u>	<u>(1,195,593)</u>	<u>(1,478,269)</u>	<u>-</u>
<b>Component units:</b>								
Discretely presented component units	<u>306,318</u>	<u>153,977</u>	<u>118,750</u>	<u>52,997</u>				<u>19,406</u>
Total component units	<u>\$ 306,318</u>	<u>153,977</u>	<u>118,750</u>	<u>52,997</u>				<u>19,406</u>
<i>General revenues:</i>								
Operating assistance from the Commonwealth					123,445	-	123,445	-
Taxes and assessments					-	1,077,205	1,077,205	-
Other income					-	22,426	22,426	-
Total General Revenues					<u>123,445</u>	<u>1,099,631</u>	<u>1,223,076</u>	<u>-</u>
<i>Special item - construction in progress transfer to separate entity</i>					-	-	-	(14,680)
Change in net assets					(159,231)	(95,962)	(255,193)	4,726
Net assets - beginning of period					<u>20,377,453</u>	<u>2,939,954</u>	<u>23,317,407</u>	<u>255,281</u>
Net assets - end of period					<u>\$ 20,218,222</u>	<u>2,843,992</u>	<u>23,062,214</u>	<u>260,007</u>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

GOVERNMENTAL FUNDS  
BALANCE SHEET

JUNE 30, 2010  
(Dollars in thousands)

<b>ASSETS</b>	MTTF (General)	Highway Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 106,845	-	9,074	115,919
Restricted cash and investments	517,341	73,652	417,939	1,008,932
Receivables:				
Due from Commonwealth	-	246,553	-	246,553
Due from federal government	-	-	308	308
Other, net of allowance	59,371	-	15,000	74,371
Other assets	3,605	-	-	3,605
<b>TOTAL ASSETS</b>	<b>\$ 687,162</b>	<b>320,205</b>	<b>442,321</b>	<b>1,449,688</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued expenditures	\$ 153,912	247,402	9,021	410,335
Deferred revenue	46,807	-	15,000	61,807
<b>TOTAL LIABILITIES</b>	<b>200,719</b>	<b>247,402</b>	<b>24,021</b>	<b>472,142</b>
<b>FUND BALANCES:</b>				
Reserved	451,716	72,803	418,300	942,819
Unreserved	34,727	-	-	34,727
<b>TOTAL FUND BALANCES</b>	<b>486,443</b>	<b>72,803</b>	<b>418,300</b>	<b>977,546</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 687,162</b>	<b>320,205</b>	<b>442,321</b>	<b>1,449,688</b>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS

JUNE 30, 2010  
(Dollars in thousands)

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Total governmental fund balances	\$ 977,546
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	21,862,450
Receivables that are measurable but not available are deferred in the governmental funds but recognized as revenue on a full accrual basis	15,000
In the statement of net assets, bond issue costs are amortized over the life of bonds whereas in the governmental funds bond issue costs are expensed as incurred	2,378
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.	(102,774)
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	(2,195,611)
Workers' compensation claims	(25,075)
Other claims and judgments	(50,000)
Compensated absences	(40,228)
Derivative instruments, net	(233,360)
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 are included in governmental activities in the statement of net assets.	<u>7,896</u>
Net assets of governmental activities	<u>\$ 20,218,222</u>

See notes to basic 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

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010

(Dollars in thousands)

	MTTF (General)	Highway Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Toll revenue:				
Pledged as security for revenue bonds	\$ 187,077	-	-	187,077
Unpledged	14,580	-	-	14,580
Commonwealth transportation funding:				
Operations	123,445	-	-	123,445
Metropolitan highway system bonds	66,667	-	-	66,667
Central artery operations and maintenance	25,000	-	-	25,000
Commonwealth grants and contract assistance	-	370,071	-	370,071
Federal grants and reimbursements:				
Passed through the Commonwealth	-	442,072	-	442,072
Direct	-	-	14,120	14,120
Rental/lease income	22,235	-	-	22,235
Investment income	3,853	52	1,042	4,947
Departmental and other	22,136	-	54,662	76,798
<b>TOTAL REVENUES</b>	<b>464,993</b>	<b>812,195</b>	<b>69,824</b>	<b>1,347,012</b>
<b>EXPENDITURES</b>				
Current:				
Highway	228,621	746,545	26,086	1,001,252
Planning and programming	42,640	38,832	7,373	88,845
Registry of motor vehicles	35,283	-	13,822	49,105
Mass transit	-	64,185	12,001	76,186
Aeronautics	230	4,718	271	5,219
Debt service:				
Principal	90,996	-	-	90,996
Interest	119,709	-	-	119,709
<b>TOTAL EXPENDITURES</b>	<b>517,479</b>	<b>854,280</b>	<b>59,553</b>	<b>1,431,312</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(52,486)</b>	<b>(42,085)</b>	<b>10,271</b>	<b>(84,300)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	4,540	53,917	58,457
Transfers out	(53,917)	-	-	(53,917)
Issuance of refunding bonds	1,943,530	-	-	1,943,530
Premium from issuance of refunding bonds	62,454	-	-	62,454
Debt service - principal - current refunding	(1,995,463)	-	-	(1,995,463)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(43,396)</b>	<b>4,540</b>	<b>53,917</b>	<b>15,061</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(95,882)</b>	<b>(37,545)</b>	<b>64,188</b>	<b>(69,239)</b>
<b>FUND BALANCES AT BEGINNING OF PERIOD</b>	<b>582,325</b>	<b>110,348</b>	<b>354,112</b>	<b>1,046,785</b>
<b>FUND BALANCES AT END OF PERIOD</b>	<b>\$ 486,443</b>	<b>72,803</b>	<b>418,300</b>	<b>977,546</b>

See notes to basic 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

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010  
(Dollars in thousands)

Net change in fund balances - total governmental funds	\$	(69,239)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays		201,618
Depreciation		(437,792)
<p>Contributed capital assets are reported in the statement of activities as capital contributions but are not reported in the governmental funds</p>		
		79,665
<p>In the statement of activities, only the gain/(loss) on the disposal of capital assets is reported, whereas in the governmental funds the proceeds from the disposal increase financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the disposed capital assets</p>		
		(2,549)
<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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Proceeds of refunding bonds (current)		(1,943,530)
Bond maturities		2,086,460
Amortization and net effect of premiums, deferred losses on refundings, discounts and bond issue costs		(55,200)
<p>Derivatives are reported in the government-wide statements but are not reported in the governmental funds.</p>		
Changes in liability for derivative instruments and amortization of hedging derivative premiums		25,808
<p>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</p>		
		21,817
<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>		
Workers' compensation		(2,745)
Compensated absences		(604)
Claims and judgments		(50,000)
<p>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.</p>		
		<u>(12,940)</u>
Changes in net assets of governmental activities	\$	<u><u>(159,231)</u></u>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2010  
(Dollars in thousands)

	Business-Type Activities - Enterprise Fund <u>MBTA</u>	Governmental Activities - Internal Service Fund <u>Fund</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
Current assets:		
Unrestricted cash and short-term investments	\$ 112,985	-
Restricted cash and investments	35,564	72,606
Lease accounts	33,646	-
Receivables, net of allowance for uncollectibles:		
Due from Commonwealth	120,342	-
Due from federal government	7,009	-
Other	14,820	-
Other assets	<u>74,102</u>	<u>340</u>
Total current assets	<u>398,468</u>	<u>72,946</u>
Noncurrent assets:		
Restricted cash and investments	728,640	-
Lease accounts	153,628	-
Deferred bond issue costs	27,814	-
Capital assets:		
Nondepreciable	791,399	-
Depreciable, net of accumulated depreciation	<u>7,354,049</u>	<u>-</u>
Total noncurrent assets	<u>9,055,530</u>	<u>-</u>
Deferred outflows from derivative instruments	<u>98,665</u>	<u>-</u>
Total assets and deferred outflows	<u>9,552,663</u>	<u>72,946</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	121,308	31,851
Accrued interest	127,725	-
Bonds payable	266,975	-
Capital lease obligations	36,871	-
Other liabilities	<u>65,530</u>	<u>11,400</u>
Total current liabilities	<u>618,409</u>	<u>43,251</u>
Noncurrent liabilities:		
Bonds payable	5,255,145	-
Capital lease obligations	262,159	-
Net OPEB and pension obligation	327,265	-
Liability for derivative instruments	120,542	-
Other liabilities	<u>125,151</u>	<u>21,800</u>
Total noncurrent liabilities	<u>6,090,262</u>	<u>21,800</u>
Total liabilities	<u>6,708,671</u>	<u>65,051</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,308,851	-
Restricted for other purposes	19,251	7,896
Unrestricted (deficit)	<u>(484,110)</u>	<u>-</u>
Total net assets	<u>\$ 2,843,992</u>	<u>7,896</u>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010  
(Dollars in thousands)

	Business-Type Activities - <u>Enterprise Fund</u>	Governmental Activities - Internal Service Fund
	<u>MBTA</u>	
<b>OPERATING REVENUES</b>		
Revenue from transportation	\$ 439,322	-
Other	<u>60,320</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>499,642</u>	<u>-</u>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	708,635	-
Materials, supplies and services	190,593	-
Injuries, damages and claims	14,054	8,665
Commuter railroad and local subsidy	366,797	-
Other	17,454	-
Depreciation and amortization	<u>348,567</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>1,646,100</u>	<u>8,665</u>
OPERATING INCOME (LOSS)	<u>(1,146,458)</u>	<u>(8,665)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Dedicated sales tax	767,057	-
Contract assistance - Commonwealth of Massachusetts	160,000	-
Dedicated local assessments	150,148	-
Fair value change in investment derivatives	(3,404)	-
Other income	5,334	139
Investment income	20,496	126
Interest expense	<u>(283,868)</u>	<u>-</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET	<u>815,763</u>	<u>265</u>
LOSS BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND TRANSFERS	(330,695)	(8,400)
Capital grants and contributions	234,733	-
Transfers out	<u>-</u>	<u>(4,540)</u>
CHANGE IN NET ASSETS	(95,962)	(12,940)
NET ASSETS AT BEGINNING OF PERIOD	<u>2,939,954</u>	<u>20,836</u>
NET ASSETS AT END OF PERIOD	<u>\$ 2,843,992</u>	<u>7,896</u>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010  
(Dollars in thousands)

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	MBTA	Fund
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 497,728	-
Transfers from third party	-	11,114
Payments to suppliers and vendors	(768,393)	-
Payments to employees	(447,088)	-
Claims, premiums and judgments paid	-	(3,571)
	(717,753)	7,543
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM (USED IN) NONCAPITAL FINANCING ACTIVITIES</b>		
Sales tax and local assessment	1,081,165	-
Reimbursable payments	3,845	-
Transfers out	-	(4,400)
	1,085,010	(4,400)
<b>NET CASH FROM (USED IN) NONCAPITAL FINANCING ACTIVITIES</b>		
<b>CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from the issuance of bonds and notes	276,400	-
Premium from the issuance of bonds and notes	10,375	-
Net proceeds (payments) of capital lease activity	2,991	-
Capital grants	238,114	-
Acquisition and construction of capital assets	(374,553)	-
Principal payments on bonds and notes	(164,945)	-
Proceeds (payments) from/to bond construction and reserve accounts	(106,939)	-
Interest expense	(272,133)	-
Increase in deferred credits/charges	(2,094)	-
Increase in lease deposit/account	(6,110)	-
Other	(3,152)	-
	(402,046)	-
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	-	108,708
Purchases of investments	-	(90,615)
Investment income (loss)	25,830	(181)
	25,830	17,912
<b>NET CASH FROM INVESTING ACTIVITIES</b>		
<b>NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS</b>	(8,959)	21,055
<b>CASH AND AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR</b>	157,508	32,335
<b>CASH AND AND SHORT-TERM INVESTMENTS, END OF YEAR</b>	\$ 148,549	53,390 (a)
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (1,146,458)	(8,665)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Charges not requiring current expenditure of cash:		
Depreciation	348,567	-
Increase in pension liability	11,993	-
Increase in net OPEB liability	80,836	-
Changes in all other working capital accounts, except cash and cash equivalents and short-term debt	(12,691)	16,208
	428,705	16,208
Total adjustments		
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	\$ (717,753)	7,543

Supplemental disclosure of cash flow activities:

In fiscal 2010, sales tax bonds in the aggregate principal amount of \$159,275 were issued to defease \$161,015 of bonds outstanding.

Residual market credits issued by a third party and retained by MassDOT totaled \$139.

(a) This amount is included in restricted cash and investments in the statement of net assets  
See notes to basic financial statements.

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FIDUCIARY FUND  
STATEMENT OF NET ASSETS

JUNE 30, 2010  
(Dollars in thousands)

<b>ASSETS</b>	<u>Other Post- Employment Benefits Trust</u>
Cash and short-term investments	\$ 3,413
Investments:	
U.S. Treasury bonds	6,922
U.S. Agency securities	9,312
Corporate bonds	7,488
Other fixed income securities	2,801
Equity securities	25,347
Receivables:	
Investments sold	557
Interest and other	<u>193</u>
Total assets	<u>56,033</u>
 <b>LIABILITIES</b>	
Payable for investments purchased	<u>1,178</u>
Total liabilities	<u>1,178</u>
 <b>NET ASSETS</b>	
Held in trust for other post-employment benefits	<u><u>\$ 54,855</u></u>

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

FIDUCIARY FUND  
STATEMENT OF CHANGES IN NET ASSETS

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010  
(Dollars in thousands)

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	<u>Other Post- Employment Benefits Trust</u>
<b>ADDITIONS</b>	
Net investment income:	
Net appreciation/(depreciation) in fair value of investments	\$ 473
Interest	787
Dividends	<u>1,007</u>
Total investment income	2,267
Less investment expense	<u>(116)</u>
CHANGE IN NET ASSETS	2,151
NET ASSETS AT BEGINNING OF PERIOD	<u>52,704</u>
NET ASSETS AT END OF PERIOD	<u>\$ 54,855</u>

See notes to basic financial statements.

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

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June 30, 2010

(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 five-member board appointed by the Governor. The Governor has appointed a Secretary of MassDOT, who serves as MassDOT's chief executive officer. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009.

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

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

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

MassDOT has an office of planning and programming and four divisions including highways, mass transit, aeronautics, and the registry of motor vehicles that share administrative functions such as human resources, financial management, information technology, and planning. Each division is headed by an administrator appointed by the Secretary of MassDOT.



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

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

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

Other activities transferred from the former Massachusetts Turnpike Authority include the Other Post-Employment Benefits Trust.

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

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

Legislation approved by the Governor in fiscal 2010 provides that the CTF will also receive the sales tax receipts (0.385%) dedicated to transportation purposes, with a guaranteed annual payment of \$275,000. The guaranteed amount of \$275,000 includes \$100,000 earmarked for costs including debt service on MassDOT debt, \$160,000 earmarked for the MBTA, and \$15,000 earmarked for the regional transit authorities.

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In addition, the CTF is used to pay debt service (present and future) associated with highway maintenance and construction projects and provides the funding of MassDOT's annual operating budget. For the eight months ended June 30, 2010, MassDOT received \$205,000 from the CTF for operations (\$123,000), debt service (\$67,000) and the regional transit authorities (\$15,000).

Finally, MGL Chapter 235 authorizes the Commonwealth to annually reimburse MassDOT for the cost of the operation and maintenance of the CA/T Project and CANA. MassDOT received \$25,000 during the eight month period ended June 30, 2010 for such reimbursement.

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

**(b) Basis of Presentation**

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

For financial reporting purposes, MassDOT has included all funds, organizations, agencies, boards and commissions considered part of the MassDOT legal entity. MassDOT has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with MassDOT is such that exclusion would cause MassDOT's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present MassDOT (the primary government) and its component units. The information pertaining to the primary government appears in footnotes 1 through 12.

*Blended Component Units* – Blended component units are entities that are legally separate from MassDOT, but are so related to MassDOT, that they are, in substance, the same as MassDOT because their governing board is the same as that of MassDOT or the entities provide services entirely or almost entirely to MassDOT. The Massachusetts Bay Transportation Authority (MBTA) is the only legally separate entity that meets the criteria as a blended component unit. The information pertaining to the MBTA appears in footnote 13.

*Discretely Presented Component Units* – MassDOT presents the following fifteen (15) regional transit authorities (RTAs) and one transportation association as discretely presented component units: 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; Route 3 North Transportation Improvement Association; Southeastern Regional Transit Authority; Martha's Vineyard Transit Authority; the Worcester Regional Transit

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Authority; and Route 3 North Transportation Improvements Association, Inc. MassDOT does not consider any of the discretely presented component units to be major.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, MassDOT's proprietary funds and applicable component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

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

For financial reporting purposes, the activities of MassDOT, including its fiduciary funds, are presented as of and for the eight-month period ended June 30, 2010. The MBTA, a blended component unit, and all of the discretely presented component units are presented as of and for the year ended June 30, 2010.

**Government-Wide Financial Statements**

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

The statement of net assets presents all of the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

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

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

**Fund Financial Statements**

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

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

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

**(c) *Measurement Focus and Basis of Accounting***

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

Governmental fund financial statements account for the general governmental activities of MassDOT. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be

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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 all governmental transactions, except those required to be accounted for in another fund. The MTTF is considered the general fund for MassDOT.

The Special Revenue Funds account for specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

The Capital Projects Funds account for financial resources to be used for the acquisition or construction of capital facilities.

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

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

**Proprietary Fund Types**

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

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

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**Fiduciary Fund Types**

MassDOT reports an Employee Benefits Trust Fund for the assets held in trust for the payment of other post employment benefits (OPEB) for former employees/retirees of the Massachusetts Turnpike Authority. See note 7(c) for additional information.

**(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 includes certain amounts restricted for use by bond indentures and other external requirements. Such amounts are held by the Treasurer in the MMDT Cash Fund as well as amounts held by bond and other trustees.

**(e) Investments**

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

The Treasurer of the Commonwealth holds certain investments on behalf of MassDOT. The amount held by the Treasurer appears as "Investments" in the accompanying financial statements. Interest earned on specific MassDOT investments is allocated to MassDOT. As of June 30, 2010, the Treasurer held no investments on behalf of MassDOT.

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

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

**(f) Accounts Receivable**

Reimbursements due to MassDOT from the Commonwealth for state and federally funded construction project expenditures are reported as "Due from Commonwealth" in the financial statements. Amounts due from the Commonwealth are considered 100% collectible.

**(g) Capital Assets**

Capital assets include land, construction in progress, buildings, equipment, vehicles, software and infrastructure (e.g., roads, bridges, ramps, and other similar items). Such assets are reported in the applicable governmental or business-type activity columns of the government-wide financial statements and proprietary funds and are recorded at historical cost or estimated historical cost if

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purchased or constructed. Donated capital assets are recorded at fair value at the date of donation. Assets transferred to MassDOT from other governments (subsequent to its formation) are recorded at net carrying value (historical cost less accumulated depreciation) at the date of transfer.

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

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

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

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

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

**(h) Other Assets**

Other assets in the government-wide financial statements consist principally of prepaid expenses and the unamortized portion of bond issue costs.

**(i) Deferred Revenue**

Deferred revenue in the governmental fund financial statements represents monies received in advance of providing goods or services or receivables accrued that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Certain deferred revenue related to receivables not considered available is recognized as revenue in the conversion to the government-wide financial statements which follow the accrual basis of accounting.

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**(j) Long-Term Debt**

In the government-wide and proprietary funds, long-term debt is reported as liabilities in the statements of net assets. Bond premiums, discounts and issue costs are deferred and amortized over the life of the bonds using the straight-line method. Deferred gains and losses related to refunding transactions are amortized using the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

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

**(k) Fund Balances**

Fund balances for governmental funds are classified as either reserved or unreserved. Reserved fund balances reflect either (1) assets which, by their nature, are not available for appropriation; or (2) funds legally separated for a specific use.

**(l) Compensated Absences**

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

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

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

**(m) Implementation and Future Implementation of GASB Pronouncements**

During the period ended June 30, 2010, MassDOT implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The implementation of this statement did not have a material impact on the financial statements of MassDOT.

During the period ended June 30, 2010, MassDOT also implemented GASB Statement No. 53 (GASBS 53), *Accounting and Financial Reporting for Derivative Investments*, which requires the fair value of derivative instruments be reported as assets or liabilities on the statement of net assets. Changes in the fair value of such instruments must be reported in the statement of activities or statement of revenues, expenses and changes in net assets (whichever applies), or as deferred inflows or outflows in the statement of net assets. The method of reporting the change in fair value is



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dependent upon whether the derivative instrument qualifies for hedge accounting. See note 5. The net assets of MassDOT, at inception, reflected the impact of the adoption of GASBS 53.

In fiscal year 2011, MassDOT will implement GASB Statement No. 54 (GASBS 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of GASBS 54 will result in the reorganization of the fund balance section of the governmental fund financial statements into the following categories: (1) nonspendable; (2) restricted; (3) committed; (4) assigned; and (5) unassigned. Fund balances will be allocated to these categories based on the level of constraints that direct how resources can be spent.

**(n) Use of Estimates**

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

**(2) Net Assets/Fund Balance**

MassDOT was created and commenced operations on November 1, 2009. On that date, in addition to the assets, liabilities and equity of the Massachusetts Turnpike Authority, the assets, liabilities and equity of various Commonwealth funds and programs became assets, liabilities and equity of MassDOT. The activities of the Commonwealth that became part of MassDOT on November 1 included:

1. The assets and certain liabilities of the former Highway Department, Registry of Motor Vehicles and Aeronautic Commission
2. Certain assets of the Department of Conservation and Recreation (DCR)
3. The Owner Controlled Insurance Program (OCIP)

The assets of the former Massachusetts Turnpike Authority's Other Post-Employment Benefits Trust also became part of MassDOT at the date of inception.

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The following details the net assets/fund balance of MassDOT's primary government funds and activities at November 1, 2009:

	<u>Governmental activities</u>	<u>MTTF (General Fund)</u>	<u>Highway capital projects</u>	<u>Other governmental funds</u>	<u>Internal Service Fund</u>	<u>OPEB trust</u>
Massachusetts Turnpike Authority – operations	\$ 4,391,869	581,311	—	—	—	—
Massachusetts Turnpike Authority – OPEB trust	—	—	—	—	—	52,704
Former departments of the Commonwealth	15,879,113	1,014	110,348	354,112	—	—
Certain assets of the DCR of the Commonwealth	85,635	—	—	—	—	—
Commonwealth OCIP program	<u>20,836</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,836</u>	<u>—</u>
Beginning net assets/fund balance \$	<u><u>20,377,453</u></u>	<u><u>582,325</u></u>	<u><u>110,348</u></u>	<u><u>354,112</u></u>	<u><u>20,836</u></u>	<u><u>52,704</u></u>

At June 30, 2010, MassDOT had the following fund balance reserves in its governmental funds:

Debt service	\$ 247,859
Toll operations and capital reinvestment	170,765
Greenway maintenance and preservation	33,092
State-wide road and bridge program	72,803
Central Artery repairs and maintenance	416,980
Other governmental funds	<u>1,320</u>
Total reserved fund balance – governmental funds	<u><u>\$ 942,819</u></u>

**(3) 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	\$ 115,919
Restricted cash and investments	<u>753,733</u>
	<u><u>\$ 869,652</u></u>

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MassDOT follows Chapter 32 of the Mass General Laws with regard to the investment practices of the OPEB Trust. Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec 23(3), the “Prudent Person” rule.

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

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

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, 2010, 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.

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MassDOT's investments including investments in the OPEB Trust at June 30, 2010 are presented below by investment type and maturity.

Investment type	Fair value	Investment maturities (in years)			
		Less than 1 year	1 – 5	6 – 10	More than 10
U.S. Treasuries	\$ 6,922	433	5,132	665	692
U.S. Agencies	140,657	22,610	118,047	—	—
Money market mutual funds	46,938	46,938	—	—	—
Commercial paper	72,603	72,603	—	—	—
Other mutual funds	79,150	79,150	—	—	—
Repurchase agreements	1,183	1,183	—	—	—
Fixed income securities	10,289	7,336	969	1,475	509
MMDT	869,652	869,652	—	—	—
	1,227,394	\$ 1,099,905	124,148	2,140	1,201
Other investments:					
Equity securities	25,347				
Total investments	\$ 1,252,741				

(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, 2010:

Investment type	Fair value	Quality ratings					
		AAA	AA1-AA3	A1-A3	BAA1-BAA3	BA1-BD	Unrated
Money market mutual funds	\$ 46,938	42,562	—	—	—	—	4,376
Commercial paper	72,603	—	—	72,603	—	—	—
Other mutual funds	79,150	79,150	—	—	—	—	—
Repurchase agreements	1,183	—	—	—	—	—	1,183
Fixed income securities	10,289	1,783	1,136	3,121	3,085	202	962
MMDT	869,652	—	—	—	—	—	869,652
	\$ 1,079,815	123,495	1,136	75,724	3,085	202	876,173

Although the MMDT Cash Fund is not rated, credit ratings associated with the investments of the Cash Fund were either P1 (approximately 97%) or P2 (approximately 3%).

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**(d) Concentration of Credit Risk – Investments**

Concentration of credit risk is the risk of loss attributable to the magnitude of a government’s investment in a single issuer. The investment in the Federal Home Loan Bank (\$87,918) is the only issuer where securities at year end exceeded 5% of the total investments of the primary government.

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

**(e) Restricted Cash and Investments by Fund**

The following summarizes restricted cash and investments as of June 30, 2010 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	\$ 230,231
General Fund – Rose Kennedy Greenway	33,092
Major Capital Projects – Statewide Road and Bridge Program	73,652
Other Governmental Funds – Central Artery Repairs and Maintenance	417,939

Held by Bond Trustee:

General Fund – Toll related accounts as restricted by bond covenants	254,018
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Held by OCIP Trustee:

Internal Service Fund – Workers’ compensation self-insurance	72,606
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Total	\$ <u><u>1,081,538</u></u>
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**(4) Capital Assets**

Capital assets of the governmental activities consisted of the following at June 30, 2010:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, not being depreciated:				
Land	\$ 758,740	8,297	2,549	764,488
Construction in progress	1,909,796	189,503	33,982	2,065,317
Total capital assets, not being depreciated	<u>2,668,536</u>	<u>197,800</u>	<u>36,531</u>	<u>2,829,805</u>
Capital assets, being depreciated:				
Infrastructure	27,720,180	108,171	—	27,828,351
Buildings	113,455	5,058	—	118,513
Equipment	106,728	602	—	107,330
Vehicles	71,331	2,868	2,025	72,174
Software	5,502	766	—	6,268
Total capital assets, being depreciated	<u>28,017,196</u>	<u>117,465</u>	<u>2,025</u>	<u>28,132,636</u>
Less accumulated depreciation for:				
Infrastructure	8,462,038	428,865	—	8,890,903
Buildings	53,722	1,993	—	55,715
Equipment	86,541	4,146	—	90,687
Vehicles	56,539	2,652	2,025	57,166
Software	5,384	136	—	5,520
Total accumulated depreciation	<u>8,664,224</u>	<u>437,792</u>	<u>2,025</u>	<u>9,099,991</u>
Total capital assets, being depreciated, net	<u>19,352,972</u>	<u>(320,327)</u>	<u>—</u>	<u>19,032,645</u>
Capital assets, net	<u>\$ 22,021,508</u>	<u>(122,527)</u>	<u>36,531</u>	<u>21,862,450</u>

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

Highway	\$ 437,531
Mass transit	242
Aeronautics	16
Registry of motor vehicles	3
	<u>3</u>
	<u>\$ 437,792</u>

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

Long-term debt and other long-term liabilities of the governmental activities consisted of the following at June 30, 2010:

	<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, 5.05% to 5.65%, issued September 24, 1997, due 2010 to 2037**	\$ 1,183,047	—	1,141,040	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	3,641	—	67	3,574	71
Metropolitan Highway System:					
2010 Refunding, Series B, 2.00% to 5.00%, issued May 27, 2010, due 2011 to 2037	—	882,310	—	882,310	420
1997 Series C, Capital Appreciation Bonds (CABs) 5.40% to 5.55%, issued September 24, 1997, due 2016 to 2023	89,136	—	—	89,136	—
Western Turnpike:					
1997 Series A, 5.55%, issued September 24, 1997 due 2017 (mandatory sinking fund requirements from 1999 to 2017)	145,185	—	17,820	127,365	18,365
Total senior revenue bonds	<u>1,421,009</u>	<u>1,089,975</u>	<u>1,158,927</u>	<u>1,352,057</u>	<u>18,856</u>
Subordinated revenue bonds:					
Metropolitan Highway System:					
1999 Series A, 3.90% to 5.26%, issued March 11, 1999 due 2004 to 2039	732,920	—	732,920	—	—
1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037	194,680	—	194,680	—	—
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	13,813	—	400	13,413	420
Metropolitan Highway System:					
2010 Refunding, Series B, 3.25% to 5.00%, issued April 14, 2010, due 2019 to 2035	—	261,220	—	261,220	—
Total subordinated revenue bonds	<u>941,413</u>	<u>853,555</u>	<u>928,000</u>	<u>866,968</u>	<u>420</u>
Total	2,362,422	1,943,530	2,086,927	2,219,025	19,276
Less unamortized amounts:					
Bond discounts	(79,496)	(7,715)	(76,870)	(10,341)	—
Deferred losses on refunding	(64)	(75,611)	(445)	(75,230)	—
Plus premiums	—	62,454	297	62,157	—
Total bonds payables	<u>2,282,862</u>	<u>1,922,658</u>	<u>2,009,909</u>	<u>2,195,611</u>	<u>19,276</u>
Other long-term liabilities:					
Workers' compensation	22,330	7,185	4,440	25,075	6,660
Judgments and claims	31,600	58,854	7,254	83,200	11,400
Compensated absences, net	39,623	605	—	40,228	26,434
Total other long-term obligations	<u>93,553</u>	<u>66,644</u>	<u>11,694</u>	<u>148,503</u>	<u>44,494</u>
Total long-term liabilities	<u>\$ 2,376,415</u>	<u>1,989,302</u>	<u>2,021,603</u>	<u>2,344,114</u>	<u>63,770</u>

\*\* \$42,007 of the \$1,183,047 of the 1997, Series A MHS revenue bonds are capital appreciation bonds.

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2011	\$ 18,785	43,620	62,405
2012	51,285	64,205	115,490
2013	53,835	61,910	115,745
2014	56,045	59,215	115,260
2015	77,780	56,336	134,116
2016 – 2020	241,653	359,758	601,411
2021 – 2025	277,067	331,551	608,618
2026 – 2030	373,768	254,874	628,642
2031 – 2035	516,765	69,511	586,276
2036 – 2039	535,055	3,650	538,705
Total	\$ <u>2,202,038</u>	<u>1,304,630</u>	<u>3,506,668</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, 2010:

<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	2031 to 2035	100	261,220
2010 Series A – Senior Debt	2035 to 2037	100	207,665
2010 Series B – Senior Debt	2030 to 2037	100	882,310
Western Turnpike:			
1997 Series A	2008 to 2017	100%	\$ 127,365



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***Refunding Transactions***

**Current Refunding – April 14, 2010**

On April 14, 2010, MassDOT issued \$854,000 in revenue bonds to refund (current) \$918,000 of outstanding 1997 (Series B) and 1999 (Series A) Subordinated Bonds (issued by the former Massachusetts Turnpike Authority) with an average interest rate of 5.05%. \$592,000 of the refunding bonds are variable rate demand bonds that are reset weekly. The interest rate of the new bonds from the date of issuance through fiscal year-end ranged from 0.19% to 0.33%. \$261,000 of the refunding bonds bear interest at an average rate of 4.98%.

The net proceeds of \$868,000 (after payment of \$4,000 in underwriting fees, insurance, and other issuance costs, plus premium of \$18,000) plus an additional \$67,000 of 1997 and 1999 Subordinated Bonds sinking fund monies were used to retire the outstanding 1997 (Series B) and 1999 (Series A) Subordinated Bonds and the related accrued interest.

As a result of this refunding, MassDOT will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$13,000.

**Current Refunding – May 27, 2010**

On May 27, 2010, MassDOT issued \$1,090,000 in revenue bonds to refund (current) \$1,119,000 of outstanding 1997 (Series B) Senior Bonds (issued by the former Massachusetts Turnpike Authority) with an average interest rate of 5.02%. \$208,000 of the refunding bonds are variable rate demand bonds that are reset weekly. The interest rate of the new bonds from the date of issuance through fiscal year-end ranged from 0.22% to 0.28%. \$882,000 of the refunding bonds bear interest at an average rate of 4.93%.

The net proceeds of \$1,127,000 (after payment of \$7,000 in underwriting fees, insurance, and other issuance costs, plus premium of \$44,000) plus an additional \$18,000 of 1997 Senior Bonds sinking fund monies were used to retire the 1997 (Series B) Senior Bonds and related accrued interest.

As a result of this refunding, MassDOT will reduce its total gross debt service payments over the next 27 years by over \$160,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$41,000.

Although these two refunding transactions will generate an economic gain for MassDOT of approximately \$54,000, the transactions have resulted in MassDOT recording a deferred accounting loss of \$75,611.

***Demand Bonds***

Included in long-term debt is \$207,665 of Senior and \$592,335 of Subordinated variable rate demand bonds. The bonds were issued in May and April 2010, respectively, and the proceeds of the bonds were used to refund certain revenue bonds issued previously by the Massachusetts Turnpike Authority. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The ability of MassDOT, through its Trustee and remarketing agent, to purchase such bonds is

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secured through letters of credit and standby bond purchase agreements with various nationally recognized financial institutions that expire beginning in April 2012.

***Prior Defeasances of Debt***

At June 30, 2010, the principal amounts outstanding on revenue bonds and notes that are considered defeased are as follows:

<b>Description</b>	<b>Redemption date</b>	<b>Redemption price</b>	<b>Principal amount outstanding</b>
1993 Series A Term	2013 to 2023	100% \$	238,345

***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 period 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. 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, 2010 totals \$16,987 and is presented as part of bonds payable in the accompanying government-wide financial statements. The premiums were recognized in the opening equity balance of the MTF.

**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 \$2,632 as of June 30, 2010. The Agreement is not rated.

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The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the eight-months then ended as reported in the 2010 financial statements are as follows (debit (credit)):

	<u>Changes in fair value</u>		<u>Fair value at June 30, 2010</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Governmental activities:					
Cash flow hedges:					
Pay-fixed interest rate swaps (a)	Deferred outflow	\$ 80,613	Derivative liability	\$ (302,829)	800,000
Investment derivatives:					
Pay-fixed interest rate swap	Investment revenue	2,710	Derivative liability	(2,710)	—
Pay-variable interest rate basis swap	Investment revenue	<u>2,154</u>	Derivative liability	<u>(11,066)</u>	100,000
Subtotal		85,477		(316,605)	
Forward delivery agreement	Investment revenue	<u>(1,128)</u>	Derivative asset	<u>2,632</u>	—
		<u>\$ 84,349</u>		<u>\$ (313,973)</u>	

- (a) These derivative instruments were considered investment derivatives at the inception of MassDOT but were determined to be effective hedges at the date of the MHS subordinated and senior bond refundings in April and May, 2010, respectively. The change in fair value of these investment derivatives from November 1, 2009 to the dates of refundings was \$(27,562). This amount was recorded as a charge to investment revenue.

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, 2010:

Derivative item	Type	Objective	Effective date	Notional amount	Term. date	Payable swap rate	Receivable swap rate	Premiums received	Fair value at June 30, 2010
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 (0.18433%) (a)	\$ 10,375	(81,153)
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	(30,960)
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	(13,856)
4	Pay-fixed interest rate swap	Hedge interest rate risk from the 2010 sub. debt (Series A-3 through A-6)	1/1/2009	371,380	1/1/2039	4.750	68% of 1 month LIBOR	17,063	(146,419)
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	(30,441)
Investment derivatives:									
6	Pay-fixed interest rate swap		1/1/2009	—	1/1/2039	4.750	68% of 1 month LIBOR	—	(2,710)
7	Pay-variable interest rate basis swap		10/1/2002	100,000	7/1/2029	67% of 3 month LIBOR	SIFMA (0.25%) (b)	5,350	(11,066)
		Subtotal							<u>(316,605)</u>
8	Forward delivery agreement		—	—	1/1/2029	—	Fixed 5.96%	—	<u>2,632</u>
		Total							<u>\$ (313,973)</u>

(a) Rates as of June 30, 2010.

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**Swap Payments and Related Debt**

Debt service requirements of the 2010 Subordinated Debt Series A-1 through A-7 and 2010 Senior Debt Series A-1 and A-2 (2010 Bonds) and net swap payments for the cash flow hedge swaps, applying the fixed rates (4.75% – 5.00%) of the swaps and assuming 68% of 1-month LIBOR rate (0.18433%) and the variable rates (0.19% – 0.22%) on the 2010 Bonds as of June 30, 2010 remain the same through the term of the swap, are as follows:

	<u>2010 Bonds principal</u>	<u>2010 Bonds interest</u>	<u>Interest rate swap, net</u>	<u>Total</u>
2011	\$ —	1,429	36,974	38,403
2012	—	1,692	36,974	38,666
2013	—	1,691	36,974	38,665
2014	—	1,691	36,974	38,665
2015	—	1,691	36,974	38,665
2016 – 2020	—	8,459	184,869	193,328
2021 – 2025	29,095	8,445	184,562	222,102
2026 – 2030	132,305	7,601	165,206	305,112
2031 – 2035	116,155	6,356	145,148	267,659
2036 – 2039	522,445	2,406	66,780	591,631
Totals	<u>\$ 800,000</u>	<u>41,461</u>	<u>931,435</u>	<u>1,772,896</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.

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The following represents the credit ratings of the swap counterparties at June 30, 2010:

Derivative swap item	Counterparty credit rating (Moody's, S&P and Fitch)
Derivative 1	Aa3, A+, A+
Derivative 2	Aa3, A+, A+
Derivative 3	Aa3, A+, A+
Derivative 4	Aa3, A+, A+
Derivative 5	Aa3, A+, A+
Derivative 6	Aa3, A+, A+
Derivative 7	Aa1, AA-, 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 67% of 3 month LIBOR and the receive-variable rate is based on SIFMA. 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 \$2,200,000 in revenue bonds after deducting the amount necessary to pay all operating and maintenance costs, capital reinvestment and the maintenance of certain debt service reserve funds as required by the applicable bond covenants. The bonds were originally issued to provide financing for construction related to the MHS and WT. Certain revenue bonds associated with the original issuance were refunded (current) during April and May of 2010, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a \$100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's \$100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues. The total principal and interest (including net swap payments) remaining to be paid on the bonds is \$4,400,000. Principal and interest (including net swap

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payments) paid and pledged revenue received for the eight month period ended June 30, 2010 were \$124,800 and \$227,000, respectively.

**(7) Employee Benefit Plans**

**(a) Pension Plan**

At the inception of MassDOT, the retirees and employees of the former Massachusetts Turnpike Authority became members of the Massachusetts State Employees' Retirement System (SERS). Additionally, the Transportation Reform legislation required that all assets and liabilities of the Massachusetts Turnpike Authority Retirement System be transferred to SERS.

*Plan Description.* MassDOT participates in the SERS, a defined benefit pension plan administered by the Massachusetts State Retirement System. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The SERS does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

*Funding Policy.* Plan members are required to contribute 5% to 14% of their annual covered salary, depending upon the date of hire. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 6.16%. The contribution requirements of plan members and the Commonwealth are established and may be amended by the SERS Board of Trustees. MassDOT's reimbursement to the Commonwealth for the period ending June 30, 2010 was \$9,728, which equaled the required contribution.

**(b) Other Postemployment Benefits (OPEB)**

At the inception of MassDOT, the retirees and employees of the former Massachusetts Turnpike Authority became eligible to participate in the Commonwealth's OPEB plan.

*Plan Description.* MassDOT participates in the Commonwealth's OPEB plan, an agent multiple-employer OPEB plan administered by Commonwealth's Group Insurance Commission (GIC) and governed by the Trustees of the State Retiree Benefits Trust Fund. The Commonwealth's OPEB plan provides retiree health benefits to plan members and beneficiaries. The Commonwealth's OPEB plan does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

*Funding Policy.* Plan members are required to contribute 0% to 25% of the premium cost, depending on the date of hire and whether the participant is active, retiree or survivor status. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 7.11% based on current payroll. The contribution requirements of plan members are set in General Laws. MassDOT's reimbursement to the Commonwealth for the period ending June 30, 2010 was \$1,752, 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

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Turnpike Authority, was transferred to MassDOT who has the fiduciary responsibility for the assets of the Trust. However, legislation required that the OPEB liability for these same individuals become an obligation of the Commonwealth. For fiscal 2010, the Commonwealth has made benefit payments related to the retirees of the former Massachusetts Turnpike Authority but has not been reimbursed for those payments by either MassDOT or the Trust. As of January 10, 2011, it has not been determined whether or how the assets of the Trust can be moved to the Commonwealth and, as such, the OPEB Trust has been presented as a fiduciary fund of MassDOT.

**(8) Leases**

**(a) Commitments**

MassDOT has commitments under various operating leases. Total lease expense for the eight-month period ending June 30, 2010 was \$9,500. The following is a summary of the future minimum lease payments for operating lease obligations. Capital lease obligations are not material to MassDOT's financial statements.

Years:	<b>Amount</b>
2011	\$ 9,675
2012	8,683
2013	4,940
2014	3,524
2015	3,339
2016 – 2020	5,735
Total	\$ 35,896

**(b) Rental Income**

MassDOT leases property and air rights to others. For the eight-month period ended June 30, 2010, MassDOT earned \$22,235 in rental income. The following is a schedule by years of minimum future rental income on noncancelable operating leases as of June 30, 2010:

Years:	<b>Amount</b>
2011	\$ 35,083
2012	34,580
2013	34,353
2014	34,424
2015	34,489
Thereafter	614,852
Total	\$ 787,781



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**(9) Risk Management**

As part of its normal operations, MassDOT encounters the risk of accidental loss stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, MassDOT applies a combination of risk management measures, including safety and loss prevention program, emergency planning, contractual risk transfer, self insurance (internal retention) and commercial insurance. Settled claims resulting from the risks discussed above did not exceed the amount of insurance coverage in force during the period ended June 30, 2010.

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

**(a) Workers' Compensation**

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

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

The estimated workers' compensation liability for occurrences through June 30, 2010 is approximately \$25,075. This amount is based on the results of a review performed by an independent actuarial firm retained by MassDOT, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2010.

Changes in the workers' compensation claims liability for the period ended 2010 were as follows:

Liability balance, November 1, 2009	\$ 22,330
Provision to record estimated losses	7,185
Payments	<u>(4,440)</u>
Liability balance, June 30, 2010	<u><u>\$ 25,075</u></u>

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**(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 October 31, 2007, except for general liability coverage, which continues to apply to occurrences through November 1, 2010.

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

At the request of the Commonwealth on March 10, 2008, the OCIP's insurance company committed to transfer project surplus funds that are not required to meet unpaid liabilities based on the June 30, 2007 actuarial projection. In fiscal year 2010, the final surplus withdrawal of \$14,200 was made and deposited into MassDOT's Transportation Infrastructure Fund (TIF), which is reported as a nonmajor governmental fund. Only \$4,250 of this amount was transferred between November 1, 2009 and June 30, 2010. As of June 30, 2010, MassDOT management believes that the balance remaining in the OCIP will be sufficient to fund unpaid liabilities. Any residual amount remaining at the end of the program will be transferred to the TIF.

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2010 is approximately \$33,200. 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 reported and not reported as of June 30, 2010.

Changes in the claims liability insurance reserves for the period ended 2010 were as follows:

Liability balance, November 1, 2009	\$	31,600
Provision to record estimated losses		8,854
Payments		<u>(7,254)</u>
Liability balance, June 30, 2010	\$	<u><u>33,200</u></u>

**(10) 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, 2010 approximated \$2,500,000.

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**(11) Litigation**

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

MassDOT has agreed to take responsibility for all costs to complete the Central Artery/Tunnel Project that are in excess of the \$14,798,000 budget provided in the CA/T Finance Plan. At this time, MassDOT has identified no financial obligations pursuant to this agreement as it is anticipated that all costs to complete the CA/T Project, including costs related to additional exposures for claims, will be within the budgeted amount.

The most significant claim at this time involves Contract C11A1. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of \$130,000. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board (DRB) panel. As of June 30, 2010, MassDOT has accrued \$50,000 related to these claims.

The former Massachusetts Turnpike Authority had an investment agreement with Lehman Brothers Special Financing, Inc. (Lehman). In September 2008, Lehman filed for bankruptcy resulting in an event of default under this agreement. In connection with this default, MassDOT has filed a \$50,100 claim against Lehman to recover lost interest earnings and other investment costs. The actual payment realized may be significantly less than the initial claim amount. As of January 10, 2011, this claim is still pending and the outcome is not known.

**(12) Subsequent Events**

***Legislation***

Subsequent to year-end, legislation was passed that changed the funding for MassDOT. In fiscal 2010 MassDOT received the net receipts from the CTF after the Commonwealth deducted certain designated amounts. In fiscal 2011, MassDOT will receive an amount appropriated by the legislature. The amount appropriated for fiscal 2011 is \$195,126. The full impact of this change on MassDOT's operations has not yet been determined.

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**(13) The Massachusetts Bay Transportation Authority**

The Massachusetts Bay Transportation Authority (the MBTA or the Authority) was originally created in 1964 as a body politic and corporate and a political subdivision of the Commonwealth of Massachusetts (the Commonwealth).

The Enabling Act was amended in connection with the reform of the Commonwealth's transportation system. While the Authority remains a separate entity within the newly established Massachusetts Department of Transportation (MassDOT), effective November 1, 2009 the governing board of the Authority was abolished and replaced by a new five member board appointed by the Governor of the Commonwealth. The members of the board serve four-year terms and are eligible for reappointment. Of the appointees of the Governor, two shall be experts in the field of public or private transportation finance, two shall have practical experience in transportation planning and policy and one shall be a registered civil engineer with at least 10 years experience. One of the directors shall be appointed chairperson of the board provided however that said designee shall not be an employee of the Authority, MassDOT or any division thereof. The board has the power to appoint and employ a general manager and other officers. The advisory board, consisting of a representative from each of the cities and towns paying assessments, shall have certain specified powers, including the power to review the Authority's long-term capital program and annual operating budget.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity*, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the MassDOT as the Authority is a component unit of the MassDOT.

**(14) MBTA – Summary of Significant Accounting Policies**

**(a) Funding of Operation**

As part of the Commonwealth's Forward Funding Legislation (Chapter 127 of the Acts of 1999 of the Commonwealth or Enabling Act), the Commonwealth's prior enabling act, including funding mechanism was repealed and restated. Effective July 1, 2000, the statute provides the Authority a dedicated revenue stream consisting of the assessments on the communities in the Authority's service area (the Assessments) and certain Dedicated Sales Tax. Additionally, the Authority's service territory expanded from 78 to 175 cities and towns. The Transportation Reform Act also established a Commonwealth Transportation Fund (CTF) as a budgetary fund of the Commonwealth for transportation related purposes, which included \$160 million earmarked for the Authority. The Authority also funds operations through charges for providing transportation services.

**(b) 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

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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.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. After this date, only GASB pronouncements are followed.

(c) **Capital Assets**

Capital assets over \$5 are stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs.

Depreciation is provided on the straight-line method over the asset's estimated useful life. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2010 and 2009:

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

(d) **Construction in Progress**

During 2010 and 2009, major construction projects aggregating \$364,514 and \$550,170, respectively, were completed and transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of borrowing until completion of the project, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal years 2010 and 2009, the Authority had no material capitalized interest.

Additionally, the Authority, under various interagency agreements, performs construction work on behalf of other state agencies and states. Such construction costs are reimbursed upon completion of

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the work. Costs incurred during 2010 and 2009 were \$151 and \$210, respectively. Amounts owed to the Authority for these costs and prior years costs as of June 30, 2010 and 2009 were \$412 and \$1,724, respectively, and are presented in accounts receivable in the accompanying statements of net assets.

**(e) Self-Insurance**

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

**(f) 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*.

**(g) Revenue Recognition**

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

The dedicated sales tax revenue consists of the greater of the one percent of statewide sales tax, excluding the meals tax or a base revenue amount. The base revenue amount generally increases by the percentage change in inflation, as measured by the Boston Consumer Price Index (CPI), although not to exceed three percent annually. The Authority recognizes the greater of its share of the month's total actual receipts of sales tax revenue of the Commonwealth or the base revenue amount as nonoperating revenue on an accrual basis.

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

The Transportation Reform Act established the CTF, a budgetary fund of the Commonwealth for transportation related purposes, to receive essentially the same revenues previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenues. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of \$275 million. The Commonwealth appropriated \$160,000 from the CTF to the Authority for fiscal year 2010. This amount is subject to appropriation by the

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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.

**(h) *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.

**(i) *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.

**(j) *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, 2010 and 2009 was \$17,009 and \$17,356, respectively.

**(k) *Restricted Cash and Investment Accounts***

Certain cash and investments are segregated from operating cash due to certain internal or external restrictions. The following are included in restricted and other special accounts:

- Bond Construction Accounts – represent unexpended bond proceeds.
- Lease Deposits – represent cash held by trustees to be used to pay lease payments on the Authority’s defeased capital leases.
- Bond Reserve Accounts – represent cash funds required to be maintained by trust agreements.
- Stabilization Accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Other Accounts – represent funds held in accordance with the Authority’s trust agreements for capital maintenance, debt service, and other expenses.

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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 7).

**(m) Lease Deposits**

Lease deposits represent investments (Treasury strips and a collateralized investment agreement) that will be used to make scheduled equity payments on the Authority's capital leases.

**(n) Materials and Supplies**

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

**(o) Post Employment Benefits**

Post employment benefits, primarily healthcare, are recognized on an accrual basis. The accrual is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

**(p) Environmental Remediation Costs**

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup and site monitoring using the expected cash flow technique and in a range of possible estimated amounts. The remediation obligation estimates that appear in the report 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.

**(q) Derivatives**

During 2010, the Authority implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires that derivative instruments be reported as assets or liabilities at fair value on the statement of net assets. Changes in fair value may be reported in the statement of revenue, expenses, and changes in net assets, or as deferred inflows or outflows in the statement of net assets, in accordance with Government Concept Statement No. 4, *Elements of Financial Statements*, depending upon whether the derivative instrument qualifies for hedge accounting. The fiscal 2009 financial statements have been restated to comply with GASB Statement No. 53.

**(r) Available Unrestricted Resources**

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



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(s) ***Reclassifications***

Certain prior year accounts have been reclassified to conform to the 2010 presentation.

**(15) MBTA – Deposits and Investments**

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

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

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

- (A) Federal Home Loan Banks
- (B) Federal Land Banks
- (C) Federal Intermediate Credit Banks
- (D) Bank for Cooperatives
- (E) Federal National Mortgage Association
- (F) Federal Farm Credit Banks

The Authority may invest in prime commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's or A-1 by Standard and Poor's. 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 forward delivery agreements and 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.

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Deposits and investments consisted of the following amounts presented in the accompanying statements of net assets at June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Restricted:		
Bond construction accounts	\$ 177,334	120,833
Bond reserve, stabilization, and other accounts	485,836	434,982
Lease deposits	101,034	88,695
Subtotal	764,204	644,510
Unrestricted cash and temporary cash investments	112,985	122,360
	\$ 877,189	766,870

**(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, all which were included in unrestricted cash and temporary cash investments, at June 30, 2010 and 2009 was \$26,999 and \$22,206, respectively. The bank balance at June 30, 2010 and 2009 was \$28,792 and \$24,419, respectively. Of this amount, \$3,201 and \$3,947, respectively, was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation (FDIC) limit of \$250 at June 30, 2010 and \$250 at June 30, 2009.

**(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.

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The Authority's fixed income investments at June 30, 2010 and 2009 are presented below. All investments are presented by investment type and maturity.

		<b>2010</b>			
<b>Investment type</b>	<b>Fair value</b>	<b>Investment maturities (in years)</b>			
		<b>Less than 1 year</b>	<b>1 – 3</b>	<b>4 – 8</b>	<b>More than 8</b>
MMDT	\$ 95,593	95,593	—	—	—
Money market funds	384,818	384,818	—	—	—
Guaranteed investment contracts	3,704	—	—	—	3,704
Treasury strips	121,251	26,282	30,426	26,395	38,148
Government sponsored enterprises	179,069	171,848	—	—	7,221
Other treasury obligations	60,755	—	—	—	60,755
Certificates of deposit	5,000	5,000	—	—	—
Investments	<u>\$ 850,190</u>	<u>683,541</u>	<u>30,426</u>	<u>26,395</u>	<u>109,828</u>

		<b>2009</b>			
<b>Investment type</b>	<b>Fair value</b>	<b>Investment maturities (in years)</b>			
		<b>Less than 1 year</b>	<b>1 – 3</b>	<b>4 – 8</b>	<b>More than 8</b>
MMDT	\$ 104,226	104,226	—	—	—
Money market fund	139,708	139,708	—	—	—
Guaranteed investment contracts	40,133	2,930	—	—	37,203
Treasury strips	241,766	180,458	26,339	34,969	—
Government sponsored enterprises	125,733	53,201	—	—	72,532
Other treasury obligations	84,013	9,136	10,627	—	64,250
Certificates of deposit	9,085	9,085	—	—	—
Investments	<u>\$ 744,664</u>	<u>498,744</u>	<u>36,966</u>	<u>34,969</u>	<u>173,985</u>

**(c) Credit Ratings**

The Authority holds guaranteed investment contracts and forward delivery agreements (none held at June 30, 2010) with a fair value of \$3,704 and \$220,591 at June 30, 2010 and 2009, respectively. These investments are not rated.

The Authority had \$182,006 and \$145,321 in treasury strips and other treasury obligations as of June 30, 2010 and 2009, respectively. The investments in treasury strips and other U.S. obligations are backed by the full faith and credit of the U.S. government.

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The Authority has \$179,069 and \$125,733 invested in Government Sponsored Enterprises as of June 30, 2010 and 2009, respectively. These investments have an implied credit rating of AAA or they have been collateralized to AAA.

The Authority has \$95,593 and \$104,226 invested in MMDT as of June 30, 2010 and 2009, 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 \$389,818 and \$148,793 invested in money market funds and certificates of deposit as of June 30, 2010 and 2009, respectively. 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 are as follows:

	<b>Credit rating Moody's/S&amp;P</b>		<b>2010</b>	<b>Percentage of portfolio</b>
U.S. Bank	Aa1/AA-	\$	220,901	26.0%
Fidelity	A2/A+		106,787	12.6
East West Bank	Aa1/AA-		99,690	11.7
Federated Investors	Aaa		53,558	6.3
		\$	<u>480,936</u>	

	<b>Credit rating Moody's/S&amp;P</b>		<b>2009</b>	<b>Percentage of portfolio</b>
Wachovia Bank	Aa2/AA	\$	116,084	15.6%
U.S. Bank	Aa1/AA-		112,708	15.1
JPMorgan Chase	Aa1/AA-		37,706	5.1
		\$	<u>266,498</u>	

**(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, 2010 and 2009.

**(16) 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

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

The Authority entered into an operating agreement with Massachusetts Bay Commuter Railroad Company (MBCRC) beginning July 1, 2003 for a period of five years to provide commuter railroad service over the Authority's rail lines. This contract was extended through fiscal year 2013. The Authority will pay MBCRC a total fixed base contract amount of \$2,358,866 over the approved ten-year period, with remaining payments at June 30, 2010 totaling \$821,545.

**(17) 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 and outstanding at June 30, 2000 (prior obligations) is backed by the full faith and credit of the Commonwealth to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2010, prior obligations in the amount of \$743,220 are outstanding.

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

During fiscal year 2010, the Authority issued the following bonds: the 2009 Series C Sales Tax Bonds (BABS) in the principal amount of \$218,300, the 2009 Series D Sales Tax Bonds in the amount of \$39,840, the 2010 Series A Sales Tax Bonds (Windows VRDO) in the principal amount of \$80,255 and the 2010 Series B Sales Tax Bonds in the principal amount of \$79,020.

Principal on the 2009 Series C Sales Tax Bonds is payable beginning July 1, 2020 and on each July 1st through July 1, 2039. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series C Sales Tax Bonds were issued as Build America Bonds pursuant to the American Recovery and Reinvestment Act (ARRA) and receive a cash subsidy from the United States Treasury in connection therewith. The 2009 Series C Sales Tax Bonds were issued to fund a portion of the Authority's Capital Investment Program (CIP).

Principal on the 2009 Series D Sales Tax Bonds is payable beginning July 1, 2014 and on each July 1st through July 1, 2019. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series D Sales Tax Bonds were issued to fund a portion of the Authority's CIP expenditures.

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Principal on the 2010 Series A Sales Tax Bonds Windows VRDO is payable beginning July 1, 2024 and on each July 1<sup>st</sup> through July 1, 2030. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series A Sales Tax Bonds Windows VRDO were issued to refinance the 2009 Series A Senior Sales Tax Bonds that were subject to a mandatory tender on February 17, 2010.

Principal on the 2010 Series B Sales Tax Bonds is payable beginning July 1, 2011 and on each July 1st through July 1, 2035, except for July 1, 2031 and July 1, 2032. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series B Sales Tax Bonds were issued to refund the 2000 Series A Assessment Bonds and the 2005 Series A Senior Sales Tax Bonds.

During fiscal year 2009, the Authority issued the following bonds: the 2008 Series A Assessment Bonds in the principal amount of \$354,420, the 2009 Series A Sales Tax Bonds in the principal amount of \$79,645, and the 2009 Series B Sales Tax Bonds in the principal amount of \$39,365.

Principal on the 2008 Series A Assessment Bonds is payable beginning July 1, 2013 and on each July 1st through July 1, 2034. Interest on these bonds is payable semiannually on July 1 and January 1. The 2008 Series A Assessment Bonds were issued to fund a portion of the Authority's CIP and to retire \$110,000 in outstanding commercial paper notes that were issued to fund capital expenditures related to the CIP.

The 2009 Series A Sales Tax Bonds were variable rate bonds that were subject to mandatory tender on February 17, 2010 pursuant to the Authority's current plan of finance. The Authority refinanced these bonds with proceeds of the 2010 Series A Sales Tax Bonds. Proceeds of the 2009 Series A Sales Tax Bonds in the amount of \$76,197 were used to fund a portion of the Authority's CIP.

Principal of the 2009 Series B Sales Tax Bonds is payable July 1, 2017 and July 1, 2018. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series B Sales Tax Bonds were issued to finance a current refunding of \$35,000 in General Transportation System bonds due March 1, 2009 and to refund the July 1, 2010 maturity of the 2000 Series A Sales Tax bonds in the amount of \$8,770.

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

The Authority issued commercial paper notes (BANs) to redeem the Authority's 2003 Series B Auction Rate Bonds with a balance of \$93,375 outstanding as of June 30, 2010. The total BANs included CP Sales Tax Series A in the amount of \$46,125 a weighted average nominal rate 0.56314% and CP Sales Tax Series B in the amount of \$47,250 a weighted average nominal rate 0.28753%.

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Grant Anticipation Notes (GANs) were issued in 2004 and the principal is payable in annual installments on September 1st; interest is payable semiannually on March 1 and September 1. The GANs were issued to provide funds for the financing of the Authority's transportation properties.

Boston Metropolitan District (BMD) bonds were issued for transit purposes prior to the formation of the Authority in 1964. Certain series of BMD bonds were refunded after 1964.

The Authority's bonds outstanding at June 30, 2010 are as follows:

	<u>Final year of maturity</u>	<u>Interest rates</u>	<u>Outstanding principal June 30, 2010</u>	<u>Due in fiscal year 2011</u>
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	\$ 6,900	1,725
1991 Series A Bonds dated November 15, 1991	2021	7.00%	75,000	—
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20%	125,200	4,890
1992 Series C Bonds dated November 15, 1992	2013	6.10%	15,575	—
1993 Series A Refunding Bonds dated June 1, 1993	2012	5.50%	29,375	23,425
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.00%	67,445	22,860
1995 Series A Bonds dated April 1, 1995	2015	5.75% – 5.88%	64,070	11,435
1998 Series A Bonds dated February 15, 1998	2015	5.50%	48,900	13,430
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	97,300	25,250
1999 Series Variable Rate Demand Obligation dated June 29, 1999*	2014	Variable	25,455	5,735
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	188,000	—
			<u>743,220</u>	<u>108,750</u>

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	<u>Final year of maturity</u>	<u>Interest rates</u>	<u>Outstanding principal June 30, 2010</u>	<u>Due in fiscal year 2011</u>
Boston metropolitan district bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	\$ 10,190	2,060
			<u>10,190</u>	<u>2,060</u>
Revenue bonds:				
2002 Series A Senior Sales Tax Bond dated November 1, 2002	2017	3.88% – 5.00%	18,530	—
2003 Series A Senior Sales Tax Bond dated January 29, 2003	2021	4.00% – 5.25%	176,725	17,930
2003 Series C Senior Sales Tax Bond dated February 3, 2004**	2023	2.20% – 6.00%	219,370	750
2004 Series A Senior Sales Tax Bond dated February 3, 2004	2016	5.00% – 5.25%	16,455	—
2004 Series B Senior Sales Tax Bond dated March 9, 2004	2030	3.00% – 5.25%	499,920	11,860
2004 Series A Assessment Bond dated June 10, 2004	2021	3.00% – 5.25%	49,585	4,000
2004 Series C Senior Sales Tax dated December 22, 2004	2024	3.50% – 5.50%	323,275	—
2005 Series A Senior Sales Tax dated March 24, 2005	2031	5.00%	735,450	—
2005 Series A Assessment Bond dated September 8, 2005	2035	3.20% – 5.00%	197,250	5,000
2005 Series B Senior Sales Tax dated December 21, 2005	2029	3.40% – 5.50%	92,275	50
2006 Series A Senior Sales Tax Bond dated March 2, 2006	2034	5.25%	238,850	—
2006 Series B Senior Sales Tax Bond dated December 5, 2006	2023	5.00% – 5.25%	212,960	4,960
2006 Series C Senior Sales Tax Bond dated June 28, 2006	2027	4.00% – 5.00%	136,305	385
2006 Series A Assessment Bonds dated September 13, 2006***	2035	4.67% – 5.25%	161,340	—
2007 Series A-1 Senior Sales Tax Bond dated May 24, 2007	2034	5.25%	205,675	—
2007 Series A-2 Senior Sales Tax Bond dated May 24, 2007	2037	Zero Coupon	154,353	—



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	<u>Final year of maturity</u>	<u>Interest rates</u>	<u>Outstanding principal June 30, 2010</u>	<u>Due in fiscal year 2011</u>
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2037	Variable	\$ 131,910	465
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	Variable	124,465	—
2008 Series B Senior Sales Tax Bond dated April 30, 2008	2033	3.00% – 5.25%	49,770	—
2008 Series A Assessment Bond dated November 13, 2008	2034	4.00% – 5.25%	354,420	—
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%	39,840	—
2010 Series A Senior Sales Tax dated February 17, 2010****	2030	Variable	80,255	—
2010 Series B Senior Sales Tax dated April 6, 2010	2035	2.00% – 5.00%	79,020	—
			<u>4,337,363</u>	<u>45,400</u>
Revenue Build America (BABs) Bonds:				
2009 Series C Senior Sales Tax dated October 29, 2009	2039	4.75% – 5.57%	218,300	—
			<u>218,300</u>	<u>—</u>
Grant Anticipation Notes (GANs):				
2004 Series A Grant Anticipation Notes dated August 5, 2004	2011	2.75% – 5.00%	23,635	17,390
Bond Anticipation Notes (BAN)	2010	0.26% – 0.60%	93,375	93,375
Total bond and notes payable			5,426,083	\$ <u>266,975</u>
Less current maturities			<u>(266,975)</u>	
Total long-term bonds payable			5,159,108	
Plus unamortized bond premiums			329,464	
Less unamortized bond discounts/ losses on bond refundings, net			<u>(233,427)</u>	
Total long-term bonds payable			\$ <u>5,255,145</u>	

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- \* These bonds were issued as variable rate demand obligations and bear interest at a variable rate. The interest rates as of June 30, 2010 and 2009 are 0.26% and 0.35% for the 1999 Series Variable Rate Demand Obligation; 0.25% and 0.85% for the 2000 Series Variable Rate Demand Obligation; 0.20% and 0.12% for the 2008 Series A-1 Senior Sales Tax Bond; and 0.20% and 0.30% for the 2008 Series A-2 Senior Sales Tax Bond, respectively.
- \*\* The 2020 maturity in the amount of \$25,005 is variable debt based on the MUNI-CPI rate.
- \*\*\* 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.
- \*\*\*\* This bond is variable debt based on the SIFMA rate, plus 0.09%.

The annual maturities of bonds and notes payable as of June 30, 2010 are as follows:

	<b>Principal</b>	<b>Interest</b>
Fiscal year(s):		
2011	\$ 266,975	265,886
2012	188,505	257,157
2013	213,785	247,601
2014	219,030	235,572
2015	218,710	223,225
2016 – 2020	1,149,890	932,154
2021 – 2025	1,187,599	668,026
2026 – 2030	1,072,560	417,528
2031 – 2035	770,309	189,591
2036 – 2040	138,720	57,151
Total	\$ 5,426,083	3,493,891

A summary rollforward of bonds for the years ended June 30, 2010 and 2009 is as follows:

	<b>2010</b>					<b>Balance</b>
	<b>Balance</b>	<b>Bonds</b>	<b>Principal</b>	<b>Refunded/</b>	<b>Capital</b>	<b>Balance</b>
	<b>2009</b>	<b>issued</b>	<b>payments</b>	<b>redeemed</b>	<b>appreciation</b>	<b>2010</b>
				<b>principal</b>	<b>bond accretion</b>	
GTS	\$ 855,535	—	112,315	—	—	743,220
BMD	12,260	—	2,070	—	—	10,190
Revenue	4,306,104	199,115	13,895	161,015	7,054	4,337,363
BABs	—	218,300	—	—	—	218,300
GANs	40,300	—	16,665	—	—	23,635
BANs	93,375	20,000	20,000	—	—	93,375
	\$ 5,307,574	437,415	164,945	161,015	7,054	5,426,083

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	2009					
	Balance 2008	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2009
GTS	\$ 955,340	—	64,805	35,000	—	855,535
BMD	14,585	—	2,325	—	—	12,260
Revenue	3,854,223	473,430	19,510	8,770	6,731	4,306,104
GANs	56,275	—	15,975	—	—	40,300
BANs	105,775	97,600	110,000	—	—	93,375
	<u>\$ 4,986,198</u>	<u>571,030</u>	<u>212,615</u>	<u>43,770</u>	<u>6,731</u>	<u>5,307,574</u>

The following funds, included in restricted assets at June 30, 2010 and 2009, are in connection with the Authority's revenue bond trust agreements:

	2010			2009		
	Assessment bonds	Sales Tax bonds	GANs	Assessment bonds	Sales Tax bonds	GANs
Debt service	\$ 27,279	161,360	171	23,846	131,973	—
Debt service reserve	75,444	182,257	8,334	76,756	172,112	8,520
	<u>\$ 102,723</u>	<u>343,617</u>	<u>8,505</u>	<u>100,602</u>	<u>304,085</u>	<u>8,520</u>

The minimum required balances in the debt service reserve funds at June 30, 2010 and 2009 were \$69,375 and \$72,769 for the Assessment bonds and \$190,100 and \$174,504 for the Sales Tax bonds, respectively. The minimum required balance in the debt service reserve funds at June 30, 2010 and 2009 for GANs is \$2,344 and \$4,107, respectively. The Authority has complied with its financial bond covenants.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to pay its capital costs. The Authority has a \$250 million commercial paper program. \$150 million is administered by JPMorgan and \$100 million by Barclays Capital Inc. The Authority's commercial paper (or BANs) is rated P-1 by Moody's Investor Services and A-1+ by S&P. The Authority had \$93,375 in outstanding commercial paper as of June 30, 2010.

**(b) Debt Refundings**

In current and prior years, the Authority defeased in-substance several GTS, Sales Tax Series, and Assessment Series bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2010 and 2009, \$1,610,475 and \$1,571,510 of these bonds, considered defeased in-substance, are still outstanding, respectively. On June 30, 2010 and 2009, \$4,060 in BMD bonds are considered defeased in-substance, and are still outstanding.

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In February 2010, the authority refunded \$79,645 of the 2009 A Sales Tax Bonds with the issuance of 2010 Series A Sales Tax Bonds variable rate demand obligation.

In April 2010, the Authority refunded \$41,785 of the 2000 Series A Assessment Bonds and refunded \$39,585 of the 2005 Series A Senior Sales Tax Bonds with the issuance of the 2010 Series B Senior Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the \$81,370 in bonds is approximately \$6,517. The accounting loss of \$1,969 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2010 Series B Senior Sales Tax Bonds.

In February 2009, the Authority refunded \$1,855 of the 1994 Series A General Transportation System Bonds, \$33,145 of the 1998 Series C General Transportation System Bonds, and \$8,770 of the 2000 Series A Sales Tax Bonds, with the issuance of the 2009 Series B Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the \$43,770 in bonds is approximately \$10,540. The accounting loss of \$1,429 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2009 Series B Sales Tax Bonds.

(c) ***Derivative Instruments***

The Authority has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps). When the Authority has entered into Swaps, the Authority has done so in order to: (1) provide lower cost fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long-term fixed rate returns on invested assets in its required reserve funds; (3) create synthetic refinancing with cash flow savings realized as the Authority designates; or (4) create a synthetic fixed rate for the purchase of vehicular fuel for fixed periods of time rather than being exposed to unpredictable variations in fuel prices on the spot market. All premiums/up-front payments received by the Authority in connection with the Swaps are deferred and amortized into income over the life of the swap/swaption. The premiums/up-front payments are included in the long-term liability deferred revenue and other on the statement of net assets.

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**Summary of Swap Transactions by Category**

*Synthetic Fixed Rate Swap Transactions*

Derivative item	Type	Objective	Effective date	Notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Lump-sum payment from counterparty	Fair value at June 30	
									2010	2009
Cash flow hedges:										
1	Pay-fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	\$ 188,000	2030	5.00%	67% of LIBOR	\$ 12,230 (August 2005)	(45,426)	(36,607)
3	Pay-fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2003 C	February 2004	25,005	2020	4.13	CPI+79 basis points	N/A	(1,857)	(1,799)
4	Pay-fixed interest rate swap	Hedge changes in cash flows on the Assessment Series 2006 A	October 2008	19,260	2024	4.67	CPI+123 basis points	607	(731)	(680)
5	Pay-fixed interest rate swap	Hedge changes in cash flows on the Assessment Series 2006 A	October 2008	5,000	2025	4.66	SIFMA	142	(179)	(171)
6	Pay-fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-1	October 2008	131,910	2021	3.83	SIFMA to June 30, 2010 and thereafter receives 62% of LIBOR plus 24 basis points	3,067	(13,608)	(6,296)
7	Pay-fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	124,465	2026	3.08	SIFMA	116	(12,581)	(6,632)
8	Pay-fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2009 A	March 2009	79,645	2030	5.61	SIFMA	4,140 (August 2005)	(24,283)	(19,131)
									(98,665)	(71,316)

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Derivative item	Type	Objective	Effective date	Notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Lump-sum payment from counterparty	Fair value at	
									2010	2009
Investment derivatives:										
2	Pay-fixed interest rate swap	(a) Originally to hedge changes in cash flows on variable rate debt	February 2003	\$ 87,805	2022	5.20	SIFMA	\$ 4,586 (August 2007)	(19,544)	(15,915)
9	Received-fixed interest rate swap	(b) Hedge changes in cash flows on the debt service reserve funds of the 2000 Assessment and Sales Tax Bonds	December 2000	49,123	2030	5.60	SIFMA	1,265	(2,333)	(2,558)
									<u>(21,877)</u>	<u>(18,473)</u>
									<u>\$ (120,542)</u>	<u>(89,789)</u>

- (a) The 2003 B-1 and 2003 B-2 hedged bonds were legally redeemed in March 2008 through the issuance of commercial paper.  
(b) This is a swaption with exercise dates of January 1 and July 1 from July 2010 through July 2030.

The aggregate fair value balance of the derivative instruments at June 30, 2010 and 2009 is \$(120,542) and \$(89,789), respectively, and is reflected on the Authority's statement of net assets as liability for derivative instruments. Of this liability, \$98,665 and \$71,316, at June 30, 2010 and 2009, respectively, were offset by deferred outflows from derivative instruments that qualify for hedge accounting. As of June 30, 2010, 2009, and 2008, the Authority determined that the investment derivative instruments do not meet the criteria for effectiveness. Accordingly, the fair value at June 30, 2008, \$(14,577) was charged to beginning net assets and decrease in fair value of the swap, \$(3,404) and \$(3,896) in fiscal year 2010 and 2009, respectively, was reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net assets.

The fair values of the interest rate swaps were calculated by a third party derivative advisor where each leg of the swap is valued utilizing the present value of expected future cash flows based on the contractual terms of each swap or an "at the market rate" in accordance with GASB Statement No. 53. Expected cash flows are discounted using the US Dollar Swap curve provided by independent third parties such as Bloomberg.

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*Swap Payments and Associated Debt*

As of June 30, 2010, debt service requirements of the GTS Series 2000 VRDO Bonds (2000 Bonds) and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of LIBOR rate is 0.20477% and the variable rate on the 2000 Bonds is 0.25% through the term of the swap, were as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2000 Bonds principal</b>	<b>2000 Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2011	\$ —	470	9,015	9,485
2012	2,335	464	8,903	11,702
2013	5,460	451	8,641	14,552
2014	5,845	436	8,361	14,642
2015	6,250	420	8,061	14,731
2016 – 2020	38,475	1,826	35,021	75,322
2021 – 2025	53,960	1,234	23,668	78,862
2026 – 2030	75,675	404	7,748	83,827
<b>Totals</b>	<b>\$ 188,000</b>	<b>5,705</b>	<b>109,418</b>	<b>303,123</b>

As of June 30, 2010, debt service requirements on the 2003 Series C Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming CPI rate of 2.614% plus 79 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2003 Series C Sales Tax Bonds principal</b>	<b>2003 Series C Sales Tax Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2011	\$ —	851	182	1,033
2012	—	851	182	1,033
2013	—	851	182	1,033
2014	—	851	182	1,033
2015	—	851	182	1,033
2016 – 2020	25,005	3,972	847	29,824
	<b>\$ 25,005</b>	<b>8,227</b>	<b>1,757</b>	<b>34,989</b>

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As of June 30, 2010, debt service requirements on 2006 Series A Assessment Bonds and net swap payments, applying the fixed rate on the swap of 4.67% and assuming the CPI rate of 2.614% plus 123 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2006 Series A Assessment Bonds principal</b>	<b>2006 Series A Assessment Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2011	\$ —	758	159	917
2012	—	758	159	917
2013	—	758	159	917
2014	—	758	159	917
2015	—	758	159	917
2016 – 2020	—	3,788	795	4,583
2021 – 2025	19,260	3,030	636	22,926
	<u>\$ 19,260</u>	<u>10,608</u>	<u>2,226</u>	<u>32,094</u>

As of June 30, 2010, debt service requirements on 2006 Series A Assessment Bonds and net swap payments, applying the fixed rate on the swap of 4.66% and assuming the CPI rate of 2.614% plus 123 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2006 Series A Assessment Bonds principal</b>	<b>2006 Series A Assessment Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2011	\$ —	197	41	238
2012	—	197	41	238
2013	—	197	41	238
2014	—	197	41	238
2015	—	197	41	238
2016 – 2020	—	985	205	1,190
2021 – 2025	—	985	205	1,190
2026	5,000	—	—	5,000
	<u>\$ 5,000</u>	<u>2,955</u>	<u>615</u>	<u>8,570</u>



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As of June 30, 2010, debt service requirements on 2008 Series A-1 Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the SIFMA index rate is 0.31% and the variable rate on 2008 Series A-1 bonds is 0.20% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2008 Series A-1 Sales Tax Bonds principal</b>	<b>2008 Series A-1 Sales Tax Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2011	\$ —	264	4,649	4,913
2012	—	264	4,649	4,913
2013	—	264	4,649	4,913
2014	135	264	4,644	5,043
2015	735	262	4,618	5,615
2016 – 2020	81,420	907	15,989	98,316
2021 – 2022	49,620	57	1,006	50,683
	<u>\$ 131,910</u>	<u>2,282</u>	<u>40,204</u>	<u>174,396</u>

As of June 30, 2010, debt service requirements on 2008 Series A-2 Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.083% and assuming the SIFMA index rate is 0.31% and the variable rate on 2008 Series A-1 bonds is 0.20% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2008 Series A-2 Sales Tax Bonds principal</b>	<b>2008 Series A-2 Sales Tax Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2011	\$ 465	248	3,439	4,152
2012	485	247	3,425	4,157
2013	500	246	3,411	4,157
2014	515	245	3,397	4,157
2015	535	244	3,382	4,161
2016 – 2020	2,935	1,202	16,671	20,808
2021 – 2025	74,220	890	12,340	87,450
2026 – 2027	44,810	38	524	45,372
	<u>\$ 124,465</u>	<u>3,360</u>	<u>46,589</u>	<u>174,414</u>

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As of June 30, 2010, debt service requirements on 2010 Series A Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.31% and the variable rate on 2010 Series A Bonds is 0.31% plus 9 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2010 bonds will vary.

<b>Fiscal year(s) ending June 30</b>	<b>2010 Series A Sales Tax Bonds principal</b>	<b>2010 Series A Sales Tax Bonds interest</b>	<b>Interest rate swap, net</b>	<b>Total</b>
2011	\$ —	319	4,221	4,540
2012	—	319	4,221	4,540
2013	—	319	4,221	4,540
2014	—	319	4,221	4,540
2015	—	319	4,221	4,540
2016 – 2020	—	1,593	21,105	22,698
2021 – 2025	9,515	1,555	20,602	31,672
2026 – 2030	56,705	746	9,913	67,364
2031	13,425	—	—	13,425
	<u>\$ 79,645</u>	<u>5,489</u>	<u>72,725</u>	<u>157,859</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 this risk at the reporting date is the fair value of the swaps, 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, 2010:

Derivative swap item	Counterparty credit rating Moody's/S&P
Derivative 1	Aa3/A+
Derivative 2	Aa1/AA-
Derivative 3	A2/A
Derivative 4	Aa3/A+
Derivative 5	Aa3/A+
Derivative 6	Aa3/A+
Derivative 7	Aa3/A+
Derivative 8	Aa1/AA-
Derivative 9	Aa3/A+

*Basis Risk* – The Authority is exposed to basis risk if the relationship between the floating rate the Authority receives under the swaps falls short of the variable rate on the associated bonds. Should this occur, the expected saving may not be realized.

*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 a swap does not match the term or maturity of the debt associated with the hedge. The Authority has no rollover risk at June 30, 2010 as the term periods for all the Authority's swaps match the maturities of their associated debt.

**(18) MBTA – Retirement Plans**

The Authority provides retirement benefits to employees through four defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Plan, the MBTA Police Association Plan, the MBTA Deferred Compensation Plan, the MBTA Qualified Deferred Compensation Plan, and the MBTA Deferred Compensation Savings Plan. The Authority also provides supplemental pension benefits after retirement.

The MBTA Retirement Plan, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. This retirement plan and the MBTA Police Association Plan, a single-employer plan, provide retirement, disability, and death benefits. The MBTA Retirement Plan issues separately audited financial statements that may be

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obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Plan does not issue separately audited financial statements.

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

The Authority created a new qualified deferred compensation plan effective January 1, 2001. The plan is designed to supplement the Authority's Retirement Plan (Main Fund). Covered employees include all actively employed nonunion employees who are participating in the Authority's Main Fund or the Police Association Retirement Plan. Employees are eligible after five years with the Authority, if they have reached age 30 and are paid as part of the executive payroll. The plan currently provides benefits for 187 retirees. The MBTA Qualified Deferred Compensation Plan does not issue separately audited financial statements. An actuarial valuation was performed on this plan; however, the cost of this plan to the Authority for fiscal year 2010 was minimal and no contributions were made to this plan in fiscal year 2010. In addition, the net pension obligation is considered immaterial.

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

The board of trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members, as of May 8, 2010, to contribute 5.124% with the Authority currently paying an amount equal to 14.026% of total payroll. The members contributed 4.301% prior to May 8, 2010 with the Authority paying an amount equal to approximately 11.559% of total payroll. The actuarial required contribution rate for the Authority was 14.2318%. The contribution requirements for the Police Association Plan were 14.6120% for the Authority and 7.2850% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made in 2010 and 2009 were in accordance with these contribution requirements.

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Deferred compensation contributions are made on a “pay-as-you-go” basis. The Authority’s annual pension cost for the years ended June 30, 2010 and 2009 and related information for each plan is as follows:

<b>Pension</b>	<b>2010</b>		
	<b>MBTA Retirement Plan</b>	<b>MBTA Police Association Plan</b>	<b>MBTA Deferred Compensation Plan</b>
Annual pension cost – authority	\$ 53,887	2,468	5,602
Contributions made – authority	42,920	2,140	4,904
Actuarial valuation date/update	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	30 years	30 years	30 years
Asset valuation method	5-year moving	5-year moving	5-year moving
Actuarial assumptions:			
Interest rate	7.50%	7.00%	8.00%
Projected salary increases	4.00	4.50	4.00
<b>Pension</b>	<b>2009</b>		
	<b>MBTA Retirement Plan</b>	<b>MBTA Police Association Plan</b>	<b>MBTA Deferred Compensation Plan</b>
Annual pension cost – authority	\$ 44,642	2,230	5,320
Contributions made – authority	35,495	2,220	4,763
Actuarial valuation date/update	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	30 years	30 years	30 years
Asset valuation method	5-year moving	5-year moving	5-year moving
Actuarial assumptions:			
Interest rate	7.00%	7.00%	7.00%
Projected salary increases	5.00	4.50	5.00

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Changes in the net pension obligation for these plans for the years ended June 30, 2010 and 2009 are as follows:

<u>Pension</u>	<b>2010</b>		
	<u>MBTA Retirement Plan</u>	<u>MBTA Police Association Plan</u>	<u>MBTA Deferred Compensation Plan</u>
Net pension obligation, beginning of year	\$ (22,048)	(837)	(7,978)
Annual pension cost	(53,887)	(2,468)	(5,602)
Contributions and other adjustments	42,920	2,140	4,904
Net pension obligation, end of year	<u>\$ (33,015)</u>	<u>(1,165)</u>	<u>(8,676)</u>
	<b>2009</b>		
<u>Pension</u>	<u>MBTA Retirement Plan</u>	<u>MBTA Police Association Plan</u>	<u>MBTA Deferred Compensation Plan</u>
Net pension obligation, beginning of year	\$ (12,901)	(827)	(7,421)
Annual pension cost	(44,642)	(2,230)	(5,320)
Contributions and other adjustments	35,495	2,220	4,763
Net pension obligation, end of year	<u>\$ (22,048)</u>	<u>(837)</u>	<u>(7,978)</u>

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**(b) Three-Year Trend Information**

	<u>Year ending</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
MBTA Retirement Plan	June 30, 2008	\$ 37,106	94%	\$ (12,901)
	June 30, 2009	44,642	80	(22,048)
	June 30, 2010	53,887	80	(33,015)
MBTA Police Association Plan	June 30, 2008	\$ 2,163	85%	\$ (827)
	June 30, 2009	2,230	99	(837)
	June 30, 2010	2,468	87	(1,165)
MBTA Deferred Compensation Plan	June 30, 2008	\$ 5,162	89%	\$ (7,421)
	June 30, 2009	5,320	90	(7,978)
	June 30, 2010	5,602	88	(8,676)

**(c) Actuarial Funded Status**

**MBTA Retirement and Police Association Plans**

<u>Valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>(Funded) unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
Retirement Plan:						
December 31, 2008	\$ 1,729,738	2,141,576	411,838	80.77%	\$ 377,795	109.01%
Police Association Plan:						
December 31, 2008	47,594	60,029	12,435	79.29	15,766	78.87

**MBTA Deferred Compensation Plan**

The MBTA Deferred Compensation Plan is not currently funded; as a result, the normal schedule of funding progress would show no provision having been made for the cost of this plan.

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In the table below, column (b) which normally would have contained the plan's assets, contains instead the net pension obligation (amounts previously charged against operations but not yet contributed to the plan). This alternative presentation shows how much of the cost of the program has been charged against operations in prior years.

<u>Valuation date</u>	<u>Actuarial accrued liability (a)</u>	<u>Net pension obligation (b)</u>	<u>Actuarial accrued liability (c) (a)-(b)</u>	<u>Recognized ratio (d) (b)/(a)</u>	<u>Unrecognized ratio (e) (c)/(a)</u>	<u>Covered payroll (f)</u>
July 1, 2009	\$ 47,363	7,978	39,385	16.8%	83.2%	\$ 34,446

The schedule of funding progress, is available in the complete set of the Authority's financial statements, but is not presented in MassDOT's financial statements.

**(d) *The MBTA Deferred Compensation Savings Plan***

The Authority provides a defined contribution retirement plan for nonunion and grandfathered union management not participating in the MBTA Retirement Plan. Authority employee trustees administer the plan and recommend benefit amendments that require approval from the Authority's general manager. The plan requires members to contribute 4% of total covered payroll with the Authority contributing 8%. The plan has approximately 268 and 276 members at June 30, 2010 and 2009, respectively, and the cost of the Plan to the Authority was \$653 and \$842 for fiscal years 2010 and 2009, respectively. 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.

**(19) MBTA – Lease Obligations**

**(a) *Lease-In/Lease-Out (LILO)***

The Authority has entered into various lease/sublease financing arrangements for heavy rail, commuter rail cars, and buildings. These agreements provide for the lease of the property and equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for various periods. At the time of these transactions, funds were deposited with financial institutions sufficient to meet all payment obligations under the terms of the lease agreements and U.S. Treasury strips were purchased in an amount sufficient to satisfy each agreement's purchase option price provided for in the leases.

**(b) *Sale-In/Lease-Out***

Guaranteed debt and equity payment undertaking agreements were in place at AAA/Aaa-rated financial institutions, until this institution's credit rating was downgraded. Pursuant to requirements of these agreements, collateral was posted in July 2008, for the Authority's benefit. The Authority and the equity investor agreed, subsequent to June 30, 2009, to terminate these payment undertaking agreements and replace the guarantor with an obligation assumed by the Authority. The net



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economic gain for terminating these agreements to the Authority was \$797, which was recorded to the Authority's deferred lease benefit accounts, in fiscal year 2010.

(c) ***Cross-Border Leases and Other Capital Lease Arrangements***

The Authority has entered into cross-border leases related to the financing of heavy rail cars. Provisions in these leases allow for the Authority to sell and lease back the equipment over a period of years. Additionally, the lease agreements include a purchase option granting the Authority the right to purchase the equipment at the end of the lease terms. The Authority has deposited funds with financial institutions sufficient to meet all of its payment obligations under the terms of the leases. Because the transaction does not meet the criteria for an "in-substance defeasance," funds on deposit and the related lease liability have been included in the accompanying financial statements.

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

The following is a schedule by year of future minimum lease payments under the LILO, cross-border, and other capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2010:

Fiscal year(s):		
2011	\$	60,479
2012		64,035
2013		66,633
2014		59,595
2015		52,568
2016 – 2020		4,735
2021 – 2023		35,977
		344,022
Less amount representing interest		(44,992)
Present value of net minimum lease payments		299,030
Less current principal maturities		(36,871)
Obligations under capital leases	\$	262,159

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The liability for these leases changed in 2010 and 2009 as follows:

Outstanding – June 30, 2008	\$	674,841
Net change in obligation		<u>(378,802)</u>
Outstanding – June 30, 2009		296,039
Net change in obligation		<u>2,991</u>
Outstanding – June 30, 2010	\$	<u><u>299,030</u></u>

**(d) Operating Leases**

The Authority has entered into several sale-leaseback agreements with major financial institutions (the lessors) covering equipment and rolling stock. The leases mature through 2013. At the end of the lease terms, the Authority may purchase the vehicles at prices equal to the lesser of a stated percentage (40% – 70%) of the lessors’ original purchase price or residual fair market value, as defined.

The leases have been accounted for as operating leases. Prior to July 1, 2000, payments for these leases were eligible for 90% reimbursement from the Commonwealth. After July 1, 2000, the Authority is no longer entitled to and has not received any of this assistance from the Commonwealth. However, these leases will continue to be guaranteed by the Commonwealth.

Future minimum operating lease payments at June 30, 2010 are as follows:

Fiscal year:		
2011	\$	10,845
2012		9,930
2013		<u>6,177</u>
	\$	<u><u>26,952</u></u>

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**(20) MBTA – Capital Assets**

Capital assets at June 30, 2010 and 2009 are as follows:

	<b>Beginning balance June 30, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance June 30, 2010</b>
Capital assets not being depreciated:				
Land	\$ 308,648	4,213	649	312,212
Construction work in progress	468,772	374,929	364,514	479,187
Total capital assets not being depreciated	<u>777,420</u>	<u>379,142</u>	<u>365,163</u>	<u>791,399</u>
Other capital assets:				
Ways and structures	8,897,344	285,862	—	9,183,206
Buildings and equipment	2,275,661	74,712	18,876	2,331,497
Buildings and equipment included in capital lease	413,940	—	6,427	407,513
Total	<u>11,586,945</u>	<u>360,574</u>	<u>25,303</u>	<u>11,922,216</u>
Less accumulated depreciation for:				
Ways and structures	2,952,887	202,913	—	3,155,800
Buildings and equipment	1,024,536	125,928	18,876	1,131,588
Buildings and equipment included in capital lease	270,908	16,298	6,427	280,779
Total	<u>4,248,331</u>	<u>345,139</u>	<u>25,303</u>	<u>4,568,167</u>
Other capital assets, net	<u>7,338,614</u>	<u>15,435</u>	<u>—</u>	<u>7,354,049</u>
Capital assets, net	<u>\$ 8,116,034</u>	<u>394,577</u>	<u>365,163</u>	<u>8,145,448</u>

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	<b>Beginning balance June 30, 2008</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance June 30, 2009</b>
Capital assets not being depreciated:				
Land	\$ 309,228	—	580	308,648
Construction work in progress	544,902	474,040	550,170	468,772
Total capital assets not being depreciated	<u>854,130</u>	<u>474,040</u>	<u>550,750</u>	<u>777,420</u>
Other capital assets:				
Ways and structures	8,311,898	585,446	—	8,897,344
Ways and structures included in capital lease	298,169	—	298,169	—
Buildings and equipment	2,032,728	328,211	85,278	2,275,661
Buildings and equipment included in capital lease	476,941	—	63,001	413,940
Total	<u>11,119,736</u>	<u>913,657</u>	<u>446,448</u>	<u>11,586,945</u>
Less accumulated depreciation for:				
Ways and structures	2,706,308	246,579	—	2,952,887
Ways and structures included in capital lease	50,648	—	50,648	—
Buildings and equipment	951,745	158,069	85,278	1,024,536
Buildings and equipment included in capital lease	287,805	13,510	30,407	270,908
Total	<u>3,996,506</u>	<u>418,158</u>	<u>166,333</u>	<u>4,248,331</u>
Other capital assets, net	<u>7,123,230</u>	<u>495,499</u>	<u>280,115</u>	<u>7,338,614</u>
Capital assets, net	<u>\$ 7,977,360</u>	<u>969,539</u>	<u>830,865</u>	<u>8,116,034</u>

**(21) 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 \$5,000 subsequent to March 1, 2007, and \$350 per incident prior to that date. The Authority is self-insured for workers compensation, unemployment

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claims, vehicle damage and loss, and health insurance. The Authority pays 85% of all health premiums up to a maximum of \$200 per individual for all Blue Cross plans and \$100 per individual for Harvard and Tufts plans. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth. The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness.

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 years 2010 and 2009, expenditures for claims and judgments, excluding workers compensation, and health and life, were \$14,054 and \$19,311, respectively. Expenditures for claims related to workers compensation were \$10,897 and \$8,675, and expenditures for the self-insured health plans were \$128,458 and \$123,204 for the years ended June 30, 2010 and 2009, respectively.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2010, 2009, and 2008. Changes in the self-insurance liabilities in fiscal years 2010, 2009, and 2008 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Liability, beginning of year	\$ 98,280	97,145	112,415
Provisions for claims	153,409	151,190	135,363
Payments	<u>(154,154)</u>	<u>(150,055)</u>	<u>(150,633)</u>
Liability, end of year	<u>\$ 97,535</u>	<u>98,280</u>	<u>97,145</u>

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**(22) MBTA – Commitments and Contingencies**

**(a) Capital Investment Program**

The Authority's continuing capital investment program (CIP) for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2010 and 2009, 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, 2010</u>	<u>Unexpended costs</u>
Federal grants	\$ 6,055,445	5,928,534	126,911
State and local sources	1,736,144	1,658,316	77,828
Authority bonds	5,655,607	5,204,027	451,580
Total	\$ 13,447,196	12,790,877	656,319

<u>Funding source</u>	<u>Approved project costs</u>	<u>Expenditures through June 30, 2009</u>	<u>Unexpended costs</u>
Federal grants	\$ 5,924,880	5,786,674	138,206
State and local sources	1,672,428	1,598,592	73,836
Authority bonds	5,416,202	5,015,415	400,787
Total	\$ 13,013,510	12,400,681	612,829

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.

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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 \$212,087 and \$260,844 at June 30, 2010 and 2009, respectively.

**(b) *Legal and Other***

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

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

**(23) MBTA – Other Postemployment Benefits**

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

**(a) *Plan Description***

In addition to providing the pension benefits described, the Authority provides postemployment healthcare and life insurance benefits (OPEB) for retired employees under any of the medical benefit programs then offered and available by the Authority. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of June 30, 2009, the actuarial valuation/update date for fiscal year 2010, approximately 5,051 retirees and 5,576 active employees meet the eligibility requirements. As of June 30, 2008, the actuarial valuation date for fiscal year 2009, approximately 4,954 retirees and 5,665 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

**(b) *Benefits Provided***

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

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(c) ***Funding Policy***

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the Commonwealth of Massachusetts Group Insurance Commission (GIC) for health, life and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. In FY 2010 approximately 400 nonaffiliated retirees transferred to the GIC on January 1, 2010.

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

Currently, the remaining affiliated population covered by collective bargaining agreements, have not transitioned into the GIC due to the expiration dates and/or rollover provisions in their collective bargaining agreements. The provisions of the MBTA plans utilized by these retirees provides 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.



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**(d) Annual OPEB Costs and Net OPEB Obligation**

The Authority's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. 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, 2010 and 2009, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on the actuarial valuations/update as of June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
ARC	\$ 146,389	153,284
Interest on net OPEB obligation	8,917	4,772
Amortization adjustment to ARC	(12,758)	(6,706)
Annual OPEB cost	142,548	151,350
Contributions made	(61,712)	(56,718)
Change in net OPEB obligation	80,836	94,632
Net OPEB obligation – beginning of year	203,573	108,941
Net OPEB obligation – end of year	\$ 284,409	203,573

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

<b>Fiscal year ended</b>	<b>Annual OPEB cost</b>	<b>Percentage of OPEB cost contributed</b>	<b>Net OPEB obligation</b>
2010	\$ 142,547	43%	\$ 284,409
2009	151,350	37	203,573

The Authority's net OPEB obligation as of June 30, 2010 and 2009 is recorded as "Other postemployment benefits" line item.

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**(e) Funded Status and Funding Progress**

The funded status of the plan was based on an actuarial valuation as of June 30, 2009 projected to June 30, 2010 as follows:

Actuarial accrued liability (AAL)	\$	1,555,394
Actuarial value of plan assets		—
		—
Unfunded actuarial accrued liability (UAAL)	\$	1,555,394
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	\$	428,007
UAAL as a percentage of covered payroll		363.4%

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 is available in the complete set of the Authority's financial statements, but is not presented in MassDOT's financial statements.

**(f) Actuarial Methods and Assumptions**

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

In the June 30, 2009 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 4.38% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 8.75% for retirees in year one, 8.25% for all in year two, 7.75% in year three, 7.25% in year four, 6.75% in year five, 6.25% in year six, 5.75% in year seven, 5.25% in year eight and 5.00% long-term trend rate for all healthcare benefits thereafter. The amortization costs for the initial UAAL is a level dollar closed amortization for a period of 30 years.

In the June 30, 2008 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 4.38% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 8.00% for retirees in year one, 7.50% for all in year two, 7.00% in year three, 6.50% in year four, 6.00% in year five, 5.50% in year six and 5.00% long-term

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trend rate for all healthcare benefits thereafter. The amortization costs for the initial UAAL is a level dollar closed amortization for a period of 30 years.

**(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 clean up efforts. In compliance with the statement, the Authority has restated beginning net assets and established a liability on its balance sheet for current and future expenses.

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 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.

In response to a Federal Clean Air Act (CAA) enforcement action for excessive train engine idling, the U.S. EPA and the U.S. Department of Justice have negotiated a judicial consent decree with the Authority and MBCR (operator of commuter rail service). The terms of the settlement include a cash fine of \$225 (to be paid by MBCR); installation of less polluting auxiliary diesel engines on 14 commuter rail locomotives (to be covered by federal grants and MBCR’s operating contract) switch to a cleaner burning fuel (ULSD) additional cost covered under the MBTA’s fuel contract; upgrade or install electric plug-ins at MBTA layover facility (estimated cost to be over \$2 million).

During the year ended June 30, 2010, the following changes occurred in the liabilities:

	<b>Balance as of July 1, 2009</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance as of July 1, 2010</b>
Storage tank remediation sites	\$ 10,585	5,284	1,919	13,950
Sites with PCB remediation	4,500	9,068	4,068	9,500
U.S. government violations	3,500	1,693	—	5,193
	<u>\$ 18,585</u>	<u>16,045</u>	<u>5,987</u>	<u>28,643</u>

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The \$16,045 additional liability incurred in fiscal year 2010 is recorded in the other operating expenses in the statement of revenue, expenses and changes of net assets. The total liability at June 30, 2010 of \$28,643 is included in the long-term accrued liabilities in the statement of net assets.

**(25) MBTA – Pledged Revenues**

The Authority has pledged, as security for Sales Tax Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority's approved CIP, and are payable through 2039 as of June 30, 2010. Total principal and interest remaining on Sales Tax Bonds, Assessment Bonds and Prior Obligation Bonds outstanding as of June 30, 2010 is \$8,790,831. 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, 2010, the total amount of dedicated sales tax revenues and assessment moneys received for fiscal year 2010 was \$771,932 and \$149,233, respectively, a total of \$921,165. As of June 30, 2009, the total amount of dedicated sales tax revenues and assessment moneys received for fiscal year 2009 was \$755,831 and \$145,593, respectively, a total of \$901,424. As of June 30, 2010, total annual debt service paid for fiscal 2010 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was \$374,931. As of June 30, 2009, total annual debt service paid for fiscal year 2009 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was \$316,244. As of June 30, 2010 and June 30, 2009, therefore, debt service represented 41% and 35% of pledged revenues, respectively.

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**(26) MBTA – Subsequent Event**

The Authority gave notice on September 14, 2009 of its desire to exercise its voluntary termination option pursuant to Section 11.1 of the lease agreement for its No. 7 Green Line cars (such lease agreement was originally entered into on December 31, 1986 and subsequently amended on March 14, 1991). Consequently, the Authority exercised and paid for the purchase option on these vehicles (the lease was originally for 50 No. 7 Green Line cars; however, there were 46 cars remaining as of the exercise date due to damage and loss of 4 vehicles over the term of the lease). The Authority funded the purchase option price of \$14,181 from capital funds (available bond proceeds of the Authority's 2009C and 2009D Sales Tax Bonds) on July 9, 2010, in conjunction with its regularly scheduled annual basic rent payment of \$3,511 (funded from operating funds) also due on July 9, 2010. The Authority entered into a Termination and Release Agreement dated as of July 9, 2010, which, upon payment by the Authority of the purchase option price and the remaining annual basic rent payment, effectuated the release of liens on the equipment and the reconveyance of the equipment to the Authority.

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MASSACHUSETTS TRANSPORTATION TRUST FUND  
COMBINING SCHEDULE OF BALANCE SHEET ACCOUNTS

JUNE 30, 2010  
(Dollars in thousands)

<b>ASSETS</b>	Metropolitan Highway System	Western Turnpike	Other Operations	Total MTTF
Cash and short-term investments	\$ -	-	106,845	106,845
Restricted cash and investments	371,665	112,584	33,092	517,341
Receivables, net of allowance for uncollectibles:				
Other	10,806	3,868	44,697	59,371
Other assets	3,231	374	-	3,605
<b>TOTAL ASSETS</b>	<b>\$ 385,702</b>	<b>116,826</b>	<b>184,634</b>	<b>687,162</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued expenditures	\$ 27,146	9,996	116,770	153,912
Deferred revenue	43,160	3,602	45	46,807
<b>TOTAL LIABILITIES</b>	<b>70,306</b>	<b>13,598</b>	<b>116,815</b>	<b>200,719</b>
<b>FUND BALANCES:</b>				
Reserved	315,396	103,228	33,092	451,716
Unreserved	-	-	34,727	34,727
<b>TOTAL FUND BALANCES</b>	<b>315,396</b>	<b>103,228</b>	<b>67,819</b>	<b>486,443</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 385,702</b>	<b>116,826</b>	<b>184,634</b>	<b>687,162</b>

See accompanying independent auditors' report.

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MASSACHUSETTS TRANSPORTATION TRUST FUND  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010

(Dollars in thousands)

	Metropolitan Highway System	Western Turnpike	Other Operations	Total MTTF
<b>REVENUES</b>				
Toll revenue:				
Pledged as security for revenue bonds	\$ 117,313	69,764	-	187,077
Unpledged	-	-	14,580	14,580
Commonwealth transportation trust fund:				
Operations	-	-	123,445	123,445
Metropolitan highway system bonds	66,667	-	-	66,667
Central artery operations and maintenance	25,000	-	-	25,000
Rental/lease income	6,020	13,717	2,498	22,235
Investment income	3,619	165	69	3,853
Departmental and other	8,866	7,413	5,857	22,136
<b>TOTAL REVENUES</b>	<b>227,485</b>	<b>91,059</b>	<b>146,449</b>	<b>464,993</b>
<b>EXPENDITURES</b>				
Current:				
Highway	66,822	69,656	92,143	228,621
Planning and programming	19,314	18,154	5,172	42,640
Registry of motor vehicles	-	-	35,283	35,283
Aeronautics	-	-	230	230
Principal	73,176	17,820	-	90,996
Interest	115,680	4,029	-	119,709
<b>TOTAL EXPENDITURES</b>	<b>274,992</b>	<b>109,659</b>	<b>132,828</b>	<b>517,479</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(47,507)</b>	<b>(18,600)</b>	<b>13,621</b>	<b>(52,486)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(53,917)	-	-	(53,917)
Issuance of refunding bonds	1,943,530	-	-	1,943,530
Premium from issuance of refunding bonds	62,454	-	-	62,454
Debt service - principal - current refunding	(1,995,463)	-	-	(1,995,463)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(43,396)</b>	<b>-</b>	<b>-</b>	<b>(43,396)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(90,903)</b>	<b>(18,600)</b>	<b>13,621</b>	<b>(95,882)</b>
<b>FUND BALANCES AT BEGINNING OF PERIOD</b>	<b>406,299</b>	<b>121,828</b>	<b>54,198</b>	<b>582,325</b>
<b>FUND BALANCES AT END OF PERIOD</b>	<b>\$ 315,396</b>	<b>103,228</b>	<b>67,819</b>	<b>486,443</b>

See accompanying independent auditors' report.