

# Commonwealth of Massachusetts



## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2013*

*Martin J. Benison, CGFM  
Comptroller of the Commonwealth*

*This document and related information are available at*

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Cover picture – Gloucester Harbor

Paintings by Winslow Homer (February 24, 1836 – September 29, 1910)

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# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

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# *Introductory Section*

*(Unaudited)*



*The Boston Common*

*Letter of Transmittal*  
*Constitutional Officers*  
*Commonwealth Organizational Structure*  
*Advisory Board to the Comptroller*  
*Acknowledgements*  
*Certificate of Achievement*



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*Martin J. Benison, Comptroller  
One Ashburton Place  
Boston, MA 02108*

*December 20, 2013*

*To the Citizens of the Commonwealth of Massachusetts,  
Governor Deval L. Patrick and Honorable Members of the  
General Court*

I am pleased to transmit the Commonwealth's fiscal year 2013 (FY13) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The objective of this report is to provide a clear picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results of operating on that basis from FY13 are found in the Statutory Basis Financial Report (SBFR) issued separately this past November. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the statutory basis financial statements published in November.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business-type activities in a statement of net position and a statement of activities, presenting all functions on a full accrual basis of accounting. All capital assets are added to the government-wide statements as are all long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a "net position format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net position.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by function, are netted against fees, fines, grant revenues and assessments generated to fund each function in an attempt to derive the net cost to the taxpayer of each function. This format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. The **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains the Management's Discussion and Analysis (MD&A) section and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of an MD&A. This letter of transmittal is designed to complement the MD&A, where the financial analysis is presented. The Commonwealth's MD&A can be found immediately following the independent auditors' report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

## **PROFILE OF THE COMMONWEALTH**

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, financial and public sectors. Due to the Commonwealth's high levels of basic education and the presence of world-class educational institutions, the Commonwealth's economy is driven in large part by innovation in high technology, life sciences, health care and business services.

The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted, and is the oldest written Constitution now in use. It specified three branches of Government: Legislative, Executive, and Judicial. "The Great and General Court," elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. It is the second oldest democratic deliberative body in the world.

The table on page 3 reconciles the fund balances on three bases of accounting: the statutory basis presented in separately issued financial statements this past November; the fund basis; and entity-wide basis statements, the latter two of which are included in this report.

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

<b>Governmental Funds - Statutory Basis, June 30, 2013:</b>	
Budgeted Fund Balance.....	\$ 1,874.4
Non Budgeted Special Revenue Fund Balance.....	2,078.2
Capital Projects Fund Balance.....	<u>(836.1)</u>
<b>Governmental Fund Balance - Statutory Basis, June 30, 2013.....</b>	<b>\$ 3,116.5</b>
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>
<b>Adjusted Statutory Governmental Fund Balance.....</b>	<b>2,364.9</b>
Short term accruals, net of allowances and deferrals for increases /(decreases):	
Taxes, net of refunds and abatements.....	\$ 1,834.5
Tobacco Settlement Agreement receivable.....	126.8
Medicaid.....	(261.6)
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>
<b>Net increase to governmental fund balances.....</b>	<b><u>1,454.8</u></b>
<b>Massachusetts School Building Authority fund balance.....</b>	<b><u>1,050.3</u></b>
<b>Total changes to governmental funds.....</b>	<b><u>2,505.0</u></b>
<b>Governmental fund balance (fund perspective).....</b>	<b>\$ 4,870.0</b>
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>
<b>Total governmental net position (entity wide perspective).....</b>	<b>\$ <u>(25,939.9)</u></b>

The deficit of \$25.940 billion in governmental net position is largely attributable to the Commonwealth's policy decision to finance the construction of assets owned by other government entities, particularly Commonwealth roads and bridges, which as a result of transportation reform completed during FY10 shifted these assets from the books of the Commonwealth to the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. At the end of FY13, MassDOT held \$22.320 billion in road, bridge and other transportation-related assets (excluding assets of the Massachusetts Bay

Transportation Authority) net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth and the debt remains a long-term obligation of the Commonwealth. In addition, the Commonwealth has a net liability of \$6.036 billion for debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns. Finally, the Commonwealth has financed significant transportation and non-transportation assets currently held by Massachusetts Institutions of Higher Education, Massachusetts' cities and towns and quasi-public authorities. While the exact amount of Commonwealth-funded assets held by these entities is difficult to determine, between FY05 and FY13 the Commonwealth's capital spending on Higher Education capital projects exceeded \$875 million, capital spending for transportation-related financial assistance to local governments totaled more than \$1.7 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget exceeded \$3.5 billion, including \$1 billion to fund the Massachusetts School Building Authority in FY05 and FY06. As almost all of this capital spending was financed by Commonwealth debt, the liabilities are retained by the Commonwealth while the assets are held by the Institutions of Higher Education, Massachusetts cities and towns and entities such as local housing authorities and quasi-governmental authorities.

*Statement of Net Position  
Governmental Activity  
Including MassDOT  
(Amounts in thousands)*

Net Position as of June 30, 2013:

Commonwealth's Governmental Activity.....	\$ (25,939,876)
Massachusetts Department of Transportation (major assets include roads and bridges).....	<u>20,914,904</u>
Total Net Position of the Commonwealth, including MassDOT...	<u>\$ (5,024,972)</u>

Since MassDOT ended FY13 with positive net position of \$23.900 billion, it is more informative to view the Commonwealth's financial statements in combination with MassDOT than to analyze the two separately, while also keeping in mind that significant assets owned by the Institutions of Higher Education and local governments and authorities were financed by liabilities still on the Commonwealth's books.

The deficit in the net position of the governmental activities grew by almost \$1.642 billion in FY13. While tax revenue experienced healthy growth in FY13, this growth was offset by adjustments that reduced the fund balance and ending net position. The main factors underlying the change in the net deficit were as follows:

- Tax revenues grew by \$1.196 billion, or 5.6%, from FY12, mainly due to higher income taxes, much of which resulted from growth in capital gains tax collections. As a result of recently enacted legislation, \$468 million in capital gains tax revenue, which accounted for 2.2% of the 5.6% in tax revenue growth, was deposited directly into the Stabilization Fund and was not available for use. There was virtually no net growth in non-tax governmental revenues, as federal stimulus money under the American Recovery and Reinvestment Act (ARRA) was phased out and other non-tax revenue grew slowly.
- The final year of phased-in recognition of declines in the asset value of the Commonwealth's pension fund due to stock market losses during the recession of 2008-2009 resulted in an increased liability accrual of \$396 million growth in the underfunding of the Commonwealth's pension obligations;

- The Commonwealth’s pension funding schedule is updated every three years, while the Annual Required Contribution (ARC) is updated annually. Changes in the market value of assets are amortized over a five year period (“smoothed”). When pension fund asset values decline or increase, the Commonwealth’s annual pension funding will lag the ARC. The triennial updating of the pension fund schedule, combined with the dramatic stock market downturn in 2008-2009, has resulted in a cumulative underfunding of the Commonwealth’s ARC to fund the pension liability of \$1.815 billion since 2009.
- The Commonwealth funds its other post-employment benefits (OPEB) liability on a pay-as-you-go basis. GAAP requires the accrual of a liability for the difference between this amount and the actuarially required contribution. The change in the accrual was \$701 million in FY13, reducing net position;
- The Commonwealth continues to fund, through its own debt, transportation-related assets that are owned by the Massachusetts Department of Transportation (MassDOT), Institutions of Higher Education, cities and towns and quasi-public authorities. In FY13, approximately \$1.7 billion of the almost \$2.2 billion in state-funded capital spending generated assets not owned by the Commonwealth, including \$1.05 billion in transportation spending (including more than \$220 million in grants and other financial assistance to cities and towns), \$250 million for Institutions of Higher Education (which are attributed to the Commonwealth’s business-type activities) and approximately \$390 million in other capital grants and financial assistance to local governments and quasi-public entities. While the assets created by this spending are recorded on the books of MassDOT and other non-Commonwealth entities, the liability for the debt remains with the Commonwealth.

The net deficit in government-wide activities, which includes the Commonwealth’s business-type as well as governmental activities, increased by \$1.137 billion from FY12.

## **REPORTING ENTITY**

The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 Institutions of Higher Education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, the financial statements include 40 independent public authorities. These entities are defined as component units and meet the criteria for inclusion in the Commonwealth’s reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The MSBA is blended into the Commonwealth’s operations.

## **INDEPENDENT AUDIT**

The Commonwealth's independent auditors, KPMG LLP, have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2013. The independent auditors' report is presented in the Financial Section.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because of the cost, internal controls should not outweigh their benefits. The Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

I would like to express my thanks to the many dedicated employees within the Office of the Comptroller. Continuing to carry out our mission and meet the goals that are set meant another successful year. I am proud to have them all on my team as another year of initiatives is now underway.

Respectfully submitted,

Martin J. Benison  
Comptroller of the Commonwealth



*On the Beach, Marshfield*

## **CONSTITUTIONAL OFFICERS**

Deval L. Patrick  
*Governor*

William F. Galvin  
*Secretary of State*

Martha Coakley  
*Attorney General*

Steven Grossman  
*Treasurer and Receiver-General*

Suzanne Bump  
*Auditor*

## **LEGISLATIVE OFFICERS**

Therese Murray  
*President of the Senate*

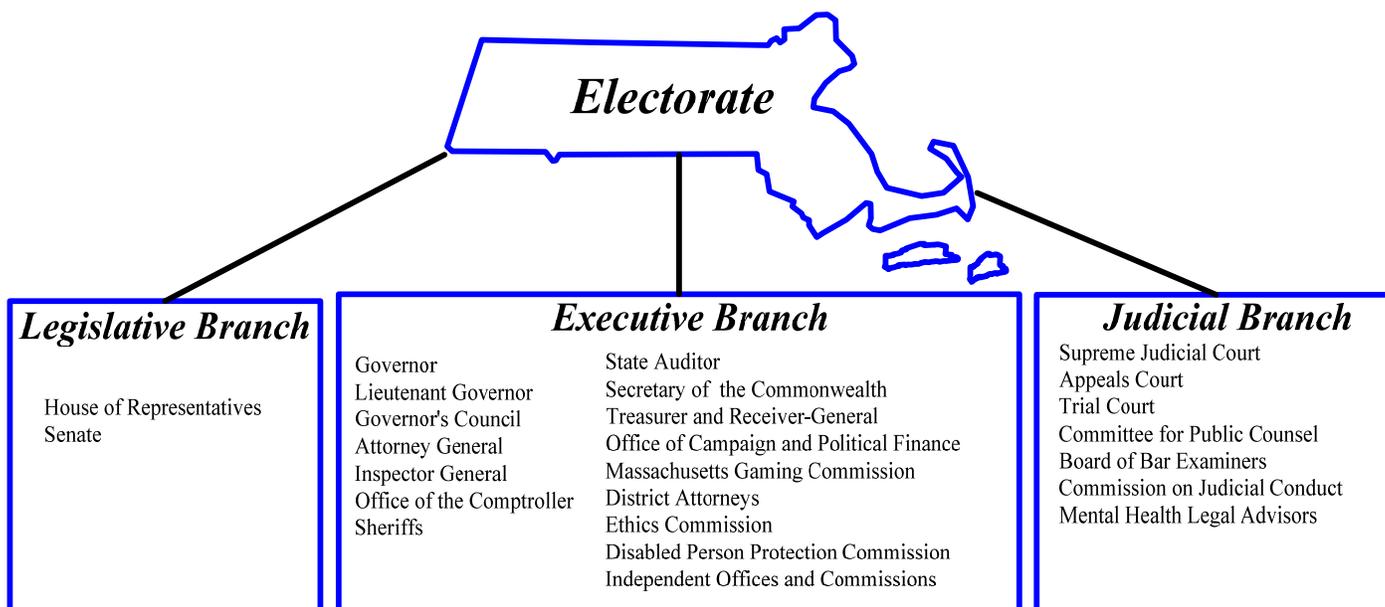
Robert A. DeLeo  
*Speaker of the House*

## **JUDICIAL OFFICERS**

Roderick L. Ireland  
*Chief Justice, Supreme Judicial Court*

Phillip Rapoza  
*Chief Justice, Appeals Court*

Lewis H. Spence  
*Court Administrator, Trial Court*



<b>State Agencies</b>		
<p><b><u>Administration and Finance</u></b> Executive Office for Administration and Finance Appellate Tax Board Bureau of the State House Civil Service Commission Department of Revenue Developmental Disabilities Council Division of Administrative Law Appeals Division of Capital Asset Management and Maintenance George Fingold Library Group Insurance Commission Health Policy Commission Human Resource Division Information Technology Division Massachusetts Office on Disability Massachusetts Teachers' Retirement System Operational Services Division Public Employee Retirement Administration Commission</p> <p><b><u>Public Safety</u></b> Executive Office of Public Safety and Security Chief Medical Examiner Department of Criminal Justice Information Services Department of Correction Department of Fire Services Department of Public Safety Department of State Police Massachusetts Emergency Management Agency Military Division/ Massachusetts National Guard Municipal Police Training Committee Parole Board Sex Offender Registry</p>	<p><b><u>Housing and Economic Development</u></b> Executive Office of Housing and Economic Development Department of Business Development Office of Consumer Affairs &amp; Business Regulations Massachusetts Marketing Partnership Department of Housing &amp; Community Development Department of Telecommunications and Cable Division of Banks Division of Insurance Division of Professional Licensure Division of Standards</p> <p><b><u>Energy and Environmental Affairs</u></b> Executive Office of Energy and Environmental Affairs Department of Agricultural Resources Department of Conservation and Recreation Department of Environmental Protection Department of Fish and Game Department of Public Utilities Division of Energy Resources State Reclamation Board</p> <p><b><u>Transportation and Public Works</u></b> Department of Transportation</p> <p><b><u>Executive Office of Labor and Workforce Development</u></b></p>	<p><b><u>Health and Human Services</u></b> Executive Office of Health and Human Services Executive Office of Elder Affairs Department of Children and Families Department of Developmental Services Department of Mental Health Department of Public Health Department of Transitional Assistance Department of Veterans' Services Department of Youth Services Massachusetts Commission for the Blind Massachusetts Commission for the Deaf and Hard of Hearing Massachusetts Rehabilitation Commission Office for Refugees and Immigrants Soldiers' Home, Holyoke Soldiers' Home, Massachusetts</p> <p><b><u>Education</u></b> Executive Office of Education Department of Early Education and Care Department of Elementary and Secondary Education Department of Higher Education Community Colleges State Universities University of Massachusetts System</p> <p><b><u>Health Care Security Trust</u></b></p> <p><b><u>Board of Library Commissioners</u></b></p> <p><b><u>Commission Against Discrimination</u></b></p>

**ADVISORY BOARD TO THE COMPTROLLER**

Glen Shor  
*Secretary of Administration and Finance*

Suzanne Bump  
*Auditor*

Steven Grossman  
*Treasurer and Receiver-General*

Lewis H. Spence  
*Chief Administrator, Trial Court*

Martha Coakley  
*Attorney General*

Michael Esmond  
*Gubernatorial Appointee*

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Howard Merkowitz  
*Deputy Comptroller*

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*Accountant*

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*Accountant*

Neil Gouse, CGFM  
*Accountant*

Mayowa Taiwo  
*Accountant*

Frank Conlon  
*Accountant*

Patricia McKenna  
*Accountant*

Cathy Hunter  
*Program Coordinator*

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*Director*

**Art Direction**  
Scott Olsen



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Government Finance Officers Association

Certificate of  
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**Commonwealth of Massachusetts**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO



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# *Financial Section*



*The Fountain on Boston Common*

*Independent Auditors' Report*

*Management's Discussion and Analysis*

*Basic Financial Statements*

*Notes to the Basic Financial Statements*

*Required Supplementary Information Other Than Management's Discussion and Analysis*

*Other Supplementary Information*



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KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

Mr. Martin Benison, Comptroller  
The Commonwealth of Massachusetts  
Boston, Massachusetts

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Colleges and certain of the Community Colleges all of which are major enterprise funds and represent 86% of the total assets and deferred outflows of the business-type activities. We did not audit 63% of the total assets and deferred outflows of the Community Colleges major enterprise fund. Additionally, we did not audit the financial statements of the nonmajor component units, which represent 8% of the total assets and deferred outflows of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

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. The financial statements of certain entities identified in Note 13 of the basic financial statements were not audited in accordance with *Government Auditing Standards*.



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

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the accompanying table of contents (collectively referred to as RSI), 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 RSI 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.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic



financial statements. The other supplementary information is the responsibility of management and was derived from and relates 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Commonwealth of Massachusetts' 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 the 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 Commonwealth's internal control over financial reporting and compliance.

KPMG LLP

December 20, 2013



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## Management's Discussion and Analysis (Unaudited)

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2013 (FY13). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides preparers with guidelines on what must be included in and excluded from this analysis.

### Financial Highlights – Primary Commonwealth Government

#### *Government–Wide Highlights*

**Net Position** – The liabilities of the primary government exceeded its assets at the end of FY13 by almost \$21.099 billion, an increase in the net deficit of \$1.137 billion from FY12, after factoring out a \$575 million downward restatement of the FY13 beginning balance in the Commonwealth's business-type activities resulting from a change in the way the Commonwealth accounts for foundations of the Institutions of Higher Education as a result of implementing GASB Statement 61, *The Financial Reporting Entity: Omnibus*. In FY13 the foundations are included in the Commonwealth's component units, while in FY12 they were included in the Commonwealth's business-type activities, which resulted in a \$575 million increase in the net position of the component units and a decrease in the net position of the Commonwealth.

Of the \$21.099 billion deficit, “unrestricted net position” has a deficit of \$25.708 billion, and there is a \$2.013 billion positive balance attributable to the net investment in capital assets. There are five primary reasons for the negative unrestricted net position:

1. The Commonwealth has a net liability of \$6.036 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA);
2. In FY10, the Commonwealth implemented transportation reform, which created the Massachusetts Department of Transportation (MassDOT) and transferred to that entity virtually all highway and bridge assets of the Commonwealth totaling approximately \$15.521 billion, as of the date of the transfer, net of depreciation. The Commonwealth, however, originally paid and continues to pay for the construction of these assets and retains a large amount of transportation-related debt, which is now be unrelated to any capital asset owned by the Commonwealth.
3. The Commonwealth, through debt issuances, also pays for non-transportation capital assets not owned by the Commonwealth, particularly assets held by quasi-public entities and local governments and housing authorities.

4. The Commonwealth's pension funding schedule is updated every three years, while the Annual Required Contribution (ARC) is updated annually. Changes in the market value of assets are amortized over a five year period ("smoothed").

When pension fund asset values decline or increase, the Commonwealth's annual pension funding will lag the ARC. The triennial updating of the pension fund schedule, combined with the dramatic stock market downturn in 2008-2009, has resulted in a cumulative underfunding of the Commonwealth's ARC to fund the pension liability of \$1.815 billion since 2009.

5. The Commonwealth funds its retiree health insurance benefits (Other Post-Employment Benefits, or OPEB) on a pay-as-you-go basis. As a result, as of June 30, 2013, it had accumulated a \$4.147 billion unfunded liability for OPEB.

At the end of FY13, the Commonwealth also held \$2.596 billion in "restricted net position", assets that are restricted primarily for payment of debt service, unemployment insurance benefits and the Institutions of Higher Education. Approximately \$1.003 billion in restricted net position balances were set aside for unemployment benefits, an additional \$1.033 billion was restricted for debt retirement, of which \$724 million is restricted for MSBA debt retirement, \$354 million for other governmental purposes and \$206 million was restricted for Higher Education.

The Commonwealth's governmental activities (which excludes the "business-type activities" of the Institutions of Higher Education and Unemployment Insurance) net deficit increased by \$1.642 billion, to \$25.940 billion, and its governmental activities unrestricted net deficit increased by approximately \$1.829 billion in FY13, to \$26.734 billion. Approximately \$1.097 billion of the increase in the net deficit was due to increases in the liabilities for state pension and post-employment health benefits.

Total revenues of the primary government increased by \$624 million, or 1.2% in FY13, to \$52.163 billion. Total expenses of the primary government increased by \$853 million, or approximately 1.6%, to \$53.300 billion. Detail on revenue and expenses can be found on pages 28 to 30.

Net position of business-type activities (factoring out the \$575 million beginning balance adjustment as noted on page 21) increased by \$505 million, due to net surpluses of \$174 million in the Unemployment Insurance Trust Fund and \$331 million for Higher Education activity.

At June 30, 2013, the Commonwealth's governmental funds reported a combined ending fund balance of about \$4.870 billion, a decrease of \$1.449 billion from June 30, 2012. Of the ending balances:

- \$914,000 is nonspendable, \$1.558 billion is restricted, \$2.324 billion is committed, \$595 million is assigned and \$392 million is unassigned fund balance. (A full discussion of these classifications is included in Note 1 to the basic financial statements, on pages 69 - 72)

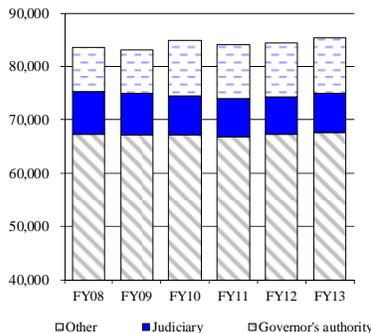
- The MSBA’s fund balance of approximately \$1.050 billion is blended into the Commonwealth. Within this fund balance is over \$942 million in cash and restricted investments which were funded by bond proceeds in FY13 and previous fiscal years, and other assets, less approximately \$68 million in liabilities. In FY13, over \$735 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals, and the MSBA issued \$1.682 billion in long-term refunding bonds.
- Lottery revenues for FY13 were \$5.043 billion, an increase of approximately \$99 million, or 2.0%, from FY12. Prizes were approximately \$3.993 billion and operating expenses and mandated transfers to the governmental funds were \$1.050 billion.

Other highlights of FY13 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$253 million on a GAAP basis, the same as received in the prior year. Approximately \$127 million has been reported as a receivable in the governmental funds, equal to half of the anticipated tobacco settlement proceeds to be received in FY14. During FY13, 10.0% of tobacco settlement payments (approximately \$25 million) was deposited in the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth’s liability for retiree health care. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase 10% per year until it reaches 100% in FY23, although in FY14 an amount equal to 20% of tobacco settlement proceeds will be transferred to the SRBTF through a different funding mechanism.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$1.313 billion in bond authorizations and approximately \$5 million in de-authorizations of previously issued capital appropriations. The Commonwealth determines the timing and extent of capital spending and bonding as part of its five-year capital plan.

**Full Time Equivalent Workforce  
Including Higher Education and the  
Massachusetts Department of  
Transportation**

June 2008 – June 2013



**Full-Time Equivalent Employment**

The chart to the left shows the Commonwealth’s full-time equivalent employment (including MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal and trust) over the past six fiscal years. In FY13, the number of Commonwealth FTEs increased by approximately 900, to a total of 85,356. However, since June 30, 2008, the number of FTEs on the Commonwealth’s payroll has dropped by 4,900 after adjusting for 6,600 FTEs that were brought onto state payroll as a result of changes in the way certain employees are accounted for and for entities that were absorbed by the state in FY09 and FY10. In FY09, the state switched approximately 2,500 Higher Education employees to the Commonwealth’s payroll system. In FY10, approximately 1,330 employees of the former Massachusetts Turnpike Authority and the Tobin Bridge were transferred to the Massachusetts Department of Transportation (MassDOT). Also in FY10, the sheriff

departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk were brought onto the state's accounting and payroll systems, with approximately 2,770 employees. These increases were offset by reductions in state employment due to a combination of employee attrition and layoffs, as the state responded to lower tax revenues caused by the recession.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are made up of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as pension and other postemployment benefits (OPEB) funding schedules. Other supplementary information is also provided to furnish additional detail to support the basic financial statements.

### **Government-Wide Financial Statements**

The government-wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Position*, which presents the assets, liabilities and net position for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net position of the Commonwealth. The statements report the Commonwealth's net position and changes in net position. An increase or decrease in the Commonwealth's net position is one way to measure financial health as well as the trend of increases or decreases over time. Non-financial measures such as capital investments, changes in taxation, population, employment and economic conditions are also indicators of the overall health of any government.

Both the statement of net position and the statement of activities have separate sections for three different categories of the Commonwealth's operations. These activities are Governmental Activities, Business-type Activities and Discretely Presented Component Units. Governmental activities are where the Commonwealth's basic services are reported. Business-type activities are those for which fees are charged for a particular service. For the Commonwealth, business-type activities are comprised of the Institutions of Higher Education the unemployment insurance compensation system. The component units are separate legal entities that are included in this report due to the nature of their governance and financial relationship with the Commonwealth.

The government-wide financial statements can be found on pages 40-43 of this report.

### **Fund Financial Statements and Component Unit Financial Statements**

*Funds* are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures.

Only the major funds are shown separately in the fund financial statements, with the remaining funds included aggregated and reported as nonmajor funds.

Fund financial statements focus on individual parts of the Commonwealth, reporting its operations in more detail than the government-wide statements. The Commonwealth's funds can be divided into three categories: *Governmental Funds*, *Proprietary Funds* and *Fiduciary Funds*. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. Further discussion of the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the basic financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but the entities are independent of the core Commonwealth operations. Most component units operate similar to private-sector businesses.

Although the Massachusetts School Building Authority (MSBA) is a component unit, the MSBA's operations have been determined by management to operate in a similar fashion to a Commonwealth department due to the MSBA's service to the Commonwealth and because it relies on a pledged portion of the Commonwealth's sales tax revenue to fund its debt service. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax allocated to the MSBA. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the authority's operations are reported within a governmental fund as a "blended component unit" and on the government-wide financial statements.

**Notes to the Financial Statements,  
Required Supplementary Information  
and Other Supplementary  
Information**

The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 63-118.

The required supplementary information section includes a budgetary comparison schedule for the General Fund, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations to actual budgetary spending. A variance column is also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures for the General Fund is also provided. A schedule of pension and OPEB funding progress and the Commonwealth's annual required pension and OPEB contributions are also included in this section.

Other supplementary information is not required, but is included to present combining schedules of various nonmajor funds and component units.

**GOVERNMENT-WIDE ANALYSIS**

***Major Long – Term Obligations for  
Assets of Political Subdivisions  
(amounts in thousands)***

Massachusetts School Building	
Authority net deficit.....	\$ 6,035,635
Outstanding bonds issued to fund the MBTA..	207
Debt related to MassDOT assets.....	<u>9,705,981</u>
Effect on unrestricted net position of items unique to the Commonwealth.....	<u>\$ 15,741,823</u>

The primary government’s combined net position (governmental and business-type activities) showed a net deficit of almost \$21.099 billion at the end of FY13, an increase in the net deficit of \$1.137 billion, not including the \$575 million decrease, due to the beginning balance adjustment in business-type activities, noted on page 21. Governmental activities unrestricted net position is negative by over \$26.734 billion. As explained previously, a substantial portion of this deficit is a result of programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth, and in particular the result of the transfer of assets to MassDOT during FY10, as well as continued borrowing by the Commonwealth that funds, through its capital budget and debt issuance, construction of new assets owned by MassDOT, local governments and local authorities. In FY13, MassDOT reports these capital assets on their financial statements, which are incorporated into the Commonwealth’s financial statements similarly to other component units.

The Commonwealth’s FY13 capital spending included approximately \$1.7 billion in state-funded capital spending that did not result in capital assets attributed to governmental activities of the Commonwealth, comprised of approximately \$1.05 billion in transportation spending (including more than \$220 million in grants and other financial assistance to cities and towns), \$250 million for Institutions of Higher Education (which are attributed to the Commonwealth’s business-type activities) and approximately \$390 million in other capital grants and financial assistance to local governments and quasi-public entities. Between FY05 and FY13 the Commonwealth’s capital spending on projects owned by non-Commonwealth entities or by the Institutions of Higher Education (part of the Commonwealth’s business-type but not governmental activities totaled approximately \$12.9 billion. These include Higher Education capital projects totaling \$875 million, capital spending for transportation projects now owned by the Massachusetts Department of Transportation totaling approximately \$6.7 billion, transportation-related financial assistance to local governments totaling more than \$1.7 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth’s capital budget exceeding \$3.5 billion, including \$1 billion in FY05 and FY06 to capitalize the Massachusetts School Building Authority.

The Commonwealth also funds school construction through debt issued by the MSBA, and includes the MSBA’s debt on its balance sheet, but the assets paid for with that debt are owned by Massachusetts cities, towns and school districts.

Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year of the financial statement date, respectively. As of June 30, 2013, the Commonwealth’s government-wide current cash and short-term investments totaled \$4.291 billion, a decrease of \$1.138 billion from June 30, 2012. Total current assets were \$9.943 billion, a decrease of \$1.267 billion from June 30, 2013. The primary reason for the decline in current assets is that as of June 30, 2013 the Commonwealth had not yet issued debt to reimburse itself for almost \$900 million in capital spending that had occurred in the fourth quarter of FY13. To bridge the gap between seasonal receipts, such as tax revenues, and major

expenses, such as the payment of local aid, in FY13 the Commonwealth issued \$1.2 billion in revenue anticipation notes (RANS). The RANS were retired in April and May 2013. As of June 30, 2013, the Commonwealth's current liabilities were \$8.364 billion.

The primary government's non-current assets totaled \$16.226 billion, an increase of \$869 million from June 30, 2012. This increase was due mainly to an \$889 million increase in capital assets, most of which occurred in business-type of activities, as the result of increases in assets recorded by the Institutions of Higher Education.

The Commonwealth holds \$10.025 billion in traditional capital assets such as land, construction in process, buildings, infrastructure and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investments in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets on the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The table on page 28 shows the Commonwealth's net position. Restricted net position represents resources that are subject to external constraints.

In addition to the Commonwealth funding assets owned by other entities, the primary reasons for the increase in net deficit were:

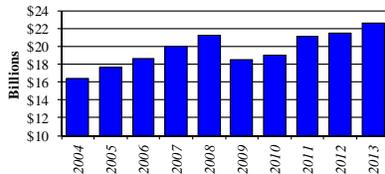
- The final year of the five year phased-in recognition of declines in the asset value of the Commonwealth's pension fund due to stock market losses during the recession of 2008-2009 resulted in an increased accrual of \$396 million due to growth in the underfunding of the Commonwealth's pension obligations. As described in more detail on page 22, the combination of the stock market decline and the fact that the pension funding schedule is updated only triennially but the pension Annual Required Contribution (ARC) is updated annually has resulted in the Commonwealth underfunding its ARC by a total of \$1.815 billion since 2009;
- The Commonwealth funds its other post-employment benefits (OPEB) liability on a pay-as-you-go basis. GAAP requires the accrual of a liability for the difference between this amount and the actuarially required contribution. The change in the accrual was \$701 million in FY13, reducing net position; cumulative underfunding of the Commonwealth's OPEB obligation was \$4.147 billion as of June 30, 2013.

**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
<b>Total assets and deferred outflows.....</b>	<b>17,029,614</b>	<b>17,730,098</b>	<b>9,777,338</b>	<b>9,510,576</b>	<b>26,806,952</b>	<b>27,240,674</b>
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	-
<b>Total liabilities and deferred outflows.....</b>	<b>42,969,490</b>	<b>42,027,886</b>	<b>4,936,215</b>	<b>4,598,364</b>	<b>47,905,705</b>	<b>46,626,250</b>
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)
<b>Total net position.....</b>	<b>\$ (25,939,876)</b>	<b>\$ (24,297,788)</b>	<b>\$ 4,841,123</b>	<b>\$ 4,912,212</b>	<b>(21,098,753)</b>	<b>\$(19,385,576)</b>

**Changes in Net Position**

**Revenue from Taxation  
FY04-FY13**



As noted earlier, the Commonwealth’s total primary government net deficit increased by approximately \$1.137 billion between FY12 and FY13. The table on page 29 shows the major categories of government-wide revenues and expenses for FY12 and FY13, as well as net position for the two fiscal years. In FY13, approximately 43.3% of the Commonwealth’s total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. Total revenues increased by \$624 million or 1.2%, with tax revenue increasing by \$1.196 billion, or 5.6%, from FY12. The increase in tax revenue was attributable primarily to growth of \$946 million, or 7.9%, in personal income tax, as taxpayers accelerated capital gains realizations in response to changes in federal tax law and as withholding on wages grew due to a modest economic recovery. Sales tax revenue grew by \$165 million, or 3.2%, while corporate excise taxes declined by \$85 million, or 4.2%.

Operating grants and contributions (including federal revenue for Medicaid and Unemployment Insurance) decreased by \$808 million, or 5.2%, in FY13, as unemployment insurance benefit reimbursements from the federal government declined by \$711 million as the extended unemployment benefits program expired and federal stimulus funding under the American Recovery and Reinvestment Act (ARRA) fell by \$257 million as the ARRA program continues to wind down. These declines in federal funding were partially offset by an increase of \$141 million, or 2.0%, in federal Medicaid reimbursements due to growth in state Medicaid spending.

Total charges for services increased by approximately \$685 million, or 5.3%, due to an increase of \$212 million in charges for Human Services programs, \$174 million in charges for Medicaid services, \$125 million in charges for Group Health Insurance, \$101 million in Lottery charges and \$136 million in Higher Education charges, offset by declines of \$106 million in General Government charges and \$59 million in

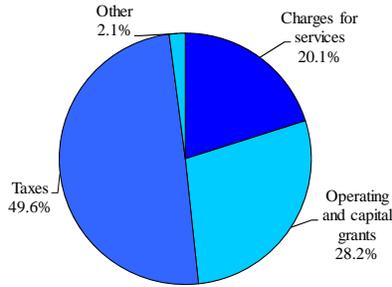
unemployment insurance charges. Government-wide restricted net position increased by \$66 million after adjusting for the \$575 million beginning balance adjustment in business-type activities (which mostly affected restricted net assets of the Higher Education Foundations), due primarily to a \$173 million increase in assets restricted for unemployment benefits, offset by a \$53 million decrease in assets restricted for debt service as well as other smaller changes.

Total primary government spending increased by \$853 million, or 1.6%, from FY12, with governmental activities spending growing by \$1.499 billion, or 3.4%, to \$46.144 billion, and business-type activities spending declining by \$646 million, or 8.3%, to \$7.156 billion. Medicaid expenses increased by \$578 million, or 4.9%, and unemployment insurance compensation declined by \$748 million, or 21.6%, as unemployment declined in the Commonwealth and benefit levels were reduced. Other significant spending changes occurred in health and human services, which grew by \$143 million, or 1.9%, transportation and public works, which grew by \$114 million, or 6.5%, the Lottery, which, grew by \$105 million, or 2.7%, direct local aid, which increased by \$188 million, or 3.8% and general government expenses, which grew by \$196 million, or 8.2%.

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

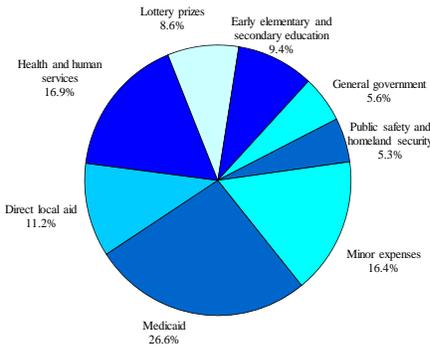
	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total Primary Government</u>		<u>Total Primary Government</u>		
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	'13 to '12
							Distribution	Distribution	% Change
<b>Revenues</b>									
<b>Program Revenues:</b>									
Charges for services.....	\$ 9,158,100	\$ 8,549,722	\$ 4,378,547	\$ 4,301,855	\$ 13,536,647	\$ 12,851,577	26.0%	24.9%	5.3%
Operating grants and contributions.....	12,836,122	12,909,908	1,791,196	2,525,342	14,627,318	15,435,250	28.0%	29.9%	-5.2%
Capital grants and contributions.....	18,726	79,733	-	-	18,726	79,733	0.0%	0.2%	-76.5%
<b>General Revenues:</b>									
Taxes.....	22,599,332	21,403,426	-	-	22,599,332	21,403,426	43.3%	41.5%	5.6%
Other.....	985,713	1,393,094	395,228	376,327	1,380,941	1,769,421	2.7%	3.3%	-22.0%
<b>Total Revenues.....</b>	<b>45,597,993</b>	<b>44,335,883</b>	<b>6,564,971</b>	<b>7,203,524</b>	<b>52,162,964</b>	<b>51,539,407</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.2%</b>
<b>Expenses</b>									
Medicaid.....	12,286,342	11,708,397	-	-	12,286,342	11,708,397	23.1%	22.3%	4.9%
Direct local aid.....	5,179,104	4,991,532	-	-	5,179,104	4,991,532	9.7%	9.5%	3.8%
Health and human services.....	7,787,051	7,643,950	-	-	7,787,051	7,643,950	14.6%	14.6%	1.9%
Lottery.....	3,982,700	3,877,305	-	-	3,982,700	3,877,305	7.5%	7.4%	2.7%
Higher education.....	-	-	4,437,894	4,336,195	4,437,894	4,336,195	8.3%	8.3%	2.3%
Early elementary and secondary education.....	4,335,639	4,259,568	-	-	4,335,639	4,259,568	8.1%	8.1%	1.8%
Unemployment compensation.....	-	-	2,718,447	3,466,500	2,718,447	3,466,500	5.1%	6.6%	-21.6%
Other.....	12,573,184	12,164,099	-	-	12,573,184	12,164,099	23.6%	23.2%	3.4%
<b>Total Expenses.....</b>	<b>46,144,020</b>	<b>44,644,851</b>	<b>7,156,341</b>	<b>7,802,695</b>	<b>53,300,361</b>	<b>52,447,546</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.6%</b>
<b>Excess/(Deficiency)</b>									
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)			

**Revenue—Governmental Activities**  
**Fiscal Year Ending June 30, 2013**



The largest category of tax revenue is income taxes. Of the \$22.599 billion in tax revenue within governmental activities, \$12.898 billion, or 57.1% of total taxes, was from income taxes, \$5.251 billion, or 23.2% of total taxes, was from sales taxes, \$1.943 billion, or 8.6% of total taxes, was from corporate taxes, \$650 million, or 2.9% of total taxes, was from motor fuels taxes and \$1.856 billion, or 8.2% of total taxes, was from other forms of taxation. Lottery revenues of \$5.041 billion made up 55.0% of the Commonwealth’s governmental charges for services. The largest operating grants were federal Medicaid subsidies, which totaled \$7.092 billion, other health and human services grants of \$2.777 billion and education grants of \$1.197 billion. Most of the state’s capital grants are for highway construction, and those federal grants are recorded not in the Commonwealth’s financial statements but in the financial statements of the Massachusetts Department of Transportation

**Major Expenses—Governmental Activities**  
**Fiscal Year Ending June 30, 2013**



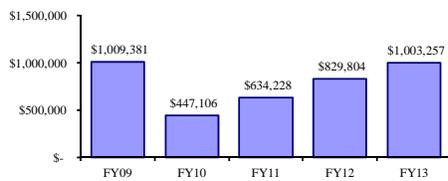
Medicaid expenses of \$12.286 billion accounted for 26.6% of the Commonwealth’s governmental activities expenses. However, half of Medicaid expenses have been historically reimbursed by the federal government. These subsidies are noted herein in the “operating grants and contributions” segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth.

Other large expenditures for governmental activities included non-Medicaid health and human services costs of approximately \$7.787 billion, accounting for 16.9% of governmental expenses, pre-kindergarten through secondary education costs of approximately \$4.336 billion, accounting for 9.4% of governmental expenses and public safety and homeland security costs of approximately \$2.440 billion, accounting for 5.3% of governmental expenses. State employees’ pensions and other post-employment benefits, which are included in the department spending amounts above, were \$1.975 billion.

**Business—Type Activities**

Business-type activities are functions that equate to activities of a private enterprise. In the Commonwealth, the institutions of higher education are deemed to be business-type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business-type activity.

**Unemployment Compensation Fund**  
**Net Position**  
**Fiscal Years 2009 - 2013**  
*(Amounts in Thousands)*



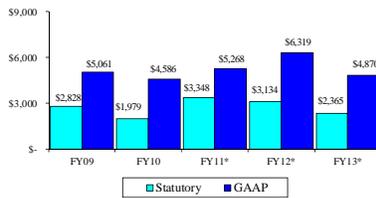
Business-type activities increased the Commonwealth’s net position by approximately \$505 million in FY13. Operating grants and contributions dropped by \$734 million, due almost entirely to reduced unemployment insurance reimbursements from the federal government as unemployment fell in the Commonwealth. Charges for services increased by \$77 million due largely to increased sales and service revenue from the Institutions of Higher Education. As a result, total revenues of business-type activities dropped by \$639 million, but this decline was offset by a decline in unemployment insurance benefit spending, which dropped by \$748 million as the economy recovered. As a result, net position of the Unemployment Compensation Trust Fund increased by \$174 million. Including a decrease in transfers from the Commonwealth of \$60 million, net position of the schools of higher education increased by \$331 million.

**FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS**

The Commonwealth uses fund accounting to demonstrate inter-period equity and the extent to which current resources are financing the full cost of services that citizens are receiving. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

**Governmental Funds**

**Governmental Fund Balance  
Statutory vs. GAAP**  
(Amounts in Millions)



\*Statutory basis excludes MassDOT

Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances.

The General Fund is the primary operating fund of the Commonwealth. At the end of FY13, the fund balance of the General Fund was \$3.233 billion. Of this amount, \$1.557 billion represents the balance in the Commonwealth's Stabilization Fund. \$283 million was also assigned for continuing appropriations from FY13 into FY14.

The Federal Grants Fund is used to manage categorical grants funded in their entirety by the federal government. Between FY09 and FY11, this fund saw a significant increase in activity as a result of ARRA, with annual ARRA revenues in excess of \$2 billion, but by FY13 ARRA revenues had declined to approximately \$229 million and are expected to be below \$100 million in FY14. Also reported in this fund is almost \$1.394 billion in food stamp benefit payments, \$66 million of childhood immunization grant and \$23 million from the USDA's food program, which do not flow through the Commonwealth but are included in this report under governmental accounting rules.

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

	FY13	FY12	FY11	FY10	FY09
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.....	56,738,878	53,318,771	53,216,491	50,328,742	51,789,284
Excess/(deficiency).....	(1,449,007)	1,051,330	681,913	(475,627)	(2,001,321)
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>

Governmental fund tax revenues increased by \$857 million, or 4.0%, primarily due to growth in income, sales and corporate taxes as the Massachusetts economy continued to recover from recession. Federal grants and reimbursements decreased by \$119 million, or 0.9%, due to a decline of approximately \$257 million in ARRA revenue. Assessments, fees and investment earnings combined increased by \$109 million, or 1.1%. Revenues from other financing sources increased by \$72 million, or 0.7%. Overall revenues increased by \$920 million, or approximately 1.7%.

During FY13, governmental fund expenditures and other financing uses increased by \$3.420 billion, or 6.4%, with Medicaid expenditures increasing by \$578 million, or 4.9%, debt service expenditures growing

by \$249 million, or 10.0%, Lottery expenditures were up \$100 million, or 2.0%.

As of the end of FY13, the Commonwealth's governmental funds reported combined ending fund balances of \$4.870 billion, a decrease of \$1.449 billion from the previous year. The decline in fund balance was due primarily to distribution of school building grants by the MSBA that were funded by debt issued in FY12 (which reduced fund balance by \$714 million in FY13) and capital projects fund spending in the last half of FY13 that was not reimbursed by debt issuance until FY14 (which reduced fund balance by \$624 million). Of the \$4.870 billion balance, the following amounts are classified as nonspendable, restricted and unrestricted under GASB 54 definitions.

**Governmental Funds - Fund Balance Classification**  
(Amounts in thousands)

	2013	2012	Change	Percentage Change
<b><u>Nonspendable/Restricted:</u></b>				
Nonspendable.....	\$ 914	\$ 914	\$ -	0.0%
Restricted.....	1,557,928	2,195,287	(637,359)	-29.0%
<b>Total Nonspendable/Restricted.....</b>	<b>1,558,842</b>	<b>2,196,201</b>	<b>(637,359)</b>	<b>-29.0%</b>
<b><u>Unrestricted</u></b>				
Committed.....	2,324,228	2,404,158	(79,929)	-3.3%
Assigned.....	595,085	574,621	20,464	3.6%
Unassigned.....	391,795	1,143,978	(752,183)	-65.8%
<b>Total Unrestricted.....</b>	<b>3,311,108</b>	<b>4,122,757</b>	<b>(811,648)</b>	<b>-19.7%</b>
<b>Total fund balances.....</b>	<b>\$ 4,869,951</b>	<b>\$ 6,318,958</b>	<b>\$ (1,449,007)</b>	<b>-22.9%</b>

Nonspendable amounts represent loans receivable. Restricted fund balances represent amounts restricted for Commonwealth and MSBA debt service or restricted by bond covenants, funds that are restricted in capital projects and special revenue funds, balances in the federal grants funds and most of the balances held in expendable trusts. Unrestricted amounts include fund balances classified as committed, including those generated by revenue sources directed to specific purposes but with a lower level of constraints on their use than restricted balances, as well as fund balances in the Stabilization Fund. Unrestricted amounts also included prior appropriations continued, which are classified as assigned, and residual balances in the General Fund, which are classified as unassigned. A full discussion of the Commonwealth's fund balance classification policy under GASB 54 can be found in Note 1 to the basic financial statements, on pages 69 -72.

**Proprietary Funds**

Proprietary Funds report activities of the Commonwealth that are structured similar to for-profit businesses. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in greater detail.

As discussed above, the business-type activities increased the Commonwealth's net position by approximately \$505 million.

**BUDGETARY HIGHLIGHTS**

The FY13 General Appropriation Act (GAA) authorized approximately \$32.002 billion in spending, exclusive of approximately \$1.552 billion in required pension contributions and \$163 million in FY12 spending

authorized to be continued into FY13 as part of FY12 end-of-year supplemental budgets.

The FY13 budget as enacted by the Legislature was based on a FY13 consensus tax revenue estimate of \$21.950 billion, of which approximately \$18.902 billion represented taxes available for budget after adjusting for \$3.048 billion in tax revenue allocated to state pension contributions (\$1.552 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$787 million) and the Massachusetts School Building Authority (\$689 million, subsequently adjusted to \$703 million) and revenue deposited in the non-budgeted Workforce Training Fund (\$20 million). FY13 revenues available for budget were further adjusted to \$22.011 billion (with \$18.962 billion available for budget) as a result of several tax law changes included in the enacted FY13 budget or enacted soon after that budget was passed.

In December, 2012, the Secretary of Administration and Finance revised the FY13 tax revenue estimate downward by \$515 million to \$21.496 billion. Tax revenues ended the year \$627 million above the final FY13 tax estimate, and \$112 million above the original FY13 tax estimate.

Approximately \$266 million in supplemental appropriations were authorized during FY13 prior to June 30, 2013. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$175 million in new FY13 appropriations, all of which were continued to FY14 and reappropriated. The year's significant supplemental appropriation activity included approximately:

- \$171 million transfer for the MassHealth Provider Payment;
- \$56 million for a snow and ice reserve;
- \$39 million for emergency assistance for family shelters and services;
- \$35 million for the compensation of private counsel;
- \$30 million for the Hinton Lab response reserve;
- \$20 million to prefund the federally reimbursed home heating assistance program (LIHEAP);
- \$14 million for primary and other elections;
- \$13 million for homeless family shelter overflow;
- \$11 million in facility services program expenses;
- \$10 million for summer jobs for youths-at-risk;
- \$8 million in charter school reimbursements to cities;
- \$8 million for Plymouth Sheriff's department expenses;
- \$8 million for indigent persons' fees and court costs;
- \$6 million for Bristol Sheriff's department expenses;
- \$5 million for the Massachusetts short-term housing program;
- \$5 million for a reserve for certain court judgments;

- \$5 million for Boston Marathon reserve.

Budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue and thus have no effect on ending fund balances) increased by \$1.232 billion, or 3.8%, in FY13. Tax revenue grew by \$988 million, or 5.0%, as a result of continuing growth in the economy and an increase in capital gains tax revenues that resulted from acceleration of capital gains realizations by investors in anticipation of tax increases effective January 1, 2013. Federal reimbursements increased by \$257 million, or 3.2%, primarily due to growth in reimbursable Medicaid spending. Interfund transfers from non-budgeted funds decreased by \$208 million, or 11.8%, primarily due to a decrease of approximately \$75 million in fringe benefit cost recovery resulting from lower fringe benefit and payroll tax rates and a decrease of \$79 million in abandoned property transfers to the General Fund.

Budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) increased by \$1.437 billion, or 4.4%, from FY12, due to increases in health care spending, debt service and local aid.

Spending on programs and services grew by \$935 million, or 3.4%. Medicaid expenditures grew by \$369 million, or 3.5%, from \$10.431 billion in FY12 to \$10.800 billion in FY13, due to increased enrollment, rate adjustments and utilization. However, numerous savings initiatives implemented by MassHealth (which administers the state Medicaid program) helped contain costs; including maintaining lower rates for managed care, fee-for-service and primary care providers.

Budgeted fund debt service grew by \$194 million, or 10.1%. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) increased by \$233 million or 15.7%, as approximately \$47 million of capital gains revenue was transferred to the State Retiree Benefit Trust Fund (\$23.4 million) and the State Pension Liability Fund (\$23.4 million) and the medical assistance transfer (which funds payments to hospitals that care for a disproportionate share of lower-income patients) increased by approximately \$170 million. Post-employment benefits (for pension contributions and health insurance) grew by \$75 million, or 3.9%. Spending for direct local aid (both education aid and unrestricted aid), at \$5.116 billion, was up \$186 million, or 3.8%, from FY12.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2013 amounts to approximately \$17.381 billion, with accumulated depreciation of approximately \$7.356 billion, leaving a net book value of \$10.025 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, piers and dams. The investments in capital assets noted above are net of capital assets transferred to MassDOT as part of the Commonwealth's Transportation Reform, which occurred in FY10. The total increase in the Commonwealth's investment in capital assets from 2012 to 2013 was approximately \$889 million, with \$106 million in governmental activities and \$783 million in business-type activities. The major increases in the net value of capital assets was in construction in process for governmental activities and construction in process, buildings and machinery and equipment for the business-type activities.

The table details the capital asset activity for the Commonwealth.

**Capital Assets at Year - End**  
(net of depreciation)  
(amounts in thousands)

	Governmental Activities		Business - Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land.....	\$ 822,076	\$ 801,836	\$ 113,193	\$ 117,192	\$ 935,269	\$ 919,028
Historical treasures.....	-	-	1,348	878	1,348	878
Construction in process.....	649,712	533,963	1,308,113	1,172,513	1,957,825	1,706,476
Buildings.....	2,546,882	2,556,024	3,386,066	3,230,743	5,932,948	5,786,767
Machinery and equipment.....	241,082	279,007	753,279	253,171	994,361	532,178
Infrastructure, excluding central artery.....	106,319	89,039	-	-	106,319	89,039
Library collections.....	-	-	96,799	101,859	96,799	101,859
<b>Total .....</b>	<b>\$ 4,366,071</b>	<b>\$ 4,259,869</b>	<b>\$ 5,658,798</b>	<b>\$ 4,876,356</b>	<b>\$ 10,024,869</b>	<b>\$ 9,136,225</b>

Additional detail on the Commonwealth's FY13 capital asset activity can be found in Note 5 to the basic financial statements ("Capital Assets") on pages 86 – 87.

### Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

To fund the FY13 capital budget, the Commonwealth borrowed by issuing \$1.470 billion in long-term bonds, all of which was general obligation debt. All new bond sales were either for general government purposes or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. In addition, the Commonwealth issued \$231 million in debt to refund already existing debt, taking advantage of continued low interest rates in FY13.

Approximately 19.6% percent of the Commonwealth's \$19.140 billion in general obligation debt outstanding as of June 30, 2013

has been issued as variable rate bonds. Included in this variable rate debt was approximately \$402 million in auction rate securities (about 2.1% of all general obligation debt).

The table below details the Commonwealth’s debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

Additional detail on the Commonwealth’s short-term debt can be found in Note 6 (“Short-Term Financing and Credit Arrangements”) on page 87 and Note 7 (“Long-Term Obligations”) on pages 88 – 102.

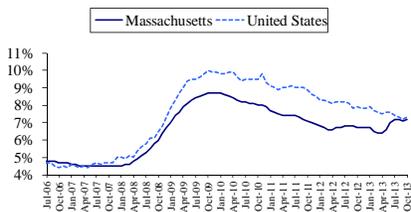
**Outstanding Long - Term Debt Obligations**

(Amounts in thousands)

	Governmental Activities		Business - Type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds.....	\$ 19,140,239	\$ 18,851,538	\$ -	\$ -	\$ 19,140,239	\$ 18,851,538
Special obligation bonds (excluding GANs).....	1,923,700	1,971,630	-	-	1,923,700	1,971,630
Revenue obligation bonds.....	-	-	3,736,432	3,370,389	3,736,432	3,370,389
Grant anticipation notes.....	449,100	610,385	-	-	449,100	610,385
<b>Subtotal.....</b>	<b>21,513,039</b>	<b>21,433,553</b>	<b>3,736,432</b>	<b>3,370,389</b>	<b>25,249,471</b>	<b>24,803,942</b>
Massachusetts School Building Authority.....	5,195,160	5,443,265	-	-	5,195,160	5,443,265
<b>Total.....</b>	<b>\$ 26,708,199</b>	<b>\$ 26,876,818</b>	<b>\$ 3,736,432</b>	<b>\$ 3,370,389</b>	<b>\$ 30,444,631</b>	<b>\$ 30,247,207</b>

**ECONOMIC FACTORS AFFECTING NEXT YEAR’S BUDGET**

*Unemployment Rate  
July 2007 – October 2013*



The Commonwealth, with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth’s economy remains diversified, but its strongest component is its knowledge-based technology and service industries and consequently relies heavily on a highly educated workforce. The Commonwealth is home to sixteen S&P 500 companies, among them eight Fortune 500 headquarters.

In December 2007, the nation entered into a recession caused by the downturn in the housing markets that worsened due to the global capital markets crisis that occurred starting in September 2008. Rates of economic decline were sharp during the recession as the nation’s gross domestic product fell and unemployment hit the highest levels in decades, and, while the national recession ended in June 2009, recovery has been slow compared to previous recessions and as of October 2013 the nation and the state had still not reached employment levels that obtained before the start of the most recent downturn.

Massachusetts’ economy outperformed the nation’s economy as a whole during and immediately following the most recent recession. Home prices fell in Massachusetts by approximately 18% at their lowest point during the recession, compared to a decline of 34% nationally. The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2011, declined to a low of 6.0% in June 2013, and stood at 7.1% as of November 2013. Nationally, the unemployment rose from 5.8% in July 2008 to a high of

10.1% in October 2009 (a rate that had not been seen since 1983), and had declined to 7.0% as of October 2013. However, based on the “establishment survey” of employment, which is considered by most economists to be more accurate than the “household survey” upon which the unemployment rate is based, Massachusetts employment growth continues to exceed the nation’s both since the start and end of the most recent recession.

At the time of its enactment, the Commonwealth’s FY14 statutory-based budget assumed revenues of \$35.383 billion (net of tax revenues dedicated to funding the Massachusetts Bay Transit Authority and Massachusetts School Building Authority, and tax revenues allocated to the non-budgeted Workforce Training Fund), an increase of \$1.808 billion, or 5.4% from FY13, and expenditures of \$35.996 billion, an increase of 2.102 billion, or 6.2% from FY13. Tax revenues available for budget were projected to total \$21.342 billion, representing growth of \$710 million, or 3.4% from FY13.

Based on tax revenue collections through September 2013, the Secretary for Administration and Finance affirmed the tax revenue estimate reflected in the enacted budget. Through November 30, 2013, tax revenue collections were reported by the Department of Revenue to have been \$359 million above the year-to-date benchmark based on the FY14 official tax revenue estimate.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Commonwealth’s finances and accountability for all of the Commonwealth’s citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed via email to [comptroller.info@state.ma.us](mailto:comptroller.info@state.ma.us) or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9<sup>th</sup> Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html>.



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# *Basic Financial Statements*



*Gloucester Harbor and Dory*

*Government-wide Financial Statements*  
*Statement of Net Position*  
*Statement of Activities*

## Statement of Net Position

June 30, 2013

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
Current assets:				
Cash, cash equivalents and short-term investments.....	\$ 3,143,396	\$ 838,318	\$ 3,981,714	\$ 2,418,741
Cash with fiscal agent.....	308,867	-	308,867	-
Assets held in trust.....	-	-	-	194,563
Receivables, net of allowance for uncollectibles:				
Taxes.....	2,698,780	-	2,698,780	-
Federal grants and reimbursements receivable.....	1,680,069	89,385	1,769,454	148,386
Loans.....	7,378	45,547	52,925	335,446
Other receivables.....	410,986	626,142	1,037,128	244,048
Due from cities and towns.....	9,088	-	9,088	-
Due from component units.....	45,967	423	46,390	-
Internal balances.....	10,655	(10,655)	-	-
Due from primary government.....	-	-	-	519,702
Other current assets.....	117	38,351	38,468	69,500
<b>Total current assets.....</b>	<b>8,315,303</b>	<b>1,627,511</b>	<b>9,942,814</b>	<b>3,930,386</b>
Noncurrent assets:				
Cash and cash equivalents - restricted.....	-	676,664	676,664	1,090,032
Long - term investments.....	-	960,209	960,209	1,895,321
Investments, restricted investments and annuity contracts.....	2,495,977	-	2,495,977	168,282
Receivables, net of allowance for uncollectibles:				
Taxes.....	979,005	-	979,005	-
Federal grants and reimbursements receivable.....	56,411	-	56,411	-
Loans.....	108,328	12,481	120,809	4,244,938
Other receivables.....	131,956	39,634	171,590	13,128
Due from component units.....	10,468	-	10,468	-
Due from primary government.....	-	-	-	1,604
Non-depreciable capital assets.....	1,471,788	1,422,654	2,894,442	6,089,513
Depreciable capital assets, net.....	2,894,283	4,236,144	7,130,427	26,146,934
Other noncurrent assets.....	-	47,132	47,132	75,323
Other noncurrent assets - restricted.....	-	682,605	682,605	-
<b>Total noncurrent assets.....</b>	<b>8,148,216</b>	<b>8,077,523</b>	<b>16,225,739</b>	<b>39,725,075</b>
Deferred outflows of resources.....	566,095	72,304	638,399	615,561
<b>Total assets and deferred outflows.....</b>	<b>17,029,614</b>	<b>9,777,338</b>	<b>26,806,952</b>	<b>44,271,022</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and other liabilities.....	2,943,944	359,133	3,303,077	874,250
Accrued payroll.....	182,769	180,200	362,969	879
Compensated absences.....	339,943	138,352	478,295	27,568
Accrued interest payable.....	346,500	22,960	369,460	234,277
Tax refunds and abatements payable.....	812,931	34,608	847,539	-
Due to component units.....	520,931	380	521,311	-
Due to primary government.....	-	-	-	878
Due to federal government.....	23,668	-	23,668	-
Claims and judgments.....	12,831	-	12,831	-
Deferred revenue.....	-	105,578	105,578	296,276
Deposits and unearned revenue.....	-	66,398	66,398	-
School construction grants payable.....	372,018	-	372,018	-
Capital leases.....	8,199	6,422	14,621	42,651
Massachusetts School Building Authority bonds and unamortized premiums.....	151,514	-	151,514	-
Unamortized deferred loss on refunding.....	(6,271)	-	(6,271)	-
Bonds payable and unamortized premiums.....	1,620,810	111,477	1,732,287	804,908
Environmental remediation liability.....	7,266	1,382	8,648	-
<b>Total current liabilities.....</b>	<b>7,337,053</b>	<b>1,026,890</b>	<b>8,363,943</b>	<b>2,281,687</b>

## Statement of Net Position

June 30, 2013

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
Noncurrent liabilities:				
Compensated absences.....	178,366	62,654	241,020	22,671
Accrued interest payable.....	-	-	-	179,000
Due to primary government.....	-	-	-	10,468
Due to federal government - grants.....	-	12,604	12,604	-
Deferred revenue.....	-	-	-	29,473
Prizes payable.....	1,486,299	-	1,486,299	-
Capital leases.....	42,632	12,877	55,509	72,005
Bonds payable and unamortized premiums.....	20,380,883	3,624,955	24,005,838	11,713,999
Unamortized deferred loss on refunding.....	(24,178)	-	(24,178)	-
Massachusetts School Building Authority bonds and unamortized premiums.....	5,546,083	-	5,546,083	-
School construction grants payable.....	1,147,750	-	1,147,750	-
Retirement system net pension obligations.....	1,815,009	-	1,815,009	-
Post - employment benefits obligations.....	4,147,000	-	4,147,000	735,285
Environmental remediation liability.....	223,518	85	223,603	-
Liability for derivative instruments.....	404,724	70,610	475,334	495,666
Other noncurrent liabilities.....	284,351	111,257	395,608	332,958
<b>Total noncurrent liabilities.....</b>	<b>35,632,437</b>	<b>3,895,042</b>	<b>39,527,479</b>	<b>13,591,525</b>
Deferred inflows of resources.....	-	14,283	14,283	428
<b>Total liabilities and deferred inflows.....</b>	<b>42,969,490</b>	<b>4,936,215</b>	<b>47,905,705</b>	<b>15,873,640</b>
<b>NET POSITION</b>				
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)
<b>Total net position.....</b>	<b>\$ (25,939,876)</b>	<b>\$ 4,841,123</b>	<b>\$ (21,098,753)</b>	<b>\$ 28,397,382</b>

The notes to the financial statements are an integral part of this statement.

*(concluded)*

**Statement of Activities**  
Fiscal Year Ended June 30, 2013  
(Amounts in thousands)

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
Governmental Activities:								
General government.....	\$ 2,587,273	\$ 352,291	\$ 765,261	\$ -	\$ (1,469,722)	\$ -	\$ (1,469,722)	\$ -
Judiciary.....	1,002,797	111,384	1,344	-	(890,069)	-	(890,069)	-
Direct local aid.....	5,179,104	-	-	-	(5,179,104)	-	(5,179,104)	-
Medicaid.....	12,286,342	471,539	7,092,436	34	(4,722,333)	-	(4,722,333)	-
Group health insurance.....	1,282,661	619,982	-	-	(662,679)	-	(662,679)	-
Energy and environmental affairs.....	532,330	228,019	210,800	-	(93,511)	-	(93,511)	-
Housing and economic development.....	1,252,292	150,690	62,081	-	(1,039,521)	-	(1,039,521)	-
Health and human services.....	7,787,051	1,143,551	2,776,904	9,924	(3,856,672)	-	(3,856,672)	-
Transportation and public works.....	1,879,271	567,348	2,023	8,768	(1,301,132)	-	(1,301,132)	-
Early elementary and secondary education.....	4,335,639	6,748	1,197,226	-	(3,131,665)	-	(3,131,665)	-
Public safety and homeland security.....	2,440,212	218,643	552,982	-	(1,668,587)	-	(1,668,587)	-
Labor and workforce development.....	389,806	246,577	175,065	-	31,836	-	31,836	-
Lottery.....	3,982,700	5,041,329	-	-	1,058,629	-	1,058,629	-
Interest (unallocated).....	1,206,542	-	-	-	(1,206,542)	-	(1,206,542)	-
<b>Total governmental activities.....</b>	<b>46,144,020</b>	<b>9,158,100</b>	<b>12,836,122</b>	<b>18,726</b>	<b>(24,131,072)</b>	<b>-</b>	<b>(24,131,072)</b>	<b>-</b>
Business-Type Activities:								
Unemployment Compensation.....	2,718,447	1,923,476	968,424	-	-	173,453	173,453	-
Higher Education:								
University of Massachusetts.....	2,759,488	1,640,296	519,232	-	-	(599,960)	(599,960)	-
State Universities.....	864,161	533,347	60,910	-	-	(269,904)	(269,904)	-
Community Colleges.....	814,245	281,428	242,630	-	-	(290,187)	(290,187)	-
<b>Total business-type activities.....</b>	<b>7,156,341</b>	<b>4,378,547</b>	<b>1,791,196</b>	<b>-</b>	<b>-</b>	<b>(986,598)</b>	<b>(986,598)</b>	<b>-</b>
<b>Total primary government.....</b>	<b>\$ 53,300,361</b>	<b>\$ 13,536,647</b>	<b>\$ 14,627,318</b>	<b>\$ 18,726</b>	<b>(24,131,072)</b>	<b>(986,598)</b>	<b>(25,117,670)</b>	<b>-</b>
Component Units:								
Massachusetts Department of Transportation.....	\$ 4,693,855	\$ 1,259,902	\$ 1,667,735	\$ 1,970,429	-	-	-	204,211
Commonwealth Health Insurance Connector.....	918,270	894,265	26,134	-	-	-	-	2,129
Massachusetts Water Pollution Abatement Trust.....	202,622	157,052	33,895	78,670	-	-	-	66,995
Other nonmajor component units.....	441,287	314,624	135,922	52,966	-	-	-	62,225
<b>Total component units.....</b>	<b>\$ 6,256,034</b>	<b>\$ 2,625,843</b>	<b>\$ 1,863,686</b>	<b>\$ 2,102,065</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>335,560</b>

(continued)

	<b>Primary Government</b>			Component Units
	Governmental Activities	Business-Type Activities	Total	
General revenues:				
Taxes:				
Income.....	12,898,020	-	12,898,020	-
Sales taxes.....	5,251,444	-	5,251,444	-
Corporate taxes.....	1,943,169	-	1,943,169	-
Motor and special fuel taxes.....	650,484	-	650,484	-
Other taxes.....	1,856,215	-	1,856,215	-
Miscellaneous:				
Investment earnings.....	38,062	65,796	103,858	60,834
Tobacco settlement.....	228,148	-	228,148	-
Contribution from municipalities.....	49,542	-	49,542	-
Other revenue.....	669,961	329,432	999,393	71,021
Other losses.....	-	-	-	-
Transfers.....	(1,096,061)	1,096,061	-	-
<b>Total general revenues and transfers</b> .....	<b>22,488,984</b>	<b>1,491,289</b>	<b>23,980,273</b>	<b>131,855</b>
<b>Change in net position</b> .....	<b>(1,642,088)</b>	<b>504,691</b>	<b>(1,137,397)</b>	<b>467,415</b>
Net position (deficits) - beginning, as restated.....	(24,297,788)	4,336,432	(19,961,356)	27,929,967
<b>Net position (deficits) - ending</b> .....	<b>\$ (25,939,876)</b>	<b>\$ 4,841,123</b>	<b>\$ (21,098,753)</b>	<b>\$ 28,397,382</b>

The notes to the financial statements are an integral part of this statement.

*(concluded)*



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

	General	Lotteries	Massachusetts School Building Authority	Federal Grants	Other Governmental Funds	Total
<b>ASSETS</b>						
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
<b>Total assets.....</b>	<b>\$ 7,387,633</b>	<b>\$ 56,587</b>	<b>\$ 1,118,135</b>	<b>\$ 355,958</b>	<b>\$ 2,331,228</b>	<b>\$ 11,249,541</b>
<b>LIABILITIES AND FUND BALANCES</b>						
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
<b>Total liabilities.....</b>	<b>4,154,672</b>	<b>54,525</b>	<b>67,874</b>	<b>277,660</b>	<b>1,824,859</b>	<b>6,379,590</b>
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
<b>Fund balances (deficits).....</b>	<b>3,232,961</b>	<b>2,062</b>	<b>1,050,261</b>	<b>78,298</b>	<b>506,369</b>	<b>4,869,951</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 7,387,633</b>	<b>\$ 56,587</b>	<b>\$ 1,118,135</b>	<b>\$ 355,958</b>	<b>\$ 2,331,228</b>	<b>\$ 11,249,541</b>

The notes to the financial statements are an integral part of this statement.

**Reconciliation of Governmental Fund Balances  
to the Statement of Net Position**

June 30, 2013  
(Amounts in thousands)

<b>Total fund balances - governmental funds</b> .....	<b>\$</b>	<b>4,869,951</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Capital assets not being depreciated.....	\$ 1,471,788	
Capital assets being depreciated, net.....	<u>2,894,283</u>	
Capital assets, net of accumulated depreciation.....		4,366,071
Amounts presented in the statement of net position, but not in fund balances due to differences in revenue recognition under different basis of accounting.....		
Massachusetts School Building Authority assets and deferred outflows.....		1,167,372
		164,914
Lottery annuity contracts.....		1,486,299
Due from component units.....		10,468
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Pension over/(under) funding State Retirement Systems		
net pension obligation.....	(1,815,009)	
Net post-employment benefits obligations.....	(4,147,000)	
Commonwealth bonded debt.....	(21,513,039)	
Unamortized bond premiums.....	(488,654)	
Unamortized deferred loss on refunding.....	30,449	
Accrued interest on bonds.....	(346,500)	
Massachusetts School Building Authority bonded debt.....	(5,697,597)	
Massachusetts School Building Authority grants to municipalities.....	(1,457,027)	
Lottery prizes payable.....	(1,486,299)	
Capital leases.....	(50,831)	
Environmental remediation liability.....	(230,784)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....	<u>(802,660)</u>	
Long - term liabilities (including current portions).....		<u>(38,004,951)</u>
<b>Total net position - governmental activities</b> .....	<b>\$</b>	<b><u>(25,939,876)</u></b>

The notes to the financial statements are an integral part of this statement.

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Fiscal Year Ended June 30, 2013**  
**(Amounts in thousands)**

	General	Lotteries	Massachusetts School Building Authority	Federal Grants	Other Governmental Funds	Total
<b>REVENUES</b>						
Taxes.....	\$ 19,555,246	\$ 683	\$ 735,450	\$ -	\$ 2,099,255	\$ 22,390,634
Assessments.....	438,602	-	-	-	654,815	1,093,417
Federal grants and reimbursements.....	8,153,126	-	-	3,886,332	827,532	12,866,990
Departmental.....	2,169,251	5,041,460	-	-	1,204,014	8,414,725
Miscellaneous.....	378,041	1,004	10,454	-	475,690	865,189
<b>Total revenues.....</b>	<b>30,694,266</b>	<b>5,043,147</b>	<b>745,904</b>	<b>3,886,332</b>	<b>5,261,306</b>	<b>45,630,955</b>
<b>EXPENDITURES</b>						
Current:						
Legislature.....	57,254	-	-	-	-	57,254
Judiciary.....	790,047	-	-	1,186	271	791,504
Inspector General.....	5,870	-	-	-	49	5,919
Governor and Lieutenant Governor.....	5,555	-	-	-	88	5,643
Secretary of the Commonwealth.....	43,928	-	-	854	3,852	48,634
Treasurer and Receiver-General.....	201,122	3,993,292	14,267	1,858	1,096,900	5,307,439
Auditor of the Commonwealth.....	17,579	-	-	-	-	17,579
Attorney General.....	53,562	-	-	8,660	13,432	75,654
Ethics Commission.....	1,904	-	-	-	-	1,904
District Attorney.....	105,110	-	-	2,300	7,487	114,897
Office of Campaign and Political Finance.....	1,239	-	-	-	-	1,239
Sheriff's Departments.....	528,609	-	-	3,835	8,460	540,904
Disabled Persons Protection Commission.....	2,281	-	-	-	-	2,281
Board of Library Commissioners.....	21,775	-	-	2,966	119	24,860
Massachusetts Gaming Commission.....	-	-	-	-	14,347	14,347
Comptroller.....	12,038	-	-	-	2,434	14,472
Administration and Finance.....	1,951,136	-	-	6,306	337,166	2,294,608
Energy and Environmental Affairs.....	190,786	-	-	49,784	124,399	364,969
Health and Human Services.....	4,761,824	-	-	1,894,602	727,129	7,383,555
Massachusetts Department of Transportation.....	-	-	-	2,104	1,782,471	1,784,575
Executive Office of Education.....	2,013,662	-	-	975,589	18,316	3,007,567
Center for Health and Information Analysis.....	9,067	-	-	-	-	9,067
Massachusetts School Building Assistance.....	-	-	1,036,795	-	-	1,036,795
Public Safety and Homeland Security.....	1,002,745	-	-	218,857	73,992	1,295,594
Housing and Economic Development.....	443,994	-	-	470,940	73,542	988,476
Labor and Workforce development.....	33,503	-	-	157,448	159,256	350,207
Medicaid.....	10,836,442	-	-	-	1,449,900	12,286,342
Post employment benefits.....	878,011	-	-	-	-	878,011
Direct local aid.....	5,178,737	-	-	-	-	5,178,737
Capital outlay:						
Local aid.....	-	-	-	-	367	367
Capital acquisition and construction.....	-	-	-	-	853,653	853,653
Debt service.....	-	-	402,641	-	2,351,074	2,753,715
<b>Total expenditures.....</b>	<b>29,147,780</b>	<b>3,993,292</b>	<b>1,453,703</b>	<b>3,797,289</b>	<b>9,098,704</b>	<b>47,490,768</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>1,546,486</b>	<b>1,049,855</b>	<b>(707,799)</b>	<b>89,043</b>	<b>(3,837,398)</b>	<b>(1,859,813)</b>
<b>OTHER FINANCING SOURCES</b>						
Bonds premium.....	-	-	356,742	-	41,499	398,241
Issuance of general and special obligation bonds.....	-	-	-	-	1,470,474	1,470,474
Issuance of refunding bonds.....	-	-	1,682,490	-	230,539	1,913,029
Proceeds of capital leases.....	757	-	-	-	-	757
Transfers in for debt service.....	-	-	-	-	2,351,074	2,351,074
Transfers in.....	1,701,453	-	-	-	1,823,887	3,525,340
<b>Total other financing sources.....</b>	<b>1,702,210</b>	<b>-</b>	<b>2,039,232</b>	<b>-</b>	<b>5,917,474</b>	<b>9,658,915</b>
<b>OTHER FINANCING USES</b>						
Payments to refunding bond escrow agent.....	-	-	2,045,838	-	-	2,045,838
Principal on current refundings.....	-	-	-	-	229,796	229,796
Transfers out.....	1,281,249	1,050,215	-	94,458	959,204	3,385,126
Transfers of appropriations.....	980,260	-	-	-	2,652	982,912
Transfers of bond proceeds.....	-	-	-	-	253,363	253,363
Transfers out for debt service.....	1,101,571	-	-	-	1,249,503	2,351,074
<b>Total other financing uses.....</b>	<b>3,363,080</b>	<b>1,050,215</b>	<b>2,045,838</b>	<b>94,458</b>	<b>2,694,518</b>	<b>9,248,110</b>
<b>Total other financing sources and uses.....</b>	<b>(1,660,870)</b>	<b>(1,050,215)</b>	<b>(6,606)</b>	<b>(94,458)</b>	<b>3,222,955</b>	<b>410,806</b>
<b>Net change in fund balances.....</b>	<b>(114,384)</b>	<b>(360)</b>	<b>(714,405)</b>	<b>(5,415)</b>	<b>(614,443)</b>	<b>(1,449,007)</b>
Fund balances (deficits) at beginning of year.....	3,347,345	2,422	1,764,666	83,713	1,120,812	6,318,958
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 3,232,961</b>	<b>\$ 2,062</b>	<b>\$ 1,050,261</b>	<b>\$ 78,298</b>	<b>\$ 506,369</b>	<b>\$ 4,869,951</b>

The notes to the financial statements are an integral part of this statement

**Reconciliation of Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds  
to the Statement of Activities**

For the fiscal year ended June 30, 2013

(Amounts in thousands)

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<b>Net change in fund balances - total governmental funds</b> .....	<b>\$</b>	<b>(1,449,007)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays including increases to construction in process, but excluding reductions and dispositions.....

303,767

Current year depreciation expense.....

(197,565)

Amounts presented in the statement of activities, but not in the change in fund fund balances due to difference in revenue and expense recognition under different bases of accounting.....

277,955

The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items.....

(100,595)

Decrease in capital leases.....

9,626

Massachusetts School Building Authority.....

548,394

Net underfunding of post employment benefit obligations.....

(1,097,115)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds.....

62,453

**Change in net position of governmental activities**.....

**\$** **(1,642,088)**

The notes to the financial statements are an integral part of this statement



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# *Proprietary Fund Financial Statements*



*Shipbuilding at Gloucester*

**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**  
**(Amounts in thousands)**

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 14,849	\$ 117,822	\$ 353,994	\$ 100,636	\$ 587,301
Short-term investments.....	-	170,916	22,445	57,656	251,017
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	82,085	1,333	5,967	89,385
Loans.....	-	43,956	1,339	252	45,547
Other receivables.....	438,022	122,681	21,640	31,338	613,681
Contribution receivables, net.....	-	12,461	-	-	12,461
Due from foundation.....	-	230	31	162	423
Other current assets.....	-	29,743	4,512	4,096	38,351
<b>Total current assets.....</b>	<b>452,871</b>	<b>579,894</b>	<b>405,294</b>	<b>200,107</b>	<b>1,638,166</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	632,130	41,994	2,540	676,664
Long-term investments.....	-	717,729	198,012	44,468	960,209
Accounts receivable, net.....	-	39,388	246	-	39,634
Loans receivable, net.....	-	-	11,957	524	12,481
Non-depreciable capital assets.....	-	977,315	385,607	59,732	1,422,654
Depreciable capital assets, net.....	-	2,728,201	1,132,642	375,301	4,236,144
Other noncurrent assets.....	-	36,017	10,983	132	47,132
Other noncurrent assets - restricted.....	682,605	-	-	-	682,605
<b>Total noncurrent assets.....</b>	<b>682,605</b>	<b>5,130,780</b>	<b>1,781,441</b>	<b>482,697</b>	<b>8,077,523</b>
Deferred outflows of resources.....	-	40,207	30,812	1,285	72,304
<b>Total assets and deferred outflows.....</b>	<b>1,135,476</b>	<b>5,750,881</b>	<b>2,217,547</b>	<b>684,089</b>	<b>9,787,993</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Current liabilities:					
Accounts payable and other liabilities.....	97,611	187,621	48,853	25,048	359,133
Accrued payroll.....	-	106,016	42,328	31,856	180,200
Compensated absences.....	-	73,118	31,835	33,399	138,352
Accrued interest payable.....	-	22,316	302	342	22,960
Tax refunds and abatements payable.....	34,608	-	-	-	34,608
Deferred revenue.....	-	-	103,452	2,126	105,578
Student deposits and unearned revenues.....	-	40,388	7,971	18,039	66,398
Due to Foundation.....	-	380	-	-	380
Due to Commonwealth.....	-	10,655	-	-	10,655
Capital leases.....	-	4,307	817	1,298	6,422
Environmental remediation liability.....	-	-	1,382	-	1,382
Bonds, notes payable and other obligations.....	-	77,846	29,848	3,783	111,477
<b>Total current liabilities.....</b>	<b>132,219</b>	<b>522,647</b>	<b>266,788</b>	<b>115,891</b>	<b>1,037,545</b>
Noncurrent liabilities:					
Compensated absences.....	-	30,410	15,832	16,412	62,654
Due to federal government - grants.....	-	-	12,582	22	12,604
Capital leases.....	-	2,233	6,827	3,817	12,877
Environmental remediation liability.....	-	-	85	-	85
Bonds, notes payable and other obligations.....	-	2,395,056	1,173,230	56,669	3,624,955
Liability for derivative instruments.....	-	69,325	-	1,285	70,610
Other noncurrent liabilities.....	-	94,969	11,063	5,225	111,257
<b>Total noncurrent liabilities.....</b>	<b>-</b>	<b>2,591,993</b>	<b>1,219,619</b>	<b>83,430</b>	<b>3,895,042</b>
Deferred inflows of resources.....	-	-	13,849	434	14,283
<b>Total liabilities and deferred inflows.....</b>	<b>132,219</b>	<b>3,114,640</b>	<b>1,500,256</b>	<b>199,755</b>	<b>4,946,870</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	-	1,682,173	547,895	375,195	2,605,263
Restricted for:					
Unemployment benefits.....	1,003,257	-	-	-	1,003,257
Higher education endowment funds.....	-	18,058	34	20	18,112
Higher education academic support and programs.....	-	-	-	2,850	2,850
Higher education scholarships and fellowships:					
Nonexpendable.....	-	-	3,043	-	3,043
Expendable.....	-	-	4,723	905	5,628
Other nonexpendable purposes.....	-	-	5,381	-	5,381
Capital projects - expendable purposes.....	-	-	2,437	-	2,437
Other purposes.....	-	156,469	10,173	2,280	168,922
Unrestricted.....	-	779,541	143,605	103,084	1,026,230
<b>Total net position.....</b>	<b>\$ 1,003,257</b>	<b>\$ 2,636,241</b>	<b>\$ 717,291</b>	<b>\$ 484,334</b>	<b>\$ 4,841,123</b>

The notes to the financial statements are an integral part of this statement.

# Statement of Revenues, Expenses and Changes in Net Position

## Proprietary Funds

Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>Operating revenues:</b>					
Unemployment compensation contribution.....	\$ 1,883,674	\$ -	\$ -	\$ -	\$ 1,883,674
Net tuition and fees.....	-	707,495	341,210	220,872	1,269,577
Federal grants and reimbursements.....	-	512,458	60,910	242,630	815,998
Auxiliary enterprises.....	-	319,544	97,813	15,307	432,664
Sales & services.....	-	512,418	82,945	27,585	622,948
Miscellaneous.....	39,802	100,839	11,379	17,664	169,684
<b>Total operating revenues.....</b>	<b>1,923,476</b>	<b>2,152,754</b>	<b>594,257</b>	<b>524,058</b>	<b>5,194,545</b>
<b>Operating expenses:</b>					
Unemployment compensation.....	2,718,447	-	-	-	2,718,447
Instruction.....	-	661,467	269,578	303,774	1,234,819
Research.....	-	405,326	5	8	405,339
Academic support.....	-	147,031	75,453	89,905	312,389
Student services.....	-	109,737	86,097	110,308	306,142
Scholarships and fellowships.....	-	49,731	21,189	78,881	149,801
Public service.....	-	74,620	5,328	9,676	89,624
Operation and maintenance of plant.....	-	204,449	82,410	74,468	361,327
Institutional support.....	-	202,331	101,289	98,150	401,770
Other operating expenses.....	-	378,128	3,181	3,758	385,067
Depreciation.....	-	182,252	64,050	27,824	274,126
Auxiliary operations.....	-	248,765	114,157	15,289	378,211
<b>Total operating expenses.....</b>	<b>2,718,447</b>	<b>2,663,837</b>	<b>822,737</b>	<b>812,041</b>	<b>7,017,062</b>
<b>Operating income/(loss).....</b>	<b>(794,971)</b>	<b>(511,083)</b>	<b>(228,480)</b>	<b>(287,983)</b>	<b>(1,822,517)</b>
<b>Nonoperating revenues/(expenses):</b>					
Other federal revenues.....	957,023	6,774	-	-	963,797
Other revenues.....	-	212,074	96,683	20,675	329,432
Other expenses.....	-	(95,651)	(41,424)	(2,204)	(139,279)
Investment income/(loss).....	11,401	56,037	5,212	4,547	77,197
<b>Total nonoperating revenues/(expenses).....</b>	<b>968,424</b>	<b>179,234</b>	<b>60,471</b>	<b>23,018</b>	<b>1,231,147</b>
<b>Income/(loss) before transfers.....</b>	<b>173,453</b>	<b>(331,849)</b>	<b>(168,009)</b>	<b>(264,965)</b>	<b>(591,370)</b>
Transfers, net.....	-	578,714	245,058	272,289	1,096,061
<b>Change in net position.....</b>	<b>173,453</b>	<b>246,865</b>	<b>77,049</b>	<b>7,324</b>	<b>504,691</b>
Total net position - beginning, as restated.....	829,804	2,389,376	640,242	477,010	4,336,432
<b>Total net position - ending .....</b>	<b>\$ 1,003,257</b>	<b>\$ 2,636,241</b>	<b>\$ 717,291</b>	<b>\$ 484,334</b>	<b>\$ 4,841,123</b>

The notes to the financial statements are an integral part of this statement.

## Statement of Cash Flows

Proprietary Funds

June 30, 2013

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Collection of unemployment contributions.....	\$ 1,694,956	\$ -	\$ -	\$ -	\$ 1,694,956
Tuition, residence, dining and other student fees.....	-	780,541	349,109	236,419	1,366,069
Research grants and contracts.....	-	695,492	138,632	266,660	1,100,784
Payments to suppliers.....	-	(1,038,532)	(228,283)	(206,937)	(1,473,752)
Payments to employees.....	-	(1,575,960)	(421,219)	(459,400)	(2,456,579)
Payments to students.....	-	(56,954)	(18,570)	(71,213)	(146,737)
Payments for unemployment benefits.....	(2,703,903)	-	-	-	(2,703,903)
Collection of loans to students and employees.....	-	5,755	1,604	26	7,385
Income from contract services.....	-	-	5,286	2,702	7,988
Maintenance costs.....	-	-	(1,361)	-	(1,361)
Auxiliary enterprise charges.....	-	305,907	56,229	(4,929)	357,207
Other receipts.....	39,802	554,665	2,592	31,522	628,581
<b>Net cash used by operating activities.....</b>	<b>(969,145)</b>	<b>(329,086)</b>	<b>(115,981)</b>	<b>(205,150)</b>	<b>(1,619,362)</b>
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
State appropriations.....	-	542,738	207,595	215,478	965,811
Grants and contracts.....	957,023	70,586	1,211	1,580	1,030,400
Student organizations agency transactions.....	-	(518)	-	(452)	(970)
Other receipts (payments).....	-	29,821	3,713	(123)	33,411
<b>Net cash provided by non-capital financing activities.....</b>	<b>957,023</b>	<b>642,627</b>	<b>212,519</b>	<b>216,483</b>	<b>2,028,652</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital appropriations.....	-	112,582	6,112	4,702	123,396
Purchases of capital assets.....	-	(810,935)	(178,976)	(18,821)	(1,008,732)
Proceeds from sales of capital assets.....	-	-	-	(1,453)	(1,453)
Proceeds from revenue obligation debt issuance.....	-	303,752	227,317	15,486	546,555
Other capital asset activity.....	-	38,173	(47,470)	130	(9,167)
Investments held by bond trustee, net.....	-	-	658	15	673
Contract revenue.....	-	-	410	-	410
Principal paid on capital debt and leases.....	-	(76,347)	(38,179)	(6,607)	(121,133)
Interest paid on capital debt and leases.....	-	(95,550)	(53,691)	(2,395)	(151,636)
<b>Net cash provided by (used in) capital financing activities.....</b>	<b>-</b>	<b>(528,325)</b>	<b>(83,819)</b>	<b>(8,943)</b>	<b>(621,087)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments.....	-	1,067,589	252,025	83,401	1,403,015
Purchases of investments.....	-	(1,022,629)	(231,159)	(89,669)	(1,343,457)
Investment earnings.....	11,401	9,172	6,008	1,148	27,729
<b>Net cash provided by (used by) investing activities.....</b>	<b>11,401</b>	<b>54,132</b>	<b>26,874</b>	<b>(5,120)</b>	<b>87,287</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>(721)</b>	<b>(160,652)</b>	<b>39,593</b>	<b>(2,730)</b>	<b>(124,510)</b>
Cash and cash equivalents at the beginning of the fiscal year, as restated.....	15,570	910,604	356,395	105,906	1,388,475
<b>Cash and cash equivalents at the end of the fiscal year.....</b>	<b>\$ 14,849</b>	<b>\$ 749,952</b>	<b>\$ 395,988</b>	<b>\$ 103,176</b>	<b>\$ 1,263,965</b>
<b>Reconciliation of net operating revenues and expenses to cash used by operating activities:</b>					
<b>Operating loss.....</b>	<b>\$ (794,971)</b>	<b>\$ (511,083)</b>	<b>\$ (228,480)</b>	<b>\$ (287,983)</b>	<b>\$ (1,822,517)</b>
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>					
Depreciation expense.....	-	182,252	64,050	27,824	274,126
Fringe benefits paid by the Commonwealth.....	-	-	50,161	56,920	107,081
<b>Changes in assets and liabilities:</b>					
Accounts receivable, prepaids and other assets.....	2,574	(21,681)	(4,610)	(6,782)	(30,499)
Accounts payable, accrued liabilities and benefits.....	14,544	6,593	5,001	244	26,382
Student deposits and other unearned and deferred revenues.....	-	(3,124)	(3,384)	2,237	(4,271)
Other noncurrent assets - restricted and liabilities.....	(191,292)	17,957	1,281	2,390	(169,664)
<b>Net cash used by operating activities.....</b>	<b>\$ (969,145)</b>	<b>\$ (329,086)</b>	<b>\$ (115,981)</b>	<b>\$ (205,150)</b>	<b>\$ (1,619,362)</b>

**Non-cash investing, capital and financing activities:**

The University System had approximately \$61 million of non-cash activities, and the State and Community Colleges had approximately \$182 million of non-cash activities, including new capital leases.

The notes to the financial statements are an integral part of this statement.

# *Fiduciary Fund Financial Statements*



*The Lobster Pot*

## Statement of Net Position

Fiduciary Funds

June 30, 2013

(Amounts in thousands)

	Post-Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds
<b>ASSETS</b>				
Cash and short-term investments.....	\$ -	\$ -	\$ 819	\$ 427,744
Assets held in trust for post-employment benefits:				
Cash and short-term investments.....	280,464	24,448	-	-
Investments at fair value:				
Short-term.....	767,775	161,918	-	-
Fixed income.....	10,299,862	2,172,164	-	-
Equity.....	18,688,469	3,941,259	-	-
Real estate.....	4,858,752	1,024,675	-	-
Timber.....	1,130,000	238,309	-	-
Private equity.....	5,252,816	1,107,780	-	-
Hedge funds.....	4,109,090	866,576	-	-
Total investments at fair value.....	45,106,764	9,512,681	-	-
Assets held in trust for pool participants:				
Cash and short-term investments.....	-	2,713,321	-	-
Investments, restricted investments and annuity contracts.....	-	-	-	1,486,299
Assets held in trust.....	-	-	-	729,384
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	-	-	2,417
Other receivables.....	624,948	106,906	-	139,403
Other assets.....	467,312	95,673	-	-
<b>Total assets.....</b>	<b>46,479,488</b>	<b>12,453,029</b>	<b>819</b>	<b>2,785,247</b>
<b>LIABILITIES</b>				
Loans and other liabilities.....	2,239,669	417,265	-	-
Due to cities and towns.....	-	-	-	23,450
Lottery prizes payable.....	-	-	-	1,486,299
Agency liabilities.....	-	-	-	1,191,115
Accounts payable and other accrued liabilities.....	-	53,275	-	84,383
<b>Total liabilities.....</b>	<b>2,239,669</b>	<b>470,540</b>	<b>-</b>	<b>\$ 2,785,247</b>
<b>NET POSITION</b>				
Restricted for employees' post-employment benefits.....	44,239,819	-	-	
Restricted for external investment trust fund participants.....	-	11,982,489	-	
Restricted for private purposes.....	-	-	819	
<b>Total net position.....</b>	<b>\$ 44,239,819</b>	<b>\$ 11,982,489</b>	<b>\$ 819</b>	

The notes to the financial statements are an integral part of this statement.

## Statement of Changes in Net Position

### Fiduciary Funds

Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
<b>ADDITIONS</b>			
Contribution:			
Employer contributions.....	\$ 1,999,672	\$ -	\$ -
Employee contributions.....	1,172,237	580,179	-
Proceeds from sale of units.....	-	16,673,202	-
Other additions.....	294,233	-	-
<b>Total contributions.....</b>	<b>3,466,142</b>	<b>17,253,381</b>	<b>-</b>
Net investment gain/(loss):			
Investment gain/(loss).....	5,209,426	1,103,110	-
Less: investment expense.....	(234,267)	(54,279)	-
<b>Net investment gain/(loss).....</b>	<b>4,975,159</b>	<b>1,048,831</b>	<b>-</b>
<b>Total additions.....</b>	<b>8,441,301</b>	<b>18,302,212</b>	<b>-</b>
<b>DEDUCTIONS</b>			
Administration.....	57,434	-	-
Retirement benefits and refunds.....	4,731,584	683,279	-
Payments to State Boston Retirement System.....	94,846	-	-
Cost of units redeemed.....	-	17,048,361	-
<b>Total deductions.....</b>	<b>4,883,864</b>	<b>17,731,640</b>	<b>-</b>
<b>Net increase/(decrease).....</b>	<b>3,557,437</b>	<b>570,572</b>	<b>-</b>
Net position - beginning.....	40,682,382	11,411,917	819
<b>Net position - ending.....</b>	<b>\$ 44,239,819</b>	<b>\$ 11,982,489</b>	<b>\$ 819</b>

The notes to the financial statements are an integral part of this statement



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# *Discretely Presented Component Unit Financial Statements*



*Boys Fishing, Gloucester Harbor*

## Statement of Net Position

Component Units

June 30, 2013

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 316,779	\$ 29,217	\$ 454,452	\$ 186,262	\$ 986,710
Short-term investments.....	-	-	43,248	206,055	249,303
Restricted cash and investments.....	1,094,365	7,458	-	80,905	1,182,728
Assets held in trust.....	-	-	23,747	170,816	194,563
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	69,806	15,604	61,408	1,568	148,386
Loans.....	-	-	274,421	61,025	335,446
Other receivables.....	136,343	1,414	61,287	45,004	244,048
Due from primary government.....	449,502	-	-	70,200	519,702
Inventory.....	-	-	-	204	204
Other current assets.....	60,219	107	-	8,970	69,296
<b>Total current assets.....</b>	<b>2,127,014</b>	<b>53,800</b>	<b>918,563</b>	<b>831,009</b>	<b>3,930,386</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	1,020,565	-	-	69,467	1,090,032
Long-term investments.....	-	-	1,321,216	574,105	1,895,321
Restricted investments and annuity contracts.....	-	-	-	168,282	168,282
Accounts receivables, net.....	5,881	-	-	7,247	13,128
Loans receivables, net.....	-	-	3,711,065	533,873	4,244,938
Due from primary government.....	1,604	-	-	-	1,604
Non-depreciable capital assets.....	5,877,659	-	-	211,854	6,089,513
Depreciable capital assets, net.....	25,115,733	1,579	-	1,029,622	26,146,934
Other noncurrent assets.....	64,196	-	1,469	9,658	75,323
<b>Total noncurrent assets.....</b>	<b>32,085,638</b>	<b>1,579</b>	<b>5,033,750</b>	<b>2,604,108</b>	<b>39,725,075</b>
Deferred outflows from derivative instruments.....	527,546	-	72,071	15,944	615,561
<b>Total assets and deferred outflows.....</b>	<b>34,740,198</b>	<b>55,379</b>	<b>6,024,384</b>	<b>3,451,061</b>	<b>44,271,022</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Current liabilities:					
Accounts payable and other liabilities.....	727,181	23,812	23,660	99,597	874,250
Accrued payroll.....	-	454	-	425	879
Compensated absences.....	24,939	288	-	2,341	27,568
Accrued interest payable.....	162,075	-	68,024	4,178	234,277
Due to primary government.....	-	-	-	878	878
Deferred revenue.....	52,708	-	28,385	215,183	296,276
Capital leases.....	42,651	-	-	-	42,651
Bonds, notes payable and other obligations.....	556,235	-	215,753	32,920	804,908
<b>Total current liabilities.....</b>	<b>1,565,789</b>	<b>24,554</b>	<b>335,822</b>	<b>355,522</b>	<b>2,281,687</b>
Noncurrent liabilities:					
Compensated absences.....	21,301	-	-	1,370	22,671
Accrued interest payable.....	179,000	-	-	-	179,000
Due to primary government.....	-	-	-	10,468	10,468
Deferred revenue.....	1,418	-	-	28,055	29,473
Capital leases.....	72,005	-	-	-	72,005
Bonds, notes payable and other obligations.....	7,551,388	-	3,555,255	607,356	11,713,999
Post-employment benefits obligations.....	728,017	2,529	-	4,739	735,285
Liability for derivative instruments.....	476,287	-	3,435	15,944	495,666
Other noncurrent liabilities.....	244,693	-	58,979	29,286	332,958
<b>Total noncurrent liabilities.....</b>	<b>9,274,109</b>	<b>2,529</b>	<b>3,617,669</b>	<b>697,218</b>	<b>13,591,525</b>
Deferred inflows of resources.....	258	170	-	-	428
<b>Total liabilities and deferred inflows.....</b>	<b>10,840,156</b>	<b>27,253</b>	<b>3,953,491</b>	<b>1,052,740</b>	<b>15,873,640</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	24,107,138	1,579	-	1,062,465	25,171,182
Restricted for:					
Clean energy trusts.....	-	-	-	189,992	189,992
Economic development financing.....	-	-	-	152,131	152,131
Other purposes.....	788,877	-	1,658,888	663,667	3,111,432
Unrestricted.....	(995,973)	26,547	412,005	330,066	(227,355)
<b>Total net position.....</b>	<b>\$ 23,900,042</b>	<b>\$ 28,126</b>	<b>\$ 2,070,893</b>	<b>\$ 2,398,321</b>	<b>\$ 28,397,382</b>

The notes to the financial statements are an integral part of this statement.

# Statement of Revenues, Expenses and Changes in Net Position

## Component Units

Fiscal Year Ending June 30, 2013

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
<b>Operating revenues:</b>					
Charges for services.....	\$ 1,194,227	\$ 893,937	\$ 6,986	\$ 179,960	\$ 2,275,110
Other.....	65,675	328	150,066	134,664	350,733
<b>Total operating revenues.....</b>	<b>1,259,902</b>	<b>894,265</b>	<b>157,052</b>	<b>314,624</b>	<b>2,625,843</b>
<b>Operating expenses:</b>					
Cost of services.....	2,871,911	907,849	197,576	242,445	4,219,781
Administration costs.....	830,553	10,384	5,046	139,493	985,476
Depreciation.....	991,391	37	-	59,349	1,050,777
<b>Total operating expenses.....</b>	<b>4,693,855</b>	<b>918,270</b>	<b>202,622</b>	<b>441,287</b>	<b>6,256,034</b>
<b>Operating income (loss).....</b>	<b>(3,433,953)</b>	<b>(24,005)</b>	<b>(45,570)</b>	<b>(126,663)</b>	<b>(3,630,191)</b>
<b>Nonoperating revenues (expenses):</b>					
Operating grants.....	1,667,735	26,134	33,895	135,922	1,863,686
Interest income.....	17,490	79	-	43,265	60,834
Other nonoperating revenues (expenses).....	52,551	-	-	18,470	71,021
<b>Nonoperating revenues (expenses), net.....</b>	<b>1,737,776</b>	<b>26,213</b>	<b>33,895</b>	<b>197,657</b>	<b>1,995,541</b>
<b>Income (loss) before contributions.....</b>	<b>(1,696,177)</b>	<b>2,208</b>	<b>(11,675)</b>	<b>70,994</b>	<b>(1,634,650)</b>
Capital contributions.....	1,970,429	-	78,670	52,966	2,102,065
<b>Change in net position.....</b>	<b>274,252</b>	<b>2,208</b>	<b>66,995</b>	<b>123,960</b>	<b>467,415</b>
Net position - beginning, as restated.....	23,625,790	25,918	2,003,898	2,274,361	27,929,967
<b>Net position - ending.....</b>	<b>\$ 23,900,042</b>	<b>\$ 28,126</b>	<b>\$ 2,070,893</b>	<b>\$ 2,398,321</b>	<b>\$ 28,397,382</b>



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## Contents

### Notes to the Basic Financial Statements

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### A. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) 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 recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch, made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 57 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but 7 of those county governments have been abolished in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable, as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth (the primary government) and its component units. The Commonwealth has included 40 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Additional information related to the component units are found in note 13 to the basic financial statements.

*Blended Component Units* – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net position and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

**The Massachusetts School Building Authority (MSBA)** is charged with administering the Commonwealth's school construction and renovation program. The MSBA's sole revenues are from dedicated sales taxes from the Commonwealth. The MSBA's bonded debt is secured by these sales tax revenues. Any deficiency in the sales tax revenue was born by the Commonwealth up to a minimum floor that was adjusted annually by Commonwealth statute through FY09. Expenditures by the MSBA are made on behalf of the Commonwealth as a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

**The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net position totaling approximately \$9.271 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.

**The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net position is approximately \$2.712 billion at June 30, 2013, and is reported as an external investment trust within the fiduciary fund type.

*Departments Audited Separately from the Commonwealth but not legally separate from the Commonwealth* - the following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:

**The Massachusetts State Lottery Commission**, a division of the Office of the State Treasurer and Receiver-General, operates the Commonwealth's lottery. The net position of the Commission and results thereon are presented as a major governmental fund.

The Institutions of Higher Education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net position that are presented as part of the Commonwealth's business-type activities. These systems include:

**The University of Massachusetts System** including the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc.

**The State University and Community College Systems** including the 9 state universities and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority.

*Other Discretely Presented Component Units that are Separately Audited* – Discrete component units are entities which are legally separate (often called Authorities) but financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

*Major component units:*

**The Massachusetts Department of Transportation (MassDOT)** incorporates the former Massachusetts Turnpike Authority and has jurisdiction over the Massachusetts Bay Transportation Authority (MBTA) and the Regional Transit Authorities.

**The Massachusetts Water Pollution Abatement Trust (MWPAT)** provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

**Commonwealth Insurance Connector Authority** administers the Commonwealth health insurance programs to facilitate subsidized health insurance for individuals without access to employer-sponsored health insurance as well as offer an affordable commercial health insurance product named Commonwealth Care to small businesses that are eligible for the program.

*The Massachusetts Department of Transportation*

The Commonwealth made a significant structural change to the government operations in FY10. Understanding the financial impact of this change is integral to understanding the Commonwealth financial statements. In June of 2009, the Commonwealth enacted legislation effective on November 1, 2009, implementing sweeping transportation reform and creating a new entity, the Massachusetts Department of Transportation (MassDOT).

MassDOT has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law as well as the State Single Audit. In this unique relationship all road and bridge assets of the Commonwealth and the Turnpike Authority have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction repair, improvement and replacement of these assets. The Commonwealth also retains the liabilities for pension and other post-employment benefits (OPEB) costs for the former Commonwealth employees transferred to this entity and has assumed these liabilities for the 1,200 employees and 700 retirees of the former Turnpike Authority. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB costs as well as to reimburse the Commonwealth for their employee health care costs, which are paid from the Commonwealth's General Fund. MassDOT's capital authorizations are authorized by the legislature and controlled by the Executive Office for Administration and Finance like other state departments. Toll revenues are retained and expended by MassDOT. All non-toll revenues (primarily Registry fees and federal reimbursements) are deposited with the Commonwealth and used to finance MassDOT operating appropriations and infrastructure improvements. The result of this unique structure is that the Commonwealth retains significant liabilities for resources dedicated to the construction of assets controlled and managed by MassDOT.

### *Related Organizations*

The following are “related organizations” under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* and Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*: Massachusetts Port Authority, Massachusetts Housing Finance Agency and MassVentures. The Commonwealth is responsible for appointing a voting majority of the members of each entity’s board, but the Commonwealth’s accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

### *Availability of Financial Statements*

The separately audited financial statements of the Commonwealth’s component units and funds may be obtained from the various entities, or contact the Office of the Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

## **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

## **C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

### *Government-Wide Financial Statements*

The **Statement of Net Position** presents all of the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- **Net investment in capital assets** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- **Restricted net position** result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net position** consists of net position which does not meet the definition of the two preceding categories.

Resources from restricted net position are used prior to those from unrestricted net position.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type operations.

### *Fund Financial Statements*

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

**Governmental Activities – Government-wide financial statements** are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

**Governmental Funds – Fund financial statements** account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year the materials are received, the grants are expended or services are provided. The measurement period for accrual for taxes earned is generally one year for income, corporate and other taxes and within thirty days for sales and use taxes. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred prior to year end. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th.

**Business-Type Activities – Government-wide financial statements** account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges.

There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for-profit business. The Commonwealth's Institutions of Higher Education's operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

**Proprietary and Fiduciary Funds – Fund financial statements** are presented on the same basis of accounting as the business-type activities in the government-wide financial statements. Post-employment benefits and refunds are recognized when due and payable.

The Commonwealth reports the following fund types:

**Governmental Fund Types:**

**General Fund**, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

**Special Revenue Funds** account for specific revenue sources that have been aggregated according to Commonwealth general laws to support specific governmental activities.

**Debt Service Fund** accounts for the accumulation of resources for and the payment of debt.

**Capital Projects Funds** account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

Within the governmental fund types, the Commonwealth has established the following major funds, in addition to the General Fund:

**Lottery Funds** are governmental funds and account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid to cities and towns.

**The Massachusetts School Building Authority** is presented as a governmental fund. This is comprised of the activity of the blended component unit, the Massachusetts School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

**Federal Grants Fund** accounts for grants and federal reimbursement programs.

#### **Proprietary Fund Types:**

**Business-Type Activities** account for programs financed in whole or in part by fees charged to external parties for goods and services. Major Proprietary Funds are the Unemployment Compensation Fund, the University of Massachusetts, State Universities and Community Colleges.

The proprietary funds include the following:

**Unemployment Compensation Fund** reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

**College and University Information**, is presented here, aggregated by the University's activity, the State Universities' activity and the Community Colleges' activity.

#### **Fiduciary Fund Types:**

**Post-Employment Benefit Trust Funds** report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post-employment benefit plans. These funds recognize employer and participant contributions in the period when contributions are due, and the Commonwealth has made a formal commitment to provide the contributions via an appropriation. Further information on the significant accounting policies for post-employment benefit trust funds may be found in note 9 to the basic financial statements on pages 102 - 109.

**External Investment Trust Funds** account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

**Private Purpose Funds** account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purposes specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals.

**Agency Funds** account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

#### **Fund Balances:**

Governmental fund balances are considered nonspendable, restricted, committed, assigned, and unassigned, based on the relative strength of spending constraints.

**Nonspendable** fund balances are those that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact, such as balances in the form of inventories, permanent funds, and notes receivable. For the Commonwealth, the only nonspendable balances are notes receivable in the non-major governmental funds.

**Restricted** fund balances are those where constraints on their use are: a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or b) imposed by constitutional provisions or enabling legislation such that there is a legally enforceable requirement that those resources be used only for the specific purposes stipulated. Legal enforceability means that a government can be compelled by an external party—such as

citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the stipulated purposes.

**Committed** balances are those that can be used only for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, which in the case of the Commonwealth is the Legislature and Governor. Committed amounts cannot be used for other than the specified purposes unless the Governor and Legislature remove or change the specified use through legislation. The authorization specifying the purposes for which amounts can be used must have the consent of both the legislative and executive branches of the government prior to the end of the reporting period.

**Assigned** balances are amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by: (a) the governing body itself; or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Massachusetts Legislature has the authority to assign or modify previously assigned fund balance. In distinction to restricted and committed balances, the authority for making an assignment is not required to be the government’s highest level of decision-making authority, i.e., the Legislature and Governor, and the action to assign fund balance can occur after the end of the year. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances—constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Per GASB 54, assigned balances include those funds remaining at the end of the fiscal year that are reappropriated for the following fiscal year.

**Unassigned** fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes in the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance amount. In addition, in accordance with GASB No. 54, negative balances in other governmental funds are classified as unassigned.

While the Commonwealth has not announced a formal policy governing the priority of spending fund balances, in conformance with GASB 54 requirements, when an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, restricted resources are spent first, followed by committed resources, assigned resources and unassigned resources.

Detail of FY13 ending fund balances is shown in the table on page 71.

**Governmental Fund Balances at June 30, 2013**  
(amounts in thousands)

	Nonspendable Purposes	Restricted Purposes	Committed Purposes	Assigned Purposes	Unassigned Purposes	Totals
<b>General Fund</b>						
General Government.....	\$ -	\$ -	\$ -	\$ -	\$ 1,393,291	\$ 1,393,291
Stabilization Fund.....	-	-	1,556,657	-	-	1,556,657
FY 13 Appropriations.....	-	-	-	283,013	-	283,013
<b>Subtotals, General Fund.....</b>	<b>-</b>	<b>-</b>	<b>1,556,657</b>	<b>283,013</b>	<b>1,393,291</b>	<b>3,232,961</b>
<b>Lottery Funds</b>						
Lottery Operations.....	-	-	-	2,062	-	2,062
<b>Subtotals, Lottery Funds.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,062</b>	<b>-</b>	<b>2,062</b>
<b>Massachusetts School Building Authority (MSBA)</b>						
Debt Service.....	-	723,750	-	-	-	723,750
Grants to Cities, Towns and Local School Districts.....	-	16,501	-	310,010	-	326,511
<b>Subtotals, MSBA.....</b>	<b>-</b>	<b>740,251</b>	<b>-</b>	<b>310,010</b>	<b>-</b>	<b>1,050,261</b>
<b>Federal Grants Fund</b>						
Restricted by Federal Grantors.....	-	78,298	-	-	-	78,298
<b>Subtotals, Federal Grants Fund.....</b>	<b>-</b>	<b>78,298</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>78,298</b>
<b>Other Governmental Funds</b>						
Environmental.....	-	2,451	69,930	-	-	72,381
Public Safety.....	-	-	105,307	-	-	105,307
Health Care.....	-	-	232,410	-	-	232,410
Child Support.....	-	51,584	-	-	-	51,584
Workforce Training.....	-	-	23,402	-	-	23,402
Convention Centers.....	-	90,502	10,804	-	-	101,306
General Government Capital Projects Fund.....	-	-	-	-	(425,772)	(425,772)
Highway Capital Projects Fund.....	-	-	-	-	(509,286)	(509,286)
General Government Debt Service.....	-	20,241	-	-	-	20,241
Transportation (GANS*/Commonwealth Transportation Fund)....	-	220,803	9,424	-	-	230,227
Gaming.....	-	-	10,869	-	-	10,869
Expendable Trusts.....	914	353,799	176,899	-	-	531,612
Other.....	-	-	128,526	-	(66,438)	62,088
<b>Subtotals, Other Governmental Funds.....</b>	<b>914</b>	<b>739,379</b>	<b>767,571</b>	<b>-</b>	<b>(1,001,496)</b>	<b>506,369</b>
<b>Totals.....</b>	<b>\$ 914</b>	<b>\$ 1,557,928</b>	<b>\$ 2,324,228</b>	<b>\$ 595,085</b>	<b>\$ 391,795</b>	<b>\$ 4,869,951</b>

\*Federal Grant Anticipation Notes

The Commonwealth does not have a formally adopted minimum fund balance policy. However, most governmental funds cannot end a fiscal year in deficit. Those funds that are authorized to end a fiscal year in deficit are discussed in note 8 to the basic financial statements, "Individual Fund Deficits" on page 102.

**Stabilization Fund Arrangements:**

In accordance with Section 2H of Chapter 29 of the Massachusetts General Laws, the Commonwealth maintains a Stabilization ("Rainy Day") Fund. Per Chapter 29, balances in the Stabilization Fund can be expended only when non-routine budget shortfalls occur and upon appropriation by the Legislature and approval by the Governor. Chapter 29 requires that after calculating the Commonwealth's "consolidated net surplus" (the sum of the "undesignated" balances in certain specific state budgeted funds, equal to balances that are not restricted nor reappropriated for the following fiscal year) any remaining surplus be transferred to the Stabilization Fund. In addition, withholding taxes on certain Lottery winnings are required to be transferred to the Stabilization Fund. Starting in FY10, statute requires the Comptroller, after certification by the Commissioner of Revenue, to transfer any capital gains tax revenues in excess of \$1 billion during a fiscal year to the Stabilization Fund. Starting in FY12, statute requires the Comptroller, after certification by the Commissioner of Revenue and the Attorney General, to transfer to the Stabilization Fund all revenue from individual settlements and judgments that exceed \$10 million.

Historically, balances in the Stabilization Fund have been used almost exclusively during recessionary periods to offset budget shortfalls after other budgetary measures have been taken. Per Chapter 29, the Commonwealth is required to maintain a balanced budget, and if a revenue shortfall is projected, the Secretary of Administration and Finance is required to reduce state agencies' spending authorizations in an amount equal to any projected shortfall.

The Stabilization Fund ended FY13 with a balance of \$1.557 billion. For the fiscal year ending June 30, 2013, the Stabilization Fund's balance decreased by \$95 million as a result of inflows, including approximately \$467 million in capital gains tax revenue, \$32 million in judgment and settlement receipts and \$1 million in statutorily mandated transfers of withholding taxes on certain Lottery proceeds, offset by \$602 million in withdrawals during the fiscal year. In accordance with GASB 54 requirements, balances in the Stabilization Fund are classified as committed.

#### *Fiscal Year-End*

All funds and component units are reported using fiscal years, which end on June 30.

#### *Program Revenue*

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department's operations.

#### *Operating and non-operating revenues and expenses*

Revenues and expenses of business-type activities and proprietary funds are classified as operating or non-operating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

#### **D. CASH, SHORT-TERM INVESTMENTS AND INVESTMENTS**

The Commonwealth follows the practice of pooling cash and cash equivalents. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Portfolio and a Short Term Bond Portfolio. The Cash Portfolio is a money-market-like investment pool; its investments are carried at amortized cost, which approximates fair value. The Short Term Bond Portfolio investments are carried at fair value. Following a competitive bid process, on March 4, 2013, portfolio management of the MMDT transitioned from Pyramis Global Advisors (a subsidiary of Fidelity Investments) to Federated Investors, Inc.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333 or download the statements from the Cash Management section of the Office of the State Treasurer's website at [www.mass.gov/treasury](http://www.mass.gov/treasury). General Law Chapter 29, Section 38 enumerates the Commonwealth's investment policy for non-pension assets.

The post-employment benefit trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, an external investment pool managed by the Pension Reserves Investment Management (PRIM) Board. The State Employees', Teachers' Public Employee Retirement Systems (PERS) and the State Retiree's Benefit Trust (SRBT) are required to invest in the PRIT Fund and comprise approximately 39.5%, 42.2% and 0.9% respectively, of the net position of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in marketable securities - primarily domestic and international equities and fixed income securities - as well as non-marketable securities - primarily real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities are reported at fair value based upon quoted market prices. Non-marketable securities are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Non-marketable securities comprise approximately 33.2% of the total assets of the PRIT Fund.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. PRIT funds invested in the MMDT are accounted for separately. Security transactions are

recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

#### **E. RECEIVABLES**

In general, tax revenue is recognized on the government-wide statements when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available, based upon collection experience. If revenue is not received by year-end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally-funded-reimbursement and grant programs are reported as "Federal grants and reimbursements" or "Due from federal government" in the statement of net position.

"Other Receivables" represent amounts due to Commonwealth including Lottery revenues and Higher Education receivables from students, amounts due to the University of Massachusetts from related organizations and other items.

Included in receivables for FY13 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 "Tobacco Settlement Recognition and Financial Reporting Entity Issues", a receivable has been declared for approximately \$127 million, representing 50% of the amounts expected to be received during FY14 and is included as part of other non-major governmental fund activity.

#### **F. DUE FROM CITIES AND TOWNS**

"Due from Cities and Towns" represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

The MSBA has entered into various loan agreements with municipalities at a 2.0% interest rate with principal to be paid in equal installments for varying terms. Currently, the longest repayment schedule has a final payment in FY41. This program is designed to assist school districts with unanticipated inflationary construction costs over the district's original amount budgeted for a project. The loans outstanding as of June 30, 2013 were \$114.8 million, of which \$6 million is due in FY14. During FY13, the MSBA executed no new loans and collected \$6 million of scheduled principal payments. Subsequent to June 30, 2013, the MSBA expects to execute one loan for \$6.25 million in FY14 that is anticipated to have a final maturity date of November 1, 2042.

#### **G. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

##### *Methods used to value capital assets*

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

##### *Capitalization policies*

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized. Single pieces of equipment, vehicles, computer equipment and software that equal or exceed \$50,000 (\$1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

*Depreciation and useful lives*

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

<u>Type of Asset</u>	<u>Estimated Useful Life (in years)</u>
Buildings.....	40
Infrastructure - roads, bridges and tunnels.....	40
Infrastructure - beaches, boardwalks, bikeways, etc.....	20
Infrastructure - dams, water and sewer systems.....	50
Furniture.....	10
Library collections that are not historical treasures.....	15
Equipment, office equipment and life safety equipment.....	10
Computer hardware and software.....	3 to 7
Vehicles.....	5

*Road and Bridge Assets*

Effective November 1, 2009 all road and bridge assets formerly owned by the Commonwealth are owned by MassDOT. The debt incurred for the construction of these assets remains a liability of the Commonwealth.

*Construction in process*

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use.

**H. INTERFUND / INTRAFUND TRANSACTIONS**

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

**I. STATEWIDE COST ALLOCATION PLAN – FRINGE BENEFIT COST RECOVERY**

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. Certain costs of nine “central service” agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefit from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees, as well as MassDOT employees and retirees, through the General Fund. These fringe benefits include the costs of employees’ group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees’ group health insurance and workers’ compensation activity is accounted for in the governmental funds.

**J. SCHOOL CONSTRUCTION GRANTS, CONTRACT ASSISTANCE AND OTHER PAYABLES**

Under the former school building assistance program (prior to the creation of the MSBA) the Commonwealth reimbursed 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation to municipalities and regional school districts for 728 previously approved projects noted by MSBA as Prior Grant projects. The MSBA has assumed responsibility for these projects under its enabling statute. The liability for these projects, \$1.2 billion as of June 30, 2013, will be reduced over time through annual payments, savings from project audits made by the MSBA and savings from refundings of debt related to the project. In addition, the MSBA is retiring the liabilities and commitments related to 428 school projects that were maintained on a waiting list for funding under the former program (prior to the creation of the MSBA). The MSBA funds projects on the waiting list via a lump sum, annual payments, or through progress payments. Each funding method has different eligibility requirements and is determined in part by the method of finance used by the local district to fund the capital project. Lump sum payment projects have a liability that is recognized once construction has started. For progress payment projects, a liability is generally recognized once a grantee requests reimbursement from the MSBA. Projects on the waiting list that receive annual payments, because the local district had permanently financed both the local and Commonwealth share, have a liability that is recognized based on the final audit conducted by the MSBA, which liability will be reduced over time through annual payments and any savings from refundings of debt related to the project. Projects not recognized are noted as commitments by the MSBA. The MSBA is committed to paying for its share of projects on the waiting list once communities meet all eligibility requirements for receiving grants. As of June 30, 2013, MSBA had an outstanding liability of \$175 million, and \$31 million of commitments outstanding, for the waiting list projects. New programs have been established by the MSBA under which communities submit monthly requests for reimbursement in order to receive grants. These New Program projects are funded via the progress payment method, and a liability is generally recognized once a grantee requests reimbursement from the MSBA. Outstanding grants for projects that have approved funding agreements with the MSBA, but for which eligible project costs have not been submitted, are considered commitments of the MSBA. As of June 30, 2013, MSBA had an outstanding liability of \$132 million, and \$1.4 billion of commitments outstanding, for the New Program projects. The Commonwealth dedicates a 1% statewide sales tax (drawn from the existing statewide 6.25% sales tax), excluding sales tax revenues on meals and from certain additional statutorily exempted revenues from sales, to the School Modernization and Reconstruction Trust Fund (the "SMART Fund"), in support of these grant programs and for all other operations of the MSBA, including debt service.

The Commonwealth recognizes contract assistance on an annual basis due to the Massachusetts Water Pollution Abatement Trust (MWPAT). This assistance is applied as a subsidy to repayments from MWPAT loan borrowers. The expectation is that the assistance will be available for the life of the MWPAT financing agreement. The assistance is drawn from the Commonwealth on a 20-year repayment stream, even if the loan is for a longer period. If there is a differential between the assistance received and the amounts needed for loan subsidies, that amount is invested by MWPAT in an annuitized fashion to be used beyond year 20. If assistance is not provided by the Commonwealth, the MWPAT borrower is obligated for any shortfall.

Accounts payable includes amounts due to vendors of the Commonwealth for goods and services delivered before June 30<sup>th</sup> but paid for after year-end, the largest of which is Medicaid for \$893 million.

**K. COMPENSATED ABSENCES**

Compensated absences are recorded as a long-term liability in the statement of net position. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2013 but paid after the fiscal year end are also reported in the funds.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

Compensated absences in the governmental funds are liquidated from the same sources that fund the personnel expenses of the employees who are compensated for unused vacation and sick leave pay. In most cases, this is the General Fund, but also includes non-General Fund sources to the extent that personnel expenses are charged to those funding sources.

In the business-type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

#### **L. DEDICATED REVENUES AND PLEDGES**

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. Commonwealth debt supported by dedicated revenue streams include special obligation bonds for road and bridge construction secured by motor fuels taxes and federal grant anticipation notes (GANS) secured by federal grants for highway construction. Detailed information on pledges for the Commonwealth's own debt is included in sections B and C of note 7, on page 92

Portions of Commonwealth sales taxes are pledged as security for bonds issued by the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The MBTA receives sales tax revenues equal to 1% of applicable sales, subject to an annual floor set in statute. In FY13, total dedicated sales tax revenue that was directed to the MBTA was approximately \$787 million, \$105 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY13 the MBTA received from the Commonwealth sales tax revenues effectively equal to 1.15% of applicable sales, and is expected to receive approximately this percentage of applicable sales for the foreseeable future. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or prior calendar year annual sales taxes, with a floor of 0% and a ceiling of 3.0%.

The MSBA also receives a pledge of sales tax that, starting in FY11, increased to 1.0% of applicable sales in the Commonwealth but with no annual floor or ceiling. In FY13, approximately \$735 million of the dedicated sales tax revenue stream was directed to the MSBA.

The Commonwealth has also pledged sales tax revenue and rooms tax surcharges from areas contiguous to convention centers and the Worcester DCU Arena and Convention Center to support such centers' operations. As of June 30, 2013, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$457 million of interest on debts related to these Convention Centers. Taxes collected in FY13 were approximately \$99 million, while debt service on the bonds was approximately \$36 million.

The Transportation Modernization Act of 2009, as amended, made pledges of sales tax revenue to MassDOT through the Commonwealth Transportation Fund (CTF). Beginning in FY11, 0.385% of applicable sales and uses on a total sales tax rate of 6.25% was dedicated to funding the operations of MassDOT. The 2009 Act had a floor amount of \$275 million, with a final transfer occurring on or before September 1st of the following fiscal year. During FY13, approximately \$318 million in sales tax revenue was transferred to MassDOT, \$43 million more than the \$275 million minimum. From the Commonwealth Transportation Fund, \$160 million was dedicated to funding the operations of the MBTA while an additional \$19 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

The Legislature enacted additional transportation finance reform, effective July 1, 2013, that included shifting motor vehicle sales tax collections from the General Fund to the CTF and eliminating the 0.385% pledge of regular and meals sales tax.

#### **M. LOTTERY REVENUE AND PRIZES**

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the agency fund and on the statement of net position. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

#### **N. RISK FINANCING**

The Commonwealth self-insures for employees' workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employees' workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages,

Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

#### **O. NET POSITION**

The Commonwealth reports net position as restricted where legally segregated for a specific future use by enabling legislation. Otherwise, these balances are considered unrestricted.

Net position has been restricted as follows:

“Restricted for unemployment benefits” – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

“Restricted for retirement of indebtedness” – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998. Escrows related to crossover refundings are also restricted. Because removal of monies from these restrictions will constitute a technical default to bondholders, the amounts are restricted

“Restricted for other purposes” – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments.

“Restricted for nonexpendable purposes” – identifies amounts held as permanent investments for a specific purpose.

As of June 30, 2013, the government-wide statement of net position reports the following as restricted net position (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government Wide Total
Restricted for:			
Unemployment benefits.....	\$ -	\$ 1,003,257	\$ 1,003,257
Retirement of indebtedness.....	1,032,617	-	1,032,617
Restricted for other purposes including:			
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 trusts.....	-	2,437	2,437
Other purposes.....	353,799	168,922	522,721
Total restricted net position.....	<u>\$ 1,386,416</u>	<u>\$ 1,209,630</u>	<u>\$ 2,596,046</u>

The net position of the Pension Trust Funds and the Pension Reserves Investment Trust portion of the External Investment Trust Funds are restricted for post-employment benefits. These restrictions identify resources held in trust for the members and beneficiaries of the Commonwealth's post-employment plans. The Pension Reserves Investment Trust portion of the External Investment Trust Funds also includes pooled cash and pension assets held under the custodianship of the Commonwealth for the benefits of cities, towns and other political subdivisions of the Commonwealth.

#### **P. RECLASSIFICATIONS**

Certain amounts in the separately issued component units' financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth.

**Q. ESTIMATES**

The preparation of the Comprehensive Annual Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report.

Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**R. RESTATEMENTS**

The beginning net position of the University of Massachusetts, State Universities and Community Colleges, all presented as business-type activities, and various discretely presented component units have been restated to reflect the implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*.

Certain of the discretely presented component units also early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Commonwealth did not early implement Statement No. 65 due to the immaterial impact on the net position of its governmental activities and will implement this Statement during FY14.

One of the discretely presented component units reported a prior period adjustment due to pieces of land not previously reported.

The table below details the restatements and prior period adjustments:

	<u>Business-type Activities</u>	<u>Discretely Presented Component Units</u>
Net position as of June 30, 2012, as previously reported.....	\$ 4,912,212	\$ 27,352,452
Plus:		
Prior period adjustments.....	-	49,460
Less:		
Reclassification of the Institutions of the Higher Education Foundations from business-type to discretely presented component units due to implementation of GASB Statement No. 61.....	(574,512)	574,512
Restatement due to the early implementation of GASB Statement No. 65.....	-	(46,457)
Other restatements.....	<u>(1,268)</u>	<u>-</u>
Net position as of July 1, 2012, as restated.....	<u>\$ 4,336,432</u>	<u>\$ 27,929,967</u>

**2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS**

**Primary Government**

The Commonwealth maintains cash in the MMDT Cash Portfolio that is available for use by all funds. Each fund type’s net equity in the Cash Portfolio is displayed in the basic financial statements as “cash and cash equivalents”.

Pooled cash and short-term investments include the following (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government Wide Total
Cash and cash equivalents.....	\$ 1,258,580	\$ 587,301	\$ 1,845,881
Short-term investments.....	1,884,816	251,017	2,135,833
Cash with fiscal agent.....	308,867	-	308,867
Total.....	<u>\$ 3,452,263</u>	<u>\$ 838,318</u>	<u>\$ 4,290,581</u>

#### *Lottery Annuity Contracts*

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver-General, purchases annuity contracts from insurance companies and United States treasury strips to fund the Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent an obligation of the insurance company and the custodial bank, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two ratings issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to change. As of June 30, 2013, the amortized cost of annuities is approximately \$155 million. At June 30, 2013, the Commonwealth held these investments with a maturity value of approximately \$1.711 billion and with a carrying value of approximately \$1.332 billion. Over 88.4% of these amounts are held in United States Treasury strips at a custodial bank. No insurance company has an amount of annuities over 3.6% of the overall portfolio.

#### *MSBA Deposits and Investments*

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum credit quality for certain instruments, outlines investment procedures and updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

As of June 30, 2013, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$ 130,764
Cash and cash equivalents held in pooled cash.....	60,051
Restricted investments.....	751,331
Total.....	<u>\$ 942,146</u>

#### *Custodial Credit Risk – Pooled Cash*

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned to the Commonwealth. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk.

The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) to be collateralized with a perfected pledge of eligible collateral or a letter of credit. For programs created by the Treasury, such as the Small Business Banking Program, eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver General.

Membership by a financial institution in the Depositors Insurance Fund (DIF) or the Share Insurance Fund (SIF) will be accepted by the Treasurer and Receiver General's Office as alternative security, provided that the financial institution submits proof of membership in the DIF or the SIF. Membership in the DIF is limited to Massachusetts chartered savings banks while membership in the SIF is limited to Massachusetts cooperative banks.

#### *Custodial Credit Risk – Higher Education*

The Institutions of Higher Education have investment policies that may vary by institution for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC, as well as uninsured deposits. As of June 30, 2013, the bank balances of uninsured deposits totaled approximately \$344 million.

#### *Custodial Credit Risk – MSBA*

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as deposits that are fully collateralized. As of June 30, 2013, all MSBA bank balances were fully protected against loss.

#### *Interest Rate Risk – MMDT*

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short-term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury cash portfolio minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining a dollar-weighted average portfolio maturity of 60 days or less. The Treasury cash portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

The MMDT Cash Portfolio's dollar-weighted average maturity fluctuated from 30 to 65 days under Federated Investors Inc.'s management (March 4, 2013 to June 30, 2013). Investments in the MMDT Short Term Bond Portfolio are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Short Term Bond Portfolio by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights.

For the MMDT Short Term Bond Portfolio, the duration fluctuated from 2.49 to 2.55 years under Federated Investors Inc.'s management. At June 30, 2013, investments in the MMDT Short Term Bond Portfolio had a total net position of \$342 million with investment maturities ranging from less than one year to ten years. At June 30, 2013, the Short Term Bond Portfolio's effective maturity schedule was as follows:

<u>Securities with an Effective Maturity of</u>	<u>Percentage of Total Net Position</u>
Less than one year.....	11.50%
One to five years.....	85.50%
Six to ten years.....	<u>1.00%</u>
Total* .....	<u><u>98.00%</u></u>

\*The remaining 2.0% consists of cash equivalents and other assets.

#### *Interest Rate Risk – Higher Education*

As of June 30, 2013, the Institutions of Higher Education had debt investments stated at fair value of approximately \$590 million and had investment maturities ranging from less than one year to more than ten years, with approximately 34.5% of the investment's fair values maturing in less than 1 year, approximately 32.2% from one to five years, approximately 16.1% from six to ten years, and approximately 17.2% more than ten years.

*Interest Rate Risk - MSBA*

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2013, the MSBA had approximately \$226 million invested in a collateralized guaranteed investment contract and approximately \$321 million invested in U.S. Treasury Bonds and Municipal Bonds. These investments are included in restricted investments on the balance sheet. The guaranteed investment contract matures on August 15, 2030 while the U. S. Treasury Bonds and Municipal Bonds mature from 2019 to 2040. These investments represent approximately 72.9% of the MSBA's total investments.

*Credit Risk – MMDT*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 5% of the total investment portfolio in any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions on the amount that can be invested in public entity securities and the portfolio may be invested in U.S. Treasury and other Government Sponsored Enterprises (GSE's) obligations and repurchase agreements.

The Treasury cash portfolio is invested only in First Tier and Second Tier Securities as defined by the Securities and Exchange Commission's Rule 2A-7 of the [Investment Company Act of 1940](#). The Treasury does not have any additional policies regarding credit ratings of investments. At June 30, 2013, the Cash Portfolio's securities were rated as follows: First tier 96.6% and Second Tier 3.4%.

At June 30, 2013, the Short Term Bond Portfolio's follows:

<u>Portfolio Composition</u>	<u>Percentage of Total Net Position</u>
AAA.....	63.70%
AA.....	11.60%
A.....	15.90%
BBB.....	6.80%
Total* .....	<u>98.00%</u>

\* - The remaining 2.0% consists of cash equivalents and other assets.

*Credit Risk – Higher Education*

For the Institutions of Higher Education presented in the Business-Type Activities, fair values of debt investments were approximately \$321 million at AAA, approximately \$140 million from AA+ to A- and approximately \$129 million either unrated, BBB+ or less.

*Credit Risk - MSBA*

The MSBA's investment policy generally limits investments in fixed income products with institutions that have an investment grade rating as determined by one of the nationally recognized rating agencies. The MSBA's policy requires issuers of investment contracts to be rated AA or above by at least two of the nationally recognized rating agencies or A with pledged collateral equal to 102% of the principal balance.

As of June 30, 2013, the guaranteed investment contracts were not rated; however, the issuer was rated AA-. As of June 30, 2013, the MSBA's investments in municipal bonds were rated AA+ or above.

*Interest Rate Risk – PRIT Funds*

As pension trust funds have a longer investment horizon than many of the Commonwealth's other investments, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities investment managers. The guidelines with each individual manager require that the duration of the domestic debt investment portfolio be within a specified percentage or number of years of the duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors.

The PRIM Board compares the effective duration of a manager's portfolio to the Barclays Capital Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch® High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had fixed income and short-term investments totaling approximately \$13.402 billion at fair value with an effective weighted average duration range from 0.25 to 10.78 years at June 30, 2013.

*Credit Risk – PRIT Funds*

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. The weighted average quality rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was BBB+ at June 30, 2013.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$3.035 billion, BBB+ to B- investments with a fair value of approximately \$2.514 billion, \$207 million rated CCC+ to D, \$4.605 billion are unrated and the remaining \$3.041 billion are investments that are explicitly backed by the U. S. Government.

*Foreign Currency Risk – PRIT Funds*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by hedging a percentage of PRIT's non-U.S. dollar denominated investments through forward foreign currency contracts. The PRIT Fund's investments in foreign currency denominated investments as of June 30, 2013 were approximately \$122 million in cash and investments, \$11.613 billion in equities, \$1.604 billion in fixed income investments and \$1.284 billion in private equity investments. An additional \$2.683 billion is invested in international investments denominated in U. S. dollars.

*Concentration of Credit Risk – PRIT*

The PRIM Board manages PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager that limit the percent of investment in any single issue or issuer.

MMDT and PRIT have no investments at fair value that exceed 5% of PRIT's net position held in trust for pool participants as of June 30, 2013.

## A. DERIVATIVE INSTRUMENTS

PRIT may invest in derivative transactions. In accordance with GASB Statement No 53, *Accounting and Financial Reporting for Derivative Instruments*, PRIT's derivatives are accounted for as investment derivatives and are reported at fair value.

### *Forward Currency Contracts*

PRIT enters into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contracts will fluctuate with changes in currency exchange rates. Risks may arise from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in market value is recorded as an unrealized gain or loss by PRIT.

When a contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

As of June 30, 2013, PRIT had open foreign exchange contracts with combined net unrealized gains of approximately \$8 million with various delivery dates.

Further information on derivative instruments can be found in the notes to PRIT's basic financial statements.

### *Futures Contracts*

PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase.

Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts may not correspond to the change in the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may also arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

PRIT may also invest in financial futures contracts for non-hedging purposes.

PRIT held contracts outstanding at June 30, 2013 with various expirations from FY14 to FY16. These contracts are for cash and cash equivalents, fixed income, equities and commodities. A portion of the contracts were short contracts. The aggregated notional exposure amount as of June 30, 2013 was approximately \$1.990 billion with a fair value of \$1.969 billion, yielding an unrealized net loss of approximately \$21 million.

Payments are made or received by PRIT each day, depending on the daily fluctuations in the value of the underlying security and are recorded as unrealized gains or losses. When the contracts are closed, the PRIT Fund recognizes a realized gain or loss.

### *Swaps – PRIT*

PRIT has entered into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risk. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs). PRIT either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. Changes in fair value are included as part of investment income.

As of June 30, 2013, PRIT had contracts in effect with an aggregated notional amount of approximately \$1.159 billion to various investment banks that had maturity dates from FY14 to FY46. The contracts have an aggregate fair value gain of approximately \$20 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRITs counterparty exposure was with various major investment companies with ratings ranging from AA- to A- and various other banks with other ratings. Open swap contracts as of June 30, 2013 were as follows (amounts in thousands):

Counterparty	Credit Ratings	Interest Rate Swaps		Credit Default Swaps	
		Gross Notional	Fair Value	Gross Notional	Fair Value
Goldman Sachs International	A	\$ -	\$ -	\$ 17,300	\$ (247)
Chicago Mercantile Exchange Inc.	AA-	362,939	12,003	84,761	(714)
Deutsche Bank Securities Inc.	A	26,344	959	23,260	128
HSBC Securities Inc.	A+	2,457	(74)	32,050	(346)
Barclays Global Investors	A-	14,468	(38)	10,800	122
Morgan Stanley Capital	A-	4,936	(38)	15,700	77
U.S. Bank National Association	AA-	500,000	7,856	-	-
UBS Financial Services, Inc.	A	-	-	27,199	(133)
All others	Various	1,680	256	34,641	201
Totals.....		\$ 912,824	\$ 20,924	\$ 245,711	\$ (912)

### B. DISCRETELY PRESENTED COMPONENT UNIT INVESTMENTS

Component units invest in derivative transactions. Detailed information on those transactions is found in the notes to the basic financial statements for those component units.

## 3. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net position, exclusive of amounts due from cities and towns and component units as follows (amounts in thousands):

Primary Government	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
<b>Governmental activities:</b>					
Gross receivables.....	\$ 5,865,685	\$ 1,743,922	\$ 115,706	\$ 1,900,988	\$ 9,626,301
Less: allowance for uncollectibles.....	(2,187,900)	(7,442)	-	(1,358,046)	(3,553,388)
Receivables, net of allowance for uncollectibles.....	3,677,785	1,736,480	115,706	542,942	6,072,913
Less: current portion.....	(2,698,780)	(1,680,069)	(7,378)	(410,986)	(4,797,213)
Noncurrent receivables.....	\$ 979,005	\$ 56,411	\$ 108,328	\$ 131,956	\$ 1,275,700
<b>Business-Type activities:</b>					
Gross receivables.....	\$ -	\$ 92,374	\$ 59,281	\$ 942,393	\$ 1,094,048
Less: allowance for uncollectibles.....	-	(2,989)	(1,253)	(276,617)	(280,859)
Receivables, net of allowance for uncollectibles.....	-	89,385	58,028	665,776	813,189
Less: current portion.....	-	(89,385)	(45,547)	(626,142)	(761,074)
Noncurrent receivables.....	\$ -	\$ -	\$ 12,481	\$ 39,634	\$ 52,115

**4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS**

The purposes of interfund receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end Stabilization Fund transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from the Stabilization Fund to fund current operations and various other transfers for operations, largely for Institutions of Higher Education. Activity between funds reflected as due to/from primary government in the various statements is summarized as follows (amounts in thousands):

	General	Lotteries	Federal Grants	Other Governmental Funds	Total
<b>Governmental funds:</b>					
<u>Transfers in:</u>					
Debt service.....	\$ -	\$ -	\$ -	\$ 2,351,074	\$ 2,351,074
Transfers in.....	1,701,453	-	-	1,823,887	3,525,340
Subtotal.....	1,701,453	-	-	4,174,961	5,876,414
<u>Transfers out:</u>					
Appropriations.....	(980,260)	-	-	(2,652)	(982,912)
Transfer of bond proceeds.....	-	-	-	(253,363)	(253,363)
Debt service.....	(1,101,571)	-	-	(1,249,503)	(2,351,074)
Transfers out.....	(1,281,249)	(1,050,215)	(94,458)	(959,204)	(3,385,126)
Subtotal.....	(3,363,080)	(1,050,215)	(94,458)	(2,464,722)	(6,972,475)
<b>Total governmental funds.....</b>	<b>(1,661,627)</b>	<b>(1,050,215)</b>	<b>(94,458)</b>	<b>1,710,239</b>	<b>(1,096,061)</b>
<b>Proprietary funds:</b>					
	University of Massachusetts	State Universities	Community Colleges		Total
<u>Transfers in:</u>					
Transfers in from the General Fund and other governmental funds.....	\$ 665,603	\$ 271,894	\$ 298,777		\$ 1,236,274
<u>Transfers out:</u>					
Transfers out to the General Fund.....	(86,890)	(26,836)	(26,487)		(140,213)
<b>Total proprietary funds.....</b>	<b>\$ 578,713</b>	<b>\$ 245,058</b>	<b>\$ 272,290</b>		<b>1,096,061</b>
<b>Net transfers in / (out) between funds....</b>					<b>\$ -</b>

Due to/from component units on the Statement of Net Position reflects a timing difference for a payment of approximately \$46 million at year end.

Remaining receivables and payables between funds as of June 30, 2013 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2013. The amount due to the General Fund largely represents deficits funded by the General Fund. The following is a summary of receivables and payables between funds remaining as of June 30, 2013 (amounts in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Governmental Funds:</b>		
General	Federal Grants.....	\$ 8,191
	Nonmajor Governmental Funds.....	572,861
Non-major Governmental Funds	Nonmajor Governmental Funds.....	71,351
<b>Total Governmental Funds.....</b>		<b>652,403</b>
<b>Governmental Funds: Proprietary Funds:</b>		
General	University of Massachusetts.....	10,655
<b>Total amounts due.....</b>		<b>\$ 663,058</b>

## 5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2013 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2012 Beginning Balance*	Increases	Decreases and Reclassifications	June 30, 2013 Ending Balance
Capital assets not being depreciated:				
Land.....	\$ 801,836	\$ 24,347	\$ (4,107)	\$ 822,076
Construction in process.....	533,963	247,282	(131,533)	649,712
Total capital assets not being depreciated.....	<u>1,335,799</u>	<u>271,629</u>	<u>(135,640)</u>	<u>1,471,788</u>
Capital assets being depreciated:				
Buildings.....	5,358,301	100,003	(48,054)	5,410,250
Machinery and equipment.....	999,262	52,090	(22,683)	1,028,669
Infrastructure non - central artery/tunnel project.....	308,432	24,572	-	333,004
Total capital assets being depreciated.....	<u>6,665,995</u>	<u>176,665</u>	<u>(70,737)</u>	<u>6,771,923</u>
Less, accumulated depreciation:				
Buildings.....	(2,802,277)	(104,446)	43,355	(2,863,368)
Machinery and equipment.....	(720,255)	(85,827)	18,495	(787,587)
Infrastructure non - central artery/tunnel project.....	(219,393)	(7,292)	-	(226,685)
Total accumulated depreciation.....	<u>(3,741,925)</u>	<u>(197,565)</u>	<u>61,850</u>	<u>(3,877,640)</u>
Total capital assets being depreciated, net.....	<u>2,924,070</u>	<u>(20,900)</u>	<u>(8,887)</u>	<u>2,894,283</u>
Governmental activity capital assets, net.....	<u>4,259,869</u>	<u>250,729</u>	<u>(144,527)</u>	<u>4,366,071</u>
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land.....	91,287	22,029	(123)	113,193
Construction in process.....	1,182,522	1,013,233	(887,642)	1,308,113
Historical treasures.....	1,453	460	(565)	1,348
Total capital assets not being depreciated.....	<u>1,275,262</u>	<u>1,035,722</u>	<u>(888,330)</u>	<u>1,422,654</u>
Capital assets being depreciated:				
Buildings.....	5,686,574	1,410,759	(490,115)	6,607,218
Machinery and equipment.....	995,563	50,892	(52,718)	993,737
Library collections, not including historical treasures.....	122,173	529	(8,964)	113,738
Total capital assets being depreciated.....	<u>6,804,310</u>	<u>1,462,180</u>	<u>(551,797)</u>	<u>7,714,693</u>
Less, accumulated depreciation:				
Buildings.....	(3,039,555)	(216,935)	35,338	(3,221,152)
Machinery and equipment.....	(185,594)	(56,871)	2,007	(240,458)
Library collections, not including historical treasures.....	(16,678)	(320)	59	(16,939)
Total accumulated depreciation.....	<u>(3,241,827)</u>	<u>(274,126)</u>	<u>37,404</u>	<u>(3,478,549)</u>
Total capital assets being depreciated, net.....	<u>3,562,483</u>	<u>1,188,054</u>	<u>(514,393)</u>	<u>4,236,144</u>
Business - type activity capital assets, net.....	<u>4,837,745</u>	<u>2,223,776</u>	<u>(1,402,723)</u>	<u>5,658,798</u>
<b>Total Primary Government capital assets, net.....</b>	<b><u>\$ 9,097,614</u></b>	<b><u>\$ 2,474,505</u></b>	<b><u>\$ (1,547,250)</u></b>	<b><u>\$ 10,024,869</u></b>

\*As restated and are more fully described in footnote #1

Depreciation expense was charged to the various functions of governmental and business-type activities as follows (amounts in thousands):

<u>Function:</u>	<u>Amount</u>
General government.....	\$ 54,336
Judiciary.....	32,800
Health and human services.....	48,153
Early elementary and secondary education.....	1,422
Public safety and homeland security.....	56,431
Housing and economic development.....	48
Labor and workforce development.....	4,375
Total depreciation, governmental activities.....	<u>\$ 197,565</u>
University of Massachusetts.....	\$ 182,252
State universities.....	64,050
Community colleges.....	27,824
Total depreciation, business-type activities.....	<u>\$ 274,126</u>

**6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS**

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. Short-term borrowing may be issued as fixed rate notes, floating rate notes or through a commercial paper program supported by bank liquidity facilities maintained by the Commonwealth. Per the State Constitution, revenue anticipation notes (RANs) issued for cash flow purposes are required to be paid within the same fiscal year. Temporary financings for capital needs, such as bond anticipation notes may be outstanding for up to five years, per statute.

**A. GENERAL FUND**

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. During FY13, the Commonwealth issued no commercial paper. In terms of short-term borrowing for cash flow purposes, the Commonwealth borrowed \$1.2 billion by selling RANs in October 2012. All of the \$1.2 billion in RANs were retired in April and May of 2013.

The following schedule details short-term financing for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2012	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2013
General Fund:				
Revenue anticipation notes.....	\$ -	\$ 1,200,000	\$ (1,200,000)	\$ -

**B. CREDIT FACILITIES**

During FY13, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$400 million. The Commonwealth started FY13 with a total of two credit facilities to provide such liquidity support, each in the amount of \$200 million. These facilities expire in periods at various times in FY14 and FY15. In addition, to credit facilities for commercial paper, the Commonwealth maintained standby bond purchase agreements for Variable Rate (VR) Demand Bonds sold from FY97 through FY06. These VR bonds require external liquidity support because bond holders have the right to sell the bonds back to the Commonwealth at par at any time. As of June 30, 2013, these agreements totaled \$813 million.

## 7. LONG-TERM OBLIGATIONS

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Section 1 of Article 62 of the Massachusetts Constitution empowers the State Legislature to borrow money on the credit of the Commonwealth for various public purposes. Under the state Constitution, the Commonwealth may pledge its credit to borrow money only by a vote of two-thirds of each house of the Legislature. Borrowed funds may be used for defense of the state or of the United States, and in anticipation of receipts from taxes or other sources, “any such loan to be paid out of the revenue of the year in which the loan is made”. The Legislature may not in any manner allow the Commonwealth’s credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan.

Statutorily, the authority to borrow is delegated to the Massachusetts State Treasurer & Receiver General pursuant to Chapter 29 of the Massachusetts General Laws. Section 49 of Chapter 29 of the Massachusetts General Laws is the primary statute governing the issuance of Commonwealth debt and contains a number of provisions spelling out the process for the issuance of bonds.

The issuance of bonds to fund the Commonwealth’s capital needs must be authorized by the Legislature. Pursuant to legislative authorizations to borrow, the Governor determines the amount and timing of any authorized borrowing to fund capital investments. At the request of the Governor, the State Treasurer & Receiver General borrows by issuing bonds to the public. The Governor approves the use of the bond proceeds by agencies to pay for authorized and budgeted capital projects.

Massachusetts General Law provides for the allocation of bond proceeds to bond authorizations and capital spending in arrears (as needed), as expenditures are made, or at the time of issuance of the bonds. In general, bond proceeds are primarily allocated to capital spending that has already occurred. When allocating in arrears, the allocation of segregated bond proceeds is a reimbursement to the General Fund.

Bond proceeds that are awaiting allocation are typically invested by the State Treasurer in the Commonwealth’s primary investment vehicle, the Massachusetts Municipal Depository Trust (MMDT), which is structured similarly to an SEC – registered money market fund (for more information please see the notes on the Commonwealth’s short-term investments). Bond proceeds are segregated from other funds until they are allocated to capital expenditures, a process that requires review by the Commonwealth’s bond counsel.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect hereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement. The Commonwealth cannot file for bankruptcy under the United States Bankruptcy code.

As of June 30, 2013, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of outstanding Commonwealth bonds, are backed by the full faith and credit of the Commonwealth. Special obligation bonds, however, are bonds secured by all or a portion of a specific revenue source that are pledged to bondholders and are not general obligations of the Commonwealth. For these types of securities, bondholders rely on pledged revenue only for repayment of principal and interest.

The following is a summary of the Commonwealth's outstanding debt, exclusive of capital leases, (amounts in thousands):

<u>Type of Bond</u>	<u>Amount Outstanding</u>
General obligation bonds, net proceeds .....	\$ 19,573,718
Special obligation bonds (including GANs), net proceeds .....	<u>2,427,975</u>
Outstanding Commonwealth bonds, net proceeds .....	22,001,693
MSBA bonds, net proceeds .....	<u>5,697,598</u>
<b>Total governmental activities, net proceeds .....</b>	<b>27,699,291</b>
Less:	
Unamortized premiums and bond issuance costs on general obligation bonds .....	(433,479)
Unamortized premiums and bond issuance costs on special obligation bonds .....	(55,175)
Unamortized premiums on MSBA bonds .....	<u>(502,438)</u>
<b>Total governmental activities, principal .....</b>	<b>\$ 26,708,199</b>

The general obligation (GO) bonds listed in the table above include outstanding tax-exempt bonds, taxable bonds including Build America Bonds, College Opportunity Bonds, and debt assumed from former counties. The special obligation (SO) bonds listed above include outstanding tax-exempt and taxable bonds (including Build America Bonds and Recovery Zone Economic Development Bonds) secured by indentures that legally define the specific revenues pledged to bondholders, as defined in the trust agreement. This includes outstanding bonds or notes secured by Federal Highway funds to be received by the Commonwealth, certain portions of the Commonwealth's motor fuel excise taxes and Registry of Motor Vehicle fees and dedicated taxes and fees levied in certain geographic areas of the state to support the Commonwealth's convention center facilities. As of June 30, 2013, there were five different special obligation bond programs with bonds outstanding. It should be noted that two of the five bond programs have closed liens, meaning, no additional new-money bonds will be issued under those specific special obligation bond indentures.

The following is a table of GO bonds principal outstanding as of June 30, 2013, (amounts in thousands):

<u>General Obligation Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total GO</u>
Fixed rate bonds .....	\$ 15,388,399	80.4%
Variable rate bonds .....	<u>3,751,840</u>	<u>19.6%</u>
Total .....	<u>\$ 19,140,239</u>	<u>100.0%</u>

The following is a table of the different types of outstanding variable rate GO bonds, (amounts in thousands):

<u>Variable Rate GO Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total GO</u>
Direct purchase bonds .....	\$ 445,875	2.4%
Variable rate demand bonds .....	812,320	4.3%
Auction rate securities .....	401,500	2.1%
CPI-index bonds .....	168,765	0.9%
LIBOR index bonds .....	845,795	4.4%
SIFMA index bonds .....	<u>1,077,585</u>	5.6%
Total .....	<u>\$ 3,751,840</u>	

The following is a table of hedged and unhedged variable rate GO bonds, (amounts in thousands):

	<u>Principal Outstanding</u>	<u>Percent of Total Variable Rate GO Bonds</u>
Hedged variable rate GO bonds.....	\$ 2,898,840	77.3%
Unhedged variable rate GO bonds..	<u>853,000</u>	<u>22.7%</u>
Total variable rate GO bonds.....	<u>\$ 3,751,840</u>	<u>100.0%</u>

The following is a table of SO bond principal, by rate structure, outstanding as of June 30, 2013, (amounts in thousands):

<u>Special Obligation Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total SO</u>
Fixed rate bonds.....	\$ 2,189,720	92.3%
Variable rate bonds.....	<u>183,080</u>	<u>7.7%</u>
Total.....	<u>\$ 2,372,800</u>	<u>100.0%</u>

The following is a table of the different types of outstanding SO bonds (amounts in thousands):

<u>Special Obligation Bonds</u>	<u>Amount Outstanding</u>
Special obligation dedicated tax revenue bonds, net proceeds:	
Fixed rate convention center bonds.....	\$ 557,125
CPI variable rate convention center bonds.....	<u>86,590</u>
Total convention center bonds, net proceeds.....	643,715
Special obligation revenue bonds, net proceeds:	
Fixed rate gas tax bonds.....	204,119
CPI variable rate gas tax bonds.....	<u>96,490</u>
Total gas tax bonds, net proceeds.....	300,609
Special obligation revenue bonds, net proceeds:	
Accelerated bridge program.....	1,028,950
Special obligation federal highway grant anticipation notes and accelerated bridge program.....	<u>454,701</u>
Total special obligation bonds, net proceeds.....	2,427,975
Less: unamortized premiums and bond issuance costs, net.....	<u>(55,175)</u>
Outstanding special obligation principal.....	<u>\$ 2,372,800</u>

#### A. GENERAL OBLIGATION BONDS

General obligation bonds are authorized and issued primarily to provide funds for the Commonwealth's five-year capital improvement program (CIP), including capital infrastructure projects throughout the state as well as Commonwealth-supported local government capital improvements. The five-year plan is developed by the Executive Office for Administration and Finance (A&F) and updated annually. The CIP is primarily funded through the issuance of bonds that are sold by the State Treasurer and Receiver General. The Commonwealth borrows from the capital markets by selling GO bonds and notes pursuant to Chapter 29 of the Massachusetts General Laws. GO bonds are backed by the full faith and credit of the Commonwealth and are paid mainly from the Governmental Funds, to which debt service principal and interest payments are appropriated in the state's operating budget.

In addition to GO bonds issued to fund the state's capital needs, certain bonds are approved by the Legislature to be issued for specific programs. These bonds, known as College Opportunity Bonds, are issued pursuant to statute directly to the Massachusetts Educational Financing Authority for its pre-paid tuition program called the "U.Plan". As of June 30, 2013, the Commonwealth had approximately \$139 million in "U. Plan" bonds (at accreted value) outstanding. Pursuant to statute, all of the outstanding bonds are variable rate bonds. Interest on the bonds is based on the percentage change in the consumer price index plus 2.0% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of GO bonds have been sold as fixed rate obligations. As of June 30, 2013, approximately 80.4% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 19.6% of outstanding GO debt is in the form of variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several different variable rate structures. For example, most of the Commonwealth's outstanding variable rate debt is in the form of variable rate demand bonds or "VRDBs", which are long-term bonds whose interest rates re-set daily or weekly through an active remarketing process. Because these bonds provide bondholders with a "put" or tender feature enabling the bonds to be sold back to the Commonwealth at par at any time, they are supported by standby liquidity facilities provided by third-party commercial banks which require the applicable bank to purchase any bonds that are tendered by investors and not successfully remarketed. As of June 30, 2013, the Commonwealth had approximately \$812 million in outstanding VRDBs. This accounts for approximately 4.3% of total GO debt and approximately 21.7% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2013, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the Commonwealth; consequently, there have not been any draws on any of the outstanding bank liquidity facilities.

The Commonwealth has also issued GO variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a "put" feature and therefore do not require a supporting credit facility from a commercial bank. The Commonwealth's outstanding auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers. Beginning in February 2008, however, and continuing through FY13, all of the Commonwealth's outstanding auction rate securities experienced auction failure on the days interest rates were to re-set, meaning there were insufficient bids from new investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to existing bondholders is the failure rate as specified in the bond documents. For the series of Commonwealth bonds whose auctions have experienced failed auctions (approximately \$401.5 million in total outstanding debt obligations, including Commonwealth of Massachusetts GO Bonds, Series 2000D, 2000E, 2000F, and 2000G), the failure rate is based on a multiple of the 7-day non-financial commercial paper rate as published by the Federal Reserve, with a maximum failure rate of 12%. The failed auctions have resulted in actual interest costs to the Commonwealth that were consistently below budgeted debt service levels of 5%.

A portion of the Commonwealth's outstanding bonds have been directly purchased by banks (or "direct purchase bonds"). These variable rate, direct purchase bonds bear interest at an index rate and are payable on the first business day of each month until maturity. As of June 30, 2013, the Commonwealth had \$446 million direct purchase bonds outstanding. All of these bonds are general obligations of the Commonwealth. This includes \$200 million of the Commonwealth's Consolidated Loan of 2006 (Variable Rate Demand Bonds), Series B. Those bonds were tendered by the Commonwealth in FY2013, converted to direct purchase bonds from variable rate demand bonds, and purchased by JP Morgan Chase Bank and TD Bank, NA. The final portion of outstanding direct purchase bonds were purchased from the Commonwealth by Royal Bank of Canada in FY2012. All of the bonds are subject to bondholder agreements.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2013, the Commonwealth had approximately \$169 million of bonds that pay interest based on the consumer price index (CPI); \$846 million of bonds that pay interest based on the three-month London Interbank Offered Rate (LIBOR); and \$1.078 billion of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 1%, 4.4% and 5.6% of total outstanding general obligation indebtedness, respectively.

To fund the FY13 capital budget, the Commonwealth borrowed by issuing \$1.701 billion in long-term GO bonds, \$1.470 billion of which was for new-money needs, with the remainder for refunding already existing debt in one current fiscal year refunding transaction. The present value savings of this refunding transaction is immaterial to these financial statements.

*MSBA Debt*

As of June 30, 2013, the MSBA had outstanding approximately \$5.698 billion of Dedicated Sales Tax bonds, including approximately \$502 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the bonds range from approximately 2.0% to 5.715% and each series is payable semiannually with the latest maturity occurring in FY42. A portion of the interest on the Dedicated Sales Tax Bonds is reimbursed by the federal government. Of the \$5.2 billion of debt outstanding as of June 30, 2013, \$450 million in taxable Build America Bonds for which the MSBA is eligible to receive a 35% interest subsidy directly from the United States Treasury. In addition, \$293 million of the Subordinated Dedicated Sales Tax Bonds were issued as “Qualified School Construction Bonds” for which the MSBA is eligible to receive a 100% interest subsidy payment directly from the United States Treasury. During FY13, the federal government implemented automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. Subsidy payments received from March 1, 2013 through September 30, 2013 were reduced by 8.7% (5.1% on an annualized basis) due to sequestration. This reduction was approximately \$662 thousand on the 2010 Series A Bonds and 2011 Series A Bonds in FY13. On September 30, 2013, the IRS published a notice indicating that subsidy payments processed on or after October 1, 2013 and on or before September 30, 2014 will be reduced by the FY14 sequestration rate of 7.2 percent. The notice states that the sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise modifies the sequester.

**B. SPECIAL OBLIGATION BONDS***Commonwealth Transportation Fund (CTF)*

The largest amount of special obligation bonds outstanding (by par) are bonds secured by certain revenues of the Commonwealth Transportation Fund. The Commonwealth previously issued special obligation bonds under the Accelerated Bridge Program (ABP). These bonds mature from FY14 to FY41 and are secured by a senior lien on 14.1085 cents of the total 21 cents per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry Of Motor Vehicle fees deposited into the CTF. These bonds also have a subordinate lien on 6.86 cents of the 21 cent per gallon gasoline tax not included in the senior lien. As of June 30, 2013, approximately \$989 million in principal was outstanding on the ABP bonds and approximately \$693 million of interest (net of the federal subsidy) was expected to be paid through maturity.

*Motor Fuels Tax Bonds*

Other special obligation bonds for highway construction purposes are secured by a pledge of 6.86 cents of the 21 cent per gallon gasoline tax, with no new issues during FY13. As of June 30, 2013, bonds secured by these pledged funds totaled approximately \$296 million of principal and approximately \$74 million in interest. These bonds mature from FY14 to FY23 and were issued in various series. Principal and interest paid during FY13 amounted to approximately \$42 million and \$18 million, respectively.

*Convention Center Fund*

Chapter 152 of the Acts of 1997, as amended, authorizes \$694 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston (\$609 million), the Springfield Civic Center (\$66 million) and the Worcester Convention Center (\$19 million). The bonds are payable from monies credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). As of June 30, 2013, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$457 million of interest on debts related to these Convention Centers. Taxes collected in FY13 were approximately \$99 million, while debt service on the bonds was approximately \$34 million.

**C. FEDERAL GRANT ANTICIPATION NOTES**

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes (GANs) issued in fiscal 1998, 1999, 2001, 2011 and refunding notes in fiscal 2003 and fiscal 2011. As of June 30, 2013, total principal remaining to be paid is approximately \$449 million. Maturities are from FY15 through FY23. Debt service paid during FY13 was approximately \$187 million.

The legislation authorizing such notes contains a statutory covenant that as long as any such GANs remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the GANs have been met. If the United States Congress reduces the aggregate amount appropriated nationwide to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that an additional 10 cents per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on GANs may not exceed \$216 million unless the rating agencies rating the notes confirm that exceeding \$216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from Commonwealth appropriations.

**D. THE BUILD AMERICA BOND PROGRAM**

As part of the federal America Recovery and Reinvestment Act (ARRA) in 2009, municipal issuers were authorized to issue taxable bonds to fund new capital expenditures and receive an interest rate subsidy from the U.S. Treasury. As part of the temporary Build America Bond (BABs) program issuers, including the Commonwealth, issued taxable bonds in calendar years 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% of the interest costs on the bonds, depending on whether the proceeds are used for projects in economically distressed areas. Between the GO bond program and the special obligation bond programs, the Commonwealth issued a total of \$2.791 billion in Build America Bonds and Recovery Zone Economic Development Bonds in six separate financings over the two year period of the temporary program. All of the bonds were issued as "direct pay to issuer", meaning that the interest rate subsidies would be paid to the Commonwealth from the U.S. Treasury and not pledged to bondholders. As of June 30, 2013, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled \$912 million. The Commonwealth's repayment obligation to bondholders is based on the gross interest rate. From a budgetary perspective, the bonds' debt service is budgeted at the net-of-interest-rate subsidy rate.

Given the interest rate subsidy from the U.S. Treasury and given market conditions at the time of the Commonwealth's BABs sales, this program resulted in borrowings whose net interest costs will be significantly lower than the interest on traditional tax-exempt bonds. The BABs program expired on December 31, 2010.

**E. INTEREST RATE SWAP AGREEMENTS – OBJECTIVES AND RISKS**

Over the last twenty years, the Commonwealth has periodically entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds, combined with interest rate swaps, generally result in lower interest costs than fixed-rate bonds. Of the Commonwealth's variable-rate debt outstanding of approximately \$3.752 billion, approximately \$3.110 billion were hedged via floating-to-fixed interest rate swap agreements. Of this amount, \$2.927 billion are for G.O. bonds and the remainder on outstanding special obligation bonds.

Under the terms of these floating-to-fixed rate hedge agreements, counterparties to the hedge agreements are obligated to pay the Commonwealth an amount equal to or approximately equal to the variable-rate interest payment to bondholders of the related bonds or an interest payment based on a market index. In return, the Commonwealth is obligated to pay counterparties a stipulated fixed rate. The floating rate payments received by the Commonwealth from its swap counterparties are used to offset the variable rate payments paid to bondholders. Only the net difference in interest payments is actually exchanged with the swap counterparty. The net payments made or received on these hedge agreements are reported as part of interest expense on the Commonwealth's basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable rate bondholders.

*Objective of the Interest Rate Swap Agreements*

In connection with the issuance of variable rate GO refunding bonds in 1997, 1998, 2001, 2003, 2005, 2006, and 2007, the Commonwealth entered into interest rate swap hedge agreements with certain counterparties to hedge against the volatility of the interest rates on certain bonds whose interest costs were floating and not fixed. Additional swap agreements were entered into to hedge this same volatility on certain special obligation bonds, including the Commonwealth's Series 2005 Special Obligation Tax Revenue (Gas Tax) Bonds and the Series 2004 Special Obligation Dedicated Tax Revenue (Convention Center) Bonds. In addition, a floating-to-fixed rate swap agreement was novated or transferred to the Commonwealth from the Route 3 North Transportation Improvements Association (secured by Commonwealth Contract Assistance) in November 2008 after the lease revenue bonds associated with that swap experienced remarketing failure. The swap was assigned to a portion of the Commonwealth's previously unhedged variable rate bonds that were outstanding.

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate hedges, are less costly than fixed-rate bonds while hedging the risk of rising interest rates on those bonds to provide long-term budgetary and cash flow certainty. As of June 30, 2013, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges pursuant to GASB Statement No. 53.

*Terms of the Interest Rate Swap Agreements*

The variable rate bonds and their related swap agreements have final maturities ranging from 2013 to 2037. The swaps' total notional value of approximately \$3.110 billion effectively matches the par amount of the related variable-rate bonds.

Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.486% to 5.250% and receives variable-rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable-rate refunding bonds or a payment based on a market index. In some of the outstanding swap agreements, the Commonwealth receives an interest rate based on changes to Libor, the SIFMA index, or the CPI index. In other agreements, the floating payment received by the Commonwealth is precisely equal to the variable rate payment paid to bondholders based on an active remarketing of those bonds.

*Credit Risk of the Interest Rate Swap Agreements*

As of June 30, 2013, the Commonwealth is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the Commonwealth would be exposed to credit risk in the amount of the swap's fair value. All of the Commonwealth's counterparties are required to post collateral in certain circumstances, including credit rating downgrades. The Commonwealth is not required to post collateral in any of its existing swap agreements.

The chart below details the Commonwealth's outstanding swaps and related bond issuances (amounts in thousands except for percentages).

Associated Bond Issue	Notional Amounts Outstanding (thousands)	Effective Date	Terms		Fair value at June 30		Change in Fair Value	Final Termination Date	Counterparty	Counterparty Credit Rating Moody's/S&P/Fitch
			Fixed Rate Paid (Range)	Variable Rate Received	2013	2012				
<i>General Obligation Bonds:</i>										
Series 1997B	\$ 84,510	8/12/1997	4.659%	Cost of Funds/VRDBs	\$ (4,013)	\$ (7,941)	\$ 3,928	8/1/2015	Goldman Sachs Mit Mar Der Prod	Aa2 / AAA / NA
Series 1997B	56,340	9/1/2010	4.659%	SIFMA	(2,633)	(5,209)	2,576	8/1/2015	Sumitomo Mitsui Banking Corp	Aa3 / A+ / A-
Series 1998A	120,794	9/17/1998	4.174%	Cost of Funds/VRDBs	(7,452)	(12,125)	4,673	9/1/2016	Citi Swapco, Inc	Aa2 / AAA / NR
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	181,191	11/17/2008	4.174%	60% 1-Month LIBOR + 25 basis points	(10,608)	(17,577)	6,969	9/1/2016	Deutsche Bank AG	A2 / A+ / A+
Series 2000A	106,675	8/16/2007	3.942%	SIFMA - 3 basis points	(11,693)	(15,181)	3,488	8/1/2018	Merrill Lynch Cap Svcs	Baa2 / A- / A
Series 2000A	53,575	8/16/2007	3.942%	SIFMA - 3 basis points	(5,882)	(7,636)	1,754	8/1/2018	Bear Stearns Fin Prod / JP Morgan	Aa3 / A+ / A+
Series 2001B & C	491,755	2/20/2001	4.150%	Cost of Funds/VRDBs	(71,913)	(93,759)	21,846	1/1/2021	Morgan Stanley Capital Services	Baa1 / A- / A
Series 2003B	58,765	3/12/2003	4.500%	Cost of Funds/CPI	(979)	(1,946)	967	12/1/2014	Goldman Sachs Mit Mar Der Prod	Aa2 / AAA / NA
Series 2003B	10,000	10/8/2008	4.500%	Cost of Funds/CPI	(93)	(193)	100	12/1/2013	Deutsche Bank AG	A2 / A+ / A+
Series 2006B, Series 2000D	294,000	4/2/2009	4.515%	67% 3-Month LIBOR	(81,725)	(113,553)	31,828	6/15/2033	Barclays Bank PLC	A2 / A+ / A
Series 2006C	100,000	1/1/2007	3.73%-3.85%	Cost of Funds/CPI	(4,813)	(4,596)	(217)	11/1/2020	Citibank N.A.	A3 / A / A
Series 2007A	400,000	10/8/2008	4.420%	Cost of Funds/FRN	(41,967)	(58,805)	16,838	5/1/2037	Barclays Bank PLC	A2 / A+ / A
Series 2007A (refunding)	414,130	10/8/2008	3.936 - 4.083%	Cost of Funds/FRN	(66,641)	(95,773)	29,132	11/1/2025	Bank of NY Mellon	Aa1 / AA- / AA-
Series 2007A (refunding)	31,665	10/8/2008	3.936%	Cost of Funds/FRN	(4,575)	(6,250)	1,675	11/1/2020	Deutsche Bank AG	A2 / A+ / A+
Series 2010A, 2011A, 2012A(refunding) & 2013A	523,745	3/15/2005	3.486% - 4.004%	SIFMA	(78,161)	(113,203)	35,042	2/1/2028	Citibank N.A.	A3 / A / A
Subtotal	2,927,145				(393,148)	(553,747)	160,599			
<i>Special Obligation Dedicated Tax Revenue Bonds</i>										
Series 2004 (Convention Ctr)	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(1,861)	(1,895)	34	1/1/2018	Goldman Sachs Cap Markets	A2 / A- / A
Series 2004 (Convention Ctr)	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(1,861)	(1,938)	77	1/1/2018	JPMorgan Chase Bank	Aa3 / A+ / A+
Series 2004 (Convention Ctr)	28,864	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(1,861)	(1,897)	36	1/1/2018	JPMorgan Chase Bank	A2 / A / A+
Series 2005A (Gas Tax)	96,490	1/12/2005	4.771% - 5.059%	Cost of Funds/CPI	(5,993)	(4,810)	(1,183)	6/1/2022	Merrill Lynch Cap Serv	Baa2 / A- / A
Subtotal	183,080				(11,576)	(10,540)	(1,036)			
Total	\$ 3,110,225				\$(404,724)	\$(564,287)	\$ 159,563			

### Fair value of the Interest Rate Swap Agreements

The aggregate fair value balance of interest rate swaps at June 30, 2013 is negative \$405 million and is reflected on the statement of net position as a liability for derivative instruments which is offset by deferred outflows from derivative instruments. The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. Because all of the interest rate swaps were deemed effective hedges, changes in fair value of the interest rate swaps during the fiscal year ended June 30, 2013 were recognized as deferred outflows resulting in no impact on the Statement of Activities.

If all the Commonwealth's swap agreements had been terminated as of the end of FY13, the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the amount estimated above if certain termination events occurred, as described herein. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swap agreements due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

*Basis and Market-Access Risk of the Interest Rate Swap Agreements*

Because the terms on most of the interest rate swap hedge agreements require the Commonwealth's counterparties to make variable rate payments equal or approximately equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not subject to significant basis risk as a result of the terms of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds being hedged or the enactment of tax-related legislation which causes the related bonds to trade differently, certain of the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the SIFMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied from the basis for the variable rates that were paid to bondholders that were determined for the Commonwealth's variable-rate demand bonds through the associated remarketing process. For certain other interest rate swap agreements, the variable rate on the swap is based on a market index that differs from the variable rate on the hedged bonds, which is generally remarketed or auction rate. The Commonwealth is subject to basis risk on these agreements.

A majority of the swap contracts have the same maturity dates and amortizations as the related bonds. For two of the swap agreements, the underlying bonds have maturity dates that come due before the termination date of the associated swaps. This applies to the 2006B and 2000D bonds being hedged by the \$294 million hedge agreement with Barclays and the 2010A bonds being hedged by the \$524 million swap with Citibank NA. The Commonwealth's stated debt plan is to extend the underlying variable rate bonds to match the terms and amounts of the associated swaps. If the Commonwealth is unable to extend the underlying variable rate bonds or identify other variable rate bonds the swaps may hedge, the Commonwealth would be required to make net settlement payments on the swaps without the offsetting effects of changes in variable rate bond settlement payments.

*Termination Risk of the Interest Rate Swap Agreements*

The swap agreements are based on the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements include termination events additional to those in the standard ISDA master agreement based on credit ratings. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. The swap agreements require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth would have the option to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain certain credit ratings under the agreements, generally 'BBB-' or above, well above the current credit rating of 'AA+' (based on long-term ratings assigned by Standard & Poor's). If the Commonwealth's rating fell below the defined threshold levels, the Commonwealth's counterparties would have the option to terminate the related swap agreements or for certain agreements choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as previously described. If one or more of the swap agreements were terminated, then the related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values. However, to avoid a termination payment and to maintain the interest rate hedge, when the terminating event is an event of the counterparty, the Commonwealth would likely seek to replace counterparties to the swap agreement. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote.

**F. OUTSTANDING SWAPPED DEBT***Security for Interest Rate Swap Agreements*

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth for which its full faith and credit is pledged.

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2013 for variable rate bonds. The net swap payments are calculated by subtracting the projected future variable rate interest payment

per the swap agreement from the projected future fixed rate payment per the swap agreement. Projected future variable rate payments on the swap agreements are based on variable rates applicable to the scheduled payment nearest to June 30, 2013. The actual amount of variable rate interest paid to bondholders and net swap payments made to counterparties are affected by changes in variable interest rates, changes in inflation (CPI), as well as changes in the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) floating rate indices. Changes in the amounts paid to bondholders versus amounts paid to counterparties are largely offsetting.

Debt service requirements to maturity for variable-rate bonds hedged by interest rate swap agreements and projected future net settlement payments on interest rate swap agreements at June 30, 2013 are provided below (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2014.....	\$ 152,430	\$ 16,383	\$ 110,755	\$ 279,568
2015.....	240,930	14,786	102,776	358,491
2016.....	252,485	13,339	94,260	360,084
2017.....	349,585	12,445	84,732	446,762
2018.....	114,840	10,604	75,934	201,377
2019-2023.....	1,006,945	37,858	273,258	1,318,061
2024-2028.....	655,030	14,021	114,823	783,873
2029-2033.....	228,785	6,833	43,779	279,397
2034-2038.....	109,195	1,727	8,188	119,110
Total.....	<u>\$ 3,110,225</u>	<u>\$ 127,994</u>	<u>\$ 908,505</u>	<u>\$4,146,724</u>

#### *Business - Type Activities – Swapped Debt*

The University System has various swaps. At June 30, 2013, the fair value liability of the universities' outstanding interest rate swaps was \$69 million.

For financial reporting purposes, long-term debt is carried at its face value. Unamortized discounts and premiums are shown separately. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid.

#### *Component Unit – Swapped Debt*

At June 30, 2013, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$476 million. For complete details, see separate MassDOT financial statements.

### **G. OUTSTANDING LONG-TERM DEBT AND CHANGES IN LONG TERM DEBT**

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting.

Long-term debt principal outstanding and debt authorized and unissued at June 30, 2013 is as follows (amounts in thousands):

Purpose	Principal Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 449,100	2014-2023	\$ -
Capital projects:			
General.....	8,716,611	2014-2043	8,171,229
Highway.....	10,324,183	2014-2043	5,572,328
Local aid.....	1,384,445	2014-2038	18,700
Other.....	638,700	2015-2034	-
Subtotal.....	<u>21,063,939</u>		<u>13,762,257</u>
Subtotal - governmental activities debt (exclusive of MSBA).....	21,513,039		<u>\$ 13,762,257</u>
MSBA debt.....	<u>5,195,160</u>		
Governmental activities debt.....	<u>\$ 26,708,199</u>		

Interest rates on the Commonwealth's outstanding debt at the end of FY13 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (excluding discount and premium) and bonds authorized - unissued for the year ended June 30, 2013 are as follows (amounts in thousands):

	Governmental Funds		Governmental	
	Debt - Primary Government	MSBA	Funds Bonded Debt	Authorized and Unissued*
Balance July 1, 2012.....	\$ 21,433,553	\$ 5,443,265	\$ 26,876,818	\$ 13,893,469
Plus: Increases in bonds authorized.....	-	-	-	1,313,288
Less: Authorizations deauthorized.....	-	-	-	(5,054)
General and special obligation bonds:				
Proceeds, as defined as principal, premium less discount and issuance costs.....	1,742,512	2,029,920	3,772,432	(1,439,446)
Less: Net premium.....	(41,499)	(347,430)	(388,929)	-
Less: Principal on refunded bonds.....	(235,000)	(1,822,430)	(2,057,430)	-
Less: Bonds retired.....	(1,386,527)	(108,165)	(1,494,692)	-
Outstanding principal June 30, 2013.....	<u>\$ 21,513,039</u>	<u>\$ 5,195,160</u>	<u>\$ 26,708,199</u>	<u>\$ 13,762,257</u>

\*includes unallocated proceeds of approximately \$73 million

#### *Business - Type Activities – Colleges and University Debt*

Building authorities related to the University of Massachusetts and the state universities have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$200 million. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state universities have also entered into various loan agreements as participants in the MassDevelopment's ongoing capital asset program to finance construction projects and equipment.

At June 30, 2013, debt service requirements to maturity for principal and interest are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities	
	Excluding MSBA Debt		MSBA Debt			Revenue Obligation	
	Principal	Interest *	Principal	Interest	Interest subsidies	Principal	Interest
2014.....	\$ 1,589,387	\$ 906,107	\$ 111,690	\$ 255,975	\$ (23,519)	\$ 111,477	\$ 164,870
2015.....	1,606,269	846,386	116,555	251,113	(24,213)	121,587	156,018
2016.....	1,490,031	784,324	115,375	244,886	(24,213)	128,218	152,335
2017.....	1,243,471	727,945	128,420	239,237	(24,213)	128,843	147,791
2018.....	1,120,519	677,402	132,665	233,026	(24,213)	134,577	139,474
2019 - 2023.....	5,253,637	2,637,280	736,570	1,062,596	(121,065)	706,104	629,784
2024 - 2028.....	3,854,509	1,548,439	919,530	869,231	(112,809)	731,844	484,250
2029 - 2033.....	2,793,546	789,675	1,277,485	571,627	(46,751)	671,534	298,209
2034 - 2038.....	1,665,770	349,392	1,257,705	282,481	(24,171)	604,169	162,181
2039 - 2043.....	895,900	91,028	399,165	36,011	(2,289)	359,603	40,927
2044 - 2048.....	-	-	-	-	-	35,849	3,185
2049 - 2053.....	-	-	-	-	-	2,627	147
Total long - term debt....	21,513,039	9,357,978	5,195,160	4,046,183	(427,456)	3,736,432	2,379,171
Less: current portion.....	(1,589,387)	(906,107)	(111,690)	(255,975)	23,519	(111,477)	(164,870)
Long - term debt.....	\$ 19,923,652	\$ 8,451,871	\$ 5,083,470	\$ 3,790,208	\$ (403,937)	\$ 3,624,955	\$ 2,214,301

\*for all variable rate interest not hedged by swap agreements the budgeted interest rate is 5%

## H. PRIOR DEFEASANCE

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities from the proceeds of advance refunding bonds or from surplus operating funds and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust account assets and the liabilities for the defeased bonds are not included in the financial statements. As of June 30, 2013, approximately \$2.783 billion of bonds outstanding from advance refunding activities in prior fiscal years is considered defeased.

## I. STATUTORY DEBT LIMIT

The Massachusetts General Laws, as recently amended, establishes limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY13 was approximately \$17.924 billion. Outstanding debt subject to the limit at June 30, 2013 was approximately \$17.073 billion.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute, as amended on June 10, 2013 (effective January 1, 2013), as principal outstanding. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery/Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	<u>Principal Outstanding</u>
Statutory debt June 30, 2013.....	\$ 21,513,039
Less amounts excluded:	
Special obligation.....	(935,095)
Accelerated bridge program.....	(988,605)
GANs.....	(449,100)
MBTA forward funding.....	(207)
SMART bonds.....	(764,337)
Central artery/tunnel.....	<u>(1,303,013)</u>
Outstanding direct debt.....	<u>\$ 17,072,682</u>

**J. ADMINISTRATION DEBT LIMIT**

During FY09, the administration announced a policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistance payment obligations on certain capital lease financings. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than \$125 million through fiscal 2013. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration intends to treat all debt and debt-like obligations of the Commonwealth as subject to the bond cap for purposes of developing the annual capital budget, except in limited circumstances when there is a sound policy justification for not including a particular debt issue. Debt may be excluded from the bond cap, for example, where there is a new, dedicated source of project-related revenues supporting the payment of debt service on such debt; in such cases, the dedicated revenue would also be excluded from projected budgeted revenues for purposes of determining the bond cap as described above.

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and debt service as a percentage of budgeted revenues.

	<u>Fiscal 2013</u>
Bond cap as approved by the Governor.....	\$ 1,968,155
Total annual debt service obligations.....	2,321,067
Budgeted fund revenues.....	35,235,518
Debt service as % of budgeted revenues.....	6.6%

**K. CHANGES IN LONG-TERM LIABILITIES**

The following table summarizes changes in long-term liabilities for both governmental activities and business-type activities (amounts in thousands):

<i>Changes in Long Term Liabilities - Governmental Activities:</i>					
Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 503,974	\$ 518,309	\$ 503,974	\$ 518,309	\$ 339,943
Claims and judgments.....	40,000	9,002	36,171	12,831	12,831
Prizes payable.....	1,385,875	346,650	246,226	1,486,299	-
School construction grants payable.....	1,893,646	675,172	1,049,050	1,519,768	372,018
Retirement system pension obligations.....	1,418,894	1,833,148	1,437,033	1,815,009	-
Post employment benefit obligations.....	3,446,000	1,286,000	585,000	4,147,000	-
Environmental remediation liability.....	240,761	-	9,977	230,784	7,266
Lottery instant grand prizes.....	40,672	-	10,901	29,771	-
Workers' compensation.....	276,132	58,354	51,792	282,694	39,860
Arbitrage rebate - MSBA.....	7,595	2,427	-	10,022	-
Group insurance claims.....	92,176	1,282,661	1,278,481	96,356	94,633
<b>Total other long-term obligations.....</b>	<b>9,345,725</b>	<b>6,011,723</b>	<b>5,208,605</b>	<b>10,148,843</b>	<b>866,551</b>
Liability for derivative instruments.....	564,287	404,724	564,287	404,724	-
Bonded Debt:					
Bonds and notes payable - non MSBA.....	21,433,553	1,701,013	1,621,527	21,513,039	1,589,387
Unamortized bond and note premiums - non MSBA.....	474,130	41,499	26,975	488,654	31,423
Deferred loss on refunding.....	(37,034)	-	(6,585)	(30,449)	(6,271)
MSBA Bonds and notes payable excluding premium.....	5,443,265	1,682,490	1,930,595	5,195,160	111,690
Unamortized bond and note premiums - MSBA.....	276,670	356,742	130,974	502,438	39,824
Other financing arrangements:					
Capital leases.....	60,457	757	10,383	50,831	8,199
<b>Total bonded debt and other financing arrangements.....</b>	<b>27,651,041</b>	<b>3,782,501</b>	<b>3,713,869</b>	<b>27,719,673</b>	<b>1,774,252</b>
<b>Long-term liabilities, governmental activities.....</b>	<b>\$ 37,561,053</b>	<b>\$ 10,198,948</b>	<b>\$ 9,486,761</b>	<b>\$ 38,273,240</b>	<b>\$ 2,640,803</b>
<i>Changes in Major Long Term Liabilities - Business-Type Activities:</i>					
Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 192,631	\$ 29,841	\$ 21,466	\$ 201,006	\$ 138,352
Environmental remediation liability.....	1,470	62	65	1,467	1,382
<b>Total other long-term obligations.....</b>	<b>194,101</b>	<b>29,903</b>	<b>21,531</b>	<b>202,473</b>	<b>139,734</b>
Liability for derivative instruments.....	108,107	-	37,497	70,610	-
Bonded Debt:					
Bonds and notes payable, including MSCBA.....	3,355,588	500,735	119,891	3,736,432	111,477
Other financing arrangements:					
Capital leases.....	23,327	3,515	7,543	19,299	6,422
<b>Total bonded debt and other financing arrangements.....</b>	<b>3,378,915</b>	<b>504,250</b>	<b>127,434</b>	<b>3,755,731</b>	<b>117,899</b>
<b>Long-term liabilities, business - type activities.....</b>	<b>\$ 3,681,123</b>	<b>\$ 534,153</b>	<b>\$ 186,462</b>	<b>\$ 4,028,814</b>	<b>\$ 257,633</b>

\*as restated and more fully described in footnote 1

Governmental long-term liabilities, other than debt, are typically liquidated by using the General Fund resources.

**Discretely Presented Component Units** – The change in bonds and notes outstanding at June 30, 2013, net of unamortized discounts and premiums and compensated absences are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>	July 1, 2012			June 30, 2013		Due	<u>Long Term</u>
	<u>Beginning Balance*</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Within One Year</u>		
	<u>Interest Rates</u>	<u>Maturities</u>					
Major component units:							
MassDOT.....	0.00 - 7.00%	2014-2041	\$ 8,137,820	\$ 20,343	\$ (50,540)	\$ 8,107,623	\$ 7,551,388
MWPAT.....	1.00 - 6.375%	2014-2043	3,715,203	242,657	(186,852)	3,771,008	3,555,255
Nonmajor component units.....	1.00 - 6.50%	2014-2038	625,611	78,558	(63,893)	640,276	607,356
Total bonds and notes payable.....			12,478,634	341,558	(301,285)	12,518,907	11,713,999
Compensated absences, net.....			48,776	3,658	(2,195)	50,239	22,671
Total long term liabilities.....			\$ 12,527,410	\$ 345,216	\$ (303,480)	\$ 12,569,146	\$ 11,736,670

\*As restated and more fully described in footnote 1

Further information on debt is found in the notes to the basic financial statements for the various component units.

**8. INDIVIDUAL FUND DEFICITS**

Certain funds within the Governmental Fund Type had fund deficits at June 30, 2013. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

<u>Other Governmental Funds</u>	<u>Amount</u>
Other Special Revenue Funds:	
Government land bank fund.....	\$ 35,033
Highway capital projects fund.....	509,286
General capital projects fund.....	425,618
Other Capital Project Funds:	
Federal highway construction program capital projects fund.....	30,664
Government land bank capital projects fund.....	414
Local aid capital projects fund.....	327
Capital improvement and investment trust fund.....	154

Some of the funds above are consolidated within supplementary information. The Commonwealth may fund these deficits with appropriations, or in the case of capital funds, proceeds from bond issuances or payments from third parties.

**9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS**

**A. PLAN DESCRIPTIONS**

*Primary Government*

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System). The members of the retirement systems do not participate in the Social Security System.

The Massachusetts *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the

independent authorities and agencies, including the state police officers at the Massachusetts Port Authority. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of SERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of SERS. The assets and liabilities of the former MTA have been transferred to SERS. SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand-alone audited financial report.

The Massachusetts *Teachers' Retirement System* (MTRS) is a defined benefit PERS managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities towns, regional school districts and Quincy College. Consequently, the Commonwealth reports the MTRS as a single employer PERS with special funding responsibilities. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone audited financial report.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. Benefits are recorded when due and payable.

*Membership* – Membership in SERS and MTRS as of January 1, 2013, the date of the most recent valuation, is as follows:

	<u>SERS</u>	<u>MTRS</u>
Retirees and beneficiaries		
currently receiving benefits.....	55,383	59,019
Terminated employees entitled to benefits but not yet receiving them.....	<u>4,067</u>	<u>-</u>
Subtotal.....	59,450	59,019
Current members.....	<u>87,175</u>	<u>87,765</u>
Total.....	<u><u>146,625</u></u>	<u><u>146,784</u></u>

*Legally Required Reserve Accounts* - The balances of legally required reserves at June 30, 2013 were as follows (amounts in thousands):

	<u>SERS</u>	<u>MTRS</u>	<u>Purpose</u>
Annuity Savings Fund.....	\$ 5,462,801	\$ 5,919,540	Active members' contribution balance
Annuity Reserve Fund.....	1,460,454	2,505,338	Retired members' contribution account
Special Military Service Fund.....	48	219	Members' contribution account while on military leave
Pension Reserve Fund.....	<u>14,161,655</u>	<u>14,272,205</u>	Amounts appropriated to fund future retirement benefits
Total	<u><u>\$21,084,958</u></u>	<u><u>\$22,697,302</u></u>	

Boston teachers are members of the State Boston Retirement System (SBRS) and are not included in this membership data.

## **B. BENEFIT PROVISIONS**

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

## **C. FUNDING AND CONTRIBUTIONS POLICY**

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

**D. OTHER FINANCING SITUATIONS**

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers in the SBRS and created a special funding situation for the Commonwealth. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for Boston Teachers that are members of the SBRS. For the fiscal year ending June 30, 2013, the Commonwealth contributed \$95 million in satisfaction of its actuarially required contribution to the SBRS. The SBRS is a cost sharing multiple employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth. For a complete copy of SBRS’s separately issued financial statements, please contact the City of Boston Retirement Board at 617-635-4305, or you may download this report at <http://www.cityofboston.gov/retirement/investment.asp>.

The retirement systems’ funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS and TRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

The Commonwealth is financially responsible for the cost of living adjustment (COLA) granted to participants in various retirement systems of cities, towns and counties in fiscal years 1981 to 1997. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits.

The actuarial accrued liability for COLAs as of January 1, 2013 was \$244 million.

The policy for post-retirement benefit increases for all retirees of the SERS, MTRS, for those participants who serve in the City of Boston’s School Department in a teaching capacity and COLAs of local governments is subject to legislative approval.

The total contributions required for SERS and TRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

A table of Pension Funding Progress and the Commonwealth’s annual pension contributions for the past six fiscal years is presented as supplemental information of this report.

Member contributions vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975.....	5% of regular compensation
1975 - 1983.....	7% of regular compensation
1984 to 6/30/1996.....	8% of regular compensation
7/1/1996 to present.....	9% of regular compensation except for State Police which is 12% of regular compensation
7/1/2001 to present.....	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present.....	An additional 2% of regular compensation in excess of \$30,000

*Schedule of Annual Required Contributions and Calculation Methodology*

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary’s direction. Any such schedule is subject to legislative approval. If a schedule

is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in 2011, the amortization payments are designed to eliminate the unfunded liability by FY40 according to the following schedule: in FY14 5.0%, increasing to 6.0% in FY15 through FY17. In FY18 the unfunded actuarial liability will be amortized on a 4.0% annual increasing basis to FY40. The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

Contributions by the Commonwealth of \$1.552 billion were made during the fiscal year ended June 30, 2013. Of this amount \$20 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately \$95 million represents payments for Boston Teachers.

GAAP requires that pension expenditures (costs) be based on the actuarially required contribution determined using an acceptable actuarial cost method and that they are not less than:

- Normal cost plus amortization of net pension obligation cost
- Interest and amortization on any unfunded prior service costs

The Commonwealth contributed approximately 79.5% of its annual required contribution in FY13.

The following table shows the detail of annual required contributions (ARC) and Commonwealth contribution, as well as pension cost contributions exclusive of cost of living adjustments (amounts in thousands):

	SERS	MTRS	Total
<u>2013</u>			
Annual required contribution.....	\$ 699,962	\$ 1,104,486	\$ 1,804,448
Interest on net pension obligation.....	23,935	74,904	98,839
Adjustment to annual required contribution.....	(16,985)	(53,154)	(70,139)
Annual pension cost.....	706,912	1,126,236	1,833,148
Less: Contributions made, excluding COLAs.....	(545,453)	(891,580)	(1,437,033)
Increase in net pension obligation.....	161,459	234,656	396,115
Net pension obligation beginning of year.....	379,597	1,039,297	1,418,894
Net pension obligation end of year.....	<u>\$ 541,056</u>	<u>\$ 1,273,953</u>	<u>\$ 1,815,009</u>
<u>2012</u>			
Annual pension cost.....	\$ 625,165	\$ 962,782	\$ 1,587,947
Percentage of annual pension cost contributed.....	83.0%	88.2%	86.2%
Net pension obligation end of year.....	\$ 379,597	\$ 1,039,297	\$ 1,418,894
<u>2011</u>			
Annual pension cost.....	\$ 476,874	\$ 790,721	\$ 1,267,595
Percentage of annual pension cost contributed.....	90.4%	108.2%	101.5%
Net pension obligation end of year.....	\$ 273,350	\$ 926,011	\$ 1,199,361

#### E. FUNDED STATUS AND FUNDING PROCESS

The funded status of SERS and MTRS as of January 1, 2013, the most recent actuarial valuation date, is as follows (amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
<b>State Employees Retirement System</b>						
Actuarial Valuation as of January 1, 2013.	\$ 20,317,389	\$ 29,385,442	\$ 9,068,053	69.1%	\$ 5,183,195	175.0%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2013.	\$ 21,787,470	\$ 39,135,218	\$ 17,347,748	55.7%	\$ 5,783,294	300.0%

\* The covered payroll amount approximates the employer payroll

The following table displays the Schedule of Net Position and the Schedule of Changes in Net Position for the SERS, the MTRS and the SRBT as of June 30, 2013, (amounts in thousands):

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 104,223	\$ 175,034	\$ 1,207	\$ 280,464
Investments at fair value:				
Short-term.....	367,148	392,635	7,992	767,775
Fixed Income.....	4,925,377	5,267,276	107,209	10,299,862
Equity.....	8,936,795	9,557,150	194,524	18,688,469
Real Estate.....	2,323,447	2,484,731	50,574	4,858,752
Timber.....	540,364	577,874	11,762	1,130,000
Private equity.....	2,511,888	2,686,253	54,675	5,252,816
Hedge funds.....	1,964,960	2,101,359	42,771	4,109,090
Total investments at fair value.....	21,569,979	23,067,278	469,507	45,106,764
Other receivables.....	265,254	354,485	5,209	624,948
Other assets.....	216,944	245,648	4,720	467,312
<b>Total assets.....</b>	<b>22,156,400</b>	<b>23,842,445</b>	<b>480,643</b>	<b>46,479,488</b>
<b>LIABILITIES</b>				
Loans and other liabilities.....	1,071,442	1,145,143	23,084	2,239,669
<b>Net position available for post-employment benefits.....</b>	<b>\$ 21,084,958</b>	<b>\$ 22,697,302</b>	<b>\$ 457,559</b>	<b>\$ 44,239,819</b>
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 565,673	\$ 937,066	\$ 496,933	\$ 1,999,672
Employee contributions.....	529,519	642,718	-	1,172,237
Other additions.....	41,820	251,933	480	294,233
<b>Total contributions.....</b>	<b>1,137,012</b>	<b>1,831,717</b>	<b>497,413</b>	<b>3,466,142</b>
Net investment gain (loss):				
Investment gain (loss).....	2,530,368	2,630,660	48,398	5,209,426
Less: investment expense.....	(112,063)	(120,186)	(2,018)	(234,267)
<b>Net investment gain (loss).....</b>	<b>2,418,305</b>	<b>2,510,474</b>	<b>46,380</b>	<b>4,975,159</b>
<b>Total additions.....</b>	<b>3,555,317</b>	<b>4,342,191</b>	<b>543,793</b>	<b>8,441,301</b>
<b>DEDUCTIONS</b>				
Administration.....	18,613	38,820	-	57,433
Retirement benefits and refunds.....	1,847,759	2,517,231	458,979	4,823,969
Payments to State Boston Retirement System.....	-	2,462	-	2,462
<b>Total deductions.....</b>	<b>1,866,372</b>	<b>2,558,513</b>	<b>458,979</b>	<b>4,883,864</b>
<b>Net increase(decrease).....</b>	<b>1,688,945</b>	<b>1,783,678</b>	<b>84,814</b>	<b>3,557,437</b>
Net position available for post-employment benefits at beginning of year.....	19,396,013	20,913,624	372,745	40,682,382
<b>Net position available for post-employment benefits at end of year.....</b>	<b>\$ 21,084,958</b>	<b>\$ 22,697,302</b>	<b>\$ 457,559</b>	<b>\$ 44,239,819</b>

**F. ADDITIONAL ACTUARIAL INFORMATION**

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability (AALs) for benefits.

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

1. The annual required contribution for 2013 was determined as part of the January 1, 2013 actuarial valuation using the entry age normal cost method.
2. The actuarial assumptions included (a) 8.00% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase per year.
3. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
4. The assumptions do not include post-retirement benefit increases, which are taken into account when granted under amendments to General Laws.
5. The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased-in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior, etc., so that 100% of gains and losses occurring five years prior are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.
6. Normal costs are amortized using level percentage of payroll, closed.
7. The remaining amortization period for the unfunded pension liability at January 1, 2013 was 28 years to FY40.

**G. COMMONWEALTH POST EMPLOYMENT OBLIGATIONS OTHER THAN PENSIONS**

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care/benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates. The GIC has representation on the Board of Trustees of the State Retiree Benefits Trust (SRBT).

At the inception of MassDOT, the employees of the former MTA became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so. The liability for MassDOT (including former MTA employees) is included in the Commonwealth's liability. The former MTA had established an irrevocable trust to fund OPEB liabilities. That trust had a balance of approximately \$68 million as of June 30, 2013. The trustees have yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets.

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions. The FY13 General Appropriation Act transferred approximately \$415 million to the Trust for the purpose of benefits payments.

*Funding Policy*

Employer and employee contribution rates are set in General Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2013 and as of the valuation date (January 1, 2013), Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As part of the FY13 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY13 totaled approximately \$585 million. There are approximately 149,675 participants eligible to receive benefits at June 30, 2013.

*Annual OPEB Cost and Net OPEB Obligation, Funded Status and Funding Progress*

The Commonwealth is not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of GASB Statement No. 45 and under Commonwealth general laws. 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. For FY13, the Commonwealth’s annual OPEB contribution of approximately \$585 million for retiree benefits was less than the ARC. The Commonwealth’s annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBT and the net OPEB obligation for the Commonwealth for FY13 are as follows from the valuation calculated as of January 1, 2013 (amounts in millions except percentages):

<u>2013</u>	<u>SRBT</u>
Annual required contribution (ARC).....	\$ 1,251
Interest on net OPEB obligation.....	155
Adjustment to annual required contribution.....	(120)
	<hr/>
Annual OPEB cost (AOC).....	1,286
Less: Contributions made*.....	(585)
	<hr/>
Increase in net OPEB obligation.....	701
Net OPEB obligation as reported at beginning of year.....	3,446
	<hr/>
Net OPEB obligation - end of year.....	<u>\$ 4,147</u>
<u>2012</u>	
Annual OPEB cost.....	\$ 1,313
Percentage of annual OPEB cost contributed.....	42.4%
Net OPEB obligation - end of year.....	\$ 3,446
<u>2011</u>	
Annual OPEB cost.....	\$ 1,295
Percentage of annual OPEB cost contributed.....	43.0%
Net OPEB obligation - end of year.....	\$ 2,691

\*Includes approximately \$31 million in Medicare Part D Retiree Drug Subsidy Payments

The funded status of the Commonwealth’s OPEB obligation is as follows: (amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2013...	\$ 406,700	\$ 15,784,100	\$ 15,377,400	2.6%	\$ 5,183,195	296.7%

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 SRBT and the annual required contributions of the Commonwealth are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear 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.

#### *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in the GIC) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs on a premium basis between the Commonwealth and those non-Commonwealth governments that participate in the GIC 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 actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.0%, decreasing by 0.5% for five years to an ultimate rate of 5.0%.

Administrative expenses are expected to rise 5.0% per annum. The Commonwealth's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis for a period of thirty years, increasing at a rate of 4.5% per year, the same rate as the projected salary increases.

A schedule of funding progress for OPEB is presented as Required Supplementary Information (RSI).

The most recent OPEB actuarial valuation for the Commonwealth is available on the Comptroller's web site at <http://www.mass.gov/osc/publications-and-reports/financial-reports/opeb.html>. There is currently no separate, audited GAAP-basis postemployment benefit plan report available for the Commonwealth.

#### *MSBA*

The MSBA has a separate OPEB trust fund. The amount of assets and actuarial accrued liabilities related to MSBA's OPEB plan are not material to the Commonwealth (approximately \$2 million) and are therefore, not included in these financial statements.

## **10. LEASES**

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### *Primary Government*

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Included in the capital assets of the Commonwealth are additions financed by capital leases. For FY13, these additions are approximately \$757,000. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Institutions of Higher Education lease real property and equipment under numerous operating lease agreements for varying terms. The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Institutions of Higher Education – reported as a business-type activity, for the fiscal year ended June 30, 2013 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities				
	Capital Leases		Operating Leases	MSBA Operating Leases	Governmental Activities Total	Capital Leases		Operating Leases	Business -Type Activities Total	
	Principal	Interest				Principal	Interest			
2014.....	\$ 8,199	\$ 2,245	\$ 147,727	\$ 981	\$ 159,152	\$ 6,422	\$ 706	\$ 24,355	\$ 31,483	
2015.....	7,187	1,968	118,561	579	128,295	4,290	473	22,789	27,552	
2016.....	6,058	1,659	99,547	-	107,264	1,993	357	19,567	21,917	
2017.....	4,651	1,274	81,094	-	87,019	1,571	285	16,873	18,729	
2018.....	3,174	867	68,677	-	72,718	557	250	12,154	12,961	
2019 - 2023.....	14,634	4,007	150,210	-	168,851	2,425	898	28,743	32,066	
2024 - 2028.....	6,886	1,886	58,024	-	66,796	2,041	216	1,891	4,148	
2029 - 2033.....	42	11	53,263	-	53,316	-	-	40	40	
Total lease obligations.....	50,831	13,917	777,103	1,560	843,411	19,299	3,185	126,412	148,896	
Less: current portion.....	(8,199)	(2,245)	(147,727)	(981)	(159,152)	(6,422)	(706)	(24,355)	(31,483)	
Long - term lease obligations....	\$ 42,632	\$ 11,672	\$ 629,376	\$ 579	\$ 684,259	\$ 12,877	\$ 2,479	\$ 102,057	\$ 117,413	

Capital assets acquired under capital lease (amounts in thousands):

Asset type:	Primary Government	
	Governmental Activities	Business-type Activities
Buildings.....	\$ -	\$ 14,634
Machinery and equipment.....	66,963	71,476
Total assets.....	66,963	86,110
Less: accumulated depreciation.....	(16,065)	(64,049)
Total.....	\$ 50,898	\$ 22,061

## 11. COMMITMENTS

### A. PRIMARY GOVERNMENT

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2013, totaling approximately \$389 million.

The MBTA's Forward Funding legislation of 1999 provides for the MBTA to issue general obligation, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. Accordingly, all MBTA debt issued after this legislation is not backed by the full faith and credit of the Commonwealth.

Additional commitments of the Commonwealth remain for the University of Massachusetts Building Authority and the Massachusetts State College Building Authority. As of June 30, 2013, the University of Massachusetts Building Authority has approximately \$2.127 billion, of outstanding debt, of which approximately \$30 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$1.169 billion of outstanding debt, of which approximately \$25 million is guaranteed by the Commonwealth.

**B. SALTONSTALL BUILDING**

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building (Building) and its surrounding area. Under the provisions of MDFA's bond authorization, the Building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the Building and leased half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the Building and surrounding area has been redeveloped as private office space, housing and retail establishments. The Commonwealth is obligated for future lease payments for space it rents.

However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA's bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth's lease payments are due upon occupancy and are subject to annual appropriation.

**C. OTHER CONSTRUCTION COMMITMENTS**

At June 30, 2013, the Commonwealth had commitments of approximately \$566 million related to ongoing construction projects.

**D. CONTRACTUAL ASSISTANCE TO AUTHORITIES**

The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as: (a) general obligation contract assistance; (b) budgetary contractual assistance liabilities; or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such assistance constitutes a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contract assistance liabilities do not constitute a pledge of the Commonwealth's credit. Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These contingent liabilities consist of guarantees and similar obligations with respect to which the Commonwealth's credit has been or may be pledged. Under legislation approved by the Governor during FY09, the Commonwealth may pledge its credit to guarantee payment obligations of the Massachusetts Turnpike Authority (succeeded by MassDOT in FY10) with respect to certain hedging transactions or provide financial support subject to annual appropriation and without a pledge of the Commonwealth's credit. The same legislation authorizes the Commonwealth to provide credit support to the Turnpike Authority (succeeded by MassDOT) in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the Commonwealth's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from monies otherwise appropriated for the affected institution, owed by certain community colleges and state universities on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

**E. MSBA**

The MSBA has estimated the amount of outstanding Waiting commitments and New Program commitments at June 30, 2013 to be \$31 million and \$1.4 billion, respectively.

## 12. CONTINGENCIES

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. The Commonwealth records a liability for those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid. A short term liability of approximately \$13 million is recorded based on historical payments made.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2013 is estimated to be \$283 million of which approximately \$40 million is expected to be paid during FY14.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY13 totaled approximately \$105 million. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

*Drug Testing Laboratory disputes.* On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor established a central office to identify individuals who may have been affected by the chemist's alleged malfeasance, which the office has estimated as possibly tens of thousands of criminal drug cases. The Governor also announced that Inspector General Glenn Cunha is conducting an independent assessment of the laboratory's operations. In addition, the Attorney General's Office is conducting a criminal investigation. On December 17, 2012, the former chemist was indicted by a Statewide Grand Jury on 27 charges in connection with altering drug evidence during the testing process and obstructing justice. She was arraigned on December 20, 2012 in Suffolk Superior Court. There likely will be significant, but as yet undetermined, state costs required to investigate and respond to the chemist's alleged malfeasance. In addition, there may be costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. As neither the criminal investigation nor the determination of the number of specific cases affected has been completed, there is not sufficient information to fully estimate these additional state costs at this time. Supplemental appropriations totaling \$30 million were approved during fiscal 2013 to create a fund to reimburse agencies and cities for costs associated with investigating and responding to misconduct at the state drug testing laboratory.

### A. TOBACCO SETTLEMENT

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth. Several additional tobacco companies have joined the MSA and are bound by its terms.

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions and adjustments. In FY13, the Commonwealth received approximately \$253.5 million or 68.5% of the estimated amounts shown in the MSA. During FY13, 10.0% of tobacco settlement payments, or approximately \$25 million, was deposited in the State Retiree Benefits Trust (SRBT) to fund the Commonwealth's liability for retiree health care, with the remainder deposited in the General Fund. The portion of the annual tobacco settlement payments dedicated to the SRBT will increase by 10.0% per year until it reaches 100% in FY23. Amounts received in FY13 continued to be less than had previously been projected as payments under the MSA, primarily because the payment amounts are related to national tobacco sales volumes, which have continued to decline since the settlement. The Commonwealth's allocable share of the base amounts payable under the MSA is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is \$8.96 billion, which is subject to adjustments, reductions and offsets. However, in pending litigation, tobacco manufacturers are claiming that

because of certain developments, they are entitled to reduce future payments under the MSA and, from FY06 to the present, certain manufacturers have withheld portions of the payments due to the states. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from any downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025, minus an offset for amounts received by the attorneys from the tobacco companies pursuant to an arbitration award. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2013, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

#### **B. WORKERS' COMPENSATION AND GROUP INSURANCE LIABILITIES**

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30 2013, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately \$283 million.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY13 and FY12 were (amounts in thousands):

	FY13	FY12
Claim liability, beginning of year.....	\$ 276,132	\$ 285,400
Increase in liability estimate.....	58,354	43,188
Payments and decreases in liability estimate.....	(51,792)	(52,456)
Claims liability, end of year.....	<u>\$ 282,694</u>	<u>\$ 276,132</u>

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of \$141 million, net of the employees' reserve of \$89 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY13 and FY12 were (amounts in thousands):

	FY13	FY12
Claim liability, beginning of year.....	\$ 92,176	\$ 80,327
Increase in liability estimate.....	1,282,661	1,218,079
Payments and decreases in liability estimate.....	(1,278,481)	(1,206,230)
Claims liability, end of year.....	<u>\$ 96,356</u>	<u>\$ 92,176</u>

**C. OTHER CLAIMS & JUDGMENTS**

The following amounts were recognized for claims and judgments in FY13 and FY12 (amounts in thousands):

	FY13	FY12
Unpaid claims, beginning of year.....	\$ 40,000	\$ 40,000
Incurred claims.....	9,002	11,925
Claim payments and reductions.....	(36,171)	(11,925)
Unpaid claims end of year.....	<u>\$ 12,831</u>	<u>\$ 40,000</u>

**D. ENVIRONMENTAL REMEDIATION**

Governmental Accounting Standards Board Statement No 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49) became effective in FY09. GASB 49 provides guidance in estimating and reporting the potential costs of pollution remediation. While GASB 49 does not require the Commonwealth to search for pollution, it does require the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;
- The Commonwealth is found in violation of a pollution-related permit or license;
- The Commonwealth is named, or has evidence that it will be named, as a responsible party by a regulator;
- The Commonwealth is named, or has evidence that it will be named, in a lawsuit to enforce a cleanup;
- The Commonwealth commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the Commonwealth. Several Commonwealth agencies have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The Commonwealth has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities.

The standard requires the Commonwealth to calculate pollution remediation liabilities using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Where the Commonwealth cannot reasonably estimate a pollution remediation obligation it does not report a liability. Several state departments perform continual monitoring of polluted sites. Since the monitoring for such sites is perpetual, undiscounted multi-year costs for such sites have not been estimated. Because of a lack of information about the type and extent of the remediation effort that could be required, no range of outlays for the overall remediation effort for such sites could be developed at this time.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During the fiscal year, the Commonwealth had the following activity related to GASB 49 (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government-Wide Total
Environmental remediation liability, beginning of year.....	\$ 240,761	\$ 1,470	\$ 242,231
Expected additional future outlays, changes in liability estimates..	(1,688)	62	(1,626)
FY13 outlays for environmental remediation .....	(8,289)	(65)	(8,354)
Environmental remediation liability, end of year.....	<u>\$ 230,784</u>	<u>\$ 1,467</u>	<u>\$ 232,251</u>

*The Boston Harbor Clean-Up.* The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, e.g., *United States v. Metropolitan District Commission; Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The total cost of construction of the wastewater facilities required under the federal district court's order, not including combined sewer overflow (CSO) abatement costs, has been approximately \$3.8 billion. The MWRA has also spent approximately \$846 million through June 2013 in developing and implementing the CSO plan and its projects. Thus, the cost of construction of water treatment facilities required under the court's order has now amounted to approximately \$4.65 billion. Going forward, the MWRA anticipates spending at least an additional \$54 million on remaining design and construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system retrofits, and replacements.

*Massachusetts Military Reservation.* The Commonwealth, through the Executive Office of Energy and Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars. In 2013, the state and federal trustees reopened preliminary discussions per a Trustee Council resolution on a potential settlement framework.

*Closed State Facilities.* The Commonwealth has 17 facilities which contain a total of 235 buildings, mainly in closed state hospitals that may have varying degrees of asbestos, polychlorinated biphenyl (PCB's) and other compounds that are currently in a dormant state. The Commonwealth typically sells these facilities at minimal cost to private developers who assume full responsibility for all cleanup activity. Cost estimates are only performed during the sale process. At this time, the Commonwealth has no estimate of any potential asset that would be developed from these activities that would ready these sites for sale.

### **13. COMPONENT UNITS AND DETAILS OF DEPARTMENTS AND ENTITIES THAT ARE SEPARATELY AUDITED**

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The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 40 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Details of those entities' operations can be found in those entities' basic financial statements and notes to those entities' basic financial statements.

The following entities are presented in the basic financial statements (all having a June 30, 2013 fiscal year end) (entities marked with an \* are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

**Entities Audited by KPMG LLP:**

The Massachusetts School Building Authority (MSBA)  
The Pension Reserves Investment Trust Fund (PRIT)  
\*The Massachusetts State Lottery Commission  
The Massachusetts Department of Transportation (MassDOT)  
The Massachusetts Water Pollution Abatement Trust (MWPAT)  
Commonwealth Health Insurance Connector Authority  
\*§The Massachusetts Municipal Depository Trust (MMDT)

**\*Community Colleges:**

Bunker Hill Community College  
Greenfield Community College  
Middlesex Community College  
North Shore Community College

**Entities Audited by Other Auditors:**

\*The University of Massachusetts System  
\*Community Colleges (in addition to the four Community Colleges audited by KPMG LLP, above):

Berkshire Community College  
Bristol Community College  
Cape Cod Community College  
Holyoke Community College  
Massasoit Community College  
Massachusetts Bay Community College  
Mount Wachusett Community College  
Northern Essex Community College  
Quinsigamond Community College  
Roxbury Community College  
Springfield Technical Community College

**\*State Universities**

Bridgewater State University  
Fitchburg State University  
Framingham State University  
Massachusetts College of Art  
Massachusetts Maritime Academy  
Massachusetts College of Liberal Arts  
Salem State University  
Westfield State University  
Worcester State University  
The Massachusetts State College Building Authority

Massachusetts Convention Center Authority (MCCA)

§Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)

Massachusetts Clean Energy Center (CEC)

Massachusetts Housing Partnership (MHP)

**Economic Development Entities (5 separate entities)** including:

Massachusetts Growth Capital Corporation (MGCC)  
 Commonwealth Corporation  
 Community Economic Development Assistance Corporation (CEDAC)  
 §Massachusetts Life Sciences Center  
 Commonwealth Zoological Corporation (Zoo)

**Higher Education Foundations (25 separate entities)** including:

Berkshire Community College Foundation  
 Bristol Community College Foundation  
 Bunker Hill Community College Foundation  
 Cape Cod Community College Educational Foundation, Inc.  
 Greenfield Community College Foundation, Inc.  
 Holyoke Community College Foundation  
 Massachusetts Bay Community College Foundation, Inc.  
 Massasoit Community College Foundation  
 Middlesex Community College Foundation, Inc.  
 North Shore Community College Foundation  
 Springfield Technical Community College Foundation  
 The Mount Wachusett Community College Foundation, Inc.  
 The Northern Essex Community College Foundation, Inc.  
 The Quinsigamond Community College Foundation, Inc.  
 The Roxbury Community College Foundation, Inc.

## Bridgewater State University Foundation:

The Bridgewater State University Foundation  
 The Bridgewater Alumni Association of Bridgewater State University

Fitchburg State University Foundation, Inc.  
 Framingham State University Foundation, Inc.  
 Massachusetts College of Art Foundation, Inc.  
 Massachusetts College of Liberal Arts Foundation, Inc.  
 The Massachusetts Maritime Academy Foundation, Inc.

## Salem State University Foundation:

The Salem State University Foundation, Inc.  
 Salem State University Assistance Corporation

Westfield State University Foundation, Inc.  
 Worcester State Foundation

The University of Massachusetts System Foundation

**14. SUBSEQUENT EVENTS*****SUBSEQUENT BOND ISSUANCES***

On July 2, 2013, the Commonwealth issued \$469 million in General Obligation Refunding Bonds 2013 Series B. These bonds were issued to advance refund approximately \$487 million of various General Obligation Bonds and carry interest rates from 2.00% to 5.00% with final maturity on August 1, 2023. The refunding resulted in reduced debt service principal of \$17 million and a present value savings of \$34 million over the life of the bonds.

On July 2, 2013, the MSBA issued \$549 million 2013 Series A Senior Dedicated Sales Tax Bonds plus approximately \$46.9 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the bonds range from approximately 3.0% to 5.0% and this series is payable semiannually with the last maturity occurring in FY43.

On August 1, 2013, the Commonwealth issued approximately \$11 million in General Obligation College Opportunity Bonds, 2013 Series A. The bonds carry an interest rate of 0.50% with the first annual payment due August 1, 2018 and final maturity on August 1, 2033.

On August 7, 2013, the Commonwealth issued \$600 million in General Obligation Bonds, Consolidated Loan of 2013, Series E. These bonds carry interest rates from 4.00% to 5.00% with the first annual payment due August 1, 2023 and final maturity on August 1, 2043.

On September 20, 2013, the Commonwealth entered into novation agreements with Citibank NA, Citi Swapco, Inc. and Wells Fargo, NA in order to transfer two interest rate swap agreements from Citibank NA and one from Citi Swapco Inc. to Wells Fargo NA. The purpose of the novations were to reduce the Commonwealth's swap counterparty risk by moving the three hedge agreements to a higher rated counterparty. At the time of the novations, Wells Fargo NA was rated Aa3/AA- (Moody's/S&P), Citibank NA was rated A2/A and Citi Swapco, Inc. was rated Aa2/AA. The three novated agreements are associated with the following refunding bonds: 1998A, 2006C, 2010A, 2011A, 2012A and 2013A. The total notional amount of the three hedge agreements is approximately \$685 million.

On September 25, 2013, the Commonwealth issued \$800 million in Revenue Anticipation Notes (RANs). The RANs were issued in three Series; 2013 Series A for \$200 million, 2013 Series B for \$300 million and 2013 Series C for \$300 million. All three Series RANs carry a 2.00% interest rate. The 2013 Series A, 2013 Series B and 2013 Series C RANs mature on April 24, 2014, May 29, 2014 and June 26, 2014, respectively.

On November 5, 2013, the Commonwealth issued approximately \$424 million in Commonwealth Transportation Fund Revenue Bonds 2013 Series A as part of the Accelerated Bridge Program. Of the total issuance, approximately \$415.3 million was issued as new money bonds with the remaining \$8.4 million issued to advance refund the Special Obligation Revenue Bonds 2005 Series A. These bonds carry interest rates from 3.50% to 5.00% with the first annual payment due June 1, 2023 and final maturity on June 1, 2038.

On November 6, 2013 the Commonwealth issued approximately \$253 million in Federal Highway Grant Anticipation Notes (GANs) 2013 Series A as part of the Accelerated Bridge Program. The GANs carry interest rates from 3.00% to 5.00% with the first annual payment due June 15, 2016 and final maturity on June 15, 2027.

All debt issues were sold as tax exempt.

# *Required Supplementary Information Other Than Management Discussion and Analysis*

(Unaudited)



## *Gloucester Boys*

*Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual – General Fund*

*Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for the General Fund on a Budgetary Basis and GAAP Basis*

*Notes to Required Supplementary Information – Budgetary Reporting*

*Schedule of Pension Funding Progress – Last Six Fiscal Years*

*Schedule of Post Employment Benefit Funding Progress – State Retiree Benefits Trust Fund*

**Schedule of Revenues, Expenditures and Changes In Fund Balances - Statutory Basis - Budget and Actual**

General Fund

Fiscal Year Ended June 30, 2013

(Amounts in thousands )

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
<b>Revenues:</b>				
Taxes.....	\$ 19,523,900	\$ 19,523,900	\$ 19,617,182	\$ 93,282
Assessments.....	-	-	438,295	438,295
Federal grants and reimbursements.....	8,264,700	8,264,700	8,221,900	(42,800)
Tobacco settlement revenue.....	-	-	228,148	228,148
Departmental.....	2,823,800	2,823,800	2,215,552	(608,248)
Miscellaneous.....	9,087	9,087	216,768	207,681
<b>Total revenues.....</b>	<b>30,621,487</b>	<b>30,621,487</b>	<b>30,937,845</b>	<b>316,358</b>
<b>Other financing sources:</b>				
Fringe benefit cost recovery.....	-	-	294,675	294,675
Lottery reimbursements.....	106,088	106,088	93,517	(12,571)
Lottery distributions.....	920,604	920,604	949,428	28,824
Operating transfers in.....	508,808	508,808	212,118	(296,690)
Stabilization transfer.....	459,100	459,100	1,126,464	667,364
<b>Total other financing sources.....</b>	<b>1,994,600</b>	<b>1,994,600</b>	<b>2,676,202</b>	<b>681,602</b>
<b>Total revenues and other financing sources.....</b>	<b>32,616,087</b>	<b>32,616,087</b>	<b>33,614,047</b>	<b>997,960</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
<b>Expenditures:</b>				
Legislature.....	66,240	66,240	57,254	8,986
Judiciary.....	799,236	799,237	790,620	8,617
Inspector General.....	7,007	7,007	5,870	1,137
Governor and Lieutenant Governor.....	9,005	9,005	5,555	3,450
Secretary of the Commonwealth.....	55,239	55,355	43,928	11,427
Treasurer and Receiver-General.....	1,092,533	225,816	192,785	33,031
Auditor of the Commonwealth.....	17,591	17,591	17,579	12
Attorney General.....	41,877	41,877	40,731	1,146
Ethics Commission.....	1,933	1,933	1,904	29
District Attorney.....	105,553	105,644	105,110	534
Office of Campaign & Political Finance.....	1,282	1,282	1,239	43
Sheriff's Departments.....	541,043	541,043	528,489	12,554
Disabled Persons Protection Commission.....	2,294	2,294	2,281	13
Board of Library Commissioners.....	21,814	21,814	21,775	39
Comptroller.....	1,924,142	12,491	12,038	453
Administration and finance.....	1,975,221	2,131,212	1,981,484	149,728
Energy and environmental affairs.....	198,729	200,070	189,786	10,284
Health and human services.....	4,848,795	4,969,138	4,848,767	120,371
Executive office of education.....	1,990,662	1,993,039	1,963,589	29,450
Center for Health Information and Analysis.....	25,030	25,030	9,067	15,963
Public safety and homeland security.....	982,082	1,038,759	1,002,745	36,014
Housing and economic development.....	458,884	494,346	443,836	50,510
Labor and workforce development.....	51,309	70,825	38,902	31,923
Direct local aid.....	5,116,322	5,116,322	5,115,737	585
Medicaid.....	10,871,692	10,871,692	10,799,693	71,999
Post employment benefits.....	-	1,967,042	1,967,042	-
Debt service:				
Principal retirement.....	672,073	672,074	668,923	3,151
Interest and fiscal charges.....	423,049	423,049	432,648	(9,599)
<b>Total expenditures.....</b>	<b>32,300,639</b>	<b>31,881,228</b>	<b>31,289,377</b>	<b>591,851</b>
<b>Other financing uses:</b>				
Operating transfers out.....	2,268,439	1,500	105,806	(104,306)
Commonwealth care transfer.....	-	740,272	661,249	79,023
Medical assistance transfer.....	-	565,007	390,889	174,118
Stabilization transfer.....	-	464,100	1,055,320	(591,220)
Delivery system transformation initiatives trust transfer.....	-	186,908	186,908	-
State Retiree Benefits transfer.....	-	-	23,375	(23,375)
State Pension transfer.....	-	-	23,375	(23,375)
<b>Total other financing uses.....</b>	<b>2,268,439</b>	<b>1,957,787</b>	<b>2,446,922</b>	<b>(489,135)</b>
<b>Total expenditures and other financing uses.....</b>	<b>34,569,078</b>	<b>33,839,015</b>	<b>33,736,299</b>	<b>102,716</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>315,448</b>	<b>(1,222,928)</b>	<b>(122,252)</b>	<b>1,100,676</b>
Fund balances (deficit) at beginning of year.....	1,961,922	1,961,922	1,961,922	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 2,277,370</b>	<b>\$ 738,994</b>	<b>\$ 1,839,670</b>	<b>\$ 1,100,676</b>

See Independent Auditor's Report and notes to required supplementary information

**Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses)  
for the General Fund on a Budgetary Basis and GAAP Basis (in thousands):**

	<u>General</u>
<b>REVENUES</b>	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 30,937,845
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax revenue.....	(61,936)
Federal reimbursements and other receivables.....	(36,212)
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	(145,886)
Inflows from component units and other miscellaneous financing sources.....	455
<b>Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 30,694,266</u></b>
<b>EXPENDITURES</b>	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 31,289,377
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	(50,700)
Compensated absences and other accrued liabilities.....	23,509
Reclassifications:	
State Retiree Benefits Trust Fund transfers are reclassified to expenditures for GAAP reporting.....	46,750
Outflows from component units and other miscellaneous financing sources.....	69,820
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	(1,101,571)
Higher education expenditures are reclassified for GAAP reporting.....	(1,129,405)
<b>Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 29,147,780</u></b>
<b>OTHER FINANCING SOURCES</b>	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 2,676,202
Adjustments:	
Consolidation of transfers between funds.....	(1,063,235)
Inflows from component units and other miscellaneous financing sources.....	89,243
<b>Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 1,702,210</u></b>
<b>OTHER FINANCING USES</b>	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 2,446,922
Adjustments and Reclassifications:	
Consolidation of transfers between funds.....	(1,063,235)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	980,260
State Retiree Benefits Trust Fund transfers are reclassified to expenditures for GAAP reporting.....	(46,750)
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	1,101,571
Outflows from component units and other miscellaneous financing sources.....	(55,688)
<b>Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 3,363,080</u></b>

See Independent Auditor's Report and notes to required supplementary information

**Note to Required Supplementary Information – Budgetary Reporting**

The Commonwealth passes a combined budget for all budgeted operations. State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act. Generally, expenditures may not exceed the level of spending authorized for an appropriation account.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a difference to separately published budget documents, which eliminate some interfund activity. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The table on the following page summarizes budgetary activity for FY13 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 139 of the Acts of 2012:		
Direct appropriations.....	\$ 32,190,800	\$ 32,001,909
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2012.....	-	1,131,291
Total original budget.....	<u>32,190,800</u>	<u>33,133,200</u>
Supplemental Acts of 2012:		
Chapter 239.....	-	176,282
Supplemental Acts of 2013:		
Chapter 3.....	-	83,179
Chapter 5.....	-	6,500
Chapter 36.....	-	131,882
Chapter 46.....	-	100
Chapter 118.....	-	42,576
Less: Governor's Actions with regard to Chapter 29, Section 9C....	-	(201,979)
Total budgeted revenues and expenditures per Legislative action.....	-	238,540
Plus: Pension contributions and revenue authorized outside of General Appropriations Act, and other transfers of revenue and spending.....	<u>2,018,400</u>	<u>2,030,224</u>
Budgeted revenues and expenditures as reported.....	<u>\$ 34,209,200</u>	<u>\$ 35,401,964</u>

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth's MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

## Schedule of Post Employment Benefits

(Amounts in thousands except for percentages)

### Pension Funding Progress for the last six fiscal years

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<b>State Employees' Retirement System</b>						
Actuarial Valuation as of January 1, 2013....	\$ 20,317,389	\$ 29,385,442	\$ 9,068,053	69.1%	\$ 5,183,195	175.0%
Actuarial Valuation as of January 1, 2012....	20,507,644	27,784,731	7,277,087	73.8%	4,922,388	147.8%
Actuarial Valuation as of January 1, 2011....	21,244,900	26,224,776	4,979,876	81.0%	4,808,250	103.6%
Actuarial Valuation as of January 1, 2010....	19,019,062	24,862,421	5,843,359	76.5%	4,711,563	124.0%
Actuarial Valuation as of January 1, 2009....	16,992,214	23,723,240	6,731,026	71.6%	4,712,655	142.8%
Actuarial Valuation as of January 1, 2008....	20,400,656	22,820,502	2,419,846	89.4%	4,574,233	52.9%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2013....	\$ 21,787,470	\$ 39,135,218	\$ 17,347,748	55.7%	\$ 5,783,294	300.0%
Actuarial Valuation as of January 1, 2012....	22,141,475	36,483,027	14,341,552	60.7%	5,655,353	253.6%
Actuarial Valuation as of January 1, 2011....	23,117,952	34,890,991	11,773,039	66.3%	5,558,311	211.8%
Actuarial Valuation as of January 1, 2010....	21,262,462	33,738,966	12,476,504	63.0%	5,509,698	226.4%
Actuarial Valuation as of January 1, 2009....	18,927,731	32,543,782	13,616,051	58.2%	5,389,895	252.6%
Actuarial Valuation as of January 1, 2008....	22,883,553	30,955,504	8,071,951	73.9%	5,163,498	156.3%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2013commonwealth.pdf>. Alternatively, copies of the Commonwealth's actuarial valuation reports may be obtained by contacting the Massachusetts Public Employee Retirement Administration Commission, 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Telephone number: 617-666-4446.

### State Retiree Benefits Trust Funding Progress for the last five fiscal years

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Actuarial Valuation as of January 1, 2013....	\$ 406,700	\$ 15,784,100	\$ 15,377,400	2.6%	\$ 5,183,195	296.7%
Actuarial Valuation as of January 1, 2012....	360,500	16,659,400	16,298,900	2.2%	4,922,388	331.1%
Actuarial Valuation as of January 1, 2011....	350,500	16,568,600	16,218,100	2.1%	4,808,250	337.3%
Actuarial Valuation as of January 1, 2010....	309,800	15,166,300	14,856,500	2.0%	4,711,563	315.3%
Actuarial Valuation as of January 1, 2009....	273,500	15,305,100	15,031,600	1.8%	4,712,655	319.0%

For a complete analysis of the Commonwealth's actuarial valuation report, please contact the Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, MA 02108.

See Independent Auditor's Report

## Schedule of Post Employment Benefit Contributions

(Amounts in thousands except for percentages)

The following table shows the Commonwealth's annual required contribution (ARC) and percent of the ARC funded for the State Massachusetts Employees' Retirement System (SERS) and the Massachusetts Teachers' Retirement System (MTRS) for each of the past six fiscal years.

Fiscal Year Ended 6/30	SERS		MTRS		Total	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2013	\$699,962	77.9%	\$1,104,486	80.7%	\$1,804,448	79.6%
2012	620,274	83.7%	941,918	90.2%	1,562,192	87.6%
2011	471,096	91.5%	767,960	111.4%	1,239,056	103.8%
2010	646,932	63.5%	1,106,052	62.4%	1,752,984	62.8%
2009	697,340	57.0%	781,026	67.9%	1,178,508	63.8%
2008	369,866	124.6%	749,853	107.9%	1,119,719	113.4%

The following table shows the Commonwealth's annual required contribution (ARC) and percent of the ARC funded for the State Retiree Benefits Trust (SRBT) for each of the past five fiscal years.

Fiscal Year Ended 6/30	Annual Required Contribution	Percentage Contributed
2013	\$1,251	46.7%
2012	1,286	43.4%
2011	1,276	43.7%
2010	1,163	32.0%
2009	1,222	28.8%



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# *Other Supplementary Information*



*The Northeaster*

*Combining Balance Sheet – Nonmajor Governmental Funds*  
*Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds*  
*Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Budgetary Basis – Budget and Actual – Other Budgeted Nonmajor Governmental Funds*  
*Combining Budget to GAAP Reconciliation – Other Budgeted Nonmajor Governmental Funds*  
*Combining Statement of Net Position Available for Pension Benefits*  
*Combining Statement of Changes in Net Position Available for Pension Benefits*  
*Combining Statement of Net Position Held in Trust for Pool Participants*  
*Combining Statement of Changes in Net Position Held in Trust for Pool Participants*  
*Combining Statement of Changes in Assets and Liabilities – Agency Funds*  
*Combining Statement of Net Position – Nonmajor Component Units*  
*Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Component Units*

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

	<b>Special Revenue</b>							
	Commonwealth Transportation	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Gaming Control	Enhanced 911
<b>ASSETS</b>								
Cash and short-term investments.....	\$ -	\$ 274,834	21,620	\$ -	\$ 79,674	\$ 21,468	\$ 13,713	\$ 117,355
Cash with fiscal agent.....	13,932	-	-	-	-	90,502	-	-
Receivables, net of allowance for uncollectibles:								
Taxes.....	81,095	13,715	74	-	51,491	13,182	-	-
Due from federal government.....	-	-	680	-	-	-	-	-
Loans receivable.....	-	-	-	-	-	-	-	-
Other receivables.....	1,370	232,255	122	-	-	-	-	-
Due from other funds.....	-	-	-	-	-	-	-	-
Due from component units.....	45,512	-	-	-	-	-	-	-
<b>Total assets.....</b>	<b>\$ 141,909</b>	<b>\$ 520,804</b>	<b>\$ 22,496</b>	<b>\$ -</b>	<b>\$ 131,165</b>	<b>\$ 125,152</b>	<b>\$ 13,713</b>	<b>\$ 117,355</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable.....	\$ 545	\$ 135,016	\$ 724	\$ -	\$ 51,504	\$ 32,239	\$ 2,735	\$ 15,067
Accrued payroll.....	-	-	317	-	-	-	109	299
Tax refunds and abatements payable.....	51	-	-	-	133	-	-	-
Due to other funds.....	44,867	-	-	-	-	-	-	-
Due to component units.....	73,090	-	-	-	79,528	-	-	-
Deferred revenue.....	-	98,643	-	-	-	-	-	-
Other accrued liabilities.....	-	64,231	-	-	-	-	-	-
<b>Total liabilities.....</b>	<b>118,553</b>	<b>297,890</b>	<b>1,041</b>	<b>-</b>	<b>131,165</b>	<b>32,239</b>	<b>2,844</b>	<b>15,366</b>
Fund balances (deficits):								
Nonspendable.....	-	-	-	-	-	-	-	-
Restricted.....	13,932	-	-	-	-	90,502	-	-
Committed.....	9,424	222,914	21,455	-	-	2,411	10,869	101,989
Assigned.....	-	-	-	-	-	-	-	-
Unassigned.....	-	-	-	-	-	-	-	-
<b>Fund balances (deficits).....</b>	<b>23,356</b>	<b>222,914</b>	<b>21,455</b>	<b>-</b>	<b>-</b>	<b>92,913</b>	<b>10,869</b>	<b>101,989</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 141,909</b>	<b>\$ 520,804</b>	<b>\$ 22,496</b>	<b>\$ -</b>	<b>\$ 131,165</b>	<b>\$ 125,152</b>	<b>\$ 13,713</b>	<b>\$ 117,355</b>

See Independent Auditor's Report

Special Revenue				Capital Projects					Total
Health Information Technology Trust	Grant Anticipation Note Trust	Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Other	Total
\$ 4,372	\$ 14,389	\$ 569,569	\$ 241,028	\$ -	\$ -	\$ 8,393	\$ -	\$ 3,035	\$ 1,369,450
-	192,482	-	-	11,951	-	-	-	-	308,867
-	-	-	9,923	-	-	-	-	-	169,480
7,981	71,351	990	5,043	-	3,773	-	-	1,801	91,619
-	-	914	-	-	-	-	-	-	914
-	-	15,284	24,929	-	-	-	-	75	274,035
-	-	-	-	-	-	-	-	71,351	71,351
-	-	-	-	-	-	-	-	-	45,512
<b>\$ 12,353</b>	<b>\$ 278,222</b>	<b>\$ 586,757</b>	<b>\$ 280,923</b>	<b>\$ 11,951</b>	<b>\$ 3,773</b>	<b>\$ 8,393</b>	<b>\$ -</b>	<b>\$ 76,262</b>	<b>\$ 2,331,228</b>
\$ 8,813	\$ -	\$ 52,539	\$ 42,320	\$ -	\$ 217,541	\$ -	\$ -	\$ 347	\$ 559,390
8	-	2,606	1,626	-	2,123	-	-	-	7,088
-	-	-	-	-	-	-	-	-	184
-	71,351	-	-	-	201,461	-	325,985	548	644,212
-	-	-	-	-	8,266	-	183,301	106,926	451,111
-	-	-	-	-	-	-	-	-	98,643
-	-	-	-	-	-	-	-	-	64,231
<b>8,821</b>	<b>71,351</b>	<b>55,145</b>	<b>43,946</b>	<b>-</b>	<b>429,391</b>	<b>-</b>	<b>509,286</b>	<b>107,821</b>	<b>1,824,859</b>
-	-	914	-	-	-	-	-	-	914
-	206,871	353,799	62,325	11,951	-	-	-	-	739,379
3,532	-	176,899	209,685	-	-	8,393	-	-	767,571
-	-	-	-	-	-	-	-	-	-
-	-	-	(35,033)	-	(425,618)	-	(509,286)	(31,559)	(1,001,496)
<b>3,532</b>	<b>206,871</b>	<b>531,612</b>	<b>236,977</b>	<b>11,951</b>	<b>(425,618)</b>	<b>8,393</b>	<b>(509,286)</b>	<b>(31,559)</b>	<b>506,369</b>
<b>\$ 12,353</b>	<b>\$ 278,222</b>	<b>\$ 586,757</b>	<b>\$ 280,923</b>	<b>\$ 11,951</b>	<b>\$ 3,773</b>	<b>\$ 8,393</b>	<b>\$ -</b>	<b>\$ 76,262</b>	<b>\$ 2,331,228</b>

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances

## Other Governmental Funds

Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Gaming Control	Enhanced 911
<b>REVENUES</b>								
Taxes.....	\$ 968,688	\$ 142,158	\$ 855	\$ -	\$ 788,739	\$ 98,786	\$ -	\$ -
Assessments.....	21,791	429,029	-	-	155,769	-	-	-
Federal grants and reimbursements.....	-	-	6,634	-	-	-	-	-
Departmental.....	557,730	375,017	8,125	-	-	-	9,899	73,644
Miscellaneous.....	710	96,430	41	-	-	2,112	-	103
<b>Total revenues.....</b>	<b>1,548,919</b>	<b>1,042,634</b>	<b>15,655</b>	<b>-</b>	<b>944,508</b>	<b>100,898</b>	<b>9,899</b>	<b>73,747</b>
<b>OTHER FINANCING SOURCES</b>								
Bonds premium.....	-	-	-	-	-	-	-	-
Issuance of general and special obligation bonds.....	-	-	-	-	-	-	-	-
Issuance of refunding bonds.....	-	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-	-
Transfers in.....	11,779	1,270,365	170	-	-	-	-	-
<b>Total other financing sources.....</b>	<b>11,779</b>	<b>1,270,365</b>	<b>170</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenues and other financing sources.....</b>	<b>1,560,698</b>	<b>2,312,999</b>	<b>15,825</b>	<b>-</b>	<b>944,508</b>	<b>100,898</b>	<b>9,899</b>	<b>73,747</b>
<b>EXPENDITURES</b>								
Current:								
Judiciary.....	-	-	-	-	-	-	-	-
Inspector General.....	-	49	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	944,508	-	-	-
Attorney General.....	-	-	-	-	-	-	-	-
District Attorney.....	-	-	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	-	-	5,945
Board of Library Commissioners.....	-	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	12,722	-
Comptroller.....	-	-	-	-	-	-	-	-
Administration and Finance.....	125,000	-	-	-	-	101,183	-	536
Energy and Environmental Affairs.....	-	-	13,276	-	-	-	-	-
Health and Human Services.....	-	564,025	-	-	-	-	-	83
Massachusetts Department of Transportation.....	354,478	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-	-	63,663
Housing and Economic Development.....	-	-	-	-	-	-	33	-
Labor and Workforce development.....	-	79,796	-	-	-	-	-	-
Medicaid.....	-	1,431,008	-	-	-	-	-	-
Capital outlay:								
Local aid.....	-	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>479,478</b>	<b>2,074,878</b>	<b>13,276</b>	<b>-</b>	<b>944,508</b>	<b>101,183</b>	<b>12,755</b>	<b>70,227</b>
<b>OTHER FINANCING USES</b>								
Principal on current refundings.....	-	-	-	-	-	-	-	-
Transfers out.....	64,525	49,910	2,076	126,814	-	-	420	3,081
Transfers of appropriations.....	-	-	-	-	-	-	-	-
Transfers of bond proceeds.....	-	-	-	-	-	-	-	-
Transfers out for debt service.....	1,015,647	-	-	-	-	36,469	-	-
<b>Total other financing uses.....</b>	<b>1,080,172</b>	<b>49,910</b>	<b>2,076</b>	<b>126,814</b>	<b>-</b>	<b>36,469</b>	<b>420</b>	<b>3,081</b>
<b>Total expenditures and other financing uses.....</b>	<b>1,559,650</b>	<b>2,124,788</b>	<b>15,352</b>	<b>126,814</b>	<b>944,508</b>	<b>137,652</b>	<b>13,175</b>	<b>73,308</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses....</b>	<b>1,048</b>	<b>188,211</b>	<b>473</b>	<b>(126,814)</b>	<b>-</b>	<b>(36,754)</b>	<b>(3,276)</b>	<b>439</b>
Fund balances (deficits) at beginning of year.....	22,308	34,703	20,982	126,814	-	129,667	14,145	101,550
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 23,356</b>	<b>\$ 222,914</b>	<b>\$ 21,455</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 92,913</b>	<b>\$ 10,869</b>	<b>\$ 101,989</b>

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Special Revenue				Capital Projects					Total
Health Information Technology Trust	Grant Anticipation Note Trust	Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Other	Total
\$ -	\$ -	\$ -	\$ 100,029	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,099,255
-	-	15,480	32,746	-	-	-	-	-	654,815
89,630	600,585	19,189	92,768	-	9,958	-	-	8,768	827,532
-	-	61,628	115,430	-	-	-	-	2,541	1,204,014
2,000	760	362,958	10,401	-	-	-	175	-	475,690
<b>91,630</b>	<b>601,345</b>	<b>459,255</b>	<b>351,374</b>	-	<b>9,958</b>	-	<b>175</b>	<b>11,309</b>	<b>5,261,306</b>
-	-	-	-	(743)	28,710	-	13,532	-	41,499
-	-	-	-	-	908,730	-	561,091	653	1,470,474
-	-	-	-	230,539	-	-	-	-	230,539
-	-	-	-	2,351,074	-	-	-	-	2,351,074
-	19,585	13,221	40,126	-	-	-	-	468,641	1,823,887
-	<b>19,585</b>	<b>13,221</b>	<b>40,126</b>	<b>2,580,871</b>	<b>937,440</b>	-	<b>574,623</b>	<b>469,294</b>	<b>5,917,474</b>
<b>91,630</b>	<b>620,930</b>	<b>472,476</b>	<b>391,500</b>	<b>2,580,871</b>	<b>947,398</b>	-	<b>574,798</b>	<b>480,603</b>	<b>11,178,780</b>
-	-	271	-	-	-	-	-	-	271
-	-	-	-	-	-	-	-	-	49
-	-	71	17	-	-	-	-	-	88
-	-	-	3,852	-	-	-	-	-	3,852
-	931	111,760	39,701	-	-	-	-	-	1,096,900
-	-	12,999	433	-	-	-	-	-	13,432
-	-	7,227	260	-	-	-	-	-	7,487
-	-	2,515	-	-	-	-	-	-	8,460
-	-	119	-	-	-	-	-	-	119
-	-	1,011	614	-	-	-	-	-	14,347
-	-	719	1,715	-	-	-	-	-	2,434
-	-	45,297	65,150	-	-	-	-	-	337,166
-	-	46,021	65,102	-	-	-	-	-	124,399
107,222	-	39,731	16,068	-	-	-	-	-	727,129
-	-	-	-	-	109,811	-	857,882	460,300	1,782,471
-	-	16,142	2,174	-	-	-	-	-	18,316
-	-	8,127	2,202	-	-	-	-	-	73,992
-	-	19,978	53,531	-	-	-	-	-	73,542
-	-	57,328	22,132	-	-	-	-	-	159,256
-	-	-	18,892	-	-	-	-	-	1,449,900
-	-	-	-	-	-	-	-	367	367
-	-	-	-	-	810,527	-	41,075	2,051	853,653
-	-	-	-	2,351,074	-	-	-	-	2,351,074
<b>107,222</b>	<b>931</b>	<b>369,316</b>	<b>291,843</b>	<b>2,351,074</b>	<b>920,338</b>	-	<b>898,957</b>	<b>462,718</b>	<b>9,098,704</b>
-	-	-	-	229,796	-	-	-	-	229,796
191	430,022	126,171	75,426	-	8,375	-	64,674	7,519	959,204
-	-	2,652	-	-	-	-	-	-	2,652
-	-	-	-	-	253,363	-	-	-	253,363
-	188,161	-	9,226	-	-	-	-	-	1,249,503
<b>191</b>	<b>618,183</b>	<b>128,823</b>	<b>84,652</b>	<b>229,796</b>	<b>261,738</b>	-	<b>64,674</b>	<b>7,519</b>	<b>2,694,518</b>
<b>107,413</b>	<b>619,114</b>	<b>498,139</b>	<b>376,495</b>	<b>2,580,871</b>	<b>1,182,076</b>	-	<b>963,631</b>	<b>470,237</b>	<b>11,793,223</b>
(15,783)	1,816	(25,663)	15,005	-	(234,678)	-	(388,833)	10,366	(614,443)
19,315	205,055	557,275	221,972	11,951	(190,940)	8,393	(120,453)	(41,925)	1,120,812
<b>\$ 3,532</b>	<b>\$ 206,871</b>	<b>\$ 531,612</b>	<b>\$ 236,977</b>	<b>\$ 11,951</b>	<b>\$ (425,618)</b>	<b>\$ 8,393</b>	<b>\$ (509,286)</b>	<b>\$ (31,559)</b>	<b>\$ 506,369</b>

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis - Budget and Actual**  
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2013  
(Amounts in thousands)

	Commonwealth Transportation				Environmental			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes.....	\$ 998,300	\$ 998,300	\$ 968,615	\$ (29,685)	\$ 900	\$ 900	\$ 857	\$ (43)
Assessments.....	-	-	21,791	21,791	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	5,500	5,500	6,517	1,017
Departmental.....	535,900	535,900	557,684	21,784	7,713	7,713	8,123	410
Miscellaneous.....	-	-	666	666	-	-	41	41
Total revenues.....	<u>1,534,200</u>	<u>1,534,200</u>	<u>1,548,756</u>	<u>14,556</u>	<u>14,113</u>	<u>14,113</u>	<u>15,538</u>	<u>1,425</u>
Other financing sources:								
Operating transfers in.....	-	-	11,779	11,779	100	100	170	70
Total revenues and other financing sources.....	<u>1,534,200</u>	<u>1,534,200</u>	<u>1,560,535</u>	<u>26,335</u>	<u>14,213</u>	<u>14,213</u>	<u>15,708</u>	<u>1,495</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	-
Comptroller.....	8,699	-	-	-	-	-	-	-
Administration and Finance.....	-	1,129	-	1,129	-	-	-	-
Energy and Environmental Affairs.....	-	-	-	-	13,293	13,808	13,276	532
Massachusetts Department of Transportation.....	160,000	160,000	160,000	-	-	-	-	-
Housing and Economic Development.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	169,886	555,530	551,762	3,768	-	-	-	-
Interest and fiscal charges.....	-	480,958	463,885	17,073	-	-	-	-
Total expenditures.....	<u>338,585</u>	<u>1,197,617</u>	<u>1,175,647</u>	<u>21,970</u>	<u>13,293</u>	<u>13,808</u>	<u>13,276</u>	<u>532</u>
Other financing uses:								
Fringe benefit cost assessment.....	-	-	-	-	-	1,900	2,076	(176)
Operating transfers out.....	185,091	332,168	335,079	(2,911)	-	-	-	-
Stabilization transfer.....	-	-	43,358	(43,358)	-	-	-	-
Total other financing uses.....	<u>185,091</u>	<u>332,168</u>	<u>378,437</u>	<u>(46,269)</u>	<u>-</u>	<u>1,900</u>	<u>2,076</u>	<u>(176)</u>
Total expenditures and other financing uses.....	<u>523,676</u>	<u>1,529,785</u>	<u>1,554,084</u>	<u>(24,299)</u>	<u>13,293</u>	<u>15,708</u>	<u>15,352</u>	<u>356</u>
Excess/(deficiency) of revenues and other financing source over/(under) expenditures and other financing uses.....	1,010,524	4,415	6,451	2,036	920	(1,495)	356	1,851
Fund balances/(deficit) at beginning of year.....	7,581	7,581	7,581	-	20,223	20,223	20,223	-
Fund balances/(deficit) at end of year.....	<u>\$ 1,018,105</u>	<u>\$ 11,996</u>	<u>\$ 14,032</u>	<u>\$ 2,036</u>	<u>\$ 21,143</u>	<u>\$ 18,728</u>	<u>\$ 20,579</u>	<u>\$ 1,851</u>

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Massachusetts Tourism				Totals			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ 44,700	\$ 44,700	\$ 45,228	\$ 528	\$ 1,043,900	\$ 1,043,900	\$ 1,014,700	\$ (29,200)
-	-	-	-	-	-	21,791	21,791
-	-	-	-	5,500	5,500	6,517	1,017
-	-	-	-	543,613	543,613	565,807	22,194
-	-	-	-	-	-	707	707
<u>44,700</u>	<u>44,700</u>	<u>45,228</u>	<u>528</u>	<u>1,593,013</u>	<u>1,593,013</u>	<u>1,609,522</u>	<u>16,509</u>
-	-	-	-	100	100	11,949	11,849
<u>44,700</u>	<u>44,700</u>	<u>45,228</u>	<u>528</u>	<u>1,593,113</u>	<u>1,593,113</u>	<u>1,621,471</u>	<u>28,358</u>
-	17	17	-	-	17	17	-
-	-	-	-	8,699	-	-	-
-	-	-	-	-	1,129	-	1,129
-	-	-	-	13,293	13,808	13,276	532
-	3	-	3	160,000	160,003	160,000	3
16,928	17,037	16,965	72	16,928	17,037	16,965	72
-	-	-	-	169,886	555,530	551,762	3,768
-	-	-	-	-	480,958	463,885	17,073
<u>16,928</u>	<u>17,057</u>	<u>16,982</u>	<u>75</u>	<u>368,806</u>	<u>1,228,482</u>	<u>1,205,905</u>	<u>22,577</u>
-	400	384	16	-	2,300	2,460	(160)
-	-	-	-	185,091	332,168	335,079	(2,911)
-	-	27,786	(27,786)	-	-	71,144	(71,144)
-	400	28,170	(27,770)	185,091	334,468	408,683	(74,215)
<u>16,928</u>	<u>17,457</u>	<u>45,152</u>	<u>(27,695)</u>	<u>553,897</u>	<u>1,562,950</u>	<u>1,614,588</u>	<u>(51,638)</u>
27,772	27,243	76	(27,167)	1,039,216	30,163	6,883	(23,280)
-	-	-	-	27,804	27,804	27,804	-
<u>\$ 27,772</u>	<u>\$ 27,243</u>	<u>\$ 76</u>	<u>\$ (27,167)</u>	<u>\$ 1,067,020</u>	<u>\$ 57,967</u>	<u>\$ 34,687</u>	<u>\$ (23,280)</u>

## Combining Budget to GAAP Reconciliation

### Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Commonwealth Transportation Fund	Environmental Funds	Massachusetts Tourism Fund*
Total actual revenues - budgetary basis (pages 132-133).....	\$ 1,548,756	\$ 15,538	\$ 45,228
Adjustments:			
Taxes receivable, net.....	32	(2)	171
Tax refunds and abatements payable, net.....	41	-	-
Federal grants and other receivables, net.....	90	119	-
Total actual revenues - GAAP basis (pages 130-131).....	<u>\$ 1,548,919</u>	<u>\$ 15,655</u>	<u>\$ 45,399</u>
Total actual other financing sources - budgetary basis (page 132-133).....	\$ 11,779	\$ 170	\$ -
No budget to GAAP differences.....	-	-	-
Total actual other financing sources - GAAP basis (pages 130-131).....	<u>\$ 11,779</u>	<u>\$ 170</u>	<u>\$ -</u>
Total actual expenditures- budgetary basis (pages 132-133).....	\$ 1,175,647	\$ 13,276	\$ 16,982
Adjustment:			
Due to component units accrual, net.....	5,566	-	-
Reclassification:			
MassDOT transfers out is reclassified to expenditures.....	313,912	-	-
Debt service principal and interest payments are reclassified to transfers out to the debt service fund.....	<u>(1,015,647)</u>	<u>-</u>	<u>-</u>
Total actual expenditures - GAAP basis (pages 130-131).....	<u>\$ 479,478</u>	<u>\$ 13,276</u>	<u>\$ 16,982</u>
Total actual other financing uses - budgetary basis (pages 132-133).....	\$ 378,437	\$ 2,076	\$ 28,170
Reclassification:			
MassDOT transfers out is reclassified to expenditures.....	(313,912)	-	-
Debt service principal and interest payments are reclassified to transfers out to the debt service fund.....	<u>1,015,647</u>	<u>-</u>	<u>-</u>
Total actual other financing uses - GAAP basis (pages 130-131).....	<u>\$ 1,080,172</u>	<u>\$ 2,076</u>	<u>\$ 28,170</u>

\* - On a GAAP basis, the activity for the Massachusetts Tourism fund is combined in the other special revenue funds column on the combined statement of revenues, expenditures and changes in fund balance. The revenues, other financing sources, expenditures and other financing uses of these other special revenue funds are \$305,975, \$40,126, \$274,861, and \$56,482, respectively (all amounts in thousands).

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**Combining Statement of Net Position Available for Post-Employment Benefits**  
Pension Trust Funds  
June 30, 2013  
(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 104,223	\$ 175,034	\$ 1,207	\$ 280,464
Investments at fair value:				
Short-term.....	367,148	392,635	7,992	767,775
Fixed income.....	4,925,377	5,267,276	107,209	10,299,862
Equity.....	8,936,795	9,557,150	194,524	18,688,469
Real estate.....	2,323,447	2,484,731	50,574	4,858,752
Timber.....	540,364	577,874	11,762	1,130,000
Private equity.....	2,511,888	2,686,253	54,675	5,252,816
Hedge funds.....	1,964,960	2,101,359	42,771	4,109,090
Total investments at fair value.....	21,569,979	23,067,278	469,507	45,106,764
Other receivables.....	265,254	354,485	5,209	624,948
Other assets.....	216,944	245,648	4,720	467,312
<b>Total assets.....</b>	<b>22,156,400</b>	<b>23,842,445</b>	<b>480,643</b>	<b>46,479,488</b>
<b>LIABILITIES</b>				
Loans and other liabilities.....	1,071,442	1,145,143	23,084	2,239,669
<b>Net position available for post-employment benefits.....</b>	<b>\$ 21,084,958</b>	<b>\$ 22,697,302</b>	<b>\$ 457,559</b>	<b>\$ 44,239,819</b>

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**Combining Statement of Changes in Net Position Available for Post-Employment Benefits**  
**Pension Trust Funds**  
**Fiscal Year Ended June 30, 2013**  
**(Amounts in thousands)**

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 565,673	\$ 937,066	\$ 496,933	\$ 1,999,672
Employee contributions.....	529,519	642,718	-	1,172,237
Other additions.....	41,820	251,933	480	294,233
<b>Total contributions.....</b>	<b>1,137,012</b>	<b>1,831,717</b>	<b>497,413</b>	<b>3,466,142</b>
Net investment gain/(loss):				
Investment gain/(loss).....	2,530,368	2,630,660	48,398	5,209,426
Less: investment expense.....	(112,063)	(120,186)	(2,018)	(234,267)
<b>Net investment gain/(loss).....</b>	<b>2,418,305</b>	<b>2,510,474</b>	<b>46,380</b>	<b>4,975,159</b>
<b>Total additions.....</b>	<b>3,555,317</b>	<b>4,342,191</b>	<b>543,793</b>	<b>8,441,301</b>
<b>DEDUCTIONS</b>				
Administration.....	18,613	38,821	-	57,434
Retirement benefits and refunds.....	1,847,759	2,424,846	458,979	4,731,584
Payments to State Boston Retirement System.....	-	94,846	-	94,846
<b>Total deductions.....</b>	<b>1,866,372</b>	<b>2,558,513</b>	<b>458,979</b>	<b>4,883,864</b>
<b>Net increase/(decrease).....</b>	<b>1,688,945</b>	<b>1,783,678</b>	<b>84,814</b>	<b>3,557,437</b>
Net position available for post-employment benefits				
at beginning of year.....	19,396,013	20,913,624	372,745	40,682,382
<b>Net position available for post-employment benefits at end of year.....</b>	<b>\$ 21,084,958</b>	<b>\$ 22,697,302</b>	<b>\$ 457,559</b>	<b>\$ 44,239,819</b>

See Independent Auditor's Report

**Combining Statement of Net Position Held in Trust for Pool Participants**  
 External Investment Trust Funds  
 June 30, 2013  
 (Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ASSETS</b>			
Assets held in trust for pension benefits:			
Cash and short-term investments.....	\$ -	\$ 24,448	\$ 24,448
Investments at fair value:			
Short-term.....	-	161,918	161,918
Fixed income.....	-	2,172,164	2,172,164
Equity.....	-	3,941,259	3,941,259
Real estate.....	-	1,024,675	1,024,675
Timber.....	-	238,309	238,309
Private equity.....	-	1,107,780	1,107,780
Hedge funds.....	-	866,576	866,576
Total investments at fair value.....	-	9,512,681	9,512,681
Assets held in trust for pool participants:			
Cash and short-term investments.....	2,713,321	-	2,713,321
Other receivables.....	1,371	105,535	106,906
Other assets.....	-	95,673	95,673
<b>Total assets.....</b>	<b>2,714,692</b>	<b>9,738,337</b>	<b>12,453,029</b>
<b>LIABILITIES</b>			
Accounts payable.....	2,771	50,504	53,275
Loans and other liabilities.....	57	417,208	417,265
<b>Total liabilities.....</b>	<b>2,828</b>	<b>467,712</b>	<b>470,540</b>
<b>Net position held in trust for pool/pension participants.....</b>	<b>\$ 2,711,864</b>	<b>\$ 9,270,625</b>	<b>\$ 11,982,489</b>

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**Combining Statement of Changes in Net Position Held in Trust for Pool Participants**  
**External Investment Trust Funds**  
**Fiscal Year Ended June 30, 2013**  
**(Amounts in thousands)**

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ADDITIONS</b>			
Contribution:			
Employees contributions.....	\$ -	\$ 580,179	\$ 580,179
Proceeds from sale of units.....	16,673,202	-	16,673,202
<b>Total contributions.....</b>	<b>16,673,202</b>	<b>580,179</b>	<b>17,253,381</b>
Net investment gain/(loss):			
Investment gain/(loss).....	7,804	1,095,306	1,103,110
Less: investment expense.....	(2,033)	(52,246)	(54,279)
<b>Net investment gain/(loss).....</b>	<b>5,771</b>	<b>1,043,060</b>	<b>1,048,831</b>
<b>Total additions.....</b>	<b>16,678,973</b>	<b>1,623,239</b>	<b>18,302,212</b>
<b>DEDUCTIONS</b>			
Cost of units redeemed.....	17,048,361	-	17,048,361
Retirement benefits and refunds.....	-	683,279	683,279
<b>Total deductions.....</b>	<b>17,048,361</b>	<b>683,279</b>	<b>17,731,640</b>
<b>Net increase/(decrease).....</b>	<b>(369,388)</b>	<b>939,960</b>	<b>570,572</b>
Net position held in trust for pool/pensions participants at beginning of year.....	3,081,252	8,330,665	11,411,917
<b>Net position held in trust for pool/pensions participants at end of year .....</b>	<b>\$ 2,711,864</b>	<b>\$ 9,270,625</b>	<b>\$ 11,982,489</b>

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## Combining Statement of Changes in Assets and Liabilities

### Agency Funds

Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<b><u>Central Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 299,602	\$ 9,938,626	\$ 9,903,548	\$ 334,680
Investments, restricted investments and annuity contracts.....	1,385,875	346,650	246,226	1,486,299
Taxes receivable.....	2,477	2,417	2,477	2,417
Other receivables.....	-	22,743	-	22,743
<b>Total assets.....</b>	<b><u>\$ 1,687,954</u></b>	<b><u>\$ 10,310,436</u></b>	<b><u>\$ 10,152,251</u></b>	<b><u>\$ 1,846,139</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 61,675	\$ 3,690,110	\$ 3,680,515	\$ 71,270
Due to cities and towns.....	28,016	492,016	496,582	23,450
Lottery prizes payable.....	1,385,875	346,650	246,226	1,486,299
Agency liabilities.....	212,388	4,460,955	4,420,914	252,429
Other liabilities.....	-	12,691	-	12,691
<b>Total liabilities.....</b>	<b><u>\$ 1,687,954</u></b>	<b><u>\$ 9,002,422</u></b>	<b><u>\$ 8,844,237</u></b>	<b><u>\$ 1,846,139</u></b>
<b><u>Court Escrow and Client Accounts</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 106,709	\$ 1,327,865	\$ 1,341,596	\$ 92,978
Assets held in trust.....	52,527	283,146	284,607	51,066
Other receivables.....	117,624	116,660	117,624	116,660
<b>Total assets.....</b>	<b><u>\$ 276,860</u></b>	<b><u>\$ 1,727,671</u></b>	<b><u>\$ 1,743,827</u></b>	<b><u>\$ 260,704</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 10,747	\$ 1,288,104	\$ 1,298,429	\$ 422
Agency liabilities.....	266,113	1,047,748	1,053,579	260,282
<b>Total liabilities.....</b>	<b><u>\$ 276,860</u></b>	<b><u>\$ 2,335,852</u></b>	<b><u>\$ 2,352,008</u></b>	<b><u>\$ 260,704</u></b>
<b><u>Statutory Bonds and Deposits</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	667,593	509,228	498,503	678,318
<b>Total assets.....</b>	<b><u>\$ 667,679</u></b>	<b><u>\$ 509,228</u></b>	<b><u>\$ 498,503</u></b>	<b><u>\$ 678,404</u></b>
<b>LIABILITIES</b>				
Agency liabilities.....	<b><u>\$ 667,679</u></b>	<b><u>\$ 509,228</u></b>	<b><u>\$ 498,503</u></b>	<b><u>\$ 678,404</u></b>

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## Combining Statement of Changes in Assets and Liabilities

### Agency Funds

Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 406,397	\$ 11,266,491	\$ 11,245,144	\$ 427,744
Investments, restricted investments and annuity contracts.....	1,385,875	346,650	246,226	1,486,299
Assets held in trust.....	720,120	792,374	783,110	729,384
Taxes receivable.....	2,477	2,417	2,477	2,417
Other receivables.....	117,624	139,403	117,624	139,403
<b>Total assets.....</b>	<b>\$ 2,632,493</b>	<b>\$ 12,547,335</b>	<b>\$ 12,394,581</b>	<b>\$ 2,785,247</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 72,422	\$ 4,978,214	\$ 4,978,944	\$ 71,692
Due to cities and towns.....	28,016	492,016	496,582	23,450
Lottery prizes payable.....	1,385,875	346,650	246,226	1,486,299
Agency liabilities.....	1,146,180	6,017,931	5,972,996	1,191,115
Other liabilities.....	-	12,691	-	12,691
<b>Total liabilities.....</b>	<b>\$ 2,632,493</b>	<b>\$ 11,847,502</b>	<b>\$ 11,694,748</b>	<b>\$ 2,785,247</b>

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**Combining Statement of Net Position**  
**Nonmajor Component Units**  
**June 30, 2013**  
**(Amounts in thousands)**

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Higher Education Foundations	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>								
Current assets:								
Cash and cash equivalents.....	\$ 28,656	\$ 10,557	\$ 23,363	\$ 391	\$ 5,743	\$ 93,238	\$ 24,314	\$ 186,262
Short-term investments.....	-	91,274	-	30,969	-	27,301	56,511	206,055
Restricted cash and investment.....	1,150	17,344	-	-	60,567	1,336	508	80,905
Assets held in trust.....	-	-	170,816	-	-	-	-	170,816
Receivables, net of allowance for uncollectibles:								
Federal grants and reimbursement receivable.....	-	-	-	-	-	1,568	-	1,568
Loans.....	304	14,937	3,285	-	27,202	15,291	6	61,025
Other receivables.....	3,572	14,009	2,752	10,221	1,971	6,319	6,160	45,004
Due from primary government.....	32,239	577	-	4,773	-	32,231	380	70,200
Inventory.....	-	139	-	-	-	65	-	204
Other current assets.....	1,655	1,915	171	253	-	2,145	2,831	8,970
<b>Total current assets.....</b>	<b>67,576</b>	<b>150,752</b>	<b>200,387</b>	<b>46,607</b>	<b>95,483</b>	<b>179,494</b>	<b>90,710</b>	<b>831,009</b>
Noncurrent assets:								
Cash and cash equivalents - restricted.....	-	31,526	28,447	8,453	-	-	1,041	69,467
Long - term investments.....	-	79,030	8,071	-	-	1,147	485,857	574,105
Restricted investments.....	-	-	132,632	-	-	-	35,650	168,282
Accounts receivables, net.....	-	1,103	-	-	-	485	5,659	7,247
Loans receivables, net.....	17,413	80,767	-	-	404,226	31,467	-	533,873
Non-depreciable capital assets.....	181,132	15,458	2,534	-	-	355	12,375	211,854
Depreciable capital assets, net.....	640,945	223,768	38,329	88,521	-	11,984	26,075	1,029,622
Other noncurrent assets.....	-	7,356	-	-	214	75	2,013	9,658
<b>Total noncurrent assets.....</b>	<b>839,490</b>	<b>439,008</b>	<b>210,013</b>	<b>96,974</b>	<b>404,440</b>	<b>45,513</b>	<b>568,670</b>	<b>2,604,108</b>
Deferred outflows from derivative instruments.....	-	15,944	-	-	-	-	-	15,944
<b>Total assets and deferred outflows.....</b>	<b>907,066</b>	<b>605,704</b>	<b>410,400</b>	<b>143,581</b>	<b>499,923</b>	<b>225,007</b>	<b>659,380</b>	<b>3,451,061</b>
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and other liabilities.....	12,230	8,884	8,735	15,435	1,859	36,836	15,618	99,597
Accrued payroll.....	-	-	-	-	-	425	-	425
Compensated absences.....	1,060	776	-	-	-	505	-	2,341
Accrued interest payable.....	-	2,655	-	-	1,498	-	25	4,178
Due to primary government.....	-	455	-	-	-	-	423	878
Deferred revenue.....	10,347	-	170,810	-	-	31,617	2,409	215,183
Bonds, notes payable and other obligations.....	-	2,695	-	-	24,668	4,360	1,197	32,920
<b>Total current liabilities.....</b>	<b>23,637</b>	<b>15,465</b>	<b>179,545</b>	<b>15,435</b>	<b>28,025</b>	<b>73,743</b>	<b>19,672</b>	<b>355,522</b>
Noncurrent liabilities:								
Compensated absences.....	1,251	-	-	-	-	119	-	1,370
Deferred revenue.....	-	-	-	-	27,943	112	-	28,055
Bonds, notes payable and other obligations.....	-	166,581	-	-	388,505	39,030	13,240	607,356
Post - employment obligations.....	4,739	-	-	-	-	-	-	4,739
Liability for derivative instruments.....	-	15,944	-	-	-	-	-	15,944
Other noncurrent liabilities.....	6,205	3,579	-	1,092	12,641	1,771	3,998	29,286
<b>Total noncurrent liabilities.....</b>	<b>12,195</b>	<b>196,572</b>	<b>-</b>	<b>1,092</b>	<b>429,089</b>	<b>41,032</b>	<b>17,238</b>	<b>697,218</b>
<b>Total liabilities.....</b>	<b>35,832</b>	<b>212,037</b>	<b>179,545</b>	<b>16,527</b>	<b>457,114</b>	<b>114,775</b>	<b>36,910</b>	<b>1,052,740</b>
<b>NET POSITION</b>								
Net investment in capital assets.....	822,077	74,792	40,863	88,521	192	12,178	23,842	1,062,465
Restricted for:								
Clean energy trusts.....	-	-	189,992	-	-	-	-	189,992
Economic development financing.....	-	142,729	-	-	-	9,402	-	152,131
Other purposes.....	21,150	-	-	27,375	22,071	44,865	548,206	663,667
Unrestricted.....	28,007	176,146	-	11,158	20,546	43,787	50,422	330,066
<b>Total net position.....</b>	<b>\$ 871,234</b>	<b>\$ 393,667</b>	<b>\$ 230,855</b>	<b>\$ 127,054</b>	<b>\$ 42,809</b>	<b>\$ 110,232</b>	<b>\$ 622,470</b>	<b>\$ 2,398,321</b>

See Independent Auditor's Report

## Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Component Units

Fiscal Year Ended June 30, 2013

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Higher Education Foundations	Total
<b>Operating revenues:</b>								
Charges for services.....	\$ 49,996	\$ 45,839	\$ -	\$ -	\$ 7,915	\$ 62,508	\$ 13,702	\$ 179,960
Other.....	1,002	28,441	25,695	60,784	3,799	5,929	9,014	134,664
<b>Total operating revenues.....</b>	<b>50,998</b>	<b>74,280</b>	<b>25,695</b>	<b>60,784</b>	<b>11,714</b>	<b>68,437</b>	<b>22,716</b>	<b>314,624</b>
<b>Operating expenses:</b>								
Cost of services.....	51,358	19,285	23,227	28,538	6,083	113,954	-	242,445
Administration costs.....	28,253	60,038	7,334	34	5,293	5,718	32,823	139,493
Depreciation.....	42,898	12,064	1,573	562	123	873	1,256	59,349
<b>Total operating expenses.....</b>	<b>122,509</b>	<b>91,387</b>	<b>32,134</b>	<b>29,134</b>	<b>11,499</b>	<b>120,545</b>	<b>34,079</b>	<b>441,287</b>
<b>Operating income (loss).....</b>	<b>(71,511)</b>	<b>(17,107)</b>	<b>(6,439)</b>	<b>31,650</b>	<b>215</b>	<b>(52,108)</b>	<b>(11,363)</b>	<b>(126,663)</b>
<b>Nonoperating revenues (expenses):</b>								
Operating grants.....	48,284	444	23,737	-	-	63,457	-	135,922
Interest income.....	797	1,393	183	90	-	104	40,698	43,265
Other nonoperating revenue (expense).....	463	108	-	-	-	(724)	18,623	18,470
<b>Nonoperating revenues (expenses), net.....</b>	<b>49,544</b>	<b>1,945</b>	<b>23,920</b>	<b>90</b>	<b>-</b>	<b>62,837</b>	<b>59,321</b>	<b>197,657</b>
<b>Income (loss) before contributions.....</b>	<b>(21,967)</b>	<b>(15,162)</b>	<b>17,481</b>	<b>31,740</b>	<b>215</b>	<b>10,729</b>	<b>47,958</b>	<b>70,994</b>
Capital contributions.....	53,000	(34)	-	-	-	-	-	52,966
<b>Change in net position.....</b>	<b>31,033</b>	<b>(15,196)</b>	<b>17,481</b>	<b>31,740</b>	<b>215</b>	<b>10,729</b>	<b>47,958</b>	<b>123,960</b>
Net position - beginning, as restated.....	840,201	408,863	213,374	95,314	42,594	99,503	574,512	2,274,361
<b>Net position - ending.....</b>	<b>\$ 871,234</b>	<b>\$ 393,667</b>	<b>\$ 230,855</b>	<b>\$ 127,054</b>	<b>\$ 42,809</b>	<b>\$ 110,232</b>	<b>\$ 622,470</b>	<b>\$ 2,398,321</b>

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# *Statistical Section*

(Unaudited)



A sloop at a Wharf, Gloucester

*Schedule of Net Position by Component – Last Ten Fiscal Years*  
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**Statistical Section Narrative and Table of Contents**

This part of the Commonwealth of Massachusetts’ comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth’s overall financial health.

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**Schedule of Net Position by Component  
Last Ten Fiscal Years**

(Amounts in thousands)

	2013	2012	2011	2010*	2009*
<b>Governmental activities</b>					
Net investment in capital assets.....	\$ (592,483)	\$ (849,338)	\$ (722,469)	\$ (885,593)	\$ 189,913
Restricted.....	1,386,416	1,456,715	1,520,702	1,403,877	1,377,951
Unrestricted.....	<u>(26,733,809)</u>	<u>(24,905,165)</u>	<u>(23,631,098)</u>	<u>(22,891,629)</u>	<u>(13,721,519)</u>
<b>Total governmental activities net position.....</b>	<b><u>\$ (25,939,876)</u></b>	<b><u>\$ (24,297,788)</u></b>	<b><u>\$ (22,832,865)</u></b>	<b><u>\$ (22,373,344)</u></b>	<b><u>\$ (12,153,655)</u></b>
<b>Business-type activities</b>					
Net investment in capital assets.....	\$ 2,605,263	\$ 2,366,038	\$ 2,026,223	\$ 1,767,434	\$ 1,698,825
Restricted.....	1,209,630	1,576,865	1,364,646	1,148,751	1,609,145
Unrestricted.....	<u>1,026,230</u>	<u>969,309</u>	<u>978,043</u>	<u>857,263</u>	<u>621,952</u>
<b>Total business-type activities net position.....</b>	<b><u>\$ 4,841,123</u></b>	<b><u>\$ 4,912,212</u></b>	<b><u>\$ 4,368,912</u></b>	<b><u>\$ 3,773,448</u></b>	<b><u>\$ 3,929,922</u></b>
<b>Commonwealth net position</b>					
Net investment in capital assets.....	\$ 2,012,780	\$ 1,516,700	\$ 1,303,754	\$ 881,841	\$ 1,888,738
Restricted.....	2,596,046	3,033,580	2,885,348	2,552,628	2,987,096
Unrestricted.....	<u>(25,707,579)</u>	<u>(23,935,856)</u>	<u>(22,653,055)</u>	<u>(22,034,366)</u>	<u>(13,099,567)</u>
<b>Total Commonwealth net position.....</b>	<b><u>\$ (21,098,753)</u></b>	<b><u>\$ (19,385,576)</u></b>	<b><u>\$ (18,463,953)</u></b>	<b><u>\$ (18,599,896)</u></b>	<b><u>\$ (8,223,733)</u></b>

\* Restated

2008*	2007*	2006*	2005*	2004*
\$ 446,666	\$ 489,432	\$ 101,510	\$ 196,765	\$ 2,032,958
1,413,968	1,271,051	2,010,373	1,526,576	776,401
(11,022,084)	(11,357,260)	(12,409,269)	(13,267,433)	(9,150,810)
<b>\$ (9,161,450)</b>	<b>\$ (9,596,777)</b>	<b>\$ (10,297,385)</b>	<b>\$ (11,544,092)</b>	<b>\$ (6,341,451)</b>
\$ 1,562,002	\$ 1,392,363	\$ 1,283,570	\$ 1,149,352	\$ 1,132,637
2,390,206	2,295,507	1,816,066	1,331,053	915,583
644,363	645,211	548,774	562,777	434,007
<b>\$ 4,596,571</b>	<b>\$ 4,333,081</b>	<b>\$ 3,648,410</b>	<b>\$ 3,043,182</b>	<b>\$ 2,482,227</b>
\$ 2,008,668	\$ 1,881,795	\$ 1,385,080	\$ 1,346,117	\$ 3,165,595
3,804,174	3,566,558	3,826,439	2,857,629	1,691,984
(10,377,721)	(10,712,049)	(11,860,495)	(12,704,656)	(8,716,803)
<b>\$ (4,564,879)</b>	<b>\$ (5,263,696)</b>	<b>\$ (6,648,975)</b>	<b>\$ (8,500,910)</b>	<b>\$ (3,859,224)</b>

**Changes in Net Position  
Last Ten Fiscal Years**

(Amounts in thousands)

	2013	2012	2011	2010	2009
<b>EXPENSES</b>					
<b>Governmental Activities:</b>					
General government.....	\$ 2,587,273	\$ 2,391,694	\$ 2,305,783	\$ 2,358,706	\$ 2,630,554
Judiciary.....	1,002,797	945,457	992,990	1,043,004	1,138,179
Direct local aid.....	5,179,104	4,991,532	4,845,738	5,030,363	5,210,451
Medicaid.....	12,286,342	11,708,397	12,124,261	10,677,999	10,842,549
Group health insurance.....	1,282,661	1,218,079	1,113,544	1,092,178	977,565
Energy and environmental.....	532,330	572,632	685,032	326,128	426,808
Housing and economic development*.....	1,252,292	1,247,310	1,362,822	1,297,143	1,042,084
Health and human services*.....	7,787,051	7,643,950	7,124,856	7,244,968	7,452,418
Transportation and public works.....	1,879,271	1,765,101	2,262,374	2,088,354	1,336,257
Early elementary and secondary education*.....	4,335,639	4,259,568	3,649,543	3,395,360	3,210,200
Public safety and homeland security.....	2,440,212	2,346,958	2,276,402	2,409,557	2,561,607
Labor and workforce development*.....	389,806	474,096	497,927	483,091	474,438
Lottery.....	3,982,700	3,877,305	3,661,834	3,649,396	3,693,318
Interest (unallocated).....	1,206,542	1,202,772	1,177,569	1,090,471	1,116,278
<b>Total governmental activities.....</b>	<b>46,144,020</b>	<b>44,644,851</b>	<b>44,080,674</b>	<b>42,186,717</b>	<b>42,112,704</b>
<b>Business-type Activities:</b>					
Unemployment compensation.....	2,718,447	3,466,500	4,388,360	5,435,611	3,475,027
<b>Higher Education:</b>					
University of Massachusetts.....	2,759,488	2,684,039	2,865,015	2,640,134	2,474,797
State Universities.....	864,161	851,118	834,453	762,043	736,972
Community Colleges.....	814,245	801,038	772,883	716,526	671,923
<b>Total business-type activities.....</b>	<b>7,156,341</b>	<b>7,802,695</b>	<b>8,860,711</b>	<b>9,554,314</b>	<b>7,358,719</b>
<b>Total Commonwealth expenses.....</b>	<b>\$ 53,300,361</b>	<b>\$ 52,447,546</b>	<b>\$ 52,941,385</b>	<b>\$ 51,741,031</b>	<b>\$ 49,471,424</b>
<b>REVENUES</b>					
<b>Program Revenues:</b>					
<b>Governmental Activities:</b>					
<b>Charges for services:</b>					
General government.....	\$ 352,291	\$ 458,320	\$ 443,869	\$ 464,592	\$ 436,344
Judiciary.....	111,384	114,170	120,293	128,198	123,819
Medicaid.....	471,539	297,566	258,032	185,463	180,380
Group health insurance.....	619,982	495,377	431,078	349,870	230,456
Energy and environmental.....	228,019	214,340	270,449	214,269	226,754
Housing and economic development*.....	150,690	142,320	142,387	221,340	178,011
Health and human services*.....	1,143,551	931,535	896,328	797,929	718,628
Transportation and public works.....	567,348	505,842	502,004	517,045	494,733
Early elementary and secondary education*.....	6,748	6,783	6,645	9,661	15,728
Public safety and homeland security.....	218,643	205,546	193,983	202,427	175,069
Labor and workforce development*.....	246,577	237,772	142,731	38,319	37,728
Lottery.....	5,041,329	4,940,151	4,630,205	4,626,777	4,643,592
Total Charges for services.....	9,158,100	8,549,722	8,038,003	7,755,891	7,461,243
Operating grants and contributions.....	12,836,122	12,909,908	14,217,481	12,771,164	12,059,019
Capital grants and contributions.....	18,726	79,733	168,912	779,403	853,221
<b>Total governmental activities.....</b>	<b>22,012,948</b>	<b>21,539,363</b>	<b>22,424,397</b>	<b>21,306,458</b>	<b>20,373,482</b>
<b>Business-type Activities:</b>					
<b>Charges for services:</b>					
Unemployment Compensation.....	1,923,476	1,982,602	1,945,801	1,727,964	1,671,098
<b>Higher Education:</b>					
University of Massachusetts.....	1,640,296	1,519,496	1,685,386	1,527,880	1,419,932
State Universities.....	533,347	523,979	530,078	479,900	442,685
Community Colleges.....	281,428	275,778	250,341	235,865	219,986
Operating grants and contributions.....	1,791,196	2,525,342	3,500,210	4,020,351	1,721,199
<b>Total business-type activities.....</b>	<b>6,169,743</b>	<b>6,827,197</b>	<b>7,911,816</b>	<b>7,991,960</b>	<b>5,474,900</b>
<b>Total Commonwealth program revenues.....</b>	<b>\$ 28,182,691</b>	<b>\$ 28,366,560</b>	<b>\$ 30,336,213</b>	<b>\$ 29,298,418</b>	<b>\$ 25,848,382</b>
<b>General Revenues and Other Changes in Net Position (all types consolidated):</b>					
<b>Governmental Activities:</b>					
Taxes (all types).....	\$ 22,599,332	\$ 21,403,426	\$ 21,066,430	\$ 19,034,227	\$ 18,499,273
Investment earnings and miscellaneous.....	985,713	1,393,094	991,230	1,474,995	1,489,018
Gain on sale of capital assets.....	-	-	-	-	-
Transfers.....	(1,096,061)	(1,155,955)	(860,904)	(864,697)	(1,070,652)
Transfers to/from MassDOT.....	-	-	-	(8,983,955)	-
<b>Total governmental activities.....</b>	<b>22,488,984</b>	<b>21,640,565</b>	<b>21,196,756</b>	<b>10,660,570</b>	<b>18,917,639</b>
<b>Business-type Activities:</b>					
Investment earnings and miscellaneous.....	\$ 395,228	\$ 376,327	\$ 695,308	\$ 553,088	\$ 140,227
Other losses.....	-	-	(10,746)	(12,125)	(11,530)
Transfers.....	1,096,061	1,155,955	860,904	864,697	1,070,652
<b>Total business-type activities.....</b>	<b>1,491,289</b>	<b>1,532,282</b>	<b>1,545,466</b>	<b>1,405,660</b>	<b>1,199,349</b>
<b>Total Commonwealth general revenues.....</b>	<b>\$ 23,980,273</b>	<b>\$ 23,172,847</b>	<b>\$ 22,742,222</b>	<b>\$ 12,066,230</b>	<b>\$ 20,116,988</b>
<b>CHANGES IN NET POSITION</b>					
Governmental activities.....	\$ (1,642,088)	\$ (1,464,923)	\$ (459,521)	\$ (10,219,688)	\$ (2,821,583)
Business-type activities.....	504,691	556,784	596,571	(156,694)	(684,470)
Current year restatements.....	-	-	-	-	(152,800)
<b>Total changes in net position including restatements.....</b>	<b>\$ (1,137,397)</b>	<b>\$ (908,139)</b>	<b>\$ 137,050</b>	<b>\$ (10,376,382)</b>	<b>\$ (3,658,854)</b>

\* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.

	2008	2007	2006	2005	2004
\$	2,321,251	\$ 2,198,999	\$ 2,043,365	\$ 1,861,827	\$ 2,084,482
	993,424	852,124	731,931	694,245	570,228
	5,118,858	5,081,359	4,682,027	4,525,847	4,877,089
	9,769,893	9,044,420	8,150,576	7,705,717	6,909,412
	828,297	1,033,796	970,150	872,970	778,072
	537,691	488,883	438,731	419,329	379,710
	899,474	519,399	670,518	609,409	593,000
	6,726,961	6,414,249	6,585,029	6,441,959	5,940,586
	1,199,103	1,271,608	1,286,857	1,566,773	1,569,678
	2,932,143	1,870,250	1,948,769	8,226,508	1,251,618
	2,097,076	1,763,191	1,768,924	1,638,434	1,477,469
	340,668	641,134	387,132	358,839	387,590
	3,910,362	3,689,221	3,708,713	3,692,520	3,606,608
	1,152,162	1,079,551	985,474	861,265	788,908
	<b>38,827,362</b>	<b>35,948,184</b>	<b>34,358,196</b>	<b>39,488,186</b>	<b>31,214,448</b>
	1,554,885	1,430,130	1,337,565	1,662,955	2,461,293
	2,274,312	2,233,634	2,116,226	1,977,546	1,597,676
	733,842	624,470	568,592	514,122	456,022
	685,235	627,400	592,310	548,017	525,179
	<b>5,248,274</b>	<b>4,915,634</b>	<b>4,614,693</b>	<b>4,702,640</b>	<b>5,040,170</b>
\$	<b>44,075,636</b>	<b>40,863,818</b>	<b>38,972,889</b>	<b>44,190,826</b>	<b>36,254,618</b>
\$	414,614	\$ 564,347	\$ 451,753	\$ 492,750	\$ 463,132
	124,542	118,652	115,443	105,072	101,994
	176,471	172,136	702,104	937,422	687,535
	209,008	151,604	131,611	111,342	98,598
	162,639	168,789	156,074	138,854	152,632
	185,019	1,892	6,245	3,515	1,446
	601,483	538,543	613,780	756,469	861,899
	477,420	461,217	448,349	478,154	13,687
	10,766	8,042	6,346	5,583	11,644
	153,641	126,962	135,846	112,350	564,023
	31,758	187,256	213,078	199,817	179,794
	4,905,509	4,656,110	4,726,339	4,698,935	4,603,204
	7,452,873	7,155,550	7,706,968	8,040,263	7,739,588
	9,271,936	8,849,046	8,347,822	7,961,904	8,017,469
	484,172	487,365	481,780	461,371	602,449
	<b>17,208,980</b>	<b>16,491,961</b>	<b>16,536,570</b>	<b>16,463,538</b>	<b>16,359,506</b>
	1,587,543	1,698,249	1,741,101	242,769	1,481,803
	1,160,513	1,194,393	1,076,875	424,184	822,668
	400,369	287,195	272,918	64,872	222,740
	204,190	190,808	175,418	122,828	165,257
	710,974	746,385	684,108	854,653	1,376,666
	<b>4,063,589</b>	<b>4,117,030</b>	<b>3,950,420</b>	<b>4,108,237</b>	<b>4,069,134</b>
\$	<b>21,272,569</b>	<b>20,608,991</b>	<b>20,486,988</b>	<b>20,571,775</b>	<b>20,428,640</b>
\$	21,174,430	\$ 20,001,189	\$ 18,668,322	\$ 17,580,271	\$ 16,406,781
	2,057,309	1,318,008	1,396,033	1,168,540	1,042,704
	-	-	26,300	-	-
	(1,178,030)	(1,167,367)	(1,022,320)	(926,715)	(830,453)
	-	-	-	-	-
	<b>22,053,709</b>	<b>20,151,830</b>	<b>19,068,335</b>	<b>17,822,096</b>	<b>16,619,032</b>
\$	270,145	\$ 315,908	247,181	228,643	181,719
	-	-	-	-	-
	1,178,030	1,167,367	1,022,320	926,715	830,453
	<b>1,448,175</b>	<b>1,483,275</b>	<b>1,269,501</b>	<b>1,155,358</b>	<b>1,012,172</b>
\$	<b>23,501,884</b>	<b>21,635,105</b>	<b>20,337,836</b>	<b>18,977,454</b>	<b>17,631,205</b>
\$	435,327	\$ 695,608	\$ 1,246,707	\$ (5,202,551)	\$ 1,764,090
	263,490	684,671	605,228	560,955	41,136
	-	-	-	-	-
\$	<b>698,817</b>	<b>1,380,279</b>	<b>1,851,935</b>	<b>(4,641,596)</b>	<b>1,805,226</b>

**Fund Balances, Governmental Funds  
Last Ten Fiscal Years**

*(Modified accrual basis of accounting)*

(Amounts in thousands)

	2013	2012	2011	2010*	2009*
<b>Total Unreserved general fund.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,734,822</b>
<b>All Other Governmental Funds</b>					
Reserved.....	-	-	-	-	1,401,985
Unreserved:					
Special Revenue Funds.....	-	-	-	-	2,044,674
Capital Projects Funds.....	-	-	-	-	(125,138)
Permanent Trust Funds.....	-	-	-	-	5,000
Total Unreserved.....	-	-	-	-	1,924,535
<b>Total all other governmental funds.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,326,520</b>
<b>Total governmental fund balances.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,061,342</b>

\* 2010 has been restated for GASB 54 presentation. Years prior have not been restated.

**Fund balances (deficits) GASB54 :**

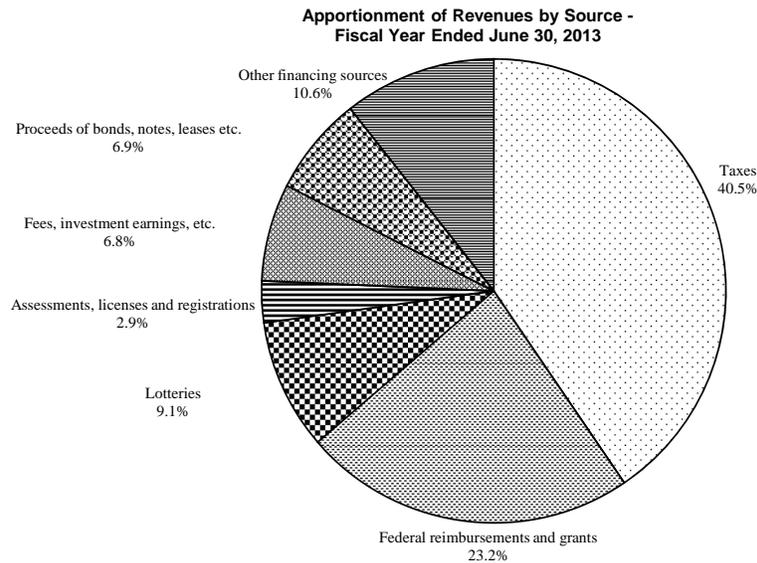
Nonspendable.....	\$ 914	\$ 914	\$ 914	\$ 5,914
Restricted.....	1,557,928	2,195,287	1,675,055	1,905,749
Committed.....	2,324,228	2,404,158	2,020,009	2,166,175
Assigned.....	595,085	574,621	750,462	156,483
Unassigned.....	391,795	1,143,978	821,188	351,395
<b>Total governmental fund balances.....</b>	<b>\$ 4,869,951</b>	<b>\$ 6,318,958</b>	<b>\$ 5,267,628</b>	<b>\$ 4,585,716</b>

2008*	2007*	2006*	2005*	2004*
<b>\$ 3,171,278</b>	<b>\$ 4,899,154</b>	<b>\$ 4,922,074</b>	<b>\$ 4,067,885</b>	<b>\$ 2,497,447</b>
1,809,058	1,496,094	1,361,980	1,392,209	2,204,552
2,437,897	1,587,596	1,476,440	91,913	330,353
(360,570)	(251,985)	(497,300)	(503,441)	(607,946)
5,000	5,000	-	-	-
2,082,327	1,340,611	979,140	(411,528)	(277,593)
<b>3,891,385</b>	<b>2,836,705</b>	<b>2,341,120</b>	<b>980,681</b>	<b>1,926,959</b>
<b>\$ 7,062,663</b>	<b>\$ 7,735,859</b>	<b>\$ 7,263,194</b>	<b>\$ 5,048,566</b>	<b>\$ 4,424,406</b>

**Ten-Year Schedule of Revenues and Other Financing Sources**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
Taxes.....	\$ 22,391	40.5	\$ 21,533	39.6	\$ 20,854	38.7	\$ 18,991	37.3	\$ 18,354	36.9
Federal reimbursements.....	8,981	16.2	8,934	16.4	10,066	18.8	9,453	18.5	9,392	18.9
Federal grants.....	3,887	7.0	4,051	7.5	4,311	8.0	4,097	8.0	3,510	7.0
Lotteries.....	5,042	9.1	4,944	9.1	4,631	8.6	4,628	9.1	4,650	9.3
Assessments.....	1,093	2.0	1,024	1.9	980	1.8	965	1.9	929	1.9
Motor vehicle licenses and registrations.....	487	0.9	474	0.9	461	0.9	463	0.9	383	0.8
Fees, investment earnings, etc.....	3,750	6.8	3,823	7.0	3,246	6.0	3,365	6.6	3,204	6.4
Proceeds of general and special obligation bonds..	1,869	3.4	3,162	5.8	2,233	4.1	2,419	4.7	2,042	4.1
Proceeds of refunding bonds.....	1,913	3.5	388	0.7	888	1.6	538	1.1	390	0.8
Proceeds of capital lease.....	1	-	4	-	12	-	17	-	18	-
Other financing sources.....	5,876	10.6	6,033	11.1	6,216	11.5	6,043	11.9	6,916	13.9
<b>Total revenues and other financing sources.....</b>	<b>\$ 55,290</b>	<b>100.0</b>	<b>\$ 54,370</b>	<b>100.0</b>	<b>\$ 53,898</b>	<b>100.0</b>	<b>\$ 50,979</b>	<b>100.0</b>	<b>\$ 49,788</b>	<b>100.0</b>



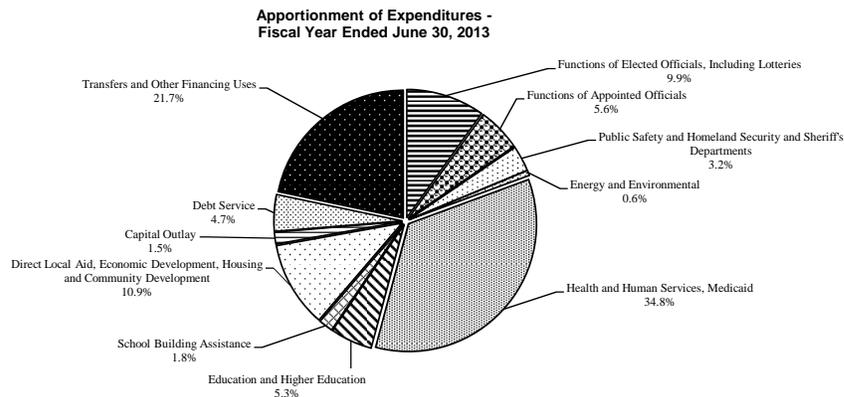
2008	% Total	2007	% Total	2006	% Total	2005	% Total	2004	% Total
\$ 21,120	42.1	\$ 19,985	40.5	\$ 18,754	39.7	\$ 17,671	40.6	\$ 16,133	36.4
7,037	14.0	6,847	13.9	6,350	13.5	6,053	13.9	6,284	14.2
2,681	5.4	2,489	5.0	2,479	5.3	2,369	5.4	2,336	5.3
4,915	9.8	4,670	9.5	4,739	10.0	4,705	10.8	4,605	10.4
858	1.7	860	1.7	850	1.8	831	1.9	773	1.7
376	0.7	380	0.8	361	0.8	401	0.9	376	0.8
3,546	7.1	2,875	5.8	3,270	7.0	3,213	7.5	3,028	6.8
1,281	2.6	3,181	6.4	4,492	9.5	1,354	3.1	1,993	4.5
-	-	1,428	2.9	633	1.3	1,385	3.2	3,302	7.4
17	-	21	-	30	0.1	58	0.1	11	-
8,305	16.6	6,666	13.5	5,232	11.1	5,493	12.6	5,531	12.5
<u>\$ 50,136</u>	<u>100.0</u>	<u>\$ 49,402</u>	<u>100.0</u>	<u>\$ 47,190</u>	<u>100.0</u>	<u>\$ 43,533</u>	<u>100.0</u>	<u>\$ 44,372</u>	<u>100.0</u>

**Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
Legislature.....	\$ 57	0.1	\$ 58	0.1	\$ 58	0.1	\$ 59	0.1	\$ 60	0.1
Judiciary.....	792	1.4	757	1.4	771	1.4	769	1.5	797	1.5
Inspector General.....	6	-	3	-	4	0.0	4	0.0	3	0.0
Governor and Lieutenant Governor.....	6	-	7	-	5	0.0	5	0.0	8	0.0
Secretary of the Commonwealth.....	49	0.1	41	0.1	45	0.1	52	0.1	51	0.1
Treasurer and Receiver-General.....	5,307	9.5	5,282	9.9	5,084	9.6	4,862	9.4	5,097	9.8
Auditor of the Commonwealth.....	18	-	17	-	18	0.0	18	0.0	19	0.0
Attorney General.....	76	0.1	55	0.1	34	0.1	52	0.1	53	0.1
Ethics Commission.....	2	-	2	-	2	0.0	2	0.0	2	-
District Attorney.....	115	0.2	110	0.2	104	0.2	102	0.2	112	0.2
Office of Campaign and Political Finance.....	1	-	1	-	3	0.0	1	0.0	1	-
Sheriff's Department.....	541	1.0	529	1.0	514	1.0	394	0.8	296	0.6
Disabled Persons Protection Commission.....	2	-	2	-	2	0.0	2	0.0	3	-
Board of Library Commissioners.....	25	-	24	-	25	0.0	28	0.1	37	0.1
Massachusetts Gaming Commission.....	14	-	1	-	-	-	-	-	-	-
Comptroller.....	14	-	14	-	14	0.0	13	0.0	14	0.0
Administration and finance.....	2,295	4.1	1,949	3.7	1,852	3.3	1,686	3.3	1,709	3.4
Energy and environmental.....	365	0.6	351	0.7	368	0.7	403	0.8	352	0.7
Housing and communities development.....	-	-	-	-	-	-	-	-	-	-
Early education and care.....	-	-	-	-	-	-	-	-	-	-
Health and human services.....	7,384	13.1	7,301	13.6	6,791	12.8	6,655	12.9	6,684	12.9
Transportation and public works.....	-	-	-	-	-	-	474	0.9	389	0.8
Massachusetts department of transportation.....	1,785	3.1	1,679	3.1	2,086	3.9	1,209	2.3	-	-
Executive office of education*.....	3,008	5.3	3,069	5.8	3,232	6.1	2,968	5.8	2,920	5.6
Center for Health and Information Analysis.....	9	-	-	-	-	-	-	-	-	-
Massachusetts school building assistance.....	1,037	1.8	975	1.8	791	1.5	973	1.9	657	1.3
Higher education.....	-	-	-	-	-	-	-	-	-	-
Public safety and homeland security.....	1,296	2.3	1,208	2.3	1,146	2.2	1,282	2.5	1,416	2.7
Housing and economic development*.....	988	1.7	999	1.9	1,082	2.0	1,060	2.1	793	1.5
Labor and workforce development*.....	350	0.6	455	0.9	478	0.9	447	0.9	398	0.8
Elder affairs*.....	-	-	-	-	-	-	-	-	-	-
Consumer affairs*.....	-	-	-	-	-	-	-	-	-	-
Labor*.....	-	-	-	-	-	-	-	-	-	-
Medicaid.....	12,286	21.7	11,708	22.0	12,124	22.8	10,678	20.8	10,843	20.9
Pension.....	878	1.5	801	1.5	744	1.4	587	1.1	647	1.2
Direct local aid.....	5,179	9.1	4,991	9.4	4,846	9.1	5,030	9.8	5,208	10.1
Capital outlay:										
Local aid.....	-	-	-	-	-	-	1	-	3	0.0
Capital acquisition and construction.....	854	1.5	847	1.6	885	1.7	1,300	2.5	2,514	4.9
Debt service.....	2,754	4.9	2,504	4.7	2,220	4.2	2,407	4.7	2,410	4.7
Other financing uses:										
Payments to refunding bond escrow agent/principal										
on current refunding.....	2,276	4.0	388	0.7	945	1.8	537	1.0	410	0.8
Transfers.....	6,972	12.3	7,189	13.5	6,947	13.1	7,395	14.4	7,887	15.2
<b>Total expenditures and other financing uses.....</b>	<b>\$ 56,739</b>	<b>100.0</b>	<b>\$ 53,319</b>	<b>100.0</b>	<b>\$ 53,217</b>	<b>100.0</b>	<b>\$ 51,455</b>	<b>100.0</b>	<b>\$ 51,789</b>	<b>100.0</b>
Change in Governmental Fund Balance.....	\$ (1,449)		\$ 1,051		\$ 681		\$ (476)		\$ (2,001)	

\* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.



	2008	% Total	2007	% Total	2006	% Total	2005	% Total	2004	% Total
\$	58	0.1	\$ 59	0.1	\$ 55	0.1	\$ 50	0.1	\$ 51	0.1
	796	1.6	799	1.6	660	1.5	580	1.4	577	1.4
	3	0.0	3	0.0	3	0.0	3	-	2	-
	9	0.0	5	0.0	5	0.0	5	-	5	-
	51	0.1	52	0.1	44	0.1	46	0.1	43	0.1
	5,089	10.0	4,712	9.6	4,803	10.7	4,706	11.0	4,535	10.8
	19	0.0	18	0.0	18	0.0	16	-	16	-
	45	0.1	62	0.1	52	0.1	70	0.2	52	0.1
	2	-	2	-	1	-	1	-	1	-
	111	0.2	102	0.2	94	0.2	84	0.2	86	0.2
	1	-	2	-	1	-	1	-	1	-
	295	0.6	272	0.6	247	0.5	216	0.5	218	0.5
	2	-	2	-	2	-	2	-	2	-
	36	0.1	10	0.0	8	0.0	7	-	6	-
	-	-	-	-	-	-	-	-	-	-
	14	0.0	14	0.0	14	0.0	12	-	8	-
	1,528	3.1	1,849	3.9	1,651	3.9	1,536	3.5	1,508	3.6
	312	0.6	318	0.6	282	0.6	238	0.6	225	0.5
	-	-	402	0.8	536	1.2	483	1.1	470	1.1
	560	1.1	518	1.1	482	1.1	-	-	-	-
	6,423	12.6	5,907	12.1	5,865	13.0	6,208	14.5	5,868	14.0
	347	0.7	350	0.7	282	0.6	316	0.7	189	0.5
	-	-	-	-	-	-	-	-	-	-
	2,205	4.3	2,048	4.2	1,978	4.4	2,990	7.0	1,587	3.8
	-	-	-	-	-	-	-	-	-	-
	765	1.5	1,411	2.9	2,330	5.2	-	-	-	-
	131	0.3	126	0.3	106	0.2	114	0.3	99	0.2
	1,407	2.8	1,238	2.5	1,165	2.6	1,053	2.5	1,039	2.5
	710	1.4	512	1.0	384	0.9	346	0.8	376	0.9
	308	0.6	81	0.2	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	9,770	19.2	9,044	18.5	8,151	18.1	7,706	18.0	6,909	16.5
	368	0.7	373	0.8	346	0.8	439	1.0	212	0.5
	5,108	10.1	5,072	10.4	4,674	10.4	4,515	10.5	4,861	11.6
	10	0.0	9	0.0	8	0.0	11	-	16	-
	1,698	3.3	1,724	3.5	1,754	3.9	1,863	4.3	2,120	5.1
	2,486	4.9	2,538	5.2	2,088	4.6	1,719	4.0	1,605	3.8
	-	-	1,520	3.1	633	1.4	1,153	2.7	2,833	6.8
	10,141	20.0	7,781	15.9	6,253	13.9	6,419	15.0	6,448	15.4
\$	50,810	100.0	\$ 48,935	100.0	\$ 44,975	100.0	\$ 42,908	100.0	\$ 41,968	100.0
\$	(674)		\$ 467		\$ 2,215		\$ 624		\$ 2,403	

## Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

	2012	2011	2010	2009	2008
<b>Total personal income.....</b>	<b>\$ 363,944</b>	<b>\$ 352,243</b>	<b>\$ 336,400</b>	<b>\$ 324,680</b>	<b>\$ 335,722</b>
Unearned income.....	87,333	83,338	81,190	78,336	80,365
Farm earnings.....	150	136	186	137	180
Nonfarm earnings.....	276,461	268,769	255,024	246,208	255,176
<b>Private earnings.....</b>	<b>243,502</b>	<b>236,763</b>	<b>223,784</b>	<b>215,396</b>	<b>225,122</b>
Agricultural services, forestry, fishing.....	426	409	383	376	383
Mining.....	113	124	97	101	181
Construction.....	13,426	12,526	11,687	11,717	13,671
<b>Manufacturing.....</b>	<b>26,375</b>	<b>25,387</b>	<b>25,108</b>	<b>23,290</b>	<b>25,449</b>
Durable goods.....	19,223	18,319	18,053	16,466	18,170
Nondurable goods.....	7,152	7,069	7,055	6,824	7,280
Transportation and utilities.....	6,742	6,604	6,208	6,029	6,235
Wholesale trade.....	12,979	13,082	12,501	12,458	13,412
Retail trade.....	13,333	12,891	12,599	12,255	12,545
Services.....	170,109	165,740	155,202	149,171	153,246
<b>Government.....</b>	<b>32,959</b>	<b>32,006</b>	<b>31,240</b>	<b>30,812</b>	<b>30,054</b>
Federal, civilian.....	5,442	5,426	5,431	5,314	5,157
Military.....	1,221	1,245	1,260	1,220	1,092
State and local.....	26,296	25,335	24,550	24,278	23,806
Personal income tax revenue (fiscal year, statutory basis).....	\$ 11,911	\$ 11,576	\$ 10,110	\$ 10,584	\$ 12,484
Total personal income.....	363,944	352,243	336,400	324,680	335,722
Average Effective Rate.....	3.3%	3.3%	3.0%	3.3%	3.7%
Highest Earned Income Tax Rate.....	5.3%	5.3%	5.3%	5.3%	5.3%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue. Average effective rate is individual income tax revenue divided by personal income.

Note: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System adjusted its methodology in 2008. Prior years restated.

	2007	2006	2005	2004	2003
\$	<b>322,543</b>	\$ <b>304,855</b>	\$ <b>282,368</b>	\$ <b>271,086</b>	\$ <b>258,600</b>
	71,529	65,384	55,211	51,966	52,227
	135	131	126	147	132
	250,878	239,340	227,030	218,974	206,242
	<b>222,302</b>	<b>211,900</b>	<b>200,639</b>	<b>193,996</b>	<b>182,312</b>
	405	396	400	371	315
	301	363	311	297	318
	14,900	15,193	14,460	13,976	13,223
	<b>25,865</b>	<b>24,698</b>	<b>24,485</b>	<b>24,356</b>	<b>24,159</b>
	18,464	17,639	17,539	17,547	17,175
	7,401	7,059	6,947	6,809	6,984
	5,891	5,706	5,456	5,388	5,226
	13,025	12,538	11,478	11,529	10,887
	12,960	12,952	13,188	12,900	12,472
	148,954	140,056	130,864	125,180	115,712
	<b>28,577</b>	<b>27,439</b>	<b>26,392</b>	<b>24,978</b>	<b>23,930</b>
	5,045	4,873	4,700	4,626	4,319
	1,025	1,005	1,009	934	897
	22,507	21,561	20,683	19,419	18,714
\$	11,400	\$ 10,483	\$ 9,690	\$ 8,830	\$ 8,026
	322,543	304,855	282,368	271,086	258,600
	3.5%	3.4%	3.4%	3.3%	3.1%
	5.3%	5.3%	5.3%	5.3%	5.3%

**Commonwealth of Massachusetts**  
**Personal Income Tax Filers and Liability by Income Level**  
**Calendar (Tax) Years 2011 and 2002**

(Amounts, except income level are in thousands)

**Calendar Year 2011 (or Fiscal Year 2012)**

<u>Income Level</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Personal Income Tax Liability</u>	<u>Percentage of Total</u>
\$100,001 and higher.....	623,699	17.7%	\$ 7,718,007	68.5%
\$75,001 - \$100,000.....	284,296	8.0%	1,065,375	9.4%
\$50,001 - \$75,000.....	455,119	12.8%	1,161,944	10.3%
\$25,001 - \$50,000.....	770,970	21.7%	1,020,263	9.0%
\$10,001 - \$25,000.....	677,869	19.1%	278,270	2.5%
\$10,000 and lower.....	733,626	20.7%	30,279	0.3%
Total.....	<u>3,545,579</u>	<u>100.0%</u>	<u>\$ 11,274,138</u>	<u>100.0%</u>

**Calendar Year 2002 (or Fiscal Year 2003)**

<u>Income Level</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Personal Income Tax Liability</u>	<u>Percentage of Total</u>
\$100,001 and higher.....	390,943	11.8%	\$ 3,996,859	51.9%
\$75,001 - \$100,000.....	267,198	8.1%	1,008,583	13.1%
\$50,001 - \$75,000.....	459,047	13.9%	1,183,601	15.4%
\$25,001 - \$50,000.....	827,061	25.0%	1,156,336	15.0%
\$10,001 - \$25,000.....	686,434	20.7%	327,414	4.3%
\$10,000 and lower.....	677,835	20.5%	24,666	0.3%
Total.....	<u>3,308,518</u>	<u>100.0%</u>	<u>\$ 7,697,459</u>	<u>100.0%</u>

*Source: Massachusetts Department of Revenue - 2011 is the most recent tax year for which complete data are available.*

## Ten -Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population (4)	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
	Bonded Debt (1)	Capital Leases (2)	Bonded Debt (2)	Capital Leases					
2013	\$ 21,513,039	\$ 50,831	\$ 3,736,432	\$ 19,299	\$ 25,319,601	\$ 363,943,750	6,646	7.0%	\$ 3.81
2012	21,907,683	60,457	3,370,389	23,327	25,361,856	352,242,750	6,557	7.2%	3.87
2011	20,875,055	60,975	3,277,413	31,105	24,244,548	336,399,750	6,518	7.2%	3.72
2010	19,726,507	76,608	2,731,124	40,924	22,575,163	324,680,250	6,469	7.0%	3.49
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	335,721,500	6,432	6.4%	3.35
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	322,542,500	6,410	6.5%	3.26
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	304,855,000	6,410	6.7%	3.20
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	282,367,750	6,403	7.1%	3.15
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	271,086,000	6,412	7.2%	3.03
2004	17,382,172	57,900	1,049,095	73,971	18,563,138	258,600,250	6,423	7.2%	2.89

(1) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. For fiscal 2004 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

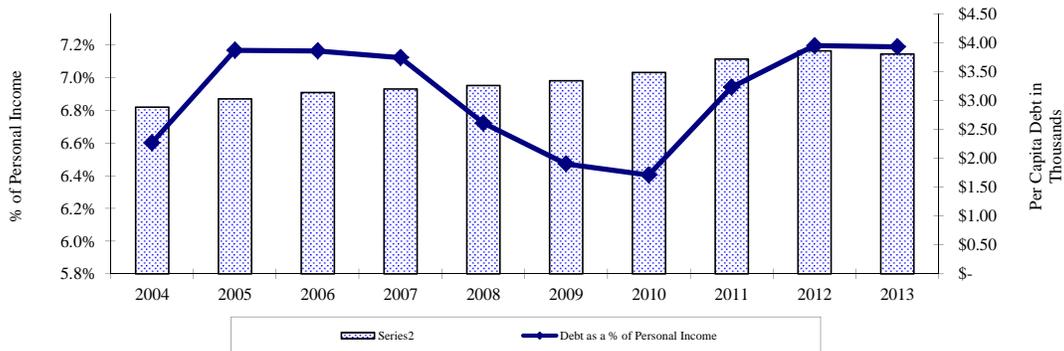
(2) Governmental capital leases exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit.

(3) Business-type activities bond debt includes notes payable of the Institutions of Higher Education.

(4) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of July, 1 of the previous year

Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)

**Ten- Year Per Capita Debt and Capital Leases**



## Ten Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2013 (3)	2012	2011	2010	2009
Outstanding principal as of June 30 (1).....	\$ 21,513,039	\$ 21,433,553	\$ 20,875,056	\$ 19,509,819	\$ 19,047,679
Plus/(less) amounts excluded:					
Net amortized (discount)/premium and issuance costs.....	-	474,130	335,078	216,688	216,890
Total net proceeds/principal.....	21,513,039	21,907,683	21,210,134	19,726,507	19,264,569
Less net proceeds/principal of direct debt excluded from statutory debt limit:					
Central artery project bonds.....	(1,303,013)	(1,342,841)	(1,356,606)	(1,243,250)	(1,401,581)
Accelerated bridge program.....	(1,088,605)	(1,095,385)	(676,125)	-	-
County debt assumed.....	-	(75)	(150)	(225)	(300)
(Premium)/discount.....	-	(474,130)	(335,078)	216,688	216,890
Grant anticipation notes (2).....	(349,100)	(510,385)	(666,790)	(997,467)	(1,134,797)
School Modernization and Reconstruction Trust Bonds.....	(764,337)	(795,009)	(824,279)	(894,502)	(921,751)
Convention center bonds.....	(638,700)	(638,700)	(643,715)	(643,715)	(643,715)
MBTA forward funding bonds.....	(207)	(207)	(44,472)	(165,559)	(231,000)
Special obligation gas bonds.....	(296,395)	(337,545)	(371,665)	(419,785)	(456,984)
Outstanding direct debt, net proceeds/principal.....	17,072,682	16,713,406	16,291,254	15,578,692	14,691,331
Statutory debt limit*.....	17,923,500	17,070,000	18,042,424	17,183,261	16,365,011
Debt margin (debt limit less direct debt).....	<u>\$ 850,818</u>	<u>\$ 356,594</u>	<u>\$ 1,751,170</u>	<u>\$ 1,604,569</u>	<u>\$ 1,673,680</u>
Debt margin as a percentage of direct debt limit.....	<u>4.7%</u>	<u>2.1%</u>	<u>9.7%</u>	<u>9.3%</u>	<u>10.2%</u>

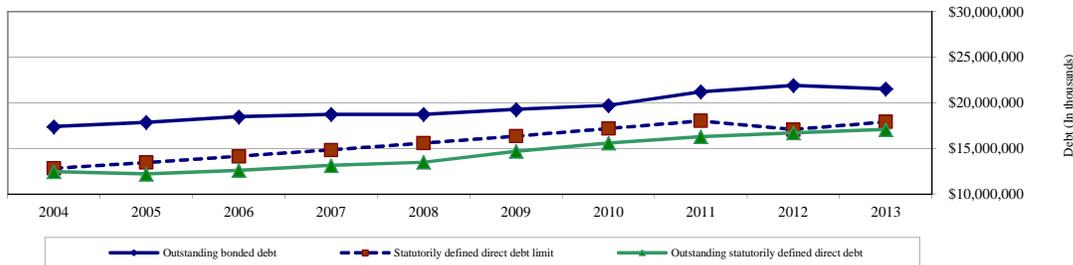
(1) Exclusive of the Massachusetts School Building Authority debt

(2) Inclusive of crossover refunding amounts

(3) For fiscal 2004 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

\* Section 60A of Chapter 165 of the Acts of 2012, as amended, reset the statutory defined debt limit, effective July 1, 2012, to \$17.070 billion

**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit  
2004 - 2013**



2008	2007	2006	2005	2004
\$ 18,611,105	\$ 18,634,913	\$ 18,348,733	\$ 17,785,862	\$ 17,381,052
123,335	102,048	112,673	70,937	1,120
18,734,440	18,736,961	18,461,406	17,856,799	17,382,172
(1,434,654)	(1,462,870)	(1,476,287)	(1,336,741)	(1,066,638)
-	-	-	-	-
(375)	(450)	(525)	(600)	(675)
123,335	102,048	112,673	70,937	1,120
(1,536,206)	(1,666,690)	(1,789,876)	(1,908,015)	(1,908,015)
(946,285)	(946,285)	(1,000,002)	(500,000)	-
(643,715)	(643,715)	(643,715)	(693,400)	-
(309,203)	(368,873)	(416,830)	(511,546)	(601,027)
(482,953)	(617,226)	(647,551)	(792,148)	(1,347,882)
13,504,384	13,132,900	12,599,293	12,185,286	12,459,055
15,585,725	14,843,547	14,136,712	13,463,535	12,822,414
\$ 2,081,341	\$ 1,710,647	\$ 1,537,419	\$ 1,278,249	\$ 363,359
13.4%	11.5%	10.9%	9.5%	2.8%

**Ten Year Schedule of Pledged Revenue Coverage**

**Special Obligation Highway Bonds (Motor Fuels Taxation and Motor Vehicle Fees), Convention Center Bonds (Tax Incremental Financing) and Grant Anticipation Notes (Federal Highway Grants)**

(Statutory Basis, Amounts in Thousands, Except for Federal Highway Appropriations which are in Billions and on a federal fiscal year and Except for Ratios)

	2013	2012	2011	2010	2009
<b>Highway Bonds</b>					
For issues prior to December 2010, the bonds are secured by a pledge of 6.86¢ of the 21¢ per gallon state gasoline excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax. Bonds issued in December 2010 and May 2012 are secured by a senior lien on 14.085 cents of the total 21 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited in the Commonwealth Transportation Fund. Federal Build America Bonds subsidies are also pledged to the May 2012 bonds. The bonds also have a subordinate lien on 6.86¢ of the 21¢ per gallon gasoline tax not included in the senior lien. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds/Recovery Zone Economic Development Bonds; the programs provide an interest subsidy of 35-45% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
<b>Pre-2010 Bond Issues</b>					
Tax Receipts.....	\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666	\$ 189,246
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666	\$ 189,246
Annual Debt Service.....	\$ 58,922	\$ 58,939	\$ 59,453	\$ 58,931	\$ 58,924
Debt Service Coverage Ratio.....	3.17	3.23	3.19	3.20	3.21
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA, Aa1, AAA	AA, Aa2, AA+	AA+, Aa3, AA+
<b>Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds)</b>					
Receipts.....	\$ 1,170,297	\$ 1,121,709	\$ 626,619		
Operating Expenses.....	N/A	N/A	N/A		
Net Available Revenues.....	\$ 1,170,297	\$ 1,121,709	\$ 626,619		
Annual Debt Service.....	\$ 58,108	\$ 32,623	\$ 14,318		
Debt Service Coverage Ratio.....	20.14	34.38	43.76		
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA		
<b>Convention Center Bonds</b>					
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts in those cities. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table.					
Receipts.....	\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432	\$ 73,918
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432	\$ 73,918
Annual Debt Service.....	\$ 36,469	\$ 36,345	\$ 35,391	\$ 36,296	\$ 36,293
Debt Service Coverage Ratio.....	2.76	2.59	2.40	2.08	2.04
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A
<b>Grant Anticipation Notes (GANS)</b>					
Notes issued prior to December 2010 ("Senior Federal Highway Notes") are secured by all federal highway reimbursements into the Grant Anticipation Note Trust fund, released by the Commonwealth once all debt service and reserve funding obligations of the notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10 ¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund to be used for debt service, subject to appropriation. Notes issued in December 2010 ("Federal Highway Grant Anticipation Notes") are secured by all federal highway reimbursements after payment of debt service on the Senior Federal Highway Notes and also by any revenues pledged to the payment of pre-2010 and December 2010 Highway Bonds (as described above) in excess of debt service paid on those bonds. Revenues pledged to the notes are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds; the program provides an interest subsidy of 35% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
<b>Pre-2010 GANS</b>					
Receipts.....	\$ 636,106	\$ 755,985	\$ 623,410	\$ 761,351	\$ 828,956
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 636,106	\$ 755,985	\$ 623,410	\$ 761,351	\$ 828,956
Annual Debt Service.....	\$ 174,467	\$ 184,394	\$ 188,379	\$ 196,248	\$ 204,788
Debt Service Coverage Ratio.....	3.65	4.10	3.31	3.88	4.05
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+(2), Aa2, AA+	AA, Aa3, AA+
Amount appropriated for national federal highway spending (federal fiscal year) (billions) (1).....	\$ 42,636	\$ 43,896	\$ 44,323	\$ 43,040	\$ 39,358
<b>December 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds and GANS)</b>					
Receipts.....	\$ 1,575,256	\$ 1,674,485	\$ 909,546		
Operating Expenses.....	N/A	N/A	N/A		
Net Available Revenues.....	\$ 1,575,256	\$ 1,674,485	\$ 909,546		
Annual Debt Service.....	\$ 6,402	\$ 4,271	\$ 2,039		
Debt Service Coverage Ratio.....	246.04	392.10	446.01		
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA		

(1) Source: The Federal Budget for Fiscal 2014, Historical Tables, Table 9.6 2013 is estimated. \*Uninsured rating, if available.

(2) Reflects rating recalibration

2008	2007	2006	2005	2004
------	------	------	------	------

\$ 194,785	\$ 148,047	\$ 239,469	\$ 196,210	\$ 196,380
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 194,785	\$ 148,047	\$ 239,469	\$ 196,210	\$ 196,380
\$ 56,535	\$ 58,867	\$ 56,545	\$ 48,378	\$ 124,751
3.45	2.51	4.24	4.06	1.57
AA-, Aa3, AA				

\$ 78,984	\$ 66,347	\$ 55,052	\$ 50,561	\$ 35,103
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 78,984	\$ 66,347	\$ 55,052	\$ 50,561	\$ 35,103
\$ 35,600	\$ 34,486	\$ 33,964	\$ 18,350	\$ -
2.22	1.92	1.62	2.76	NMF
NA, A2, A	A2, A	A2, A	A2, A	A2, A

\$ 463,588	\$ 462,484	\$ 451,284	\$ 449,331	\$ 599,040
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 463,588	\$ 462,484	\$ 451,284	\$ 449,331	\$ 599,040
\$ 211,709	\$ 211,712	\$ 211,712	\$ 95,223	\$ 93,466
2.19	2.18	2.13	4.72	6.41
Aa3, AA				

\$ 36,747	\$ 34,373	\$ 33,975	\$ 31,433	\$ 30,188
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**Ten-Year Schedule of Percentage of Annual Debt Service Expenditures  
For General Bonded Debt to Total Non-Capital Expenditures - Fund Perspective  
All Governmental Fund Types**

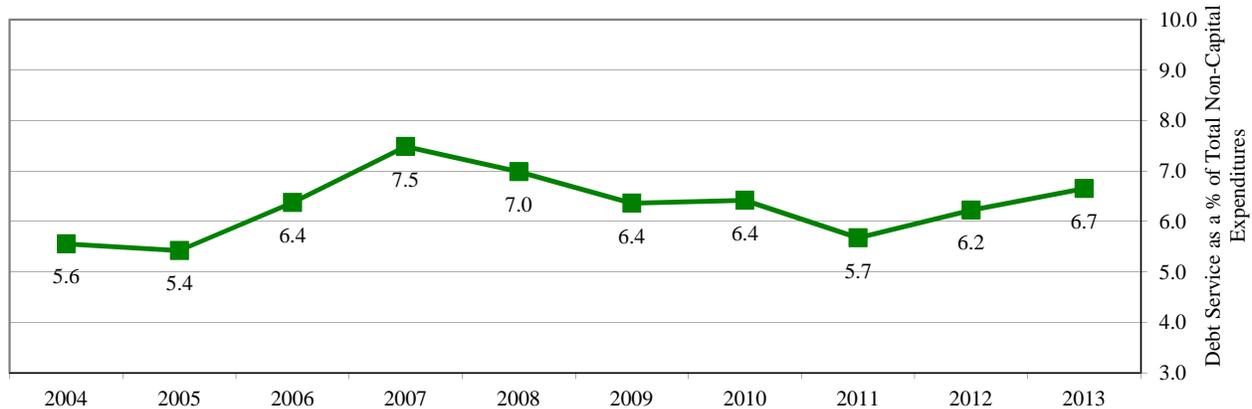
(Amounts in thousands)

Fiscal year ended June 30	Debt service(1)	Total Non-capital expenditures(2)	Ratio (%)
2013	\$ 2,753,715	\$ 41,403,978	6.7
2012	2,504,253	40,234,846	6.2
2011	2,219,667	39,126,733	5.7
2010	2,407,270	37,519,262	6.4
2009	2,409,590	37,878,441	6.4
2008	2,486,403	35,608,652	7.0
2007	2,538,134	33,918,074	7.5
2006	2,028,441	31,831,391	6.4
2005	1,719,489	31,699,602	5.4
2004	1,604,850	28,888,360	5.6

(1) Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.

(2) Expenditures are shown net of Massachusetts School Building Authority expenditures as they are school building assistance capital grants to local cities and towns.

**Debt Service to Non-Capital Expenditures Ratio 2004 - 2013**



## Component Units Revenue Bond Coverage For the Last Ten Fiscal Years

(Amounts in thousands)

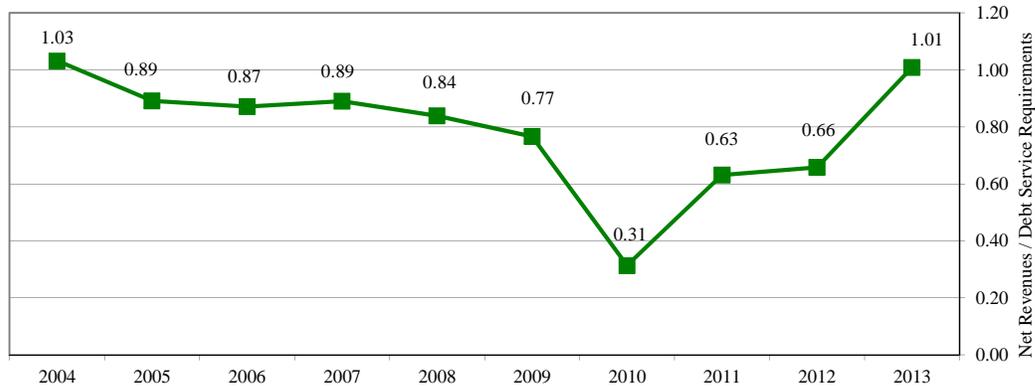
Fiscal year ended June 30	Net revenues <sup>(1)</sup>	Debt service requirements <sup>(2)</sup>	Coverage Ratio (%)
2013	\$ 1,255,036	\$ 1,244,358	1.01
2012	998,905	1,517,899	0.66
2011	738,470	1,170,149	0.63
2010	433,617	1,383,231	0.31
2009	805,316	1,050,655	0.77
2008	728,445	868,331	0.84
2007	870,919	978,819	0.89
2006	717,190	823,406	0.87
2005	648,282	727,316	0.89
2004	700,677	679,457	1.03

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants, transfers and depreciation of only those Authorities with revenue bonds outstanding. Beginning in FY2010, interest expenses were included in the net revenue calculation.

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding.

Source: Office of the Comptroller

### Component Units Revenue Bond Coverage 2004 - 2013



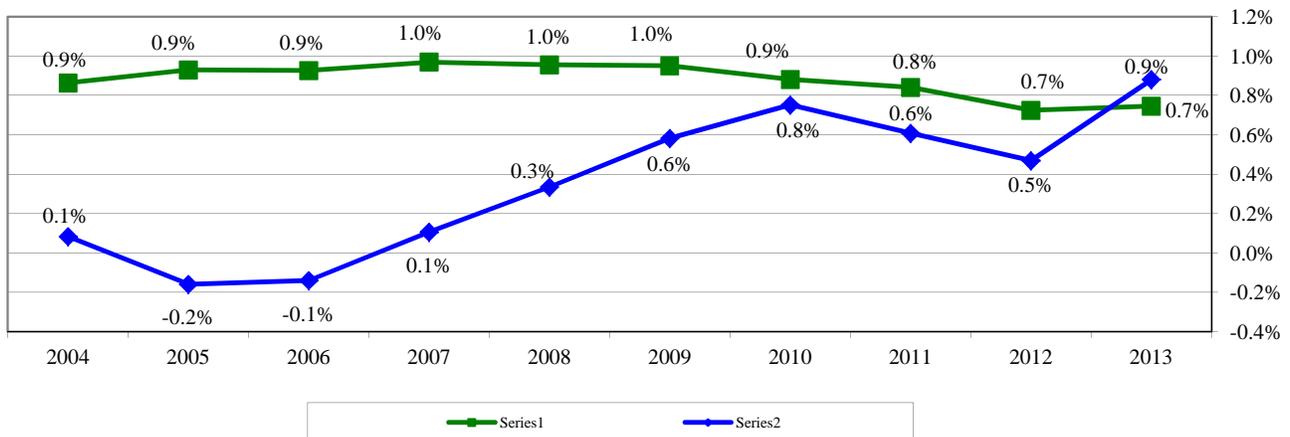
## Ten-Year Schedule of Massachusetts and United States Resident Population

(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2013	313,914	0.7%	6,646	0.9%	2.1%
2012	311,592	0.7%	6,588	0.5%	2.1%
2011	309,350	0.8%	6,557	0.6%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%
2008	301,231	1.0%	6,432	0.3%	2.1%
2007	298,380	1.0%	6,410	0.1%	2.1%
2006	295,517	0.9%	6,403	-0.1%	2.2%
2005	292,805	0.9%	6,412	-0.2%	2.2%
2004	290,108	0.9%	6,423	0.1%	2.2%

(1) Population estimates have been restated using most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year. *Source: - Census.Gov (US Census Bureau).*

**Massachusetts and United States Estimated Year- to -Year Population Change  
2004 - 2013**

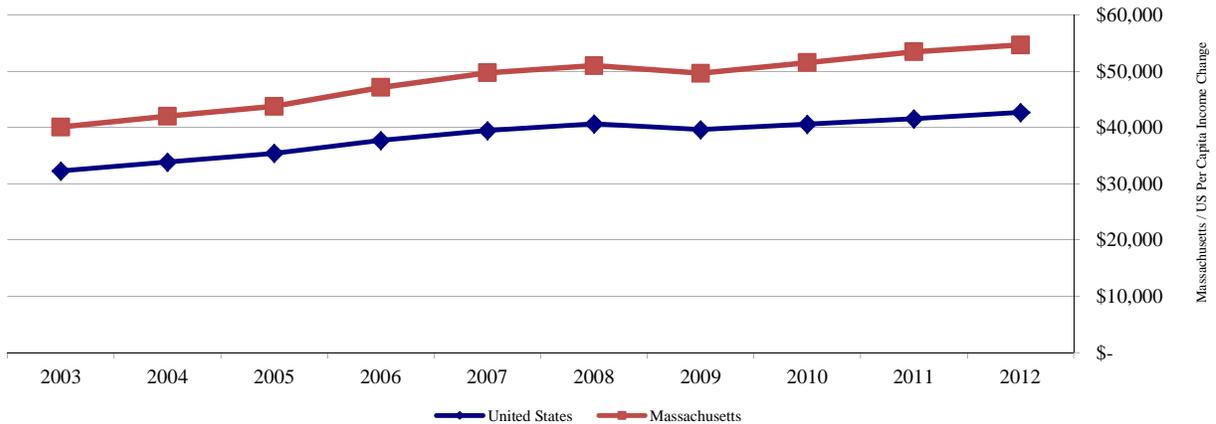


## Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar Year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2012	\$ 42,693	2.7%	\$ 54,687	2.3%	128.1%
2011	41,560	2.4%	53,471	3.7%	128.7%
2010	40,584	2.4%	51,552	3.8%	127.0%
2009	39,626	-2.6%	49,643	-2.7%	125.3%
2008	40,673	4.3%	51,028	4.3%	127.5%
2007	39,458	4.7%	49,727	5.5%	126.0%
2006	37,698	6.4%	47,144	7.7%	125.1%
2005	35,424	4.6%	43,757	4.1%	123.5%
2004	33,881	5.0%	42,021	4.8%	124.0%
2003	32,271	2.6%	40,083	1.6%	124.2%

Source: Bureau of Economic Analysis, US Department of Commerce. Revised state personal income estimates for 1990-2010 were released on March 23, 2011.

**Massachusetts vs. United States Year-to-Year Per Capita Net Income  
Calendar Years 2003 - 2012**

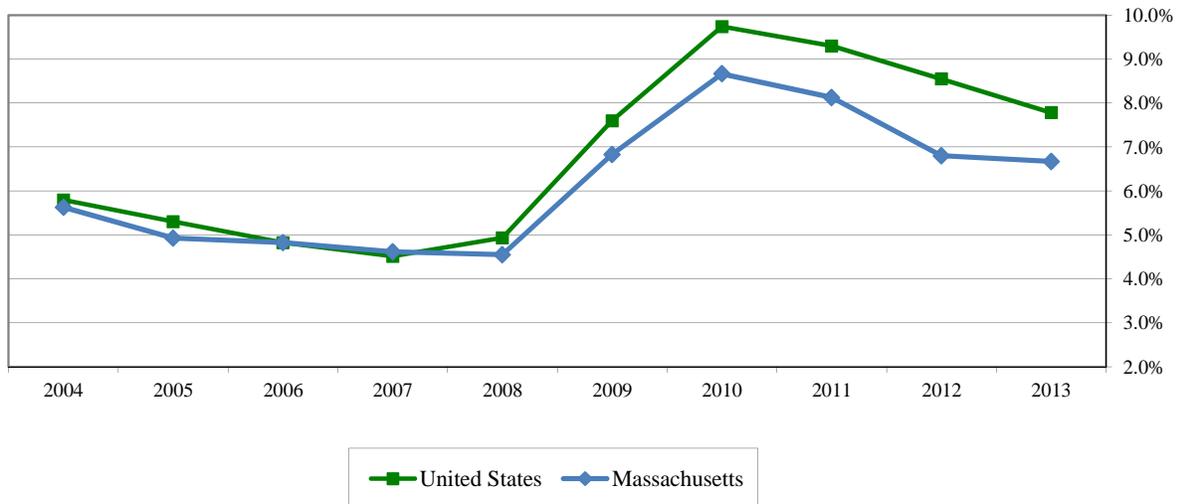


**Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force,  
Unemployment and Unemployment Rates  
For Massachusetts and the United States**

(Amounts in thousands)

Fiscal Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2013	3,477	232	6.7%	155,337	12,092	7.8%	85.7%
2012	3,455	235	6.8%	154,285	13,176	8.6%	79.5%
2011	3,497	284	8.1%	153,654	14,288	9.3%	87.4%
2010	3,484	302	8.7%	153,916	15,006	9.7%	89.0%
2009	3,479	238	6.8%	154,555	11,758	7.6%	89.9%
2008	3,446	157	4.6%	153,686	7,591	4.9%	92.2%
2007	3,432	158	4.6%	152,436	6,898	4.5%	102.2%
2006	3,399	164	4.8%	150,353	7,252	4.8%	100.0%
2005	3,376	166	4.9%	148,241	7,861	5.3%	92.6%
2004	3,396	191	5.6%	146,815	8,512	5.8%	96.7%

**Massachusetts and United States Average Unemployment Rates  
FY2004 to FY2013**



Source: Federal Bureau of Labor Statistics, August 2013. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.

**Largest Private Sector Massachusetts Employers 2013 and 2004**  
(Alphabetical Order)

2013			2004		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc	Springfield	Insurance
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Boston University		
Brigham and Women's Hospital, Inc.	Boston	Hospital	Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals	EMC Corporation	Hopkinton	Computer Storage & Peripherals
General Hospital Corporation	Boston	Hospital	Friendly Ice Cream Corporation	Wilbraham	Food Service
Harvard University	Cambridge	University	General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University	Harvard University	Cambridge	University
Partners Healthcare Systems, Inc.	Boston	Hospital	Massachusetts Institute of Technology	Cambridge	University
Raytheon Company	Lexington	Electronics / Defense	Raytheon Company	Lexington	Electronics / Defense
S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket	S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital	Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking	State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital	The Children's Hospital Corporation	Boston	Hospital
The TJX Companies, Inc.	Framingham	Department Stores	UMASS Memorial Medical Center, Inc.	Worcester	Hospital
UMASS Memorial Medical Center, Inc.	Worcester	Hospital			

*Source: Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2012 survey. In addition, Bank of America NA, Home DepotUSA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York. The information is based on employers registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who registereach store, facility or franchisee as a separate employer.*

**Full Time Equivalent Employees  
By Function / Program  
Last Ten Years**

Functions / Programs	2013	2012	2011	2010	2009
General government.....	7,627	7,408	8,020	8,280	6,277
Judiciary.....	7,297	7,087	7,111	7,388	7,821
Energy and environmental affairs.....	2,684	2,685	2,737	2,783	2,955
Health and human services.....	21,996	21,042	21,011	21,401	22,605
Transportation and construction.....	4,243	4,230	4,209	4,127	3,043
Education.....	928	922	1,037	1,575	844
Public safety and homeland security.....	16,907	16,503	15,785	15,857	13,951
Housing and economic development.....	868	845	831	846	2,314
Higher Education:					
University of Massachusetts.....	14,688	14,159	14,159	14,031	13,814
State universities.....	4,856	4,747	4,487	4,282	4,650
Community colleges.....	5,111	4,834	4,684	4,276	4,781
<b>Totals.....</b>	<b>87,205</b>	<b>84,462</b>	<b>84,070</b>	<b>84,846</b>	<b>83,055</b>
<b>Percentage Change .....</b>	<b>3.2%</b>	<b>0.5%</b>	<b>-0.9%</b>	<b>2.2%</b>	<b>-0.7%</b>

Source: Office of the State Comptroller

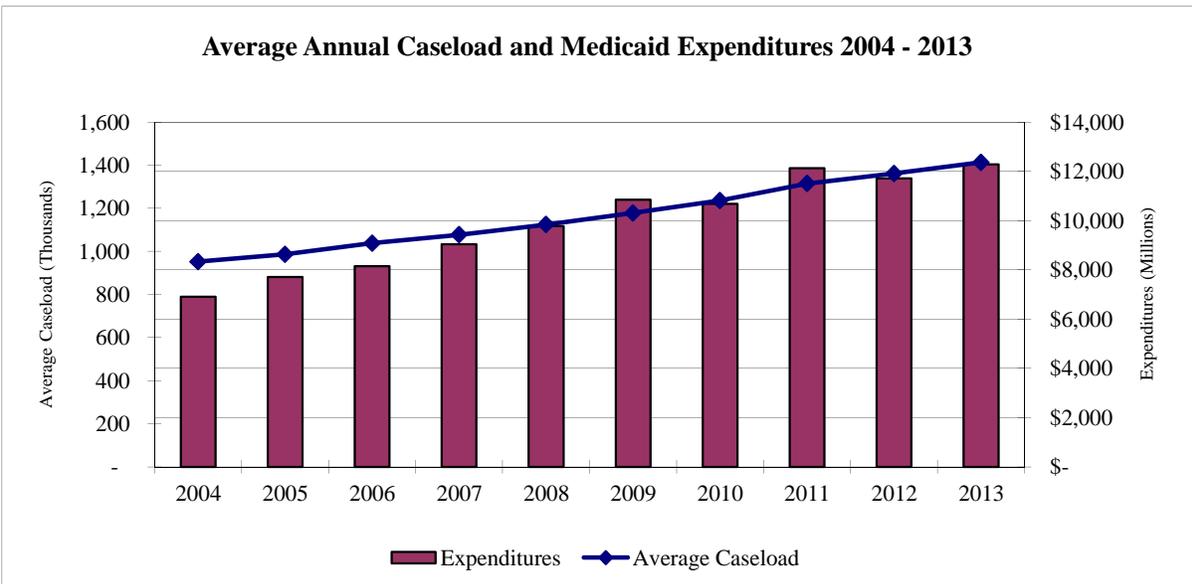
"Education" includes the Department of Elementary & Secondary Education, Executive Office of Education, Board of Higher Education and in 2009 Early Education and Care. Transportation and construction includes MassDOT. FTE's are rounded. Prior years not restated for changes. Includes approximately 6,600 FTEs transferred to the Commonwealth's payroll in FY09 and FY10 in the categories of Higher Education, Transportation and construction and Public safety and homeland security (see page 23 of Management's Discussion and Analysis for details).

2008	2007	2006	2005	2004	Change - 2013 from 2004
6,368	6,204	6,177	5,750	5,449	40.0%
8,021	7,993	7,635	7,467	7,099	2.8%
2,928	2,847	2,686	2,744	2,612	2.8%
23,322	22,972	22,935	22,855	22,229	-1.0%
2,892	1,903	2,708	2,759	1,794	136.5%
615	617	651	587	569	63.0%
14,242	14,550	13,517	13,152	13,578	24.5%
2,302	2,339	2,264	2,299	2,300	-62.3%
13,651	13,602	13,360	12,807	12,356	18.9%
4,519	4,495	4,301	4,224	3,914	24.1%
4,775	4,689	4,603	4,523	4,219	21.2%
<b>83,636</b>	<b>82,211</b>	<b>80,837</b>	<b>79,167</b>	<b>76,120</b>	14.6%
<b>1.7%</b>	<b>1.7%</b>	<b>2.1%</b>	<b>4.0%</b>	<b>-2.8%</b>	

## Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2013	1,413	\$ 12,286	\$ 8,695
2012	1,361	11,708	8,602
2011	1,315	12,124	9,220
2010	1,263	10,678	8,454
2009	1,178	10,843	9,205
2008	1,124	9,770	8,690
2007	1,077	9,044	8,397
2006	1,038	8,151	7,853
2005	986	7,706	7,815
2004	952	6,909	7,257



**Massachusetts Road Inventory  
Calendar Year End, Lane Miles by Type  
Last Ten Calendar Years**

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2012	3,212	15,639	9,038	44,379	72,268	0.13%	85.8%	14.2%
2011	3,212	15,051	9,611	44,300	72,174	0.20%	81.1%	18.9%
2010*	3,210	15,047	9,607	44,169	72,033	0.20%	81.1%	18.9%
2009	3,212	14,974	9,589	44,112	71,887	0.30%	81.1%	18.9%
2008	3,212	14,976	9,591	43,893	71,672	0.41%	81.1%	18.9%
2007	3,213	14,993	9,566	43,612	71,383	0.17%	80.9%	19.1%
2006	3,209	14,958	9,567	43,527	71,261	0.31%	81.0%	19.0%
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81.0%	19.0%
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%

\*2010 was restated to include both urban and rural roads.

*Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development  
Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders.*

**Massachusetts Real Property Owned and Leased  
Annual Inventory, Acreage, Improvements and Square Footage  
Last Ten Years**

Functions / Programs	Survey Year 2013	Survey Year 2012	Survey Year 2011	Survey Year 2010	Survey Year 2009
<b>General Government:</b>					
Total Acreage.....	3,101	3,039	2,993	2,373	2,495
Number of Improvements.....	333	279	255	227	240
Gross square footage.....	9,076,550	7,690,761	7,206,548	6,797,819	6,660,792
<b>Judiciary:</b>					
Total Acreage.....	148	148	141	141	141
Number of Improvements.....	73	73	68	68	69
Gross square footage.....	4,700,920	4,700,920	4,787,564	4,787,564	4,826,836
<b>Energy and environmental affairs</b>					
Total Acreage.....	652,400	642,799	627,286	623,952	606,662
Number of Improvements.....	2,192	2,191	2,182	2,183	2,170
Gross square footage.....	7,287,961	7,283,666	7,295,922	7,299,322	7,246,280
<b>Housing and economic development:</b>					
Total Acreage.....	2	2	2	2	2
Number of Improvements.....	5	5	6	6	6
Gross square footage.....	68,412	68,412	77,642	77,642	77,642
<b>Health and human services:</b>					
Total Acreage.....	5,829	6,407	6,449	7,196	7,166
Number of Improvements.....	792	855	866	866	902
Gross square footage.....	9,759,611	10,923,090	10,834,266	10,809,259	11,214,034
<b>Transportation and public works:</b>					
Total Acreage.....	6,965	6,972	7,013	6,966	7,050
Number of Improvements.....	921	919	918	918	915
Gross square footage.....	4,876,689	4,876,689	4,873,783	4,876,689	4,876,936
<b>Education:</b>					
Total Acreage.....	208	208	233	233	233
Number of Improvements.....	43	43	43	43	43
Gross square footage.....	272,352	272,352	272,352	272,352	272,352
<b>Public safety and homeland security:</b>					
Total Acreage.....	19,169	19,172	19,158	18,693	18,331
Number of Improvements.....	997	990	991	1,029	1,028
Gross square footage.....	12,213,112	12,191,229	12,141,396	12,685,447	12,632,897
<b>Higher Education:</b>					
Total Acreage.....	7,473	7,254	7,178	7,169	7,151
Number of Improvements.....	1,009	1,007	987	975	937
Gross square footage.....	32,594,800	32,523,400	32,144,815	32,117,854	31,101,329
<b>Totals for Commonwealth (exclusive of Component Units):</b>					
<b>Total Acreage.....</b>	<b>695,295</b>	<b>686,001</b>	<b>670,454</b>	<b>666,725</b>	<b>649,231</b>
<b>Number of Improvements.....</b>	<b>6,365</b>	<b>6,362</b>	<b>6,316</b>	<b>6,315</b>	<b>6,310</b>
<b>Gross square footage.....</b>	<b>80,850,407</b>	<b>80,530,519</b>	<b>79,634,288</b>	<b>79,723,948</b>	<b>78,909,098</b>
<b>Percentage Change for Commonwealth:</b>					
<b>Acreage.....</b>	<b>1.4%</b>	<b>2.3%</b>	<b>0.6%</b>	<b>2.7%</b>	<b>2.5%</b>
<b>Improvements.....</b>	<b>0.0%</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>
<b>Gross square footage.....</b>	<b>0.4%</b>	<b>1.1%</b>	<b>-0.1%</b>	<b>1.0%</b>	<b>-0.6%</b>

Source: Executive Office of Administration and Finance, Division of Capital Asset Management.  
See <http://www.mass.gov/Eoaf/docs/dcam/dlforms/>

Survey Year 2008	Survey Year 2007	Survey Year 2006	Survey Year 2005	Survey Year 2004
1,858	1,681	2,050	2,772	2,486
163	84	232	300	306
5,736,028	4,767,751	6,745,962	8,429,827	8,315,791
145	135	118	117	114
71	71	68	68	68
5,080,836	4,889,645	4,351,128	4,884,206	4,884,206
591,511	586,173	569,282	558,347	552,857
2,162	2,156	2,159	2,168	1,916
7,242,870	7,185,678	7,057,840	7,039,038	6,677,076
2	2	2	2	2
6	6	6	6	6
77,642	77,642	77,642	76,812	76,812
7,259	7,604	7,615	7,311	7,284
980	1,059	1,001	992	997
12,270,433	13,371,858	12,333,804	12,251,382	12,493,551
6,930	6,933	7,217	7,175	7,513
915	914	910	908	909
4,876,936	4,856,942	4,845,365	4,812,965	4,821,599
233	233	233	233	234
43	43	43	43	44
272,352	272,352	272,352	272,352	272,352
18,324	18,319	17,530	17,515	17,454
1,023	1,031	1,026	1,038	1,037
12,631,497	12,768,250	12,885,742	13,137,177	13,131,414
7,149	7,133	7,089	7,138	7,163
940	932	933	941	939
31,197,929	30,947,996	30,870,743	30,997,427	30,728,820
<b>633,412</b>	<b>628,212</b>	<b>611,136</b>	<b>600,609</b>	<b>595,107</b>
<b>6,303</b>	<b>6,296</b>	<b>6,378</b>	<b>6,464</b>	<b>6,222</b>
<b>79,386,523</b>	<b>79,138,114</b>	<b>79,440,578</b>	<b>81,901,186</b>	<b>81,401,621</b>
<b>0.8%</b>	<b>2.8%</b>	<b>1.8%</b>	<b>0.9%</b>	<b>1270.1%</b>
<b>0.1%</b>	<b>-1.3%</b>	<b>-1.3%</b>	<b>3.9%</b>	<b>-0.7%</b>
<b>0.3%</b>	<b>-0.4%</b>	<b>-3.0%</b>	<b>0.6%</b>	<b>-1.1%</b>

**Massachusetts Public Higher Education  
Enrollment and Degrees Conferred  
Last Ten Academic Years**

Academic Year	Fall 2012	Fall 2011	Fall 2010	Fall 2009	Fall 2008
<b><u>ENROLLMENT</u></b>					
<b><u>University System</u></b>					
Undergraduate (FTE).....	48,136	47,432	48,018	44,543	42,768
Graduate (FTE).....	12,202	12,048	11,734	10,177	9,460
<b>System Enrollment.....</b>	<b>60,338</b>	<b>59,480</b>	<b>59,752</b>	<b>54,720</b>	<b>52,228</b>
<b><u>State University System</u></b>					
Undergraduate (FTE).....	34,773	35,639	36,721	34,129	33,040
Graduate (FTE).....	7,894	6,224	7,227	4,582	4,495
<b>System Enrollment.....</b>	<b>42,667</b>	<b>41,863</b>	<b>43,948</b>	<b>38,711</b>	<b>37,535</b>
<b><u>Community College System</u></b>					
Undergraduate (FTE).....	62,445	64,586	64,971	60,602	54,228
	2013	2012	2011	2010	2009
<b><u>DEGREES CONFERRED</u></b>					
<b><u>University System</u></b>					
Certificates (MD's).....	426	348	246	329	280
Associate's.....	121	97	100	111	103
Bachelors.....	10,910	10,399	9,958	9,362	8,763
Masters.....	3,442	3,360	3,242	3,029	2,882
Doctoral.....	486	450	414	400	381
Cert. of Adv. Grad. Study.....	62	89	87	79	70
Post-Bacc. Certificate.....	664	659	550	509	173
First Professional.....	103	43	47	-	-
<b>Total Degrees.....</b>	<b>16,214</b>	<b>15,445</b>	<b>14,644</b>	<b>13,819</b>	<b>12,652</b>
<b><u>State University System</u></b>					
Certificates.....	37	29	35	572	605
Bachelors.....	8,024	7,722	7,190	6,886	6,621
Masters.....	2,327	2,404	2,376	2,467	2,343
Cert. of Adv. Grad. Study.....	108	143	116	170	157
Post-Bacc. Certificate.....	371	362	408	362	406
<b>Total Degrees.....</b>	<b>10,867</b>	<b>10,660</b>	<b>10,125</b>	<b>10,457</b>	<b>10,132</b>
<b><u>Community College System</u></b>					
Certificates.....	2,929	2,888	3,020	2,770	2,587
Associates.....	10,772	10,404	9,693	9,257	8,549
<b>Total Degrees.....</b>	<b>13,701</b>	<b>13,292</b>	<b>12,713</b>	<b>12,027</b>	<b>11,136</b>
<b>Total All Systems - Degrees.....</b>	<b>40,782</b>	<b>39,397</b>	<b>37,482</b>	<b>36,303</b>	<b>33,920</b>

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

Fall 2007	Fall 2006	Fall 2005	Fall 2004	Fall 2003	Change - 2012 from 2003
40,806	39,283	38,286	37,598	37,904	27.0%
9,328	8,906	8,549	8,494	8,494	43.7%
<b>50,134</b>	<b>48,189</b>	<b>46,835</b>	<b>46,093</b>	<b>46,398</b>	<b>30.0%</b>
32,106	31,384	30,464	29,051	29,238	18.9%
4,428	4,352	4,258	8,658	8,360	-5.6%
<b>36,535</b>	<b>35,736</b>	<b>34,722</b>	<b>37,709</b>	<b>37,598</b>	<b>13.5%</b>
51,257	49,347	48,555	50,972	51,067	22.3%
2008	2007	2006	2005	2004	Change - 2013 from 2004
270	268	260	167	150	184.0%
96	117	99	95	119	1.7%
8,437	8,191	8,089	8,205	7,764	40.5%
2,808	2,503	2,484	2,588	2,467	39.5%
390	443	371	389	407	19.4%
86	77	97	88	67	-7.5%
133	146	115	63	56	1085.7%
-	-	-	-	-	100.0%
<b>12,220</b>	<b>11,745</b>	<b>11,515</b>	<b>11,595</b>	<b>11,030</b>	<b>47.0%</b>
597	615	556	540	490	-92.4%
6,328	6,207	5,885	5,549	5,525	45.2%
2,318	2,201	2,190	2,048	2,157	7.9%
224	151	179	142	108	0.0%
347	431	361	369	361	2.8%
<b>9,814</b>	<b>9,605</b>	<b>9,171</b>	<b>8,648</b>	<b>8,641</b>	<b>25.8%</b>
2,495	2,297	2,422	2,278	2,281	28.4%
8,247	7,942	8,024	7,993	7,670	40.4%
<b>10,742</b>	<b>10,239</b>	<b>10,446</b>	<b>10,271</b>	<b>9,951</b>	<b>37.7%</b>
<b>31,986</b>	<b>31,589</b>	<b>31,132</b>	<b>30,514</b>	<b>29,622</b>	<b>37.7%</b>

## Calculation of Transfers: Stabilization Fund

June 30, 2013  
(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	Commonwealth Transportation	Massachusetts Tourism	Total
Undesignated Budgeted Fund Balances (Consolidated Net Surplus).....	\$ 35,657	\$ 43,358	\$ 27,785	\$ 106,800
Year-end Transfers to the General Fund to Fund Statutory Allocations.....	71,143	(43,358)	(27,785)	-
<b>Disposition of Consolidated Net Surplus per Sec. 155 of Chapter 139 of the Acts of 2012, as Amended:</b>				
\$25 million to the Massachusetts Community Preservation Trust Fund.....	(25,000)	-	-	(25,000)
\$19.5 million to the Massachusetts Life Sciences Investment Fund.....	(19,500)	-	-	(19,500)
\$10 million to the Housing Preservation and Stabilization Trust Fund.....	(10,000)	-	-	(10,000)
\$11.5 million to the Department of Early Education and Care.....	(11,500)	-	-	(11,500)
\$11.5 million to provide human and social service providers for a one-time reserve payment.....	(11,500)	-	-	(11,500)
\$7.5 million to the Social Innovation Financing Trust Fund.....	(7,500)	-	-	(7,500)
\$21.8 million for information technology operating expenses.....	(21,800)	-	-	(21,800)
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund per Sec. 155 of Ch. 139 of the Acts of 2012, as Amended.....	\$ -	\$ -	\$ -	\$ -
<b>Stabilization Balance Reconciliation:</b>				
Balance as of July 1, 2012.....				\$ 1,652,118
Capital Gains Tax Transfers to Stabilization Fund during FY 2013 per Chapter 29, Section 5G.....				467,500
Judgments and Settlements In Excess of \$10 Million Transferred to Stabilization Fund per Ch. 29, Section 2H, Adjusted to Bring Consolidated Net Surplus to \$106.8 Million.....				32,497
Investment income, certain tax revenues and other recoveries.....				8,418
Change in Market Value from General Fund per Sec.160 of Ch. 139 of the Acts of 2012.....				(1,804)
Less Transfers from Stabilization Fund:				
Investment Income to General Fund per Sec.160 of Ch. 139 of the Acts of 2012.....			(5,322)	
5% Capital Gains Tax Transfer to the State Retiree Benefits Trust Fund per Chapter 29, Section 5G.....			(23,375)	
5% Capital Gains Tax Transfer to the State Pension Liability Fund per Chapter 29, Section 5G.....			(23,375)	
To General Fund Per Sec. 16 of Ch. 3 of the Acts of 2013.....			(550,000)	
Total Transfers from Stabilization Fund during FY 2013.....			(602,072)	(602,072)
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above.....				-
<b>Stabilization Fund Balance as of June 30, 2013.....</b>				<b>\$ 1,556,657</b>

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2013  
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 Sections 2H and 2I of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers, to 15% of budgeted revenues and other financial resources:

Undesignated fund balance in the Stabilization Fund.....	\$ 1,556,657
Allowable Stabilization Fund balance (per Schedule B).....	<u>5,066,844</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,556,657
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 1,556,657</u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund balance.....	\$ -
Transfers from Stabilization Fund.....	<u>-</u>
Tax Reduction Fund balance after transfers.....	<u>\$ -</u>

# MASSACHUSETTS GENERAL INFORMATION

**Admitted to Union (6<sup>th</sup> State):** 1788  
**Population:** 6,646,144

**Capital:** Boston  
**Nickname:** Bay State

## The State Seal



## The State Flag



The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

## The State Flower



**The Mayflower**

## The State Fish



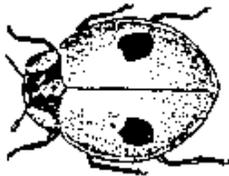
**The Cod**, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

## The State Bird



**The Black Capped Chickadee**

## The State Insect



**The Lady Bug**

## The State Tree



**The American Elm** was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

## The State Dog



**The Boston Terrier**, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

**Beverage:** Cranberry Juice  
**Dessert:** Boston Cream Pie

**Muffin:** The Corn Muffin  
**Cookie:** Chocolate Chip

**Horse:** The Morgan Horse  
**Bean:** Navy Bean