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

Financial Statements, Required Supplementary Information and Supplementary Information

June 30, 2013 and 2012

(With Independent Auditors’ Report Thereon)

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

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Massachusetts Bay Transportation Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Bay Transportation Authority, a component unit of the Massachusetts Department of Transportation, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Massachusetts Bay Transportation Authority as of June 30, 2013 and 2012, and the respective changes in its net position and its cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

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Emphasis of Matter

As discussed in note 2 to the financial statements, the Massachusetts Bay Transportation Authority adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities* effective July 1, 2011. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the schedule of funding progress on pages 49–50 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 audits 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 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.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Metropolitan Boston Transit Parking Corporation Schedule of Debt Service Coverage included on pages 51 – 52 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Metropolitan Boston Transit Parking Corporation Schedule of Debt Service Coverage is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Metropolitan Boston Transit Parking Corporation Schedule of Debt Service Coverage is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013 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* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

October 25, 2013

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

Statements of Net Position

June 30, 2013 and 2012

(Dollars in thousands)

Assets and Deferred Outflows of Resources	**2013**	**2012**
Current assets:		
Unrestricted cash and temporary cash investments (note 3)	$ 249,018	193,914
Restricted cash and temporary cash investments (note 3):		
Bond construction accounts	42,228	28,629
Stabilization accounts	19,402	19,359
Other accounts	15,251	13,222
Lease accounts	—	21,164
Accounts receivable:		
Commonwealth of Massachusetts	79,528	120,115
Federal grants	31,117	14,838
Other trade, net	32,674	29,991
Materials and supplies	42,433	61,810
Prepaid expenses	5,119	7,719
Total current assets	516,770	510,761
Noncurrent assets:		
Restricted cash and investments accounts (note 3):		
Bond construction accounts	89,929	218,134
Lease deposits	68,732	80,887
Bond reserve accounts	554,374	527,644
Total restricted cash and investments accounts	713,035	826,665
Lease accounts	40,492	41,873
Net investment in direct financing lease (note 5)	21,212	20,081
Capital assets, at cost (notes 6, 7 and 9):		
Transportation property, being depreciated	12,868,500	12,559,996
Transportation property, not being depreciated	1,012,158	837,711
Less accumulated depreciation	(5,600,677)	(5,238,939)
Capital assets, net	8,279,981	8,158,768
Total noncurrent assets	9,054,720	9,047,387
Total assets	9,571,490	9,558,148
Deferred outflows of resources:		
Deferred outflows from debt instruments	231,149	248,517
Deferred outflows from derivative instruments (note 8)	103,539	141,260
Total deferred outflows of resources	334,688	389,777
Total assets and deferred outflows of resources	9,906,178	9,947,925

(Continued)

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

Statements of Net Position

June 30, 2013 and 2012

(Dollars in thousands)

Liabilities and Deferred Inflows of Resources		**2013**	**2012**
Current liabilities:			
Current maturities of bonds and notes payable (note 8)	$	365,445	401,275
Current capital lease obligations (note 6)		42,651	24,407
Accounts payable		165,395	155,373
Accrued liabilities:			
Payroll and vacation		74,274	37,287
Interest		132,530	127,980
Injuries and damage claims, workers' compensation claims, and other (note 10)		55,029	49,695
Total current liabilities		835,324	796,017
Noncurrent liabilities, less current maturities:			
Bonds payable, net (note 8)		5,434,164	5,623,942
Obligations under capital leases (note 6)		72,005	124,760
Accrued liabilities (notes 10 and 11)		89,463	64,256
Pension liability (note 13)		102,767	81,964
Other postemployment benefits (note 14)		613,133	490,253
Liability for derivative instruments (note 8)		117,812	160,097
Unearned revenue		26,300	30,807
Total noncurrent liabilities		6,455,644	6,576,079
Total liabilities		7,290,968	7,372,096
Deferred inflows of resources:			
Deferred inflows from debt instruments		258	259
Total deferred inflows of resources		258	259
Total liabilities and deferred inflows of resources		7,291,226	7,372,355
Net Position			
Net investment in capital assets		3,517,146	3,256,806
Restricted		19,402	19,359
Unrestricted		(921,596)	(700,595)
Total net position	$	2,614,952	2,575,570

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 Position

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Operating revenue:			
Revenue from transportation	$	564,560	465,755
Other		65,675	63,151
Total operating revenue		630,235	528,906
Operating expenses:			
Wages and related employee benefits:			
Wages		450,898	410,156
Medical and dental insurance		65,104	77,350
Other postemployment benefits		185,595	183,676
Pensions		102,941	91,988
Social security taxes		38,654	36,760
Workers' compensation		8,778	7,989
Other		1,131	1,346
Capitalized costs		(22,548)	(22,353)
Total wages and related employee benefits		830,553	786,912
Other operating expenses:			
Depreciation and amortization		372,947	366,330
Materials, supplies, and services		208,589	212,146
Injuries and damages		28,994	13,122
Commuter railroad and local subsidy expenses (note 12)		453,954	431,262
Other		7,511	8,292
Total other operating expenses		1,071,995	1,031,152
Total operating expenses		1,902,548	1,818,064
Operating loss		(1,272,313)	(1,289,158)
Nonoperating revenue (expense):			
Dedicated sales tax revenue (note 4)		786,867	779,092
Contract assistance – Commonwealth of Massachusetts		160,000	160,000
Dedicated local assessments (note 4)		155,921	152,125
Fair value change in investment derivatives		4,564	1,230
Other nonoperating income		48,291	32,599
Interest income		15,293	43,947
Interest expense		(283,657)	(284,560)
Nonoperating revenue, net		887,279	884,433
Loss before capital grants		(385,034)	(404,725)
Capital grants and contributions		424,416	246,574
Increase (decrease) in net position		39,382	(158,151)
Beginning of year net position		2,575,570	2,761,832
Restatement to comply with adoption of GASB Statement No. 65		—	(28,111)
End of year net position	$	2,614,952	2,575,570

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, 2013 and 2012

(Dollars in thousands)

		2013	2012
Cash flows from operating activities:			
Receipts from transit customers	$	566,643	470,258
Receipts from other operations		66,502	62,250
Payments to suppliers and vendors		(815,022)	(808,357)
Payments to employees		(479,562)	(469,901)
Net cash used in operating activities		(661,439)	(745,750)
Cash flows from capital and related financing activities:			
Cash (used in) provided by:			
Additions to transportation property		(496,943)	(389,842)
Interest paid		(270,991)	(277,348)
(Increase) decrease in deferred credits/charges		2,600	(54,513)
Commercial paper advances		20,000	78,000
Payments on debt		(233,645)	(401,950)
Proceeds from bond and note issuances		—	410,645
Receipts from (payments to) bond construction and reserve accounts		101,475	(91,034)
Proceeds from bond premiums		—	52,362
Proceeds from direct financing lease		—	50,000
Payments of capital lease activity		(34,511)	(53,327)
Decrease in lease deposit/account		7,628	50,640
Capital grants		408,137	242,643
Other		(1,944)	(3,090)
Net cash used in capital and related financing activities		(498,194)	(386,814)
Cash flows from noncapital and related financing activities:			
Sales tax and local assessment		1,143,375	1,092,710
Reimbursable payments		29,577	18,728
Net cash provided by noncapital and related financing activities		1,172,952	1,111,438
Cash flows from investing activity:			
Interest and other income		57,456	61,766
Net cash provided by investing activity		57,456	61,766
Net change		70,775	40,640
Unrestricted cash and temporary cash investments and restricted cash and temporary investments, beginning of year		255,124	214,484
Unrestricted cash and temporary cash investments and restricted cash and temporary investments, end of year	$	325,899	255,124
Adjustments to reconcile operating loss to net cash used in operating activities:			
Operating loss	$	(1,272,313)	(1,289,158)
Changes not requiring current expenditure of cash:			
Depreciation and amortization		372,947	366,330
Increase in pension liability		20,803	24,303
Increase in other postemployment benefits		122,880	123,200
Changes in all other working capital accounts except unrestricted cash and temporary cash investments, restricted cash and temporary investments, and short-term debt		94,244	29,575
Net cash used in operating activities	$	(661,439)	(745,750)

Supplemental disclosures of capital and related financing 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.

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 Massachusetts Department of Transportation (MassDOT). 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. 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.

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

In accordance with the requirements of 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Reporting

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

In accordance with 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 on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. After this date, only GASB pronouncements are followed.

(b) Use of Estimates

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

(c) Statements of Cash Flows

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

(d) Restricted Cash and Investment Accounts

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

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

(Continued)

(Dollars in thousands)

- Other Accounts – represent internally restricted funds held for capital maintenance, debt service, and other expenses.

(e) Capital Assets

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

Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2013 and 2012:

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

(f) Construction in Progress

During fiscal years 2013 and 2012, $468,889 and $502,413, respectively, were expended towards the completion of major construction projects and improvements in progress. The projects and improvements completed were transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of the debt issuance until the entire drawdown of the proceeds, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal years 2013 and 2012, the Authority had no material capitalized interest.

(g) Materials and Supplies

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

(h) Self-Insurance

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

(i) Revenue Recognition

The Authority realizes revenue from a variety of different sources including but not limited to dedicated sales tax revenue, dedicated assessment revenue, 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 $275,000. The Commonwealth appropriated $160,000 from the CTF to the Authority for each of the fiscal years 2013 and 2012. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

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

(j) Capital Grants and Contributions

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

(k) Compensated Absences

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2013 and 2012 was $17,250 and $18,193, respectively.

(l) Lease Accounts

Lease accounts represent amounts owed by third parties that are required to be used to pay lease payments under payment undertaking agreements on the Authority's capital leases (note 6).

(m) Pension Plans

In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which was amended by GASB Statement No. 50, *Pension Disclosures*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. The Authority has adopted these standards for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the Annual Required Contributions (ARC) to the pension plan, calculated in accordance with certain parameters (note 13).

(n) Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenue, expenses, and changes in net position when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund its actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time (note 14).

(o) Environmental Remediation Costs

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup and site monitoring in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. An operating expense provision and corresponding liability measured at current value using the expected cash flow method and in a range of possible estimated amounts has been recognized for certain pollution remediation obligations. The remediation obligation estimates are subject to change over time due to price fluctuations, changes in technology, changes in potential responsible parties, statutes or regulations or other factors, which could result in the revision of these estimates (note 11).

(p) Derivatives

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

(q) Available Unrestricted Resources

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

(r) Deferred Inflows and Outflows

The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2013 and 2012, the Authority has reported deferred outflows pertaining to its derivative instruments and to the deferred losses on its debt refunding transactions. The deferred inflows represent the resultant gains from two debt refunding transactions.

(s) Reclassifications

Certain reclassifications have been made to the fiscal 2012 balances to conform to the presentation used in fiscal 2013.

(t) Restatement

During fiscal year 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which resulted in the statements of net assets being replaced with the statements of net position in a format that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. Net position is displayed in three components – net investment in capital assets, restricted, and unrestricted. In addition, the term "net assets" is changed to "net position" throughout the financial statements.

During fiscal year 2013, the Authority also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

(Continued)

As a result of implementing GASB Statement No. 65, the Authority restated its net position at July 1, 2011 from $2,761,832 to $2,733,721, as a result of writing off previously deferred bond issue costs, and restated its fiscal year 2012 change in net position from $(158,380) to $(158,151), as a result of reversing fiscal year 2012 amortization expense of deferred bond issue costs and expensing bond issue costs incurred during fiscal year 2012.

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

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

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

(Dollars in thousands)

Deposits and investments consisted of the following amounts presented in the accompanying statements of net position at June 30, 2013 and 2012:

		2013	2012
Restricted:			
Bond construction accounts	$	132,157	246,763
Bond reserve, stabilization, and other accounts		589,027	560,225
Lease deposits		68,732	80,887
Subtotal		789,916	887,875
Unrestricted cash and temporary cash investments		249,018	193,914
	$	1,038,934	1,081,789

Included in bond reserve, stabilization, and other accounts at June 30, 2013 and 2012 are investments in Commonwealth debt instruments with a fair value of $43,976 and $49,904, 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, 2013 and 2012 was $158,221 and $145,674, respectively. The bank balance at June 30, 2013 and 2012 was $159,290 and $146,146, respectively. Of this amount, $8,599 and $9,400, respectively, was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation limit of $250 per institution at June 30, 2013 and 2012.

(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.

(Continued)

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2013 and 2012 are presented below. All investments are presented by investment type and maturity.

2013

Investment type	Amount	Less than 1 year	1 – 3	4 – 8	More than 8
		Investment maturities (in years)			
MMDT	$ 238,697	238,697	—	—	—
Money market funds	103,122	103,122	—	—	—
Guaranteed investment contracts	1,343	—	—	—	1,343
U.S. Treasury STRIPS	68,732	—	22,996	—	45,736
U.S. Treasury securities	64,328	—	—	—	64,328
U.S. government-sponsored enterprises	218,860	173,052	—	7,695	38,113
Municipal bonds	43,976	—	—	—	43,976
International bank notes	55,005	55,005	—	—	—
Commercial paper and certificates of deposit	86,650	86,650	—	—	—
Investments	$ 880,713	656,526	22,996	7,695	193,496

2012

Investment type	Amount	Less than 1 year	1 – 3	4 – 8	More than 8
		Investment maturities (in years)			
MMDT	$ 218,093	218,093	—	—	—
Money market funds	316,601	316,601	—	—	—
Guaranteed investment contracts	1,342	—	—	—	1,342
U.S. Treasury STRIPS	80,887	2,229	27,500	—	51,158
U.S. Treasury securities	35,204	852	—	—	34,352
U.S. government-sponsored enterprises	291,967	257,065	—	7,169	27,733
Municipal bonds	70,908	—	—	—	70,908
Commercial paper and certificates of deposit	2,008	2,008	—	—	—
Investments	$ 1,017,010	796,848	27,500	7,169	185,493

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of $1,343 and $1,342 at June 30, 2013 and 2012, respectively. These investments are not rated.

The Authority had $177,036 and $186,999 in U.S. Treasury STRIPS, U.S. Treasury securities and municipal bonds as of June 30, 2013 and 2012, respectively. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government. The municipal bonds have an implied credit rating of Aaa/AA+

(Dollars in thousands)

The Authority has $218,860 and $291,967 invested in government-sponsored enterprises as of June 30, 2013 and 2012, respectively. These investments have an implied credit rating of AAaa/AA+ or they have been collateralized to AAA.

The Authority has $238,697 and $218,093 invested in MMDT as of June 30, 2013 and 2012, 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 $244,777 and $318,609 invested in money market funds, international bonds, commercial paper and certificates of deposit as of June 30, 2013 and 2012, 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	2013	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	$ 111,286	12.6%
International Bank for Reconstruction and Development	n/a	55,005	6.3
		$ 166,291	18.9%

	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%

(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, 2013 and 2012.

(4) 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. 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, 2013, the total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2013 was $789,562 and $193,795 respectively, a total of $983,357. 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, 2013, total annual debt service paid during fiscal year 2013 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $532,567. 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, 2013 and 2012, therefore, debt service represented 54% and 46% of pledged revenues, respectively.

The MBTPC pledge of dedicated parking receipts of the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011. The total annual debt service commenced on July 1, 2011 with a debt service requirement of $15,373 in fiscal year 2013, which represents 37% of $41,144 revenue in the fiscal year 2013.

Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, Prior Obligation Bonds and MBTPC Bonds outstanding as of June 30, 2013 are $8,993,917.

(5) Net Investment in Direct Financing Lease

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

(Dollars in thousands)

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

		2013	2012
Total minimum lease payments to be received	$	68,981	118,981
Less payment on lease at execution		—	(50,000)
Net minimum lease payments receivable		68,981	68,981
Less unearned income		(47,769)	(48,900)
Net investment in direct financing lease	$	21,212	20,081

(6) 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. On December 16, 2011, the Authority exercised its purchase option and terminated its cross-border lease.

Transportation property and facilities under capital leases are summarized in the capital assets note (note 7).

(Continued)

(Dollars in thousands)

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, 2013:

Fiscal year(s):		
2014	$	57,675
2015		12,991
2016		1,127
2017		675
2018		50
2019 – 2023		—
2024 – 2028		—
2029 – 2033		27,324
2033 – 2036		18,414
		118,256
Less amount representing interest		(3,600)
Present value of net minimum lease payments		114,656
Less current principal maturities		(42,651)
Obligations under capital leases	$	72,005

The liability for these leases changed in 2013 and 2012 as follows:

Outstanding at June 30, 2011	$	202,494
Net change in obligation		(53,327)
Outstanding at June 30, 2012		149,167
Net change in obligation		(34,511)
Outstanding at June 30, 2013	$	114,656

(c) Operating Leases

The Authority had entered into several sale-leaseback agreements with major financial institutions (the lessors) covering equipment and rolling stock. The leases matured in 2013. At the end of the lease terms, the Authority purchased 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 of June 30, 2013, the Authority did not have any outstanding operating lease obligations.

(Dollars in thousands)

(7) Capital Assets

Capital assets at June 30, 2013 and 2012 are as follows:

	Beginning balance June 30, 2012	Increases	Decreases	Ending balance June 30, 2013
Capital assets not being depreciated:				
Land	$ 312,383	438	514	312,307
Construction work in progress	525,328	555,247	380,724	699,851
Total capital assets not being depreciated	837,711	555,685	381,238	1,012,158
Capital assets being depreciated:				
Ways and structures	9,762,308	272,355	—	10,034,663
Buildings and equipment	2,400,679	47,584	7,577	2,440,686
Buildings and equipment included in capital lease	397,009	2,557	6,415	393,151
Total capital assets being depreciated	12,559,996	322,496	13,992	12,868,500
Less accumulated depreciation for:				
Ways and structures	3,585,497	223,467	—	3,808,964
Buildings and equipment	1,374,596	145,072	4,533	1,515,135
Buildings and equipment included in capital lease	278,846	7,123	9,391	276,578
Total	5,238,939	375,662	13,924	5,600,677
Other capital assets, net	7,321,057	(53,166)	68	7,267,823
Capital assets, net	$ 8,158,768	502,519	381,306	8,279,981

(Dollars in thousands)

		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
Capital assets being depreciated:					
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 capital assets being depreciated		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

(8) Long-Term Debt

(a) Bonds Payable

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

Debt issued by the Authority prior to and outstanding as of July 1, 2000 (the Prior Obligations) is backed by the full faith and credit of the Commonwealth to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2013, Prior Obligations in the amount of $388,760 are outstanding.

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

No Bonds were issued by the Authority during fiscal year 2013.

During fiscal year 2012, the Authority issued the following bonds: the 2012 Series A Assessment Bonds in the amount of $410,645.

On June 21, 2012, 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 (BANs) issued on March 1, 2012. 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 1 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.

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

The Authority issued commercial paper notes in the amount of $20,000 during fiscal year 2013 to fund debt service payment on Prior Obligations of the Authority. The Authority paid off $31,000 during fiscal year 2013 also. The balance of $107,375 and $118,375 was outstanding as of June 30, 2013 and 2012. At June 30, 2013, the total commercial paper notes included CP Sales Tax Series A in the amount of $66,125 with a weighted average nominal rate 0.538% and CP Sales Tax Series B in the amount of $41,250 with a weighted average nominal rate 0.309%.

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

(Dollars in thousands)

The Authority's bonds payable outstanding at June 30, 2013 are as follows:

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2013	Due in fiscal year 2014
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	$ 1,725	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	88,420	43,250
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.00%	11,920	3,910
1995 Series A Bonds dated April 1, 1995	2015	5.75% – 5.88%	14,160	6,590
1998 Series A Bonds dated February 15, 1998	2015	5.50	18,685	9,090
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	30,460	14,690
1999 Series Variable Rate Demand Obligation dated June 29, 1999*	2014	Variable	7,020	7,020
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	180,205	5,845
			388,760	92,120
Boston Metropolitan District (BMD) bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	4,040	2,030
			4,040	2,030
Revenue bonds:				
2003 Series A Senior Sales Tax Bond dated January 29,2003	2021	4.00% – 5.25%	104,350	1,030
2003 Series C Senior Sales Tax Bond dated February 3, 2004**	2023	Variable	217,055	16,410
2004 Series A Senior Sales Tax Bond dated February 3, 2004	2016	5.00% – 5.25%	14,265	—

(Dollars in thousands)

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2013	Due in fiscal year 2014
Revenue bonds:				
2004 Series B Senior Sales Tax Bonds dated March 9, 2004	2030	3.00% – 5.25%	$ 428,215	26,670
2004 Series A Assessment Bonds dated June 10, 2004	2021	3.00% – 5.25%	3,480	—
2004 Series C Senior Sales Tax Bonds dated December 22, 2004	2024	3.50% – 5.50%	319,320	24,205
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%	59,845	1,390
2005 Series B Senior Sales Tax Bonds dated December 21, 2005	2029	3.40 – 5.50%	92,125	55
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%	198,325	10,720
2006 Series C Senior Sales Tax Bonds dated June 28, 2006	2027	4.00 – 5.00%	66,290	—
2006 Series A Assessment Bonds dated September 13, 2006***	2035	Variable	161,340	—
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	177,608	—
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083% – 3.834%	131,910	—
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083% – 3.834%	123,015	650
2008 Series B Senior Sales Tax Bond dated April 30, 2008	2033	3.00% – 5.25%	47,405	1,235

(Dollars in thousands)

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2013	Due in fiscal year 2014
2008 Series A Assessment Bond dated November 13, 2008	2034	4.00% – 5.25%	$ 236,905	—
2009 Series B Senior Sales Tax dated February 26, 2009	2018	3.00% – 5.00%	39,365	—
2009 Series D Senior Sales Tax dated October 29, 2009	2019	3.00% – 5.00%	14,445	—
2010 Series A Senior Sales Tax dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax dated April 6, 2010	2035	2.00% – 5.00%	76,480	1,300
2010 Series C Senior Sales Tax dated December 8, 2010	2020	5.00	63,450	—
2012 Series A Assessment Bond dateJune 21, 2012	2024	5.00	407,165	—
			4,242,588	163,920
Metropolitan Boston Transit Parking (MBTPC) Bonds:				
2011 Series A MBTPC dated June 22, 2011	2041	4.00% – 5.25%	304,585	—
			304,585	—
Revenue Build America (BABs) Bonds:				
2009 Series C Senior Sales Tax dated October 29, 2009	2039	4.75% – 5.57%	218,300	—
2010 Series D Senior Sales Tax dated December 8, 2010	2040	4.546% – 5.869%	210,000	—
			428,300	—

(Dollars in thousands)

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2013	Due in fiscal year 2014
Bond Anticipation Notes (BANs):				
Bond Anticipation Notes (BAN)	2014	0.48% – 0.71%	$ 107,375	107,375
Total bond and notes payable			5,475,648	365,445
Less current maturities			(365,445)	
Total long-term bonds payable			5,110,203	
Plus unamortized bond premiums			325,225	
Less unamortized bond discounts			(1,264)	
Total long-term bonds payable			$ 5,434,164	

* These bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. The interest rates as of June 30, 2013 and 2012 are 0.10% and 0.25% for the 1999 Series VRDO; as of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO ($94,000) and 2000 Series A-2 VRDO ($94,000). The interest rates as of June 30, 2013 and 2012 for the 2000 Series A-1 are 0.12% and 0.25%; 0.05% and 0.15% for the 2000 Series A-2 VRDO; 0.07% and 0.19% for the 2008 Series A-1 Senior Sales Tax Bond and 0.07% and 0.15% for the 2008 Series A-2 Senior Sales Tax Bond, respectively.

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

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

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 9 basis points. 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 principal and interest maturities of the bonds and notes payable as of June 30, 2013 are as follows:

		Principal	Interest
Fiscal year(s):			
2014	$	365,445	327,439
2015		173,620	251,057
2016		150,520	241,003
2017		191,705	231,531
2018		211,955	221,317
2019 – 2023		1,269,044	928,932
2024 – 2028		1,192,841	668,142
2029 – 2033		993,995	408,650
2034 – 2038		609,778	210,966
2039 – 2042		316,745	29,232
Total	$	5,475,648	3,518,269

A summary rollforward of bonds payable for the years ended June 30, 2013 and 2012 is as follows:

	2013					
	Balance 2012	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2013
GTS	$ 494,700	—	105,940	—	—	388,760
BMD	6,080	—	2,040	—	—	4,040
Revenue	4,329,136	—	94,665	—	8,117	4,242,588
BABs	428,300	—	—	—	—	428,300
GANs	—	—	—	—	—	—
BANs	118,375	20,000	31,000	—	—	107,375
MBTPC	304,585	—	—	—	—	304,585
	$ 5,681,176	20,000	233,645	—	8,117	5,475,648

	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

(Dollars in thousands)

The following funds are included in restricted assets at June 30, 2013 and 2012 in connection with the Authority's revenue bond trust agreements and bond resolutions:

		2013			2012		
		Assessment bonds	Sales tax bonds	MBTPC bonds	Assessment bonds	Sales tax bonds	MBTPC bonds
Debt service	$	61,823	202,203	8,243	33,437	199,349	7,925
Debt service reserve		71,553	197,564	12,986	57,898	216,273	12,762
	$	133,376	399,767	21,229	91,335	415,622	20,687

The minimum required balances in the debt service reserve funds at June 30, 2013 and 2012 were $184,019 and $186,866 for the Sales Tax Series Bonds and $34,763 and $34,903 for the Assessment Bonds, respectively. The minimum required balances in the debt service reserve funds at June 30, 2013 and 2012 for MBTPC Bonds were $12,986 and $12,762. The Authority has complied with its financial bond covenants by maintaining sufficient cash and investments in the debt service reserve funds.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to meet its capital needs. The Authority has a $250,000 commercial paper program in total of which $150,000 is administered by JP Morgan and $100,000 by Barclays Capital Inc. The Authority's commercial paper program (or BANs) has been assigned short-term ratings of P-1 and A-1+ by Moody's and S&P respectively. The Authority had $107,375 and $118,375 in outstanding commercial paper as of June 30, 2013 and 2012 respectively.

(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, 2013 and 2012, $1,079,095 and $1,414,765, respectively, of these bonds are considered defeased in-substance and are still outstanding.

No bonds were issued by the Authority in fiscal year 2013.

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 deferred outflow and will be amortized over the life of the 2012 Series A Assessment Bonds.

(Dollars in thousands)

(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 unearned revenue on the statements of net position and the Swaps are reported based on the at-the-market rates at the time of execution.

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 2013	2012
Cash flow hedges:										
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	$ 180,205	2030	5.00%	67% of LIBOR	$ 12,230	(42,290)	(58,009)
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	4.00	CPI+79 basis points	N/A	(1,649)	(1,374)
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	5.00	CPI+123 basis points	607	(972)	(370)
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	5.00	CPI+123 basis points	142	(259)	(87)
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	4.00	SIFMA	3,067	(17,291)	(22,533)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	123,015	2026	3.00	62% of LIBOR plus 24 basis points	116	(14,557)	(22,728)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	6.00	SIFMA	4,140	(26,521)	(36,159)
									(103,539)	(141,260)
Investment derivatives:										
2	Pay – fixed interest rate swap (a)	Originally to hedge changes in cash flows on variable rate debt	February 2003	81,810	2022	5.00	SIFMA	4,586	(14,273)	(18,837)
									(14,273)	(18,837)
									$ (117,812)	(160,097)

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

(Dollars in thousands)

The aggregate fair value balance of the derivative instruments at June 30, 2013 and 2012 is $(117,812) and $(160,097), respectively, and is reflected on the Authority's statements of net position as a liability for derivative instruments. Of this liability, $103,539 and $141,260 at June 30, 2013 and 2012, respectively, were offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2013 and 2012, the Authority determined that the investment derivative instrument does not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net position.

The fair values of the interest rate swaps were calculated by a third–party derivative advisor where each leg of the swap is valued utilizing the present value of expected future cash flows based on the contractual terms of each swap or an "at the market rate" in accordance 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, 2013, debt service requirements of the 2000 Series GTS VRDO Bonds (2000 Bonds) and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of LIBOR is 0.130% and the variable rate on the 2000 Bonds is 0.085% 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
2014	$	5,845	152	8,680	14,677
2015		6,250	146	8,389	14,785
2016		6,690	141	8,078	14,909
2017		7,160	135	7,744	15,039
2018		7,660	129	7,387	15,176
2019 – 2023		47,130	535	30,649	78,314
2024 – 2028		66,100	299	17,143	83,542
2029 – 2031		33,370	34	1,923	35,327
Totals	$	180,205	1,571	89,993	271,769

(Dollars in thousands)

As of June 30, 2013, 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 4.400% 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
2014	$	—	1,298	(265)	1,033
2015		—	1,298	(265)	1,033
2016		—	1,298	(265)	1,033
2017		—	1,298	(265)	1,033
2018		—	1,298	(265)	1,033
2019 – 2021		25,005	2,596	(442)	27,159
	$	25,005	9,086	(1,767)	32,324

As of June 30, 2013, 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 4.400% 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
2014	$	—	282	(49)	233
2015		—	282	(49)	233
2016		—	282	(49)	233
2017		—	282	(49)	233
2018		—	282	(49)	233
2019 – 2023		—	1,408	(243)	1,165
2024 – 2026		5,000	563	(97)	5,466
	$	5,000	3,381	(585)	7,796

(Dollars in thousands)

As of June 30, 2013, 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 4.440% 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
2014	$	—	1,084	(185)	899
2015		—	1,084	(185)	899
2016		—	1,084	(185)	899
2017		—	1,084	(185)	899
2018		—	1,084	(185)	899
2019 – 2023		—	5,422	(924)	4,498
2024 – 2025		19,260	1,084	(185)	20,159
	$	19,260	11,926	(2,034)	29,152

As of June 30, 2013, 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 0.06% and the variable rate on the 2008 Series A-1 Senior Sales Tax Bonds is 0.07% 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
2014	$	135	92	4,973	5,200
2015		735	92	4,945	5,772
2016		765	91	4,917	5,773
2017		18,990	78	4,200	23,268
2018		19,745	64	3,455	23,264
2019 – 2022		91,540	105	5,629	97,274
	$	131,910	522	28,119	160,551

(Dollars in thousands)

As of June 30, 2013, 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 0.361% and the variable rate on 2008 Series A-2 Senior Sales Tax Bonds is 0.07% 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
2014	$	515	86	3,335	3,936
2015		535	85	3,320	3,940
2016		550	85	3,305	3,940
2017		570	85	3,290	3,945
2018		585	84	3,274	3,943
2019 – 2023		26,060	398	15,490	41,948
2024 – 2027		94,200	94	3,637	97,931
	$	123,015	917	35,651	159,583

As of June 30, 2013, 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 0.06% and the variable rate on the 2010 Series A Senior Sales Tax Bonds is 0.06% 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
2014	$	—	119	4,420	4,539
2015		—	119	4,420	4,539
2016		—	119	4,420	4,539
2017		—	119	4,420	4,539
2018		—	119	4,420	4,539
2019 – 2023		—	597	22,101	22,698
2024 – 2028		41,565	446	16,500	58,511
2029 – 2031		38,080	59	2,194	40,333
	$	79,645	1,697	62,895	144,237

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, 2013:

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.

(Dollars in thousands)

(9) 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, 2013 and 2012, 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, 2013	Unexpended costs
Federal grants	$ 7,070,834	6,568,273	502,561
State and local sources	2,407,644	2,149,221	258,423
Authority bonds	5,703,102	5,416,829	286,273
Total	$ 15,181,580	14,134,323	1,047,257

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

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 $534,216 and $256,390 at June 30, 2013 and 2012, 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.

(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.

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 2013 and 2012, expenditures for claims and judgments, excluding workers' compensation, and health and life, were $38,149 and $13,970, respectively. Expenditures for claims related to workers' compensation were $8,778 and $7,989, and expenditures for the self-insured health plans were $122,820 and $137,825 for the years ended June 30, 2013 and 2012, 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, 2013, 2012, and 2011. Changes in the self-insurance liabilities in fiscal years 2013, 2012, and 2011 were as follows:

(Dollars in thousands)

		2013	2012	2011
Liability, beginning of year	$	101,805	97,503	97,535
Provisions for claims		169,747	159,784	151,958
Payments		(146,960)	(155,482)	(151,990)
Liability, end of year	$	124,592	101,805	97,503

(11) 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.

(Dollars in thousands)

During the year ended June 30, 2013, the following changes occurred in the liabilities:

		Balance as of July 1, 2012	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2013
Storage tank remediation sites	$	5,646	6,056	(1,052)	10,650
Sites with PCB remediation		6,500	2,050	(50)	8,500
Vapor intrusion 21E		—	750	—	750
	$	12,146	8,856	(1,102)	19,900

The payments for remediation costs combined with revised cost completion estimates totaling $7,754 in fiscal year 2013, and $2,700 reduction in the liability incurred in fiscal year 2012 are recorded in the other operating expenses in the statements of revenue, expenses and changes in net position. The accrued total liability as of June 30, 2013 and 2012 included in the long-term accrued liabilities in the statement of net position was $19,900 and $12,146, respectively.

(12) 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) effective July 1, 2003 to provide commuter railroad service over the Authority's rail lines. The contract was initially for a period of five-years, with a renewable five-year extension, which was approved and became effective July 1, 2008. The Authority paid MBCRC a total fixed base contract amount of $2,661,786 over the ten-year period through June 30, 2013.

On April 25, 2013, the Authority and MBCRC agreed to extend the operating agreement for one additional year, effective July 1, 2013. As of June 30, 2013, the Authority has remaining fixed base contract payments for the fiscal year 2014 extension totaling $302,920.

(13) 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. A copy of the actuarial report for this, and all, retirement plans can be obtained by writing to the Office of the Chief Financial Officer, MBTA, Ten Park Plaza, Boston, Massachusetts 02116.

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 MBTA Retirement Plan. Covered employees include all actively employed nonunion employees who are participating in the MBTA Retirement Plan or the MBTA Police Association 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 290 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 2013 and 2012 was minimal and no contributions were made to this plan in fiscal year 2013 or 2012. In addition, the net pension obligation is considered immaterial.

(a) Funding Policy and Annual Pension Cost

The board of trustees of each retirement plan establishes the contribution requirements; however, the Authority may amend these requirements.

The MBTA Retirement Plan's member contribution rate was increased from 5.1489% to 5.4989% of pretax compensation effective August 11, 2012. The Authority's contribution rate was increased from 14.1011% to 15.1511% effective July 7, 2012. These contribution rates were calculated based on the December 31, 2011 actuarial valuation of the MBTA Retirement Plan. As of June 30, 2013, the actuarial update to the MBTA Retirement Plan required a combined contribution rate of 20.0927%.

The contribution requirements for the MBTA Police Association Plan were 17.1825% in 2013 and 15.4130% in 2012 for the Authority and 7.2850% for employees in both 2013 and 2012. Both were determined in accordance with actuarial valuations. Actual contributions made in 2013 and 2012 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, 2013 and 2012 and related information for each plan is as follows:

	2013		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – Authority	$ 75,065	3,072	7,781
Contributions made – Authority	56,556	2,273	6,287
Actuarial valuation date/update	June 30, 2013	June 30, 2013	June 30, 2013
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 smoothing	4-year smoothing	5-year smoothing
Actuarial assumptions:			
Interest rate	8.00%	7.00%	7.50%
Projected salary increases	4.00	3.50	4.00

	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 smoothing	4-year smoothing	5-year smoothing
Actuarial assumptions:			
Interest rate	7.50%	7.00%	7.50%
Projected salary increases	4.00	3.50	4.00

(Dollars in thousands)

Changes in the net pension obligation for these plans for the years ended June 30, 2013 and 2012 are as follows:

		2013		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(68,296)	(2,274)	(11,394)
Annual pension cost		(75,065)	(3,072)	(7,781)
Contributions and other adjustments		56,556	2,273	6,287
Net pension obligation, end of year	$	(86,805)	(3,073)	(12,888)

		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)

(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, 2013	$	75,065	75%	$	(86,805)
	June 30, 2012		74,587	71		(68,296)
	June 30, 2011		66,075	79		(46,574)
MBTA Police Association Plan	June 30, 2011	$	3,072	74%	$	(3,073)
	June 30, 2012		2,520	82		(2,274)
	June 30, 2011		2,798	76		(1,826)
MBTA Deferred Compensation Plan	June 30, 2013	$	7,781	81%	$	(12,888)
	June 30, 2012		7,520	72		(11,394)
	June 30, 2011		5,770	90		(9,261)

(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, 2011	$	1,550,446	2,276,750	726,304	68.1%	$	366,535	198.2%
Police Association Plan:								
December 31, 2011		54,023	75,456	21,433	71.6		17,112	125.3

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, 2012	$	58,583	11,394	47,189	19.4%	80.6%	$	46,376

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 271 and 268 members at June 30, 2013 and 2012, respectively, and the cost of the Plan to the Authority was $779 and $708 for fiscal years 2013 and 2012, 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.

(14) Other Postemployment Benefits

In addition to providing the pension benefits described, the Authority provides OPEB for retired employees under any of the medical benefit programs then offered and available by the Authority. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of the June 30, 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.

(a) Benefits Provided

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

(b) Funding Policy

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the GIC for health, life and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. A total of 470 and 1,969 affiliated active employees and retirees transferred to the GIC during fiscal year 2013 and fiscal year 2012, respectively. As of June 30, 2013 a total of 4,308 of 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.

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

(Dollars in thousands)

(c) Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The June 30, 2011 actuarial valuation established the ARC for fiscal year 2013 and 2012. 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, 2013 and 2012, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

		2013	2012
ARC	$	192,594	192,594
Interest on net OPEB obligation		16,767	12,553
Amortization adjustment to ARC		(28,766)	(21,537)
Annual OPEB cost		180,595	183,610
Contributions made		(57,715)	(60,410)
Change in net OPEB obligation		122,880	123,200
Net OPEB obligation – beginning of year		490,253	367,053
Net OPEB obligation – end of year	$	613,133	490,253

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
2013	$	180,595	32.0%	$	613,133
2012		183,610	32.9		490,253
2011		141,022	41.3		367,053

The Authority's net OPEB obligation as of June 30, 2013 and 2012 is recorded as "Other postemployment benefits" line item.

(Dollars in thousands)

(d) 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.

(e) Actuarial Methods and Assumptions

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

In the June 30, 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.

(15) Subsequent Events

The Authority and Local 589, Amalgamated Transit Union, AFL-CIO, CLC were parties to a collective bargaining agreement that had expired on June 30, 2010. The parties negotiated to reach a new agreement until February 28, 2012 when a mediator certified the parties had bargained in good faith and that an impasse continued so the case was prepared for arbitration. An arbitrator was selected and hearings commenced on September 10, 2012 and ended on May 6, 2013. On August 26, 2013, an arbitration award was announced with general wage increases of 2.5%, 2.5%, 2.0%, 2.0% and 1.0% as of July 1, 2010, 2011, 2012, 2013 and 2014, respectively. A full accrual of the associated costs through June 30, 2013 is included in the financial statements.

On July 25, 2013 Chapter 46 or the Acts of 2013, An Act Relative to Transportation Finance was enacted by the Legislature. The transportation Finance Act provided funding for various transportation services and infrastructure needs within the various units of MassDOT. The Commonwealth increased the appropriated amount by $115,200 to $275,200 from the CTF to the Authority for fiscal year 2014. 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 has evaluated events subsequent to June 30, 2013 through October 25, 2013, the date the financial statements were available for issuance, and determined that there are no other material items that would require recognition or disclosure in the Authority's financial statements.

(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:								
2011	$	1,550,446	2,276,750	726,304	68.1%	$	366,535	198.2%
2010		1,649,129	2,341,344	692,215	70.4		356,609	194.1
2009		1,667,362	2,216,721	549,359	75.2		350,619	156.7

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:								
2011	$	54,023	75,456	21,433	71.6%	$	17,112	125.3%
2010		52,837	70,900	18,063	74.5		17,187	105.1
2009		49,795	68,104	18,309	73.1		16,598	110.3

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, 2012	$	58,583	11,394	47,189	19.4%	80.6%	$	46,376
July 1, 2011		58,980	9,261	49,719	15.7	84.3		44,592
July 1, 2010		47,206	8,676	38,530	18.4	81.6		36,168

(Continued)

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

Required Supplementary Information

Schedule of Funding Progress

June 30, 2013 and 2012

(Dollars in thousands)

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, 2011	$	—	2,016,063	2,016,063	—%	$	418,388	481.9%
June 30, 2009		—	1,555,394	1,555,394	—		428,007	363.4
June 30, 2008		—	1,714,605	1,714,605	—		440,208	389.5

See accompanying independent auditors' report.

Metropolitan Boston Transit Parking Corporation – Schedule of Debt Service Coverage

	Number of spaces at facility (Unaudited)	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	$ 5,341,416	1,805,862	3,535,554	33.81%
Route 128 Garage	2,589	4,702,310	1,566,684	3,135,626	33.32
Quincy Adams	2,538	3,733,183	1,562,737	2,170,446	41.86
Wonderland	2,039	2,284,998	829,152	1,455,846	36.29
Hingham Boat	1,841	917,989	274,511	643,478	29.90
Braintree	1,322	2,738,075	967,649	1,770,426	35.34
Wellington	1,316	1,951,838	816,351	1,135,487	41.82
Kings ton	1,039	260,834	100,298	160,536	38.45
Greenbush	1,000	210,429	79,386	131,043	37.73
Lynn	965	225,879	100,385	125,494	44.44
Riverside	925	1,291,172	500,031	791,141	38.73
Quincy Center	872	4,478	1,750	2,728	39.09
No Quincy/Hancock	852	887,520	383,417	504,103	43.20
Newburyport	814	174,823	65,612	109,211	37.53
Oak Grove	788	1,502,131	606,653	895,478	40.39
Norwood Central	781	376,677	143,866	232,811	38.19
Middleborough Lakeville	769	394,568	151,477	243,091	38.39
Canton Junction	764	673,342	195,082	478,260	28.97
Forge Park	716	444,255	173,848	270,407	39.13
As hland	678	289,884	89,697	200,187	30.94
Quincy Boat	600	93,947	33,687	60,260	35.86
South Attleboro	563	534,559	201,978	332,581	37.78
Wollas ton	550	736,955	313,782	423,173	42.58
Woodland	548	762,687	262,684	500,003	34.44
South Weymoth	543	230,050	87,214	142,836	37.91
Campello	535	134,319	50,910	83,409	37.90
Norfolk	532	312,981	119,726	193,255	38.25
Bridgewater	504	347,261	110,465	236,796	31.81
Dedham Corporate	497	167,075	63,493	103,582	38.00
Nantas ket Junction	495	96,232	38,093	58,139	39.58
Hanson	482	193,779	75,100	118,679	38.76
Westborough	448	273,736	101,822	171,914	37.20
Orient Heights	434	261,979	137,783	124,196	52.59
Beachmont	430	394,130	154,885	239,245	39.30
Cohasset	410	152,885	59,446	93,439	38.88
Abington	405	209,434	79,816	129,618	38.11
Halifax	402	171,138	65,123	106,015	38.05
Norwood Depot	393	87,267	34,743	52,524	39.81
Grafton	373	189,196	70,057	119,139	37.03
Holbrook/Randolph	369	178,164	67,956	110,208	38.14
Southborough	364	253,910	94,848	159,062	37.35

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

(A Component Unit of the Massachusetts Department of Transportation)

Supplementary Information

Metropolitan Boston Transit Parking Corporation
Schedule of Debt Service Coverage

June 30, 2013 and 2012

	Number of spaces at facility (Unaudited)	Gross revenues by facility	Revenue amount from facility to debt service	Net revenue of facility after debt service	Debt Service Percentage of gross revenue
No Quincy/Newport	354	$ 287,224	121,552	165,672	42.32%
Readville	354	117,053	45,278	71,775	38.68
Lechmere	347	626,769	264,427	362,342	42.19
Montello	347	114,563	45,478	69,085	39.70
W alpole	343	127,742	45,850	81,892	35.89
Salem	340	212,799	63,960	148,839	30.06
East Weymouth	335	234,612	86,763	147,849	36.98
Stoughton	333	207,918	79,698	128,220	38.33
Hersey	318	226,514	86,600	139,914	38.23
Bradford	303	57,185	22,532	34,653	39.40
Lots with 150-300 spaces	4,432	3,572,944	1,420,280	2,152,664	39.75
Lots with less than 150 spaces	1,916	1,171,000	452,838	718,162	38.67
Totals		$ 41,143,808	15,373,315	25,770,493	37.36%

See accompanying independent auditors' report.