MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Financial Statements and Required Supplementary Information

June 30, 2004 and 2003

(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 statements 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, 2004 and 2003, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 9 and the historical pension information on pages 44 and 45 are not required parts of the financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued a report dated November 23, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in assessing the results of our audits.

KPMG LLP

November 23, 2004

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 years ended June 30, 2004 and 2003.

Financial Statements

Our 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 financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. These are followed by notes to the financial statements. In addition to the financial statements, this report also contains required supplementary information pertaining to the retirement plans of the Authority.

> The statements of net assets present information on the Authority's 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 statements of revenue, expenses and changes in net assets report the operating revenues and expenses and nonoperating revenues and expenses of the Authority for each fiscal year with the difference – the increase in net assets – being combined with any capital grants to determine the net change in assets for the fiscal year. That change combined with the net assets from the end of the previous year equals the net assets at the end of the fiscal year.
>
> The statements of cash flows report cash and cash equivalent activities for each 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 balance of cash and cash equivalents total to the cash and cash equivalent balance at the end of the fiscal year.

(Dollars in thousands)

Condensed Financial Information

Condensed financial information from the statements of net assets and revenues as of June 30, 2004, 2003 and 2002 and expenses and changes in net assets for the years ended June 30, 2004, 2003 and 2002 are as follows:

		June 30		
		2004	**2003**	**2002**
Current and other assets	$	1,344,105	1,291,872	1,120,368
Capital assets, net		7,115,024	6,700,124	6,497,670
Total assets		8,459,129	7,991,996	7,618,038
Current liabilities		443,871	405,711	431,956
Long-term liabilities		4,821,691	4,498,611	4,141,557
Total liabilities		5,265,562	4,904,322	4,573,513
Net assets:				
Invested in capital assets, net of related debt		3,062,161	2,939,502	2,891,730
Restricted		31,651	20,848	11,746
Unrestricted		99,755	127,324	141,049
Total net assets	$	3,193,567	3,087,674	3,044,525
Operating revenue:				
Revenue from transportation	$	295,496	274,206	283,288
Other		49,440	43,361	37,831
Total operating revenues		344,936	317,567	321,119
Operating expenses:				
Transportation services		481,635	421,286	436,026
Other operating expenses		406,678	387,795	360,943
Total operating expenses, excluding depreciation		888,313	809,081	796,969
Depreciation and amortization		249,087	233,061	220,671
Total operating expenses, including depreciation		1,137,400	1,042,142	1,017,640
Operating loss		(792,464)	(724,575)	(696,521)
Net nonoperating revenue/expense		665,739	642,253	613,900
Loss before capital grants		(126,725)	(82,322)	(82,621)
Capital grants and contributions		232,618	125,471	137,936
Increase in net assets		105,893	43,149	55,315
Beginning of year net assets		3,087,674	3,044,525	2,989,210
End of year net assets	$	3,193,567	3,087,674	3,044,525

The information contained in the condensed financial information table is used as the basis for the following discussion regarding the Authority's financial activities for the fiscal years ended June 30, 2004, 2003 and 2002.

Financial Highlights for the years ended June 30, 2004 and June 30, 2003

- The Authority ended the years June 30, 2004 and 2003 with a net asset balance of $3,193,567 and $3,087,674 of which $3,062,161 and $2,939,502 represented the amount invested in capital assets, net of related debt, and $99,755 and $127,324 was unrestricted, respectively. The net asset balance increased $105,893 and $43,149 in the years ended 2004 and 2003, respectively. The increase in net assets is attributable to increased transportation revenues and significant capital grants received by the Authority in fiscal 2004 and 2003.
- Despite the increase in net assets, the Authority incurred an expected operating loss for the years ended June 30, 2004 and 2003 of $792,464 and $724,575, respectively. The operating losses were offset in accordance with the Commonwealth of Massachusetts Forward Funding Legislation (Chapter 127 of the Acts of 1999 of the Commonwealth or Enabling Act). The legislation allows the Authority to receive a dedicated revenue stream consisting of the assessments on the communities in the Authority's service area and a Dedicated Sales Tax. For both years ended June 30, 2004 and 2003 the Authority recognized $684,280 of sales tax revenues from the Commonwealth of Massachusetts. This amount was the guaranteed full year Base Revenue Amount. Local assessments on cities and towns within the Authority's service area accounted for $139,437 and $141,143 in nonoperating revenue in 2004 and 2003, respectively. Adding to the operating loss was interest expense, net of investment and other income of $157,978 and $183,170, respectively, in 2004 and 2003.
- 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 years June 30, 2004 and 2003 with cash and investments of approximately $1,151,000 and $1,089,000, respectively. However, only $146,423 and $161,630 of this amount at June 30, 2004 and 2003, respectively, is available for operations as the bulk of these assets are restricted for specific purposes and unavailable for the Authority's general use.
- The statements of cash flows identify the sources and uses of cash for each fiscal year. For fiscal 2004 and 2003, cash and cash equivalents increased by $61,886 and $162,037, respectively. This increase resulted primarily from the receipt of sales taxes and local assessments of $826,842 and $818,475 for the years ended June 30, 2004 and 2003, respectively. These increases were offset by $523,972 and $493,740 of cash used for operations and the cash used for financing of $270,144 and $180,027 for the years ended June 30, 2004 and 2003, respectively.

(Continued)

Financial Highlights for the years ended June 30, 2003 and June 30, 2002

- The Authority ended the years June 30, 2003 and 2002 with a net asset balance of $3,087,674 and $3,044,525, respectively, of which $2,939,502 and $2,891,730 represented the amount invested in capital assets and $127,324 and $141,049 were unrestricted. This amount was $43,149 higher than the net asset balance at the beginning of fiscal 2003. The increase in net assets of $43,149 and 55,315 in 2003 and 2002, respectively, is attributable to the investment in capital assets funded through grants received by the Authority in those years.

- Despite the increase in net assets, the Authority incurred an expected operating loss for the years ended June 30, 2003 and 2002 of $724,575 and $696,521, respectively. The operating losses were offset in accordance with the Commonwealth of Massachusetts Forward Funding Legislation (Chapter 127 of the Acts of 1999 of the Commonwealth or Enabling Act). The legislation allows the Authority to receive a dedicated revenue stream consisting of the assessments on the communities in the Authority's service area and a Dedicated Sales Tax. For the years ended June 30, 2003 and 2002, the Authority recognized $684,280 and $664,350, respectively, of sales tax revenues from the Commonwealth of Massachusetts. This amount was the guaranteed full year Base Revenue Amount for both years. Local assessments on cities and towns within the Authority's service area accounted for another $141,143 and $142,873 in nonoperating revenue in 2003 and 2002, respectively. Adding to the operating loss was nonoperating interest expense, net of investment and other income of $183,170 and $183,631, respectively, in 2003 and 2002.

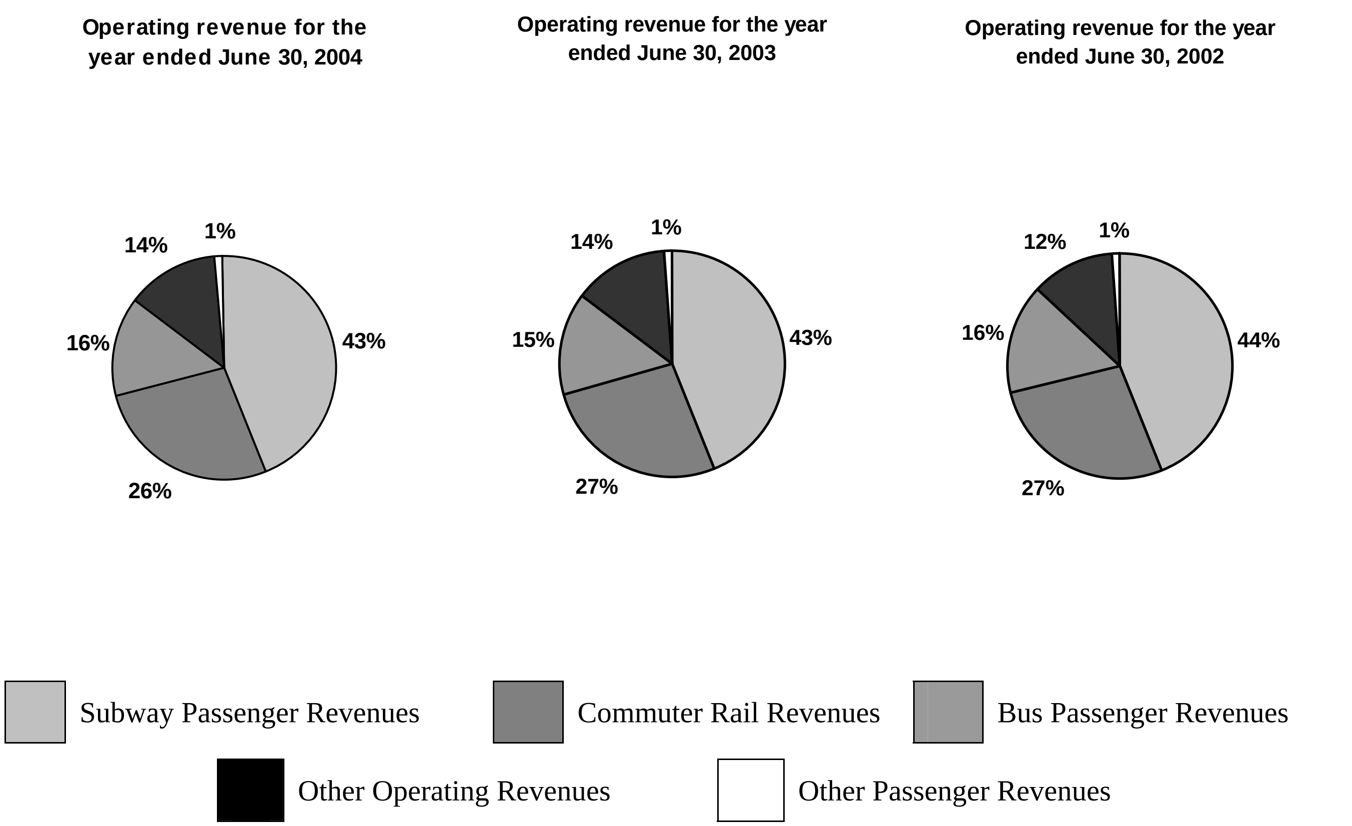
- The Authority has taken steps to minimize interest expense by reducing the amount of high interest rate debt by refunding outstanding bonds and paying off debt as funds become available.

- The Authority ended the years with cash and investments of approximately $1,089,000 and $927,000, respectively, for 2003 and 2002. However, only $161,630 and $188,188 of these amounts are 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 for the fiscal year. For fiscal 2003, cash and cash equivalents increased by $162,037. This increase resulted primarily from the receipt of sales taxes and local assessment of $818,475. This positive cash flow was offset by a cash usage in capital financing and operating activities. The cash used in capital financial activities consisted of $727,675 raised through bond issuances and $120,480 from capital grants reduced by the spending activity in the Authority's capital investment program of $387,491 and debt service of $640,120. The cash operating deficit for 2003 was $493,740. For fiscal 2002, cash and cash equivalents decreased by $364,074. The decrease is due in part to servicing of principal and interest which accounted for approximately $464,000. The Authority also expended $376,191 for additions to transportation property. The $472,471 cash used for operations during fiscal 2002 is offset by the sales tax and local assessment receipts of $813,708.

Revenue

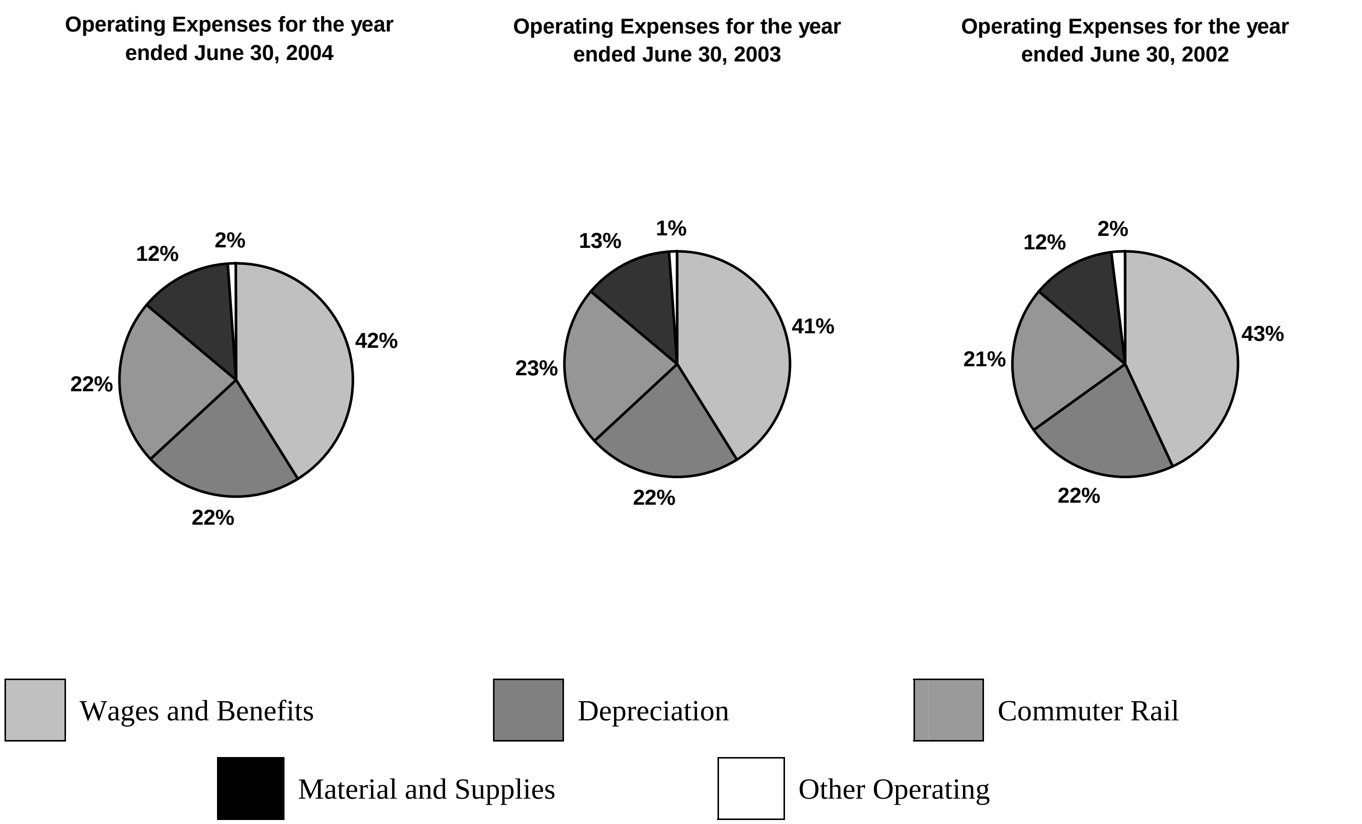
The following charts show the major sources of operating revenue for the years ended June 30, 2004, 2003, and 2002:



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 nonfare revenue opportunities.

Expenses

The following charts show the major sources of operating expenses for the years ended June 30, 2004, 2003, and 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 significant 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. The Authority has taken such measures as bidding and contracting with a new commuter rail provider and utility companies to obtain competitive pricing. The Authority also entered into a fuel hedge agreement to contain the overall cost of fuel. This fuel hedge expired on June 30, 2004.

(Dollars in thousands)

Capital Assets

The Authority's capital assets as of June 30, 2004, 2003, and 2002 amounted to $7,115,024, $6,700,124, and $6,497,670 (net of accumulated depreciation) respectively. This investment in capital assets includes land, construction work in progress, ways and structures and buildings and equipment.

Net capital asset additions included the following for the years ended June 30:

		2004	2003	2002
Land	$	37,222	24	1,371
Construction work in progress		243,503	149,193	144,168
Ways and structures		185,133	197,590	188,425
Buildings and equipment		180,972	70,013	78,446
	$	646,830	416,820	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 were $368,466, $407,895 and $557,191 for the years ended June 30, 2004, 2003 and 2002, respectively. Commitments to purchase new transportation equipment were $452,422, $662,319 and $448,934 as of June 30, 2004, 2003 and 2002, respectively.

Debt

Bonds outstanding for the following years:

		2004	2003	2002
General Transportation System Bonds	$	2,278,390	2,833,745	3,247,020
Revenue bonds		2,200,865	1,327,675	600,000
Boston Metropolitan District bonds		23,250	25,510	28,151
	$	4,502,505	4,186,930	3,875,171

The total amount for these categories of debt increased by $315,575 and $311,759 for the years ended June 30, 2004 and 2003, respectively, and decreased by $251,104 for the year ended June 30, 2002.

The Authority issued $1,195,725 in bonds during the 2004 fiscal year. Of the bonds issued, $791,510 were used to refund higher-rate debt, and the remaining $404,215 is being used to finance systemwide improvements, vehicle replacements and a commuter rail expansion project. The Authority issued $727,675 in bonds during the 2003 fiscal year. Of the bonds issued, $303,595 were used to refund higher rate debt with the remainder financing system wide improvements and a Vehicle Replacement Program. There was no new debt issued during the year ended June 30, 2002. In fiscal 2002, $135,300 represents debt defeased with available cash funds of the Authority and $115,804 was paid down in accordance with debt service requirements. 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. The Authority's Assessment Bonds have a rating of AAA by Standard & Poor's and Aa1 by Moody's Investor Services. The Authority's Sales Tax Bonds have a rating of AAA by Standard & Poor's and Aa2 by Moody's Investor Services.

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 within this report may be directed to the Deputy General Manager and Chief Financial Officer of the Authority.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Statements of Net Assets

June 30, 2004 and 2003

(Dollars in thousands)

Assets		**2004**	**2003**
Current assets:			
Cash and temporary cash investments (note 3)	$	146,423	161,630
Accounts receivable, net:			
Commonwealth of Massachusetts		98,168	101,290
Federal grants		19,243	12,699
Other trade		17,771	27,806
Materials and supplies		33,768	33,833
Prepaid expenses		4,765	3,011
Total current assets		320,138	340,269
Restricted and other special accounts (notes 2(j) and 3):			
Bond construction accounts		170,947	173,659
Lease accounts		538,098	552,822
Bond reserve accounts		206,841	123,412
Stabilization account		12,408	8,151
Other accounts		76,621	69,778
Total restricted and other special accounts		1,004,915	927,822
Capital assets, at cost (notes 2(c), 8, 9, and 11):			
Transportation property, being depreciated		8,589,271	8,223,166
Transportation property, not being depreciated		1,568,864	1,288,139
Less accumulated depreciation		(3,043,111)	(2,811,181)
Capital assets, net		7,115,024	6,700,124
Other assets:			
Net pension asset (note 7)		—	7,143
Deferred bond issue costs		19,052	16,638
Total other assets		19,052	23,781
Total assets	$	8,459,129	7,991,996

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MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Statements of Net Assets

June 30, 2004 and 2003

(Dollars in thousands)

Liabilities		**2004**	**2003**
Current liabilities:			
Current maturities of bonds payable (note 5)	$	106,735	91,355
Current capital lease and other current obligations (notes 5 and 8)		12,009	18,304
Accounts payable		134,377	109,956
Accrued liabilities:			
Payroll and vacation		21,525	28,120
Interest		80,119	84,045
Injuries and damage claims, worker's compensation claims, and other (note 10)		89,106	73,931
Total current liabilities		443,871	405,711
Long-term liabilities, less current maturities:			
Bonds payable, net (note 5)		4,260,083	3,932,188
Other noncurrent obligations (note 5)		1,135	2,270
Obligations under capital leases (note 8)		527,231	535,658
Pension liability (note 7)		12,867	5,741
Deferred revenue (note 6)		20,375	22,754
Total long-term liabilities		4,821,691	4,498,611
Total liabilities		5,265,562	4,904,322
Net Assets			
Invested in capital assets, net of related debt		3,062,161	2,939,502
Restricted		31,651	20,848
Unrestricted		99,755	127,324
Commitments and contingencies (notes 10 and 11)			
Total net assets	$	3,193,567	3,087,674

See accompanying notes to basic financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

(Dollars in thousands)

		2004	2003
Operating revenue, not including local and federal assistance:			
Revenue from transportation	$	295,496	274,206
Other		49,440	43,361
		344,936	317,567
Operating expenses:			
Wages and related employee benefits:			
Wages		321,386	304,854
Medical and dental insurance		89,363	78,983
Pensions		38,645	22,091
Social security taxes		28,076	26,820
Worker's compensation		19,305	5,912
Other		2,877	403
Capitalized costs		(18,017)	(17,777)
		481,635	421,286
Other operating expenses:			
Depreciation and amortization		249,087	233,061
Materials, supplies, and services		136,045	132,807
Injuries and damages		19,613	13,206
Commuter railroad and local subsidy expenses (note 4)		250,194	239,441
Other		826	2,341
		655,765	620,856
Total operating expenses		1,137,400	1,042,142
Operating loss		(792,464)	(724,575)
Nonoperating revenue (expense):			
Dedicated sales tax revenue		684,280	684,280
Dedicated local assessments		139,437	141,143
Other income		11,917	8,829
Interest income		7,208	5,508
Interest expense		(177,103)	(197,507)
Total nonoperating revenue		665,739	642,253
Loss before capital grants		(126,725)	(82,322)
Capital grants and contributions (note 2(f))		232,618	125,471
Increase in net assets		105,893	43,149
Beginning of year net assets		3,087,674	3,044,525
End of year net assets	$	3,193,567	3,087,674

See accompanying notes to basic financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Statements of Cash Flows

Years ended June 30, 2004 and 2003

(Dollars in thousands)

	2004	2003
Cash flows from operations:		
Receipts from transit customers	$ 295,496	274,206
Receipts from other operations	49,440	43,730
Payments to suppliers and vendors	(510,718)	(424,631)
Payments to employees	(358,190)	(387,045)
Net cash used for operations	(523,972)	(493,740)
Cash flows from capital and related financing activities:		
Cash (used for) provided by:		
Additions to transportation property	(620,654)	(387,491)
Interest paid	(181,029)	(224,204)
Decrease in deferred credits/charges	(2,378)	(5,099)
Payments on long-term debt	(880,150)	(415,916)
Proceeds from bond issuances	1,195,725	727,675
Capital leases	(14,722)	4,348
Capital grants	226,074	120,480
Other	6,990	—
Net cash used for capital and related financing activities	(270,144)	(180,207)
Cash flows from noncapital and related financing activities:		
Sales tax and local assessment	826,842	818,475
Reimbursable payments	10,035	(300)
Other	—	9,301
Net cash provided by noncapital and related financing activities	836,877	827,476
Cash flows from investing activities:		
Interest and other income	19,125	8,508
Net cash provided from investing activities	19,125	8,508
Change in cash, temporary cash investments, restricted, and other special accounts	61,886	162,037
Cash, temporary cash investments, restricted, and other special accounts, beginning of year	1,089,452	927,415
Cash, temporary cash investments, restricted, and other special accounts, end of year	$ 1,151,338	1,089,452
Reconciliation of operating (loss) to net cash (used) by operating activities:		
Operating loss	$ (792,464)	(724,575)
Charges to cost of service not requiring current expenditure of cash:		
Depreciation and amortization	249,087	233,061
Changes in all other working capital accounts except cash, temporary cash investments, and short-term debt	19,405	(2,226)
Net cash used for operations	$ (523,972)	(493,740)

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 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, six have been reappointed with two new appointments. 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 Authority follows the provisions of the Governmental Accounting Standards Board Statement, Nos. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement 34), 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* (Statement 37), and 38, *Certain Financial Statement Note Disclosures* (Statement 38), which establish the financial reporting standards for all state and local government entities.

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.

(Dollars in thousands)

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.

(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, 2004:

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

(d) Construction in Progress

During 2004 and 2003, major construction projects aggregating $395,780 and $276,474, respectively, were completed and transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements and purchases of new rolling stock and other equipment.

Interest on debt used to finance construction that is capitalized as part of the Authority's capital 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 years 2004 and 2003, the net interest cost eligible for capitalization was approximately $25,295 and $32,000, ($26,850 and $35,000 of interest cost offset by $1,555 and $3,000 of interest income), respectively.

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 2004 and 2003 were approximately $13,894 and $15,500, respectively. Amounts owed to the Authority for these costs and prior years costs as of June 30, 2004 and 2003 were approximately $2,983 and $18,100, respectively, and are presented in accounts receivable in the accompanying statements.

(e) Self Insurance

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

(f) Capital Grants and Contributions

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

(g) Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with 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, 2004 and 2003 was approximately $14,363 and $14,744, respectively.

(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 Accounts – represents unexpended bond proceeds.
- Lease Accounts – represents cash held by trustees to be used to pay lease payments on the Authority's defeased capital leases.
- Bond Reserve Accounts – 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.

(Dollars in thousands)

(k) Materials and Supplies

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

(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, 2004 and 2003:

		2004	2003
Construction accounts	$	170,947	173,659
Other accounts		295,870	201,341
Lease accounts		538,098	552,822
Cash and temporary cash investments		146,423	161,630
	$	1,151,338	1,089,452

(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, 2004 and 2003 is as follows:

	2004				
	Category			Total bank balance	Carrying amount
	1	2	3		
Cash and cash equivalents	$ 136,408	—	386,739	523,147	518,360
Not categorized:					
Mass Municipal					
Depository Trust	—	—	—	15,983	15,983
	$ 136,408	—	386,739	539,130	534,343

	2003				
	Category			Total bank balance	Carrying amount
	1	2	3		
Cash and cash equivalents	$ 137,278	—	395,149	532,427	526,586
Not categorized:					
Mass Municipal					
Depository Trust	—	—	—	32,431	32,431
	$ 137,278	—	395,149	564,858	559,017

In 2004 and 2003, outstanding checks largely account for the difference between the bank balance and carrying amount of deposits. The Authority's cash on hand as of June 30, 2004 and 2003 was $3,454 and $1,436, respectively.

(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.

(Dollars in thousands)

A summary of these investments as of June 30, 2004 and 2003 is as follows:

	2004			
	Category 1	Category 2	Category 3	Fair value
U.S. government obligations	$ 169,161	—	—	169,161
Repurchase agreements	—	444,380	—	444,380
	$ 169,161	444,380	—	613,541

	2003			
	Category 1	Category 2	Category 3	Fair value
U.S. government obligations	$ 166,736	—	—	166,736
Repurchase agreements	—	361,570	—	361,570
Common stock	—	—	693	693
	$ 166,736	361,570	693	528,999

The maximum amount of the Authority's uninsured deposits and investments in repurchase agreements was at year-end. 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 agreed to pay AMTRAK a fixed price per year for the services specified in the agreement and its amendments. This agreement was terminated on June 30, 2003 and a new agreement was entered into with Massachusetts Bay Commuter Railroad Company (MBCRC) beginning July 1, 2003 for a period of five years. The Authority will pay MBCRC a total of $1,050,081 over this five-year period. Residual amounts due to or from AMTRAK under the old contract have not yet been determined.

(5) Long-Term Debt

(a) Bonds Payable

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

Debt issued by the Authority and outstanding at June 30, 2000 (prior obligations) is backed by the full faith and credit of the Commonwealth until the debt is paid off. Principal and interest payments on that debt were also subsidized by the Commonwealth prior to June 30, 2000.

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 or new debt of the Authority, unless authorized by special legislation.

During fiscal 2003, the Authority issued Senior Sales Tax Bonds; 2002 Series A for $396,885 and 2003 Series A for $237,415. Principal is payable July 1, 2003 through July 1, 2032 on 2002 Series A and from July 1, 2003 through July 1, 2021 on 2003 Series A. Interest is payable semiannually on July 1st and January 1st on both series. The 2002 Series A were issued to provide funds for the financing of the Authority's capital program. The 2003 Series A were issued to refund $215,790 of the Authority's 1992 Series B GTS Bonds and pay the costs of an interest rate swap termination of $25,295. The economic benefit and cash flows resulting from terminating the swaption and refunding the hedged bonds was determined to be more advantageous to the Authority than to have the swaption exercised.

Also in fiscal 2003, the Authority issued Sales Tax Bonds Series 2003 Series B, payable March 1, 2013 through March 1, 2023. Interest is payable semiannually on March 1st and September 1st. These bonds were issued in two tranches. One tranche is for $50,000 and the other is for $43,375. These bonds were issued to refund $87,805 of the Authority's 1993 Series A GTS bonds. The 2003 Series B bonds are Auction Rate bonds. The Auction Rate is reset every twenty-eight days. The Authority has an interest rate swap arrangement on these bonds with a third party to enable the Authority to pay a fixed rate of 5.20% over the life of the bonds while the third party pays the Authority BMA (Bond Municipal Association) index (a variable rate).

In fiscal 2004, the Authority issued three series of Sales Tax Bonds: 2003 Series C for $255,095, 2004 Series A for $16,630 and the 2004 Series B for $519,785. Principal is payable July 1, 2004 through July 1, 2023 on the 2003 Series C, from July 1, 2004 through July 1, 2016 on the Series 2004 A and from July 1, 2004 through July 1, 2030 on the 2004 Series B Bonds. Interest is payable semiannually on July 1st and January 1st on all three series. All three series were used to refinance higher interest rate debt. The 2003 Series C bonds were issued to refund $111,685 of the Authority's General Transportation System Bonds and $141,230 of Series 2000 A Assessment Bonds. The 2004 Series A bonds were used to refund $17,085 of the Authority's General Transportation System Bonds. Lastly, the 2004 Series B Sales Tax Bonds were used to refund $345,345 of General Transportation System Bonds, $27,655 of Series 2000 A Assessment Bonds, $40,455 of Series 2000

A Sales Tax Bonds and $105,330 of Series 2002 A Sales Tax Bonds. The Authority entered into an interest rate swap with Morgan Stanley Capital Services, Inc. for a notional amount of $25,005, which is equal to the par amount of the 2003 Series C Bonds that matures on July 1, 2020. The swap requires the Authority pay a fixed rate of 4.13% on the notional amount of $25,005, while Morgan Stanley will pay the MBTA a floating rate based on CPI (Consumer Price Index) plus 79 basis points. The swap agreement is not a Qualified Hedge Agreement under the Sales Tax Bond Trust Agreement, so payments resulting from the swap agreement are made to Morgan Stanley from the General Fund and payments received by the Authority are deposited into the Pledged Revenue Fund.

Also in fiscal 2004, the Authority issued Assessment Bonds Series 2004 A for $404,215. Principal is payable on July 1, 2005 through July 1, 2034. Interest is payable semiannually on July 1st and January 1st. The first interest payment on these bonds is January 1, 2005. The 2004 Series A Assessment bonds were issued to refund $188,000 in Bond Anticipation Notes (BANs) and use the remaining proceeds to finance systemwide improvements, vehicle replacements and a commuter rail expansion project.

General Transportation System (GTS) Bonds, all issued prior to July 1, 2000, are payable in annual installments on March 1st; interest is payable semiannually on March 1st and September 1st. 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, 2004:

	Year of maturity	Interest rates	Outstanding principal June 30, 2004	Due in fiscal 2005
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.0-6.6%	$ 12,075	—
1991 Series A Bonds dated November 15, 1991	2021	6.3-7.0%	75,000	—
1992 Series B Refunding Bonds dated December 1, 1992	2021	5.5-6.25%	125,200	—
1992 Series C Bonds dated November 15, 1992	2023	5.6-6.1%	15,575	—
1993 Series A Refunding Bonds dated June 1, 1993	2022	4.9-5.5%	239,080	40,970
1994 Series A Refunding Bonds dated June 1, 1994	2019	5.0-7.0%	177,430	21,705
1994 Series B Bonds dated June 1, 1994	2024	5.4%	4,520	4,520
1995 Series A Bonds dated April 1, 1995	2025	5.0-5.88%	106,240	—
1995 Series B Bonds dated September 15, 1995	2025	4.5-5.38%	123,170	—
1996 Series A Bonds dated March 1, 1996	2026	5.38%	32,805	—
1996 Series B Bonds dated October 1, 1996	2026	5.0-5.25%	72,180	4,335
1997 Series A Bonds dated June 1, 1997	2027	5.0%	56,830	—
1997 Series B Bonds dated August 1, 1997	2014	4.8-5.0%	7,345	585
1997 Series C Bonds dated August 1, 1997	2024	5.0-6.0%	235,915	1,745
1997 Series D Bonds dated November 1, 1997	2027	5.0%	57,160	—
1998 Series A Bonds dated February 15, 1998	2026	4.1-5.5%	299,880	1,175
1998 Series B Bonds dated November 1, 1998	2028	4.1-5.0%	78,310	—
1998 Series C Bonds dated November 1, 1998	2022	5.0-5.5%	229,910	—

(Dollars in thousands)

	Year of maturity	Interest rates	Outstanding principal June 30, 2004	Due in fiscal 2005
1999 Series A Variable Interest Rate Bond dated June 29, 1999	2014	Variable	$ 52,790	3,820
1999 Series A Bond dated December 1, 1999	2030	4.75-6.0%	88,975	—
2000 Series Variable Interest Rate Bond dated March 10, 2000	2030	Variable	188,000	—
Total general transportation system bonds payable			2,278,390	78,855
Boston metropolitan district bonds:				
1993 Series A dated September 1, 1993	2004	4.75%	295	295
1994 Series A dated September 1, 1994	2005	5.3% - 5.5%	3,075	1,555
1998 Series A dated November 1, 1998	2008	4.0% - 4.1%	2,365	400
2002 Series A dated December 1, 2002	2014	5.125% - 5.25%	17,515	—
Total Boston Metropolitan District Bonds payable			23,250	2,250
Revenue bonds:				
2000 Series A Assessment Bond dated August 1, 2000	2030	4.9%-5.75%	327,750	—
2000 Series A Senior Sales Tax Bond dated August 1, 2000	2030	4.4%-5.5%	62,900	3,225
2002 Series A Senior Sales Tax Bond dated November 1, 2002	2032	3.0%-5.25%	285,695	6,735
2003 Series A Senior Sales Tax Bond dated January 29, 2003	2021	2.25%-5.25%	235,420	7,355
2003 Series B Senior Sales Tax Bond dated February 26, 2003	2023	Auction Rate	93,375	—
2003 Series C Senior Sales Tax Bond dated February 3, 2004	2023	2.20%-6.0%	255,095	1,640

(Dollars in thousands)

	Year of maturity	Interest rates	Outstanding principal June 30, 2004	Due in fiscal 2005
2004 Series A Senior Sales Tax Bond dated February 3, 2004	2016	2.20%-5.25%	$ 16,630	95
2004 Series B Senior Sales Tax Bond dated March 9, 2004	2030	2.0%-5.25%	519,785	6,580
2004 Series A Assessment Bond dated June 10, 2004	2034	2.5%-5.25%	404,215	—
Total revenue bonds payable			2,200,865	25,630
Total bonds payable			4,502,505	106,735
Less current maturities			106,735	
Total long-term bonds payable			4,395,770	
Plus:				
Unamortized bond premiums, net			83,244	
Less:				
Unamortized losses on bond refundings, net			(218,931)	
Total long-term bonds payable, net			$ 4,260,083	

The annual maturities of long-term bonds payable as of June 30, 2004 are as follows:

	Principal	Interest
Fiscal years:		
2005	$ 106,735	213,810
2006	88,835	223,704
2007	160,685	219,746
2008	148,885	212,337
2009	152,630	203,702
2010 – 2014	912,715	874,606
2015 – 2019	874,455	618,915
2020 – 2024	993,365	371,085
2025 – 2029	703,605	145,616
2030 – 2034	333,160	15,140
2035	27,435	(1,013)
Total	$ 4,502,505	3,097,648

(Dollars in thousands)

A summary rollforward of bonds for 2004 and 2003 is as follows:

	Balance 2003	Additions	Payments	Balance 2004
General Transportation	$ 2,833,745	—	555,355	2,278,390
Boston Metropolitan District	25,510	—	2,260	23,250
Revenue	1,327,675	1,195,725	322,535	2,200,865
	$ 4,186,930	1,195,725	880,150	4,502,505

	Balance 2002	Additions	Payments	Balance 2003
General Transportation	$ 3,247,020	—	413,275	2,833,745
Boston Metropolitan District	28,151	—	2,641	25,510
Revenue	600,000	727,675	—	1,327,675
	$ 3,875,171	727,675	415,916	4,186,930

The following funds included in restricted assets at June 30, 2004 and 2003 are in connection with the Authority's revenue bond trust agreements:

	2004		2003	
	Assessment bonds	Sales tax bonds	Assessment bonds	Sales tax bonds
Debt service	$ 12,097	68,070	11,996	30,809
Debt service reserve	75,023	51,652	46,044	34,247
	$ 87,120	119,722	58,040	65,056

The minimum required balances in the debt service reserve funds at June 30, 2004 and 2003 were $73,526 and $45,099 for the assessment bonds and $51,217 and $34,139 for the sales tax bonds, respectively. In addition, the Authority collected $826,842 and $818,475 in pledged revenue ($686,977 and $676,646 in dedicated sales tax receipts and $139,865 and $141,829 in local assessments), respectively. Management believes it has complied with its other material financial bond covenants.

(b) Debt Refundings

In current and 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, 2004 and

2003, $1,214,675 and $663,545 of these bonds, considered defeased in-substance, are still outstanding, respectively.

During fiscal 2004, the Authority refunded $111,685 in General Transportation System Bonds and $141,230 of Series 2000 A Assessment Bonds with the proceeds from the issuance of the Senior Sales Tax Bonds, Series 2003 C. The refunding qualified as an "in-substance defeasance." The difference in cash flows between the old and new bonds was approximately $11,427. The net present value or economic gain on the refunding is $12,342. The accounting loss of $32,124 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the old bonds.

Additionally, the Authority refunded $17,085 in General Transportation System Bonds with the proceeds from the issuance of the Senior Sales Tax Bonds, Series 2004 A. The refunding qualified as an "in-substance defeasance." The difference in cash flows between the old and new bonds was approximately $682. The net present value or economic gain on the refunding is $851. The accounting loss of $2,182 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the old bonds.

Lastly, the Authority issued the Senior Sales Tax Series 2004 B Bonds in the amount of $519,785 for the purposes of refunding higher interest rate debt. Proceeds from the 2004 Series B Sales Tax Bonds refunded a portion of five series of General Transportation System bonds in the amount of $345,345. In addition, proceeds were also used to refund $27,665 in 2000 Series A Assessment Bonds, $40,455 in 2000 Series A Sales Tax Bonds and $105,330 in 2002 Series A Sales Tax Bonds. The refunding qualified as an "in-substance defeasance." The difference in cash flows between the old and new bonds was approximately $52,801. The net present value or economic gain on the refunding is $27,097. The accounting loss of $56,327 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the old bonds.

During fiscal 2003, the Authority refunded a portion of the 1992 Series B GTS Bonds with the proceeds of the Senior Sales Tax Bonds, 2003 Series A. The refunding qualified as an "in-substance defeasance." The difference in cash flows between the old and new bonds was approximately $6,282. In addition, the Authority will receive $17,600 from swaption premiums through August 2020, making the net cash flow savings $11,278. The net present value of these savings or economic gain is $9,835. The accounting loss of $26,493 has been deferred and is presented as a reduction in the amount of outstanding debt and will be amortized over the life of the old bonds.

Additionally, the Authority refunded a portion of the 1993 Series A GTS bonds with the proceeds from the Senior Sales Tax Bonds, 2003 Series B. The refunding qualified as an "in-substance defeasance." The difference in net cash flows between the old and new bonds was $1,180. The net present value or economic loss on the refunding is $616. The accounting loss of $12,500 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the old bonds.

(Dollars in thousands)

(c) Certificates of Participation

Outstanding Certificates of Participation (COPs) of the Authority totaled $2,270 and $3,410 at June 30, 2004 and 2003, respectively. Under the Forward Funding legislation effective July 1, 2000, these COP payments are not reimbursable from the Commonwealth. However, the Commonwealth will continue to guarantee the debt until it is repaid.

A rollforward of the COPs for the years ended June 30, 2004 and 2003 is as follows:

Outstanding – June 30, 2002	$	4,550
Payments		(1,140)
Outstanding – June 30, 2003		3,410
Payments		(1,140)
Outstanding – June 30, 2004	$	2,270

The remaining COPs outstanding bear interest at rates ranging from 7.75% to 7.8% and mature as follows:

		Principal		Interest
Fiscal years:				
2005	$	1,135		176
2006		1,135		88
		2,270	$	264
Less current maturities		1,135		
Total long-term COPs payable	$	1,135		

The remaining outstanding principal balance of COPs that were defeased in-substance in prior years is $9,075 at June 30, 2004.

(d) Derivative Investments

The Authority has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps) in order to lower its cost of capital, protect against rising interest rates, lock in interest rate savings, realize refinancing savings according to schedules that suit the Authority’s needs, and to provide the Authority with a stable and predictable cost of fuel. When the Authority has entered into Swaps, the Authority has done so in order to: (1) provide lower cost fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long-term fixed rate returns on invested assets in its required reserve funds; (3) create synthetic refinancing with cash flow savings realized as the Authority designates; or (4) create a synthetic fixed rate for the purchase of vehicular fuel for fixed periods of time rather than being exposed to unpredictable variations in fuel prices on the spot market. All premiums received by the Authority in connection with the swaps/swaptions are deferred and amortized into income over the life of the swap/swaption. Should a swap/swaption be terminated, any unamortized premiums are recognized as income in the period the termination occurs.

(Dollars in thousands)

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Date of execution	Notional amount	Termination date	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Lump-sum payment from counterparty	Counterparty credit rating at June 30, 2004	Fair value at June 30, 2004
June 2000	$ 188,000	2005	GTS Series 2000 VRDO	4.9284%	BMA	$ N/A	A2/A	$ (6,465)
December 2001	87,805	2022	Senior Sales Tax Series 2003 B	5.20%	BMA	4,338 (August 2006)	Aaa/AAA	(5,283)
February 2004	25,005	2020	*Senior Sales Tax Series 2003 C	4.13%	CPI+79 basis points	N/A	Aa3/A+	(157)

* This swap relates only to the July 1, 2020 maturity which has a variable rate of interest.

Swap Payments and Associated Debt. As of June 30, 2004, debt service requirements of the GTS Series 2000 VRDO (2000 Bonds) bonds and net swap payments, applying the fixed rate on the swap of 4.9284% and assuming the BMA rate is 1.08% and the variable rate on the 2000 Bonds is 1.02% through the term of the swap, were as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

Fiscal year ending June 30	2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2005	$ —	1,918	7,235	9,153
2006*	—	320	1,206	1,526

* Through September 1, 2005.

(Dollars in thousands)

As of June 30, 2004, debt service requirements of the 2003 B-1 and 2003 B-2 hedged bonds and net swap payments, applying the fixed rate on the swap of 5.2% and assuming the BMA rate is 1.08% and the variable rate on the 2003 B-1 bonds is 1.38% and 2003 B-2 bonds is 1.25% through the term of the swap, were as follows. As rates vary, variable rate interest rate payments on the 2003 bonds and net swap payments will vary.

Fiscal year ending June 30	2003 B Bonds principal	2003 B Bonds interest	Interest rate swap, net	Total
2005	$ —	1,232	3,618	4,850
2006	—	1,232	3,618	4,850
2007	—	1,232	3,618	4,850
2008	—	1,232	3,618	4,850
2009	—	1,232	3,618	4,850
2010-2014	12,325	6,082	17,840	36,247
2015-2019	37,870	4,401	12,606	54,877
2020-2022	37,610	1,283	3,556	42,449

As of June 30, 2004, debt service requirements on the 2003 Series C Sales Tax bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming the CPI rate of 4.679% plus 79 basis points through the term of the swap, were as follows: As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary:

Fiscal year ending June 30	2003 B Bonds principal	2003 B Bonds interest	Interest rate swap, net	Total
2005	$ —	1,033	(1,368)	(335)
2006	—	1,033	(1,368)	(335)
2007	—	1,033	(1,368)	(335)
2008	—	1,033	(1,368)	(335)
2009	—	1,033	(1,368)	(335)
2010-2014	—	5,164	(6,838)	(1,674)
2015-2019	—	5,164	(6,838)	(1,674)
2020	25,005	775	(1,026)	24,754

(Dollars in thousands)

Swaptions for Forward Refundings

Date of execution of swaption	Notional amount	Lump-sum payment from counter-party	Counter-party option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counter-party credit rating at June 30, 2004	Fair value at June 30, 2004
July 2001	$ 188,000	$ 12,230 (August 2005)	Each March and September from September 2005 through and including March 2010	2030	GTS Series 2000 VRDO	5.000%	67% of one-month LIBOR	Aa2/AA+	$ (11,819)
December 2001	79,645	4,140 (August 2005)	Each March and September from 2009 through and including 2011	2030	GTS Bonds, 1999 Series A maturing 2026 and 2030	5.610%	BMA	Aaa/AAA	(1,070)
* January 2003	123,170	10,833 aggregate (payable in annual installments from 2003 to 2020)	Each March and September from 2005 through and including 2010	2025	GTS Bonds, 1995 Series B maturing 2013 through 2025	5.093%	BMA	Aa2/AA+	(2,091)
* January 2003	96,085	6,728 aggregate (payable in installments from 2003 to 2020)	Each March and September from 2006 through and including 2011	2026	GTS Bonds, 1996 Series A and B maturing 2016 through 2026	5.037%	BMA	Aa2/AA+	(1,285)

* Swap income received in FY'04 of $1,150

These four swaptions are generally exercisable from September 2005 through March 2011.

Asset-Side Swaption for Reserve Investment

Date of execution of swaption	Notional amount	Lump-sum payment from counter-party	Counter-party option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counter-party credit rating at June 30, 2004	Fair value at June 30, 2004
December 2000	$ 49,123	$ 1,265 (July 2001)	January 1st and July 1st from July 2010 through July 2030	2030	Debt Service Reserve Fund for 2000 Assessment and Sales Tax Bonds	5.60%	BMA	Aa2/AA+	$ (2,194)

(Dollars in thousands)

Fuel Hedge

Date	Commodity type	Initial notional amount	Counterparty (ratings – Moody's/S&P)	Price	Trade date	Termination date	Price source
11/01/01	Bus Fuel – LS Jet/Kero	12,200,000 gallons	Aa1/AA	$ 0.6775 per gallon	10/29/01	07/31/03	PLATT's Oilgram Price Report. LS Jet/Kero, Barge.
11/01/01	Rail Fuel – New York Harbor No. 2	13,140,000 gallons	Aa1/AA	0.6390 per gallon	10/29/01	06/30/03	PLATT's Oilgram Price Report. No. 2, Barge.
10/01/03	Bus Fuel – Jet Fuel	3,944,887 gallons	Aa1/AA	0.7925 per gallon	09/12/03	06/30/04	PLATT's Oilgram Price Report. LS Jet/Kero, Barge.
10/01/03	Rail Fuel – Heating Oil	6,318,000 gallons	Aa1/AA	0.7500 per gallon	09/12/03	06/30/04	PLATT's Oilgram Price Report. No. 2, Barge.

Risk Disclosure

Credit Risk. Because all of the Authority's Swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled Fair Value in the tables above. All Fair Values have been calculated using the Mark to Market or Par Value Method. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties for longer term swaps are rated in the double-A category by both Moody's and Standard & Poor's. On the Authority's shorter term swap that expires in September 2005, the counterparty is rated in the single-A category by both rating agencies. To further mitigate credit risk, the Authority's swap documents require counterparties to post collateral for the Authority's benefit if they are downgraded below a designated threshold.

Basis Risk. The Authority is exposed to basis risk if the relationship between the floating index the Authority receives on the swaps (BMA or 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. As of June 30, 2004, the BMA rate was 1.08%, while the variable rate on the 2000 Bonds was 1.02% and the variable rates on the 2003 B-1 hedged bonds and 2003 B-2 hedged bonds were 1.38% and 1.25%, respectively. For the Series 2003 C in the amount of $25,005, the Authority has basis risk should CPI plus 79 basis points fall below the 4.13%. CPI plus 79 basis points as of June 30, 2004 was 5.469%.

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. The Authority views such events to be remote at this time. 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. With the exception of the swap on the 2000 bonds, the Authority is not exposed to rollover risk. Because the swap for the 2000 bonds terminates prior to the maturity of such bonds, the Authority is exposed to rollover risk. Upon the termination of the swap, the Authority will no longer realize the synthetic rate on the 2000 bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place.

Market Access Risk and Potential Basis Risk. In the case of the swaptions, other than one issued in July 2001, if any option is exercised and refunding bonds are not issued, the bonds expected to be refunded would not be refunded and the Authority would make net swap payments as required by the terms of each contract, as set forth above. There is no market access risk for the July 2001 swaption. If any of the options are exercised (and assuming the variable rate bonds are issued in the case of the three synthetic refundings), the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.

(6) 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 7 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.

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 147 retirees. An actuarial valuation was performed on this plan; however, the cost of this plan to the Authority for fiscal 2004 was minimal and no contributions were made to this Plan in fiscal 2004.

(Dollars in thousands)

(a) Funding Policy and Annual Pension Cost

The board of trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members to contribute 4% with the Authority currently paying an amount equal to approximately 7.00% of total payroll. The actuarial required contribution rate for the Authority was 11.47%. The contribution requirements for the Police Association Plan were 13.81% for the Authority and 8.40% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made to this Plan in 2004 and 2003 were in accordance with these contribution requirements.

Deferred Compensation contributions are made on a “pay-as-you-go” basis. The Authority’s annual pension cost for the years ended June 30, 2004 and 2003 and related information for each plan is as follows:

	2004		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**Deferred Compensation Plan**
Annual pension cost – Authority	$ 34,847	$ 1,636	$ 4,392
Contributions made – Authority	$ 21,180	$ 1,500	$ 3,926
Actuarial valuation date/update	06/30/04	06/30/04	07/01/03
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period remaining	32 years	11 years	32 years
Asset valuation method average	5-year moving	4-year smoothing	None
Actuarial assumptions:			
Interest rate	7.25%	7.00%	8.00%
Projected salary increases	5.00%	5.50%	5.00%

(Dollars in thousands)

	2003		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**Deferred Compensation Plan**
Annual pension cost – Authority	$ 18,618	$ 1,303	$ 4,364
Contributions made – Authority	$ 21,914	$ 878	$ 3,840
Actuarial valuation date/update	06/30/03	06/30/03	07/01/02
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period remaining	33 years	12 years	33 years
Asset valuation method average	5-year moving	4-year smoothing	None
Actuarial assumptions:			
Interest rate	7.25%	7.00%	8.00%
Projected salary increases	5.00%	5.50%	5.00%

Changes in the net pension assets (obligation) for these plans for the years ended June 30, 2004 and 2003 are as follows:

	2004		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**Deferred Compensation Plan**
Net pension asset (obligation) – beginning of year	$ 7,143	(7)	(5,734)
Annual pension cost	(34,847)	(1,636)	(4,392)
Contributions	21,180	1,500	3,926
Net pension asset (obligation) – end of year	$ (6,524)	(143)	(6,200)

	2003		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**Deferred Compensation Plan**
Net pension asset (obligation) – beginning of year	$ 3,847	418	(5,210)
Annual pension cost	(18,618)	(1,303)	(4,364)
Contributions	21,914	878	3,840
Net pension asset (obligation) – end of year	$ 7,143	(7)	(5,734)

(Continued)

(Dollars in thousands)

(b) Three-Year Trend Information

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset (obligation)
MBTA Retirement Plan				
	06/30/02	$ 18,683	115%	$ 3,847
	06/30/03	18,618	118%	7,143
	06/30/04	34,847	61%	(6,524)
MBTA Police Association Plan				
	06/30/02	1,014	96%	418
	06/30/03	1,303	67%	(7)
	06/30/04	1,636	92%	(143)
MBTA Deferred Compensation Plan				
	06/30/02	4,227	88%	(5,313)
	06/30/03	4,364	75%	(5,734)
	06/30/04	4,392	89%	(6,200)

(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 286 and 290 members at June 30, 2004 and 2003, respectively, and the cost of the Plan to the Authority was $850 and $848 for fiscal years 2004 and 2003, 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.

(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 were approximately 6,231 and 6,118 retired employees eligible to receive post-retirement benefits at June 30, 2004 and 2003, respectively. The cost of these benefits was approximately $41,153 and $36,361 in fiscal years 2004 and 2003, respectively.

(Dollars in thousands)

(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 capital assets (see note 9) at June 30, 2004 and 2003:

		2004	2003
Ways and structures	$	298,168	297,802
Rail cars		293,526	293,245
Buses		—	35,783
		591,694	626,830
Less accumulated depreciation		(184,275)	(188,845)
Net transportation property in service under capital lease	$	407,419	437,985

(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, 2004:

Fiscal years:		
2005	$	41,403
2006		42,448
2007		47,901
2008		52,985
2009		47,441
2010 – 2014		349,147
2015 – 2019		186,939
		768,264
Less amount representing interest		(230,166)
Present value of net minimum lease payments		538,098
Less current principal maturities		(10,867)
Obligations under capital leases	$	527,231

The long-term liability for these leases changed for 2004 and 2003 as follows:

Outstanding – June 30, 2002	$	548,473
Net change in obligation		4,349
Outstanding – June 30, 2003		552,822
Net change in obligation		(14,724)
Outstanding – June 30, 2004	$	538,098

(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 at June 30, 2004 are as follows:

Fiscal years:		
2005	$	13,046
2006		13,312
2007		13,681
2008		13,652
2009		13,461
2010-2013		43,868
	$	111,020

(9) Capital Assets

Capital assets at June 30, 2004 and 2003 are as follows:

		Beginning balance June 30, 2003	Increases	Decreases	Ending balance June 30, 2004
Capital assets not being depreciated:					
Land	$	269,615	37,222	—	306,837
Construction work in progress		1,018,524	639,283	395,780	1,262,027
Total capital assets not being depreciated		1,288,139	676,505	395,780	1,568,864
Other capital assets:					
Ways and structures		6,408,416	185,133	—	6,593,549
Buildings and equipment		1,814,750	189,283	8,311	1,995,722
Total other capital assets at historical cost		8,223,166	374,416	8,311	8,589,271
Less accumulated depreciation for:					
Ways and structures		1,929,339	137,204	—	2,066,543
Buildings and equipment		881,842	103,037	8,311	976,568
Total accumulated depreciation		2,811,181	240,241	8,311	3,043,111
Other capital assets, net		5,411,985	134,175	—	5,546,160
Capital assets, net	$	6,700,124	810,680	395,780	7,115,024

(Dollars in thousands)

	Beginning balance June 30, 2002	Increases	Decreases	Ending balance June 30, 2003
Capital assets not being depreciated:				
Land	$ 269,591	24	—	269,615
Construction work in progress	869,331	425,667	276,474	1,018,524
Total capital assets not being depreciated	1,138,922	425,691	276,474	1,288,139
Other capital assets:				
Ways and structures	6,210,826	197,590	—	6,408,416
Buildings and equipment	1,744,737	78,884	8,871	1,814,750
Total other capital assets at historical cost	7,955,563	276,474	8,871	8,223,166
Less accumulated depreciation for:				
Ways and structures	1,798,086	131,253	—	1,929,339
Buildings and equipment	798,729	91,984	8,871	881,842
Total accumulated depreciation	2,596,815	223,237	8,871	2,811,181
Other capital assets, net	5,358,748	53,237	—	5,411,985
Capital assets, net	$ 6,497,670	478,928	276,474	6,700,124

(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 $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.

(Dollars in thousands)

During fiscal 2004 and 2003, expenditures for claims and judgments, excluding worker's compensation, and health and life, were $19,613 and $13,206, respectively. Expenditures for claims related to worker's compensation were $19,305 and $5,912, and expenditures for the self-insured health plans were $89,363 and $78,983 for the years ended June 30, 2004 and 2003, respectively.

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, which consist of workers' compensation, health claims and injuries and damages (legal claims), as accrued expenses as of June 30, 2004, 2003 and 2002. Changes in the self-insurance liabilities in fiscal 2004, 2003 and 2002 were as follows:

		2004	2003	2002
Liability, beginning of year	$	73,931	86,644	69,476
Provisions for claims		128,281	98,101	114,651
Payments		(113,106)	(110,814)	(97,483)
Liability, end of year	$	89,106	73,931	86,644

These liabilities are all presented as current liabilities in the accompanying financial statements.

(11) Commitments and Contingencies

(a) Capital Investment Program

The Authority's capital investment 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, 2004 and 2003, 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, 2004	Unexpended costs
Federal grants	$	4,995,750	4,837,998	157,752
State and local sources		1,287,798	1,227,580	60,218
Authority bonds		4,595,229	3,992,311	602,918
Total	$	10,878,777	10,057,889	820,888

(Dollars in thousands)

Funding source		Approved project costs	Expenditures through June 30, 2003	Unexpended costs
Federal grants	$	4,840,885	4,622,477	218,408
State and local sources		1,222,917	1,159,361	63,556
Authority bonds		4,464,384	3,676,134	788,250
Total	$	10,528,186	9,457,972	1,070,214

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, 2004 amounted to $2,800,000.

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 Transit Administration (FTA). In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Other cases and claims include disputes with contractors and others arising out of the Authority's capital 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, buses, rapid transit cars and other transportation equipment. Unpaid amounts under these contracts total approximately $452,422 and $662,319 at June 30, 2004 and 2003, 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, 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.

During 2003, a wrongful death claim was made against the Authority and AMTRAK, the operator of the Authority's commuter rail system at the time of the incident, for both compensatory and punitive damages, in connection with an incident on a commuter rail train. General Counsel and management believe that the loss on this case, if any, is adequately provided for in the accompanying financial statements.

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.

(Dollars in thousands)

MBTA Retirement Plan

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	(Funded) unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Year ended December 31:						
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)
2001	1,889,500	1,626,998	(262,502)	116.13	316,403	(82.96)
2002	1,701,048	1,871,543	170,495	90.89	318,824	53.48

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.

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)
07/01/98	$ 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	35,801	11.6	88.4	34,590
07/01/02	41,094	5,211	35,883	12.7	87.3	36,319
07/01/03	41,865	5,734	36,131	13.7	86.3	31,787

See accompanying independent auditors' report.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Required Supplementary Information

June 30, 2004

(Unaudited)

(Dollars in thousands)

Police Association Retirement Plan

Valuation date		Actuarial value of assets (a)		Actuarial accrued liability (b)		(Funded) 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)
12/31/98	$	25,440	$	23,596	$	(1,844)	107.8 %	$	7,534	(24.5)%
12/31/99		30,078		22,511		(7,567)	133.6		8,391	(90.2)
12/31/00		28,962		31,971		3,009	90.6		10,351	29.1
12/31/01		31,282		35,447		4,165	88.3		10,814	38.5
12/31/02		31,377		40,852		9,475	76.8		11,598	81.7
12/31/03		32,263		41,373		9,110	78.0		12,485	73.0

See accompanying independent auditors’ report.