

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

**FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
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YEARS ENDED JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board Members
Massachusetts Convention Center Authority
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Massachusetts Convention Center Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Authority as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the fiscal year ended June 30, 2018, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the Authority reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

During the fiscal year ended June 30, 2018, the Authority adopted GASB Statement No. 84 *Fiduciary Activities*. As a result, the financial statements of the Authority now include fiduciary activities related to other postemployment benefits. Our auditors' opinion was not modified with respect to this matter.

During the fiscal year ended June 30, 2018, the Authority established a Pension Trust which is reported as a blended component unit within the Authority's business-type activities financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 17), and certain pension and other postemployment benefits information (located on pages 55 through 60) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of revenues, expenses, and changes in net position – budget and actual – for the years ended June 30, 2018 and 2017, schedule of salary and other compensation of highly compensated employees and the reconciliation of GAAP operating loss to statutory net cost of operations and operating reimbursement requests from the Convention Center Fund (hereinafter referred to as supplementary information), located on pages 61 through 64, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Boston, Massachusetts
October 18, 2018

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) comments on the Massachusetts Convention Center Authority's operations, performance, and financial condition for the fiscal years ended June 30, 2018 and 2017.

The MD&A is presented in four sections:

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

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

Summary of Financial Performance reviews the key measures we use to assess our performance and how our results in 2018 compare to our results in 2017, and how our results in 2017 compare to our results in 2016. It also provides detailed information and analysis about our performance for the past two years. It focuses on our operating results and provides financial information for each of our four facilities.

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

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

About the Financial Statements

The Authority maintains its accounts and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). The financials statements of the Authority are maintained on the accrual basis of accounting and report business-type activities and fiduciary activities. The Authority's financial report includes five basic financial statements: the Statements of Net Position, the Statements of Revenues, Expenses, and Change in Net Position, the Statements of Cash Flows, the Statement of Fiduciary Net Position, and the Statement of Changes in Fiduciary Net Position.

While the Financial Statements provided herein conform to GAAP, a separate schedule is provided as additional information to provide the reader with a reconciliation between the annual GAAP operating loss and the Authority's Net Cost of Operations as it is defined under Massachusetts General Law and is used to support annual operating funding draws from the Massachusetts Convention Center Fund (CCF). The Net Cost of Operations is commonly used by the Commonwealth and the Authority to report on the Authority's annual financial operating performance and budget.

BACKGROUND

The Massachusetts Convention Center Authority (the MCCA or Authority) is an independent public authority of the Commonwealth of Massachusetts that owns and operates public assembly facilities primarily for the convention, tradeshow, and meetings industry. It was established by Chapter 190 of the Acts of 1982 which was subsequently amended by Chapter 629 of the Acts of 1982; Chapter 400 of the Acts of 1983; Chapter 637 of the Acts of 1983; Chapter 78 of the Acts of 1988; Chapter 138 of the Acts of 1991; Chapter 307 of the Acts of 1991; Chapter 110 of the Acts of 1993; Chapter 152 of the Acts of 1997 (Chapter 152); Chapter 23 of the Acts of 1998; Chapter 45 and Chapter 256 of the Acts of 2001; Chapter 139, section 211 of the Acts of 2012; and Chapter 195 of the Acts of 2014.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

BACKGROUND (CONTINUED)

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

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

In the fiscal year 2003 budget for the Commonwealth, several provisions were enacted affecting the operations, marketing and financial activities of the MCCA. Most significantly, it suspended the Authority's funding for its net operating costs from the State Tourism Fund. This funding mechanism was replaced in fiscal year 2004 by disbursements from the Convention Center Fund, created by the 1997 Convention Center Act, which authorized the Commonwealth to provide the Authority with up to \$17 million from the Fund to defray the Authority's net cost of annual operations as defined in Chapter 190. This use requires that the State Treasurer and Secretary of Administration and Finance annually certify the availability of funds within the \$17 million cap after payment of debt service which is required to be made first. The funding cap was increased to \$23 million in fiscal year 2005. Chapter 195 of the Acts of 2014 increased the fiscal years 2015, 2016, 2017 and 2018 (and on) caps to \$24 million, \$25 million, \$26 million and \$28 million, respectively.

In July 2014, Chapter 195 of the Acts of 2014 was adopted, authorizing the Commonwealth to issue an additional \$1 billion in special obligation bonds to finance an expansion of the BCEC. The new law authorized a 1.3 million square foot expansion of the BCEC, including substantial additions to the exhibit and meeting space, and a second, larger ballroom. Under Chapter 195 funding for the \$1 billion expansion would be supported by the existing Convention Center Fund, which was created in 1997 to pay for the development and construction of the BCEC, the MassMutual Center, and the Worcester Convention Center as well as to fund the operations and capital improvements of the MCCA. The BCEC expansion project is currently on hold and subject to further review by the Authority.

On November 15, 2017, the Massachusetts Convention Center Authority Irrevocable Retiree Pension Trust (Pension Trust) was established for the advance accumulation of funding for pension benefits. The Pension Trust is presented using the accrual basis of accounting and is reported as a blended component unit in the Authority's financial statement.

On November 15, 2017, the Massachusetts Convention Center Authority Irrevocable OPEB Trust (OPEB Trust) was established for the advance accumulation of funding for postemployment health care and other benefits provided by the Authority. The OPEB Trust is presented using the accrual basis of accounting and is reported as an OPEB trust fund in the fiduciary funds financial statement.

The Authority is considered a component unit of the Commonwealth of Massachusetts for financial statement reporting purposes. The Authority's annual financial statements are included by the Massachusetts State Comptroller's Office within its annual Comprehensive Annual Financial Report (CAFR) for the Commonwealth.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

ABOUT OUR BUSINESS

WHAT WE DO

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

In late summer of 2014 the MCCA opened an outdoor venue named “The Lawn on D”, consisting of 2.7 acres of flexible public and event space immediately adjacent to the BCEC. The Lawn on D was operated during 2014 and 2015 as an “experimental” project, in which various sales and operating models were evaluated for consideration for a more permanent outdoor venue in the future. The pilot phase’s expenses of the Lawn were funded from the Authority’s annual capital projects budget. Following deliberations in the fall and winter of 2015 and 2016, the Authority elected to re-open the Lawn in 2016 as a full business segment.

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

MANAGEMENT'S OBJECTIVES AND STRATEGY

The Authority’s mission is to generate significant regional economic activity by attracting conventions, tradeshow, and other events to its world-class facilities while maximizing the investment return for the residents and businesses in the Commonwealth of Massachusetts. To accomplish this, the Authority’s management operates the business consistent with strategic business principles for success in the short term and over longer periods of time. Unifying the management team and the Authority’s dedicated employees and contractors in achieving its priorities is part of the Authority’s over-arching goal, and management believes it is critical to becoming a true leader in the meetings industry.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

SUMMARY OF FINANCIAL PERFORMANCE

2018

In its fiscal year 2018 the Authority reported new all-time highs in overall operating revenues and revenues earned at the BCEC. All Boston facilities operated profitably, after excluding depreciation and other expenses not traditionally used to measure the Authority's net cost of operations. Additionally, the Authority performed at an operating coverage ratio of 0.90 (more discussion on this statistic follows), a historical high for the Authority since the BCEC opened for business in 2004. As a result of this performance the Authority only was required to draw \$2.2 million in funding from the Convention Center Fund, up only slightly from the historical low in 2017 of \$1.7 million.

The strong performance is linked to the strong demand by building customers and exhibitors for meetings and exhibition space, as well as corresponding convention support and food and beverage services. The Authority has also benefited from commercial revenues, such as lease revenue from hotel and restaurant tenants, and other nonevent revenue streams, including a Waterfront Shuttle service for employers and large property managers in the district. Regarding the former, the Authority received a one-time \$1 million payment pursuant to the transaction rental terms of its lease with the D Street mid-priced hotel developer triggered by the refinancing of its development loan.

2017

Building on its success over the past few years, the Authority's fiscal year 2017 featured an all-time high in operating revenue, as well as the best overall operating performance overall that the Authority has experienced since the BCEC opened in 2004, beating out fiscal year 2016. The net draw from the Convention Center Fund for operating purposes totaled \$1.7 million, resulting in a coverage ratio, or the percent of annual operating expenditures (excluding depreciation, certain items paid from restricted net position and items paid from the capital budget), of 89%. The Authority has been benefited from continued efforts to control or reduce expenses across its various cost centers. Additionally, show quality, as demonstrated by customer demand for space, support services and food and beverage services, has continued to be strong. Finally, the Authority has benefited from its effort to diversify its revenue streams, including to commercial sources, such as rental income earned from hotel and restaurant tenants, as well as the operation of a consolidated Waterfront Shuttle transportation service to neighborhood employers.

Please refer to page 64 for the 2018 and 2017 calculation of the Authority's net cost of operations and operating reimbursement requests from the Convention Center Fund.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

RESULTS OF OPERATIONS

Operating Revenues – 2018

Total operating revenues in fiscal year 2018 were \$76.5 million, or 3% greater than fiscal year 2017 levels. This marks the seventh consecutive year where the Authority achieved year over year revenue growth, dating back to fiscal year 2012. Revenue growth was spurred by two one-time events: a \$1 million payment related to transaction rent by the Authority's mid-priced hotels tenant; and, \$1.9 million in revenue associated with insurance claim payments to pay for repairs made by Authority on the BCEC roof related to the 2014-2015 winter season. The Authority did earn less revenue at its Boston Common Garage during fiscal year 2018 compared to the previous year. However, this impact was mitigated by increased revenues associated with the expanded service of the Waterfront Shuttles program as well as increased revenue at the Lawn on D and MassMutual Center.

Rental income grew overall by 1.9%, driven by year over year growth at the BCEC and the Lawn on D. Hynes rental income was down modestly from the previous year (1.5%) and the MassMutual Center experienced a 3.7% decline in rental revenues. In total, rental revenues totaled \$20.1 million in fiscal year 2018, compared with \$19.8 million in 2017.

Nonfood and beverage service revenues generated by the Authority totaled \$22.1 million in fiscal year 2018, or a 3% decline from the previous year. The year over year decline was primarily a result of lower revenue generated at the Hynes, which saw a 26% reduction. These services constitute a wide array of sources, including electrical, internet and other utility orders, rigging, labor and setup fees, digital sponsorships, and event security services. Total services consumption by show and exhibitors, can vary from year to year given the unique nature of the demand for them by each individual event. The Authority typically tracks this revenue category's performance as a benchmark of event demand quality annually.

Food and beverage revenues totaled \$10.9 million in fiscal year 2018 across all Authority facilities, down modestly from \$11.6 million in 2017. This represents a 6% decline from the previous year. The BCEC saw F&B proceeds dropped meaningfully from year, from \$5.8 million to \$3.9 million, or 33%. This was offset by year over year increases at the Hynes, Lawn on D and MassMutual Center, which grew by 19%, 20%, and 2%, respectively. Similar to support services revenues, food and beverage revenues can vary dynamically across facilities and from year to year at the same facility. They are heavily influenced by the number of catering or banquet events contracted at each venue during any given year.

Parking revenues totaled \$12.9 million in fiscal year 2018, or a 3% decline from the prior year. At the Boston Common Garage, which were \$11.8 million in fiscal year 2018, fell for the second consecutive year. The BCG has experienced a multi-year decline in its daily parker demand. While there is likely a number of causes of the decline in usage, the BCG appears to be impacted by a general decline in demand for parking as a result of increased utilization of mobile-based ride-sharing services and more broad declines in car ownership among the general public. Parking receipts generated at the BCEC for its Danby Lot facility increased to \$1.1 million from \$920,000 in fiscal year 2017.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

RESULTS OF OPERATIONS (CONTINUED)

Commercial revenues, generated primarily through leases with hotel and restaurant tenants, totaled \$4.6 million. The Authority received a \$1 million one-time transaction rent payment from its mid-priced hotel tenant. After adjusting for this revenue, year over year growth was 4.2%. In fiscal year 2018 total commercial revenue represented 6% of annual operating revenue of the Authority, up from 4.7% from 2017. This category is one indicator of the Authority's ability to continue to diversify its revenue sources further.

Other and miscellaneous revenue receipts of the Authority can vary from year to year due to nonrecurring receipts, such as payments for insurance claims. In fiscal year 2018, the Authority received \$1.9 million in insurance claim related payments related to corresponding costs for repairing the BCEC's roof which was damaged during the 2014-2015 winter. In total, all Authority revenue in this category totaled \$5.9 million, an increase from \$2.8 million in 2017. The other major driver for the year over year change was the expanded shuttle service operated by the Authority.

Operating Revenues – 2017

Fiscal year 2017 operating revenues totaled \$74 million, an increase of 4.4% from the previous year. The bulk of this amount (73.4%) were earned from the operations of the Authority's convention and arena facilities, and include facility rental fees, convention support services income (e.g., electrical, rigging, or internet services) and food and beverage earnings. Revenues at the BCEC were level with the fiscal year 2016, which represented the greatest amount achieved at the venue since it opened. The Hynes experienced a year over year increase of 15.2%, experiencing an especially strong fourth quarter. The Lawn on D, in its first full fiscal year, generated \$1.4 million, an increase of 200% from the previous fiscal year. In Springfield, the MassMutual Center benefited from strong food and beverage income, generating an increase in revenue of 12.6%. The only Authority cost center that experienced a decline in revenues was the Boston Common Garage, which witnessed a 4% drop, largely attributable to falling transient (daily) parkers.

Annual rental income totaled just under \$20 million, a 4.7% increase from the previous year. The difference is attributable to rental price escalation as well as increased event activity associated with the Lawn on D. Only the MMC experienced a year over year drop in rent, at a rate of 6.2%.

Authority-wide Convention support services totaled \$22.8 million, a 1.6% drop from the previous years. This variance was the result of a change related to rigging services, which was effective in fiscal year 2017 and had the effect of only counting net commissions earned by the Authority (in contrast to gross receipts and expensing revenue transfers to the Authority's contractor). After accounting for this change, support services revenue were nearly level with the previous year. Since support services are a strong bell-weather for event quality, the fiscal year 2017 result is considered favorably given the very strong results achieved in fiscal year 2016.

Reversing the 2016 trend, the Authority's total Food and Beverage revenues increased from \$10 million to \$12 million, due to strong results and show consumption at the Authority's Boston facilities and the MassMutual Center, similar to the Authority's arrangement at the BCEC and Hynes. The latter featured the first year during which the Authority contracted with an F&B operator to provide service on a management fee basis, versus fee based agreement. Finally, in its first full year of operations the Lawn on D contributed roughly \$350,000 to total F&B revenues.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

RESULTS OF OPERATIONS (CONTINUED)

The Authority generates parking revenues primarily at the Boston Common Garage, as well as through its Danby Street Lot in South Boston. The Danby Street Lot annual revenues are, similar to the BCG, reflected under Parking Fees on the Authority's accompanying Statement of Revenues, Expenses, and Changes in Net Position. Total parking receipts in fiscal year 2017 were over \$13 million, only slightly more than the level collected in the previous year. While the Danby Lot generated over \$900,000 in its first full year, up from \$280,000 in 2016, the BCG experienced a year over year decline in parking income. Garage receipts fell corresponding to a drop in total transient parkers during the year, while monthly parking revenue grew modestly during the same period.

Commercial revenues totaled over \$3 million in fiscal year 2017, an increase of 45% from the fiscal year 2016 amount of over \$2 million. The change is attributable to the discontinuation of reduced rental terms for one of the Hynes tenants as of September 2016 as well as increased income earned by the Authority under percentage rent terms of its ground leases with its hotel tenants at the BCEC.

Operating Expenses – 2018

Expenses during fiscal year 2018 totaled \$138.2 million, inclusive of depreciation and any discontinued capital projects during the year. This compares to \$143.5 million in 2017, and represents a year over year change of \$5.3 million. Excluding annual depreciation expense, and discontinued projects and adjustments for lower than anticipated expenses in 2017 for Tall Ships, total 2018 expenses were \$85.2 million, a 1.3% increase from the 2017 total of \$84.1 million.

In 2018 the Authority expended \$32.3 million on payroll and benefits, a 10% decline from the previous year's total of \$36.0 million. The reduction reflects multi-year efforts of the Authority to control growth in this expense category, given its large share of total expenses, additionally there was a significant decrease in pension benefit expenses. Not all reduced expenditures are permanent, since the Authority experienced meaningful vacancy savings in 2018 that is not anticipated to continue in 2019 and beyond.

Other operating expenditures totaled \$15.9 million, or 27.7% lower than 2017's total of \$22.0 million. This category reflects the costs of the Authority to support event related and back of house operations, including equipment and supplies, legal and insurance expenses, credit card and other fiscal fees, and information technology expenses, such as software licenses and similar purchases. The Authority has experienced increases in the costs of insurance, software, and computer-related expenses. At the same time the Authority has centralized its purchasing and procurement functions, helping to generate efficiencies and savings in Authority expenses for good and services. In addition, other operating expenses include \$4.25 million related to the tall ships event in 2017.

Contracted services expenditures totaled \$27 million in fiscal year 2018, compared to \$22.5 million in 2017. A large portion of the year over year increase relates to the \$1.9 million in roof repairs performed this year on the BCEC's roof. Additionally, the Authority experienced a substantial increase in its annual expenditures for contracted event security services, due to statutory requirements related to the wages paid by security contracts at Authority venues that were made effective in April 2017.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

RESULTS OF OPERATIONS (CONTINUED)

The Authority's utility expenditures increased by 13% in fiscal year 2018 from 2017 levels. This increase, which led to expenses totaling \$10.4 million, was anticipated since the Authority experienced substantial unit cost increases to the cost of electricity driven by regulatory increases to the price charged by utility companies for energy capacity. Electricity represents more than 80% of the Authority's annual energy consumption portfolio, and meaningful increases in the cost of electricity will have a corresponding impact in the Authority's annual outlays.

Operating Expenses – 2017

Total fiscal year 2017 operating expenses were \$144 million, down 3% from the previous year. After excluding depreciation, certain items paid from restricted net position, pass-through funding associated with the June 2017 Tall Ships events, and items paid from the capital budget, the adjusted fiscal year 2017 operating expense is \$76 million, compared to \$84 million in the previous year. The year on year decrease in overall spending was 10%, or 8%. Expenses were reduced in the Authority's payroll accounts due to elimination of budgeted positions over the course of the year. Additionally, the Authority was able to control expenses of its cleaning and parking services contractor while also limiting increases in its utilities budget. Two notable areas of expense increase were the \$300,000 increase in expense to operate the Waterfront Shuttle and the contracted snow and ice removal expenses of \$230,000. Additionally, the Authority modified the accounting for rigging services therefore eliminating over \$2 million of expense that was captured in fiscal year 2016.

Non-operating Revenues (Expenses), Net – 2018

In fiscal year 2018 the Authority's non-operating net revenues totaled \$17.3 million, compared to \$22.2 million in 2017. The largest part of the year over year change resulted from the lower amount of funding drawn from the Convention Center Fund to support the Authority's operating expenses, including funding the Authority drew to accumulate funds for long-term liabilities associated with retiree pension and health care costs. In 2018 the Authority drew \$12 million for this purpose, compared to \$14 million in 2017. Additionally, in 2017 the Authority drew \$4.25 million to support a grant to promote the Tall Ships event in Boston in the summer of 2017. This was not repeated in 2018.

Investment Income and Interest on Loans

Total investment income in 2018 was \$994,000, up from \$805,000 in 2017. This 23% increase resulted from the increase in interest earnings that the Authority generated as the interest environment on its cash balances is growing more favorable after a long-period of near-zero rates. Interest payments related to the Authority's loan to the Boston Tea Party Ships and Museums was \$731,000, compared to \$747,000 in 2017.

Non-operating Revenues (Expenses), Net – 2017

Total non-operating net revenues were \$22 million, which was an increase of \$12 million, or 120%, from the previous year total of \$10 million. This amount primarily consists of the annual funding requested by the Authority from the Convention Center Fund, which totaled roughly \$20 million in fiscal year 2017, \$8 million less than the funding requested during fiscal year 2016. The bulk of the funding drawn from the CCF will be internally restricted for the purposes of funding a portion of the long-term costs associated with the Authority's pension and other postemployment benefits (OPEB). This funding, which totals over \$14 million, will be invested by the MCCA in irrevocable trusts created to address these long-term liabilities.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

RESULTS OF OPERATIONS (CONTINUED)

Investment Income and Interest on Loans

Investment income and interest on loans in fiscal year 2017 totaled \$805,000, which is up slightly from the 2016 levels. Loan interest earnings for the Boston Tea Party Ships and Museum fell modestly from \$762,000 to \$747,000. This is offset by interest earnings on MCCA cash balances of \$58,000 reflecting a more favorable interest environment than recent history.

COMPARISON TO BUDGET

Operating Revenues – 2018

In fiscal year 2018, operating revenues exceeded the original budget by \$8.9 million, \$76.5 million compared to \$67.6 million. The BCEC and the Hynes accounted for all of this favorable difference, generating \$9.8 million more in annual revenue than originally projected. Event revenues, which may be difficult to anticipate given variation among show customers, were generally stronger than anticipated. Additionally, actual Waterfront shuttle services revenues were greater than anticipated as service was expanded to additional properties. Both the Boston Common Garage and the MassMutual Center performed below original budgeted revenues, with the former experiencing an \$842,000 drop, due to lower than anticipated demand from transient (daily) parkers over the course of the year.

Operating Revenues – 2017

During fiscal year 2017 operating revenues exceeded the budgeted estimates by \$11 million, or \$73 million in actual receipts versus a budget of \$62 million. The 18% increase was largely attributable to the strong show performance at the BCEC and the Hynes, which respectively exceeded budgeted revenues by 30.4% and 16.5%. As noted previously, consumption of event support services and F&B services was very strong, helping to exceed the original estimated receipts from these activities. The Lawn on D's first full operating year beat its original budgeted revenue number, generating \$1.4 million or 48.7% more than forecast. The Boston Common Garage underperformed versus the budget, generating \$760,000 less than assumed, due to lower transient parkers. Finally, the MMC's revenues exceeded the original budget by \$160,000, bringing total fiscal year 2017 receipts to \$4 million.

Operating Expenses – 2018

Excluding depreciation, adjustments for unspent funding for the 2017 Tall Ships event and other related items, expenses in fiscal year 2018 totaled \$79.1 million compared to a budget of \$80.6 million. Notable changes from budget included roughly \$3.6 million more in expenses for the BCEC, including unbudgeted costs for variable event expenses and additional Waterfront shuttles service, and similar under-budget performance for central administration purposes. The latter resulted, in part, from delays in expenditures for major information technology system replacements, which are still planned for subsequent fiscal years.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

COMPARISON TO BUDGET (CONTINUED)

Operating Expenses – 2017

Excluding depreciation, pass-through funding for the June 2017 Tall Ships event and other certain items paid from restricted net position or from the capital budget, the Authority's fiscal year 2017 operating expenses of \$77 million was \$3 million less than the adopted budget of \$80 million. Expenses were below budget across all Authority cost centers except the MMC reflecting continued efforts to reduce costs through reduced payroll and contracted services, as well as through leveraging technology and more efficient operating procedures. The reduced expenses, which is especially notable given the substantial increase in actual revenues compared to the budgeted levels. The Authority has been successful in limiting variable cost growth associated with event support services.

Non-operating Revenues (Expenses), Net – 2018

In fiscal year 2018 actual non-operating revenues were generally in-line with final budgeted figures. One notable change from budget is that the Authority earned \$141,000 more in interest earnings than original estimated, for a total of \$994,000 compared to a budget of \$853,000. This corresponds to an improving interest environment.

Non-operating Revenues (Expenses), Net – 2017

During fiscal year 2017 the Authority did not originally assume any interest earnings from its cash balances, but was able to generate a modest amount of \$58,000. The primary factor in the unfavorable variance in non-operating revenues and expenses to budget in fiscal year 2017 was the \$1.4 million in abandoned capital projects.

KEY PERFORMANCE METRICS

| | 2018 | 2017 | 2016 |
|---|---------------|---------------|---------------|
| <u>Operating Coverage Ratio Calculation:</u> | | | |
| Operating Revenue (Including Investment Income and Interest on Loans) | \$ 77,481,622 | \$ 74,507,732 | \$ 71,390,386 |
| Operating Expense (Excluding Depreciation, Certain Amounts Paid for Restricted Net Position and Amounts Paid from the Capital Budget) | \$ 86,552,531 | \$ 84,069,175 | \$ 83,951,457 |
| MCCA Operating Coverage Ratio | 0.90 | 0.89 | 0.85 |
| Rev. PGSF (BCEC) | \$ 59.47 | \$ 55.66 | \$ 56.89 |
| Rev. PGSF (Hynes), Excluding Commercial Space | \$ 57.38 | \$ 57.48 | \$ 49.88 |
| Rev. PGSF (MMC - Conv. Center) | \$ 28.95 | \$ 24.37 | \$ 24.57 |
| Revenue per Attendee (MMC) - Arena | \$ 8.16 | \$ 7.33 | \$ 7.76 |
| Avg. Revenue per Space per Day (Common Garage) | \$ 23.82 | \$ 24.77 | \$ 25.83 |

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

KEY PERFORMANCE METRICS (CONTINUED)

The MCCA's management believes one important measure of the Authority's financial performance is its operating coverage ratio, which reveals the degree to which gross revenues from operations (including investment income and interest on loans) cover gross operating expenses (excluding depreciation, amounts paid from restricted net position and the capital budget). Use of this ratio reveals, in part, the degree to which the Authority must rely on non-operating revenue (largely the annual subsidy from the Convention Center Fund) to underwrite its net cost of operations. The greater the ratio the more successful the Authority has been in generating non-CCF resources and in meeting its goal to increase its financial self-sufficiency.

In 2018, 2017, and 2016, the Authority's operating coverage ratios (defined above) were 0.90, 0.89, and 0.85, respectively. The amounts over the past 3 fiscal years represent a meaningful increase from previous levels, helped by improving performance across the Authority's facilities, most notably the BCEC. Continued strong show quality, particularly with respect to consumption of food and beverage and event support services, offset by net pension and OPEB liabilities, helped keep the MCCA's coverage ratio consistent with the prior year at the highest level achieved by the Authority since the BCEC opened in 2004. Historically, management believed during a typical business year this ratio will fluctuate between 0.65 and 0.75 (or +/- 7% from the 0.70 mid-point) depending on event activities in any specific year. However, with diversification of revenue streams and efforts to minimize expense increases, management continues to work to increase the annual coverage ratio to well above the historical target.

The convention centers' revenue-generating performance can also be measured by their Revenue Per Gross Square Feet (Rev. PGSF), which is the total event related revenue achieved in the fiscal year divided by the facility's gross square feet available for rental. This measures the amount of revenue the Authority was able to generate from the facility, assuming that all saleable square feet are equally capable of generating revenue from customers. Management believes this metric is a good reflection of both the number and quality of events leasing convention center space. Generally, but not in all cases, as Rev. PGSF increases so does the venue's profitability since incremental revenues typically more than cover variable expenses.

In fiscal year 2018 the BCEC's Revenue PGSF increased by 6.8%, from \$55.66/sq. ft. to \$59.47/sq. ft. The year over year improvement reflect stronger per event consumption as well as other improved revenue sources, such Waterfront shuttles services. Demand by both show and exhibitor customers remained high, particularly for food and beverage and event support services. At the Hynes experienced revenue generated totaled \$57.38/sq. ft., in-line with 2017's total or \$57.48/ sq. ft. Similar to the BCEC, the Hynes benefited from strong demand for event support services and food and beverage services.

During fiscal year 2018 the MassMutual Center's arena top-line performance, as measured by revenue per attendee, increase to \$8.16 in 2016 from \$7.33 in 2017. The increase is attributable to a 21% drop in annual turnstile attendance. However, the 2018 attendance of 214,480 is still well substantially greater than 2016's total of 180,801. Using revenue per gross square foot as the measurement, performance on the convention center side increased by 19% from \$24.37 in fiscal year 2017 to \$28.95 in 2018.

The BCG performance is measured by its Revenue per Space per Day, which is the total parking revenue achieved in the fiscal year divided by the facility's total number of available spaces per year (1,367 spaces times 365 days). Management believes this metric is a good reflection of our ability to "turn" the space during the day to maximize daily occupancy. In fiscal year 2018, Common Garage Revenue per Space was \$23.82 falling from fiscal year 2017's total of \$24.77, primarily due to lower transient (daily) parker demand over the course of the year.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | Fiscal Year 2018 | Fiscal Year 2017 | Fiscal Year 2016 | % Change 2018-2017 | % Change 2017-2016 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Cash and Cash Equivalents | \$ 31,342,931 | \$ 36,556,750 | \$ 17,763,660 | (14)% | 106 % |
| Restricted Cash and Cash Equivalents: | 1,703,935 | 587,277 | 587,277 | 190 % | 0% |
| Restricted Investments | 17,252,030 | - | - | 100 % | 0% |
| Grants and Recovery (Including Restricted Grants) Receivables from Commonwealth | 7,111,869 | 23,288,551 | 25,899,946 | (69)% | (10)% |
| Convention Receivables, Loans Receivable (Current), and Prepaid Expenses | 9,355,296 | 5,949,975 | 6,505,252 | 57 % | (9)% |
| Long-Term Loans Receivable | 15,670,730 | 16,051,072 | 16,414,709 | (2)% | (2)% |
| Capital Assets, Net | 685,300,182 | 729,780,877 | 767,344,759 | (6)% | (5)% |
| Deferred Outflows of Resources | <u>6,938,043</u> | <u>11,667,515</u> | <u>8,897,656</u> | (41)% | 31 % |
| Total Assets and Deferred Outflows of Resources | <u>\$ 774,675,016</u> | <u>\$ 823,882,017</u> | <u>\$ 843,413,259</u> | (6)% | (2)% |

Cash and Cash Equivalents

Reflects monies on hand from Authority operations.

Restricted Cash and Cash Equivalents

Reflects the Authority's cash on hand restricted for purposes associated with the prior sale of air rights and Pension Trust cash.

Restricted Investments

Reflects the Pension Trust's investments restricted for pension benefits.

Grants and Recovery Receivables from Commonwealth

Reflects the receivable due from the Commonwealth (from the Convention Center Fund) to offset the Authority's net cost of operations, pay-go capital programming, and set funding aside to defray the costs of its retiree pension and other postemployment benefits (OPEB) liabilities. Funds are disbursed by the Commonwealth to the Authority in accordance with an annual funding agreement executed between the Executive Office for Administration and Finance and the Authority.

Convention Receivables, Loans Receivable (Current), and Prepaid Expenses

Reflects the Authority's receivables from operations, current loans receivable from the Boston Tea Party Ship and Museum, Inc., and prepaid assets such as insurance, which are expensed over time.

Long-Term Loans Receivable

Reflects the Authority's noncurrent loans receivable from the Boston Tea Party Ship and Museum, Inc.

Capital Assets, Net

Reflects the Authority's investment in land and capitalized assets less accumulated depreciation.

Deferred Outflows of Resources

Reflects the Authority's deferred outflows of resources related to pensions and OPEB.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

| | Fiscal Year 2018 | Fiscal Year 2016 | Fiscal Year 2015 | % Change 2018-2017 | % Change 2017-2016 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Payables, Accrued Expenses, Unearned Revenue, and Compensated Absences (Current) | \$ 28,363,016 | \$ 33,974,069 | \$ 23,424,808 | (17)% | 45 % |
| Environmental Remediation | - | 1,929,591 | 11,408,172 | (100)% | (83)% |
| Accrued Compensated Absences, Noncurrent | 1,273,096 | 1,362,548 | 1,376,383 | (7)% | (1)% |
| Net Pension Liability | 39,703,950 | 45,107,233 | 37,647,760 | (12)% | 20 % |
| Net OPEB Liability | 8,525,472 | 11,335,843 | 9,424,160 | (25)% | 20 % |
| Deferred Inflows of Resources | 3,437,013 | 477,448 | 1,335,583 | 620 % | (64)% |
| Net Position - Net investment in Capital Assets | 685,300,182 | 729,780,877 | 767,344,759 | (6)% | (5)% |
| Net Position - Restricted for Pension Benefits and Other | 18,128,469 | 587,277 | 587,277 | 2987 % | 0% |
| Net Position - (Unrestricted) | <u>(10,056,182)</u> | <u>(672,869)</u> | <u>(9,135,643)</u> | 1395 % | (93)% |
| Total Liabilities and Net Position | <u>\$ 774,675,016</u> | <u>\$ 823,882,017</u> | <u>\$ 843,413,259</u> | (6)% | (2)% |

Payables, Accrued Expenses, Unearned Revenue, and Compensated Absences (Current)

Reflects the Authority's and Pension Trust's current responsibilities applicable to vendors, short-term accrued sick and vacation pay benefits, and deposits received for future shows.

Environmental Remediation

Reflects the Authority's remediation requirements associated with the judgment from the *Commonwealth of Massachusetts et.al. v. SAK Recycling et.al., C.A. No. 96-0673A* case. Remediation efforts were completed in fiscal year 2018.

Accrued Compensated Absences, Noncurrent

Reflects the Authority's long-term accrued sick and vacation pay benefits.

Net Pension Liability

Reflects the Authority's net pension liability as calculated in accordance with GASB Statement No. 68.

Net OPEB Liability (Obligation)

Reflects the Authority's net OPEB obligation as calculated in accordance with GASB Statement No. 45. Effective for fiscal year 2018, the Net OPEB Liability has been calculated in accordance with GASB Statement No. 75.

Deferred Inflows of Resources

Reflects the Authority's deferred inflows of resources related to pensions.

Net Position (Net Investment in Capital Assets)

Reflects the Authority's total net investment in capital assets.

Net Position (Pension Benefits and Other)

Reflects the Authority's restricted amounts for the Net Position of the Pension Trust, and amounts related to transportation planning from the previous sale of air rights.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (CONTINUED)

Net Position (Unrestricted)

Reflects the accumulated revenues and expenses from Authority's operations, including proceeds from the Convention Center Fund.

CONSTRUCTION ACTIVITIES

During fiscal year 2017, the Authority reviewed and revised its existing capital projects planning program to ensure the efficient and effective future investment of resources in the technology and infrastructure needs across all four of its facilities. The program provides the Authority with the projected future capital requirements necessary to keep the Authority's assets in excellent working condition. In addition, the Authority has a number of on-going capital projects representing \$27.9 million in committed projects of which \$5.9 million has been spent to date (see Note 13, page 52).

Chapter 195 of the Acts of 2014 authorized the expansion of the BCEC, which calls for development and construction of approximately 1.3 million additional square feet to the BCEC, including substantial additions to the exhibit and meeting space, and a second, larger ballroom. The funding authorized for the construction totals \$1 billion. Initial design, construction, and related activities by the Authority began in fiscal year 2015 but are currently on hold subject to further review by the Authority.

RISK ASSESSMENT

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

The Authority has hands-on management teams for each of the facilities it operates. Although the Authority believes that its real estate portfolio and revenue sources are significantly diversified, a material reduction in demand for space at any of its facilities or a material decrease in the support and food and beverage consumption by show customers could have a material impact on its annual operating revenues which would consequently impact its cash flows and operating results adversely.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 415 Summer Street, Boston, Massachusetts 02210.

MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

| | Business-Type Activities | |
|---|---------------------------------|----------------|
| | 2018 | 2017 |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 31,342,931 | \$ 36,556,750 |
| Restricted Cash and Cash Equivalents | 1,703,935 | 587,277 |
| Restricted Investments | 17,252,030 | - |
| Receivables, Net of Allowance for Uncollectible Amounts: | | |
| Grants from the Commonwealth | 7,111,869 | 21,358,960 |
| Convention | 6,829,270 | 4,027,099 |
| Loans | 380,342 | 363,637 |
| Environmental Remediation Recovery | - | 1,929,591 |
| Prepaid Expenses | 2,145,684 | 1,559,239 |
| Total Current Assets | 66,766,061 | 66,382,553 |
| Noncurrent Assets: | | |
| Loan Receivable, Net of Allowance for Uncollectible Amounts | 15,670,730 | 16,051,072 |
| Capital Assets Not Being Depreciated | 183,906,156 | 180,398,730 |
| Capital Assets, Net of Accumulated Depreciation | 501,394,026 | 549,382,147 |
| Total Noncurrent Assets | 700,970,912 | 745,831,949 |
| Total Assets | 767,736,973 | 812,214,502 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension Related | 6,900,242 | 11,667,515 |
| OPEB Related | 37,801 | - |
| Total Deferred Outflows of Resources | 6,938,043 | 11,667,515 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Expenses | 13,398,146 | 18,653,574 |
| Unearned Revenue | 13,578,133 | 13,602,109 |
| Accrued Compensated Absences | 970,071 | 968,386 |
| Total Current Liabilities | 27,946,350 | 33,224,069 |
| Noncurrent Liabilities: | | |
| Unearned Revenue | 416,666 | 750,000 |
| Environmental Remediation | - | 1,929,591 |
| Accrued Compensated Absences | 1,273,096 | 1,362,548 |
| Net Pension Liability | 39,703,950 | 45,107,233 |
| Net OPEB Liability | 8,525,472 | 11,335,843 |
| Total Noncurrent Liabilities | 49,919,184 | 60,485,215 |
| Total Liabilities | 77,865,534 | 93,709,284 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension Related | 3,437,013 | 477,448 |
| NET POSITION | | |
| Net Investment in Capital Assets | 685,300,182 | 729,780,877 |
| Restricted for: | | |
| Pension Benefits | 17,541,192 | - |
| Transportation Planning/Roadway Improvements | 587,277 | 587,277 |
| Unrestricted Deficit | (10,056,182) | (672,869) |
| Total Net Position | \$ 693,372,469 | \$ 729,695,285 |

See accompanying Notes to Financial Statements.

MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

| | Business-Type Activities | |
|--|---------------------------------|-----------------------|
| | <u>2018</u> | <u>2017</u> |
| OPERATING REVENUES | | |
| Convention Services Income | \$ 22,100,426 | \$ 22,778,517 |
| Convention Rental Income | 20,120,777 | 19,752,929 |
| Food and Beverage | 10,864,549 | 11,601,058 |
| Parking Fees | 12,894,959 | 13,272,285 |
| Commercial Revenue | 4,635,063 | 3,489,179 |
| Other | 5,871,533 | 2,808,514 |
| Total Operating Revenues | <u>76,487,307</u> | <u>73,702,482</u> |
| OPERATING EXPENSES | | |
| Salaries and Benefits - Operating | 26,247,624 | 27,705,653 |
| Salaries and Benefits - Administrative | 6,098,212 | 8,300,728 |
| Other Operating Expenses | 15,877,902 | 22,030,183 |
| Contracted Services | 27,025,266 | 22,461,782 |
| Utilities | 10,376,592 | 9,179,947 |
| Depreciation | 52,525,987 | 53,852,173 |
| Total Operating Expenses | <u>138,151,583</u> | <u>143,530,466</u> |
| OPERATING (LOSS) | (61,664,276) | (69,827,984) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Massachusetts Convention Center Fund - Operating Subsidy | 14,158,769 | 20,332,934 |
| Federal Grants | 82,000 | - |
| Nonemployer Contribution to Pension Plan | 1,666,074 | 1,752,269 |
| Interest Received on Loans Receivable | 731,223 | 747,194 |
| Investment Income | 263,092 | 58,054 |
| Investment Income, Net - Pension Trust (Restricted) | 395,352 | - |
| Loss on Sale of Capital Assets | - | (684,067) |
| Total Nonoperating Revenues, Net | <u>17,296,510</u> | <u>22,206,384</u> |
| LOSS BEFORE CAPITAL CONTRIBUTIONS | (44,367,766) | (47,621,600) |
| CAPITAL CONTRIBUTIONS | | |
| Massachusetts Convention Center Fund - Capital Contributions | 8,409,272 | 11,178,492 |
| Noncash Capital Contributions | - | 6,800,000 |
| Capital Contributions | - | 542,000 |
| Total Capital Contributions | <u>8,409,272</u> | <u>18,520,492</u> |
| CHANGE IN NET POSITION | (35,958,494) | (29,101,108) |
| Net Position - Beginning of Year (As Restated) | <u>729,330,963</u> | <u>758,796,393</u> |
| NET POSITION - END OF YEAR | <u>\$ 693,372,469</u> | <u>\$ 729,695,285</u> |

See accompanying Notes to Financial Statements.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

| | Business-Type Activities | |
|--|---------------------------------|-----------------------------|
| | <u>2018</u> | <u>2017</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers and Users | \$ 73,327,826 | \$ 76,555,748 |
| Payments to Vendors | (58,773,928) | (43,268,624) |
| Payments to Employees | (31,656,468) | (28,759,710) |
| Net Cash Provided (Used) by Operating Activities | <u>(17,102,570)</u> | <u>4,527,414</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Massachusetts Convention Center Fund - Operating Subsidy | 23,352,136 | 12,201,120 |
| Payments for Environmental Remediation Recovered from CCF | (2,178,165) | (6,519,555) |
| Federal Grants | 82,000 | - |
| Net Cash Provided by Noncapital Financing Activities | <u>21,255,971</u> | <u>5,681,565</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Massachusetts Convention Center Fund - Capital Contributions | 15,641,161 | 18,962,675 |
| Acquisition and Construction of Capital Assets | (8,392,997) | (11,531,477) |
| Net Cash Provided by Capital and Related Financing Activities | <u>7,248,164</u> | <u>7,431,198</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Investments | (16,872,465) | - |
| Loan Repayments | 363,637 | 347,665 |
| Interest Received on Loans Receivable | 731,223 | 747,194 |
| Investment Income | 278,879 | 58,054 |
| Net Cash Provided (Used) by Investing Activities | <u>(15,498,726)</u> | <u>1,152,913</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (4,097,161) | 18,793,090 |
| Cash and Cash Equivalents - Beginning of Year (Includes \$587,277 as Restricted Cash) | <u>37,144,027</u> | <u>18,350,937</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR (Includes \$1,703,935 as Restricted Cash) | <u><u>\$ 33,046,866</u></u> | <u><u>\$ 37,144,027</u></u> |

See accompanying Notes to Financial Statements.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

| | <u>Business-Type Activities</u> | |
|---|---------------------------------|---------------------|
| | <u>2018</u> | <u>2017</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES | | |
| Operating Loss | \$ (61,664,276) | \$ (69,827,984) |
| Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities: | | |
| Changes in Assets and Liabilities Not Requiring Current Cash Flows: | | |
| Depreciation | 52,525,987 | 53,852,173 |
| Discontinued Capital Projects | 347,705 | 1,359,118 |
| Change in Net Pension Liability | (3,737,209) | 9,211,743 |
| Change in Deferred Outflows - Pension | 4,767,273 | (2,769,859) |
| Change in Deferred Inflows - Pension | 2,959,565 | (858,135) |
| Change in Net OPEB Liability | (3,174,693) | - |
| Change in Deferred Outflows - OPEB | (37,801) | - |
| Net OPEB Obligation | - | 1,911,683 |
| Effect of Changes in Operating Assets and Liabilities: | | |
| Convention Receivables, Net | (2,802,171) | 191,711 |
| Prepaid Assets | (586,445) | 379,538 |
| Accounts Payable and Accrued Expenses | (5,255,428) | 8,466,365 |
| Unearned Revenue | (357,310) | 2,661,555 |
| Accrued Compensated Absences | (87,767) | (50,494) |
| Total Adjustments | <u>44,561,706</u> | <u>74,355,398</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (17,102,570)</u> | <u>\$ 4,527,414</u> |

See accompanying Notes to Financial Statements.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018**

| | OPEB Trust Fund |
|---|--------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 167,562 |
| Investments: | |
| Common Collective Trusts | 3,999,120 |
| Fixed Income Mutual Funds | 215,252 |
| Equity Mutual Funds | 128,257 |
| Total Investments | 4,342,629 |
| Total Assets | 4,510,191 |
| LIABILITIES | |
| Accrued Expenses | 63,087 |
| NET POSITION | |
| Restricted for: | |
| Postemployment Benefits Other Than Pensions | 4,447,104 |
| Total Net Position | \$ 4,447,104 |

See accompanying Notes to Financial Statements.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2018**

| | <u>OPEB Trust Fund</u> |
|---------------------------------------|--------------------------------|
| ADDITIONS | |
| Employer Contributions | \$ 4,594,569 |
| Investment Income: | |
| Net Appreciation of Investments | 96,909 |
| Interest and Dividends | 10,582 |
| Less: Investment Expense | <u>(6,869)</u> |
| Net Investment Income | 100,622 |
| Total Additions | <u>4,695,191</u> |
| DEDUCTIONS | |
| Benefit Payments | 230,973 |
| Administrative Expenses | <u>17,114</u> |
| Total Deductions | 248,087 |
| CHANGE IN NET POSITION | 4,447,104 |
| Net Position - Beginning of Year | <u>-</u> |
| NET POSITION - END OF YEAR | <u><u>\$ 4,447,104</u></u> |

See accompanying Notes to Financial Statements.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Reporting Entity

Establishment and Background

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

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

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

In addition to these provisions, the Act also enlarged the Authority's Board of Directors to 13 members. The BCEC officially opened for business in the summer of 2004, and the Springfield Civic Center project was completed in the fall of 2005 (see Note 5, now designated as the MassMutual Center). Subsequent acts (Chapter 23 of the Acts of 1998 and Chapter 45 of the Acts of 2001) have had several provisions relevant to the Authority.

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

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

Funding

The Act, as amended by Section 439 of Chapter 26 of the Acts of 2003, created the Convention Center Fund (Fund). The purpose of the Fund is to provide funding for the activities of the Authority. Section 439 amended Section 10(c) of the Act, which authorized up to \$23 million annually to defray the Authority's net cost of operations from its activities as well as providing for reserves for capital and current expenses of the Authority. Chapter 195 of Acts of 2014 increased the fiscal years 2015, 2016, 2017 and 2018 (and on) caps to \$24 million, \$25 million, \$26 million, and \$28 million, respectively. During fiscal year 2018, the Authority requested reimbursements from the Fund totaling \$24,746,206 for the net cost of operations (\$2,161,684) reduced by \$926,935 related to overfunding of tall ship reimbursements in the prior year, OPEB/Pension Trust funding (\$12,924,020), pay-go capital program (\$8,409,272) and recovery of environmental remediation costs (\$2,178,165). During fiscal year 2017, the Authority requested reimbursements from the Fund totaling \$38,030,981 for the net cost of operations (\$1,718,347), tall ships reimbursement (\$4,250,000), OPEB/Pension Trust funding (\$14,364,587), pay-go capital program (\$11,178,492) and recovery of environmental remediation costs (\$6,519,555).

Blended Component Unit

On November 15, 2017, the Massachusetts Convention Center Authority Irrevocable Retiree Pension Trust ("Pension Trust") was established for the advance accumulation of funding for pension benefits. The Pension Trust is governed by six trustees, which are to be held by the individuals holding selected positions of the Authority. The Pension Trust is presented using the accrual basis of accounting and is reported as a blended component unit in the Authority's business-type activities financial statement. The Pension Trust did not issue a separate audited financial statement.

Fiduciary Fund Component Unit

On November 15, 2017, the Massachusetts Convention Center Authority Irrevocable OPEB Trust ("OPEB Trust") was established for the advance accumulation of funding for postemployment health care and other benefits provided by the Authority. The OPEB Trust is governed by six trustees, which are to be held by the individuals holding selected positions of the Authority. The OPEB Trust is presented using the accrual basis of accounting and is reported as an OPEB trust fund in the fiduciary funds financial statement. The OPEB Trust did not issue a separate audited financial statement.

Implementation of New Accounting Principles

For the year ended June 30, 2018, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 84, *Fiduciary Activities*

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Principles (Continued)

The implementation of GASB Statement No. 84 resulted in the reporting of the OPEB Trust Fund in the fiduciary fund financial statements of the Authority.

The implementation of GASB Statement No. 75 resulted in, among other things, the recognition of the full net OPEB liability in the Statement of Net Position, as well as the deferred inflows and outflows related to OPEB activities. As a result, the Authority has restated its 2018 beginning net position to reflect the implementation of the Statement. The Authority's previously reported net position of \$729,695,285 was restated to \$729,330,963, to reflect the cumulative effect of change in accounting principle. The Authority has determined that restating the prior year was not practical.

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

Cash and Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are measured at fair value; with the exception of money market mutual funds (presented as cash and cash equivalents) which are held at amortized cost.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Cash and Investments have been restricted for funds received for the prior sale of air rights and pension benefits.

Accounts Receivable

Grants from the Commonwealth

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

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convention

Convention receivables are stated net of an allowance for doubtful accounts. The allowance is established by management to provide for potential bad debts based on current information available and past experience. At June 30, 2018 and 2017, the allowance for doubtful accounts amounted to \$306,088 and \$298,052, respectively.

Loans

The Authority authorized an \$18,000,000 loan to the Boston Tea Party Ship and Museum, Inc. for the construction of the Boston Tea Party museum and historical replica ships. Loan amounts were distributed based on reimbursement requests submitted during the construction period. Outstanding loans at June 30, 2018 and 2017 totaled \$16,051,072 and \$16,414,709, respectively.

Environmental Remediation Recovery

The Authority has entered into a grant agreement with the Commonwealth to receive reimbursement for all environmental remediation costs incurred (see Note 9). The funds are to be reimbursed from the Convention Center Fund and are considered 100% collectible.

Prepaid Expenses

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

Capital Assets

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

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

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

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

| | Estimated Useful Life (in Years) | Capitalization Threshold (\$) |
|----------------------------|--|----------------------------------|
| Land | N/A | \$ 50,000 |
| Land Improvements | 10 | 50,000 |
| Buildings and Improvements | 5-30 | 50,000 - 250,000 |
| Equipment and Fixtures | 3-5 | 5,000 |

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue Recognition

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

Amounts received in advance of services rendered or revenue earned is recorded as unearned revenue.

Pension Benefits

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and additions to/deductions from SERS's fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Massachusetts Convention Center Authority Irrevocable OPEB Trust (OPEB Trust) and additions to/deductions from the OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the OPEB Trust. For this purpose, OPEB Trust recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments, which are reported at cost.

Compensated Absences (Vacation Pay and Sick Leave Benefits)

All union employees are contractually entitled to receive vacation pay benefits and, upon retirement, sick leave benefits which are capped at varying amounts based upon the applicable contract. In addition, the Authority has extended a similar, but more limited, benefit to all other eligible employees. Vacation pay and sick leave benefits accrued for employees at June 30, 2018 and 2017, totaled approximately \$2,243,000 and \$2,331,000, respectively, and is reflected in the accompanying statements of net position as accrued compensated absences.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position represents the residual difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is reported in the following categories:

Net investment in capital assets represents capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to asset acquisitions, construction, and improvements.

Net position is reported as restricted when amounts are restricted by outside parties for a specific future use. Net position has been restricted for: *pension benefits*, which represents the net position of the Pension Trust, and *transportation planning*, which represents amounts related to the previous sale of air rights.

Unrestricted represents the remaining net position not considered invested in capital assets or restricted.

Use of Estimates

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

NOTE 2 DEPOSITS AND INVESTMENTS

Authority (Excluding the Pension and OPEB Trusts)

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The Authority does not have a policy for custodial credit risk of deposits. At June 30, 2018 and 2017, bank deposits totaling \$33,253,176 and \$37,527,307, respectively, were not exposed to custodial credit risk. The carrying amount of deposits totaled \$31,930,208 and \$37,144,027 at June 30, 2018 and 2017, respectively.

Pension Trust (Blended Component Unit)

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Pension Trust's deposits may not be recovered. The Pension Trust does not have a policy for custodial credit risk of deposits. At June 30, 2018, there were no bank deposits on hand and no exposure to custodial credit risk.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

The Trustees have adopted a formal investment policy. It is the policy of the Trust to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

Investment Summary

The Pension Trust's investments at June 30, 2018 are presented below. All investments are presented by investment type.

| Investment Type | Fair Value | Investment Maturities (in Years) Less Than 1 |
|---------------------------|----------------------|---|
| <u>Debt Securities:</u> | | |
| Money Market Mutual Funds | \$ 1,116,658 | \$ 1,116,658 |
| Fixed Income Mutual Funds | 825,786 | 825,786 |
| Subtotal | <u>1,942,444</u> | <u>\$ 1,942,444</u> |
| <u>Other Investments:</u> | | |
| Equity Mutual Funds | 507,611 | |
| Common Collective Trusts | 15,918,633 | |
| Total Investments | <u>\$ 18,368,688</u> | |

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Pension Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension Trust does not have a policy for custodial credit risk of investments. As of June 30, 2018, the Pension Trust's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Pension Trust does not have a policy for credit risk of debt securities. As of June 30, 2018, the Pension Trust's debt securities were unrated.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Pension Trust's investment in a single issuer. The Pension Trust does not have a policy for concentration of credit risk. As of June 30, 2018, the Pension Trust was not exposed to concentration risk.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments - Fair Value Measurements

The Pension Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Pension Trust has the following recurring fair value measurements as of June 30, 2018:

| Investment Type | Fair Value | Fair Value Measurements Using: | | |
|---------------------------------------|----------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money Market Mutual Funds | \$ 1,116,658 | \$ 1,116,658 | \$ - | \$ - |
| Fixed Income Mutual Funds | 825,786 | 825,786 | - | - |
| Equity Mutual Funds | 507,611 | 507,611 | - | - |
| Common Collective Trusts | 15,918,633 | - | 15,918,633 | - |
| Total Investments by Fair value Level | <u>\$ 18,368,688</u> | <u>\$ 2,450,055</u> | <u>\$ 15,918,633</u> | <u>\$ -</u> |

Investments classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets for those securities.

Investments classified in Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

OPEB Trust Fund (OPEB Trust)

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Pension Trust's deposits may not be recovered. The OPEB Trust does not have a policy for custodial credit risk of deposits. At June 30, 2018, there were no bank deposits on hand and no exposure to custodial credit risk.

The Trustees have adopted a formal investment policy. It is the policy of the Trust to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Summary

The OPEB Trust's investments at June 30, 2018 are presented below. All investments are presented by investment type.

| Investment Type | Fair Value | Investment Maturities (in Years) Less Than 1 |
|---------------------------|---------------------|---|
| <u>Debt Securities:</u> | | |
| Money Market Mutual Funds | \$ 167,562 | \$ 167,562 |
| Fixed Income Mutual Funds | 215,252 | 215,252 |
| Subtotal | <u>382,814</u> | <u>\$ 382,814</u> |
| <u>Other Investments:</u> | | |
| Equity Mutual Funds | 128,257 | |
| Common Collective Trusts | 3,999,120 | |
| Total Investments | <u>\$ 4,510,191</u> | |

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the OPEB Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The OPEB Trust does not have a policy for custodial credit risk of investments. As of June 30, 2018, the OPEB Trust's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The OPEB Trust does not have a policy for credit risk of debt securities. As of June 30, 2018, the OPEB Trust's debt securities were unrated.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Pension Trust's investment in a single issuer. The OPEB Trust does not have a policy for concentration of credit risk. As of June 30, 2018, the OPEB Trust was not exposed to concentration risk.

Investments - Fair Value Measurements

The OPEB Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

The OPEB Trust has the following recurring fair value measurements as of June 30, 2018:

| Investment Type | Fair Value | Fair Value Measurements Using: | | |
|---------------------------------------|---------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money Market Mutual Funds | \$ 167,562 | \$ 167,562 | \$ - | \$ - |
| Fixed Income Mutual Funds | 215,252 | 215,252 | - | - |
| Equity Mutual Funds | 128,257 | 128,257 | - | - |
| Common Collective Trusts | 3,999,120 | - | 3,999,120 | - |
| Total Investments by Fair value Level | <u>\$ 4,510,191</u> | <u>\$ 511,071</u> | <u>\$ 3,999,120</u> | <u>\$ -</u> |

Investments classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets for those securities.

Investments classified in Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

NOTE 3 ACCOUNTS RECEIVABLE

At June 30, 2018, receivables consist of the following:

| Type | Gross Amount | Allowances for Uncollectibles | Net Amount |
|---|----------------------|-------------------------------|----------------------|
| Grants Receivable from the Commonwealth | \$ 7,111,869 | \$ - | \$ 7,111,869 |
| Convention Receivables | 7,136,158 | (306,888) | 6,829,270 |
| Loans Receivable | 16,051,072 | - | 16,051,072 |
| Total | <u>\$ 30,299,099</u> | <u>\$ (306,888)</u> | <u>\$ 29,992,211</u> |

At June 30, 2017, receivables consist of the following:

| Type | Gross Amount | Allowances for Uncollectibles | Net Amount |
|---|----------------------|-------------------------------|----------------------|
| Grants Receivable from the Commonwealth | \$ 21,358,960 | \$ - | \$ 21,358,960 |
| Convention Receivables | 4,323,951 | (296,852) | 4,027,099 |
| Loans Receivable | 16,414,709 | - | 16,414,709 |
| Environmental Remediation Recovery | 1,929,591 | - | 1,929,591 |
| Total | <u>\$ 44,027,211</u> | <u>\$ (296,852)</u> | <u>\$ 43,730,359</u> |

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2018 and 2017 was as follows:

| | 2018 | | | Ending Balance |
|--|-----------------------|------------------------|-----------------------|-----------------------|
| | Beginning Balance | Increases | Decreases | |
| Capital Assets not being Depreciated: | | | | |
| Land | \$ 167,839,381 | \$ 1,564,888 | \$ - | \$ 169,404,269 |
| Construction in Progress | 3,950,990 | 8,409,272 | (6,466,734) | 5,893,528 |
| Intangible Assets | 8,608,359 | - | - | 8,608,359 |
| Total Capital Assets not being Depreciated: | 180,398,730 | 9,974,160 | (6,466,734) | 183,906,156 |
| Capital Assets being Depreciated: | | | | |
| Land Improvements | 4,037,520 | - | (75,858) | 3,961,662 |
| Buildings and Improvements: | | | | |
| BCEC | 712,107,550 | 861,393 | (27,201) | 712,941,742 |
| Hynes Convention Center | 247,064,591 | 986,840 | (213,382) | 247,838,049 |
| MassMutual Center | 73,206,210 | - | - | 73,206,210 |
| Boston Common Garage | 40,954,160 | - | - | 40,954,160 |
| Equipment and Fixtures | 81,623,700 | 2,689,633 | (2,366,467) | 81,946,866 |
| Total Capital Assets being Depreciated | 1,158,993,731 | 4,537,866 | (2,682,908) | 1,160,848,689 |
| Less: Accumulated Depreciation for: | | | | |
| Land Improvements | (669,216) | (397,057) | 75,858 | (990,415) |
| Buildings and Improvements: | | | | |
| BCEC | (297,818,271) | (27,214,248) | - | (325,032,519) |
| Hynes Convention Center | (194,780,345) | (12,438,469) | 27,201 | (207,191,613) |
| MassMutual Center | (28,625,300) | (2,451,638) | 213,382 | (30,863,556) |
| Boston Common Garage | (27,398,155) | (1,734,512) | - | (29,132,667) |
| Equipment and Fixtures | (60,320,297) | (8,290,063) | 2,366,467 | (66,243,893) |
| Total Accumulated Depreciation | (609,611,584) | (52,525,987) | 2,682,908 | (659,454,663) |
| Total Capital Assets being Depreciated, Net | 549,382,147 | (47,988,121) | - | 501,394,026 |
| Total Capital Assets, Net | <u>\$ 729,780,877</u> | <u>\$ (38,013,961)</u> | <u>\$ (6,466,734)</u> | <u>\$ 685,300,182</u> |

MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 CAPITAL ASSETS (CONTINUED)

| | 2017 | | | Ending Balance |
|---|-----------------------|------------------------|------------------------|-----------------------|
| | Beginning Balance | Increases | Decreases | |
| Capital Assets not being Depreciated: | | | | |
| Land | \$ 161,039,381 | \$ 6,800,000 | \$ - | \$ 167,839,381 |
| Construction in Progress | 5,736,692 | 11,763,085 | (13,548,787) | 3,950,990 |
| Intangible Assets | 8,608,359 | - | - | 8,608,359 |
| Total Capital Assets not being Depreciated: | <u>175,384,432</u> | <u>18,563,085</u> | <u>(13,548,787)</u> | <u>180,398,730</u> |
| Capital Assets being Depreciated: | | | | |
| Land Improvements | 4,037,520 | - | - | 4,037,520 |
| Buildings and Improvements: | | | | |
| BCEC | 705,729,541 | 6,424,509 | (46,500) | 712,107,550 |
| Hynes Convention Center | 247,094,539 | 157,953 | (187,901) | 247,064,591 |
| MassMutual Center | 73,206,210 | - | - | 73,206,210 |
| Boston Common Garage | 40,752,491 | 201,669 | - | 40,954,160 |
| Equipment and Fixtures | 78,969,621 | 5,362,945 | (2,708,866) | 81,623,700 |
| Total Capital Assets being Depreciated | <u>1,149,789,922</u> | <u>12,147,076</u> | <u>(2,943,267)</u> | <u>1,158,993,731</u> |
| Less: Accumulated Depreciation for: | | | | |
| Land Improvements | (269,245) | (399,971) | - | (669,216) |
| Buildings and Improvements: | | | | |
| BCEC | (270,646,742) | (27,218,029) | 46,500 | (297,818,271) |
| Hynes Convention Center | (182,282,648) | (12,685,597) | 187,900 | (194,780,345) |
| MassMutual Center | (26,142,729) | (2,482,571) | - | (28,625,300) |
| Boston Common Garage | (25,652,940) | (1,745,215) | - | (27,398,155) |
| Equipment and Fixtures | (52,835,291) | (9,320,790) | 1,835,784 | (60,320,297) |
| Total Accumulated Depreciation | <u>(557,829,595)</u> | <u>(53,852,173)</u> | <u>2,070,184</u> | <u>(609,611,584)</u> |
| Total Capital Assets being Depreciated, Net | <u>591,960,327</u> | <u>(41,705,097)</u> | <u>(873,083)</u> | <u>549,382,147</u> |
| Total Capital Assets, Net | <u>\$ 767,344,759</u> | <u>\$ (23,142,012)</u> | <u>\$ (14,421,870)</u> | <u>\$ 729,780,877</u> |

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NOTE 5 NAMING RIGHTS

In September 2003, the Authority entered into an agreement by and between the Massachusetts Mutual Life Insurance Company for provision of naming rights at the new Springfield Civic Center. In consideration for \$5,000,000, the Springfield Civic Center was designated as the MassMutual Center. MassMutual in turn granted the Authority a license to use the Intellectual Property for limited use. Upon termination of the agreement, the name of the facility shall revert to the Springfield Civic Center. The term of the agreement commenced on September 29, 2005 (the opening date of the new center) and will end on the 15th year anniversary unless terminated earlier. Included in other revenue is the amortization of the naming rights amounting to \$333,333 for the years ended June 30, 2018 and 2017. At June 30, 2018 and 2017, the unamortized balance reported as unearned revenue totals approximately \$780,000 and \$1,110,000, respectively.

NOTE 6 LEASES (RENTAL INCOME)

The Authority leases various properties to third parties. For the years ended June 30, 2018 and 2017, the Authority earned approximately \$4,635,000 and \$3,489,000, respectively, in rental income and is included as commercial revenue in the statements of revenues, expenses, and changes in net position. The following represents the future minimum lease payments to be received under noncancelable operating leases:

| <u>Fiscal Year</u> | <u>Payment</u> |
|--------------------|----------------------|
| 2019 | \$ 2,396,896 |
| 2020 | 2,460,322 |
| 2021 | 2,606,663 |
| 2022 | 2,834,593 |
| 2023 | 2,835,571 |
| Thereafter | 84,987,623 |
| Total | <u>\$ 98,121,668</u> |

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NOTE 7 OPERATING PERFORMANCE BY OPERATING SEGMENTS

The Authority currently operates seven operating segments: the BCEC, the Lawn on D, the Hynes Convention Center, the MassMutual Center, the Boston Common Garage, Event Development, Central Administration, and Sales and Marketing and the blended component unit: Pension Trust. Summarized financial information for the years ended June 30 is presented as follows:

| | 2018 | | | | | | | | | |
|---|-----------------------|---------------------|-------------------------|----------------------|----------------------|------------------------|---------------------|----------------------|--------------|-----------------------|
| | BCEC | Lawn on D | Hynes Convention Center | MassMutual Center | Boston Common Garage | Central Administration | Sales and Marketing | Pension Trust | Eliminations | Total |
| Assets: | | | | | | | | | | |
| Current Assets | \$ 5,124,728 | \$ 95,179 | \$ 1,049,643 | \$ 2,403,015 | \$ 5,940 | \$ 38,931,591 | \$ 200,000 | \$ - | \$ - | \$ 47,810,096 |
| Restricted Assets | - | - | - | - | - | 587,277 | - | 18,368,688 | - | 18,955,965 |
| Noncurrent Assets (Excluding Capital Assets) | - | - | - | - | - | 15,670,730 | - | - | - | 15,670,730 |
| Capital Assets | 523,420,862 | 984,417 | 97,618,768 | 46,443,733 | 14,488,419 | 2,343,983 | - | - | - | 685,300,182 |
| Total Assets | \$ 528,545,590 | \$ 1,079,596 | \$ 98,668,411 | \$ 48,846,748 | \$ 14,494,359 | \$ 57,533,581 | \$ 200,000 | \$ 18,368,688 | \$ - | \$ 767,736,973 |
| Deferred Outflows | \$ 3,682,092 | \$ 44,073 | \$ 1,471,608 | \$ - | \$ 195,376 | \$ 1,544,894 | \$ - | \$ - | \$ - | 6,938,043 |
| Liabilities: | | | | | | | | | | |
| Current Liabilities | \$ 13,861,770 | \$ 785,100 | \$ 4,482,017 | \$ 3,307,514 | \$ 270,345 | \$ 3,642,411 | \$ 769,697 | \$ 827,496 | \$ - | 27,946,350 |
| Noncurrent Liabilities | 22,692,003 | 345,677 | 11,542,269 | 416,666 | 1,532,394 | 13,390,175 | - | - | - | 49,919,184 |
| Total Liabilities | \$ 36,553,773 | \$ 1,130,777 | \$ 16,024,286 | \$ 3,724,180 | \$ 1,802,739 | \$ 17,032,586 | \$ 769,697 | \$ 827,496 | \$ - | \$ 77,865,534 |
| Deferred Inflows | \$ 1,617,120 | \$ 24,634 | \$ 822,546 | \$ - | \$ 109,204 | \$ 863,509 | \$ - | \$ - | \$ - | 3,437,013 |
| Net Position: | | | | | | | | | | |
| Net Investment in Capital Assets | | | | | | | | | | 685,300,182 |
| Restricted: | | | | | | | | | | |
| Pension Benefits | | | | | | | | | | 17,541,192 |
| Other | | | | | | | | | | 587,277 |
| Unrestricted | | | | | | | | | | (10,056,182) |
| Total Net Position | | | | | | | | | | \$ 693,372,469 |

| | 2018 | | | | | | | | | |
|--|------------------------|---------------------|-------------------------|-----------------------|----------------------|------------------------|-----------------------|----------------------|-----------------|-----------------------|
| | BCEC | Lawn on D | Hynes Convention Center | MassMutual Center | Boston Common Garage | Central Administration | Sales and Marketing | Pension Trust | Eliminations | Total |
| Operating Revenues | \$ 42,303,998 | \$ 1,682,993 | \$ 16,370,506 | \$ 4,203,786 | \$ 11,887,121 | \$ 22,403 | \$ 16,500 | 17,968,856 | \$ (17,968,856) | \$ 76,487,307 |
| Operating Expenses | (70,370,545) | (1,804,746) | (32,679,483) | (12,042,079) | (5,082,417) | (27,120,500) | (6,197,653) | (823,016) | 17,968,856 | (138,151,583) |
| Operating Income | (28,066,547) | (121,753) | (16,308,977) | (7,838,293) | 6,804,704 | (27,098,097) | (6,181,153) | 17,145,840 | - | (61,664,276) |
| Nonoperating Revenues/(Expenses): | | | | | | | | | | |
| Federal Grants | - | - | - | - | - | 82,000 | - | - | - | 82,000 |
| Interest on Loans Receivable | - | - | - | - | - | 731,223 | - | - | - | 731,223 |
| Investment Income | - | - | - | - | - | 263,092 | - | 395,352 | - | 658,444 |
| CCF - Operating Subsidy | - | - | - | - | - | 14,158,769 | - | - | - | 14,158,769 |
| Nonemployer Contribution | 783,890 | 11,941 | 398,725 | - | 52,936 | 418,582 | - | - | - | 1,666,074 |
| Loss Before Capital Contributions | (27,282,657) | (109,812) | (15,910,252) | (7,838,293) | 6,857,640 | (11,444,431) | (6,181,153) | 17,541,192 | - | (44,367,766) |
| CCF - Capital Contributions | 7,840,835 | 1,470,464 | 3,693,402 | 1,653,502 | 1,600,695 | (7,849,626) | - | - | - | 8,409,272 |
| Change in Net Position | \$ (19,441,822) | \$ 1,360,652 | \$ (12,216,850) | \$ (6,184,791) | \$ 8,458,335 | \$ (19,294,057) | \$ (6,181,153) | \$ 17,541,192 | \$ - | (35,958,494) |
| Net Position - Beginning of Year (As Restated) | | | | | | | | | | 729,330,963 |
| Net Position - End of Year | | | | | | | | | | \$ 693,372,469 |

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NOTE 7 OPERATING PERFORMANCE BY OPERATING SEGMENTS (CONTINUED)

| | 2017 | | | | | | | Total |
|---|-----------------------|---------------------|-------------------------------|----------------------|----------------------------|---------------------------|------------------------|-----------------------|
| | BCEC | Lawn on D | Hynes Convention Center | MassMutual Center | Boston Common Garage | Central Administration | Sales and Marketing | |
| Assets: | | | | | | | | |
| Current Assets | \$ 4,346,028 | \$ 99,801 | \$ 930,605 | \$ 515,533 | \$ 29,018 | \$ 59,474,291 | \$ 400,000 | \$ 65,795,276 |
| Restricted Assets | - | - | - | - | - | 587,277 | - | 587,277 |
| Noncurrent Assets (Excluding Capital Assets) | - | - | - | - | - | 16,051,072 | - | 16,051,072 |
| Capital Assets | 553,488,146 | 1,330,817 | 113,327,709 | 49,463,283 | 16,695,701 | 6,711,802 | 430,934 | 741,448,392 |
| Total Assets | \$ 557,834,174 | \$ 1,430,618 | \$ 114,258,314 | \$ 49,978,816 | \$ 16,724,719 | \$ 82,824,442 | \$ 830,934 | \$ 823,882,017 |
| Deferred Outflows | \$ 4,796,022 | \$ 55,749 | \$ 2,597,856 | \$ 19,510 | \$ 474,796 | \$ 3,292,648 | \$ 430,934 | 11,667,515 |
| Liabilities: | | | | | | | | |
| Current Liabilities | \$ 18,383,800 | \$ 701,168 | \$ 4,351,934 | \$ 991,291 | \$ 588,517 | \$ 6,671,381 | \$ 1,535,978 | 33,224,069 |
| Noncurrent Liabilities | 6,009,310 | 74,449 | 2,242,671 | 750,000 | 346,134 | 50,923,433 | 139,218 | 60,485,215 |
| Total Liabilities | \$ 24,393,110 | \$ 775,617 | \$ 6,594,605 | \$ 1,741,291 | \$ 934,651 | \$ 57,594,814 | \$ 1,675,196 | \$ 93,709,284 |
| Deferred Inflows | \$ 82,324 | \$ (7,712) | \$ 125,925 | \$ - | \$ 4,438 | \$ 144,646 | \$ 127,827 | 477,448 |
| Net Position: | | | | | | | | |
| Net Investment in Capital Assets | | | | | | | | 729,780,877 |
| Restricted: | | | | | | | | |
| Other | | | | | | | | 587,277 |
| Unrestricted | | | | | | | | (672,869) |
| Total Net Position | | | | | | | | \$ 729,695,285 |

| | 2017 | | | | | | | Total |
|--|------------------------|---------------------|-------------------------------|-----------------------|----------------------------|---------------------------|------------------------|-----------------------|
| | BCEC | Lawn on D | Hynes Convention Center | MassMutual Center | Boston Common Garage | Central Administration | Sales and Marketing | |
| Operating Revenues | \$ 39,597,044 | \$ 1,393,145 | \$ 16,400,248 | \$ 3,927,424 | \$ 12,360,962 | \$ 7,159 | \$ 16,500 | \$ 73,702,482 |
| Operating Expenses | (66,464,909) | (1,308,671) | (33,979,007) | (11,705,252) | (5,101,567) | (17,229,109) | (7,741,951) | (143,530,466) |
| Operating Income | (26,867,865) | 84,474 | (17,578,759) | (7,777,828) | 7,259,395 | (17,221,950) | (7,725,451) | (69,827,984) |
| Nonoperating Revenues/(Expenses): | | | | | | | | |
| Interest on Loans Receivable | - | - | - | - | - | 747,194 | - | 747,194 |
| Investment Income | - | - | - | - | - | 58,054 | - | 58,054 |
| Loss on Sale of Capital Assets | (684,067) | - | - | - | - | - | - | (684,067) |
| CCF - Operating Subsidy | - | - | - | - | - | 20,332,934 | - | 20,332,934 |
| Nonemployer Contribution | 758,184 | 15,748 | 411,938 | - | 62,162 | 476,756 | 27,481 | 1,752,269 |
| Loss Before Capital Contributions | (26,793,748) | 100,222 | (17,166,821) | (7,777,828) | 7,321,557 | 4,392,988 | (7,697,970) | (47,621,600) |
| CCF - Capital Contributions | 7,840,835 | 1,470,464 | 3,693,402 | 1,653,502 | 1,600,695 | (5,080,406) | - | 11,178,492 |
| Non-Cash Capital Contributions | 6,800,000 | - | - | - | - | - | - | 6,800,000 |
| Capital Contributions | 542,000 | - | - | - | - | - | - | 542,000 |
| Change in Net Position | \$ (11,610,913) | \$ 1,570,686 | \$ (13,473,419) | \$ (6,124,326) | \$ 8,922,252 | \$ (687,418) | \$ (7,697,970) | (29,101,108) |
| Net Position - Beginning of Year | | | | | | | | 758,796,393 |
| Net Position - End of Year | | | | | | | | \$ 729,695,285 |

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NOTE 8 LONG-TERM OBLIGATIONS

During the fiscal years ended June 30, 2018 and 2017, the following changes occurred in long-term liabilities:

| | Balance July 1, 2017 | Increases | Decreases | Balance June 30, 2018 | Current Portion |
|---------------------------|----------------------------|---------------------|------------------------|-----------------------------|--------------------|
| Environmental Remediation | \$ 1,929,591 | \$ - | \$ (1,929,591) | \$ - | \$ - |
| Net Pension Liability | 45,107,233 | 4,778,555 | (10,181,838) | 39,703,950 | - |
| Net OPEB Liability | 11,700,165 * | 1,272,411 | (4,447,104) | 8,525,472 | - |
| Compensated Absences | 2,330,934 | - | (87,767) | 2,243,167 | 970,071 |
| Total | <u>\$ 61,067,923</u> | <u>\$ 6,050,966</u> | <u>\$ (16,646,300)</u> | <u>\$ 50,472,589</u> | <u>\$ 970,071</u> |

| | Balance July 1, 2016 | Increases | Decreases | Balance June 30, 2017 | Current Portion |
|---------------------------|----------------------------|----------------------|------------------------|-----------------------------|--------------------|
| Environmental Remediation | \$ 11,408,172 | \$ - | \$ (9,478,581) | \$ 1,929,591 | \$ - |
| Net Pension Liability | 37,647,760 | 9,999,807 | (2,540,334) | 45,107,233 | - |
| Net OPEB Obligation | 9,424,160 | 2,104,928 | (193,245) | 11,335,843 | - |
| Compensated Absences | 2,381,428 | - | (50,494) | 2,330,934 | 968,386 |
| Total | <u>\$ 60,861,520</u> | <u>\$ 12,104,735</u> | <u>\$ (12,262,654)</u> | <u>\$ 60,703,601</u> | <u>\$ 968,386</u> |

*As a result of implementing GASB Statement No 75, a retrospective adjustment was required to reflect the beginning net OPEB liability. See Note 1.

NOTE 9 ENVIRONMENTAL REMEDIATION

The Authority has included in its financial statements a cost estimate for the remediation of parcels of land adjacent to the Boston Convention and Exhibition Center in South Boston. In previous years, these sites had been identified by the Massachusetts Department of Environmental Protection as being contaminated (soil) and in need of remediation. During fiscal year 2012, it was determined that the Authority would take responsibility for the site cleanup.

During fiscal year 2007, the Authority, Commonwealth of Massachusetts, and Boston Redevelopment Authority entered into a Settlement Agreement that provided \$8,125,000 in settlement proceeds to be deposited with the Commonwealth to mitigate/offset the costs of remediation. The settlement proceeds were being held by the Commonwealth on behalf of the Authority. As of June 30, 2016, the funds were no longer available for use by the Authority.

During fiscal year 2016, the Authority entered into a grant agreement with the Commonwealth for the reimbursement of the remediation costs through the Convention Center Fund. As a result, the Authority recorded an estimated receivable for the recovery of these future costs as they are now considered realized and realizable.

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NOTE 9 ENVIRONMENTAL REMEDIATION (CONTINUED)

The following represents the estimated environmental remediation obligation at June 30:

| | |
|--------------------------------------|---------------------|
| <u>2018</u> | |
| Environmental Remediation Obligation | <u>\$ -</u> |
| | |
| <u>2017</u> | |
| Environmental Remediation Obligation | <u>\$ 1,929,591</u> |

The environmental remediation obligation was determined using the expected cash flow technique, which uses all expectations regarding possible cash flows. The gross environmental remediation obligation is based on what it would cost to perform remediation activities in fiscal year 2017. Actual costs may vary due to inflation, changes in technology, and changes in regulations. During fiscal year 2018, the Authority completed all remediation efforts.

The Massachusetts Department of Environmental Protection issued a policy in February 2016 entitled "Light Nonaqueous Phase Liquid (LNAPL) and the MCP: Guidance for Site Assessment and Closure." This policy indicates that total petroleum hydrocarbon (TPH) data greater than 1,000 mg/kg should be considered for evaluation of the potential presence of mobile LNAPL (separate phase petroleum product that is lighter than water). Based on its review of the MassDEP Guidance, the Authority's contracted licensed site professional (LSP) recommended further evaluation of elevated concentrations of TPH located at discrete areas of the Authority's property south of the Boston Convention and Exhibition Center. A subsurface exploration program to evaluate the potential presence of NAPL (if any) was conducted from late September through November of 2016. Based on a review of the recent and historical test boring logs, it appears that the majority of the petroleum impacts on MCCA property are localized to the areas towards the MCCA property line with an adjacent property owner. The source of the petroleum has not been identified. The Authority's LSP has recommended plans for additional measurement and assessment, and has also supported the Authority in contacting the adjacent property owner regarding its initial evaluation. Over the course of fiscal year 2018 the Authority and its LSP have worked with the adjacent property owner to gain temporary access to conduct additional explorations that will be necessary to ascertain to what extent, if any, the Authority may be required to take additional remediation measures. However, such tests have not yet been occurred since access to the adjacent property has not yet been granted.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

On November 15, 2017, the Massachusetts Convention Center Authority OPEB Trust (OPEB Trust) was established to administer the single-employer defined benefit Other Postemployment Benefit (OPEB) plan that is used to provide postemployment benefits.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Membership - At June 30, 2018, membership consisted of the following:

| | |
|------------------|-----|
| Active Employees | 262 |
| Retirees | 33 |
| Total | 295 |

Benefits Provided – The Authority provides health and life insurance coverage for its retirees and their survivors as a single-employer defined benefit Other Postemployment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process (for union employees) or Board policy decisions (for nonunion employees).

Contributions – The contribution requirements of plan members and the Authority are established and may be amended by the Authority. The required contribution rates of firemen and oilers union employees hired on or before December 1, 2010 and after December 1, 2010 are 20% and 25%, respectively. For all other employees hired after June 30, 2008, the required contribution rate is 25%. For nonunion employees hired between July 1, 2003 and July 31, 2008, the required contribution rate is 25%. All other employees hired before July 1, 2003, the required contribution rate is 20%. The Authority pays the remaining required contribution for each type of employee. The Authority also reimburses firemen & oilers, and local three union retired employees for the employee portion (10% for retirees who retired on or before July 1, 1994; 15% for retirees who retired after July 1, 1994; 20% for retirees who retired after October 1, 2009; and 100% for additional catastrophic illness coverage) of the insurance benefits if they have five years of continuous service with the Authority at the time of retirement. Those employees who have less than five years of continuous service do not receive this benefit. There are currently 13 union retired employees who receive this benefit. In addition, the Authority used to cover these costs for nonunion retirees but has discontinued that practice. There are currently eight nonunion retired employees who were grandfathered in under the old policy. The funding policy established by the OPEB trust is to fund annually, at a minimum, the projected annual cost of the plan. In addition, the Authority may contribute up to 50% of any operating surpluses to the trust.

For the fiscal year ended June 30, 2018, the employer contributions totaled \$4,594,569. The Trust did not receive contributions from any other sources.

Net OPEB Liability (Plan Reporting) – GASB Statement No. 74

Investment Policy – The OPEB Trust's policy in regard to the allocation of invested assets is established and may be amended by the Trustees by a majority vote. It is the policy of the Trustees to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Trustees' adopted asset allocation policy as of June 30, 2018:

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

| <u>Asset Class</u> | <u>Target Allocation</u> |
|---|------------------------------|
| Domestic Equity - Large Cap | 16.50 % |
| Domestic Equity - Small/Mid Cap | 36.50 |
| International Equity - Developed Market | 14.00 |
| International Equity - Emerging Market | 3.00 |
| Domestic Fixed Income | 29.00 |
| Cash | 1.00 |
| Total | <u>100.00 %</u> |

Rate of Return – For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 5.65%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The components of the net OPEB liability of the Authority at June 30, 2018, were as follows:

| | |
|--------------------------------|---------------------|
| Total OPEB Liability | \$ 12,972,576 |
| Plan Fiduciary Net Position | <u>(4,447,104)</u> |
| Authority's Net OPEB Liability | <u>\$ 8,525,472</u> |

| | |
|--|---------|
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 34.28 % |
|--|---------|

Actuarial Assumptions – The total OPEB liability was determined by performing update procedures to roll the liability forward from the actuarial valuation as of July 1, 2016 to the June 30, 2018 measurement date. The following actuarial assumptions were applied to all periods included in the measurement, unless otherwise specified:

| | |
|-------------------------------------|---|
| Actuarial Cost Method: | Individual Entry Age Normal |
| Investment Rate of Return: | 6.25% |
| Healthcare/Medical Cost Trend Rate: | 5.0% |
| Inflationary Rate: | 2.75% Annually |
| Pre-Retirement Mortality: | RP-2000 Employees Mortality Table projected generationally with scale BB and a based year of 2009 for males and females |
| Post-Retirement Mortality: | RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a based year of 2009 for males and females |
| Disability Mortality: | RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a based year of 2012 for males and females |

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---|------------------------------|---|
| Domestic Equity - Large Cap | 16.50 % | 4.00 % |
| Domestic Equity - Small/Mid Cap | 36.50 | 6.00 |
| International Equity - Developed Market | 14.00 | 4.50 |
| International Equity - Emerging Market | 3.00 | 7.00 |
| Domestic Fixed Income | 29.00 | 2.00 |
| Cash | 1.00 | - |
| Total | <u>100.00 %</u> | |

Discount Rate – The discount rate used to measure the total OPEB liability was 6.25%. The discount rate was selected using a blend of the Municipal Bond Index Rate (3.45% at June 30, 2018) for unfunded periods and the Investment Rate of Return (6.92% at June 30, 2018) for funded periods.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability calculated using the discount rate of 6.25%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

| | <u>1% Decrease (5.25%)</u> | <u>Current Discount Rate (6.25%)</u> | <u>1% Increase (7.25%)</u> |
|--------------------|--------------------------------|--|--------------------------------|
| Net OPEB Liability | \$ 11,005,721 | \$ 8,525,472 | \$ 6,498,633 |

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

| | <u>1% Decrease (4.00%)</u> | <u>Current Trend Rate (5.00%)</u> | <u>1% Increase (6.00%)</u> |
|--------------------|--------------------------------|---------------------------------------|--------------------------------|
| Net OPEB Liability | \$ 5,807,781 | \$ 8,525,472 | \$ 12,129,344 |

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability (Employer Reporting) – GASB Statement No. 75

The Authority's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016, which through update procedures was rolled forward to the June 30, 2018 measurement date.

Changes in the Net OPEB Liability

| | Increase (Decrease) | | |
|--|--------------------------------|--|------------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
| Balances at June 30, 2017 * | \$ 11,700,165 | \$ - | \$ 11,700,165 |
| Changes for the year: | | | |
| Service Cost | 733,395 | - | 733,395 |
| Interest | 769,989 | - | 769,989 |
| Differences Between Expected and Actual Experience | - | - | - |
| Contributions - Employer | - | 4,594,569 | (4,594,569) |
| Net Investment Income | - | 100,622 | (100,622) |
| Benefit Payments | (230,973) | (230,973) | - |
| Administrative Expense | - | (17,114) | 17,114 |
| Net Changes | <u>1,272,411</u> | <u>4,447,104</u> | <u>(3,174,693)</u> |
| Balances at June 30, 2018 | <u>\$ 12,972,576</u> | <u>\$ 4,447,104</u> | <u>\$ 8,525,472</u> |

*Beginning balance restated due to implementation of GASB 75.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$1,382,075. At June 30, 2018, the Authority reported deferred outflows of resources related to OPEB from the following source:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | <u>\$ 37,801</u> | <u>\$ -</u> |

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|------------------|
| 2019 | \$ 9,450 |
| 2020 | 9,450 |
| 2021 | 9,450 |
| 2022 | 9,451 |
| Total | <u>\$ 37,801</u> |

Net OPEB Obligation (Employer Reporting) – GASB Statement No. 45

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table identifies the components of the Authority's annual OPEB cost, the actual amount contributed to the plan, and changes in the Authority's net OPEB obligation for the year ended June 30, 2017.

| | |
|--|----------------------|
| | <u>2017</u> |
| Annual Required Contribution | \$ 2,252,000 |
| Interest on Net OPEB Obligation | 376,966 |
| Adjustment to Annual Required Contribution | <u>(524,038)</u> |
| Annual OPEB Cost | 2,104,928 |
| Contributions Made | <u>(193,245)</u> |
| Increase in Net OPEB Obligation | 1,911,683 |
| Net OPEB Obligation at Beginning of Year | 9,424,160 |
| Net OPEB Obligation at End of Year | <u>\$ 11,335,843</u> |

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

| <u>Fiscal Year Ending</u> | <u>Annual OPEB Cost (AOPEBC)</u> | <u>Percentage of AOPEBC Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------------------|--|---|------------------------------------|
| June 30, 2015 | \$ 1,778,350 | 9.3 % | \$ 7,724,869 |
| June 30, 2016 | 1,889,706 | 10.1 % | 9,424,160 |
| June 30, 2017 | 2,104,928 | 9.2 % | 11,335,843 |

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress

The funded status of the plan at July 1, 2016, the most recent actuarial valuation, was as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 07/01/16 | \$ - | \$ 15,778,094 | \$ 15,778,094 | - | \$ 20,979,469 | 75.2 % |

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

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

| | |
|-------------------------------------|---|
| Valuation Date: | July 1, 2016 |
| Actuarial Cost Method: | Individual Entry Age Normal |
| Amortization Method: | Level Dollar Over 30 Years at the Last Valuation |
| Remaining Amortization Period: | 24 years at July 1, 2016 |
| Interest Discount Rate: | 4.0% |
| Healthcare/Medical Cost Trend Rate: | 5.0% |
| Inflationary Rate: | 2.75% Annually |
| Pre-Retirement Mortality: | RP-2000 Employees Mortality Table projected generationally with scale BB and a based year of 2009 for males and females |
| Post-Retirement Mortality: | RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a based year of 2009 for males and females |
| Disability Mortality: | RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a based year of 2012 for males and females |

Allocation of AOPEBC

AOPEBC were allocated to the Authority's operating segments as follows:

| | <u>2017</u> |
|----------------------|---------------------|
| BCEC | \$ 862,525 |
| Lawn on D | 7,410 |
| Hynes | 562,208 |
| Boston Common Garage | 109,652 |
| MassMutual Center | 14,492 |
| Administration | 526,412 |
| Marketing and Sales | 22,229 |
| Total AOPEBC | <u>\$ 2,104,928</u> |

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTE 11 PENSION PLAN

General Information About the Pension Plan

Plan Description – Pensions are provided to eligible Authority employees through the Massachusetts State Employees' Retirement System (MSERS), a cost-sharing multiple-employer defined benefit pension plan as defined in GASB Statement No. 67, Financial Reporting for Pension Plans. The MSERS is governed by the Massachusetts State Retirement Board (MSRB), which consists of five members-two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chair of the MSRB. Membership in the MSERS is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 18.5 hours per week. MSERS is part of the Commonwealth of Massachusetts' reporting entity and does not issue a stand-alone audited financial report.

Benefits Provided – The MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. MGL establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Contributions – Chapter 32 of the MGL assigns authority to establish and amend contribution requirements of the plan. Active plan members contribute between 5% and 11% of their gross regular compensation. The contribution rate is based on the date plan membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30,000.

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NOTE 11 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

The MGLs governing employer contribution requirements to MSERS vary among employers to such an extent that there is no uniform contribution method. Consequently, MSERS developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). Any differences between the effective contribution and an employer's actual contributions are considered a nonemployer contribution from the Commonwealth. The Authority's contributions to the pension plan for the years ended June 30, 2018 and 2017 totaled \$788,925 and \$754,322, respectively. Nonemployer contributions from the Commonwealth for the year ended June 30, 2018 and 2017, measurement date one year behind, totaled \$1,666,075 and \$1,752,270, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018 and 2017, the Authority reported a liability of \$39,703,950 and \$45,107,233, respectively, for its proportionate share of the net pension liability. The June 30, 2018 net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 for which update procedures were used to roll forward the total pension liability to the measurement date (June 30, 2017). The Authority's proportion of the net pension liability is based on actual contributions adjusted for nonemployer contributions (as described previously). At June 30, 2018, the Authority's proportion was 0.30959%, which compared to a proportion of 0.32713% at June 30, 2016.

For the years ended June 30, 2018 and 2017, the Authority recognized pension expense of \$4,778,554 and \$6,371,813, respectively. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Net Difference Between Projected and Actual | | |
| Earnings on Pension Plan Investments | \$ - | \$ 473,073 |
| Difference Between Expected and Actual Experience | 1,535,116 | 1,080,244 |
| Changes in Assumptions | 4,131,802 | - |
| Changes in Proportion | 444,399 | 1,883,696 |
| Contributions Made Subsequent to Measurement Date | 788,925 | - |
| Total | <u>\$ 6,900,242</u> | <u>\$ 3,437,013</u> |

The \$788,925 reported as deferred outflows of resources related to pensions resulting from contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability during fiscal year 2019. All other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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NOTE 11 PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| 2019 | \$ 1,140,572 |
| 2020 | 2,143,106 |
| 2021 | 629,925 |
| 2022 | (1,072,030) |
| 2023 | (167,269) |
| Total | <u>\$ 2,674,304</u> |

Actuarial Assumptions – The total pension liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions:

1. (a) 7.50% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - Pre-retirement – RP-2014 Blue Collar Employees table projected generationally with MP-2016 and set forward year for females
 - Post-retirement – RP-2014 Blue Collar Healthy Annuitant table projected generationally with scale MP-2016 set forward 1 year for females
 - Disability – the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct)

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2006 to December 31, 2011, and applied to all periods included in the measurement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the target asset allocation are summarized in the following table:

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NOTE 11 PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------------------|------------------------------|---|
| Global Equity | 40 % | 5.0 % |
| Portfolio Completion Strategies | 13 | 3.6 |
| Core Fixed Income | 12 | 1.1 |
| Private Equity | 11 | 6.6 |
| Value Added Fixed Income | 10 | 3.8 |
| Real Estate | 10 | 3.6 |
| Timber/Natural Resources | 4 | 3.2 |
| Total | <u>100%</u> | |

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | <u>1% Decrease (6.50%)</u> | <u>Current Discount Rate (7.50%)</u> | <u>1% Increase (8.50%)</u> |
|--|--------------------------------|--|--------------------------------|
| Authority's Proportionate Share of the Net Pension Liability | \$ 54,075,127 | \$ 39,703,950 | \$ 28,127,623 |

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available the Commonwealth of Massachusetts' Comprehensive Annual Financial Report.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 12 RISK FINANCING

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

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

The Authority participates in a premium based workers' compensation plan. Claims have not exceeded insurance coverage for the past three years.

NOTE 13 COMMITMENTS

The following represents the Authority's ongoing projects at June 30, 2018 and 2017:

| | Committed Amount | Spent Through June 30, 2018 | Remaining Commitment |
|--------------------------------|----------------------|-----------------------------------|-------------------------|
| BCEC Feasibility | \$ 2,551,956 | \$ 585,616 | \$ 1,966,340 |
| BCEC New Business Office | 543,410 | 263,410 | 280,000 |
| BCEC New Business Center | 364,271 | 64,271 | 300,000 |
| BCEC Project Brew | 1,804,196 | 504,196 | 1,300,000 |
| BCEC Security Gate Install | 32,392 | 32,392 | - |
| BCEC Sidewalk Improvement | 1,441,034 | 241,034 | 1,200,000 |
| BCEC Tunnel Walk | 1,270,924 | 70,924 | 1,200,000 |
| BCEC Gardens | 893,302 | 623,302 | 270,000 |
| BCEC Public Area Carpet | 762,442 | 112,442 | 650,000 |
| BCEC DNS Upgrade | 93,068 | 68,068 | 25,000 |
| BCEC Crash Barrier North Plaza | 429,430 | 79,430 | 350,000 |
| BCEC Lutron Lighting System | 921,220 | 161,218 | 760,000 |
| BCEC Ballroom LED Installation | 71,927 | (145,575) | 217,502 |
| BCEC Joint Operations Center | 125,495 | 75,495 | 50,000 |
| BCEC Atrium Project | 150,440 | 50,440 | 100,000 |
| Hynes Amplifier Upgrade | 486,580 | 411,580 | 75,000 |
| Hynes MA Pike Ceiling | 918,255 | 418,255 | 500,000 |
| Hynes Public Area Carpet | 496,379 | 96,379 | 400,000 |
| Hynes Ballroom Carpeting | 243,681 | 18,681 | 225,000 |
| Hynes DNS Upgrade | 73,938 | 48,938 | 25,000 |
| Hynes MEP Project | 1,545,906 | 45,906 | 1,500,000 |
| Hynes Auditorium | 374,608 | 74,608 | 300,000 |
| Hynes Escalator Improvements | 2,650,762 | 150,762 | 2,500,000 |
| BCG Passenger Elevator | 2,325,422 | 325,422 | 2,000,000 |
| BCG Assisted Parking | 493,711 | 193,711 | 300,000 |
| BCG Roof Repair | 1,853,205 | 853,205 | 1,000,000 |
| BCG Small Cell Data | 187,336 | 2,336 | 185,000 |
| MMC Flood Mitigation | 417,432 | 267,432 | 150,000 |
| MMC Press Box Renovation | 796,672 | 38,672 | 758,000 |
| MMC Arena AHU Replacement | 2,063,205 | 63,205 | 2,000,000 |
| MMC AC Units Replacement | 1,497,776 | 97,776 | 1,400,000 |
| Total | <u>\$ 27,880,375</u> | <u>\$ 5,893,531</u> | <u>\$ 21,986,842</u> |

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 13 COMMITMENTS (CONTINUED)

| | Committed Amount | Spent Through June 30, 2017 | Remaining Commitment |
|------------------------------------|----------------------|-----------------------------------|-------------------------|
| BCEC Feasibility | \$ 1,014,409 | \$ 14,409 | \$ 1,000,000 |
| BCEC Snow Melt | 155,547 | 80,547 | 75,000 |
| BCEC D Street Lot Gate Equipment | 26,319 | 24,069 | 2,250 |
| BCEC Sports Commission Office | 323,647 | 73,647 | 250,000 |
| BCEC New Business Center | 575,321 | 15,321 | 560,000 |
| BCEC Project Brew | 1,746,572 | 90,572 | 1,656,000 |
| BCEC Security Gate Install | 32,392 | 32,392 | - |
| BCEC Cal Wall Leak | 534,986 | 77,986 | 457,000 |
| BCEC Sidewalk Improvement | 2,329,644 | 57,294 | 2,272,350 |
| BCEC MassDot Building Demolition | 1,345,916 | 987,188 | 358,728 |
| BCEC D St Trail | 551,718 | 133,718 | 418,000 |
| BCEC Tunnel Walk | 39,945 | 39,945 | - |
| BCEC Gardens | 331,759 | 81,759 | 250,000 |
| BCEC Cypher St Improvement | 18,909 | 18,909 | - |
| BCEC Public Area Carpet | 1,376,505 | 52,976 | 1,323,529 |
| Lawn on D Gardens | 460,850 | 135,850 | 325,000 |
| Hynes N Escalators | 925,578 | 473,549 | 452,029 |
| Hynes Amplifier Upgrade | 418,582 | 18,582 | 400,000 |
| Hynes MA Pike Ceiling | 3,007,933 | 307,933 | 2,700,000 |
| Hynes Public Area Carpeting | 782,809 | 42,809 | 740,000 |
| Hynes Ballroom Carpeting | 268,681 | 18,681 | 250,000 |
| BCG Passenger Elevator | 2,001,361 | 201,361 | 1,800,000 |
| BCG Assisted Parking | 1,525,217 | 112,217 | 1,413,000 |
| BCG Roof Repair | 2,378,775 | 563,775 | 1,815,000 |
| MMC Digital and Arena Media Matrix | 322,062 | 72,062 | 250,000 |
| MMC Flood Mitigation | 223,440 | 223,440 | - |
| Total | <u>\$ 22,718,876</u> | <u>\$ 3,950,990</u> | <u>\$ 18,767,886</u> |

NOTE 14 CONTINGENCIES

Various legal actions and claims are pending against the Authority. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Authority at June 30, 2018.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 15 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 83, *Certain Asset Retirement Obligations*, which is required to be implemented during fiscal year 2019. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 87, *Leases*, which is required to be implemented during fiscal year 2021. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented during fiscal year 2019. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented during fiscal year 2021. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61*, which is required to be implemented during fiscal year 2020. Management is currently evaluating the Statement's impact on the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (1) (2)
LAST TEN FISCAL YEARS**

| | 2018 | 2017 | 2016 | 2015 |
|---|---------------|---------------|---------------|---------------|
| Authority's Proportion of the Net Pension Liability | 0.30959% | 0.32713% | 0.33074% | 0.33437% |
| Authority's Proportionate Share of the Net Pension Liability | \$ 39,703,950 | \$ 45,107,233 | \$ 37,647,760 | \$ 24,824,160 |
| Authority's Covered Payroll | \$ 16,460,292 | \$ 17,677,269 | \$ 18,319,823 | \$ 17,713,841 |
| Authority's Proportionate Share of The Net Pension Liability as a Percentage its Covered Payroll | 241.21% | 255.17% | 205.50% | 140.14% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension | 67.21% | 63.48% | 67.87% | 76.32% |

(1) Amounts presented were determined as of June 30 of the prior fiscal year.

(2) Data is being accumulated annually to present 10 years of the reported information.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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PENSION PLAN – SCHEDULE OF AUTHORITY CONTRIBUTIONS (1)
LAST TEN FISCAL YEARS**

| | 2018 | 2017 | 2016 | 2015 |
|--|---------------|---------------|---------------|---------------|
| Contractually Required Contribution | \$ 788,925 | \$ 754,322 | \$ 596,735 | \$ 540,096 |
| Contributions in Relation to the Contractually Required Contribution | (788,925) | (754,322) | (596,735) | (540,096) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Authority's Covered Payroll | \$ 16,460,292 | \$ 17,677,269 | \$ 18,217,216 | \$ 18,319,823 |
| Contributions as a Percentage of Covered Payroll | 4.79% | 4.27% | 3.28% | 2.95% |

(1) Data is being accumulated annually to present 10 years of the reported information.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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OPEB PLAN – SCHEDULE OF CHANGES IN THE AUTHORITY'S
NET OPEB LIABILITY AND RELATED RATIOS (1)
LAST TEN FISCAL YEARS**

2018

Total OPEB Liability

| | |
|--|------------|
| Service Cost | \$ 733,395 |
| Interest on Total OPEB Liability, Service Cost, and Benefit Payments | 769,989 |
| Benefit Payments | (230,973) |
| Net Change in OPEB Liability | 1,272,411 |
| | |
| Total OPEB Liability - Beginning of Period | 11,700,165 |
| Total OPEB Liability - End of Period | 12,972,576 |

Plan Fiduciary Net Position

| | |
|---|---------------|
| Earnings from Plan Investments | 100,622 |
| Employer Contributions to Trust | 4,594,569 |
| Benefit Payments | (230,973) |
| Administrative Expenses | (17,114) |
| Net Change in Plan Fiduciary Net Position | 4,447,104 |
| | |
| Plan Fiduciary Net Position - Beginning of Period | - |
| Plan Fiduciary Net Position - End of Period | 4,447,104 |
| | |
| Net OPEB Liability | 8,525,472 |
| | |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 34.28% |
| | |
| Covered-Employee Payroll | \$ 21,608,853 |
| | |
| Net OPEB Liability as a Percentage of Covered-Employee Payroll | 39.45% |

(1) Data is being accumulated annually to present 10 years of the reported information.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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OPEB PLAN – SCHEDULE OF AUTHORITY’S CONTRIBUTIONS (1)
LAST TEN FISCAL YEARS**

| | 2018 |
|--|------------------------------|
| Actuarially Determined Contribution | \$ 1,332,006 |
| Contributions in Relation to the Actuarially Determined Contribution | <u>(4,594,569)</u> |
| Contribution Deficiency (Excess) | <u><u>\$ (3,262,563)</u></u> |
| Authority's Covered-Employee Payroll | \$ 21,608,853 |
| Contributions as a Percentage of Covered-Employee Payroll | 6.16% |

(1) Data is being accumulated annually to present 10 years of the reported information.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
OPEB PLAN – SCHEDULE OF INVESTMENT RETURNS (1)
LAST TEN FISCAL YEARS**

| | <u>2018</u> |
|--|-------------|
| Money-weighted Rate of Return, net of investment expense | 5.65% |

(1) Data is being accumulated annually to present 10 years of the reported information.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
OTHER POSTEMPLOYMENT BENEFITS – SCHEDULES OF FUNDING PROGRESS
(GASB STATEMENT NO. 45)
YEAR ENDED JUNE 30, 2018**

The following schedule provides information related to the Authority's other postemployment benefits plan:

| Actuarial Valuation Date* | Actuarial Value of Assets (A) | Actuarial Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|---------------------------------|-------------------------------------|--|------------------------------------|--------------------------|---------------------------|---|
| July 1, 2012 | \$ - | \$ 10,590,032 | \$ 10,590,032 | - | \$ 19,485,872 | 54.3 % |
| July 1, 2014 | - | 11,783,625 | 11,783,625 | - | 21,319,701 | 55.3 |
| July 1, 2016 | - | 15,778,094 | 15,778,094 | - | 20,979,469 | 75.2 |

* Actuarial valuations are performed on a biennial basis.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL – BUDGETARY BASIS
YEAR ENDED JUNE 30, 2018**

| | Final Budget | Actual | Variance Positive (Negative) |
|--|------------------------|------------------------|------------------------------------|
| REVENUES | | | |
| BCEC | \$ 36,073,474 | \$ 42,303,996 | \$ 6,230,522 |
| Lawn on D | 1,598,820 | 1,682,993 | 84,173 |
| Hynes | 12,836,264 | 16,370,506 | 3,534,242 |
| Boston Common Garage | 12,730,110 | 11,887,121 | (842,989) |
| MassMutual Center | 4,353,048 | 4,203,786 | (149,262) |
| Other Income | - | 22,403 | 22,403 |
| Total Revenues | <u>67,591,716</u> | <u>76,470,805</u> | <u>8,879,089</u> |
| EXPENSES | | | |
| BCEC | 32,765,133 | 36,391,695 | (3,626,562) |
| Lawn on D | 1,123,621 | 1,229,919 | (106,298) |
| Hynes | 16,048,541 | 15,076,145 | 972,396 |
| Boston Common Garage | 2,732,529 | 2,450,132 | 282,397 |
| MassMutual Center | 7,967,204 | 8,677,496 | (710,292) |
| Central Administration | 11,918,130 | 8,277,270 | 3,640,860 |
| Marketing and Sales | 8,023,141 | 7,042,853 | 980,288 |
| Total Expenses | <u>80,578,299</u> | <u>79,145,510</u> | <u>1,432,789</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES | (12,986,583) | (2,674,705) | 10,311,878 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Federal Grants | - | 82,000 | 82,000 |
| Ferry Service Feasibility Study Sponsorship | 68,450 | 35,349 | (33,101) |
| Investment and Loan Income | 853,223 | 994,315 | 141,092 |
| South Boston Ferry | (68,450) | (35,349) | 33,101 |
| Eastern MA Sports Partnership - Sponsorship | - | 16,500 | 16,500 |
| Eastern MA Sports Partnership - Staff | - | (16,500) | (16,500) |
| Unspent Funding GBCVB - Sail Boston 2017 | 926,935 | 926,935 | - |
| Abandoned Capital Projects Reclassified from CIP | - | (347,705) | (347,705) |
| Pension/OPEB Liability Funding | (22,484,587) | (22,484,587) | - |
| Total Nonoperating Revenues (Expenses) | <u>(20,704,429)</u> | <u>(20,829,042)</u> | <u>(124,613)</u> |
| CHANGE IN NET POSITION | <u>\$ (33,691,012)</u> | <u>\$ (23,503,747)</u> | <u>\$ 10,187,265</u> |

See accompanying Independent Auditors' Report.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL – BUDGETARY BASIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

| | Final Budget | Actual | Variance Positive (Negative) |
|--|------------------------|-----------------------|------------------------------------|
| REVENUES | | | |
| BCEC | \$ 30,376,405 | \$ 39,597,044 | \$ 9,220,639 |
| Lawn on D | 937,000 | 1,393,145 | 456,145 |
| Hynes | 14,083,383 | 16,400,248 | 2,316,865 |
| Boston Common Garage | 13,118,414 | 12,360,962 | (757,452) |
| MassMutual Center | 3,766,233 | 3,927,424 | 161,191 |
| Other Income | 200,000 | 7,159 | (192,841) |
| Total Revenues | <u>62,481,435</u> | <u>73,685,982</u> | <u>11,204,547</u> |
| EXPENSES | | | |
| BCEC | 32,705,718 | 32,576,396 | 129,322 |
| Lawn on D | 1,253,650 | 925,588 | 328,062 |
| Hynes | 15,788,327 | 14,936,408 | 851,919 |
| Boston Common Garage | 2,822,903 | 2,590,414 | 232,489 |
| MassMutual Center | 7,935,598 | 8,283,437 | (347,839) |
| Central Administration | 11,078,342 | 9,629,349 | 1,448,993 |
| Marketing and Sales | 8,074,691 | 7,615,651 | 459,040 |
| Total Expenses | <u>79,659,229</u> | <u>76,557,243</u> | <u>3,101,986</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES | (17,177,794) | (2,871,261) | 14,306,533 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Ferry Service Feasibility Study Sponsorship | 90,000 | 69,684 | (20,316) |
| Investment and Loan Income | 747,194 | 805,248 | 58,054 |
| Transportation Planning | (90,000) | (69,684) | 20,316 |
| LEED Program Planning | 200,000 | 16,500 | (183,500) |
| Lawn on D Project | (200,000) | (16,500) | 183,500 |
| Tall Ships | (4,250,000) | (4,250,000) | - |
| Abandoned Capital Projects Reclassified from CIP | - | (1,359,118) | (1,359,118) |
| Total Nonoperating Expenses | <u>(3,502,806)</u> | <u>(4,803,870)</u> | <u>(1,301,064)</u> |
| CHANGE IN NET POSITION | <u>\$ (20,680,600)</u> | <u>\$ (7,675,131)</u> | <u>\$ 13,005,469</u> |

See accompanying Independent Auditors' Report.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
SCHEDULE OF SALARY AND OTHER COMPENSATION OF
HIGHLY COMPENSATED EMPLOYEES
YEAR ENDED JUNE 30, 2018**

| | <u>Amounts Reported in FY 18 Financial Statements:</u> | | | Base Compensation at June 30, 2018 |
|--|--|-------------------------------|-------------------------------|--|
| | <u>Base Salary</u> | <u>Other Compensation</u> | <u>Total Compensation</u> | |
| David Gibbons, Executive Director | \$ 240,011 | \$ 24,000 | \$ 264,011 | \$ 240,011 |
| Frederick Peterson Jr., Deputy Director | 185,016 | - | 185,016 | 185,016 |
| Robert Noonan, Chief Information Security Officer | 170,290 | - | 170,290 | 170,290 |
| Dennis Callahan, General Counsel | 170,019 | - | 170,019 | 170,019 |
| Michael Esmond, Chief Financial Officer | 170,019 | - | 170,019 | 170,019 |
| Christopher Donato, Deputy General Counsel | 160,014 | - | 160,014 | 160,014 |
| John R Donahue, Chief of Operations and Capital Projects | 158,018 | - | 158,018 | 158,018 |
| | <u>\$ 1,253,387</u> | <u>\$ 24,000</u> | <u>\$ 1,277,387</u> | <u>\$ 1,253,387</u> |
| Total Compensation | <u>\$ 1,253,387</u> | <u>\$ 24,000</u> | <u>\$ 1,277,387</u> | <u>\$ 1,253,387</u> |

See accompanying Independent Auditors' Report.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
RECONCILIATION OF GAAP OPERATING LOSS
TO STATUTORY NET COST OF OPERATIONS AND OPERATING
REIMBURSEMENT REQUESTS FROM THE CONVENTION CENTER FUND
YEARS ENDED JUNE 30, 2018 AND 2017**

| | 2018 | 2017 |
|--|-----------------------|-----------------------|
| GAAP Operating Loss as Presented in the Statements of Revenues, Expenses and Changes in Net Position (page 19) | \$ (61,664,276) | \$ (69,827,984) |
| Adjustments/Additions to Reconcile to Statutory Net Cost of Operations as Defined within Chapter 190 of the Acts of 1982: | | |
| Depreciation Expense | 52,525,987 | 53,852,173 |
| Annual Net Pension Cost Calculated in Accordance with GAAP | 3,989,629 | 5,583,749 |
| Annual Net OPEB Cost Calculated in Accordance with GAAP | 1,303,237 | 1,911,683 |
| GBCVB - Sail Boston 2017 | (926,935) | 4,250,000 |
| Pension Trust Expenses | 823,017 | - |
| Expenses from Abandoned Capital Projects | 347,705 | 1,359,119 |
| Total Adjustments | 58,062,640 | 66,956,724 |
| Statutory Net Cost of Operations (A) | (3,601,636) | (2,871,260) |
| Adjustments/Additions to Reconcile to Operating Reimbursement Requests from the Convention Center Fund: | | |
| Principal Repayments on Loans Receivable | 363,637 | 347,665 |
| Federal Grants | 82,000 | - |
| Interest Received on Loans Receivable and Investment Income | 994,315 | 805,248 |
| Total Adjustments | 1,439,952 | 1,152,913 |
| Total Operating Reimbursement Requests from the Convention Center Fund | \$ (2,161,684) | \$ (1,718,347) |

(A) Chapter 190 of the Acts of 1982 defines net cost of operations as all current expenses incurred by the Authority less income received by the Authority in its ordinary course of business. Under provisions outlined within Chapter 152 of 1997 (and subsequent amendments), the Authority is eligible to receive up to \$28 million annually from the Massachusetts Convention Center Fund to defray its net cost of operations.



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.