Office of Performance Management & Oversight
Fiscal 2014 Annual Report Guidance

The Office of Performance Management & Oversight (OPMO) measures the performance of all public and quasi-public entities engaged in economic development. All agencies are required to submit an Annual Report demonstrating progress against plan and include additional information as outlined in Chapter 240 of the Acts of 2010.

The annual reports of each agency will be published on the Office of Performance Management website, and will be electronically submitted to the clerks of the Senate and House of Representatives, the Chairs of the House and Senate Committees on Ways and Means and the House and Senate Chairs of the Joint Committee on Economic Development and Emerging Technologies.

Filing Instructions:

The Fiscal Year 2014 report is due no later than **Friday, October 3, 2014**. An electronic copy of the report and attachments A & B should be e-mailed to James.Poplasky@MassMail.State.MA.US

1) Agency Information

Agency Name	**Massachusetts Port Authority**
Agency Head	**Thomas P. Glynn**
Title	**CEO & Executive Director**
Website	**www.massport.com**
Address	**One Harborside Drive, Suite 200S, East Boston, MA 02128**

2) Mission Statement

Please include the Mission Statement for your organization below.

A world class organization of people moving people and goods – and connecting Massachusetts and New England to the world – safely and securely and with a commitment to our neighboring communities.

3) Performance Against Plan Report

Please provide details on the progress and accomplishments for Fiscal Year 2014 as it relates to the Fiscal Year 2014 Plan submitted by your agency. Plans are posted on the OPMO website for easy reference. This information should be included as **Attachment A and should include prior year perspective.** In addition to your Performance to Plan Report, Questions 4 through 10 provides guidance on the specific information required under Chapter 240 of the Acts of 2010.

4) Accounting

Please provide financial information for your agency. Below please give a summary of *Receipts and Expenditures* during the fiscal year, and include the *Assets and Liabilities* at the end of the fiscal year. Please include the most recent audited financial report for the agency as **Attachment B**.

	Amount
Receipts	**$622,471,000**
Expenditures	**$622,290,000**
Assets	**$3,841,631,000**
Liabilities	**$1,941,309,000**

5) Investments or Grants to Businesses or Individuals

Does your agency make **investments** and/or provide **grants** to businesses or individuals? **Yes** ☐ **No** ☒

If **Yes**, please provide detailed information on investments and/or grants made during FY14 in the **Performance Against Plan Report – Attachment A** section of this report. Information should include the number, nature and amounts of investments made and grants awarded by your agency along with job, investment and/or other economic development impact. Please list the name(s) of the investment and/or grant programs offered by your agency in the space provided below:

N/A

6) Debt or Equity Investment Details

Is your agency involved in **debt** or **equity investments** for businesses? **Yes** ☐ **No** ☒

If **Yes**, please provide detailed information on debt and/or equity investments made during FY14 in the **Performance Against Plan Report – Attachment A** section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the debit and/or equity investments programs offered by your agency in the space provided below:

N/A

7) Loan Details

Is your agency involved in **real estate loans**, **working capital loans**, or any **other type of loan** or **guarantee**? **Yes** ☐ **No** ☒

If **Yes**, please provide detailed information on loan(s) and/or guarantee(s) made during FY14 in the **Performance Against Plan Report – Attachment A** section of this report along with job, investment and/or other economic development impact. Please list the types of loan(s) and/or guarantee(s) offered by your agency in the space provided below:

N/A

8) Other forms of Financing or Financial Assistance?

If your agency provides any other form of financing or financial assistance, please include FY14 details in the **Performance Against Plan Report – Attachment A** section of this report along with job, investment and/or other economic development impact. Please list the types of other forms of financing offered by your agency in the space provided below:

N/A

9) Patents or Products

Does your agency track **patents** or **products** resulting from agency-funded activities? **Yes** ☐ **No** ☒
If **Yes**, please include details in the **Performance Against Plan Report – Attachment A** section of this report along with job, investment and/or other economic development impact. Please list the agency-funded activities of your agency that promote patent and product advancement in the space provided below:

N/A

10) Technical Assistance

If your agency provides technical assistance, please provide detailed information on technical assistance provided during FY14 in **the Performance Against Plan Report – Attachment A** section of this report along with job, investment, and/or other economic development impact. Please list the name(s) of the technical assistance programs offered by your agency in the space provided below:

N/A

11) Management Team

Please confirm that the senior management team listed on your website is accurate and report on any current or pending vacancies and/or replacements.

Website information on executive management team is accurate. There are no pending vacancies.

12) Board of Directors

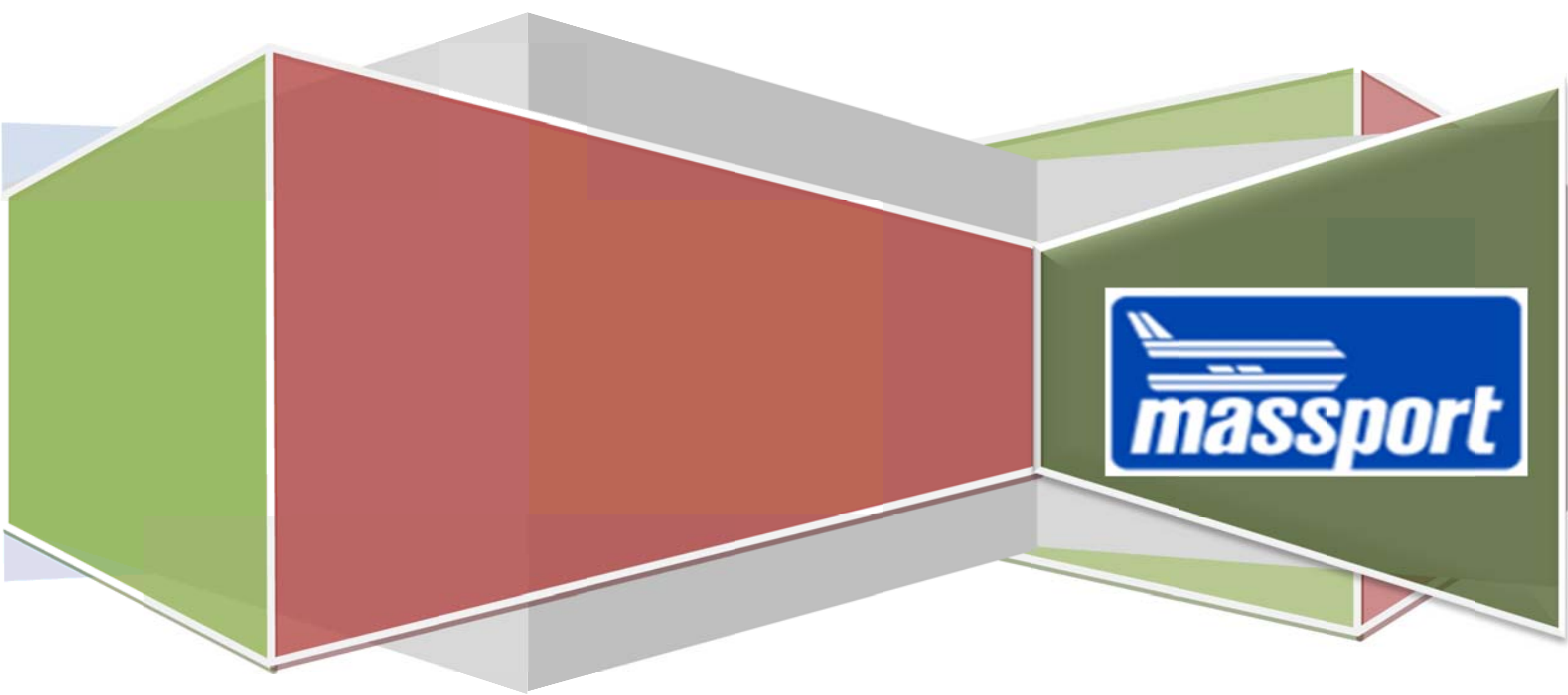
If applicable, please confirm that the board of director information on your website is accurate and provide information on any current or pending board vacancies.
Website information on board of directors is accurate. There are no pending vacancies.

Office of Performance Management & Oversight

Massachusetts Port Authority

Fiscal 2014

Performance to Plan Report



Mission Statement A world class organization of people moving people and goods – and connecting Massachusetts and New England to the world – safely and securely and with a commitment to our neighboring communities.

Business Plan Summary – The following table summarizes objectives, programs, and initiatives planned for FY14, performance measurements by which to evaluate progress, and year-end status.

Goals	Strategy	Performance Measurement
1. Safety and Security	Receive annual Federal Aviation Administration Operating Certificate for Massport airports. Enhance camera coverage on Massport owned facilities Increase emergency preparedness needs.	• Certificates of Approval by the FAA. **Operating certificates received for all three airports.** • Increase camera coverage on Massport facilities. **Added 164 new cameras to a robust system.** • Conduct exercises to address specific emergency preparedness needs. **Conducted seven exercises.**
2. Customer Service	Build customer amenities to improve Logan airport and Cruiseport Boston services	• Complete enhanced wayfinding and safer curb operations resulting in an overall enhanced customer experience. **Completed.** • Encourage usage of free outbound Silverline service. **Outbound service from Logan continues to be offered free of charge.** • Promote utilization of TSA pre-checks. **Increased usage from 24% to 45%.** • Secure long-term site for Braintree Logan Express. **Property secured.** • Distribute passenger information through a digital signage system. **Installed in Terminal C and construction underway in Terminal E.**
3. Worcester Regional Airport (ORH)	Support the successful launch of JetBlue service at ORH. Invest in assets to improve commercial service and general aviation activities at this Massport facility	• Facilitate the arrival of JetBlue service to ORH. **JetBlue service began November 7, 2013.** • Continue process to implement a Category III High Intensity Instrument Landing System. **Design and permitting underway.** • Complete design and permitting of a $5 million private investment for new airplane hangar space. **Completed.**

Goals	Strategy	Performance Measurement
4. Be an Economic Engine for the Commonwealth	Increase the number of jobs created from construction and investment. Increase the number of direct flights to currently un-served international markets Support fishing and maritime industries.	• Job creation from construction. **Created 694 jobs through capital investment.** • Increase international air service at Logan Airport. **New COPA, Emirates, Turkish and Hainan Airlines services will contribute over $580 million to the regional economy.** • Improve the entrance to the Fish Pier and highlight its significance to Boston and the New England economy. **Installed new banners and signage promoting the Fish Pier.**
5. Improve Maritime Operations	To increase ship container volumes and cruise passengers at our facilities in the Port of Boston	• # of Containers serviced by Maritime. **Serviced 116,800 containers exceeding goal by 9%.** • # of Cruise passengers serviced by CruisePort Boston. **Serviced 382,885 cruise passengers exceeding goal by 6%.**
6. Enhance Community Collaboration	To enhance community collaboration through capital investments and other Massport services	• Manage private investment in East Boston (Portside at Pier 1). **On-going.** • Continue progress on Greenway Project. **Greenway opened.** • Implement Saratoga Street Gateway project. **Completed demolition and installed new fencing. Lighting installation underway.** • Conley Terminal crane painting improvement. **Project funded in FY16-18 Capital Plan.**
7. Hanscom Airport	To increase private capital investment and promote stronger community dialogue	• Complete permitting and planning for new hanger being built by Rectrix. **Completed** • Increased presence and dialogue with the community. **On-going.**
8. Strengthen Massport's Financial Health	To develop financial plans necessary to maintain strong financial results and lower internal audit findings	• Balanced budget and Five Year financial plan. **Submitted and approved. 2% annual growth since 2009.** • Maintain AA Bond Ratings. **Affirmed.** • Reduced # of internal audit findings. **Reduced by 23%.**

MASSACHUSETTS PORT AUTHORITY

Financial Statements, Required Supplementary Information, and Supplementary Schedules

Years Ended June 30, 2014 and 2013

(With Report of Independent Auditors)

MASSACHUSETTS PORT AUTHORITY

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Building a better
working world

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

Tel: +1 617 266 2000
Fax: +1 617 266 5843
ey.com

Report of Independent Auditors

To the Members of the Massachusetts Port Authority

We have audited the accompanying financial statements of the Massachusetts Port Authority (the Authority) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority at June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States require that management's discussion and analysis, the schedule of pension funding progress and the schedule of OPEB funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Auditing Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

Boston, Massachusetts
September 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis of the financial performance and activity of the Massachusetts Port Authority (the "Authority") is intended to provide an introduction and an overview of the financial statements of the Authority as of and for the fiscal years ended June 30, 2014, 2013 and 2012, respectively. This discussion should be read in conjunction with the audited financial statements attached hereto. Management has established and maintains certain internal controls and procedures designed to ensure that the annual financial statements are free from material misstatement and that all required disclosures are made in its annual financial statements. Management has reviewed the Authority's current internal controls and procedures and believes that such controls and procedures are adequate in order to record, process, summarize and report to management material information required to be disclosed by the Authority in its annual financial statements.

The Authority owns Logan International Airport ("Logan Airport"), Hanscom Field, Worcester Regional Airport ("Worcester Airport"), Conley Terminal and various other maritime properties (the "Port"). The Authority has no taxing power and is not taxpayer funded. It uses revenues from landing fees, parking fees, fees from terminal and other rentals, revenues from concessions, tolls, ground rents, and other charges to fund operating expenses. The Authority's revenues also fund its capital expenditures and include other sources such as federal grants, passenger facility charges ("PFCs"), and customer facility charges ("CFCs"). The Authority issues revenue bonds which are secured solely by the Authority's Revenues, as defined by the 1978 Trust Agreement, the PFC Trust Agreement and the CFC Trust Agreement, respectively. The Authority's bonds do not constitute a debt or a pledge of the full faith and credit of the Commonwealth of Massachusetts or of any other political subdivision thereof.

The Financial Statements

The Authority's financial statements include three comparative statements: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These financial statements have been prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB").

The comparative Statements of Net Position depict the Authority's financial position as of a point in time, specifically June 30, 2014, and 2013, and include all assets, deferred outflows and liabilities of the Authority. The net position represents the residual interest in the Authority's assets and deferred outflows after liabilities are deducted. The Authority's net position is divided into three components: 1) invested in capital assets, 2) restricted, and 3) unrestricted. Please see Note 1 in the financial statements attached hereto for a discussion on the Authority's net position.

The Statements of Revenues, Expenses and Changes in Net Position report operating revenues, operating expenses, non-operating revenue and expenses, and other changes in net position for the fiscal years ending June 30, 2014 and 2013. Revenues and expenses are categorized as either operating or non-operating based upon management's policies as established in accordance with definitions set forth by the GASB. Certain sources of the Authority's revenues, including PFCs, CFCs, investment income and capital grants are reported as non-operating revenues and their uses are restricted and generally are not available for operating purposes.

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments resulting from operating activities, capital and related financing activities, and investing activities.

Financial Highlights

- Logan Airport serviced a record 30.9 million passengers in fiscal year 2014. This represents an increase of passenger use of 1.4 million passengers or 4.9% when compared to fiscal year 2013. New international service was added at Logan Airport with the arrival of COPA Airlines and the announcement and arrival of service to Turkey, China, and the United Arab Emirates.

- Maritime serviced 116,800 containers at Conley Terminal in fiscal year 2014, a 6.0% increase over fiscal year 2013. Cruiseport Boston finished the fiscal year having serviced 338,442 cruise passengers, and approximately 109 cruise ships having visited the Port of Boston.

- The $300 million Rental Car Center ("RCC") opened in the first quarter of fiscal year 2014 and began rental car and bus operations in the centralized facility thus reducing bus traffic at Logan by 60% and increasing curbside access.

- The $125 million Terminal B renovation and improvement project was completed in the fourth quarter of fiscal year 2014 which includes the addition of jet bridges facilitating the use of larger aircraft, 24 new ticket counter positions, a relocated and modified passenger checkpoint, eight reconfigured departure lounges, and a secure passenger connection to Pier B that serves US Airways.

- Worcester Regional Airport welcomed 71,600 passengers in fiscal year 2014 with the start of jetBlue service to Orlando and Fort Lauderdale beginning in November 2013.

- The Authority's operating revenues in fiscal year 2014 grew 8.9% to $622.5 million, an increase of $50.7 million over fiscal year 2013. Operating expenses (excluding depreciation and amortization) were $404.5 million, an increase of 9.2% or $34.1 million over last year as new facilities came on line, environmental remediation expenses were recognized, and added costs were incurred to accommodate business growth at Logan Airport, Worcester Regional Airport, and Conley Terminal. Depreciation and amortization expense increased $18.8 million to $217.8 million in fiscal year 2014 primarily the result of the RCC and the renovated Terminal B becoming operational in fiscal year 2014. These new facilities account for approximately $17.0 million in additional annual depreciation.

- The Authority's net position grew to $1.92 billion, a $91.8 million or 5.0% increase over the prior year. This 5.0% increase in net position was generated by operating revenues exceeding operating expenses by $0.2 million, net non-operating revenues contributing $35.5 million and recognizing capital grant revenues totaling $56.1 million which are used for facility improvements.

The Authority's Condensed Statements of Revenues, Expenses and Changes in Net Position

	(in millions)		2014 vs. 2013	
	2014	2013	$ Change	% Change
Operating revenues	$ 622.5	$ 571.8	$ 50.7	8.9%
Operating expenses	404.5	370.4	34.1	9.2%
Depreciation and amortization	217.8	199.0	18.8	9.4%
Operating income	0.2	2.4	(2.2)	-91.7%
Total nonoperating revenues (expenses), net	35.5	21.2	14.3	67.5%
Capital grant revenue	56.1	20.2	35.9	177.7%
Increase in net position	91.8	43.8	48.0	109.6%
Net position, beginning of year	1,828.5	1,784.7	43.8	2.5%
Net position, end of year	$ 1,920.3	$ 1,828.5	$ 91.8	5.0%

The Authority's net position increased $91.8 million or 5.0%, $43.8 million or 2.5% and $89.3 million or 5.3% during fiscal years 2014, 2013 and 2012, respectively. The increase in net position is the result of operating revenues exceeding operating expenses by $0.2 million, $2.4 million and $17.3 million in fiscal years 2014, 2013 and 2012, respectively. Net non-operating revenues of $35.5 million, $21.2 million and $31.2 million generated during fiscal years 2014, 2013 and 2012, respectively, primarily the result of PFCs and CFCs collections which are offset by interest expense. The Authority also recognized $56.1 million, $20.2 million and $40.8 million in capital grants in fiscal years 2014, 2013 and 2012, respectively, which were used primarily to finance various airport airfield and security projects.

The Authority's Condensed Statements of Revenues, Expenses and Changes in Net Position

	(in millions)		2013 vs. 2012	
	2013	2012	$ Change	% Change
Operating revenues	$ 571.8	$ 558.4	$ 13.4	2.4%
Operating expenses	370.4	359.9	10.5	2.9%
Depreciation and amortization	199.0	181.2	17.8	9.8%
Operating income	2.4	17.3	(14.9)	-86.1%
Total nonoperating revenues (expenses), net	21.2	31.2	(10.0)	-32.1%
Capital grant revenue	20.2	40.8	(20.6)	-50.5%
Increase in net position	43.8	89.3	(45.5)	-51.0%
Net position, beginning of year	1,784.7	1,695.4	89.3	5.3%
Net position, end of year	$ 1,828.5	$ 1,784.7	$ 43.8	2.5%

Operating Revenues

Operating revenues of the Authority consist primarily of fees, rentals, concessions and operating grants. Fees and other services ("Fee Revenue") are comprised essentially of parking fees, landing fees, and container handling fees. Rental revenues are earned through lease agreements for building and ground rents across the Authority's asset base, including Logan Airport, Hanscom Field, Worcester Airport and Port properties. Concession revenues consist primarily of fees earned from ground services for airport passengers, including car rentals, taxis, bus services, limousine services, and retail operations. The following table is a discussion of the Authority's major operating revenues as shown on the Authority's Condensed Statements of Revenues, Expenses and Changes in Net Position.

The Authority's Operating Revenues

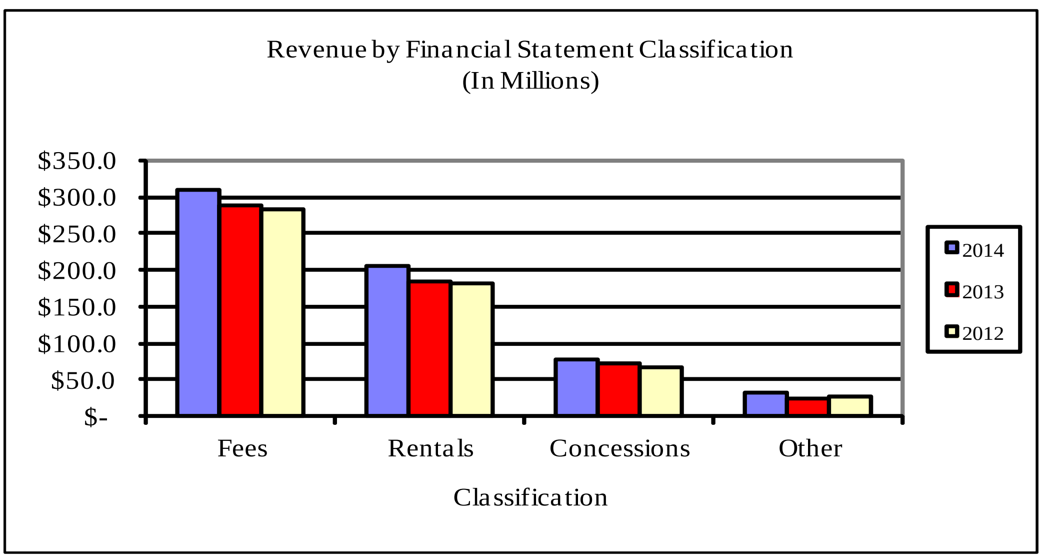
	(in millions)		2014 vs. 2013	
	2014	**2013**	**$ Change**	**% Change**
Operating revenues:				
Fees and other services	$ 308.5	$ 289.4	$ 19.1	6.6%
Rentals	204.4	184.7	19.7	10.7%
Concessions	77.9	72.5	5.4	7.4%
Other, including operating grants	31.7	25.2	6.5	25.8%
Total operating revenues	$ 622.5	$ 571.8	$ 50.7	8.9%

The Authority's operating revenues for fiscal year 2014 were $622.5 million, an increase of $50.7 million or 8.9% from fiscal year 2013. The increase in operating revenue is mainly attributable to the record 30.9 million total passengers serviced at Logan Airport in fiscal year 2014. Revenues from fees and other services increased by $19.1 million, or 6.6% in fiscal year 2014 due to higher parking revenues generated from the 4.9% increase in passenger volumes at Logan Airport, 4.1% growth in landed weights at Logan Airport related to the increase in international and domestic carriers and an average 3.4% increase in the rate per thousand pound. Also, the 6.0% growth in container volume at Conley Terminal contributed to higher fee revenues. Rental revenue increased $19.7 million, or 10.7% over fiscal year 2013. This increase is due to higher Logan Airport terminal rents assessed the airlines for the recovery of operating expenses and capital improvements, increased terminal space usage, and higher commercial real estate rental revenues generated on South Boston properties and other Maritime facilities. Concession revenues increased $5.4 million, or 7.4% in fiscal year 2014 due to increased rental car concession revenues, terminal advertising, and terminal concession sales within Logan Airport. Other income increased by $6.5 million, or 25.8% in fiscal year 2014, as a result of opening the RCC and consolidating the Rental Car Shuttle Bus services. In addition, the Authority instituted a new shuttle bus service from Logan Airport to Boston's Back Bay train station and increased revenues from overnight aircraft parking fees resulting from increased international flights.

	(in millions)		2013 vs. 2012	
	2013	**2012**	**$ Change**	**% Change**
Operating revenues:				
Fees and other services	$ 289.4	$ 283.4	$ 6.0	2.1%
Rentals	184.7	180.6	4.1	2.3%
Concessions	72.5	68.2	4.3	6.3%
Other, including operating grants	25.2	26.2	(1.0)	-3.8%
Total operating revenues	$ 571.8	$ 558.4	$ 13.4	2.4%

The Authority's operating revenues for fiscal year 2013 were $571.8 million, an increase of $13.4 million or 2.4% from fiscal year 2012. The increase in operating revenue is mainly attributable to the record 29.4 million total passengers serviced at Logan Airport in fiscal year 2013. Revenues from fees and other services increased by $6.0 million, or 2.1% in fiscal year 2013 due mainly to higher parking revenues generated from increased parking activity and an increase in commercial parking rates at Logan Airport that took effect in March 2012. Rental revenue increased $4.1 million, or 2.3% over fiscal year 2012. This increase is due to higher Logan Airport terminal rents, and an increase in commercial real estate rental revenues generated on South Boston properties and other Maritime facilities. Concession revenues increased $4.3 million, or 6.3% in fiscal year 2013 due to increased rental car concession revenues, terminal advertising, and terminal concession sales within Logan Airport's terminals. Other income decreased by $1.0 million, or 3.8% in fiscal year 2013, from Logan instituting free outbound Silver Line bus service and reduced overnight aircraft parking fees.

The Authority's operating revenues for fiscal year 2012 were $558.4 million, an increase of $20.8 million or 3.9% from fiscal year 2011. The increase in operating revenue is mainly attributable to the record 29.3 million total passengers serviced at Logan Airport in fiscal year 2012. Revenues from fees and other services totaled $283.4 million during fiscal year 2012, an increase of $8.9 million or 3.2% when compared to $274.5 million generated during fiscal year 2011. Parking revenues increased $9.7 million or 8.3% due to increased passengers and a 12.5% increase in the daily commercial parking rate that took effect in March 2012 at Logan Airport. Landing fees were 3.5% lower than the previous year as an increase in landed weights was offset by a lower landing fee charged the airlines. Revenues from container activity were slightly higher as the Port serviced 107,477 containers in fiscal year 2012 as compared to 106,857 containers serviced in fiscal year 2011. Overall utility revenues were lower by about 4.5% as low natural gas prices and the warm winter season helped keep utility costs low. These savings were in part passed onto Airline tenants.



Fees and Other Services

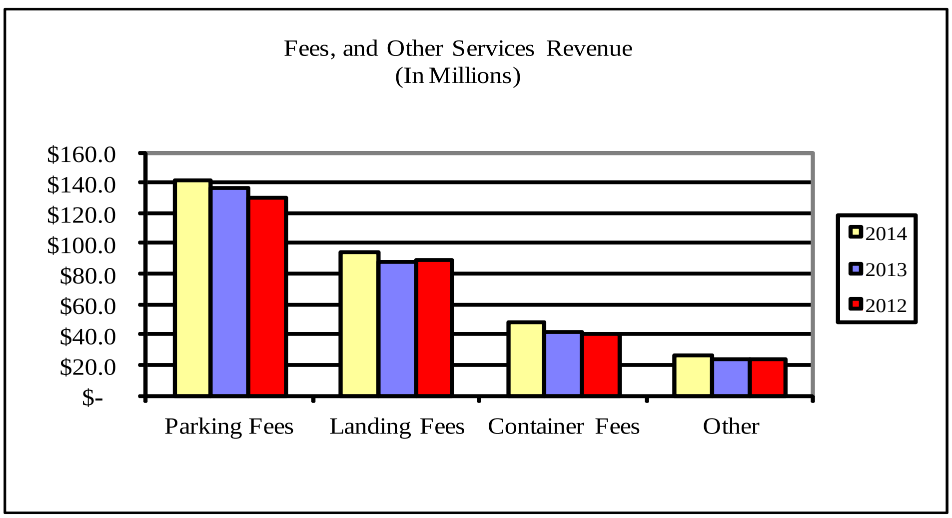
Parking Fees: During fiscal year 2014, the Authority collected $136.3 million in parking revenue at Logan Airport, an increase of $4.4 million or 3.4% compared to fiscal year 2013. This increase in parking revenues is attributable to a 4.9% increase in passenger volume at Logan Airport. Parking exits at Logan Airport for fiscal year 2014 were 2.61 million, a 1.3% increase from the prior fiscal year and revenue per exit was $48.62, a 1.7% increase over the prior fiscal year.

During fiscal year 2014, the Maritime collected $4.7 million in parking revenues, an increase of $0.9 million or 23.7% compared to fiscal year 2013. This increase in parking revenues is attributable to increased activities in the waterfront area of the City and continued adjustments to daily and monthly rates to reflect market conditions in the area.

During fiscal year 2013, the Authority collected $131.9 million in parking revenue at Logan Airport, an increase of $6.1 million or 4.9% compared to fiscal year 2012. This increase in parking revenues is attributable to a full year effect of the 12.5% increase in the daily commercial parking rate that took effect in March 2012 and a 0.4% increase in passenger volume at Logan Airport. Parking exits at Logan Airport for fiscal year 2013 were 2.57 million, a 2.5% decrease from the prior fiscal year, although revenue per exit was $47.80, a 7.9% increase over the prior fiscal year.

During fiscal year 2012, the Authority collected $125.8 million in parking revenue, an increase of $9.7 million or 8.3% compared to fiscal year 2011. This increase in parking revenues is attributable to a 12.5% increase in the daily commercial parking rate that took effect in March 2012 and a 3.1% increase in passenger volume at Logan Airport. Parking exits at Logan Airport for fiscal year 2012 were 2.64 million, a 0.05% increase over fiscal year 2011 and revenue per exit was $44.31, an 8.3% increase from fiscal year 2011.

The following table is a presentation of the revenue components included in Fee Revenue by the Authority's primary business operations:

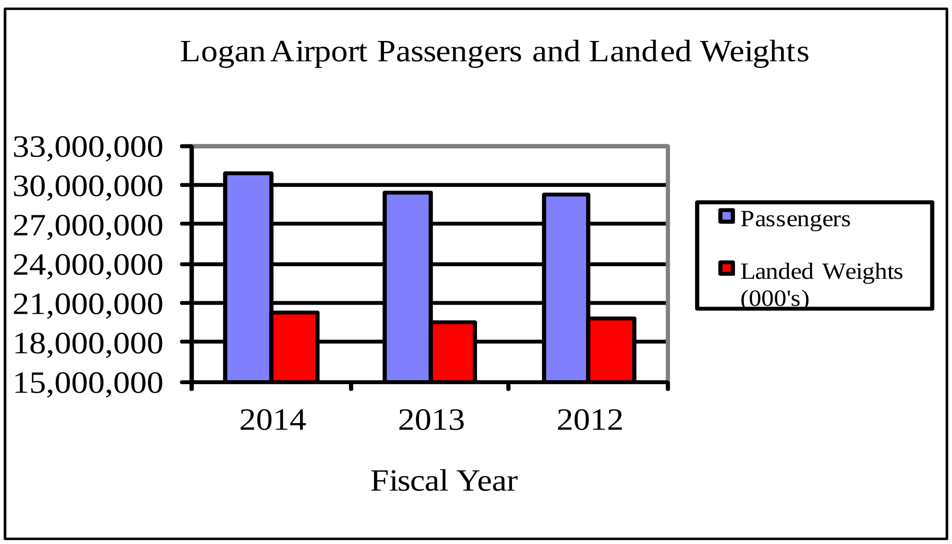


Landing Fees: Landing fees are principally generated from scheduled airlines and non-scheduled commercial aviation and are based on the landed weight of the aircraft at Logan Airport. The Logan Airport landing fee is determined annually based on full cost recovery to maintain the landing field. Landing fees earned from airline activity were $92.9 million during fiscal year 2014, an increase of $6.4 million or 7.4% compared to the $86.5 million earned during fiscal year 2013. Logan Airport handled 20.29 billion pounds of landed weights during fiscal year 2014, which was a 4.1% increase from the 19.49 billion pounds handled in fiscal year 2013. Logan Airport serviced 363,900 aircraft operations at its runways (takeoffs and landings). This was an increase of 3.5% from the 351,500 aircraft operations serviced in fiscal year 2013. The increase in landed weight and operations are primarily attributable to the increase in domestic airline flights and new long haul international services at Logan Airport.

Hanscom Field and Worcester Airport landing fees totaled $1.0 million in fiscal year 2014 and $0.9 million in fiscal year 2013.

In fiscal year 2013, landing fees earned from airline activity was $86.5 million, a 2.0% decrease compared to $88.3 million earned during fiscal year 2012. Logan Airport handled 19.49 billion pounds of landed weights during fiscal year 2013, which was a 1.8% decrease from the 19.85 billion pounds handled in fiscal year 2012. Logan Airport serviced 351,500 aircraft operations at its runways (takeoffs and landings). This was a decrease of 3.8% from the 365,000 aircraft operations serviced in fiscal year 2012. The decrease in landed weight and operations is partly attributable to the consolidation of certain airline routes. Hanscom Field and Worcester Airport landing fees totaled $0.9 million in fiscal year 2013 and $1.0 million in fiscal year 2012

In fiscal year 2012, Logan Airport landing fee revenue was $88.3 million, a 3.5% decrease over fiscal year 2011 landing fee revenue of $91.5 million. The reduction in revenues can be attributed to lower capital financing costs and reduced operating expenses from favorable winter conditions. During fiscal year 2012, Logan Airport handled 19.85 billion pounds, an increase from the 19.71 billion pounds of landed weights handled in fiscal year 2011. Logan Airport runways serviced 365,000 aircraft operations in fiscal year 2012, an increase of 3,000 aircraft operations over the 362,000 aircraft operations serviced in fiscal year 2011. The increase is mainly attributable to the growth of low cost carrier service at Logan Airport. Hanscom Field and Worcester Airport landing fees totaled $1.0 million in fiscal year 2012 and $0.9 million in fiscal year 2011.



Container Fees: Container fees generated at Conley Terminal are fees charged to the shipping lines for the loading and unloading of containers from their vessels. During fiscal year 2014 container fees generated $47.4 million in revenues. This is an increase of $5.4 million or 12.9% over the $42.0 million generated in fiscal year 2013. Conley Terminal handled 116,800 containers in fiscal year 2014, an increase of approximately 6,600 containers over the 110,200 containers handled in fiscal year 2013. This increase in container volume coupled with carrier rate adjustments contributed to this increase in container fees for Conley Terminal.

During fiscal year 2013 container fees generated $42.0 million in revenues. This is an increase of $1.6 million over the $40.4 million generated in fiscal year 2012. Conley Terminal handled 110,200 containers in fiscal year 2013, an increase of approximately 2,700 containers over the 107,500 containers handled in fiscal year 2012. This increase in container volume contributed to an increase in container fees for Conley Terminal.

During fiscal year 2012 container fees generated $40.4 million in revenue from shipping lines. This was an increase of $0.3 million over the $40.1 million in container fees generated in fiscal year 2011. Conley Terminal handled 107,500 containers at the Port in fiscal year 2012. This was a 0.6% increase over the 106,900 containers serviced in fiscal year 2011.

Rentals

The Authority's rental revenues for fiscal year 2014 totaled $204.4 million, a $19.7 million or 10.7% increase over fiscal year 2013. Logan Airport accounts for $175.7 million or 85.9% of the $204.4 million in total rental revenue recorded in the Authority's financial statements. Maritime accounts for $23.4 million and Hanscom for $5.1 million. Airport rental revenue is earned from airlines and other tenants for the terminal buildings, cargo, and hangar space they occupy on airport property.

Rental revenues at Logan Airport were $175.7 million, an increase of $15.7 million or 9.8% in fiscal year 2014, when compared to the $160.0 million in fiscal year 2013. The largest revenue component is related to terminal rents which generated $129.5 million during fiscal year 2014, an increase of $11.6 million or 9.8% from fiscal year 2013. This increase is the result of increased international passengers, jetBlue's expansion into Terminal C, and the expansion and renovation to Terminal B. Nonterminal rents were $26.9 million for fiscal year 2014, an increase of $3.0 million or 12.5% from the prior year. This increase is the result of the new RCC being placed into service in the first quarter of fiscal year 2014. The increase in rental revenues generated at Logan Airport reflects the recovery of operating and capital costs on various terminal improvements made throughout Logan Airport and the new RCC service area and garage which began operating in September 2013. In addition, the Authority collects rental revenue on Port properties and other land that it owns. During fiscal year 2014, the Authority earned approximately $19.6 million in rental revenue on Port properties, an increase of approximately $3.1 million or 18.8% over fiscal year 2013. This increase is primarily attributed to the receipt of transaction rent revenue on property ground leased in South Boston. Other rental revenues from Maritime properties, Hanscom Field and Worcester Airport total $9.1 million, an increase of $0.8 million or 9.6% over the amount collected in fiscal year 2013.

The Authority's rental revenues for fiscal year 2013 totaled $184.7 million, a $4.1 million or 2.3% increase over fiscal year 2012. Rental revenues at Logan Airport were $160.0 million, an increase of $4.4 million or 2.8% in fiscal year 2013, when compared to the $155.6 million in fiscal year 2012. The $4.4 million increase in rental revenues generated at Logan Airport reflects the recovery of operating costs and capital on various terminal improvements made throughout Logan Airport's terminals and the new hanger agreement with jetBlue airlines. In addition, the Authority collects rental revenue on Port properties and other land that it owns. During fiscal year 2013, the Authority earned approximately $16.5 million in rental revenue on Port properties, an increase of approximately $0.4 million or 2.5% over fiscal year 2012. Other rental revenues from Maritime properties, Hanscom Field and Worcester Airport total $8.3 million, a decrease of $0.6 million or 6.7% from the amount collected in fiscal year 2012. This decrease is due mainly to a new lease agreement at the Autoport where the lessor assumed additional operating and capital cost commitments.

The Authority's rental revenues for fiscal year 2012 totaled $180.6 million, a $6.2 million or 3.6% increase over fiscal year 2011. During fiscal year 2012, Logan Airport rental revenues were $155.6

million, an increase of $5.7 million or 3.8% when compared to fiscal year 2011. The Port properties rental revenues of $16.1 million were $1.3 million or 8.8% higher when compared to fiscal year 2011. Other rental revenues from Maritime properties, Hanscom Field and Worcester Airport total $8.9 million, a decrease of $0.8 million or 8.7% from the amount collected in fiscal year 2011.

Concessions

During fiscal year 2014, the Authority earned $77.9 million in concessions revenue compared to $72.5 million in fiscal year 2013, an increase of $5.4 million or 7.4%. Concessions revenue consists of fees earned from ground services for airport passengers such as car rentals, taxis, bus and limousine services, as well as retail operations within the Airport's terminals. During fiscal year 2014, the Authority earned approximately $40.8 million in ground service fees, an increase of $2.4 million or 6.3% primarily from an increase in rental car activity at Logan Airport. During fiscal year 2014, other concession revenues generated from food and beverage, news and gifts, foreign exchange, duty free shops, specialty shops and other concessions totaled $37.1 million, an 8.8% increase over fiscal year 2013. The increase can be attributed to the 4.9% growth in Logan Airport passengers and the increase in product offerings at the expanded Terminal B.

During fiscal year 2013, the Authority earned $72.5 million in concessions revenue compared to $68.2 million in fiscal year 2012, an increase of $4.3 million or 6.3%. Concessions revenue consists of fees earned from ground services for airport passengers such as car rentals, taxis, bus and limousine services, as well as retail operations within the Airport's terminals. During fiscal year 2013, the Authority earned approximately $38.4 million in ground service fees compared to $36.3 million in fiscal year 2012. This represented an increase of $2.1 million or 5.8% in ground service fees, primarily from an increase in rental car activity at Logan Airport. During fiscal year 2013, other concession revenues generated from food and beverage, news and gifts, foreign exchange, duty free shops, specialty shops and other concessions totaled $34.1 million or 6.9% more than the $31.9 million generated in fiscal year 2012. Higher passenger volumes at Logan Airport increased terminal sales and a new contract from a duty free vendor generated more revenue for the Authority.

During fiscal year 2012, the Authority's concessions revenue totaled $68.2 million, an increase of $4.2 million or 6.6% when compared to fiscal year 2011. During fiscal year 2012, the Authority's ground service fees increased $1.3 million or 3.7% over fiscal year 2011. In fiscal year 2012, other concession revenues also increased by $2.9 million or 10.0% over fiscal year 2011. The concessions revenue increase during fiscal year 2012 was primarily the result of higher passenger volumes at Logan Airport which increased terminal sales, and a new foreign currency exchange service contract.

Operating Expenses (including depreciation and amortization)

Fiscal year 2014 total operating expenses were $622.3 million and are comprised of $296.3 million in operations and maintenance expenses, $54.2 million in general and administrative expenses, $54.0 million in other operating expenses, and $217.8 million in depreciation and amortization expenses. This is a $52.9 million increase or 9.3% over fiscal year 2013. Total operating expenses exclusive of depreciation and amortization were $404.5 million, a 9.2% or $34.1 million increase over the $370.4 million in total operating expenses (excluding depreciation and amortization) incurred in fiscal year 2013.

The Authority's Condensed Operating Expenses

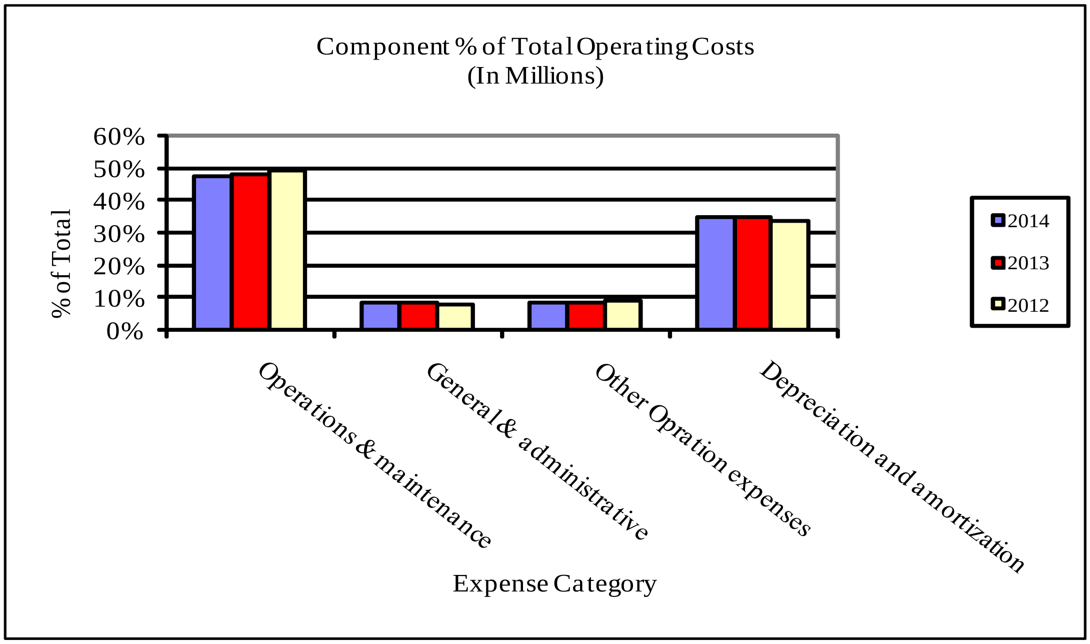
	(in millions)		2014 vs. 2013	
	2014	2013	$ Change	% Change
Operating expenses:				
Operations and maintenance	$ 296.3	$ 272.6	$ 23.7	8.7%
General and administrative	54.2	49.0	5.2	10.6%
Other operating expenses	54.0	48.8	5.2	10.7%
Depreciation and amortization	217.8	199.0	18.8	9.4%
Total operating expenses	$ 622.3	$ 569.4	$ 52.9	9.3%

	(in millions)		2013 vs. 2012	
	2013	2012	$ Change	% Change
Operating expenses:				
Operations and maintenance	$ 272.6	$ 265.6	$ 7.0	2.6%
General and administrative	49.0	44.0	5.0	11.4%
Other operating expenses	48.8	50.3	(1.5)	-3.0%
Depreciation and amortization	199.0	181.2	17.8	9.8%
Total operating expenses	$ 569.4	$ 541.1	$ 28.3	5.2%

Fiscal year 2013 total operating expenses were $569.4 million and are comprised of $272.6 million in operations and maintenance expenses, $49.0 million in general and administrative expenses, $48.8 million in other operating expenses, and $199.0 million in depreciation and amortization expenses. This is a $28.3 million increase or 5.2% over fiscal year 2012. Total operating expenses exclusive of depreciation and amortization were $370.4 million, a 2.9% or $10.5 million increase over the $359.9 million in total operating expenses (excluding depreciation and amortization) incurred in fiscal year 2012.

Fiscal year 2012 total operating expenses were $541.1 million and are comprised of $265.6 million in operations and maintenance expenses, $44.0 million in general and administrative expenses, $50.3 million in other operating expenses, and $181.2 million in depreciation and amortization expenses. This is a $16.9 million increase or 3.2% over fiscal year 2011. Total operating expenses exclusive of depreciation and amortization were $359.9 million, a 1.4% or $5.1 million increase over the $354.8 million in total operating expenses (excluding depreciation and amortization) incurred in fiscal year 2011.

The following depicts the Authority's significant operating cost components by Condensed Operating Expenses:



Operations and Maintenance

During fiscal year 2014, the Authority incurred $296.3 million in operations and maintenance costs, an increase of $23.7 million or 8.7% from fiscal year 2013. Approximately $10.0 million of the increase is associated with business expansion related to the opening of the Rental Car Center and new shuttle bus system at Logan Airport, the expansion and rehabilitation of terminal B, the 6% increase in container volume at Conley terminal, jetBlue's new service out of Worcester Regional Airport, and increased overtime to accommodate higher parking demand, snow removal operations, added public safety overtime attributed to the BosFuel jet fuel fire at Logan Airport. The Authority also recognized $5.0 million in non-capitalized environmental cleanup expenses on the demolition of hanger building 16 and the Conley Freight Road contracts as required by GASB Statement No. 49. Employee collectively bargained wage adjustments and health care premium increases account for an additional $5.0 million in added expense. Utility expenses increased $2.7 million over last year due to increased usage and higher transmission costs. The balance of $1.0 million is comprised of various miscellaneous departmental operational and maintenance expenses. Operations and maintenance expenses represent 47.6% of the Authority's total operating expenses. These expenses relate to the operations and maintenance of each of the Authority's facilities which includes Logan Airport, Hanscom Field, Worcester Airport, and the Port of Boston.

During fiscal year 2013, the Authority incurred $272.6 million in operations and maintenance costs, which represents an increase of $7.0 million or 2.6% from fiscal year 2012. Employee wages and fringe benefits costs increased $4.3 million during fiscal year 2013. This increase is primarily attributable to the hiring of additional State Police and Fire Rescue personnel to fill vacancies, and annual collective bargaining wage increases for represented employees and merit increases for non-represented personnel. The Authority also made a onetime lease termination of tenancy payment in the amount of $1.4 million. Increased container volumes added stevedoring expenses of $0.4 million and snow removal costs were $2.7 million higher than last year due to severe winter weather in the Northeast. Lastly, utility costs increased $1.7 million from increased tenant usage and slightly higher per unit costs. The Authority generated $2.8 million in cost reductions by restructuring Logan's new low emission airport shuttle bus program, and other miscellaneous savings from lower structural and runway repairs. Operations and maintenance expenses represent 47.9% of the Authority's total operating expenses

During fiscal year 2012, the Authority incurred $265.6 million in operations and maintenance costs, which represent an increase of $3.2 million or 1.2% from fiscal year 2011. The increase is primarily the result of an increase in service costs for busing, maintenance, terminal cleaning, and repairs to runways and facilities due to an increase in use mainly attributable to the 3.1% increase in passenger activity at Logan Airport. Operations and maintenance expenses represent 49.1% of the Authority's total operating expenses.

General and Administrative

During fiscal year 2014, the Authority incurred $54.2 million in general and administrative expenses, an increase of $5.2 million or 10.6% compared to fiscal year 2013. The Authority invested $1.2 million in strategic planning consulting work that will be used to help guide the Authority's future Aviation, Maritime, and Real Estate business needs, community outreach focus, and workforce preparedness in the coming decade and beyond. The Authority's investment in technology added $1.2 million in one-time costs for badge credentialing, network connectivity, uninterrupted power source upgrade, as well as new software programming for life cycle management systems and new website development. Marketing expenses increased by $0.5 million to support new international service at Logan Airport and the addition of jetBlue service out of Worcester Regional Airport. Employee wages and benefits for general and administrative employees increased $2.3 million due to merit increases for non-represented personnel, and an increase in healthcare insurance premium rates. General and administrative expenses represent 8.7% of the Authority's operating expenses.

During fiscal year 2013, the Authority incurred $49.0 million in general and administrative expenses, an increase of $5.0 million or 11.4% compared to fiscal year 2012. Employee wages and benefits for general and administrative employees increased $1.6 million due to merit increases for non-represented personnel, and an increase in healthcare insurance premium rates. Professional services increased $1.7 million for engineering, financial, and strategic planning consultants. The Authority's International Incentive Program added $0.5 million in new expenses to account for the addition of Japan Airlines to Logan Airport. Other miscellaneous services such as fire boat dock repairs and maintenance contracts increased $1.2 million. General and administrative expenses represent 8.6% of the Authority's operating expenses.

During fiscal year 2012, the Authority incurred $44.0 million in general and administrative expenses, a decrease of $2.0 million or 4.3% compared to fiscal year 2011. The decrease in expenses is primarily attributable to lower employee wages, and benefits for general and administrative employees due to vacancies, and the reductions in payments to professional consultants. These expense reductions were offset by higher maintenance and support service agreements. General and administrative expenses as a percent of the Authority's total expense declined slightly to 8.1% of total expenses in fiscal year 2012, as compared to 8.8% in fiscal year 2011.

Other Operating Expenses

Other operating expenses consist of insurance, pension and other post employment benefit payments, payment in lieu of taxes (PILOT), and recoveries or provisions for uncollectible accounts. For fiscal year 2014 other operating expenses totaled $54.0 million, a $5.2 million or 10.7% increase over the $48.8 million in total other operating expenses incurred by the Authority in fiscal year 2013. Insurance expense totaled $9.0 million in fiscal year 2014 which was a $1.0 million or 12.5% increase from the $8.0 million paid in insurance premiums in fiscal year 2013 as a result of higher property insurance premiums. Pension and OPEB payments were $26.1 million, a $3.1 million or a 13.3% increase over the $23.1 million paid in fiscal year 2013 as a result of increases in the actuarial determined contributions of both Plans. The Authority's PILOT payments were $18.4 million in fiscal year 2014. This is an increase of 2.0% or $0.4 million over the amount paid in fiscal year 2013, and reflects the CPI adjustment incorporated in the agreements with the surrounding communities. The provision for uncollectible accounts was $0.5 million; a $0.8 million increase over the $0.4 million recovery recognized in fiscal year 2013 and is consistent with prior year's activity.

For fiscal year 2013, other operating expenses totaled $48.8 million, a $1.5 million or 3.0% decrease from the $50.3 million in total other operating expenses incurred by the Authority in fiscal year 2012. Insurance expense totaled $8.0 million in fiscal year 2013 which was equal to the $8.0 million paid in insurance premiums in fiscal year 2012. Pension and OPEB payments were $23.1 million, a $0.5 million or a 2.1% decrease over the $23.6 million paid in fiscal year 2012. The Authority's PILOT payments were $18.1 million in fiscal year 2013. This is an increase of 2.8% or $0.5 million over the amounts paid in fiscal year 2012, and reflects the CPI adjustment incorporated in the agreements with the surrounding communities. The Authority also recognized a recovery of previously determined uncollectible accounts of $0.4 million in fiscal year 2013. This recovery reflects management's expected receipt of payments from customer's accounts that had been previously been determined uncollectible in fiscal year 2012.

During fiscal year 2012, the Authority incurred $50.3 million in other operating expenses. This was an increase of $3.9 million or 8.4% over the $46.4 million incurred in total other operating expenses in fiscal year 2011. Insurance premiums paid in fiscal year 2012 were $8.0 million, an increase of $0.7 million or 9.6% over the $7.3 million in insurance premiums paid in fiscal year 2011. The increase reflects a higher cost of premiums for property insurance coverage. Pension and OPEB payments of $23.6 million were $2.2 million or 10.3% higher than the $21.4 million paid in fiscal year 2011. The increase reflects the higher pension assessments resulting from the investment losses from the 2008 market decline. The Authority made PILOT payments totaling $17.6 million in fiscal year 2012, a $0.3 million or 1.7% increase over the $17.3 million paid to surrounding communities in fiscal year 2011. This increase reflects the CPI contractual increase in the contract. The provision for uncollectible accounts was $1.1 million, a $0.7 million increase over the $0.4 million recognized in fiscal year 2011. This increase is related to higher reserves required for pending bankruptcies.

Depreciation and Amortization

The Authority recognized $217.8 million in depreciation and amortization expense in fiscal year 2014, an increase of $18.8 million or 9.4% compared to fiscal year 2013. This increase is the result of $536.1 million in new assets being placed into service during fiscal year 2014, which generated in excess of $25.4 million in current year depreciation expense which was offset by approximately $6.6 million of depreciation expenses related to assets that became fully depreciated at the beginning of fiscal year 2014. Major projects placed into service in fiscal year 2014 include the Rental Car Center which costs $273.4 million to date, the renovation and improvement of Terminal B to serve United Airlines which costs $125.6 million, the rehabilitation of the Taxiway North Alpha and Bravo at a cost of $7.9 million, and $5.6 million in Logan terminal Curb Enhancements to better serve High Occupancy Vehicles and the MBTA Silver Line service.

In comparison, during fiscal year 2013 and 2012, the Authority placed into service new assets totaling $232.4 million and $131.0 million, and recognized depreciation and amortization expenses of $199.0 million and $189.2 million, respectively. Additionally, during fiscal year 2013, the Authority changed the estimated useful life of runway repaving which added approximately $14.3 million to the current year expense during that fiscal year.

Non-operating Revenues (Expenses) and Capital Grant Revenue

The Authority recognized a net $35.5 million in non-operating revenues in fiscal year 2014, an increase of $14.3 million or 67.5% over the $21.2 million recognized in fiscal year 2013. Non-operating revenues in fiscal year 2013 were $21.2 million, a decrease of $10.0 million or 32.1% from the $31.2 million recognized in fiscal year 2012. The following provides a brief explanation of the account changes by category for the last three fiscal years.

	(in millions)		2014 vs. 2013	
	2014	2013	$ Change	% Change
Passenger facility charges	$ 62.7	$ 60.1	$ 2.6	4.3%
Customer facility charges	30.0	29.4	0.6	2.0%
Investment income	6.6	8.3	(1.7)	-20.5%
Other income (expense), net	13.0	(3.4)	16.4	-482.4%
Termial A debt service contributions	(11.8)	(12.1)	0.3	-2.5%
Interest expense	(65.0)	(61.1)	(3.9)	6.4%
Total nonoperating revenues (expenses)	$ 35.5	$ 21.2	$ 14.3	67.5%
Capital grant revenue	$ 56.1	$ 20.2	$ 35.9	177.7%

	(in millions)		2013 vs. 2012	
	2013	2012	$ Change	% Change
Passenger facility charges	$ 60.1	$ 59.2	$ 0.9	1.5%
Customer facility charges	29.4	28.7	0.7	2.4%
Investment income	8.3	10.2	(1.9)	-18.6%
Other income (expense), net	(3.4)	1.5	(4.9)	-326.7%
Termial A debt service contributions	(12.1)	(9.1)	(3.0)	33.0%
Interest expense	(61.1)	(59.3)	(1.8)	3.0%
Total nonoperating revenues (expenses)	$ 21.2	$ 31.2	$ (10.0)	-32.1%
Capital grant revenue	$ 20.2	$ 40.8	$ (20.6)	-50.5%

For fiscal year 2014, non-operating revenues (expenses) is comprised of PFC and CFC revenue which represented $92.6 million, a $3.1 million or 3.5% increase from fiscal year 2013 revenues of $89.5 million. Investment income of $6.6 million declined by $1.7 million from fiscal year 2013 due to low interest rates and a reduction in the Authority's cash and investment balances that were used for increased capital investment during the year. Other income (expense), net consists of settlement of claims, gains or losses on short term investments, and any gains or losses on the sale of equipment. During fiscal year 2014, the Authority recognized $13.0 million in other income, net, an increase of $16.4 million from the $3.4 million in other expense, net generated in fiscal year 2013. The Authority finalized an arbitrage agreement with the Internal Revenue Service on income the Authority received on certain terminated guaranteed investment contracts previously held by the Authority. The settlement substantially lowered the amount owed to the IRS and resulted in a $10.4 million gain from the reversal of an accrued liability previously recorded by the Authority. Additionally, the Authority recorded an unrealized holding gain of $1.5 million at June 30, 2014 related to the fair value of its investments compared to a $2.8 million holding loss at June 30, 2013. Also, during fiscal year 2014, the Authority continued to make a voluntary contribution of $11.8 million in PFCs to the Terminal A debt service fund. Interest expense on long term debt was $65.0 million, an increase of $3.9 million or 6.4% from fiscal year 2013. The increase in interest expense is attributed to the issuance of $116.8 million new revenue bonds in July 2012.

For fiscal year 2013, non-operating revenues (expenses) is comprised of PFC and CFC revenue which represented $89.5 million, a $1.6 million or 1.8% increase from fiscal year 2012 revenues of $87.9 million. Investment income of $8.3 million was down $1.9 million from fiscal year 2012 as interest rates remained low and the Authority's investment balances were lower than the prior year. Other income/expense, net consists of settlement of claims, gains or losses on short term investments, and any gains or losses on the sale of equipment. During fiscal year 2013, the Authority incurred $3.4 million in other expense, a decrease of $4.9 million from the $1.5 million in other income generated in fiscal year 2012. The increase in other non-operating expense is primarily the results of realizing a $3.1 million loss in the fair value of investments held by the Authority and a $0.8 million RCC mitigation payment. Also, during fiscal year 2013, the Authority made a voluntary contribution of $12.1 million in PFCs to the Terminal A debt service fund. This $12.1 million voluntary contribution was $3.0 million higher than the amount contributed in fiscal year 2012 which reflects a full year of principal payments on Terminal A debt service. Interest expense on long term debt was $61.1 million, an increase of $1.8 million or 3.0% from fiscal year 2012. The increase is attributed to the issuance of new bonds in July 2012.

For fiscal year 2012, non-operating revenues (expenses) is comprised of PFC and CFC revenue which represented $87.9 million, a $3.2 million or 3.8% increase from fiscal year 2011 revenues of $84.7 million. Investment income of $10.2 million was down $1.5 million from fiscal year 2011 as interest rates remained low. Other non-operating income (expense), net consists of settlement of claims, gains or losses on the fair value of investments, and any gains or losses on the sale of equipment. During fiscal year 2012, the Authority realized other non-operating income, net of $1.5 million, an increase of $3.2 million primarily from the gain on the fair value of investments held by the Authority. Also, during fiscal year 2012, the Authority made a voluntary contribution of $9.1 million in PFCs to the Terminal A debt service fund. This $9.1 million voluntary contribution was $3.0 million higher than the amount contributed in fiscal year 2011. Interest expense on long term debt was $59.3 million, a decrease of $1.4 million or 2.3% from fiscal year 2011. The decline in interest expense for this period is attributable to declining interest rates on the $126.5 million in variable rate bonds outstanding and a reduction in the principal amount of debt outstanding.

Capital Grant Revenue

The majority of the Authority's capital grants are awarded by the FAA for the Airport Improvement Program to construct runways, taxiways, apron lighting, residential sound proofing projects, and other capital related projects, primarily at Logan Airport. The Authority also receives grant funds from the Department of Homeland Security, the Federal Emergency Management Administration, the Environmental Protection Agency and the Massachusetts Executive Office of Public Safety and Security related to the Port Security Grant Program which safeguards the Port of Boston.

Capital grant revenue recognized in fiscal year 2014 was $56.1 million, an increase of $35.9 million from the amount received in fiscal year 2013. The increase in capital grant revenue was the result of $37.1 million in Transportation Security Administration ("TSA") reimbursements for the construction of the new checked baggage inspection system at Logan Airport. The remainders of projects eligible to be reimbursed by capital grant revenues are ongoing and are expected to be reimbursed in future years.

Capital grant revenue received in fiscal year 2013 was $20.2 million, a decrease of $20.6 million or 50.5% from the amount received in fiscal year 2012. The reduction in capital grant revenue was a result of construction costs for the Runway Safety End on Runway 33L that was completed in fiscal year 2012 and the corresponding grant revenue being received in fiscal year 2012. The remainder of projects eligible to be reimbursed by capital grant revenues is ongoing and is expected to be reimbursed in future years.

Capital grant revenue received in fiscal year 2012 totaled $40.8 million, an increase of $18.3 million or 81.3% from the $22.5 million received in fiscal year 2011. The majority of the Authority's capital grants were awarded by the FAA for the Airport Improvement Program to construct runways, taxiways, apron lighting, residential sound proofing projects and other capital related projects primarily at Logan Airport.

The Authority's Statements of Net Position

The Statements of Net Position present the financial position of the Authority at the end of the fiscal years. The Statements include all assets and liabilities of the Authority. Net Position is the difference between total assets and total liabilities and is an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net position at June 30, 2014, 2013 and 2012 is as follows:

The Authority's Condensed Statements of Net Position

	(in millions)		2014 vs. 2013	
	2014	2013	$ Change	% Change
Assets				
Current assets	$ 522.9	$ 503.6	$ 19.3	3.8%
Capital assets, net	2,900.6	2,769.6	131.0	4.7%
Other non-current assets	418.1	499.5	(81.4)	-16.3%
Total Assets	3,841.6	3,772.7	68.9	1.8%
Deferred outflows of resources				
Deferred loss on refunding of bonds	20.0	21.8	(1.8)	-8.3%
Total deferred outflows of resources	20.0	21.8	(1.8)	-8.3%
Liabilities				
Current liabilities	$ 307.2	$ 255.0	$ 52.2	20.5%
Bonds and notes payable, including current portion	1,586.5	1,656.6	(70.1)	-4.2%
Other non-current liabilities	47.6	54.4	(6.8)	-12.5%
Total Liabilities	$ 1,941.3	$ 1,966.0	$ (24.7)	-1.3%
Total Net Position	$ 1,920.3	$ 1,828.5	$ 91.8	5.0%

The Authority ended fiscal year 2014 with total assets and deferred outflows of resources of $3.86 billion, total liabilities of $1.94 billion and total net position of $1.92 billion. This is an increase of 5.0% or $91.8 million and is comprised of net operating income of $0.2 million, net non-operating income of $35.5 million and capital grant revenue of $56.1 million. The Authority's assets consist primarily of capital assets, which represent approximately $2.90 billion or 75.1% of the Authority's total assets and deferred outflows of resources as of June 30, 2014.

	(in millions)		2013 vs. 2012	
	2013	2012	$ Change	% Change
Assets				
Current assets	$ 503.6	$ 603.2	$ (99.6)	-16.5%
Capital assets, net	2,769.6	2,653.3	116.3	4.4%
Other non-current assets	499.5	439.2	60.3	13.7%
Total Assets	3,772.7	3,695.7	77.0	2.1%
Deferred outflows of resources				
Deferred loss on refunding of bonds	21.8	22.1	(0.3)	-1.4%
Total deferred outflows of resources	21.8	22.1	(0.3)	-1.4%
Liabilities				
Current liabilities	$ 255.0	$ 257.8	$ (2.8)	-1.1%
Bonds and notes payable, including current portion	1,656.6	1,612.8	43.8	2.7%
Other non-current liabilities	54.4	62.5	(8.1)	-13.0%
Total Liabilities	$ 1,966.0	$ 1,933.1	$ 32.9	1.7%
Total Net Position	$ 1,828.5	$ 1,784.7	$ 43.8	2.5%

The Authority ended fiscal year 2013 with total assets and deferred outflows of resources of $3.79 billion, total liabilities of $1.97 billion and total net position of $1.83 billion. This is an increase of 2.5% or $43.8 million and is comprised of net operating income of $2.4 million, net non-operating income of $21.2 million and capital grant revenue of $20.2 million. The Authority's assets consist primarily of capital assets, which represent approximately $2.77 billion or 73.0% of the Authority's total assets and deferred outflows of resources as of June 30, 2013.

The Authority ended fiscal year 2012 with total assets and deferred outflows of resources of $3.72 billion, total liabilities of $1.93 billion, and total net position of $1.78 billion. This is an increase of 5.3% or $89.3 million and is comprised of net operating income of $17.3 million, net non-operating income of $31.2 million and capital grant revenue of $40.8 million. The Authority's assets consist primarily of capital assets, which represent approximately $2.65 billion or 71.4% of the Authority's total assets and deferred outflows of resources as of June 30, 2012.

The Authority's liabilities consists primarily of bonds payable (including current portion), which account for 81.7%, 84.3% and 83.4% of total liabilities at June 30, 2014, 2013 and 2012, respectively. Notes payable and accrued interest payable are included in current liabilities and represented approximately 9.5%, 6.9% and 7.0% of total liabilities at June 30, 2014, 2013 and 2012, respectively.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014 and 2013, the Authority had approximately $2.90 billion and $2.77 billion of capital assets (net of depreciation), respectively. These include land, construction in process, buildings, runways, roadways, machinery and equipment, air rights and parking rights. The Authority's net capital assets increased approximately $131.0 million, or 4.7% in fiscal year 2014.

The Authority placed into service over $536.1 million in completed capital projects during fiscal year 2014. Major construction projects completed at Logan Airport included the Rental Car Center which opened in September 2013, the renovation and improvement of Terminal B to serve United Airlines, the acquisition of the Braintree Logan Express facility, the rehabilitation of the Taxiway North Alpha and Bravo, and Curb Enhancement upgrades to better serve High Occupancy Vehicle and the Silver Line. These projects were placed into service and contributed to the increase in the Authority's capital assets. Projects under construction during fiscal year were the optimization of the Checked Baggage Inspection System, Conley Haul Road to reduce truck traffic on neighborhood streets, construction of the Logan Express Framingham Garage and electrical substation upgrades.

Capital assets comprised approximately 75.1% of the Authority's total assets and deferred outflows of resources at June 30, 2014 and 73.0% and 71.4% of the Authority's total assets and deferred outflows of resources at June 30, 2013 and 2012, respectively. During fiscal years 2014, 2013 and, 2012, the Authority spent approximately $329.3 million, $308.7 million, and $225.7 million, respectively, constructing new assets and improving existing assets already in service, inclusive of construction in process.

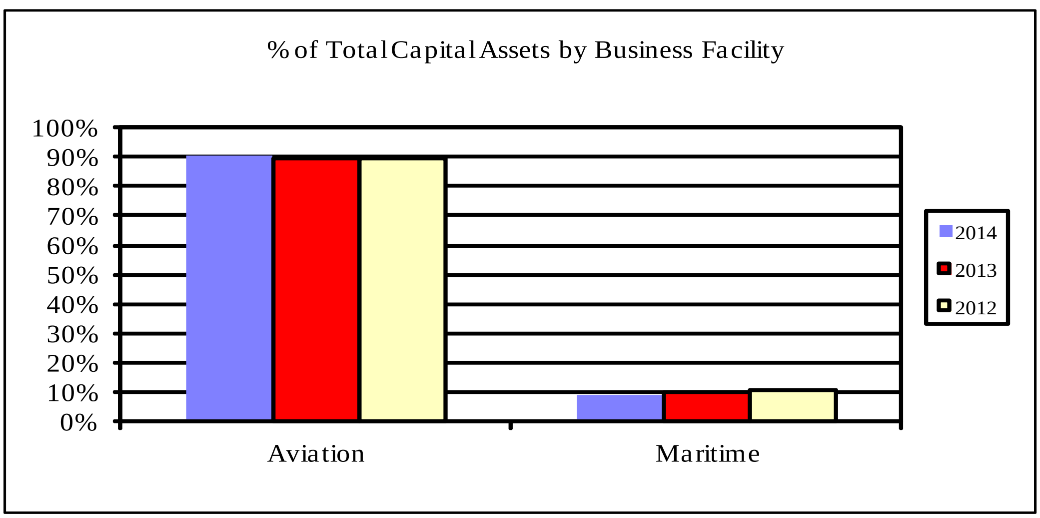
Major construction projects completed during fiscal year 2013 at Logan Airport included Runway 33L, safety end improvements that installed a larger safety area and utilizes a larger Emergency Material Arrest Systems ("EMAS"), the rehabilitation of Runway 15R/33L, and the Chelsea Airport By-pass Road, a dedicated truck and bus traffic route to and from the Airport to Chelsea. These projects were placed into service and contributed to the increase in the Authority's capital assets. Projects under construction during fiscal year 2013 were the RCC, the renovation and improvement of Terminal B to serve United Airlines and the optimization of the Checked Baggage Inspection System.

Major construction projects completed or in process during fiscal year 2012 at Logan Airport included the Rental Car Center, the Green Bus Depot which will be the onsite maintenance facility for all Authority owned buses, runway safety end improvements that will reinstall the use of EMAS for Runway 33L, the Terminal C Central Checkpoint reconfiguration and rehabilitation, the Terminal B garage renovation project and roadway improvement program, and the Chelsea Airport By-pass Road. During fiscal year 2012, construction began on Rehabilitation of Run/Way 15R/33L.

The Authority's capital assets are principally funded by the proceeds of revenue bonds, Authority generated revenues, PFCs, CFCs, and from federal and state grant revenues.

Following is a breakdown of capital assets at June 30:

	2014	2013	2012	Percentage Change 2014-2013	Percentage Change 2013-2012
Land	$ 202,699	$ 174,754	$ 173,036	15.99%	0.99%
Construction in progress	155,071	341,977	257,828	-54.65%	32.64%
Buildings	1,517,800	1,240,570	1,271,832	22.35%	-2.46%
Runway and other paving	393,339	426,889	375,997	-7.86%	13.54%
Roadway	386,666	362,085	362,968	6.79%	-0.24%
Machinery and equipment	143,249	113,078	94,745	26.68%	19.35%
Air rights	75,605	82,555	87,578	-8.42%	-5.74%
Parking rights	26,215	27,757	29,299	-5.56%	-5.26%
Capital assets, net	$ 2,900,644	$ 2,769,665	$ 2,653,283	4.73%	4.39%



Debt Administration

The Authority's bond sales must be approved by its Members and must comply with the rules and regulations of the United States Treasury Department. The Authority, through its 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a debt service coverage ratio higher than its Trust Agreement requirement to maintain its investment grade bond ratings. As of June 30, 2014, 2013, and 2012, the Authority's debt service coverage under the 1978 Trust Agreement was 2.65, 2.47, and 2.21, respectively.

The 1999 PFC Trust Agreement requires a First Lien Sufficiency covenant ratio in excess of 1.05. As of June 30, 2014, 2013, and 2012, the Authority's PFC First Lien Sufficiency covenant under the PFC Trust Agreement was 4.75, 4.37, and 3.73, respectively.

The CFC Trust Agreement requires that the Authority maintain debt service coverage of at least 1.3. As of June 30, 2014, 2013 and 2012, the CFC debt service coverage was 2.69, 2.87, and 2.78, respectively.

The Authority had net bonds payable outstanding as of June 30, 2014 in the amount of approximately $1.51 billion, a net decrease of approximately $64.4 million compared to fiscal year 2013. The decrease was the result of principal paid during fiscal year 2014.

The Authority had net bonds payable outstanding as of June 30, 2013 in the amount of approximately $1.58 billion, a net increase of approximately $19.8 million compared to fiscal year 2012. During fiscal year 2013, the Authority issued $275.6 million of the Massachusetts Port Authority Revenue Bonds in two series. The Series 2012 A Revenue Bonds, in the principal amount of $116.8 million were issued to finance capital improvements to Terminals B and C, hangar upgrades, and replace substations from Terminals B and E. Due to the "private activity" nature of the construction projects, they were sold as AMT bonds. The Series 2012 B Bonds were refunding bonds issued in the amount of $158.8 million and were used to refund a portion of the 2003 A and 2003 C Bonds. Additionally, during fiscal year 2013, the Authority made principal payments of $75.7 million.

The Authority had net bonds payable outstanding as of June 30, 2012 in the amount of approximately $1.56 billion, a net decrease of approximately $69.8 million compared to fiscal year 2011. The decrease was the result of principal paid during fiscal year 2012.

On July 17, 2014, the Authority issued $249.8 million of Massachusetts Port Authority Revenue Bonds in three series. The Series 2014 A Revenue Bonds were issued in the principal amount of $45.5 million with an original issue premium of approximately $5.6 million and coupon rates ranging from 2.0% to 5.0%. The projects financed with Series A bond proceeds include a structured garage at the Framingham Logan Express site and roadways that provide access from the terminals to the Airport MBTA Station and the Rental Car Facility. The Series 2014 B Revenue Bonds were issued in the principal amount of $48.2 million with an original issue premium of approximately $4.8 million and coupon rates ranging from 4.0% to 5.0%. The projects financed with Series B bond proceeds include electrical substation replacement for Terminals B and E, a post-security corridor between Terminals C and E, and the demolition of an obsolete hangar to create remain overnight aircraft parking spaces. The Authority also issued Revenue Refunding Bonds, Series 2014 C, in the principal amount of $156.1 million with an original issue premium of approximately $32.2 million and coupons ranging from 2.0% to 5.0%. The aggregate difference in debt services between the refunded 2003 A, 2003 C and the 2005 A bonds and the refunding bonds was $23.6 million. This refunding had an economic gain and achieved a net present value savings of $17.1 million or 10.04%. The average annual savings for fiscal year 2015 through fiscal year 2035 was approximately $1.126 million.

The Official Statements relating to the Authority's Bond issuances are available from the Authority or by accessing the Authority's website.

Net Position

The Authority's net position, which represents the residual interest in the Authority's assets after liabilities are deducted, is $1.92 billion as of June 30, 2014, an increase of $91.8 million, or 5.0% from fiscal year 2013. Of this amount, $1.23 billion is invested in capital assets net of debt, an increase of $95.8 million compared to fiscal year 2013 amount of $1.13 billion. The Authority's restricted net position of $509.5 million as of June 30, 2014 is subject to the pledge of the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement or custodial agreements in the Authority's name. The Authority's restricted net position decreased $5.9 million as of June 30, 2014. The decrease is primarily attributable to the use of PFCs to reimburse the Authority for projects previously funded by the Authority, CFC cash balances used to complete the construction of the Authority's new Rental Car Center that opened in the fall of 2013, offset by a settlement with the Internal Revenue Service related to arbitrage that generated $10.4 million in non-operating revenue. The Authority's unrestricted net position for fiscal year ending June 30, 2014 was $183.5 million, an increase of $2.0 million when compared to the $181.5 million of unrestricted net position reported in fiscal year ending June 30, 2013.

Net position at June 30, 2013 was $1.83 billion, an increase of $43.8 million as compared to the $1.78 billion reported in fiscal year 2012. The net position invested in capital assets, net of related debt was $1.13 billion for the fiscal year ending June 30, 2013, an increase of $72.5 million compared to the fiscal year 2012 amount of $1.06 million. The Authority's restricted net position totaled $515.5 million as of June 30, 2013 and was subject to the pledge of the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement or custodial agreements in the Authority's name. Restricted net position as of June 30, 2013 decreased by $67.8 million compared to the $583.2 million reported in fiscal year 2012. The decrease is primarily attributable to use of CFC cash balances for the construction of the Authority's new Rental Car Facility to be opened in the fall of 2013. The Authority's unrestricted net position of $181.5 million in fiscal year 2013 increased by $39.1 million or 27.5% when compared to the $142.4 million of unrestricted net position reported in fiscal year ending June 30, 2012. This increase is attributable to net operating revenues exceeding expenses for the year, lower debt service costs and the use of bond proceeds to fund certain capital projects resulting in an increase in a higher cash balance retained in the Authority's unrestricted fund account.

The Authority's Condensed Cash Flows

The following summary shows the major sources and uses of cash during the following fiscal years:

	(in millions)		2013 vs. 2012	
	2014	2013	$ Change	% Change
Net cash provided by operating activities	$ 205.1	$ 189.4	$ 15.7	8.3%
Net cash used in capital and related financing activities	(301.0)	(238.0)	(63.0)	26.5%
Net cash (used in) provided by investing activities	74.3	101.4	(27.1)	-26.7%
Net (decrease) increase in cash and cash equivalents	(21.6)	52.8	(74.4)	-140.9%
Cash and cash equivalents, beginning of year	243.3	190.5	52.8	27.7%
Cash and cash equivalents, end of year	$ 221.7	$ 243.3	$ (21.6)	-8.9%

	(in millions)		2013 vs. 2012	
	2013	2012	$ Change	% Change
Net cash provided by operating activities	$ 189.4	$ 210.7	$ (21.3)	-10.1%
Net cash (used in) provided by capital and related financing activities	(238.0)	(235.5)	(2.5)	1.1%
Net cash used in investing activities	101.4	(15.6)	117.0	-750.0%
Net (decrease) increase in cash and cash equivalents	52.8	(40.4)	93.2	-230.7%
Cash and cash equivalents, beginning of year	190.5	230.9	(40.4)	-17.5%
Cash and cash equivalents, end of year	$ 243.3	$ 190.5	$ 52.8	27.7%

The Authority's cash and cash equivalents at June 30, 2014 was $221.7 million. This is a decrease of $21.6 million, or 8.9% from the $243.3 million in cash and cash equivalents reported in fiscal year 2013. The Authority generated $205.1 million in cash from operations during fiscal year 2014. This was $15.7 million or 8.3% higher than the previous fiscal year's cash provided by operating activities totaling $189.4 million. The Authority used $301.0 million in cash for capital and related financing activities to finance the Authority's capital program and to pay debt service expenses during the year. This is a $63.0 million increase in the use of cash over the $238.0 million in cash used for capital and related financing activities in fiscal year 2013. The Authority utilized $74.3 million in cash from investments towards its capital and operating needs, an increase of $27.1 million over the amount of cash used for investing activities in fiscal year 2013.

The Authority's cash and cash equivalents at June 30, 2013 was $243.3 million. This was an increase of $52.8 million, or 27.7% from the $190.5 million in cash and cash equivalents reported in fiscal year 2012. The Authority generated $189.4 million in cash from operations during fiscal year 2013. This was $21.3 million or 10.1% lower than the previous fiscal year's cash provided by operating activities totaling $210.7 million. This decrease in cash from operating activities was the result of an increase in payments to vendors, the Authority contributing an additional $7.0 million to the OPEB Trust in fiscal year 2013, and payments made to employees. The Authority used $238.0 million in cash for capital and related financing activities to finance the Authority's capital program and to pay debt service expenses during the year. This is a $2.5 million increase in the use of cash over the $235.5 million in cash generated for capital and related financing activities in fiscal year 2012. The Authority provided $101.4 million in cash from investing purposes to be used for future capital and operating needs, a decrease of $117.0 million over the amount of cash provided for investing activities in fiscal year 2012.

Contacting the Authority's Financial Management

For additional information concerning the Authority, please see the Authority's website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Investor Relations". The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 568-5000. Questions may be directed to John P. Pranckevicius, CPA, Director of Administration and Finance and Secretary-Treasurer for the Massachusetts Port Authority.

MASSACHUSETTS PORT AUTHORITY

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

	2014	2013
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	$ 41,696	$ 45,651
Investments	35,020	27,976
Restricted cash and cash equivalents	180,043	197,649
Restricted investments	169,594	160,783
Accounts receivable		
Trade, net	59,836	54,320
Grants receivable	29,573	7,114
Total receivables (net)	89,409	61,434
Prepaid expenses and other assets	7,150	10,078
Total current assets	522,912	503,571
Noncurrent assets:		
Investments	66,587	91,827
Restricted investments	286,489	342,856
Prepaid expenses and other assets	7,318	9,464
Investment in joint venture	2,263	2,137
Net OPEB asset	55,418	53,188
Capital assets, net	2,900,644	2,769,665
Total noncurrent assets	3,318,719	3,269,137
Total assets	3,841,631	3,772,708
Deferred outflows of resources		
Deferred loss on refunding of bonds	20,017	21,847
Total deferred outflows of resources	20,017	21,847
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	102,714	102,743
Compensated absences	1,483	1,550
Contract retainage	12,561	8,092
Current portion of long term debt	84,665	81,770
Commercial notes payable	150,000	100,000
Accrued interest on bonds payable	35,304	36,587
Unearned revenues	5,219	6,054
Total current liabilities	391,946	336,796
Noncurrent liabilities:		
Accrued expenses	19,604	18,143
Compensated absences	18,974	19,873
Contract retainage	—	5,485
Long-term debt, net	1,501,803	1,574,869
Unearned revenues	8,982	10,828
Total noncurrent liabilities	1,549,363	1,629,198
Total liabilities	1,941,309	1,965,994
Net Position		
Invested in capital assets	1,227,358	1,131,577
Restricted		
Bond funds	201,754	185,018
Project funds	214,772	208,948
Passenger facility charges	65,951	72,501
Customer facility charges	1,571	23,849
Other purposes	25,472	25,142
Total restricted	509,520	515,458
Unrestricted	183,461	181,526
Total net position	$ 1,920,339	$ 1,828,561

The accompanying notes are an integral part of these financial statements.

MASSACHUSETTS PORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Operating revenues:		
Fees, tolls and other services	$ 308,468	$ 289,384
Rentals	204,380	184,744
Concessions	77,873	72,542
Other	27,874	22,515
Operating grants	3,876	2,638
Total operating revenues	622,471	571,823
Operating expenses:		
Operations and maintenance	296,344	272,611
Administration	54,151	48,950
Insurance	9,001	8,020
Pension	11,990	9,614
Other post-employment benefits	14,140	13,450
Payments in lieu of taxes	18,444	18,090
Provision for uncollectible accounts	453	(353)
Depreciation and amortization	217,767	199,046
Total operating expenses	622,290	569,428
Operating income	181	2,395
Nonoperating revenues and (expenses):		
Passenger facility charges	62,682	60,105
Customer facility charges	29,963	29,354
Investment income	6,642	8,336
Net increase (decrease) in the fair value of investments	1,976	(2,821)
Other revenues	10,547	187
Settlement of claims	1,792	567
Terminal A debt service contribution	(11,839)	(12,114)
Other expenses	(1,407)	(1,279)
Gain (loss) on sale of equipment	90	(64)
Interest expense	(64,973)	(61,071)
Total nonoperating revenues (expenses), net	35,473	21,200
Increase in net position before capital grant revenue	35,654	23,595
Capital grant revenue	56,124	20,234
Increase in net position	91,778	43,829
Net position, beginning of year	1,828,561	1,784,732
Net position, end of year	$ 1,920,339	$ 1,828,561

The accompanying notes are an integral part of these financial statements.

MASSACHUSETTS PORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Cash flows from operating activities:		
Cash received from customers and operating grants	$ 605,183	$ 571,716
Payments to vendors	(234,742)	(218,147)
Payments to employees	(132,927)	(125,256)
Payments in lieu of taxes	(18,444)	(18,090)
Other post-employment benefits	(14,000)	(20,851)
Net cash provided by operating activities	205,070	189,372
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(329,305)	(308,693)
Proceeds from the issuance of bonds, net	—	313,408
Principal payments on refunded debt	—	(180,100)
Interest paid on bonds and notes	(73,647)	(84,102)
Principal payments on long-term debt	(64,435)	(75,745)
Proceeds from commercial paper financing	76,000	15,000
Principal payments on commercial paper	(26,000)	(15,000)
Terminal A debt service contribution	(11,839)	(12,114)
Proceeds from passenger facility charges	62,464	60,270
Proceeds from customer facility charges	29,156	27,650
Proceeds from capital grants	34,699	20,768
Settlement of claims	1,792	567
Proceeds from sale of equipment	90	93
Net cash (used in) capital and related financing activities	(301,025)	(237,998)
Cash flows from investing activities:		
Purchases of investments, net	(488,950)	(689,234)
Sales of investments, net	555,930	781,139
Realized gain on sale of investments	428	—
Interest received on investments	6,987	9,471
Net cash provided by investing activities	74,395	101,376
Net (decrease) increase in cash and cash equivalents	(21,560)	52,750
Cash and cash equivalents, beginning of year	243,300	190,550
Cash and cash equivalents, end of year	$ 221,740	$ 243,300
Reconciliation of operating income to net cash provided by operating activities:		
Cash flows from operating activities:		
Operating income	$ 181	$ 2,395
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	217,767	199,045
Provision (recovery) for uncollectible accounts	453	(353)
Changes in operating assets and liabilities:		
Trade receivables	(6,297)	(2,539)
Prepaid expenses and other assets	2,398	1,019
Prepaid expenses and other assets – long-term	(1,339)	(10,546)
Accounts payable and accrued expenses	(4,445)	3,256
Compensated absences	(965)	(778)
Deferred revenue	(2,683)	(2,127)
Net cash provided by operating activities	$ 205,070	$ 189,372
Noncash investing activities:		
Net increase in the fair value of investments	$ 720	$ (828)

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies and Practices

Reporting Entity

The Massachusetts Port Authority (the "Authority") is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") created and existing pursuant to Chapter 465 of the Acts of 1956, as amended, (the "Enabling Act"). The Authority controls, operates and manages Boston-Logan International Airport ("Logan Airport"), Laurence G. Hanscom Field, Worcester Regional Airport, the Port of Boston and other facilities in the Port of Boston.

The Authority has no stockholders or equity holders, and the Authority's financial statements are not a component unit of the Commonwealth's financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended and supplemented (the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association (as successor in interest to State Street Bank and Trust Company), as trustee (the "Trustee"), the Passenger Facility Charges ("PFC") Revenue Bond Trust Agreement dated May 6, 1999, as amended and supplemented (the "PFC Trust Agreement"), between the Authority and The Bank of New York Mellon, as trustee (the "PFC Trustee") and the Customer Facility Charges ("CFC") Revenue Bond Trust Agreement dated May 18, 2011, as amended and supplemented (the "CFC Trust Agreement"), between the Authority and U.S. Bank National Association as trustee (the "CFC Trustee"), govern all funds, with limited exceptions, received by the Authority pursuant to the Enabling Act.

In April 1981, the Authority adopted a retiree benefit plan whereby the Authority assumed the full cost of group health insurance including basic life insurance, dental insurance and catastrophic illness coverage to those retirees and surviving spouses (and qualifying dependents) who have retired under the Authority's retirement system (collectively referred to as the "OPEB Plan"). In June 2009, the Board made changes to the plan benefits to be paid by the Authority for certain existing and future retirees. For additional details see Note 7.

In June 2008, the Authority created the Retiree Benefits Trust (the "RBT" or the "Trust") to fund its OPEB Plan obligations. It was established as an irrevocable governmental trust under Section 115 of the Internal Revenue Code. The Trust is legally separate from the Authority and is reported as a Fiduciary Trust Fund of the Authority under accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). In no event shall any part of the principal or income of the RBT be paid or revert back to the Authority or be used for any purpose whatsoever other than for the exclusive benefit of retirees and their beneficiaries.

Basis of Accounting

The Authority's activities are accounted in a manner similar to that often utilized in the private sector. The Authority's financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus in accordance with U.S. generally accepted accounting principles ("GAAP").

Revenues from airlines, rentals, parking fees, tolls and concessions are reported as operating revenues. Capital grants, financing or investing related transactions are reported as non-operating revenues and expenses. All expenses related to operating the Authority's facilities are reported as operating expenses.

Accounting per Applicable Trust Agreements

Under the 1978 Trust Agreement, cash of the Authority is deposited daily into the Revenue Fund established pursuant to the 1978 Trust Agreement and is transferred to the cash concentration account. All such revenues are then transferred to the various funds established pursuant to the 1978 Trust Agreement. After providing for operating expenses, including pension expense and transfers to the self insurance account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding revenue bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund, the Capital Budget Fund, if applicable, and finally, the Improvement and Extension Fund.

PFC revenue is deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Revenue Bond Trust Agreement and is utilized to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement. Any remaining funds are transferred to the PFC Capital Fund.

CFC revenue is deposited in the CFC Revenue Fund established pursuant to the CFC Trust Agreement and are utilized to pay debt service on CFC Special Facilities Bonds as required in the CFC Trust Agreement. Any remaining funds are transferred to the CFC Stabilization Fund.

See Note 2 for a reconciliation between the increase in net position as calculated per GAAP and net revenues as calculated per accounting practices prescribed by the 1978 Trust Agreement.

Net Position

The Authority follows the “business type” activity requirements of GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, which requires that resources be classified for accounting and reporting purposes into the following three net position components:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt and the deferred outflows / inflows attributable to the acquisition, construction or improvement of those assets.
- Restricted: Net position of assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets include the construction funds held pursuant to the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement and the self insurance fund.
- Unrestricted: Net position of assets that are not subject to externally imposed stipulations. Net amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources not included in the determination of net invested in capital assets or restricted components of net position. Unrestricted net position may be designated for specific purposes by action of management or the Members of the Authority (the “Board”) or may otherwise be limited by contractual agreements with outside parties.
- When both restricted and unrestricted resources are available for a particular restricted use, it is the Authority’s policy to use restricted resources first, and then unrestricted resources as needed.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any deferred inflows of resources for the years ended June 30, 2014 and 2013.

Net position flow assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which resources are considered to be applied.

(a) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments, including restricted assets, with an original maturity date of thirty days or less to be cash equivalents.

(b) Investments

Investments with a maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with a maturity date of less than one year are carried at amortized cost, which approximates fair value. Fair value equals quoted market prices. The Authority recorded an unrealized holding gain of $1.5 million and a realized gain of $0.4 million at June 30, 2014 and an unrealized holding loss of $2.8 million at June 30, 2013.

(c) Restricted Cash and Investments

Certain cash, cash equivalents and investments are restricted for use by the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement, and other external requirements. These amounts have been designated primarily for expenditures related to future construction or asset acquisitions, debt service and debt service reserves.

(d) Capital Assets

Capital assets are recorded at historical cost. Such costs include, where appropriate, capitalized interest and related legal costs. The costs of normal upkeep, maintenance, and repairs are not capitalized.

The capitalization threshold is noted below:

Asset Category		Dollar Threshold
Buildings	$	10,000
Machinery & Equipment		5,000
Equipment Repair/Overhaul (Major)		25,000
Runway, Roadways & Other Paving		50,000
Land		NA
Land Improvements		50,000

The Authority capitalizes certain interest costs associated with taxable and tax exempt borrowing, less any interest earned on the proceeds of those borrowings, during the period of construction. Interest expense of $4.1 million and $12.0 million, reduced by interest income of $13.0 thousand and $17.0 thousand resulted in capitalized interest of $4.1 million and $12.0 million for the years ended June 30, 2014 and 2013, respectively.

(e) Depreciation

The Authority provides for depreciation using the straight-line method. During fiscal year 2013 the Authority changed the estimated useful life of runway repaving which added approximately $14.3 million to the current year expense. Depreciation is intended to distribute the cost of depreciable properties over the following estimated useful lives:

Asset Category	Years
Buildings	25
Runways (original construction)	25
Other airfield paving	12
Roadway	25
Machinery and equipment	5 to 10
Land use rights	30

(f) Other Assets and Prepaid Items

Other assets consist of certain payments to vendors reflecting costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

(g) Amortization

Revenue bond discounts and premiums are deferred and amortized on a straight line basis over the term of the bonds, as this approximates the effective interest method. Unamortized amounts are presented as a (reduction) addition of the face amount of bonds payable.

The difference between the reacquisition price and net carrying amount of defeased bonds is amortized on the straight-line method over the shorter of the maturity of the new debt or the defeased debt and is recorded as deferred outflows of resources on the statement of net position.

(h) Revenue Recognition

Fees and other services consist of parking fees, landing fees, and container handling fees. Revenues from parking fees and container handling fees are recognized at the time the service is provided. Landing fees are recognized as part of operating revenue when airline related facilities are utilized and are principally based on the landed weight of the aircraft. The scheduled airline fee structure is determined and approved annually by the Board and is based on full cost recovery pursuant to an arrangement between the Authority and the respective airlines.

Rental and concession fees are generated from airlines, rental car companies, and other commercial tenants. Rental revenue on leases is recognized over the term of the associated lease. Concession revenue is recognized partially based on self reported concession revenue by the tenants and partially based on minimum rental. Unearned revenue consists primarily of amounts received in advance for future rents or other services. These amounts are recognized as revenue as they are earned over the applicable period.

Rates and charges are set annually based on the budgeted operating costs and actual capital costs. A true-up calculation is performed for landing fees, terminal rents, and baggage fees at year-end based on the actual results. In the event the actual costs are more than the budgeted amounts for the year, the Authority will recover additional rates and charges. In the event the actual costs are less than the budgeted amounts, the Authority will issue credits to the respective airlines.

The Authority presents its accounts receivable at the expected net realizable value. Accordingly, the Authority recorded an allowance for doubtful accounts against its accounts receivable of $1.1 million and $1.5 million at June 30, 2014 and 2013, respectively.

Revenue related to grants is recognized when the grant agreement is approved and eligible expenditures are incurred.

(i) Passenger Facility Charges

In 1993, the Authority received initial approval from the Federal Aviation Administration ("FAA") to impose a $3.00 PFC at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. Effective October 1, 2005, the Authority received approval from the FAA to increase the PFC collection to $4.50. All PFC's collected by the Authority are presently pledged under the PFC Trust Agreement with the Bank of New York Mellon.

Through June 30, 2014, the Authority had cumulative cash collections of $911.9 million in PFCs, including interest thereon.

As part of the Final Agency Decision issued by the FAA in 2011, the Authority was authorized, but not required, to use up to $14.4 million per year in PFCs to pay approximately one-third of the debt service on the Terminal A Special Facility bonds. The Authority chose to make this use of PFC revenue in order to offset the increase in Terminal A rates and charges that would have resulted from the scheduled increase in Terminal A debt service associated with the beginning of principal payments on January 1, 2012 for the Terminal A bonds. This use of PFCs will maintain the rate consistency across all terminals and facilitate the Authority's ability to assign carriers to Terminal A.

At June 30, 2014, the Authority's collection authorization and total use approval is $1.35 billion.

As of June 30, 2014 and 2013, $110.4 million and $127.4 million of PFC bonds were outstanding, respectively.

Revenues derived from the collection of PFCs are recognized on the accrual basis, based on the month the charges were levied and collected by the airlines. Due to their restricted use, PFCs are categorized as non-operating revenues. The Authority recognized $62.7 million and $60.1 million in PFC revenue for the fiscal years ended June 30, 2014 and 2013, respectively.

(j) Customer Facility Charges

Effective December 1, 2008, the Board established a CFC of $4.00 per day for rental cars which originated out of Logan Airport. Effective December 1, 2009, this charge was increased to $6.00 per day. The proceeds of the CFC are being used to finance the Rental Car Center (the "RCC") and associated bus purchases. Revenues derived from the collection of CFCs are recognized on the accrual basis, based on the month the charges were levied and collected by the rental car companies. Due to their restricted use, CFCs are categorized as non-operating revenues. Pursuant to the CFC Trust Agreement dated May 18, 2011 between the Authority and U.S. Bank National Association, as trustee, the Authority issued two series of Special Facilities Revenue Bonds (the "Series 2011 Bonds"). The Series 2011 Bonds were issued for the purpose of providing funds sufficient, together with other available funds of the Authority, to finance the development and construction of a RCC and related improvements at Logan Airport, fund certain deposits to the Debt Service Reserve Fund and the Supplemental Reserve Fund, and pay certain costs of issuance of the Series 2011 Bonds. The Series 2011 Bonds and any additional bonds that may be issued under the CFC Trust Agreement on parity with the Series 2011 Bonds are secured by CFC Pledged Revenues and by Contingent Rent from the rental car companies if any, and other funds. The Series 2011 Bonds are not secured by any other revenues of the Authority. The Authority recognized $30.0 million and $29.4 million in CFC revenue for the fiscal years ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, $208.3 million and $211.5 million of CFC bonds were outstanding, respectively.

(k) Compensated Absences

The Authority accrues for vacation and sick pay liabilities when they are earned by the employee. The liability for vested vacation and sick pay is reflected in the accompanying statements of net position as compensated absences. The table below presents the Authority's compensated absences activity at June 30, 2014 and 2013 and for the years then ended (in thousands):

		2014		2013
Liability balance, beginning of year	$	21,423	$	22,201
Vacation and sick pay earned during the year		12,290		12,066
Vacation and sick pay used during the year		(13,256)		(12,844)
Liability balance, end of year	$	20,457	$	21,423

(l) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(m) Interfund Transactions

During fiscal year 2014, the Authority loaned the CFC Trust $10.0 million at 6.167% interest to complete the construction of the RCC. This transaction generated $0.5 million in interest income and expense that has been eliminated in the combining schedules. Additionally, all interfund amounts have been eliminated in the combining statements.

(n) Financial Statement Reclassification

Certain amounts in the fiscal year 2013 financial statements have been reclassified to conform to fiscal year 2014 presentation.

(o) New Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB No. 68"). The objective of this Statement is to improve the information provided in government financial reports about pension related financial support provided benefits to the employees of other entities. The provisions of this Statement are effective for financial periods beginning after June 15, 2014.

The Authority is currently evaluating the impact the adoption of this Statement will have on its financial statements as a result of the implementation of GASB No. 68.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69"). This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based on their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

The Authority is currently evaluating the impact of the implementation of GASB No. 69 on its financial statements.

In April 2013, GASB issued Statement No. 70*, Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB No. 70"). Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements.

Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee may be applied prospectively.

The Authority adopted this Statement and there was no impact on its financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* ("GASB No. 71") which resolves transition issues in *GASB Statement No. 68, Accounting and Financial Reporting for Pensions.* The objective of this Statement is to eliminate a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB No. 68 which is effective for financial periods beginning after June 15, 2014.

The Authority is currently evaluating the impact the adoption of this Statement will have on its financial statements as a result of the implementation of GASB No. 71.

2. Reconciliation between increase in net position as calculated under GAAP and net revenues as calculated under accounting practices prescribed by the 1978 Trust Agreement

Presented below are the calculations of the net revenues of the Authority under the 1978 Trust Agreement. Net revenue calculated based on the 1978 Trust Agreement is used in determining the Authority's compliance with the debt service coverage ratio.

		2014	2013
Increase in Net Position per GAAP	$	91,778	43,829
Additions (1):			
Depreciation and amortization		217,767	199,046
Interest expense		64,973	61,071
Payments in lieu of taxes		18,444	18,090
Other operating expenses		4,201	3,129
Terminal A bonds - debt service contribution by PFC fund		11,839	12,114
OPEB expenses, net		140	450
Less (2):			
Passenger facility charges		(62,682)	(60,105)
Customer facility charges		(29,963)	(29,354)
Self insurance expenses		95	(678)
Capital grant revenue		(56,124)	(20,234)
Net decrease (increase) in the fair value of investments		(1,976)	2,821
Loss (gain) on sale of equipment		(90)	64
Other (revenues) expenses		(3,928)	(4,156)
Other non-operating revenues		(9,140)	1,092
Settlement of claims		(1,792)	(567)
Investment income		(3,434)	(4,168)
Net Revenue per the 1978 Trust Agreement	$	240,108	222,444

1. Expenses recognized under GAAP which are excluded under the 1978 Trust Agreement
2. Revenues recognized under GAAP which are excluded under the 1978 Trust Agreement

Total net revenues, as defined by the 1978 Trust Agreement, pledged for the repayment of bonds issued under the 1978 Trust Agreement were $240.1 million and $222.4 million for the years ended June 30, 2014 and 2013, respectively.

3. Deposits and Investments

The Authority has adopted GASB No. 40, *Deposit and Investment Risk Disclosure*. The standard requires that entities disclose essential risk information about deposits and investments.

The Authority's investments are made in accordance with the provisions of the 1978 Trust Agreement, the PFC Trust Agreement and the CFC Trust Agreement along with the investment policy adopted by the Board (the "Investment Policy"). The goals of the Investment Policy are, in order of importance, to preserve capital, to provide liquidity and to generate interest income.

As of June 30, 2014 and 2013, all investments were held on behalf of the Authority by the Trustee, the PFC Trustee, the CFC Trustee or custodians in the Authority's name. The 1978 Trust Agreement, the PFC Trust Agreement and the CFC Trust Agreement require that securities collateralizing repurchase agreements must continuously have a fair value at least equal to the cost of the agreement plus accrued interest.

The Authority's investments in forward delivery agreements are in the form of a guaranteed investment contract ("GIC") which provides for, among other things, the sequential delivery of securities to be sold to the Trustee, PFC Trustee, or CFC Trustee, as applicable, periodically at a discount from maturity value such that the aggregate discount equals the interest rate previously agreed to between the Authority and the provider of the guaranteed investment contract.

The total accumulated unrealized gain (loss) due to the changes in fair value of investments related to investments with maturities in excess of one year was a gain of approximately $0.7 million as of June 30, 2014 and a loss of approximately $0.8 million as of June 30, 2013.

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2014 and 2013 (in thousands):

2014	Credit Rating (1)		Cost		Fair Value	Effective Duration
MMDT	Unrated	$	175,064	$	175,064	0.003
Federal Home Loan Bank	AA+/Aaa		47,701		47,787	1.866
Federally Insured Cash Account	Unrated (2)		15,003		15,003	0.003
Forward Delivery Agreements	AA+ / Aaa		17,278		17,278	2.742
Federal Home Loan Mortgage Corp.	AA+ / Aaa		57,959		58,017	1.719
Federal National Mortgage Association	AA+ / Aaa		86,799		86,555	2.380
Federal Farm Credit	AA+ / Aaa		13,036		13,113	1.780
Guaranteed Investment Contracts (ParkEx)	AA+ / Aa3 (4)		38,159		38,159	11.847
Cash Deposit	Unrated		17,599		17,599	0.003
Certificates of Deposit	AAA / Aaa (3)		13,037		13,037	0.350
Commercial Paper	A-1/ P-1 (5)		164,628		164,628	0.312
Morgan Stanley Government Fund	AAA / Aaa (5)		1,072		1,072	0.003
Municipal Bond	AA+ / Aa1		115,793		116,585	2.399
Money Market Funds	Unrated		3,001		3,001	0.003
Insured Cash Sweep	Unrated (2)		10,001		10,001	0.003
Treasury Note	AAA / Aaa		2,579		2,530	4.988
		$	778,709	$	779,429	

2013	Credit Rating (1)		Cost		Fair Value	Effective Duration
MMDT	Unrated	$	152,182	$	152,182	0.003
Federal Home Loan Bank	AA+/Aaa		67,025		67,200	1.683
Federally Insured Cash Account	Unrated (2)		15,003		15,003	0.003
Forward Delivery Agreements	AA+ / Aaa		19,500		19,500	3.121
Federal Home Loan Mortgage Corp.	AA+ / Aaa		91,052		91,097	1.163
Federal National Mortgage Association	AA+ / Aaa		143,283		142,460	1.362
Federal Farm Credit	AA+ / Aaa		22,752		22,838	1.815
Guaranteed Investment Contracts (ParkEx)	AA+ / Aa3 (4)		36,661		36,661	12.195
Cash Deposit	Unrated		18,965		18,965	0.003
Certificates of Deposit	AAA / Aaa (3)		10,050		10,050	0.250
Commercial Paper	A-1/ P-1 (5)		199,345		199,480	0.303
Morgan Stanley Government Fund	AAA / Aaa (5)		1,072		1,072	0.003
Municipal Bond	AA+ / Aa1		88,107		87,732	2.185
Treasury Note	AAA / Aaa		2,573		2,502	5.918
		$	867,570	$	866,742	

1.The ratings shown are from S&P or Moody's as of the fiscal year shown.

2. FDIC Insured Deposits Accounts

3.Collateralized by Federal Agency Notes or Letter of Credit backed by each reserve.

4.Underlying rating of security held.

5. Credit quality of fund holdings.

The table below presents the Authority's cash and cash equivalents and investments based on maturity date (in thousands):

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Securities maturing in 1 year or more	$ 352,566	$ 353,076	$ 435,650	$ 434,683
Securities maturing in less than 1 year	204,404	204,614	188,620	188,759
Cash and cash equivalents	221,739	221,739	243,300	243,300
	$ 778,709	$ 779,429	$ 867,570	$ 866,742

Credit Risk

Credit risk is the risk that the Authority will be negatively impacted due to the default of the security issuer or investment counterparty.

The Authority's 1978 Trust Agreement, PFC Trust Agreement and CFC Trust Agreement each stipulate that, in addition to U.S. Treasury and government agency obligations, only certain highly rated securities are eligible investments, including bonds or obligations of any state or political subdivision thereof, rated in the two highest rating categories without regard to gradations within rating categories, by both Moody's (AAA, Aa1, Aa2 and Aa3) and S&P (AAA, AA+, AA, and AA-); commercial paper of a U.S. corporation, finance company or money market funds rated in the highest rating category, without regard to gradations within categories, by both Moody's and S&P; and investment contracts with banks whose long-term unsecured debt rating is in one of the two highest rating categories by both Moody's and S&P.

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized.

The Authority maintains depository accounts with Bank of America, N.A., Wells Fargo Bank, N.A., TD Bank and the Bank of New York Mellon, the PFC Trustee. The Authority maintains a payroll disbursement, lockbox and collection accounts (for other than PFCs) with the Bank of America, N.A. None of these accounts are collateralized.

The Authority's cash on deposits in the banks noted above at June 30, 2014 and 2013 were $22.4 million and $19.9 million, respectively. Of these amounts, $1.0 million was insured, and no amount was collateralized at June 30, 2014 or 2013.

(b) Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority would not be able to recover the value of its investments or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Authority and are held by either the counterparty or, the counterparty's trust department or agent, but not in the Authority's name.

The Authority is authorized by the 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement and the Investment Policy to invest in obligations of the U.S. Treasury, including obligations of its agencies and instrumentalities, bonds and notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and commercial paper of a U.S. corporation or finance company. All investments are held by a third party in the Authority's name. These investments are recorded at fair value.

Additionally, the Authority is authorized to invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money market like investment fund managed by the Commonwealth of Massachusetts, established under the General Laws, Chapter 29, Section 38A. MMDT investments are carried at amortized cost, which approximates fair value which is the same as the value of the pool.

The following guaranteed investment contracts were in force as of June 30, 2014 and 2013, respectively; they are uncollateralized and recorded at cost:

Investment Agreement Provider	Rate	Maturity	2014	2013
Trinity Plus Funding Company	4.360%	January 2, 2031	$ 16,691	$ 15,987
GE Funding Capital Markets	3.808%	December 31, 2030	21,468	20,673
Total			$ 38,159	$ 36,660

(c) Concentration of Credit Risk – Investments

Concentration of credit risk is assumed to arise when the amount of investments that the Authority has with any one issuer exceeds 5% of the total value of the Authority's investments. The Authority consults with its Investment Advisor to select Commercial Paper Issuers with strong credit ratings. The book values of portions of the Authority-wide portfolio, excluding investments issued by MMDT, the FDIC, or U.S. Government guaranteed obligations and the underlying securities held under forward delivery agreements at cost, that exceed 5% of the portfolio are as follows:

Commercial Paper Issuer		2014		2013
Bank of Tokyo Mitsu	$	14,986	$	39,971
BNP Paribas Finance		23,747		24,921
Deutsche Bank		11,993		-
HSBC		-		27,492
JP Morgan Chase		23,988		-
Societe Generale		36,957		-
Credit Agricole		36,971		-
Rabobank		-		19,046
Toyota Motor Corporation		15,986		43,962
UBS		-		43,953
Total	$	164,628	$	199,345
% of Portfolio		21.12%		22.98%

(d) Credit Ratings

As a result of the S&P's credit rating downgrade of several U.S. Treasury supported federal agencies in August 2011, certain investments owned and purchased by the Authority since that date were lowered and their ratings are reflected herein. Prior to the August 2011 downgrade it was management's practice to purchase debt securities that had an implied credit rating of AAA, or that were collateralized to AAA. Investments in bank certificates of deposits were fully collateralized. Also, the Authority invested in the Massachusetts Municipal Depository Trust (MMDT), managed by the State Treasury, which is not rated.

The 1978 Trust Agreement, the PFC Trust Agreement, the CFC Trust Agreement and the Board approved Investment Policy limit the Authority in the types of investments it can purchase to the two highest rating categories without regard to gradations within the rating categories by both S&P (AAA, AA+, AA, and AA-) and Moody's (Aaa, Aa1, Aa2, and Aa3).

(e) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Authority has set targets for the preferred maturity structure of the investments held in each fund and account, and also sets targets each quarter for the effective duration for each fund that reflect the need for liquidity and the expected tradeoffs between yield and term for each different fund and account. It is the Authority's practice to hold investments until maturity in order to insulate the Authority's investment earnings from interest rate risk. The Authority mitigates interest rate risk by managing the weighted average maturity of each portfolio type to best meet its liquidity needs.

(f) Cash, Cash Equivalents and Investments by Fund

The following summarizes cash and investments, at cost and fair value, as of June 30, by the various funds and accounts established by the Authority for debt covenant requirements and other purposes (in thousands):

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
1978 Trust				
Improvement and Extension Fund	$ 93,482	$ 93,730	$ 117,670	$ 117,717
Capital Budget Account	140,511	140,511	153,130	153,356
Debt Service Reserve Funds	102,664	102,573	102,659	101,547
Debt Service Funds	71,417	71,417	69,351	69,351
Maintenance Reserve Fund	104,434	104,608	88,280	88,259
Operating/Revenue Fund	49,573	49,573	47,733	47,736
Subordinated Debt Funds	40,556	40,556	39,056	39,056
Self-Insurance Account	28,314	28,583	27,352	27,396
2010 A Construction Fund	-	-	226	226
2012 A Project Fund	5,366	5,366	53,936	53,902
Other Funds	23,123	23,079	15,817	15,817
1999 PFC Trust				
Debt Service Reserve Funds	27,866	27,993	28,147	28,342
Debt Service Funds	20,457	20,457	19,558	19,558
Other PFC Funds	11,587	11,587	19,169	19,176
2011 CFC Trust				
2011-A & B CFC Project Funds	12,753	12,753	24,699	24,714
Debt Service Reserve Funds	27,994	28,021	28,040	27,828
Debt Service Funds	9,191	9,191	7,613	7,613
Other CFC Funds	9,421	9,431	25,134	25,148
Total	$ 778,709	$ 779,429	$ 867,570	$ 866,742

4. Capital Assets

Capital assets consisted of the following at June 30, 2014 and 2013 (in thousands):

	June 30, 2013	Additions and Transfers In	Deletions and Transfers Out	June 30, 2014
Capital assets not being depreciated				
Land	$ 174,754	$ 27,945	$ —	$ 202,699
Construction in progress	341,977	349,186	536,092	155,071
Total capital assets not being depreciated	516,731	377,131	536,092	357,770
Capital assets being depreciated				
Buildings	2,527,365	382,731	—	2,910,096
Runway and other paving	773,180	10,534	—	783,714
Roadway	639,332	52,272	—	691,604
Machinery and equipment	336,392	61,474	(50)	397,916
Air rights	179,851	1,136	50	180,937
Parking rights	46,261	—	—	46,261
Total capital assets being depreciated	4,502,381	508,147	—	5,010,528
Less accumulated depreciation:				
Buildings	1,286,795	105,501	—	1,392,296
Runway and other paving	346,291	44,084	—	390,375
Roadway	277,247	27,691	—	304,938
Machinery and equipment	223,314	31,348	(5)	254,667
Air rights	97,296	8,041	5	105,332
Parking rights	18,504	1,542	—	20,046
Total accumulated depreciation	2,249,447	218,207	—	2,467,654
Total capital assets being depreciated, net	2,252,934	289,940	—	2,542,874
Capital assets, net	$ 2,769,665	$ 667,071	$ 536,092	$ 2,900,644

Depreciation and amortization for fiscal year 2014 and 2013 was $217.8 million and $199.0 million, respectively.

	June 30, 2012	Additions and Transfers In	Deletions and Transfers Out	June 30, 2013
Capital assets not being depreciated				
Land	$ 173,036	$ 1,718	$ —	$ 174,754
Construction in progress	257,828	318,288	234,139	341,977
Total capital assets not being depreciated	430,864	320,006	234,139	516,731
Capital assets being depreciated				
Buildings	2,485,423	42,005	63	2,527,365
Runway and other paving	677,138	99,654	3,612	773,180
Roadway	615,045	24,287	—	639,332
Machinery and equipment	273,509	63,426	543	336,392
Air rights	176,802	3,049	—	179,851
Parking rights	46,261	—	—	46,261
Total capital assets being depreciated	4,274,178	232,421	4,218	4,502,381
Less accumulated depreciation for:				
Buildings	1,213,591	73,267	63	1,286,795
Runway and other paving	301,141	46,477	1,327	346,291
Roadway	252,077	25,170	—	277,247
Machinery and equipment	178,764	44,935	385	223,314
Air rights	89,224	8,072	—	97,296
Parking rights	16,962	1,542	—	18,504
Total accumulated depreciation	2,051,759	199,463	1,775	2,249,447
Total capital assets being depreciated, net	2,222,419	32,958	2,443	2,252,934
Capital assets, net	$ 2,653,283	$ 352,964	$ 236,582	$ 2,769,665

Capital assets (excluding construction in progress) at June 30 comprised of the following (in thousands):

	2014	2013
Facilities completed by operation:		
Airports	$ 4,721,894	$ 4,193,108
Port	491,333	484,027
Capital assets (excluding construction in progress)	$ 5,213,227	$ 4,677,135

5. Bonds and Notes Payable

Long-term debt at June 30, 2014 consisted of the following and represents maturities on the Authority's fiscal year basis (in thousands):

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Revenue Bonds:					
Senior Debt-1978 Trust Agreement:					
2003, Series A, 3.00% to 5.00%, issued May 22, 2003 due 2013 to 2034	$ 7,845	$ —	$ 5,190	$ 2,655	$ 1,465
2003, Series C, 5.00%, issued May 22, 2003 due 2013 to 2019	26,710	—	7,885	18,825	5,620
2005, Series A, 3.50% to 5.00%, issued May 5, 2005 due 2015 to 2036	168,690	—	4,090	164,600	4,285
2005, Series C, 3.50% to 5.00%, issued May 5, 2005 due 2014 to 2030	202,265	—	10,105	192,160	10,570
2007, Series A, 3.75% to 4.50%, issued May 31, 2007 due 2014 to 2038	46,710	—	1,090	45,620	1,135
2007, Series C, 4.00% to 5.00%, issued May 31, 2007 due 2014 to 2028	29,515	—	1,370	28,145	1,435
2008, Series A Multi-Modal, variable, issued June 19, 2008 due 2014 to 2039	22,700	—	330	22,370	2,649
2008, Series C, 4.00% to 5.00%, issued July 9, 2008 due 2014 to 2021	33,860	—	3,545	30,315	6,250
2010, Series A, 3.25% to 5.00%, issued August 5, 2010 due 2014 to 2041	97,905	—	1,825	96,080	1,895
2010, Series B, 3.00% to 5.00%, issued August 5, 2010 due 2014 to 2040	135,060	—	1,625	133,435	1,690
2010, Series C, 5.00%, issued August 5, 2010 due 2014 to 2019	19,100	—	2,630	16,470	2,815
2010, Series D, Multi-Modal variable, issued August 5, 2010 due 2014 to 2030	98,890	—	4,640	94,250	13,840
2012, Series A, 3.00% to 5.00%, issued July 11, 2012 due 2014 to 2041	116,785	—	—	116,785	4,300
2012, Series B, 3.00% to 5.00%, issued July 11, 2012 due 2017 to 2032	158,830	—	—	158,830	—
Subtotal Senior Debt	1,164,865	—	44,325	1,120,540	57,949

		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Subordinated debt- 1978 Trust Agreement:						
2000, Series A,B & C, 6.45%, issued December 29, 2000 due 2031	$	40,000	—	—	40,000	—
2001, Series A,B & C, 6.45%, issued January 2, 2001 due 2032		34,000	—	—	34,000	—
Subtotal Subordinate Debt		74,000	—	—	74,000	—

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Senior Debt - PFC Trust Agreement:					
2007, Series B, 4.00% to 5.00%, issued May 31, 2007 due 2014 to 2018	$ 28,765	$ —	$ 4,460	$ 24,305	$ 4,635
2007, Series D, 3.80% to 5.50%, issued May 31, 2007 due 2014 to 2018	64,730	—	100	64,630	100
2010, Series E, 5.00%, issued August 5, 2010 due 2014 to 2018	33,860	—	12,365	21,495	12,985
Subtotal PFC Senior Debt	127,355	—	16,925	110,430	17,720
Senior Debt - CFC Trust Agreement:					
2011, Series A, 5.125%, issued June 8, 2011 due 2038 to 2042	58,030	—	—	58,030	—
2011, Series B, 0.900% to 6.352%, issued June 8, 2011 due 2014 to 2038	153,455	—	3,185	150,270	3,260
Subtotal CFC Senior Debt	211,485	—	3,185	208,300	3,260
Total Bonds Payable	1,577,705	—	64,435	1,513,270	78,929
Less unamortized amounts:					
Bond premium (discount), net	78,935	—	5,737	73,198	5,736
Total Bonds Payable, net	$ 1,656,640	$ —	$ 70,172	$ 1,586,468	$ 84,665

Included in the Authority's bonds payable are $116.6 million and $121.6 million of variable rate demand bonds ("VRDB") as of June 30, 2014 and 2013, respectively. The VRDBs have remarketing features which allow bondholders the right to return, or put, the bonds to the Authority. The Authority had previously entered into a three year irrevocable letter of credit agreement with Bank of America that expired on August 12, 2013. On August 7, 2013, the Authority entered into a five year irrevocable letter of credit agreement with State Street Bank, in support of the Authority's variable rate demand bonds, Series 2008 A and Series 2010 D. This agreement requires repayment of the tendered, unremarketed VRDBs and any associated obligations on the bonds tendered. Should the VRDBs be tendered and the letter of credit exercised, the tendered bonds would be converted to bank bonds, possibly requiring one tenth of the tendered bonds to become due within 270 days. As such, the Authority would look to identify an alternative financing arrangement in advance of the bank bonds debt service payment becoming due to satisfy this obligation.

The subject debt was issued as multi-modal bonds, thus allowing the Authority to reissue and refund through one of several modes. As a result, the Authority has classified $11.1 million and $11.7 million to its current portion of long term debt, in addition to the amounts identified in the schedules of the Authority's bonds payable at June 30th due within one year, for the fiscal years ending June 30, 2014 and 2013, respectively.

The following summarizes the Authority's revenue bonds activity at June 30 (in thousands):

	2013 Beginning balance	Additions	Reductions	2014 Ending balance	Due within one year
Senior Debt-1978 Trust Agreement:	$ 1,164,865	$ —	$ 44,325	$ 1,120,540	$ 57,949
Subordinated Debt- 1978 Trust Agreement	74,000	—	—	74,000	—
Senior Debt - PFC Trust Agreement:	127,355	—	16,925	110,430	17,720
Senior Debt - CFC Trust Agreement:	211,485	—	3,185	208,300	3,260
	$ 1,577,705	$ —	$ 64,435	$ 1,513,270	$ 78,929

	2012 Beginning balance	Additions	Reductions	2013 Ending balance	Due within one year
Senior Debt-1978 Trust Agreement:	$ 1,126,360	$ 275,615	$ 237,110	$ 1,164,865	$ 55,987
Subordinated Debt- 1978 Trust Agreement	74,000	—	—	74,000	—
Senior Debt - PFC Trust Agreement:	143,515	—	16,160	127,355	16,925
Senior Debt - CFC Trust Agreement:	214,060	—	2,575	211,485	3,185
	$ 1,557,935	$ 275,615	$ 255,845	$ 1,577,705	$ 76,097

Debt service requirements on revenue bonds (1978 Trust, PFC Trust and CFC Trust) outstanding at June 30, 2014 are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2015	$ 67,790	$ 70,666	$ 138,456
2016	72,070	67,839	139,909
2017	73,200	64,683	137,883
2018	106,440	61,414	167,854
2019	56,060	56,699	112,759
2020 – 2024	270,620	250,614	521,234
2025 – 2029	296,900	189,297	486,197
2030 – 2034	305,465	114,209	419,674
2035 – 2039	173,495	47,972	221,467
2040 – 2043	91,230	9,492	100,722
Total	$ 1,513,270	$ 932,885	$ 2,446,155

a) Senior Debt - 1978 Trust Agreement

On July 11, 2012, the Authority issued $275.6 million of Massachusetts Port Authority Revenue Bonds in two series. The Series 2012 A Revenue Bonds, in the principal amount of $116.8 million were issued with an original issue premium of approximately $11.5 million and interest rates ranging from 3.0% to 5.0%. The projects financed with Series A bond proceeds include capital improvements to Terminals B and C, hanger upgrades, and replacement substations for Terminals B and E. Due to the "private activity" nature of the construction projects, these bonds were sold as AMT bonds.

The Authority also issued $158.8 million in Revenue Refunding Bonds, Series 2012 B. The Series 2012 B Bonds had an original issue premium of approximately $27.4 million and refunded a portion of the 2003 A bonds and 2003 C bonds. The current refunding resulted in the recognition of an accounting gain of $1.6 million, which will be amortized over the life of the defeased bonds. The aggregate difference in debt service between the refunded 2003 A and 2003 C bonds and the refunding debt service was $19.0 million. This refunding had an economic gain and achieved a net present value savings of $14.7 million or 8.2%. The annual savings for fiscal year 2013 through fiscal year 2033 are approximately $0.817 million.

The Authority, through its 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a debt service coverage ratio higher than its Trust Agreement requirement to maintain its investment grade bond ratings. As of June 30, 2014 and 2013, the Authority's debt service coverage under the 1978 Trust Agreement was 2.65 and 2.47, respectively.

b) Subordinate Debt - 1978 Trust Agreement

Subordinate debt is payable solely from funds on deposit in the Improvement and Extension Fund and is not subject to the pledge of the 1978 Trust Agreement, the PFC Trust Agreement or the CFC Trust Agreement. The Authority invested $12.0 million in January 2001 which at maturity will provide for the $74.0 million principal payments of the subordinate debt at their respective maturities on December 31, 2030 and January 1, 2031. As of June 30, 2014, the value of the two GICs was approximately $38.2 million as compared to $36.7 million as of June 30, 2013.

c) Senior Debt - PFC Trust Agreement

The Authority's outstanding PFC debt continues to be backed by a pledge of the $4.50 PFC collections. The Authority earned PFC Revenues, as defined by the PFC Trust Agreement, of approximately $62.8 million and $60.2 million during fiscal years 2014 and 2013, respectively. These amounts include approximately $0.1 million of investment income on PFC receipts during each of the fiscal years 2014 and 2013, respectively.

The PFC Trust Agreement requires a First Lien Sufficiency covenant ratio in excess of 1.05. As of June 30, 2014 and 2013, the Authority's PFC First Lien Sufficiency covenant under the PFC Trust Agreement was 4.75 and 4.37, respectively.

d) Senior Debt - CFC Trust Agreement

On June 8, 2011, the Authority issued its Special Facilities Revenue Bonds (RCC Project), Series 2011 A in the amount of $58.0 million with an original issue discount of approximately $1.5 million, and its Special Facilities Revenue Bonds (RCC Project), Series 2011 B (Federally Taxable) in the amount of $156.0 million at par, pursuant to the CFC Trust Agreement (collectively, the "Series 2011 Bonds"). The Series 2011 Bonds were issued for the purpose of providing funds sufficient, together with other available funds, to finance the development and construction of a new RCC facility and related improvements at Logan Airport, fund certain deposits to the Debt Service Reserve Fund and the Supplemental Reserve Fund, and pay certain costs of issuance of the Series 2011 Bonds. The Series 2011 Bonds and any additional bonds that may be issued under the CFC Trust Agreement on parity with the Series 2011 Bonds are secured by CFC Pledged Revenues and by Contingent Rent from the rental car companies, if any, and other funds. The Series 2011 Bonds are not secured by any other revenues of the Authority. The Series 2011 Bonds are payable solely from the CFC Pledged Receipts pledged under the CFC Trust Agreement and from certain funds and accounts held by the Trustee.

All of the Authority's outstanding RCC debt is backed by a pledge of the $6.00 CFC collections. The Authority earned CFC Revenues, as defined by the CFC Trust Agreement, of approximately $30.4 million and $30.1 million during fiscal years 2014 and 2013, respectively. These amounts include approximately $0.4 million and $0.8 million of investment income on CFC receipts during each of the fiscal years 2014 and 2013, respectively.

The CFC Trust Agreement requires that the Authority maintain debt service coverage of at least 1.3. As of June 30, 2014 and 2013, the CFC debt service coverage was 2.69 and 2.87, respectively.

e) Special Facility Bonds

To provide for the construction and improvement of various facilities at Logan Airport, the Authority has issued eight series of special facilities revenue bonds. The Authority's special facilities revenue bonds are all special limited obligations of the Authority, and are payable and secured solely from and by certain revenues of a separate trustee. The Authority's special facilities revenue bonds do not constitute a debt or pledge of the full faith and credit of the Authority, or the Commonwealth of Massachusetts or any subdivision thereof and, accordingly, have not been reflected in the accompanying financial statements. As of June 30, 2014 and 2013, the aggregate principal amount of the Authority's special facilities revenue bonds outstanding was approximately $640.0 million and $662.2 million, respectively. The Authority has no obligation for $188.2 million of Special Facility Bonds and only limited obligation for the $451.9 million of special facility bonds related to Terminal A described below. In July 2014, American Airlines defeased the remaining balance of approximately $50.0 million in outstanding US Airways bonds.

Approximately $451.9 million of the Authority's special facility bonds relate to the Delta Airlines Series 2001 A, B, and C bonds issued in connection with Delta Airlines construction of Terminal A. During September 2005, Delta Airlines entered into bankruptcy and as of April 2007 re-emerged out of bankruptcy. The Authority is under no obligation to assume any liability for the Terminal A Special Facility bonds or to direct revenue, other than an obligation to remit to the trustee of the Terminal A bonds a portion of the Terminal A airline revenue, to service the debt. The Authority and Delta Airlines negotiated a restated and amended lease (the "Amended Lease") for Terminal A pursuant to which Delta Airlines reduced the number of gates that it occupied in Terminal A. The Amended Lease was approved by the bankruptcy court and was effective as of July 1, 2006.

f) Commercial Notes Payable

The Authority's commercial notes payable as of June 30, 2014 and 2013 were as follows (in thousands):

		2014		2013
Commercial paper notes	$	100,000	$	100,000
Commercial paper notes issued		76,000		15,000
Principal paid on commercial paper notes		(26,000)		(15,000)
Commercial paper notes	$	150,000	$	100,000

In March 2014, the Authority expanded its commercial paper program to $150 million. Commercial notes payable have been issued under the terms of the 1978 Trust Agreement and are backed by the proceeds of the Improvement and Extension Fund or anticipated bond funds. The allowable maximum principal amount outstanding at any time, in the aggregate principal amount, cannot exceed the lesser of 10% of the Authority's outstanding long-term debt or $150.0 million, and is backed by a Letter of Credit Agreement with the TD Bank expiring in June 2017.

The $100 million of the commercial notes payable have been used to fund PFC eligible projects; therefore the Authority anticipates that PFC revenues will be the source to pay such redemptions. The $50.0 million of the commercial paper notes payable represent general airline revenue bond anticipation notes. The blended interest rate on Series 2012 A Notes was 0.685% and 0.731% during fiscal years 2014 and 2013, respectively. The blended interest rate on the Series 2012 B Notes was 0.690% and 0.736% during fiscal years 2014 and 2013, respectively.

During fiscal year 2014 and fiscal year 2013, the Authority did not participate in any interest rate swaps.

g) Arbitrage – Rebate Liability

The United States Treasury has issued regulations on calculating the rebate due to the United States Government on arbitrage liability and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage liability arises when the Authority temporarily invests the proceeds of tax exempt debt in securities with higher yields. The Authority has an estimated liability on June 30, 2014 and 2013 of $429 thousand and $12.1 million, respectively. The liability at June 30, 2013 in the amount of $11.3 million was associated with the Authority's Subordinate Bond Series 2000 A & B, and Series 2001A, B & E. During fiscal year 2014, the Authority executed an agreement with the Internal Revenue Service in the amount of $895.5 thousand as payment in full on this liability and recognized $10.4 million as other non-operating income.

6. Employee Benefit Plans

a) Plan Description – Pension Plan

The Massachusetts Port Authority Employees' Retirement System plan (the "Plan") is a single employer contributory defined benefit pension plan administered by the Massachusetts Port Authority Employees' Retirement System (the "System"). The Plan provides retirement, disability, and death benefits to plan members and beneficiaries.

Massachusetts General Laws ("MGL"), principally Chapter 32, establishes and amends benefit provisions. The System issues publicly available audited financial statements for the Plan. The report may be obtained by writing to the Massachusetts Port Authority Employees' Retirement System, One Harborside Drive, Suite 200S, East Boston, MA 02128-2909. These statements are prepared on the accrual basis of accounting. Employer contributions are recognized when the employer has made formal commitments to provide the contributions. Member contributions are recognized by the Plan as compensation is earned by the Authority's employees. Retirement benefits and refunds are recorded when due and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price. The Plan has no investments, at fair value, that exceed 5% of the Plan's total investments as of December 31, 2013 and 2012 other than investments in mutual funds, external investment pools and other pooled investments. No long term contracts for contributions to the Plan existed at December 31, 2013 and 2012.

b) Funding Policy

The contribution requirements of plan members and the Authority are defined by MGL Chapter 32 and may be amended through the legislative process. Depending upon their employment date, active plan members are required to contribute 5% to 9% of their annual covered compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of $30.0 thousand. The Authority is required to contribute amounts pursuant to Section 22(6A) of MGL Chapter 32.

c) Annual Pension Cost

The annual required contribution ("ARC") for the year ended June 30, 2014 was determined as part of the January 1, 2013 actuarial valuation. The actuarial cost method required by the Plan under its charter is the Frozen-Entry-Age Actuarial Cost Method which uses a closed amortization period in level amounts over a twenty year period. The Asset Valuation Method is the market value of assets adjusted to phase in investment gains or losses above or below the expected rate of return using a five year rolling period.

The actuarial assumptions included a 7.625% investment rate of return, and projected salary increases of 4.50%. Both include an inflation component of 3.0%. Liabilities for cost of living increases have been approximated, assuming an annual cost of 3.0% on the first $13.0 thousand annual pension. The ARC equaled the annual pension cost ("APC") and the employer contributions for the last three years. Those amounts are as follows (in thousands):

Year ended December 31,	Annual pension cost (APC)	Percentage of APC contributed
2013	$ 11,960	100%
2012	9,594	100
2011	5,710	100

The Authority funds 100% of the ARC each year and therefore the Net Pension Obligation is zero.

d) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of January 1, 2013, was as follows (in thousands):

Actuarially accrued liability ("AAL")	$	457,937
Actuarial value of plan assets		433,408
Unfunded actuarial accrued liability ("UAAL")	$	24,529
Funded ratio (actuarial value of plan assets/AAL)		94.6%
Covered payroll (active plan members)	$	86,730
UAAL as a percentage of covered payroll		28.3%

7. Other Postemployment Benefits

During the year ended June 30, 2008, the Authority established the Retiree Benefits Trust (the "Trust") and implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statements of revenues, expenses, and changes in net position when future retirees earn their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the statements of net position over time.

a) Plan Description

In addition to providing the pension benefits described in Note 6, the Authority provides post-employment health care and life insurance benefits ("OPEB") for retired employees. The benefit levels, employer contributions and future employee contributions are governed by the Authority and can be amended by the Authority. As of June 30, 2013, approximately 781 retirees and 1,200 active and inactive employees meet the eligibility requirements.

In June 2009, the Board made changes to the plan benefits to be paid by the Authority for certain existing and future retirees. All current retired members of the Authority and all existing Authority employees who were vested as of October 1, 2009 would be eligible to have 100% of their premium cost subsidized. Employees not yet vested but employed by the Authority on October 1, 2009 would, upon retirement be eligible to receive 85% of the premium cost for benefits with the balance paid for by the retiree. For employees hired on or after October 1, 2009, the Board voted to implement a sliding scale subsidy for retiree health care premiums (ranging from 0%-85%) based on creditable service at retirement age (retirees must be age 60 or older to receive the subsidy), and whether or not the employee retired within sixty days after leaving the Authority. The Board also voted to eliminate retiree dental and life insurance coverage, as well as Medicare Part B premium subsidy for this group of employees.

The OPEB Plan is a single-employer plan and offers retirees a choice of medical plans, as well as two dental plans, and basic life insurance. The medical plans are either HMOs, PPOs or indemnity plans, and some are designed to work with Medicare benefits, such a Medicare supplement or Medicare HMO plans. The basic life insurance provides a $5,000 death benefit to the retiree. Spouses and dependents are not eligible for this death benefit upon their death. To comply with the requirements of GASB 45, the Authority performed an actuarial valuation at January 1, 2013. The Authority issues publicly available audited financial statements for the Trust. The report may be obtained by writing to the Massachusetts Port Authority, Attn: John P. Pranckevicius, CPA, Director of Administration and Finance and Secretary-Treasurer, One Harborside Drive, Suite 200S, East Boston, MA 02128-2909. These statements are prepared on the accrual basis of accounting. Employer contributions are recognized when the employer has made formal commitments to provide the contributions and benefits are recorded when due and payable in accordance with the terms of the Trust. Investments are reported at fair value. Mutual funds and commingled funds are valued based on net asset or unit value at year-end. No long term contracts for contributions to the Trust existed at June 30, 2014 or 2013.

b) Annual OPEB Costs and Net OPEB Obligation

The Authority's 2014 and 2013 OPEB expense is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Authority's annual OPEB cost for the years ending June 30, 2014, 2013 and 2012, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on an actuarial valuation as of January 1, 2013 (in thousands).

	2014	2013	2012
Annual Required Contribution (ARC)	$ 14,738	$ 14,006	$ 18,444
Interest on net OPEB obligation	(3,989)	(3,265)	(3,032)
Adjustment to ARC	3,391	2,709	2,438
Annual OPEB cost	14,140	13,450	17,850
Current premiums on a pay-as-you-go basis	—	—	—
Subsidy	2,370	2,254	2,335
Contributions made	14,000	20,851	13,807
Change in net OPEB obligation	2,230	9,655	(1,708)
Net OPEB Asset – beginning of year	53,188	43,533	45,241
Net OPEB Asset – end of year	$ 55,418	$ 53,188	$ 43,533
% of Annual OPEB cost contributed	99.0%	155.0%	77.4%

c) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of January 1, 2013, was as follows (in thousands):

Actuarially accrued liability ("AAL")	$	224,488
Actuarial value of plan assets		105,622
Unfunded actuarial accrued liability ("UAAL")	$	118,866
Funded ratio (actuarial value of plan assets/AAL)		47.1%
Covered payroll (active plan members)	$	95,400
UAAL as a percentage of covered payroll		124.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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) 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. 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.

The January 1, 2013 actuarial valuation used the projected unit credit cost method. The actuarial value of plan assets was $105.6 million. The actuarial assumptions included a 7.50% investment rate of return and an initial annual healthcare cost trend rate range of 9.0% which decreases to a 5.0% long-term trend rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payrolls for a period of 30 years, on a closed basis. At June 30, 2013, 25 years are remaining to be amortized. This has been calculated assuming an inflation rate of 3.25%.

8. Leases

a) Commitments

The Authority has commitments under various operating leases, which contain escalation clauses, as lessee. The following is a schedule by years of minimum rental payments under noncancelable operating leases as of June 30, 2014 (in thousands):

Years	Amount	Years	Amount
2015	$ 26,353	2035 – 2039	$ 4,436
2016	25,511	2040 – 2044	4,436
2017	25,511	2045 – 2049	4,436
2018	14,670	2050 – 2054	4,436
2019	8,385	2055 – 2059	4,436
2020 – 2024	7,013	2060 – 2064	4,436
2025 – 2029	4,436	2065 – 2069	4,436
2030 – 2034	4,436	2070	567
		Total	$ 147,934

Rent expense and other operating lease related payments were $30.3 million and $28.0 million for fiscal years 2014 and 2013, respectively.

b) Rental Income

The Authority leases a major portion of its Aviation and Port properties to various tenants. Many of these operating leases provide for periodic adjustments to rental rates, including certain provisions for contingent payments based on specified percentages of the tenant's gross revenue.

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of June 30, 2014 (in thousands):

Years	Amount	Years	Amount
2015	$ 95,420	2050 – 2054	$ 46,960
2016	59,478	2055 – 2059	47,140
2017	53,428	2060 – 2064	49,007
2018	49,143	2065 – 2069	49,521
2019	46,126	2070 – 2074	51,618
2020 – 2024	194,587	2075 – 2079	52,231
2025 – 2029	135,108	2080 – 2084	52,217
2030 – 2034	96,148	2085 – 2089	41,038
2035 – 2039	86,987	2090 – 2094	39,303
2040 – 2044	90,647	2095 – 2099	25,792
2045 – 2049	69,291	2100 – 2104	3,217
		2105 – 2107	1,052
		Total	$ 1,435,459

Rental income and concession income, including contingent payments received under these provisions, were approximately $282.3 million and $257.3 million for the fiscal years 2014 and 2013, respectively.

9. Risk Management

The Authority, as mandated by the 1978 Trust Agreement, maintains a self insurance account for general liability and workers compensation within the Operating Fund. The self insurance accruals are determined based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The accrued liability was approximately $8.0 million and $7.3 million as of June 30, 2014 and 2013, respectively, and is included as a component of accrued expenses in the accompanying financial statements. This liability is fully funded as of June 30, 2014 and 2013.

Changes in the accrued liability accounts, related to self insurance, in fiscal year 2014 and 2013 were as follows (in thousands):

	2014	2013
Liability balance, beginning of year	$ 7,253	$ 6,843
Provision to record estimated losses	3,552	1,279
Payments	(2,790)	(869)
Liability balance, end of year	$ 8,015	$ 7,253

As part of its normal operations, the Authority encounters the risk of accidental losses stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, a combination of risk management measures is applied, including safety and loss prevention programs, emergency planning, contractual risk transfer, self insurance, and insurance.

In connection with the self insurance and insurance programs, the Authority retains part of the losses incurred and internally manages the self insured claims. The self insured retention currently includes: $1.0 million for worker's compensation per job related accident for Massport employees and ILA Members $1,000 per occurrence for automobile liability; aviation general liability and airport terrorism insurance, $0.25 million for airside incidents and for non-airside auto losses; $25 thousand for Comprehensive Marine Liability, Terminal Operator's Liability, Stevedore's liability and $0.25 million for property losses per occurrence. Insurance is purchased above the self-insured amounts, subject to availability and the reasonableness of cost. Liabilities for self-insured claims are 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 at year-end and are based on the historical cost of settling similar claims. The Authority records such liabilities as accrued expenses. The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

Settled claims resulting from the risks discussed above have not exceeded the amount of insurance coverage in force in any of the past three fiscal periods. Further, insurance maintained in fiscal years 2014 and 2013 has not changed significantly from prior periods.

10. Payments in Lieu of Taxes

The Authority's Enabling Act, the 1978 Trust Agreement and the PILOT Agreements authorize and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the "PILOT Agreements") to make annual payments in lieu of taxes to the City of Boston and the Town of Winthrop.

The PILOT Agreements provide that annual payments may not exceed the balance of revenues remaining after deposits to pay operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

Pursuant to the terms of the amended Boston PILOT Agreement (the "Amended Boston PILOT Agreement"), the term of the Amended Boston PILOT Agreement terminates on June 30, 2020 subject to (1) mutual rights annually to terminate the Amended PILOT Agreement and (2) automatic one year extensions of the term each July1. The Amended Boston PILOT Agreement provides for the Authority to pay (i) an annual base amount (the "Base Amount") of $14 million, which, commencing in fiscal year 2007, increases annually by the annual percentage change in the consumer price index, provided that such increase shall be no less than 2%, nor greater than 8%, per year, and (ii) for ten years, an amount of $700,000, which shall not be increased or adjusted.

In fiscal year 2006, the Authority and the Town of Winthrop entered into an Amended and Restated Payment-In-Lieu-Of-Taxes Agreement (the "Amended Winthrop PILOT Agreement"), which extended the base in-lieu-of-tax payments through fiscal year 2025. The Amended Winthrop PILOT Agreement provides for the Authority to make an annual payment of $900,000, which will be adjusted in fiscal years 2016 through 2025 if the average annual percentage change in the consumer price index in fiscal year 2006 through 2015 is less than 2% or more than 8%.

PILOT payments to the City of Boston for fiscal year 2014 and 2013 were $17.5 million and $17.2 million, respectively. PILOT payments to the Town of Winthrop for fiscal year 2014 and 2013 were $0.9 million for each year.

11. Commitments

a) Contractual Obligations for Construction

The Authority enters into construction contracts with various construction and engineering companies. Construction contracts outstanding were approximately $265.2 million and $296.9 million as of June 30, 2014 and 2013, respectively.

b) Seaport Bond Bill

The Seaport Bond Bill was enacted in 1996 and among other things, provides for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston Yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provides up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston Yard in Boston permitting double stack shipments. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads. The Authority believes that the likelihood that any such Master Agreement will be executed and Authority funds committed for double stack improvements within the next fiscal year is remote.

12. Litigation

a) Events of September 11, 2001

The Authority has been engaged in routine litigation as well as litigation involving the terrorist attacks of September 11, 2001.

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, N.Y. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport.

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act of 2001 ("ATSSSA"), which provides, among other things, a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of 9/11. Specifically, the liability of an airport sponsor for those events "shall not be in an amount greater than the limits of liability insurance coverage maintained by that . . . airport sponsor". The Authority has insurance in effect to cover these incidents in the amount of $500.0 million per occurrence and consequently, under ATSA the Authority's liability, if any, would be limited to such amounts. To the Authority's knowledge, the Authority's insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual or entity claiming to have suffered a loss.

Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority's rights as a named additional insured under other policies of insurance, including policies of the Authority's tenants and licensees.

On July 18, 2013, the Authority was dismissed from the remaining property damage lawsuits, both brought by the World Trade Center Properties, LLC, ("WTC Properties"). WTC Properties has appealed this ruling. All other wrongful death and property damage lawsuits against the Authority and other defendants have been settled or dismissed. These settlements have been achieved without any financial contribution from the Authority or its insurer, even though the settling plaintiffs have provided the Authority with a release of all claims related to the events of 9/11.

b) Environmental Contamination

The Authority is currently involved in six separate pollution remediation obligations that meet the requirements for accounting treatment under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* ("GASB No. 49"). These obligations are generally related to the removal and/or treatment of contaminated soil, groundwater and petroleum products associated with fuel storage and conveyance. GASB 49 dictates that for each obligating event, an estimate of the expected pollution remediation outlays is required to be accrued as a liability and expensed in the current period. Re-measurement of the liability is required when new information indicates increases or decreases in estimated outlays.

The estimated liability as of June 30, 2014 and 2013 is $7.2 million and $3.9 million, respectively, which represents the approximate amounts the Authority expects to pay for future remediation activities. The Authority paid approximately $0.3 million and $0.7 million in fiscal years 2014 and 2013, respectively. This estimate was generated using input and guidance from internal management and professional consultants, and represents a wide array of remediation activities ranging from onetime events to longer-term sustained monitoring activity. The Authority will continue to closely monitor each of these obligations, working toward regulatory closure, and will make any necessary adjustments to the potential liability as new information becomes available.

c) Other Litigation

The Authority also is engaged in numerous matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include such matters as disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of the Authority's properties; disputes over leases and concessions; property, theft and damage claims arising from the Authority's operations, employment matters and workers compensation, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will be material to the results of operations.

13. Interagency Agreements

a) Investment in Joint Venture

In May 1996, the Authority entered into an interagency agreement with the Massachusetts Highway Department ("MHD") and Massachusetts Bay Transportation Authority ("MBTA") for the construction of a Regional Transportation Center ("RTC") in Woburn, Massachusetts ("Interagency Agreement"). Under the terms of the Interagency Agreement, the Authority has paid one third of the costs of acquiring the site and constructing the RTC, and will share in a like proportion in the profits and losses of the RTC. During fiscal years 2014 and 2013, the Authority recognized income of approximately $0.1 million in each year, representing its share of the earnings of the RTC.

b) Logan Airport Silver Line Transportation Agreement

The Authority entered into an agreement with the MBTA to provide public transportation between South Station in Boston, Massachusetts and Logan Airport along a route called the Silver Line.

Pursuant to this agreement the Authority has purchased and accepted delivery of eight buses for a cost of $13.3 million.

In addition, the MBTA and the Authority have entered into a ten year agreement ending on December 30, 2015. Under this agreement, the MBTA will operate and maintain the Authority's Silver Line buses for a cost of $2.0 million per year, paid in equal monthly installments.

14. Subsequent Events

a) Bond issue

On July 17, 2014, the Authority issued $249.8 million of Massachusetts Port Authority Revenue Bonds in three series. The Series 2014 A Revenue Bonds were issued in the principal amount of $45.5 million with an original issue premium of approximately $5.6 million and coupon rates ranging from 2.0% to 5.0%. The projects financed with Series A bond proceeds include a structured garage at the Framingham Logan Express site and roadways that provide access from the terminals to the Airport MBTA Station and the Rental Car Facility.

The Series 2014 B Revenue Bonds were issued in the principal amount of $48.2 million with an original issue premium of approximately $4.8 million and coupon rates ranging from 4.0% to 5.0%. The projects financed with Series B bond proceeds include electrical substation replacement for Terminals B and E, a post-security corridor between Terminals C and E, and the demolition of an obsolete hangar to create remain overnight aircraft parking spaces.

The Authority also issued the Series 2014 C Revenue Refunding Bonds in the principal amount of $156.1 million with an original issue premium of approximately $32.2 million and coupons ranging from 2.0% to 5.0%. The aggregate difference in debt service between the refunded 2003 A, 2003 C and the 2005A bonds and the refunding bonds was $23.6 million. This refunding had an economic gain and achieved a net present value savings of $17.1 million or 10.04%. The average annual savings for fiscal year 2015 through fiscal year 2035 was approximately $1.126 million.

b) Approval of the FY 2013 PFC Application

On August 13, 2014, the FAA approved Logan's application for the collection and use of $100.0 million in PFCs for improvements at Terminal B, the acquisition of land in a runway protection zone, and the Light Pier at the end of runway 33L. This Final Agency Decision brings the Authority's PFC collection authority to a total of $1,452.0 million for Logan.

c) Litigation

On July 2, 2014, the Authority was served with a lawsuit (the "Lawsuit") in which the Authority is the named defendant. The Lawsuit arises out of the Authority's taking by eminent domain on January 6, 2014 of the property commonly referred to as the Logan Express parking and shuttle facility in Braintree, MA (the "Property") for which the Authority paid what it determined was just compensation. The Lawsuit claims that the Authority failed to award just compensation to the former owner Tara Investment Holdings LLC f/k/a The Flatley 06 LLC for the Property.

MASSACHUSETTS PORT AUTHORITY

Required Supplementary Information

Schedule of Pension Funding Progress / OPEB Funding Progress

June 30, 2014

(In thousands)

Schedule of Pension Funding Progress

(1) Actuarial valuation date	(2) Actuarial value of plan assets	(3) Actuarial accrued liability (AAL)	(4) (Overfunded) unfunded (UAAL) AAL(2) – (3)	(5) Actuarial value of assets as a percentage of AAL (funded ratio) (2)/(3)	(6) Annual covered payroll	(7) (UAAL) AAL as a percentage of covered payroll (4)/(6)
1/1/2013	$ 433,408	457,937	24,529	94.6%	$ 86,730	28.3%
1/1/2012	422,999	436,468	13,469	96.9	84,045	16.0
1/1/2011	420,801	419,272	(1,529)	100.4	82,541	(1.9)
1/1/2010	410,469	407,857	(2,612)	100.6	86,438	(3.0)
1/1/2009	342,953	327,829	(15,124)	104.6	85,944	(17.6)
1/1/2008	396,930	387,223	(9,707)	102.5	81,120	(12.0)
1/1/2007	368,346	357,507	(10,839)	103.0	76,835	(14.1)

Schedule of OPEB Funding Progress

(1) Actuarial valuation date	(2) Actuarial value of plan assets	(3) Actuarial accrued liability (AAL)	(4) (Overfunded) unfunded (UAAL) AAL(2) – (3)	(5) Actuarial value of assets as a percentage of AAL (funded ratio) (2)/(3)	(6) Annual covered payroll	(7) (UAAL) AAL as a percentage of covered payroll (4)/(6)
1/1/2013	$ 105,622	224,488	118,866	47.1%	$ 95,400	124.6%
1/1/2011	76,693	237,462	160,769	32.3	95,400	168.5
6/30/2009	48,931	219,619	170,688	22.3	95,749	178.3
7/01/2006	-	167,521	167,521	-	87,630	191.2

Analysis of the dollar amounts of net assets available for benefits, Actuarial Accrued Liability (AAL), and assets in excess of AAL in isolation can be misleading. Expressing the Actuarial Value of Assets available for benefits as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is AAL and annual covered payroll are both affected by inflation. Expressing the AAL in excess of assets as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the lower this percentage, the stronger the Plan.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, the size or composition of the population covered by the Plan, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the AAL as a factor.

See accompanying independent auditors' report.

Schedule I

MASSACHUSETTS PORT AUTHORITY

Combining Schedule of Net Position

June 30, 2014

(In thousands)

Assets and Deferred Outflows	Authority Operations	PFC Program	CFC Program	Eliminations	Combined Totals
Current assets:					
Cash and cash equivalents	$ 41,696	$ —	$ —	$ —	$ 41,696
Investments	35,020	—	—	—	35,020
Restricted cash and cash equivalents	122,206	32,426	25,411	—	180,043
Restricted investments	162,847	2,746	4,001	—	169,594
Accounts receivable					
Trade, net	48,058	8,678	3,100	—	59,836
Grants	28,602	—	971	—	29,573
Total receivables, net	76,660	8,678	4,071	—	89,409
Prepaid expenses and other assets	6,954	139	57	—	7,150
Interfund transfer Authority Loan	10,052	—	—	(10,052)	—
Total current assets	455,435	43,989	33,540	(10,052)	522,912
Noncurrent assets:					
Investments	66,587	—	—	—	66,587
Restricted investments	231,641	24,863	29,985	—	286,489
Prepaid expenses and other assets, long-term	5,855	205	1,258	—	7,318
Investment in joint venture	2,263	—	—	—	2,263
Net OPEB asset	55,418	—	—	—	55,418
Capital assets, net	2,180,246	430,154	290,244	—	2,900,644
Total noncurrent assets	2,542,010	455,222	321,487	—	3,318,719
Total assets	2,997,445	499,211	355,027	(10,052)	3,841,631
Deferred outflows of resources					
Deferred loss on refunding of bonds	19,108	909	—	—	20,017
Total deferred outflows of resources	19,108	909	—	—	20,017
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	95,372	—	7,342	—	102,714
Compensated absences	1,483	—	—	—	1,483
Contract retainage	9,308	—	3,253	—	12,561
Current portion of long-term debt	62,219	19,237	3,209	—	84,665
Commercial notes payable	150,000	—	—	—	150,000
Interfund transfer Authority Loan	—	—	10,052	(10,052)	—
Accrued interest payable	26,708	2,718	5,878	—	35,304
Unearned revenues	5,217	—	2	—	5,219
Total current liabilities	350,307	21,955	29,736	(10,052)	391,946
Noncurrent liabilities					
Accrued expenses	18,542	388	674	—	19,604
Compensated absences	18,974	—	—	—	18,974
Long-term debt, net	1,204,187	93,891	203,725	—	1,501,803
Unearned revenues	8,982	—	—	—	8,982
Total noncurrent liabilities	1,250,685	94,279	204,399	—	1,549,363
Total liabilities	1,600,992	116,234	234,135	(10,052)	1,941,309
Net Position					
Invested in capital assets	790,102	317,935	119,321	—	1,227,358
Restricted for other purposes					
Bond funds	201,754	—	—	—	201,754
Project funds	214,772	—	—	—	214,772
Passenger facility charges	—	65,951	—	—	65,951
Customer facility charges	—	—	1,571	—	1,571
Other purposes	25,472	—	—	—	25,472
Total restricted	441,998	65,951	1,571	—	509,520
Unrestricted	183,461	—	—	—	183,461
Total net position	$ 1,415,561	$ 383,886	$ 120,892	$ —	$ 1,920,339

See accompanying independent auditors' report.

MASSACHUSETTS PORT AUTHORITY

Combining Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2014

(In thousands)

	Authority Operations	PFC Program	CFC Program	Combined Totals
Operating revenues:				
Fees, tolls and other services	$ 308,468	$ —	$ —	$ 308,468
Rentals	204,380	—	—	204,380
Concessions	77,873	—	—	77,873
Other	27,874	—	—	27,874
Operating grants	3,876	—	—	3,876
Total operating revenues	622,471	—	—	622,471
Operating expenses:				
Operations and maintenance	296,344	—	—	296,344
Administration	54,151	—	—	54,151
Insurance	9,001	—	—	9,001
Pension	11,990	—	—	11,990
Other post-employment benefits	14,140	—	—	14,140
Payments in lieu of taxes	18,444	—	—	18,444
Provision for uncollectible accounts	453	—	—	453
Depreciation and amortization	164,067	40,956	12,744	217,767
Total operating expenses	568,590	40,956	12,744	622,290
Operating income (loss)	53,881	(40,956)	(12,744)	181
Nonoperating revenues and (expenses):				
Passenger facility charges	—	62,682	—	62,682
Customer facility charges	—	—	29,963	29,963
Investment income	5,127	1,098	417	6,642
Net increase (decrease) in the fair value of investments	1,794	(74)	256	1,976
Other revenues	10,534	—	13	10,547
Settlement of claims	1,792	—	—	1,792
Terminal A debt service contribution	—	(11,839)	—	(11,839)
Other expenses	—	—	(1,407)	(1,407)
Gain on sale of equipment	90	—	—	90
Interest expense	(51,154)	(6,100)	(7,719)	(64,973)
Total nonoperating (expense) revenue, net	(31,817)	45,767	21,523	35,473
Increase in net position before capital grant revenue	22,064	4,811	8,779	35,654
Capital grant revenue	53,579	—	2,545	56,124
Increase in net position	75,643	4,811	11,324	91,778
Net position, beginning of year	1,339,918	379,075	109,568	1,828,561
Net position, end of year	$ 1,415,561	$ 383,886	$ 120,892	$ 1,920,339

See accompanying independent auditors' report.

Schedule III

MASSACHUSETTS PORT AUTHORITY

Combining Schedule of Net Position

June 30, 2013

(In thousands)

Assets and Deferred Outflows	**Authority Operations**	**PFC Program**	**CFC Program**	**Combined Totals**
Current assets:				
Cash and cash equivalents	$ 45,651	$ —	$ —	$ 45,651
Investments	27,976	—	—	27,976
Restricted cash and cash equivalents	131,592	30,137	35,920	197,649
Restricted investments	131,766	8,994	20,023	160,783
Accounts receivable				
Trade, net	42,215	8,459	3,646	54,320
Grants	6,536	—	578	7,114
Total receivables, net	48,751	8,459	4,224	61,434
Prepaid expenses and other assets	9,886	137	55	10,078
Total current assets	395,622	47,727	60,222	503,571
Noncurrent assets:				
Investments	91,827	—	—	91,827
Restricted investments	285,550	27,945	29,361	342,856
Prepaid expenses and other assets, long-term	7,800	347	1,317	9,464
Investment in joint venture	2,137	—	—	2,137
Net OPEB asset	53,188	—	—	53,188
Capital assets, net	2,085,648	436,961	247,056	2,769,665
Total noncurrent assets	2,526,150	465,253	277,734	3,269,137
Total assets	2,921,772	512,980	337,956	3,772,708
Deferred outflows of resources				
Deferred loss on refunding of bonds	20,664	1,183	—	21,847
Total deferred outflows of resources	20,664	1,183	—	21,847
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	95,519	12	7,212	102,743
Compensated absences	1,550	—	—	1,550
Contract retainage	8,092	—	—	8,092
Current portion of long-term debt	60,247	18,389	3,134	81,770
Commercial notes payable	100,000	—	—	100,000
Accrued interest payable	27,572	3,117	5,898	36,587
Unearned revenues	6,054	—	—	6,054
Total current liabilities	299,034	21,518	16,244	336,796
Noncurrent liabilities				
Accrued expenses	17,754	389	—	18,143
Compensated absences	19,873	—	—	19,873
Contract retainage	275	—	5,210	5,485
Long-term debt, net	1,254,754	113,181	206,934	1,574,869
Unearned revenues	10,828	—	—	10,828
Total current liabilities	1,303,484	113,570	212,144	1,629,198
Total liabilities	1,602,518	135,088	228,388	1,965,994
Net Position				
Invested in capital assets	739,284	306,574	85,719	1,131,577
Restricted for other purposes				
Bond funds	185,018	—	—	185,018
Project funds	208,948	—	—	208,948
Passenger facility charges	—	72,501	—	72,501
Customer facility charges	—	—	23,849	23,849
Other purposes	25,142	—	—	25,142
Total restricted	419,108	72,501	23,849	515,458
Unrestricted	181,526	—	—	181,526
Total net position	$ 1,339,918	$ 379,075	$ 109,568	$ 1,828,561

See accompanying independent auditors' report.

Schedule IV

MASSACHUSETTS PORT AUTHORITY

Combining Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2013

(In thousands)

	Authority Operations	PFC Program	CFC Program	Combined Totals
Operating revenues:				
Fees, tolls and other services	$ 289,384	$ —	$ —	$ 289,384
Rentals	184,744	—	—	184,744
Concessions	72,542	—	—	72,542
Other	22,515	—	—	22,515
Operating grants	2,638	—	—	2,638
Total operating revenues	571,823	—	—	571,823
Operating expenses:				
Operations and maintenance	272,611	—	—	272,611
Administration	48,950	—	—	48,950
Insurance	8,020	—	—	8,020
Pension	9,614	—	—	9,614
Other post-employment benefits	13,450	—	—	13,450
Payments in lieu of taxes	18,090	—	—	18,090
Provision for uncollectible accounts	(353)	—	—	(353)
Depreciation and amortization	159,980	38,704	362	199,046
Total operating expenses	530,362	38,704	362	569,428
Operating income (loss)	41,461	(38,704)	(362)	2,395
Nonoperating revenues and (expenses):				
Passenger facility charges	—	60,105	—	60,105
Customer facility charges	—	—	29,354	29,354
Investment income	6,447	1,118	771	8,336
Net (decrease) increase in the fair value of investments	(2,511)	189	(499)	(2,821)
Other revenues	187	—	—	187
Settlement of claims	567	—	—	567
Terminal A debt service contribution	—	(12,114)	—	(12,114)
Other expenses	(73)	(192)	(1,014)	(1,279)
Loss on sale of equipment	(64)	—	—	(64)
Interest expense	(54,657)	(6,167)	(247)	(61,071)
Total nonoperating (expense) revenue, net	(50,104)	42,939	28,365	21,200
(Decrease) increase in net position before capital grant revenue	(8,643)	4,235	28,003	23,595
Capital grant revenue	19,656	—	578	20,234
Increase in net position	11,013	4,235	28,581	43,829
Net position, beginning of year	1,328,905	374,840	80,987	1,784,732
Net position, end of year	$ 1,339,918	$ 379,075	$ 109,568	$ 1,828,561

See accompanying independent auditors' report.

Office of Performance Management & Oversight

Massachusetts Port Authority

Fiscal 2014

Economic Development Business Plan

Mission Statement The Massachusetts Port Authority operates an integrated transportation network that delivers world-class safety, security, facilities, and customer services in an environmentally responsible manner. Massport is a key economic development engine for Massachusetts and New England.

Business Plan Summary – The following table summarizes objectives, programs, and initiatives planned for FY14 and performance measurements by which to evaluate progress.

Goals	Strategy	Performance Measurement
1. **Safety and Security**	Receive annual Federal Aviation Administration Operating Certificate for Massport airports. Enhance camera coverage on Massport owned facilities	• Certificates of Approval by the FAA • % increase in camera coverage on Massport facilities
2. **Customer Service**	Build customer amenities to improve Logan airport and Cruiseport Boston services	• Completion of Consolidated Rental Car Facility at Logan Airport • Encourage usage of free outbound Silverline service • Enhance Cruiseport Boston amenities
3. **Worcester Regional Airport (WRA)**	Invest in assets to improve commercial service and general aviation activities at this Massport facility	• Facilitate the arrival of Jet Blue service to WRA. • Begin process to implement a Category III High Intensity Instrument Landing System • Approve construction on a $5 million private investment for new airplane hangar space
4. **Be an Economic Engine for the Commonwealth –** *Aligns with Action Item 4.3.3*	Increase the number of jobs created from construction and investment. Increase the number of direct flights to currently un-served international markets	• Job creation from construction • Job creation in South Boston Innovation District • Increase international air service at Logan Airport

5. **Improve Maritime Operations**	To increase ship container volumes and cruise passengers at our facilities in the Port of Boston	• # of Containers serviced by Maritime • # of Cruise passengers serviced by CruisePort Boston
6. **Enhance Community Collaboration**	To enhance community collaboration through capital investments and other Massport services	• Amount of private investment in East Boston (Roseland) • Implement Greenway Project • South Boston Conley By-pass Road • Conley Terminal crane painting improvement
7. **Hanscom Airport**	To increase private capital investment and promote stronger community dialogue	• Attract private investment into the airport facility • Increased presence and dialogue with the community
8. **Strengthen Massport's Financial Health**	To develop financial plans necessary to maintain strong financial results and lower internal audit findings	• Balanced budget and Five Year financial plan • Maintain AA Bond Ratings • Reduced # of audit findings

Business Plan Detail – The following section provides additional information on the primary goals of the Massachusetts Port Authority.