KPMG

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Financial Statements, Required Supplementary Information and Supplemental Schedule

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

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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 Massachusetts Department of Transportation, as of June 30, 2012 and 2011, and the related statements of revenue, expenses, and changes in net assets and statements of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2012 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.

U.S. generally accepted accounting principles require that the schedule of funding progress on pages 47–48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental Metropolitan Boston Transit Parking Corporation Schedule of Debt Service information included on pages 49-50 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

October 4, 2012

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

Statements of Net Assets

June 30, 2012 and 2011

(Dollars in thousands)

Assets and Deferred Outflows		**2012**	**2011**
Current assets:			
Unrestricted cash and temporary cash investments (note 3)	$	193,914	121,518
Restricted cash and temporary cash investments (note 3):			
Bond construction accounts		28,629	58,997
Stabilization accounts		19,359	19,306
Other accounts		13,222	14,663
Lease accounts		21,164	36,540
Accounts receivable:			
Commonwealth of Massachusetts		120,115	121,608
Federal grants		14,838	10,907
Other trade, net		29,991	18,758
Materials and supplies		61,810	73,934
Prepaid expenses		7,719	2,107
Total current assets		510,761	478,338
Noncurrent assets:			
Restricted cash and investments accounts (note 3):			
Bond construction accounts		218,134	123,746
Lease deposits		80,887	73,539
Bond reserve accounts		527,644	530,998
Total restricted cash and investments accounts		826,665	728,283
Lease accounts		41,873	84,485
Net investment in direct financing lease (note 8)		20,081	—
Capital assets, at cost (notes 7, 9, and 11):			
Transportation property, being depreciated		12,559,996	12,239,935
Transportation property, not being depreciated		837,711	884,642
Less accumulated depreciation		(5,238,939)	(4,921,815)
Capital assets, net		8,158,768	8,202,762
Deferred bond issue costs		27,883	28,113
Total noncurrent assets		9,075,270	9,043,643
Deferred outflows from derivative instruments (note 5)		141,260	85,185
Total assets and deferred outflows	$	9,727,291	9,607,166

(Continued)

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

Statements of Net Assets

June 30, 2012 and 2011

(Dollars in thousands)

Liabilities		**2012**	**2011**
Current liabilities:			
Current maturities of bonds and notes payable (note 5)	$	401,275	602,235
Current capital lease obligations (note 7)		24,407	39,228
Accounts payable		155,373	147,858
Accrued liabilities:			
Payroll and vacation		37,287	25,801
Interest		127,980	128,514
Injuries and damage claims, workers' compensation claims, and other (note 10)		49,695	40,010
Total current liabilities		796,017	983,646
Long-term liabilities, less current maturities:			
Bonds payable, net (note 5)		5,375,685	5,063,111
Obligations under capital leases (note 7)		124,760	163,266
Accrued liabilities (notes 10 and 13)		64,256	72,339
Pension liability (note 6)		81,964	57,661
Other postemployment benefits (note 12)		490,253	367,053
Liability for derivative instruments (note 5)		160,097	105,252
Deferred revenue and other		30,807	33,006
Total long-term liabilities		6,327,822	5,861,688
Total liabilities	$	7,123,839	6,845,334
Net Assets			
Invested in capital assets, net of related debt	$	3,284,688	3,309,160
Restricted		19,359	19,306
Unrestricted		(700,595)	(566,634)
Total net assets	$	2,603,452	2,761,832

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Operating revenue:			
Revenue from transportation	$	465,755	448,814
Other		63,151	62,321
		528,906	511,135
Operating expenses:			
Wages and related employee benefits:			
Wages		410,156	399,292
Medical and dental insurance		77,350	67,227
Other postemployment benefits		183,676	141,035
Pensions		91,988	79,568
Social security taxes		36,760	34,990
Workers' compensation		7,989	11,125
Other		1,346	1,987
Capitalized costs		(22,353)	(19,351)
		786,912	715,873
Other operating expenses:			
Depreciation and amortization		366,559	358,679
Materials, supplies, and services		212,146	198,375
Injuries and damages		13,122	3,270
Commuter railroad and local subsidy expenses (note 4)		431,262	398,010
Other		8,292	5,020
		1,031,381	963,354
Total operating expenses		1,818,293	1,679,227
Operating loss		(1,289,387)	(1,168,092)
Nonoperating revenue (expense):			
Dedicated sales tax revenue (note 14)		779,092	767,057
Contract assistance – Commonwealth of Massachusetts		160,000	160,000
Dedicated local assessments (note 14)		152,125	150,429
Fair value change in investment derivatives		1,230	1,809
Other income		32,599	17,457
Interest income		43,947	32,470
Interest expense		(284,560)	(282,651)
Nonoperating revenue, net		884,433	846,571
Loss before capital grants		(404,954)	(321,521)
Capital grants and contributions		246,574	239,361
Decrease in net assets		(158,380)	(82,160)
Beginning of year net assets		2,761,832	2,843,992
End of year net assets	$	2,603,452	2,761,832

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Cash flows from operating activities:			
Receipts from transit customers	$	470,258	450,173
Receipts from other operations		62,250	67,581
Payments to suppliers and vendors		(808,357)	(761,711)
Payments to employees		(469,901)	(457,665)
Net cash used in operating activities		(745,750)	(701,622)
Cash flows from capital and related financing activities:			
Cash (used in) provided by:			
Additions to transportation property		(389,842)	(415,854)
Interest paid		(277,348)	(274,470)
(Increase) decrease in deferred credits/charges		(54,513)	3,319
Commercial paper advances		78,000	25,000
Payments on debt		(401,950)	(449,775)
Proceeds from bond and note issuances		410,645	578,035
Payments to bond construction and reserve accounts		(91,034)	(77,254)
Proceeds from bond premiums		52,362	18,498
Proceeds from direct financing lease		50,000	—
Payments of capital lease activity		(53,327)	(96,536)
Decrease in lease deposit/account		50,640	93,744
Capital grants		242,643	235,463
Other		(3,090)	(4,811)
Net cash used in capital and related financing activities		(386,814)	(364,641)
Cash flows from noncapital and related financing activities:			
Sales tax and local assessment		1,092,710	1,076,220
Reimbursable payments		18,728	6,051
Net cash provided by noncapital and related financing activities		1,111,438	1,082,271
Cash flows from investing activity:			
Interest and other income		61,766	49,927
Net cash provided by investing activity		61,766	49,927
Net change		40,640	65,935
Cash, temporary cash investments, restricted, and other special accounts, beginning of year		214,484	148,549
Cash, temporary cash investments, restricted, and other special accounts, end of year	$	255,124	214,484
Adjustments to reconcile operating loss to net cash used in operating activities:			
Operating loss	$	(1,289,387)	(1,168,092)
Changes not requiring current expenditure of cash:			
Depreciation and amortization		366,559	358,679
Increase in pension liability		24,303	14,805
Increase in other postemployment liability		123,200	82,644
Changes in all other working capital accounts except cash, temporary cash investments, and short-term debt		29,575	10,342
Net cash used in operating activities	$	(745,750)	(701,622)

Supplemental disclosures of cash flow activities:

In fiscal 2012, assessment bonds in the aggregate principal amount of $410,645 were issued to defease $175,770 of bonds outstanding and to redeem $33,000 in bond anticipation notes.

In fiscal 2011, sales tax bonds in the aggregate principal amount of $63,450 were issued to defease $68,000 of bonds outstanding, and $304,805 in MBTPC bonds were issued to defease $276,175 of bonds outstanding.

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

See note 15 for subsequent event affecting the Authority's board.

On May 27, 2011, the Authority created Metropolitan Boston Transit Parking Corporation (MBTPC) a private Massachusetts nonprofit corporation organized under the provisions of Chapter 180 of Massachusetts General Laws, for the limited purpose of taking action necessary to provide for issuance of bonds on behalf of the Authority secured by the revenues from the parking system of the Authority. MBTPC began operations on June 22, 2011. The Authority is the sole member of MBTPC and the Board of Directors consists of three ex officio management employees of the Authority. MBTPC has no employees. MBTPC has the ability to issue debt payable and has assumed certain rights to receive gross revenues from the parking system of the Authority under a Transfer and Disposition Agreement. The obligations of the corporation, the bonds and Transfer and Disposition Agreement are limited obligations, payable solely from the assets of MBTPC, which are pledged under the Resolution and recourse shall be limited to such assets. Due to its relationship with the Authority, the MBTPC is considered a blended component of the Authority.

In accordance with the requirements of 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, other than the MBTPC, were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of MassDOT, as the Authority is a component unit of MassDOT.

(Dollars in thousands)

(2) Summary of Significant Accounting Policies

(a) 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 interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. After this date, only GASB pronouncements are followed.

(b) 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, 2012 and 2011:

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

(c) Construction in Progress

During 2012 and 2011, major construction projects aggregating $502,413 and $368,126, respectively, were completed and transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of borrowing until completion of the project, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare

Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal years 2012 and 2011, the Authority had no material capitalized interest.

(d) 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.

(e) 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*.

(f) Revenue Recognition

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

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

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

The Transportation Reform Act established the Commonwealth Transportation Fund (CTF), a budgetary fund of the Commonwealth for transportation–related purposes, to receive essentially the same revenue previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenue. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of $275 million. The Commonwealth appropriated $160,000 from the CTF to the Authority for fiscal years 2012 and 2011. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

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

(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, 2012 and 2011 was $18,193 and $16,920, respectively.

(j) Restricted Cash and Investment Accounts

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

- Bond Construction Accounts – represent unexpended bond proceeds.
- Lease Deposits – represent investments (Treasury STRIPS and a collateralized investment agreement) held by trustees that will be used to make scheduled equity payments on the Authority's capital leases.
- Bond Reserve Accounts – represent 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 internally restricted funds held 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) Materials and Supplies

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

(m) Postemployment Benefits

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

(n) Environmental Remediation Costs

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup and site monitoring using the expected cash flow technique and in a range of possible estimated amounts. The remediation obligation estimates are subject to change over time due to price fluctuations, changes in technology, changes in potential responsible parties, statutes or regulations or other factors, which could result in the revision of these estimates.

(o) Derivatives

Derivative instruments are reported as assets or liabilities at fair value on the statement of net assets. Changes in fair value may be reported in the statement of revenue, expenses, and changes in net assets, or as deferred inflows or deferred outflows of resources in the statement of net assets depending upon whether the derivative instrument qualifies for hedge accounting.

(p) Available Unrestricted Resources

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

(q) Reclassifications

Certain prior year information has been reclassified to conform to the 2012 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 Investor Services (Moody's) or A-1 by Standard and Poor's (S&P). These instruments can vary in maturity; however, no more than 10% of the investment funds shall be invested in the commercial paper of a single corporation.

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

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

(Dollars in thousands)

Deposits and investments consisted of the following amounts presented in the accompanying statements of net assets at June 30, 2012 and 2011:

		2012	2011
Restricted:			
Bond construction accounts	$	246,763	182,743
Bond reserve, stabilization, and other accounts		560,225	564,967
Lease deposits		80,887	73,539
Subtotal		887,875	821,249
Unrestricted cash and temporary cash investments		193,914	121,518
	$	1,081,789	942,767

Included in bond reserve, stabilization, and other accounts at June 30, 2012 and 2011 are investments in Commonwealth debt instruments with a fair value of $49,904 and $41,161, respectively.

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority’s deposits may not be recovered. The deposits in the bank in excess of the insured amount and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority’s deposits at June 30, 2012 and 2011 was $145,674 and $88,453, respectively. The bank balance at June 30, 2012 and 2011 was $140,523 and $88,302, respectively. Of this amount, $9,400 and $7,987, 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, 2012 and 2011.

(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, 2012 and 2011 are presented below. All investments are presented by investment type and maturity.

	2012				
		Investment maturities (in years)			
Investment type	**Amount**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$ 218,093	218,093	—	—	—
Money market funds	316,601	316,601	—	—	—
Guaranteed investment contracts	1,342	—	—	—	1,342
Treasury STRIPS	80,887	2,229	27,500	—	51,158
Government-sponsored enterprises	291,967	257,065	—	7,169	27,733
Other treasury obligations	106,112	852	—	—	105,260
Certificates of deposit	2,008	2,008	—	—	—
Investments	$ 1,017,010	796,848	27,500	7,169	185,493

	2011				
		Investment maturities (in years)			
Investment type	**Amount**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$ 103,942	103,942	—	—	—
Money market funds	187,979	187,979	—	—	—
Guaranteed investment contracts	3,231	—	—	—	3,231
Treasury STRIPS	73,539	12,390	27,046	—	34,103
Government-sponsored enterprises	369,404	333,765	—	7,169	28,470
Other treasury obligations	101,926	—	—	—	101,926
Certificates of deposit	7,000	7,000	—	—	—
Investments	$ 847,021	645,076	27,046	7,169	167,730

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of $1,342 and $3,231 at June 30, 2012 and 2011, respectively. These investments are not rated.

The Authority had $186,999 and $175,465 in Treasury STRIPS and other treasury obligations as of June 30, 2012 and 2011, respectively. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government.

(Dollars in thousands)

The Authority has $291,967 and $369,404 invested in Government-Sponsored Enterprises (GSE) as of June 30, 2012 and 2011, respectively. These investments have an implied credit rating of AAA or they have been collateralized to AAA.

The Authority has $218,093 and $103,942 invested in MMDT as of June 30, 2012 and 2011, respectively, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

The Authority also has $318,609 and $194,979 invested in money market funds and certificates of deposit as of June 30, 2012 and 2011, respectively. These investments are not rated.

(d) Concentration of Credit Risk – Investments

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

	Credit rating by Moody's/S&P	2012	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	$ 188,615	18.6%
		$ 188,615	18.6

	Credit rating by Moody's/S&P	2011	Percentage of portfolio
Federal National Mortgage Association	Aaa/AAA	$ 136,519	16.1%
Federal Home Loan Mortgage Corporation	Aaa/AAA	133,540	15.8
		$ 270,059	31.9

(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, 2012 and 2011.

(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 2013. The Authority will pay MBCRC a total fixed base contract amount of $2,358,866 over the approved ten-year period, with remaining payments at June 30, 2012 totaling $286,004.

(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, 2012, prior obligations in the amount of $494,700 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 2012, the Authority issued the following bonds: the 2012 Series A Assessment Bonds in the amount of $410,645.

Principal on the 2012 Series A Assessment Bonds is payable beginning with a single payment due January 1, 2013 and thereafter payments resume on July 1, 2015 and occur on each July 1st through July 1, 2041 except for July 1 of 2025 through 2035. Interest on these bonds is paid semiannually on July 1 and January 1. The 2012 Series A Assessment Bonds were issued in part to fund a portion of the Authority's Capital Investment Program (CIP) and to partially refund the 2002 Series A Sales Tax Bonds, the 2006 Series C Sales Tax Bonds, the 2004 Series A Assessment Bonds, the 2005 Series A Assessment Bonds, the 2008 Series A Assessment Bonds, and to retire $33,000 of Bond Anticipation Notes issued on March 1, 2012.

During fiscal year 2011, the Authority issued the following bonds: the 2010 Series C Senior Sales Tax Bonds in the amount of $63,450, the 2010 Series D Senior Sales Tax Bonds (BABs) in the principal amount of $210,000 and the 2011 Series A MBTPC Bonds in the principal amount of $304,585.

Principal on the 2011 Series A MBTPC Bonds is payable beginning July 1, 2022 and on each July 1st through July 1, 2041. Interest on these bonds is paid semiannually on July 1 and January 1 each year. The bond issue is funded from the parking system daily revenue of approximately 44,000 parking spaces at 95 different facilities including seven structured garages and 88 surface lots, all of which are owned by the Authority. The debt service on this issue is funded by the pledged revenues from these lots with any excess revenue refunded back to the Authority, with any deficiency occurrences cured by the Authority. The 2011 Series A MBTPC Bonds were issued to partially refund the 2004 Series A Assessment Bonds, the 2005 Series A Assessment Bonds, the 2008 Series A Assessment Bonds, the 2002 Series A Senior Sales Tax Bonds, the 2003 Series A Senior Sales Tax Bonds, the 2004 Series C Senior Sales Tax Bonds, the 2006 Series B Senior Sales Tax Bonds, the 2006 Series C Senior Sales Tax Bonds, the 2008 Series B Senior Sales Tax Bonds, the 2009 Series D Senior Sales Tax Bonds, the 1991 Series A General Transportation System (GTS) Bonds, the 1992 Series C GTS Bonds and the 1995 Series A GTS Bonds.

Principal on the 2010 Series C Senior Sales Tax Bonds is payable beginning July 1, 2018 and on each July 1st through July 1, 2020. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series C Senior Sales Tax Bonds were issued to refund and restructure prior obligations of the Authority.

Principal on the 2010 Series D Senior Sales Tax Bonds is payable beginning July 1, 2021 and on each July 1st through July 1, 2040 except for July 1 of 2022 through 2025. Interest on these bonds is paid semiannually on July 1 and January 1. The 2010 Series D Senior Sales Tax Bonds were issued as Build America Bonds pursuant to the American Recovery and Reinvestment Act (ARRA) and receive a cash subsidy from the U.S. Treasury in connection therewith. The 2010 Series D Senior Sales Tax Bonds were issued to fund a portion of the Authority’s CIP.

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

The Authority issued commercial paper notes in the amount of $78,000 during fiscal year 2012 to fund payment on prior obligations of the Authority and it was repaid prior to June 30, 2012. The balance of $118,375 was outstanding as of June 30, 2012 and 2011. The total commercial paper notes included CP Sales Tax Series A in the amount of $46,125 with a weighted average nominal rate 0.712% and CP Sales Tax Series B in the amount of $72,250 with a weighted average nominal rate 0.483%.

(Dollars in thousands)

Grant Anticipation Notes (GANs) were issued in 2004 and the principal was payable in annual installments on September 1st; interest was payable semiannually on March 1 and September 1. The balance of $6,245 at June 30, 2011 was paid in full during fiscal year 2012. The GANs were issued to provide funds for the financing of the Authority's transportation properties.

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

The Authority's bonds outstanding at June 30, 2012 are as follows:

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2012	Due in fiscal year 2013
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	$ 3,450	$ 1,725
1991 Series A Bonds dated November 15, 1991	2021	7.00%	36,165	—
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20%	125,200	36,780
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.00%	28,745	16,825
1995 Series A Bonds dated April 1, 1995	2015	5.75% – 5.88%	23,625	9,465
1998 Series A Bonds dated February 15, 1998	2015	5.50%	27,305	8,620
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	50,955	20,495
1999 Series Variable Rate Demand Obligation dated June 29, 1999*	2014	Variable	13,590	6,570
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	185,665	5,460
			494,700	105,940
Boston Metropolitan District (BMD) bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	6,080	2,040
			6,080	2,040

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2012	Due in fiscal year 2013
Revenue bonds:				
2002 Series A Senior Sales Tax Bonds dated November 1, 2002	2017	3.88% – 5.00%	$ 9,165	$ 9,165
2003 Series A Senior Sales Tax Bonds dated January 29,2003	2021	4.00% – 5.25%	130,190	25,840
2003 Series C Senior Sales Tax Bonds dated February 3, 2004**	2023	Variable	217,850	795
2004 Series A Senior Sales Tax Bonds dated February 3, 2004	2016	5.00% – 5.25%	16,455	2,190
2004 Series B Senior Sales Tax Bonds dated March 9, 2004	2030	3.00% – 5.25%	454,745	26,530
2004 Series A Assessment Bonds dated June 10, 2004	2021	3.00% – 5.25%	13,015	9,535
2004 Series C Senior Sales Tax Bonds dated December 22, 2004	2024	3.50% – 5.50%	319,320	—
2005 Series A Senior Sales Tax Bonds dated March 24, 2005	2031	5.00%	735,450	—
2005 Series A Assessment Bonds dated September 8, 2005	2035	3.20 – 5.00%	66,845	7,000
2005 Series B Senior Sales Tax Bonds dated December 21, 2005	2029	3.40 – 5.50%	92,175	50
2006 Series A Senior Sales Tax Bonds dated March 2, 2006	2034	5.25%	238,850	—
2006 Series B Senior Sales Tax Bonds dated December 5, 2006	2023	5.00 – 5.25%	202,830	4,505
2006 Series C Senior Sales Tax Bonds dated June 28, 2006	2027	4.00 – 5.00%	68,885	2,595
2006 Series A Assessment Bonds dated September 13, 2006***	2035	Variable	161,340	—
2007 Series A-1 Senior Sales Tax Bonds dated May 24, 2007	2034	5.25%	205,675	—
2007 Series A-2 Senior Sales Tax Bonds dated May 24, 2007	2037	Zero Coupon	169,491	—

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2012	Due in fiscal year 2013
Revenue bonds:				
2008 Series A-1 Senior Sales Tax Bonds dated April 2, 2008*	2021	Variable	$ 131,910	$ —
2008 Series A-2 Senior Sales Tax Bonds dated April 2, 2008*	2026	Variable	123,515	500
2008 Series B Senior Sales Tax Bonds dated April 30, 2008	2033	3.00% – 5.25%	48,605	1,200
2008 Series A Assessment Bonds dated November 13, 2008	2034	4.00% – 5.25%	236,905	—
2009 Series B Senior Sales Tax Bonds dated February 26, 2009	2018	3.00% – 5.00%	39,365	—
2009 Series D Senior Sales Tax Bonds dated October 29, 2009	2019	3.00% – 5.00%	14,445	—
2010 Series A Senior Sales Tax Bonds dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax Bonds dated April 6, 2010	2035	2.00% – 5.00%	77,760	1,280
2010 Series C Senior Sales Tax Bonds dated December 8, 2010	2020	5.00%	63,450	—
2012 Series A Assessment Bonds dated June 21, 2012	2041	5.00%	410,645	3,480
			4,329,136	174,920
Metropolitan Boston Transit Parking (MBTPC) Bonds:				
2011 Series A MBTPC Bonds dated June 22, 2011	2041	4.00% – 5.25%	304,585	—
			304,585	—
Revenue Build America (BABs) Bonds:				
2009 Series C Senior Sales Tax Bonds dated October 29, 2009	2039	4.75% – 5.57%	218,300	—
2010 Series D Senior Sales Tax Bonds dated December 8, 2010	2040	4.546%-5.869%	210,000	—
			428,300	—

(Continued)

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2012	Due in fiscal year 2013
Commercial Paper Notes:				
Bond Anticipation Notes (BANs)	2012	0.48% – 0.71%	$ 118,375	$ 118,375
Total bonds and notes payable			5,681,176	$ 401,275
Less current maturities			(401,275)	
Total long-term bonds payable			5,279,901	
Plus unamortized bond premiums			345,933	
Less unamortized bond discounts/losses on bond refundings, net			(250,149)	
Total long-term bonds payable			$ 5,375,685	

* These bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. The interest rates as of June 30, 2012 and 2011 are 0.25% and 0.07% for the 1999 Series VRDO; as of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO ($94.0m) and 2000 Series A-2 VRDO ($94.0m). The interest rates as of June 30, 2012 and 2011 for the 2000 Series A-1 are 0.25% and 2.00%; 0.15% and 2.00% for the 2000 Series A-2 VRDO; 0.19% and 0.06% for the 2008 Series A-1 Senior Sales Tax Bond and 0.15% and 0.06% 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, plus 79 basis points.

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

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 0.09%. The Authority classifies these bonds short-term as it does not have a standby purchase agreement for the remarketing window. The Authority does not foresee the bonds being called.

(Dollars in thousands)

The annual maturities of bonds and notes payable as of June 30, 2012 are as follows:

		Principal	Interest
Fiscal year(s):			
2013	$	401,275	266,955
2014		177,815	261,318
2015		175,980	251,072
2016		150,145	241,008
2017		201,415	231,531
2018 – 2022		1,288,855	985,146
2023 – 2027		1,140,399	720,821
2028 – 2031		1,048,953	458,428
2033 – 2037		723,866	240,784
2038 – 2042		372,473	62,059
Total	$	5,681,176	3,719,122

A summary rollforward of bonds for the years ended June 30, 2012 and 2011 is as follows:

		2012					
		Balance 2011	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2012
GTS	$	578,645	—	83,945	—	—	494,700
BMD		8,130	—	2,050	—	—	6,080
Revenue		4,142,455	410,645	55,940	175,770	7,746	4,329,136
BABs		428,300	—	—	—	—	428,300
GANs		6,245	—	6,245	—	—	—
BANs		118,375	78,000	—	78,000	—	118,375
MBTPC		304,585	—	—	—	—	304,585
	$	5,586,735	488,645	148,180	253,770	7,746	5,681,176

		2011					
		Balance 2010	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2011
GTS	$	743,220	—	40,750	123,825	—	578,645
BMD		10,190	—	2,060	—	—	8,130
Revenue		4,337,363	63,450	45,400	220,350	7,392	4,142,455
BABs		218,300	210,000	—	—	—	428,300
GANs		23,635	—	17,390	—	—	6,245
BANs		93,375	25,000	—	—	—	118,375
MBTPC		—	304,585	—	—	—	304,585
	$	5,426,083	603,035	105,600	344,175	7,392	5,586,735

(Continued)

(Dollars in thousands)

The following funds, included in restricted assets at June 30, 2012 and 2011, are in connection with the Authority's revenue bond trust agreements:

	2012				2011			
	Assessment bonds	Sales tax bonds	MBTPC bonds	GANs	Assessment bonds	Sales tax bonds	MBTPC bonds	GANs
Debt service	$ 33,437	199,349	7,925	—	$ 32,082	221,261	—	171
Debt service reserve	57,898	216,273	12,762	—	64,329	192,821	12,294	8,040
	$ 91,335	415,622	20,687	—	$ 96,411	414,082	12,294	8,211

The minimum required balances in the debt service reserve funds at June 30, 2012 and 2011 were $186,866 and $189,405 for the Sales Tax Series Bonds and $34,903 and $58,986 for the Assessment Bonds, respectively. The minimum required balance in the debt service reserve funds at June 30, 2012 and 2011 for GANs is $0 and $625, respectively. The minimum required balance in the debt service reserve funds at June 30, 2012 and 2011 for MBTPC Bonds is $12,294. The Authority has complied with its financial bond covenants.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to pay its capital costs. The Authority has a $250 million commercial paper program. $150 million is administered by JPMorgan and $100 million by Barclays Capital Inc. The Authority's commercial paper (or BANs) is rated P-1 by Moody's and A-1+ by S&P. The Authority had $118,375 in outstanding commercial paper as of June 30, 2012 and 2011.

(b) Debt Refundings

In current and prior years, the Authority defeased in-substance several GTS, Sales Tax Series, and Assessment Series Bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2012 and 2011, $1,414,765 and $1,283,455 of these bonds, considered defeased in-substance, are still outstanding, respectively. On June 30, 2012 and 2011, $4,060 in BMD bonds are considered defeased in-substance, and are still outstanding.

In June 2012, the Authority refunded $625 of the 2002 Series A Series Sales Tax Bonds, $40,480 of the 2006 Series C Senior Sales Tax Bonds, $6,615 of the 2004 Series A Assessment Bonds, $74,605 of the 2005 Series A Assessment Tax Bonds and $53,445 of the 2008 Series A Assessment Bonds, with the issuance of the 2012 Series A Assessment Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the $175,770 in bonds is approximately $9,308. The accounting loss of $29,641 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2012 Series A Assessment Bonds.

In June 2011, the Authority refunded $16,850 of the 2004 Series A Assessment Bonds, $45,800 of the 2005 Series A Assessment Bonds, $64,070 of the 2008 Series A Assessment Bonds, $8,740 of the 2002 Series A Senior Sales Tax Bonds, $22,650 of the 2003 Series A Senior Sales Tax Bonds $3,955 of the 2004 Series C Senior Sales Tax Bonds, $5,170 of the 2006 Series B Senior Sales Tax Bonds, $26,555 of the 2006 Series C Senior Sales Tax Bond, $1,165 of the 2008 Series B Senior Sales Tax Bonds, $25,395 of the 2009 Series B Senior Sales Tax Bond, $33,405 of the 1991 Series A GTS Bonds, $5,500 of the 1992 Series C GTS Bonds and $16,920 of the 1995 Series A GTS Bonds with the issuance of the 2011 Series A MBTPC Bonds. The accounting loss of $33,438 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2011 Series A MBTPC Bonds.

In December 2010, the Authority refunded $23,425 of the 1993 Series A GTS Bonds, $22,860 of the 1994 Series A GTS Bonds and $21,715 of the 1998 Series C GTS Bonds with the issuance of the 2010 Series C Senior Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the $68,000 in bonds is approximately $16,478. The accounting loss of $8,194 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2010 Series C Senior Sales Tax Bonds.

(c) Derivative Instruments

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

(Dollars in thousands)

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Derivative item	Type	Objective	Effective date	Current notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Upfront payment from counterparty	Fair value at June 30 2012	Fair value at June 30 2011
Cash flow hedges:										
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	$ 185,665	2030	5.00%	67% of LIBOR	$ 12,230	(58,009)	(39,437)
3	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Senior Sales Tax Series 2003 C	February 2004	25,005	2020	4.13	CPI+79 basis points	N/A	(1,374)	(469)
4	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	19,260	2024	4.67	CPI+123 basis points	607	(370)	296
5	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	5,000	2025	4.66	CPI+123 basis points	142	(87)	89
6	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-1	October 2008	131,910	2021	3.83	SIFMA	3,067	(22,533)	(13,420)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	123,515	2026	3.08	62% of LIBOR plus 24 basis points	116	(22,728)	(9,830)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	5.61	SIFMA	4,140	(36,159)	(22,414)
									(141,260)	(85,185)
Investment derivatives:										
2	Pay – fixed interest rate swap (a)	Originally to hedge changes in cash flows on variable rate debt	February 2003	87,805	2022	5.20	SIFMA	4,586	(18,837)	(18,017)
9	Receive – fixed interest rate swap (b)	Hedge changes in cash flows on the debt service reserve funds of the 2000 Assessment and Sales Tax Bonds	December 2000	49,123	2030	5.60	SIFMA	1,265	—	(2,050)
									(18,837)	(20,067)
									$ (160,097)	(105,252)

(a) The 2003 B-1 and 2003 B-2 hedged bonds were legally redeemed in March 2008 through the issuance of commercial paper.
(b) This swaption was terminated with the counterparty as of December 1, 2011.

The aggregate fair value balance of the derivative instruments at June 30, 2012 and 2011 is $(160,097) and $(105,252), respectively, and is reflected on the Authority's statements of net assets as liability for derivative instruments. Of this liability, $141,260 and $85,185 at June 30, 2012 and 2011, respectively, were offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2012 and 2011, the Authority determined that the investment derivative instruments do not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net assets.

(Dollars in thousands)

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

Swap Payments and Associated Debt

As of June 30, 2012, 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 is 0.165% and the variable rate on the 2000 Bonds is 0.200% 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(s) ending June 30	2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2013	$ 5,460	368	8,890	14,718
2014	5,845	357	8,619	14,821
2015	6,250	345	8,330	14,925
2016	6,690	332	8,021	15,043
2017	7,160	318	7,690	15,168
2018 – 2022	44,050	1,349	32,613	78,012
2023 – 2027	61,775	831	20,079	82,685
2028 – 2031	48,435	166	4,009	52,610
Totals	$ 185,665	4,066	98,251	287,982

(Dollars in thousands)

As of June 30, 2012, debt service requirements on the 2003 Series C Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming CPI rate of 3.556% 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 Senior Sales Tax Bonds principal	2003 Series C Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2013	$	—	1,087	(54)	1,033
2014		—	1,087	(54)	1,033
2015		—	1,087	(54)	1,033
2016		—	1,087	(54)	1,033
2017		—	1,087	(54)	1,033
2018 – 2021		25,005	3,260	(144)	28,121
	$	25,005	8,695	(414)	33,286

As of June 30, 2012, debt service requirements on the 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 3.556% 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
2013	$	—	239	(6)	233
2014		—	239	(6)	233
2015		—	239	(6)	233
2016		—	239	(6)	233
2017		—	239	(6)	233
2018 – 2022		—	1,197	(32)	1,165
2023 – 2026		5,000	718	(19)	5,699
	$	5,000	3,110	(81)	8,029

(Dollars in thousands)

As of June 30, 2012, debt service requirements on the 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 3.556% 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
2013	$	—	922	(22)	900
2014		—	922	(22)	900
2015		—	922	(22)	900
2016		—	922	(22)	900
2017		—	922	(22)	900
2018 – 2022		—	4,609	(112)	4,497
2023 – 2025		19,260	1,844	(45)	21,059
	$	19,260	11,063	(267)	30,056

As of June 30, 2012, debt service requirements on the 2008 Series A-1 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the SIFMA index rate is 0.180% and the variable rate on the 2008 Series A-1 Senior Sales Tax Bonds is 0.19% 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 Senior Sales Tax Bonds principal	2008 Series A-1 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2013	$	—	251	4,820	5,071
2014		135	250	4,815	5,200
2015		735	249	4,788	5,772
2016		765	248	4,760	5,773
2017		18,990	211	4,066	23,267
2018 – 2022		111,285	457	8,795	120,537
	$	131,910	1,666	32,044	165,620

(Continued)

(Dollars in thousands)

As of June 30, 2012, debt service requirements on the 2008 Series A-2 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.083% and assuming the 62% of LIBOR plus 24 basis points is 0.392% and the variable rate on 2008 Series A-2 Senior Sales Tax Bonds is 0.150% 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 Senior Sales Tax Bonds principal	2008 Series A-2 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2013	$	500	185	3,310	3,995
2014		515	184	3,296	3,995
2015		535	183	3,282	4,000
2016		550	182	3,267	3,999
2017		570	181	3,251	4,002
2018 – 2022		3,130	893	16,010	20,033
2023 – 2027		117,715	342	6,129	124,186
	$	123,515	2,150	38,545	164,210

As of June 30, 2012, debt service requirements on 2010 Series A Senior Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.18% and the variable rate on the 2010 Series A Senior Sales Tax Bonds is 0.18% plus 9 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2010 bonds will vary.

Fiscal year(s) ending June 30		2010 Series A Senior Sales Tax Bonds principal	2010 Series A Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2013	$	—	215	4,325	4,540
2014		—	215	4,325	4,540
2015		—	215	4,325	4,540
2016		—	215	4,325	4,540
2017		—	215	4,325	4,540
2018 – 2022		—	1,075	21,624	22,699
2023 – 2027		30,265	915	18,400	49,580
2028 – 2031		49,380	210	4,214	53,804
	$	79,645	3,275	65,863	148,783

Risk Disclosure

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

The following represents the credit ratings of the counterparties as of June 30, 2012:

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

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

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

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

(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 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 ten 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 2012 was minimal and no contributions were made to this plan in fiscal year 2012. In addition, the net pension obligation is considered immaterial.

(a) Funding Policy and Annual Pension Cost

The board of trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members, as of July 2, 2011 to contribute 5.149% with the Authority currently paying an amount equal to 14.101% of total payroll. The members contributed 5.124% prior to July 2, 2011 with the Authority paying an amount equal to approximately 14.026% of total payroll. The actuarial required contribution rate for the Authority was 19.8865%. The contribution requirements for the Police Association Plan were 15.413% in 2012 and 16.583% in 2011 for the Authority and 7.285% for employees in both 2012 and 2011. Both were determined in accordance with actuarial valuations. Actual contributions made in 2012 and 2011 were in accordance with these contribution requirements.

(Dollars in thousands)

Deferred compensation contributions are made on a "pay-as-you-go" basis. The Authority's annual pension cost for the years ended June 30, 2012 and 2011 and related information for each plan is as follows:

		2012		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – Authority	$	74,587	2,520	7,520
Contributions made – Authority		52,865	2,072	5,387
Actuarial valuation date/update		June 30, 2012	June 30, 2012	June 30, 2012
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	4-year moving	5-year moving
Actuarial assumptions:				
Interest rate		7.50%	7.00%	7.50%
Projected salary increases		4.00	3.50	4.00

		2011		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – Authority	$	66,075	2,798	5,770
Contributions made – Authority		52,516	2,137	5,185
Actuarial valuation date/update		June 30, 2011	June 30, 2011	June 30, 2011
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	4-year moving	5-year moving
Actuarial assumptions:				
Interest rate		7.50%	7.00%	8.00%
Projected salary increases		4.00	4.50	4.00

(Continued)

(Dollars in thousands)

Changes in the net pension obligation for these plans for the years ended June 30, 2012 and 2011 are as follows:

		2012		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(46,574)	(1,826)	(9,261)
Annual pension cost		(74,587)	(2,520)	(7,520)
Contributions and other adjustments		52,865	2,072	5,387
Net pension obligation, end of year	$	(68,296)	(2,274)	(11,394)

		2011		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(33,015)	(1,165)	(8,676)
Annual pension cost		(66,075)	(2,798)	(5,770)
Contributions and other adjustments		52,516	2,137	5,185
Net pension obligation, end of year	$	(46,574)	(1,826)	(9,261)

(Continued)

(Dollars in thousands)

(b) Three-Year Trend Information

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
MBTA Retirement Plan	June 30, 2010	$ 53,887	80%	$ (33,015)
	June 30, 2011	66,075	79	(46,574)
	June 30, 2012	74,587	71	(68,296)
MBTA Police Association Plan	June 30, 2010	$ 2,468	87%	$ (1,165)
	June 30, 2011	2,798	76	(1,826)
	June 30, 2012	2,520	82	(2,274)
MBTA Deferred Compensation Plan	June 30, 2010	$ 5,602	88%	$ (8,676)
	June 30, 2011	5,770	90	(9,261)
	June 30, 2012	7,520	72	(11,394)

(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, 2010	$ 1,649,129	2,341,344	692,215	70.4%	$ 356,609	194.1%
Police Association Plan:						
December 31, 2010	52,837	70,900	18,063	74.5%	17,187	105.1%

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.

(Dollars in thousands)

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, 2011	$ 58,980	9,261	49,719	15.7%	84.3%	$ 44,592

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 5.149% of total covered payroll with the Authority contributing 8%. The plan has approximately 268 and 252 members at June 30, 2012 and 2011, respectively, and the cost of the Plan to the Authority was $708 and $663 for fiscal years 2012 and 2011, 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.

(b) Cross-Border Leases and Other Capital Lease Arrangements

The Authority had entered into cross-border leases related to the financing of heavy rail cars. Provisions in these leases allowed for the Authority to sell and lease back the equipment over a period of years. Additionally, the lease agreements included a purchase option granting the Authority the right to purchase the equipment at the end of the lease terms. The Authority had 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 were included in the accompanying financial statements for fiscal year 2011. On December 16, 2011, the Authority exercised its purchase option and effectively terminated its cross-border lease.

(Dollars in thousands)

Transportation property and facilities under capital leases are summarized in the capital assets note (note 9).

The following is a schedule by year of future minimum lease payments under the LILO and other capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2012:

Fiscal year(s):		
2013	$	35,780
2014		57,085
2015		12,395
2016		597
2017		162
2018 – 2022		50
2023 – 2024		51,157
		157,226
Less amount representing interest		(8,059)
Present value of net minimum lease payments		149,167
Less current principal maturities		(24,407)
Obligations under capital leases	$	124,760

The liability for these leases changed in 2012 and 2011 as follows:

Outstanding – June 30, 2010	$	299,030
Net change in obligation		(96,536)
Outstanding – June 30, 2011		202,494
Net change in obligation		(53,327)
Outstanding – June 30, 2012	$	149,167

(Dollars in thousands)

(c) 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 in 2013, with minimum lease payments totaling $6,177. 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.

(8) Net Investment in Direct Financing Lease

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

The following lists the components of the net investment in direct financing lease as of June 30, 2012.

Total minimum lease payments to be received	$	118,981
Less: payment on lease at execution		(50,000)
Net minimum lease payments receivable:		68,981
Less: unearned income		(48,900)
Net investment in direct financing lease:	$	20,081

(Dollars in thousands)

(9) Capital Assets

Capital assets at June 30, 2012 and 2011 are as follows:

		Beginning balance June 30, 2011	Increases	Decreases	Ending balance June 30, 2012
Capital assets not being depreciated:					
Land	$	314,089	(1,551)	155	312,383
Construction work in progress		570,553	457,188	502,413	525,328
Total capital assets not being depreciated		884,642	455,637	502,568	837,711
Other capital assets:					
Ways and structures		9,389,337	372,971	—	9,762,308
Buildings and equipment		2,447,977	65,890	113,188	2,400,679
Buildings and equipment included in capital lease		402,621	—	5,612	397,009
Total		12,239,935	438,861	118,800	12,559,996
Less accumulated depreciation for:					
Ways and structures		3,365,090	220,407	—	3,585,497
Buildings and equipment		1,277,879	145,526	48,809	1,374,596
Buildings and equipment included in capital lease		278,846	—	—	278,846
Total		4,921,815	365,933	48,809	5,238,939
Other capital assets, net		7,318,120	72,928	69,991	7,321,057
Capital assets, net	$	8,202,762	528,565	572,559	8,158,768

(Dollars in thousands)

		Beginning balance June 30, 2010	Increases	Decreases	Ending balance June 30, 2011
Capital assets not being depreciated:					
Land	$	312,212	3,012	1,135	314,089
Construction work in progress		479,187	459,492	368,126	570,553
Total capital assets not being depreciated		791,399	462,504	369,261	884,642
Other capital assets:					
Ways and structures		9,183,206	206,131	—	9,389,337
Buildings and equipment		2,331,497	116,480	—	2,447,977
Buildings and equipment included in capital lease		407,513	—	4,892	402,621
Total		11,922,216	322,611	4,892	12,239,935
Less accumulated depreciation for:					
Ways and structures		3,155,800	209,290	—	3,365,090
Buildings and equipment		1,131,588	146,291	—	1,277,879
Buildings and equipment included in capital lease		280,779	2,959	4,892	278,846
Total		4,568,167	358,540	4,892	4,921,815
Other capital assets, net		7,354,049	(35,929)	—	7,318,120
Capital assets, net	$	8,145,448	426,575	369,261	8,202,762

(10) Risk Management

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

Buildings are fully insured to the extent that losses exceed the self–insured retention of $2,500 effective March 1, 2010. 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. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth (GIC). The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered by the GIC. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness.

(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 2012 and 2011, expenditures for claims and judgments, excluding workers' compensation, and health and life, were $13,970 and $15,215, respectively. Expenditures for claims related to workers' compensation were $7,989 and $11,125, and expenditures for the self-insured health plans were $137,825 and $125,618 for the years ended June 30, 2012 and 2011, 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, 2012, 2011, and 2010. Changes in the self-insurance liabilities in fiscal years 2012, 2011, and 2010 were as follows:

		2012	2011	2010
Liability, beginning of year	$	97,503	97,535	98,280
Provisions for claims		159,784	151,958	153,409
Payments		(155,482)	(151,990)	(154,154)
Liability, end of year	$	101,805	97,503	97,535

(11) Commitments and Contingencies

(a) Capital Investment Program (CIP)

The Authority's continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2012 and 2011, 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, 2012	Unexpended costs
Federal grants	$	6,325,634	6,145,651	179,983
State and local sources		2,067,610	1,944,711	122,899
Authority bonds		5,827,272	5,356,399	470,873
Total	$	14,220,516	13,446,761	773,755

(Dollars in thousands)

Funding source		Approved project costs	Expenditures through June 30, 2011	Unexpended costs
Federal grants	$	6,284,651	6,099,699	184,952
State and local sources		1,882,706	1,747,409	135,297
Authority bonds		5,888,119	5,352,803	535,316
Total	$	14,055,476	13,199,911	855,565

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

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

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately $256,390 and $272,227 at June 30, 2012 and 2011, 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 the Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

(12) 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 revenue, expenses, and changes in net assets when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

(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 the June 30, 2011 actuarial valuation, approximately 5,296 retirees and 5,307 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

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the GIC for health, life and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. A total of 1,969 and 1,469 affiliated active employees and retirees transferred to the GIC during fiscal year 2012 and fiscal year 2011, respectively. On January 1, 2010, 578 nonaffiliated employees and retirees transferred to GIC.

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

(Dollars in thousands)

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

(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 Statement No. 45. The June 30, 2011 actuarial valuation established the ARC for fiscal year 2012 and the June 30, 2009 actuarial valuation established the ARC for fiscal year 2011. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2012 and 2011, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

	2012	2011
ARC	$ 192,594	146,389
Interest on net OPEB obligation	12,553	12,457
Amortization adjustment to ARC	(21,537)	(17,824)
Annual OPEB cost	183,610	141,022
Contributions made	(60,410)	(58,378)
Change in net OPEB obligation	123,200	82,644
Net OPEB obligation – beginning of year	367,053	284,409
Net OPEB obligation – end of year	$ 490,253	367,053

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
2012	$ 183,610	32.9%	$ 490,253
2011	141,022	41.3	367,053

(Dollars in thousands)

The Authority's net OPEB obligation as of June 30, 2012 and 2011 is recorded as "Other postemployment benefits" line item.

(e) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of June 30, 2011, is as follows:

Actuarial accrued liability (AAL)	$	2,016,063
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	2,016,063
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	418,388
UAAL as a percentage of covered payroll		481.9%

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

(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, 2011 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 3.42% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 7.75% for retirees in year one, 7.25% for all in year two, 6.75% in year three, 6.25% in year four, 5.75% in year five, 5.25% in year six, 5.00% in year seven, and 5.00% long-term trend rate for all healthcare benefits thereafter. The amortization costs for the initial unfunded actuarial accrued liability (UAAL) is a level dollar closed amortization for a period of 30 years.

(Dollars in thousands)

(13) Environmental Remediation Obligations

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

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

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

During the year ended June 30, 2012, the following changes occurred in the liabilities:

		Balance as of July 1, 2011	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2012
Storage tank remediation sites	$	8,846	(1,948)	(1,252)	5,646
Sites with PCB remediation		6,000	1,100	(600)	6,500
	$	14,846	(848)	(1,852)	12,146

The payments for remediation costs combined with revised cost completion estimates totaling $2,700 in fiscal year 2012, and $13,797 additional liability incurred in fiscal year 2011 are recorded in the other operating expenses in the statements of revenue, expenses and changes in net assets. The accrued total liability as of June 30, 2012 and 2011 included in the long-term accrued liabilities in the statement of net assets was $12,146 and $14,846, respectively.

(14) Pledged Revenues

The Authority has pledged, as security for Sales Tax Series Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority's approved CIP, and are payable through 2041. Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, Prior Obligation Bonds and MBTPC Bonds outstanding as of June 30, 2012 are $9,281,923. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. As of June 30, 2012, the total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2012 was $781,073 and $151,612, respectively, a total of $932,685. As of June 30, 2011, the total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2011 was $765,795 and $150,148, respectively, a total of $915,943. As of June 30, 2012, total annual debt service paid for fiscal year 2012 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $424,468. As of June 30, 2011, total annual debt service paid for fiscal year 2011 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $377,601. As of June 30, 2012 and 2011, therefore, debt service represented 46% and 41% of pledged revenues, respectively.

The MBTPC pledge of dedicated parking receipts the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011. The total annual debt service commenced on July 1, 2011 with a debt service requirement of $15,758 in fiscal year 2012, which represents 40% of $39,477 revenue in the fiscal year 2012.

(15) Subsequent Event

On August 10, 2012, the Governor approved Chapter 242 of the Acts of 2012, the Transportation Bond Bill passed by the Legislature funding various transportation initiatives within the Commonwealth. Section 3(b) of the legislation revised the governance of MassDOT, to be governed by a seven-member board appointed by the Governor. Each member shall be appointed for a four–year term, with the Secretary of Transportation serving as an ex officio director. Four of the five members of the prior board of MassDOT from November 2009 were reappointed with two new members appointed as of September 11, 2012.

(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:						
2008	1,729,738	2,141,576	411,838	80.8	377,795	109.0
2009	1,667,362	2,216,721	549,359	75.2	350,619	156.7
2010	1,649,129	2,341,344	692,215	70.4	356,609	194.1

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:						
2008	47,594	60,029	12,435	79.3	15,766	78.9
2009	49,795	68,104	18,309	73.1	16,598	110.3
2010	52,837	70,900	18,063	74.5	17,187	105.1

(Continued)

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

Schedule of Funding Progress
Required Supplementary Information

June 30, 2012 and 2011

(Dollars in thousands)

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.

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, 2009	47,363	7,978	39,385	16.8	83.2	34,446
July 1, 2010	47,206	8,676	38,530	18.4	81.6	36,168
July 1, 2011	58,980	9,261	49,719	15.7	84.3	44,592

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	$ —	1,714,605	1,714,605	—%	$ 440,208	389.5%
June 30, 2009	—	1,555,394	1,555,394	—	428,007	363.4
June 30, 2011	—	2,016,063	2,016,063	—	418,388	481.9

See accompanying independent auditors' report.

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

Supplemental Metropolitan Boston Transit Parking Corporation

Schedule of Debt Service Coverage

Year ended June 30, 2012

(Dollars in thousands)

Metropolitan Boston Transit Parking Corporation – Schedule of Debt Service Coverage

Station Name	Number of Spaces at Facility	Gross Revenues by Facility	Revenue Amount from Facility to Debt Service	Net Revenue of Facility after Debt Service	Debt Service Percentage of Gross Revenue
Alewife	2,733	$ 5,125,787	$ 2,043,977	$ 3,081,810	39.88%
Route 128 Garage	2,589	4,106,090	1,722,372	2,383,718	41.95%
Quincy Adams	2,538	3,540,846	1,415,774	2,125,072	39.98%
Hingham Boat	1,841	626,559	250,164	376,395	39.93%
Braintree	1,322	2,754,678	1,107,980	1,646,698	40.22%
Wellington	1,316	1,940,132	773,411	1,166,721	39.86%
Kingston	1,039	229,331	91,043	138,288	39.70%
Greenbush	1,000	221,449	88,425	133,024	39.93%
Wonderland	970	996,588	400,999	595,589	40.24%
Lynn	965	197,140	75,892	121,248	38.50%
Riverside	925	1,373,884	564,106	809,778	41.06%
Quincy Center	872	744,281	301,268	443,013	40.48%
No Quincy/Hancock	852	788,499	320,618	467,881	40.66%
Newburyport	814	172,158	68,512	103,646	39.80%
Oak Grove	788	1,413,315	566,197	847,118	40.06%
Norwood Central	781	387,860	153,770	234,090	39.65%
Middleborough Lakeville	769	401,525	159,085	242,440	39.62%
Canton Junction	764	515,100	204,454	310,646	39.69%
Forge Park	716	465,614	183,354	282,260	39.38%
Ashland	678	270,235	98,709	171,526	36.53%
Quincy Boat	600	111,318	43,813	67,505	39.36%
South Attleboro	563	557,793	221,784	336,009	39.76%
Wollaston	550	730,063	295,765	434,298	40.51%
Woodland	548	819,240	291,969	527,271	35.64%
South Weymoth	543	246,679	99,493	147,186	40.33%
Campello	535	104,979	41,303	63,676	39.34%
Norfolk	532	336,310	133,609	202,701	39.73%
Bridgewater	504	234,020	91,631	142,389	39.16%
Dedham Corporate	497	135,353	55,201	80,152	40.78%
Nantasket Junction	495	90,603	35,862	54,741	39.58%
Hanson	482	209,737	83,643	126,094	39.88%
Westborough	448	316,396	113,524	202,872	35.88%
Orient Heights	434	346,807	139,693	207,114	40.28%
Beachmont	430	354,942	142,692	212,250	40.20%
Cohasset	410	129,557	51,794	77,763	39.98%
Abington	405	215,080	86,001	129,079	39.99%
Halifax	402	143,195	57,402	85,793	40.09%

(Continued)

(Dollars in thousands)

Metropolitan Boston Transit Parking Corporation – Schedule of Debt Service Coverage (continued)

Station Name	Number of Spaces at Facility	Gross Revenues by Facility	Revenue Amount from Facility to Debt Service	Net Revenue of Facility after Debt Service	Debt Service Percentage of Gross Revenue
Norwood Depot	393	$ 85,584	$ 34,161	$ 51,423	39.92%
Grafton	373	226,168	77,365	148,803	34.21%
Holbrook/Randolph	369	177,672	70,355	107,317	39.60%
Southborough	364	291,025	100,357	190,668	34.48%
Hersey	360	207,591	83,952	123,639	40.44%
No Quincy/Newport	354	321,526	129,132	192,394	40.16%
Readville	354	124,150	48,573	75,577	39.12%
Lechmere	347	606,732	240,362	366,370	39.62%
Montello	347	111,456	43,681	67,775	39.19%
Walpole	343	136,539	54,191	82,348	39.69%
Salem	340	239,959	93,160	146,799	38.82%
East Weymouth	335	223,562	89,144	134,418	39.87%
Stoughton	333	217,068	85,925	131,143	39.58%
Bradford	303	62,691	25,265	37,426	40.30%
Lots with 150-300 spaces		2,917,015	1,169,431	1,747,584	40.09%
Lots with less than 150 spaces		2,175,618	837,302	1,338,316	38.49%
Totals		$ 39,477,499	$ 15,757,645	$ 23,719,854	39.92%

See accompanying independent auditors' report.