MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors’ Report Thereon)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

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Independent Auditors' Report

The Board of Directors
Massachusetts Bay Transportation Authority:

We have audited the accompanying statements of net assets of the Massachusetts Bay Transportation Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of June 30, 2009 and 2008, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 includes 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 the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 12, in fiscal year 2009 the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The Authority has not presented a 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.

The schedule of funding progress on pages 48 and 49 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, 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 the 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 audits.

KPMG LLP

October 26, 2009

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Assets

June 30, 2009 and 2008

(Dollars in thousands)

Assets		**2009**	**2008**
Current assets:			
Unrestricted cash and temporary cash investments (note 3)	$	122,360	117,662
Restricted cash and temporary cash investments (note 3):			
Bond construction accounts		8,125	14,181
Stabilization accounts		19,160	19,722
Other accounts		7,863	53,967
Lease accounts		6,228	104,861
Accounts receivable:			
Commonwealth of Massachusetts		124,302	112,183
Federal grants		10,420	23,216
Other trade, net		15,604	29,718
Materials and supplies		67,522	63,545
Prepaid expenses		3,332	5,390
Total current assets		384,916	544,445
Noncurrent assets:			
Restricted cash and investments accounts (note 3):			
Bond construction accounts		112,708	—
Lease deposits		88,695	233,549
Bond reserve accounts		407,959	363,028
Total restricted cash and investments accounts		609,362	596,577
Lease accounts		187,275	319,865
Capital assets, at cost (notes 7, 8, and 10):			
Transportation property, being depreciated		11,586,945	11,119,736
Transportation property, not being depreciated		777,420	854,130
Less accumulated depreciation		(4,248,331)	(3,996,506)
Capital assets, net		8,116,034	7,977,360
Other assets:			
Deferred bond issue costs		27,151	25,854
Total other assets		27,151	25,854
Total noncurrent assets		8,939,822	8,919,656
Total assets	$	9,324,738	9,464,101

(Continued)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Assets

June 30, 2009 and 2008

(Dollars in thousands)

Liabilities	**2009**	**2008**
Current liabilities:		
Current maturities of bonds and notes payable (note 5)	$ 574,340	243,390
Current capital lease obligations (note 7)	9,347	109,206
Accounts payable	133,978	189,290
Accrued liabilities:		
Payroll and vacation	27,093	67,581
Interest	123,044	110,411
Injuries and damage claims, workers compensation claims, and other (note 9)	38,088	38,404
Total current liabilities	905,890	758,282
Long-term liabilities, less current maturities:		
Bonds payable, net (note 5)	4,818,742	4,817,301
Obligations under capital leases (note 7)	286,692	565,635
Accrued liabilities (note 9 and 12)	78,777	58,741
Pension liability (note 6)	30,863	21,149
Other postemployment benefits (note 11)	203,573	108,941
Deferred revenue	41,774	36,949
Total long-term liabilities	5,460,421	5,608,716
Total liabilities	6,366,311	6,366,998
Net Assets		
Invested in capital assets, net of related debt	3,211,313	3,270,890
Restricted	19,160	19,722
Unrestricted	(272,046)	(193,509)
Total net assets	$ 2,958,427	3,097,103

See accompanying notes to financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

(Dollars in thousands)

		2009	2008
Operating revenue:			
Revenue from transportation	$	448,752	440,962
Other		57,863	48,476
		506,615	489,438
Operating expenses:			
Wages and related employee benefits:			
Wages		374,876	387,958
Medical and dental insurance		66,486	61,152
Other postemployment benefits		151,350	158,856
Pensions		60,518	58,054
Social security taxes		34,106	34,331
Workers compensation		8,675	10,871
Other		2,057	2,076
Capitalized costs		(25,835)	(28,096)
		672,233	685,202
Other operating expenses:			
Depreciation and amortization		341,070	383,913
Materials, supplies, and services		187,157	165,549
Injuries and damages		19,311	13,424
Commuter railroad and local subsidy expenses (note 4)		340,040	303,172
Other		13,351	2,527
		900,929	868,585
Total operating expenses		1,573,162	1,553,787
Operating loss		(1,066,547)	(1,064,349)
Nonoperating revenue (expense):			
Dedicated sales tax revenue (note 13)		767,057	755,982
Dedicated local assessments (note 13)		146,486	142,913
Other income		15,936	11,337
Interest income		26,696	24,115
Interest expense		(266,111)	(257,107)
Nonoperating revenue, net		690,064	677,240
Loss before capital grants		(376,483)	(387,109)
Capital grants and contributions		255,982	293,348
Decrease in net assets		(120,501)	(93,761)
Beginning of year net assets		3,097,103	3,190,864
Restatement to comply with GASB Statement No. 49 (note 12)		(18,175)	—
End of year net assets	$	2,958,427	3,097,103

See accompanying notes to financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Dollars in thousands)

		2009	2008
Cash flows from operating activities:			
Receipts from transit customers	$	451,485	442,859
Receipts from other operations		59,179	57,327
Payments to suppliers and vendors		(746,899)	(584,213)
Payments to employees		(480,589)	(425,660)
Net cash used for operating activities		(716,824)	(509,687)
Cash flows from capital and related financing activities:			
Cash (used for) provided by:			
Additions to transportation property		(475,777)	(439,274)
Interest paid		(246,747)	(258,488)
(Increase) decrease in deferred credits/charges		2,058	1,522
Payments on long-term debt		(256,385)	(512,190)
Proceeds from bond and note issuances		571,030	411,920
Proceeds (payments) from/to bond construction and reserve accounts		(157,639)	117,534
Proceeds from bond premiums		8,504	4,124
Payments on capital leases		(378,802)	(68,159)
Increase (decrease) in lease deposit/account		376,077	67,996
Capital grants		268,778	282,384
Other		682	(10,642)
Net cash used for capital and related financing activities		(288,221)	(403,273)
Cash flows from noncapital and related financing activities:			
Sales tax and local assessment		901,424	892,105
Reimbursable payments		6,099	6,654
Other		9,714	3,208
Net cash provided by noncapital and related financing activities		917,237	901,967
Cash flows from investing activity:			
Interest and other income		39,784	36,668
Net cash provided by investing activity		39,784	36,668
Change in cash, temporary cash investments, restricted, and other special accounts		(48,024)	25,675
Cash, restricted cash, and temporary cash investments, beginning of year		205,532	179,857
Cash, restricted cash, and temporary cash investments, end of year	$	157,508	205,532
Adjustments to reconcile operating loss to net cash used in operating activities:			
Operating loss	$	(1,066,547)	(1,064,349)
Charges not requiring current expenditure of cash:			
Depreciation and amortization		341,070	383,913
Increase in other postemployment liability		94,632	108,941
Changes in all other working capital accounts except cash, temporary cash investments, and short-term debt		(85,979)	61,808
Net cash used in operating activities	$	(716,824)	(509,687)

See accompanying notes to financial statements.

(1) The Reporting Entity

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

The Authority is managed by a board of nine directors (the Board). The Secretary of Transportation of the Commonwealth is the Chairman. The other eight directors are appointed by the Governor of the Commonwealth for staggered two-year terms and must meet certain eligibility requirements set forth in the Authority's enabling act. 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, has the power to approve the Authority's Program for Mass Transportation 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 Commonwealth as the Authority is a component unit of the Commonwealth.

(2) 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 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 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

(Continued)

(Dollars in thousands)

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, 2009 and 2008:

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

(d) Construction in Progress

During 2009 and 2008, major construction projects aggregating $550,750 and $713,204, 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. During fiscal year 2009, the Authority substantially completed the major projects whose interest costs were previously capitalized. These projects included the Automatic Fare Collection System, the Greenbush Commuter Rail Extension, and several vehicle procurements. Accordingly, the Authority had no material interest capitalization for fiscal year 2009.

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 the work. Costs incurred during 2009 and 2008 were $210 and $5,556, respectively. Amounts owed to the Authority for these costs and prior years costs as of June 30, 2009 and 2008 were $1,438 and $2,234, 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) 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.

(h) 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.

(i) 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, 2009 and 2008 was $17,356 and $15,867, respectively.

(j) 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.

(k) 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).

(l) 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.

(m) Materials and Supplies

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

(n) Interest Rate Swaps

For fiscal year 2009, the Authority is only required to reflect interest rate swaps in the footnotes to the audited financial statements, in accordance with GASB Technical Bulletin 2003-1. All premiums received by the Authority in connection with the swaps/swaptions are deferred and amortized as a component of interest expense over the life of the swap/swaption.

Beginning in fiscal year 2010, the Authority will account for and report interest rate swaps using guidelines from GASB Statement No. 53, *Accounting and Financial Reporting for Derivatives Instruments*. This statement will require 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 our outflows in the statement of net assets if the instrument is accounted for as a hedging derivative. The Authority has not yet determined the impact of the adoption of the statement.

(o) Available Unrestricted Resources

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

(p) Reclassifications

Certain prior year accounts have been reclassified to conform to the 2009 presentation.

(3) 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.

(Dollars in thousands)

Deposits and investments consisted of the following amounts presented in the accompanying statements of net assets at June 30, 2009 and 2008:

		2009	2008
Restricted:			
Bond construction accounts	$	120,833	14,181
Bond reserve, stabilization, and other accounts		434,982	436,717
Lease deposits		88,695	233,549
Subtotal		644,510	684,447
Unrestricted cash and temporary cash investments		122,360	117,662
	$	766,870	802,109

(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, 2009 and 2008 was $22,206 and $58,050, respectively. The bank balance at June 30, 2009 and 2008 was $24,419 and $62,006, respectively. Of this amount, $3,947 and $6,129, 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, 2009 and $100 at June 30, 2008.

(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.

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2009 and 2008 are presented below. All investments are presented by investment type and maturity.

2009

Investment type		Fair value	Investment maturities (in years): Less than 1 year	1 – 3	4 – 8	More than 8
MMDT	$	104,226	104,226	—	—	—
Money market fund		139,708	139,708	—	—	—
Guaranteed investment contracts		40,133	2,930	—	—	37,203
Forward delivery agreements		180,458	180,458	—	—	—
Treasury strips		61,308	—	26,339	34,969	—
Government sponsored enterprises		125,733	53,201	—	—	72,532
State and local government		84,013	9,136	10,627	—	64,250
Certificates of deposit		9,085	9,085	—	—	—
Investments	$	744,664	498,744	36,966	34,969	173,985

2008

Investment type		Fair value	Investment maturities (in years): Less than 1 year	1 – 3	4 – 8	More than 8
MMDT	$	72,694	72,694	—	—	—
Money market fund		64,724	64,724	—	—	—
Guaranteed investment contracts		270,589	—	8,166	—	262,423
Forward delivery agreements		212,210	212,210	—	—	—
Treasury strips		89,550	3,722	29,101	56,727	—
State and local government		24,228	6,702	17,526	—	—
Certificates of deposit		10,064	10,064	—	—	—
Investments	$	744,059	370,116	54,793	56,727	262,423

(c) Credit Ratings

The Authority holds guaranteed investment contracts and forward delivery agreements with a fair value of $220,591 and $482,799 at June 30, 2009 and 2008, respectively. These investments are not rated.

Investments in Treasury strips and state and local government obligations are backed by the full faith and credit of the U.S. government. The Authority had $145,321 and $113,778 in such investments as of June 30, 2009 and 2008, respectively. These investments are not rated.

(Dollars in thousands)

The Authority has $125,733 invested in Government Sponsored Enterprises as of June 30, 2009. These investments are all rated AAA.

The Authority also has $104,226 and $72,694 invested in MMDT as of June 30, 2009 and 2008, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

(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:

	Credit rating Moody's/S&P	2009	Percentage of portfolio
Providers of guaranteed investment contracts, forward delivery agreements, and money market funds:			
Wachovia Bank	Aa2/AA	$ 116,084	15.6%
US Bank	Aa1/AA-	112,708	15.1
MMDT	N/A	104,226	14.0
JPMorgan Chase	Aa1/AA-	37,706	5.1
		$ 370,724	

	Credit rating Moody's/S&P	2008	Percentage of portfolio
Providers of guaranteed investment contracts, forward delivery agreements, and money market funds:			
Wachovia Bank	Aa2/AA-	$ 144,127	19.4%
AMBAC	Aa3/AA	118,368	15.9
JPMorgan Chase	Aaa/AA	82,723	11.1
US Bank	Aa2/AA	81,141	10.9
MMDT	N/A	72,694	9.8
MBIA	A2/AA	45,474	6.1
		$ 544,527	

(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, 2009 and 2008.

(4) Commuter Railroad

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

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 2011. The Authority will pay MBCRC a total fixed base contract amount of $1,799,174 over the approved eight-year period, with remaining payments at June 30, 2009 totaling $511,356.

(5) 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, 2009, prior obligations in the amount of $855,535 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 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 Capital Investment Program (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 are variable rate bonds that are subject to mandatory tender on February 17, 2010 pursuant to the Authority's current plan of finance. The Authority has identified a number of options to refinance these bonds on the mandatory tender date. These options include the issuance of either fixed rate bonds, variable rate bonds, put bonds, or the use of the Authority's commercial paper program. Proceeds of the 2009 Series A Sales Tax Bonds in the amount of $76,197 will be 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.

During fiscal year 2008, the Authority issued two series of Sales Tax bonds: the 2008 Series A Sales Tax Bonds in the principal amount of $256,375 and the 2008 Series B Sales Tax Bonds in the principal amount of $49,770.

The 2008 Series A Sales Tax Bonds were issued in two series, A-1, with a par value of $131,910 and A-2, with a par value of $124,465. Principal on the 2008 A-1 series is payable July 1, 2013 through July 1, 2021. Principal on the 2008 A-2 series is payable July 1, 2010 through July 1, 2026. Interest is payable semiannually on July 1 and January 1 on both series. The 2008 Series A Sales Tax Bonds were used to refinance higher interest rate debt, which is more fully described in note 5(b). Both the 2008 A-1 Sales Tax Bonds and 2008 A-2 Sales Tax Bonds bear interest at a variable rate and are hedged by swap agreements, which are more fully described in note 5(c). As of June 30, 2009, the 2008 Series A Sales Tax Bonds are secured by a liquidity facility provided by JPMorgan Chase, which will expire April 1, 2010. Due to the liquidity facility not extending beyond one year from the balance sheet date, these bonds have been presented as current obligations. The Authority anticipates renewing or replacing this liquidity facility before it expires, particularly as the 2008 Series A Sales Tax Bonds are hedged by swap agreements, which will remain outstanding. However, in the event the Authority is unable to renew or replace the liquidity facility, the Authority could refund these bonds with the issuance of long-term obligations.

The 2008 Series B Sales Tax Bonds principal is payable July 1, 2011 through July 1, 2033. Interest is payable semiannually on July 1 and January 1. The 2008 Series B Sales Tax Bonds were used to refinance higher interest rate debt and to liquidate $29,750 in commercial paper that was issued in February 2008 to current refund a portion of the March 1, 2008 principal due on the General Transportation System (GTS) bonds. The bonds refunded by the 2008 Series B Sales Tax Bonds are more fully described in note 5(b).

During fiscal year 2008, the Authority issued $105,775 in commercial paper (also referred to as Bond Anticipation Notes (BANs) to redeem the Authority's 2003 Series B Auction Rate Bonds in the amount of $93,375 and to fund $12,400 in capital payments.

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.

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.

(Dollars in thousands)

The Authority's bonds outstanding at June 30, 2009 are as follows:

	Final year of maturity	Interest rates	Outstanding principal June 30, 2009	Due in fiscal year 2010
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	$ 8,625	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	—
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%	61,370	31,995
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.00%	93,450	26,005
1995 Series A Bonds dated April 1, 1995	2015	5.75% – 5.88%	74,900	10,830
1998 Series A Bonds dated February 15, 1998	2015	5.50%	56,265	7,365
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	126,335	29,035
1999 Series Variable Rate Demand Obligation dated June 29, 1999*	2014	Variable	30,815	5,360
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	188,000	—
			855,535	112,315
Boston metropolitan district bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	12,260	2,070
			12,260	2,070

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal June 30, 2009	Due in fiscal year 2010
Revenue bonds:				
2000 Series A Assessment Bond dated August 1, 2000	2030	5.00% – 5.75%	$ 41,785	—
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	—
2003 Series C Senior Sales Tax Bond dated February 3, 2004	2023	2.20% – 6.00%	220,100	730
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%	503,825	3,905
2004 Series A Assessment Bond dated June 10, 2004	2021	3.00% – 5.25%	53,585	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	2035	5.00%	775,035	—
2005 Series A Assessment Bond dated September 8, 2005	2035	3.20% – 5.00%	197,250	—
2005 Series B Senior Sales Tax dated December 21, 2005	2029	3.40% – 5.50%	92,320	45
2006 Series A Senior Sales Tax Bond dated March 2, 2006	2034	5.25%	238,850	—
2006 Series C Senior Sales Tax Bond dated June 28, 2006	2027	4.00% – 5.00%	137,780	1,475
2006 Series A Assessment Bond dated September 13, 2006***	2035	4.67% – 5.25%	161,340	—
2006 Series B Senior Sales Tax Bond dated December 5, 2006	2023	5.00% – 5.25%	216,700	3,740
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	147,299	—
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2037	Variable	131,910	131,910
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	Variable	124,465	124,465

(Continued)

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal June 30, 2009	Due in fiscal year 2010
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 A Senior Sales Tax dated February 26, 2009	2010	2.00% – 4.00%	79,645	79,645
2009 Series B Senior Sales Tax dated February 26, 2009	2018	3.00% – 5.00%	39,365	—
			4,306,104	349,915
Grant Anticipation Notes (GANs):				
2004 Series A Grant Anticipation Notes dated August 5, 2004	2011	2.75% – 5.00%	40,300	16,665
Bond Anticipation Notes (BAN)	2010	0.30% – 1.35%	93,375	93,375
Total bond and notes payable			5,307,574	$ 574,340
Less current maturities			(574,340)	
Total long-term bonds payable			4,733,234	
Plus unamortized bond premiums				
Less unamortized bond			341,827	
discounts/losses on bond refundings, net			(256,319)	
Total long-term bonds payable			$ 4,818,742	

* These bonds were issued as variable rate demand obligations and bear interest at a variable rate. The interest rates as of June 30, 2009 and June 30, 2008 are 0.35% and 1.55% for the 1999 Series Variable Rate Demand Obligation; 0.85% and 1.60% for the 2000 Series Variable Rate Demand Obligation; 0.12% and 1.47% for the 2008 Series A-1 Senior Sales Tax Bond; and 0.30% and 1.47% 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.

(Dollars in thousands)

*** 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.

The annual maturities of bonds and notes payable as of June 30, 2009 are as follows:

		Principal	Interest
Fiscal year(s):			
2010	$	574,340	262,232
2011		173,135	240,895
2012		187,870	230,591
2013		213,170	221,014
2014		218,305	208,970
2015 – 2019		1,035,325	866,954
2020 – 2024		1,030,581	618,311
2025 – 2029		913,650	407,485
2030 – 2034		769,887	198,368
2035 – 2039		191,311	68,437
Total	$	5,307,574	3,323,257

A summary rollforward of bonds for the years ended June 30, 2009 and 2008 is as follows:

		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
	$	4,986,198	571,030	212,615	43,770	6,731	5,307,574

		2008					
		Balance 2007	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2008
GTS	$	1,305,465	—	104,450	245,675	—	955,340
BMD		16,915	—	2,330	—	—	14,585
Revenue		3,685,185	306,145	14,875	129,300	7,068	3,854,223
GANs		71,835	—	15,560	—	—	56,275
BANs		—	105,775	—	—	—	105,775
	$	5,079,400	411,920	137,215	374,975	7,068	4,986,198

(Dollars in thousands)

The following funds, included in restricted assets at June 30, 2009 and 2008, are in connection with the Authority's revenue bond trust agreements:

		2009			2008	
	Assessment bonds	**Sales Tax bonds**	**GANs**	**Assessment bonds**	**Sales Tax bonds**	**GANs**
Debt service	$ 23,846	131,973	—	16,146	137,169	—
Debt service reserve	76,756	172,112	8,520	39,635	163,784	8,287
	$ 100,602	304,085	8,520	55,781	300,953	8,287

The minimum required balances in the debt service reserve funds at June 30, 2009 and 2008 were $72,769 and $39,505 for the Assessment bonds and $148,368 and $142,129 for the Sales Tax bonds, respectively. The minimum required balance in the debt service reserve funds at June 30, 2009 and 2008 for GANs is $4,107 and $5,796, respectively. The Authority has complied with its financial bond covenants.

In order to take advantage of low interest rates, 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, 2009.

(b) Debt Refundings

In current and prior years, the Authority defeased in-substance several GTS 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, 2009 and 2008, $1,571,510 and $1,838,220 of these bonds, considered defeased in-substance, are still outstanding, respectively. On June 30, 2009 and 2008, $4,060 in Boston Metropolitan District (BMD) bonds are considered defeased in-substance, and are still outstanding.

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.

In June 2008, the Authority completed a defeasance of $14,465 of the 2003 Series A Sales Tax Bonds and $7,550 of the 2004 Series B Sales Tax Bonds using cash. Both these series, which were defeased, have maturity dates of July 1, 2009.

In April 2008, the Authority refunded $1,725 of the 1974 Series A General Transportation System Bonds, $5,440 of the 1995 Series A General Transportation System Bonds, and $231,495 of 1998 Series A General Transportation System Bonds with the issuance of the 2008 Series A-1 and A-2 Sales Tax Bonds that have a par value of $256,375. These 2008 Series A Sales Tax Bonds are variable rate bonds whereby interest paid on these bonds reset weekly. The 2008 Series A-1 Sales Tax Bonds with a par value of $131,910 were issued in conjunction with a swap agreement whereby the Authority pays 3.834% and receives the BMA (SIFMA) rate. The 2008 Series A-2 Sales Tax Bonds with a par value of $124,465 were issued in conjunction with a swap agreement whereby the MBTA pays 3.083% and receives the BMA (SIFMA) rate through June 30, 2010 and then receives 62% of LIBOR plus 24 basis points through the term of the swap. The difference in cash flows between the debt service on the prior debt and the new debt issued to refund the bonds is approximately $19,210. The net present value or economic gain on the refunding is $18,926. The accounting loss of $21,920 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2008 Series A Sales Tax Bonds.

In April 2008, the Authority refunded $3,000 of the 2005 Series A Assessment Bonds, $7,015 of the 1995 Series A General Transportation System Bonds, $2,875 of the 2000 Series A Sales Tax Bonds, and $8,035 of the 2002 Series A Sales Tax Bonds with the issuance of the 2008 Series B Sales Tax Bonds that have a total par value of $49,770. The difference in cash flows between the debt service on the prior debt and the new debt issued to refund the bonds is approximately $58,152; however, the 2008 Series B Sales Tax Bonds refunded $29,750 in commercial paper used to current refund a portion of the March 1, 2008 principal payment on GTS bonds. The net present value or economic gain on the refunding is $194. The accounting loss of $650 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2008 Series B Sales Tax Bonds.

In March 2008, the Authority redeemed $93,375 of the 2003 Series B Bonds with the proceeds of commercial paper which remain outstanding.

(c) Derivative Investments

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 received by the Authority in connection with the Swaps are deferred and amortized into income over the life of the swap/swaption. Should a Swap be terminated, any unamortized premiums are recognized as income in the period the termination occurs. In addition, any termination fees will be recorded as interest or other expense.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Effective date	Notional amount	Termination date	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Lump-sum payment from counterparty	Counterparty credit rating At June 30, 2009 Moody's/ S&P	Fair value Appreciation (depreciation) at June 30, 2009	Fair value Appreciation (depreciation) at June 30, 2008
September 2005	$ 188,000	2030	GTS Series 2000 VRDO	5.00%	67% of LIBOR	$ 12,230 (August 2005)	A+/Aa2	$ (50,191)	(37,582)
February 2003	87,805	2022	(1)	5.20	BMA/SIFMA	4,586 (August 2007)	AA-/Aa1	(15,915)	(12,747)
February 2004	25,005	2020	(2) Senior Sales Tax Series 2003 C	4.13	CPI+79 basis points	N/A	A/A2	(1,799)	(909)
September 2006	19,260	2024	(3) Assessment Series 2006A	4.67	CPI+123 basis points	N/A	A+/Aa1	(1,349)	(1,130)
September 2006	5,000	2025	(4) Assessment Series 2006A	4.66	CPI+123 basis points	N/A	A+/Aa1	(327)	(293)
November 2006	131,910	2021	(5) Senior Sales Tax Series 2008 A-1	3.83	BMA/SIFMA	N/A	A+/Aa1	(10,166)	(4,288)
April 2008	124,465	2026	Senior Sales Tax Series 2008 A-2	3.08	BMA to June 30, 2010 and thereafter receives 62% of LIBOR plus 24 basis points	N/A	A+/Aa1	(7,256)	1,271
March 2009	79,645	2030	Senior Sales Tax Series 2009 A	5.61	BMA/SIFMA	4,140 (August 2005)	AA-/Aa1	(22,704)	(15,263)
								$ (109,707)	(70,941)

(1) The 2003 B-1 and 2003 B-2 hedged bonds had been legally redeemed in March 2008 through the issuance of commercial paper.
(2) This swap relates only to the July 1, 2020 maturity, which is $25,005 out of $220,100 and has a variable rate.
(3) This swap relates only to the July 1, 2024 maturity, which is 19,260 out of $161,340 and has a variable rate.
(4) This swap relates only to July 1, 2025 maturity, which is $5,000 out of $161,340 and has a variable rate.
(5) This swap was executed as a forward starting swap in November 2006 with an effective date of February 2008.

(Dollars in thousands)

Swap Payments and Associated Debt

As of June 30, 2009, 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 0.20854% and the variable rate on the 2000 Bonds is 0.85% 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.

Fiscal year ending June 30	2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2010	$ —	1,598	9,008	10,606
2011	—	1,598	9,008	10,606
2012	2,335	1,591	8,971	12,897
2013	5,460	1,563	8,809	15,832
2014	5,845	1,515	8,541	15,901
2015 – 2019	35,955	6,739	37,985	80,679
2020 – 2024	50,430	4,940	27,846	83,216
2025 – 2029	70,725	2,417	13,627	86,769
2030	17,250	98	551	17,899
Totals	$ 188,000	22,059	124,346	334,405

As of June 30, 2009, the 2003 B-1 and 2003 B-2 Sales Tax Bonds have been redeemed from proceeds of commercial paper. The fixed rate on the swap of 5.2% and assuming the BMA rate is 0.35% through the term of the swap was as follows:

	Interest rate swap, net
Fiscal year ending June 30:	
2010	$ 4,259
2011	4,259
2012	4,259
2013	4,176
2014	3,880
2015 – 2019	14,315
2020 – 2022	3,619
	$ 38,767

(Dollars in thousands)

As of June 30, 2009, 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 -3.121% 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.

Fiscal year(s) ending June 30	2003 Series C Sales Tax Bonds principal	2003 Series C Sales Tax Bonds interest	Interest rate swap, net	Total
2010	$ —	—	1,033	1,033
2011	—	—	1,033	1,033
2012	—	—	1,033	1,033
2013	—	—	1,033	1,033
2014	—	—	1,033	1,033
2015 – 2019	—	—	5,164	5,164
2020	25,005	—	688	25,693
	$ 25,005	—	11,017	36,022

As of June 30, 2009, 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 -3.121% 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.

Fiscal year(s) ending June 30	2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2010	$ —	—	899	899
2011	—	—	899	899
2012	—	—	899	899
2013	—	—	899	899
2014	—	—	899	899
2015 – 2019	—	—	4,497	4,497
2020 – 2024	19,260	—	4,497	23,757
	$ 19,260	—	13,489	32,749

(Dollars in thousands)

As of June 30, 2009, 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 -3.121% 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.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2010	$	—	—	233	233
2011		—	—	233	233
2012		—	—	233	233
2013		—	—	233	233
2014 – 2018		—	—	1,165	1,165
2019 – 2023		—	—	1,165	1,165
2024 – 2025		5,000	—	233	5,233
	$	5,000	—	3,495	8,495

As of June 30, 2009, 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 BMA index rate is 0.35% and the variable rate on 2008 Series A-1 bonds is 0.12% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-1 Sales Tax Bonds principal	2008 Series A-1 Sales Tax Bonds interest	Interest rate swap, net	Total
2010	$	—	158	4,596	4,754
2011		—	158	4,596	4,754
2012		—	158	4,596	4,754
2013		135	158	4,596	4,889
2014		735	158	4,591	5,484
2015 – 2019		81,420	642	18,644	100,706
2020 – 2021		49,620	94	2,723	52,437
	$	131,910	1,526	44,342	177,778

(Dollars in thousands)

As of June 30, 2009, 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 BMA index rate is 0.35% and the variable rate on 2008 Series A-1 bonds is 0.30% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-2 Sales Tax Bonds principal	2008 Series A-2 Sales Tax Bonds interest	Interest rate swap, net	Total
2010	$	465	373	3,402	4,240
2011		485	372	3,389	4,246
2012		500	371	3,376	4,247
2013		515	369	3,362	4,246
2014		535	368	3,348	4,251
2015 – 2019		2,935	1,812	16,511	21,258
2020 – 2024		74,220	1,558	14,191	89,969
2025 – 2026		44,810	191	1,741	46,742
	$	124,465	5,414	49,320	179,199

(Dollars in thousands)

As of June 30, 2009, debt service requirements on 2009 Series A Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 5.610% and assuming the BMA index rate is 0.35% and the fixed rate on 2009 Series A Sales Tax bonds is 2.00% through the term of the swap, were as follows. The 2009 Series A Sales Tax bonds are one-year put bonds subject to mandatory tender by February 2010.

Fiscal year(s) ending June 30	2009 Series A Sales Tax Bonds principal	2009 Series A Sales Tax Bonds interest	Interest rate swap, net	Total
2010	$ —	1,593	4,189	5,782
2011	—	1,593	4,189	5,782
2012	—	1,593	4,189	5,782
2013	—	1,593	4,189	5,782
2014	—	1,593	4,189	5,782
2015 – 2019	—	7,965	20,947	28,912
2020 – 2024	9,515	7,965	20,947	38,427
2025 – 2029	56,705	4,875	12,821	74,401
2030	13,425	269	706	14,400
	$ 79,645	29,039	76,366	185,050

Forward Starting Swaps

Date of execution of swaption	Notional amount	Lump-sum payment from counterparty	Counterparty option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counterparty credit rating at June 30, 2009 Moody's/S&P	Fair value depreciation at June 30, 2009	Fair value depreciation at June 30, 2008
June 2005	$ 47,055	N/A	Forward swap effective commencing April 3, 2010 through July 1, 2030	July 2030	2000 Series A Assessment bonds maturing 2011 through 2030	4.13%	BMA/SIFMA	A+/Aa2	$ (2,471)	(820)

(Dollars in thousands)

Asset-Side Swaption for Reserve Investment

Date of execution of swaption	Notional amount	Lump-sum payment from counterparty	Counterparty option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counterparty credit rating at June 30, 2009 Moody's/S&P	Fair value depreciation at June 30, 2009	Fair value depreciation at June 30, 2008
December 2000	$ 49,123	1,265 (July 2001)	January 1 and July 1 from July 2010 through July 2030	July 2030	Debt Service Reserve Fund for 2000 Assessment and Sales Tax Bonds	BMA/ SIFMA	5.60%	Aa2/AA-	$ (2,558)	(1,830)

This swaption is exercisable from 2010 through 2030.

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. All fair values have been calculated using the mark to market provided by a third party. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties for long-term swaps are rated in the double-A category by both Moody's and S&P. On the Authority's swap that expired in September 2005, the counterparty is rated a single-A category by both rating agencies. 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.

Basis Risk – The Authority is exposed to basis risk if the relationship between the floating rate the Authority receives under the swaps (i.e., BMA, CPI plus 79 basis points, CPI plus 123 basis points, 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. As of June 30, 2009, the 67% of LIBOR was 0.20854%, while the variable rate on the 2000 Bonds was 0.85%. For the Series 2003 C bonds in the amount of $25,005, the Authority has a basis risk should CPI plus 79 basis points fall below the 4.13% fixed rate the Authority pays. CPI plus 79 basis was 0.0% (-3.121% of CPI plus 79 basis points) as of June 30, 2009 so the Authority is in an unfavorable position. On the 2006 Series A Assessment Bonds, the Authority pays 4.67% on $19,260 and 4.66% on $5,000 and receives CPI plus 123 basis points. As of June 30, 2009, CPI plus 123 basis points was 0.00% (-3.121% of CPI plus 79 basis points); so the Authority's position is unfavorable for this transaction. On the 2008 A-1 Sales Tax Bonds, the Authority pays 3.834% and receives BMA which was 0.35% at June 30, 2009 and is in an unfavorable position. The Authority pays 3.083% on the 2008 Series A-2 Sales Tax Bonds and receives BMA, which was 0.35% as of June 30, 2009, which makes this swap unfavorable for the MBTA. The MBTA pays 5.610% on the 2009 Series A Sales Tax bond and receives BMA, which was 0.35% as of June 30, 2009 thus making this an unfavorable hedge for the MBTA.

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. Upon the termination of a swap, the Authority will no longer realize the synthetic rate on the 2000 bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place.

Market Access Risk and Potential Basis Risk – In the case of the swaptions, if the option is exercised and refunding bonds are not issued, the Authority would make net swap payments as required by the terms of each contract, as set forth above. If the option is exercised (and assuming the variable rate bonds are issued in the case of this transaction), the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.

(6) 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 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 2009 was minimal and no contributions were made to this plan in fiscal year 2009. In addition, the net pension obligation is considered immaterial.

(Dollars in thousands)

(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 to contribute 4.0000% with the Authority currently paying an amount equal to approximately 10.4000% of total payroll. The actuarial required contribution rate for the Authority was 11.6936%. The contribution requirements for the Police Association Plan were 13.3549% for the Authority and 6.5600% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made in 2009 and 2008 were in accordance with these contribution requirements.

Deferred compensation contributions are made on a "pay-as-you-go" basis. The Authority's annual *pension* cost for the years ended June 30, 2009 and 2008 and related information for each plan is as follows:

	2009		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
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

(Dollars in thousands)

		2008		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – Authority	$	37,106	2,163	5,163
Contributions made – Authority		34,786	1,838	4,601
Actuarial valuation date/update		June 30, 2008	June 30, 2008	June 30, 2008
Actuarial cost method		Entry age	Entry age	Entry age
Amortization method		Level dollar	Level dollar	Level dollar
Amortization period		30 years	8 years	30 years
Asset valuation method		5-year moving	4-year smoothing	Fair value
Actuarial assumptions:				
Interest rate		7.50%	7.00%	8.00%
Projected salary increases		5.00	4.50	5.00

Changes in the net pension obligation for these plans for the years ended June 30, 2009 and 2008 are as follows:

		2009		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
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	$	(22,048)	(837)	(7,978)

(Dollars in thousands)

Pension		2008 MBTA Retirement Plan	2008 MBTA Police Association Plan	2008 MBTA Deferred Compensation Plan
Net pension obligation, beginning of year	$	(10,581)	(502)	(6,859)
Annual pension cost		(37,106)	(2,163)	(5,163)
Contributions and other adjustments		34,786	1,838	4,601
Net pension obligation, end of year	$	(12,901)	(827)	(7,421)

(b) Three-Year Trend Information

	Year ending		Annual pension cost (APC)	Percentage of APC contributed		Net pension obligation
MBTA Retirement Plan	June 30, 2007	$	35,995	107%	$	(10,581)
	June 30, 2008		37,106	94		(12,901)
	June 30, 2009		44,642	80		(22,048)
MBTA Police Association Plan	June 30, 2007		1,819	96		(502)
	June 30, 2008		2,163	85		(827)
	June 30, 2009		2,230	99		(837)
MBTA Deferred Compensation Plan	June 30, 2007		4,609	95		(6,859)
	June 30, 2008		5,162	89		(7,421)
	June 30, 2009		5,320	90		(7,978)

(c) Actuarial Funded Status

MBTA Retirement and Police Association Plans

Valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	(Funded) unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Retirement Plan: December 31, 2007	$	1,902,276	2,091,930	189,654	90.93%	$	357,069	53.11%
Police Association Plan: December 31, 2007		45,718	55,485	9,767	82.4		14,853	65.8

(Dollars in thousands)

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.

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.

Valuation date		Actuarial accrued liability (a)	Net pension obligation (b)	Actuarial accrued liability (c) (a)-(b)	Recognized ratio (d) (b)/(a)	Unrecognized ratio (e) (c)/(a)		Covered payroll (f)
July 1, 2008	$	46,032	7,421	38,611	16.1%	83.9%	$	31,269

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(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 276 and 284 members at June 30, 2009 and 2008, respectively, and the cost of the Plan to the Authority was $842 and $810 for fiscal years 2009 and 2008, 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.

(7) 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.

The Authority successfully negotiated termination of its August 1997 LILO on January 29, 2009. The total cost of terminating this transaction with its two equity investors was $743, with the related loss recorded against the Authority's deferred lease benefit account, established for purposes of recording the original amount of the gain or benefit received on the various LILO transactions. The loss is included in the other operating expenses in the statement of revenue, expenses, and changes in net assets. On February 10, 2009 the Authority successfully negotiated termination of its May 1998 LILO. The total cost of terminating this transaction with the equity investor was $2,000, of which related loss was also recorded against the Authority's deferred lease benefit account. The loss is included in the other operating expenses in the statement of revenue, expenses, and changes in net assets. The value of the assets related to the termination of these two LILO transactions (rail cars and real estate) is $437,713 at June 30, 2009.

(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 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 several cross-border leases related to the financing of certain buses and 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.

(Dollars in thousands)

Transportation property and facilities under capital leases are summarized in the capital assets footnote (note 8).

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, 2009:

Fiscal year(s):		
2010	$	25,531
2011		60,358
2012		63,714
2013		66,329
2014		58,742
2015-2019		55,153
2020–2023		27,387
		357,214
Less amount representing interest		(61,175)
Present value of net minimum lease payments		296,039
Less current principal maturities		(9,347)
Obligations under capital leases	$	286,692

The liability for these leases changed in 2009 and 2008 as follows:

Outstanding – June 30, 2007	$	743,000
Net change in obligation		(68,159)
Outstanding – June 30, 2008		674,841
Net change in obligation		(378,802)
Outstanding – June 30, 2009	$	296,039

(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.

(Dollars in thousands)

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, 2009 are as follows:

Fiscal year:		
2010	$	13,198
2011		10,845
2012		9,930
2013		6,177
	$	40,150

(Dollars in thousands)

(8) Capital Assets

Capital assets at June 30, 2009 and 2008 are as follows:

		Beginning balance June 30, 2008	Increases	Decreases	Ending balance June 30, 2009
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		854,130	474,040	550,750	777,420
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	404,128	85,278	2,351,578
Buildings and equipment included in capital lease		476,941	—	138,918	338,023
Total		11,119,736	989,574	522,365	11,586,945
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	201,051	85,278	1,067,518
Buildings and equipment included in capital lease		287,805	13,510	73,389	227,926
Total		3,996,506	461,140	209,315	4,248,331
Other capital assets, net		7,123,230	528,434	313,050	7,338,614
Capital assets, net	$	7,977,360	1,002,474	863,800	8,116,034

(Dollars in thousands)

	Beginning balance June 30, 2007	Increases	Decreases	Ending balance June 30, 2008
Capital assets not being depreciated:				
Land	$ 308,074	1,154	—	309,228
Construction work in progress	888,205	369,901	713,204	544,902
Total capital assets not being depreciated	1,196,279	371,055	713,204	854,130
Other capital assets:				
Ways and structures	7,688,632	623,266	—	8,311,898
Ways and structures included in capital lease	298,169	—	—	298,169
Buildings and equipment	2,002,143	151,397	120,812	2,032,728
Buildings and equipment included in capital lease	470,181	6,760	—	476,941
Total	10,459,125	781,423	120,812	11,119,736
Less accumulated depreciation for:				
Ways and structures	2,521,486	184,822	—	2,706,308
Ways and structures included in capital lease	45,499	5,149	—	50,648
Buildings and equipment	914,374	158,183	120,812	951,745
Buildings and equipment included in capital lease	266,631	21,174	—	287,805
Total	3,747,990	369,328	120,812	3,996,506
Other capital assets, net	6,711,135	412,095	—	7,123,230
Capital assets, net	$ 7,907,414	783,150	713,204	7,977,360

(9) 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 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. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness.

(Continued)

(Dollars in thousands)

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 2009 and 2008, expenditures for claims and judgments, excluding workers compensation, and health and life, were $19,311 and $13,424, respectively. Expenditures for claims related to workers compensation were $8,675 and $10,871, and expenditures for the self-insured health plans were $123,204 and $111,067 for the years ended June 30, 2009 and 2008, 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, 2009, 2008, and 2007. Changes in the self-insurance liabilities in fiscal years 2009, 2008, and 2007 were as follows:

		2009	2008	2007
Liability, beginning of year	$	97,145	112,415	107,940
Provisions for claims		151,190	135,363	136,932
Payments		(150,055)	(150,633)	(132,457)
Liability, end of year	$	98,280	97,145	112,415

(10) Commitments and Contingencies

(a) Capital Investment Program

The Authority's continuing capital investment program for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2009 and 2008, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

Funding source		Approved project costs	Expenditures through June 30, 2009	Unexpended costs
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

(Dollars in thousands)

Funding source		**Approved project costs**	**Expenditures through June 30, 2008**	**Unexpended costs**
Federal grants	$	5,700,019	5,544,412	155,607
State and local sources		1,567,544	1,475,030	92,514
Authority bonds		5,501,743	5,016,106	485,637
Total	$	12,769,306	12,035,548	733,758

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 capital investment program. In the opinion of the general counsel to the Authority, amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other funds available to the Authority for the respective projects.

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately $260,844 and $346,842 at June 30, 2009 and 2008, 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.

(11) 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, 2008, the actuarial valuation date for fiscal year 2009, approximately 4,954 retirees and 5,665 active employees meet the eligibility requirements. As of June 30, 2006, the actuarial valuation date for fiscal year 2008, approximately 4,919 retirees and 6,341 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.

(c) Funding Policy

Retirees, pre-age 65, who retired on or before July 7, 2008 do 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 all existing and future post-age 65 retirees shall remain 100% Authority paid until June 30, 2010. Retirees, pre-age 65, who retire after June 30, 2010 will contribute 15% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

(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

(Dollars in thousands)

June 30, 2009 and 2008, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on the actuarial valuations as of June 30, 2008 and 2006:

		2009	2008
ARC	$	153,284	158,856
Interest on net OPEB obligation		4,772	—
Amortization adjustment to ARC		(6,706)	—
Annual OPEB cost		151,350	158,856
Contributions made		(56,718)	(49,915)
Change in net OPEB obligation		94,632	108,941
Net OPEB obligation – beginning of year		108,941	—
Net OPEB obligation – end of year	$	203,573	108,941

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

Fiscal year ended		Annual OPEB cost	Percentage of OPEB cost contributed		Net OPEB obligation
2009	$	151,350	37%	$	203,573
2008		158,856	31		108,941

The Authority's net OPEB obligation as of June 30, 2009 and 2008 is recorded as "Other postemployment benefits" line item.

(e) Funded Status and Funding Progress

The funded status of the plan was based on an actuarial valuation as of June 30, 2008 projected to June 30, 2009 as follows:

Actuarial accrued liability (AAL)	$	1,605,664
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	1,605,664
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	$	403,191
UAAL as a percentage of covered payroll		398.2%

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 annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(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, 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 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.

(12) 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.

(Dollars in thousands)

The Authority is also responsible for a site and a facility where Polychlorinated Biphenyls (PCBs) are present and have contaminated both sites. Caulk containing PCBs is frequently found in buildings built or renovated between 1950 and 1978. Because PCBs can migrate from the caulk into the air, soil, and surrounding environment, PCB containing caulk is banned and should be addressed. 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 addition, the Authority has been cited with an alleged violation from the U.S. Environmental Protection Agency (EPA). EPA alleges the violation of the Clean Air Act as a result of excess idling of trains overnight. EPA currently has a demand of a cash payment of $915 and is also requiring capital improvements, such as locomotive plug-ins, which are anticipated to cost nearly $2,500. MBTA is currently working with EPA to negotiate a settlement. MBCR will be sharing in this settlement though the percent share bourne by MBTA vs. the share bourne by MBCR has not yet been determined.

During the year ended June 30, 2009, the following changes occurred in the liabilities:

		Balance as of July 1, 2008	Additions	Payments	Balance as of July 1, 2009
Storage tank remediation sites	$	11,930	—	1,345	10,585
Sites with PCB remediation		2,745	2,500	745	4,500
U.S. government violations		3,500	—	—	3,500
	$	18,175	2,500	2,090	18,585

The $2,500 additional liability incurred in fiscal year 2009 is recorded in the other operating expenses in the statement of revenue, expenses and changes of net assets. The total liability at June 30, 2009 of $18,585 is included in the long-term accrued liabilities in the statement of net assets.

(13) Pledged Revenues

The Authority has pledged, as security for Sales Tax Bonds issued, Assessment Bonds issued and Prior Obligation Bonds outstanding a portion of the Commonwealth of Massachusetts 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 various capital improvement projects included in the Authority's approved Capital Improvement Program (CIP), and are payable through 2038 as of June 30, 2009. Total principal and interest remaining on Sales Tax Bonds, Assessment Bonds and Prior Obligation Bonds outstanding as of June 30, 2009 is $8,660,251. 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 issues bonds annually to fund its CIP, and these funds will continue be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds and all Authority bonds issued and outstanding have been retired. As of

June 30, 2009, the total amount of dedicated sales tax revenues and assessment monies received for fiscal year 2009 was $755,831, and $145,593, respectively, a total of $901,424. As of June 30, 2009, total annual debt service paid for fiscal 2009 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was $316,244. As of June 30, 2009, therefore, debt service represented 35% of pledged revenues.

(14) Subsequent Event

On June 18, 2009, the Legislature enacted, and on June 26, 2009 the Governor approved, legislation designed to reform the Commonwealth's transportation system. The legislation creates a new authority to be called Massachusetts Department of Transportation (MassDOT), to be governed by a five-member board appointed by the Governor. The Governor will also appoint a Secretary of MassDOT, who will serve as the new authority's chief executive officer. MassDOT will have an office of planning and programming and four divisions – one for highways, one for mass transit, one for aeronautics, and one for the Registry of Motor Vehicles – which will share administrative functions such as human resources, financial management, information technology, and planning. Each division will be headed by an administrator appointed by the Secretary of MassDOT. The board of MassDOT is authorized to begin exercising its powers on November 1, 2009.

The transportation reform legislation maintains the separate existence of the Authority, but its governing board is abolished, to be replaced by a new five member board appointed by the Governor. It is expected that the Governor will appoint the same individuals to the governing boards of MassDOT and the MBTA.

The legislation establishes a Massachusetts Transportation Fund within MassDOT, into which all bridge, tunnel, and highway tolls will be deposited, and upon agreement of MassDOT and the MBTA, transit fares may be deposited. The Trust Fund 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 the Turnpike Authority transferred pursuant to the legislation, as well as the Turnpike Authority debt. The legislation leaves the State and Local Contribution Fund in place to receive the dedicated sales tax revenue amount and local assessments.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Schedule of Funding Progress
Required Supplementary Information

June 30, 2009

Unaudited

(Dollars in thousands)

Pension Plans

MBTA Retirement Plan

Valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Year ended December 31:								
2004	$	1,772,612	1,854,264	81,652	95.60%	$	321,397	25.41%
2005		1,835,223	1,884,151	48,928	97.40		305,551	16.01
2006		1,832,680	1,943,986	111,306	94.27		327,187	34.02
2007		1,902,276	2,091,930	189,654	90.93		357,069	53.11

Police Association Retirement Plan

Valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Year ended December 31:								
2004	$	34,427	43,634	9,207	78.9%	$	12,882	71.5%
2005		36,802	48,245	11,443	76.3		14,511	78.9
2006		40,809	52,349	11,540	78.0		13,890	83.1
2007		45,718	55,485	9,767	82.4		14,853	65.8

Deferred Compensation Plan

The 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.

Valuation date	Actuarial accrued liability (a)	Net pension obligation (b)	Unrecognized actuarial accrued liability (c) (a)-(b)	Recognized ratio (d) (b)/(a)	Unrecognized ratio (e) (c)/(a)	Covered payroll (f)
July 1, 2005	$ 43,014	6,991	36,023	16.3%	83.7%	$ 27,495
July 1, 2006	42,996	6,707	36,289	15.6	84.4	28,870
July 1, 2007	45,970	6,859	39,111	14.9	85.1	29,780
July 1, 2008	46,032	7,421	38,611	16.1	83.9	31,269

See accompanying independent auditors' report.

OPEB Plan

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (c) (b)-(a)	(Unfunded) funded ratio (d) (a)/(b)	Covered payroll (e)	UAAL as a percentage of covered payroll (c)/(e)
June 30, 2008	$ —	1,605,664	1,605,664	—%	$ 440,208	364.8%
June 30, 2006	—	1,734,777 (1)	1,734,777	—%	398,671	435.1%

(1) Projected to June 30, 2007.

See accompanying independent auditors' report.