

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Convention Center Authority (the Authority), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the 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.

Auditor's Responsibility

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

To the Honorable Board Members
Massachusetts Convention Center Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 15) and certain other postemployment benefits information (located on page 38) 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 audit was conducted for the purpose of forming an opinion on the financial statements. The schedule of revenues, expenses and changes in net position – budget and actual – for the years ended June 30, 2014 and June 30, 2013, 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 additional information), located on pages 39 through 42, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 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.

Prior Year Report

The June 30, 2013 financial statements were audited by Sullivan, Rogers & Company, LLC, whose practice became part of CliftonLarsonAllen LLP as of January 1, 2014 and whose report dated October 11, 2013 expressed an unqualified opinion on those statements.

To the Honorable Board Members
Massachusetts Convention Center Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Boston, Massachusetts
September 23, 2014

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

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, 2014 and June 30, 2013.

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 2014 compare to our results in 2013, and how our results in 2013 compare to our results in 2012. It also provides detailed information and analysis about our performance for the past two years. It focuses on our operating results and provides financial information for each of our four facilities.

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

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

About Forward Looking Statements

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

About the Financial Statements

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

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.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

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.

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 July 2014, the Governor approved legislation, Chapter 195 of the Acts of 2014, authorizing the Commonwealth to issue an additional \$1 billion in special obligation bonds to finance an expansion of the BCEC. The new law authorizes a 1.3 million square foot expansion of the BCEC, including substantial additions to the exhibit and meeting space, and a second, larger ballroom that will allow the MCCA to attract larger events and host multiple simultaneous events, which will significantly increase economic impact in the region while creating and sustaining thousands of new jobs. The expansion also includes a plan to create new public space that will contribute to the growing vitality of the South Boston Waterfront. Funding for the \$1 billion expansion will 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.

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.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

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.

ABOUT OUR BUSINESS

WHAT WE DO

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

The MCCA also operates a 1,367-space underground public parking garage, the 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 SP Plus, Inc., an experienced garage management company that also manages a number of other parking facilities in the Greater Boston area.

MANAGEMENT'S OBJECTIVES AND STRATEGY

The Authority's 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. The Authority strives to become a Top 5 convention destination in North America, remain a leading destination in North America for international events, and provide the best experience to our customers and consistently exceed their expectations of Boston. The Authority identifies the following five priorities critical to the success of this vision: customer service and hospitality leadership, technology leadership, expansion and hotel development, financial self-sufficiency and employee engagement. Unifying the management team and the Authority's dedicated employees and contractors in achieving these 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, 2014 AND 2013**

SUMMARY OF FINANCIAL PERFORMANCE

2014

Overall the Authority experienced another strong year during Fiscal year 2014, hitting an all-time high in operating and non-operating revenue (excluding funding from the Commonwealth) at \$53.1 million with expenses largely in-line with original budget estimates. The last quarter of Fiscal Year 2014 was particularly successful for the Authority, which collected \$18.1 million in revenues during that timeframe and benefited from several high-quality bulls-eye and short-term events during the quarter. Partly due to the strength of the 4th quarter operations, the Authority drew a total \$20.3 million (out of a statutory of maximum \$23 million) from the Convention Center Fund in Fiscal Year 2014 to support its cost of operations.

2013

Fiscal year 2013 marked a successful year for the MCCA, which experienced a year-over-year increase in operating revenues, exceeding the originally adopted budget projections. This performance is notable because fiscal year 2013 witnessed a dramatic increase in revenues associated with high-quality events held within MCCA's facilities. Furthermore, in fiscal year 2012, there were one-time savings in operating costs that did not occur in fiscal year 2013. In general, operating revenues increased in fiscal year 2013 across most MCCA facilities, offsetting cost increases that occurred year-on-year, particularly associated with event-related expenses, severe winter weather and the first year of deployment of the Authority's new Strategy and Product Development department, which aims to expand and diversify MCCA's revenue base and increase its self-sufficiency in the future. In total, the Authority drew \$20.0 million from the CCF in Fiscal Year 2013 to support its cost of operations.

Please refer to page 42 for the 2014 and 2013 calculation of the Authority's net cost of operations and operating reimbursement requests from the Convention Center Fund.

RESULTS OF OPERATIONS

Operating Revenues – 2014

Total fiscal year 2014 operating revenues, which are made up largely from facility rental fees, convention services income and food and beverage earnings, totaled \$52.3 million. This represents a 2.6% increase from the fiscal year 2013 total of \$51.0 million. The Hynes and Boston Common Garage experienced year-on-year increases in revenue from fiscal year 2013, while the Boston Convention and Exhibition Center and the MassMutual Center recognized year-on-year reductions.

Fiscal year 2014 rental income equaled \$14.9 million. Both the BCEC and the Hynes experienced year on year increases in event rental income, respectively, equal to 6.4% and 2.1% greater than fiscal year 2013. A major factor contributing to the increase was the greater number of bulls-eye events held in fiscal 2014, which totaled 3 more large events than the previous year. The MMC had a 13% reduction year-on-year from the previous year, although a portion of this was anticipated given the show calendar assumed at the beginning of the year.

Convention services income was slightly less in fiscal year 2014 (\$16.3 million) than the previous year (\$16.5 million), with the BCEC increasing by 1.9% and the Hynes declining by 5.0%, when compared to fiscal year 2013 totals. These year-on-year changes are typical and are attributable to the different types of services demanded by each building's show make up, which can change substantially between any two consecutive years.

Food and beverage revenues witnessed modest gains at the BCEC and Hynes, increasing by approximately \$260,000 from fiscal year 2013, from \$5.7 million to \$6.0 million across both buildings.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The Hynes experienced a substantial increase, 20.5%, in food and beverage income from the previous year, while the BCEC witnessed a reduction of 19.3%.

The BCG's revenues increased in 2014, from \$11.1 million in fiscal year 2013 to \$11.6 million this year. This 4.2% increase reflects continued demand for daily and monthly parking services. The BCG has operated at extremely high utilization rates in fiscal year 2014 and has needed to stop accepting parkers on over 100 different occasions over the past year because of capacity constraints.

The Authority's commercial and other revenues continue to grow as a percentage of the MCCA's annual operating revenues. In fiscal year 2014, commercial and other revenues totaled \$2.1 million, up 43% from a fiscal year 2013 total of \$1.4 million.

The increase in commercial revenue was largely due to the fact that fiscal year 2014 represented the first fiscal year in which rent was paid to the Authority by Capital Grille, a restaurant tenant at the Hynes. The Authority also experienced an increase in commercial revenue from fiscal year 2013 to fiscal year 2014 associated with commercial tenants of the Westin Hotel. In addition, in fiscal year 2014 the Authority received \$120,000 in rental payments for two new hotel developments originally awarded in 2013.

Operating Revenues – 2013

In fiscal year 2013, MCCA operating revenues totaled \$51.0 million, or an increase of 1.7% from fiscal year 2012 operating revenues of \$50.2 million. The Hynes, MMC and BCG all experienced year-on-year increases, with the BCEC experiencing a decrease from fiscal year 2012.

Convention services income fell by 3.0% in fiscal year 2013, attributable to a 6.8% drop in services revenues at the BCEC (which still exceeded original budgeted revenues for fiscal year 2013). The reduction in services revenues resulted from the nature (quality) of events held in the MCCA facilities during the year. Additionally, there were two less bull's eye events held at the BCEC than had occurred in fiscal year 2012 and one less bull's eye event at the Hynes.

Despite the fact that there were fewer bull's eye events, rental income was largely unchanged in fiscal year 2013 in comparison to the preceding year, totaling \$14.4 million (an increase of 0.2%). Rental income fell at the BCEC; however, this was offset by increases at the Hynes.

Food and beverage revenues witnessed modest gains, increasing by 1.9% from fiscal year 2012. Similar to rental income, annual reductions in food and beverage receipts from activities at the BCEC were offset by year-on-year growth at the Hynes, which saw an increase in average event quality.

Parking fee revenues increased substantially in fiscal year 2013, by 7.5%, from \$10.4 million to \$11.1 million. These revenues, which are entirely derived from activities at the BCG, were strengthened by general increases in daily/monthly demand for parking as well as the successful introduction of a new "reserved" space product, which witnessed substantial customer demand after being introduced at the beginning of the fiscal year.

Finally, commercial and other revenues, while representing a small portion of annual operating revenues, increased in fiscal year 2013 by 19.5% and 22.8%, respectively. The largest contributing factors were increases in hotel lease income (which annualized to \$500,000 from \$250,000 in fiscal year 2012) as well as increases in income generated by the Authority from media and advertising sales.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Operating Expenses - 2014

Fiscal year 2014 operating expenses, including depreciation, totaled \$123.7 million, an increase of \$1.2 million from fiscal year 2013. After excluding depreciation and pass-through funding provided to the Massachusetts Office of Travel and Tourism, total fiscal year 2014 operating expenses equaled \$76.3 million. This compared to \$74.1 million in operating expenses during fiscal year 2013, or a 3.0% year on year increase. Most Authority cost centers experienced modest year on year reductions in expenses, largely reflecting the change in the services demanded by show customers. Historically, Authority expenses can vary considerably based on show demands within any given year for services such as cleaning, rigging, electrical/utility connections and transportation. Fiscal year 2014 saw increases in central administrative expenditures as the MCCA's new Strategy and Product Development department was instituted and fiscal year 2013 investments annualized to their full value in 2014. In addition, annual salary increases were implemented in agreement with contracts negotiated by the Authority and MCCA's collective bargaining units.

The Authority's snow and ice removal expenses remained high during fiscal year 2014, which witnessed comparable severe weather to fiscal year 2013. Utility expenses increased by roughly \$266,000 from \$9.0 million to \$9.25 million, driven by increases in natural gas and phone expenditures.

Operating Expenses - 2013

Total operating expenses, including depreciation, totaled \$122.5 million in fiscal year 2013, an increase of 6.5% from the previous year. After excluding depreciation, annual operations in fiscal year 2013 cost \$79.6 million, up 6.5% from fiscal year 2012 levels of \$74.8 million. Operating expenses increased across the Authority's three convention facilities as well as MCCA's central operations and sales and marketing functions. They were mostly flat year-on-year at the BCG.

In fiscal year 2013 the MCCA experienced a return of severe cold and stormy weather which contributed to a 16.6% jump in utilities expenses. In addition, event-driven demand helped to increase fiscal year 2013 utilities above fiscal year 2012 levels. Beyond utilities, variable expense increases associated with convention services and activities, particularly at the Hynes, resulted in year-on-year increases in spending. Fiscal year 2013 marked the first year of operations of MCCA's new Strategy and Product Development department which contributed to an increase in central operations spending. Lastly, salary increases reflected contractually-obligated wage increases negotiated by the Authority and MCCA's collective bargaining units.

Non-Operating Revenues (Expenses), Net - 2014

Annual non-operating net revenues totaled \$50.4 million, which was an increase of \$869,000, or 1.8%, from the previous year total of \$49.5 million. The increase corresponds to the annual funding requested by the Authority from the Convention Center Fund, which increased by \$1.5 million. This was offset by the one-time impact of gains from the sale of capital assets (totaling \$463,000) which did not occur again in fiscal year 2014.

Investment Income and Interest on Loans

Total investment income and interest on loans in fiscal year 2014 equaled \$791,000, which is roughly level with the same amount generated in fiscal year 2013. The vast bulk of this annual amount is attributable to the annual repayments by the Boston Tea Party Ship and Museum for the loan made by the Authority to rebuild the Museum. All other investment earnings were minimal, given the continued near-zero interest earnings environment.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Non-Operating Revenues (Expenses), Net - 2013

Annual non-operating net revenues totaled \$49.5 million, which was a modest increase (0.4%) from the previous year. In fiscal year 2013, the Authority requested a reduction (1.2%) in the annual funding from the Convention Center Fund.

Investment Income and Interest on Loans

Total investment income and interest on loans in fiscal year 2013 equaled approximately \$797,000, or a 76% increase from the fiscal year 2012 amount of approximately \$453,000. This change is entirely attributable to the fact that fiscal year 2013 was the first full year during which the Authority was repaid by the Boston Tea Party Ship and Museum for the loan made by the Authority to rebuild the Museum. All other investment earnings were minimal, given the continued near-zero interest earnings environment.

Federal Grants

In fiscal year 2013, the Authority received a grant totaling \$100,000, corresponding to continued federal funding through the state for use in conducting an analysis and review of the BCEC as an emergency response facility.

Gain on Sale of Capital Assets

In the fall of 2012 a portion of the MCCA's air rights were sold for a development project adjacent to the BCEC. The sale of this asset, which totaled \$1.1 million, resulted in a one-time net profit of approximately \$463,000. MCCA intends to utilize all proceeds of the sale for redevelopment projects in support of convention business.

COMPARISON TO BUDGET

Operating Revenues – 2014

Budgeted operating revenues totaled \$50.0 million for fiscal year 2014, which compares to actual collections this year of \$52.3 million, a difference of \$2.3 million or 4.6% favorable to budget. Revenues at the Hynes compared favorably to budget by \$2.8 million. Similarly, the BCG collected \$310,000 more in fiscal year 2014 (\$11.6 million) than original forecast (\$11.3 million). These favorable results were offset by below-budgeted revenue at the BCEC (\$720,000 less) and the MassMutual Center (\$94,000 less). When compared to original budget assumptions the Hynes' show quality (as measured by rent, support services and food and beverage ordering) were stronger than expected, particularly with respect to food and beverage sales. This compares to the BCEC which saw reduced food and beverage sales (gross) and earnings (net), only partially offset by increased rental and support services revenue originally forecast for the year.

Operating Revenues – 2013

In total, fiscal year 2013 operating revenues were \$51.0 million, or \$6.0 million above the original budget adopted in June 2012. Actual revenues performed better than budgeted levels across all four facilities, particularly at the Hynes, which saw annual revenues total 29.1% greater than the original forecast. While down year-on-year, corresponding to reduced bull's eye events, BCEC operating revenues did exceed budgeted levels by 8.9%. For both the BCEC and the Hynes actual operating revenues exceeded budgeted, in part, due to each facility hosting one large, high-quality event that was not assumed in initial revenue forecasts. Additionally, each Boston-based facility witnessed substantially greater event services than originally budgeted. MMC operating revenues exceeded forecasts by just under 30%, largely reflecting an increased number of arena events, particularly with the Falcons advancing to the second-round of the Calder Cup playoffs. Lastly, garage revenues at the BCG exceeded budgeted levels by 3.5%, reflecting generally improving economic conditions.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Operating Expenses – 2014

Total budgeted expenses in fiscal year 2014, excluding \$1.9 million in pass-through payments to the Massachusetts Office for Travel and Tourism, totaled \$73.7 million. Actual expenses were \$84,000 less than budgeted, a 0.1% reduction from the original spending plan. The BCEC expenses in fiscal year 2014 ended \$906,000 above budget, driven largely by increased show cleaning and natural gas expenses. These were offset by under-budget expenses at the MMC (\$457,000) due to below-forecast show activity and the BCG (\$300,000) due largely to one-time savings achieved in fiscal year 2014 compared to the original budget. Other costs centers (Central Administration, Hynes, Sales/Marketing) had expenses that had less than a 1% difference from the original budget.

Operating Expenses – 2013

Total budget expenses in fiscal year 2013, excluding \$5.5 million in pass-through payments to the Massachusetts Office for Travel and Tourism, totaled \$72.2 million. Expenses exceeded original budgets due to two primary factors. First, increased event-related spending, particularly in regards to two large shows held at MCCA facilities not originally included in the fiscal year 2013 budget. Continuing trends from previous years, variable expenses, such as rigging, transportation, cleaning and part-time salaries exceeded original estimates based on the actual convention event experience. Second, severe weather resulted in increased utility expenses as well as snow and ice removal costs. Finally, the MMC expenses exceeded budgeted levels by 8.7%, corresponding to increased event-related services, which typically result in a corresponding revenue increase (please see page 10).

Non-operating Revenues (Expenses), Net – 2014

The Authority's non-operating revenues were largely in line with budget. The Authority paid \$67,000 under an agreement to contribute to a South Boston transportation study. The study, which is funded by four organizations in total, is being conducted by a third party to assess current and future transportation needs within the Seaport district. Per the Authority's agreement, restricted proceeds from the 2013 sale of air rights are being used to fund the study.

Non-operating Revenues (Expenses), Net – 2013

The Authority's non-operating revenues were largely in line with budget with the exception of the Fall 2012 transaction in which a portion of the MCCA's air rights were sold for a development project adjacent to the BCEC. While the sale of this asset resulted in a net profit of approximately \$463,000, the MCCA intends to utilize all proceeds of the \$1.1 million sale for redevelopment projects in support of convention business.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

KEY PERFORMANCE METRICS

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Operating Coverage Ratio Calculation:</u>			
Operating Revenue (including investment income and interest on loans)	\$ 53,120,592	\$ 51,794,694	\$ 50,607,138
Operating Expense (excluding depreciation and MOTT)	<u>\$ 76,255,277</u>	<u>\$ 74,111,519</u>	<u>\$ 69,763,609</u>
MCCA Operating Coverage Ratio	<u>0.70</u>	<u>0.70</u>	<u>0.73</u>
Rev. PGSF (BCEC)	\$ 33.75	\$ 32.96	\$ 35.83
Rev. PGSF (Hynes), Excluding Commercial Space	\$ 44.07	\$ 40.11	\$ 34.19
Rev. PGSF (MMC - Conv. Center)	\$ 15.62	\$ 20.56	\$ 18.35
Revenue per Attendee (MMC) - Arena	\$ 6.94	\$ 7.93	\$ 7.92
Avg. Revenue per Space per Day (Common Garage)	\$ 23.29	\$ 22.35	\$ 20.77

The MCCA's management believes one important measure of the Authority's financial performance to be 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 and MOTT). 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 self-sufficiency.

In 2014, 2013 and 2012, the Authority's operating coverage ratios (defined above) were 0.70, 0.70, and 0.73, respectively. Fiscal year 2014 remained consistent with fiscal year 2013. In fiscal year 2013 the ratio declined moderately, due to reduced overall show quality and the number of events hosted at all three properties. Fiscal year 2013 also witnessed a return of normalized snow and ice and utility expenses following a relatively mild year during fiscal year 2012. Management believes this ratio will fluctuate between 0.65 and 0.75 (or +/- 7 percent from the 0.70 mid-point) depending on event activities in any specific year, given the Authority's current revenue and cost structure.

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.

In fiscal year 2014 the BCEC's Revenue PGSF increased a modest 2.4% primarily due to an increased number of bull's eye events (as noted previously). The Hynes, however, experienced a 10% increase year-on-year, marking the third straight year of robust growth at the building, particularly with food and beverage sales at events hosted in the building.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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The MassMutual Center's arena top-line performance, as measured by revenue per attendee, decreased from \$7.93 in fiscal year 2013 to \$6.94 in fiscal year 2014. The hosting of three fewer arena events hurt the overall performance of the center in fiscal year 2014. While the Springfield Falcons held steady, the other tenant team did not perform as well. The losses that occurred with the MAAC Conference Championships also played into the decrease in revenue. Management expects fiscal year 2015 results to trend higher than fiscal year 2014. When using revenue per gross square foot as the measurement, performance on the convention center side decreased from \$20.56 in fiscal year 2013 to \$15.62 in fiscal year 2014. This is the result of the cancelation of some events that had been contracted as well as slow convention booking. Management's outlook for the coming year is a slight increase over the current convention activity and revenue per gross square foot with a lot of contracted business already on the books.

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 2014, Common Garage Revenue per Space was \$23.29, higher than fiscal year 2013 (\$22.35) due to increased demand by transient and monthly parkers.

ASSETS

	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012	% Change 2014-2013	% Change 2013-2012
Cash and Cash Equivalents	\$ 21,779,248	\$ 22,160,155	\$ 19,328,882	-2%	15%
Restricted Cash and Cash Equivalents, including Cash held by Commonwealth	7,529,474	7,646,203	11,381,721	-2%	-33%
Grants (Including Restricted Grants) Receivable from Commonwealth	14,916,846	32,239,241	12,299,159	-54%	162%
Convention Receivables, Loans Receivable (Current) and Prepaid Expenses	4,318,286	5,531,071	6,100,814	-22%	-9%
Long-Term Loans Receivable	17,094,769	17,412,565	15,046,564	-2%	16%
Capital Assets, Net *	823,968,317	822,077,181	809,953,066	0%	2%
Total Assets	\$ 889,606,940	\$ 907,066,416	\$ 874,110,206	-2%	4%

* In 2013 capital assets were restated to reflect certain land deeded to the Authority in prior years

Cash and Cash Equivalents

Reflect monies on hand from Authority operations.

Restricted Cash and Cash Equivalents, including Cash Held by Commonwealth

Reflect the Authority's cash on hand restricted to the Boston Tea Party Ship and Museum, Inc. loan, and restricted escrow amounts related to the 2014 Professional Conference Management Association (PCMA) event scheduled for January 2014 and for funds received for the prior sale of air rights. This balance also reflects cash held by the Commonwealth on behalf of the Authority for environmental remediation.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Grants (Including Restricted Grants) Receivable From Commonwealth

Reflect the receivable due from the Commonwealth from the Convention Center Fund to offset the Authority's net cost of operations, pay-go capital program, advance related to the 2014 PCMA event and for capital contributions related to a land purchase.

Convention Receivables, Loans Receivable (Current) and Prepaid Expenses

Reflect 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

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

Capital Assets, Net

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

LIABILITIES AND NET POSITION

	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012	% Change 2014-2013	% Change 2013-2012
Payables, Accrued Expenses, Unearned Revenue, and Compensated Absences (Current)	\$ 25,734,527	\$ 23,637,579	\$ 23,045,998	9%	3%
Environmental Remediation	6,178,719	6,204,618	6,204,618	0%	0%
Accrued Compensated Absences, Noncurrent	1,350,324	1,251,318	1,149,860	8%	9%
Net OPEB Obligation	6,112,587	4,738,782	3,508,777	29%	35%
Net Position - Net investment in capital assets	823,968,317	822,077,181	809,953,066	0%	2%
Net Position - Restricted for Loans and Other	1,033,271	21,150,000	4,556,721	-95%	364%
Net Position - (Unrestricted)	25,229,195	28,006,938	25,691,166	-10%	9%
Total Liabilities and Net Position	<u>\$ 889,606,940</u>	<u>\$ 907,066,416</u>	<u>\$ 874,110,206</u>	-2%	4%

* In 2013 capital assets were restated to reflect certain land deeded to the Authority in prior years

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

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

Environmental Remediation

Reflect 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.

Accrued Compensated Absences, Noncurrent

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

Net OPEB Obligation

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

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013**

Net Position (Net Investment in Capital Assets)

Reflect the Authority's total investments in capital assets, net of accumulated depreciation.

Net Position (Restricted for Loans and Other)

Reflect the Authority's restricted amounts related to loans to the Boston Tea Party Ship and Museum, Inc., the 2014 PCMA event and capital contributions related to a land purchase.

Net Position (Unrestricted)

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

CONSTRUCTION ACTIVITIES

During fiscal year 2014, the Authority continued to significantly invest in technology and infrastructure needs associated with its 20-year, \$630 million capital reinvestment program. The program provides the Authority with the projected future capital requirements necessary to keep the Authority's assets in excellent working condition. In addition, the Authority has a number of on-going capital projects, such as replacement of the Hynes roof, replacement and expansion of the Hynes kitchen and offices, safety system replacements at the BCG, BCEC master planning, BCEC waterproofing and information system upgrades, representing over \$59.7 million in committed projects of which \$19.4 million has been spent to date (see Note 13, page 34).

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 will begin in fiscal year 2015.

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, 2014 AND 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents.....	\$ 21,779,248	\$ 22,160,155
Restricted cash and cash equivalents.....	1,033,271	1,150,000
Cash held by Commonwealth for environmental remediation.....	6,496,203	6,496,203
Receivables, net of allowance for uncollectible amounts:		
Grants receivable from the Commonwealth.....	14,916,846	12,239,241
Convention receivables.....	2,056,788	3,572,500
Loans.....	317,795	303,837
Restricted grants receivable from the Commonwealth.....	-	20,000,000
Prepaid expenses.....	1,943,703	1,654,734
Total current assets.....	48,543,854	67,576,670
Noncurrent assets:		
Loan receivable, net of allowance for uncollectible amounts.....	17,094,769	17,412,565
Capital assets not being depreciated.....	189,082,482	181,132,019
Capital assets, net of accumulated depreciation.....	634,885,835	640,945,162
Total noncurrent assets.....	841,063,086	839,489,746
Total assets.....	889,606,940	907,066,416
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses.....	13,689,875	12,230,408
Unearned revenue.....	10,858,108	10,347,474
Accrued compensated absences.....	1,186,544	1,059,697
Total current liabilities.....	25,734,527	23,637,579
Noncurrent liabilities:		
Environmental remediation.....	6,178,719	6,204,618
Accrued compensated absences.....	1,350,324	1,251,318
Net OPEB obligation.....	6,112,587	4,738,782
Total noncurrent liabilities.....	13,641,630	12,194,718
Total liabilities.....	39,376,157	35,832,297
NET POSITION		
Net investment in capital assets.....	823,968,317	822,077,181
Restricted for:		
Other.....	1,033,271	21,150,000
Unrestricted.....	25,229,195	28,006,938
Total net position.....	\$ 850,230,783	\$ 871,234,119

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Convention services income.....	\$ 16,306,749	\$ 16,538,979
Convention rental income.....	14,866,753	14,377,417
Food and beverage.....	6,675,610	6,496,453
Parking fees.....	11,612,541	11,142,882
Commercial revenue.....	2,058,029	1,440,388
Other.....	<u>804,643</u>	<u>1,001,700</u>
 TOTAL OPERATING REVENUES.....	 <u>52,324,325</u>	 <u>50,997,819</u>
OPERATING EXPENSES		
Salaries and benefits - operating.....	22,651,022	22,197,181
Salaries and benefits - administrative.....	7,614,342	6,055,839
Other operating expenses.....	18,447,398	22,574,650
Contracted services.....	20,257,181	19,802,716
Utilities.....	9,246,998	8,981,133
Depreciation.....	<u>45,524,142</u>	<u>42,897,730</u>
 TOTAL OPERATING EXPENSES.....	 <u>123,741,083</u>	 <u>122,509,249</u>
 OPERATING LOSS.....	 <u>(71,416,758)</u>	 <u>(71,511,430)</u>
NONOPERATING REVENUES (EXPENSES)		
Massachusetts Convention Center Fund - Commonwealth grant.....	49,683,982	48,184,362
Federal grants.....	-	100,000
Interest received on loans receivable.....	791,022	793,634
Investment income.....	5,245	3,241
Transportation planning.....	(66,827)	-
Gain on sale of capital assets.....	<u>-</u>	<u>463,359</u>
 TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	 <u>50,413,422</u>	 <u>49,544,596</u>
 LOSS BEFORE CAPITAL CONTRIBUTIONS.....	 <u>(21,003,336)</u>	 <u>(21,966,834)</u>
CAPITAL CONTRIBUTIONS		
Capital contributions.....	<u>-</u>	<u>53,000,000</u>
 CHANGE IN NET POSITION.....	 <u>(21,003,336)</u>	 <u>31,033,166</u>
 NET POSITION AT BEGINNING OF YEAR (AS RESTATED).....	 <u>871,234,119</u>	 <u>840,200,953</u>
 NET POSITION AT END OF YEAR.....	 <u>\$ 850,230,783</u>	 <u>\$ 871,234,119</u>

See accompanying notes to financial statements.

MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$ 54,350,671	\$ 52,133,255
Payments to vendors.....	(45,407,274)	(50,138,370)
Payments to employees.....	<u>(30,039,511)</u>	<u>(28,058,676)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>(21,096,114)</u>	<u>(26,063,791)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidy - Massachusetts Convention Center Fund.....	47,006,377	48,244,280
Federal grants.....	<u>-</u>	<u>100,000</u>
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>47,006,377</u>	<u>48,344,280</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets.....	(47,441,177)	(54,029,689)
Capital contributions.....	20,000,000	33,000,000
Proceeds from sale of capital assets.....	<u>-</u>	<u>1,100,000</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..	<u>(27,441,177)</u>	<u>(19,929,689)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan repayments/(issuances).....	303,838	(2,423,123)
Interest received on loans receivable.....	791,022	793,634
Investment income.....	5,245	3,241
Transportation planning.....	<u>(66,827)</u>	<u>-</u>
NET CASH FROM INVESTING ACTIVITIES.....	<u>1,033,278</u>	<u>(1,626,248)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(497,636)	724,552
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (includes \$1,150,000 as restricted cash at June 30, 2013).....	<u>23,310,155</u>	<u>22,585,603</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (includes \$1,033,271 as restricted cash at June 30, 2014).....	<u>\$ 22,812,519</u>	<u>\$ 23,310,155</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss.....	\$ (71,416,758)	\$ (71,511,430)
Adjustments to reconcile operating loss to net cash from operating activities:		
Changes in assets and liabilities not requiring current cash flows:		
Depreciation.....	45,524,142	42,897,730
Net OPEB obligation.....	1,373,805	1,230,005
Effect of changes in operating assets and liabilities:		
Convention receivables, net.....	1,515,712	1,012,454
Prepaid assets.....	(288,969)	(385,589)
Accounts payable and accrued expenses.....	1,459,467	375,713
Unearned revenue.....	510,634	122,982
Accrued compensated absences.....	<u>225,853</u>	<u>194,344</u>
Total adjustments.....	<u>50,320,644</u>	<u>45,447,639</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ (21,096,114)</u>	<u>\$ (26,063,791)</u>

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 thirteen members. The BCEC officially opened for business in the summer of 2004, and the Springfield Civic Center project was completed in the fall of 2005 (See Note 5, now designated as the MassMutual Center). Subsequent acts (Chapter 23 of the Acts of 1998 and Chapter 45 of the Acts of 2001) have had several provisions relevant to the Authority.

As part of the BCEC project, the Authority also ground leased a portion of the project site to 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.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 authorizing up to \$23 million annually to defray the Authority's net cost of operations from its activities as well as providing for reserves for capital and current expenses of the Authority. During fiscal year 2014, the Authority requested reimbursements from the Fund totaling \$49,683,982 for the net cost of operations (\$20,307,041), the pay-go capital program (\$27,415,277) and other programs (\$1,961,664). During fiscal year 2013, the Authority requested reimbursements from the Fund totaling \$48,184,362 for the net cost of operations (\$20,025,875), the pay-go capital program (\$22,658,487) and other programs (\$5,500,000).

Implementation of New Accounting Principles

For the year ended June 30, 2014, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The implementation of these statements had no reporting impact for the Authority.

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 carried at fair value.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 has been restricted for funds received for the prior sale of air rights.

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 for reserves for capital and current expenses of the Authority. These amounts are considered 100% collectible.

Convention

Convention receivables are stated net of an allowance for doubtful accounts. The allowance is established by management to provide for potential bad debts based on current information available and past experience. At June 30, 2014 and 2013, the allowance for doubtful accounts amounted to \$248,705 and \$434,877, 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, 2014 and 2013 totaled \$17,412,564 and \$17,716,402, respectively.

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, 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.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

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, Hynes Convention Center and MassMutual Center revenues consist primarily of rental income and income for services such as electricity, air, water, telephone, cleaning, security, internet access, equipment and food. Boston Common Garage revenue consists of parking fees.

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

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, 2014 and 2013, totaled approximately \$2,537,000 and \$2,311,000, respectively, and is reflected in the accompanying statements of net position as accrued compensated absences.

Net Position

Net position is reported as restricted when amounts are restricted by outside parties for a specific future use.

Net position has been restricted for "other", which represents amounts related to various improvements associated with the previous sale of air rights.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

Use of Estimates

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

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The Authority does not have a policy for custodial credit risk of deposits. Bank deposits at June 30, 2014 and 2013 totaled \$23,252,731 and \$23,835,246, respectively, and were not exposed to custodial credit risk.

NOTE 3 ACCOUNTS RECEIVABLE

At June 30, 2014, receivables consist of the following:

Type	Gross Amount	Allowances for Uncollectibles	Net Amount
Grants Receivable from the Commonwealth	\$ 14,916,846	\$ -	\$ 14,916,846
Convention Receivables	2,305,493	(248,705)	2,056,788
Loans Receivable	17,412,564	-	17,412,564
Total	<u>\$ 34,634,903</u>	<u>\$ (248,705)</u>	<u>\$ 34,386,198</u>

At June 30, 2013, receivables consist of the following:

Type	Gross Amount	Allowances for Uncollectibles	Net Amount
Grants Receivable from the Commonwealth	\$ 32,239,241	\$ -	\$ 32,239,241
Convention Receivables	4,007,377	(434,877)	3,572,500
Loans Receivable	17,716,402	-	17,716,402
Total	<u>\$ 53,963,020</u>	<u>\$ (434,877)</u>	<u>\$ 53,528,143</u>

MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2014 and June 30, 2013, was as follows:

	2014			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital Assets not being Depreciated:				
Land	\$ 142,610,118	\$ 18,429,262	\$ -	\$ 161,039,380
Construction in Progress	29,913,542	28,961,591	(39,440,390)	19,434,743
Intangible Assets	8,608,359	-	-	8,608,359
Total Capital Assets not being Depreciated:	<u>181,132,019</u>	<u>47,390,853</u>	<u>(39,440,390)</u>	<u>189,082,482</u>
Capital Assets being Depreciated:				
Land Improvements	75,857	-	-	75,857
Buildings and Improvements:				
BCEC	696,021,017	2,187,841	(14,087)	698,194,771
Hynes Convention Center	202,108,444	25,871,755	(2,739,016)	225,241,183
MassMutual center	73,239,423	-	-	73,239,423
Boston Common Garage	39,191,561	191,449	-	39,383,010
Equipment and Fixtures	59,468,942	11,213,774	(1,090,491)	69,592,225
Total Capital Assets being Depreciated	<u>1,070,105,244</u>	<u>39,464,819</u>	<u>(3,843,594)</u>	<u>1,105,726,469</u>
Less: Accumulated Depreciation for:				
Land Improvements	(53,677)	(5,828)	-	(59,505)
Buildings and Improvements:				
BCEC	(192,406,326)	(25,515,220)	14,087	(217,907,459)
Hynes Convention Center	(156,616,222)	(8,658,392)	2,739,016	(162,535,598)
MassMutual center	(18,712,216)	(2,508,632)	-	(21,220,848)
Boston Common Garage	(21,295,556)	(1,423,245)	-	(22,718,801)
Equipment and Fixtures	(40,076,085)	(7,412,825)	1,090,491	(46,398,419)
Total Accumulated Depreciation	<u>(429,160,082)</u>	<u>(45,524,142)</u>	<u>3,843,594</u>	<u>(470,840,630)</u>
Total Capital Assets being Depreciated, Net	<u>640,945,162</u>	<u>(6,059,323)</u>	<u>-</u>	<u>634,885,839</u>
TOTAL CAPITAL ASSETS, NET	<u><u>\$ 822,077,181</u></u>	<u><u>\$ 41,331,530</u></u>	<u><u>\$ (39,440,390)</u></u>	<u><u>\$ 823,968,321</u></u>

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NOTE 4 CAPITAL ASSETS (CONTINUED)

	2013			Ending Balance
	Beginning Balance*	Increases	Decreases	
Capital Assets not being Depreciated:				
Land	\$ 109,380,754	\$ 33,229,364	\$ -	\$ 142,610,118
Construction in Progress	27,785,688	12,699,459	(10,571,605)	29,913,542
Intangible Assets	9,245,000	-	(636,641)	8,608,359
Total Capital Assets not being Depreciated:	<u>146,411,442</u>	<u>45,928,823</u>	<u>(11,208,246)</u>	<u>181,132,019</u>
Capital Assets being Depreciated:				
Land Improvements	75,857	-	-	75,857
Buildings and Improvements:				
BCEC	688,647,911	7,759,032	(385,926)	696,021,017
Hynes Convention Center	198,663,478	3,615,293	(170,327)	202,108,444
MassMutual center	73,034,302	228,005	(22,884)	73,239,423
Boston Common Garage	38,897,456	308,705	(14,600)	39,191,561
Equipment and Fixtures	54,533,502	8,390,233	(3,454,793)	59,468,942
Total Capital Assets being Depreciated	<u>1,053,852,506</u>	<u>20,301,268</u>	<u>(4,048,530)</u>	<u>1,070,105,244</u>
Less: Accumulated Depreciation for:				
Land Improvements	(47,849)	(5,828)	-	(53,677)
Buildings and Improvements:				
BCEC	(167,986,656)	(24,805,596)	385,926	(192,406,326)
Hynes Convention Center	(148,872,343)	(7,914,206)	170,327	(156,616,222)
MassMutual center	(16,191,711)	(2,543,389)	22,884	(18,712,216)
Boston Common Garage	(19,936,926)	(1,373,230)	14,600	(21,295,556)
Equipment and Fixtures	(37,275,397)	(6,255,481)	3,454,793	(40,076,085)
Total Accumulated Depreciation	<u>(390,310,882)</u>	<u>(42,897,730)</u>	<u>4,048,530</u>	<u>(429,160,082)</u>
Total Capital Assets being Depreciated, Net	<u>663,541,624</u>	<u>(22,596,462)</u>	<u>-</u>	<u>640,945,162</u>
TOTAL CAPITAL ASSETS, NET	<u><u>\$ 809,953,066</u></u>	<u><u>\$ 23,332,361</u></u>	<u><u>\$ (11,208,246)</u></u>	<u><u>\$ 822,077,181</u></u>

* In 2013 capital assets were restated to reflect certain land deeded to the Authority in prior years.

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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, 2014 and 2013. At June 30, 2014 and 2013, the unamortized balance reported as unearned revenue totals approximately \$2,084,000 and \$2,417,000, respectively.

NOTE 6 LEASES (RENTAL INCOME)

The Authority leases various properties to third parties. For the years ended June 30, 2014 and 2013, the Authority earned approximately \$1,691,000 and \$1,241,000, 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 non-cancelable operating leases at June 30, 2014:

<u>2014</u>	
<u>Fiscal Year</u>	<u>Payment</u>
2015	\$ 1,803,545
2016*	2,061,820
2017*	2,186,820
2018*	2,186,820
2019*	2,234,406
Thereafter*	33,047,690

*Beginning in fiscal year 2016, a portion of lease rental income to be received by the Authority will be based on a percentage of gross revenue, which at this time cannot be quantified.

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NOTE 7 OPERATING PERFORMANCE BY OPERATING SEGMENTS

The Authority currently operates seven operating segments: the BCEC, the Hynes Convention Center, the MassMutual Center, the Boston Common Garage, Event Development, Central Administration and Sales and Marketing. The Event Development segment was introduced during fiscal year 2014. Summarized financial information for the years ended June 30, 2014 and 2013 is presented as follows:

<u>2014</u>	BCEC	Hynes Convention Center	MassMutual Center	Boston Common Garage	Event Development	Central Administration	Sales and Marketing	Total
Assets:								
Current Assets	\$ 7,865,102	\$ 521,313	\$ 819,836	\$ -	\$ 154,661	\$ 38,149,671	\$ -	\$ 47,510,583
Restricted Assets	-	-	-	-	-	1,033,271	-	1,033,271
Noncurrent Assets (Excluding Capital Assets)	-	-	-	-	-	17,094,769	-	17,094,769
Capital Assets	615,768,123	131,297,361	54,943,499	18,391,369	-	3,566,359	1,606	823,968,317
Total Assets	\$ 623,633,225	\$ 131,818,674	\$ 55,763,335	\$ 18,391,369	\$ 154,661	\$ 59,844,070	\$ 1,606	\$ 889,606,940
Liabilities:								
Current Liabilities	\$ 10,319,489	\$ 8,316,614	\$ 3,123,748	\$ 497,050	\$ 7,028	\$ 3,378,209	\$ 92,389	\$ 25,734,527
Noncurrent Liabilities	6,945,690	294,989	-	47,760	-	6,297,003	56,188	13,641,630
Total Liabilities	\$ 17,265,179	\$ 8,611,603	\$ 3,123,748	\$ 544,810	\$ 7,028	\$ 9,675,212	\$ 148,577	\$ 39,376,157
Net Position:								
Net Investment in Capital Assets								823,968,317
Restricted:								
Other								1,033,271
Unrestricted								25,229,195
Total Net Position								\$ 850,230,783
Operating Performance								
<u>2014</u>	BCEC	Hynes Convention Center	MassMutual Center	Boston Common Garage	Event Development	Central Administration	Sales and Marketing	Total
Operating Revenues	\$ 24,011,288	\$ 13,498,469	\$ 3,177,835	\$ 11,620,949	\$ 15,784	\$ -	\$ -	\$ 52,324,325
Operating Expenses	(59,097,529)	(26,903,000)	(10,809,556)	(4,009,804)	(24,636)	(15,201,707)	(7,694,851)	(123,741,083)
Operating Income	(35,086,241)	(13,404,531)	(7,631,721)	7,611,145	(8,852)	(15,201,707)	(7,694,851)	(71,416,758)
Nonoperating Revenues/(Expenses):								
Interest on Loans Receivable	-	-	-	-	-	791,022	-	791,022
Investment Income	-	-	-	-	-	5,245	-	5,245
Convention Center Fund	-	-	-	-	-	49,683,982	-	49,683,982
Transportation planning	(66,827)	-	-	-	-	-	-	(66,827)
Change in Net Position	\$ (35,153,068)	\$ (13,404,531)	\$ (7,631,721)	\$ 7,611,145	\$ (8,852)	\$ 35,278,542	\$ (7,694,851)	(21,003,336)
Net Position - Beginning of Year								871,234,119
Net Position - End of Year								\$ 850,230,783

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NOTE 7 OPERATING PERFORMANCE BY OPERATING SEGMENTS (CONTINUED)

<u>2013</u>	BCEC	Hynes Convention Center	MassMutual Center	Boston Common Garage	Central Administration	Sales and Marketing	Total
Assets:							
Current Assets	\$ 8,412,169	\$ 1,233,694	\$ 1,135,590	\$ 1,395	\$ 35,529,860	\$ 113,962	\$ 46,426,670
Restricted Assets	20,000,000	-	-	-	1,150,000	-	21,150,000
Noncurrent Assets (Excluding Capital Assets)	-	-	-	-	17,412,565	-	17,412,565
Capital Assets	616,263,246	124,400,659	57,552,843	19,173,478	4,684,050	2,905	822,077,181
Total Assets	<u>\$ 644,675,415</u>	<u>\$ 125,634,353</u>	<u>\$ 58,688,433</u>	<u>\$ 19,174,873</u>	<u>\$ 58,776,475</u>	<u>\$ 116,867</u>	<u>\$ 907,066,416</u>
Liabilities:							
Current Liabilities	\$ 10,332,699	\$ 5,396,898	\$ 3,651,740	\$ 331,987	\$ 3,422,003	\$ 502,252	\$ 23,637,579
Noncurrent Liabilities	6,962,553	249,148	-	31,471	4,935,810	15,736	12,194,718
Total Liabilities	<u>\$ 17,295,252</u>	<u>\$ 5,646,046</u>	<u>\$ 3,651,740</u>	<u>\$ 363,458</u>	<u>\$ 8,357,813</u>	<u>\$ 517,988</u>	<u>\$ 35,832,297</u>
Net Position:							
Net Investment in Capital Assets							822,077,181
Restricted:							
Other							21,150,000
Unrestricted							28,006,938
Total Net Position							<u>\$ 871,234,119</u>

<u>2013</u>	BCEC	Hynes Convention Center	MassMutual Center	Boston Common Garage	Central Administration	Sales and Marketing	Total
Operating Revenues	\$ 23,450,466	\$ 12,383,732	\$ 4,012,273	\$ 11,151,348	\$ -	\$ -	\$ 50,997,819
Operating Expenses	(57,552,183)	(24,956,197)	(11,513,977)	(3,973,128)	(17,314,094)	(7,199,670)	(122,509,249)
Operating Income	(34,101,717)	(12,572,465)	(7,501,704)	7,178,220	(17,314,094)	(7,199,670)	(71,511,430)
Nonoperating Revenues/(Expenses):							
Interest on Loans Receivable	-	-	-	-	793,634	-	793,634
Investment Income	-	-	-	-	3,241	-	3,241
Convention Center Fund	-	-	-	-	48,184,362	-	48,184,362
Federal Grants	-	-	-	-	100,000	-	100,000
Gain on Sale of Capital Assets	463,359	-	-	-	-	-	463,359
Loss Before Capital Contributions	(33,638,358)	(12,572,465)	(7,501,704)	7,178,220	31,767,143	(7,199,670)	(21,966,834)
Capital Contributions	53,000,000	-	-	-	-	-	53,000,000
Change in Net Position	<u>\$ 19,361,642</u>	<u>\$ (12,572,465)</u>	<u>\$ (7,501,704)</u>	<u>\$ 7,178,220</u>	<u>\$ 31,767,143</u>	<u>\$ (7,199,670)</u>	31,033,166
Net Position - Beginning of Year*							840,200,953
Net Position - End of Year							<u>\$ 871,234,119</u>

* Capital assets were restated to reflect certain land deeded to the Authority in prior years

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NOTE 8 LONG-TERM OBLIGATIONS

During fiscal years ended June 30, 2014 and 2013, the following changes occurred in long-term liabilities:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion
Environmental Remediation	\$ 6,204,618	\$ -	\$ (25,899)	\$ 6,178,719	\$ -
Net OPEB Obligation	4,738,782	1,549,936	(176,131)	6,112,587	-
Compensated Absences	2,311,015	225,853	-	2,536,868	1,186,544
Total	<u>\$ 13,254,415</u>	<u>\$ 1,775,789</u>	<u>\$ (202,030)</u>	<u>\$ 14,828,174</u>	<u>\$ 1,186,544</u>

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion
Environmental Remediation	\$ 6,204,618	\$ -	\$ -	\$ 6,204,618	\$ -
Net OPEB Obligation	3,508,777	1,425,727	(195,722)	4,738,782	-
Compensated Absences	2,116,671	194,344	-	2,311,015	1,059,697
Total	<u>\$ 11,830,066</u>	<u>\$ 1,620,071</u>	<u>\$ (195,722)</u>	<u>\$ 13,254,415</u>	<u>\$ 1,059,697</u>

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 was ultimately responsible 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 are being held by the Commonwealth on behalf of the Authority. This amount is presented in these financial statements as "Cash held by Commonwealth for environmental remediation" and totals \$6,496,203 at June 30, 2014 and 2013.

The Authority anticipates full remediation efforts to coincide with the expansion of the BCEC. For remediation costs that exceed the settlement proceeds received and investment income earned, the Authority expects to recover the costs from the Convention Center Fund maintained by the Commonwealth. As a result, there is no impact to the Authority's reported net position. The expected recovery from the Commonwealth is not yet realized or realizable.

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NOTE 9 ENVIRONMENTAL REMEDIATION (CONTINUED)

The following represents the estimated environmental remediation obligation at June 30, 2014 and 2013:

2014

Polluted Sites	\$ 9,887,052
Expected Recoveries (from Commonwealth for Costs in Excess of Settlement Proceeds)	<u>(3,708,333)</u>
Net Environmental Remediation Obligation	<u><u>\$ 6,178,719</u></u>

2013

Polluted Sites	\$ 8,091,200
Expected Recoveries (from Commonwealth for Costs in Excess of Settlement Proceeds)	<u>(1,886,582)</u>
Net Environmental Remediation Obligation	<u><u>\$ 6,204,618</u></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 2014. Actual costs may vary due to inflation, changes in technology, and changes in regulations.

NOTE 10 OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

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NOTE 10 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The number of participants as of July 1, 2012, the latest actuarial valuation, is as follows:

Active employees.....	273
Retired employees.....	<u>26</u>
Total.....	<u>299</u>

Funding Policy

The contribution requirements of Plan members and the Authority are established and may be amended by the Authority. The required contribution rates of union employees hired on or before December 1, 2011 and after December 1, 2011 are 15% and 25%, respectively. For non-union employees hired after June 30, 2008, the required contribution rate is 25%. For non-union employees hired between July 1, 2003 and July 31, 2008, the required contribution rate is 22.5%. For non-union 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 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 5 years of continuous service with the Authority at the time of retirement. Those employees who have less than 5 years of continuous service do not receive this benefit. There are currently 12 union retired employees who receive this benefit. In addition, the Authority used to cover these costs for non-union retirees but has discontinued that practice. There are currently 11 non-union retired employees who were grandfathered in under the old policy. The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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NOTE 10 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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 past two fiscal years.

	2014	2013
Annual required contribution	\$ 1,623,361	\$ 1,480,485
Interest on net OPEB obligation	188,196	140,351
Adjustment to annual required contribution	(261,621)	(195,109)
Annual OPEB cost	1,549,936	1,425,727
Contributions made	(176,131)	(195,722)
Increase in net OPEB obligation	1,373,805	1,230,005
Net OPEB obligation at beginning of year	4,738,782	3,508,777
Net OPEB obligation at end of year	\$ 6,112,587	\$ 4,738,782

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2012.....	\$ 1,047,991	18.4%	\$ 3,508,777
June 30, 2013.....	1,425,727	13.7%	4,738,782
June 30, 2014.....	1,549,936	11.4%	6,112,587

Funded Status and Funding Progress

The funded status of the Plan at July 1, 2012, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued 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)
07/01/12	\$ -	\$ 10,590,032	\$ 10,590,032	-	\$ 19,485,872	54.3%

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NOTE 10 OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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.

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

Valuation date:	July 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level dollar over 30 years at transition
Remaining amortization period:	26 years at July 1, 2012
Interest discount rate:	4.0%
Healthcare/medical cost trend rate:	3.0% for fiscal year 2013; 5.0% for the next two fiscal years
Projected salary increases:	3.0% per year
Inflationary rate:	3.5% per year

Allocation of AOPEBC

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

	<u>2014</u>	<u>2013</u>
BCEC.....	\$ 769,102	\$ 758,575
Hynes.....	371,234	334,660
Boston Common Garage...	77,072	66,488
MassMutual Center.....	15,708	15,635
Administration.....	260,632	230,700
Marketing and Sales.....	<u>56,188</u>	<u>19,669</u>
Total AOPEBC.....	<u>\$ 1,549,936</u>	<u>\$ 1,425,727</u>

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NOTE 11 PENSION PLAN

Plan Description

The Authority contributes to the Commonwealth's State Employees' Retirement System (System), a single-employer defined benefit pension plan administered by the Commonwealth's State Retirement Board.

Massachusetts law assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. The System does not issue a standalone report but is reported as a pension trust fund in the Commonwealth of Massachusetts' annual audited financial statements.

Funding Policy

Massachusetts law governs the contributions of plan members and the Commonwealth. Plan members are required to contribute to the System at rates ranging from 5% to 14% of annual covered compensation. Pursuant to its enabling legislation, the Authority reimburses the System for benefits provided in the prior year, in effect "pay-as-you-go" basis one year behind. The Authority's contributions to the System for the fiscal years ended June 30, 2014, 2013, and 2012 were approximately \$508,000, \$477,000, and \$451,000, respectively, which equaled its required contribution for each fiscal year.

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 two years.

MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 13 COMMITMENTS

The following represents the Authority's ongoing projects at June 30, 2014 and 2013.

	Committed Amount	Spent Through June 30, 2014	Remaining Commitment
Administrative Upgrades	\$ 1,390,345	\$ 295,345	\$ 1,095,000
BCEC Master Planning	26,358,884	13,858,884	12,500,000
BCEC Media Matrix	1,185,868	69,120	1,116,748
BCEC Internet Protocol TV	100,000	-	100,000
BCEC Digital Concierge	232,539	40,139	192,400
BCEC Wayfinding - Mobile Solut	100,000	-	100,000
BCEC WIFI Upgrade (Controllers And Add 5g AP's)	2,986,547	-	2,986,547
BCEC Vehicle Purchase	76,539	-	76,539
BCEC Industrial Bi-parting Door Improvements	216,064	31,064	185,000
BCEC Mobile Restroom Facilities	1,397,519	47,519	1,350,000
BCEC Exhibit Hall Blackout	53,582	53,582	-
BCEC Level 0 Ceiling Support and Roadway Waterproofing	655,692	266,195	389,497
BCEC Bus Stops	501,606	101,606	400,000
Hynes Reposition/Enhancement	1,428,032	428,032	1,000,000
Hynes MTA Ceiling Renovation	3,500,000	-	3,500,000
Hynes Main Roof Replacement	470,000	-	470,000
Hynes Digital Concierge	110,000	-	110,000
Hynes HVAC Terminal Box DDC Retrofit	129,364	129,364	-
Hynes Main Chiller Replacement	2,764,510	259,510	2,505,000
Hynes Secondary Gas hw Boiler	162,494	162,494	-
Hynes Food Service Improvement Kit and Concessions	12,266,883	2,377,883	9,889,000
BCG Feasibility Project	647,089	547,089	100,000
BCG Fire Shutters	793,925	105,925	688,000
BCG Passenger Elevators	186,877	186,877	-
BCG Carbon Monoxide Monitor	507,585	249,311	258,274
BCG Fire Alarm Replacement	768,683	195,683	573,000
MMC Paint CC Webco HVAC Ec	138,472	8,472	130,000
MMC Digital and Arena Media M	81,798	20,646	61,152
MMC Arena Lighting Upgrade	500,000	-	500,000
Total	<u>\$ 59,710,897</u>	<u>\$ 19,434,740</u>	<u>\$ 40,276,157</u>

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 13 COMMITMENTS (CONTINUED)

	Total Committed Amount	Spent Through June 30, 2013	Remaining Commitment
Administrative Upgrades	\$ 537,351	\$ 37,351	\$ 500,000
BCEC Master Planning	18,873,297	9,023,297	9,850,000
BCEC D Street Open Space	298,096	251,777	46,319
BCEC Weather Proofing	1,182,906	1,182,906	-
BCEC Offices Renovation	361,556	11,556	350,000
BCEC Hall A Regular Area Entry	52,000	4,994	47,006
BCEC Interior Wood Restoration Program (Phase 1 of 3)	155,651	-	155,651
BCEC Sidewalk/Curbing	50,000	-	50,000
BCEC AHU Volume Flow Station Upgrades	90,000	-	90,000
BCEC Food Service Equipment	207,103	27,103	180,000
BCEC Transportation Information Kiosks	67,450	37,450	30,000
BCEC Technology Upgrades	1,678,311	38,311	1,640,000
BRA Summer Street Enhancement	1,100,000	-	1,100,000
Hynes Reposition/Enhancement	550,151	350,151	200,000
Hynes MTA Ceiling Renovation	22,490,780	7,821,780	14,669,000
Hynes Main Roof Replacement	4,864,979	1,814,979	3,050,000
Hynes Passenger/Freight Elevator Improvements	7,191,866	6,101,866	1,090,000
Hynes Restroom Renovations	2,720,870	2,310,870	410,000
Hynes HVAC Terminal Box DDC Retrofit	147,736	1,575	146,161
Hynes Main Chiller Replacement	254,038	24,038	230,000
Hynes Escalator Modernization	13,509	13,509	-
Hynes Secondary Gas hw Boiler	70,901	901	70,000
Hynes Food Service Improvement Kit and Concessions	668,180	138,180	530,000
Hynes Technology Upgrades	268,776	34,776	234,000
BCG Feasibility Project	500,190	400,190	100,000
BCG Fire Shutters	313,883	93,883	220,000
BCG Passenger Elevators	259,465	19,465	240,000
BCG Foundation Leak Management	166,667	96,667	70,000
BCG Carbon Monoxide Monitoring	432,621	32,621	400,000
BCG Fire Alarm Replacement	141,585	43,347	98,238
Total	<u>\$ 65,709,918</u>	<u>\$ 29,913,543</u>	<u>\$ 35,796,375</u>

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 13 COMMITMENTS (CONTINUED)

Chapter 195 of the Acts of 2014 authorized the expansion of the BCEC, which calls for construction of approximately additional 1.3 million square feet to the BCEC. Initial design, construction and related activities by the Authority will begin in fiscal year 2015.

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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Authority at June 30, 2014.

NOTE 15 RESTATEMENT – FISCAL YEAR 2013

The Authority's net position was restated to correct an error in the accounting for certain land deeded in prior years. The fair values at the various dates of the transfers totaled \$49,460,400. As a result, the fiscal year 2013 beginning net position has been increased from \$790,740,553 to \$840,200,953.

NOTE 16 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Authority will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which is required to be implemented during fiscal year 2015.

These pronouncements will be implemented by their respective implementation dates.

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
OTHER POST EMPLOYMENT BENEFITS
SCHEDULES OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2014**

The following schedule provides information related to the Authority's other post-employment 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, 2008	\$ -	\$ 10,037,707	\$ 10,037,707	-	\$ 13,180,857	76.2%
July 1, 2010	-	9,085,391	9,085,391	-	15,683,675	57.9%
July 1, 2012	-	10,590,032	10,590,032	-	19,485,872	54.3%

* 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
YEAR ENDED JUNE 30, 2014**

	Original and Final Budget	Actual	Variance Positive/ (Negative)
REVENUES			
BCEC.....	\$ 24,731,539	\$ 24,011,288	\$ (720,251)
Hynes.....	10,711,399	13,514,253	2,802,854
Boston Common Garage.....	11,310,577	11,620,949	310,372
MassMutual Center.....	3,271,356	3,177,835	(93,521)
TOTAL REVENUES.....	50,024,871	52,324,325	2,299,454
EXPENSES			
BCEC.....	29,995,858	30,902,249	(906,391)
Hynes.....	14,885,796	14,788,779	97,017
Boston Common Garage.....	2,614,538	2,314,060	300,478
MassMutual Center.....	8,444,551	7,987,077	457,474
Central Administration.....	11,238,364	11,251,940	(13,576)
Marketing and Sales.....	6,636,786	6,487,364	149,422
TOTAL EXPENSES.....	73,815,893	73,731,469	84,424
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES.....	(23,791,022)	(21,407,144)	2,383,878
NONOPERATING REVENUES (EXPENSES)			
Investment and loan income.....	791,022	796,267	5,245
Transportation planning.....	(250,000)	(66,827)	183,173
Payment to Massachusetts Office of Travel and Toursim.....	(1,961,664)	(1,961,664)	-
TOTAL NONOPERATING REVENUES (EXPENSES).....	(1,420,642)	(1,232,224)	188,418
CHANGE IN NET POSITION.....	\$ (25,211,664)	\$ (22,639,368)	\$ 2,572,296

**MASSACHUSETTS CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013**

	Original and Final Budget	Actual	Variance Positive/ (Negative)
REVENUES			
BCEC.....	\$ 21,534,033	\$ 23,450,466	\$ 1,916,433
Hynes.....	9,589,273	12,383,732	2,794,459
Boston Common Garage.....	10,771,526	11,151,348	379,822
MassMutual Center.....	3,089,914	4,012,273	922,359
TOTAL REVENUES.....	44,984,746	50,997,819	6,013,073
EXPENSES			
BCEC.....	27,599,617	30,256,752	(2,657,135)
Hynes.....	14,759,574	14,772,899	(13,325)
Boston Common Garage.....	2,473,887	2,345,837	128,050
MassMutual Center.....	7,976,249	8,672,351	(696,102)
Central Administration.....	9,679,099	9,652,063	27,036
Marketing and Sales.....	6,267,214	6,481,612	(214,398)
TOTAL EXPENSES.....	68,755,640	72,181,514	(3,425,874)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES.....	(23,770,894)	(21,183,695)	2,587,199
NONOPERATING REVENUES (EXPENSES)			
Investment and loan income.....	800,000	796,875	(3,125)
Gain on sale of capital assets.....	-	463,359	463,359
Payment to Massachusetts Office of Travel and Tourism.....	(5,000,000)	(5,500,000)	(500,000)
TOTAL NONOPERATING REVENUES (EXPENSES).....	(4,200,000)	(4,239,766)	(39,766)
CHANGE IN NET POSITION.....	\$ (27,970,894)	\$ (25,423,461)	\$ 2,547,433

**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, 2014**

Amounts reported in FY 14 financial statements:				
	Base Salary	Other Compensation	Total Compensation	Base compensation at June 30, 2014
James E. Rooney, Executive Director.....	\$ 258,515	\$ 25,752 (A)	\$ 284,267	\$ 257,525
Kenneth A. Sinkiewicz, Deputy Director.....	157,625	2,750	160,375	157,602
Johanna M. Storella, Chief Strategy Officer.....	182,734	2,500	185,234	182,707
William Smith, General Counsel.....	157,625	3,500	161,125	157,602
Michael Esmond, Chief Financial Officer.....	140,543	-	140,543	157,602
John T. Haley Jr., Chief Facilities Officer.....	157,625	2,750	160,375	165,485
Steven G. Snyder, Chief Technology Officer.....	165,299	2,500	167,799	165,277
Maureen Shea Baker, General Manager.....	157,625	3,000	160,625	165,485
Total compensation.....	\$ 1,377,591	\$ 42,752	\$ 1,420,343	\$ 1,409,285

(A) Per an agreement between the MCCA Board of Directors and MCCA's Executive Director, annually the MCCA Executive Committee oversees an evaluation process of the performance of the Executive Director and determines the amount of bonus compensation to be awarded, which can be up to 10% of base compensation. The bonus included above represents monies paid in fiscal year 2014 relating to the prior years' performance.

**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, 2014 AND 2013**

	2014	2013
GAAP operating loss as presented in the statements of revenues, expenses and changes in net position (page 17)	<u>\$ (71,416,758)</u>	<u>\$ (71,511,430)</u>
Adjustments/additions to reconcile to statutory net cost of operations as defined within Chapter 190 of the Acts of 1982:		
Depreciation expense	45,524,142	42,897,730
Pass-through expenses to other governmental agencies (MOTT)	1,961,664	5,500,000
Annual net OPEB cost calculated in accordance with GAAP	1,373,805	1,230,005
Expenses from reserves for nonoperating purposes	1,150,000	700,000
Other	-	77,347
Total adjustments	<u>50,009,611</u>	<u>50,405,082</u>
Statutory net cost of operations (A)	<u>(21,407,147)</u>	<u>(21,106,348)</u>
Adjustments/additions to reconcile to operating reimbursement requests from the Convention Center Fund:		
Principal repayments on loans receivable	303,839	283,598
Interest received on loans receivable and investment income	796,267	796,875
Total adjustments	<u>1,100,106</u>	<u>1,080,473</u>
Total operating reimbursement requests from the Convention Center Fund	<u>\$ (20,307,041)</u>	<u>\$ (20,025,875)</u>

(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 \$23 million annually from the Massachusetts Convention Center Fund to defray its net cost of operations.