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

Financial Statements, Required Supplementary Information and Supplementary Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

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, which comprise the statements of net position as of and for the years ended June 30, 2014 and 2013, and the related statements of changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2014 and 2013, 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.

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 Schedule included on pages 51–52 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule 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 Schedule 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 21, 2014 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 21, 2014

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

Statements of Net Position

June 30, 2014 and 2013

(Dollars in thousands)

Assets and Deferred Outflows of Resources		**2014**	**2013**
Current assets:			
Unrestricted cash and temporary cash investments (note 3)	$	294,938	249,018
Restricted cash and temporary cash investments (note 3):			
Bond construction accounts		24,971	42,228
Stabilization accounts		19,438	19,402
Other accounts		14,936	15,251
Accounts receivable:			
Commonwealth of Massachusetts		87,439	79,528
Federal grants		32,168	31,117
Other trade, net		46,207	32,674
Materials and supplies		23,532	42,433
Prepaid expenses		3,334	5,119
Total current assets		546,963	516,770
Noncurrent assets:			
Restricted cash and investments accounts (note 3):			
Bond construction accounts		221,800	89,929
Lease deposits		60,368	68,732
Bond reserve accounts (note 8)		558,040	554,374
Total restricted cash and investments accounts		840,208	713,035
Lease accounts		—	40,492
Net investment in direct financing lease (note 5)		22,343	21,212
Capital assets, at cost (notes 6, 7, and 9):			
Transportation property, being depreciated		13,316,097	12,868,500
Transportation property, not being depreciated		1,228,243	1,012,158
Less accumulated depreciation		(5,981,411)	(5,600,677)
Capital assets, net		8,562,929	8,279,981
Total noncurrent assets		9,425,480	9,054,720
Total assets		9,972,443	9,571,490
Deferred outflows of resources:			
Deferred outflows from debt instruments		214,758	231,149
Deferred outflows from derivative instruments (note 8c)		100,416	103,539
Total deferred outflows of resources		315,174	334,688
Total assets and deferred outflows of resources	$	10,287,617	9,906,178

(Continued)

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

Statements of Net Position

June 30, 2014 and 2013

(Dollars in thousands)

Liabilities and Deferred Inflows of Resources		**2014**	**2013**
Current liabilities:			
Current maturities of bonds and notes payable (note 8)	$	354,900	365,445
Current capital lease obligations (note 6)		3,867	42,651
Accounts payable		227,168	165,395
Accrued liabilities:			
Payroll and vacation		57,358	74,274
Interest		132,363	132,530
Injuries and damage claims, workers' compensation claims, and other (note 10)		55,278	55,029
Total current liabilities		830,934	835,324
Noncurrent liabilities, less current maturities:			
Bonds payable, net (note 8)		5,472,063	5,434,164
Obligations under capital leases (note 6)		69,591	72,005
Accrued liabilities (notes 10 and 11)		84,306	89,463
Pension liability (note 13)		138,324	102,767
Other postemployment benefits (note 14)		701,893	613,133
Liability for derivative instruments (note 8)		112,782	117,812
Unearned revenue		32,427	26,300
Total noncurrent liabilities		6,611,386	6,455,644
Total liabilities		7,442,320	7,290,968
Deferred inflows of resources:			
Deferred inflows from debt instruments		238	258
Total liabilities and deferred inflows of resources	$	7,442,558	7,291,226
Net Position			
Net investment in capital assets	$	3,791,675	3,517,146
Restricted		19,438	19,402
Unrestricted		(966,054)	(921,596)
Total net position	$	2,845,059	2,614,952

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, 2014 and 2013

(Dollars in thousands)

		2014	2013
Operating revenue:			
Revenue from transportation	$	576,686	564,560
Other		66,703	65,675
Total operating revenue		643,389	630,235
Operating expenses:			
Wages and related employee benefits:			
Wages		453,772	450,898
Medical and dental insurance		70,935	65,104
Other postemployment benefits		146,102	185,595
Pensions		102,074	102,941
Social security taxes		38,725	38,654
Workers’ compensation		12,207	8,778
Other		1,879	1,131
Capitalized costs		(21,608)	(22,548)
Total wages and related employee benefits		804,086	830,553
Other operating expenses:			
Depreciation and amortization		381,966	372,947
Materials, supplies, and services		214,340	208,589
Injuries and damages		15,213	28,994
Commuter railroad and local subsidy expenses (note 12)		496,479	453,954
Other		9,640	7,511
Total other operating expenses		1,117,638	1,071,995
Total operating expenses		1,921,724	1,902,548
Operating loss		(1,278,335)	(1,272,313)
Nonoperating revenue (expense):			
Dedicated sales tax revenue (note 4)		799,295	786,867
Contract assistance – Commonwealth of Massachusetts		275,200	160,000
Dedicated local assessments (note 4)		157,206	155,921
Fair value change in investment derivatives		1,907	4,564
Other nonoperating income		21,934	48,291
Interest income		28,235	15,293
Interest expense		(278,057)	(283,657)
Nonoperating revenue, net		1,005,720	887,279
Loss before capital grants		(272,615)	(385,034)
Capital grants and contributions		502,722	424,416
Increase in net position		230,107	39,382
Beginning of year, net position		2,614,952	2,575,570
End of year, net position	$	2,845,059	2,614,952

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, 2014 and 2013

(Dollars in thousands)

		2014	**2013**
Cash flows from operating activities:			
Receipts from transit customers	$	580,489	566,643
Receipts from other operations		62,010	66,502
Payments to suppliers and vendors		(871,954)	(815,022)
Payments to employees		(535,423)	(479,562)
Net cash used in operating activities		(764,878)	(661,439)
Cash flows from capital and related financing activities:			
Additions to transportation property		(630,510)	(496,943)
Interest paid		(269,719)	(270,991)
Decrease in deferred credits/charges		1,785	2,600
Commercial paper advances		40,000	20,000
Payments on debt		(224,165)	(233,645)
Proceeds from bond and note issuances		200,000	—
Receipts from (payments to) bond construction and reserve accounts		(135,536)	101,475
Proceeds from bond premiums		23,124	—
Payments of capital lease activity		(4,615)	(34,511)
Decrease in lease deposit/account		—	7,628
Capital grants		501,671	408,137
Other		(1,464)	(1,944)
Net cash used in capital and related financing activities		(499,429)	(498,194)
Cash flows from noncapital and related financing activities:			
Sales tax and local assessment		1,223,790	1,143,375
Reimbursable payments		27,071	29,577
Net cash provided by noncapital and related financing activities		1,250,861	1,172,952
Cash flows from investing activity:			
Interest and other income		41,830	57,456
Net cash provided by investing activity		41,830	57,456
Net change		28,384	70,775
Unrestricted cash and temporary cash investments and restricted cash and temporary investments, beginning of year		325,899	255,124
Unrestricted cash and temporary cash investments and restricted cash and temporary investments, end of year	$	354,283	325,899
Adjustments to reconcile operating loss to net cash used in operating activities:			
Operating loss	$	(1,278,335)	(1,272,313)
Changes not requiring current expenditure of cash:			
Depreciation and amortization		381,966	372,947
Increase in pension liability		35,557	20,803
Increase in other postemployment benefits		88,760	122,880
Changes in all other working capital accounts except unrestricted cash and temporary cash investments, restricted cash and temporary investments, and short-term debt		7,174	94,244
Net cash used in operating activities	$	(764,878)	(661,439)

Noncash capital and related financing activities:
At June 30, 2014 and 2013, the Authority had capital asset related liabilities related to eminent domain of $38,143 and $0.

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

(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.

(b) Use of Estimates

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

(c) Statements of Cash Flows

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

(d) Restricted Cash and Investment Accounts

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

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

(e) Capital Assets

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

(Dollars in thousands)

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, 2014 and 2013:

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

(f) Construction in Progress

During fiscal years 2014 and 2013, $591,382 and $468,889, 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 2014 and 2013, 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 in fiscal year 2013. On July 25, 2013, Chapter 46 of the Acts of 2013, *An Act Relative to Transportation Finance*, was enacted by the Legislature of the Commonwealth. 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 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, 2014 and 2013 was $19,799 and $17,250, 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

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).

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which will change the way in which the Authority reports its participation in its defined benefit pension plans, including the MBTA Retirement System. Among other changes, GASB Statement No. 68 will require the Authority to record a liability on the statement of net position for its unfunded pension plan obligation. Management is currently assessing the impact of GASB Statement No. 68, which will be effective for the fiscal year ending June 30, 2015.

(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 2014 and 2013, 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 debt refunding transactions.

(s) Statement of Net Position

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

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

(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, 2014 and 2013:

		2014	2013
Restricted:			
Bond construction accounts	$	246,771	132,157
Bond reserve, stabilization, and other accounts		592,414	589,027
Lease deposits		60,368	68,732
Subtotal		899,553	789,916
Unrestricted cash and temporary cash investments		294,938	249,018
	$	1,194,491	1,038,934

Included in bond reserve, stabilization, and other accounts at June 30, 2014 and 2013 are investments in Commonwealth debt instruments with a fair value of $45,427 and $43,976, 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, 2014 and 2013 was $116,092 and $158,221, respectively. The bank balance at June 30, 2014 and 2013 was $118,172 and $159,290, respectively. Of this amount, $24,061 and $8,599, 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, 2014 and 2013.

(b) Interest Rate Risk – Investments

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

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2014 and 2013 are presented below. All investments are presented by investment type and maturity.

	2014					
			Investment maturities (in years)			
Investment type		**Amount**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$	223,561	223,561	—	—	—
Money market funds		424,867	424,867	—	—	—
Guaranteed investment contracts		1,337	—	—	—	1,337
U.S. Treasury STRIPS		60,368	—	11,521	—	48,847
U.S. Treasury securities		62,926	—	—	—	62,926
U.S. government-sponsored enterprises		187,779	133,334	—	7,693	46,752
Municipal bonds		45,427	—	—	—	45,427
International bank notes		10,117	10,117	—	—	—
Commercial paper and certificates of deposit		62,017	62,017	—	—	—
Investments	$	1,078,399	853,896	11,521	7,693	205,289

	2013					
			Investment maturities (in years)			
Investment type		**Amount**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
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

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of $1,337 and $1,343 at June 30, 2014 and 2013, respectively. These investments are not rated.

(Dollars in thousands)

The Authority had $168,721 and $177,036 in U.S. Treasury STRIPS, U.S. Treasury securities and municipal bonds as of June 30, 2014 and 2013, 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+

The Authority has $187,779 and $218,860 invested in government-sponsored enterprises as of June 30, 2014 and 2013, respectively. These investments have an implied credit rating of AAaa/AA+ or they have been collateralized to AAA.

The Authority has $223,561 and $238,697 invested in MMDT as of June 30, 2014 and 2013, 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 $497,001 and $244,777 invested in money market funds, international bonds, commercial paper, and certificates of deposit as of June 30, 2014 and 2013, 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	2014	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	$ 127,135	11.8%
		$ 127,135	11.8%

	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%

(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, 2014 and 2013.

(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 Capital Investment Program (CIP), and are payable through 2041. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. As of June 30, 2014, the total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2014 was $804,347 and $144,323, respectively, a total of $948,670. 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. Total annual debt service paid during fiscal year 2014 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $567,984, representing 60% of pledged revenues. Total annual debt service paid during fiscal year 2013 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $532,567, representing 54% of pledged revenues.

The MBTPC pledge of dedicated parking receipts of the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011 and total annual debt service commenced on July 1, 2011. The debt service requirement in fiscal year 2014 was $15,373, which represents 37% of $41,987 revenue in the fiscal year 2014. The debt service requirement in fiscal year 2013 was $15,373, 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, 2014 and 2013 are $8,931,930 and $8,993,917, respectively.

(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 (unaudited). The lease agreement is for a 75-year term with an initial rent payment of $50,000 paid on the commencement date of the lease. Future annual base rent payments will commence on the tenth anniversary of the lease, June 6, 2022, and continue for a 30-year period. The lessee has the right within five years following the effective date to prepay the then outstanding balance of the annual base rent, without penalty, in the amount of $21,700 plus 5% annual interest compounded from the effective date of the lease to the date of prepayment. After the fifth year of the initial term has passed, no prepayment of the then outstanding balance will be allowed or accepted. The Authority has deferred the unearned interest income and will recognize it utilizing the effective interest method over the lease term until such time as the lessee determines whether the operational impact of the exercise of the option is prudent and feasible.

(Dollars in thousands)

As of June 30, 2014 and through date of the audit opinion date, the lessee has not elected to prepay the outstanding balance of the annual base rent.

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

		2014	2013
Total minimum lease payments receivable	$	68,981	68,981
Less unearned income		(46,638)	(47,769)
Net investment in direct financing lease	$	22,343	21,212

(6) Lease Obligations

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

The Authority had entered into various lease/sublease financing arrangements for heavy rail, commuter rail cars, and buildings. These agreements provided 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. On January 31, 2014, the Authority exercised its purchase option and effectively terminated its remaining LILO lease.

(b) Other Capital Lease Arrangements

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

(Dollars in thousands)

The following is a schedule by year of future minimum lease payments under the Authority's capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2014:

Fiscal year(s):		
2015	$	15,539
2016		3,640
2017		3,188
2018		2,562
2019		—
2020–2024		—
2025–2029		48,847
		73,776
Less amount representing interest		(318)
Present value of net minimum lease payments		73,458
Less current principal maturities		(3,867)
Obligations under capital leases	$	69,591

The liability for these leases changed in 2014 and 2013 as follows:

Outstanding at June 30, 2012	$	149,167
Net change in obligation		(34,511)
Outstanding at June 30, 2013		114,656
Net change in obligation		(41,198)
Outstanding at June 30, 2014	$	73,458

(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, 2014 and 2013, the Authority did not have any outstanding operating lease obligations.

(Dollars in thousands)

(7) Capital Assets

Capital assets at June 30, 2014 and 2013 are as follows:

	Beginning balance June 30, 2013	Increases	Decreases	Ending balance June 30, 2014
Capital assets not being depreciated:				
Land	$ 312,307	52,491	204	364,594
Construction work in progress	699,851	690,227	526,429	863,649
Total capital assets not being depreciated	1,012,158	742,718	526,633	1,228,243
Capital assets being depreciated:				
Ways and structures	10,034,663	327,748	—	10,362,411
Buildings and equipment	2,440,686	112,532	4,971	2,548,247
Buildings and equipment included in capital lease	393,151	12,288	—	405,439
Total capital assets being depreciated	12,868,500	452,568	4,971	13,316,097
Less accumulated depreciation for:				
Ways and structures	3,808,964	236,246	—	4,045,210
Buildings and equipment	1,515,135	149,459	4,971	1,659,623
Buildings and equipment included in capital lease	276,578	—	—	276,578
Total	5,600,677	385,705	4,971	5,981,411
Other capital assets, net	7,267,823	66,863	—	7,334,686
Capital assets, net	$ 8,279,981	809,581	526,633	8,562,929

(Continued)

(Dollars in thousands)

		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

(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, 2014, Prior Obligations in the amount of $296,640 are outstanding.

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

During fiscal year 2014, the Authority issued the following bonds: the 2014 Series A Senior Sales Tax Bonds in the amount of $200,000. On April 23, 2014, the 2014 Series A Senior Sales Tax Bonds were issued to fund a portion of the Authority's CIP. Principal on the 2014 Series A Senior Sales Tax Bonds is payable beginning with payments due July 1, 2016 through July 1 2044 except for July 1, 2026 through July 1, 2034. Interest on these bonds is paid semiannually on July 1 and January 1.

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

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 $40,000 and $20,000 during fiscal years 2014 and 2013 respectively to fund debt service payment on Prior Obligations of the Authority. The Authority paid off $46,350 and $31,000 during fiscal years 2014 and 2013, respectively. The balance of $101,025 and $107,375 was outstanding as of June 30, 2014 and 2013. At June 30, 2014, the total commercial paper notes included CP Sales Tax Series A in the amount of $59,775 with a weighted average nominal rate 0.110% and CP Sales Tax Series B in the amount of $41,250 with a weighted average nominal rate 0.108%.

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, 2014 are as follows:

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2014	Due in fiscal year 2015
General transportation system bonds:				
1991 Series A Bonds dated November 1, 1991	2021	7.00%	$ 36,165	—
1994 Series B Refunding Bonds dated December 1, 1992	2016	6.20	45,170	30,690
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.00%	8,010	4,125
1995 Series A Bonds dated April 1, 1995	2015	5.75% – 5.88%	7,570	7,570
1998 Series A Bonds dated February 15, 1998	2015	5.50%	9,595	9,595
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	15,770	8,495
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	174,360	6,250
			296,640	66,725
Boston Metropolitan District (BMD) bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	2,010	2,010
			2,010	2,010
Revenue bonds:				
2003 Series A Senior Sales Tax Bond dated January 29,2003	2021	4.00% – 5.25%	103,320	1,075
2003 Series C Senior Sales Tax Bond dated February 3, 2004**	2023	Variable	200,645	27,205
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, 2014	Due in fiscal year 2015
Revenue bonds:				
2004 Series B Senior Sales Tax Bonds dated March 9, 2004	2030	3.00% – 5.25%	$ 401,545	32,105
2004 Series A Assessment Bonds dated June 10, 2004	2021	3.00% – 5.25%	3,480	3,480
2004 Series C Senior Sales Tax Bonds dated December 22, 2004	2024	3.50% – 5.50%	295,115	25,335
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%	58,455	1,445
2005 Series B Senior Sales Tax Bonds dated December 21, 2005	2029	3.40 – 5.50%	92,070	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%	187,605	10,300
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	186,114	—
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083% – 3.834%	131,775	735
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083% – 3.834%	122,500	535
2008 Series B Senior Sales Tax Bond dated April 30, 2008	2033	3.00% – 5.25%	46,170	1,280
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

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

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	Final fiscal year of maturity	**Interest rates**	**Outstanding principal as of June 30, 2014**	**Due in fiscal year 2015**
Revenue bonds:				
2010 Series B Senior Sales Tax dated April 6, 2010	2035	2.00% – 5.00%	$ 75,180	1,335
2010 Series C Senior Sales Tax dated December 8, 2010	2020	5.00%	63,450	—
2012 Series A Assessment Bond dated June 21, 2012	2024	5.00%	407,165	—
2014 Series A Sales Tax Bonds dated April 23, 2014	2045	4.00% – 5.00%	200,000	—
			4,367,429	185,140
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	—
Bond Anticipation Notes (BANs):				
Bond Anticipation Notes (BAN)	2014	0.07% – 0.18%	101,025	101,025
Total bond and notes payable			5,499,989	$ 354,900
Less current maturities			(354,900)	
Total long-term bonds payable			5,145,089	
Plus unamortized bond premiums			327,792	
Less unamortized bond discounts			(818)	
Total long-term bonds payable			$ 5,472,063	

(Dollars in thousands)

* The bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. As of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO ($94,000) and 2000 Series A-2 VRDO ($94,000). The interest rates as of June 30, 2014 and 2013 for the 2000 Series A-1 are 0.05% and 0.12%; 0.05% and 0.05% for the 2000 Series A-2 VRDO; 0.08% and 0.07% for the 2008 Series A-1 Senior Sales Tax Bond, and 0.07% 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.

The principal and interest maturities of the bonds and notes payable as of June 30, 2014 are as follows:

	Principal	Interest
Fiscal year(s):		
2015	$ 354,900	262,053
2016	150,520	254,916
2017	196,705	245,364
2018	217,105	234,998
2019	258,290	222,905
2020–2024	1,315,195	934,029
2025–2029	1,140,825	659,508
2030–2034	965,291	391,800
2035–2039	578,413	196,465
2040–2044	305,575	29,474
2045 and thereafter	17,170	429
Total	$ 5,499,989	3,431,941

(Dollars in thousands)

A summary rollforward of bonds payable for the years ended June 30, 2014 and 2013 is as follows:

	2014					
	Balance 2013	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2014
GTS	$ 388,760	—	92,120	—	—	296,640
BMD	4,040	—	2,030	—	—	2,010
Revenue	4,242,588	200,000	83,665	—	8,506	4,367,429
BABs	428,300	—	—	—	—	428,300
BANs	107,375	40,000	46,350	—	—	101,025
MBTPC	304,585	—	—	—	—	304,585
	$ 5,475,648	240,000	224,165	—	8,506	5,499,989

	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
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

The following funds are included in restricted assets at June 30, 2014 and 2013 in connection with the Authority's revenue bond trust agreements and bond resolutions:

	2014			2013		
	Assessment bonds	Sales tax bonds	MBTPC bonds	Assessment bonds	Sales tax bonds	MBTPC bonds
Debt service	$ 37,415	223,678	7,913	61,823	202,203	8,243
Debt service reserve	65,901	209,963	13,170	71,553	197,564	12,986
	$ 103,316	433,641	21,083	133,376	399,767	21,229

The minimum required balances in the debt service reserve funds at June 30, 2014 and 2013 were $189,409 and $184,019 for the Sales Tax Series Bonds and $35,046 and $34,763 for the Assessment Bonds, respectively. The minimum required balances in the debt service reserve funds at June 30, 2014 and 2013 for MBTPC Bonds were $12,294 and $12,986, respectively. 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 $101,025 and $107,375 in outstanding commercial paper as of June 30, 2014 and 2013, respectively.

(b) Debt Refundings

The Authority has defeased in-substance several GTS, Sales Tax Series, and Assessment Series Bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2014 and 2013, $1,037,680 and $1,079,095, respectively, of these bonds are considered defeased in-substance and are still outstanding.

No bonds were refunded by the Authority in fiscal years 2014 and 2013.

(c) Derivative Instruments

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

(Dollars in thousands)

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Derivative item	Type	Objective	Effective date	Current notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Upfront payment from counterparty	Fair value at June 30 2014	Fair value at June 30 2013
Cash flow hedges:										
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	$ 174,360	2030	5.00%	67% of LIBOR	$ 12,230	(41,175)	(42,290)
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	(967)	(1,649)
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	(600)	(972)
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	(170)	(259)
6	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-1	October 2008	131,775	2021	4.00	SIFMA	3,067	(15,694)	(17,291)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	122,500	2026	3.00	62% of LIBOR plus 24 basis points	116	(15,191)	(14,557)
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	(26,619)	(26,521)
									(100,416)	(103,539)
Investment derivatives:										
2	Pay – fixed interest rate swap (a)	Originally to hedge changes in cash flows on variable rate debt	February 2003	75,480	2022	5.00	SIFMA	4,586	(12,366)	(14,273)
									(12,366)	(14,273)
									$ (112,782)	(117,812)

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

The aggregate fair value balance of the derivative instruments at June 30, 2014 and 2013 is $(112,782) and $(117,812), respectively, and is reflected on the Authority's statements of net position as a liability for derivative instruments. Of this liability, $(100,416) and $103,539 at June 30, 2014 and 2013, respectively, were offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2014 and 2013, the Authority determined that the investment derivative instrument does not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net position.

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

(Dollars in thousands)

Swap Payments and Associated Debt

As of June 30, 2014, 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 0.1040% and the variable rate on the 2000 Bonds is 0.005% through the term of the swap, are as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

Fiscal year(s) ending June 30	2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2015	$ 6,250	86	8,435	14,771
2016	6,690	83	8,122	14,895
2017	7,160	80	7,786	15,026
2018	7,660	76	7,428	15,164
2019	8,195	72	7,044	15,311
2020–2024	50,430	291	28,454	79,175
2025–2029	70,725	142	13,924	84,791
2030–2032	17,250	6	563	17,819
Totals	$ 174,360	836	81,756	256,952

(Dollars in thousands)

As of June 30, 2014, 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 4.839% plus 79 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary.

Fiscal year(s) ending June 30		2003 Series C Senior Sales Tax Bonds principal	2003 Series C Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2015	$	—	1,408	(375)	1,033
2016		—	1,408	(375)	1,033
2017		—	1,408	(375)	1,033
2018		—	1,408	(375)	1,033
2019		—	1,408	(375)	1,033
2020–2021		25,005	1,408	(250)	26,163
	$	25,005	8,448	(2,125)	31,328

As of June 30, 2014, 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 4.839% plus 123 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2015	$	—	303	(70)	233
2016		—	303	(70)	233
2017		—	303	(70)	233
2018		—	303	(70)	233
2019		—	303	(70)	233
2020–2024		—	1,515	(350)	1,165
2025–2027		5,000	303	(70)	5,233
	$	5,000	3,333	(770)	7,563

As of June 30, 2014, 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 4.839%

(Dollars in thousands)

plus 123 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2015	$	—	1,169	(270)	899
2016		—	1,169	(270)	899
2017		—	1,169	(270)	899
2018		—	1,169	(270)	899
2019		—	1,169	(270)	899
2020–2024		—	5,844	(1,350)	4,494
2025		19,260	—	—	19,260
	$	19,260	11,689	(2,700)	28,249

As of June 30, 2014, 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 0.08% through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-1 Senior Sales Tax Bonds principal	2008 Series A-1 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2015	$	735	105	4,945	5,785
2016		765	104	4,917	5,786
2017		18,990	89	4,200	23,279
2018		19,745	73	3,455	23,273
2019		20,545	57	2,679	23,281
2020–2023		70,995	63	2,950	74,008
	$	131,775	491	23,146	155,412

As of June 30, 2014, 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 0.336% and the variable rate on 2008 Series A-2 Senior Sales Tax Bonds is

(Dollars in thousands)

0.07% through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-2 Senior Sales Tax Bonds principal	2008 Series A-2 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2015	$	535	85	3,350	3,970
2016		550	85	3,335	3,970
2017		570	85	3,320	3,975
2018		585	84	3,304	3,973
2019		605	84	3,287	3,976
2020–2024		49,750	363	14,263	64,376
2025–2028		69,905	45	1,749	71,699
	$	122,500	831	32,608	155,939

As of June 30, 2014, 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, are as follows. As rates vary, variable interest rate payments on the 2010 bonds will vary.

Fiscal year(s) ending June 30		2010 Series A Senior Sales Tax Bonds principal	2010 Series A Senior Sales Tax Bonds interest	Interest rate swap, net	Total
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		—	119	4,420	4,539
2020–2024		—	597	22,100	22,697
2025–2029		53,540	366	13,528	67,434
2030–2032		26,105	20	745	26,870
	$	79,645	1,578	58,473	139,696

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, 2014:

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, 2014 and 2013, 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, 2014	Unexpended costs
Federal grants	$	7,321,556	6,897,063	424,493
State and local sources		2,406,649	2,198,551	208,098
Authority bonds		6,129,761	5,668,821	460,940
Total	$	15,857,966	14,764,435	1,093,531

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

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 $576,745 and $534,216 at June 30, 2014 and 2013, 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 for buildings valued over $25,000 and the self-insured retention of $1,000 for buildings valued under $25,000 effective March 1, 2014. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss, and health insurance. The Authority 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 2014 and 2013, expenditures for claims and judgments, excluding workers' compensation, and health and life, were $7,498 and $38,149, respectively. Expenses for claims related to workers' compensation were $12,207 and $8,778, and expenditures for the self-insured health plans were $129,376 and $122,820 for the years ended June 30, 2014 and 2013, respectively.

(Dollars in thousands)

The requirements of Governmental Accounting Standards Board (GASB), Statements require that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers' compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2014, 2013, and 2012. Changes in the self-insurance liabilities in fiscal years 2014, 2013, and 2012 were as follows:

		2014	2013	2012
Liability, beginning of year	$	124,592	101,805	97,503
Provisions for claims		149,081	169,747	159,784
Payments		(162,243)	(146,960)	(155,482)
Liability, end of year	$	111,430	124,592	101,805

(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, 2014, the following changes occurred in the liabilities:

	Balance as of July 1, 2013	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2014
Storage tank remediation sites	$ 10,650	6,556	1,052	16,154
Sites with PCB remediation	8,500	2,050	50	10,500
Vapor intrusion 21E	750	750	—	1,500
	$ 19,900	9,356	1,102	28,154

The payments for remediation costs combined with revised cost completion estimates totaling $8,254 in fiscal year 2014, and $7,754 increase in the liability incurred in fiscal year 2013 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, 2014 and 2013 included in the long-term accrued liabilities in the statement of net position was $28,154 and $19,900, 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, that 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, 2014. On April 25, 2013, the Authority and MBCRC agreed to extend the operating agreement for one additional year, effective July 1, 2013. The Authority paid MBCR a fixed base contract amount of $330,475 for the fiscal year 2014 extension, and a total cumulative amount of $2,992,261 over the life of the contractual period of service.

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

(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 2014 and 2013 was minimal and no contributions were made to this plan in fiscal year 2014 or 2013. 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 5.4989% to 5.5589% of pretax compensation effective July 1, 2013. The Authority's contribution rate was increased from 15.1511% to 15.3311% effective July 1, 2013. These contribution rates were calculated based on the December 31, 2012 actuarial valuation of the MBTA Retirement Plan. As of June 30, 2014, the actuarial update to the MBTA Retirement Plan required a combined contribution rate of 22.4672%.

The contribution requirements for the MBTA Police Association Plan were 17.5670% in 2014 and 17.1825% in 2013 for the Authority and 7.2850% for employees in both 2014 and 2013. Both were determined in accordance with actuarial valuations. Actual contributions made in 2014 and 2013 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, 2014 and 2013 and related information for each plan is as follows:

		2014		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – Authority	$	95,079	3,090	7,745
Contributions made – Authority		62,564	2,223	5,570
Actuarial valuation update		June 30, 2014	June 30, 2014	June 30, 2014
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

		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 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

(Dollars in thousands)

Changes in the net pension obligation for these plans for the years ended June 30, 2014 and 2013 are as follows:

		2014		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(86,805)	(3,073)	(12,888)
Annual pension cost		(95,079)	(3,090)	(7,745)
Contributions and other adjustments		62,564	2,222	5,570
Net pension obligation, end of year	$	(119,320)	(3,941)	(15,063)

		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)

(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, 2014	$ 95,079	66%	$ (119,320)
	June 30, 2013	75,065	75	(86,805)
	June 30, 2012	74,587	71	(68,296)
MBTA Police Association Plan	June 30, 2014	$ 3,090	72%	$ (3,941)
	June 30, 2013	3,072	74	(3,073)
	June 30, 2012	2,520	82	(2,274)
MBTA Deferred Compensation Plan	June 30, 2014	$ 7,745	72%	$ (15,063)
	June 30, 2013	7,781	81	(12,888)
	June 30, 2012	7,520	72	(11,394)

(c) Actuarial Funded Status

MBTA Retirement and Police Association Plans

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	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, 2012	$ 1,456,957	2,312,170	855,213	63.0%	$ 370,873	230.6%
Police Association Plan:						
December 31, 2012	56,333	77,883	21,550	72.3	17,700	121.8

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, 2013	$	56,816	13,178	43,638	23.2%	76.8%	$	49,156

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 5.559% of total covered payroll with the Authority contributing 8%. The plan has approximately 280 and 271 members at June 30, 2014 and 2013, respectively, and the cost of the Plan to the Authority was $761 and $779 for fiscal years 2014 and 2013, 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, 2013 actuarial valuation, approximately 5,205 retirees and 5,302 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 4,301 affiliated active employees and retirees enrolled in the GIC as of June 30, 2014. On July 1, 2014, a total of 6,230 of employees and retirees transferred to GIC benefit plans.

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

(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 2014 and 2013. 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, 2014 and 2013, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

		2014	2013
ARC	$	165,507	192,594
Interest on net OPEB obligation		17,903	16,767
Amortization adjustment to ARC		(35,893)	(28,766)
Annual OPEB cost		147,517	180,595
Contributions made		(58,757)	(57,715)
Change in net OPEB obligation		88,760	122,880
Net OPEB obligation – beginning of year		613,133	490,253
Net OPEB obligation – end of year	$	701,893	613,133

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
2014	$	147,517	39.8%	$	701,893
2013		180,595	32.0		613,133
2012		183,610	32.9		490,253

The Authority's net OPEB obligation as of June 30, 2014 and 2013 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, 2013, is as follows:

Actuarial accrued liability (AAL)	$	1,864,348
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	1,864,348
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	437,729
UAAL as a percentage of covered payroll		425.9%

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, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 2.92% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 7.00% for retirees in year one, 6.80% for all in year two, 6.60% in year three, 6.40% in year four, 6.20% in year five, 6.00% in year six, 5.80% in year seven, 5.60% in year eight, 5.40% in year nine, 5.20% in year ten, 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, 2014. The parties negotiated to reach a new four-year agreement on August 21, 2014. The contract was executed with general wage increases of 1.0% as July 1, 2014, 1.5% as January 1, 2015, 2.5%, as of July 1, 2015, 2016, and 2017.

The Authority has evaluated events subsequent to June 30, 2014 through October 21, 2014, 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:						
2012	$ 1,456,957	2,312,170	855,213	63.0%	$ 370,873	230.6%
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

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:						
2012	$ 56,333	77,883	21,550	72.3%	$ 17,700	121.8%
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

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, 2013	$ 56,816	13,178	43,638	23.2%	76.8%	$ 49,156
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

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

Required Supplementary Information

Schedule of Funding Progress

June 30, 2014 and 2013

(Dollars in thousands)

(Unaudited)

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, 2013	$ —	1,864,348	1,864,348	—%	$ 437,729	425.9%
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

See accompanying independent auditors’ report.

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, 2014

Metropolitan Transit Parking Corporation – Schedule of Debt Service Coverage

	Number of spaces at facility (Unaudited)	2014 Gross revenues by facility	Revenue amount from facility to debt service	2014 Net revenue of facility after debt service	2014 Debt Service Percentage of gross revenue
Alewife	2,733	$ 5,721,438	1,617,255	4,104,183	28.27%
Route 128 Garage	2,589	4,991,896	766,877	4,225,019	15.36
Quincy Adams	2,538	4,060,452	1,296,864	2,763,588	31.94
Wonderland	2,039	2,629,248	1,006,035	1,623,213	38.26
Hingham Boat	1,841	802,381	363,656	438,725	45.32
Braintree	1,322	2,882,545	892,895	1,989,650	30.98
Wellington	1,316	1,760,142	819,602	940,540	46.56
Kings ton	1,039	268,701	126,378	142,323	47.03
Greenbush	1,000	220,851	105,952	114,899	47.97
Lynn	965	302,017	86,777	215,240	28.73
Riverside	925	1,131,617	525,692	605,925	46.45
Quincy Center	872	—	—	—	—
No Quincy/Hancock	852	891,864	447,672	444,192	50.20
Newburyport	814	190,989	80,335	110,654	42.06
Oak Grove	788	1,283,839	647,286	636,553	50.42
Norwood Central	781	405,938	181,910	224,028	44.81
Middleborough Lakeville	769	428,203	190,531	237,672	44.50
Canton Junction	764	577,813	244,279	333,534	42.28
Forge Park	716	484,137	204,214	279,923	42.18
As hland	678	268,898	111,133	157,765	41.33
Quincy Boat	600	46,885	24,950	21,935	53.22
South Attleboro	563	542,768	230,200	312,568	42.41
Wollas ton	550	732,787	365,319	367,468	49.85
Woodland	548	860,685	198,160	662,525	23.02
South Weymoth	543	245,409	111,535	133,874	45.45
Campello	535	156,612	68,073	88,539	43.47
Norfolk	532	355,243	160,368	194,875	45.14
Bridgewater	504	247,452	106,741	140,711	43.14
Dedham Corporate	497	224,799	81,987	142,812	36.47
Nantas ket Junction	495	95,862	47,878	47,984	49.94
Hanson	482	201,534	88,988	112,546	44.16
Westborough	448	339,612	131,751	207,861	38.79
Orient Heights	434	141,844	64,695	77,149	45.61
Beachmont	430	391,291	199,285	192,006	50.93
Cohasset	410	156,752	73,687	83,065	47.01

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Supplementary Information

Metropolitan Boston Transit Parking Corporation
Schedule of Debt Service Coverage

June 30, 2014

	Number of spaces at facility (Unaudited)		2014 Gross revenues by facility	Revenue amount from facility to debt service	2014 Net revenue of facility after debt service	2014 Debt Service Percentage of gross revenue
Abington	405	$	235,818	101,949	133,869	43.23
Halifax	402		171,877	76,767	95,110	44.66
Norwood Depot	393		92,678	41,486	51,192	44.76
Grafton	373		195,879	90,781	105,098	46.35
Holbrook/Randolph	369		204,254	94,101	110,153	46.07
Southborough	364		274,748	127,500	147,248	46.41
No Quincy/Newport	354		330,360	174,405	155,955	52.79
Readville	354		120,524	55,926	64,598	46.40
Lechmere	347		533,412	257,467	275,945	48.27
Montello	347		109,476	52,884	56,592	48.31
W alpole	343		165,581	71,319	94,262	43.07
Salem	340		8,441	8,350	91	98.92
East Weymouth	335		273,704	121,421	152,283	44.36
Stoughton	333		246,782	113,733	133,049	46.09
Hersey	318		236,172	102,742	133,430	43.50
Bradford	303		59,872	28,811	31,061	48.12
Lots with 150-300 spaces	4,432		3,497,477	1,638,452	1,859,025	46.85
Lots with less than 150 spaces	1,916		1,187,852	546,259	641,593	45.99
Totals	44,940	$	41,987,411	15,373,313	26,614,098	36.61%

See accompanying independent auditors' report.