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

Financial Statements and Required Supplementary Information

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

Table of Contents

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

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 Massachusetts Department of Transportation, as of June 30, 2011 and 2010, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The 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 48 and 49 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 November 2, 2011 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

November 2, 2011

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

Statements of Net Assets

June 30, 2011 and 2010

(Dollars in thousands)

Assets and Deferred Outflows		**2011**	**2010**
Current assets:			
Unrestricted cash and temporary cash investments (note 3)	$	121,518	112,985
Restricted cash and temporary cash investments (note 3):			
Bond construction accounts		58,997	1,356
Stabilization accounts		19,306	19,251
Other accounts		14,663	14,957
Lease accounts		36,540	33,646
Accounts receivable:			
Commonwealth of Massachusetts		121,608	120,342
Federal grants		10,907	7,009
Other trade, net		26,051	14,820
Materials and supplies		73,934	68,676
Prepaid expenses		2,107	5,426
Total current assets		485,631	398,468
Noncurrent assets:			
Restricted cash and investments accounts (note 3):			
Bond construction accounts		123,746	175,978
Lease deposits		73,539	101,034
Bond reserve accounts		523,705	451,628
Total restricted cash and investments accounts		720,990	728,640
Lease accounts		84,485	153,628
Capital assets, at cost (notes 7, 8, and 10):			
Transportation property, being depreciated		12,239,935	11,922,216
Transportation property, not being depreciated		884,642	791,399
Less accumulated depreciation		(4,921,815)	(4,568,167)
Capital assets, net		8,202,762	8,145,448
Deferred bond issue costs		28,113	27,814
Total noncurrent assets		9,036,350	9,055,530
Deferred outflows from derivative instruments (note 5)		85,185	98,665
Total assets and deferred outflows	$	9,607,166	9,552,663

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

Statements of Net Assets

June 30, 2011 and 2010

(Dollars in thousands)

Liabilities		**2011**	**2010**
Current liabilities:			
Current maturities of bonds and notes payable (note 5)	$	602,235	266,975
Current capital lease obligations (note 7)		39,228	36,871
Accounts payable		147,858	121,308
Accrued liabilities:			
Payroll and vacation		25,801	25,562
Interest		128,514	127,725
Injuries and damage claims, workers compensation claims, and other (note 9)		40,010	39,968
Total current liabilities		983,646	618,409
Long-term liabilities, less current maturities:			
Bonds payable, net (note 5)		5,063,111	5,255,145
Obligations under capital leases (note 7)		163,266	262,159
Accrued liabilities (note 9 and 12)		72,339	86,210
Pension liability (note 6)		57,661	42,856
Other postemployment benefits (note 11)		367,053	284,409
Liability for derivative instruments (note 5)		105,252	120,542
Deferred revenue and other		33,006	38,941
Total long-term liabilities		5,861,688	6,090,262
Total liabilities	$	6,845,334	6,708,671
Net Assets			
Invested in capital assets, net of related debt	$	3,309,160	3,308,851
Restricted		19,306	19,251
Unrestricted		(566,634)	(484,110)
Total net assets	$	2,761,832	2,843,992

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	**2010**
Operating revenue:			
Revenue from transportation	$	448,814	439,322
Other		62,321	60,320
		511,135	499,642
Operating expenses:			
Wages and related employee benefits:			
Wages		399,292	399,573
Medical and dental insurance		67,227	66,746
Other postemployment benefits		141,035	142,547
Pensions		79,568	69,186
Social security taxes		34,990	34,634
Workers compensation		11,125	10,897
Other		1,987	2,769
Capitalized costs		(19,351)	(17,717)
		715,873	708,635
Other operating expenses:			
Depreciation and amortization		358,679	348,567
Materials, supplies, and services		198,375	190,593
Injuries and damages		3,270	14,054
Commuter railroad and local subsidy expenses (note 4)		398,010	366,797
Other		5,020	17,454
		963,354	937,465
Total operating expenses		1,679,227	1,646,100
Operating loss		(1,168,092)	(1,146,458)
Nonoperating revenue (expense):			
Dedicated sales tax revenue (note 13)		767,057	767,057
Contract assistance – Commonwealth of Massachusetts		160,000	160,000
Dedicated local assessments (note 13)		150,429	150,148
Fair value change in investment derivatives		1,809	(3,404)
Other income		17,457	5,334
Interest income		32,470	20,496
Interest expense		(282,651)	(283,868)
Nonoperating revenue, net		846,571	815,763
Loss before capital grants		(321,521)	(330,695)
Capital grants and contributions		239,361	234,733
Decrease in net assets		(82,160)	(95,962)
Beginning of year net assets		2,843,992	2,939,954
End of year net assets	$	2,761,832	2,843,992

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Cash flows from operating activities:			
Receipts from transit customers	$	450,173	437,710
Receipts from other operations		67,581	60,018
Payments to suppliers and vendors		(761,711)	(768,393)
Payments to employees		(457,665)	(447,088)
Net cash used in operating activities		(701,622)	(717,753)
Cash flows from capital and related financing activities:			
Cash (used in) provided by:			
Additions to transportation property		(415,854)	(374,553)
Interest paid		(274,470)	(272,133)
(Increase) decrease in deferred credits/charges		3,319	(2,094)
Payments on long-term debt		(105,600)	(164,945)
Proceeds from bond and note issuances		258,860	276,400
Proceeds (payments) from/to bond construction and reserve accounts		(77,254)	(106,939)
Proceeds from bond premiums		18,498	10,375
Net proceeds (payments) of capital lease activity		(96,536)	2,991
(Increase) decrease in lease deposit/account		93,744	(6,110)
Capital grants		235,463	238,114
Other		(4,811)	(3,152)
Net cash used in capital and related financing activities		(364,641)	(402,046)
Cash flows from noncapital and related financing activities:			
Sales tax and local assessment		1,076,220	1,081,165
Reimbursable payments		6,051	3,845
Net cash provided by noncapital and related financing activities		1,082,271	1,085,010
Cash flows from investing activity:			
Interest and other income		49,927	25,830
Net cash provided by investing activity		49,927	25,830
Net change		65,935	(8,959)
Cash, temporary cash investments, restricted, and other special accounts, beginning of year		148,549	157,508
Cash, temporary cash investments, restricted, and other special accounts, end of year	$	214,484	148,549
Adjustments to reconcile operating loss to net cash used in operating activities:			
Operating loss	$	(1,168,092)	(1,146,458)
Charges not requiring current expenditure of cash:			
Depreciation and amortization		358,679	348,567
Increase in pension liability		14,805	11,993
Increase in other postemployment liability		82,644	80,836
Changes in all other working capital accounts except cash, temporary cash investments, and short-term debt		10,342	(12,691)
Net cash used in operating activities	$	(701,622)	(717,753)

Supplemental disclosures of cash flow activities:

In fiscal 2011, sales tax bonds in the aggregate principal amount of $63,450 were issued to defease $68,000 of bonds outstanding, and $304,805 in MBTPC bonds were issued to defease $276,175 of bonds outstanding.

In fiscal 2010, sales tax bonds in the aggregate principal amount of $159,275 were issued to defease $161,015 of bonds outstanding.

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 Enabling Act was amended in connection with the reform of the Commonwealth's transportation system. While the Authority remains a separate entity within the newly established Massachusetts Department of Transportation (MassDOT), effective November 1, 2009 the governing board of the Authority was abolished and replaced by a new five member board appointed by the Governor of the Commonwealth. The members of the board serve four-year terms and are eligible for reappointment. Of the appointees of the Governor, two shall be experts in the field of public or private transportation finance, two shall have practical experience in transportation planning and policy and one shall be a registered civil engineer with at least 10 years experience. One of the directors shall be appointed chairperson of the board provided however that said designee shall not be an employee of the Authority, MassDOT or any division thereof. 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, shall have certain specified powers, including the power to review the Authority's long-term capital program and annual operating budget.

On May 27, 2011, the Authority created Metropolitan Boston Transit Parking Corporation (MBTPC) a private Massachusetts nonprofit corporation organized under the provisions of Chapter 180 of Massachusetts General Laws, for the limited purpose of taking action necessary to provide for issuance of bonds on behalf of the Authority secured by the revenues from the parking system of the Authority. MBTPC began operations on June 22, 2011. The Authority is the sole member of MBTPC and the Board of Directors consists of three ex officio management employees of the Authority. MBTPC has no employees. MBTPC has the ability to issue debt payable and has assumed certain rights to receive gross revenues from the parking system of the Authority under a Transfer and Disposition Agreement. The obligations of the corporation, the bonds and Transfer and Disposition Agreement are limited obligations, payable solely from the assets of MBTPC, which are pledged under the Resolution and recourse shall be limited to such assets. Due to its relationship with the Authority, the MBTPC is considered a blended component of the Authority.

In accordance with the requirements of 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, other than the MBTPC, were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the MassDOT, as the Authority is a component unit of the MassDOT.

(Continued)

(Dollars in thousands)

(2) Summary of Significant Accounting Policies

(a) 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.

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. After this date, only GASB pronouncements are followed.

(b) 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, 2011 and 2010:

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

(c) Construction in Progress

During 2011 and 2010, major construction projects aggregating $368,126 and $364,514, 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. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare

Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal years 2011 and 2010, the Authority had no material capitalized interest.

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 2011 and 2010 were $150 and $151, respectively. Amounts owed to the Authority for these costs and prior years costs as of June 30, 2011 and 2010 were $518 and $412, respectively, and are presented in accounts receivable in the accompanying statements of net assets.

(d) 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.

(e) 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*.

(f) Revenue Recognition

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

The dedicated sales tax revenue consists of the greater of the one percent of statewide sales tax, excluding the meals tax or a base revenue amount. The base revenue amount generally increases by the percentage change in inflation, as measured by the Boston Consumer Price Index (CPI), although not to exceed three percent annually. The Authority recognizes the greater of its share of the month’s total actual receipts of sales tax revenue of the Commonwealth or the base revenue amount as nonoperating revenue on an accrual basis.

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

The Transportation Reform Act established the Commonwealth Transportation Fund (CTF), a budgetary fund of the Commonwealth for transportation related purposes, to receive essentially the same revenues previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenues. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of $275 million. The Commonwealth appropriated $160,000 from the CTF to the Authority for fiscal years 2011 and 2010. This amount is subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

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

(g) Statements of Cash Flows

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

(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, 2011 and 2010 was $16,920 and $17,009, respectively.

(j) Restricted Cash and Investment Accounts

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

- Bond Construction Accounts – represent unexpended bond proceeds.
- Lease Deposits – represent investments (Treasury STRIPS and a collateralized investment agreement) held by trustees that will be used to make scheduled equity payments on the Authority's capital leases.
- Bond Reserve Accounts – represent 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 internally restricted funds held for capital maintenance, debt service, and other expenses.

(k) Lease Accounts

Lease accounts represent amounts owed by third parties that are required to be used to pay lease payments under payment undertaking agreements on the Authority's capital leases (note 7).

(l) Materials and Supplies

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

(m) Postemployment Benefits

Postemployment benefits, primarily healthcare, are recognized on an accrual basis. The accrual 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.

(n) Environmental Remediation Costs

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup and site monitoring using the expected cash flow technique and in a range of possible estimated amounts. The remediation obligation estimates are subject to change over time due to price fluctuations, changes in technology, changes in potential responsible parties, statutes or regulations or other factors, which could result in the revision of these estimates.

(o) Derivatives

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

(p) Available Unrestricted Resources

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

(q) Reclassifications

Certain prior year accounts have been reclassified to conform to the 2011 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

(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 Investor Services (Moody's) or A-1 by Standard and Poor's (S&P). These instruments can vary in maturity; however, no more than 10% of the investment funds shall be invested in the commercial paper of a single corporation.

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.

(Continued)

(Dollars in thousands)

Deposits and investments consisted of the following amounts presented in the accompanying statements of net assets at June 30, 2011 and 2010:

		2011	2010
Restricted:			
Bond construction accounts	$	182,743	177,334
Bond reserve, stabilization, and other accounts		557,674	485,836
Lease deposits		73,539	101,034
Subtotal		813,956	764,204
Unrestricted cash and temporary cash investments		121,518	112,985
	$	935,474	877,189

(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, 2011 and 2010 was $88,453 and $77,188, respectively. The bank balance at June 30, 2011 and 2010 was $88,302 and $78,981, respectively. Of this amount, $7,987 and $3,201, respectively, was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation (FDIC) limit of $250 at June 30, 2011 and 2010.

(b) Interest Rate Risk – Investments

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

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2011 and 2010 are presented below. All investments are presented by investment type and maturity.

		2011			
		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$ 103,942	103,942	—	—	—
Money market funds	187,979	187,979	—	—	—
Guaranteed investment contracts	3,231	—	—	—	3,231
Treasury STRIPS	73,539	12,390	27,046	—	34,103
Government-sponsored enterprises	369,404	333,765	—	7,169	28,470
Other treasury obligations	101,926	—	—	—	101,926
Certificates of deposit	7,000	7,000	—	—	—
Investments	$ 847,021	645,076	27,046	7,169	167,730

		2010			
		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1 year**	**1 – 3**	**4 – 8**	**More than 8**
MMDT	$ 95,593	95,593	—	—	—
Money market funds	334,629	334,629	—	—	—
Guaranteed investment contracts	3,704	—	—	—	3,704
Treasury STRIPS	121,251	26,282	30,426	26,395	38,148
Government-sponsored enterprises	179,069	171,848	—	—	7,221
Other treasury obligations	60,755	—	—	—	60,755
Certificates of deposit	5,000	5,000	—	—	—
Investments	$ 800,001	633,352	30,426	26,395	109,828

(c) Credit Ratings

The Authority holds guaranteed investment contracts and forward delivery agreements (none held at June 30, 2011) with a fair value of $3,231 and $3,704 at June 30, 2011 and 2010, respectively. These investments are not rated.

The Authority had $175,465 and $182,006 in Treasury STRIPS and other treasury obligations as of June 30, 2011 and 2010, respectively. The investments in Treasury STRIPS and other U.S. obligations are backed by the full faith and credit of the U.S. government.

(Continued)

(Dollars in thousands)

The Authority has $369,404 and $179,069 invested in Government-Sponsored Enterprises (GSE) as of June 30, 2011 and 2010, respectively. These investments have an implied credit rating of AAA or they have been collateralized to AAA.

The Authority has $103,942 and $95,593 invested in MMDT as of June 30, 2011 and 2010, respectively, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

The Authority also has $194,979 and $339,629 invested in money market funds and certificates of deposit as of June 30, 2011 and 2010, respectively. These investments are not rated.

(d) Concentration of Credit Risk – Investments

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

	Credit rating by Moody's/S&P		2011	Percentage of portfolio
Federal National Mortgage Association	Aaa/AAA	$	136,519	16.1%
Federal Home Loan Mortgage Corporation	Aaa/AAA		133,540	15.8
		$	270,059	31.9

	Credit rating by Moody's/S&P		2010	Percentage of portfolio
Federal Home Loan Banks	Aaa/AAA	$	80,228	10.0%
Federal National Mortgage Association	Aaa/AAA		55,317	6.9
		$	135,545	16.9

(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, 2011 and 2010.

(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 through fiscal year 2013. The Authority will pay MBCRC a total fixed base contract amount of $2,358,866 over the approved ten-year period, with remaining payments at June 30, 2011 totaling $559,692.

(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 to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2011, prior obligations in the amount of $578,645 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 2011, the Authority issued the following bonds: the 2010 Series C Sales Tax Bonds in the amount of $63,450, the 2010 Series D Sales Tax Bonds (BABs) in the principal amount of $210,000 and the MBTPC in the principal amount of $304,585.

Principal on the 2010 Series C Sales Tax Bonds is payable beginning July 1, 2018 and on each July 1st through July 1, 2020. Interest on these bonds is payable semiannually on July 1 and January 1. The Series C Sales Tax Bonds were issued to fund a portion of the Authority's Capital Investment Program (CIP).

Principal on the 2010 Series D Sales Tax Bonds is payable beginning July 1, 2021 and on each July 1st through July 1, 2040 except for July 1 of 2022 through 2025. Interest on these bonds is paid semiannually on July 1 and January 1. The 2010 Series D Sales Tax Bonds were issued as Build America Bonds pursuant to the American Recovery and Reinvestment Act (ARRA) and receive a cash subsidy from the U.S. Treasury in connection therewith. The 2010 Series D Sales Tax Bonds were issued to fund a portion of the Authority's CIP.

Principal on the 2011 Series A Metropolitan Boston Transit Parking Corporation is payable beginning July 1, 2022 and on each July 1st through July 1, 2041. Interest on these bonds is semiannually on July 1 and January 1 each year. The bond issue is funded from the parking system daily revenue of approximately 44,000 parking spaces at 95 different facilities including seven structured garages and 88 surface lots, all of which are owned by the Authority. The debt service on this issue is funded by the pledged revenues from these lots with any excess revenue refunded back to the Authority, with any deficiency occurrences cured by the Authority. The 2011 Series A were issued to refund the 2004 Series A Assessment Bonds, the 2005 Series A Assessment Bonds, the 2008 Series A Assessment Bonds, the 2002 Series A Sales Tax Bonds, the 2003 Series A Sales Tax Bonds, the 2004 Series C Sales Tax Bonds, the 2006 Series B Sales Tax Bonds, the 2006 Series C Sales Tax Bonds, the 2008 Series B Sales Tax Bonds, the 2009 Series D Sales Tax Bonds, the 1991 Series A General Transportation System (GTS) Bonds, the 1992 Series C GTS Bonds and the 1995 Series A GTS Bonds.

During fiscal year 2010, the Authority issued the following bonds: the 2009 Series C Sales Tax Bonds (BABs) in the principal amount of $218,300, the 2009 Series D Sales Tax Bonds in the amount of $39,840, the 2010 Series A Sales Tax Bonds (Windows VRDO) in the principal amount of $80,255 and the 2010 Series B Sales Tax Bonds in the principal amount of $79,020.

Principal on the 2009 Series C Sales Tax Bonds is payable beginning July 1, 2020 and on each July 1st through July 1, 2039. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series C Sales Tax Bonds were issued as Build America Bonds pursuant to the ARRA and receive a cash subsidy from the U.S. Treasury in connection therewith. The 2009 Series C Sales Tax Bonds were issued to fund a portion of the Authority’s CIP.

Principal on the 2009 Series D Sales Tax Bonds is payable beginning July 1, 2014 and on each July 1st through July 1, 2019. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series D Sales Tax Bonds were issued to fund a portion of the Authority’s CIP expenditures.

Principal on the 2010 Series A Sales Tax Bonds (Windows VRDO) is payable beginning July 1, 2024 and on each July 1st through July 1, 2030. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series A Sales Tax Bonds (Windows VRDO) were issued to refinance the 2009 Series A Senior Sales Tax Bonds that were subject to a mandatory tender on February 17, 2010.

Principal on the 2010 Series B Sales Tax Bonds is payable beginning July 1, 2011 and on each July 1st through July 1, 2035, except for July 1, 2031 and July 1, 2032. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series B Sales Tax Bonds were issued to refund the 2000 Series A Assessment Bonds and the 2005 Series A Senior Sales Tax Bonds.

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

The Authority issued commercial paper notes (BANs) in the amount of $25,000 during fiscal year 2011 to fund payment on prior obligations of the Authority. The balance of $118,375 and $93,375 was outstanding as of June 30, 2011 and 2010, respectively. The total BANs included CP Sales Tax

(Dollars in thousands)

Series A in the amount of $46,125 with a weighted average nominal rate 0.448% and CP Sales Tax Series B in the amount of $72,250 with a weighted average nominal rate 0.292%.

Grant Anticipation Notes (GANs) were issued in 2004 and the principal is payable in annual installments on September 1st; interest is payable semiannually on March 1 and September 1. The GANs were issued to provide funds for the financing of the Authority's transportation properties.

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.

The Authority's bonds outstanding at June 30, 2011 are as follows:

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2011	Due in fiscal year 2012
General transportation system bonds:				
1974 Series A Bonds dated June 1, 1974	2014	5.00% – 6.60%	$ 5,175	1,725
1991 Series A Bonds dated November 15, 1991	2021	7.00	41,595	5,430
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	5,185	5,185
1993 Series A Refunding Bonds dated June 1, 1993	2012	5.50	5,950	5,950
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.25 – 7.00	44,585	15,840
1995 Series A Bonds dated April 1, 1995	2015	5.75 – 5.88	35,715	12,090
1998 Series A Bonds dated February 15, 1998	2015	5.50	35,470	8,165
1998 Series C Bonds dated November 1, 1998	2022	5.25 – 5.75	72,050	21,095

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2011	Due in fiscal year 2012
1999 Series Variable Rate Demand Obligation dated June 29, 1999*	2014	Variable	$ 19,720	6,130
2000 Series Variable Rate Demand Obligation dated March 10, 2000*	2030	Variable	188,000	2,335
			578,645	83,945
Boston Metropolitan District (BMD) bonds:				
2002 Series A dated December 1, 2002	2014	5.13% – 5.25%	8,130	2,050
			8,130	2,050
Revenue bonds:				
2002 Series A Senior Sales Tax Bond dated November 1, 2002	2017	3.88 – 5.00	9,790	—
2003 Series A Senior Sales Tax Bond dated January 29,2003	2021	4.00 – 5.25	136,145	5,955
2003 Series C Senior Sales Tax Bond dated February 3, 2004**	2023	2.20 – 6.00	218,620	770
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	488,060	33,315
2004 Series A Assessment Bond dated June 10, 2004	2021	3.00 – 5.25	28,735	9,105
2004 Series C Senior Sales Tax dated December 22, 2004	2024	3.50 – 5.50	319,320	—
2005 Series A Senior Sales Tax dated March 24, 2005	2031	5.00	735,450	—
2005 Series A Assessment Bond dated September 8, 2005	2035	3.20 – 5.00	146,450	5,000
2005 Series B Senior Sales Tax dated December 21, 2005	2029	3.40 – 5.50	92,225	50
2006 Series A Senior Sales Tax Bond dated March 2, 2006	2034	5.25	238,850	—
2006 Series B Senior Sales Tax Bond dated December 5, 2006	2023	5.00 – 5.25	202,830	—

(Continued)

(Dollars in thousands)

	Final year of maturity	Interest rates	Outstanding principal as of June 30, 2011	Due in fiscal year 2012
2006 Series C Senior Sales Tax Bond dated June 28, 2006	2027	4.00% – 5.00%	$ 109,365	—
2006 Series A Assessment Bonds dated September 13, 2006***	2035	4.67 – 5.25	161,340	—
2007 Series A-1 Senior Sales Tax Bond dated May 24, 2007	2034	5.25	205,675	—
2007 Series A-2 Senior Sales Tax Bond dated May 24, 2007	2037	Zero Coupon	161,745	—
2008 Series A-1 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083 – 3.834	131,910	131,910
2008 Series A-2 Senior Sales Tax Bond dated April 2, 2008*	2026	3.083 – 3.834	124,000	124,000
2008 Series B Senior Sales Tax Bond dated April 30, 2008	2033	3.00 – 5.25	48,605	—
2008 Series A Assessment Bond dated November 13, 2008	2034	4.00 – 5.25	290,350	—
2009 Series B Senior Sales Tax dated February 26, 2009	2018	3.00 – 5.00	39,365	—
2009 Series D Senior Sales Tax dated October 29, 2009	2019	3.00 – 5.00	14,445	—
2010 Series A Senior Sales Tax dated February 17, 2010****	2030	Variable	80,255	80,255
2010 Series B Senior Sales Tax dated April 6, 2010	2035	2.00 – 5.00	79,020	1,260
2010 Series C Senior Sales Tax dated December 8, 2010	2020	5.00	63,450	—
			4,142,455	391,620
Metropolitan Boston Transit Parking Corporation (MBTPC) Bonds:				
2011 Series A MBTPC dated June 22, 2011	2041	4.00 – 5.25	304,585	—
			304,585	—

(Dollars in thousands)

	Final year of maturity	Interest rates		Outstanding principal as of June 30, 2011		Due in fiscal year 2012
Revenue Build America Bonds (BABs):						
2009 Series C Senior Sales Tax dated October 29, 2009	2039	4.75% – 5.57%	$	218,300		—
2010 Series D Senior Sales Tax dated December 8, 2010	2040	4.546 – 5.869		210,000		—
				428,300		—
Grant Anticipation Notes (GANs):						
2004 Series A Grant Anticipation Notes dated August 5, 2004	2011	2.75 – 5.00		6,245		6,245
Bond Anticipation Notes (BANs)	2011	0.26 – 0.60		118,375		118,375
Total bond and notes payable				5,586,735	$	602,235
Less current maturities				(602,235)		
Total long-term bonds payable				4,984,500		
Plus unamortized bond premiums				317,078		
Less unamortized bond discounts/losses on bond refundings, net				(238,467)		
Total long-term bonds payable			$	5,063,111		

* These bonds were issued as variable rate demand obligations (VRDOs) and bear interest at a variable rate. The interest rates as of June 30, 2011 and 2010 are 0.07% and 0.26% for the 1999 Series VRDO; 2.00% and 0.25% for the 2000 Series VRDO; 0.06% and 0.20% for the 2008 Series A-1 Senior Sales Tax Bond; and 0.06% and 0.20% for the 2008 Series A-2 Senior Sales Tax Bond, respectively.

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

(Continued)

(Dollars in thousands)

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

**** This bond was issued as a windows VRDO and its variable interest is based on the SIFMA rate, plus 0.09%.

The annual maturities of bonds and notes payable as of June 30, 2011 are as follows:

		Principal	Interest
Fiscal year(s):			
2012	$	602,235	268,561
2013		198,665	252,983
2014		177,165	242,511
2015		172,350	232,298
2016		149,600	222,257
2017 – 2021		1,072,615	958,267
2022 – 2026		1,065,045	717,424
2027 – 2031		1,071,534	466,506
2032 – 2036		797,974	231,567
2037 – 2041		256,138	68,983
2042		23,414	585
Total	$	5,586,735	3,661,942

A summary rollforward of bonds for the years ended June 30, 2011 and 2010 is as follows:

	2011					
	Balance 2010	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2011
GTS	$ 743,220	—	40,750	123,825	—	578,645
BMD	10,190	—	2,060	—	—	8,130
Revenue	4,337,363	63,450	45,400	220,350	7,392	4,142,455
BABs	218,300	210,000	—	—	—	428,300
GANs	23,635	—	17,390	—	—	6,245
BANs	93,375	25,000	—	—	—	118,375
MBTPC	—	304,585	—	—	—	304,585
	$ 5,426,083	603,035	105,600	344,175	7,392	5,586,735

(Dollars in thousands)

	2010					
	Balance 2009	**Bonds issued**	**Principal payments**	**Refunded/ redeemed principal**	**Capital appreciation bond accretion**	**Balance 2010**
GTS	$ 855,535	—	112,315	—	—	743,220
BMD	12,260	—	2,070	—	—	10,190
Revenue	4,306,104	199,115	13,895	161,015	7,054	4,337,363
BABs	—	218,300	—	—	—	218,300
GANs	40,300	—	16,665	—	—	23,635
BANs	93,375	20,000	20,000	—	—	93,375
	$ 5,307,574	437,415	164,945	161,015	7,054	5,426,083

The following funds, included in restricted assets at June 30, 2011 and 2010, are in connection with the Authority's revenue bond trust agreements:

	2011				2010		
	Assessment bonds	**Sales Tax bonds**	**MBTPC bonds**	**GANs**	**Assessment bonds**	**Sales Tax bonds**	**GANs**
Debt service	$ 32,082	221,261	—	171	27,279	161,360	171
Debt service reserve	64,329	192,821	12,294	8,040	75,444	182,257	8,334
	$ 96,411	414,082	12,294	8,211	102,723	343,617	8,505

The minimum required balances in the debt service reserve funds at June 30, 2011 and 2010 were $189,405 and $190,100 for the Sales Tax bonds and $58,986 and $69,375 for the Assessment bonds, respectively. The minimum required balance in the debt service reserve funds at June 30, 2011 and 2010 for GANs is $625 and $2,344, respectively. The minimum required balance in the debt service reserve funds at June 30, 2011 for MBTPC is $12,294. The Authority has complied with its financial bond covenants.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to pay its capital costs. The Authority has a $250 million commercial paper program. $150 million is administered by JPMorgan and $100 million by Barclays Capital Inc. The Authority's commercial paper (or BANs) is rated P-1 by Moody's and A-1+ by S&P. The Authority had $118,375 in outstanding commercial paper as of June 30, 2011.

(b) Debt Refundings

In current and prior years, the Authority defeased in-substance several GTS, Sales Tax Series, and Assessment Series bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2011 and 2010, $1,283,455 and $1,610,475 of these bonds, considered defeased in-substance, are still outstanding, respectively. On June 30, 2011 and 2010, $4,060 in BMD bonds are considered defeased in-substance, and are still outstanding.

In December 2010, the Authority refunded $23,425 of the 1993 Series A GTS Bonds, $22,860 of the 1994 Series A GTS Bonds and $21,715 of the 1998 Series C GTS Bonds with the issuance of the 2010 Series C Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the $68,000 in bonds is approximately $16,478. The accounting loss of $8,194 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2010 Series C Sales Tax Bonds.

In June 2011, the Authority refunded $16,850 of the 2004 Series A Assessment Bonds, $45,800 of the 2005 Series A Assessment Bonds, $64,070 of the 2008 Series A Assessment Bonds, $8,740 of the 2002 Series A Sales Tax Bonds, $22,650 of the 2003 Series A Sales Tax Bonds $3,955 of the 2004 Series C Sales Tax Bonds, $5,170 of the 2006 Series B Sales Tax Bonds, $26,555 of the 2006 Series C Sales Tax Bond, $1,165 of the 2008 Series B Sales Tax Bonds, $25,395 of the 2009 Series B Sales Tax Bond, $33,405 of the 1991 Series A GTS Bonds, $5,500 of the 1992 Series C GTS Bonds and $16,920 of the 1995 Series A GTS Bonds with the issuance of the 2011 Series A MBTPC Systemwide Parking Revenue Bonds. The accounting loss of $28,080 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2011 Series A MBTPC Bonds.

In February 2010, the Authority refunded $79,645 of the 2009 A Sales Tax Bonds with the issuance of 2010 Series A Sales Tax Bonds variable rate demand obligation.

In April 2010, the Authority refunded $41,785 of the 2000 Series A Assessment Bonds and refunded $39,585 of the 2005 Series A Senior Sales Tax Bonds with the issuance of the 2010 Series B Senior Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the $81,370 in bonds is approximately $6,517. The accounting loss of $1,969 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2010 Series B Senior Sales Tax Bonds.

(c) Derivative Instruments

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 Swaps for which the Authority received an upfront payment are considered hybrid instruments. The premiums/up-front payments are reported as a borrowing and included in the long-term liability deferred revenue and other on the statement of net assets and the Swaps are reported based on the at-the-market rates at the time of execution.

(Dollars in thousands)

Summary of Swap Transactions by Category

Synthetic Fixed Rate Swap Transactions

Derivative item	Type	Objective	Effective date	Current notional amount	Term. date	Fixed payable swap rate	Variable receivable swap rate	Upfront payment from counterparty	Fair value at June 30 2011	Fair value at June 30 2010
Cash flow hedges:										
1	Pay – fixed interest rate swap	Hedge changes in cash flows on the GTS Series 2000 VRDO	September 2005	$ 188,000	2030	5.00%	67% of LIBOR	$ 12,230	(39,437)	(45,426)
3	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Senior Sales Tax Series 2003 C	February 2004	25,005	2020	4.13	CPI+79 basis points	N/A	(469)	(1,857)
4	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	19,260	2024	4.67	CPI+123 basis points	607	296	(731)
5	Pay – fixed interest rate swap	Hedge changes in cash flows on a portion of the Assessment Series 2006 A	October 2008	5,000	2025	4.66	CPI+123 basis points	142	89	(179)
6	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-1	October 2008	131,910	2021	3.83	SIFMA	3,067	(13,420)	(13,608)
7	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2008 A-2	October 2008	124,000	2026	3.08	62% of LIBOR plus 24 basis points	116	(9,830)	(12,581)
8	Pay – fixed interest rate swap	Hedge changes in cash flows on the Senior Sales Tax Series 2010 A	March 2009	79,645	2030	5.61	SIFMA	4,140	(22,414)	(24,283)
									(85,185)	(98,665)
Investment derivatives:										
2	Pay – fixed interest rate swap (a)	Originally to hedge changes in cash flows on variable rate debt	February 2003	87,805	2022	5.20	SIFMA	4,586	(18,017)	(19,544)
9	Receive – fixed interest rate swap (b)	Hedge changes in cash flows on the debt service reserve funds of the 2000 Assessment and Sales Tax Bonds	December 2000	49,123	2030	5.60	SIFMA	1,265	(2,050)	(2,333)
									(20,067)	(21,877)
									$ (105,252)	(120,542)

(a) The 2003 B-1 and 2003 B-2 hedged bonds were legally redeemed in March 2008 through the issuance of commercial paper.
(b) This is a swaption with exercise dates of January 1 and July 1 from July 2010 through July 2030.

The aggregate fair value balance of the derivative instruments at June 30, 2011 and 2010 is $(105,252) and $(120,542), respectively, and is reflected on the Authority's statement of net assets as liability for derivative instruments. Of this liability, $85,185 and $98,665 at June 30, 2011 and 2010, respectively, were offset by deferred outflows of resources from derivative instruments that qualify for hedge accounting. As of June 30, 2011 and 2010, the Authority determined that the investment derivative instruments do not meet the criteria for hedge accounting. Accordingly, the change in fair value of these swaps is reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net assets.

(Dollars in thousands)

The fair values of the interest rate swaps were calculated by a third party derivative advisor where each leg of the swap is valued utilizing the present value of expected future cash flows based on the contractual terms of each swap or an "at the market rate" in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Expected cash flows are discounted using the US Dollar Swap curve provided by independent third parties such as Bloomberg.

Swap Payments and Associated Debt

As of June 30, 2011, 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 0.1243% and the variable rate on the 2000 Bonds is 2.00% 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(s) ending June 30	2000 Bonds principal	2000 Bonds interest	Interest rate swap, net	Total
2012	$ 2,335	3,713	9,052	15,100
2013	5,460	3,604	8,786	17,850
2014	5,845	3,487	8,501	17,833
2015	6,250	3,362	8,197	17,809
2016	6,690	3,228	7,870	17,788
2017 – 2021	41,170	13,783	33,601	88,554
2022 – 2026	57,735	8,717	21,250	87,702
2027 – 2030	62,515	1,981	4,830	69,326
Totals	$ 188,000	41,875	102,087	331,962

(Dollars in thousands)

As of June 30, 2011, 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 7.711% 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 Series C Sales Tax Bonds principal	2003 Series C Sales Tax Bonds interest	Interest rate swap, net	Total
2012	$ —	2,126	(1,093)	1,033
2013	—	2,126	(1,093)	1,033
2014	—	2,126	(1,093)	1,033
2015	—	2,126	(1,093)	1,033
2016	—	2,126	(1,093)	1,033
2017 – 2021	25,005	7,794	(4,008)	28,791
	$ 25,005	18,424	(9,473)	33,956

As of June 30, 2011, 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 7.711% 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 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2012	$ —	447	(214)	233
2013	—	447	(214)	233
2014	—	447	(214)	233
2015	—	447	(214)	233
2016	—	447	(214)	233
2017 – 2021	—	2,235	(1,070)	1,165
2022 – 2026	5,000	1,788	(856)	5,932
	$ 5,000	6,258	(2,996)	8,262

(Dollars in thousands)

As of June 30, 2011, 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 7.711% 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 Series A Assessment Bonds principal	2006 Series A Assessment Bonds interest	Interest rate swap, net	Total
2012	$	—	1,722	(823)	899
2013		—	1,722	(823)	899
2014		—	1,722	(823)	899
2015		—	1,722	(823)	899
2016		—	1,722	(823)	899
2017 – 2021		—	8,610	(4,113)	4,497
2022 – 2026		19,260	5,166	(2,468)	21,958
	$	19,260	22,386	(10,696)	30,950

As of June 30, 2011, 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 SIFMA index rate is 0.09% and the variable rate on 2008 Series A-1 bonds is 0.06% 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 Series A-1 Sales Tax Bonds principal	2008 Series A-1 Sales Tax Bonds interest	Interest rate swap, net	Total
2012	$	—	79	4,939	5,018
2013		—	79	4,939	5,018
2014		135	79	4,934	5,148
2015		735	79	4,906	5,720
2016		765	78	4,877	5,720
2017 – 2021		101,740	211	13,178	115,129
2022		28,535	—	—	28,535
	$	131,910	605	37,773	170,288

As of June 30, 2011, 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 62% of LIBOR plus 24 basis points is 0.3550% and the variable rate on 2008 Series A-2 bonds is 0.06% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

(Dollars in thousands)

Fiscal year(s) ending June 30		2008 Series A-2 Sales Tax Bonds principal	2008 Series A-2 Sales Tax Bonds interest	Interest rate swap, net	Total
2012	$	485	74	3,369	3,928
2013		500	74	3,356	3,930
2014		515	74	3,342	3,931
2015		535	73	3,327	3,935
2016		550	73	3,312	3,935
2017 – 2021		3,030	359	16,318	19,707
2022 – 2026		99,500	207	9,426	109,133
2027		18,885	—	—	18,885
	$	124,000	934	42,450	167,384

As of June 30, 2011, debt service requirements on 2010 Series A Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.09% and the variable rate on 2010 Series A Bonds is 0.09% plus 9 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2011 bonds will vary.

Fiscal year(s) ending June 30		2010 Series A Sales Tax Bonds principal	2010 Series A Sales Tax Bonds interest	Interest rate swap, net	Total
2012	$	—	143	4,396	4,539
2013		—	143	4,396	4,539
2014		—	143	4,396	4,539
2015		—	143	4,396	4,539
2016		—	143	4,396	4,539
2017 – 2021		—	717	21,982	22,699
2022 – 2026		19,590	664	20,375	40,629
2027 – 2031		60,055	229	7,010	67,294
	$	79,645	2,325	71,347	153,317

Risk Disclosure

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

The following represents the credit ratings of the counterparties as of June 30, 2011:

Derivative swap item	Counterparty credit rating Moody's/S&P
Derivative 1	Aa3/A+
Derivative 2	Aa1/AA-
Derivative 3	A2/A
Derivative 4	Aa3/A+
Derivative 5	Aa3/A+
Derivative 6	Aa3/A+
Derivative 7	Aa3/A+
Derivative 8	Aa1/AA-
Derivative 9	Aa3/A+

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

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

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

(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 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 2011 was minimal and no contributions were made to this plan in fiscal year 2011. In addition, the net pension obligation is considered immaterial.

(a) Funding Policy and Annual Pension Cost

The board of trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members, as of May 8, 2010, to contribute 5.124% with the Authority currently paying an amount equal to 14.026% of total payroll. The members contributed 4.301% prior to May 8, 2010 with the Authority paying an amount equal to approximately 11.559% of total payroll. The actuarial required contribution rate for the Authority was 17.7367%. The contribution requirements for the Police Association Plan were 16.583% for the Authority and 7.285% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made in 2011 and 2010 were in accordance with these contribution requirements. The MBTA Retirement Plan requires members, as of July 2, 2011, to contribute 5.149% with the Authority currently paying an amount equal to 14.101% of total payroll.

(Dollars in thousands)

Deferred compensation contributions are made on a "pay-as-you-go" basis. The Authority's annual pension cost for the years ended June 30, 2011 and 2010 and related information for each plan is as follows:

		2011		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – authority	$	66,075	2,798	5,770
Contributions made – authority		52,516	2,137	5,185
Actuarial valuation date/update		June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method		Entry age	Entry age	Entry age
Amortization method		Level dollar	Level dollar	Level dollar
Amortization period		30 years	30 years	30 years
Asset valuation method		5-year moving	5-year moving	5-year moving
Actuarial assumptions:				
Interest rate		7.50%	7.00%	8.00%
Projected salary increases		4.00	4.50	4.00

		2010		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Annual pension cost – authority	$	53,887	2,468	5,602
Contributions made – authority		42,920	2,140	4,904
Actuarial valuation date/update		June 30, 2010	June 30, 2010	June 30, 2010
Actuarial cost method		Entry age	Entry age	Entry age
Amortization method		Level dollar	Level dollar	Level dollar
Amortization period		30 years	30 years	30 years
Asset valuation method		5-year moving	5-year moving	5-year moving
Actuarial assumptions:				
Interest rate		7.50%	7.00%	8.00%
Projected salary increases		4.00	4.50	4.00

(Continued)

(Dollars in thousands)

Changes in the net pension obligation for these plans for the years ended June 30, 2011 and 2010 are as follows:

		2011		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(33,015)	(1,165)	(8,676)
Annual pension cost		(66,075)	(2,798)	(5,770)
Contributions and other adjustments		52,516	2,137	5,185
Net pension obligation, end of year	$	(46,574)	(1,826)	(9,261)

		2010		
Pension		**MBTA Retirement Plan**	**MBTA Police Association Plan**	**MBTA Deferred Compensation Plan**
Net pension obligation, beginning of year	$	(22,048)	(837)	(7,978)
Annual pension cost		(53,887)	(2,468)	(5,602)
Contributions and other adjustments		42,920	2,140	4,904
Net pension obligation, end of year	$	(33,015)	(1,165)	(8,676)

(Dollars in thousands)

(b) Three-Year Trend Information

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
MBTA Retirement Plan	June 30, 2009	$ 44,642	80%	$ (22,048)
	June 30, 2010	53,887	80	(33,015)
	June 30, 2011	66,075	79	(46,574)
MBTA Police Association Plan	June 30, 2009	$ 2,230	99%	$ (837)
	June 30, 2010	2,468	87	(1,165)
	June 30, 2011	2,798	76	(1,826)
MBTA Deferred Compensation Plan	June 30, 2009	$ 5,320	90%	$ (7,978)
	June 30, 2010	5,602	88	(8,676)
	June 30, 2011	5,770	90	(9,261)

(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:						
December 31, 2009	$ 1,667,362	2,216,721	549,359	75.22%	$ 350,619	156.68%
Police Association Plan:						
December 31, 2009	49,795	68,104	18,309	73.12%	16,598	110.31%

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)	Actuarial accrued liability (c) (a)-(b)	Recognized ratio (d) (b)/(a)	Unrecognized ratio (e) (c)/(a)	Covered payroll (f)
July 1, 2010	$ 47,206	8,676	38,530	18.4%	81.6%	$ 36,168

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 252 and 268 members at June 30, 2011 and 2010, respectively, and the cost of the Plan to the Authority was $663 and $653 for fiscal years 2011 and 2010, 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 (LILO)

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, funds were deposited with financial institutions sufficient to meet all payment obligations under the terms of the lease agreements and U.S. Treasury STRIPS were purchased in an amount sufficient to satisfy each agreement's purchase option price provided for in the leases.

(b) Sale-In/Lease-Out (SILO)

Guaranteed debt and equity payment undertaking agreements were in place at AAA/Aaa-rated financial institutions, until this institution's credit rating was downgraded. Pursuant to requirements of these agreements, collateral was posted in July 2008, for the Authority's benefit. The Authority and the equity investor agreed, subsequent to June 30, 2009, to terminate these payment undertaking agreements and replace the guarantor with an obligation assumed by the Authority. The net economic gain for terminating these agreements to the Authority was $797, which was recorded to the Authority's deferred lease benefit accounts, in fiscal year 2010.

(Dollars in thousands)

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

The Authority has entered into cross-border leases related to the financing of 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 in the capital assets note (note 8).

The following is a schedule by year of future minimum lease payments under the LILO, cross-border, and other capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2011:

Fiscal year(s):		
2012	$	61,334
2013		41,012
2014		73,267
2015		12,128
2016		597
2017 – 2021		212
2022 – 2023		34,102
		222,652
Less amount representing interest		(20,158)
Present value of net minimum lease payments		202,494
Less current principal maturities		(39,228)
Obligations under capital leases	$	163,266

(Dollars in thousands)

The liability for these leases changed in 2011 and 2010 as follows:

Outstanding – June 30, 2009	$	296,039
Net change in obligation		2,991
Outstanding – June 30, 2010		299,030
Net change in obligation		(96,536)
Outstanding – June 30, 2011	$	202,494

(d) Operating Leases

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

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

Future minimum operating lease payments at June 30, 2011 are as follows:

Fiscal year:		
2012	$	6,267
2013		6,177
	$	12,444

(Dollars in thousands)

(8) Capital Assets

Capital assets at June 30, 2011 and 2010 are as follows:

	Beginning balance June 30, 2010	Increases	Decreases	Ending balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 312,212	3,012	1,135	314,089
Construction work in progress	479,187	459,492	368,126	570,553
Total capital assets not being depreciated	791,399	462,504	369,261	884,642
Other capital assets:				
Ways and structures	9,183,206	206,131	—	9,389,337
Buildings and equipment	2,331,497	116,480	—	2,447,977
Buildings and equipment included in capital lease	407,513	—	4,892	402,621
Total	11,922,216	322,611	4,892	12,239,935
Less accumulated depreciation for:				
Ways and structures	3,155,800	209,290	—	3,365,090
Buildings and equipment	1,131,588	146,291	—	1,277,879
Buildings and equipment included in capital lease	280,779	2,959	4,892	278,846
Total	4,568,167	358,540	4,892	4,921,815
Other capital assets, net	7,354,049	(35,929)	—	7,318,120
Capital assets, net	$ 8,145,448	426,575	369,261	8,202,762

(Continued)

(Dollars in thousands)

		Beginning balance June 30, 2009	Increases	Decreases	Ending balance June 30, 2010
Capital assets not being depreciated:					
Land	$	308,648	4,213	649	312,212
Construction work in progress		468,772	374,929	364,514	479,187
Total capital assets not being depreciated		777,420	379,142	365,163	791,399
Other capital assets:					
Ways and structures		8,897,344	285,862	—	9,183,206
Buildings and equipment		2,275,661	74,712	18,876	2,331,497
Buildings and equipment included in capital lease		413,940	—	6,427	407,513
Total		11,586,945	360,574	25,303	11,922,216
Less accumulated depreciation for:					
Ways and structures		2,952,887	202,913	—	3,155,800
Buildings and equipment		1,024,536	125,928	18,876	1,131,588
Buildings and equipment included in capital lease		270,908	16,298	6,427	280,779
Total		4,248,331	345,139	25,303	4,568,167
Other capital assets, net		7,338,614	15,435	—	7,354,049
Capital assets, net	$	8,116,034	394,577	365,163	8,145,448

(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 the self insured retention of $2,500 effective March 1, 2010, $5,000 between March 1, 2007 and February 28, 2010, and $350 per incident prior to March 1, 2007. 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. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth (GIC). The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered

(Continued)

(Dollars in thousands)

by the GIC. 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.

During fiscal years 2011 and 2010, expenditures for claims and judgments, excluding workers compensation, and health and life, were $15,215 and $14,054, respectively. Expenditures for claims related to workers compensation were $11,125 and $10,897, and expenditures for the self-insured health plans were $125,618 and $128,458 for the years ended June 30, 2011 and 2010, 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, 2011, 2010, and 2009. Changes in the self-insurance liabilities in fiscal years 2011, 2010, and 2009 were as follows:

		2011	2010	2009
Liability, beginning of year	$	97,535	98,280	97,145
Provisions for claims		151,958	153,409	151,190
Payments		(151,990)	(154,154)	(150,055)
Liability, end of year	$	97,503	97,535	98,280

(Dollars in thousands)

(10) Commitments and Contingencies

(a) Capital Investment Program (CIP)

The Authority's continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2011 and 2010, 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, 2011	Unexpended costs
Federal grants	$	6,284,651	6,099,699	184,952
State and local sources		1,882,706	1,747,409	135,297
Authority bonds		5,888,119	5,352,803	535,316
Total	$	14,055,476	13,199,911	855,565

Funding source		Approved project costs	Expenditures through June 30, 2010	Unexpended costs
Federal grants	$	6,055,445	5,928,534	126,911
State and local sources		1,736,144	1,658,316	77,828
Authority bonds		5,655,607	5,204,027	451,580
Total	$	13,447,196	12,790,877	656,319

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

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

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately $272,227 and $212,087 at June 30, 2011 and 2010, 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, payments of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority’s financial position.

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of 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*, 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 the June 30, 2009 actuarial valuation, approximately 5,051 retirees and 5,576 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

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the GIC for health, life and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. In fiscal year 2011 approximately 400 Nonaffiliated retirees transferred to the GIC on January 1, 2010.

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

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

(Dollars in thousands)

(d) Annual OPEB Costs and Net OPEB Obligation

The Authority's 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 Statement No. 45. The June 30, 2009 actuarial valuation established the ARC for fiscal years 2011 and 2010. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2011 and 2010, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation.

		2011	**2010**
ARC	$	146,389	146,389
Interest on net OPEB obligation		12,457	8,917
Amortization adjustment to ARC		(17,824)	(12,758)
Annual OPEB cost		141,022	142,548
Contributions made		(58,378)	(61,712)
Change in net OPEB obligation		82,644	80,836
Net OPEB obligation – beginning of year		284,409	203,573
Net OPEB obligation – end of year	$	367,053	284,409

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**
2011	$	141,022	41.3%	$	367,053
2010		142,547	43.3		284,409

The Authority's net OPEB obligation as of June 30, 2011 and 2010 is recorded as "Other postemployment benefits" line item.

(Dollars in thousands)

(e) Funded Status and Funding Progress

The funded status of the plan was based on an actuarial valuation as of June 30, 2009 is as follows:

Actuarial accrued liability (AAL)	$	1,555,394
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	1,555,394
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	428,007
UAAL as a percentage of covered payroll		363.4%

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

(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, 2009 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 8.75% for retirees in year one, 8.25% for all in year two, 7.75% in year three, 7.25% in year four, 6.75% in year five, 6.25% in year six, 5.75% in year seven, 5.25% in year eight and 5.00% long-term trend rate for all healthcare benefits thereafter. The amortization costs for the initial unfunded actuarial accrued liability (UAAL) is a level dollar closed amortization for a period of 30 years.

(Continued)

(Dollars in thousands)

(12) Environmental Remediation Obligations

Effective July 1, 2008, the Authority implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The statement requires a government entity to estimate its expected outlays for pollution remediation if it knows that a site is polluted based on specific recognition triggers and disclose those obligations associated with clean up efforts. In compliance with the statement, the Authority has restated beginning net assets and established a liability on its balance sheet for current and future expenses.

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

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

In response to a Federal Clean Air Act (CAA) enforcement action for excessive train engine idling, the U.S. EPA and the U.S. Department of Justice have negotiated a judicial consent decree with the Authority and MBCRC (operator of commuter rail service). The terms of the settlement include a cash fine of $225 (to be paid by MBCRC); installation of less polluting auxiliary diesel engines on 14 commuter rail locomotives (to be covered by federal grants and MBCRC's operating contract) switch to a cleaner burning fuel (ultra-low-sulfur diesel) additional cost covered under the MBTA's fuel contract; upgrade or install electric plug-ins at MBTA layover facility (estimated cost to be over $2 million). This settlement was resolved according to the decree during fiscal year 2011.

During the year ended June 30, 2011, the following changes occurred in the liabilities:

	Balance as of July 1, 2010	Additions/ revisions	Payments/ revisions	Balance as of June 30, 2011
Storage tank remediation sites	$ 13,950	(3,852)	(1,252)	8,846
Sites with PCB remediation	9,500	(2,900)	(600)	6,000
U.S. government violations	5,193	(5,193)	—	—
	$ 28,643	(11,945)	(1,852)	14,846

The payments for remediation costs combined with revised cost completion estimates totaled $13,797 in fiscal year 2011, and $16,045 additional liability incurred in fiscal year 2010 is recorded in the other operating expenses in the statement of revenue, expenses and changes of net assets. The accrued total liability as of June 30, 2011 and 2010 included in the long-term accrued liabilities in the statement of net assets was $14,846 and $28,643, respectively.

(13) Pledged Revenues

The Authority has pledged, as security for Sales Tax Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority’s approved CIP, and are payable through 2041 as of June 30, 2011. Total principal and interest remaining on Sales Tax Bonds, Assessment Bonds, Prior Obligation Bonds and MBTPC Bonds outstanding as of June 30, 2011 are $8,619,139. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. As of June 30, 2011, the total amount of dedicated sales tax revenues and assessment revenues received for fiscal year 2011 was $765,795 and $150,148, respectively, a total of $915,943. As of June 30, 2010, the total amount of dedicated sales tax revenues and assessment revenue received for fiscal year 2010 was $771,932 and $149,233, respectively, a total of $921,165. As of June 30, 2011, total annual debt service paid for fiscal year 2011 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was $377,601. As of June 30, 2010, total annual debt service paid for fiscal year 2010 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was $374,931. As of June 30, 2011 and 2010, therefore, debt service represented 41% and 41% of pledged revenues, respectively.

The MBTPC pledge of dedicated parking receipts the parking system of the Authority remains in place until all bonds outstanding are retired and paid. MBTPC began operations on June 22, 2011. The total annual debt service commences as of July 1, 2011 with a debt service requirement of $15,758 in fiscal year 2012, which represents 39% of the estimated revenue in the fiscal year 2012 operating budget.

Schedule of Funding Progress
Required Supplementary Information

June 30, 2011

Unaudited

(Dollars in thousands)

Pension Plans

MBTA Retirement Plan

Valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	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
2007		1,902,276	2,091,930	189,654	90.93		357,069	53.11
2008		1,729,738	2,141,576	411,838	80.77		377,795	109.01
2009		1,667,362	2,216,721	549,359	75.22		350,619	156.68

Police Association Retirement Plan

Valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	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	$	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
2007		45,718	55,485	9,767	82.4		14,853	65.8
2008		47,594	60,029	12,435	79.3		15,766	78.9
2009		49,795	68,104	18,309	73.1		16,598	110.3

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.

(Continued)

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

Schedule of Funding Progress
Required Supplementary Information

June 30, 2011

Unaudited

(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)
July 1, 2005	$ 43,014	6,991	36,023	16.3%	83.7%	$ 27,495
July 1, 2006	42,996	6,707	36,289	15.6	84.4	28,870
July 1, 2007	45,970	6,859	39,111	14.9	85.1	29,780
July 1, 2008	46,032	7,421	38,611	16.1	83.9	31,269
July 1, 2009	47,363	7,978	39,385	16.8	83.2	34,446
July 1, 2010	47,206	8,676	38,530	18.4	81.6	36,168

OPEB Plan

Valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (c) (b)-(a)	(Unfunded) funded ratio (d) (a)/(b)	Covered payroll (e)	UAAL as a percentage of covered payroll (c)/(e)
June 30, 2008	$ —	1,714,605	1,714,605	—%	$ 440,208	389.5%
June 30, 2009	—	1,555,394	1,555,394	—	428,007	363.4

See accompanying independent auditors' report.