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

Financial Statements, Required Supplementary Information and Supplementary Information

June 30, 2015

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Independent Auditors' Report

The Members of The Fiscal and Management Control Board
Massachusetts Bay Transportation Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Bay Transportation Authority, a component unit of the Massachusetts Department of Transportation (the Authority), which comprise the statement of net position as of and for the year ended June 30, 2015, and the related statements of changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Massachusetts Bay Transportation Authority as of June 30, 2015, and the respective changes in its net position and its cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in notes 2(m) and 13, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the schedule of changes in net pension liability and related ratios, the schedule of pension contributions and schedule of funding progress - OPEB on pages 50–52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Metropolitan Boston Transit Parking Corporation Schedule of Debt Service Coverage Schedule (the Schedule) included on pages 53–54 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

April 28, 2016

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

Statement of Net Position

June 30, 2015

(Dollars in thousands)

Assets and Deferred Outflows of Resources

Current assets:		
Unrestricted cash and temporary cash investments (note 3)	$	307,209
Restricted cash and temporary cash investments (note 3):		
Bond construction accounts		45,795
Stabilization accounts		19,475
Other accounts		29,468
Accounts receivable:		
Commonwealth of Massachusetts		104,820
Federal grants		17,924
Other trade, net		35,125
Materials and supplies		34,070
Prepaid expenses		3,153
Total current assets		597,039
Noncurrent assets:		
Restricted cash and investments accounts (note 3):		
Bond construction accounts		35,124
Lease deposits		53,116
Bond reserve accounts (note 8)		606,956
Total restricted cash and investments accounts		695,196
Net investment in direct financing lease (note 5)		23,472
Capital assets, at cost (notes 6, 7, and 9):		
Transportation property, being depreciated		13,915,754
Transportation property, not being depreciated		1,346,091
Less accumulated depreciation		(6,373,199)
Capital assets, net		8,888,646
Total noncurrent assets		9,607,314
Total assets		10,204,353
Deferred outflows of resources:		
Deferred outflows from debt instruments		198,563
Deferred outflows from derivative instruments (note 8c)		102,504
Deferred outflows from pension plans (note 13)		122,123
Total deferred outflows of resources		423,190
Total assets and deferred outflows of resources	$	10,627,543

See accompanying notes to financial statements.

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

Statement of Net Position

June 30, 2015

(Dollars in thousands)

Liabilities and Deferred Inflows of Resources

Current liabilities:		
Current maturities of bonds and notes payable (note 8)	$	325,125
Current capital lease obligations (note 6)		4,427
Accounts payable		285,189
Accrued liabilities:		
Payroll and vacation		44,739
Interest		132,020
Injuries and damage claims, workers' compensation claims, and other (note 10)		60,466
Total current liabilities		851,966
Noncurrent liabilities, less current maturities:		
Bonds payable, net (note 8)		5,309,625
Obligations under capital leases (note 6)		61,246
Accrued liabilities (notes 10 and 11)		103,138
Pension liability (note 13)		962,111
Other postemployment benefits (note 14)		845,127
Liability for derivative instruments (note 8)		113,246
Unearned revenue		29,969
Total noncurrent liabilities		7,424,462
Total liabilities		8,276,428
Deferred inflows of resources:		
Deferred inflows from debt instruments		223
Deferred inflows from pension plans (note 13)		51
Total deferred inflows of resources		274
Total liabilities and deferred inflows of resources	$	8,276,702

Net Position

Net investment in capital assets		4,203,133
Restricted		19,475
Unrestricted		(1,871,767)
Total net position	$	2,350,841

See accompanying notes to financial statements.

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

Statement of Revenue, Expenses, and Changes in Net Position

Year ended June 30, 2015

(Dollars in thousands)

Operating revenue:	
Revenue from transportation	$ 602,627
Other	58,895
Total operating revenue	661,522
Operating expenses:	
Wages and related employee benefits:	
Wages	491,949
Medical and dental insurance	70,302
Other postemployment benefits	193,065
Health and welfare expenditures	7,765
Pensions	97,399
Social security taxes	40,912
Workers' compensation	14,581
Other	869
Capitalized costs	(20,779)
Total wages and related employee benefits	896,063
Other operating expenses:	
Depreciation and amortization	389,155
Materials, supplies, and services	256,441
Injuries and damages	23,435
Commuter railroad and local subsidy expenses (note 12)	484,298
Other	6,630
Total other operating expenses	1,159,959
Total operating expenses	2,056,022
Operating loss	(1,394,500)
Nonoperating revenue (expense):	
Dedicated sales tax revenue (note 4)	970,637
Contract assistance – Commonwealth of Massachusetts	122,553
Dedicated local assessments (note 4)	160,159
Fair value change in investment derivatives	1,623
Other nonoperating income	17,140
Interest income	17,770
Interest expense	(274,308)
Nonoperating revenue, net	1,015,574
Loss before capital grants	(378,926)
Capital grants and contributions	567,082
Increase in net position	188,156
Beginning of year, net position	2,845,059
Restatement to comply with adoption of GASB Statement No. 68 (note 13)	(682,374)
End of year, net position	$ 2,350,841

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2015

(Dollars in thousands)

Cash flows from operating activities:	
Receipts from transit customers	$ 603,291
Receipts from other operations	59,721
Payments to suppliers and vendors	(874,191)
Payments to employees	(569,249)
Net cash used in operating activities	(780,428)
Cash flows from capital and related financing activities:	
Additions to transportation property	(712,923)
Interest paid	(265,738)
Decrease in deferred credits/charges	181
Commercial paper advances	60,000
Payments on debt	(240,295)
Receipts from (payments to) bond construction and reserve accounts	137,759
Payments of capital lease activity	(5,174)
Decrease in lease deposit/account	(7,252)
Capital grants	581,326
Other	(1,411)
Net cash used in capital and related financing activities	(453,527)
Cash flows from noncapital and related financing activities:	
Sales tax and local assessment	1,235,968
Reimbursable payments	31,486
Net cash provided by noncapital and related financing activities	1,267,454
Cash flows from investing activity:	
Interest and other income	14,165
Net cash provided by investing activity	14,165
Net change	47,664
Unrestricted cash and temporary cash investments and restricted cash and temporary investments, beginning of year	354,283
Unrestricted cash and temporary cash investments and restricted cash and temporary investments, end of year	$ 401,947
Adjustments to reconcile operating loss to net cash used in operating activities:	
Operating loss	$ (1,394,500)
Changes not requiring current expenditure of cash:	
Depreciation and amortization	389,155
Change in pension amounts	104,298
Increase in other postemployment benefits	143,234
Changes in all other working capital accounts except unrestricted cash and temporary cash investments, restricted cash and temporary investments, and short-term debt	(22,615)
Net cash used in operating activities	$ (780,428)

Noncash capital and related financing activities:

At June 30, 2015, the Authority had capital asset related liabilities related to eminent domain of $31,000.

See accompanying notes to financial statements.

(1) The Reporting Entity

The Massachusetts Bay Transportation Authority (the Authority) was originally created in 1964 as a body politic and corporate and a political subdivision of the Commonwealth of Massachusetts (the Commonwealth) to finance and operate mass transportation facilities within, and, to a limited extent, outside of its territorial area of 175 cities and towns and is authorized to enter into agreements for providing mass transportation service by private companies, including railroads. The 175 cities and towns are grouped into three categories, based upon the weighting of each member's allocable percentage of population and assessments: (i) the inner 14 cities and towns; (ii) the outer 51 cities and towns; and (iii) the other 110 served communities.

Chapter 161A is referred to herein, together with Section 35T of Chapter 10 of Massachusetts General Laws, as the "Enabling Act."

The Authority is governed and its corporate powers exercised by the board of directors (the "Board of Directors" or "Board") of the Massachusetts Department of Transportation ("MassDOT"). However, during its existence, the Control Board is afforded all the powers, responsibilities, and obligations relative to the Authority that are vested in the Board.

The Control Board Act is part of the Commonwealth Fiscal Year 2016 budget, Chapter 46 of the Acts of 2015 of the Commonwealth, effective July 17, 2015. The Control Board is within the Massachusetts Department of Transportation and reports to the Secretary of Transportation (the "Secretary"). The Control Board is afforded all powers, responsibilities and obligations relative to the MBTA that are vested in the Board, with certain limited exceptions.

In addition, the Control Board may (i) establish separate operating and capital budgets each with clearly designated revenue sources and uses and establish policies and procedures to ensure that no funds are commingled between operating and capital budgets; (ii) establish one-year and five-year operating budgets beginning with Fiscal Year 2017, which are balanced primarily through a combination of internal cost controls and increased own-source revenues and which facilitate the transfer of all MBTA employees from the capital budget to the operating budget; (iii) establish five-year and 20-year capital plans that include a phased program for the complete restoration of the physical assets of the Authority including its vehicle fleet, a plan to address failings within the existing capital program and funding recommendations to meet the region's transit needs; (iv) establish a rigorous performance management system and performance metrics and targets that address, among other things, maximizing of own-source revenues, increasing ridership, reducing absenteeism, addressing vacancies and attrition, improving employee morale, achieving procurement and contracting improvements and improving customer focus and orientation; (v) review any contract for the provision of services entered into by the Authority, including contracts entered into before the establishment of the Control Board, including, but not limited to, commuter rail and paratransit service contracts, and amend those contracts, as necessary, in accordance with their terms; and (vi) establish, increase, or decrease any fare, fee, rate, or charge for any service, license or activity within the scope of the MBTA. The Control Board may: (i) reorganize or consolidate MBTA departments, divisions or entities, in whole or in part, except the Metropolitan Boston Transit Parking Corporation; (ii) establish any new departments, divisions, or entities as it considers necessary; and (iii) transfer the duties, powers, functions and appropriations of a department, division or entity, except the duties, powers, functions and appropriations of the Metropolitan Boston Transit Parking Corporation, to another. Any reorganization or consolidation that affects MassDOT shall be approved by the Board.

The Control Board consists of five members appointed by the Governor. Three members shall be members of the Board, one shall have experience in transportation finance and one shall have experience in mass transit operation. The Control Board will continue until June 30, 2018; unless extended an additional two years if, prior to June 30, 2018, the Control Board finds in a recommendation to the Governor that such two-year period is in the best interest of the public and necessary to achieve operational stability and to establish performance metrics for the Authority. Upon such recommendation, the Governor may approve the extension but in no event shall the Control Board continue beyond June 30, 2020.

Following the dissolution of the Control Board, the MassDOT Board will resume sole governance of the Authority. The Board consists of 11-members. The Secretary of Transportation shall serve ex-officio as Chair and ten other members appointed by the Governor, one of whom shall be a rider, as defined in the Enabling Act; one of whom shall have experience in the field of public or private finance; one of whom shall have experience in transportation planning and policy; one of whom shall have experience in civil engineering; one of whom shall have experience in the field of public or private finance or transportation planning and policy; one of whom shall have municipal government experience in one of the fourteen cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the fifty-one cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the other served communities, as defined in the Enabling Act; one of whom shall have municipal government experience in a city or town not part of the area constituting the authority, as defined in the Enabling Act; and one of whom shall be a representative of a labor organization selected from a list of three nominees provided by the Massachusetts State Labor Council, AFL-CIO. Four of the members, other than the Chair, shall serve for terms that are coterminous with the Governor; provided, however, that at least three of the coterminous members shall have experience in transportation policy, public finance or civil engineering and at least one of the coterminous members shall be a rider. The six remaining members appointed by the Governor shall serve for terms of four years. No more than six of the eleven directors, except the ex-officio director, shall be members of the same political party.

Under the Enabling Act, the Advisory Board, consisting of a representative of each of the cities and towns paying Assessments, shall have certain specified powers, including the power to review the Authority’s long term capital program and annual operating budget. The Enabling Act does not provide for the Authority to be a debtor under the federal bankruptcy code.

The Control Board shall appear before and provide updates to the Board not less than once per month.

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Reporting

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

(b) Use of Estimates

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

(c) Statements of Cash Flows

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

(d) Restricted Cash and Investment Accounts

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

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

(e) Capital Assets

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

Depreciation of capital assets is computed using the straight-line method over the estimated useful life of the asset. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2015:

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

(f) Construction in Progress

During fiscal year 2015 $726,229 was expended towards the completion of major construction projects and improvements in progress. The projects and improvements completed were transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of the debt issuance until the entire drawdown of the proceeds, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal year 2015, the Authority had no material capitalized interest.

(g) Materials and Supplies

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

(h) Self-Insurance

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

(i) Revenue Recognition

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

Under the Enabling Act, the Dedicated Revenues are impressed with a trust for the benefit of Authority bondholders. Furthermore, the Commonwealth covenants that while any Authority bonds or notes secured by the Dedicated Revenues are outstanding and remain unpaid, the Dedicated Revenues shall not be diverted, and, so long as the Dedicated Revenues are necessary for the purpose for which they have been pledged, the rate of the sales tax shall not be reduced below the amount of the Dedicated Sales Tax and annual aggregate Assessments of $136,027.

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

The Transportation Reform Act established the Commonwealth Transportation Fund (CTF), a budgetary fund of the Commonwealth for transportation-related purposes, to receive essentially the same revenue previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenue. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of $275,000. The Authority receives a dedicated revenue stream consisting of the Assessments and the Dedicated Sales Tax (collectively, the "Dedicated Revenues"). The Dedicated Sales Tax is equal to the greater of the base revenue amount (as

(Continued)

defined in the Enabling Act) and the amount raised by a 1% statewide sales tax to be funded from existing sales tax receipts, subject to adjustment under certain circumstances set forth in the Enabling Act, plus $160,000 annually. The Enabling Act was amended on October 31, 2014 to increase the Dedicated Sales Tax by $160,000 annually, starting in Fiscal Year 2015. This was intended to replace the $160,000 annual appropriation the MBTA received from Fiscal Years 2010 to 2014. The *Transportation Finance Act* provided funding for various transportation services and infrastructure needs within the various units of MassDOT. The Commonwealth appropriated the amount of $122,553 from the CTF to the Authority for fiscal year 2015. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

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

(j) Capital Grants and Contributions

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

(k) Compensated Absences

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2015 was $19,991.

(l) Lease Accounts

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

(m) Pension Plans

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which changed the way in which the Authority reports its participation in its defined benefit pension plans, including the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan. Among the changes, GASB Statement No. 68 requires the Authority to record a liability on the statement of net position for its unfunded pension plans' obligation. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MBTA Retirement Fund, the MBTA Police Association Retirement Plan, and the MBTA Deferred Compensation Plan, and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(n) Other Postemployment Benefits

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

(o) Environmental Remediation Costs

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

(p) Derivatives

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

(q) Available Unrestricted Resources

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

(r) Deferred Inflows and Outflows

The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal 2015, the Authority has reported deferred outflows related to its derivative instruments, its pension plans and the deferred losses on debt refunding transactions. The deferred inflows are related the deferred gains on debt refunding transactions and its pension plans.

(s) Statement of Net Position

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

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

(3) Deposits and Investments

The Authority's investment policy is to only invest in securities named in the respective trust agreements.

The Authority is authorized by its board of directors to make deposits into checking and savings accounts and to invest in direct obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, investment agreements, municipal bonds, repurchase agreements secured by U.S. government and agency obligations, and certain other investments permitted under the trust indentures.

Obligations of any agency or instrumentality of the United States of America including, but not limited to, the following may be acceptable as collateral to secure certificates of deposit or other instruments:

(A) Federal Home Loan Banks

(B) Federal Land Banks

(C) Federal Intermediate Credit Banks

(D) Bank for Cooperatives

(E) Federal National Mortgage Association

(F) Federal Farm Credit Banks

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

(Dollars in thousands)

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

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

Deposits and investments consisted of the following amounts presented in the accompanying statement of net position at June 30, 2015:

		2015
Restricted:		
Bond construction accounts	$	80,919
Bond reserve, stabilization, and other accounts		655,899
Lease deposits		53,116
Subtotal		789,934
Unrestricted cash and temporary cash investments		307,209
	$	1,097,143

Included in bond reserve, stabilization, and other accounts at June 30, 2015 are investments in Commonwealth debt instruments with a fair value of $45,892.

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority's deposits at June 30, 2015 was $267,735. The bank balance at June 30, 2015 was $270,871. Of this amount, $24,894 was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation limit of $250 per institution at June 30, 2015.

(b) Interest Rate Risk – Investments

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

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2015 are presented below. All investments are presented by investment type and maturity.

		Investment maturities (in years)			
Investment type	**Amount**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$ 119,582	119,582	—	—	—
Money market funds	195,679	195,679	—	—	—
Guaranteed investment contracts	1,335	—	—	—	1,335
U.S. Treasury STRIPS	53,116	—	—	—	53,116
U.S. Treasury securities	62,926	—	—	—	62,926
U.S. government-sponsored enterprises	208,145	153,785	7,605	—	46,755
Municipal bonds	45,892	—	—	—	45,892
International bank notes	41,807	41,807	—	—	—
Commercial paper and certificates of deposit	100,926	100,926	—	—	—
Investments	$ 829,408	611,779	7,605	—	210,024

(c) Credit Ratings

The Authority holds guaranteed investment contracts with a fair value of $1,335 at June 30, 2015. These investments are not rated.

The Authority had $161,934 in U.S. Treasury STRIPS, U.S. Treasury securities and municipal bonds as of June 30, 2015. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government. The municipal bonds have an implied credit rating of Aaa/AA+.

The Authority has $208,145 invested in government-sponsored enterprises as of June 30, 2015. These investments have an implied credit rating of AAa/AA+ or they have been collateralized to AAA.

The Authority has $119,582 invested in MMDT as of June 30, 2015 respectively, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

The Authority also has $338,412 invested in money market funds, international bonds, commercial paper, and certificates of deposit as of June 30, 2015. These investments are not rated.

(Dollars in thousands)

(d) Concentration of Credit Risk – Investments

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

	Credit rating by Moody's/S&P	2015	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	$ 135,600	16.4%

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority was not exposed to foreign currency risk as of June 30, 2015.

(4) Pledged Revenues

The Authority has pledged, as security for Sales Tax Series Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority's approved Capital Investment Program (CIP), and are payable through 2041. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. As of June 30, 2015, the total amount of dedicated sales tax revenues and assessment revenues received in fiscal year 2015 was $960,585 and $159,910, respectively, a total of $1,120,495. Total annual debt service paid during fiscal year 2015 on outstanding Sales Tax Series, Assessment and Prior Obligation Bonds was $498,462, representing 42% of pledged revenues.

The MBTPC pledge of dedicated parking receipts of the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011 and total annual debt service commenced on July 1, 2011. The debt service requirement in fiscal year 2015 was $15,373, which represents 37% of $41,540 parking revenue earned in the fiscal year 2015.

Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, Prior Obligation Bonds, and MBTPC Bonds outstanding as of June 30, 2015 is $8,498,497.

(Dollars in thousands)

(5) Net Investment in Direct Financing Lease

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

As of June 30, 2015 and through date of the audit opinion date, the lessee has not elected to prepay the outstanding balance of the annual base rent.

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

		2015
Total minimum lease payments receivable	$	68,981
Less unearned income		(45,509)
Net investment in direct financing lease	$	23,472

(6) Lease Obligations

(a) Capital Lease Arrangements

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

(Dollars in thousands)

The following is a schedule by year of future minimum lease payments under the Authority's capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2015:

Fiscal year(s):		
2016	$	4,562
2017		4,134
2018		3,514
2019		604
2020		—
2021–2025		—
2026–2030		53,115
		65,929
Less amount representing interest		(256)
Present value of net minimum lease payments		65,673
Less current principal maturities		(4,427)
Obligations under capital leases	$	61,246

The liability for these leases changed in 2015 as follows:

Outstanding at June 30, 2014		73,458
Net change in obligation		(7,785)
Outstanding at June 30, 2015	$	65,673

(b) Operating Leases

As of June 30, 2015, the Authority did not have any outstanding operating lease obligations.

(Dollars in thousands)

(7) Capital Assets

Capital assets at June 30, 2015 are as follows:

	June 30, 2014	Increases	Decreases	June 30, 2015
Capital assets not being depreciated:				
Land	$ 364,594	14,111	2,730	375,975
Construction work in progress	863,649	836,684	730,217	970,116
Total capital assets not being depreciated	1,228,243	850,795	732,947	1,346,091
Capital assets being depreciated:				
Ways and structures	10,362,411	299,881	—	10,662,292
Buildings and equipment	2,548,247	297,139	1,706	2,843,680
Buildings and equipment included in capital lease	405,439	4,655	312	409,782
Total capital assets being depreciated	13,316,097	601,675	2,018	13,915,754
Less accumulated depreciation for:				
Ways and structures	4,045,210	244,747	—	4,289,957
Buildings and equipment	1,659,623	144,668	1,706	1,802,585
Buildings and equipment included in capital lease	276,578	4,391	312	280,657
Total	5,981,411	393,806	2,018	6,373,199
Other capital assets, net	7,334,686	207,869	—	7,542,555
Capital assets, net	$ 8,562,929	1,058,664	732,947	8,888,646

(8) Long-Term Debt

(a) Bonds Payable

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

Debt issued by the Authority prior to and outstanding as of July 1, 2000 (the Prior Obligations) is backed by the full faith and credit of the Commonwealth to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2015, Prior Obligations in the amount of $229,915 are outstanding.

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

No bonds were issued by the Authority during fiscal year 2015. However, the Authority issued Senior Sales Tax 2015 Series A and 2015 Series B bonds on October 14, 2015. See Note 15.

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

The Authority issued commercial paper notes in the amount of $60,000 during fiscal year 2015 to fund debt service payment on Prior Obligations of the Authority. The Authority paid off $66,675 during fiscal year 2015. The balance of $94,350 was outstanding as of June 30, 2015. At June 30, 2015, the total commercial paper notes included CP Sales Tax Series A in the amount of $29,775 with a weighted average nominal rate 0.076212% and CP Sales Tax Series B in the amount of $64,575 with a weighted average nominal rate 0.083875%.

(Dollars in thousands)

The Authority's outstanding bonds payable at June 30, 2015 are as follows:

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2015	Due in fiscal year 2016
General transportation system bonds:				
1991 Series A Bonds dated November 1, 1991	2021	7.00%	$ 36,165	—
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20%	14,480	14,480
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25-7.00%	3,885	960
1998 Series C Bonds dated November 1, 1998	2022	5.25-5.75%	7,275	1,320
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	168,110	6,690
			229,915	23,450
Revenue bonds:				
2003 Series A Senior Sales Tax Bond dated January 29,2003	2021	4.00%-5.25%	102,245	1,115
2003 Series C Senior Sales Tax Bond dated February 3, 2004**	2023	Variable	173,440	21,350
2004 Series A Senior Sales Tax Bond dated February 3, 2004	2016	5.00%-5.25%	14,265	6,950
2004 Series B Senior Sales Tax Bonds dated March 9, 2004	2030	3.00%-5.25%	369,440	25,995
2004 Series C Senior Sales Tax Bonds dated December 22, 2004	2024	3.00%-5.50%	269,780	49,425
2005 Series A Senior Sales Tax Bonds dated March 24, 2005	2031	5.00%	735,450	—
2005 Series A Assessment Bonds dated September 8, 2005	2035	3.20%-5.00%	57,010	1,510
2005 Series B Senior Sales Tax Bonds dated December 21, 2005	2029	3.40% – 5.50%	92,015	60
2006 Series A Senior Sales Tax Bonds dated March 2, 2006	2034	5.25%	238,850	—
2006 Series B Senior Sales Tax Bonds dated December 5, 2006	2023	5.00% – 5.25%	177,305	14,295
2006 Series C Senior Sales Tax Bonds dated June 28, 2006	2027	4.00%-5.00%	66,290	—
2006 Series A Assessment Bonds dated September 13, 2006***	2035	Variable	161,340	—

(Dollars in thousands)

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2015	Due in fiscal year 2016
Revenue bonds:				
2007 Series A-1 Senior Sales Tax Bonds dated May 24, 2007	2034	5.25%	205,675	—
2007 Series A-2 Senior Sales Tax Bonds dated May 24, 2007	2037	Zero Coupon	195,027	—
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083%-3.834%	131,040	765
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083%-3.834%	121,965	550
2008 Series B Senior Sales Tax Bond dated April 30, 2008	2033	3.00%-5.25%	44,890	1,320
2008 Series A Assessment Bond dated November 13, 2008	2034	4.00% – 5.25%	236,905	—
2009 Series B Senior Sales Tax dated February 26, 2009	2018	3.00% – 5.00%	39,365	—
2009 Series D Senior Sales Tax dated October 29, 2009	2019	3.00% – 5.00%	14,445	—
2010 Series A Senior Sales Tax dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax dated April 6, 2010	2035	2.00% – 5.00%	73,845	1,375
2010 Series C Senior Sales Tax dated December 8, 2010	2020	5.00%	63,450	—
2012 Series A Assessment Bond dated June 21, 2012	2024	5.00%	407,165	2,360
2014 Series A Sales Tax Bonds dated April 23, 2014	2045	4.00% – 5.00%	200,000	—
			4,271,457	207,325
Metropolitan Boston Transit Parking (MBTPC) Bonds:				
2011 Series A MBTPC dated June 22, 2011	2041	4.00% – 5.25%	304,585	—
			304,585	—

(Dollars in thousands)

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2015	Due in fiscal year 2016
Revenue Build America (BABs) Bonds:				
2009 Series C Senior Sales Tax dated October 29, 2009	2039	4.75% – 5.57%	218,300	—
2010 Series D Senior Sales Tax dated December 8, 2010	2040	4.546% – 5.869%	210,000	—
			428,300	—
Bond Anticipation Notes (BANs):				
Bond Anticipation Notes (BAN)	2016	0.09% – 0.11%	94,350	94,350
Total bond and notes payable			5,328,607	$ 325,125
Less current maturities			(325,125)	
Total long-term			5,003,482	
Plus unamoertized bond premiums			306,596	
Less unamortized bond discounts			(453)	
Total long-term bonds payable			$ 5,309,625	

* The bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. As of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO ($94,000) and 2000 Series A-2 VRDO ($94,000). The interest rates as of June 30, 2015 for the 2000 Series A-1 are 0.13%; 0.06% for the 2000 Series A-2 VRDO; 0.06% for the 2008 Series A-1 Senior Sales Tax Bond, and 0.09% for the 2008 Series A-2 Senior Sales Tax Bond.

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

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

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 9 basis points. As of June 30, 2015 the variable interest is based on the SIFMA rate, plus 20 basis points. The Authority classifies these bonds short-term, as it does not have a standby purchase agreement and/or a letter of credit providing liquidity support for the remarketing window. The Authority does not foresee the bond being called.

(Dollars in thousands)

The principal and interest maturities of the bonds and notes payable as of June 30, 2015 are as follows:

		Principal	Interest
Fiscal year(s):			
2016	$	325,125	254,916
2017		196,705	245,364
2018		217,105	234,998
2019		258,290	222,905
2020		267,810	209,445
2021–2025		1,291,026	878,645
2026–2030		1,133,825	604,084
2031–2035		903,424	345,787
2036–2040		515,872	157,200
2041–2045		219,425	16,546
Total	$	5,328,607	3,169,890

A summary rollforward of bonds payable for the year ended June 30, 2015 is as follows:

	2015						
		Balance 2014	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2015
GTS	$	296,640	—	66,725	—	—	229,915
BMD		2,010	—	2,010	—	—	—
Revenue		4,367,429	—	104,885	—	8,913	4,271,457
BABs		428,300	—	—	—	—	428,300
BANs		101,025	60,000	66,675	—	—	94,350
MBTPC		304,585	—	—	—	—	304,585
	$	5,499,989	60,000	240,295	—	8,913	5,328,607

The following funds are included in restricted assets at June 30, 2015 in connection with the Authority's revenue bond trust agreements and bond resolutions:

	2015			
		Assessment bonds	Sales tax bonds	MBTPC bonds
Debt service	$	51,561	250,273	9,381
Debt service reserve		68,334	214,060	13,347
	$	119,895	464,333	22,728

The minimum required balance in the debt service reserve funds at June 30, 2015 was $184,971 for the Sales Tax Series Bonds and $35,272 for the Assessment Bonds, respectively. The minimum required balances in the debt service reserve funds at June 30, 2015 for MBTPC Bonds were $12,294. The Authority has complied with its financial bond covenants by maintaining sufficient cash and investments in the debt service reserve funds.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to meet its capital needs. The Authority has a $250,000 commercial paper program in total of which $150,000 is administered by JP Morgan and $100,000 by Barclays Capital Inc. The Authority's commercial paper program (or BANs) has been assigned short-term ratings of P-1 and A-1+ by Moody's and S&P, respectively. The Authority had $94,350 in outstanding commercial paper as of June 30, 2015.

(b) Debt Refundings

The Authority has defeased in-substance several GTS, Sales Tax Series, and Assessment Series Bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2015 $642,135 of these bonds are considered defeased in-substance and are still outstanding.

No bonds were refunded by the Authority in fiscal year 2015.

(c) Derivative Instruments

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

(Dollars in thousands)

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Derivative item	Type	Objective	Effective date	Current notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Upfront payment from counterparty	Fair value at June 30 2015
Cash flow hedges:									
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	$ 168,110	2030	5.00%	67% of LIBOR	$ 12,230	(39,858)
3	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Senior Sales Tax Series 2003 C	February 2004	25,005	2020	4.13	CPI+79 basis points	N/A	(2,080)
4	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	19,260	2024	4.67	CPI+123 basis points	607	(1,804)
5	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	5,000	2025	4.66	CPI+123 basis points	142	(493)
6	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-1	October 2008	131,040	2021	3.83	SIFMA	3,067	(14,016)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	121,965	2026	3.08	62% of LIBOR plus 24 basis points	116	(15,647)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	5.61	SIFMA	4,140	(28,606)
									(102,504)
Investment derivatives:									
2	Pay – fixed interest rate swap (a)	Originally to hedge changes in cash flows on variable rate debt	February 2003	75,480	2022	5.20	SIFMA	4,586	(10,742)
									(10,742)
									$ (113,246)

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

The aggregate fair value balance of the derivative instruments at June 30, 2015 is $(113,246) and is reflected on the Authority's statements of net position as a liability for derivative instruments. Of this liability, $(102,504) at June 30, 2015, is offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2015, the Authority determined that the investment derivative instrument does not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net position.

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

(Dollars in thousands)

Swap Payments and Associated Debt

As of June 30, 2015, debt service requirements of the 2000 Series GTS VRDO Bonds (2000 Bonds) and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of LIBOR is 0.1250% and the variable rate on the 2000 Bonds is 0.095% through the term of the swap, are as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

Fiscal year(s) ending June 30		2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2016	$	6,690	158	8,087	14,935
2017		7,160	151	7,753	15,064
2018		7,660	144	7,396	15,200
2019		8,195	137	7,014	15,346
2020		8,770	129	6,605	15,504
2021–2025		53,960	503	25,815	80,278
2026–2030		75,675	202	10,336	86,213
Totals	$	168,110	1,424	73,006	242,540

As of June 30, 2015, debt service requirements on the 2003 Series C Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming CPI rate of 0.295% plus 79 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary.

Fiscal year(s) ending June 30		2003 Series C Senior Sales Tax Bonds principal	2003 Series C Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2016	$	—	271	761	1,032
2017		—	271	761	1,032
2018		—	271	761	1,032
2019		—	271	761	1,032
2020		25,005	271	761	26,037
	$	25,005	1,355	3,805	30,165

(Dollars in thousands)

As of June 30, 2015, debt service requirements on the 2006 Series A Assessment Bonds, maturing July 1, 2025, and net swap payments, applying the fixed rate on the swap of 4.66% and assuming the CPI rate of 0.295% plus 123 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2016	$	—	76	157	233
2017		—	76	157	233
2018		—	76	157	233
2019		—	76	157	233
2020		—	76	157	233
2021–2025		5,000	380	785	6,165
	$	5,000	760	1,570	7,330

As of June 30, 2015, debt service requirements on the 2006 Series A Assessment Bonds, maturing July 1, 2024, and net swap payments, applying the fixed rate on the swap of 4.67% and assuming the CPI rate of 0.295% plus 123 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year(s) ending June 30		2006 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2016	$	—	294	605	899
2017		—	294	605	899
2018		—	294	605	899
2019		—	294	605	899
2020		—	294	605	899
2021–2025		19,260	1,176	2,420	22,856
	$	19,260	2,646	5,445	27,351

(Dollars in thousands)

As of June 30, 2015, debt service requirements on the 2008 Series A-1 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the SIFMA index rate is 0.07% and the variable rate on the 2008 Series A-1 Senior Sales Tax Bonds is 0.06% through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-1 Senior Sales Tax Bonds principal	2008 Series A-1 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2016	$	765	78	4,904	5,747
2017		18,990	67	4,188	23,245
2018		19,745	55	3,446	23,246
2019		20,545	43	2,672	23,260
2020		21,375	30	1,869	23,274
2021–2024		49,620	17	1,073	50,710
	$	131,040	290	18,152	149,482

As of June 30, 2015, debt service requirements on the 2008 Series A-2 Senior Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.083% and assuming the 62% of LIBOR plus 24 basis points is 0.3556% and the variable rate on 2008 Series A-2 Senior Sales Tax Bonds is 0.09% through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30		2008 Series A-2 Senior Sales Tax Bonds principal	2008 Series A-2 Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2016	$	550	109	3,311	3,970
2017		570	109	3,296	3,975
2018		585	108	3,280	3,973
2019		605	108	3,263	3,976
2020		625	107	3,247	3,979
2021–2025		74,220	401	12,136	86,757
2026–2029		44,810	17	515	45,342
	$	121,965	959	29,048	151,972

(Dollars in thousands)

As of June 30, 2015, debt service requirements on 2010 Series A Senior Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.07% and the variable rate on the 2010 Series A Senior Sales Tax Bonds is 0.07% plus 20 basis points through the term of the swap, are as follows. As rates vary, variable interest rate payments on the 2010 bonds will vary.

Fiscal year(s) ending June 30	2010 Series A Senior Sales Tax Bonds principal	2010 Series A Senior Sales Tax Bonds interest	Interest rate swap, net	Total
2016	$ —	215	4,412	4,627
2017	—	215	4,412	4,627
2018	—	215	4,412	4,627
2019	—	215	4,412	4,627
2020	—	215	4,412	4,627
2021–2025	9,515	1,050	21,533	32,098
2026–2030	70,130	505	10,361	80,996
	$ 79,645	2,630	53,954	136,229

Risk Disclosure

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

The following represents the credit ratings of the counterparties as of June 30, 2015:

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

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

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

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

(Dollars in thousands)

(9) Commitments and Contingencies

(a) Capital Investment Program (CIP)

The Authority's continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2015, 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, 2015	Unexpended costs
Federal grants	$	7,509,940	7,199,454	310,486
State and local sources		3,139,994	2,523,448	616,546
Authority bonds		6,150,412	5,803,758	346,654
Total	$	16,800,346	15,526,660	1,273,686

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

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

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately $934,095 at June 30, 2015.

(b) Legal and Other

The Authority is involved in numerous lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the general counsel to the Authority, payments of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

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

(10) Risk Management

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

Buildings are fully insured to the extent that losses exceed the self-insured retention of $2,500 for buildings valued over $25,000 and the self-insured retention of $1,000 for buildings valued under $25,000 effective March 1, 2014. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss, and health insurance. The Authority paid 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 who remained under the self insured health plans until June 30, 2015. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth (GIC). The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered by the GIC. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness until December 31, 2015.

The Authority self-funds a $7,500 per occurrence deductible for general liability. The Authority has a program of excess public liability insurance to provide for $67,500 of layered coverage on a per occurrence and annual aggregate basis. In the opinion of the general counsel to the Authority, payments of claims by the Authority for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

During fiscal year 2015, expenditures for claims and judgments, excluding workers' compensation, and health and life, were $5,867. Expenses for claims related to workers' compensation were $14,581, and expenditures for the self-insured health plans were $76,432.

The requirements of Governmental Accounting Standards Board (GASB), Statements require that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers' compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2015. Changes in the self-insurance liabilities in fiscal year 2015 is as follows:

(Dollars in thousands)

		2015
Liability, beginning of year	$	111,430
Provisions for claims		104,948
Payments		(96,880)
Liability, end of year	$	119,498

(11) Environmental Remediation Obligations

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

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

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

During the year ended June 30, 2015, the following changes occurred in the liabilities:

		Balance as of July 1, 2014	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2015
Storage tank remediation sites	$	14,154	—	1,052	13,102
Contamination soil sites		2,000	11,000	—	13,000
Sites with PCB remediation		10,500	—	—	10,500
Vapor intrusion 21E		1,500	—	—	1,500
	$	28,154	11,000	1,052	38,102

The payments for remediation costs combined with revised cost completion estimates totaling $9,948 in fiscal year 2015 is recorded in the other operating expenses in the statements of revenue, expenses, and changes in net position. The accrued total liability as of June 30, 2015 included in the long-term accrued liabilities in the statement of net position was $38,102.

(12) Commuter Railroad

Under the Authority's Enabling Act, Massachusetts General Laws, Chapter 161A, Section 3(f), the Authority may enter into agreements with private transportation companies, railroads, and other concerns providing for joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

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

(13) Retirement Plans

The Authority provides retirement benefits to employees through six defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Fund, the MBTA Police Association Retirement Plan, the MBTA Deferred Compensation Plan, the MBTA Executive Deferred Compensation Plan, the MBTA Executive Deferred Compensation Annuity Plan, the MBTA Excess Benefit Annuity Plan and the MBTA Deferred Compensation Savings Plan.

The MBTA Retirement Fund, 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. The MBTA Retirement Fund and the MBTA Police Association Retirement Plan, a single-employer plan, both provide retirement, disability, and death benefits to their members. The MBTA Retirement Fund issues separately audited financial statements that may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Retirement Plan also issues separately audited financial statements that may be obtained by writing to the Board of Directors, MBTA Police Association Retirement Plan, P.O. Box 2215, Hyannis, Massachusetts 02601.

The MBTA Deferred Compensation Plan, a single-employer plan, provides supplemental pension benefits for certain Local 453, Steelworkers, Transit Employee Administrators (collective bargaining units) and executive employees after retirement. Employees may participate in both the MBTA Retirement Fund and the MBTA Deferred Compensation Plan. The MBTA Deferred Compensation Plan is unfunded and does not issue separately audited financial statements.

The remaining defined benefit plans are single employer plans that are unfunded and do not issue separately audited financial statements. These plans collectively have less than ten active and retired participants. A copy of the actuarial report for any of these retirement plans can be obtained by writing to the Office of the Chief Financial Officer, MBTA, Ten Park Plaza, Boston, Massachusetts 02116.

(Dollars in thousands)

Employees covered by benefit terms. At June 30, 2015, the following employees were covered by the benefit terms:

	MBTA Retirement Fund	**MBTA Police Association Retirement Fund**	**MBTA Deferred Compensation Plan**
Retired employees or beneficiaries receiving benfits	6,271	85	917
Active employees	5,726	255	696
Inactive employees entitled to, but not yet receiving benefits	73	4	—
Totals:	**12,070**	**344**	**1,613**

(a) Funding Policy and Annual Pension Cost

The pension agreements between the Authority and Local 589, dated July 1, 2014 for the MBTA Retirement Fund and the MBTA Police Association dated June 30, 2003, designates that the board of trustees of each retirement plan establish the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Fund's member contribution rate was increased from 5.5589% to 5.7989% of pretax compensation effective July 1, 2014. The Authority's contribution rate was increased from 15.3311% to 16.0511% effective July 1, 2014. These contribution rates were calculated based on the December 31, 2013 actuarial valuation of the MBTA Retirement Fund. Effective July 1, 2015 contribution requirements for the MBTA Retirement Fund will be 16.0286% for the Authority and 5.7914% for members. The contribution requirements for the MBTA Police Association Retirement Plan for 2014 were 13.89% for the Authority and 8.51% for participants. Both were determined in accordance with actuarial valuation of December 31, 2013. Actual contributions made in were in accordance with these contribution requirements. Contributions are not required to be made for the MBTA Deferred Compensation Plan. Rather benefit payments are made on a "pay-as-you-go" basis.

Net Pension Liability

The Authority's net pension liability for each retirement plan was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014.

(Dollars in thousands)

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Pension	MBTA Retirement Fund	MBTA Police Association Plan	MBTA Deferred Compensation Plan
Actuarial assumptions:			
Inflation rate	3.0 percent	3.0 percent	3.0 percent
Salary increases	4.0 percent	3.5 percent	3.0 percent
Investment rate of return	8.0 percent, net of pension plan investment expense, including inflation	7.0 percent, net of pension plan investment expense, including inflation	3.34 percent as the plan is not funded.

Mortality rates were based on the UP 1994 Mortality Tables for Males or Females, as appropriate, projected to year 2020 with adjustments for mortality improvements based on Scale AA. A special mortality table is used for the period after disability retirement. Among pre-retirement deaths, 7.5% are assumed to qualify for accidental death benefits.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the five-year period ending December 31, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target allocation as of December 31, 2014 are summarized in the following tables:

MBTA Retirement Fund	Target Allocation	Long Term Expected Real Rate of Return
Equity	43%	8.46%
Fixed Income	27%	1.83%
Alternatives	30%	7.92%
Total	100%	

(Dollars in thousands)

MBTA Police Association Retirement Plan	**Target Allocation**	**Long Term Expected Real Rate of Return**
Equity	64.80%	8.46%
Fixed Income	30.60%	1.83%
Alternatives	4.60%	7.92%
Total	100%	

Discount rate. The discount rate used to measure the total pension liability was 8.0% for the MBTA Retirement Fund while the discount rate for the MBTA Police Association Retirement Plan was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current MBTA Retirement Fund and MBTA Police Association Retirement Plan members. The discount rate used to measure the total pension liability for the MBTA Deferred Compensation Plan was 3.34%. Since this plan is unfunded, the assumed discount rate has been determined in accordance with the method prescribed by GASB No. 68 and is based on the S&P Municipal Bond 20 Year Grade Rate Index, whose yield to maturity was 3.34% as of December 31, 2014.

(Continued)

(Dollars in thousands)

Change in the Net Pension Liability – MBTA Retirement Fund

		Increase (Decrease)		
		Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balances at December 31, 2013	$	2,364,133	1,606,684	757,449
Changes for the year:				
Service cost		34,501	—	34,501
Interest		184,667	—	184,667
Difference between expected and actual experience		48,560	—	48,560
Contributions - employer		—	70,603	(70,603)
Contributions - employee		—	25,318	(25,318)
Net investment Income			73,543	(73,543)
Benefit payments, including refund of employee contributions		(184,130)	(184,130)	—
Administrative expense		—	(4,053)	4,053
Net changes		83,598	(18,719)	102,317
Balances at December 31, 2014	$	2,447,731	1,587,965	859,766

(Dollars in thousands)

Change in the Net Pension Liability – MBTA Police Association Retirement Plan

		Increase (Decrease)		
		Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balances at December 31, 2013	$	88,103	68,074	20,029
Changes for the year:				
Service cost		1,772	—	1,772
Interest		6,173	—	6,173
Differences between expected and actual experience		(60)	—	(60)
Contributions - employer		—	2,280	(2,280)
Contributions - employee		—	1,337	(1,337)
Net investment Income		—	3,966	(3,966)
Benefit payments, including refund of employee contributions		(3,417)	(3,417)	—
Administrative expense		—	(122)	122
Net changes		4,468	4,044	424
Balances at December 31, 2014	$	92,571	72,118	20,453

(Dollars in thousands)

Change in the Net Pension Liability – MBTA Deferred Compensation Plan

		Increase (Decrease)	
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a)-(b)**
Balances at December 31, 2013	$ 80,335	—	80,335
Changes for the year:			
Service cost	1,715	—	1,715
Interest	2,592	—	2,592
Differences between expected and actual experience	2,767	—	2,767
Contributions - employer	—	5,517	(5,517)
Benefit payments, including refund of employee contributions	(5,517)	(5,517)	—
Net changes	1,557	—	1,557
Balances at December 31, 2014	$ 81,892	—	81,892

(Dollars in thousands)

Sensitivity of net pension liability to changes in the rate. The following presents the net pension liability of the Authority, calculated using the discount rates disclosed as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Current Rate	1% Decrease of Current Rate	Current Discount Rate	1% Increase of Current Rate
MBTA Retirement Fund	8.00%	$ 1,097,133	$ 859,766	$ 656,157
MBTA Police Assoc. Retirement Plan	7.00%	32,261	20,453	10,593
MBTA Deferred Compensation	3.34%	90,885	81,892	74,327

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015 the Authority recognized pension expense of $92,973, $2,110 and $4,860 for the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan, respectively. At June 30, 2015 the Authority reported deferred outflows of resources related to these pensions from the following sources:

	MBTA Retirement Fund	MBTA Police Assoc. Retirement Plan	MBTA Deferred Compensation Plan	Total
Deferred Outflow/(Inflow)				
Net difference between projected and actual earnings on pension plan investments	$ 41,098	$ 645	$ —	$ 41,743
Differences between expected and and actual experience	38,848	(51)	2,214	41,011
	$ 79,946	$ 594	$ 2,214	$ 82,754

(Dollars in thousands)

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

		MBTA Retirement Fund		MBTA Police Assoc. Retirement Plan		MBTA Deferred Compensation Plan
Year ended June 30:						
2016	$	19,986	$	153	$	553
2017		19,986		153		553
2018		19,986		153		553
2019		19,988		153		555
2020		—		(9)		—
2021		—		(9)		—
Totals:	$	79,946	$	594	$	2,214

The Authority has also recorded a deferred outflow of $39,318 to recognize contributions to the plans made from January 1, 2015 through June 30, 2015 as follows:

MBTA Retirement Fund	$35,267
MBTA Police Association Retirement Plan	1,153
MBTA Deferred Compensation Plan	2,898
Total	$39,318

Payable to the Pension Plans

At June 30, 2015 the Authority reported a payable for $542 for the outstanding amount of contributions to pension plans required for the year ended June 30, 2015.

Restatement of Net Pension

The implementation of GASB No. 68 required a restatement of the Authority's net position as of July 1, 2014 as follows:

Net pension liability	$	857,812
Deferred outflows		(37,114)
Net pension obligation		(138,324)
Total restatement	$	682,374

 (Continued)

(b) 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 Fund. Authority employee trustees administer the plan and recommend benefit amendments that require approval from the Authority's general manager. The plan requires members to contribute 5.799% of total covered payroll with the Authority contributing 8%. The plan had 282 members at June 30, 2015, and the cost of the Plan to the Authority was $818 for fiscal year 2015. 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. The total asset balance of $31,054 is held by a third party administrator who allocates the assets of fully funded member account balance at the direction of individual member discretion.

(14) Other Postemployment Benefits

In addition to providing the pension benefits described, the Authority provides OPEB for retired employees under any of the medical benefit programs then offered and available by the Authority. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of the June 30, 2014 actuarial valuation, the plan has 7,938 retired and inactive participants and 6,241 active employees that meet the eligibility requirements for participation in the plan. The plan does not issue a separate financial report.

(a) Benefits Provided

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

(b) Funding Policy

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the GIC for health, life, and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. A total of 4,301 affiliated active employees and retirees enrolled in the GIC as of June 30, 2014. On July 1, 2014, a total of 6,230 of employees and retirees transferred to GIC benefit plans. The remaining employees are expected to transition on July 1, 2015.

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

(Continued)

(Dollars in thousands)

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

(c) Annual OPEB Costs and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The June 30, 2013 actuarial valuation established the ARC for fiscal year 2014 and the June 30, 2014 actuarial valuation established the ARC for fiscal year 2015. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30-years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2015 and 2014, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

		2015	**2014**
ARC	$	214,901	165,507
Interest on net OPEB obligation		20,495	17,903
Amortization adjustment to ARC		(42,331)	(35,893)
Annual OPEB cost		193,065	147,517
Contributions made		(49,831)	(58,757)
Change in net OPEB obligation		143,234	88,760
Net OPEB obligation – beginning of year		701,893	613,133
Net OPEB obligation – end of year	$	845,127	701,893

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal year ended		**Annual OPEB cost**	**Percentage of OPEB cost contributed**		**Net OPEB obligation**
2015	$	193,065	25.8%	$	845,127
2014		147,517	39.8		701,893
2013		180,595	32.0		613,133

(Dollars in thousands)

The Authority's net OPEB obligation as of June 30, 2015 and 2014 is recorded as "Other postemployment benefits" line item.

(d) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of June 30, 2014, is as follows:

Actuarial accrued liability (AAL)	$	2,315,626
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	2,315,626
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	442,214
UAAL as a percentage of covered payroll		523.6%

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

(e) Actuarial Methods and Assumptions

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

In the June 30, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 2.92% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate ranges from 4.1% to 5.4% in year one to a 5.00% long-term trend rate for all healthcare benefits in year ten and thereafter. The amortization costs for the initial unfunded actuarial accrued liability (UAAL) is a level dollar closed amortization for a period of 30 years.

(15) Subsequent Events

On October 14, 2015, the Authority issued Senior Sales Tax Series 2015A and Series 2015B for $358,405. Principal is payable on July 1, 2019 through July 1, 2045. The first interest payment on these bonds is January 1, 2016. The Series 2015A sales tax bonds were issued for use to finance systemwide improvements, vehicle replacements and other capital projects. The 2015B sales tax bonds were issued to refund $57,880 of 2006 Series C Senior Sales Tax Bonds, $55,500 of 2005 Series A Assessment Bonds, and $83,035 of $2008 Series A Assessment Bonds.

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

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

June 30, 2015

(Dollar amounts in thousands)

(Unaudited)

	December 31, 2014		
Total Pension Liability	**MBTA retirement fund**	**MBTA Police fund**	**MBTA deferred compensation**
Service cost	$ 34,501	1,772	1,715
Interest	184,667	6,173	2,592
Differences between expected and actual experience	48,560	(60)	2,767
Benefit payments, including refunds of employee contributions	(184,130)	(3,417)	(5,517)
Net Change in total pension liability	83,598	4,468	1,557
Total pension liability – beginning	2,364,133	88,103	80,335
Total pension liability – ending	2,447,731	92,571	81,892
Plan Fiduciary Net Position			
Contributions – employers	70,603	2,279	5,787
Contributions – employees	25,318	1,338	—
Net investment income	73,543	3,966	—
Benefit payments, including refunds of employee contributions	(184,130)	(3,417)	(5,787)
Administrative expenses	(4,053)	(122)	—
Net change in plan fiduciary net position	(18,719)	4,044	—
Plan fiduciary net position – beginning	1,606,684	68,074	—
Plan fiduciary net position – ending	1,587,965	72,118	—
Authority's net pension liability	$ 859,766	20,453	81,892
Plan fiduciary net position as a percentage of the total pension liability	65%	78%	0%
Covered-employee payroll	$ 417,957	18,207	56,042
Net pension liability as a percentage of covered employee payroll	206%	112%	146%

See accompanying independent auditors' report.

Notes:

Information provided for Requuired Supplemenary Information will be provided for 10 years as the information becomes available

As of December 31, 2014, the Deferred Compensation Plan has no assets accumulated in a trust for purposes of making future pension payments

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

Required Supplementary Information

Schedule of Pension Contributions

June 30, 2015

(Dollar amounts in thousands)

(Unaudited)

		December 31, 2014	
		MBTA Retirement fund	**MBTA Police fund**
Actuarially determined contribution	$	77,594	2,279
Contributions in relation to the actuarially determined contribution		70,603	2,279
Contribution deficiency (excess)	$	6,991	—
Covered employee payroll	$	417,957	18,207
Contributions as a percentage of covered employee payroll		16.9%	12.5%

See accompanying independent auditors' report.

Notes:

Information provided for Requuired Supplemenary Information will be provided for 10 years as the information becomes available

As of December 31, 2014, the Deferred Compensation Plan has no assets accumulated in a trust for purposes of making future pension payments

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

Required Supplementary Information

Schedule of Funding Progress

June 30, 2015

(Dollars in thousands)

(Unaudited)

OPEB Plan

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (c) (b)-(a)	(Unfunded) funded ratio (d) (a)/(b)	Covered payroll (e)	UAAL as a percentage of covered payroll (c)/(e)
June 30, 2014	$ —	2,315,626	2,315,626	—%	$ 442,214	523.6%
June 30, 2013	—	1,864,348	1,864,348	—	437,729	425.9
June 30, 2011	—	2,016,063	2,016,063	—	418,388	481.9

See accompanying independent auditors' report.

Metropolitan Transit Parking Corporation – Schedule of Debt Service Coverage

	Number of spaces at facility (Unaudited)	2015 Gross revenues by facility	Revenue amount from facility to debt service	2015 Net revenue of facility after debt service	2015 Debt Service Percentage of gross revenue
Alewife (Garage)	2,733	$ 5,756,237	$ 1,556,820	4,199,417	27.05%
Route 128 (Garage)	2,589	5,072,925	571,944	4,500,981	11.27
Quincy Adams (Garage)	2,538	4,000,873	1,184,413	2,816,460	29.60
Wonderland (Garage) & Lots	1,999	2,577,013	955,094	1,621,919	37.06
Hingham Boat	1,841	870,575	442,431	428,144	50.82
Braintree (Garage)	1,322	2,840,967	896,923	1,944,044	31.57
Wellington	1,316	1,665,300	677,698	987,602	40.70
Kingston	1,039	303,649	156,011	147,638	51.38
Greenbush	1,000	208,981	108,856	100,125	52.09
Lynn (Garage)	965	369,560	91,977	277,583	24.89
Riverside	925	935,640	454,640	481,000	48.59
Quincy Center (Garage)	872	—	—	—	—
North Quincy Hancock	852	613,734	314,679	299,055	51.27
Newburyport	814	212,614	108,542	104,072	51.05
Oak Grove	788	1,181,817	600,329	581,488	50.80
Norwood Center	781	409,333	208,879	200,454	51.03
Middleboro/Lakeville	769	463,051	238,171	224,880	51.44
Canton Junction	764	580,812	294,773	286,039	50.75
Forge Park	716	473,955	240,621	233,334	50.77
Salem (Garage)	700	383,782	136,789	246,993	35.64
Ashland	678	309,129	157,561	151,568	50.97
South Weymouth	620	245,377	126,045	119,332	51.37
Quincy Boat	600	—	—	—	—
South Attleboro	567	514,074	263,756	250,318	51.31
Wollaston	550	710,771	364,271	346,500	51.25
Woodland (Garage)	548	895,468	198,652	696,816	22.18
Campello	535	173,457	89,002	84,455	51.31
Norfolk	532	386,606	192,965	193,641	49.91
Bridgewater	504	230,977	118,105	112,872	51.13
Beverly Depot (Garage)	500	285,048	89,642	195,406	31.45
Dedham	497	169,831	83,923	85,908	49.42
Nantasket	495	88,138	45,300	42,838	51.40
Hanson	482	186,300	95,821	90,479	51.43
Westboro	448	375,897	191,060	184,837	50.83
Orient Heights	434	220,032	113,592	106,440	51.63

(Continued)

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

Supplementary Information

Metropolitan Boston Transit Parking Corporation
Schedule of Debt Service Coverage

June 30, 2015

	Number of spaces at facility (Unaudited)	2015 Gross revenues by facility	Revenue amount from facility to debt service	2015 Net revenue of facility after debt service	2015 Debt Service Percentage of gross revenue
Beachmont	430	270,292	139,397	130,895	51.57
Cohasset	410	146,452	76,272	70,180	52.08
Abington	405	220,126	113,078	107,048	51.37
Halifax	402	154,343	79,011	75,332	51.19
Norwood Depot	393	101,616	52,255	49,361	51.42
Grafton	373	240,642	121,004	119,638	50.28
Holbrook/Randolph	369	228,891	115,968	112,923	50.67
Southborough	364	315,824	161,638	154,186	51.18
Hersey	360	205,538	104,778	100,760	50.98
Readville	354	93,363	47,699	45,664	51.09
North Quincy Newport	354	332,246	170,143	162,103	51.21
Lechmere	347	435,301	224,675	210,626	51.61
Montello	347	121,950	62,341	59,609	51.12
Walpole	343	160,508	82,953	77,555	51.68
East Weymouth	335	290,954	148,975	141,979	51.20
Stoughton	333	238,618	122,489	116,129	51.33
Bradford	303	52,924	27,089	25,835	51.18
Lots with 150-300 spaces	4,442	3,300,216	1,679,923	1,620,293	50.90
Lots with less than 150 spaces	1,795	918,518	474,340	444,178	51.64
Totals	45,772	$ 41,540,245	15,373,313	26,166,932	37.01%

See accompanying independent auditors' report