

**MASSACHUSETTS CONVENTION CENTER AUTHORITY  
(A COMPONENT UNIT OF THE COMMONWEALTH OF  
MASSACHUSETTS)**

**INDEPENDENT AUDITORS' REPORT ON  
BASIC FINANCIAL STATEMENTS,  
REQUIRED SUPPLEMENTARY INFORMATION  
AND ADDITIONAL INFORMATION**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**



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# *Independent Auditors' Report*



*Certified Public Accountants*

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## **Independent Auditors' Report**

To the Board Members  
Massachusetts Convention Center Authority  
Boston, Massachusetts 02210

We have audited the accompanying financial statements of the Massachusetts Convention Center Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of and for the fiscal years ended June 30, 2010 and 2009. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2010 and 2009, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 13, the Authority has restated beginning net assets. We have audited the adjustments as described in Note 13 that were applied to restate the fiscal year 2009 basic financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension plan information on pages 4 through 15 and 37 through 39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who 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 of America, 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 audit 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.

Our audit was conducted for the purpose of forming an opinion on the Authority's financial statements. The additional information on pages 41 through 43 is presented for purposes of additional analysis and is not a required part of the financial statements. The additional information is the responsibility of management and was derived from and relate 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 audit 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



September 22, 2010

# *Management's Discussion and Analysis*

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) comments on the Massachusetts Convention Center Authority's operations, performance and financial condition for the fiscal years ended June 30, 2010 and June 30, 2009.

The MD&A is presented in four sections:

*Background* describes the Authority's legislative history and enabling authority.

*About our Business* describes the Authority's mission, business, objectives, and strategies for success.

*Summary of Financial Performance* reviews the key measures we use to assess our performance and how our results in 2010 compare to our results in 2009, and how our results in 2009 compare to our results in 2008. It also provides detailed information and analysis about our performance for the past two years. It focuses on our operating results and provides financial information for each of our four facilities.

*Risk Assessment* provides an overview of the key risks that could affect our business.

Please refer to the audited *Financial Statements* when reading the MD&A.

### **About Forward Looking Statements**

Statements made in this MD&A, that describe the Authority's or management's objectives, projections, estimates, expectations or predictions of the future may be "forward-looking statements", which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "estimates", "anticipates", or the negative thereof or other variations thereon. The Authority cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes. You will find a more detailed assessment of the risks that could cause our actual results to materially differ from our current expectations in the *Risk Assessment* section of this MD&A.

### **About the Financial Statements**

The Authority maintains its accounts and prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). The financial statements of the Authority are maintained on an accrual basis of accounting. The Authority's financial report includes three basic financial statements: the Statement of Net Assets, the Statement of Activities, and the Statement of Cash Flows.

## **BACKGROUND**

The Massachusetts Convention Center Authority (the "MCCA" or "Authority") is an independent public authority of the Commonwealth of Massachusetts that owns and operates public assembly facilities primarily for the convention, tradeshow and meetings industry. It was established by Chapter 190 of the Acts of 1982 which was subsequently amended by Chapter 629 of the Acts of 1982; Chapter 400 of the Acts of 1983; Chapter 637 of the Acts of 1983; Chapter 78 of the Acts of 1988; Chapter 138 of the Acts of 1991; Chapter 307 of the Acts of 1991; Chapter 110 of the Acts of 1993; Chapter 152 of the Acts of 1997 ("Chapter 152"); Chapter 23 of the Acts of 1998; and Chapter 45 of the Acts of 2001.

Under Chapter 190, the Commonwealth of Massachusetts acquired the John B. Hynes Veterans Memorial Auditorium and the Boston Common Garage from the City of Boston. To manage these newly acquired assets, the legislation created the Authority, which was governed by a seven-member board chaired by the Treasurer of the Commonwealth. The MCCA remodeled and expanded the auditorium building, creating the John B. Hynes Veterans Memorial Convention Center (the "Hynes"), which was opened in 1988.

In 1997, the Commonwealth passed Chapter 152, which empowered the Authority to construct and manage a new convention facility on the South Boston waterfront, the Boston Convention & Exhibition Center (the "BCEC"), and provided the MCCA with control over and responsibility for the Springfield Civic Center, its renovation and expansion. Chapter 152 also expanded the Authority's board membership from seven to thirteen, to be chaired by an appointee of the Governor (approved by the Mayor) with a six-year term.

In the fiscal year 2003 budget for the Commonwealth, several provisions were enacted affecting the operations, marketing and financial activities of the MCCA. Most significantly, it eliminated the Authority's funding for its net operating costs from the State Tourism Fund. This funding mechanism was replaced in FY 2004 by disbursements from the Convention Center Fund, created by the 1997 Convention Center Act, which authorized the Commonwealth to provide the Authority with up to \$17 million for operating expenses from the fund. This use requires that the State Treasurer and Secretary of Administration and Finance annually certify the availability of funds within the \$17 million cap after payment of debt service which is required to be made first. This funding cap was subsequently increased to \$23 million in fiscal year 2005.

The fiscal year 2003 state budget also authorized but did not effectuate the transfer of ownership of two MCCA assets – the Hynes and the Boston Common Garage -- to the Pension Reserves Investment Trust Board. To effectuate the transfer, additional legislative action would be required. In July of 2004, the legislature created a special legislative study commission that would work with the Authority to understand further the use of the Hynes and Boston Common Garage properties. In the fiscal year 2008 state budget based on the recommendation of the Committee, the transfer of ownership of the two MCCA assets was repealed.

The Authority is considered a component unit of the Commonwealth of Massachusetts for financial statement reporting purposes.

## ABOUT OUR BUSINESS

### WHAT WE DO

The MCCA operates three world-class public assembly facilities that generate significant regional economic activity by attracting conventions, tradeshow, and other events to the Commonwealth of Massachusetts. Two of these facilities – the BCEC and the Hynes – generate event-related revenue primarily from the sale and use of meeting and exhibition space, the sale of services that support the use of that space, such as cleaning, electricity, security and telecommunications (together such services are referred to herein as "Support Services"), and commissions on food and beverage sales at the facilities. The third facility, the MassMutual Center in Springfield, generates both arena event revenue, from hosting a full season of Springfield Falcons minor league hockey games and other arena events, and convention event revenue from the attached convention center, which opened in October 2005. Through these facilities, the MCCA attracts hundreds of thousands of people to the Commonwealth of Massachusetts, enriching the local economy with hotel and retail spending, and other direct spending on goods and services.

The MCCA also operates a 1,367-space underground public parking garage, the Boston Common Garage, located in the Back Bay/ Beacon Hill neighborhood of Boston. The Garage is a top-tier parking facility in the heart of Boston, providing secure and accessible parking for commuters, nearby residents, and tourists alike. The Garage generates revenue almost exclusively as a result of parking fees. Currently, the Garage is managed by agreement with Central Parking, Inc., an experienced garage management company that also manages a number of other parking facilities in the Greater Boston area.

### **MANAGEMENT'S OBJECTIVES AND STRATEGY**

The Authority's objective is to generate significant regional economic activity by attracting conventions, tradeshows, and other events to its world-class facilities while maximizing the investment return for the residents and businesses in the Commonwealth of Massachusetts. To accomplish this, the Authority's management operates the business consistent with strategic business principles that management believes will lead to success in the short term and over time. The Authority is committed to attaining industry leadership through focused and targeted sales and marketing that leverages the strengths of its facilities, the region, and regional demographics. The Authority also identifies high-quality customer service as a strategic advantage, and continues to invest in activities designed to hardwire the service value into the organization. Unifying the management team and the Authority's dedicated employees in achieving these objectives is part of the Authority's over-arching goal, and management believes it is critical to becoming a true leader in the meetings industry.

## **SUMMARY OF FINANCIAL PERFORMANCE**

### **2010**

The Authority performed exceptionally well in fiscal year 2010 notwithstanding a challenging economic environment. All three convention centers realized an increase in revenues due to strong event activities and were able to maintain, and in some cases reduce, their expense levels based on planned reductions due to the uncertainty of the economy. In addition, the Boston Common Garage realized only a slight decrease in activities, while other garages in Boston realized double-digit decreases. Finally, the Authority planned reduced administrative and marketing and sales support during the year, which was maintained and realized.

Overall the Authority performed significantly better than the previous fiscal year.

### **2009**

The Authority performed well in fiscal year 2009, despite significant contractual changes, a challenging economic environment and an anticipated decrease in convention activities. Having now experienced five years of operating both the BCEC and the Hynes at the same time, management believes that the BCEC's rapid growth and the Hynes' stability during this brief history validates that the meetings marketplace regards the two facilities as distinct, viable "products."

In fiscal year 2009, the MassMutual Center was open for business for its third full year of operations. With the MassMutual Center's arena upgrades, addition of a convention center, and private operation and sales vigor, management believes that the facility will generate comparatively strong economic performance for a facility of its size and geographic location.

## RESULTS OF OPERATIONS

### Operating Revenues – 2010

Total operating revenues for 2010 increased 6.2% to \$47.2 million compared with a decrease of 14.6% in 2009 and an increase of 12.1% in 2008.

Convention services income increased 10.1% to \$15.7 million, food and beverage income increased 18.4% to \$8.0 million and convention rental income remained relatively flat at \$13.2 million. The increase in convention services income was anticipated given the considerable increase in the number of large events and the quality of events planned for the BCEC and Hynes. Revenues at the BCEC increased 10.0% year-over-year, which was largely driven by three more Bull's Eye events. In addition, the Hynes realized an increase in revenues of 6.6% due primarily to an increase in the number of Bull's Eye events, which was slightly offset by a decrease in the number of "Other" long-term events and short-term events.

After an extensive RFP process, the MCCA partnered with Levy Restaurants in June 2010. The MCCA believes it has brought to our team one of the best firms in the country to reinvent our menus, with a new emphasis on purchasing 50 percent of its products from local sources, and design menus that are both creative and locally influenced. As a part of this process, the MCCA altered the contract to include payment of a management fee and incentive fee to promote the highest level of quality and customer service while still maintaining a 30 percent profit margin. The Authority anticipates the contractual change will have a greater effect on 2011 than 2010. For fiscal year 2010, the increase in food and beverage activities was due entirely to the significant food and beverage purchase made by EMC at the BCEC in May 2010.

Compared to 2009, the MassMutual Center revenues remained relatively flat, for the second year in a row, primarily due to increased arena activity offset by a slight decrease in convention center income. Fiscal year 2010 represented the inaugural year for the Armor, which was the primary driver of increased arena revenues. During the year, the Authority shifted the responsibility of long-term sales from the Greater Springfield Convention and Visitor's Bureau to Global Spectrum. Additionally, at the end of fiscal year 2010, the Authority awarded a new management contract to Global Spectrum focused on building additional arena and convention center activities, based on a more rigorous fixed and incentive fee structure. The Authority believes the combination of one-stop shopping for all convention and arena activities coupled with the redefined fee structure should increase future activities at the MassMutual Center.

Boston Common Garage revenues decreased only 1.0% to \$9.6 million due to a decrease in monthly business which was offset by a stronger transient parking business. The Authority believes the anticipated slow economic recovery will boost revenues in the coming year and is focused on improving the garages egress and monthly parking services over the next fiscal year.

### Operating Revenues – 2009

Total operating revenues for 2009 decreased 14.6% to \$44.5 million compared with increases of 12.1% in 2008 and 21.4% in 2007.

Convention services income decreased 23.6% to \$14.3 million, food and beverage income decreased 29.8% to \$6.8 million and convention rental income remained relatively flat at \$13.1 million. The decrease in convention services income was anticipated given the slight decrease in the number of large events and a change in the type of events planned for the BCEC and Hynes. Revenues at the BCEC decreased 18.1% year-over-year, which was largely driven by three fewer Bull's Eye (major) events and four fewer "Other" long-term events than the previous year. In addition, the Hynes realized a decrease in revenues of 19.9% from an all-time high in fiscal year 2008 to \$9.1 million, due primarily to a decrease in the number of Bull's Eye events.

In November 2008, the MCCA and Aramark changed the nature of their agreement from a commission based contract, where the MCCA realized approximately 35% of gross food and beverage revenues, to a management fee contract, where the MCCA realized all revenues and expenses and paid Aramark a fee for managing the food and beverage service. This resulted in a decrease in food and beverage revenues at both Boston facilities for the last seven months of the fiscal year.

Compared to 2008, the MassMutual Center revenues remained relatively flat primarily due to increased activity convention center offset by a slight decrease in arena revenues and other income. Management plans to focus activities on building a stronger sales and marketing campaign to attract convention events to Springfield in an effort to boost future convention revenues and economic impact.

Boston Common Garage revenues decreased only 1.6% to \$9.7 million due to a decrease in transient business which was offset by a stronger monthly parking business. Management is closely monitoring how recent global energy industry events and issues with local transportation infrastructure may adversely affect traffic patterns and activity levels at parking facilities in Boston. Management anticipates that additional programs and marketing in the future will need to be deployed in order to maintain and grow current non-event related activity levels at the Common Garage.

### **Operating Expenses - 2010**

Overall, the Authority's operating expenses remained relatively flat at \$111.8 million. Adjusting for depreciation, the Authority's 2010 operating expenses decreased 1.2% to \$72.8 million, compared to \$73.7 million in 2009. Going into fiscal year 2010, the Authority set an expectation of expenditures to deal with the economic recession. The Authority achieved savings in the areas of contracted services and utilities as planned; however, those expenses were offset by an increase in variable expenses associated with the increased event related activities. Further in fiscal year 2010, the MCCA made the decision to bring the permanent Public Safety staff in-house. The hiring process for Public Safety positions began in May 2010 and is scheduled to conclude in October 2010. While the on-boarding process had minimal impact on the salary and benefits expense, the Authority did incur some transitional expenses in 2010. Finally, the Authority also realized some transitional expenses associated with the switch to Levy as the new food and beverage partner.

### **Operating Expenses - 2009**

Overall, the Authority's operating expenses increased 5.4% to \$112.1 million. Adjusting for depreciation, the Authority's 2009 operating expenses increased 8.5% to \$73.7 million, compared to \$68.2 million in 2008. As with operating revenues, the change to the food and beverage contract between the MCCA and Aramark served as the principal cause of operating expense growth. The new management fee, the fixed costs of the food and beverage operation and significant retroactive wage and benefit payments to the employees results in a cumulative \$3.5 million in expenses never before realized by the MCCA. The launch of the new event management system, "Showbiz", resulted in some restructuring, which increased administrative salary and benefits expenses and further generated one-time contracted services expenses for the Authority as well. In addition, this was the first year the Authority implemented GASB #45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, which resulted in additional retiree benefit expenses totaling \$1.1 million.

### **Non-Operating Revenues (Expenses), Net - 2010**

Fiscal year 2010 non-operating revenues (expenses), net, increased to \$62.3 million, principally due to an increase in covering operating expenses and an increase in capital investments in all four facilities.

*Investment Income*

Investment income continued to decrease significantly in 2010, due to a significant decrease in interest rates but also due to a decrease in available cash. During fiscal year 2010, the Authority worked directly with Commonwealth's Administration and Finance team to streamline the reimbursement process. Currently, the Authority has received all reimbursement due from the activities of fiscal year 2010 and has a working capital policy in place to assist with historical cash flow availability.

*Capital Contributions*

There were no capital contributions in fiscal year 2010 due to the defeasance of the Boston Common Garage bonds in the previous fiscal year.

**Non-Operating Revenues (Expenses), Net - 2009**

Fiscal year 2009 non-operating revenues (expenses), net, increased to \$35.4 million, principally due to an increase in covering operating expenses and an increase in capital investments in all four facilities.

*Investment Income*

Investment income decreased significantly in 2009, primarily due to a significant decrease in interest rates but also due to a decrease in available cash, which was converted from financial instruments to invest in the Hynes Convention Center Restoration and Renovation project. In 2008, management adopted its first-ever investment policy that guided the Authority in its efforts to continue to maximize investment and interest income to the benefit of overall operations.

*Capital Contributions*

Capital contributions increased significantly (\$10.4 million) in 2009 due to the planned pre-payment of the Boston Common Garage bonds.

**COMPARISON TO BUDGET****Operating Revenues - 2010**

Fiscal year 2010 total operating revenues were \$.75 million higher than budget, due to better than anticipated performance at the BCEC, Hynes and BCG offset by lower than anticipated results at the MMC. Convention services income and food and beverage income were higher than anticipated; however, rental income for all three convention facilities was lower than anticipated. Overall, the BCEC generated \$344 thousand more than anticipated based on the significantly higher than anticipated food and beverage revenues from the EMC show, which was offset by lower rental revenues based on a slight decrease in size for some of the annual events. Additionally, the Hynes' revenues were \$350 thousand higher due to higher quality events overall. The MMC performed just slightly under budget based on lower than anticipated food and beverage revenues. Finally, Boston Common Garage revenues (parking fees) were \$9.6 million, approximately 1.5%, over budget based on a slight increase in transient business offset by lower than anticipated levels of monthly business. The downturn in the economy continued to affect the performance of garages throughout Boston; however, the Boston Common Garage fared better than others. The increase in transient business is a good sign that the economy is turning.

**Operating Revenues – 2009**

Fiscal year 2009 total operating revenues were \$233 thousand higher than budget, due to better than anticipated performance at the BCEC and MMC which was offset by lower than anticipated activity at the Hynes and BCG. Convention services income and food and beverage income was approximate to budget; however, rental income for all three convention facilities was higher than anticipated. Overall, the BCEC generated \$1.2 million more than anticipated driven based on the booking of two mid-sized events during the course of the year. On the other hand, the Hynes' revenues were \$200 thousand lower due to fewer short-term event bookings because of reconstruction and renovation activities. The MMC generated \$330 thousand more than anticipated based on strong convention center activities and higher than anticipated food and beverage revenues in both the arena and the convention center.

Finally, Boston Common Garage revenues (parking fees) were \$9.7 million approximately 9.8% below budget based on significantly lower levels of transient business. The downturn in the economy significantly affected the performance of garages throughout Boston; however, the price adjustment implemented by the MCCA in March 2008 helped to offset this reduction in occupancy and kept 2009 revenues more inline with 2008. In addition, our monthly parking revenue remained strong throughout the year and finished 4.5% over budget.

**Operating Expenses – 2010**

Overall, the Authority's operating expenses were \$1.1 million, approximately 1.6%, under budget. The Authority built the budget based on an assumed level funding and managed to those numbers exceptionally well. Most significantly, an Authority wide focus on energy conservation resulted in savings at all four facilities.

**Operating Expenses – 2009**

Overall, the Authority's operating expenses were \$4.6 million, approximately 7.0%, over budget. As mentioned previously, the new form of food and beverage contract resulted in an unanticipated increase in contracted services of approximately \$3.5 million. The launch of the new event management system, "Showbiz", resulted in some restructuring, and increase administrative salary and benefits expenses and generated additional one-time contracted service expenses. In addition, fiscal year 2009 was the first year the Authority was required to pay the employer share of retiree health insurance costs to the Group Insurance Commission. The amount of this payment totaled approximately \$240,000.

**Nonoperating Revenues (Expenses), Net – 2010**

The Authority's nonoperating revenues were \$84 thousand under budget due to lower than anticipated interest income (approximately \$406 thousand) based on lower realized interest rates and lower cash balances. In addition, there was a supplemental appropriation to the budget for a contractual payment to the Massachusetts Office of Travel and Tourism for \$3.5 million. Approximately \$322 thousand of this funding was returned to the Authority.

**Nonoperating Revenues (Expenses), Net – 2009**

The Authority's nonoperating revenues were \$176 thousand under budget due to lower than anticipated interest income based on lower realized interest rates. In addition, there was a significant supplemental increase, \$13.33 million, in nonoperating expenses due to the full payment of the Boston Common Garage debt service to the Commonwealth and a contractual payment to the Massachusetts Office of Travel and Tourism.

**KEY PERFORMANCE METRICS**

|  | 2010    | 2009    | 2008    |
|--|---------|---------|---------|
| MCCA Operating Coverage Ratio<br>(including interest, excluding<br>depreciation) | 0.65    | 0.62    | 0.80    |
| Rev. PGSF (BCEC)   | \$35.34 | \$32.26 | \$39.40 |
| Rev. PGSF (Hynes)  | \$33.70 | \$31.63 | \$39.50 |
| Rev. PGSF (MMC - Con Center)   | \$10.33 | \$11.99 | \$9.93  |
| Revenue per Attendee (MMC) - Arena   | \$5.92  | \$5.87  | \$6.42  |
| Avg. Revenue per Space per Day<br>(Common Garage)                                | \$19.30 | \$19.49 | \$19.83 |

Management believes that an important measure of the Authority's financial performance is its operating coverage ratio, which reveals the degree to which gross revenues from operations cover gross operating expenses (before depreciation). Use of this ratio reveals, in part, the degree to which the Authority must rely on non-operating revenue to underwrite the net cost of operations.

In 2010, 2009 and 2008, the Authority's operating coverage ratio after interest and before depreciation was 0.65, 0.62, and 0.80, respectively. The main drivers of this modest increase were the increase in the number of Bull's eye events at the BCEC and Hynes offset by the overall economic downturn, which had a significant impact on the performance of the BCG. Management believes this ratio will improve in future years based on current projections of future years' activities and the projected turnaround of the overall economy.

The convention centers' revenue-generating performance may be measured by their Revenue Per Gross Square Feet (Rev. PGSF), which is the total event related revenue achieved in the fiscal year divided by the facility's gross square feet available for rental. This measures the amount of revenue the Authority was able to generate from the facility, assuming that all saleable square feet are equally capable of generating revenue from customers. Management believes this metric is a good reflection of both the number and quality of events leasing convention center space.

As anticipated due to the increase in the number of Hynes Bull's eye events in 2010, Hynes RevPGSF increased to \$33.70, which is still down from 2008's performance of \$39.50. Also as anticipated due to the increase in the number of BCEC Bull's Eye events in 2010, BCEC Rev. PGSF increased approximately 9.5% to \$35.34, but is still also down from 2008's performance of \$39.40. While both centers realized an increase in the quantity of events, the economy is still a limiting factor in the quality of those events as compared to 2008.

The MassMutual Center's arena top-line performance, as measured by revenue per attendee, increased slightly from \$5.87 in 2009 to \$5.92 in 2010. This was due in great part to a decrease in revenue from the AHL tenant team that was offset by increased revenue associated with the start of the NBA D-League tenant. Management believes that attendance and spending per attendee will increase in fiscal year 2011 as the economy improves and due to an event mix that should generate higher spending per attendee. Measured as revenue per gross square foot, performance on the convention center side decreased from \$11.99 in fiscal year 2009 to \$10.33 in fiscal year 2010. This reduction was the result of the loss of several corporate, social, and small association events that were either canceled or never scheduled due to the tough economy. Further driving this was decreased attendance and lower contracted commitments by groups that hosted events in the prior fiscal year. The convention center operations saw the impact of the down economy later than many comparable venues causing fiscal year 2009 numbers to remain fairly strong with the decrease being felt in fiscal year 2010.

The BCG performance is measured by its Revenue per Space per Day, which is the total parking revenue achieved in the fiscal year divided by the facility's total number of available spaces per year (1,367 spaces times 365 days). Management believes this metric is a good reflection of our ability to "turn" the space during the day to maximize daily occupancy. In 2010, Common Garage Revenue per Space was \$19.30, lower than 2009 due to the decrease in parking revenues.

## ASSETS

|  | Fiscal Year<br>2010 | Fiscal Year<br>2009 | Fiscal Year<br>2008 | % Change<br>2009-2010 | % Change<br>2008-2009 |
|--|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| Cash and Cash Equivalents                      | \$6,878,479         | \$31,049,478        | \$54,951,808        | -78%                  | -43%                  |
| Grants Receivable from<br>Commonwealth         | 52,556,671          | 21,568,985          | 8,456,442           | 144%                  | 155%                  |
| Convention Receivables and<br>Prepaid Expenses | 6,953,621           | 3,602,969           | 3,344,506           | 93%                   | 8%                    |
| Capital Assets, Net                            | 782,618,591         | 799,800,502         | 811,236,970         | -2%                   | -1%                   |
| Deferred Bond Issue Costs                      | 0                   | 0                   | 44,215              | 0%                    | -100%                 |
| Total Assets                                   | \$849,007,362       | \$856,021,934       | \$878,033,941       | -1%                   | -3%                   |

Cash and Cash Equivalents - Reflect monies on hand from Authority operations.

Grants Receivables From Commonwealth - Reflect the receivable due from the Commonwealth from the Convention Center Fund to offset the Authority's net cost of operations and pay-go capital program and the fiscal year 2009 planned pre-payment of the Boston Common Garage bonds.

Convention Receivables and Prepaid Expenses - Reflect the Authority's receivables from operations along with prepaid assets such as insurance, which are expensed over time.

Capital Assets, Net - Reflect the Authority's investment in land and capitalized assets less accumulated depreciation.

Deferred Bond Issue Costs - Represent the cost of issuance of the refunded Common Garage bonds.

**LIABILITIES AND NET ASSETS**

|   | Fiscal Year<br>2010 | Fiscal Year<br>2009 | Fiscal Year<br>2008 | % Change<br>2009-2010 | % Change<br>2008-2009 |
|---|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| Payables, Accrued Expenses,<br>Deposits and Deferred Revenue,<br>Compensated Absences & Net<br>Pension Obligation | \$35,070,365        | \$40,834,058        | \$34,526,390        | -14%                  | 18%                   |
| Due to Commonwealth - Garage<br>Bonds   | 0                   | 0                   | 12,465,378          | 0%                    | -100%                 |
| Net OPEB Obligation   | 1,851,618           | 904,442             | 0                   | 105%                  | N/A                   |
| Net Assets - (Invested in Capital<br>Assets, Net of Related Debt)   | 769,396,991         | 786,578,902         | 796,425,180         | -2%                   | -1%                   |
| Net Assets - (Unrestricted)   | 42,688,388          | 27,704,532          | 34,616,993          | 54%                   | -20%                  |
| Total Liabilities and Net Assets  | \$849,007,362       | \$856,021,934       | \$878,033,941       | -1%                   | -3%                   |

Payables, Accrued Expenses, Deposits and Deferred Revenue, Compensated Absences & Net Pension Obligation - Reflect the Authority's current responsibilities applicable to vendors, pension obligations, accrued sick and vacation pay benefits and deposits received for future shows.

Due to Commonwealth - Garage Bonds - Reflect the current and long-term balances on the Authority's obligation to the Commonwealth in relation to the Commonwealth's refunding of the Authority's Boston Common Garage Bonds during fiscal year 2007 (net of bond premium and deferred loss on defeasance).

Net OPEB Obligation - Reflect the Authority's retiree OPEB obligations as calculated in accordance with GASBS #45.

Net Assets (Invested in Capital Assets) - Reflect the Authority's total investments in capital assets, net of accumulated depreciation and related debts.

Net Assets (Unrestricted) - Reflects the accumulated revenues and expenses from Authority's operations, including proceeds from the Convention Center Fund and remaining monies from the Hynes restoration and renovation fund.

**CONSTRUCTION ACTIVITIES**

The Authority continued to engage in additional construction activities at the BCEC associated with deficiencies the Authority believes were caused by certain design errors and omissions ("E&O") of the facility's designer and certain of its sub-consultants. Further, the Authority began in earnest a significant number of capital investment activities at the Hynes, including the reconstruction of underutilized space, renovation of the interior design of the facility, and enhancements to the technology and public safety infrastructure.

During the fiscal year 2011 budget season, the Authority launched its 20-year, \$630 million capital reinvestment program. The program provides the Authority with the projected future capital requirements necessary to keep the Authority's assets in excellent working condition. The estimated budget for this program in its first year is \$18.3 million. In addition, the Authority has a number of on-going capital projects, such as IMaGE, BCEC waterproofing, Hynes MTA tunnel and BCG ramps reconstruction, representing almost \$51 million in committed projects of which \$22.4 million has been spent to date (see Note 11).

## RISK ASSESSMENT

The Authority's financial performance and the value of its facilities are subject to a variety of risks normally associated with governmental authorities, and with the ownership and operation of real estate properties including, but not limited to, overall economic conditions as well as conditions specific to the convention and trade show industry. Operating risk, development risk, and environmental risk are among the general risks the Authority faces, and the Authority is also subject to fluctuations in the travel and tourism industry and the exhibit and trade show industry.

The Authority has hands-on management teams for each of the facilities it operates. Although the Authority believes that its real estate portfolio is significantly diversified, a material reduction in demand for space at any of its facilities could have a material impact on its ability to lease its space which would consequently impact its cash flows and operating results adversely.

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## *Basic Financial Statements*

**STATEMENTS OF NET ASSETS**

JUNE 30, 2010 AND 2009

| <b>ASSETS</b>  | <u>2010</u>           | <u>2009</u>           |
|--|-----------------------|-----------------------|
| <b>Current assets:</b>                                     |                       |                       |
| Cash and cash equivalents.....                             | \$ 6,878,479          | \$ 31,049,478         |
| Receivables, net of allowance for uncollectible amounts:   |                       |                       |
| Grants receivable from the Commonwealth.....               | 52,556,671            | 10,738,985            |
| Grants receivable from the Commonwealth - Garage Debt..... | -                     | 10,830,000            |
| Convention receivables.....                                | 5,821,913             | 2,532,129             |
| Prepaid expenses.....                                      | <u>1,131,708</u>      | <u>1,070,840</u>      |
| Total current assets.....                                  | <u>66,388,771</u>     | <u>56,221,432</u>     |
| <b>Noncurrent assets:</b>                                  |                       |                       |
| Capital assets not being depreciated.....                  | 83,456,699            | 69,446,986            |
| Capital assets, net of accumulated depreciation.....       | <u>699,161,892</u>    | <u>730,353,516</u>    |
| Total noncurrent assets.....                               | <u>782,618,591</u>    | <u>799,800,502</u>    |
| Total assets.....  | <u>849,007,362</u>    | <u>856,021,934</u>    |
| <b>LIABILITIES</b>   |                       |                       |
| <b>Current liabilities:</b>                                |                       |                       |
| Accounts payable and accrued expenses.....                 | 10,320,772            | 13,216,584            |
| Garage payable to the Commonwealth.....                    | 13,221,600            | 13,221,600            |
| Deposits and deferred revenue.....                         | 9,832,005             | 10,086,053            |
| Accrued compensated absences.....                          | 1,695,988             | 1,523,766             |
| Net pension obligation.....                                | <u>-</u>              | <u>2,786,055</u>      |
| Total current liabilities.....                             | <u>35,070,365</u>     | <u>40,834,058</u>     |
| <b>Noncurrent liabilities:</b>                             |                       |                       |
| Net OPEB obligation.....                                   | <u>1,851,618</u>      | <u>904,442</u>        |
| Total liabilities.....                                     | <u>36,921,983</u>     | <u>41,738,500</u>     |
| <b>NET ASSETS</b>  |                       |                       |
| Invested in capital assets, net of related debt.....       | 769,396,991           | 786,578,902           |
| Unrestricted.....  | <u>42,688,388</u>     | <u>27,704,532</u>     |
| Total net assets.....                                      | <u>\$ 812,085,379</u> | <u>\$ 814,283,434</u> |

See notes to basic financial statements.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

|  | 2010                  | 2009                  |
|--|-----------------------|-----------------------|
| <b>OPERATING REVENUES</b>                                      |                       |                       |
| Convention services income.....                                | \$ 15,714,515         | \$ 14,273,373         |
| Convention rental income.....                                  | 13,174,204            | 13,089,594            |
| Food and beverage.....   | 8,031,856             | 6,783,263             |
| Parking fees.....  | 9,629,786             | 9,722,362             |
| Commercial revenue.....  | 21,541                | -                     |
| Other.....   | 672,804               | 639,053               |
|  | <u>47,244,706</u>     | <u>44,507,645</u>     |
| <b>OPERATING EXPENSES</b>                                      |                       |                       |
| Salaries and benefits - operating.....                         | 15,825,014            | 15,420,025            |
| Salaries and benefits - administrative.....                    | 5,701,008             | 5,589,375             |
| Other operating expenses.....                                  | 16,964,174            | 15,231,346            |
| Contracted services.....                                       | 26,257,359            | 28,483,790            |
| Utilities.....   | 8,032,680             | 8,748,955             |
| Depreciation.....  | 39,008,354            | 38,625,537            |
|  | <u>111,788,589</u>    | <u>112,099,028</u>    |
| OPERATING LOSS.....  | <u>(64,543,883)</u>   | <u>(67,591,383)</u>   |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                        |                       |                       |
| Investment income.....   | 133,824               | 823,738               |
| Massachusetts Convention Center Fund - Commonwealth grant..... | 62,212,004            | 35,378,343            |
| Interest expense.....  | -                     | (800,437)             |
|  | <u>62,345,828</u>     | <u>35,401,644</u>     |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET.....               | <u>62,345,828</u>     | <u>35,401,644</u>     |
| LOSS BEFORE CAPITAL CONTRIBUTIONS.....                         | <u>(2,198,055)</u>    | <u>(32,189,739)</u>   |
| <b>CAPITAL CONTRIBUTIONS</b>                                   |                       |                       |
| Capital contributions.....                                     | -                     | 12,750,000            |
| CHANGE IN NET ASSETS.....                                      | <u>(2,198,055)</u>    | <u>(19,439,739)</u>   |
| NET ASSETS AT BEGINNING OF YEAR (AS RESTATED).....             | <u>814,283,434</u>    | <u>833,723,173</u>    |
| NET ASSETS AT END OF YEAR.....                                 | <u>\$ 812,085,379</u> | <u>\$ 814,283,434</u> |

See notes to basic financial statements.

**STATEMENTS OF CASH FLOWS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

|  | 2010                   | 2009                   |
|--|------------------------|------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                        |                        |
| Receipts from customers and users.....   | \$ 43,700,867          | \$ 39,869,203          |
| Payments to vendors.....   | (54,210,893)           | (49,920,540)           |
| Payments to employees.....   | (23,192,679)           | (20,110,831)           |
|  | <u>(33,702,705)</u>    | <u>(30,162,168)</u>    |
| NET CASH FROM OPERATING ACTIVITIES.....  |                        |                        |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                                 |                        |                        |
| Operating subsidy - Massachusetts Convention Center Fund.....                          | 20,394,319             | 32,624,200             |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                        |                        |                        |
| Acquisition and construction of capital assets.....                                    | (21,826,437)           | (27,189,073)           |
| Capital subsidy - Massachusetts Convention Center Fund.....                            | 10,830,000             | 2,391,600              |
| Garage cash payment to the Commonwealth.....   | -                      | (2,390,627)            |
|  | <u>(10,996,437)</u>    | <u>(27,188,100)</u>    |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....                            |                        |                        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                        |                        |
| Investment income.....   | 133,824                | 823,738                |
| NET CHANGE IN CASH AND CASH EQUIVALENTS.....   | (24,170,999)           | (23,902,330)           |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....                                    | 31,049,478             | 54,951,808             |
| CASH AND CASH EQUIVALENTS AT END OF YEAR.....  | \$ <u>6,878,479</u>    | \$ <u>31,049,478</u>   |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b> |                        |                        |
| Operating loss.....  | \$ (64,543,883)        | \$ (67,591,383)        |
| Adjustments to reconcile operating loss to net cash from operating activities:         |                        |                        |
| Depreciation.....  | 39,008,354             | 38,625,537             |
| Changes in assets and liabilities:   |                        |                        |
| Convention receivables, net.....   | (3,289,791)            | (665,811)              |
| Prepaid assets.....  | (60,868)               | 407,352                |
| Accounts payable and accrued expenses.....   | (2,895,812)            | 2,136,199              |
| Deposits and deferred revenues.....  | (254,048)              | (3,972,631)            |
| Accrued pension expense.....   | (2,786,055)            | (206,946)              |
| Net OPEB obligation.....   | 947,176                | 904,442                |
| Accrued compensated absences.....  | 172,222                | 201,073                |
|  | <u>30,841,178</u>      | <u>37,429,215</u>      |
| Total adjustments.....   |                        |                        |
| NET CASH FROM OPERATING ACTIVITIES.....  | \$ <u>(33,702,705)</u> | \$ <u>(30,162,168)</u> |

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. General**

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**B. Reporting Entity**Establishment and Background

The Massachusetts Convention Center Authority (the Authority), a component unit of the Commonwealth of Massachusetts (Commonwealth), is a public authority created by act of the Legislature of the Commonwealth with the original purpose of acquiring and operating a portfolio of assets, specifically, the John B. Hynes Veterans Memorial Convention Center (the Hynes Convention Center) and the Boston Common Garage (the Garage). The Authority's purpose is to generate significant regional economic activity by attracting conventions, trade shows, and other events to its facilities while maximizing investment return for the Commonwealth.

Pursuant to Chapter 152 of the Acts of 1997, effective November 17, 1997 (the Act), the authority was empowered to expand its portfolio of assets as follows:

- Design, construct and operate a new Boston Convention & Exhibition Center (the BCEC) subject to appropriation of funds and financing by the Commonwealth.
- Receive transfer, ownership and control of the Springfield Civic Center, and subsequently expand and renovate the facility subject to appropriation of funds and financing by the Commonwealth.

In addition to these provisions, the Act also enlarged the Authority's Board of Directors to thirteen members. The BCEC officially opened for business in the summer of 2004, and the Springfield Civic Center project was completed in the fall of 2005 (see Note 5, now designated as the MassMutual Center). Subsequent acts (Chapter 23 of the Acts of 1998 and Chapter 45 of the Acts of 2001) have had several provisions relevant to the Authority.

As part of the BCEC project, the Authority also ground leased a portion of the project site to Boston Convention Center Hotel, LLC (the Hotel) for the purpose of the design, construction, ownership and operation of a 790 room hotel adjacent and connected to the BCEC. The Authority was responsible for site preparations and construction of infrastructure associated with Hotel construction. The Hotel officially opened for business in June of 2006.

Funding

The Act, as amended by Section 439 of Chapter 26 of the Acts of 2003, created the Convention Center Fund (Fund). The purpose of the Fund is to provide funding for the activities of the Authority. Section 439 amended Section 10(c) of the Act authorizing up to \$23 million annually to defray the Authority's net cost of operations from its activities as well as providing for reserves for capital and current expenses of the Authority. During fiscal year 2010, the Authority requested reimbursements from the Fund totaling \$62,212,004 for the net cost of operations (\$21,226,707), the pay-go capital program (\$12,485,297) and other programs and working capital (\$28,500,000). During fiscal year 2009, the Authority requested reimbursements from the Fund totaling \$48,128,343.

### *C. Measurement Focus, Basis of Accounting and Basis of Presentation*

The Authority's financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

The Authority applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Operating revenues and expenses are segregated from nonoperating items. Operating revenues and expenses consist of those revenues and expenses that result from the principal operations of the Authority. Operating revenues consist primarily of Convention Center services and rental revenues and parking fees charged to users of the Boston Common Garage. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

### *D. Cash and Cash Equivalents and Investments*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value.

### *E. Accounts Receivable*

#### Amounts Due From the Commonwealth

The Authority is reimbursed by the Commonwealth to defray its net cost of operations from activities as well as providing for reserves for capital and current expenses of the Authority. These amounts are considered 100% collectible.

#### Convention

Convention receivables are stated net of an allowance for doubtful accounts. The allowance is established by management to provide for potential bad debts based on current information available and past experience. At June 30, 2010 and 2009, the allowance for doubtful accounts amounted to \$222,172 and \$250,000, respectively.

### *F. Prepaid Expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

### *G. Capital Assets*

The Authority's capital assets consist of land, construction in progress, intangible assets, land improvements, buildings and improvements (BCEC, Hynes Convention Center, MassMutual Center and Boston Common Garage), and equipment and fixtures.

Capital assets are recorded at cost. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives and capitalization thresholds of capital assets are as follows:

| Capital Asset Type              | Estimated<br>Useful<br>Life<br>(in years) | Capitalization<br>Threshold (\$) |
|---------------------------------|---|----------------------------------|
| Land.....                       | N/A                                       | 50,000                           |
| Buildings and improvements..... | 5 - 30                                    | 50,000 - 250,000                 |
| Equipment and fixtures.....     | 3 - 5                                     | 5,000                            |

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

#### *H. Revenue Recognition*

Revenues are recognized on the accrual basis of accounting. The BCEC, Hynes Convention Center and MassMutual Center revenues consist primarily of rental income and income for services such as electricity, air, water, telephone, cleaning, security, internet access, equipment and food. Boston Common Garage revenue consists of parking fees.

#### *I. Garage Payable to the Commonwealth*

Prior to fiscal year 2009, the Authority was required to repay the Commonwealth for its portion of the annual debt service costs attributable to the refunding bonds issued for the Boston Common Garage. The repayment was due to the Commonwealth no later than October 28 of the subsequent fiscal year and is reflected as Garage payable to the Commonwealth on the financial statements.

During fiscal year 2009, the Authority and Commonwealth executed their sixth amendment of their contract to provide financial assistance (see Note 6), which required the Authority to repay the Commonwealth for the remaining annual debt service costs (fiscal year 2009 through 2014 principal costs and fiscal year 2009 interest costs) attributable to the refunding bonds issued by the Commonwealth for the Boston Common Garage. The repayment is due to the Commonwealth on or after July 1, 2009 and is reflected as Garage payable to the Commonwealth on the financial statements.

Changes in the Garage Payable to the Commonwealth for the fiscal years ended June 30, 2010 and 2009, is as follows:

|   |                      |
|---|----------------------|
| Garage payable at June 30, 2008.....  | 2,390,627            |
| <u>Adjustments:</u>   |                      |
| Payment of fiscal year 2008 debt service payable to the Commonwealth.....               | (2,390,627)          |
| Garage debt service payable to the Commonwealth for fiscal years 2009 through 2014..... | <u>13,221,600</u>    |
| Total adjustments.....  | <u>10,830,973</u>    |
| Garage payable at June 30, 2009 and 2010.....   | <u>\$ 13,221,600</u> |

#### *J. Deferred Bond Issue Costs*

Deferred bond issue costs represent issuance costs allocable to the Authority in connection with the refunding of the Garage bonds on June 29, 2007. The issuance costs were being amortized using the straight-line method over the life of the Authority's portion of the 2007 refunding bonds. However, during fiscal year 2009, the Authority and Commonwealth executed the sixth amendment to their contract to provide financial assistance (see Note 6) that effectively eliminated the outstanding obligation and its related assets and liabilities. Amortization of the deferred bond issue costs totaled \$0 and \$44,215 for the fiscal years ended June 30, 2010 and June 30, 2009, respectively.

#### *K. Compensated Absences (Vacation Pay and Sick Leave Benefits)*

All union employees are contractually entitled to receive vacation pay benefits and, upon retirement, sick leave benefits. In addition, the Authority has extended a similar, but more limited, benefit to all other eligible employees. Vacation pay and sick leave benefits accrued for employees at June 30, 2010 and June 30, 2009, totaled approximately \$1,696,000 and \$1,524,000, respectively, and is reflected in the accompanying statement of net assets as accrued compensated absences.

#### *L. Use of Estimates*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Deposits - Custodial Credit Risk

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 Authority does not have a policy for custodial credit risk of deposits. The bank deposits at June 30, 2010 and 2009 totaled \$9,325,582 and \$31,740,797, respectively. Of these amounts, \$543,186 and \$187,280, respectively, were uninsured, uncollateralized and exposed to custodial credit risk.

**NOTE 3 - ACCOUNTS RECEIVABLE**

At June 30, 2010, receivables consist of the following:

|  | <u>Gross<br/>Amount</u> | <u>Allowance<br/>for<br/>Uncollectibles</u> | <u>Net<br/>Amount</u> |
|--|-------------------------|---|-----------------------|
| <u>Receivables:</u>                          |                         |   |                       |
| Grants receivable from the Commonwealth..... | \$ 52,556,671           | \$ -  | \$ 52,556,671         |
| Convention receivables.....                  | <u>6,044,085</u>        | <u>(222,172)</u>                            | <u>5,821,913</u>      |
| Totals.....                                  | <u>\$ 58,600,756</u>    | <u>\$ (222,172)</u>                         | <u>\$ 58,378,584</u>  |

At June 30, 2009, receivables consist of the following:

|  | <u>Gross<br/>Amount</u> | <u>Allowance<br/>for<br/>Uncollectibles</u> | <u>Net<br/>Amount</u> |
|--|-------------------------|---|-----------------------|
| <u>Receivables:</u>  |                         |   |                       |
| Grants receivable from the Commonwealth.....               | \$ 10,738,985           | \$ -  | \$ 10,738,985         |
| Grants receivable from the Commonwealth - Garage Debt..... | 10,830,000              | -   | 10,830,000            |
| Convention receivables.....                                | <u>2,782,129</u>        | <u>(250,000)</u>                            | <u>2,532,129</u>      |
| Totals.....  | <u>\$ 24,351,114</u>    | <u>\$ (250,000)</u>                         | <u>\$ 24,101,114</u>  |

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

|  | Beginning<br>Balance  | Increases              | Decreases             | Ending<br>Balance     |
|--|-----------------------|------------------------|-----------------------|-----------------------|
| <u>Capital assets not being depreciated:</u>           |                       |                        |                       |                       |
| Land.....  | \$ 60,123,789         | \$ 471,152             | \$ -                  | \$ 60,594,941         |
| Construction in progress.....                          | 9,323,197             | 19,696,714             | (6,403,153)           | 22,616,758            |
| Intangible assets.....                                 | -                     | 245,000                | -                     | 245,000               |
| Total capital assets not being depreciated.....        | <u>69,446,986</u>     | <u>20,412,866</u>      | <u>(6,403,153)</u>    | <u>83,456,699</u>     |
| <u>Capital assets being depreciated:</u>               |                       |                        |                       |                       |
| Land improvements.....                                 | 75,857                | -                      | -                     | 75,857                |
| Buildings and improvements:                            |                       |                        |                       |                       |
| BCEC.....  | 677,218,126           | 2,305,822              | -                     | 679,523,948           |
| Hynes Convention Center.....                           | 184,828,846           | 1,677,900              | -                     | 186,506,746           |
| MassMutual Center.....                                 | 71,414,202            | 62,500                 | -                     | 71,476,702            |
| Boston Common Garage.....                              | 37,636,802            | 50,888                 | -                     | 37,687,690            |
| Equipment and fixtures.....                            | 38,270,579            | 3,719,620              | (28,161)              | 41,962,038            |
| Total capital assets being depreciated.....            | <u>1,009,444,412</u>  | <u>7,816,730</u>       | <u>(28,161)</u>       | <u>1,017,232,981</u>  |
| <u>Less accumulated depreciation for:</u>              |                       |                        |                       |                       |
| Buildings and improvements:                            |                       |                        |                       |                       |
| BCEC.....  | (98,282,719)          | (23,171,855)           | -                     | (121,454,574)         |
| Hynes Convention Center.....                           | (128,701,460)         | (6,901,088)            | -                     | (135,602,548)         |
| MassMutual Center.....                                 | (8,598,981)           | (2,503,834)            | -                     | (11,102,815)          |
| Boston Common Garage.....                              | (16,083,441)          | (1,259,282)            | -                     | (17,342,723)          |
| Equipment and fixtures.....                            | (27,424,295)          | (5,172,295)            | 28,161                | (32,568,429)          |
| Total accumulated depreciation.....                    | <u>(279,090,896)</u>  | <u>(39,008,354)</u>    | <u>28,161</u>         | <u>(318,071,089)</u>  |
| Total capital assets being depreciated, net.....       | <u>730,353,516</u>    | <u>(31,191,624)</u>    | <u>-</u>              | <u>699,161,892</u>    |
| Total governmental activities capital assets, net..... | <u>\$ 799,800,502</u> | <u>\$ (10,778,758)</u> | <u>\$ (6,403,153)</u> | <u>\$ 782,618,591</u> |

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

|  | Beginning<br>Balance  | Increases             | Decreases             | Ending<br>Balance     |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| <u>Capital assets not being depreciated:</u>     |                       |                       |                       |                       |
| Land.....  | \$ 59,955,414         | \$ 168,375            | \$ -                  | \$ 60,123,789         |
| Construction in progress.....                    | 2,370,135             | 11,369,497            | (4,416,435)           | 9,323,197             |
| Total capital assets not being depreciated.....  | <u>62,325,549</u>     | <u>11,537,872</u>     | <u>(4,416,435)</u>    | <u>69,446,986</u>     |
| <u>Capital assets being depreciated:</u>         |                       |                       |                       |                       |
| Land improvements.....                           | 75,857                | -                     | -                     | 75,857                |
| Buildings and improvements:                      |                       |                       |                       |                       |
| BCEC.....  | 665,889,756           | 11,328,370            | -                     | 677,218,126           |
| Hynes Convention Center.....                     | 181,162,118           | 3,918,374             | (251,646)             | 184,828,846           |
| MassMutual Center.....                           | 71,400,702            | 13,500                | -                     | 71,414,202            |
| Boston Common Garage.....                        | 37,806,382            | -                     | (169,580)             | 37,636,802            |
| Equipment and fixtures.....                      | 33,960,278            | 4,807,388             | (497,087)             | 38,270,579            |
| Total capital assets being depreciated.....      | <u>990,295,093</u>    | <u>20,067,632</u>     | <u>(918,313)</u>      | <u>1,009,444,412</u>  |
| <u>Less accumulated depreciation for:</u>        |                       |                       |                       |                       |
| Buildings and improvements:                      |                       |                       |                       |                       |
| BCEC.....  | (76,083,904)          | (22,198,815)          | -                     | (98,282,719)          |
| Hynes Convention Center.....                     | (122,717,189)         | (6,235,917)           | 251,646               | (128,701,460)         |
| MassMutual Center.....                           | (6,086,241)           | (2,512,740)           | -                     | (8,598,981)           |
| Boston Common Garage.....                        | (14,994,559)          | (1,258,462)           | 169,580               | (16,083,441)          |
| Equipment and fixtures.....                      | (21,501,779)          | (6,419,603)           | 497,087               | (27,424,295)          |
| Total accumulated depreciation.....              | <u>(241,383,672)</u>  | <u>(38,625,537)</u>   | <u>918,313</u>        | <u>(279,090,896)</u>  |
| Total capital assets being depreciated, net..... | <u>748,911,421</u>    | <u>(18,557,905)</u>   | <u>-</u>              | <u>730,353,516</u>    |
| Total capital assets, net.....                   | <u>\$ 811,236,970</u> | <u>\$ (7,020,033)</u> | <u>\$ (4,416,435)</u> | <u>\$ 799,800,502</u> |

#### NOTE 5 - DEFERRED REVENUE - NAMING RIGHTS

In September 2003, the Authority entered into an agreement by and between the Massachusetts Mutual Life Insurance Company for provision of naming rights at the new Springfield Civic Center. In consideration for \$5,000,000 the Springfield Civic Center was designated as the MassMutual Center. MassMutual in turn granted the Authority a license to use the Intellectual Property for limited use. Upon termination of the agreement, the name of the facility shall revert to the Springfield Civic Center. The term of the agreement commenced on September 29, 2005 (the opening date of the new center) and will end on the 15<sup>th</sup> year anniversary unless terminated earlier. Included in other revenue is the amortization of the naming rights amounting to \$333,333 and \$333,333 for the years ended June 30, 2010 and 2009, respectively.

**NOTE 6 - DUE TO COMMONWEALTH - GARAGE BONDS**

During fiscal year 2007, the Commonwealth issued General Obligation Refunding Bonds (Commonwealth Bonds) for which a portion of such bonds were used to refund the Authority's 1993 Series A Bonds (Authority Bonds) in the amount of \$14,785,000.

Simultaneously with the issuance of the Commonwealth Bonds, the Authority and the Commonwealth executed the fifth amendment of their contract for financial assistance. Among other things, the amendment required that, so long as the Commonwealth Bonds are outstanding, within 120 days following the close of the fiscal year, the Authority must determine and certify to the Secretary of the Executive Office of Administration and Finance the excess revenues derived by the Boston Common Garage (Garage).

Based on the excess revenue calculation and certification, the Authority must pay the Commonwealth an amount of the excess revenues equal to the debt service paid by the Commonwealth on the Commonwealth Bonds outstanding (or, if excess revenues are less, all of such excess revenues).

During fiscal year 2009, the Authority and Commonwealth executed the sixth amendment of their contract for financial assistance. The amendment required the Commonwealth to transfer \$10,830,000 (which represents the balance of the fiscal year 2009 through 2014 bonds outstanding) to the Authority. The amendment also required (after July 1, 2009) the Authority to pay over to the Commonwealth all contractual amounts outstanding as of June 30, 2009. The total amount owed to the Commonwealth under their contract for financial assistance totaled \$13,221,600 at June 30, 2009 and June 30, 2010. Subsequent to June 30, 2010, the Authority paid the Commonwealth the amount owed under their contract for financial assistance.

Details related to the liquidation of the contractual payments due to the Commonwealth for Garage bonds as of June 30, 2009 are as follows:

| Project   | Interest<br>Rate | Balance<br>at June 30,<br>2008 | Increases   | Decreases              | Balance<br>at June 30,<br>2009 |
|---|------------------|--------------------------------|-------------|------------------------|--------------------------------|
| Commonwealth Bonds outstanding.....                     | 4.00%            | \$ 12,750,000                  | \$ -        | \$ (12,750,000)        | \$ -                           |
| Unamortized premium from Commonwealth Bonds.....        |                  | 132,485                        | -           | (132,485)              | -                              |
| Deferred loss on refunding from Commonwealth Bonds..... |                  | (417,107)                      | -           | 417,107                | -                              |
| Total due to the Commonwealth - Garage Bonds .....      |                  | <u>\$ 12,465,378</u>           | <u>\$ -</u> | <u>\$ (12,465,378)</u> | <u>\$ -</u>                    |

**NOTE 7 - OPERATING PERFORMANCE BY OPERATING SEGMENTS**

The Authority currently operates six segments: the BCEC, the Hynes Convention Center, the MassMutual Center, the Boston Common Garage, Central Administration and Sales and Marketing. Summarized financial information for the years ended June 30, 2010 and 2009 is presented as follows:

**Condensed Statement of Net Assets**

|   | Fiscal year 2010      |                               |                      |                            |                           |                        |                       |
|---|-----------------------|-------------------------------|----------------------|----------------------------|---------------------------|------------------------|-----------------------|
|   | BCEC                  | Hynes<br>Convention<br>Center | MassMutual<br>Center | Boston<br>Common<br>Garage | Central<br>Administration | Sales and<br>Marketing | Total                 |
| <b>Assets:</b>  |                       |                               |                      |                            |                           |                        |                       |
| Current assets.....                                     | \$ 4,469,820          | \$ 1,181,928                  | \$ 811,816           | \$ 851                     | \$ 59,794,356             | \$ 130,000             | \$ 66,388,771         |
| Capital assets.....                                     | 570,288,208           | 124,117,015                   | 63,209,005           | 21,241,919                 | 3,753,043                 | 9,401                  | 782,618,591           |
| <b>Total assets.....</b>                                | <b>\$ 574,758,028</b> | <b>\$ 125,298,943</b>         | <b>\$ 64,020,821</b> | <b>\$ 21,242,770</b>       | <b>\$ 63,547,399</b>      | <b>\$ 139,401</b>      | <b>\$ 849,007,362</b> |
| <b>Liabilities:</b>                                     |                       |                               |                      |                            |                           |                        |                       |
| Current liabilities.....                                | \$ 8,505,328          | 4,824,737                     | \$ 4,304,804         | \$ 13,696,271              | \$ 3,668,394              | \$ 70,831              | \$ 35,070,365         |
| Noncurrent liabilities.....                             | -                     | -                             | -                    | -                          | 1,851,618                 | -                      | 1,851,618             |
| <b>Total liabilities.....</b>                           | <b>\$ 8,505,328</b>   | <b>\$ 4,824,737</b>           | <b>\$ 4,304,804</b>  | <b>\$ 13,696,271</b>       | <b>\$ 5,520,012</b>       | <b>\$ 70,831</b>       | <b>\$ 36,921,983</b>  |
| <b>Net Assets:</b>                                      |                       |                               |                      |                            |                           |                        |                       |
| Invested in capital assets,<br>net of related debt..... |                       |                               |                      |                            |                           |                        | 769,396,991           |
| Unrestricted.....                                       |                       |                               |                      |                            |                           |                        | 42,688,388            |
| <b>Total net assets.....</b>                            |                       |                               |                      |                            |                           |                        | <b>\$ 812,085,379</b> |
|   | Fiscal year 2009      |                               |                      |                            |                           |                        |                       |
|   | BCEC                  | Hynes<br>Convention<br>Center | MassMutual<br>Center | Boston<br>Common<br>Garage | Central<br>Administration | Sales and<br>Marketing | Total                 |
| <b>Assets:</b>  |                       |                               |                      |                            |                           |                        |                       |
| Current assets.....                                     | \$ 1,519,654          | \$ 752,871                    | \$ 613,452           | \$ 10,830,794              | \$ 42,374,661             | \$ 130,000             | \$ 56,221,432         |
| Capital assets.....                                     | 590,479,739           | 117,594,798                   | 66,109,118           | 22,053,746                 | 3,545,371                 | 17,730                 | 799,800,502           |
| <b>Total assets.....</b>                                | <b>\$ 591,999,393</b> | <b>\$ 118,347,669</b>         | <b>\$ 66,722,570</b> | <b>\$ 32,884,540</b>       | <b>\$ 45,920,032</b>      | <b>\$ 147,730</b>      | <b>\$ 856,021,934</b> |
| <b>Liabilities:</b>                                     |                       |                               |                      |                            |                           |                        |                       |
| Current liabilities.....                                | \$ 10,008,794         | 5,866,505                     | \$ 4,648,329         | \$ 13,586,004              | \$ 6,131,153              | \$ 593,273             | \$ 40,834,058         |
| Noncurrent liabilities.....                             | -                     | -                             | -                    | -                          | 904,442                   | -                      | 904,442               |
| <b>Total liabilities.....</b>                           | <b>\$ 10,008,794</b>  | <b>\$ 5,866,505</b>           | <b>\$ 4,648,329</b>  | <b>\$ 13,586,004</b>       | <b>\$ 7,035,595</b>       | <b>\$ 593,273</b>      | <b>\$ 41,738,500</b>  |
| <b>Net Assets:</b>                                      |                       |                               |                      |                            |                           |                        |                       |
| Invested in capital assets,<br>net of related debt..... |                       |                               |                      |                            |                           |                        | 786,578,902           |
| Unrestricted.....                                       |                       |                               |                      |                            |                           |                        | 27,704,532            |
| <b>Total net assets.....</b>                            |                       |                               |                      |                            |                           |                        | <b>\$ 814,283,434</b> |

## Condensed Statement of Revenues, Expenses and Changes in Net Assets

## Fiscal year 2010

|   | BCEC            | Hynes<br>Convention<br>Center | MassMutual<br>Center | Boston<br>Common<br>Garage | Central<br>Administration | Sales and<br>Marketing | Total          |
|---|-----------------|-------------------------------|----------------------|----------------------------|---------------------------|------------------------|----------------|
| Operating revenues.....                         | \$ 25,151,588   | \$ 9,745,993                  | \$ 2,703,386         | \$ 9,641,337               | \$ 2,402                  | \$ -                   | \$ 47,244,706  |
| Operating expenses.....                         | (55,602,546)    | (22,568,951)                  | (10,115,830)         | (4,050,123)                | (13,109,572)              | (6,341,567)            | (111,788,589)  |
| Operating income (loss).....                    | (30,450,958)    | (12,822,958)                  | (7,412,444)          | 5,591,214                  | (13,107,170)              | (6,341,567)            | (64,543,883)   |
| Nonoperating Revenues/(Expenses):               |                 |                               |                      |                            |                           |                        |                |
| Investment income.....                          | -               | -                             | -                    | -                          | 133,824                   | -                      | 133,824        |
| Convention center fund.....                     | -               | -                             | -                    | -                          | 62,212,004                | -                      | 62,212,004     |
| Change in net assets.....                       | \$ (30,450,958) | \$ (12,822,958)               | \$ (7,412,444)       | \$ 5,591,214               | \$ 49,238,658             | \$ (6,341,567)         | (2,198,055)    |
| Net assets-beginning of year (as restated)..... |                 |                               |                      |                            |                           |                        | 814,283,434    |
| Net assets-end of year.....                     |                 |                               |                      |                            |                           |                        | \$ 812,085,379 |

## Fiscal year 2009

|  | BCEC            | Hynes<br>Convention<br>Center | MassMutual<br>Center | Boston<br>Common<br>Garage | Central<br>Administration | Sales and<br>Marketing | Total          |
|--|-----------------|-------------------------------|----------------------|----------------------------|---------------------------|------------------------|----------------|
| Operating revenues.....                | \$ 22,944,921   | \$ 9,146,772                  | \$ 2,676,598         | \$ 9,733,503               | \$ 5,851                  | \$ -                   | \$ 44,507,645  |
| Operating expenses.....                | (56,931,832)    | (22,652,536)                  | (9,817,741)          | (4,010,065)                | (12,146,720)              | (6,540,134)            | (112,099,028)  |
| Operating income (loss).....           | (33,986,911)    | (13,505,764)                  | (7,141,143)          | 5,723,438                  | (12,140,869)              | (6,540,134)            | (67,591,383)   |
| Nonoperating Revenues/(Expenses):      |                 |                               |                      |                            |                           |                        |                |
| Investment income.....                 | -               | -                             | -                    | -                          | 823,738                   | -                      | 823,738        |
| Convention center fund.....            | -               | -                             | -                    | -                          | 35,378,343                | -                      | 35,378,343     |
| Interest expense.....                  | -               | -                             | -                    | (800,437)                  | -                         | -                      | (800,437)      |
| Loss before capital contributions..... | (33,986,911)    | (13,505,764)                  | (7,141,143)          | 4,923,001                  | 24,061,212                | (6,540,134)            | (32,189,739)   |
| Capital contributions.....             | -               | -                             | -                    | 12,750,000                 | -                         | -                      | 12,750,000     |
| Change in net assets.....              | \$ (33,986,911) | \$ (13,505,764)               | \$ (7,141,143)       | \$ 17,673,001              | \$ 24,061,212             | \$ (6,540,134)         | (19,439,739)   |
| Net assets-beginning of year.....      |                 |                               |                      |                            |                           |                        | 833,723,173    |
| Net assets-end of year.....            |                 |                               |                      |                            |                           |                        | \$ 814,283,434 |

## NOTE 8 - RISK FINANCING

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance.

The Group Insurance Commission administers health care and other insurance for the Authority's employees and retirees.

The Authority participates in a premium based workers' compensation plan.

**NOTE 9 - PENSION PLAN**

**Plan Description** - The Authority contributes to the Commonwealth's State Employees' Retirement System (System), a cost-sharing multiple employer defined benefit pension plan administered by the Commonwealth's State Retirement Board.

Chapter 32 of the MGL directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in 2004, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023 on a 4.50% increasing basis. The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. The System does not issue a stand alone report.

**Funding Policy** - Chapter 32 of the MGL governs the contributions of plan members and the Commonwealth. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. Pursuant to its enabling legislation, the Authority reimburses the System for benefits provided in the prior year, in effect "pay-as-you-go" basis one year behind. Under this method, the Authority's required contributions to the System for the fiscal years ended June 30, 2010, 2009, and 2008 were approximately \$440,000, \$424,000 and \$405,000, respectively.

**NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS**

**Plan Description** - The Authority provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process (for union employees) or Board policy decisions (for non-union employees). The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2008, the latest actuarial valuation, is as follows:

|                        |                   |
|------------------------|-------------------|
| Active employees.....  | 170               |
| Retired employees..... | <u>31</u>         |
| Total.....             | <u><u>201</u></u> |

**Funding Policy** - The contribution requirements of Plan members and the Authority are established and may be amended by the Authority. The required contribution rates of union employees are 10%. For non-union employees hired before July 1, 2008, the required contribution rate is 12.5%. For non-union employees hired after July 1, 2008, the required contribution rate is 20%. For non-union employees hired after June 30, 2009, the required contribution rate is 25%. The Authority pays the remaining required contribution for each type of employee. The Authority also reimburses union retired employees for the employee portion (10% for retirees who retired on or before July 1, 1994; 15% for retirees who retired after July 1, 1994; and 100% for additional catastrophic illness coverage) of the insurance benefits if they have 5 years of continuous service with the Authority at the time of retirement. Those employees who have less than 5 years of continuous service do not receive this benefit. There are currently 13 union retired employees who receive this benefit. In addition, the Authority use to cover these costs for non-union retirees but has discontinued that practice. There are currently 13 non-union retired employees who were grandfathered in under the old policy. The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

**Annual OPEB Cost and Net OPEB Obligation** - The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost, the actual amount contributed to the plan, and changes in the Authority's net OPEB obligation for the past two fiscal years:

|   | 2010         | 2009         |
|---|--------------|--------------|
| Annual required contribution.....               | \$ 1,197,957 | \$ 1,143,842 |
| Interest on net OPEB obligation.....            | 45,754       | -            |
| Adjustment to annual required contribution..... | (30,148)     | -            |
| Annual OPEB cost.....                           | 1,213,563    | 1,143,842    |
| Contributions made.....                         | (266,387)    | (239,400)    |
| Increase in net OPEB obligation.....            | 947,176      | 904,442      |
| Net OPEB obligation at beginning of year.....   | 904,442      | -            |
| Net OPEB obligation at end of year.....         | \$ 1,851,618 | \$ 904,442   |

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

| Fiscal Year<br>Ending | Annual<br>OPEB Cost<br>(AOPEBC) | Percentage<br>of AOPEBC<br>Contributed | Net<br>OPEB<br>Obligation |
|-----------------------|---------------------------------|--|---------------------------|
| June 30, 2009*.....   | \$ 1,143,842                    | 20.9%                                  | \$ 904,442                |
| June 30, 2010.....    | 1,213,563                       | 22.0%                                  | 1,851,618                 |

\* Transition year

**Funded Status and Funding Progress** - The funded status of the Plan at July 1, 2008, the most recent actuarial valuation, was as follows:

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(A) | Actuarial<br>Accrued<br>Liability (AAL)<br>Projected Unit<br>Credit<br>(B) | Unfunded<br>AAL<br>(UAAL)<br>(B-A) | Funded<br>Ratio<br>(A/B) | Covered<br>Payroll<br>(C) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((B-A)/C) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 07/01/08                       | \$ -                                   | \$ 10,037,707  | \$ 10,037,707                      | 0.0%                     | \$ 20,033,411             | 50.1%   |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Methods and Assumptions* - Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and 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 employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

|                                     |   |
|-------------------------------------|---|
| Valuation date:                     | July 1, 2008  |
| Actuarial cost method:              | Projected Unit Credit   |
| Amortization method:                | Level dollar over 30 years at transition  |
| Remaining amortization period:      | 30 years at July 1, 2008  |
| Interest discount rate:             | 4.0%  |
| Healthcare/Medical cost trend rate: | 11% for the first year decreasing by 1% per year for six years to a final level of 5% by 2014 |
| Projected salary increases:         | 4.5% per year   |
| Inflationary rate:                  | 3.5% per year   |

*Allocation of AOPEBC* - AOPEBC were allocated to the Authority's operating segments as follows:

|                           | 2010                | 2009                |
|---------------------------|---------------------|---------------------|
| BCEC.....                 | \$ 567,645          | \$ 542,035          |
| Hynes.....                | 303,131             | 285,193             |
| Boston Common Garage..... | 66,080              | 57,666              |
| MassMutual Center.....    | 8,528               | 14,476              |
| Administration.....       | 196,579             | 218,101             |
| Marketing and Sales.....  | 71,600              | 26,371              |
| Total AOPEBC.....         | <u>\$ 1,213,563</u> | <u>\$ 1,143,842</u> |

**NOTE 11 - COMMITMENTS**

The following represents the Authority's ongoing projects at June 30, 2010:

| Project                                       | Total Committed<br>Amount | Spent Through<br>June 30, 2010 | Remaining<br>Commitment |
|---|---------------------------|--------------------------------|-------------------------|
| Hynes convention center renovation.....       | \$ 17,800,000             | \$ 15,149,933                  | \$ 2,650,067            |
| Hynes MTA ceiling renovation.....             | 12,500,000                | 4,051,452                      | 8,448,548               |
| BCEC image project.....                       | 8,600,000                 | 708,132                        | 7,891,868               |
| BCEC master planning.....                     | 3,700,000                 | 1,622,279                      | 2,077,721               |
| BCEC waterproofing project.....               | 3,362,500                 | 149,182                        | 3,213,318               |
| MassMutual center arena roof.....             | 2,415,000                 | 85,997                         | 2,329,003               |
| Boston common garage feasibility project..... | 1,140,000                 | 312,313                        | 827,687                 |
| Boston common garage egress ramps.....        | 900,000                   | 122,737                        | 777,263                 |
| Boston common garage pay on foot.....         | 450,000                   | 148,377                        | 301,623                 |
| <b>Total.....</b>                             | <b>\$ 50,867,500</b>      | <b>\$ 22,350,402</b>           | <b>\$ 28,517,098</b>    |

The following represents the Authority's ongoing projects at June 30, 2009:

| Project   | Total Committed<br>amount | Spent through<br>June 30, 2009 | Remaining<br>Commitment |
|---|---------------------------|--------------------------------|-------------------------|
| Hynes convention center renovation.....                 | \$ 18,030,000             | \$ 7,966,542                   | \$ 10,063,458           |
| BCEC master planning - Phase 1 & 2.....                 | 3,200,000                 | 1,025,737                      | 2,174,263               |
| MMC garage feasibility/phase I.....                     | 2,135,000                 | 162,843                        | 1,972,157               |
| Boston common garage expansion feasibility/phase I..... | 765,000                   | 168,074                        | 596,926                 |
| <b>Total.....</b>                                       | <b>\$ 24,130,000</b>      | <b>\$ 9,323,196</b>            | <b>\$ 14,806,804</b>    |

**NOTE 12 - CONTINGENCIES**

Various legal actions and claims are pending against the Authority. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Authority at June 30, 2010.

**NOTE 13 - PRIOR PERIOD ADJUSTMENT**

The beginning net assets of the Authority at June 30, 2010 and June 30, 2009 have been restated from \$811,333,488 and \$831,042,173 to \$814,283,434 and \$833,723,173, respectively, to reflect the change in accounting for its pension contributions to the System as a cost-sharing multiple employer plan.

**NOTE 14 - IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The Authority implemented the following GASB pronouncements during fiscal year 2010:

- Statement #51, *Accounting and Financial Reporting for Intangible Assets*. This pronouncement requires the capitalization of assets that are intangible in form and substance with a useful life of greater than one year. Details related to the Authority's intangible assets are provided at Note 4.
- Statement #53, *Accounting and Financial Reporting for Derivative Instruments*. The implementation of this Statement had no impact on the financial statements.
- Statement #55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The implementation of this Statement had no impact on the financial statements.
- Statement #56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The implementation of this Statement had no impact on the financial statements.
- Statement #58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The implementation of this Statement had no impact on the financial statements.

**NOTE 15 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented during fiscal year 2011. The implementation of this pronouncement will not impact the financial statements.
- Statement #57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is required to be implemented during fiscal year 2012. The implementation of this pronouncement will not impact the financial statements.
- Statement #59, *Financial Instruments Omnibus*, which is required to be implemented during fiscal year 2011. The Authority is currently evaluating the effect that this Statement will have on its basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

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*Required Supplementary Information*

## PENSION PLAN SCHEDULES

The following schedule provides information related to the System as a whole, for which the Authority is one participating employer:

### SCHEDULES OF FUNDING PROGRESS (SYSTEM)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(A) | Actuarial<br>Accrued<br>Liability (AAL)<br>Entry Age<br>(B) | Unfunded<br>AAL<br>(UAAL)<br>(B-A) | Funded<br>Ratio<br>(A/B) | Covered<br>Payroll<br>(C) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 01/01/10                       | \$ 19,019,062,000                      | \$ 24,862,421,000   | \$ 5,843,359,000                   | 76.5%                    | \$ 4,711,563,000          | 124.0%  |
| 01/01/09                       | 16,992,214,000                         | 23,723,240,000  | 6,731,026,000                      | 71.6%                    | 4,712,655,000             | 142.8%  |
| 01/01/08                       | 20,400,656,000                         | 22,820,502,000  | 2,419,846,000                      | 89.4%                    | 4,574,233,000             | 52.9%   |
| 01/01/07                       | 18,445,225,000                         | 21,670,810,000  | 3,225,585,000                      | 85.1%                    | 4,391,839,000             | 73.4%   |
| 01/01/06                       | 16,638,043,000                         | 20,406,926,000  | 3,768,883,000                      | 81.5%                    | 4,200,577,000             | 89.7%   |
| 01/01/05                       | 16,211,000,000                         | 19,575,000,000  | 3,364,000,000                      | 82.8%                    | 3,967,000,000             | 84.8%   |

**NOTE A - PENSION PLAN**

Additional information as of the latest actuarial valuation is as follows:

|                                |  |
|--------------------------------|--|
| Valuation date:                | January 1, 2010  |
| Actuarial cost method:         | Entry age normal   |
| Amortization method:           | Increasing payments 4.5% per year  |
| Remaining amortization period: | 15 years   |
| Asset valuation method:        | Corridor approach (actuarial value of assets cannot be less than 90% nor more than 110% of the market value of assets) |

Actuarial assumptions:

|                             |  |
|-----------------------------|--|
| Investment rate of return:  | 8.25%  |
| Projected salary increases: | 4.75% - 10.00%, depending on group classification and years of service |
| Cost of living adjustments: | 3.0% of the first \$12,000 of an allowance                             |

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## *Additional Information*

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**BUDGET AND ACTUAL**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

|   | Original<br>Budget     | Supplemental<br>Appropriations | Final<br>Budget        | Actual                 | Variance<br>Positive/<br>(Negative) |
|---|------------------------|--------------------------------|------------------------|------------------------|-------------------------------------|
| <b>REVENUES</b>   |                        |                                |                        |                        |                                     |
| BCFC.....   | \$ 24,807,311          | \$ -                           | \$ 24,807,311          | \$ 25,151,588          | \$ 344,277                          |
| Hynes.....  | 9,396,053              | -                              | 9,396,053              | 9,745,993              | 349,940                             |
| Boston Common Garage.....                                     | 9,502,870              | -                              | 9,502,870              | 9,641,337              | 138,467                             |
| MassMutual Center.....  | 2,786,660              | -                              | 2,786,660              | 2,703,386              | (83,274)                            |
| Other income.....   | -                      | -                              | -                      | 2,402                  | 2,402                               |
| <b>TOTAL REVENUES.....</b>                                    | <b>46,492,894</b>      | <b>-</b>                       | <b>46,492,894</b>      | <b>47,244,706</b>      | <b>751,812</b>                      |
| <b>EXPENSES</b>   |                        |                                |                        |                        |                                     |
| BCFC.....   | 28,731,274             | -                              | 28,731,274             | 29,008,292             | (277,018)                           |
| Hynes.....  | 15,129,016             | -                              | 15,129,016             | 15,017,227             | 111,789                             |
| Boston Common Garage.....                                     | 3,042,024              | -                              | 3,042,024              | 2,676,661              | 365,363                             |
| MassMutual Center.....  | 7,608,151              | -                              | 7,608,151              | 7,085,136              | 523,015                             |
| Central Administration.....                                   | 9,156,591              | -                              | 9,156,591              | 8,818,475              | 338,116                             |
| Marketing and Sales.....                                      | 6,357,175              | -                              | 6,357,175              | 6,321,560              | 35,615                              |
| <b>TOTAL EXPENSES.....</b>                                    | <b>70,024,231</b>      | <b>-</b>                       | <b>70,024,231</b>      | <b>68,927,351</b>      | <b>1,096,880</b>                    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENSES.....</b> |                        |                                |                        |                        |                                     |
|   | <b>(23,531,337)</b>    | <b>-</b>                       | <b>(23,531,337)</b>    | <b>(21,682,645)</b>    | <b>1,848,692</b>                    |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                       |                        |                                |                        |                        |                                     |
| Investment income.....  | 540,000                | -                              | 540,000                | 133,824                | (406,176)                           |
| Payment to Massachusetts Office of Travel and Tourism.....    | -                      | (3,500,000)                    | (3,500,000)            | (3,177,844)            | 322,156                             |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES).....</b>            | <b>540,000</b>         | <b>(3,500,000)</b>             | <b>(2,960,000)</b>     | <b>(3,044,020)</b>     | <b>(84,020)</b>                     |
| <b>CHANGE IN NET ASSETS.....</b>                              | <b>\$ (22,991,337)</b> | <b>\$ (3,500,000)</b>          | <b>\$ (26,491,337)</b> | <b>\$ (24,726,665)</b> | <b>\$ 1,764,672</b>                 |

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

|   | Original<br>Budget     | Supplemental<br>Appropriations | Final<br>Budget        | Actual                 | Variance<br>Positive/<br>(Negative) |
|---|------------------------|--------------------------------|------------------------|------------------------|-------------------------------------|
| <b>REVENUES</b>   |                        |                                |                        |                        |                                     |
| BCEC.....   | \$ 21,792,909          | \$ -                           | \$ 21,792,909          | \$ 22,944,921          | \$ 1,152,012                        |
| Hynes.....  | 9,347,247              | -                              | 9,347,247              | 9,146,772              | (200,475)                           |
| Boston Common Garage.....                                     | 10,788,981             | -                              | 10,788,981             | 9,733,503              | (1,055,478)                         |
| MassMutual Center.....  | 2,345,324              | -                              | 2,345,324              | 2,676,598              | 331,274                             |
| Other income.....   | -                      | -                              | -                      | 5,851                  | 5,851                               |
| <b>TOTAL REVENUES.....</b>                                    | <b>44,274,461</b>      | <b>-</b>                       | <b>44,274,461</b>      | <b>44,507,645</b>      | <b>233,184</b>                      |
| <b>EXPENSES</b>   |                        |                                |                        |                        |                                     |
| BCEC.....   | 27,283,305             | (116,371)                      | 27,166,934             | 29,683,288             | (2,516,354)                         |
| Hynes.....  | 14,461,376             | (224,735)                      | 14,236,641             | 15,693,546             | (1,456,905)                         |
| Boston Common Garage.....                                     | 2,811,449              | (230,000)                      | 2,581,449              | 2,659,054              | (77,605)                            |
| MassMutual Center.....  | 7,204,838              | (243,103)                      | 6,961,735              | 6,809,852              | 151,883                             |
| Central Administration.....                                   | 7,007,017              | (433,473)                      | 6,573,544              | 8,979,357              | (2,405,813)                         |
| Marketing and Sales.....                                      | 8,473,342              | (249,420)                      | 8,223,922              | 6,512,903              | 1,711,019                           |
| <b>TOTAL EXPENSES.....</b>                                    | <b>67,241,327</b>      | <b>(1,497,102)</b>             | <b>65,744,225</b>      | <b>70,338,000</b>      | <b>(4,593,775)</b>                  |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENSES.....</b> | <b>(22,966,866)</b>    | <b>1,497,102</b>               | <b>(21,469,764)</b>    | <b>(25,830,355)</b>    | <b>(4,360,591)</b>                  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                       |                        |                                |                        |                        |                                     |
| Investment income.....  | 1,000,000              | -                              | 1,000,000              | 823,738                | (176,262)                           |
| Contractual payments to Commonwealth - Garage Bonds.....      | (2,391,600)            | (10,830,000)                   | (13,221,600)           | (13,221,600)           | -                                   |
| Payment to Massachusetts Office of Travel and Tourism.....    | -                      | (2,500,000)                    | (2,500,000)            | (2,500,000)            | -                                   |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES).....</b>            | <b>(1,391,600)</b>     | <b>(13,330,000)</b>            | <b>(14,721,600)</b>    | <b>(14,897,862)</b>    | <b>(176,262)</b>                    |
| <b>CHANGE IN NET ASSETS.....</b>                              | <b>\$ (24,358,466)</b> | <b>\$ (11,832,898)</b>         | <b>\$ (36,191,364)</b> | <b>\$ (40,728,217)</b> | <b>\$ (4,536,853)</b>               |