KPMG

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Required Supplementary Information

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

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

Table of Contents

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Independent Auditors' Report

The Board of Directors of the
Massachusetts Bay Transportation Authority:

We have audited the accompanying statements of net assets of the Massachusetts Bay Transportation Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of June 30, 2007 and 2006, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 through 11 and the historical pension information on pages 48 and 49 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

KPMG LLP

October 26, 2007

Introduction

The following discussion and analysis of the financial performance and activity of the Massachusetts Bay Transportation Authority (the Authority) is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the years ended June 30, 2007 (FY07) and June 30, 2006 (FY06). The management of the Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Authority was originally created in 1964 pursuant to Chapter 161A of Massachusetts General Laws, as in effect prior to July 1, 2000 (the Prior Act), as a body politic and corporate and a political subdivision of the Commonwealth to finance and operate mass transportation facilities within (and to a certain extent, outside) its territory. The territorial area of the Authority then consisted of 78 cities and towns in the greater Boston metropolitan area. Under the Prior Act, the Commonwealth provided various forms of financial assistance to offset the Authority's operating deficit. In order to finance its capital program, the Authority was authorized to issue indebtedness secured by its general obligation. If the Authority lacked funds to pay such indebtedness, the Commonwealth was obligated to pay such amount, to which obligation the Commonwealth's full faith and credit were pledged.

As part of its Fiscal 2000 annual appropriations act, Chapter 127 of the Acts of 1999 of the Commonwealth, as amended (Chapter 127 or the Forward Funding Legislation), the Commonwealth repealed and restated the Prior Act effective July 1, 2000. The Prior Act as restated by Section 151 of Chapter 127, together with Section 35T of Chapter 10 of Massachusetts General Laws, also enacted as part of Chapter 127, as amended, are collectively referred to herein as the "Enabling Act".

Commencing July 1, 2000, under the Enabling Act, 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 defined in the Enabling Act) and the amount raised by a 1% statewide sales tax, which equals 20% of the existing statewide 5% sales tax to be funded from existing sales tax receipts, subject to upward adjustment under certain circumstances set forth in the Enabling Act.

The Enabling Act expanded the territory of the Authority to 175 cities and towns, but aggregate annual Assessments payable by such cities and towns were reduced in five equal amounts from approximately $144 million in Fiscal Year 2001 to approximately $136 million in Fiscal Year 2006. Commencing in 2007, aggregate Assessments are adjusted annually for inflation but will not be permitted to increase by more than 2.5% per year. Aggregate Assessments in 2007 were $139 million. Under the Enabling Act, the Authority is required to meet all of its operating and capital expenditures from Dedicated Revenues, federal assistance and revenues generated from operation of the Authority's system, including without limitation fare revenues and nonfare revenues (e.g. parking and advertising revenues). However, under the Enabling Act, the Authority's failure to provide transportation services at current levels would not affect the Commonwealth's or the assessed cities' and towns' obligation or ability to provide the Dedicated Revenues.

The MBTA is the oldest and fifth largest transit system in the country, operating subway, trackless trolley, trolley, bus, bus rapid transit and commuter rail service throughout eastern Massachusetts. The Authority is responsible for an estimated 1.1 million passenger trips every business day and operates over 38 miles of rapid transit heavy rail routes. Service is also provided by trackless trolleys and light rail vehicles on 26 miles of additional routes. The Authority owns approximately 1,000 buses which cover routes totaling 763 miles. The MBTA's commuter rail service operates over 490 units of passenger rail equipment and locomotives providing service between Boston and 131 outlying rail stations. In addition, the MBTA provides a broad range of other passenger services including commuter boats, "The Ride" servicing the elderly and the disabled, and express buses.

Financial Statements

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

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

- The statements of net assets present information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The statements of revenue, expenses and changes in net assets report the operating revenues and expenses and nonoperating revenues and expenses of the Authority for each fiscal year with the difference – the increase/decrease in net assets – being combined with any capital grants and contributions to determine the net change in assets for the fiscal year. That change combined with the net assets from the end of the previous year equals the net assets at the end of the fiscal year.
- The statements of cash flows report cash, restricted cash and temporary cash investments activities for each fiscal year resulting from operating activities, capital and related financing activities, noncapital and related financing activities and investing activities. The net result of these activities added to the beginning of the year balance of cash, restricted cash and temporary cash investments total to the cash, restricted cash and temporary cash investments balance at the end of the fiscal year.

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

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2007 and 2006

(Dollars in thousands)

(Unaudited)

Condensed Financial Information

Condensed financial information as of and for the years ended June 30, 2007, 2006, and 2005 are as follows:

	June 30		
	2007	**2006**	**2005**
Current and other assets	$ 1,613,495	$ 1,881,820	$ 1,313,123
Capital assets, net	7,907,414	7,635,143	7,392,655
Total assets	9,520,909	9,516,963	8,705,778
Current liabilities	552,670	488,071	491,206
Long-term liabilities	5,777,375	5,853,432	5,015,324
Total liabilities	6,330,045	6,341,503	5,506,530
Net assets:			
Invested in capital assets, net of related debt	3,230,432	3,160,251	3,123,027
Restricted	30,395	26,953	36,092
Unrestricted	(69,963)	(11,744)	40,129
Total net assets	$ 3,190,864	$ 3,175,460	$ 3,199,248
Operating revenue:			
Revenue from transportation	$ 386,488	$ 333,096	$ 319,271
Other	45,134	46,864	52,282
Total operating revenues	431,622	379,960	371,553
Operating expenses:			
Transportation services	538,382	534,682	506,503
Other operating expenses	457,473	432,217	416,552
Total operating expenses, excluding depreciation	995,855	966,899	923,055
Depreciation and amortization	317,032	292,633	269,814
Total operating expenses, including depreciation	1,312,887	1,259,532	1,192,869
Operating loss	(881,265)	(879,572)	(821,316)
Net nonoperating revenue	710,415	693,907	644,615
Loss before capital grants and contributions	(170,850)	(185,665)	(176,701)
Capital grants and contributions	186,254	161,877	182,382
Increase (decrease) in net assets	15,404	(23,788)	5,681
Beginning of year net assets	3,175,460	3,199,248	3,193,567
End of year net assets	$ 3,190,864	$ 3,175,460	$ 3,199,248

(Continued)

The information contained in the condensed financial information table is used as the basis for the following discussion regarding the Authority's financial activities for the fiscal years ended June 30, 2007, 2006, and 2005.

Financial Highlights for the years ended June 30, 2007 and 2006

- The Authority ended the years June 30, 2007 and 2006 with a net asset balance of $3,190,864 and $3,175,460 of which $3,230,432 and $3,160,251 represented the amount invested in capital assets, net of related debt, and $(69,963) and $(11,744) was unrestricted, respectively. The net asset balance increased/(decreased) $15,404 and $(23,788) in the years ended June 30, 2007 and 2006, respectively. The increase in net assets is attributable to increased transportation revenues primarily due to the implementation of a fare increase as of January 1, 2007.
- The Authority incurred an expected operating loss for the years ended June 30, 2007 and 2006 of $(881,265) and $(879,572), respectively. The operating losses were mainly offset in accordance with the Commonwealth of Massachusetts Forward Funding Legislation (Chapter 127 of the Acts of 1999 of the Commonwealth or Enabling Act). The legislation allows the Authority to receive a dedicated revenue stream consisting of the assessments on the communities in the Authority's service area and a Dedicated Sales Tax. For years ended June 30, 2007 and 2006 the Authority recognized $733,963 and $712,586 of sales tax revenues from the Commonwealth of Massachusetts. This amount was the guaranteed full year Base Revenue Amount. Local assessments on cities and towns within the Authority's service area accounted for $139,428 and $136,027 in nonoperating revenue in 2007 and 2006, respectively. Adding to the operating loss was interest expense, net of interest and other income of $162,976 and $154,706, respectively, in 2007 and 2006.
- The Authority has taken steps to minimize interest expense by reducing the amount of high interest rate debt, by refunding outstanding bonds, and by paying off debt as funds become available.
- The Authority ended the years June 30, 2007 and 2006 with cash and investments of $878,214 and $1,127,813 respectively. However, only $97,239 and $114,559 of this amount at June 30, 2007 and 2006, respectively, is available for operations as the bulk of these assets are restricted for specific purposes and unavailable for the Authority's general use.
- The statements of cash flows identify the sources and uses of cash for each fiscal year. Cash, restricted cash and temporary cash investments decreased by $(64,719) in fiscal 2007 and increased by $36,645 in fiscal 2006. The decrease in fiscal year 2007 is due to the refunding of debt and related reallocation and reduction in required amounts of debt service reserve funds.
- GASB Statement Nos. 43 and 45, "Financial Reporting for Postemployment Benefit Plan Other Than Pension Plans and Accounting" and "Financial Reporting by Employers for Postemployment Benefits Other Than Pensions " are effective for the Authority's fiscal year ending June 30, 2008. The Authority was not required to implement Statement 43.
- Statement 45 will require the Authority to account for and report the value of its future other post employment benefit (OPEB) obligations currently, rather than on a pay-as-you-go basis. The Authority has estimated that its total unaudited OPEB obligation as of June 30, 2007 is between $2,100,000 (pay-as-you-go) and $1,400,000 (pre-funded) depending upon the funding policy elected by the Authority. Based on

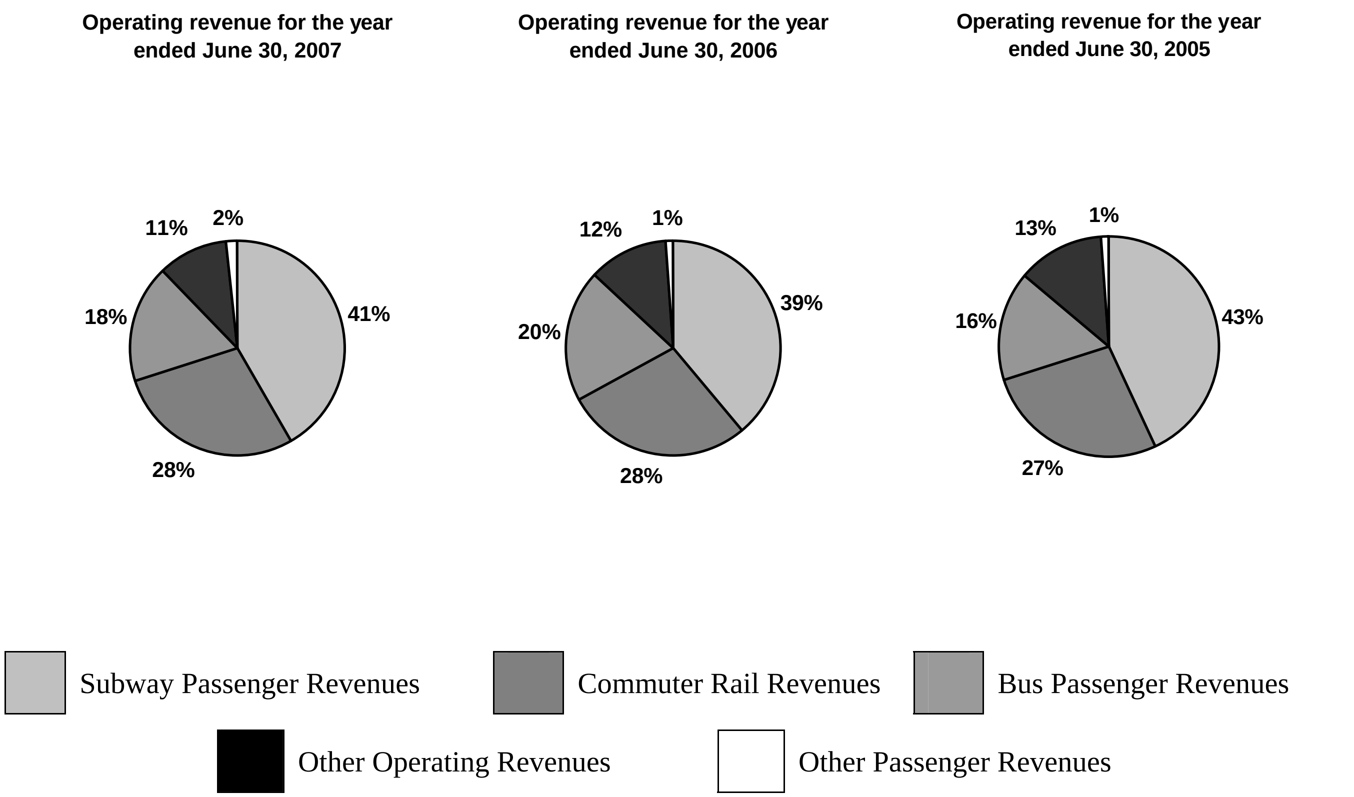
these preliminary estimates, the Authority's unaudited actuarially required contribution (ARC) is estimated to be between $186,800 and $146,900, respectively.

Financial Highlights for the years ended June 30, 2006 and 2005

- The Authority ended the years June 30, 2006 and 2005 with a net asset balance of $3,175,460 and $3,199,248 of which $3,160,251 and $3,123,027 represented the amount invested in capital assets, net of related debt, and $(11,744) and $40,129 was unrestricted, respectively. The net asset balance decreased $23,788 and increased $5,681 in the years ended June 30, 2006 and 2005, respectively. The decrease in net assets is attributable to increased pension and healthcare benefit costs for employees, increased fuel costs for transportation services and only receiving sales tax receipts equal to the base revenue amount.
- The Authority incurred an expected operating loss for the years ended June 30, 2006 and 2005 of $879,572 and $821,316, respectively. The operating losses were offset in accordance with the Commonwealth of Massachusetts Forward Funding Legislation (Chapter 127 of the Acts of 1999 of the Commonwealth or Enabling Act). The legislation allows the Authority to receive a dedicated revenue stream consisting of the assessments on the communities in the Authority's service area and a Dedicated Sales Tax. For years ended June 30, 2006 and 2005 the Authority recognized $712,586 and $704,809 of sales tax revenues from the Commonwealth of Massachusetts. This amount was the guaranteed full year Base Revenue Amount. Local assessments on cities and towns within the Authority's service area accounted for $136,027 and $137,732 in nonoperating revenue in 2006 and 2005, respectively. Adding to the operating loss was interest expense, net of investment and other income of $154,706 and $197,926, respectively, in 2006 and 2005.
- The Authority has taken steps to minimize interest expense by reducing the amount of high interest rate debt by refunding outstanding bonds and paying off debt as funds become available.
- The Authority ended the years June 30, 2006 and 2005 with cash and investments of $1,127,813 and $734,879 respectively. However, only $114,559 and $99,994 of this amount at June 30, 2006 and 2005, respectively, is available for operations as the bulk of these assets are restricted for specific purposes and unavailable for the Authority's general use.
- The statements of cash flows identify the sources and uses of cash for each fiscal year. Cash, restricted cash and temporary cash investments increased by $36,645 in fiscal 2006 and decreased by $39,413 in fiscal 2005. The increase in fiscal year 2006 is due to increased transportation revenues. The increase was offset by an increase in health insurance, pension and fuel costs.

Revenue

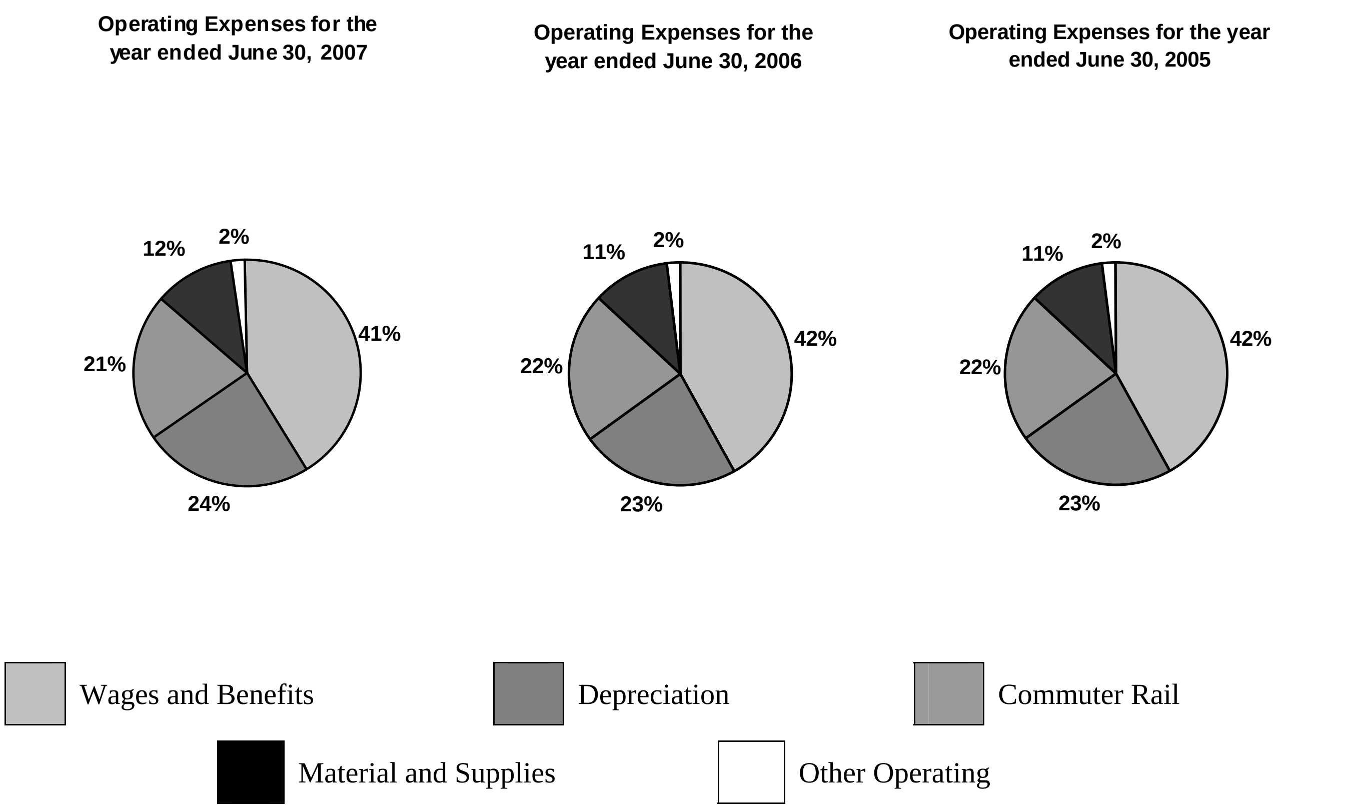
The following charts show the major sources of operating revenue for the years ended June 30, 2007, 2006, and 2005:



As in previous years, the passenger revenues make up over 87% of the total operating revenues. The Authority continues to work on increasing ridership through new equipment purchases, station upgrades and system expansion and will continue to pursue its policy of maximizing nonfare revenue opportunities.

Expenses

The following charts show the major sources of operating expenses for the years ended June 30, 2007, 2006, and 2005:



As in previous years, wages and benefits make up the largest portion of operating expenses. This is common in the public transportation industry as the provision of service is extremely labor intensive. Due to the significant investments the Authority has in capital assets, depreciation continues to be a large operating expense. Unlike the other expenses listed, depreciation is not a cash expense. The Authority has and continues to pursue ways to reduce costs without impacting service. The Authority has taken such measures as bidding for contracted services to obtain competitive pricing. The Authority executed a new contract in fiscal year 2007 for real estate management services.

Capital Assets

The Authority's capital assets as of June 30, 2007, 2006, and 2005 amounted to $7,907,414 and $7,635,143, and $7,392,655 (net of accumulated depreciation) respectively. This investment in capital assets includes land, construction work in progress, ways and structures and buildings and equipment.

(Dollars in thousands)

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

		2007	2006	2005
Land	$	(16,162)	4,135	13,264
Construction work in progress		41,871	(2,007)	(413,686)
Ways and structures		292,039	362,267	738,946
Buildings and equipment		197,625	97,720	181,257
	$	515,373	462,115	519,781

The Authority primarily acquires its assets with the proceeds from federal capital grants and revenue bonds. Station improvements, new equipment purchases and system expansion are all part of the Authority's capital investment program. Commitments on approved capital asset construction projects were $262,243 and $286,132, and $319,199 for the years ended June 30, 2007, 2006, and 2005, respectively. Commitments to purchase new transportation equipment were $229,128 and $328,268, and $390,927 as of June 30, 2007, 2006, and 2005, respectively. The decrease in land assets in 2007 reflects the sale of land acquired during construction of the Authority's Transitway and Greenbush projects; upon substantial completion of these projects the land was deemed surplus and no longer required for transportation purposes. Commitments to purchase new equipment decreased in 2007 primarily because the Authority made payment for several major equipment procurements, and only one significant commitment for a bus procurement was added in 2007.

Debt

Bonds and notes outstanding included the following as of June 30:

		2007	2006	2005
General Transportation System bonds	$	1,305,465	1,626,960	1,770,835
Revenue bonds		3,685,185	3,414,975	2,665,505
Boston Metropolitan District bonds		16,915	19,045	21,000
Grant Anticipation notes		71,835	81,665	81,665
Bond Anticipation notes		—	—	92,800
	$	5,079,400	5,142,645	4,631,805

The total amount for these categories of debt (decreased)/increased by $(63,245) and $510,840, and $129,300 for the years ended June 30, 2007, 2006, and 2005, respectively.

The decrease in debt in 2007 is due to the impact of refunding debt for savings and increased principal amounts that were due and paid in 2007.

The Authority issued $727,210 in bonds during the 2007 fiscal year of which, $133,500 were new money bonds and $593,710 were issued to refund higher interest rate debt. The $133,500 in new money bonds were issued to finance vehicle replacements, new automated fare equipment, a new commuter rail line and other systemwide improvements.

The Authority issued $1,018,865 in bonds during the 2006 fiscal year of which, $685,535 were new money bonds and $333,330 were issued to refund higher interest rate debt. The $685,535 in new money bonds were used to finance vehicle replacements, commuter rail expansion, new automated fare collection equipment, a new commuter rail line and other systemwide improvements and to pay off $112,500 in outstanding commercial paper.

The Authority issued $1,100,665 in bonds during the 2005 fiscal year. Of the bonds issued, $1,029,625 was to refund higher interest rate debt. The remainder was used to finance vehicle replacements and payoff outstanding commercial paper.

The Authority has also entered into various agreements to help hedge against interest rate changes on certain outstanding debt. These agreements help the Authority better manage the total cost of borrowing and allow for better budgeting of future cash flows. The Authority's Assessment Bonds have a rating of AAA by Standard & Poor's and Aa1 by Moody's Investor Services. The Authority's Sales Tax Bonds have a rating of AAA by Standard & Poor's and Aa2 by Moody's Investor Services.

Requests for Information

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

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

Statements of Net Assets

June 30, 2007 and 2006

(Dollars in thousands)

Assets		**2007**	**2006**
Current assets:			
Unrestricted cash and temporary cash investments (note 3)	$	97,239	114,559
Restricted cash and temporary cash investments (note 3):			
Bond construction accounts		20,577	47,812
Stabilization accounts		18,143	17,420
Other accounts		43,898	64,785
Lease accounts		83,751	19,153
Accounts receivable:			
Commonwealth of Massachusetts		105,392	99,003
Federal grants		12,252	9,533
Other trade, net		20,668	33,545
Materials and supplies		55,445	49,918
Prepaid expenses		6,912	6,208
Total current assets		464,277	461,936
Restricted cash and investments accounts (note 3):			
Bond construction accounts		139,225	289,164
Lease deposits		217,795	208,896
Bond reserve accounts		341,337	385,177
Total restricted cash and investments accounts		698,357	883,237
Lease accounts		424,725	508,476
Capital assets, at cost (notes 8, 9, and 11):			
Transportation property, being depreciated		10,459,125	9,969,461
Transportation property, not being depreciated		1,196,279	1,170,570
Less accumulated depreciation		(3,747,990)	(3,504,888)
Capital assets, net		7,907,414	7,635,143
Other assets:			
Deferred bond issue costs		26,136	28,171
Total other assets		26,136	28,171
Total non current assets		9,056,632	9,055,027
Total assets	$	9,520,909	9,516,963

See accompanying notes to financial statements.

(Continued)

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

Statements of Net Assets

June 30, 2007 and 2006

(Dollars in thousands)

Liabilities	**2007**	**2006**
Current liabilities:		
Current maturities of bonds and notes payable (note 5)	$ 137,215	149,415
Current capital lease obligations (note 8)	87,346	21,333
Accounts payable	144,446	131,649
Accrued liabilities:		
Payroll and vacation	25,204	28,547
Interest	111,792	109,856
Injuries and damage claims, workers compensation claims, and other (note 10)	46,667	47,271
Total current liabilities	552,670	488,071
Long-term liabilities, less current maturities:		
Bonds payable, net (note 5)	5,006,912	5,009,268
Obligations under capital leases (note 8)	655,654	724,425
Accrued liabilities (note 10)	65,748	60,669
Pension liability (note 7)	17,942	20,429
Deferred revenue (note 6)	31,119	38,641
Total long-term liabilities	5,777,375	5,853,432
Total liabilities	6,330,045	6,341,503
Net Assets		
Invested in capital assets, net of related debt	3,230,432	3,160,251
Restricted	30,395	26,953
Unrestricted	(69,963)	(11,744)
Commitments and contingencies (notes 10 and 11)		
Total net assets	$ 3,190,864	3,175,460

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

(Dollars in thousands)

		2007	**2006**
Operating revenue:			
Revenue from transportation	$	386,488	333,096
Other		45,134	46,864
		431,622	379,960
Operating expenses:			
Wages and related employee benefits:			
Wages		353,900	347,846
Medical and dental insurance		109,596	112,790
Pensions		55,747	48,387
Social security taxes		31,446	31,264
Workers compensation		11,965	16,238
Other		1,968	1,963
Capitalized costs		(26,240)	(23,806)
		538,382	534,682
Other operating expenses:			
Depreciation and amortization		317,032	292,633
Materials, supplies, and services		160,755	149,456
Injuries and damages		15,371	14,192
Commuter railroad and local subsidy expenses (note 4)		278,584	266,547
Other		2,763	2,022
		774,505	724,850
Total operating expenses		1,312,887	1,259,532
Operating loss		(881,265)	(879,572)
Nonoperating revenue (expense):			
Dedicated sales tax revenue		733,963	712,586
Dedicated local assessments		139,428	136,027
Other income		24,416	32,458
Interest income		33,718	11,832
Interest expense		(221,110)	(198,996)
Nonoperating revenue, net		710,415	693,907
Loss before capital grants		(170,850)	(185,665)
Capital grants and contributions		186,254	161,877
Increase (decrease) in net assets		15,404	(23,788)
Beginning of year net assets		3,175,460	3,199,248
End of year net assets	$	3,190,864	3,175,460

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2007 and 2006

(Dollars in thousands)

		2007	2006
Cash flows from operating activities:			
Receipts from transit customers	$	396,536	327,835
Receipts from other operations		75,259	99,495
Payments to suppliers and vendors		(597,155)	(572,882)
Payments to employees		(425,392)	(430,540)
Net cash used for operating activities		(550,752)	(576,092)
Cash flows from capital and related financing activities:			
Cash (used for) provided by:			
Additions to transportation property		(543,855)	(456,588)
Interest paid		(257,910)	(246,876)
(Increase)/decrease in deferred credits/charges		(704)	11,928
Payments on long-term debt		(790,455)	(508,025)
Proceeds from bond and note issuances		727,210	1,018,865
Proceeds/(payments) from/to bond construction and reserve accounts		221,014	(328,996)
Proceeds from bond premiums		66,830	67,439
Capital leases		(21,496)	(18,270)
Capital grants		183,536	171,583
Other		(8,646)	16,183
Net cash used for capital and related financing activities		(424,476)	(272,757)
Cash flows from noncapital and related financing activities:			
Sales tax and local assessment		867,002	847,539
Reimbursable payments		11,914	11,932
Other		(4,250)	13,429
Net cash provided by noncapital and related financing activities		874,666	872,900
Cash flows from investing activities:			
Interest and other income		35,843	12,594
Net cash provided from investing activities		35,843	12,594
Change in cash, temporary cash investments, restricted, and other special accounts		(64,719)	36,645
Cash, restricted cash and temporary cash investments, beginning of year		244,576	207,931
Cash, restricted cash and temporary cash investments, end of year	$	179,857	244,576
Adjustments to reconcile operating loss to net cash used by operating activities:			
Operating loss	$	(881,265)	(879,572)
Charges not requiring current expenditure of cash:			
Depreciation and amortization		317,032	292,633
Changes in all other working capital accounts except cash, temporary cash investments, and short-term debt		13,481	10,847
Net cash used for operating activities	$	(550,752)	(576,092)

See accompanying notes to financial statements.

(1) The Reporting Entity

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

The Authority is managed by a board of nine directors. The Secretary of the Executive Office of Transportation and Public Works of the Commonwealth is the Chairman. The other eight directors are appointed by the Governor of the Commonwealth. All appointments to the Board became effective July 1, 2000. Since this time, six have been reappointed with two new appointments. The Board has the power to appoint and employ a General Manager and other officers. The Advisory Board, consisting of a representative from each of the cities and towns paying Assessments, has the power to approve the Authority's Program for Mass Transportation and annual operating budget.

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

(2) Summary of Significant Accounting Policies

(a) Funding of Operation

As part of the Commonwealth's Forward Funding Legislation (Chapter 127 of the Acts of 1999 of the Commonwealth or Enabling Act), the Commonwealth's prior funding mechanism was repealed and restated. Effective July 1, 2000, the new legislation allows the Authority to receive a dedicated revenue stream consisting of the assessments on the communities in the Authority's service area (the Assessments) and certain Dedicated Sales Tax. Additionally, the Authority's service territory expanded from 78 to 175 cities and towns. The Authority also funds operations through charges for providing transportation services.

(b) Financial Reporting

The Authority applies U.S. generally accepted accounting principles 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.

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

(Dollars in thousands)

(c) Capital Assets

Capital assets over $5 are stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs.

Depreciation is provided on the straight-line method over the asset's estimated useful life. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2007 and 2006:

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

(d) Construction in Progress

During 2007 and 2006, major construction projects aggregating $513,267 and $510,097, respectively, were completed and transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements and purchases of new rolling stock and other equipment.

Interest on debt used to finance construction projects that is capitalized as part of the Authority's capital assets is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. In fiscal years 2007 and 2006, the net interest cost eligible for capitalization was approximately $34,863 and $30,212, ($36,324 and $35,116 of interest expense offset by $1,461 and $4,904 of interest income), respectively.

Additionally, the Authority, under various interagency agreements, performs construction work on behalf of other state agencies and states. Such construction costs are reimbursed upon completion of the work. Costs incurred during 2007 and 2006 were approximately $7,472 and $10,719, respectively. Amounts owed to the Authority for these costs and prior years costs as of June 30, 2007 and 2006 were approximately $4,659 and $4,747, respectively, and are presented in accounts receivable in the accompanying statements of net assets.

(e) Self Insurance

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

(f) Capital Grants and Contributions

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

(g) Statements of Cash Flows

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

(h) 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.

(i) Compensated Absences

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2007 and 2006 was approximately $16,568 and $16,000, respectively.

(j) Restricted Cash and Investment Accounts

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

- Bond Construction Accounts – represents unexpended bond proceeds.
- Lease Deposits – represents cash held by trustees to be used to pay lease payments on the Authority’s defeased capital leases.
- Bond Reserve Accounts – represents cash funds required to be maintained by bond indentures.
- Stabilization Account – represents funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Other Accounts – represents funds held in accordance with the Authority’s Trust Agreements for capital maintenance, debt service, and other expenses.

(k) Lease accounts

Lease accounts represent amounts required to be used to pay lease payments under payment undertaking agreements on the Authority’s capital leases. See footnote 8.

(l) Materials and Supplies

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

(m) Interest Rate Swaps

The Authority accounts for interest rate swaps in accordance with GASB technical bulletin 2003-1. All premiums received by the Authority in connection with the swaps/swaptions are deferred and amortized as a component of interest expense over the life of the swap/swaption.

(n) Available Unrestricted Resources

The Authority adopted the policy of generally utilizing available unrestricted resources prior to restricted resources.

(o) Reclassifications

Certain reclassifications were made to the 2006 statements to conform to the current year presentation. Specifically, the Authority revised the treatment of retainage and capital accounts payable in its net assets calculation. This resulted in a decrease in net assets invested in capital assets and a corresponding decrease in the unrestricted net assets deficit of approximately $9,800 at June 30, 2006.

(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

(Dollars in thousands)

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

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

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 forward delivery agreements and auction rate securities, are carried at cost which 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 statements of net assets at June 30, 2007 and 2006:

		2007	2006
Construction accounts	$	159,802	336,976
Bond reserve, stabilization and other accounts		403,378	467,382
Lease deposits		217,795	208,896
Cash and temporary cash investments		97,239	114,559
	$	878,214	1,127,813

(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 are uninsured and uncollateralized. The carrying amount of the Authority's deposits at June 30, 2007 and 2006 was $119,338 and $127,783, respectively. The bank balance at June 30, 2007 and 2006 was $124,385 and $128,807, respectively. Of this amount, $13,340 and $22,119, respectively, was exposed to custodial credit risk as uninsured and uncollateralized.

(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, 2007 and 2006 are presented below. All investments are presented by investment type and maturity.

2007

Investment type		Fair value	Investment maturities (in years): Less than 1 year	1-3	4-8	More than 8
MMDT	$	35,463	35,463	—	—	—
Guaranteed investment contracts		398,533	139,458	—	8,167	250,908
Forward delivery agreements		188,855	188,855	—	—	—
Treasury strips		81,897	2,594	12,334	66,969	—
Certificates of Deposit		14,257	14,257	—	—	—
Auction rate securities		10,802	10,802	—	—	
US Treasuries		29,069	4,841	24,228	—	—
Investments	$	758,876	396,270	36,562	75,136	250,908

2006

Investment type		Fair value	Investment maturities (in years): Less than 1 year	1-3	4-8	More than 8
MMDT	$	50,716	50,716	—	—	—
Guaranteed investment contracts		608,642	55,866	289,164	8,167	255,445
Forward delivery agreements		240,133	240,133	—	—	—
Treasury strips		80,539	3,981	6,572	55,348	14,638
Auction rate securities		20,000	20,000	—	—	—
Investments	$	1,000,030	370,696	295,736	63,515	270,083

The Authority has unrestricted deposits of $71,553 and $55,844 as of June 30, 2007 and 2006, respectively. Restricted deposits held within the Authority's bond construction, stabilization, and other accounts aggregated $47,785 and $71,939 as of June 30, 2007 and 2006.

(c) Credit Ratings

The Authority holds guaranteed investment contracts and forward delivery agreements with a fair value of $587,388 and $848,775 at June 30, 2007 and 2006, respectively. These investments are not rated.

The Authority holds Auction Rate Securities that are invested in short-term investments that mature every 28 or 32 days. The balance held in these Auction Rate Securities was $10,802 and $20,000 as of June 30, 2007 and 2006 respectively. All of these investments have a rating of AAA by Standard & Poor's.

(Dollars in thousands)

Investments in Treasuries and Treasury Strips are United States government obligations. The Authority had $110,966 and $80,539 invested in such investments as of June 30, 2007 and 2006.

The Authority also has $35,463 and $50,716 invested in MMDT as of June 30, 2007 and 2006, a state investment pool managed by Fidelity Investments as agent for the Commonwealth of Massachusetts and shareholders of the MMDT Trust. MMDT is unrated.

(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 are as follows:

	Credit rating Moody's/S&P	2007	% of portfolio
Providers of guaranteed investment contracts and forward delivery agreements:			
Rabobank	Aaa/AAA	$ 128,629	16.9%
AMBAC	Aaa/AAA	111,601	14.7
Wachovia Bank	Aa1/AA	85,403	11.3
MBIA	Aa2/AA	78,776	10.4
AIG Matched Funding	Aa2/AA	46,718	6.2
		$ 451,127	

	Credit rating Moody's/S&P	2006	% of portfolio
Providers of guaranteed investment contracts and forward delivery agreements:			
IXIS Funding Corp.	Aa3/AA-	$ 288,938	28.9%
AMBAC	Aaa/AAA	105,273	10.5
Wachovia Bank	Aa2/AA-	102,599	10.3
AIG Matched Funding	Aa2/AA	80,173	8.0
Bank of America	Aa1/AA	73,270	7.3
MBIA	Aa2/AA	64,973	6.5
FSA Capital	Aaa/AAA	52,797	5.3
		$ 768,023	

(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, 2007 and 2006.

(4) Commuter Railroad

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

The Authority entered into an operating agreement with Massachusetts Bay Commuter Railroad Company (MBCRC) beginning July 1, 2003 for a period of five years to provide commuter railroad service over the Authority's rail lines. The Authority will pay MBCRC a total fixed base contract amount of $1,050,081 over this five-year period, with remaining payments at June 30, 2007 totaling $215,421.

(5) Long-Term Debt

(a) Bonds Payable

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

Debt issued by the Authority and outstanding at June 30, 2000 (prior obligations) is backed by the full faith and credit of the Commonwealth until the debt is paid off. Principal and interest payments on that debt were also subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2007 prior obligations in the amount of $1,305,465 are outstanding.

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

During fiscal year 2007, the Authority issued one series of Assessment Bonds and two series of Sales Tax bonds: the 2006 Series A Assessment Bonds for $163,145, the 2006 Series B Sales Tax bonds for $224,890 and the 2007 Series A Sales Tax Bonds for $339,175.

The 2006 Series A Assessment Bonds principal is payable July 1, 2007 and July 1, 2024 through July 1, 2031 and on July 1, 2035. The 2006 Series B Sales Tax Bonds principal is payable on July 1, 2007 through July 1, 2023. The 2007 Series A Sales Tax Bonds principal is payable July 1, 2021 through July 1, 2037. Interest is payable semiannually on July 1st and January 1st on all three bond issues. The 2006 Series A Assessment bonds and 2006 Series B Sales Tax Bonds were used to refinance higher interest rate debt which is more fully described in footnote 5(b). $205,675 of the 2007 Series A Sales

Tax Bonds were used to refinance higher interest rate debt while $133,500 of the 2007 Series A Sales Tax Bonds were used to fund a portion of the Authority's capital program.

In September 2006, the Authority entered into two swap agreements with Lehman Brothers Special Financing Inc. in the notional amounts of $19,260 and $5,000 respectively, which is equal to the par amounts of the CPI Bonds issued in connection with its Assessment Bonds, 2006 Series A. These swaps provide that the Authority will pay a fixed rate of 4.67% and 4.66%, respectively, on the notional amounts and will receive a floating rate on the notional amounts based on the MUNI-CPI Rate.

In November 2006, the Authority entered into a swap with Lehman Brothers Special Financing Inc. in the notional amount of $131,910. This swap is effective February 28, 2008, and pursuant to the swap the Authority will receive a variable rate equal to the BMA Index and pay a fixed rate of 3.834%.

During fiscal year 2006, the Authority issued three series of Sales Tax Bonds: the 2005 Series B for $92,765, the 2006 Series A for $240,565 and the 2006 Series C for $260,535. Principal is payable July 1, 2006 and July 1, 2009 through July 1, 2029 on the 2005 Series B, from July 1, 2006, July 1, 2022 and July 1, 2028 through July 1, 2034 on the 2006 Series A and from July 1, 2007 through July 1, 2034 on the 2006 through July 1, 2034 on the 2006 Series C. Interest is payable semiannually on July 1st and January 1st on all three series. The 2005 Series B Sales Tax Bonds and the 2006 Series A Sales Tax Bonds were used to refinance higher interest rate debt which is more fully described in footnote 5(b). The 2006 Series C Sales Tax Bonds were issued to fund the Authority's capital program.

The Authority also issued the 2005 Series A Assessment bonds for $425,000 in fiscal year 2006. Principal is payable on July 1, 2006 through July 1, 2035. Interest is payable semiannually on July 1st and January 1st. The 2005 Series A Assessment bonds were issued to refund $112,500 in Bond Anticipation Notes (BANS) while the remaining proceeds were used to finance new vehicles, commuter rail expansion, new automated fare collection equipment and other system-wide maintenance projects.

In August 2005, the Authority entered into a forward starting swap with Bear Stearns Financial Products Inc. for a notional amount of $280,000, which is the approximate par amount of Senior Sales Tax Bonds that were anticipated to be issued by the MBTA in January 2007 to fund a portion of the Authority's capital program and was to be effective commencing January 10, 2007. Pursuant to the swap the Authority was to receive a variable rate equal to the BMA Index and was to pay a fixed rate of 4.168%. In June 2006, the Authority issued the 2006 Series C Sales Tax Bonds with a par value of $260,535 and which terminated the $280,000 notional forward swap. The MBTA received a swap termination payment of $6,395.

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

(Dollars in thousands)

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

The Authority's bonds outstanding at June 30, 2007 are as follows:

	Final year of maturity	Interest rates	Outstanding principal June 30, 2007	Due in fiscal 2008
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.0% – 6.6%	$ 12,075	1,725
1991 Series A Bonds dated November 15, 1991	2021	7.00%	75,000	—
1992 Series C Refunding Bonds dated December 1, 1992	2021	6.20%	125,200	—
1992 Series B Bonds dated November 15, 1992	2023	6.10%	15,575	—
1993 Series A Refunding Bonds dated June 1, 1993	2022	5.4% – 5.5%	140,400	38,535
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.0%	129,495	21,065
1995 Series A Bonds dated April 1, 1995	2025	5.5% – 5.875%	97,835	5,660
1998 Series A Bonds dated February 15, 1998	2026	4.3% – 5.5%	290,415	1,300
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	190,960	31,480
1999 Series Variable Rate Demand Obligation dated June 29, 1999	2014	Variable	40,510	4,685
2000 Series Variable Rate Demand Obligation March 10, 2000	2030	Variable	188,000	—
			1,305,465	104,450
Boston metropolitan district bonds:				
1998 Series A dated November 1, 1998	2008	4.0% – 4.1%	$ 1,060	510
2002 Series A dated December 1, 2002	2014	5.125% – 5.25%	15,855	1,820
			16,915	2,330

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal June 30, 2007	Due in fiscal 2008
Revenue bonds:				
2000 Series A Assessment				
Bond dated August 1, 2000	2030	4.9% – 5.75%	41,785	—
2000 Series A Senior Sales Tax				
Bond dated August 1, 2000	2010	4.7% – 4.8%	11,645	—
2002 Series A Senior Sales Tax				
Bond dated November 1, 2002	2017	3.0% – 5.0%	28,495	1,930
2003 Series A Senior Sales Tax				
Bond dated January 29, 2003	2021	2.25% – 5.25%	205,380	2,645
2003 Series B Senior Sales Tax				
Bond dated February 26, 2003	2023	Auction Rate	93,375	—
2003 Series C Senior Sales Tax				
Bond dated February 3, 2004	2023	2.20% – 6.0%	224,070	3,255
2004 Series A Senior Sales Tax				
Bond dated February 3, 2004	2016	2.20% – 5.25%	16,455	—
2004 Series B Senior Sales Tax				
Bond dated March 9, 2004	2030	2.0% – 5.25%	511,375	—
2004 Series A Assessment				
Bond dated June 10, 2004	2021	3.0% – 5.25%	55,585	—
2004 Series C Sales Tax Bond				
dated December 22, 2004	2024	3.5% – 5.5%	323,275	—
2005 Series A Sales Tax Bond				
dated March 24, 2005	2035	5.00%	775,035	—
2005 Series A Assessment				
Bond dated September 8, 2005	2035	3.0% – 5.0%	201,250	1,000
2005 Series B Sales Tax Bond				
Bond dated December 21, 2005	2029	3.15% – 5.5%	92,320	—
2006 Series A Sales Tax Bond				
Bond dated March 2, 2006	2034	4.0% – 5.25%	238,850	—
2006 Series C Sales Tax Bond				
Bond dated June 28, 2006	2034	4.0% – 5.0%	139,080	600
2006 Series A Assessment Bonds				
Bond dated September 13, 2006	2035	4.67% – 5.25%	163,145	1,805
2006 Series B Senior Sales Tax Bonds				
Bond dated December 5, 2006	2023	4.0% – 5.25%	224,890	3,640
2007 Series A Senior Sales Tax Bonds				
Bond dated May 24, 2007	2037	4.55% – 5.25%	339,175	—
			3,685,185	14,875

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal June 30, 2007	Due in fiscal 2008
Grant Anticipation Notes (GANS):				
2004 Series A Grant Anticipation Notes dated August 5, 2004	2011	2.0% – 5.0%	$ 71,835	15,560
Total bond and notes payable			5,079,400	137,215
Less current maturities			(137,215)	
Total long-term bonds payable			4,942,185	
Plus – unamortized bond premiums			368,014	
Less – unamortized bond discounts/losses on bond refundings, net			(303,287)	
Total long-term bonds payable			$ 5,006,912	

(Dollars in thousands)

The annual maturities of bonds and notes payable as of June 30, 2007 are as follows:

		Principal	Interest
Fiscal years:			
2008	$	137,215	257,385
2009		147,655	253,222
2010		177,995	244,708
2011		181,905	235,037
2012		186,705	224,540
2013 – 2017		1,059,755	954,595
2018 – 2022		1,114,795	674,593
2023 – 2027		984,963	446,886
2028 – 2032		764,763	233,279
2033 – 2037		318,502	106,058
2038		5,147	16,443
Total	$	5,079,400	3,646,746

A summary rollforward of bonds for the years ended June 30, 2007 and 2006 is as follows:

		Balance 2006		Bonds Issued		Principal Payments		Refunded principal		Balance 2007
General Transportation	$	1,626,960	$	—	$	91,665	$	229,830	$	1,305,465
Boston Metropolitan District		19,045		—		2,130		—		16,915
Revenue		3,414,975		727,210		45,790		411,210		3,685,185
Grant Anticipation Notes		81,665		—		9,830		—		71,835
	$	5,142,645	$	727,210	$	149,415	$	641,040	$	5,079,400

(Dollars in thousands)

	Balance 2005	Bonds Issued	Principal Payments	Refunded Principal	Balance 2006
General Transportation	$ 1,770,835	—	53,755	90,120	1,626,960
Boston Metropolitan District	21,000	—	1,955	—	19,045
Revenue	2,665,505	1,018,865	14,185	255,210	3,414,975
Grant Anticipation Notes	81,665	—	—	—	81,665
Bond Anticipation Notes	92,800	—	92,800	—	—
	$ 4,631,805	1,018,865	162,695	345,330	5,142,645

The following funds, included in restricted assets at June 30, 2007 and 2006, are in connection with the Authority's revenue bond trust agreements:

	2007			2006		
	Assessment bonds	Sales tax bonds	GANs	Assessment bonds	Sales tax bonds	GANs
Debt service	$ 14,329	134,646	—	16,817	123,652	—
Debt service reserve	40,013	147,784	8,288	109,499	131,703	8,288
	$ 54,342	282,430	8,288	126,316	255,355	8,288

The minimum required balances in the debt service reserve funds at June 30, 2007 and 2006 were $39,473 and $48,050 for the assessment bonds and $145,499 and $117,743 for the sales tax bonds, respectively. The minimum required balance in the debt service reserve funds at June 30, 2007 and 2006 for Grant Anticipation Notes is $7,364. In addition, for the years ended 2007 and 2006, the Authority collected $867,002 and $847,539 in pledged revenue ($728,424 and $711,086 in dedicated sales tax receipts and $138,578 and $136,453 in local assessments), respectively. The Authority has complied with its financial bond covenants.

In order to take advantage of the low interest rate short-term capital market, the Authority issues commercial paper to raise funds in order to pay its capital costs. The Authority has a $200 million commercial paper program. $100 million is administered by Bear Stearns and $100 million by Lehman Brothers. Authority commercial paper is rated P-1 by Moody's Investor Services and A-1+ by Standard and Poor's. The Authority did not have any outstanding commercial paper as of June 30, 2007.

(b) Debt Refundings

In current and prior years, the Authority defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2007 and 2006, $1,826,515 and $1,907,785 of these bonds, considered defeased in-substance, are still outstanding, respectively.

In May 2007, the Authority refunded $39,250 of the 2000 Series A Assessment Bonds, $16,975 of the 2000 Series A Sales Tax Bonds, $8,325 of the 2002 Series A Sales Tax Bonds, $53,300 of the 2005 Series A Assessment Bonds and $121,455 of the 2006 Series C Sales Tax Bonds with the issuance of the 2007 Series A Sales Tax Bonds. The total par value of the 2007 Series A Sales Tax Bonds was –$339,175, of which $205,675 was used to refund the amounts noted above. The difference in cash flows between the debt service on the prior debt and the new debt issued to refund the bonds is approximately $28,934. The net present value or economic gain on the refunding is $14,705. The accounting loss of $1,882 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2007 Series A Sales Tax Bonds.

In December 2006, the Authority refunded $5,500 of the 1997 Series B General Transportation System Bonds and $224,330 of the 1997 Series C General Transportation System Bonds with the issuance of the 2006 Series B Sales Tax Bonds. These two 1997 series of General Transportation System Bonds were pledged under a forward swap that would have become effective in December 2006 but the issuance of the 2006 Series B Sales Tax bonds refunding these two 1997 series of bonds terminated the forward swap. The MBTA also received a swap termination payment of $5,675 in December 2006. The difference in cash flows between the prior debt service and the new debt service is approximately $25,328. The net present value or economic gain on the refunding is $15,569. The accounting loss of $25,080 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2006 Series B Sales Tax Bonds.

In September 2006, the Authority refunded $2,355 of 2005 Series A Sales Tax bonds and $169,550 of 2005 Series A Assessment Bonds with the issuance of the 2006 Series A Assessment bonds that have a par value of $163,145. The difference in cash flows between the prior debt service and the new debt service is approximately $15,205. The net present value or economic gain on the refunding is $6,435. The accounting loss of $1,671 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2006 Series A Assessment Bonds.

In December 2005, the Authority refunded $90,120 in General Transportation System Bonds with the issuance of the 2005 Series B Sales Tax Bonds. The refunding qualified as an "in-substance defeasance". The difference in cash flows between the prior debt service and the new debt service is approximately $13,972. The net present value or economic gain on the refunding is $11,321. The accounting loss of $7,169 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2005 Series B Sales Tax Bonds.

In March 2006, the Authority refunded $135,440 in 2004 Series A Assessment Bonds and $119,770 in 2002 Series A Sales Tax Bonds with the issuance of the 2006 Series A Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt service is approximately $25,672. The net present value or economic gain on the refunding is $13,808. The accounting loss of $10,562 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2006 Series A Sales Tax Bonds.

(Dollars in thousands)

(c) Derivative Investments

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

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Effective date	Notional amount	Termination date	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Lump-sum payment from counterparty	Counterparty credit rating at June 30, 2007 Moody's/S&P	Fair value appreciation (depreciation) at June 30, 2007	Fair value appreciation (depreciation) at June 30, 2006
September 2005	$ 188,000	2030	GTS Series 2000 VRDO	5.00%	67% of Libor	$ 12,230 (August 2005)	Aaa/AA+	$ (24,256)	$ (23,835)
February 2003	87,805	2022	Senior Sales Tax Series 2003 B	5.20	BMA	4,586 (August 2007)	Aaa/AAA	(4,190)	(2,928)
February 2004	25,005	2020	* Senior Sales Tax Series 2003 C	4.13	CPI+79 basis points	N/A	Aa3/A+	(1,244)	(623)
September 2006	19,260	2024	** Assessment Series 2006A	4.67	CPI+123 basis points	N/A	A1/A+	(1,140)	—
September 2006	5,000	2025	*** Assessment Series 2006A	4.66	CPI+123 basis points	N/A	A1/A+	(290)	—
								$ (31,120)	(27,386)

* This swap relates only to the July 1, 2020 maturity which has a variable rate of interest.
** This swap relates only to the July 1, 2024 maturity which has a variable rate of interest.
*** This swap relates only to the July 1, 2025 maturity which has a variable rate of interest.

(Dollars in thousands)

Swap Payments and Associated Debt. As of June 30, 2007, debt service requirements of the GTS Series 2000 VRDO (2000 Bonds) bonds and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of Libor rate is 3.56% and the variable rate on the 2000 Bonds is 3.70% through the term of the swap, were as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

Fiscal year ending June 30	2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2008	$ —	$ 6,956	$ 2,699	$ 9,655
2009	—	6,956	2,699	9,655
2010	—	6,956	2,699	9,655
2011	—	6,956	2,699	9,655
2012	2,335	6,927	2,688	11,950
2013 – 2017	31,405	31,794	12,336	75,535
2018 – 2022	44,050	24,955	9,683	78,688
2023 – 2027	61,775	15,364	5,961	83,100
2028 – 2030	48,435	3,068	1,190	52,693
Totals	$ 188,000	109,932	42,654	340,586

As of June 30, 2007, debt service requirements of the 2003 B-1 and 2003 B-2 hedged bonds and net swap payments, applying the fixed rate on the swap of 5.2% and assuming the BMA rate is 3.73% and the variable rate on the 2003 B-1 bonds is 3.70% and 2003 B-2 bonds is 3.72% through the term of the swap, were as follows. As rates vary, variable rate interest rate payments on the 2003 bonds and net swap payments will vary.

Fiscal year ending June 30	2003 B Bonds principal	2003 B Bonds interest	Interest rate swap, net	Total
2008	$ —	$ 3,261	$ 1,291	$ 4,552
2009	—	3,261	1,291	4,552
2010	—	3,261	1,291	4,552
2011	—	3,261	1,291	4,552
2012	—	3,261	1,291	4,552
2013-2017	33,775	13,535	5,357	52,667
2018-2022	54,030	6,241	2,472	62,743
	$ 87,805	36,081	14,284	138,170

(Dollars in thousands)

As of June 30, 2007, debt service requirements on the 2003 Series C Sales Tax bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming the variable rate on the bonds is 5.67% (CPI rate of 4.88% plus 79 basis points) through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary.

Fiscal year ending June 30	2003 C Bonds principal	2003 C Bonds interest	Interest rate swap, net	Total
2008	$ —	$ 1,220	$ (385)	$ 835
2009	—	1,220	(385)	835
2010	—	1,220	(385)	835
2011	—	1,220	(385)	835
2012	—	1,220	(385)	835
2013-2017	—	6,101	(1,925)	4,176
2018-2020	25,005	3,255	(1,028)	27,232
	$ 25,005	15,456	(4,878)	35,583

As of June 30, 2007, debt service requirements on 2006 Series A Assessment bonds and net swap payments, applying the fixed rate on the swap of 4.67% and assuming the variable rate on the bonds is 6.11% (CPI rate of 4.88% plus 123 basis points) through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year ending June 30	2006A Assessment Bonds principal	2006A Assessment Bonds interest	Interest rate swap, net	Total
2008	$ —	$ 940	$ (277)	$ 663
2009	—	940	(277)	663
2010	—	940	(277)	663
2011	—	940	(277)	663
2012	—	940	(277)	663
2013-2017	—	4,699	(1,387)	3,312
2018-2022	—	4,699	(1,387)	3,312
2023-2024	19,260	1,880	(555)	20,585
	$ 19,260	15,978	(4,714)	30,524

(Dollars in thousands)

As of June 30, 2007, debt service requirements on 2006 Series A Assessment bonds and net swap payments, applying the fixed rate on the swap of 4.66% and assuming the variable rate on the bonds is 6.11% (CPI rate of 4.88% plus 123 basis points) through the term of the swap were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

Fiscal year ending June 30	2006 A Assessment principal	2006 A Assessment interest	Interest rate swap, net	Total
2008	$ —	$ 244	$ (73)	$ 171
2009	—	244	(73)	171
2010	—	244	(73)	171
2011	—	244	(73)	171
2012	—	244	(73)	171
2013-2017	—	1,220	(363)	857
2018-2022	—	1,220	(363)	857
2023-2025	5,000	732	(218)	5,514
	$ 5,000	4,392	(1,309)	8,083

Swaptions:

Date of execution of swaption	Notional amount	Lump-sum payment from counter-party	Counter-party option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counter-party credit rating at June 30, 2007 Moody's/S&P	Fair value appreciation (depreciation) at June 30, 2007	Fair value appreciation (depreciation) at June 30, 2006
December 2001	$ 79,645	$ 4,140 (August 2005)	Each March and September from 2009 through and including 2011	2030	GTS Bonds, 1999 Series A maturing 2026 and 2030	5.610%	BMA	Aaa/AAA	$ (10,414)	$ (8,578)

(Dollars in thousands)

Forward starting swaps:

Date of execution of swaption	Notional amount	Lump-sum payment from counter-party	Counter-party option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counter-party credit rating at June 30, 2007 Moody's/S&P	Fair value appreciation (depreciation) at June 30, 2007	Fair value appreciation (depreciation) at June 30, 2006
June 2005	$ 47,055	N/A	Forward swap effective commencing April 3, 2010 through July 1, 2030	2030	2000 Series A Assessment Bonds maturing 2011 through 2030	4.13%	BMA	Aaa/AA+	$ 587	$ 1,411
November 2006	131,910	N/A	Forward swap effective commencing February 28, 2008 through July 1, 2021	2021	GTS Bonds 1998 Series A maturing 2016,2017, 2018, and term 2021	3.83	BMA	A1/A+	2,287	—
									2,874	1,411

These forward starting swaps are generally exercisable from February 2008 through July 2030.

Asset-Side Swaption for Reserve Investment

Date of execution of swaption	Notional amount	Lump-sum payment from counter-party	Counter-party option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counter-party credit rating at June 30, 2007 Moody's/S&P	Fair value appreciation (depreciation) at June 30, 2007	Fair value appreciation (depreciation) at June 30, 2006
December 2000	$ 49,123	$ 1,265 (July 2001)	January 1st and July 1st from July 2010 through July 2030	2030	Debt Service Reserve Fund for 2000 Assessment and Sales Tax Bonds	5.60%	BMA	Aaa/AA+	$ (1,545)	$ (1,986)

(Dollars in thousands)

Fuel Hedge

Commodity type	Initial notional amount	Counter-party (ratings-Moody's/S&P)	Price	Trade Date	Termination Date	Price Source
Bus/CRR Fuel Heating Oil	3,632,554 gallons	Aa3/A+	$ 2.05 per gallon	09/05/06	06/30/07	NYMEX-Heating Oil First Nearby
Bus/CRR Fuel Heating Oil	3.,290,956 gallons	Aa3/A+	1.89 per gallon	09/19/06	06/30/07	NYMEX-Heating Oil First Nearby
Bus/CRR Fuel Heating Oil	5,856,259 gallons	Aa3/A+	1.76 per gallon	10/30/06	06/30/07	NYMEX-Heating Oil First Nearby
Bus/CRR Fuel Heating Oil	4,383,148 gallons	Aa3/A+	1.775 per gallon	01/05/07	06/30/08	NYMEX-Heating Oil First Nearby
Bus/CRR Fuel Heating Oil	4,831,636 gallons	Aa3/A+	1.76 per gallon	01/10/07	06/30/08	NYMEX-Heating Oil First Nearby

Risk Disclosure

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

Basis Risk – The Authority is exposed to basis risk if the relationship between the floating index the Authority receives under the Swaps (i.e., BMA, CPI plus 79 basis points, CPI plus 123 basis points or 67% of LIBOR, as applicable) is less than the variable rate payable by the Authority on the associated bonds. Should this occur with respect to a Swap, the Authority will be a net payor under such Swap. Conversely, if the floating index the Authority receives on such Swap is greater than the variable rate payable by the Authority on the associated bonds, the Authority would be a net recipient under such Swap. See "Swap Payments and Associated Debt" above for information as of June 30, 2007 for each Swap and whether the Authority would be a net payor or net recipient assuming the variable rates in effect June 30, 2007 remained the same for the term of the applicable bonds.

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

Rollover Risk – The swaps extend through the final maturity of the bonds, however, upon an event of termination of the swaps, the Authority will no longer realize the synthetic rate on the 2000 GTS Variable Rate Demand Obligations, the 2003 Series B Senior Sales Tax bonds, the July 1, 2020 maturity on the 2003 Series C Senior Sales Tax bonds, the July 1, 2024 maturity on the 2006 Series A Assessment bonds and the July 1, 2025 maturity on the 2006 Series A Assessment bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place.

Market Access Risk and Potential Basis Risk – In the case of the swaption, if the option is exercised and refunding bonds are not issued, the Authority would make net swap payments as required by the terms of each contract, as set forth above. If the option is exercised (and assuming the variable rate bonds are issued in the case of this transaction), the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.

(6) Deferred Revenue

The deferred revenue amount relates principally to a settlement received from a supplier of green line cars which will be amortized over a remaining life of 4 years and the deferral of swap premiums received which will be amortized over the applicable swap term.

(7) Retirement Plans

The Authority provides retirement benefits to employees through four defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Plan, the MBTA Police Association Plan, the MBTA Deferred Compensation Plan, the MBTA Qualified Deferred Compensation Plan, and the MBTA Deferred Compensation Savings Plan. The Authority also provides supplemental pension benefits after retirement.

The MBTA Retirement Plan, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. This retirement plan and the MBTA Police Association Plan, a single-employer plan, provide retirement, disability, and death benefits. Both plans issue a financial report that includes financial statements and required supplementary information for that plan. The MBTA Retirement Plan report may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Plan may be obtained by writing to P.O. Box 6807, Boston, MA 02102 or by calling 1-800-281-0063.

The MBTA Deferred Compensation Plan, a single-employer plan, provides supplemental pension benefits for certain executive and Local 453 (collective bargaining unit) employees after retirement. Employees may participate in both the MBTA Retirement Plan and the MBTA Deferred Compensation Plan.

(Dollars in thousands)

The Authority created a new Qualified Deferred Compensation Plan effective January 1, 2001. The Plan is designed to supplement the Authority's Retirement Plan (Main Fund). Covered employees include all actively employed nonunion employees who are participating in the Authority's Main Fund or the Police Association Retirement Plan. Employees are eligible after five years with the Authority, if they have reached age 30 and are paid as part of the executive payroll. The Plan currently provides benefits for 187 retirees. An actuarial valuation was performed on this plan; however, the cost of this plan to the Authority for fiscal 2007 was minimal and no contributions were made to this Plan in fiscal 2007. In addition, the net pension obligation is considered immaterial.

(a) Funding Policy and Annual Pension Cost

The board of trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members to contribute 4% with the Authority currently paying an amount equal to approximately 10.40% of total payroll. The actuarial required contribution rate for the Authority was 9.47%. The contribution requirements for the Police Association Plan were 12.82% for the Authority and 7.44% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made to this Plan in 2007 and 2006 were in accordance with these contribution requirements.

Deferred Compensation contributions are made on a "pay-as-you-go" basis. The Authority's annual pension cost for the years ended June 30, 2007 and 2006 and related information for each plan is as follows:

	2007		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**Deferred Compensation Plan**
Annual pension cost – Authority	$ 35,995	1,819	4,609
Contributions made – Authority	38,420	1,750	4,457
Actuarial valuation date/update	6/30/2007	6/30/2007	6/30/2007
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period remaining	30 years	8 years	30 years
Asset valuation method	5 year moving	4 year smoothing	Fair value
Actuarial assumptions:			
Interest rate	7.50%	7.00%	8.00%
Projected salary increases	5.00	4.50	5.00

(Dollars in thousands)

	2006		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**Deferred Compensation Plan**
Annual pension cost – Authority	$ 35,350	1,970	4,609
Contributions made – Authority	34,104	1,632	4,293
Actuarial valuation date/update	6/30/2006	6/30/2006	6/30/2006
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period remaining	30 years	9 years	30 years
Asset valuation method	5 year moving	4 year smoothing	Fair value
Actuarial assumptions:			
Interest rate	7.25%	7.00%	8.00%
Projected salary increases	5.00	4.50	5.00

Changes in the net pension obligation for these plans for the years ended June 30, 2007 and 2006 are as follows:

	2007		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**Deferred Compensation Plan**
Net pension obligation – beginning of year	$ (13,006)	(433)	(6,990)
Annual pension cost	(35,995)	(1,819)	(4,609)
Contributions and other adjustments	38,420	1,750	4,740
Net pension obligation – end of year	$ (10,581)	(502)	(6,859)

	2006		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**Deferred Compensation Plan**
Net pension obligation – beginning of year	$ (2,483)	(95)	(6,674)
Annual pension cost	(35,350)	(1,970)	(4,609)
Contributions and other adjustments	24,827	1,632	4,293
Net pension obligation – end of year	$ (13,006)	(433)	(6,990)

(Dollars in thousands)

(b) Three-Year Trend Information

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension asset (obligation)
MBTA Retirement Plan				
	06/30/05	$ 30,160	113%	$ (2,483)
	06/30/06	35,350	96	(13,006)
	06/30/07	35,995	107	(10,581)
MBTA Police Association Plan				
	06/30/05	1,686	103%	(95)
	06/30/06	1,970	83	(433)
	06/30/07	1,819	96	(502)
MBTA Deferred Compensation Plan				
	06/30/05	4,531	90%	(6,674)
	06/30/06	4,609	93	(6,990)
	06/30/07	4,609	95	(6,859)

(c) The MBTA Deferred Compensation Savings Plan

The Authority provides a defined contribution retirement plan for nonunion and grandfathered union management not participating in the MBTA Retirement Plan. Authority employee trustees administer the Plan and recommend benefit amendments which require approval from the Authority's General Manager. The Plan requires members to contribute 4% of total covered payroll with the Authority contributing 8%. The Plan has approximately 283 and 267 members at June 30, 2007 and 2006, respectively, and the cost of the Plan to the Authority was $790 and $701 for fiscal years 2007 and 2006, respectively. Member contributions vest to Plan members immediately, while contributions made by the Authority vest to Plan members as follows: 50% after three years; 75% after four years; and 100% after five years of credited service.

(d) Other Post-Employment Benefits

The Authority pays 100% of health insurance to retired employees eligible under the Deferred Compensation Savings Plan, MBTA Retirement Plan and MBTA Police Association Plan. These benefits are expensed on a current (pay-as-you-go) basis. There were approximately 6,907 and 6,104 retired employees eligible to receive post-retirement benefits at June 30, 2007 and 2006, respectively. The cost of these benefits was approximately $57,618 and $50,182 in fiscal years 2007 and 2006, respectively.

(8) Lease Obligations

(a) Lease-In/Lease-Out

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

(b) Sale-In/Lease-Out

In fiscal 2006, the Authority entered into a Sale-in / Lease out (SILO) lease transaction involving 80 commuter rail cars. The transaction consists of an owner participant, creating a business trust with a third-party trust company acting as trustee. The trust is used in part to help insulate other parties to the transaction from risks associated with a bankruptcy by the owner participant. The majority investor lends up to 90% of the loan portion to the trust for payment of acquiring the equipment. The minority investor lends up to 10% of the loan portion to the trust for payment of the equipment. Guaranteed Debt and Equity Payment Undertaking Agreements are in place at AAA/Aaa rated financial institutions. The agreement provides for the lease of the rolling stock owned by the Authority for a period of 23 years on 48 of the cars and 29 years on the remaining 32 cars. The fair market value of the 80 cars under the lease agreement is $220,198. The present value of the remaining rents and purchase option is $203,785 at June 30, 2007. Because this transaction does not meet the criteria for an "in-substance defeasance", the undertaking agreements and related lease liability have been included in the accompanying financial statements. The Authority retains the use of 80 commuter rail cars throughout the term of the SILO.

(c) Cross-Border Leases and Other Capital Lease Arrangements

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

(Dollars in thousands)

Transportation property and facilities under capital leases are summarized as follows and are included in capital assets (see note 9) at June 30, 2007 and 2006:

		2007	2006
Ways and structures	$	298,169	298,168
Rail cars		444,061	443,708
Equipment		26,120	15,722
		768,350	757,598
Less accumulated depreciation		(312,130)	(285,181)
Net transportation property in service under capital lease	$	456,220	472,417

The following is a schedule by year of future minimum lease payments under the lease-in/lease-out, cross-border and other capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2007:

Fiscal years:		
2008	$	124,993
2009		155,272
2010		45,740
2011		78,258
2012		105,881
2013 – 2017		264,186
2018 – 2022		146,734
		921,064
Less amount representing interest		(178,064)
Present value of net minimum lease payments		743,000
Less current principal maturities		(87,346)
Obligations under capital leases	$	655,654

(Dollars in thousands)

The liability for these leases changed for 2007 and 2006 as follows:

Outstanding – June 30, 2005	$	548,583
Net change in obligation		197,175
Outstanding – June 30, 2006		745,758
Net change in obligation		(2,758)
Outstanding – June 30, 2007	$	743,000

(d) Operating Leases

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

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

Future minimum operating lease payments at June 30, 2007 are as follows:

Fiscal years:		
2008	$	13,787
2009		13,515
2010		13,218
2011		11,082
2012		10,167
2013		6,177
	$	67,946

(Dollars in thousands)

(9) Capital Assets

Capital assets at June 30, 2007 and 2006 are as follows:

	Beginning balance June 30, 2006	Increases	Decreases	Ending balance June 30, 2007
Capital assets not being depreciated:				
Land	$ 324,236	1,376	17,538	308,074
Construction work in progress	846,334	555,138	513,267	888,205
Total capital assets not being depreciated	1,170,570	556,514	530,805	1,196,279
Other capital assets:				
Ways and structures	7,694,762	292,039	—	7,986,801
Buildings and equipment	2,274,699	264,881	67,256	2,472,324
Total other capital assets at historical cost	9,969,461	556,920	67,256	10,459,125
Less accumulated depreciation for:				
Ways and structures	2,396,685	170,300		2,566,985
Buildings and equipment	1,108,203	140,058	67,256	1,181,005
Total accumulated depreciation	3,504,888	310,358	67,256	3,747,990
Other capital assets, net	6,464,573	246,562	—	6,711,135
Capital assets, net	$ 7,635,143	803,076	530,805	7,907,414

(Dollars in thousands)

	Beginning balance June 30, 2005	Increases	Decreases	Ending balance June 30, 2006
Capital assets not being depreciated:				
Land	$ 320,101	4,135	—	324,236
Construction work in progress	848,341	508,090	510,097	846,334
Total capital assets not being depreciated	1,168,442	512,225	510,097	1,170,570
Other capital assets:				
Ways and structures	7,332,495	362,267	—	7,694,762
Buildings and equipment	2,176,979	166,644	68,924	2,274,699
Total other capital assets at historical cost	9,509,474	528,911	68,924	9,969,461
Less accumulated depreciation for:				
Ways and structures	2,226,063	170,622	—	2,396,685
Buildings and equipment	1,059,198	117,929	68,924	1,108,203
Total accumulated depreciation	3,285,261	288,551	68,924	3,504,888
Other capital assets, net	6,224,213	240,360	—	6,464,573
Capital assets, net	$ 7,392,655	752,585	510,097	7,635,143

(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 $5,000 subsequent to March 1, 2007, and $350 per incident prior to that date. The Authority is self-insured for workers compensation, unemployment claims, vehicle damage and loss, and health insurance. The Authority pays 85% of all health premiums up to a maximum of $200 per individual for all Blue Cross plans and $100 per individual for Harvard and Tufts plans. Stop loss insurance is carried on health insurance claims in excess of these amounts per individual per illness.

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

(Dollars in thousands)

During fiscal 2007 and 2006, expenditures for claims and judgments, excluding workers compensation, and health and life, were $15,371 and $14,192, respectively. Expenditures for claims related to workers compensation were $11,965 and $16,238, and expenditures for the self-insured health plans were $109,596 and $112,790 for the years ended June 30, 2007 and 2006, respectively.

GASB Statement No. 10 requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers compensation, health claims and injuries and damages (legal claims), as accrued expenses as of June 30, 2007, 2006, and 2005. Changes in the self-insurance liabilities in fiscal 2007, 2006, and 2005 were as follows:

		2007	2006	2005
Liability, beginning of year	$	107,940	95,928	89,106
Provisions for claims		136,932	143,220	129,679
Payments		(132,457)	(131,208)	(122,857)
Liability, end of year	$	112,415	107,940	95,928

(11) Commitments and Contingencies

(a) Capital Investment Program

The Authority’s continuing capital investment program for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2007 and 2006, 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, 2007	Unexpended costs
Federal grants	$	5,453,383	5,330,531	122,852
State and local sources		1,490,117	1,424,902	65,215
Authority bonds		5,180,489	4,877,185	303,304
Total	$	12,123,989	11,632,618	491,371

(Dollars in thousands)

Funding source		Approved project costs	Expenditures through June 30, 2006	Unexpended costs
Federal grants	$	5,273,519	5,149,201	124,318
State and local sources		1,433,260	1,348,620	84,640
Authority bonds		4,988,840	4,583,398	405,442
Total	$	11,695,619	11,081,219	614,400

The Authority is presently authorized by law to issue bonds for capital purposes other than refunding, to an amount not exceeding $5,256,300 outstanding at any time. Such bonds outstanding as of June 30, 2007 amounted to $3,172,817.

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Transportation Equity Act for the 21st Century. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration (FTA). In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

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

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars and other transportation equipment. Unpaid amounts under these contracts total approximately $229,128 and $328,268 at June 30, 2007 and 2006, respectively.

(b) Legal and Other

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

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

(Dollars in thousands)

MBTA Retirement Plan

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	(Funded) unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Year ended December 31:						
2000	$ 1,757,327	$ 1,533,284	$ (224,043)	114.61%	$ 301,132	(74.40)%
2001	1,889,500	1,626,998	(262,502)	116.13	316,403	(82.96)
2002	1,701,048	1,871,543	170,495	90.89	318,824	53.48
2003	1,834,834	1,881,974	47,140	97.50	317,598	14.84
2004	1,772,612	1,854,264	81,652	95.60	321,397	25.41
2005	1,835,223	1,884,151	48,928	97.40	305,551	16.01

Deferred Compensation Plan

The Deferred Compensation Plan is not currently funded, as a result, the normal Schedule of Funding Progress would show no provision having been made for the cost of this plan.

In the table below, Column (b) which normally would have contained the Plan's assets, contains instead the Net Pension Obligation (amounts previously charged against operations but not yet contributed to the Plan). This alternative presentation shows how much of the cost of the program has been charged against operations in prior years.

Valuation date	Actuarial accrued liability (a)	Net pension obligation (b)	Unrecognized actuarial accrued liability (c) (a)-(b)	Recognized ratio (d) (b)/(a)	Unrecognized ratio (e) (c)/(a)	Covered payroll (f)
07/01/01	$ 40,509	$ 4,708	$ 35,801	11.6%	$ 88.4	$ 34,590
07/01/02	41,094	5,211	35,883	12.7	87.3	36,319
07/01/03	41,865	5,734	36,131	13.7	86.3	31,787
07/01/04	42,254	6,200	36,054	14.7	85.3	33,376
07/01/05	43,014	6,991	36,023	16.3	83.7	27,495
07/01/06	42,996	6,707	36,289	15.6	84.4	28,870

See accompanying independent auditors' report.

(Continued)

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

Required Supplementary Information

June 30, 2007

(Unaudited)

(Dollars in thousands)

Police Association Retirement Plan

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	(Funded) unfunded actuarial accrued liability (c) (b)-(a)	(Unfunded) funded ratio (d) (a)/(b)	Covered payroll (e)	UAAL as a percentage of covered payroll (c)/(e)
12/31/00	$ 28,962	$ 31,971	$ 3,009	90.6%	$ 10,351	29.1%
12/31/01	31,282	35,447	4,165	88.3	10,814	38.5
12/31/02	31,377	40,852	9,475	76.8	11,598	81.7
12/31/03	32,263	41,373	9,110	78.0	12,485	73.0
12/31/04	34,427	43,634	9,207	78.9	12,882	71.5
12/31/05	36,802	48,245	11,443	76.3	14,511	78.9

See accompanying independent auditors’ report.