MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.*us*.kpmg.com

Independent Auditors' Report

The Board of Directors
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, 2008 and 2007, 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 includes 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in notes 6 and 11, the Authority, in fiscal 2008 implemented Government Accounting Standards Board (GASB) Statements Nos. 45 and 50, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and *Pension Disclosures,* respectively.

The Authority has not presented a Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined necessary to supplement, although not required to be part of the basic financial statements.

The schedule of funding progress on pages 44 and 45 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 24, 2008 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 24, 2008

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

Statements of Net Assets

June 30, 2008 and 2007

(Dollars in thousands)

Assets		**2008**	**2007**
Current assets:			
Unrestricted cash and temporary cash investments (note 3)	$	117,662	97,239
Restricted cash and temporary cash investments (note 3):			
Bond construction accounts		14,181	20,577
Stabilization accounts		19,722	18,143
Other accounts		53,967	43,898
Lease accounts		104,861	83,751
Accounts receivable:			
Commonwealth of Massachusetts		112,183	105,392
Federal grants		23,216	12,252
Other trade, net		29,718	20,668
Materials and supplies		63,545	55,445
Prepaid expenses		5,390	6,912
Total current assets		544,445	464,277
Restricted cash and investments accounts (note 3):			
Bond construction accounts		—	139,225
Lease deposits		233,549	217,795
Bond reserve accounts		363,028	341,337
Total restricted cash and investments accounts		596,577	698,357
Lease accounts		319,865	424,725
Capital assets, at cost (notes 7, 8, and 10):			
Transportation property, being depreciated		11,119,736	10,459,125
Transportation property, not being depreciated		854,130	1,196,279
Less accumulated depreciation		(3,996,506)	(3,747,990)
Capital assets, net		7,977,360	7,907,414
Other assets:			
Deferred bond issue costs		25,854	26,136
Total other assets		25,854	26,136
Total noncurrent assets		8,919,656	9,056,632
Total assets	$	9,464,101	9,520,909

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, 2008 and 2007

(Dollars in thousands)

Liabilities		**2008**	**2007**
Current liabilities:			
Current maturities of bonds and notes payable (note 5)	$	243,390	137,215
Current capital lease obligations (note 7)		109,206	87,346
Accounts payable		189,290	144,446
Accrued liabilities:			
Payroll and vacation		67,581	25,204
Interest		110,411	111,792
Injuries and damage claims, workers compensation claims, and other (note 9)		38,404	46,667
Total current liabilities		758,282	552,670
Long-term liabilities, less current maturities:			
Bonds payable, net (note 5)		4,817,301	5,006,912
Obligations under capital leases (note 7)		565,635	655,654
Accrued liabilities (note 9)		58,741	65,748
Pension liability (note 6)		21,149	17,942
Other post employment benefits (note 11)		108,941	—
Deferred revenue		36,949	31,119
Total long-term liabilities		5,608,716	5,777,375
Total liabilities		6,366,998	6,330,045
Net Assets			
Invested in capital assets, net of related debt		3,270,890	3,230,432
Restricted		19,722	30,395
Unrestricted		(193,509)	(69,963)
Commitments and contingencies (note 10)			
Total net assets	$	3,097,103	3,190,864

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, 2008 and 2007

(Dollars in thousands)

	2008	2007
Operating revenue:		
Revenue from transportation	$ 440,962	386,488
Other	48,476	45,134
	489,438	431,622
Operating expenses:		
Wages and related employee benefits:		
Wages	387,958	353,900
Medical and dental insurance	61,152	51,978
Other postemployment benefits	158,856	57,618
Pensions	58,054	55,747
Social security taxes	34,331	31,446
Workers compensation	10,871	11,965
Other	2,076	1,968
Capitalized costs	(28,096)	(26,240)
	685,202	538,382
Other operating expenses:		
Depreciation and amortization	383,913	317,032
Materials, supplies, and services	165,549	160,755
Injuries and damages	13,424	15,371
Commuter railroad and local subsidy expenses (note 4)	303,172	278,584
Other	2,527	2,763
	868,585	774,505
Total operating expenses	1,553,787	1,312,887
Operating loss	(1,064,349)	(881,265)
Nonoperating revenue (expense):		
Dedicated sales tax revenue	755,982	733,963
Dedicated local assessments	142,913	139,428
Other income	11,337	24,416
Interest income	24,115	33,718
Interest expense	(257,107)	(221,110)
Nonoperating revenue, net	677,240	710,415
Loss before capital grants	(387,109)	(170,850)
Capital grants and contributions	293,348	186,254
(Decrease) increase in net assets	(93,761)	15,404
Beginning of year net assets	3,190,864	3,175,460
End of year net assets	$ 3,097,103	3,190,864

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, 2008 and 2007

(Dollars in thousands)

		2008	2007
Cash flows from operating activities:			
Receipts from transit customers	$	442,859	396,536
Receipts from other operations		57,327	75,259
Payments to suppliers and vendors		(584,213)	(597,155)
Payments to employees		(425,660)	(425,392)
Net cash used for operating activities		(509,687)	(550,752)
Cash flows from capital and related financing activities:			
Cash (used for) provided by:			
Additions to transportation property		(439,274)	(543,855)
Interest paid		(258,488)	(257,910)
(Increase) decrease in deferred credits/charges		1,522	(704)
Payments on long-term debt		(512,190)	(790,455)
Proceeds from bond and note issuances		411,920	727,210
Proceeds (payments) from/to bond construction and reserve accounts		117,534	221,014
Proceeds from bond premiums		4,124	66,830
Payments on capital leases		(68,159)	(2,788)
Increase (decrease) in lease deposit/account		67,996	(10,254)
Capital grants		282,384	183,536
Other		(10,642)	(17,100)
Net cash used for capital and related financing activities		(403,273)	(424,476)
Cash flows from noncapital and related financing activities:			
Sales tax and local assessment		892,105	867,002
Reimbursable payments		6,654	11,914
Other		3,208	(4,250)
Net cash provided by noncapital and related financing activities		901,967	874,666
Cash flows from investing activity:			
Interest and other income		36,668	35,843
Net cash provided by investing activity		36,668	35,843
Change in cash, temporary cash investments, restricted, and other special accounts		25,675	(64,719)
Cash, restricted cash, and temporary cash investments, beginning of year		179,857	244,576
Cash, restricted cash, and temporary cash investments, end of year	$	205,532	179,857
Adjustments to reconcile operating loss to net cash used in operating activities:			
Operating loss	$	(1,064,349)	(881,265)
Charges not requiring current expenditure of cash:			
Depreciation and amortization		383,913	317,032
Establishment of other post employment liability		108,941	—
Changes in all other working capital accounts except cash, temporary cash investments, and short-term debt		61,808	13,481
Net cash used in operating activities	$	(509,687)	(550,752)

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 Board). The Secretary of Transportation of the Commonwealth is the Chairman. The other eight directors are appointed by the Governor of the Commonwealth for staggered two-year terms and must meet certain eligibility requirements set forth in the Authority's enabling act. 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 enabling act, including funding mechanism was repealed and restated. Effective July 1, 2000, the statute provides the Authority 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 (GAAP) as prescribed by GASB. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services to member communities. All other revenues and expenses are reported as nonoperating revenues and expenses.

(Dollars in thousands)

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

(c) Capital Assets

Capital assets 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, 2008 and 2007:

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

(d) Construction in Progress

During 2008 and 2007, major construction projects aggregating $713,204 and $513,267, 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.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of borrowing until completion of the project, then offsetting that amount with interest earned over the same period by the invested proceeds. During fiscal year 2008, the Authority substantially completed the major projects whose interest costs were previously capitalized. These projects included the Automatic Fare Collection System, the Greenbush Commuter Rail Extension, and several vehicle procurements. Accordingly, the Authority had no material interest expense capitalization for fiscal year 2008.

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 2008 and 2007 were approximately $5,556 and $7,472, respectively. Amounts owed to the Authority for these costs and prior years costs as of June 30, 2008 and 2007 were approximately $2,234 and $4,659, 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, 2008 and 2007 was approximately $15,867 and $16,568, 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 – represent unexpended bond proceeds.
- Lease Deposits – represent cash held by trustees to be used to pay lease payments on the Authority's defeased capital leases.
- Bond Reserve Accounts – represent cash funds required to be maintained by trust agreements.
- Stabilization Accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.

- Other Accounts – represent 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 (note 7).

(l) Lease Deposits

Lease deposits represent investments (treasury strips and a collateralized investment agreement) that will be used to make scheduled equity payments on the Authority's capital leases.

(m) Materials and Supplies

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

(n) 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.

(o) Available Unrestricted Resources

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

(p) Reclassifications

Certain prior year accounts have been reclassified to conform to the 2008 presentation.

(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

(Dollars in thousands)

(C) Federal Intermediate Credit Banks

(D) Bank for Cooperatives

(E) Federal National Mortgage Association

(F) Federal Farm Credit Banks

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

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

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

Deposits and investments consisted of the following amounts presented in the accompanying statements of net assets at June 30, 2008 and 2007:

		2008	2007
Construction accounts	$	14,181	159,802
Bond reserve, stabilization, and other accounts		436,717	403,378
Lease deposits		233,549	217,795
Cash and temporary cash investments		117,662	97,239
	$	802,109	878,214

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority's deposits at June 30, 2008 and 2007 was $58,050 and $119,338, respectively. The bank balance at June 30, 2008 and 2007 was $62,006 and $124,385, respectively. Of this amount, $6,129 and $13,340, respectively, was exposed to custodial credit risk as uninsured and uncollateralized. Subsequent to June 30, 2008, the Federal Deposit Insurance Corporation (FDIC) amount has been increased to $250.

(Dollars in thousands)

The Authority has unrestricted deposits of $58,050 and $71,553 as of June 30, 2008 and 2007, respectively. Restricted deposits held within the Authority's bond construction, stabilization, and other accounts aggregated $47,785 as of June 30, 2007. There were no restricted deposits as of June 30, 2008.

(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.

The Authority's fixed-income investments at June 30, 2008 and 2007 are presented below. All investments are presented by investment type and maturity.

2008

Investment type	Fair value	Investment maturities (in years): Less than 1 year	1-3	4-8	More than 8
MMDT	$ 72,694	72,694	—	—	—
Money market fund	64,724	64,724	—	—	—
Guaranteed investment contracts	270,589	—	8,166	—	262,423
Forward delivery agreements	212,210	212,210	—	—	—
Treasury strips	89,550	3,722	29,101	56,727	—
Certificates of deposit	10,064	10,064	—	—	—
U.S. Treasuries	24,228	6,702	17,526	—	—
Investments	$ 744,059	370,116	54,793	56,727	262,423

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	—	—	—
U.S. Treasuries	29,069	4,841	24,228	—	—
Investments	$ 758,876	396,270	36,562	75,136	250,908

(Dollars in thousands)

(c) Credit Ratings

The Authority holds guaranteed investment contracts and forward delivery agreements with a fair value of $482,799 and $587,388 at June 30, 2008 and 2007, respectively. These investments are not rated.

As of June 30, 2007, the Authority held $10,802 in auction rate securities that are invested in short-term investments maturing every 28 or 32 days. All of these investments had a rating of AAA by Standard & Poor's.

Investments in Treasuries and Treasury Strips are U.S. government obligations. The Authority had $113,778 and $110,966 invested in such investments as of June 30, 2008 and 2007.

The Authority also has $72,694 and $35,463 invested in MMDT as of June 30, 2008 and 2007, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. 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	2008	Percentage of portfolio
Providers of guaranteed investment contracts, forward delivery agreements and money market funds:			
Wachovia Bank	Aa2/AA-	$ 144,127	19.4%
AMBAC	Aa3/AA	118,368	15.9
JP Morgan Chase	Aaa/AA	82,723	11.1
US Bank	Aa2/AA	81,141	10.9
MMDT	N/A	72,694	9.8
MBIA	A2/AA	45,474	6.1
		$ 544,527	

Subsequent to June 30, 2008, the Authority terminated seven investment agreements with MBIA Inc. (MBIA) as a result of a ratings event whereby MBIA's rating was downgraded by both Standard and Poor's and Moody's Investor services. The rating downgrade triggered an event whereby MBIA would have to post collateral, assign the investment agreement to another counterparty, or terminate the agreement.

(Dollars in thousands)

	Credit rating Moody's/S&P		2007	Percentage 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	

(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, 2008 and 2007.

(4) Commuter Railroad

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

The Authority entered into an operating agreement with Massachusetts Bay Commuter Railroad Company (MBCRC) beginning July 1, 2003 for a period of five years to provide commuter railroad service over the Authority's rail lines. This contract was extended three-years through fiscal year 2011. The Authority will pay MBCRC a total fixed base contract amount of $1,799,174 over the approved eight-year period, with remaining payments at June 30, 2008 totaling $749,092.

(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, 2008, prior obligations in the amount of $955,340 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 2008, the Authority issued two series of Sales Tax bonds: the 2008 Series A Sales Tax Bonds in the principal amount of $256,375 and the 2008 Series B Sales Tax Bonds in the principal amount of $49,770.

The 2008 Series A Sales Tax Bonds were issued in two series, A-1, with a par value of $131,910 and A-2, with a par value of $124,465. Principal on the 2008 A-1 series is payable July 1, 2013 through July 1, 2021. Principal on the 2008 A-2 series is payable July 1, 2010 through July 1, 2026. Interest is payable semiannually on July 1 and January 1 on both series. The 2008 Series A Sales Tax Bonds were used to refinance higher interest rate debt, which is more fully described in note 5(b). Both the 2008 A-1 Sales Tax Bonds and 2008 A-2 Sales Tax Bonds bear interest at a variable rate and are hedged by swap agreements, which are more fully described in note 5(c). Subsequent to June 30, 2008, Deutsche Bank replaced Lehman Brothers Special Financing Inc. on both swaps with notional amounts of $131,910 and $124,465. Deutsche Bank's replacement was effective October 1, 2008.

The 2008 Series B Sales Tax Bonds principal is payable July 1, 2011 through July 1, 2033. Interest is payable semiannually on July 1 and January 1. The 2008 Series B Sales Tax Bonds were used to refinance higher interest rate debt and to liquidate $29,750 in commercial paper that was issued in February 2008 to current refund a portion of the March 1, 2008 principal due on the General Transportation System (GTS) bonds. The bonds refunded by the 2008 Series B Sales Tax Bonds are more fully described in note 5(b).

During fiscal year 2008, the Authority issued $105,775 in commercial paper to redeem the Authority's 2003 Series B Auction Rate Bonds in the amount of $93,375 and to fund $12,400 in capital payments.

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 in the principal amount of $163,145, the 2006 Series B Sales Tax bonds in the principal amount of $224,890, and the 2007 Series Sales Tax Bonds in the principal amount of $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 1 and January 1 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 note 5(b). Proceeds from the 2007 Series A Sales Tax Bonds in the amount of $205,675 were used to refinance higher interest rate debt while $133,500 funded 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. Subsequent to June 30, 2008, Deutsche Bank replaced Lehman Brothers Special Financing Inc. on both swaps with notional amounts of $19,260 and $5,000. Deutsche Bank's replacement was effective October 1, 2008.

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

Boston Metropolitan District (BMD) bonds were issued for transit purposes prior to the formation of the Authority in 1964. Certain series of BMD bonds were refunded after 1964.

(Dollars in thousands)

The Authority's bonds outstanding at June 30, 2008 are as follows:

	Final year of maturity	Interest rates	Outstanding principal June 30, 2008	Due in fiscal year 2009
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	$ 8,625	—
1991 Series A Bonds dated November 15, 1991	2021	7.00%	75,000	—
1992 Series B Refunding Bonds dated December 1, 1992	2016	6.20%	125,200	—
1992 Series C Bonds dated November 15, 1992	2013	6.10%	15,575	—
1993 Series A Refunding Bonds dated June 1, 1993	2012	5.50%	101,865	40,495
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25% – 7.0%	108,430	14,980
1995 Series A Bonds dated April 1, 1995	2015	5.70% - 5.88%	79,720	4,820
1998 Series A Bonds dated February 15, 1998	2015	5.50%	57,620	1,355
1998 Series C Bonds dated November 1, 1998	2022	5.25% – 5.75%	159,480	33,145
1999 Series Variable Rate Demand Obligation dated June 29, 1999	2014	Variable	35,825	5,010
2000 Series Variable Rate Demand Obligation dated March 10, 2000	2030	Variable	188,000	—
			955,340	99,805
Boston metropolitan district bonds:				
1998 Series A dated November 1, 1998	2008	4.10%	550	550
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	14,035	1,775
			14,585	2,325

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal June 30, 2008	Due in fiscal year 2009
Revenue bonds:				
2000 Series A Assessment Bond dated August 1, 2000	2030	5.00% – 5.75%	$ 41,785	—
2000 Series A Senior Sales Tax Bond dated August 1, 2000	2010	4.8%	8,770	—
2002 Series A Senior Sales Tax Bond dated November 1, 2002	2017	3.88% – 5.00%	18,530	—
2003 Series A Senior Sales Tax Bond dated January 29, 2003	2021	4.00% – 5.25%	188,270	11,545
2003 Series C Senior Sales Tax Bond dated February 3, 2004	2023	2.20% – 6.00%	220,815	715
2004 Series A Senior Sales Tax Bond dated February 3, 2004	2016	5.00% – 5.25%	16,455	—
2004 Series B Senior Sales Tax Bond dated March 9, 2004	2030	3.00% – 5.25%	503,825	—
2004 Series A Assessment Bond dated June 10, 2004	2021	3.00% – 5.25%	55,585	2,000
2004 Series C Sales Tax Bond dated December 22, 2004	2024	3.50% – 5.50%	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	3.20% – 5.00%	197,250	—
2005 Series B Sales Tax Bond dated December 21, 2005	2029	3.40% – 5.50%	92,320	—
2006 Series A Sales Tax Bond dated March 2, 2006	2034	5.25%	238,850	—
2006 Series C Sales Tax Bond dated June 28, 2006	2027	4.00% – 5.00%	138,480	700
2006 Series A Assessment Bond dated September 13, 2006	2035	4.67% – 5.25%	161,340	—
2006 Series B Senior Sales Tax Bond dated December 5, 2006	2023	5.00% – 5.25%	221,250	4,550
2007 Series A-1 Senior Sales Tax Bond dated May 24, 2007	2034	5.25%	205,675	—

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal June 30, 2008	Due in fiscal year 2009
2007 Series A-2 Senior Sales Tax Bond dated May 24, 2007	2037	Zero Coupon	$ 140,568	—
2008 Series A Sales Tax Bond dated April 2, 2008	2026	3.08% – 3.83%	256,375	—
2008 Series B Sales Tax Bond dated April 30, 2008	2033	3.00% – 5.25%	49,770	—
			3,854,223	19,510
Grant Anticipation Notes (GAN):				
2004 Series A Grant Anticipation Notes dated August 5, 2004	2011	2.75% – 5.00%	56,275	15,975
Commercial paper	2008	1.55% – 1.82%	105,775	105,775
Total bond and notes payable			4,986,198	243,390
Less current maturities			(243,390)	
Total long-term bonds payable			4,742,808	
Plus unamortized bond premiums			354,350	
Less unamortized bond discounts/losses on bond refundings, net			(279,857)	
Total long-term bonds payable			$ 4,817,301	

(Dollars in thousands)

The annual maturities of bonds and notes payable as of June 30, 2008 are as follows:

		Principal	Interest
Fiscal year(s):			
2009	$	243,390	244,221
2010		144,945	239,194
2011		182,370	230,199
2012		188,355	219,670
2013		213,670	210,078
2014 – 2018		1,010,030	875,858
2019 – 2023		1,045,347	621,292
2024 – 2028		1,038,917	403,420
2029 – 2033		672,763	199,579
2034 – 2038		246,411	93,399
Total	$	4,986,198	3,336,910

A summary rollforward of bonds for the years ended June 30, 2008 and 2007 is as follows:

		Balance 2007	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2008
General Transportation	$	1,305,465	—	104,450	245,675	—	955,340
Boston Metropolitan District		16,915	—	2,330	—	—	14,585
Revenue		3,685,185	306,145	14,875	129,300	7,068	3,854,223
GANs		71,835	—	15,560	—	—	56,275
Commercial paper		—	105,775	—	—	—	105,775
	$	5,079,400	411,920	137,215	374,975	7,068	4,986,198

		Balance 2006	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	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
GANs		81,665	—	9,830	—	—	71,835
	$	5,142,645	727,210	149,415	641,040	—	5,079,400

(Dollars in thousands)

The following funds, included in restricted assets at June 30, 2008 and 2007 are in connection with the Authority's revenue bond trust agreements:

	2008			2007		
	Assessment bonds	Sales Tax bonds	GANs	Assessment bonds	Sales Tax bonds	GANs
Debt service	$ 16,146	137,169	—	14,329	134,646	—
Debt service reserve	39,635	163,784	8,287	40,013	147,784	8,288
	$ 55,781	300,953	8,287	54,342	282,430	8,288

The minimum required balances in the debt service reserve funds at June 30, 2008 and 2007 were $39,505 and $39,473 for the Assessment bonds and $142,129 and $145,499 for the Sales Tax bonds, respectively. The minimum required balance in the debt service reserve funds at June 30, 2008 and 2007 for GANs is $5,796 and $7,364, respectively. In addition, for the years ended 2008 and 2007, the Authority collected $892,105 and $867,002 in pledged revenue ($750,063 and $728,424 in dedicated sales tax receipts and $142,042 and $138,578 in local assessments), respectively. The Authority has complied with its financial bond covenants.

In order to take advantage of the low interest rate, easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to pay its capital costs. The Authority has a $250 million commercial paper program. $150 million is administered by JP Morgan and $100 million by Lehman Brothers (now, Barclays Capital Inc.). Authority commercial paper is rated P-1 by Moody's Investor Services and A-1+ by Standard and Poor's. The Authority had $105,775 in outstanding commercial paper as of June 30, 2008.

(b) Debt Refundings

In current and prior years, the Authority defeased in-substance several GTS bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2008 and 2007, $1,838,220 and $1,826,515 of these bonds, considered defeased in-substance, are still outstanding, respectively. On June 30, 2008 and 2007, $4,060 in Boston Metropolitan District (BMD) bonds are considered defeased in-substance, and are still outstanding.

In June 2008, the Authority defeased $14,465 of the 2003 Series A Sales Tax Bonds and $7,550 of the 2004 Series B Sales Tax Bonds using cash. Both these series, which were defeased, have maturity dates of July 1, 2009.

In April 2008, the Authority refunded $1,725 of the 1974 Series A General Transportation System Bonds, $5,440 of the 1995 Series A General Transportation System Bonds, $231,495 of 1998 Series A General Transportation System Bonds, with the issuance of the 2008 Series A-1 and A-2 Sales Tax Bonds that have a par value of $256,375. These 2008 Series A Sales Tax Bonds are variable rate bonds whereby interest paid on these bonds reset weekly. The 2008 Series A-1 Sales

Tax Bonds with a par value of $131,910 were issued in conjunction with a swap agreement whereby the MBTA pays 3.834% and receives the BMA(SIFMA) rate. The 2008 Series A-2 Sales Tax Bonds with a par value of $124,465 were issued in conjunction with a swap agreement whereby the MBTA pays 3.083% and receives the BMA(SIFMA) rate through June 30, 2010 and then receives 62% of LIBOR plus 24 basis points through the term of the swap. The difference in cash flows between the debt service on the prior debt and the new debt issued to refund the bonds is approximately $19,210. The net present value or economic gain on the refunding is $18,926. The accounting loss of $21,920 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2008 Series A Sales Tax Bonds.

In April 2008, the Authority refunded $3,000 of the 2005 Series A Assessment Bonds, $7,015 of the 1995 Series A General Transportation System Bonds, $2,875 of the 2000 Series A Sales Tax Bonds, and $8,035 of the 2002 Series A Sales Tax Bonds with the issuance of the 2008 Series B Sales Tax Bonds that have a total par value of $49,770. The difference in cash flows between the debt service on the prior debt and the new debt issued to refund the bonds is approximately $58,152, however, the 2008 Series B Sales Tax Bonds refunded $29,750 in commercial paper used to current refund a portion of the March 1, 2008 principal payment on GTS bonds. The net present value or economic gain on the refunding is $194. The accounting loss of $650 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2008 Series B Sales Tax Bonds.

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 GTS 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.

(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 are deferred and amortized into income over the life of the swap/swaption. Should a Swap 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.

(Dollars in thousands)

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, 2008 Moody's/ S&P	Fair value appreciation (depreciation) at June 30, 2008	Fair value appreciation (depreciation) at June 30, 2007
September 2005	$ 188,000	2030	GTS Series 2000 VRDO	5.00%	67% of LIBOR	$ 12,230 (August 2005)	Aa2/AA-	$ (37,582)	$ (24,256)
February 2003	87,805	2022	(1)	5.20	BMA	4,586 (August 2007)	Aaa/AAA	(12,747)	(4,190)
February 2004	25,005	2020	(2) Senior Sales Tax Series 2003 C	4.13	CPI+79 basis points	N/A	Aa3/A+	(909)	(1,244)
September 2006	19,260	2024	(3) Assessment Series 2006A	4.67	CPI+123 basis points	N/A	A2/A	(1,130)	(1,140)
September 2006	5,000	2025	(4) Assessment Series 2006A	4.66	CPI+123 basis points	N/A	A2/A	(293)	(290)
November 2006	131,910	2021	(5) Senior Sales Tax Series 2008 A-1	3.83	BMA	N/A	A2/A	(4,288)	2,287
April 2008	124,465	2026	Senior Sales Tax Series 2008 A-2	3.08	BMA to June 30, 2010 and thereafter receives 62% of LIBOR plus 24 basis point	N/A	A2/A	1,271	—
								$ (55,678)	(28,833)

(1) The 2003 B-1 and 2003 B-2 hedged bonds had been legally redeemed in March 2008 through the issuance of commercial paper.
(2) This swap relates only to the July 1, 2020 maturity which has a variable rate of interest.
(3) This swap relates only to the July 1, 2024 maturity which has a variable rate of interest.
(4) This swap relates only to July 1, 2025 maturity which has a variable rate of interest.
(5) This swap was executed as a forward starting swap in November 2006 with an effective date of February 2008.

(Dollars in thousands)

Swap Payments and Associated Debt

As of June 30, 2008, debt service requirements of the GTS Series 2000 VRDO Bonds (2000 Bonds) and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of LIBOR rate is 1.66328% and the variable rate on the 2000 Bonds is 1.60% 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
2009	$	—	3,008	6,273	9,281
2010		—	3,008	6,273	9,281
2011		—	3,008	6,273	9,281
2012		2,335	2,996	6,247	11,578
2013		5,460	2,942	6,134	14,536
2014 – 2018		33,605	13,234	27,600	74,439
2019 – 2023		47,130	10,070	21,001	78,201
2024 – 2028		66,100	5,633	11,746	83,479
2029 – 2030		33,370	632	1,318	35,320
Totals	$	188,000	44,531	92,865	325,396

As of June 30, 2008, the 2003 B-1 and 2003 B-2 Sales Tax Bonds have been redeemed from proceeds of commercial paper. The Authority intends to retire the commercial paper with the proceeds from a long-term variable rate bond issue that will be hedged by this swap agreement. The fixed rate on the swap of 5.2% and assuming the BMA rate is 1.55% through the term of the swap were as follows:

		Interest rate swap, net
Fiscal year ending June 30:		
2009	$	3,205
2010		3,205
2011		3,205
2012		3,205
2013		3,132
2014 – 2018		12,043
2019 – 2022		4,266
	$	32,261

(Dollars in thousands)

As of June 30, 2008, 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 CPI rate of 5.666% 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(s) ending June 30	2003 C Bonds principal	2003 C Bonds interest	Interest rate swap, net	Total
2009	$ —	1,417	(582)	835
2010	—	1,417	(582)	835
2011	—	1,417	(582)	835
2012	—	1,417	(582)	835
2013	—	1,417	(582)	835
2014 – 2018	—	7,084	(2,908)	4,176
2019 – 2020	25,005	2,360	(969)	26,396
	$ 25,005	16,529	(6,787)	34,747

As of June 30, 2008, 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 CPI rate of 5.6507% 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(s) ending June 30	2006 A Assessment Bonds principal	2006 A Assessment Bonds interest	Interest rate swap, net	Total
2009	$ —	1,088	(426)	662
2010	—	1,088	(426)	662
2011	—	1,088	(426)	662
2012	—	1,088	(426)	662
2013	—	1,088	(426)	662
2014 – 2018	—	5,442	(2,129)	3,313
2019 – 2023	—	5,442	(2,129)	3,313
2024	19,260	1,088	(426)	19,922
	$ 19,260	17,412	(6,814)	29,858

(Dollars in thousands)

As of June 30, 2008, 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 CPI rate of 5.6507% 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(s) ending June 30	2006 A Assessment principal	2006 A Assessment interest	Interest rate swap, net	Total
2009	$ —	283	(111)	172
2010	—	283	(111)	172
2011	—	283	(111)	172
2012	—	283	(111)	172
2013	—	283	(111)	172
2014 – 2018	—	1,413	(555)	858
2019 – 2023	—	1,413	(555)	858
2024 – 2025	5,000	565	(222)	5,343
	$ 5,000	4,806	(1,887)	7,919

As of June 30, 2008, debt service requirements on 2008 Series A-1 Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the BMA index rate is 2.12637% and the variable rate on 2008 Series A-1 bonds is 1.47% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30	2008 A-1 Bonds principal	2008 A-1 Bonds interest	Interest rate swap, net	Total
2009	$ —	1,939	2,253	4,192
2010	—	1,939	2,253	4,192
2011	—	1,939	2,253	4,192
2012	—	1,939	2,253	4,192
2013	—	1,939	2,253	4,192
2014 – 2018	40,370	8,760	10,176	59,306
2019 – 2022	91,540	2,193	2,547	96,280
	$ 131,910	20,648	23,988	176,546

(Dollars in thousands)

As of June 30, 2008, debt service requirements on 2008 Series A-2 Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.083% and assuming the BMA index rate is 1.91122% and the variable rate on 2008 Series A-1 bonds is 1.47% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

Fiscal year(s) ending June 30	2008 A-2 Bonds principal	2008 A-2 Bonds interest	Interest rate swap, net	Total
2009	$ —	1,830	1,458	3,288
2010	465	1,830	1,458	3,753
2011	485	1,823	1,453	3,761
2012	500	1,816	1,447	3,763
2013	515	1,808	1,441	3,764
2014 – 2018	2,845	8,923	7,113	18,881
2019 – 2023	49,750	8,364	6,667	64,781
2024 – 2026	69,905	1,964	1,565	73,434
	$ 124,465	28,358	22,602	175,425

Swaptions

Date of execution of swaption	Notional amount	Lump-sum payment from counterparty party	Counterparty option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counterparty credit rating at June 30, 2008 Moody's/S&P	Fair value depreciation at June 30, 2008	Fair value depreciation at June 30, 2007
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	$ (15,263)	(10,414)

Forward Starting Swaps

Date of execution of swaption	Notional amount	Lump-sum payment from Counterparty	Counterparty option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counterparty credit rating at June 30, 2008 Moody's/S&P	Fair value depreciation at June 30, 2008	Fair value appreciation at June 30, 2007
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	Aa2/AA-	$ (820)	587

These swaps are generally exercisable through March 2011.

(Dollars in thousands)

Asset-Side Swaption for Reserve Investment

Date of execution of swaption	Notional amount	Lump-sum payment from counterparty	Counterparty option exercise date	Term of swap	Associated bonds	Fixed payable swap rate	Variable receivable swap rate	Counterparty credit rating at June 30, 2008 Moody's/S&P	Fair value depreciation at June 30, 2008	Fair value depreciation at June 30, 2007
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	BMA	5.60%	Aa2/AA-	$ (1,830)	(1,545)

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 long-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. Subsequent to June 30, 2008, the Authority replaced one of its counterparties on four swaps with a notional value of $280,635. The new counterparty as of October 1, 2008 has a rating from Moody's of Aa1 and a rating from Standard & Poor's of AA–.

Basis Risk – The Authority is exposed to basis risk if the relationship between the floating rate the Authority receives under the swaps (i.e., BMA, CPI plus 79 basis points, CPI plus 123 basis points, 67% of LIBOR or 62% of LIBOR plus 24 basis points) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. As of June 30, 2008, the 67% of LIBOR the Authority receives on its 2000 Variable Rate Demand Obligations was 1.66328%, while the fixed payment to the counterparty at June 30, 2008 was 5.0%, which is unfavorable for the MBTA. The swap on the 2003 Series C bonds in the amount of $25,005, whereby the Authority pays a fixed rate of 4.13% and receives CPI plus 79 basis points, was favorable for the MBTA since CPI plus 79 basis points was 6.456% (5.666% CPI plus 79 basis points) as of June 30, 2008. On the 2006 Series A Assessment Bonds, the Authority pays 4.67% on $19,260 and 4.66% on $5,000 and receives CPI plus 123 basis points. As of June 30, 2008, this swap was favorable for the Authority since CPI plus 123 basis points was 6.88% (5.6507% CPI plus 123 basis points). The Authority pays 3.834% on $131,910 of its 2008 Series A-1 Sales Tax Bonds and receives BMA, which was 2.21637% at June 30, 2008, which makes this swap unfavorable for the MBTA at June 30, 2008. The Authority pays 3.083% on $124,465 of its 2008 Series A-2 Sales Tax Bonds and receives BMA, which was 1.91122% at June 30, 2008, which makes this swap unfavorable for the MBTA at June 30, 2008.

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

Rollover Risk – Rollover risk is the risk that occurs when the term of a swap does not match the term or maturity of the debt associated with the hedge. All of the Authority's swap terms and associated debt match one another, therefore, the Authority does not have any rollover risk.

Market Access Risk and Potential Basis Risk – In the case of the swaptions, 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) Retirement Plans

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

The MBTA Retirement Plan, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. This retirement plan and the MBTA Police Association Plan, a single-employer plan, provide retirement, disability, and death benefits. The MBTA Retirement Plan issues separately audited financial statements that may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Plan does not issue separately audited financial statements.

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

The Authority created a 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. The MBTA Qualified Deferred Compensation Plan does not issue separately audited financial statements. An actuarial valuation was performed on this plan; however, the cost of this plan to the Authority for fiscal year 2008 was minimal and no contributions were made to this Plan in fiscal year 2008. In addition, the net pension obligation is considered immaterial.

(Dollars in thousands)

(a) Funding Policy and Annual Pension Cost

The board of trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members to contribute 4% with the Authority currently paying an amount equal to approximately 10.400% of total payroll. The actuarial required contribution rate for the Authority was 10.934%. The contribution requirements for the Police Association Plan were 14.590% for the Authority and 7.285% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made in 2008 and 2007 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, 2008 and 2007 and related information for each plan is as follows:

	2008		
Pension	**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – Authority	$ 37,106	2,163	5,163
Contributions made – Authority	34,786	1,838	4,601
Actuarial valuation date/update	6/30/2008	6/30/2008	6/30/2008
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Amortization period	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

(Continued)

(Dollars in thousands)

		2007		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA 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		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

Changes in the net pension obligation for these plans for the years ended June 30, 2008 and 2007 are as follows:

		2008		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(10,581)	(502)	(6,859)
Annual pension cost		(37,106)	(2,163)	(5,163)
Contributions and other adjustments		34,786	1,838	4,601
Net pension obligation, end of year	$	(12,901)	(827)	(7,421)

		2007		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA 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)

(Dollars in thousands)

(b) Three-Year Trend Information

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
MBTA Retirement Plan	06/30/06	$ 35,350	96%	$ (13,006)
	06/30/07	35,995	107	(10,581)
	06/30/08	37,106	94	(12,901)
MBTA Police Association Plan	06/30/06	1,970	83	(433)
	06/30/07	1,819	96	(502)
	06/30/08	2,163	85	(827)
MBTA Deferred Compensation Plan	06/30/06	4,609	93	(6,990)
	06/30/07	4,609	95	(6,859)
	06/30/08	5,162	89	(7,421)

(c) Actuarial Funded Status

MBTA Retirement and Police Association Plans

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)
Retirement Plan 12/31/06	$ 1,832,680	1,943,986	111,306	94.27%	$ 327,187	34.02%
Police Association Plan 12/31/06	40,809	52,349	11,540	78.0	13,890	83.1

MBTA Deferred Compensation Plan

The MBTA Deferred Compensation Plan is not currently funded; as a result, the normal schedule of funding progress would show no provision having been made for the cost of this plan.

(Dollars in thousands)

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

Valuation date	Actuarial accrued liability (a)	Net pension obligation (b)	Unrecognized actuarial accrued liability (c) (a)-(b)	Recognized ratio (d) (b)/(a)	Unrecognized ratio (e) (c)/(a)	Covered payroll (f)
07/01/07	$ 45,970	6,859	39,111	14.9%	85.1%	$ 29,780

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(d) The MBTA Deferred Compensation Savings Plan

The Authority provides a defined contribution retirement plan for nonunion and grandfathered union management not participating in the MBTA Retirement Plan. Authority employee trustees administer the Plan and recommend benefit amendments that require approval from the Authority's general manager. The Plan requires members to contribute 4% of total covered payroll with the Authority contributing 8%. The Plan has approximately 284 and 283 members at June 30, 2008 and 2007, respectively, and the cost of the Plan to the Authority was $810 and $790 for fiscal years 2008 and 2007, 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.

(7) 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 U.S. 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, U.S. Treasury Strips, and the related lease liability have been included in the accompanying financial statements.

(Dollars in thousands)

(b) Sale-In/Lease-Out

In fiscal year 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 $146,127 at June 30, 2008. 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.

Transportation property and facilities under capital leases are summarized as follows and are included in capital assets (note 8) at June 30, 2008 and 2007:

		2008	2007
Ways and structures	$	298,169	298,169
Rail cars*		446,086	444,061
Equipment*		30,855	26,120
		775,110	768,350
Less accumulated depreciation		(338,453)	(312,130)
Net transportation property in service under capital lease	$	436,657	456,220

* Included in building and equipment in note 8.

(Dollars in thousands)

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, 2008:

Fiscal year(s):		
2009	$	156,631
2010		46,609
2011		79,761
2012		108,540
2013		88,237
2014 – 2018		313,250
2019 – 2022		25,631
		818,659
Less amount representing interest		(143,818)
Present value of net minimum lease payments		674,841
Less current principal maturities		(109,206)
Obligations under capital leases	$	565,635

The liability for these leases changed for 2008 and 2007 as follows:

Outstanding – June 30, 2006	$	745,758
Net change in obligation		(2,758)
Outstanding – June 30, 2007		743,000
Net change in obligation		(68,159)
Outstanding – June 30, 2008	$	674,841

(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.

(Dollars in thousands)

Future minimum operating lease payments at June 30, 2008 are as follows:

Fiscal year:	
2009	$ 13,515
2010	13,218
2011	11,082
2012	10,167
2013	6,177
	$ 54,159

(8) Capital Assets

Capital assets at June 30, 2008 and 2007 are as follows:

	Beginning balance June 30, 2007	Increases	Decreases	Ending balance June 30, 2008
Capital assets not being depreciated:				
Land	$ 308,074	1,154	—	309,228
Construction work in progress	888,205	369,901	713,204	544,902
Total capital assets not being depreciated	1,196,279	371,055	713,204	854,130
Other capital assets:				
Ways and structures	7,986,801	623,266	—	8,610,067
Buildings and equipment	2,472,324	158,157	120,812	2,509,669
Total other capital assets at historical cost	10,459,125	781,423	120,812	11,119,736
Less accumulated depreciation for:				
Ways and structures	2,566,985	189,971	—	2,756,956
Buildings and equipment	1,181,005	179,357	120,812	1,239,550
Total accumulated depreciation	3,747,990	369,328	120,812	3,996,506
Other capital assets, net	6,711,135	412,095	—	7,123,230
Capital assets, net	$ 7,907,414	783,150	713,204	7,977,360

(Dollars in thousands)

		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

(9) 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.

(Continued)

(Dollars in thousands)

During fiscal years 2008 and 2007, expenditures for claims and judgments, excluding workers compensation, and health and life, were $13,425 and $15,371, respectively. Expenditures for claims related to workers compensation were $10,871 and $11,965, and expenditures for the self-insured health plans were $111,067 and $109,596 for the years ended June 30, 2008 and 2007, respectively.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and related Insurance Issues*, 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, 2008, 2007, and 2006. Changes in the self-insurance liabilities in fiscal years 2008, 2007, and 2006 were as follows:

		2008	2007	2006
Liability, beginning of year	$	112,415	107,940	95,928
Provisions for claims		135,363	136,932	143,220
Payments		(150,633)	(132,457)	(131,208)
Liability, end of year	$	97,145	112,415	107,940

(10) 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, 2008 and 2007, 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, 2008	Unexpended costs
Federal grants	$	5,700,019	5,544,412	155,607
State and local sources		1,567,544	1,475,030	92,514
Authority bonds		5,501,743	5,016,106	485,637
Total	$	12,769,306	12,035,548	733,758

(Dollars in thousands)

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

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, 2008 amounted to $3,106,048.

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

Other cases and claims include disputes with contractors and others arising out of the Authority's 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 $346,842 and $229,128 at June 30, 2008 and 2007, 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

(Continued)

Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

(11) Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is required to be implemented by governments with annual revenues greater than $100 million for financial statement periods beginning after December 15, 2006. GASB No. 45 requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

(a) Plan Description

In addition to providing the pension benefits described, the Authority provides postemployment healthcare and life insurance benefits (OPEB) for retired employees under any of the medical benefit programs then offered and available by the Authority. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of June 30, 2006, the actuarial valuation date, approximately 4,919 retirees and 6,341 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

(b) Benefits Provided

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

(c) Funding Policy

Retirees, pre-age 65, who retired on or before July 7, 2008 do not contribute to the cost of the health plans. Retirees, pre-age 65, who retired after July 7, 2008 contribute 10% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis. The health coverage for all existing and future post-age 65 retirees shall remain 100% Authority paid until June 30, 2010. Retirees, pre-age 65, who retire after June 30, 2010 will contribute 15% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

(d) Annual OPEB Costs and Net OPEB Obligation

The Authority's fiscal year 2008 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2008, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on an actuarial valuation as of June 30, 2006:

(Dollars in thousands)

ARC	$	158,856
Interest on net OPEB obligation		—
Amortization adjustment to ARC		—
Annual OPEB cost		158,856
Contributions made		(49,915)
Change in net OPEB obligation		108,941
Net OPEB obligation – beginning of year		—
Net OPEB obligation – end of year	$	108,941

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

Fiscal year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation
2008	$ 158,856	31%	$ 108,941

The Authority's net OPEB obligation as of June 30, 2008 is recorded as "Other postemployment benefits" line item.

(e) Funded Status and Funding Progress

The funded status of the plan was based on an actuarial valuation as of June 30, 2006, projected to June 30, 2007 as follows:

Actuarial accrued liability (AAL)	$	1,734,777
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	1,734,777
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	398,671
UAAL as a percentage of covered payroll		435.1%

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

(f) Actuarial Methods and Assumptions

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

In the June 30, 2006 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 4.38% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 13.56% for post-65 retirees and 3.67% for pre-65 retirees for year one, 9% for all in year two, 8% in year three, 7% in year four, 6% in year five and 5% long-term trend rate for all healthcare benefits thereafter. The amortization costs for the initial UAAL is a level dollar amortization for a period of 30 years.

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

Schedule of Funding Progress
Required Supplementary Information

June 30, 2008

Unaudited

(Dollars in thousands)

Pension Plans

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:								
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
2006		1,832,680	1,943,986	111,306	94.27		327,187	34.02

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)
Year ended December 31:								
2004	$	34,427	43,634	9,207	78.9%	$	12,882	71.5%
2005		36,802	48,245	11,443	76.3		14,511	78.9
2006		40,809	52,349	11,540	78.0		13,890	83.1

Deferred Compensation Plan

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

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

Valuation date		Actuarial accrued liability (a)	Net pension obligation (b)	Unrecognized actuarial accrued liability (c) (a)-(b)	Recognized ratio (d) (b)/(a)	Unrecognized ratio (e) (c)/(a)	Covered payroll (f)
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
07/01/07		45,970	6,859	39,111	14.9	85.1	29,780

See accompanying independent auditors’ report.

(Continued)

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

Schedule of Funding Progress
Required Supplementary Information

June 30, 2008

Unaudited

(Dollars in thousands)

OPEB 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)
6/30/06	$ —	1,734,777[1]	1,734,777	—%	$ 398,671	435.1%

[1] Projected to June 30, 2007.

See accompanying independent auditors' report.