



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

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2010

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

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2010

Table of Contents

	Page
Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	Exhibit I
Schedule of Expenditures of Federal Awards	Exhibit II
Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Exhibit III
Schedule of Findings and Questioned Costs	Exhibit IV



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit I

Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB A-133 and on the Schedule of Expenditures of Federal Awards

The Board of Directors
Massachusetts Bay Transportation Authority:

Compliance

We have audited the Massachusetts Bay Transportation Authority's (the Authority), a component unit of the Massachusetts Department of Transportation, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2010. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.



Exhibit I

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designated to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended June 30, 2010, and have issued our report thereon dated October 25, 2010. Our report refers to the Authority's adoption, in fiscal 2010, of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Our audit was performed for the purpose of forming an opinion on the Authority's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (Exhibit II) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, others within the Authority, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 30, 2010

(except for the Schedule of Expenditures of Federal Awards which is as of October 25, 2010)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Grant number	Federal catalog number	Program description	Cumulative to June 30, 2009	Expenditures, net of transfers July 1, 2009 – June 30, 2010	Cumulative to June 30, 2010
		U.S. Department of Justice:			
		Federal Equitable Sharing Program:			
MA-03-2500	16.XXX	Federal Equity Sharing Program	\$ 2,251,068	84,566	2,335,634
		Total U. S. Dept. of Justice	2,251,068	84,566	2,335,634
		U.S. Department of Transportation:			
		Federal Transit – Capital Investment Grants Program (note 3):			
MA-03-0223	20.500	North Shore Transportation Study	3,897,128	18,458	3,915,586
MA-03-0227	20.500	Blue Line Modernization	128,039,516	9,787,547	137,827,063
MA-03-0228	20.500	FY99 FTA Infrastructure Grant	164,336,663	4,542,251	168,878,914
MA-03-0238	20.500	Green Line Station Access	21,305,176	349,552	21,654,728
MA-03-0251	20.500	Procure/Overhaul Blue Line Cars	69,930,855	—	69,930,855
MA-03-0254	20.500	Beverly/Salem Parking	728,760	269,246	998,006
MA-03-0280	20.500	FY 04 Bridge Program	7,319,543	113,935	7,433,478
MA-03-0281	20.500	Auburndale Access Improvements	76,931	—	76,931
MA-03-0290	20.500	Wonderland Station Area Impv.	983,142	1,397,581	2,380,723
MA-03-0291	20.500	Fitchburg Line Improvements	2,460,411	(9,851)	2,450,560
MA-04-0019	20.500	Hingham Intermodal & Harbor Park	1,473,100	1,497,564	2,970,664
MA-04-0025	20.500	Quincy High Speed Catamaran	16,431	55,182	71,613
MA-04-0026	20.500	Ferry System Improvements	—	353,824	353,824
MA-04-0030	20.500	Rockport CR STAT Improvements	3,412	254,975	258,387
MA-04-0033	20.500	Beverly Depot Intermodal Facility	—	2,717,226	2,717,226
MA-04-0036	20.500	Ferry Parking Expansion – Quincy	—	734,812	734,812
MA-05-0102	20.500	Blue Line Modernization	41,879,516	17,921,994	59,801,510
MA-05-0103	20.500	FY07 Station Management Proj.	28,701,927	844,084	29,546,011
MA-05-0104	20.500	FY07 Charles/MGH	4,859,192	40,808	4,900,000
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	20,455,710	11,969,423	32,425,133
MA-05-0106	20.500	FY07 Coach Reliability & Safety Prog.	30,901,084	4,742,385	35,643,469
MA-05-0107	20.500	FY07 Bridge & Tunnel Prog.	8,354,563	447,652	8,802,215
MA-05-0109	20.500	Green Line #7 Car	2,048,484	415,699	2,464,183
MA-05-0110	20.500	Lawrence Intermodal Station	4,544,942	338	4,545,280
MA-05-0111	20.500	Columbia Junction	2,157,741	1,731,077	3,888,818
MA-05-0112	20.500	Orange Line Upgrades – Cars	—	—	—
MA-05-0113	20.500	Red Line #2 Sel Sys O/H	5,798,652	645,695	6,444,347
MA-05-0114	20.500	Power Improvements	—	700,189	700,189
MA-56-0001	20.500	ARRA CR Stations, Dudley Square	—	6,886,563	6,886,563
		Subtotal #20.500 Direct Program	550,272,879	68,428,209	618,701,088
		Passed through the Rhode Island Department of Transportation:			
		Federal Transit – Capital Investment Grants Program:			
RI-03-0024	20.500	Pawtucket Layover Facility	20,497,315	497,875	20,995,190
RI-03-0032	20.500	RIDOT/5 CR Coaches	11,510,000	—	11,510,000
		Subtotal # 20.500 pass-through	32,007,315	497,875	32,505,190
		Total #20.500	582,280,194	68,926,084	651,206,278
MA-39-0001	20.522	MBTA On Board Surveys	511,219	437,973	949,192
		Total # 20.522	511,219	437,973	949,192
		Federal Transit Metropolitan Planning Grants Program:			
		Passed through the Metropolitan Area Planning Council:			
MA-80-2017	20.505	2006 Unified Planning Work Program	190,278	—	190,278
MA-80-2018	20.505	2007 Unified Planning Work Program	163,905	54,274	218,179
MA-80-2019	20.505	2008 Unified Planning Work Program	151,087	34,987	186,074
MA-80-2020			—	104,764	104,764
		Total # 20.505	505,270	194,025	699,295
		Federal Transit Formula Grants Program (note 3):			
MA-90-0305	20.507	Green Line Station Access	100,304,074	11,103,859	111,407,933
MA-90-0330	20.507	FTA Section 5307 Enhancements	5,143,811	372,889	5,516,700
MA-90-0331	20.507	FY99 Sec 5307 Infrastructure	223,390,428	2,299,462	225,689,890
MA-90-0377	20.507	Green Line Grade Crossing	984,264	—	984,264
MA-90-0417	20.507	New Blue Line Cars	80,028,424	3,927,164	83,955,588
MA-90-0448	20.507	Arborway Bus Facility	1,751,263	247,968	1,999,231
MA-90-0456	20.507	Public Address/Electronic Sign	3,731,986	657,899	4,389,885
MA-90-0497	20.507	Escalator/Elevator Improvements	15,611,337	10,548,621	26,159,958
MA-90-0513	20.507	310 ECD Bus Procurement	105,628,116	3,848,988	109,477,104
MA-90-0514	20.507	175 Buses/Fairmount Line (GANS)	40,590,050	811,160	41,401,210
MA-90-0515	20.507	New Blue Line Cars	16,286,938	11,743,857	28,030,795
MA-90-0516	20.507	Public Address/Electronic Sign	12,949,495	5,419,043	18,368,538
MA-90-0517	20.507	Light Rail accessibility	3,245,964	2,821,841	6,067,805
MA-90-0518	20.507	Blue Line Signal Project	21,014,617	3,359,263	24,373,880
MA-90-0519	20.507	Automated Fare Collection	23,817,922	82,880	23,900,802
MA-90-0521	20.507	FY 07 Station Security	9,072,573	140,349	9,212,922
MA-90-0522	20.507	FY 07 Ashmont Station	25,352,749	11,341,673	36,694,422
MA-90-0523	20.507	FY 07 Charles/MGH Design	586,386	—	586,386
MA-90-0524	20.507	STP Preventative Maintenance	423,345	115,200	538,545
MA-90-0526	20.507	Wellington Bus Maint. Facility	1,605,997	—	1,605,997
MA-90-0548	20.507	Park Street Stairs	1,553,057	1,127,941	2,680,998
MA-90-0549	20.507	Everett Maintenance Facility	4,884,316	947,124	5,831,440

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Grant number	Federal catalog number	Program description	Cumulative to June 30, 2009	Expenditures, net of transfers July 1, 2009 – June 30, 2010	Cumulative to June 30, 2010
MA-90-0550	20.507	Bicycle Enhancements	\$ 207,078	7,513	214,591
MA-90-0551	20.507	Switcher Locomotive-5307 Funds	745,820	657,974	1,403,794
MA-90-0563	20.507	Preventative Maintenance	10,000,000	2,500,000	12,500,000
MA-90-0568	20.507	175 Buses/Fairmount Line (GANS)	—	21,167,853	21,167,853
MA-90-X575	20.507	Preventative Maintenance	—	10,000,000	10,000,000
MA-95-0006	20.507	Switcher Locomotive CMAQ Funds	1,911,780	8,268	1,920,048
MA-96-0001	20.507	ARRA Back Bay Vent/RIDE Vans	—	9,751,763	9,751,763
MA-96-0014	20.507	ARRA Bus Fac/Fitchburg Dbl. Trk.	—	29,403,869	29,403,869
MA-96-0016	20.507	ARRA Operating Assistance	—	18,150,147	18,150,147
MA-40-X003	20.507	SSTC Protects Program/Chemical Detection	855,036	65,400	920,436
		Total # 20.507	711,676,826	162,629,968	874,306,794
MA-26-7057	20.514	Transit Planning and Research Program: Grade Crossing Safety Program	320,987	—	320,987
		Total #20.514	320,987	—	320,987
MA-77-0002	20.523	Renewable Wind Energy (ARRA)	—	—	—
			1,295,294,496	232,188,050	1,527,482,546
		Health and Human Services:			
		Social Services Block Grant Program:			
	93.667	Passed through the Commonwealth of Massachusetts: Social Services Block Grant	310,169	75,907	386,076
		Department of Homeland Security:			
		Urban Areas Security Initiatives:			
HSTS02-06-H-MLS110 (J10002)	97.072	TSA Natl. Explosives Canine Prog.	195,348	13,513	208,861
		Passed through the Commonwealth of Massachusetts:			
J05002	97.075	Radio Interoperability	500,000	—	500,000
J06001	97.075	FY 2006 Transit Security	554,602	5,409,610	5,964,212
J07001	97.075	FY 2007 Transit Security	2,362,444	2,619,890	4,982,334
J08001	97.075	FY 2008 Transit Security	—	142,937	142,937
(J09001)		Total #97.075	3,417,046	8,172,437	11,589,483
		Total of U. S. Dept. of Homeland Security	3,612,394	8,185,950	11,798,344
		Grand total	\$ 1,301,468,127	240,534,473	1,542,002,600

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) Entity

The Massachusetts Bay Transportation Authority (the Authority) is a component unit of Massachusetts Department of Transportation and political subdivision of the Commonwealth of Massachusetts (the Commonwealth) formed pursuant to Commonwealth law to, among other things, hold and manage mass transportation facilities and equipment, and to enter into agreements for its operation, construction and use.

The U.S. Department of Transportation (DOT) has been designated as the Authority's cognizant Federal agency for the Single Audit.

(2) Summary of Significant Accounting Policies**(a) Basis of Presentation**

The accompanying schedule of expenditures of federal awards has been prepared on the cash basis of accounting and includes federal, state, and local expenditures.

(b) Expenditures in Excess of Federal Participation

Expenditures under the Federal Transit Cluster are stated at their total cost regardless of their source of funding. Under its grant contracts with the federal government, the Authority is reimbursed for a fixed percentage of eligible project costs. The Authority funds the expenditures in excess of the federal share in various ways, including through the issuance of long-term debt and funds received from the Commonwealth and local sources.

(3) Approved Federal Grant Programs

The Authority's Federal Transit – Capital Investment Grants and Formula Grants Programs for the year ended June 30, 2010 consisted primarily of capital grants under contracts with the Federal Transit Administration (FTA). These grants provide for the acquisition of land and equipment, the construction of service extensions, stations, and maintenance facilities, and the improvement of facilities and equipment.

According to the terms of the FTA contracts, the Authority will be reimbursed from 50% to 100% of the allowable project costs as defined in the grant agreement. The terms of those federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purpose 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 comply with the Equal Opportunity and Affirmative Action programs as required by the *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (SAFETEA-LU).

The Authority also received major program funding from the Department of Homeland Security Office passed through the Commonwealth of Massachusetts Executive Office of public safety for the Department of Homeland Security's Rail and Transit Security Grant Program.

According to the terms of the Rail and Transit Security grants, the Authority will be reimbursed for 100% of the allowable project costs as defined in the grant agreements. This grant provides for the acquisition of equipment, and other enhancements to the transit system's security.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to their funding agencies. In management's opinion, no events have occurred which would result in the termination of these grants or which would require the refund of a significant amount of funds received under these grants.

(4) Subrecipients

The Authority provided approximately \$2 million in federal awards mostly to the City of Revere, Massachusetts and Harbor Alliance.

The subrecipient payments are included in the Federal Transit – Capital Investment Grants Program, CFDA #20.500 expenditures.



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit III

**Auditors' Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Board of Directors
Massachusetts Bay Transportation Authority:

We have audited the financial statements of the Massachusetts Bay Transportation Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 25, 2010. Our report refers to the adoption, in fiscal 2010, of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Exhibit III

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Authority in a separate letter dated October 25, 2010.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 25, 2010

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ yes x no

Identification of Major Programs

Federal program or cluster	CFDA number
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants Program	20.500
Federal Transit – Formula Grants Program	20.507
Rail and Transit Security Grant Program	97.075

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? x yes _____ no

(2) Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(3) Findings and Questioned Costs Relating to Federal Awards

None.