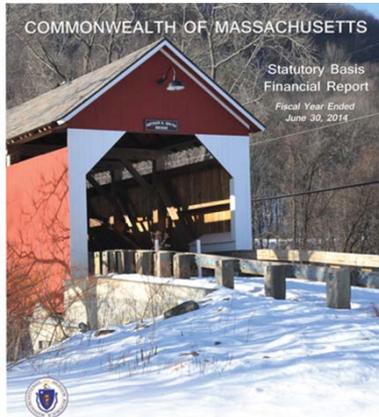




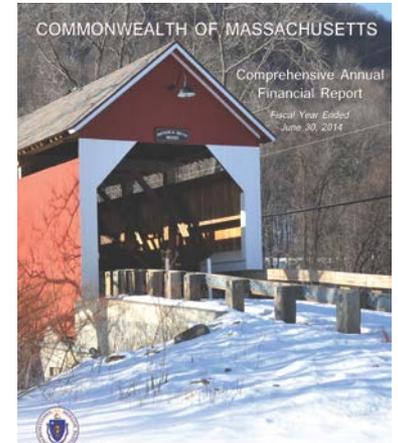
Understanding The Commonwealth's Financial Reports

*Howard Merkowitz
Deputy Comptroller*

*Presented at CFO Conference
November 20, 2014*



Deval L. Patrick, Governor
Glen Shor, Secretary of Administration and Finance
Martin J. Benken, Comptroller



Deval L. Patrick, Governor
Glen Shor, Secretary of Administration and Finance
Martin J. Benken, Comptroller



Agenda

- Overview of the Commonwealth's Two Annual Financial Reports
- What is covered in Statutory Basis Financial Report (SBFR)
- How to read the SBFR
- What is covered in Comprehensive Annual Financial Report (CAFR)
- How to read the CAFR
- Differences between SBFR and CAFR Balance Sheets and Operating Statements



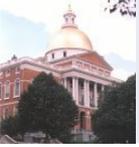
Why Do Financial Reporting?

- **Statutory** (Report published by end of October)
 - Because it's a requirement under MGL Ch. 7A
 - Management tool for planning for the next fiscal year
 - Becomes the foundation of House 1 in some respects
- **GAAP** (Report published by end of December)
 - Show comparability to other governments
 - Includes economic trends that may effect future fiscal years
 - Required by Government Finance Officers Association for Certificate of Achievement
- **Both statements**
 - Bond markets need them to show stability and sound management decisions being made



Who Uses Financial Reports?

- Administration and Legislature – SBFR determines annual budget balance and end of fiscal year transfers, including Stabilization Fund transfers
- Municipal Bond Analysts and Investors – SBFR measures cash operating balance of the Commonwealth, CAFR allows analysts and investors to measure state’s financial condition against other states.
- Citizens interested in financial operations of the Commonwealth



Statutory Basis Financial Report (SBFR)

- Statutory or budgetary basis report according to state finance law (Ch. 7A and Ch. 29) and Comptroller policy for recognizing revenues and expenditures – cash receipts and expenditures through June 30th, *plus* two months account payable period and two month accounts receivable period for intergovernmental (mostly federal) revenue; report is *not* according to generally accepted accounting principles (GAAP).
- Includes the Commonwealth’s budgeted funds (the spending that is subject to annual appropriation process), federal grants funds, non-budgeted funds (spending not subject to annual appropriation process), capital funds. By statute, excludes trust accounts.
- SBFR determines whether the budget is balanced according to state finance law. Determines the calculation of the “consolidated net surplus” and the end of year transfer to the Stabilization Fund



Statutory Basis Financial Report (SBFR)

- Commonwealth's budget balance as reported in SBFR: Chapter 29, "Definitions" section:
 - "Balanced budget", an annual general appropriation act resulting in a consolidated net surplus that is not less than 0.
 - "Consolidated net surplus", the sum of the undesignated balances in the budgetary funds, excluding certain environmental funds and certain funds financed through gaming revenue.
- Statutory definition of budget balance was changed effective FY14; prior to FY14, definition required that there be undesignated balance of 1% of tax revenue (approximately \$240 million for FY14)
- Governor is required to submit and Legislature is required to enact a balanced budget according to this definition



Office of the State Comptroller

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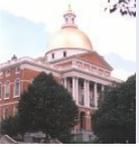
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Office of the State Comptroller

Budgeted Funds Combining Balance Sheet - Statutory Basis

June 30, 2014
(Amounts in thousands)

	2014	2013
ASSETS		
Cash and short-term investments.....	\$ 1,453,766	\$ 2,135,842
Cash with fiscal agent.....	14,384	13,932
Investments.....	261,837	258,347
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	708,833	586,074
Other receivables.....	11,022	61,119
Due from cities and towns.....	5,020	9,088
Total assets.....	<u>\$ 2,454,862</u>	<u>\$ 3,064,402</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Deficiency in cash and short-term investments.....	\$ 7,182	\$ 44,867
Accounts payable.....	820,803	979,276
Accrued payroll.....	<u>176,335</u>	<u>165,902</u>
Total liabilities.....	<u>1,004,320</u>	<u>1,190,045</u>
Fund balance (deficit):		
Reserved for:		
Continuing appropriations.....	175,648	283,189
Commonwealth Stabilization.....	1,248,435	1,556,657
Debt service.....	14,384	13,932
Unreserved:		
Undesignated.....	12,075	<u>20,579</u>
Total fund equity (deficit).....	<u>1,450,542</u>	<u>1,874,357</u>
Total liabilities and fund equity.....	<u>\$ 2,454,862</u>	<u>\$ 3,064,402</u>



Office of the State Comptroller

Budgeted Funds - Operations (Amounts in thousands)

	2014	2013
Beginning fund balances:		
Reserved and designated.....	\$ 297,121	\$ 170,467
Reserved for Stabilization Fund.....	1,556,657	1,652,118
Undesignated.....	20,579	167,141
Total.....	<u>1,874,357</u>	<u>1,989,726</u>
Revenues and other financing sources:		
Taxes.....	21,822,030	20,631,882
Federal reimbursements.....	8,372,145	8,228,417
Departmental and other revenues, including tobacco settlement.....	3,712,372	3,370,528
Interfund transfers from non-budgeted funds and other financing sources.....	1,566,608	1,548,131
Budgeted revenues and other financing sources.....	<u>35,473,155</u>	<u>33,778,958</u>
Intragovernmental Service Fund revenues.....	339,715	316,540
Interfund transfers among budgeted funds and other financing sources.....	1,417,275	1,140,020
Total revenues and other financing sources.....	<u>37,230,145</u>	<u>35,235,518</u>
Expenditures and other financing uses:		
Programs and services.....	30,211,239	28,094,482
Debt service.....	2,133,428	2,117,218
Post employment benefits.....	2,050,361	1,967,042
Interfund transfers to non-budgeted funds and other financing uses.....	1,501,942	1,715,585
Budgeted expenditures and other financing uses.....	<u>35,896,970</u>	<u>33,894,327</u>
Intragovernmental Service Fund expenditures	339,715	316,540
Interfund transfers among budgeted funds and other financing uses.....	1,417,275	1,140,020
Total expenditures and other financing uses.....	<u>37,653,960</u>	<u>35,350,887</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	<u>(423,815)</u>	<u>(115,369)</u>
Ending fund balances:		
Reserved and designated.....	190,032	297,121
Reserved for Stabilization Fund.....	1,248,435	1,556,657
Undesignated.....	12,075	20,579
Total.....	<u>\$ 1,450,542</u>	<u>\$ 1,874,357</u>



Office of the State Comptroller

Non-Budgeted Special Revenue Funds - Operations (Amounts in thousands)

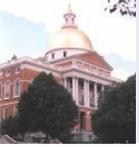
	<u>2014</u>	<u>2013</u>
Beginning fund balance.....	\$ 2,078,199	\$ 2,059,461
Revenues and other financing sources:		
Taxes.....	1,843,300	1,764,078
Assessments.....	616,906	558,172
Federal grants and reimbursements.....	3,190,513	3,227,276
Departmental and miscellaneous.....	6,202,948	6,159,857
Transfers and other financing sources.....	1,673,844	1,825,321
Total revenues and other financing sources.....	<u>13,527,511</u>	<u>13,534,704</u>
Expenditures and other financing uses:		
Programs and services.....	11,204,802	11,445,842
Debt service.....	241,522	233,856
Transfers and other financing uses.....	1,889,522	1,836,268
Total expenditures and other financing uses.....	<u>13,335,846</u>	<u>13,515,966</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	<u>191,665</u>	<u>18,738</u>
Ending fund balance.....	<u>\$ 2,269,864</u>	<u>\$ 2,078,199</u>



Office of the State Comptroller

Capital Projects Funds - Operations (Amounts in thousands)

	<u>2014</u>	<u>2013</u>
Beginning fund balance (deficit).....	\$ (836,052)	\$ (190,649)
Revenues and other financing sources:		
Federal grants and reimbursements.....	30,739	18,686
Departmental and miscellaneous.....	5,190	2,865
Proceeds of general and special obligation bonds.....	2,243,430	1,511,973
Proceeds of refunding bonds.....	721,716	230,539
Transfer for federal reimbursements.....	404,481	430,022
Transfers and other financing sources.....	<u>62,105</u>	<u>38,619</u>
Total revenues and other financing sources.....	<u>3,467,661</u>	<u>2,232,704</u>
Expenditures and other financing uses:		
Acquisition and maintenance of capital assets.....	2,906,865	2,565,077
Payments to advance refunding escrow agent/principal repayment.....	721,688	229,796
Transfers and other financing uses.....	<u>104,253</u>	<u>83,234</u>
Total expenditures and other financing uses.....	<u>3,732,806</u>	<u>2,878,107</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	<u>(265,145)</u>	<u>(645,403)</u>
Ending fund balance (deficit).....	<u><u>\$ (1,101,197)</u></u>	<u><u>\$ (836,052)</u></u>

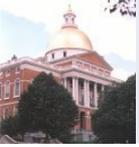


Office of the State Comptroller

Ten-Year Schedule of Revenues And Other Financing Sources All Governmental Fund Types - Statutory Basis

June 30, 2014
(Amounts in millions)

	2014	%	2013	%	2012	%	2011	%
		Total		Total		Total		Total
Taxes.....	\$ 23,665	43.6	\$ 22,396	43.9	\$ 21,384	42.7	\$ 20,776	38.2
Federal reimbursements.....	9,265	17.1	9,078	17.8	8,931	17.8	10,151	18.6
Federal grants.....	2,328	4.3	2,396	4.7	2,655	5.3	3,097	5.7
Lotteries.....	5,050	9.3	5,043	9.9	4,941	9.9	4,632	8.5
Assessments.....	1,079	2.0	1,018	2.0	986	2.0	960	1.8
Motor vehicle licenses and registrations.....	495	0.9	487	1.0	474	0.9	497	0.9
Fees, investment earnings, etc.....	4,254	7.9	3,860	7.5	3,582	7.2	3,462	6.4
Proceeds of general and special obligation bonds and related premiums.....	2,258	4.2	1,512	3.0	1,921	3.8	2,306	4.2
Proceeds of refunding bonds.....	722	1.3	231	0.5	480	1.0	947	1.7
Other interfund transfers.....	5,109	9.4	4,982	9.8	4,731	9.4	7,618	14.0
Total revenues and other financing sources.....	\$ 54,225	100.0	\$ 51,003	100.0	\$ 50,085	100.0	\$ 54,446	100.0



Office of the State Comptroller

Ten-Year Schedule of Expenditures And Other Financing Uses By Secretariat All Governmental Fund Types - Statutory Basis

June 30, 2014
(Amounts in millions)

	2014	% Total	2013	% Total	2012	% Total	2011	% Total
Legislature.....	\$ 56	0.1	\$ 57	0.1	\$ 58	0.1	\$ 58	0.1
Judiciary.....	831	1.5	802	1.5	780	1.6	788	1.5
Inspector General.....	6	-	6	-	3	-	3	-
Governor and Lieutenant Governor.....	5	-	6	-	7	-	5	-
Secretary of the Commonwealth.....	53	0.1	50	0.1	43	0.1	46	0.1
Treasurer and Receiver-General.....	5,928	10.9	5,867	11.3	5,847	11.7	5,610	10.6
Auditor of the Commonwealth.....	19	-	19	-	18	-	17	-
Attorney General.....	53	0.1	50	0.1	53	0.1	51	0.1
Ethics Commission.....	2	-	2	-	2	-	2	-
District Attorney.....	108	0.2	108	0.2	101	0.2	97	0.2
Office of Campaign and Political Finance.....	1	-	1	-	1	-	3	-
Sheriff's Departments.....	571	1.0	543	1.0	532	1.1	511	1.0
Disabled Persons Protection Commission.....	2	-	2	-	2	-	2	-
Board of Library Commissioners.....	45	0.1	41	0.1	34	0.1	34	0.1
Massachusetts Gaming Commission.....	23	-	14	-	1	-	-	-
Comptroller.....	18	-	14	-	13	-	14	-
Administration and Finance.....	8,862	16.3	8,665	16.8	7,456	14.9	7,206	13.7
Energy and Environmental Affairs.....	561	1.0	490	0.9	456	0.9	482	0.9
Housing and Community Development.....	-	-	-	-	-	-	-	-
Health and Human Services.....	18,649	34.1	17,447	33.7	17,632	35.2	17,737	33.5
Transportation and Public Works.....	-	-	-	-	-	-	-	-
Massachusetts Department of Transportation.....	2,914	5.4	2,439	4.7	2,323	4.6	2,278	4.3
Executive Office of Education.....	3,130	5.8	2,952	5.7	3,030	6.0	3,225	6.1
Center for Health Information and Analysis.....	25	-	9	-	-	-	-	-
Public Safety and Homeland Security.....	1,313	2.4	1,324	2.6	1,236	2.5	1,172	2.2
Housing and Economic Development.....	1,251	2.3	1,214	2.3	1,203	2.4	1,283	2.4
Labor and Workforce Development.....	237	0.4	300	0.6	390	0.8	428	0.8
Post employment benefits.....	2,050	3.7	1,967	3.8	1,892	3.8	1,839	3.5
Debt service.....	2,375	4.3	2,351	4.5	2,272	4.5	2,128	4.0
Payments to advance refunding escrow agent/Principal on current refunding.....	722	1.3	230	0.4	388	0.8	540	1.0
Other interfund transfers.....	4,913	9.0	4,775	9.2	4,352	8.7	7,337	13.9
Total expenditures and other financing uses.....	\$ 54,723	100.0	\$ 51,745	100.0	\$ 50,125	100.0	\$ 52,896	100.0



Office of the State Comptroller

Calculation of Transfers: Stabilization Fund

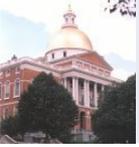
June 30, 2014
(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended by Section 155 of Chapter 139 of the Acts of 2012, and subsequent acts, which superseded certain parts of Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General	Children and Families Protection	Commonwealth Transportation	Massachusetts Tourism	Local Capital Projects	Manufacturing	Community College	Total
Budgeted Fund Undesignated Balances.....	\$ 167,787	\$ 1	\$ (102,495)	\$ 22,963	\$ (20,425)	\$ (12,608)	\$ (32,444)	\$ 22,779
Fund Balance Deficit Elimination Transfers Per Sec. 5c of Ch. 29	(148,018)	-	102,495	(19,954)	20,425	12,608	32,444	-
Fund Balances after Deficit Elimination Transfers (Consolidated Net Surplus).....	19,769	1	-	3,009	-	-	-	22,779
Year-end Transfers to the General Fund to Fund Statutory Allocations.....	3,010	(1)	-	(3,009)	-	-	-	-
Disposition of Consolidated Net Surplus per Sec. 242(a) of Chapter 165 of the Acts of 2014, as Amended:								
To the Massachusetts Life Sciences Investment Fund.....	(11,390)	-	-	-	-	-	-	(11,390)
To the Massachusetts Community Preservation Trust Fund.....	(11,390)	-	-	-	-	-	-	(11,390)
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund per Sec. 242(a) of Ch. 165 of the Acts of 2014, as Amended.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

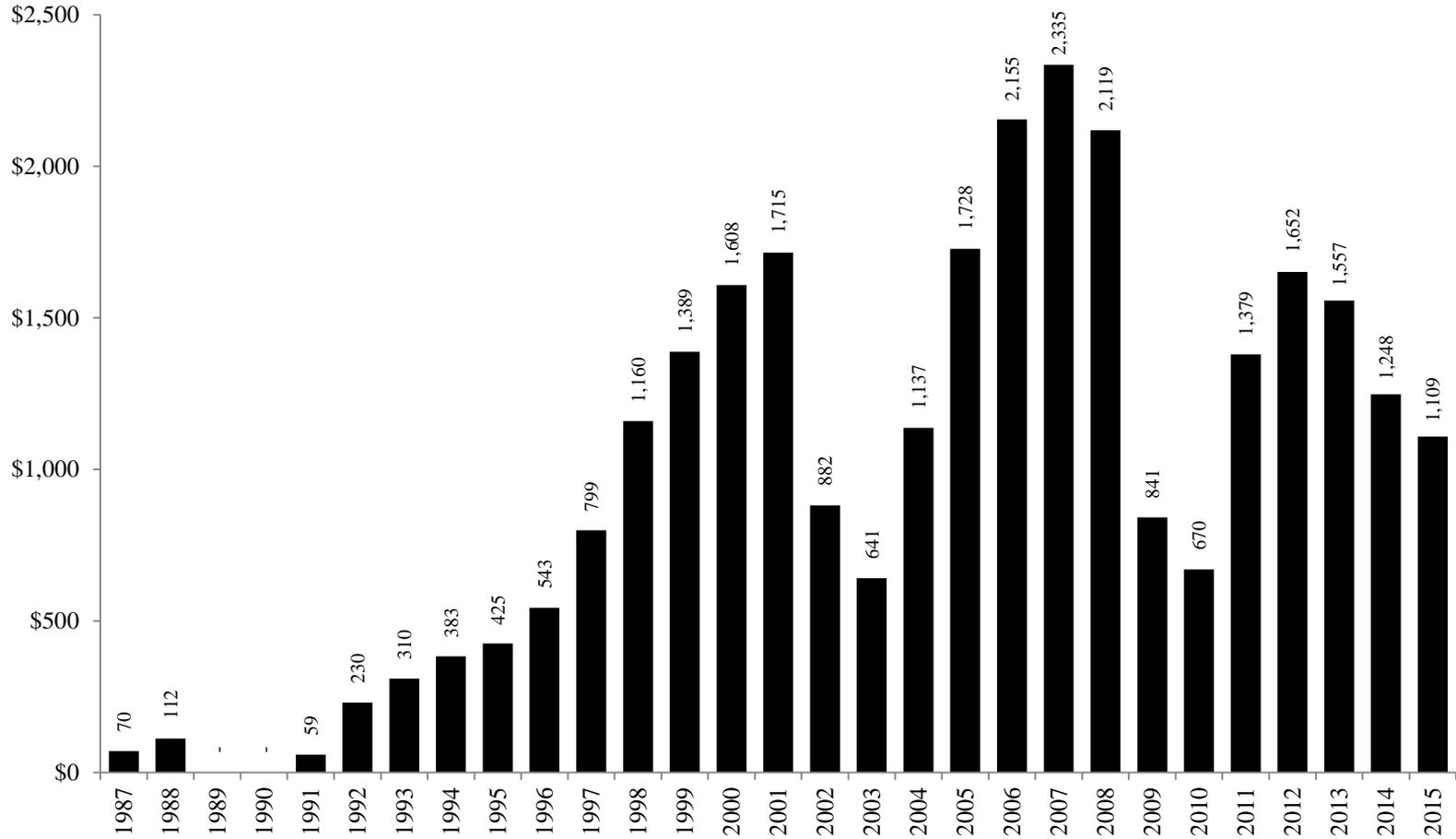
Stabilization Balance Reconciliation:

Balance as of July 1, 2013.....	1,556,657
Capital Gains Tax Transfers to Stabilization Fund during FY 2014 per Chapter 29, Section 5G.....	45,457
Judgments and Settlements In Excess of \$10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H.....	414,310
Investment income, certain tax revenues and other recoveries.....	6,414
Change in Market Value from General Fund per Sec. 172(b) of Ch. 38 of the Acts of 2013.....	1,712
Less Transfers from Stabilization Fund:	
Investment Income to General Fund per Sec. 172(b) of Ch. 38 of the Acts of 2013.....	(7,259)
5% Capital Gains Tax Transfer to the State Retiree Benefits Trust Fund per Chapter 29, Section 5G.....	(2,273)
5% Capital Gains Tax Transfer to the State Pension Liability Fund per Chapter 29, Section 5G.....	(2,273)
Judgments and Settlements In Excess of \$10 million Transferred to the General Fund per Sec. 25 of Ch. 237 of the Acts of 2014.....	(414,310)
To General Fund Per Sec. 172(a) of Ch. 38 of the Acts of 2013.....	(350,000)
Total Transfers from Stabilization Fund during FY 2014.....	(776,115)
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above.....	-
Stabilization Fund Balance as of June 30, 2014.....	\$ 1,248,435



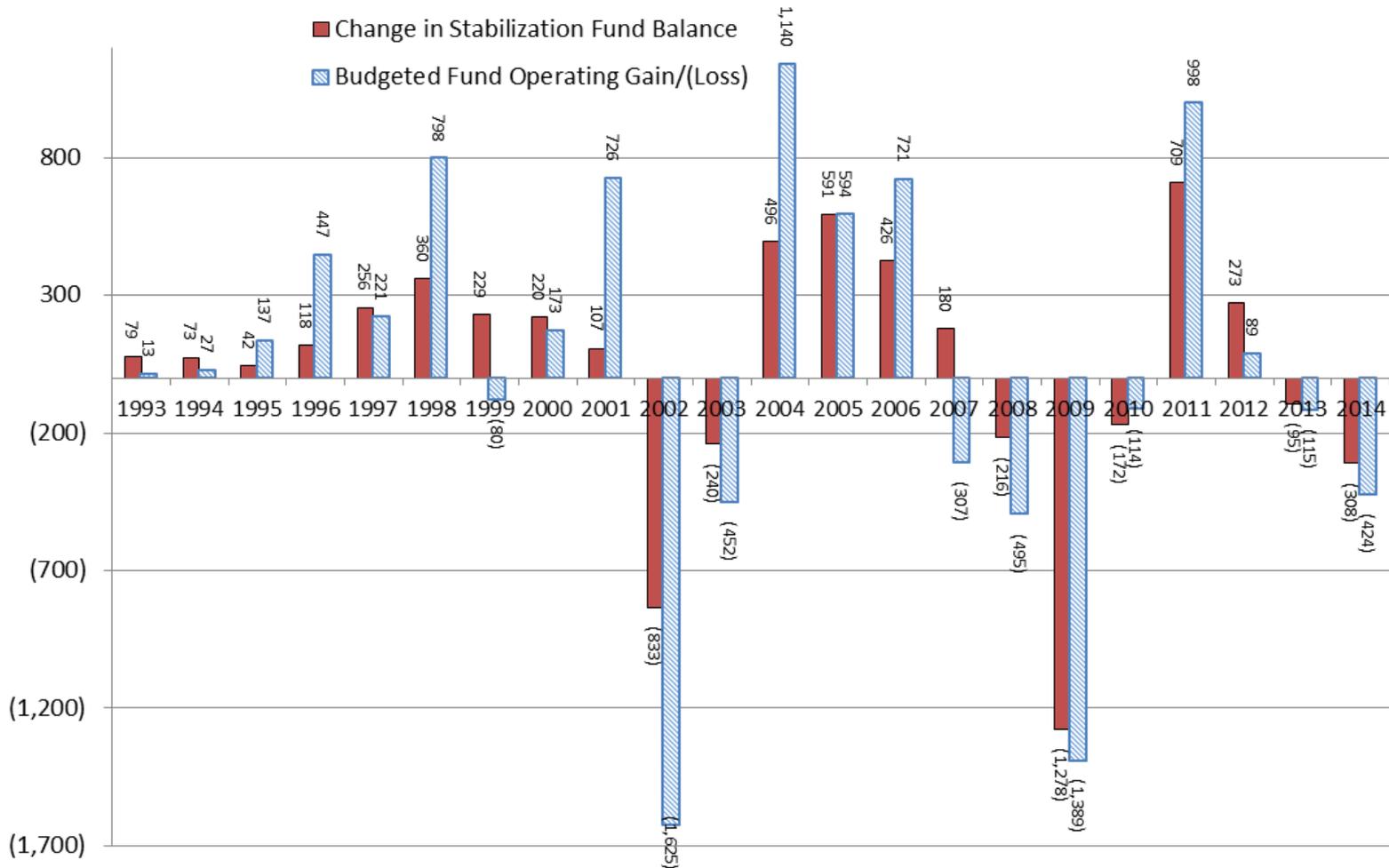
Office of the State Comptroller

Fiscal Year-End Stabilization Fund Balances (In \$ Millions)
(FY2015 Balance as of October 31, 2014)





Budgeted Fund Operating Gain/(Loss) vs. Change in Stabilization Fund Balance (in \$ Millions)





What is GAAP reporting?

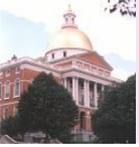
- Purpose of GAAP (Generally Accepted Accounting Principles) reporting is to allow reporting and comparisons of financial operations and position according to consistent rules
- Governmental GAAP is established by the Governmental Accounting Standards Board (GASB)
- GASB Statement 34 as amended determines what entities should be included in a government's GAAP-compliant financial statements, as well as the structure of the CAFR itself – unlike the SBFR, there are strict requirements as to what all governmental entities need to include in the CAFR
- In Massachusetts, CAFR is audited by an independent auditing firm, while SBFR is reviewed, but not audited



CAFR – 2 Flavors of GAAP Reporting

(1) CAFR Fund Perspective

- Purpose is to measure a government's ability to meet obligations from currently available resources
- Similar focus to the SBFR in terms of fund coverage, but also includes trust funds not covered in the SBFR.
- Uses a “modified accrual” basis of accounting, which is GAAP compliant, and takes into account short-term accruals (within one year) for taxes, Medicaid, amount due to authorities and municipalities in one year or less.
- No long-term accruals or fixed assets, depreciation, or adjustment for pension or OPEB liabilities



CAFR (GAAP Reporting)

(2) CAFR Government-Wide Perspective

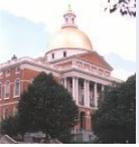
- Treats government according to accounting rules similar to private business
- Includes “business-type” activities such as Unemployment Insurance and Higher Education within the Commonwealth’s net assets
- Full accrual accounting for long-term assets and liabilities
- Taxes
- Over or underfunding of pensions and other employee health care benefits (OPEB)
- Capital assets and depreciation



CAFR (GAAP Reporting)

(2) CAFR Government-Wide Perspective (Continued)

- Long-term debt
- Compensated absences (accumulated sick leave and vacation)
- Environmental remediation liability
- Includes so-called “component units” such as the Massachusetts Department of Transportation (MDOT), Health Insurance Connector, and the Massachusetts Water Pollution Abatement Trust that have a close relationship to the Commonwealth but are not integrated within it.
- MSBA has been determined to be integrated enough with the Commonwealth that the MSBA operations and liabilities should be “blended” into the state’s financial statements.



Office of the State Comptroller

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

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FINANCIAL SECTION

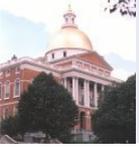
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Office of the State Comptroller

Balance Sheet Governmental Funds June 30, 2013 (Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Federal Grants	Other Governmental Funds	Total
ASSETS						
Cash, cash equivalents and short-term investments..	\$ 1,530,953	\$ 52,178	\$ 190,815	\$ -	\$ 1,369,450	\$ 3,143,396
Cash with fiscal agent.....	-	-	-	-	308,867	308,867
Investments and restricted investments.....	258,347	-	751,331	-	-	1,009,678
Receivables, net of allowance for uncollectibles:						
Taxes.....	3,456,814	-	51,491	-	169,480	3,677,785
Due from federal government.....	1,288,903	-	-	355,958	91,619	1,736,480
Loan receivable.....	-	-	114,792	-	914	115,706
Other receivables.....	251,366	4,409	9,706	-	274,035	539,516
Due from cities and towns.....	9,088	-	-	-	-	9,088
Due from other funds.....	591,707	-	-	-	71,351	663,058
Due from component units.....	455	-	-	-	45,512	45,967
Total assets.....	\$ 7,387,633	\$ 56,587	\$ 1,118,135	\$ 355,958	\$ 2,331,228	\$ 11,249,541
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable.....	\$ 2,005,684	\$ 50,319	\$ -	\$ 259,320	\$ 559,390	\$ 2,874,713
Accrued payroll.....	165,532	-	-	10,149	7,088	182,769
Tax refunds and abatements payable.....	812,614	-	133	-	184	812,931
Due to other funds.....	-	-	-	8,191	644,212	652,403
Due to component units.....	69,820	-	-	-	451,111	520,931
Due to federal government.....	23,668	-	-	-	-	23,668
Deferred revenue.....	1,064,523	4,206	-	-	98,643	1,167,372
Claims and judgments.....	12,831	-	-	-	-	12,831
School construction grants payable.....	-	-	62,741	-	-	62,741
Other accrued liabilities.....	-	-	5,000	-	64,231	69,231
Total liabilities.....	4,154,672	54,525	67,874	277,660	1,824,859	6,379,590
Fund balances (deficits):						
Nonspendable.....	-	-	-	-	914	914
Restricted.....	-	-	740,251	78,298	739,379	1,557,928
Committed.....	1,556,657	-	-	-	767,571	2,324,228
Assigned.....	283,013	2,062	310,010	-	-	595,085
Unassigned.....	1,393,291	-	-	-	(1,001,496)	391,795
Fund balances (deficits).....	3,232,961	2,062	1,050,261	78,298	506,369	4,869,951
Total liabilities and fund balances.....	\$ 7,387,633	\$ 56,587	\$ 1,118,135	\$ 355,958	\$ 2,331,228	\$ 11,249,541



Office of the State Comptroller

Governmental Fund Operations - GAAP Basis - Fund Perspective (Amounts in thousands)

	<u>FY13</u>	<u>FY12</u>	<u>FY11</u>	<u>FY10</u>	<u>FY09</u>
Beginning fund balances.....	\$ 6,318,958	\$ 5,267,628	\$ 4,585,715	\$ 5,061,342	\$ 7,062,663
Revenues and other financing sources.....	55,289,871	54,370,101	53,898,404	49,853,115	49,787,963
Expenditures and other financing uses.....	<u>56,738,878</u>	<u>53,318,771</u>	<u>53,216,491</u>	<u>50,328,742</u>	<u>51,789,284</u>
Excess/(deficiency).....	<u>(1,449,007)</u>	<u>1,051,330</u>	<u>681,913</u>	<u>(475,627)</u>	<u>(2,001,321)</u>
Ending fund balances.....	<u>\$ 4,869,951</u>	<u>\$ 6,318,958</u>	<u>\$ 5,267,628</u>	<u>\$ 4,585,715</u>	<u>\$ 5,061,342</u>



Office of the State Comptroller

Net Position as of June 30, 2013 and 2012
(in thousands of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Current assets.....	\$ 8,315,303	\$ 9,468,600	\$ 1,627,511	\$ 1,740,922	\$ 9,942,814	\$ 11,209,522
Non-capital non-current assets.....	3,782,145	3,437,342	2,418,725	2,783,206	6,200,870	6,220,548
Capital assets.....	4,366,071	4,259,869	5,658,798	4,876,356	10,024,869	9,136,225
Deferred outflows of resources.....	566,095	564,287	72,304	110,092	638,399	674,379
Total assets and deferred outflows.....	17,029,614	17,730,098	9,777,338	9,510,576	26,806,952	27,240,674
Current liabilities.....	7,337,053	7,134,569	1,026,890	954,232	8,363,943	8,088,801
Long term liabilities.....	35,632,437	34,893,317	3,895,042	3,644,132	39,527,479	38,537,449
Deferred inflows of resources.....	-	-	14,283	-	14,283	-
Total liabilities and deferred outflows.....	42,969,490	42,027,886	4,936,215	4,598,364	47,905,705	46,626,250
Net position:						
Net investment in capital assets.....	(592,483)	(849,338)	2,605,263	2,366,038	2,012,780	1,516,700
Restricted.....	1,386,416	1,456,715	1,209,630	1,576,865	2,596,046	3,033,580
Unrestricted.....	(26,733,809)	(24,905,165)	1,026,230	969,309	(25,707,579)	(23,935,856)
Total net position.....	\$ (25,939,876)	\$ (24,297,788)	\$ 4,841,123	\$ 4,912,212	(21,098,753)	\$ (19,385,576)



Office of the State Comptroller

Changes in Net Position during the Fiscal Years Ended June 30, 2013 and 2012 (in thousands of dollars)

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total Primary Government</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Revenues						
Program Revenues:						
Charges for services.....	\$ 9,158,100	\$ 8,549,722	\$ 4,378,547	\$ 4,301,855	\$ 13,536,647	\$ 12,851,577
Operating grants and contributions.....	12,836,122	12,909,908	1,791,196	2,525,342	14,627,318	15,435,250
Capital grants and contributions.....	18,726	79,733	-	-	18,726	79,733
General Revenues:						
Taxes.....	22,599,332	21,403,426	-	-	22,599,332	21,403,426
Other.....	985,713	1,393,094	395,228	376,327	1,380,941	1,769,421
Total Revenues.....	45,597,993	44,335,883	6,564,971	7,203,524	52,162,964	51,539,407
Expenses						
Medicaid.....	12,286,342	11,708,397	-	-	12,286,342	11,708,397
Direct local aid.....	5,179,104	4,991,532	-	-	5,179,104	4,991,532
Health and human services.....	7,787,051	7,643,950	-	-	7,787,051	7,643,950
Lottery.....	3,982,700	3,877,305	-	-	3,982,700	3,877,305
Higher education.....	-	-	4,437,894	4,336,195	4,437,894	4,336,195
Early elementary and secondary education....	4,335,639	4,259,568	-	-	4,335,639	4,259,568
Unemployment compensation.....	-	-	2,718,447	3,466,500	2,718,447	3,466,500
Other.....	12,573,184	12,164,099	-	-	12,573,184	12,164,099
Total Expenses.....	46,144,020	44,644,851	7,156,341	7,802,695	53,300,361	52,447,546
Excess/(Deficiency)						
before transfers.....	(546,027)	(308,968)	(591,370)	(599,171)	(1,137,397)	(908,139)
Transfers.....	(1,096,061)	(1,155,955)	1,096,061	1,155,955	-	-
Change in net position (deficits).....	(1,642,088)	(1,464,923)	504,691	556,784	(1,137,397)	(908,139)
Net position - beginning, as restated.....	(24,297,788)	(22,832,865)	4,336,432	4,355,428	(19,961,356)	(18,477,437)
Net position - ending.....	\$ (25,939,876)	\$ (24,297,788)	\$ 4,841,123	\$ 4,912,212	\$ (21,098,753)	\$ (19,385,576)



Assets Owned by MassDOT and Higher Education But Largely Financed by Commonwealth Offset Commonwealth's Negative Net Position

Statement of Net Position

June 30, 2013

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
NET POSITION				
Net investment in capital assets.....	(592,483)	2,605,263	2,012,780	25,171,182
Restricted for:				
Unemployment benefits.....	-	1,003,257	1,003,257	-
Retirement of indebtedness.....	1,032,617	-	1,032,617	-
Higher education endowment funds.....	-	18,112	18,112	-
Higher education academic support and programs.....	-	2,850	2,850	-
Higher education scholarships and fellowships:				
Nonexpendable.....	-	3,043	3,043	-
Expendable.....	-	5,628	5,628	-
Other nonexpendable purposes.....	-	5,381	5,381	-
Capital projects - expendable purposes.....	-	2,437	2,437	-
Other purposes.....	353,799	168,922	522,721	3,453,555
Unrestricted (deficits).....	(26,733,809)	1,026,230	(25,707,579)	(227,355)
Total net position.....	\$ (25,939,876)	\$ 4,841,123	\$ (21,098,753)	\$ 28,397,382



Office of the State Comptroller

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Position (Amounts in millions)

Governmental Funds - Statutory Basis, June 30, 2013:

Budgeted Fund Balance.....	\$	1,874.4
Non Budgeted Special Revenue Fund Balance.....		2,078.2
Capital Projects Fund Balance.....		<u>(836.1)</u>

Governmental Fund Balance - Statutory Basis, June 30, 2013.....

Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes.....		514.9
Less: Massachusetts Department of Transportation Funds.....		<u>(1,266.5)</u>

Adjusted Statutory Governmental Fund Balance.....

Short term accruals, net of allowances and deferrals for increases /(decreases):		2,364.9
Taxes, net of refunds and abatements.....	\$	1,834.5
Tobacco Settlement Agreement receivable.....		126.8
Medicaid.....		<u>(261.6)</u>
Other short term accruals:		
Assessments and other receivables.....		281.9
Amounts due to authorities and municipalities, net.....		(548.2)
Claims, judgments and other risks.....		(12.8)
Amounts due to health care providers and insurers.....		(64.2)
Workers' compensation and group insurance.....		(134.5)
Other accruals, net.....		<u>233.0</u>

Net increase to governmental fund balances.....

1,454.8

Massachusetts School Building Authority fund balance.....

1,050.3

Total changes to governmental funds.....

2,505.0

Governmental fund balance (fund perspective).....

\$ 4,870.0

Plus: Capital assets including infrastructure, net of accumulated depreciation.....

4,366.1

Deferred revenue, net of other eliminations.....

1,167.4

Long term accruals:

Pension Benefits cumulative over / (under) funding.....		(1,815.0)
Post employment benefits other than pensions cumulative over / (under) funding.....		(4,147.0)
Environmental Remediation Liability.....		(230.8)
Massachusetts School Building Authority debt and school construction payables.....		(7,154.6)
Long term debt, unamortized premiums and deferred losses on debt refundings.....		(21,971.2)
Compensated Absences.....		(518.3)
Capital leases.....		(50.8)
Accrued interest on bonds.....		(346.5)
Other Long term liabilities.....		<u>(109.0)</u>

Total governmental net position (entity wide perspective).....

\$ (25,939.9)



Financial Position Changes Between SBFR and CAFR

- Three main reasons for higher operating loss in the CAFR compared to the SBFR:
 - Pension underfunding
 - Retiree health insurance benefits underfunding
 - Borrowing for road and bridge assets owned by MassDOT and for capital grants and expenditures for state authorities (e.g., Life Sciences Center) and cities and towns (e.g., Chapter 90 road and bridge grants, local housing authorities)



Upcoming Changes to GAAP Reporting

- GASB 67/68 -- Currently, the pension liability reported in the CAFR is based on cumulative underfunding of annually required contributions (ARC) needed to fully fund pensions over a 30 year period. As of 6/30/13, that underfunding totaled \$1.8 billion. Starting in FY15, the Commonwealth will be required to record on its balance sheet the difference between assets and liabilities (unfunded pension liability, which as of the end of 1/1/14 was approximately \$29 billion.
- The OPEB liability is currently treated similarly to pensions in the CAFR – i.e., it the liability is the difference between actual and required contributions based on a funding schedule (ARC). The OPEB liability was \$4.1 billion as of 6/30/13, but the GASB probably will revise its rules effective FY17 to require recording of the full unfunded liability. That liability totaled approximately \$15.7 billion as of 1/1/14.



Questions/Comments?

Contact Information

Howard Merkowitz

Deputy Comptroller

Office of the State Comptroller

(617) 973-2602

howard.merkowitz@state.ma.us