

**STATEMENT OF
ANNUAL FINANCIAL INFORMATION
AND OPERATING DATA
of the
MASSACHUSETTS PORT AUTHORITY
FOR FISCAL YEAR 2001**

INTRODUCTION

This Statement of Annual Financial Information and Operating Data dated as of November 19, 2001 (the “Annual Disclosure Statement”) of the Massachusetts Port Authority (the “Authority”) is prepared and submitted in accordance with the requirements of the Continuing Disclosure Agreement, dated as of August 1, 1997 (the “Continuing Disclosure Agreement”), between the Authority and State Street Bank and Trust Company, as trustee (the “Trustee”), the Continuing Disclosure Agreement dated as of May 6, 1999 (the “PFC Disclosure Agreement” and, with the Continuing Disclosure Agreement, the “Disclosure Agreements”), between the Authority and The Bank of New York, as dissemination agent, and the Trust Agreement dated as of May 1, 1997 between the Authority and the Trustee relating to the BOSFUEL Bonds (as defined below). Set forth below is certain financial information and operating data relating to the Authority for the fiscal year ended June 30, 2001 updating the financial information and operating data presented in the Authority’s Official Statement dated November 12, 1999 (the “1999 Official Statement”) and the Authority’s Statement of Annual Financial Information and Operating Data dated as of November 1, 2000 (the “2000 Annual Disclosure Statement”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 1999 Official Statement. APPENDIX A hereto, setting forth the Authority’s audited financial statements for the fiscal year ended June 30, 2001 and comparative information for fiscal year 2000, prepared in accordance with generally accepted accounting principles, with a report thereon by PricewaterhouseCoopers LLP, independent public accountants, is included as part of this Annual Disclosure Statement. The 1999 Official Statement is on file with each Nationally Recognized Municipal Securities Information Depository (“NRMSIR”).

The Authority, created and existing pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the “Enabling Act”), is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the “Commonwealth”). The Authority controls, operates, and manages the following three projects: the “Airport Properties,” consisting of Boston-Logan International Airport (the “Airport”) and Laurence G. Hanscom Field (“Hanscom Field”); the Maurice J. Tobin Memorial Bridge (the “Bridge”); and the “Port Properties,” consisting of certain facilities in the Port of Boston and other properties.

On January 15, 2000, the Authority also assumed operating responsibility for the Worcester Regional Airport pursuant to an operating agreement between the Authority and the City of Worcester, Massachusetts.

This Annual Disclosure Statement applies to the following Series of Bonds issued by the Authority (collectively, the “Bonds”):

Massachusetts Port Authority Revenue Bonds, Series 1999-C (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1999-D (AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 1998-A (Non-AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 1998-B (AMT)
Massachusetts Port Authority Taxable Revenue Refunding Bonds, Series 1998-C
Massachusetts Port Authority Revenue Bonds, Series 1998-D (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1998-E (AMT)
Massachusetts Port Authority Revenue Bonds, Series 1997-A
Massachusetts Port Authority Revenue Bonds, Series 1997-B
Massachusetts Port Authority Revenue Refunding Bonds, Series 1997-C

Massachusetts Port Authority PFC Revenue Bonds, Series 1999-A (Non-AMT)
Massachusetts Port Authority PFC Revenue Bonds, Series 1999-B (AMT)

Massachusetts Port Authority Special Facilities Revenue Bonds (BOSFUEL Project),
Series 1997

On November 23, 1999, the Authority issued its \$119,520,000 Revenue Bonds, Series 1999-C (Non-AMT) and \$73,320,000 Revenue Bonds, Series 1999-D (AMT) (collectively, the “1999 Bonds”). The 1999 Bonds were issued pursuant to a Trust Agreement dated as of August 1, 1978, as supplemented and amended (the “Trust Agreement”), between the Authority and the Trustee and pursuant to a Bond Resolution adopted by the Authority on October 21, 1999. The Authority has previously issued thirteen series of bonds pursuant to the Trust Agreement which remain outstanding as of the date hereof. On December 29, 2000 and January 2, 2001, respectively, the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of \$74,000,000 (collectively, the “Subordinated Revenue Bonds”). The Subordinated Revenue Bonds are payable solely from amounts on deposit in the Improvement and Extension Fund established under the Trust Agreement and in a separate account not subject to the pledge of the Trust Agreement or the PFC Trust Agreement (defined below). The Subordinated Revenue Bonds are subordinate to all of the revenue bonds issued prior to the date hereof by the Authority pursuant to the Trust Agreement. On June 16, 1999, the Authority issued its \$67,665,000 PFC Revenue Bonds, Series 1999-A (Non-AMT) and \$181,690,000 PFC Revenue Bonds, Series 1999-B (AMT) (collectively, the “PFC Bonds”) pursuant to a PFC Revenue Bond Trust Agreement dated as of May 6, 1999, as supplemented and amended (the “PFC Trust Agreement”), between the Authority and The Bank of New York, as trustee (the “PFC Trustee”). On March 1, 2001, the Authority issued its Special Facilities Revenue Refunding Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 2001-A (Tax-Exempt) and 2001-B (Taxable) (collectively, the “Hyatt Bonds”), a portion of the proceeds of which were applied to refund all of the Authority’s outstanding Special Facilities Revenue Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 1990. On December 9, 1999, the Authority issued \$80,500,000 of its Special Facilities Revenue Bonds (United Airlines, Inc. Project), Series 1999A (the “United Project Bonds”). On October 21, 1999, the Authority issued its \$33,120,000 Special Facilities Revenue Bonds (US Airways Project), Series 1999 (the “1999 US Airways Project Bonds”) and on January 2, 1997, the Authority issued its \$48,980,000 Special Facilities Revenue Bonds (USAir Project), Series 1996A (the “1997 USAir Project Bonds”) and collectively with the 1999 US Airways Project Bonds, the “US Airways Project

Bonds”). The Authority did not undertake any ongoing disclosure obligations in connection with the issuance of the Subordinated Revenue Bonds, the Hyatt Bonds, the United Project Bonds or the US Airways Project Bonds. On May 15, 1997, the Authority issued its \$111,320,000 Special Facilities Revenue Bonds (BOSFUEL Project), Series 1997 (the “BOSFUEL Bonds”).

Copies of the 1999 Official Statement relating to the 1999 Bonds, the Authority’s Official Statement dated June 9, 1999 relating to the PFC Bonds (the “1999 PFC Official Statement”) and the Authority’s Official Statement dated May 9, 1997 relating to the BOSFUEL Bonds (together, the “Official Statements”) are available from the Authority and the Municipal Securities Rulemaking Board (“MSRB”). For a more complete description of the Authority and the Bonds, reference is made to the Official Statements.

The Authority’s principal office is located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128. Its telephone number is (617) 428-2800. Questions may be directed to Leslie A. Kirwan, the Authority’s Director of Administration and Finance and Secretary-Treasurer.

Annual Disclosure Statement

This Annual Disclosure Statement is of limited scope. It contains only an updating of certain financial information and operating data described below. The information set forth herein does not contain all material information concerning the Bonds or the Authority necessary to make an informed investment decision. This Annual Disclosure Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds.

This Annual Disclosure Statement is submitted pursuant to the Disclosure Agreements and the obligations of the Authority entered into in 1997 in connection with the BOSFUEL Bonds. The intent of the Authority’s undertaking under the Disclosure Agreements is to provide on a continuing basis for the benefit of the owners of the Bonds and any other bonds of the Authority which are designated by resolution of the Authority as subject to and having the benefits of either the Continuing Disclosure Agreement or the PFC Disclosure Agreement, respectively, the information described in Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934. Pursuant to the Disclosure Agreements, the Authority has agreed with respect to the Bonds to provide, or cause to be provided, certain annual financial information and operating data and notices of material events. In addition, in connection with the issuance of the BOSFUEL Bonds, the Authority undertook a limited obligation to provide annual updated data with respect to certain information regarding the Airport. The Authority reserves the right to modify the disclosure required under the Continuing Disclosure Agreement or the PFC Disclosure Agreement, respectively, or the format of such disclosure, so long as any such modification is permitted by the Rule.

The purpose of the Authority’s undertaking is to conform to the requirements of the Rule and not to create new contractual or other rights for the Trustees or for the underwriters of the Bonds, any registered owner or beneficial owner of Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, the SEC, or any other person. The sole remedy in the event of any actual or alleged failure by the Authority to comply with any provision in either

the Continuing Disclosure Agreement or the PFC Disclosure Agreement shall be an action for the specific performance of the Authority's obligations thereunder and not for money damages in any amount. Any failure by the Authority to comply with any provision of such undertaking shall not constitute an event of default under the Trust Agreement, the PFC Trust Agreement or any other instruments relating to the Bonds.

UPDATED OPERATING INFORMATION

Airport Properties

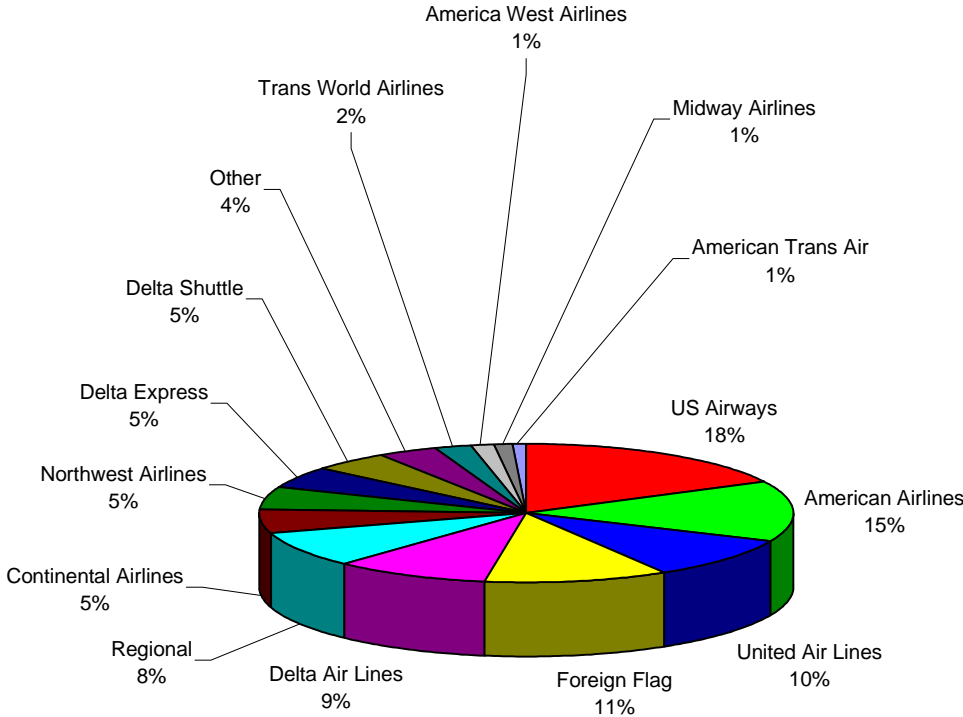
The Airport continues to be the principal source of the Authority's Revenues, Net Revenues and net income, and is the dominant factor in the determination of the Authority's financial condition. In fiscal year 2001, the Airport accounted for 77.5% of the Authority's Revenues and 81.5% of the Authority's Net Revenues.

In calendar year 2000, based upon total passenger volume, the Airport was the most active in New England, the 18th most active in the United States, and the 30th most active in the world, according to the Airports Council International ("ACI"). The Airport has been classified as a large traffic hub by the Federal Aviation Administration ("FAA"). Airports are classified as large hubs if they enplane over 1% of the total passengers enplaned by domestic airlines in the United States. Enplaned plus deplaned passengers at the Airport for fiscal year 2001 totaled approximately 27.2 million passengers, excluding general aviation.

Airline Passenger Services. As of June 30, 2001, airline service at the Airport, both scheduled and non-scheduled, was provided by 60 airlines, including 8 U.S. major air carrier airlines, 16 non-U.S. flag ("foreign flag") carriers, and 8 regional and commuter airlines ("regional airlines"). Most of the regional airlines are partially or entirely owned by or operated under agreements with major air carrier airlines. The following chart presents the relative shares of the U.S. air carrier airlines carrying the highest shares of total passenger traffic at the Airport, as well as the relative shares of the regional airlines and foreign flag carriers, during fiscal year 2001. The six carriers with the highest market shares – Delta Air Lines (including Delta Express and Delta Shuttle), US Airways (including US Airways Shuttle), American Airlines (including TWA), United Air Lines, Continental Airlines and Northwest Airlines – carried approximately 73.4% of all passengers traveling through the Airport during fiscal year 2001. The largest market share for fiscal year 2001 was held by Delta, with approximately 19% of all passengers traveling through the Airport.

**BOSTON-LOGAN INTERNATIONAL AIRPORT
MARKET SHARES OF TOTAL PASSENGER TRAFFIC
FISCAL YEAR 2001**

**BOSTON-LOGAN INTERNATIONAL AIRPORT
FY2001 MARKET SHARE OF TOTAL PASSENGER TRAFFIC**



Source: Authority.

In fiscal year 2001, domestic passenger traffic at the Airport on jet air carriers decreased 3.11% from fiscal year 2000 levels. During the same period, the number of domestic jet air carrier operations decreased 0.3%, while landed weights increased 1.9%.

Passenger Markets. The following table shows the percentage of passengers traveling on U.S. air carrier airlines to or from the Airport and other final domestic destinations for calendar year 2000, as reported by the United States Department of Transportation (“DOT”). International passengers are not included. It also shows the comparative ranking of the top 20 domestic destinations for the same period and for the preceding fiscal year.

**TOP TWENTY DOMESTIC PASSENGER MARKETS
U.S. CERTIFICATED CARRIERS
(TWELVE MONTHS ENDING DECEMBER 31, 2000)**

Calendar 1999 <u>Rank</u>	Calendar 2000 <u>Rank</u>	<u>Market</u>	Calendar 2000 <u>Percentage</u>
1	1	New York, New York/Newark, New Jersey	13.0%
2	2	Washington, D.C.	6.8
5	3	San Francisco, California	5.4
4	4	Atlanta, Georgia	4.5
3	5	Orlando, Florida	4.3
6	6	Chicago, Illinois	4.2
8	7	Los Angeles, California	4.1
7	8	Philadelphia, Pennsylvania	3.2
9	9	Ft. Lauderdale, Florida	3.1
10	10	Dallas/Ft. Worth, Texas	2.4
11	11	Tampa, Florida	2.4
12	12	Denver, Colorado	2.3
13	13	Minneapolis/St. Paul, Minnesota	2.1
15	14	Las Vegas, Nevada	1.8
14	15	West Palm Beach, Florida	1.8
16	16	Miami, Florida	1.5
17	17	Ft. Myers, Florida	1.4
**	18	San Juan, Puerto Rico	1.4
18	19	Baltimore, Maryland	1.4
**	20	Houston, Texas	1.3
Total for Cities Listed			68.4%

Source: United States Department of Transportation, O&D Survey.

**Not listed in top twenty for calendar year 1999.

In fiscal year 2001, international passengers accounted for 17.3% of passenger traffic, or approximately 4.7 million enplanements and deplanements at the Airport. The segment shares of international passenger traffic enplaned and deplaned at the Airport for the same period were 62.9% for Europe and the Middle East, 12.8% for Canada, 19.0% for Bermuda and the Caribbean and 0.3% for Asia and the Pacific. In calendar year 2000, the top five international origination/destination cities were London, Toronto, Paris, Dublin and Frankfurt.

In fiscal year 2001, overall international passenger traffic increased from fiscal year 2000 by 7.8%. This increase is primarily attributable to growth in transatlantic markets. International service developments in fiscal year 2001 include: (i) expansion of service to Paris by Air France from 12 to 14 flights per week, (ii) expansion of service to Ireland by Aer Lingus to provide daily service to both Shannon and Dublin, (iii) commencement on June 1, 2001 of daily service to London by Delta; and (iv) commencement in February 2001 of 5 flights per week to Montego Bay, Jamaica by Air Jamaica.

Regional Airlines. In fiscal year 2001, regional airline passengers (excluding international regional) accounted for 7.8% of total passenger traffic at the Airport, or approximately 2.1 million enplanements and deplanements. Regional passenger traffic experienced a 4.2% increase from fiscal year 1997 through fiscal year 2001, and a 1.2% decrease from fiscal year 2000 to fiscal year 2001. During fiscal year 2001 regional air carriers accounted for 33% of the aircraft operations at the Airport. From fiscal year 1997 through fiscal year 2001, regional flight operations decreased 10.6%, but increased slightly by 0.4% from fiscal year 2000 to fiscal year 2001.

As of June 30, 2001, two regional carriers accounted for about 81% of all regional traffic at the Airport. American Eagle and Business Express, both owned by AMR Corp., parent of American Airlines, Inc., accounted for the greatest share of such traffic, with 54% of regional passengers, followed by the USAir Express group of regional carriers, which carried 27% of domestic regional passengers.

Airport Traffic Statistics. The following table summarizes Airport traffic statistics for the five most recent fiscal years:

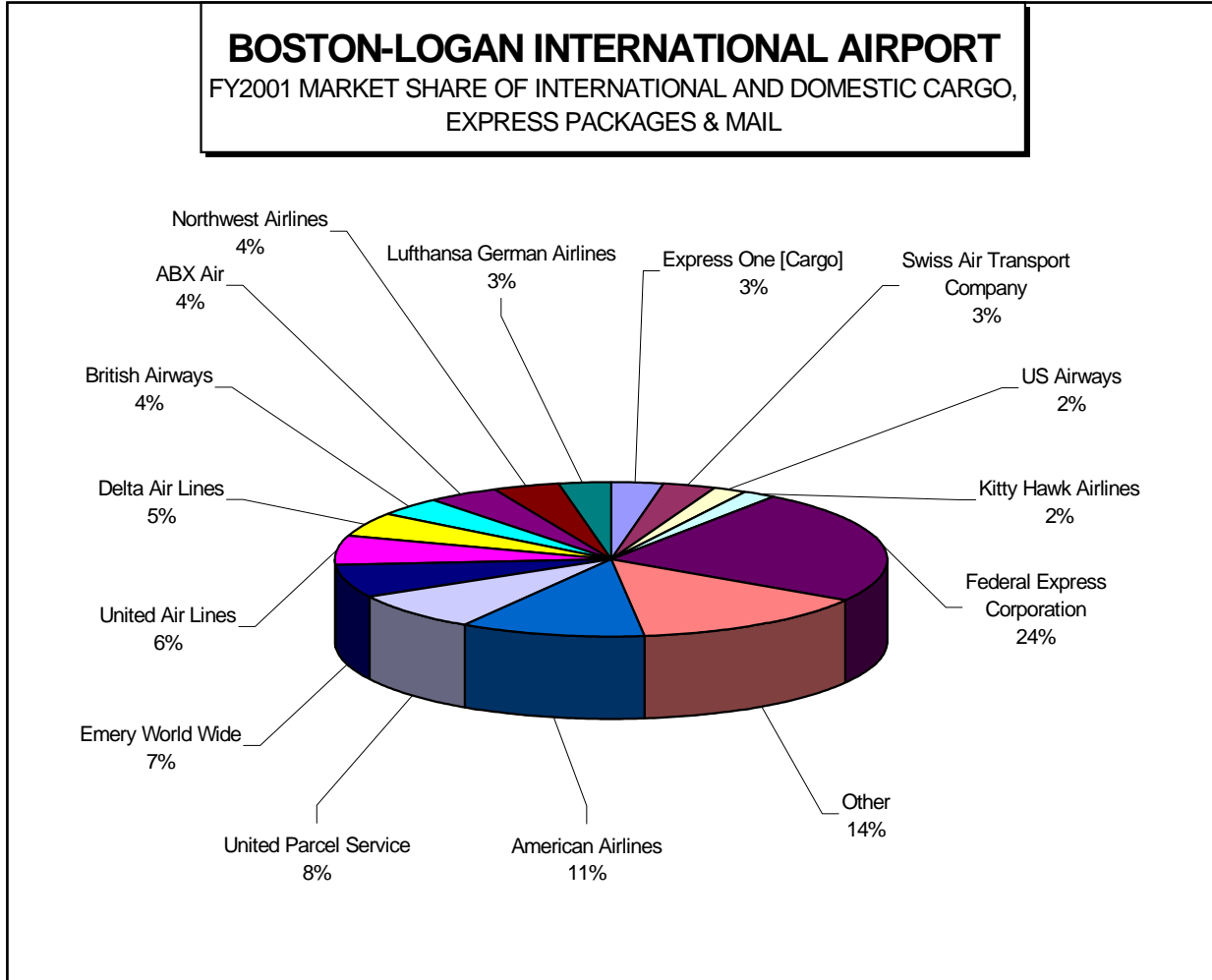
Selected Boston-Logan International Airport Traffic Statistics
(Fiscal Year Ended June 30)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Aircraft Operations (1)					
Domestic (2)	218,630	227,781	237,276	247,979	247,298
International (3)	38,053	43,273	47,423	43,414	48,699
Regional (4)	179,832	195,178	185,963	162,062 (6)	162,639
General Aviation	28,197	30,142	33,918	40,371	31,687
Total Operations	<u>464,712</u>	<u>496,374</u>	<u>504,580</u>	<u>493,826 (6)</u>	<u>490,323</u>
Enplaned Plus Deplaned Passengers					
Domestic (2)	19,358,579	19,899,188	20,160,955	21,024,798	20,330,266
International (3)	3,525,634	3,779,240	4,126,619	4,373,281	4,713,137
Regional (4)	2,034,179	2,342,330	2,247,373	2,144,939(6)	2,118,904
Total Passengers (5)	<u>24,918,392</u>	<u>26,020,758</u>	<u>26,534,947</u>	<u>27,543,018(6)</u>	<u>27,162,307</u>
Average Passengers Per Flights					
Domestic (2)	88.5	87.4	85.0	84.8	82.2
International (3)	92.7	87.3	87.0	100.7	96.8
Regional (4)	11.3	12.0	12.1	13.2 (6)	13.0
Total Cargo & Mail (000 lbs.)	923,941	996,371	949,338	1,040,877	980,385
Aircraft Landed Weights (000,000 lbs.)	21,554	22,447	23,412	23,878 (6)	24,324

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- (1) Includes all-cargo flights, but excludes helicopters.
(2) Includes jet and charter.
(3) Includes jet, charter and international commuter.
(4) Includes domestic non-jet and regional jet
(5) General Aviation not included.
(6) Restated to account for corrected information provided by a carrier.

Cargo Airline Services. The Airport plays an important role as a center for processing domestic and international air cargo. According to ACI, in calendar year 2000 the Airport ranked 17th in the nation in total air cargo volume. The Airport is currently served by ten all-cargo and small package/express carriers. During fiscal year 2001, the companies with the largest shares of enplaned and deplaned cargo at the Airport, based upon cargo tonnage, were Federal Express, American Airlines, United Parcel Service, Emery World Wide, United Air Lines, and Delta Air Lines, as illustrated by the following chart.

**BOSTON-LOGAN INTERNATIONAL AIRPORT
 AIRLINE SHARES OF INTERNATIONAL AND
 DOMESTIC CARGO MARKET
 (Based on cargo and mail weight)
 FISCAL YEAR 2001**



Source: Authority.

Cargo and Mail Traffic. In fiscal year 2001, total combined cargo and mail volume was approximately 980 million pounds. Between fiscal years 1997 and 2001, the total volume of air cargo and mail handled at the Airport increased by 6.1%, and the volume in fiscal year 2001 decreased by 6.6% over fiscal year 2000. From fiscal year 2000 to fiscal year 2001, air cargo (small package/express and freight) decreased by 8.0%. Most of the increase in total volume for the period was attributable to integrated small package/express carriers, including Federal Express, United Parcel Service, Emery World Wide, ABX Air, Inc., Express One and Kitty Hawk Airlines. Integrated carriers accounted for 55% of total domestic and international cargo volume in fiscal year 2001, compared to 58% in fiscal year 2000 and 56% in fiscal year 1997.

Port Properties

Cargo and passenger activity at the Port Properties over the last five fiscal years is summarized in the table below.

Port Activity	FY97	FY98	FY99	FY00	FY01
Containers ⁽¹⁾	72,291	78,737	83,544	83,407	74,901
Cruise Passengers	69,905	109,708	115,625	156,769	186,070
Automobiles ⁽²⁾	62,282	72,333	74,060	87,973	90,348
Bulk Tonnage	205,621	248,204	217,103	168,600	144,056

(1) Does not include over-the-road volumes.

(2) Includes vehicles entered by over-the-road means through September 1998; does not include vehicles entered by over-the-road means after September 1998.

Source: Authority.

SELECTED FINANCIAL DATA

The following table reflects Revenues and Operating Expenses for the five most recent fiscal years, prepared in accordance with accounting principles required by the Trust Agreement. Information for each of the five fiscal years in the period ending June 30, 2001 is derived from the Authority’s financial statements for the respective fiscal years. Financial statements of the Authority for fiscal year 2001 and comparative data for fiscal year 2000, together with the report thereon of PricewaterhouseCoopers LLP, independent accountants, are included in APPENDIX A.

The following table shows the calculation of Annual Debt Service Coverage of the Authority, as provided under the Trust Agreement, which equals the ratio of the Net Revenues of the Authority to the Annual Debt Service. “Net Revenues” is defined in the Trust Agreement as the excess of Revenues over Operating Expenses; provided that for the purpose of the calculations, proceeds of passenger facility charges (“PFCs”) have been excluded from Revenues because such proceeds have been excluded from Revenues under the Trust Agreement. PFCs are pledged to secure the PFC Bonds, pursuant to the PFC Trust Agreement, and certain specific information pertaining to the PFC Bonds as required by the PFC Disclosure Agreement, is set forth below and in APPENDICES B and C. See “PFC ANNUAL FILING” and APPENDICES B and C hereto. As used in the tables, “Annual Debt Service” is equal to the “Principal and Interest Requirements” on Bonds (other than PFC Bonds and BOSFUEL Bonds) outstanding for the applicable fiscal year.

HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE

(in thousands)

Fiscal Year Ended June 30

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenues:					
Airport Properties					
Landing Fees	\$49,058	\$50,812	\$51,994	\$52,972	\$56,193
Terminal Rentals and per Passenger Fees	33,912	38,037	36,735	39,346	39,850
Parking Fees	54,325	58,214	63,931	71,108	73,269
Non-Terminal Building and Ground Rents	21,332	21,095	22,444	26,264	29,949
Concessions	33,881	39,000	42,449	41,567	42,075
Other (1)	<u>26,383</u>	<u>29,675</u>	<u>27,843</u>	<u>30,493</u>	<u>32,751</u>
	<u>218,891</u>	<u>236,833</u>	<u>245,396</u>	<u>261,750</u>	<u>274,087</u>
Port Properties					
Maritime	20,574	22,354	30,098	34,689	32,155
Port Planning & Development	<u>5,407</u>	<u>5,476</u>	<u>7,107</u>	<u>7,279</u>	<u>7,454</u>
	<u>25,981</u>	<u>27,830</u>	<u>37,205</u>	<u>41,968</u>	<u>39,609</u>
Bridge	6,372	12,486	11,647	12,209	13,190
Investment Income (2)	<u>10,212</u>	<u>13,738</u>	<u>16,534</u>	<u>17,748</u>	<u>21,604</u>
Total Revenues	<u>261,456</u>	<u>290,887</u>	<u>310,782</u>	<u>333,675</u>	<u>348,490</u>
Operating Expenses (3):					
Airport Properties	124,757	127,688	139,533	143,290	157,050
Port Properties					
Maritime	26,313	29,169	34,626	34,719	33,420
Port Planning & Development	<u>6,284</u>	<u>6,076</u>	<u>6,641</u>	<u>6,414</u>	<u>6,822</u>
	<u>32,597</u>	<u>35,245</u>	<u>41,267</u>	<u>41,133</u>	<u>40,242</u>
Bridge	6,982	6,740	7,215	7,303	7,652
Total Operating Expenses	<u>164,336</u>	<u>169,673</u>	<u>188,015</u>	<u>191,726</u>	<u>204,944</u>
Net Revenues	<u>\$97,120</u>	<u>\$121,214</u>	<u>\$122,767</u>	<u>\$141,949</u>	<u>\$143,546</u>
Annual Debt Service	\$47,061	\$46,560	\$56,956	\$57,444	\$64,965
Annual Debt Service Coverage	2.06	2.60	2.16	2.47	2.21

(1) Includes Airport utility revenues and fees from operations at Hanscom Field.

(2) Excludes investment income deposited into Construction and PFC Funds.

(3) Includes allocation of all operating expenses related to Authority General Administration.

MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATING RESULTS

From fiscal year 1997 to fiscal year 2001, total Revenues have increased from \$261.5 million to \$348.5 million while total Operating Expenses have increased from \$164.3 million to \$204.9 million, resulting in Net Revenues increasing from \$97.1 million for fiscal year 1997 to \$143.5 million for fiscal year 2001 (excluding PFCs). During this period, the annual net income of the Authority, determined in accordance with generally accepted accounting principles, averaged \$12.4 million (excluding PFCs). During this period, the Airport has been the key source of Authority gross revenues, net revenue and net income. For a discussion of the differences between the accounting principles required by the Trust Agreement and generally accepted accounting principles, see Note B to the Financial Statements in APPENDIX A. Net income of the Authority determined in accordance with generally accepted accounting principles was \$30 million in fiscal year 2000 and \$38.8 million in fiscal year 2001. Revenues and net income do not include PFC Revenues, which are required under federal law to be applied for certain capital projects at the Airport. PFC Revenues and investment income thereon totaled \$42.8 million in fiscal year 2000, and \$41.7 million in fiscal year 2001.

Airport Properties

Airport Properties Net Revenues (Airport Properties Revenues less Airport Properties Operating Expenses), increased from fiscal year 1997 to fiscal year 2001 by 24.2%. The majority of this increase has come from strong growth in parking, rental car and other concessions, while landing fees, charges for heating and cooling, and terminal rentals have been set periodically on a compensatory basis to recover direct and allocated capital, administration, maintenance and operation costs. Approximately \$38.5 million, or 14.0%, of fiscal year 2001 Airport Properties Revenues reflected the recovery of costs of construction and financing of improvements. Unlike many airport operators, the Authority is not constrained by contractual arrangements with the air carriers governing incurrence of landing field costs and the recovery of such costs in the landing fee. From fiscal year 1997 to fiscal year 2001, the largest percentage increases in components of Airport Properties Operating Expenses were associated with the increased cost of payroll and benefits, ground transportation related expenses and rent for off-Airport properties.

Landing Fees. Landing fee revenues at the Airport rose from \$49.1 million in fiscal year 1997 to \$56.2 million in fiscal year 2001. During this period, the landing fee rate per thousand pounds of landed weight increased from \$2.04 to \$2.21. The landing fee for fiscal year 2002, established as of October 1, 2001, is \$2.35 per thousand pounds of landed weight. From fiscal year 1997 to fiscal year 2001 landed weight increased from approximately 21,554 thousand pounds to approximately 24,324 thousand pounds, and landed weight increased from approximately 23,878 thousand pounds in fiscal year 2000 to 24,324 thousand pounds in fiscal year 2001.

Parking Fees. Airport parking revenues have increased from \$54.3 million in fiscal year 1997 to \$73.3 million in fiscal year 2001, reflecting a 10.5% decrease in vehicles using the facilities and rate increases which went into effect on September 1, 1997. The number of commercial parking spaces at the Airport is subject to a limitation imposed by the United States Environmental Protection Agency. In partial consideration for the issuance of the Subordinated

Revenue Bonds, the Authority received the authority to increase the number of commercial parking spaces permitted to be located at the Airport by 1,377.

Rentals. The Authority does not have long-term written agreements with most of the airline tenants in Terminals A, C, D and E. Rental rates for such Terminals are set on a compensatory basis to recover direct and allocated capital, administration, maintenance and operation costs. Rental revenue from these four Terminals totaled \$31.6 million in fiscal year 2001. Terminal B has been operated under a net lease with the South Terminal Corporation, an airline consortium whose member shareholders occupy approximately two-thirds of the gates at Terminal B. This lease expires in November 2001, and the Authority will directly control, operate and maintain all of Terminal B from and after that date. However, in connection with the issuance of the 1997 USAir Project Bonds in January 1997, the Authority entered into a lease of the western wing of Terminal B with US Airways for a term scheduled to end September 30, 2023, and the Authority entered into a similar lease of a significant portion of the eastern wing of Terminal B with American Airlines for a term expiring in 2010, which may be extended to 2015. Net rentals from Terminal B, including revenues from tenants occupying Authority-controlled space, were \$8.1 million in fiscal year 2001. Rental income from buildings other than Terminals totaled \$20.6 million in fiscal year 2001 and income from land rentals produced an additional \$9.3 million.

Concessions. Revenues from concessions increased from \$33.9 million in fiscal year 1997 to \$42.1 million in fiscal year 2001. Concession revenues include payments made by rental car companies which operate at the Airport and commissions from the following concessions: food and beverage, news and gifts, duty free shops, specialty shops, and other concessions. During the five-year period from fiscal year 1997 to fiscal year 2001, approximately 47.3% of concession revenues was derived from payments made by rental car companies, and 39.6% of the increase in concession income during this period was attributable to such payments by rental car companies.

Hanscom Field. During fiscal year 2001, revenues from operations at Hanscom Field represented approximately 1.1% of the total revenues of the Authority, and Hanscom's operating expenses constituted approximately 2.0% of the Authority's expenses. In fiscal year 2001, Hanscom Field contributed \$4.1 million of revenue, with operating expenses of \$4.0 million, yielding an operating surplus of approximately \$33,000. The average operating deficit at Hanscom Field from fiscal year 1997 through 2001 has been approximately \$199,000. Operating revenue and expense figures for Hanscom Field stated in this paragraph do not include certain items, particularly expense items, such as interest, depreciation and amortization, properly allocable to Hanscom Field under generally accepted accounting principles.

Port Properties

Results of operations of the Authority's Maritime Department and its Business Development Department are separately stated. The Authority has traditionally experienced annual Port Properties operating deficits (Maritime and Business Development Revenues less Maritime and Business Development Operating Expenses). These deficits reflect the allocation of a portion of Authority-wide administrative and overhead costs as well as all direct costs.

In fiscal year 2001 the revenue attributable to the Port Properties totaled approximately \$39.6 million, or approximately 11.4% of the revenues of the Authority, and the Port Properties accounted for approximately \$40.2 million of operating expenses, or approximately 19.6% of the Authority's operating expenses. The Maritime Department accounted for \$32.2 million of these revenues and for \$33.4 million of operating expenses, thus incurring an operating deficit in fiscal year 2001 of \$1.2 million. The Business Development Department realized \$7.5 million of revenues, versus \$6.8 million of operating expenses, producing an operating surplus of \$632,000. Operating revenue and expense figures for the Port Properties stated in this paragraph do not include certain items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to the Port Properties under generally accepted accounting principles.

Maritime. The Maritime Department has operated at a deficit in each of the fiscal years from 1997 through 2001. From fiscal year 1997 to fiscal year 2001, the operating deficit has averaged \$3.7 million. The Authority attributes the reduction of the operating deficit in recent fiscal years to the following factors: increases in container fee revenue from restructuring rates at Conley Terminal, increases in cruise ship activity, and increases in rental revenue from additional leases, including the International Cargo Port. Operating expenses for fiscal year 2001 were relatively stable with no significant increases noted from the previous fiscal year.

Over the period shown, the Authority implemented its Marine Terminal Optimization Program, consolidating container operations at Conley Terminal and automobile processing at Moran Terminal and Mystic Pier No. 1. The Authority has also pursued a policy of seeking compensatory pricing, aggressively negotiating new lease terms when possible, and revenue development through more intense use of the Port Properties and a marketing program designed to increase the volume of containers handled and the number of cruise passengers who embark or disembark in Boston, in an effort to mitigate these deficits.

Business Development. The Business Development Department, which manages the active redevelopment of the Fish Pier, Commonwealth Pier, Constitution Plaza and adjacent properties, and the East Boston Piers, experienced deficits in fiscal years 1997 and 1998. As a result of significant increases in rental rates obtained at the expiration and renewal of prior leases, and substantial increases in rental rates where higher and more intensive uses have been achieved, operating revenues exceeded expenses in fiscal years 1999 to 2001. The average annual operating surplus during the five years was \$97,000.

Bridge

In fiscal year 2001 revenues from the Bridge were approximately \$13.2 million, or approximately 3.8% of the total Revenues of the Authority. Bridge operating expenses for fiscal year 2001 were \$7.7 million, yielding an operating surplus on Bridge operations of approximately \$5.5 million. Basic toll rates at the Bridge for passenger cars did not change from 1956-1997. However, effective July 1, 1997, toll rates were increased, with passenger car tolls doubling from \$.50 to \$1.00. Operating revenue and expense figures for the Bridge operations stated in this paragraph do not include certain items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to the Bridge under generally accepted accounting principles. See "SELECTED FINANCIAL DATA".

Other

Investment Income. Investment income increased from \$17.7 million in fiscal year 2000 to \$21.6 million in fiscal year 2001, reflecting larger balances available for investment.

PFC ANNUAL FILING

The following information is provided with respect to the PFC Bonds pursuant to the PFC Disclosure Agreement.

Historical and Forecast PFCs and Estimated Debt Service Coverage

A table presenting historical and forecast PFC collections and estimated debt service coverage of the PFC Bonds as of June 30, 2001 is attached hereto as APPENDIX B.

First Lien Sufficiency Covenant

A calculation of the First Lien Sufficiency Covenant (as defined in the PFC Trust Agreement) as of June 30, 2001 is attached hereto as APPENDIX C.

Sources and Uses of Funds for 1999 PFC Bond Projects

The 1999 PFC Bond Projects consist of the “Gateway Terminal Building”, comprising an addition of approximately 410,000 square feet of new space to, and renovation of approximately 170,000 square feet of existing space at, Terminal E, the international terminal at the Airport, and development of the “Gateway Roadways”, comprising a new two-level system of public roads, service access and new curbside facilities. Collectively, the Gateway Terminal Building and the Gateway Roadways are referred to as the “International Gateway Project.” As of September 30, 2001, the estimated cost to complete the International Gateway Project remained at approximately \$321,836,000. As of June 30, 2001, \$271,017,954 had been committed through execution of construction contracts, change orders, work orders, purchase orders or other approved payments, and \$140,497,067 had been invoiced. The primary sources of funding for the International Gateway Project are the Authority’s PFC Revenue Bonds, Series 1999A, PFC Revenue Bonds, Series 1999B and Revenue Bonds, Series 1999D, as well as pay-as-you go PFCs.

International Gateway Project Sources and Uses

	Gateway Roadways	Gateway Terminal Building	Total
<u>PFC Pay-as-you-go Funding:</u>			
Preliminary Design:	\$ 588,000	\$ 2,678,000	\$ 3,266,000
Budgeted Contingencies:	5,325,000	22,996,000	28,321,000
Budgeted OCIP:	<u>1,380,000</u>	<u>6,281,000</u>	<u>7,661,000</u>
Subtotal PFC Pay-as-you-go Funding:	7,293,000	31,955,000	39,248,000
<u>PFC Revenue Bonds:</u>			
Series 1999A:	40,743,000		40,743,000
Series 1999B:		182,875,000	182,875,000
<u>Revenue Bonds, Series 1999D:</u>		47,591,000	47,591,000
<u>Other Sources (future Revenue Bonds expected to be issued in 2003):</u>	_____	<u>11,379,000</u>	<u>11,379,000</u>
<u>Total Funding for International Gateway:</u>	\$48,036,000	\$273,800,000	\$321,836,000

Additional Information

The remaining information required to be included in the Authority's Annual Filing under subsections 4(a)(ii), (iii), (iv) and 4(c) of the PFC Disclosure Agreement is either included above or is set forth in the Authority's audited financial statements for the fiscal year ended June 30, 2001 included herein as APPENDIX A.

LITIGATION

There was no new material litigation in fiscal year 2001 other than that disclosed in footnote K of the Authority's financial statements attached as APPENDIX A, nor have there been any material developments in any matter previously disclosed. However, see "Recent Events" with respect to certain potential litigation.

LEGISLATION

In order to effectuate the provisions of Chapter 87 of the Massachusetts Acts of 2000, on January 29, 2001, the Authority, the Massachusetts Department of Highways and the Massachusetts Turnpike Authority entered into a Second Supplement to the Roadway Transfer Agreement dated March 23, 1999 which provides for the transfer to the Authority of an

additional portion of the Ted Williams Tunnel located within and exclusively serving the Airport valued at \$65 million in exchange for a payment to the Commonwealth by the Authority of \$65 million. The payment by the Authority to the Commonwealth of \$65 million was made on January 29, 2001.

RECENT EVENTS

On September 11, 2001, American Airlines Flight 11 and United Airlines Flight 175, both originating from the Airport, were hijacked by terrorists. The aircraft were flown into the World Trade Center in New York City. There was a significant loss of life and property as well as personal injury resulting from these acts. Subsequently, all air traffic in the United States was temporarily suspended, the Airport Properties were closed for four days, and, under FAA mandates applicable to all airports, new security measures were taken, such as the closing of certain parking facilities and increasing the amount of security and law enforcement personnel. Air travel has been reinstated at reduced levels, and both enplanements and operations at the Airport and collection of operating revenues at the Airport will, for some indeterminate period, be reduced. The Authority cannot accurately predict as of the date hereof the duration of such reduction or the level of the financial impact of these events on (i) its revenues and expenses, or (ii) the financial condition of any of the air carriers serving its facilities, but the impact could be material to the Authority's financial position. In light of these circumstances, the Authority has commenced actions to manage both its revenues and expenses in order to meet its financial obligations. The Authority has adopted a fiscal recovery plan which amends the Authority's operating budget for the remainder of fiscal year 2002 to bring operating revenues and expenses into balance, based upon a projection of 70% of previously projected air passengers and 65% of previously projected parking revenues. The goals of the fiscal recovery plan include preserving the Authority's fiscal stability, meeting the Authority's financial covenants, and adjusting to a steady state of operations that will likely continue below previous forecasts. However, there can be no assurance that these projected levels of revenues will be achieved. In addition, the Authority is in the process of re-evaluating its capital budget for fiscal years 2001-2006, and the Authority expects that some projects will be deferred or cancelled.

The Authority's outstanding debt has been placed on watch, with negative implications by each of Fitch, Moody's Investors Service and Standard & Poor's Credit Markets Services.

As of the date hereof, no lawsuit has been filed against the Authority related to the events of September 11, 2001; however, the Authority has received certain notices of intent to bring suits related to these events. While the outcome of any such suits cannot be predicted, it should be noted that on November 19, 2001, President Bush signed into law legislation which includes a provision which limits the liability of certain parties, including airport owners and operators, for all claims arising from the terrorist-related aircraft crashes of September 11, 2001 to the limits of such entity's liability insurance coverage.

The Authority's Executive Director, Virginia Buckingham, resigned as of October 25, 2001, and the Authority's Director of Aviation, Thomas J. Kinton, Jr., has been named the Acting Executive Director/Director of Aviation.

* * *

This Annual Disclosure Statement has been executed and delivered on behalf of the Authority pursuant to the Disclosure Agreements.

MASSACHUSETTS PORT AUTHORITY

By: /s/ Thomas J. Kinton, Jr.
Thomas J. Kinton, Jr., Acting Executive Director/
Director of Aviation

By: /s/ Leslie A. Kirwan
Leslie A. Kirwan
Director of Administration and Finance and
Secretary-Treasurer

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APPENDIX A
FINANCIAL STATEMENTS

Massachusetts Port Authority

Financial Statements

For the Years Ended June 30, 2001 and 2000

Report of Independent Accountants

To the Members of the Massachusetts Port Authority:

In our opinion, the accompanying balance sheets and the related statements of revenue, expenses and changes in equity and of cash flows present fairly, in all material respects, the financial position of the Massachusetts Port Authority (the "Authority") (a public instrumentality of The Commonwealth of Massachusetts) at June 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note A, the Authority adopted the provisions of the Government Accounting Standards Board ("GASB") Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*, as of July 1, 2000.

As described in Note P, on September 11, 2001, two commercial passenger planes that departed from Boston Logan International Airport were hijacked by terrorists. The planes flew into and subsequently destroyed the World Trade Center in New York City. There was a significant loss of life and property resulting from these acts, and Boston Logan International Airport was closed for four days. The financial impact of the events described above are not currently known, but could be material to the Authority's financial position and results of operations.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 48 and 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



September 28, 2001

Massachusetts Port Authority
Balance Sheets
June 30, 2001 and 2000
(In Thousands)

ASSETS	<u>2001</u>	<u>2000</u>
Cash and cash equivalents	\$ 36,397	\$ 33,709
Investments	56,857	41,483
Accounts receivable, net of allowance for doubtful accounts of \$9,559 and \$9,996 in 2001 and 2000, respectively	19,706	22,737
Accounts receivable – grants	6,297	2,034
Prepayments and other assets, net	12,965	22,629
Investment in joint venture	4,923	3,460
Intangible Assets	46,261	-
Assets whose use is limited, including cash and cash equivalents of \$43,800 and \$49,923 in 2001 and 2000, respectively	569,240	705,953
Investment in facilities		
Completed facilities	2,035,298	1,884,798
Less accumulated depreciation	<u>(928,360)</u>	<u>(862,230)</u>
	1,106,938	1,022,568
Construction in progress	<u>564,582</u>	<u>420,159</u>
Net investment in facilities	<u>1,671,520</u>	<u>1,442,727</u>
 Total assets	 <u>\$ 2,424,166</u>	 <u>\$ 2,274,732</u>
 LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 52,871	\$ 62,514
Accrued compensated absences	15,745	13,224
Accrued interest payable	34,037	33,973
Funded debt	1,275,803	1,198,652
Deferred income	<u>13,153</u>	<u>14,273</u>
 Total liabilities	 <u>1,391,609</u>	 <u>1,322,636</u>
 Contingent liabilities and commitments		
Equity:		
Retained earnings	891,820	815,168
Contributed capital (grants in aid of construction)	<u>140,737</u>	<u>136,928</u>
 Total equity	 <u>1,032,557</u>	 <u>952,096</u>
 Total liabilities and equity	 <u>\$ 2,424,166</u>	 <u>\$ 2,274,732</u>

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

Massachusetts Port Authority
Statements of Revenues, Expenses and
Changes in Equity
For the Year Ended June 30, 2001 and 2000
(In Thousands)

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Fees, tolls and other services	\$ 188,137	\$ 182,873
Rentals	81,231	75,925
Concessions	47,347	46,315
Other	<u>10,185</u>	<u>10,714</u>
Total operating revenues	326,900	315,827
Operating expenses:		
Operations and maintenance	145,797	135,468
Administration	57,353	54,054
Insurance	2,880	2,313
Payments in lieu of taxes	13,093	12,031
Provision for uncollectible accounts	14	(100)
Depreciation and amortization	<u>71,389</u>	<u>75,706</u>
Total operating expenses	<u>290,526</u>	<u>279,472</u>
Operating income	36,374	36,355
Nonoperating revenues (expenses):		
Passenger facility charges	36,324	36,815
Investment income	28,982	25,220
Interest expense	(35,734)	(34,323)
Gain on sale of equipment	148	139
Other	<u>1,516</u>	<u>-</u>
Total nonoperating revenue	<u>31,236</u>	<u>27,851</u>
Income before capital grant revenue	67,610	64,206
Capital grant revenue	12,851	-
Net income	<u>80,461</u>	<u>64,206</u>
Equity, beginning of year	952,096	878,146
Capital contribution	<u>-</u>	<u>9,744</u>
Equity, end of year	<u>\$ 1,032,557</u>	<u>\$ 952,096</u>

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

Massachusetts Port Authority
Statements of Cash Flows
For the Years Ended June 30, 2001 and 2000
(In Thousands)

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Cash received from customers	\$ 330,194	\$ 317,462
Cash payments:		
To vendors for goods and services	(111,817)	(111,146)
To employees for services	(88,568)	(81,945)
Payments in lieu of taxes	<u>(13,093)</u>	<u>(12,031)</u>
Net cash provided by operating activities	<u>116,716</u>	<u>112,340</u>
Cash flows from capital and related financing activities:		
Grants-in-aid of construction	8,588	9,370
Acquisition and construction of capital assets	(271,568)	(208,435)
Proceeds from sale of bonds	-	193,840
Proceeds from commercial paper financing	22,000	3,000
Proceeds from transfer of land	12,000	-
Proceeds from sale of equipment	92	391
Principal paid on funded debt	(19,175)	(34,460)
Interest paid on funded debt	(66,144)	(52,576)
Debt defeasance	-	(44,760)
Proceeds from passenger facility charges	<u>35,403</u>	<u>36,385</u>
Net cash used for capital and related financing activities	<u>(278,804)</u>	<u>(97,245)</u>
Cash flows from investing activities:		
Purchases of investments	(1,466,567)	(1,919,317)
Proceeds from sales and maturities of investments	1,581,798	1,852,866
Interest earned on investments	41,922	40,985
Proceeds from credit enhancement fee	<u>1,500</u>	<u>-</u>
Net cash provided by/(used in) investing activities	<u>158,653</u>	<u>(25,466)</u>
Net decrease in cash and cash equivalents	(3,435)	(10,371)
Cash and cash equivalents, beginning of year	<u>83,632</u>	<u>94,003</u>
Cash and cash equivalents, end of year	<u>\$ 80,197</u>	<u>\$ 83,632</u>

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

Massachusetts Port Authority
Statements of Cash Flows, Continued
For the Years Ended June 30, 2001 and 2000
(In Thousands)

	<u>2001</u>	<u>2000</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 36,374	\$ 36,355
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	71,389	75,706
Provision for uncollectible accounts	14	(100)
Changes in assets and liabilities:		
Accounts receivable	3,938	2,541
Prepayments and other assets	2,536	(335)
Accounts payable and accrued expenses	1,064	(751)
Accrued compensated absences	2,521	1,044
Deferred income	<u>(1,120)</u>	<u>(2,120)</u>
Total adjustments	<u>80,342</u>	<u>75,985</u>
Net cash provided by operating activities	<u>\$ 116,716</u>	<u>\$ 112,340</u>

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

Massachusetts Port Authority Notes to Financial Statements

The Massachusetts Port Authority (the "Authority") is a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") created by Chapter 465 of the Acts of 1956, as amended, (the "Enabling Act"), effective June 21, 1956. The Authority controls, operates and manages Boston Logan International Airport ("Logan Airport"), Laurence G. Hanscom Field, Maurice J. Tobin Memorial Bridge ("Tobin Bridge"), the Port of Boston and other facilities in the Port of Boston. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of the Commonwealth's financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended (the "Trust Agreement"), between the Authority and State Street Bank and Trust Company, as Trustee, and the PFC Revenue Bond Trust Agreement dated May 6, 1999, as amended (the "PFC Trust Agreement"), between the Authority and the Bank of New York, as Trustee, govern the disposition of cash revenues to the various funds established under the Trust Agreement and the PFC Trust Agreement, and restrict the use of such revenues credited to the various funds.

A. Summary of Significant Accounting Policies

These financial statements have been prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America.

During 2001, the Authority adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. GASB Statement No. 33 requires that items of contributed capital be recorded as nonoperating revenue in the statement of revenues, expenses and changes in equity. GASB 33 states that governments should not restate contributed capital arising from periods prior to implementation of this statement. As a result of the adoption of GASB Statement No. 33, \$12,851,000 of contributed capital is recorded as nonoperating revenue and \$9,744,000 of contributed capital is recorded as an addition to equity, for the years ended June 30, 2001 and 2000, respectively. Accordingly, in 2001 the adjustment of depreciation expense attributable to assets constructed with funds from capital contributions is no longer required to reconcile net income to change in equity.

During 1999, the Governmental Accounting Standards Board ("GASB") issued a statement titled "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Effective July 1, 2001, the basic financial statements and required supplementary information for enterprise funds should consist of Management's Discussion and Analysis, Basic Financial Statements, and all required supplementary information. In addition, the Authority's equity will be required to be classified into three new categories of net assets: Invested in plant net of debt, restricted and unrestricted. The Authority is currently evaluating the effects of the new reporting presentation.

Beginning on July 1, 1995, the Authority elected to apply all GASB and Financial Accounting Standards Board ("FASB") pronouncements issued before November 30, 1989, under the provisions of GASB Statement No. 20.

Assets Whose Use Is Limited

The balance sheet caption, "Assets whose use is limited," represents restricted or trustee assets under the Trust Agreement and the PFC Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including assets whose use is limited) with an original maturity of 30 days or less when purchased to be cash equivalents.

Massachusetts Port Authority

Notes to Financial Statements

A. Summary of Significant Accounting Policies, continued

Investments

Investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with an original maturity of less than one year are carried at amortized cost. Investments consist of commercial paper, U.S. Government and agency obligations, and repurchase agreements collateralized by U.S. Government or agency obligations, with an original maturity greater than three months.

Self-Insurance

The Authority, as mandated by the Trust Agreement, maintains a Self-Insurance Account within the Operating Fund. The funds on deposit in the Self-Insurance Account are intended to pay claims that are below insurance policies' deductible limits, and to be available to fund certain claims that may not be insurable, if any. Investments used to fund self-insurance claims are included within "Assets whose use is limited" in the accompanying balance sheets.

Investment in Facilities

Facilities are carried at historical cost and include the expenditure of federal grants-in-aid of construction (contributed capital) and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed grant revenue for the year ended June 30, 2001 and as contributed capital for the year end June 30, 2000. Expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation

Depreciation is provided on the straight-line method based on estimated useful lives of the related assets beginning in the fiscal year of acquisition or upon completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

Interest Capitalization

The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of \$30,475,000 and \$29,149,000 reduced by interest income of \$12,940,000 and \$15,765,000, resulted in interest of \$17,535,000 and \$13,384,000 for the years ended June 30, 2001 and 2000, respectively, being capitalized as a part of the cost of construction in progress.

Accounting for Compensated Absences

The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "Accrued compensated absences."

Deferred Income

Deferred income consists primarily of amounts received from the Massachusetts Highway Department ("MHD") primarily for temporary and permanent easements of certain properties at Logan Airport which provide MHD with sufficient rights in land owned by the Authority to permit MHD to complete the Ted Williams Tunnel project, as currently designed. Income received from these easements will be recognized over the shorter of the asset's useful life or the original term for temporary easements, and over the estimated useful life of the assets constructed under permanent easements, which is 25 years.

Massachusetts Port Authority

Notes to Financial Statements

A. Summary of Significant Accounting Policies, continued

Arbitrage - Rebate Liability

The U.S. Treasury has issued regulations on calculating the rebate due to the U.S. Government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the Authority temporarily invests the proceeds of tax-exempt debt in securities with higher yields. The Authority records a liability for arbitrage profits, if any, when the likelihood of payment becomes probable.

Passenger Facility Charges

Revenues derived from the collection of passenger facility charges ("PFCs") are recognized on the accrual basis and reported as nonoperating revenue by the Authority.

Intangible Assets

Intangible assets consist of the rights to use certain parking spaces acquired by the Authority as part of the ParkEx Acquisition. These intangible assets are amortized on a straight-line basis over 30 years.

Joint Venture

The Authority has a 33% participating interest in an investment in a joint venture. In accordance with the joint venture agreement, the Authority records as income or loss its proportionate share of the net earnings or losses of the joint venture with a corresponding increase or decrease in the carrying value of the investment. The investment in the joint venture is reduced as cash distributions are received and is increased as cash contributions are made.

Financial Statement Reclassification

Certain accounts in the June 30, 2000 financial statements have been reclassified to conform with the June 30, 2001 presentation.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement and the PFC Trust Agreement to the Financial Statements

The provisions of the Enabling Act, the Trust Agreement and the PFC Trust Agreement prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority are deposited in the Operating Fund established pursuant to the Trust Agreement. After providing for operating expenses, including pension expense and transfers to the Self-Insurance Account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding revenue bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and, if applicable, the Capital Budget Fund and finally the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are deposited in the Capital Budget Account within such fund. PFCs are deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Trust Agreement and applied monthly to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement.

Massachusetts Port Authority Notes to Financial Statements

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement and the PFC Trust Agreement to the Financial Statement, continued

Presented below are the 2001 and summary 2000 revenues and operating expenses as determined in accordance with the Trust Agreement, and a reconciliation to net income as presented in the accompanying statements of revenues, expenses and changes in equity under accounting principles generally accepted in the United States of America ("GAAP").

(In thousands)	<u>Bridge</u>	<u>Airport Properties</u>	<u>Port Properties</u>		<u>Investments</u>	<u>2001 Total</u>	<u>2000 Total</u>
			<u>Maritime</u>	<u>Development*</u>			
Revenues, net:							
Total pledged revenues (5)	\$ 13,190	\$ 274,087	\$ 32,155	\$ 7,454	\$ 21,604	\$ 348,490	\$ 333,675
Operating expenses:							
Operations and maintenance	4,973	110,343	25,792	3,593		144,701	135,218
Administration (6)	2,445	44,690	7,160	3,058		57,353	54,054
Insurance	234	2,017	468	171	-	2,890	2,454
Total	<u>7,652</u>	<u>157,050</u>	<u>33,420</u>	<u>6,822</u>		<u>204,944</u>	<u>191,726</u>
Excess (deficit) of revenues over operating expenses as prescribed by the trust agreement	5,538	117,037	(1,265)	632	21,604	143,546	141,949
Add:							
Other Revenue (3)		1,516				1,516	-
Self Insurance Interest Income/others (3)					2,033	2,033	1,524
Self Insurance Cost (1)		10				10	141
Passenger Facility Charge (3)		36,324			5,345	41,669	42,763
Gain on sale of equipment (2) (4)		148				148	139
Capital grant revenue (3)		12,851				12,851	
Less:							
PILOT (4)	(933)	(10,759)	(976)	(425)		(13,093)	(12,031)
Interest Expense (4)	(1,471)	(29,120)	(3,872)	(1,271)		(35,734)	(34,323)
Depreciation and Amortization (4)	(4,751)	(51,930)	(9,222)	(5,486)		(71,389)	(75,706)
Other Expenses (4)		(1,096)				(1,096)	(250)
Net income (loss)	<u>\$ (1,617)</u>	<u>\$ 74,981</u>	<u>\$ (15,335)</u>	<u>\$ (6,550)</u>	<u>\$ 28,982</u>	<u>\$ 80,461</u>	<u>\$ 64,206</u>

* Development includes activities related to the Authority's alternative use program, principally the Commonwealth, Fish and Hoosac Piers.

- (1) Expensed under Trust Agreement, not an expense under GAAP.
- (2) Equipment is depreciated under GAAP but not under Trust Agreement.
- (3) Not revenue under Trust Agreement, revenue under GAAP.
- (4) Not operating income/(expense) under Trust Agreement, income/(expense) under GAAP.
- (5) For trust accounting purposes, the provision for uncollectible accounts is netted within the accounts listed under the Pledged Revenues caption.
- (6) The Authority allocates total administrative expenses based upon the proportionate amount of revenues and direct expenses by facility.

Massachusetts Port Authority Notes to Financial Statements

C. Cash, Cash Equivalents and Investments

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 2001 by the various funds and accounts established under the Trust Agreement and the PFC Trust Agreement. Summary 2000 information is also presented:

(In thousands)	Cash and cash equivalents	Investments	Assets whose use is limited: Cash, cash equivalents and investments	2001 Total	2000 Total
User defined for specific purposes:					
Operating/revenue fund	\$ 32,731	\$ -	\$ -	\$ 32,731	\$ 27,864
Self-insurance account	-	-	29,812	29,812	26,968
Maintenance reserve	-	-	42,633	42,633	43,802
Payments in lieu of taxes	-	-	8,210	8,210	8,081
Capital budget account	-	-	98,911	98,911	101,258
Improvement and Extension Fund	3,666	56,857	-	60,523	47,328
1992 Interest and Sinking Fund	-	-	7,527	7,527	7,524
1993 Interest and Sinking Fund	-	-	14,164	14,164	14,080
1997A Interest and Sinking Fund	-	-	17,567	17,567	16,999
1997B Interest and Sinking Fund	-	-	4,900	4,900	4,872
1998A Interest and Sinking Fund	-	-	12,622	12,622	12,627
1998B Interest and Sinking Fund	-	-	7,270	7,270	7,302
1998C Interest and Sinking Fund	-	-	26,250	26,250	25,390
1998D Interest and Sinking Fund	-	-	7,510	7,510	7,812
1998E Interest and Sinking Fund	-	-	9,484	9,484	9,328
1999C Interest and Sinking Fund	-	-	20,086	20,086	19,539
1999D Interest and Sinking Fund	-	-	4,480	4,480	3,286
1996C Project Note	-	-	633	633	961
1997 Note Project Account	-	-	3	3	37
1998D Project Note	-	-	-	-	2,259
1998E Project Note	-	-	-	-	463
1998 Project Refunding Account	-	-	52	52	52
1999C Project Note	-	-	-	-	52,239
1999D Project Note	-	-	34,244	34,244	56,405
Credit Enhancement Account	-	-	-	-	8,425
Park Ex 2000A Principal & Interest	-	-	8,002	8,002	-
Park Ex 2001A Principal & Interest	-	-	6,785	6,785	-
PFC Pledged Revenue	-	-	3,461	3,461	5,132
PFC Capital	-	-	45,849	45,849	72,158
PFC Collection	-	-	75	75	-
1999A&B PFC Funded Interest	-	-	1,872	1,872	242
1999A&B NON-PFC Fund Interest	-	-	4,035	4,035	5,726
1999A PFC Funded Debt Service Reserve	-	-	25,578	25,578	25,578
1999A PFC Project	-	-	12,013	12,013	28,214
1999B PFC Project	-	-	106,105	106,105	139,194
1999B PFC Principal	-	-	7,750	7,750	-
1999B Non PFC Principal	-	-	1,357	1,357	-
	<u>\$ 36,397</u>	<u>\$ 56,857</u>	<u>\$ 569,240</u>	<u>\$ 662,494</u>	<u>\$ 781,145</u>

Massachusetts Port Authority Notes to Financial Statements

C. Cash, Cash Equivalents and Investments, continued

The carrying amount of the Authority's cash deposits was \$4,376,000 and \$5,458,000 at June 30, 2001 and 2000, respectively. The bank balance was \$10,933,000 and \$12,204,684 at June 30, 2001 and 2000, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 2001 and 2000.

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2001. Summary 2000 information is also presented.

(In thousands)	Carrying Amount	Fair Value
Repurchase agreements	\$ 153,575	\$ 153,575
Forward delivery agreements	40,592	40,592
Guarantee Investment Contracts	12,384	12,384
U.S. Government Agencies and Instrumentalities:		
Federal Farm Credit (FFC)	31,541	31,552
Federal National Mortgage Association (FNMA)	127,718	128,530
Federal Home Loan Bank (FHLB)	152,843	153,773
Federal Home Loan Mortgage Corp. (FHLMC)	66,647	67,014
Sallie Mae (SLMA)	2,041	2,043
Total U.S. Government Agencies and Instrumentalities	380,790	382,912
Massachusetts Municipal Depository Trust (MMDT) and others	65,761	65,761
Total investments	653,102	655,224
Cash deposit	4,376	4,376
Certificates of deposit	5,016	5,016
Total at June 30, 2001	\$ 662,494	\$ 664,616
Total at June 30, 2000	\$ 781,145	\$ 778,820

The Authority is authorized by the Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustees and custodian.

The repurchase agreements listed above are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement and the PFC Trust Agreement require that securities underlying repurchase agreements at the time of purchase must have a fair value at least equal to the cost of the agreement plus accrued interest. MMDT is a governmental investment pool with a diversified portfolio of money market instruments.

Massachusetts Port Authority Notes to Financial Statements

C. Cash, Cash Equivalents and Investments, continued

The forward delivery agreements are in the form of a guaranteed investment contract which provides for, among other things, the sequential delivery of securities to be sold to the Trustee monthly, or semiannually, at a discount from maturity value such that the aggregate discount equals the interest rate previously established between the Authority and the provider of the guaranteed investment contract.

The Authority's investments are categorized below to give an indication of the level of risk with Category 1 being the lowest level of risk to Category 3 being the highest level of risk.

Category 1: Includes investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name. Category 2: Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the Authority. Category 3: Includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the name of the Authority. Investments in MMDT are not categorized.

The table below presents the Authority's investment risk classifications in accordance with GASB Statement No. 3:

	June 30, 2001 (In thousands)			Carrying amount	Fair value
	1	2	3		
Investments:					
Repurchase agreements		\$ 153,575		\$ 153,575	153,575
Forward delivery agreements		40,592		40,592	40,592
U.S. Government agencies and instrumentalities		380,790		380,790	382,912
Guarantee Investment Contracts		<u>12,384</u>		<u>12,384</u>	<u>12,384</u>
Sub Total		<u>\$ 587,341</u>		<u>587,341</u>	<u>589,463</u>
Investments not categorized:					
Mutual Fund and other (MMDT)				<u>65,761</u>	<u>65,761</u>
Sub Total				<u>65,761</u>	<u>65,761</u>
Cash Deposits:					
Cash on Hand				4,376	4,376
Certificates of Deposit				<u>5,016</u>	<u>5,016</u>
Sub Total				<u>9,392</u>	<u>9,392</u>
Total at June 30, 2001				<u>\$ 662,494</u>	<u>\$ 664,616</u>

Massachusetts Port Authority Notes to Financial Statements

C. Cash, Cash Equivalents and Investments, continued

June 30, 2000 (In thousands)				
Category				
1	2	3	Carrying Amount	Fair Value
Investments:				
Repurchase agreements	\$ 274,412		\$ 274,412	\$ 274,927
Forward delivery agreements	32,047		32,047	32,047
U.S. Government agencies and instrumentalities	<u>396,321</u>		<u>396,321</u>	<u>393,481</u>
Sub Total	<u>\$ 702,780</u>		<u>\$ 702,780</u>	<u>\$ 700,455</u>
Investments not categorized:				
Fidelity U.S. Treasury Income Portfolio Mutual Fund			199	199
Mutual Fund and other (MMDT)			<u>67,666</u>	<u>67,666</u>
Sub Total			<u>770,645</u>	<u>768,320</u>
Cash Deposits				
Cash on hand			5,458	5,458
Certificates of deposit			<u>5,042</u>	<u>5,042</u>
Sub Total			<u>10,500</u>	<u>10,500</u>
Total at June 30, 2000			<u>\$ 781,145</u>	<u>\$ 778,820</u>

D. ParkEx Acquisition

During fiscal 2001, the Authority entered into an agreement for the purchase of a park and fly business located near Logan Airport, and the exchange of such property with the Massachusetts Highway Department for a different parcel and the receipt of \$12 million cash. The Authority purchased the ownership interest of two partnerships that owned and operated a park and fly business ("ParkEx") located near the Airport and held the contractual rights to park 1,377 automobiles in East Boston. The purchase price for the partnerships was \$75.6 million, of which, \$74 million was paid through the issuance of two separate series of the Authority's Subordinated Revenue Bonds (the "Subordinated Bonds"), and the remaining \$1.6 million was paid from available cash. The Subordinated Bonds are payable solely from funds on deposit in the Improvement and Extension Fund and in the Subordinated Bonds Principal Account and are subordinate to all of the Authority's outstanding Revenue Bonds. Upon acquisition, the acquired partnerships were dissolved.

The Authority has deposited in the Subordinated Bonds Principal Account and invested the \$12 million received in such a manner as to provide for the payment of the principal of the Subordinated Bonds at their respective maturities.

The purchase price has been allocated between the ParkEx parcel and the contractual rights to park 1,377 automobiles in East Boston (the "ParkEx Parking Spaces"). The total amount allocated to the ParkEx Parking Spaces is approximately \$46 million and is presented as Intangible Assets in the accompanying financial statements.

Massachusetts Port Authority Notes to Financial Statements

E. Investment in Facilities and Depreciation

Net investment in facilities at June 30, 2001 and 2000 is comprised of:

(In thousands)	<u>2001</u>	<u>2000</u>
Facilities completed by operation:		
Airport	\$ 1,486,465	\$ 1,350,199
Bridge	132,977	132,179
Port	<u>415,856</u>	<u>402,420</u>
Investment in facilities	<u>\$ 2,035,298</u>	<u>\$ 1,884,798</u>

A summary of changes in construction in progress, property, plant and equipment for the year ending June 30, 2001 is as follows:

(In thousands)	<u>Beginning balance July 1, 2000</u>	<u>Transfers and additions</u>	<u>Transfers and deletions</u>	<u>Ending balance June 30, 2001</u>
Construction in progress	<u>\$ 420,159</u>	<u>\$ 300,837</u>	<u>\$ (156,414)</u>	<u>\$ 564,582</u>
Land & land improvements	113,226	17,361	-	130,587
Bridge and bridge improvements	126,194	550	(81)	126,663
Buildings	1,197,592	75,618	(26,539)	1,246,672
Runway & other paving	355,279	62,928	(2,697)	415,510
Machinery & Equipment	<u>92,507</u>	<u>28,057</u>	<u>(4,697)</u>	<u>115,867</u>
	1,884,798	184,514	(34,014)	2,035,298
Less accumulated depreciation	<u>(862,230)</u>	<u>(70,580)</u>	<u>4,450</u>	<u>(928,360)</u>
	<u>\$1,442,727</u>	<u>\$ 414,771</u>	<u>\$ (185,978)</u>	<u>\$ 1,671,520</u>

Massachusetts Port Authority Notes to Financial Statements

E. Investment in Facilities and Depreciation, continued

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Buildings	25 years
Runways and other paving	10 and 25 years
Machinery and equipment	5 and 10 years

F. Passenger Facility Charges

In 1993, the Authority received initial approval from the Federal Aviation Administration (“FAA”) to impose a \$3.00 passenger facility charge (“PFC”) at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. The Authority is authorized to collect net PFCs up to \$598.8 million from November 1, 1993 through a projected expiration date of October 1, 2011.

In January 1997, the Authority received approval from the FAA to increase its collections up to \$631.8 million with a projected expiration date of September 1, 2012. The Authority also received approval from the FAA to use or expend a total of \$493.3 million for preliminary design projects as well as for the final design, construction and financing costs associated with the eligible portions of residential soundproofing, Terminal E Modernization, circulating roadways and the elevated walkways.

In February, 1998, the Authority received approval from the FAA to increase its collections up to \$927.4 million with a projected expiration date of October 1, 2017. The Authority also received approval to use or expend \$434.1 million for the final design, construction and financing costs associated with the eligible portions of the International Gateway Project.

On May 6, 1999, the Authority entered into the PFC Trust Agreement with the Bank of New York, simultaneously removing PFC revenues from the pledge of the Trust Agreement. All PFCs collected by the Authority are currently pledged under the PFC Trust Agreement. On June 16, 1999, the Authority issued \$249,355,000 PFC Revenue Bonds, Series 1999A and 1999B pursuant to the PFC Trust Agreement.

The amount of PFC revenue and the proceeds of bonds issued pursuant to the PFC Trust Agreement invested in Authority facilities, operations and reserves that are restricted for future PFC project payments is as follows:

(In thousands)	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Total assets, PFCs	\$ 536,709	\$ 497,499
PFC funds and PFC Bond funds expended	(338,848)	(230,650)
Other PFC related assets, net	<u>10,237</u>	<u>9,395</u>
PFCs and PFC Bond proceeds restricted but not yet expended	<u>\$ 208,098</u>	<u>\$ 276,244</u>

Massachusetts Port Authority
Notes to Financial Statements

G. Equity

(In Thousands)	<u>Retained earnings</u>	<u>PFC program</u>	<u>Contributed capital, grants-in-aid of construction</u>	<u>Total equity</u>
Balance, June 30, 1999	\$ 551,084	\$ 191,107	\$ 135,955	\$ 878,146
Net income	30,055	34,151	-	64,206
Contributed capital, grants-in-aid of construction	-	-	9,744	9,744
Transfer of depreciation to contributed capital	<u>8,771</u>	<u>-</u>	<u>(8,771)</u>	<u>-</u>
Balance, June 30, 2000	589,910	225,258	136,928	952,096
Net income	<u>36,035</u>	<u>40,617</u>	<u>3,809</u>	<u>80,461</u>
Balance, June 30, 2001	<u>\$ 625,945</u>	<u>\$ 265,875</u>	<u>\$ 140,737</u>	<u>\$ 1,032,557</u>

H. Funded Debt

The following is a summary of the Authority's funded debt activity for the years ended June 30, 2001 and 2000:

(In thousands)	<u>2001</u>	<u>2000</u>
Funded debt, beginning of year	\$ 1,207,770	\$ 1,090,150
New debt issued	96,000	196,840
Principal paid on funded debt	(19,175)	(34,460)
Defeasance	<u>-</u>	<u>(44,760)</u>
Funded debt, end of year	<u>\$ 1,284,595</u>	<u>\$ 1,207,770</u>

Massachusetts Port Authority
Notes to Financial Statements

H. Funded Debt, continued

Funded debt at June 30, 2001 and 2000 is comprised of the following:

(In thousands)	Weighted average interest rate at June 30, 2001	2001	2000
Revenue Refunding Bonds:			
Series 1993 - A & B	5.3%	\$ 40,455	\$ 43,500
Series 1997 - C	4.8%	14,510	14,665
Series 1998 - A, B & C	5.8%	235,850	246,665
Revenue Bonds:			
Series 1992 - A & B	5.7%	14,630	16,310
Series 1997 - A	5.2%	63,605	65,945
Series 1997 - B	5.0%	19,680	20,420
Series 1998 - D	4.6%	22,235	22,235
Series 1998 - E	5.0%	25,870	25,870
Series 1999 - C	5.6%	55,125	55,525
Series 1999 - D	5.5%	33,490	33,490
Term Revenue Bonds	5.3%	410,790	410,790
Subordinated Revenue Bonds			
Series 2000	6.45%	40,000	-
Series 2001	6.45%	34,000	-
PFC Revenue Bonds:			
Series 1999 - A	5.1%	67,665	67,665
Series 1999 - B	5.1%	181,690	181,690
Commercial paper	2.6%	<u>25,000</u>	<u>3,000</u>
Total funded debt		1,284,595	1,207,770
Less: unamortized loss on refunding		(3,676)	(3,859)
Less: original issue discount		<u>(5,116)</u>	<u>(5,259)</u>
Total		<u>\$ 1,275,803</u>	<u>\$ 1,198,652</u>

Massachusetts Port Authority Notes to Financial Statements

H. Funded Debt, continued

Scheduled principal payments on funded debt are due annually on July 1 as follows:

Fiscal Year (In Thousands)	
2002	\$ 32,450
2003	36,495
2004	38,770
2005	40,655
2006	42,700
Thereafter	<u>1,093,525</u>
Total	<u>\$ 1,284,595</u>

On December 29, 2000 and January 2, 2001, as a component of the ParkEx Acquisition, the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of \$74 million, bearing interest at 6.45% per annum (collectively, the “Subordinated Bonds”), which are treated as a non-cash transaction in the accompanying financial statements. The Subordinated Bonds are payable solely from funds on deposit in the Improvement and Extension Fund and in a separate account not subject to the pledge of the Trust Agreement or the PFC Trust Agreement (the “Subordinated Bonds Principal Account”). The Subordinated Bonds are subordinate to all of the Authority’s outstanding Revenue Bonds. The Authority has invested \$12 million on deposit in the Subordinated Bonds Principal Account in two investment contracts which, at their stated maturities, will provide for the \$74 million principal of the Subordinated Bonds at their respective maturities.

On May 31, 2001, the Authority renewed its commercial paper program in an aggregate principal amount not to exceed \$100 million, and entered into a three year Line of Credit Agreement with Westdeutsch Landesbank Girozentrale, acting through its New York Branch, to support the commercial paper program. The sum of the non-AMT (Alternative Minimum Tax) program (called the 1996 Series) and the AMT program (called the 1997 Series) will not exceed the lesser of 10% of the outstanding principal on the Authority's outstanding debt or \$100 million. As of June 30, 2001 and 2000, \$25 million and \$3 million, respectively, in commercial paper, the 1996 Series, was outstanding.

Massachusetts Port Authority Notes to Financial Statements

H. Funded Debt, continued

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2001, the balances outstanding for the following bonds which are considered defeased include:

		(In thousands)
1964 Series	\$	11,510
1969 Series		31,595
1971 Series		49,535
1973 Series		64,395
1982 Series		<u>44,645</u>
Total defeased bonds	\$	<u>201,680</u>

To provide for the construction and improvement of various facilities at Logan Airport, including a hotel and conference center, a fuel storage and distribution system, terminal extensions and improvements, and maintenance facilities, the Authority has issued six series of special facilities revenue bonds. On March 1, 2001, the Authority issued its Special Facilities Revenue Refunding Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 2001-A (Tax-Exempt) and 2001-B (Taxable), a portion of the proceeds of which were applied to refund all of the Authority's outstanding Special Facilities Revenue Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 1990. The Authority's special facilities revenue bonds are special limited obligations of the Authority and are payable solely from and secured solely by certain revenues to be received by a separate trustee, pursuant to lease agreements between the Authority and the tenants of the facilities constructed with the proceeds of such bonds and, in certain cases, guaranty agreements from the lessee/obligor. The Authority's special facilities revenue bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and, accordingly, have not been reflected in the accompanying financial statements. (See Note J)

At June 30, 2001, the aggregate principal amount of the Authority's special facilities revenue bonds outstanding is approximately \$315.6 million.

On August 16, 2001, the Authority issued approximately \$497.6 million in aggregate principal amount of its Special Facilities Revenue Bonds (Delta Air Lines, Inc. Project), Series 2001A, 2001B and 2001C (collectively, the "Delta Bonds"). The proceeds of the Delta Bonds were loaned to Delta Air Lines, Inc. ("Delta"), to be applied to the redevelopment of Terminal A at Logan Airport. The Delta Bonds are special, limited obligations of the Authority, and are payable from and secured solely by certain revenues to be received by a separate trustee pursuant to a lease agreement between the Authority and Delta and a guaranty of Delta.

After consideration of the issuance of the Delta Bonds, the aggregate principal amount of the Authority's Special Facilities Revenue Bonds outstanding is approximately \$813.2 million.

Massachusetts Port Authority

Notes to Financial Statements

I. Pension Costs

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C.487") and signed into law on July 18, 1978. This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System," (the "Plan"), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Single Employer Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Plan is a contributory defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan participants. The Plan issues a stand-alone financial report which can be obtained by writing to:

Massachusetts Port Authority Employees' Retirement System
One Harborside Drive, Suite 200S
East Boston, MA 02128-2909

At January 1, 2001, the Plan's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	353
Current members:	
Active	1,203
Inactive	<u>75</u>
Total	<u><u>1,631</u></u>

Benefits are paid by the Plan from net assets available for plan benefits. Plan participants are Entitled, at normal retirement date, to benefit payments based upon length of service and earnings levels. Vesting occurs after ten years of service. Optional payment methods may be elected, including the contingent annuitant method which provides for reduced payments during the life of the plan participant and continued payments to the participant's beneficiary after the death of the participant.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately \$65.4 million as of January 1, 2001. Total payroll for Authority employees was approximately \$79.8 million for the 12 months ended June 30, 2001.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 2000 and 1999 is the Frozen Entry Age Actuarial Cost Method.

The more significant actuarial assumptions underlying the actuarial computations for the years ended December 31, 2000 and 1999 are as follows:

Assumed rate of return on investments	-	8.0% per annum compounded annually
Nondisabled life mortality	-	1994 Group Annuity Mortality Table (sex-distinct)
Withdrawal prior to retirement	-	The rates shown at the following sample ages illustrates the withdrawal assumption

Massachusetts Port Authority Notes to Financial Statements

I. Pension Costs, continued

		<u>Age</u>	<u>Rate of Withdrawal</u>	
			<u>Group 1 and 2</u>	<u>Group 4</u>
		25	9.0%	1.8%
		30	5.6%	1.7%
		35	3.2%	1.3%
		40	2.3%	0.5%
		45	1.8%	0.04%
		50	1.5%	N/A
		55	N/A	N/A
Salary escalation	-	5.5% per annum		
Rate of Inflation	-	3.0%		
Rates of retirement		Group 1 and 2 employees are assumed to retire upon the attainment of age 63 and 10 years of service		
	-	Group 4 employees are assumed to retire upon the attainment of age 58 and 10 years of service		
Retirement benefits	-	1.5% - 2.5% per year of service for Group 1 and Group 4		
	-	2.0% - 2.5% per year of service for Group 2		
Postretirement cost of living increases	-	3% per annum compounded annually on the first \$12,000 of pension benefits.		

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded actuarial accrued liabilities in level amounts at 8% over a period of 20 years on a closed basis. The actuarial value of assets is determined using fair market values (adjusted by payables and receivables) adjusted to phase in investment gains or losses above or below the expected rate of investment return. A four-year rolling period is used.

Massachusetts Port Authority Notes to Financial Statements

I. Pension Costs, continued

Total contributions to the Plan were \$5,651,378 for the plan year ended December 31, 2000. This includes employee contributions of \$5,651,378 which are based upon a percentage of employee base pay (5% for employees hired before January 1, 1975, 7% for employees hired between January 1, 1975 and January 1, 1984, 8% for employees hired after January 1, 1984 and 9% for employees hired after July 1, 1996 and, effective January 1, 1998, an additional 2% of base pay over \$30,000 for those employees hired after December 31, 1978) and employer contributions of \$0 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 2001.

As presented in the following table, the Frozen Entry Age Actuarial Method for calculating the schedule of funding progress is the methodology required by the Plan under its charter.

(In Thousands)

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability ("AAL")</u>	<u>Unfunded actuarial accrued liability ("UAAL")</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percent of covered payroll</u>
1/1/00	\$260,162	\$262,593	\$2,431	99.1%	\$61,250	4.0%
1/1/99	230,807	234,184	3,378	98.6%	56,888	5.9%
1/1/98	202,761	208,176	5,415	97.4%	54,393	10.0%
1/1/97	175,804	179,135	3,651	98.0%	50,563	7.2%
1/1/96	158,403	160,266	1,863	98.8%	49,193	3.8%
1/1/95	134,981	137,794	2,813	98.0%	44,496	6.3%

Analysis of the dollar amounts of actuarial value of assets, AAL and UAAL, in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in

Massachusetts Port Authority Notes to Financial Statements

I. Pension Costs, continued

assets in excess of AAL and annual covered payroll are both affected by inflation. Expressing the assets in excess of AAL as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Employer Contributions (In thousands)

Calendar year ended December 31	Annual required employer contributions (ARC)	Employer contributions as a percent of ARC
2000	\$ -	0%
1999	-	0%
1998	1,233	124%

The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Plan investments are valued according to accounting policies adopted by the Trustee. Common stocks traded on national exchanges are valued at the last reported sales price. U.S. Government and corporate bonds are stated at cost adjusted, as applicable, for unamortized discounts and premiums, which approximates market value. The Plan's investments in venture capital limited partnerships are accounted for using the cost method.

Certain operating expenses incurred by the Plan are funded by the Authority through additional employer contributions. Investment management fees, consulting fees and custodial fees for the Plan are reflected as deductions to investment income.

J. Contingent Liabilities and Commitments

Contractual Obligations for Construction

Contractual obligations for construction were approximately \$487,133,000 at June 30, 2001.

Credit Enhancement Agreement

During fiscal 1991, the Authority entered into a Credit Enhancement Agreement in connection with an unrelated partnership's bond issuance. The bonds, known as the Authority's Special Facilities Revenue Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 1990, were issued to provide financing to the partnership for construction, which was completed in fiscal 1993, of a conference center and hotel located at Logan Airport. On March 1, 2001, the Authority issued its Special Facilities Revenue Refunding Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 2001-A (Tax-Exempt) and 2001-B (Taxable) (collectively, the "Hyatt Refunding Bonds"), a portion of the proceeds of which were applied to refund all of the outstanding Authority's Special Facilities Revenue Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 1990. Upon the issuance of the Hyatt Refunding Bonds, the Credit Enhancement Agreement was terminated and the Authority received a \$1.5 million credit enhancement fee. The Hyatt Refunding Bonds are special, limited obligations of the Authority, and are payable from and secured solely by certain revenues to be received by a separate trustee pursuant to a lease agreement between the Authority and the tenant of the Hyatt Conference Center and Hotel and a guaranty of such tenant.

Massachusetts Port Authority

Notes to Financial Statements

J. Contingent Liabilities and Commitments, continued

Guarantee and Intercreditor Agreement

During fiscal 2000, the Authority entered into a Guarantee and Intercreditor Agreement (the "Intercreditor Agreement") with the Canadian Imperial Bank of Commerce (the "Bank") in connection with an unrelated limited liability company's bond issuance. The bonds were issued to provide financing to the limited liability company (the "Company") for construction of a multi-tenant seafood processing and distribution center to be located at the North Jetty in the Marine Industrial Park in Boston, Massachusetts on which the Authority has a long-term lease from the City of Boston. The Intercreditor Agreement represents a guarantee by the Authority to pay the Bank up to \$10 million in the event the Company does not meet its obligations to pay the guaranteed obligations, as defined. Such guarantee by the Authority is payable solely from available moneys, as defined, in the Improvement and Extension Fund established under the Trust Agreement and cash collateral, if any, provided to the Bank under the Intercreditor Agreement.

Third Harbor Tunnel

The MHD is undertaking a depression of a portion of I-93 in downtown Boston ("Central Artery") and the extension of the eastern terminus of I-90 to the Airport by construction of a new tunnel under Boston Harbor (the "Ted Williams Tunnel"), (collectively, the "CA/T Project").

In March 1999, the Authority, MHD and the Massachusetts Turnpike Authority entered into a Roadway Transfer Agreement that provides for the acquisition by the Authority of certain identified segments of the CA/T Project located at Logan Airport following completion of construction of such segments, in exchange for installment payments by the Authority to the Commonwealth totaling an aggregate of \$300 million. On January 29, 2001, the Authority, MHD and the Massachusetts Turnpike Authority entered into a Second Supplement to the Roadway Transfer Agreement which provides for the transfer to the Authority of an additional portion of the Ted Williams Tunnel located within and exclusively serving Logan Airport valued at \$65 million, in exchange for a payment to the Commonwealth by the Authority of \$65 million, thereby increasing the aggregate commitment to \$365 million. Payments totalling \$160 million have been made through June 30, 2001. The remaining payments are due in the following amounts on December 31 of each of the following fiscal years: \$104 million, \$50 million and \$51 million, in fiscal years 2003, 2004 and 2005, respectively.

The Authority and MHD entered into a Settlement Agreement dated as of January 15, 1998 (the "CA/T Settlement Agreement") which is intended to resolve all past and certain future land acquisition claims relating to the portions of the Authority's property at the Airport and in South Boston necessary to complete the Ted Williams Tunnel project.

Massachusetts Port Authority

Notes to Financial Statements

J. Contingent Liabilities and Commitments, continued

Pursuant to the CA/T Settlement Agreement, MHD has made payments to the Authority and certain of its tenants and agreed to provide certain betterments to the Authority. As of June 30, 2001, the Authority has received payments from MHD totaling approximately \$27.2 million. In return, the Authority has released MHD from all pending land damage lawsuits and claims relating to the Ted Williams Tunnel project asserted by the Authority against MHD, to assist MHD with relocation of certain Airport tenants, to work diligently to cause certain tenants of the Authority to dismiss pending land damage actions against MHD, and to provide MHD with sufficient rights in land owned by the Authority at the Airport to permit MHD to complete the Ted Williams Tunnel project, as currently designed.

Seaport Bond Bill

The Seaport Bond Bill was enacted on February 14, 1996 and provides authorization for funding by the Commonwealth of \$15 million toward the nonfederal share of the cost of completing the Boston Harbor Navigation Improvement Project, including without limitation: the cost of dredging the Authority's deep cargo berths; all costs associated with the preparation of the environmental studies and reports; and the costs related to the design and relocation of the MWRA pipeline in the Chelsea Creek. The Seaport Bond Bill requires the Authority to pay twenty-five percent (25%) for the nonfederally funded costs of the Project. The Authority has already paid or committed approximately \$5 million for the nonfederal share of the Project. Private berth owners have paid for the dredging of their individual berths. A second provision of the Seaport Bond Bill would provide a mechanism for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston yard in Boston permitting double stack shipments, at an estimated cost to the Authority of approximately \$38 million. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads.

Worcester Airport

On April 15, 1999, the Authority entered into a Memorandum of Understanding ("M.O.U.") among the City of Worcester, Massachusetts and the Worcester Airport Commission (the "City Parties"). The M.O.U. contemplates the takeover of the Worcester Regional Airport by the Authority in two separate phases. In compliance with Phase One, on January 15, 2000, the Authority assumed operating responsibility for Worcester Regional Airport pursuant to a separate Operating Agreement. Phase Two, anticipated by the M.O.U. to take place within five years of the date of execution of the Operating Agreement, will involve the transfer of title of Worcester Regional Airport from the City Parties to the Authority. The Authority's goal is to develop a more effective and efficient regional airport network by increasing utilization of Worcester Regional Airport in conjunction with ongoing operation of its other airport facilities.

Massachusetts Port Authority Notes to Financial Statements

J. Contingent Liabilities and Commitments, continued

The terms of the Operating Agreement provide for the allocation of the net operating deficits for Worcester Regional Airport as between the Authority and the City of Worcester, with the Authority assuming 45% of those net operating deficits during fiscal year 2001, 75% during fiscal year 2002 and 100% during fiscal years 2003 and 2004. For the years ending June 30, 2001 and 2000, the Authority paid \$1,096,000 and \$250,000 respectively for the net operating deficits of Worcester Airport, pursuant to the terms of the operating agreement.

K. Payments in Lieu of Taxes

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the "PILOT Agreements") to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in-lieu-of-tax payments through 2012 was satisfied by a payment of \$5,000,000. In response to increased traffic on the Bridge and the increased impact of the Airport on Chelsea since 1992, however, the Authority and Chelsea amended their PILOT Agreement in fiscal 1999 to provide for annual payments by the Authority to the City of Chelsea of \$500,000 for each of the fiscal years 1999 through 2003, inclusive.

In fiscal 1994, the Authority entered into an extension of an amendment to its agreement with Winthrop (the "Winthrop PILOT Agreement") which extended the base in-lieu-of-tax payments through fiscal 1999 and added further components to such payments: a parks/related facilities portion, payable through fiscal 2011, of \$150,000, to be adjusted annually based upon the percentage increase in the number of annual air passengers at Logan Airport; and a tree planting portion of \$12,500 payable through fiscal 1998 which is now complete. In August 1997, the Authority and Winthrop entered into a further amendment of the Winthrop PILOT Agreement which added another two components to such in lieu of taxes payments: an Ingleside Park/Related Facilities Portion consisting of an annual payment of \$383,333, payable each September 1 of fiscal 1998 through fiscal 2000; and an Additional Environmental Portion consisting of an annual payment of \$150,000 payable each September 1 from 2001 through fiscal 2005. Neither the Ingleside Park/Related Facilities Portion nor the Additional Environmental Portion are subject to the escalation provisions of the Winthrop PILOT Agreement.

In fiscal 1995, the Authority entered into a comprehensive Amended and Restated Payment-in-Lieu-of-Taxes Agreement with the City of Boston, (the "Boston PILOT Agreement"), with a term commencing on March 14, 1995 and ending June 30, 2005. Pursuant to the Boston PILOT Agreement, the Authority will pay to the City the sum of \$10,000,000 annually, which payment will be increased by the annual percentage change in the consumer price index, provided that such increase shall be no less than 3%, nor greater than 7%, per year, less an established credit, per the Boston PILOT agreement. In August 1997, the Authority and certain community groups entered into agreements which provide for additional payments under the Boston PILOT Agreement, for a minimum of \$4.8 million and up to \$9.6 million, with payments to be made as milestones, associated with modernization of Logan Airport, were reached. These additional payments are not subject to annual adjustments.

The Authority's Enabling Act, the Trust Agreement and the PILOT Agreements provide that annual payments under the PILOT Agreements may not exceed the balance of revenues remaining after deposits to the payment of operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

Massachusetts Port Authority Notes to Financial Statements

L. Litigation

In April 1991, the Massachusetts Department of Environmental Protection ("DEP") sent the Authority a Notice of Responsibility ("NOR") under M.G.L. c. 21E, Section 5(a), alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at the Logan Airport site. Following further assessment activities at Logan Airport, DEP issued another NOR dated March 9, 1994, in which DEP concluded that Logan Airport is not a single contaminated site but rather the location of thirty-one (31) separate and discrete contaminated sites. Assessment and remediation of soil and groundwater contamination at the Logan Airport contamination sites identified by DEP is continuing. While the full nature and extent of the contamination and necessary remedial and cleanup measures have yet to be finalized, and therefore cannot be estimated, response costs under c. 21E will be substantial. The Authority, however, has recovered a significant share of its costs of compliance with c. 21E from third parties who are responsible for the contamination and from liability insurance carriers who provided coverage to the Authority. The Authority recovered more than \$11 million dollars from third parties and insurers and has obtained substantial commitments from third parties to conduct further c. 21E compliance measures at a number of the Logan Airport contamination sites identified by DEP. The Authority expects to recover any remaining costs of compliance through rates and charges levied upon users of the Airport.

During 1999, contamination was discovered on Massport property located in South Boston. As the owner of the property, the Authority is a "responsible party" under M.G.L. c. 21E for costs of investigating and remediating the contamination at this site. The Authority received a preliminary estimate of the range of remediation costs for the site. At this time, the full extent of the contamination and necessary remediation measures have not yet been determined; however, the costs could be material to the Authority's results of operations. In addition, the Authority has not yet determined whether and to what extent those costs may be recoverable from other parties responsible for the contamination.

The Authority is also a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing with legal counsel all actions and proceedings pending against or involving the Authority, believes that the aggregate liability of loss if any, resulting from the final outcome of those proceedings will not materially affect the Authority's financial statements.

M. Leases

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately \$37,495,400 and \$37,181,000 for 2001 and 2000, respectively.

Massachusetts Port Authority
Notes to Financial Statements

M. Leases, continued

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 2001 are:

<u>Year</u>	<u>Amount</u> <u>(in thousands)</u>
2002	\$ 33,302
2003	31,017
2004	26,145
2005	24,545
2006	34,856
Thereafter	<u>426,492</u>
Total	<u>\$ 576,357</u>

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 2001:

<u>Year</u>	<u>Amount</u> <u>(in thousands)</u>
2002	\$ 21,078
2003	20,046
2004	19,197
2005	17,502
2006	8,224
Thereafter	<u>45,074</u>
Total	<u>\$ 131,121</u>

Rent expense was \$21,713,000 and \$20,813,000 for 2001 and 2000, respectively.

N. Interagency Agreement

In May 1996, the Authority entered into an interagency agreement with the MHD and Massachusetts Bay Transportation Authority ("MBTA") for the construction of a Regional Transportation Center ("RTC") in Woburn, Massachusetts (the "Interagency Agreement").

Under the terms of the Interagency Agreement, the Authority has paid one third of the cost of acquiring the site and constructing the RTC, and will share in a like proportion in the profits and losses of the RTC.

Massachusetts Port Authority Notes to Financial Statements

N. Interagency Agreement, continued

The RTC opened in May 2001. The Authority's proportionate share of RTC's operating losses for the year ending June 30, 2001 was approximately \$22,000. Separate financial statements from the joint venture may be obtained by writing to:

RTC Joint Venture
c/o Massachusetts Port Authority
One Harborside Drive
East Boston, MA 02108
Attn: Christopher Gordon, Director of Capital Programs and Logan Modification

O. Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to and destruction of assets, injuries to third parties and employees. The Authority maintains a risk control effort through a risk transfer program which includes insurance and indemnification in favor of the Authority from third parties. The Authority, as mandated by the Trust Agreement, maintains a Self-Insurance Account within the Operating Fund. As of June 30, 2001 and 2000, the Self-Insurance Account had assets of \$29,812,000 and \$26,968,000 respectively available to pay future claims. During fiscal years 2001 and 2000, the Authority maintained nine different accounts to finance its self-insured risk which is funded through internal financing. The Authority carries insurance coverage for property, liability and workers compensation with various deductibles and limits and for other exposure to losses. The self insurance accruals are determined by the Risk Management Department based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The overall accrual was approximately \$3,080,000 as of June 30, 2001, and is included as a component of accrued expenses in the accompanying financial statements. Changes in the accrued liability accounts in fiscal year 2001 and 2000 are as follows:

(In Thousands)

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2000	1,715	2,353	(1,366)	2,702
2001	2,702	1,302	(924)	3,080

There were no significant reductions in insurance coverage from the prior year by major category of risk. In addition, insured claims have not exceeded insurance coverage in the past three years.

As part of the risk financing program at the Authority, risk of loss is retained through deductibles or self-insured retentions. These are used in the property, liability and workers' compensation programs, with varying retained amounts ranging from \$25,000 to \$500,000. These retained risks are funded through the Self Insurance Account.

The most formal programs exist in workers' compensation and third party liability. As a modified self-insurer (both risks involve insurance excess of a substantial self-insured retention), the Authority engages in loss prevention and claims management.

The Authority discharges its obligation to provide workers' compensation coverage, required by Massachusetts General Law, Chapter 152, by obtaining a license as a self insurer from the Division of Industrial Accidents.

Massachusetts Port Authority Notes to Financial Statements

O. Risk Management, continued

The property policies are currently constructed to provide loss payments for the repair, replacement or reconstruction of the damaged or destroyed property in compliance with the requirements of the Trust Agreement.

P. Subsequent Event

On September 11, 2001, American Airlines flight 11 and United Airlines Flight 175, both originating from Logan Airport, were hijacked by terrorists. The aircraft flew into and subsequently destroyed the World Trade Center in New York City. There was a significant loss of life and property resulting from these acts. Subsequently, all air traffic in the United States was temporarily suspended, Logan Airport was closed for four days, and under FAA mandates applicable to all airports, new security measures were taken, which required the closing of certain parking facilities at Logan Airport and extending the amount of security and law enforcement personnel. The financial impact of these events could be material to the Authority's financial position and results of operations. However, in light of these circumstances, the Authority has commenced actions to manage both its revenues and expenses in order to meet its financial obligations. In addition, as of the date hereof, no claim has been asserted against the Authority related to the events of September 11, 2001. Nonetheless, it is possible that such claims may be asserted in the future, and the damages claimed may be material to the Authority's financial position and results of operations. The Authority is evaluating its insurance coverage as such coverage may apply to any such claims.

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheets
June 30, 2001
(In Thousands)

ASSETS	Authority Operations	PFC Program	Combined
Cash and cash equivalents	\$ 36,397	\$ -	\$ 36,397
Investments	56,857	-	56,857
Accounts receivable, net of allowance for doubtful accounts of \$9,559 and \$9,996 in 2001 and 2000, respectively	17,515	2,191	19,706
Accounts receivable – grants	6,297	-	6,297
Prepayments and other assets, net	10,268	2,697	12,965
Investment in joint venture	4,923	-	4,923
Intangible assets	46,261	-	46,261
Assets whose use is limited:			
Cash and cash equivalents	37,392	6,408	43,800
Investments	323,750	201,690	525,440
Investment in facilities			
Completed facilities	1,933,620	101,678	2,035,298
Less accumulated depreciation	<u>(913,235)</u>	<u>(15,125)</u>	<u>(928,360)</u>
	1,020,385	86,553	1,106,938
Construction in progress	<u>327,412</u>	<u>237,170</u>	<u>564,582</u>
Net investment in facilities	<u>1,347,797</u>	<u>323,723</u>	<u>1,671,520</u>
Total assets	<u>\$ 1,887,457</u>	<u>536,709</u>	<u>\$ 2,424,166</u>
 LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable and accrued expenses	\$ 39,668	\$ 13,203	\$ 52,871
Accrued compensated absences	15,745	-	15,745
Accrued interest payable	27,696	6,341	34,037
Funded debt	1,024,520	251,283	1,275,803
Deferred income	<u>13,146</u>	<u>7</u>	<u>13,153</u>
Total liabilities	<u>1,120,775</u>	<u>270,834</u>	<u>1,391,609</u>
 Contingent liabilities and commitments			
 Equity:			
Accumulated fund equity	625,945	265,875	891,820
Contributed capital (grants in aid of construction)	<u>140,737</u>	<u>-</u>	<u>140,737</u>
Total equity	<u>766,682</u>	<u>265,875</u>	<u>1,032,557</u>
Total liabilities and equity	<u>\$ 1,887,457</u>	<u>\$ 536,709</u>	<u>\$ 2,424,166</u>

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of
Revenues and Expenses and Changes in Equity
For the Year Ended June 30, 2001
(In Thousands)

	<u>Authority Operations</u>	<u>PFC</u>	<u>Combined</u>
Operating revenues:			
Fees, tolls and other services	\$ 188,137	\$ -	\$ 188,137
Rentals	81,231	-	81,231
Concessions	47,347	-	47,347
Other	<u>10,185</u>	<u>-</u>	<u>10,185</u>
Total operating revenues	326,900	-	326,900
Operating expenses:			
Operations and maintenance	145,797	-	145,797
Administration	57,353	-	57,353
Insurance	2,880	-	2,880
Payments in lieu of taxes	13,093	-	13,093
Provision for uncollectible accounts	14	-	14
Depreciation and amortization	<u>70,342</u>	<u>1,047</u>	<u>71,389</u>
Total operating expenses	<u>289,479</u>	<u>1,047</u>	<u>290,526</u>
Operating income	37,421	(1,047)	36,374
Nonoperating revenues (expenses):			
Passenger facility charges		36,324	36,324
Investment income	23,637	5,345	28,982
Interest expense	(35,729)	(5)	(35,734)
Gain/(loss) on sale of equipment	148	-	148
Other Revenue/Fee	<u>1,516</u>	<u>-</u>	<u>1,516</u>
Total nonoperating revenue	<u>(10,428)</u>	<u>41,664</u>	<u>31,236</u>
Income before capital grant revenue	26,993	40,617	67,610
Capital grant revenue	12,851	-	12,851
Net income	<u>39,844</u>	<u>40,617</u>	<u>80,461</u>
Equity, beginning of year	726,838	225,258	952,096
Equity, end of year	<u>\$766,682</u>	<u>\$ 265,875</u>	<u>\$1,032,557</u>

APPENDIX B

HISTORICAL PFC REVENUE AND
DEBT SERVICE COVERAGE
(In Thousands)

<u>Fiscal Year</u>	<u>Enplaned Passengers</u>	<u>Rate of Traffic Growth</u>	<u>Percent Passengers Paying PFCs</u>	<u>Net PFC Collections(1)</u>	<u>PFC Investment Income</u>	<u>Total Collections Plus Inv. Income</u>	<u>Gross Annual Debt Service(2)</u>	<u>Less: Interest Income(3)</u>	<u>Net Annual Debt Service</u>	<u>Debt Service Coverage</u>
2000	13,748	3.28%	91.70%	\$36,812	\$4,483	\$41,295	\$13,212	\$10,604	\$2,608	15.83
2001	13,633	(1.67)	91.23	36,318	3,901	40,269	21,543	9,904	11,639	3.46

(1) Net PFC Collections computed at rate of \$3.00 per passenger less \$0.08 Airline Collection Fee.

(2) Less accrued interest from June 1, 1999 to June 16, 1999 in the amount of \$528,464 in fiscal year 2000.

(3) Interest Income on Debt Service Fund, Debt Service Reserve Fund and Project Fund.

APPENDIX C

FIRST LIEN SUFFICIENCY
COVENANT CALCULATION

Appendix C

Calculation of the First Lien Sufficiency Covenant for the fiscal year ending June 30, 2001 (see attached notes and exhibits)

$$\text{First Lien Sufficiency Covenant} = \frac{\text{Unspent PFC Authority + Projected Additional Pledged Revenue}}{\text{Projected Aggregate Debt Service}} = 2.27$$

		Projected Additional Pledged Revenue (currently none)	
Unspent PFC Authority =			Projected Aggregate Debt Service (calculated with the goal of minimizing the aggregate dollar amount necessary to pay and redeem the First Lien PFC Bonds whether at maturity or redemption prior to stated maturity)
(A) Aggregate dollar amount of revenue authorized to be collected by the Authority under PFC Authority	\$927,353,000	\$0	Amount necessary to pay or redeem the PFC Bonds at redemption: call date July 1, 2009 @ 101% (minimum amount)
minus			Projected Aggregate Debt Service =
(B) the dollar amount of Cost of Projects paid to date from PFC Pledged Revenue or legally obligated to date to be paid from PFC Pledged Revenue	274,861,023		(D) Aggregate amount of Annual Debt Service for the period commencing June 30, 2001 through the optional redemption date of July 1, 2009 together with premium
(C) (including debt service paid to date on First Lien PFC Bonds but excluding Projected Aggregate Debt Service with respect to First Lien PFC Bonds)	4,227,830		\$343,371,567
Unspent PFC Authority = (A) minus sum of (B) and (C)	\$648,264,147		minus
			amounts on deposit as of June 30, 2001 in the Debt Service Fund and Debt Service Reserve Fund, and projected interest earnings on the Project Funds and the Debt Service Reserve Fund
			\$15,201,567 \$24,935,500 \$7,095,913 \$10,893,495
			(E) Subtotal
			\$58,126,474
			Projected Aggregate Debt Service = (D) minus (E)
			\$285,245,093

(A), (B), (C), (D), (E): See attached notes

Notes:

(A) See FAA's Record of Decision, dated February 5, 1998, page 4 (See attached Exhibit 1)		
(B) This figure is the total of (1) pay-as-you-go expenditures paid through June 30, 2001 plus (2) binding commitments legally obligated to be paid (but not yet paid as of June 30, 2001).		
	Paid to Date *	Legally Obligated to be Paid**
PFC Project 1: Residential Sound Insulation Projects	\$15,325,217	\$2,210,483
PFC Project 2A: Logan Modernization Program Planning, Preliminary Design and Environmental Analysis	9,510,338	0
PFC Project 3: Terminal E Modernization	20,891,765	0
PFC Project 4: Circulating Roadways	78,334,058	40,503,672
PFC Project 6: International Gateway	1,730,745	0
PFC Project 17: Elevated Walkways	90,209,890	16,144,855
Total	<u>\$216,002,013</u>	<u>\$58,859,010</u>
Total of Paid to Date and Legally Obligated to be Paid		\$274,861,023
* Source: June 30, 2001 Passenger Facility Charge Quarterly Report. (See Exhibit 2.) For PFC Project 6, the Paid to Date figure shown here does not include \$4,227,830.01 of PFC Pledged Revenue used to pay debt service on the 1999A and 1999B PFC Revenue Bonds.		
** Legally Obligated to be Paid Amounts:		
PFC Project 1: Residential Sound Insulation Program (See attached Exhibit 3)		
PFC Project 2A: Logan Modernization Program Planning, Preliminary Design and Environmental Analysis		
These expenditures covered project costs through environmental approval or through 25% of design. All Logan Modernization Projects reached that point before June 30, 2000.		
PFC Project 3: Terminal E Modernization		
This project was closed on July 6, 1999.		
PFC Project 4: Circulating Roadways		
PFC Project 6: International Gateway ***		
PFC Project 17: Elevated Walkways		
For projects 4 and 17 see Logan Modernization Cost Report, June 2001, attached as Exhibit 4. Legally Obligated to be Paid is equal to Current Committed shown on Exhibit 4 minus Paid to Date amount shown above.		
*** As of June 30, 2001, the available balances in the 1999A and 1999B PFC Revenue Bonds' Project Funds are sufficient to cover the Legally Obligated to be Paid Amount for PFC Project 6. Therefore, the amount of PFC Pledged Revenue Legally Obligated to be Paid, as of June 30, 2001, is zero.		
(C) Debt Service Paid to Date consists of the interest payments made to bondholders through January 3, 2001 in the amount of \$20,081,628.53, of which \$4,227,830.01 was paid from PFC Pledged Revenue.		
(D) Aggregate amount of Annual Debt Service as of June 30, 2001 assuming bonds are redeemed (including premium) at earliest possible date: July 1, 2009		\$343,371,567
Aggregate amount of Annual Debt Service as of June 30, 2001 assuming bonds are redeemed July 1, 2010		\$350,048,168
Aggregate amount of Annual Debt Service as of June 30, 2001 assuming bonds are redeemed at maturity		\$384,836,128
(See attached Exhibit 5)		
(E) Sum of amounts on deposit as of June 30, 2001 in the Debt Service Fund and Debt Service Reserve Fund, and projected interest earnings on the Project Funds and Debt Service Reserve Fund:		
assuming bonds are redeemed at earliest possible date: July 1, 2009		\$58,126,474
assuming bonds are redeemed July 1, 2010		\$59,408,062
assuming bonds are redeemed at maturity		\$68,379,174
(See attached Exhibit 5)		

application, including those for which "impose only" is authorized.

DECISION SUMMARY TABLE

Application Number	Approved for Collection	Approved for Use
93-01-C-00-BOS	\$598,800,000	\$12,028,000
93-01-C-01-BOS	(\$361,138,000)	(\$1,682,000)
93-01-C-02-BOS	\$231,102,000	\$ -0-
93-01-C-03-BOS*	\$295,552,000	\$ -0-
96-02-C-00-BOS	\$163,037,000	\$482,901,000
97-03-U-00-BOS	\$ -0-	\$434,106,000
Totals	\$927,353,000	\$927,353,000

* An administrative amendment was processed with this application, based on information submitted by Massport, indicating cost adjustments to one project previously approved for collection in the 93-01-C-00-BOS application, as amended. The table below shows the project title, original approved amount, and revised amount. The result is a net increase in the authorization to impose a PFC as approved in the 93-01-C-00-BOS application and shown in the preceding table.

Revised Project Costs

<u>Description:</u>	<u>Original Approved Amount</u>	<u>Revised Impose Amount</u>
New Federal Inspection Services Facility	\$138,554,000	\$434,106,000

[Net change: \$434,106,000 - \$138,554,000 = \$295,552,000]

Exhibit 3
Calculation of PFC Project 1: Residential Sound Insulation Program Expenditures
Legally Obligated to be Paid

Expenditures Paid to Date (PFC-Eligible) FY1991 through FY2001 *	\$82,744,000
Expenditures Legally Obligated to be Paid as of June 30, 2001 (See below)	775,286
Total Expenditures Paid to Date or Legally Obligated to be Paid	\$83,519,286
FAA AIP Grant Funding **	(65,983,586)
Amount to be Funded by PFCs	\$17,535,700
Amount Funded with PFCs as of June 30, 2001 (See Exhibit 2)	(15,325,217)
Balance to be Funded by PFCs as of June 30, 2001	\$2,210,483

Open Residential Sound Insulation Projects (Contracts) as of June 30, 2001 ***

MPA Number	Total Contract Value (Column A)	Expended Through 30-Jun-01 (Column B)	Legally Obligated to be Paid (Column A - B)
1.707	\$7,664,563	\$7,605,937	\$58,626
1.707AA	389,344	362,737	26,607
1.707Y	2,627,561	2,115,067	512,494
1.707Z	56,463	56,463	0
1.707ZA	1,181,933	1,065,906	116,027
1.707ZB	2,336,668	2,275,136	61,532
1.707ZD	694,362	694,362	0
1.707ZE	1,039,919	1,039,919	0
1.707ZF	0	0	0
1.707ZG	381,971	381,971	0
<hr/>			
TOTAL	\$16,372,783	\$15,597,497	\$775,286

* Source: Capital Expenditure/Budget Reports for fiscal year end 1991 through 2001.

** Source: Federal Grant Aging Schedules for fiscal years 1991 through 2001.

*** Source: Capital Program's Project Information Updates

LOGAN MODERNIZATION COST REPORT

Funding Source Summary Report
Period: 05/23/01 to 06/19/01

Date: 06/27/01
Time: 13:41:09
Status Date:06/19/01

<u>Funding Source</u>	<u>Funds Available Through FY01 *</u>	<u>Current Committed</u>	<u>Invoiced Through05/23/01</u>	<u>Invoiced This Period</u>	<u>Invoiced Through06/19/01</u>	<u>Invoiced/ Committed</u>
Logan Modernization						
1990 Bond	4,752,529	4,752,877	4,752,529	0	4,752,529	99.99%
1992 Bond	24,185,000	24,185,000	24,185,000	0	24,185,000	100.00%
1997 Bond Series A, Non-AMT	104,982,158	105,006,814	104,982,158	0	104,982,158	99.98%
1997 Bond Series B, AMT	24,214,251	24,215,616	24,215,616	0	24,215,616	100.00%
1998 Bond D (#013)	2,764,000	2,756,837	2,763,143	0	2,763,143	100.23%
1998 Bond Series E	67,350,000	66,906,721	66,013,416	0	66,013,416	98.66%
1999 Bond A, IG Roads, PFC Rev (#216)	40,740,000	42,774,689	27,195,984	3,224,032	30,420,016	71.12%
1999 Bond B, IG Term, PFC Rev (#226)	182,873,000	176,288,677	75,062,512	5,149,843	80,212,355	45.50%
1999 Bond C, Roadway Betterments	42,653	54,325	42,653	0	42,653	78.52%
1999 Bond D, Utilities & IG (#106)	66,200,000	62,510,283	32,608,157	2,340,919	34,949,076	55.91%
Improvement & Extension (#095)_	25,587,326	23,954,976	17,057,519	556,480	17,613,999	73.53%
Maintenance Reserve (#080)	10,000,000	9,462,066	9,083,217	0	9,083,217	96.00%
PFC 2A Preliminary Design	9,424,918	9,460,290	9,424,918	0	9,424,918	99.63%
PFC Project 17 - Elevated Walkways (#203	102,567,072	106,354,745	84,810,365	5,440,563	90,250,927	84.86%
PFC Project 3 - Terminal E Modernization	20,683,555	20,696,243	20,683,555	0	20,683,555	99.94%
PFC Project 4 - Circulating Roadways (#2	103,333,928	118,837,730	71,881,486	2,980,300	74,861,785	62.99%
PFC Project 6 - International Gateway (#	100,000	20,788	20,788	0	20,788	100.00%
Logan Modernization Total:	789,800,390	798,238,676	574,783,015	19,692,137	594,475,152	74.47%
Non-Logan Modernization						
Improvement & Extension (#095)_	9,913,191	4,720,559	3,958,423	53,080	4,011,503	84.98%

Exhibit 5
(Page 1 of 4)

Amount necessary to pay or redeem the PFC Bonds at earliest redemption date

Row 1	Initial Principal Amount of the 1999A and 1999B PFC Revenue Bonds	\$249,355,000
Row 2	Principal Payment to be made on July 2, 2001	(8,860,000)
Row 3	Principal Payment to be made on July 1, 2002	(9,205,000)
Row 4	Principal Payment to be made on July 1, 2003	(9,585,000)
Row 5	Principal Payment to be made on July 1, 2004	(9,995,000)
Row 6	Principal Payment to be made on July 1, 2005	(10,425,000)
Row 7	Principal Payment to be made on July 3, 2006	(10,945,000)
Row 8	Principal Payment to be made on July 2, 2007	(11,435,000)
Row 9	Principal Payment to be made on July 1, 2008	(12,005,000)
Row 10	Principal Payment to be made on July 1, 2009	(12,630,000)
Row 11	Principal Balance Remaining Outstanding as of July 1, 2009 (Sum of Rows 1-10)	\$154,270,000
Row 12	Interest Payments made July 2, 2001	\$6,341,567
Row 13	Interest Payments made July 3, 2001 through July 1, 2002	12,342,024
Row 14	Interest Payments made July 2, 2002 through July 1, 2003	11,960,016
Row 15	Interest Payments made July 2, 2003 through July 1, 2004	11,552,654
Row 16	Interest Payments made July 2, 2004 through July 1, 2005	11,117,871
Row 17	Interest Payments made July 2, 2005 through July 3, 2006	10,600,846
Row 18	Interest Payments made July 4, 2006 through July 2, 2007	10,108,321
Row 19	Interest Payments made July 3, 2007 through July 1, 2008	9,537,636
Row 20	Interest Payments made July 2, 2008 through July 1, 2009	8,912,931
Row 21	Interest Payments made July 2, 2001 through July 1, 2009 (Sum of Rows 12-20)	\$92,473,867
Row 22	Principal Balance redeemed @ 101% of par July 1, 2009 (101% of Row 11)	\$155,812,700
Row 23	Principal Payments through July 1, 2009 prior to redemption (Sum of Rows 2-10)	95,085,000
Row 24	Interest Payments made through July 1, 2009 (Row 21)	92,473,867
Row 25	Aggregate First Lien Debt Service remaining to be paid as of June 30, 2001 assuming redemption at first call date, July 1, 2009 (Sum of Rows 22-24)	\$343,371,567
Row 26 *	Projected earnings on Debt Service Reserve Fund as of June 30, 2001	(10,893,495)
Row 27 *	Projected earnings on the Project Funds as of June 30, 2001	(7,095,913)
Row 28	Balance of the Debt Service Fund as of June 30, 2001	(15,201,567)
Row 29	Balance of the Debt Service Reserve Fund as of June 30, 2001	(24,935,500)
Row 30	Subtotal (Sum of Rows 26-29)	(\$58,126,474)
Row 31 **	Amount necessary to pay or redeem the PFC Bonds at earliest redemption date (Sum of Row 25 and Row 30)	\$285,245,093

* Projected interest earnings through July 1, 2009.

** Minimum amount necessary to pay or redeem the PFC Bonds at maturity or redemption
(See comparisons below)

Exhibit 5
(Page 2 of 4)

Amount necessary to pay or redeem the PFC Bonds at July 1, 2010 redemption date:

Row 1	Initial Principal Amount of the 1999A and 1999B PFC Revenue Bonds	\$249,355,000
Row 2	Principal Payment to be made on July 2, 2001	(8,860,000)
Row 3	Principal Payment to be made on July 1, 2002	(9,205,000)
Row 4	Principal Payment to be made on July 1, 2003	(9,585,000)
Row 5	Principal Payment to be made on July 1, 2004	(9,995,000)
Row 6	Principal Payment to be made on July 1, 2005	(10,425,000)
Row 7	Principal Payment to be made on July 3, 2006	(10,945,000)
Row 8	Principal Payment to be made on July 2, 2007	(11,435,000)
Row 9	Principal Payment to be made on July 1, 2008	(12,005,000)
Row 10	Principal Payment to be made on July 1, 2009	(12,630,000)
Row 11	Principal Payment to be made on July 1, 2010	(13,325,000)
Row 12	Principal Balance Remaining Outstanding as of July 1, 2010 (Sum of Rows 1-11)	\$140,945,000
Row 13	Interest Payments made July 2, 2001	\$6,341,567
Row 14	Interest Payments made July 3, 2001 through July 1, 2002	12,342,024
Row 15	Interest Payments made July 2, 2002 through July 1, 2003	11,960,016
Row 16	Interest Payments made July 2, 2003 through July 1, 2004	11,552,654
Row 17	Interest Payments made July 2, 2004 through July 1, 2005	11,117,871
Row 18	Interest Payments made July 2, 2005 through July 3, 2006	10,600,846
Row 19	Interest Payments made July 4, 2006 through July 2, 2007	10,108,321
Row 20	Interest Payments made July 3, 2007 through July 1, 2008	9,537,636
Row 21	Interest Payments made July 2, 2008 through July 1, 2009	8,912,931
Row 22	Interest Payments made July 2, 2009 through July 1, 2010	8,219,301
Row 23	Interest Payments made July 2, 2001 through July 1, 2010 (Sum of Rows 13-22)	\$100,693,168
Row 24	Principal Balance redeemed @ 100% of par July 1, 2010 (100% of Row 12)	\$140,945,000
Row 25	Principal Payments through July 1, 2010 prior to redemption (Sum of Rows 2-11)	108,410,000
Row 26	Interest Payments made July 2, 2001 through July 1, 2010 (Row 23)	100,693,168
Row 27	Aggregate First Lien Debt Service remaining to be paid as of June 30, 2001 assuming redemption on July 1, 2010 (Sum of Rows 24-26)	\$350,048,168
Row 28 *	Projected earnings on Debt Service Reserve Fund as of June 30, 2001	(\$12,175,082)
Row 29 *	Projected earnings on the Project Funds as of June 30, 2001	(7,095,913)
Row 30	Balance of the Debt Service Fund as of June 30, 2001	(15,201,567)
Row 31	Balance of the debt Service Reserve Fund as of June 30, 2001	(24,935,500)
Row 32	Subtotal (Sum of Rows 28-31)	(\$59,408,062)
Row 33	Amount necessary to pay or redeem the PFC Bonds at July 1, 2010 redemption date (Sum of Row 27 and Row 32)	\$290,640,107

* Projected interest earnings through July 1, 2010.

Exhibit 5
(Page 3 of 4)

Amount necessary to pay or redeem the PFC Bonds at maturity:

Aggregate First Lien Debt Service remaining to be paid as of June 30, 2001 assuming bonds are outstanding until maturity	\$384,836,128
* Projected earnings on Debt Service Reserve Fund as of June 30, 2001	(\$21,146,195)
Projected earnings on the Project Funds as of June 30, 2001	(7,095,913)
Balance of the Debt Service Fund as of June 30, 2001	(15,201,567)
Balance of the Debt Service Reserve Fund as of June 30, 2001	(24,935,500)
 Subtotal	 (\$68,379,174)
 Amount necessary to pay or redeem the PFC Bonds at maturity	 \$316,456,954
 * Projected interest earnings through July 1, 2017 (maturity).	

Sources: "Final Pricing Information Book" prepared by PaineWebber, Inc., June 1999, Tab D, Pricing Results, page 15. See Exhibit 5, page 4 for projected earnings on the Project Funds as of June 30, 2001.

Exhibit 5
(Page 4 of 4)

Projected Earnings on the Project Funds as of June 30, 2001

As of:	Project Fund (A) Balance	Projected Monthly Draws	Projected Interest Earned	Project Fund (B) Balance	Projected Monthly Draws	Projected Interest Earned
7/1/01	\$11,804,099	\$2,915,000	\$90,076	\$105,696,763	\$1,436,000	\$373,189
8/1/01	8,889,099	820,000	55,627	104,260,763	3,680,000	498,096
9/1/01	8,069,099	1,093,000	41,890	100,580,763	4,907,000	491,329
10/1/01	6,976,099	1,048,000	38,026	95,673,763	4,702,000	473,987
11/1/01	5,928,099	1,048,000	32,875	90,971,763	4,702,000	450,863
12/1/01	4,880,099	1,048,000	27,936	86,269,763	4,702,000	428,704
1/1/02	3,832,099	1,000,000	22,997	81,567,763	3,501,000	406,546
2/1/02	2,832,099	1,000,000	18,059	78,066,763	3,501,000	384,388
3/1/02	1,832,099	1,000,000	13,346	74,565,763	3,501,000	367,890
4/1/02	832,099	832,099	8,634	71,064,763	4,905,000	351,391
5/1/02	0		3,921	66,159,763	4,905,000	334,893
6/1/02			0	61,254,763	4,905,000	311,778
7/1/02				56,349,763	6,047,000	288,663
8/1/02				50,302,763	6,047,000	265,548
9/1/02				44,255,763	6,047,000	237,052
10/1/02				38,208,763	5,066,000	208,555
11/1/02				33,142,763	5,066,000	180,059
12/1/02				28,076,763	5,066,000	156,185
1/1/03				23,010,763	3,372,000	132,312
2/1/03				19,638,763	3,372,000	108,438
3/1/03				16,266,763	3,372,000	92,548
4/1/03				12,894,763	4,204,000	76,657
5/1/03				8,690,763	4,204,000	60,767
6/1/03				4,486,763	4,204,000	40,955
7/1/03				282,763	282,763	21,144
8/1/03				0		589
9/1/03						0
10/1/03						
11/1/03						
12/1/03						
1/1/04						
2/1/04						
3/1/04						

Total Projected Earnings on Project Funds as of
June 30, 2001:

\$353,387

\$6,742,526

Total for Both Project Funds:

\$7,095,913

Sources: "Investment Held" report dated June 26, 2001; Capital Cash Flow Projections dated June 27, 2001;
"Letter Agreement with Respect to Master Repurchase Agreement and Custodial Undertaking in
Connection with Master Repurchase Agreement" between Lehman Brothers, Inc.; Massachusetts Port
Authority and The Bank of New York, as Trustee.