# MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Financial Statements and Required Supplementary Information

June 30, 2002

(With Independent Auditors' Report Thereon)

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY**

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# Independent Auditors' Report

The Board of Directors of the
Massachusetts Bay Transportation Authority:

We have audited the accompanying statement of net assets of the Massachusetts Bay Transportation Authority (the Authority or MBTA), a component unit of the Commonwealth of Massachusetts, as of June 30, 2002, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2(l) to the financial statements, the Authority implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* Governmental Accounting Standards Board No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, in 2002.

The Management's Discussion and Analysis on pages 3 through 8 and the historical pension information on pages 33 - 34 are not required parts of the financial statements but include supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2002 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, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

October 15, 2002

The management of the Massachusetts Bay Transportation Authority offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2002.

***Basic Financial Statements***

Our basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The Authority is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These are followed by notes to the financial statements. In addition to the basic financial statements, this report also contains required supplementary information pertaining to the retirement plans of the Authority.

> The statement of net assets presents information on the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
>
> The statement of revenue, expenses and changes in net assets reports the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the fiscal year with the difference – the net income or loss – being combined with any capital grants to determine the net change in assets for the fiscal year. That change combined with the previous years-end net asset total reconciles to the net asset total at the end of this fiscal year.
>
> The statement of cash flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, noncapital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalent balance at the end of the current fiscal year.

(Dollars in Thousands)

***Condensed Financial Information***

Condensed financial information from the statements of net assets and revenues, expenses and changes in net assets is presented below. The Authority adopted GASB Statement No. 34 during the current year and, as such, only current year information has been presented. In future years, a comparative analysis of condensed financial data will be presented.

| | | |
|---|---|---|
| Current and other assets | $ | 1,120,368 |
| Capital assets, net | | 6,497,670 |
| Total assets | | 7,618,038 |
| Current liabilities | | 431,956 |
| Long-term liabilities | | 4,141,557 |
| Total liabilities | | 4,573,513 |
| Net assets: | | |
| Invested in capital assets, net of related debt | | 2,891,730 |
| Restricted | | 11,746 |
| Unrestricted | | 141,049 |
| Total net assets | $ | 3,044,525 |
| Operating revenue, not including local and federal assistance: | | |
| Revenue from transportation | $ | 283,288 |
| Other | | 37,831 |
| Total operating revenues | | 321,119 |
| Operating expenses: | | |
| Transportation services | | 436,026 |
| Other operating expenses | | 360,943 |
| Total operating expenses, excluding depreciation | | 796,969 |
| Depreciation and amortization | | 220,671 |
| Total operating expenses, including depreciation | | 1,017,640 |
| Operating loss | | (696,521) |
| Nonoperating revenue | | 613,900 |
| Loss before capital grants | | (82,621) |
| Capital grants and contributions | | 137,936 |
| Increase in net assets | | 55,315 |
| Beginning of year net assets | | 2,989,210 |
| End of year net assets | $ | 3,044,525 |

See accompanying independent auditors' report

The information contained in the condensed financial information table is used as the basis for the discussion presented below, surrounding the Authority's activities for the fiscal year ended June 30, 2002.

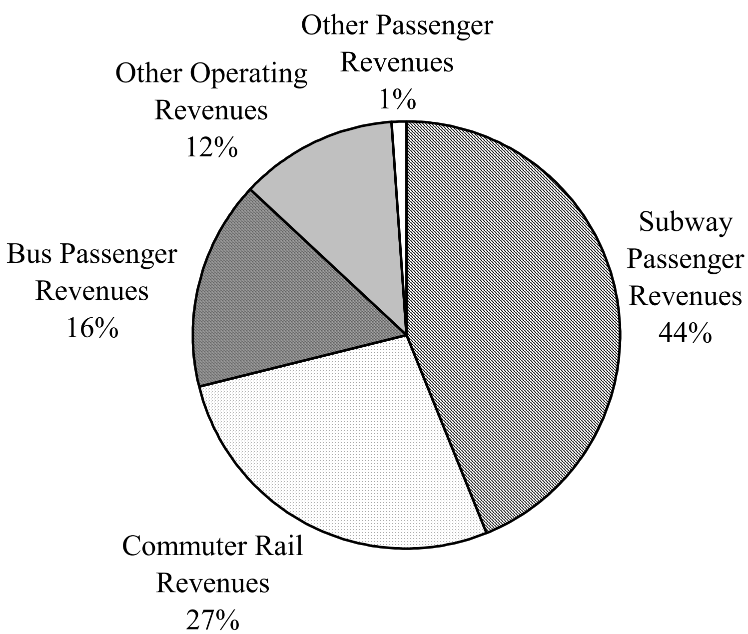
***Financial Highlights***

- The Authority ended the year with a net asset balance of $3,044,525, of which $2,891,730 represented the amount invested in capital assets and $141,049 was unrestricted. This amount was $55,315 higher than the net asset balance at the beginning of the year. The increase in net assets is attributable to the capital grants received by the Authority in fiscal 2002.
- Despite the increase in net assets, the Authority incurred a planned operating loss for the year of $696,521, the bulk of which was eliminated through the receipt of certain sales tax revenues from the Commonwealth of Massachusetts ($664,350) and local assessments on cities and towns within the Authority's service area ($142,873). Adding to the operating loss was non-operating interest expense, net of interest income of just under $200,000.
- The Authority has taken steps to minimize interest expense by reducing the amount of high interest rate debt by refunding outstanding bonds and paying off debt as funds become available.
- The Authority ended the year with cash and investments of over $925,000. However, only $188,188 of this amount is available for operations as the bulk of these assets are restricted for specific purposes and unavailable for the Authority's general use.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year. For fiscal 2002, cash and cash equivalents decreased by $364,074. This decrease results primarily from the spending activity in the Authority's capital investment program in which the Authority expended almost $400,000 and from the servicing of the Authority's debt, which resulted in the spending of over $450,000. The $472,471 cash used for operations is offset by the sales tax and local assessment receipts of just over $800,000.

***Revenue***

The following chart shows the major sources of operating revenue for the year ended June 30, 2002:

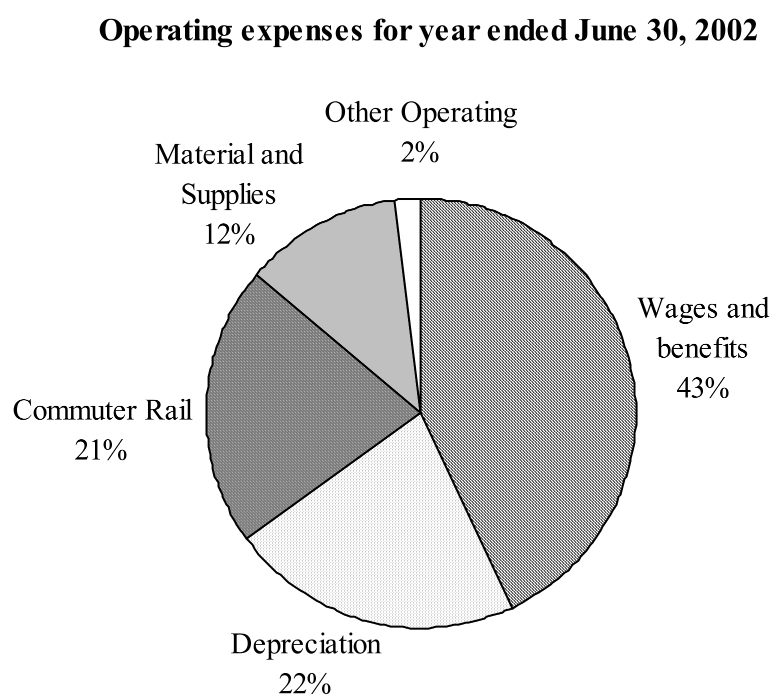
**Operating revenue for year ended June 30, 2002**




As in previous years, the passenger revenues make up over 85% of the total operating revenues. The Authority continues to work on increasing ridership through new equipment purchases, station upgrades and system expansion and will continue to pursue its policy of maximizing non-fare revenue opportunities.

***Expenses***

The following chart shows the major sources of operating expenses for the year ended June 30, 2002:




As in previous years, wages and benefits make up the largest portion of operating expenses. This is common in the public transportation industry as the provision of service is extremely labor intensive. Due to the large investments the Authority has in capital assets, depreciation continues to be a large operating expense. Unlike the other expenses listed, depreciation is not a cash expense. The Authority has and continues to pursue ways to reduce costs without impacting service.

***Capital Assets***

The Authority's capital assets as of June 30, 2002 amounted to $6,497,670 (net of accumulated depreciation). This investment in capital assets includes land, construction work in progress, ways and structures and buildings and equipment.

(Dollars in Thousands)

Capital asset additions during the fiscal year included the following:

| | | |
|---|---|---|
| Land | $ | 1,371 |
| Construction work in progress | | 144,168 |
| Ways and structures | | 188,425 |
| Buildings and equipment | | 78,446 |
| | $ | 412,410 |

The Authority primarily acquires its assets with the proceeds from federal capital grants and revenue bonds. Station improvements, new equipment purchases and system expansion are all part of the Authority's capital investment program. Commitments on approved capital asset construction projects currently exceed $1,000,000 and commitments to purchase new transportation equipment are almost $450,000.

***Debt***

At year-end, the Authority had $3,247,020 of General Transportation System bonds, $600,000 of revenue bonds and $28,151 of Boston Metropolitan District bonds outstanding. The total amount outstanding for these categories of debt decreased by over $250,000 during 2002 through current years debt service and refundings of higher rate debt. The Authority has also entered into various agreements to help hedge against interest rate changes on certain outstanding debt. These agreements help the Authority better manage the total cost of borrowing and allow for better budgeting of future cash flows.

***Requests for Information***

This financial report is intended to provide an overview of the finances of the Authority for those with an interest in this organization. Questions concerning any information contained in this report may be directed to the Deputy General Manager and Chief Financial Officer of the Authority.

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY**

Statement of Net Assets

June 30, 2002

(Dollars in thousands)

**Assets**

| | | |
|---|---|---|
| Current assets: | | |
| Cash and temporary cash investments (note 3) | $ | 188,188 |
| Accounts receivable, net: | | |
| Commonwealth of Massachusetts | | 94,470 |
| Federal grants | | 7,708 |
| Other trade | | 33,405 |
| Materials and supplies | | 32,870 |
| Prepaid expenses | | 5,101 |
| Total current assets | | 361,742 |
| Restricted and other special accounts (notes 2(j) and 3): | | |
| Bond construction accounts | | 47,574 |
| Lease accounts | | 548,473 |
| Bond reserve accounts | | 65,429 |
| Stabilization account | | 4,038 |
| Other accounts | | 73,713 |
| Total restricted and other special accounts | | 739,227 |
| Capital assets, at cost (notes 8, 9, and 11): | | |
| Transportation property in service – nondepreciable | | 1,138,922 |
| Transportation property in service – depreciable | | 7,955,563 |
| Less accumulated depreciation | | (2,596,815) |
| Capital assets, net | | 6,497,670 |
| Other assets: | | |
| Net pension asset (note 7) | | 4,265 |
| Deferred charges | | 15,134 |
| Total other assets | | 19,399 |
| Total assets | $ | 7,618,038 |

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY**

Statement of Net Assets

June 30, 2002

(Dollars in thousands)

**Liabilities**

| | | |
|---|---|---|
| Current liabilities: | | |
| Current maturities of bonds payable (note 5) | $ | 112,321 |
| Current capital lease and other current obligations (notes 5 and 8) | | 15,630 |
| Accounts payable | | 94,410 |
| Accrued liabilities: | | |
| Payroll and vacation | | 41,933 |
| Interest | | 75,742 |
| Injuries and damage claims, worker's compensation claims, and other (note 10) | | 91,920 |
| Total current liabilities | | 431,956 |
| Long-term liabilities, less current maturities: | | |
| Bonds payable, net (note 5) | | 3,572,137 |
| Other noncurrent obligations (note 5) | | 3,410 |
| Obligations under capital leases (note 8) | | 533,984 |
| Pension liability (note 7) | | 5,313 |
| Deferred revenue (note 6) | | 26,713 |
| Total long-term liabilities | | 4,141,557 |
| Total liabilities | | 4,573,513 |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | | 2,891,730 |
| Restricted | | 11,746 |
| Unrestricted | | 141,049 |
| Commitments and contingencies (notes 10 and 11) | | |
| Total net assets | $ | 3,044,525 |

See accompanying notes to basic financial statements.

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY**

Statement of Revenue, Expenses, and Changes in Net Assets

Year ended June 30, 2002

(Dollars in thousands)

| | | |
|---|---|---|
| Operating revenue, not including local and federal assistance: | | |
| Revenue from transportation | $ | 283,288 |
| Other | | 37,831 |
| | | 321,119 |
| Operating expenses: | | |
| Wages and related employee benefits: | | |
| Wages | | 307,843 |
| Medical and dental insurance | | 80,805 |
| Pensions | | 26,199 |
| Social security taxes | | 26,883 |
| Worker's compensation | | 10,085 |
| Other | | 1,259 |
| Capitalized costs | | (17,048) |
| | | 436,026 |
| Other operating expenses: | | |
| Depreciation and amortization | | 220,671 |
| Materials, supplies and services | | 125,713 |
| Injuries and damages | | 15,959 |
| Commuter railroad and local subsidy expenses (note 4) | | 217,956 |
| Other | | 1,315 |
| | | 581,614 |
| Total operating expenses | | 1,017,640 |
| Operating loss | | (696,521) |
| Nonoperating revenue (expense): | | |
| Dedicated sales tax revenue | | 664,350 |
| Dedicated local assessments | | 142,873 |
| Other income | | 9,065 |
| Interest income | | 16,367 |
| Interest expense | | (209,063) |
| Loss on debt refunding | | (9,692) |
| Total nonoperating revenue | | 613,900 |
| Loss before capital grants | | (82,621) |
| Capital grants and contributions (note 2(f)) | | 137,936 |
| Increase in net assets | | 55,315 |
| Beginning of year net assets | | 2,989,210 |
| End of year net assets | $ | 3,044,525 |

See accompanying notes to basic financial statements.

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY**

Statement of Cash Flows

Year ended June 30, 2002

(Dollars in thousands)

| | | |
|---|---|---|
| Cash flows from operations: | | |
| Receipts from transit customers | $ | 283,288 |
| Receipts from other operations | | 35,004 |
| Payments to suppliers and vendors | | (352,278) |
| Payments to employees | | (438,485) |
| Net cash used for operations | | (472,471) |
| Cash flows from capital and related financing activities: | | |
| Cash (used for) provided by: | | |
| Additions to transportation property | | (376,191) |
| Interest paid | | (213,072) |
| Decrease in deferred credits/charges | | (877) |
| Payments on long-term debt | | (251,104) |
| Payments for capital leases | | (2,590) |
| Capital grants | | 130,228 |
| Net cash used for capital and related financing activities | | (713,606) |
| Cash flows from noncapital and related financing activities: | | |
| Sales tax and local assessment | | 813,708 |
| Reimbursable payments | | (15,281) |
| Other | | 7,209 |
| Net cash provided by noncapital and related financing activities | | 805,636 |
| Cash flows from investing activities: | | |
| Interest income | | 16,367 |
| Net cash provided from investing activities | | 16,367 |
| Change in cash, temporary cash investments, restricted and other special accounts | | (364,074) |
| Cash, temporary cash investments, restricted and other special accounts, beginning of year | | 1,291,489 |
| Cash, temporary cash investments, restricted and other special accounts, end of year | $ | 927,415 |
| Reconciliation of operating (loss) to net cash (used) by operating activities: | | |
| Operating loss | $ | (696,521) |
| Charges to cost of service not requiring current expenditure of cash: | | |
| Depreciation and amortization | | 220,671 |
| Loss on debt refunding | | 9,692 |
| Changes in all other working capital accounts except cash, temporary cash investments, and short-term debt | | (6,313) |
| Net cash used for operations | $ | (472,471) |

See accompanying notes to basic financial statements.

## (1) The Reporting Entity

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

The Authority is managed by a board of nine directors. The Secretary of the Executive Office of Transportation and Construction of the Commonwealth is the Chairman. The other eight directors are appointed by the Governor of the Commonwealth. All appointments to the Board became effective July 1, 2000. Since this time, four have been reappointed. The Board has the power to appoint and employ a General Manager and other officers. The Advisory Board, consisting of a representative from each of the cities and towns paying Assessments, has the power to approve the Authority's long-term capital program and annual operating budget.

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

## (2) Summary of Significant Accounting Policies

### *(a) Funding of Operation*

Until June 30, 2000, the Authority was subsidized by the Commonwealth for its annual "Net Cost of Service" and certain debt costs as defined in Chapter 161A of Massachusetts General Law in effect prior to July 1, 2000. As part of the Commonwealth's *Forward Funding Legislation* (Chapter 127 of the Acts of 1999 of the Commonwealth or Enabling Act), the Commonwealth's funding mechanism was repealed and restated. Effective July 1, 2000, the new legislation allows the Authority to receive a dedicated revenue stream consisting of the assessments on the communities in the Authority's service area (the Assessments) and certain Dedicated Sales Tax. Additionally, the Authority's service territory expanded from 78 to 175 cities and towns. The Authority also funds operations through charges for providing transportation services.

### *(b) Financial Reporting*

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

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

(Dollars in thousands)

***(c) Capital Assets***

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

Depreciation is provided on the straight-line method at rates that are designed to amortize the original cost of the property over its estimated useful life. The major categories of transportation property in service and their estimated useful lives are as follows at June 30:

| | Estimated useful life | | Amount |
|---|---|---|---|
| Ways and structure | 10-60 years | $ | 6,210,826 |
| Building and equipment | 3-25 years | | 1,744,737 |
| Land | — | | 269,591 |
| | | $ | 8,225,154 |

***(d) Construction in Progress***

During 2002, major construction projects aggregating $268,243 were completed and transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements and purchases of new rolling stock and other equipment.

Interest on debt used to finance construction that is capitalized as part of the Authority's fixed assets is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. In fiscal year 2002, the net interest cost eligible for capitalization was not material.

Additionally, the Authority, under various interagency agreements, performs construction work on behalf of those agencies. Such construction costs are reimbursed upon completion of the work. Costs incurred during 2002 were approximately $35.7 million. Amounts owed to the Authority for these costs and prior year costs as of June 30, 2002 were approximately $25.1 million and are presented in accounts receivable in the accompanying statements.

***(e) Self Insurance***

The Authority is entirely self-insured for various risks including worker's compensation, injuries and damages, and employee health claims, and self-insures a portion of casualty and liability claims.



(Continued)

***(f) Capital Grants and Contributions***

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. In fiscal 2001, the Authority adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires capital grants to be reported as revenue rather than contributed capital. The amount recorded as capital grant revenue in fiscal 2002 was $137,936.

***(g) Statement of Cash Flows***

For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of six months or less to be temporary cash investments.

***(h) Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***(i) Compensated Absences***

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2002 was approximately $14,944.

***(j) Restricted and Other Special Accounts***

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

- Bond Construction Account – represents unexpended bond proceeds.
- Lease Account – represents cash held by trustees to be used to pay lease payments on the Authority's defeased capital leases.
- Bond Reserve Account – represents cash funds required to be maintained by bond indentures.
- Stabilization Account – represents 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 – represents funds held in accordance with the Authority's Trust Agreements for capital maintenance, debt service, and other expenses.

***(k) Materials and Supplies***

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

(Dollars in thousands)

### *(l) New Reporting Model*

The Authority adopted the provisions of the Governmental Accounting Standards Board Statement, No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement 34) in 2002, effective July 1, 2001. Statement 34 establishes financial reporting standards for all state and local government entities. Statement 34, as it applies to the Authority, primarily relates to presentation and disclosure requirements and had no impact on net assets as of June 30, 2002. The impact of changes on the report include: the presentation of balance sheet in a "net assets" format, the inclusion of Management's Discussion and Analysis, and the presentation of cash flows on the direct rather than the indirect method.

The Authority adopted the provisions of the Governmental Accounting Standards Board Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*: *Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures* (Statement 38) in 2002, effective July 1, 2001. The implementation of Statements No. 37 and 38 had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

## (3) Deposits and Investments

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, brokers' acceptances, investment agreements, municipal bonds, repurchase agreements secured by U.S. government and agency obligations, and certain other investments permitted under the trust indentures. Restricted investments are recorded at fair value. Other investments are recorded at amortized cost, which approximates market, and earn interest and dividends at prevailing rates.

Deposits and investments consisted of the following amounts presented in the accompanying balance sheets at June 30, 2002:

| | | |
|---|---|---|
| Construction accounts | $ | 47,574 |
| Other accounts | | 143,180 |
| Lease accounts | | 548,473 |
| Cash and temporary cash investments | | 188,188 |
| | $ | 927,415 |

### *(a) Deposits*

The Authority's deposits are categorized as those that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name (Category 2), and those deposits that are not collateralized (Category 3). Managed investment pools are not categorized.

(Dollars in thousands)

A summary of these deposits as of June 30, 2002 is as follows:

| | Category 1 | Category 2 | Category 3 | Total bank balance | Carrying amount |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 139,831 | — | 400,090 | 539,921 | 540,546 |
| Not categorized: | | | | | |
| Mass Municipal Depository Trust | — | — | — | 41,805 | 41,805 |
| | $ 139,831 | — | 400,090 | 581,726 | 582,351 |

In 2002, deposits in transit largely account for the difference between the bank balance and carrying amount of deposits. The Authority's cash on hand as of June 30, 2002 was $1,754.

***(b) Investments***

The Authority's investments are categorized according to the level of custodial credit risk assumed by the Authority. Category 1 includes investments that are insured, registered or held by a trustee in the Authority's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered investments held by the counterparty, its trust department or agent but not in the Authority's name.

A summary of these investments as of June 30, 2002 is as follows:

| | Category 1 | Category 2 | Category 3 | Fair value |
|---|---|---|---|---|
| U.S. government obligations | $ 145,673 | — | — | 145,675 |
| Repurchase agreements | — | 196,969 | — | 196,969 |
| Common stock | — | — | 516 | 516 |
| Municipal bond obligations | — | 150 | — | 150 |
| | $ 145,673 | 197,119 | 516 | 343,310 |

The maximum amount of the Authority's uninsured deposits and investments in repurchase agreements was approximately $242,453 during fiscal 2002. These amounts vary during the year due to the timing of cash receipts. U.S. government and agency obligations that secure the repurchase agreements are held by the broker's agent in a safe-keeping account on behalf of the Authority, but such obligations do not bear the Authority's name.

## (4) Commuter Railroad and Local Subsidy

Under General Laws, Chapter 161A, Section 3(f) of the Commonwealth of Massachusetts, 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.

On September 1, 1995, the Authority entered into an operating agreement with the National Railroad Passenger Corporation (AMTRAK) to provide commuter railroad service over the Authority's rail lines. The Authority has agreed to pay AMTRAK a fixed price per year for the services specified in the agreement. The agreement terminated on June 30, 1998 and contained two one-year options for renewal. A three-year contract extension was executed during fiscal 2000 at a fixed price of $476,251.

## (5) Long-Term Debt

### *(a) Bonds Payable*

The Enabling Act authorizes the Authority to issue general obligation debt, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the Authority beginning July 1, 2000. Debt previously issued by the Authority was backed by the full faith and credit of the Commonwealth and principal and interest payments on that debt were subsidized by the Commonwealth. While debt outstanding at June 30, 2000 (prior obligations) will continue to be backed by the full faith and credit of the Commonwealth, debt issued by the Authority after June 30, 2000 (new debt) will not be supported by the Commonwealth's guarantee. Additionally, the Authority will not receive any principal or interest subsidies from the Commonwealth for the repayment of the prior obligations, unless authorized by special legislation, or new debt of the Authority.

During fiscal 2001, the Authority issued Assessment Bonds 2000 Series A, payable in annual installments on July 1$^{st}$ beginning in fiscal 2005 through July 1, 2030 and Sales Tax Bonds 2000 Series A, payable in annual installments on July 1$^{st}$ from July 1, 2004 through July 1, 2010 and from July 1, 2020 through July 1, 2030. Interest is paid semiannually on July 1$^{st}$ and January 1$^{st}$ for both the 2000 Series A Assessment and 2000 Series A Sales Tax Bonds.

General Transportation System (GTS) Bonds, all issued prior to July 1, 2000, are payable in annual installments on March 1$^{st}$; interest is payable semiannually on March 1st and September 1$^{st}$. The GTS bonds were issued to provide funds for the financing of the Authority's transportation property.

Boston Metropolitan District Bonds (BMD) were issued for transit purposes prior to the formation of the Authority in 1964.

(Dollars in thousands)

The bonds outstanding are as follows at June 30:

| | Year of maturity | Interest rates | Outstanding balance 2002 | Due in fiscal 2003 |
|---|---|---|---|---|
| General Transportation System Bonds: | | | | |
| 1967 Series A Bonds dated March 1, 1967 | 2007 | 3.85% | $ 5,200 | 2,600 |
| 1974 Series A Bonds dated June 1, 1974 | 2014 | 5.0-6.6% | 13,875 | 1,800 |
| 1991 Series A Bonds dated November 15, 1991 | 2021 | 6.3-7.0% | 75,000 | — |
| 1992 Series A Bonds dated October 1, 1992 | 2022 | 5.5-5.6% | 1,845 | 1,845 |
| 1992 Series B Refunding Bonds dated December 1, 1992 | 2021 | 5.5-6.25% | 350,255 | 2,760 |
| 1992 Series C Bonds dated November 15, 1992 | 2023 | 5.6-6.1% | 12,125 | 3,055 |
| 1993 Series A Refunding Bonds dated June 1, 1993 | 2022 | 4.9-5.5% | 413,680 | 40,475 |
| 1994 Series A Refunding Bonds dated June 1, 1994 | 2019 | 5.0-7.0% | 262,520 | 25,980 |
| 1994 Series B Bonds dated June 1, 1994 | 2024 | 5.0-5.3% | 12,895 | 4,080 |
| 1995 Series A Bonds dated April 1, 1995 | 2025 | 4.9-5.88% | 113,575 | 7,335 |
| 1995 Series B Bonds dated September 15, 1995 | 2025 | 4.5-5.38% | 123,170 | — |
| 1996 Series A Bonds dated March 1, 1996 | 2026 | 4.7-5.38% | 32,805 | — |
| 1996 Series B Bonds dated October 1, 1996 | 2026 | 5.0-5.25% | 140,635 | 3,935 |
| 1997 Series A Bonds dated June 1, 1997 | 2027 | 4.5-6.0% | 142,175 | — |
| 1997 Series B Bonds dated August 1, 1997 | 2014 | 4.25-5.0% | 8,435 | 530 |
| 1997 Series C Bonds dated August 1, 1997 | 2024 | 4.5-6.0% | 239,285 | 1,665 |
| 1997 Series D Bonds dated November 1, 1997 | 2027 | 5.0-5.5% | 133,510 | 3,680 |
| 1998 Series A Bonds dated February 15, 1998 | 2026 | 4.0-5.5% | 302,100 | 1,090 |
| 1998 Series B Bonds dated November 1, 1998 | 2028 | 4.1-5.25% | 197,915 | — |
| 1998 Series C Bonds dated November 1, 1998 | 2022 | 4.0-5.75% | 232,165 | 2,255 |
| 1999 Series A Variable Interest Rate Bonds dated June 29, 1999 | 2014 | Variable | 59,695 | 3,335 |
| 1999 Series A Bonds dated December 1, 1999 | 2021 | 4.5-6.0% | 186,160 | 3,260 |
| 2000 Series Variable Interest Rate Bonds dated March 10, 2000 | 2030 | Variable | 188,000 | — |
| Total General Transportation System Bonds payable | | | 3,247,020 | 109,680 |

(Dollars in thousands)

| | Year of maturity | Interest rates | Outstanding balance 2002 | Due in fiscal 2003 |
|---|---|---|---|---|
| Boston Metropolitan District Bonds: | | | | |
| Boston Elevated Railway Company and Metropolitan Transit Authority Debt | 2014 | 5.0%-6.0% | 17,091 | 1,071 |
| Purchase of City of Boston Transit Properties | 2014 | 5.25%-5.75% | 7,410 | 655 |
| Construction Bonds | 2002, 2008 | 5.00%-5.75% | 3,650 | 915 |
| Total Boston Metropolitan District Bonds payable | | | 28,151 | 2,641 |
| Revenue Bonds: | | | | |
| 2000 Series A Assessment Bonds dated August 1, 2000 | 2030 | 4.9%-5.75% | 496,645 | — |
| 2000 Series A Senior Sales Tax Bonds dated August 1, 2000 | 2030 | 4.4%-5.7% | 103,355 | — |
| Total Revenue Bonds payable | | | 600,000 | — |
| Total bonds payable | | | 3,875,171 | |
| Less current maturities | | | 112,321 | |
| Total long-term bonds payable | | | 3,762,850 | |
| Less: | | | | |
| Unamortized discount | | | 52,173 | |
| Unamortized losses on refundings | | | 138,540 | |
| Total long-term bonds payable, net | | | $ 3,572,137 | |

The annual maturities of long-term bonds payable as of June 30, 2002 are as follows:

| | Principal | Interest |
|---|---|---|
| 2003 | $ 112,321 | 210,860 |
| 2004 | 88,535 | 204,891 |
| 2005 | 94,315 | 200,229 |
| 2006 | 115,165 | 196,891 |
| 2007 | 130,795 | 192,820 |
| 2008 – 2012 | 779,345 | 838,467 |
| 2013 – 2017 | 794,635 | 603,078 |
| 2018 – 2022 | 807,580 | 387,023 |
| 2023 – 2027 | 671,205 | 175,775 |
| 2028 – 2032 | 281,275 | 32,036 |
| Total | $ 3,875,171 | 3,042,070 |

(Dollars in thousands)

A summary rollforward of bonds follows:

| | Balance 2001 | Additions | Payments | Balance 2002 |
|---|---|---|---|---|
| General Transportation | $ 3,495,450 | — | 248,430 | 3,247,020 |
| Boston Metropolitan District | 30,825 | — | 2,674 | 28,151 |
| Revenue | 600,000 | — | — | 600,000 |
| | $ 4,126,275 | — | 251,104 | 3,875,171 |

For debt that existed on the Authority's books prior to July 1, 2000, the guarantee of the Commonwealth will continue to be in effect until the debt is paid off. However, the Authority will not be subsidized for the future principal and interest payments due on this debt. After June 30, 2000, the Authority no longer has the ability to issue debt supported by the guarantee of the Commonwealth unless authorized by special legislation. Instead, the Authority has the ability to issue its own general obligation debt and revenue debt.

The following funds included in restricted assets at June 30, 2002 are in connection with the Authority's revenue bond trust agreements:

| | Assessment bonds | Sales tax bonds |
|---|---|---|
| Debt service | $ 12,745 | 2,947 |
| Debt service reserve | 45,100 | 4,023 |

The minimum required balances in the debt service reserve funds at June 30, 2002 were $45,100 for the assessment bonds and $4,023 for the sales tax bonds. In addition, the Authority collected $813,708 in pledged revenue ($669,409 in dedicated sales tax receipts and $144,299 in local assessments). Finally, the Authority has complied with its other material financial bond covenants.

***(b) Debt Refundings***

***Prior Year***

In prior years, the Authority defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds 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, 2002, $1,800,000 of these bonds, considered defeased in-substance, are still outstanding.

(Dollars in thousands)

***Current Year***

During fiscal 2002, the Authority used available proceeds to defease $135,300 of future debt maturities from various issues outstanding at June 30, 2001. The refundings qualified as "in-substance" defeasances. However, since new bonds were not issued to refund the debt, there is no difference in cash flows between the old and new bonds. The loss (the difference between the net book value of the debt and the amount paid to defease that debt) on the refundings was approximately $9.7 million and is included in the statement of revenues, expenses and changes in net assets.

***(c) Certificates of Participation***

The Authority issued Certificates of Participation (COPs) of $28,565 on December 15, 1988 and $85,795 on August 30, 1990. For purposes of reporting under generally accepted accounting principles, the long-term portion of these COPs has been classified as "Other noncurrent obligations" in the accompanying balance sheet, for $3,410 at June 30, 2002. Previously, these future debt service payments, if appropriated, on the COPs would be 90% reimbursable from the Commonwealth. Under the Forward Funding legislation effective July 1, 2000, these COP payments are not reimbursable from the Commonwealth. However, these COPs will continue to be guaranteed by the Commonwealth.

A rollforward of the COPs for the year ended June 30, 2002 is as follows:

| | |
|---|---|
| Outstanding – June 30, 2001 | $ 5,960 |
| Payments | (1,410) |
| Outstanding – June 30, 2002 | $ 4,550 |

The remaining COPs outstanding bear interest at rates ranging from 7.3% to 7.8% and mature as follows:

| | Principal | Interest |
|---|---|---|
| 2003 | $ 1,140 | 353 |
| 2004 | 1,140 | 264 |
| 2005 | 1,135 | 176 |
| 2006 | 1,135 | 88 |
| | 4,550 | $ 881 |
| Less current maturities | 1,140 | |
| Total long-term COPs payable | $ 3,410 | |

The remaining outstanding principal balance of COPs that were defeased in-substance in prior years is $9,075 at June 30, 2002.

### *(d) Interest Rate Swap*

In fiscal 2000, the Authority entered into an interest rate swap agreement for its General Transportation System Bonds, Variable Rate Demand Obligations, 2000 Series (the 2000 Bonds). The interest rate swap matures in fiscal 2006. Under this agreement, the Authority pays to the swap counterparty fixed interest rates of 4.9284% on a notional amount equal to the total outstanding principal of the 2000 Bonds. The swap counterparty pays interest on the same notional amount based on the *BMA Municipal Swap Index* (BMA). Only the net difference is exchanged with the counterparty. The Authority continues to pay interest to the holders of the 2000 Bonds at the variable rate provided by the bonds. However, during the term of the swap agreement, to the extent that the BMA is equivalent to the variable interest rate on the 2000 Bonds, the Authority effectively pays a fixed rate on the 2000 Bonds. The Authority will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. Because this transaction occurred prior to July 1, 2000, the Commonwealth is liable to make the swap payments to the extent the dedicated revenues of the Authority are insufficient. During fiscal 2002, the aggregate net payments payable by the Authority to the counterparty under the terms of the swap were $4,900 and are recorded in interest expense.

In fiscal 2001, the Authority sold an option to a counterparty to enter into a future swap agreement. The option was in an initial notional amount of $219,255. The option may be exercised on February 1, 2003. If exercised, the Authority may issue bonds (the hedged bonds) in an amount equal to the notional amount of the option in order to refund a portion of its General Transportation System Bonds (1992 Series B). The hedged bonds will be issued to bear interest at a variable rate. If exercised, the Authority will enter into a swap agreement pursuant to which it pays a fixed rate of 5.27% on the notional amount and receives a floating rate equal to BMA. The swap agreement would terminate on March 1, 2021, the final maturity of the hedged bonds. From the sale of this option, the Authority received $3,000 in August 2001 and $5,362 in July 2002. The $3,000 was included in deferred revenue and is being amortized over the swap term.

In fiscal 2001, the Authority sold an option to a counterparty to enter into a future swap agreement. The option is in a notional amount of $49,123, which is equal to the aggregate amount on deposit in the Debt Service Reserve Funds for the Assessment Bonds, 2000 Series A and Senior Sales Tax Bonds, 2000 Series A. The option may be exercised from July 1, 2010 through January 1, 2030. If exercised, the Authority will enter into a swap agreement pursuant to which it pays a floating rate equal to BMA on the notional amount and receives a fixed rate of 5.60%. The swap agreement would terminate on July 1, 2030. From the sale of this option, the Authority received $1,265 on July 2, 2001. This amount was included in deferred revenue and is being amortized over the swap term.

In fiscal 2002, the Authority entered into a five-year option for a swap agreement effective from September 1, 2005 up to September 1, 2010 to execute a new swap agreement in connection with the 2000 Bonds after the existing one expires. If exercised, the Authority will enter into a swap with a counterparty under which the Authority will pay a fixed interest rate of 5% and receive a floating rate equal to 67% of LIBOR. The swap agreement would terminate on March 1, 2030, the final maturity of the 2000 Bonds. From the sale of this option, the Authority will receive $5,663 in August 2003 and $6,388 in August 2005.

In fiscal 2002, the Authority sold an option to a counterparty to enter into a future swap agreement. The option was in an initial notional amount of $87,805. The option may be exercised from September 1, 2003 up to September 1, 2005. If exercised, the Authority may issue bonds (the hedged bonds) in an amount equal to the notional amount of the option in order to refund a portion of its General Transportation System Bonds (1993 Series A). The hedged bonds will be issued to bear interest at a variable rate. If exercised, the Authority will enter into a swap agreement pursuant to which it pays a fixed rate of 5.2% on the notional amount and receives a floating rate equal to BMA. The swap agreement would terminate on March 1, 2022, the final maturity of the hedged bonds. From the sale of this option, the Authority will receive $4,338 on August 1, 2006.

In fiscal 2002, the Authority sold an option to a counterparty to enter into a future swap agreement. The option was in an initial notional amount of $79,645. The option may be exercised from September 1, 2009 up to September 1, 2011. If exercised, the Authority may issue bonds (the hedged bonds) in an amount equal to the notional amount of the option in order to refund a portion of its General Transportation System Bonds (1999 Series A). The hedged bonds will be issued to bear interest at a variable rate. If exercised, the Authority will enter into a swap agreement pursuant to which it pays a fixed rate of 5.61% on the notional amount and receives a floating rate equal to BMA. The swap agreement would terminate on March 1, 2030, the final maturity of the hedged bonds. From the sale of this option, the Authority will receive $4,140 on August 1, 2005.

## (6) Deferred Revenue

The deferred revenue amount relates principally to a settlement received from a supplier of green line cars. The deferral will be amortized over a remaining life of 9 years.

## (7) 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 provide retirement, disability and death benefits. Both plans issue a publicly available financial report that includes financial statements and required supplementary information for that plan. The MBTA Retirement Plan report may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Plan may be obtained by writing to P.O. Box 6807, Boston, MA 02102 or by calling 1-800-281-0063.

(Dollars in thousands)

The MBTA Deferred Compensation 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 Authority created a new Qualified Deferred Compensation Plan effective January 1, 2001. The Plan is designed to supplement the Authority's Retirement Fund (Main Fund). Covered employees include all actively employed nonunion employees who are participating in the Authority Main Fund or the Police Association Retirement Plan. Employees are eligible after five years with the Authority, if they have reached age 30 and are paid as part of the executive payroll. The Plan currently provides benefits for 103 retirees. An actuarial valuation was performed on this plan; however, the cost of this plan to the Authority for fiscal 2002 was minimal and no contributions were made to this Plan in fiscal 2002.

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

The Board of Trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members to contribute 4% with the Authority currently paying an amount equal to approximately 6.23% of total payroll. The actuarial required contribution rate for the Authority was 6.11%. The contribution requirements for the Police Association Plan were 8.63% for the Authority and 4.12% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made to this Plan in 2002 were in accordance with these contribution requirements.

Deferred Compensation contributions are made on a "pay-as-you-go" basis. The Authority's annual pension cost for the current year and related information for each plan is as follows:

| Pension | MBTA Retirement Plan | MBTA Police Association Plan | Deferred Compensation Plan |
|---|---|---|---|
| Annual pension cost – Authority | $ 18,683 | 1,014 | 4,226 |
| Contributions made – Authority | $ 21,538 | 971 | 3,724 |
| Actuarial valuation date/update | 06/30/02 | 06/30/02 | 07/01/01 |
| Actuarial cost method | Entry age | Entry age | Entry age |
| Amortization method | Level dollar | Level dollar | Level dollar |
| Amortization period remaining | 34 years | 13 years | 34 years |
| Asset valuation method average | 5 year moving | Market value | None |
| Actuarial assumptions: | | | |
| Interest rate | 7.25% | 7% | 8% |
| Projected salary increases | 5% | 5.5% | 5% |

(Dollars in thousands)

Changes in the net pension assets (obligation) for these plans follows:

| Pension | | MBTA Retirement Plan | MBTA Police Association Plan | Deferred Compensation Plan |
|---|---|---|---|---|
| Net pension asset (obligation) – beginning of year | $ | 992 | 460 | (4,811) |
| Annual pension cost | | (18,683) | (1,014) | (4,226) |
| Contributions | | 21,538 | 972 | 3,724 |
| Net pension asset (obligation) – end of year | $ | 3,847 | 418 | (5,313) |

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

| | Year ending | | Annual pension cost (APC) | Percentage of APC contributed | | Net pension asset (obligation) |
|---|---|---|---|---|---|---|
| MBTA Retirement Plan | | | | | | |
| | 06/30/00 | $ | 26,391 | 111% | $ | 711 |
| | 06/30/01 | | 22,051 | 101% | | 992 |
| | 06/30/02 | | 18,683 | 115% | | 3,847 |
| MBTA Police Association Plan | | | | | | |
| | 06/30/00 | | 805 | 123% | | 347 |
| | 06/30/01 | | 837 | 114% | | 460 |
| | 06/30/02 | | 1,014 | 96% | | 418 |
| MBTA Deferred Compensation Plan | | | | | | |
| | 06/30/00 | | 2,569 | 128% | | (5,688) |
| | 06/30/01 | | 2,525 | 135% | | (4,811) |
| | 06/30/02 | | 4,227 | 88% | | (5,313) |

### (c) *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 which require approval from the Authority's General Manager. The Plan requires members to contribute 4% of total covered payroll with the Authority contributing 8%. The Plan has approximately 298 members at June 30, 2002, and the cost of the Plan to the Authority was $914 for fiscal year 2002. Member contributions vest to

(Dollars in thousands)

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.

### *(d) Other Post-Employment Benefits*

The Authority pays 100% of health insurance to retired employees eligible under the Deferred Compensation Savings Plan, MBTA Retirement Plan and MBTA Police Association Plan. These benefits are expensed on a current (pay-as-you-go) basis. There are approximately 6,088 retired employees eligible to receive post-retirement benefits at June 30, 2002. The cost of these benefits was approximately $33,175 in fiscal 2002.

## (8) Lease Obligations

### *(a) Lease-in/Lease-out*

In prior years the Authority entered into various lease/sublease financing arrangements for heavy rail, commuter rail cars and buildings. These agreements provide for the lease of the property and equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for various periods. At the time of these transactions, the Authority deposited funds with a financial institution sufficient to meet all of its payment obligations under the terms of the lease and acquired United States Treasury Strips which would mature to an amount sufficient to satisfy each agreement's purchase option provided for in the leases. Because these transactions do not meet the criteria for an "in-substance defeasance," the funds on deposit, United States Treasury Strips, and the related lease liability have been included in the accompanying financial statements.

### *(b) Cross-Border Leases*

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

Transportation property and facilities under capital leases is summarized as follows and is included in transportation property in service (see note 2(c)) at June 30, 2002:

| | | |
|---|---|---|
| Ways and structures | $ | 297,335 |
| Rail cars | | 366,373 |
| Buses | | 35,783 |
| | | 699,491 |
| Less accumulated depreciation | | (192,185) |
| Net transportation property in service under capital lease | $ | 507,306 |

(Dollars in thousands)

The following is a schedule by year of future minimum lease payments under the lease-in/lease-out and cross-border lease arrangements together with the present value of net minimum lease payments as of June 30, 2002:

| | | |
|---|---|---|
| Fiscal year: | | |
| 2003 | $ | 46,773 |
| 2004 | | 48,474 |
| 2005 | | 41,383 |
| 2006 | | 42,418 |
| 2007 | | 47,829 |
| 2008 – 2012 | | 296,491 |
| 2013 – 2017 | | 224,691 |
| 2018 – 2022 | | 94,080 |
| | | 842,139 |
| Less amount representing interest | | (293,666) |
| Present value of net minimum lease payments | | 548,473 |
| Less current principal maturities | | (14,489) |
| Obligations under capital leases | $ | 533,984 |

The long-term liability for these leases changed as follows:

| | | |
|---|---|---|
| Outstanding – June 30, 2001 | $ | 548,730 |
| Net change in obligation | | (257) |
| Outstanding – June 30, 2002 | $ | 548,473 |

### *(c) Operating Leases*

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

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

(Dollars in thousands)

Future minimum operating lease payments are as follows:

| | | |
|---|---|---|
| Fiscal year: | | |
| 2003 | $ | 14,071 |
| 2004 | | 13,651 |
| 2005 | | 12,804 |
| 2006 | | 13,070 |
| 2007 | | 13,439 |
| 2008 – 2012 | | 63,423 |
| 2013 – 2017 | | 7,520 |
| | $ | 137,978 |

## (9) Capital Assets

Capital assets at June 30, 2002 are as follows:

| | | Beginning balance | Increases | Decreases | Ending balance |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ | 268,220 | 1,371 | — | 269,591 |
| Construction work in progress | | 725,163 | 412,411 | 268,243 | 869,331 |
| Total capital assets not being depreciated | | 993,383 | 413,782 | 268,243 | 1,138,922 |
| Other capital assets: | | | | | |
| Ways and structures | | 6,022,401 | 188,425 | — | 6,210,826 |
| Buildings and equipment | | 1,668,146 | 78,446 | 1,855 | 1,744,737 |
| Total other capital assets at historical cost | | 7,690,547 | 266,871 | 1,855 | 7,955,563 |
| Less accumulated depreciation for: | | | | | |
| Ways and structures | | 1,665,379 | 132,707 | — | 1,798,086 |
| Buildings and equipment | | 723,329 | 77,255 | 1,855 | 798,729 |
| Total accumulated depreciation | | 2,388,708 | 209,962 | 1,855 | 2,596,815 |
| Other capital assets, net | | 5,301,839 | 56,909 | — | 5,358,748 |
| Capital assets, net | $ | 6,295,222 | 470,691 | 268,243 | 6,497,670 |

(Dollars in thousands)

## (10) Risk Management

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

Buildings are fully insured to the extent that losses exceed $100 per incident. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss, and health insurance. The Authority pays 85% of all health premiums up to a maximum of $200 per individual for all Blue Cross plans and $100 per individual for Harvard and Tufts plans. Stop loss insurance is carried on health insurance claims in excess of these amounts per individual per illness.

The Authority self-funds a $5,000 per occurrence deductible for general liability. The Authority has a program of excess public liability insurance to provide for $70,000 of layered coverage on a per-accident 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. The deductible for general liability was raised to $7,500 and the excess public liability was reduced to $67,500 after year-end.

During fiscal 2002, expenditures for claims and judgments, excluding worker's compensation and health and life, were $17,773. Expenditures for claims related to worker's compensation were $12,970 and expenditures for the self-insured health plans were $83,908.

GASB Statement No. 10 requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities as accrued expenses as of June 30, 2002 and 2001. Changes in the self-insurance liabilities in fiscal 2002 and 2001 were as follows:

| | | 2002 | 2001 |
|---|---|---|---|
| Liability, beginning of year | $ | 69,476 | 60,846 |
| Provisions for claims | | 114,651 | 90,958 |
| Payments | | (97,483) | (82,328) |
| Liability, end of year | $ | 86,644 | 69,476 |

The liability at year-end includes $43,398 for worker's compensation, $12,615 for health claims, and $30,631 for injuries and damages.

(Dollars in thousands)

## (11) Commitments and Contingencies

### *(a) Capital Investment Program*

The Authority's continuing program for mass transportation development has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2002, 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, 2002 | Unexpended costs |
|---|---|---|---|---|
| Federal grants | $ | 3,576,778 | 3,423,217 | 153,561 |
| State and local sources | | 400,036 | 354,863 | 45,173 |
| Authority bonds | | 4,932,710 | 4,125,319 | 807,391 |
| Total | $ | 8,909,524 | 7,903,399 | 1,006,125 |

The Authority is presently authorized by law to issue bonds for capital purposes other than refunding, to an amount not exceeding $5,256,300 outstanding at any time. Such bonds outstanding as of June 30, 2002, amounted to $2,650,000.

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 Transportation Equity Act for the 21st Century. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Department of Transportation. In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

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

The Authority has entered into several long-term contracts to purchase coaches, locomotives, and rapid transit cars. Unpaid amounts under these contracts total approximately $448,934 at June 30, 2002.

***(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, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

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

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Required Supplementary Information

June 30, 2002

(Unaudited)

(Dollars in thousands)

**MBTA Retirement Plan**

| | Actuarial value of assets (a) | Actuarial accrued liability (AAL) (b) | (Funded) unfunded AAL (UAAL) (b-a) | Funded ratio (a/b) | Covered payroll (c) | UAAL as a percentage of covered payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| Year ended December 31: | | | | | | |
| 1995 | $ 1,050,103 | 1,198,745 | 148,642 | 87.60% | $ 261,953 | 56.74% |
| 1996 | 1,138,225 | 1,237,705 | 99,480 | 91.96 | 257,141 | 38.69 |
| 1997 | 1,254,695 | 1,268,938 | 14,243 | 98.88 | 254,723 | 5.59 |
| 1998 | 1,389,496 | 1,410,753 | 21,257 | 98.49 | 274,661 | 7.74 |
| 1999 | 1,578,162 | 1,477,993 | (100,169) | 106.78 | 284,677 | (35.19) |
| 2000 | 1,757,327 | 1,533,284 | (224,043) | 114.61 | 301,132 | (74.40) |

**Deferred Compensation Plan**

The Deferred Compensation Plan is not currently funded; however, management intends to start funding the plan. As a result, the normal Schedule of Funding Progress would show no provision having been made for the cost of this plan.

**MASSACHUSETTS BAY TRANSPORTATION AUTHORITY**

Required Supplementary Information

June 30, 2002

(Unaudited)

(Dollars in thousands)

**Deferred Compensation Plan (continued)**

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) |
|---|---|---|---|---|---|---|
| 07/01/96 | $ 30,234 | 7,887 | 22,347 | 26.1% | 73.9% | $ 27,779 |
| 07/01/97 | 29,827 | 7,562 | 22,265 | 25.4 | 74.6 | 27,779 |
| 07/01/98 | 29,881 | 7,029 | 22,852 | 23.5 | 76.5 | 31,299 |
| 07/01/99 | 29,225 | 6,413 | 22,812 | 21.9 | 78.1 | 31,299 |
| 07/01/00 | 28,357 | 5,688 | 22,669 | 20.1 | 79.9 | 34,507 |
| 07/01/01 | 40,509 | 4,708 | 35,796 | 11.6 | 88.4 | 34,590 |

Information about the unrecognized actuarial accrued liability for this plan for other years is currently not available.

**Police Association Retirement Plan**

| Valuation date | Actuarial value of assets (a) | Actuarial accrued liability (b) | (Funded) unfunded actuarial accrued liability (c) (b)-(a) | Funded ratio (d) (a)/(b) | Covered payroll (e) | UAAL as a percentage of covered payroll (c/e) |
|---|---|---|---|---|---|---|
| 12/31/96 | $ 17,730 | 17,851 | 121 | 99.3% | $ 7,517 | 1.6% |
| 12/31/97 | 21,676 | 19,527 | (2,149) | 111.0 | 7,186 | (29.9) |
| 12/31/98 | 25,440 | 23,596 | (1,844) | 108.0 | 7,534 | (24.5) |
| 12/31/99 | 30,078 | 22,511 | (7,567) | 133.6 | 8,391 | (90.1) |

Information about the unrecognized actuarial accrued liability for this plan for other years is currently not available.