

## **NEW ISSUE - BOOK-ENTRY-ONLY**

*In the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel, under existing law, and assuming continued compliance with various requirements of the Internal Revenue Code of 1986, as amended, interest on the Notes will not be included in the gross income of holders of the Notes for federal income tax purposes. While interest on the Notes will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Notes will be included in the “adjusted current earnings” of corporate holders of the Notes and therefore will be taken into account in computing the alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, interest on the Notes and any profit made on the sale thereof are exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. See “TAX EXEMPTION” herein.*



## **THE COMMONWEALTH OF MASSACHUSETTS**

**\$1,200,000,000**

### **General Obligation Revenue Anticipation Notes**

**\$400,000,000 2015 Series A**

**\$400,000,000 2015 Series B**

**\$400,000,000 2015 Series C**

*The Notes will be issued by means of a book-entry-only system evidencing ownership and transfer of the Notes on the records of The Depository Trust Company, New York, New York (“DTC”), and its participants. Details of payment of the Notes are more fully described in this Official Statement. The Notes will bear interest from their date of delivery and interest will be payable at maturity, calculated on the basis of actual days elapsed over a 366-day year, as more fully described herein. The Notes are not subject to redemption prior to maturity.*

The Notes will constitute general obligations of The Commonwealth of Massachusetts (the “Commonwealth”), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Notes. However, for information regarding the statutory limit on state tax revenue growth, see “SECURITY FOR THE NOTES” (herein) and the Commonwealth Information Statement (described herein) under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues.”

The Notes are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Public Resources Advisory Group is acting as financial advisor to the Commonwealth in connection with the issuance of the Notes. Settlement of the issue is expected at DTC in New York, New York, on or about September 29, 2015.

September 22, 2015

# THE COMMONWEALTH OF MASSACHUSETTS

## **\$1,200,000,000 General Obligation Revenue Anticipation Notes**

### **\$400,000,000 2015 Series A**

**Dated: September 29, 2015**

**Maturity Date: April 27, 2016**

**Interest Rate: 2.00% (211/366)**

**CUSIP Number\* : 57582RFB7**

### **\$400,000,000 2015 Series B**

**Dated: September 29, 2015**

**Maturity Date: May 25, 2016**

**Interest Rate: 2.00% (239/366)**

**CUSIP Number\* : 57582RFD3**

### **\$400,000,000 2015 Series C**

**Dated: September 29, 2015**

**Maturity Date: June 22, 2016**

**Interest Rate: 2.00% (267/366)**

**CUSIP Number\* : 57582RFC5**

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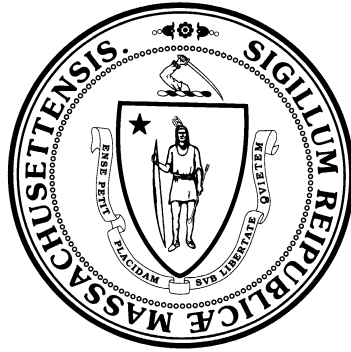
\* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. The CUSIP numbers are included solely for the convenience of owners of the Notes and the Commonwealth is not responsible for the selection or the correctness of the CUSIP numbers printed herein. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors, including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products.

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the original purchasers of the Notes to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy nor shall there be any sale of the Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein or included by reference herein has been furnished by the Commonwealth and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the original purchasers of the Notes or, as to information from other sources, the Commonwealth. The information and expressions of opinion herein or included by reference herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth, or its agencies, authorities or political subdivisions, since the date hereof, except as expressly set forth herein.

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Charles D. Baker ..... Governor**  
**Karyn E. Polito ..... Lieutenant Governor**  
**William F. Galvin ..... Secretary of the Commonwealth**  
**Maura T. Healey ..... Attorney General**  
**Deborah B. Goldberg ..... Treasurer and Receiver-General**  
**Suzanne M. Bump ..... Auditor**

**LEGISLATIVE OFFICERS**

**Stanley C. Rosenberg ..... President of the Senate**  
**Robert A. DeLeo ..... Speaker of the House**

## OFFICIAL STATEMENT

### THE COMMONWEALTH OF MASSACHUSETTS

**\$1,200,000,000**

**General Obligation**

**Revenue Anticipation Notes**

**\$400,000,000 2015 Series A**

**\$400,000,000 2015 Series B**

**\$400,000,000 2015 Series C**

### INTRODUCTION

This Official Statement (including the cover page and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the “Commonwealth”) of \$1,200,000,000 aggregate principal amount of its General Obligation Revenue Anticipation Notes, 2015 Series A, 2015 Series B and 2015 Series C (the “Notes”). The Notes will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Notes. However, for information regarding the statutory limit on state tax revenue growth, see “SECURITY FOR THE NOTES” and the Commonwealth Information Statement (described below) under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues.”

The Notes are being issued pursuant to the provisions of Section 47 of Chapter 29 of the Massachusetts General Laws to finance current operating expenses of the Commonwealth.

#### **Purpose and Content of Official Statement**

This Official Statement describes the terms and use of proceeds of, and security for, the Notes. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through E. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Specific reference is made to the Commonwealth’s Information Statement dated August 12, 2015, and the Commonwealth’s Information Statement Supplement dated September 11, 2015 (the “Information Statement”), which is attached hereto as Appendix A. The Information Statement has been filed with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. Subsequent filings by the Commonwealth to the EMMA system, prior to the sale of the Notes, of continuing disclosure documents identified as “other financial/operating data” are hereby deemed to be included by reference in the Information Statement. The Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibit B to the Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2014, prepared on a statutory basis. Exhibit C to the Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2014, prepared on a GAAP basis. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with EMMA. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports” under the “Publications and Reports” tab. In addition, the financial statements are also posted on the Commonwealth’s investor website at [www.massbondholder.com](http://www.massbondholder.com).

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Notes. Appendix C attached hereto contains the Official Notice of Sale with respect to the Notes. Appendix D attached hereto contains the Commonwealth's actual (unaudited) cash flow for fiscal 2015 and the most recent forecasted cash flow for fiscal 2016. The attached cash flow for fiscal 2016 sets forth actual (unaudited) cash receipts and disbursements through July, 2015 and estimated cash receipts and disbursement for the remainder of fiscal 2016. Appendix E attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Notes to facilitate compliance by the initial purchasers of the Notes with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

The information contained in Appendix D is based on fiscal 2015 and fiscal 2016 cash flow projections dated September 1, 2015, submitted to the Legislature by the State Treasurer and the Secretary of Administration and Finance and is believed to be reliable as of such date, but contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the Commonwealth and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities.

## **THE NOTES**

### **General**

The Notes will be dated September 29, 2015 and will be due and payable as to both principal and interest on the dates set forth on the inside cover page of this Official Statement. The Notes will bear interest at the rates per annum, payable at maturity and calculated on the basis of actual days elapsed over a 366-day year, as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Notes. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Notes.

*Book-Entry-Only System.* The Notes will be issued by means of a book-entry-only system, with one note certificate for each series of Notes immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Notes in principal amounts of \$5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Notes will be paid in federal funds to DTC or its nominee as registered owner of the Notes. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Notes for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

### **Redemption**

The Notes will not be subject to redemption prior to their stated maturity date.

## **SECURITY FOR THE NOTES**

The Notes will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. This statute is subject to amendment or repeal by the Legislature. Currently, actual tax revenue growth is below the statutory limit. See the Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues."

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Notes, and all claims with respect thereto. However, the property of the Commonwealth is not generally subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires a legislative appropriation. Enforcement of a claim for payment of principal of or interest on the Notes may also be subject to the provisions of federal or state statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to the Commonwealth. Under Massachusetts law, the Notes have all of the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Notes are not subject to acceleration.

## **LITIGATION**

No litigation is pending or, to the knowledge of the Attorney General, threatened against or affecting the Commonwealth seeking to restrain or enjoin the issuance, sale or delivery of the Notes or in any way contesting or affecting the validity of the Notes.

There are pending in courts within the Commonwealth various suits in which the Commonwealth is a defendant. In the opinion of the Attorney General, no litigation is pending or, to the knowledge of the Attorney General, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would materially affect its financial condition. For a description of certain litigation affecting the Commonwealth, see the Commonwealth Information Statement under the heading "LEGAL MATTERS."

## **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company, New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note will be issued for each series of Notes, each in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are,

however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commonwealth as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

**THE COMMONWEALTH WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR BY ANY DIRECT OR INDIRECT PARTICIPANT, THE PAYMENT OF OR THE PROVIDING OF NOTICE TO THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OR WITH RESPECT TO ANY OTHER ACTION TAKEN BY DTC AS NOTE OWNER.**

The principal of and interest and premium, if any, on the Notes will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, as registered owner of the Notes. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commonwealth, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Commonwealth, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commonwealth, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Commonwealth cannot give any assurances that Direct Participants or others will distribute payments of principal of and interest on the Notes paid to DTC or its nominee, as the registered owner, to the



Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this document.

Beneficial Owners of the Notes will not receive or have the right to receive physical delivery of such Notes and will not be or be considered to be the registered owners thereof. So long as Cede & Co. is the registered owner of the Notes, as nominee of DTC, references herein to the holders or registered owners of the Notes shall mean Cede & Co. and shall not mean the Beneficial Owners of the Notes, except as otherwise expressly provided herein.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the Commonwealth. Under such circumstances, in the event that a successor depository is not obtained, Notes will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Notes held in the Beneficial Owner's name, will become the Noteowner. Note certificates are required to be printed and delivered.

The Commonwealth may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In such event, Note certificates will be printed, delivered and registered as designated by the Beneficial Owners.

**THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY-ONLY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE COMMONWEALTH BELIEVES TO BE RELIABLE, BUT THE COMMONWEALTH TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.**

#### **RATINGS**

The Notes have been assigned ratings of "F1+," "MIG 1" and "SP-1+" by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Notes.

#### **TAX EXEMPTION**

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel to the Commonwealth ("Bond Counsel") is of the opinion that, under existing law, interest on the Notes will not be included in the gross income of holders of the Notes for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"), which must be satisfied subsequent to the date of issuance of the Notes in order to ensure that interest on the Notes is and continues to be excludable from the gross income of holders of the Notes. Failure to comply with certain of such requirements could cause interest on the Notes to be included in the gross income of holders of the Notes retroactive to the date of issuance of the Notes. In particular, and without limitation, these requirements include restrictions on the use, expenditure and investment of Note proceeds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth has provided covenants and certificates as to continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, since the Notes are not “private activity bonds” under the Code, interest on the Notes will not constitute a preference item under Section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under Section 55 of the Code. However, interest on the Notes will be included in “adjusted current earnings” of corporate holders of the Notes and therefore will be taken into account under Section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to any other matters of federal tax law relating to the Notes. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the Notes: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Notes or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the Notes, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for losses incurred by 15 percent of the sum of certain items, including interest on the Notes, (iii) interest on the Notes earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Notes, may be subject to federal income taxation under Section 1375 of the Code for an S Corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Notes, and (vi) receipt of investment income, including interest on the Notes, may, pursuant to Section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit provided by Section 32(a) of the Code.

Except in the case of certain corporate Note holders, interest paid on tax-exempt obligations such as the Notes is generally required to be reported by payors to the IRS and to recipients in the same manner as interest on taxable obligations. In addition, such interest may be subject to “backup withholding” if the Note holder fails to provide the information required on IRS Form W-9, Request for Taxpayer Identification Number and Certification, or the IRS has specifically identified the Note holder as being subject to backup withholding because of prior underreporting. Neither the information reporting requirement nor the backup withholding requirement affects the excludability of interest on the Notes from gross income for federal tax purposes.

In the opinion of Bond Counsel, under existing law, interest on the Notes and any profit made on the sale thereof are exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Notes. Prospective purchasers should be aware, however, that the Notes are included in the measure of Massachusetts estate and inheritance taxes, and the Notes and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Notes, their transfer and the income therefrom, including any profit made on the sale thereof, under the laws of any state other than Massachusetts.

For federal and Massachusetts income tax purposes, interest includes original issue discount, which with respect to a Note is equal to the excess, if any, of the stated redemption price at maturity of such Note over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all such Notes with the same maturity was sold. Original issue discount accrues actuarially over the term of a Note. Holders should consult their own tax advisers with respect to the computations of original issue discount during the period in which any such Note is held.

An amount equal to the excess, if any, of the purchase price of a Note over the principal amount payable at maturity constitutes amortizable note premium for federal and Massachusetts tax purposes. The required amortization of such premium during the term of a Note will result in reduction of the holder’s tax basis on such Note. Such amortization also will result in reduction of the amount of the stated interest on the Note taken into account as interest for tax purposes. Holders of Notes purchased at a premium should consult their own tax advisers with respect to the determination and treatment of such premium for federal income tax purposes and with respect to the state or local tax consequences of owning such Notes.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Notes, including legislation, court decisions, or administrative actions, whether at the federal or state level, may affect the tax exempt status of interest on the Notes or the tax consequences of ownership of the Notes. No assurance can be given that future legislation, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Notes from gross income for federal income tax purposes or any state tax benefit. Tax reform proposals and deficit reduction measures, including the limitation of federal tax expenditures, are expected to be under ongoing consideration by the United States Congress. These efforts to date have included proposals to reduce the benefit of the interest exclusion from income for certain holders of tax-exempt notes, including notes issued prior to the proposed effective date of the applicable legislation. Future proposed changes could affect the market value or marketability of the Notes, and, if enacted, could also affect the tax treatment of all or a portion of the interest on the Notes for some or all holders. Holders should consult their own tax advisors with respect to any of the foregoing tax consequences.

### OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Notes will be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., of Boston, Massachusetts, Bond Counsel to the Commonwealth. The proposed form of the opinion of Bond Counsel relating to the Notes is attached hereto as Appendix B. Certain legal matters will also be passed upon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the Commonwealth.

### COMPETITIVE SALE OF NOTES

The Notes were sold at a competitive sale on September 22, 2015 and awarded to the purchasers identified in the table below (the "Purchasers") in the principal amounts and at the purchase prices indicated. Each Purchaser has agreed to purchase all of the Notes awarded to them. Each Purchaser has sole discretion in establishing the price at which Notes awarded to them will be offered to the public and may change from time to time the offering prices for the Notes it purchased.

#### 2015 Series A Notes

<u>Principal Amount</u> <u>Purchased</u>	<u>Purchasers</u>	<u>Purchase Price</u>
\$150,000,000	Morgan Stanley & Co. LLC	\$151,638,000.00
50,000,000	J.P. Morgan Securities LLC	50,541,000.00
75,000,000	Merrill Lynch, Pierce, Fenner & Smith Incorporated	75,810,750.00
<u>125,000,000</u>	J.P. Morgan Securities LLC	126,348,750.00
\$400,000,000		

#### 2015 Series B Notes

<u>Principal Amount</u> <u>Purchased</u>	<u>Purchasers</u>	<u>Purchase Price</u>
\$25,000,000	Citigroup Global Markets Inc.	\$25,305,000.00
50,000,000	Wells Fargo Bank, National Association	50,606,500.00
25,000,000	Citigroup Global Markets Inc.	25,303,000.00
100,000,000	Goldman, Sachs & Co.	101,206,000.00
25,000,000	Barclays Capital Inc.	25,301,500.00
25,000,000	Raymond James & Associates, Inc.	25,301,000.00
125,000,000	J.P. Morgan Securities LLC	126,505,000.00
8,330,000	Citigroup Global Markets Inc.	8,430,209.90
<u>16,670,000</u>	Morgan Stanley & Co. LLC	16,870,540.10
\$400,000,000		

## 2015 Series C Notes

<u>Principal Amount Purchased</u>	<u>Purchasers</u>	<u>Purchase Price</u>
\$100,000,000	Merrill Lynch, Pierce, Fenner & Smith Incorporated	\$101,338,000.00
50,000,000	Wells Fargo Bank, National Association	50,667,000.00
25,000,000	Citigroup Global Markets Inc.	25,333,000.00
100,000,000	Merrill Lynch, Pierce, Fenner & Smith Incorporated	101,331,000.00
50,000,000	Wells Fargo Bank, National Association	50,665,000.00
25,000,000	Citigroup Global Markets Inc.	25,331,750.00
25,000,000	Barclays Capital Inc.	25,331,250.00
<u>25,000,000</u>	Merrill Lynch, Pierce, Fenner & Smith Incorporated	25,330,750.00
\$400,000,000		

In addition, certain of the Purchasers have entered into distribution agreements with other broker-dealers (that have not been designated by the Commonwealth as Purchasers) for the distribution of the Notes at the original issue prices. Such agreements generally provide that the relevant Purchaser will share a portion of its underwriting compensation or selling concession with such broker-dealers.

The Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Purchasers and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Commonwealth for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Commonwealth.

The Commonwealth does not intend to print physical copies of the Final Official Statement but instead will make available to the successful bidder or bidders in a timely manner an electronic version of the Final Official Statement via the EMMA system. Once posted, the Final Official Statement may be viewed and downloaded from the EMMA website, [www.emma.msrb.org](http://www.emma.msrb.org) or from the State Treasurer's website, [www.massbondholder.com](http://www.massbondholder.com).

### **CONTINUING DISCLOSURE**

In order to assist the initial purchasers of the Notes in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Notes to provide notices of certain events. A description of this undertaking is set forth in Appendix E attached hereto.

For information concerning the Commonwealth's compliance with its undertakings under Rule 15c2-12 and the availability of certain other financial information from the Commonwealth, see the Information Statement under the heading "Continuing Disclosure."

### **FINANCIAL ADVISOR**

The Commonwealth has retained Public Resources Advisory Group to act as financial advisor with respect to the issuance of the Notes.

## MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of all general and special laws and of other documents set forth or referred to in this Official Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

This Official Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the Commonwealth and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and others.

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

The Commonwealth has prepared the prospective financial information set forth in this Official Statement in connection with its budgeting and appropriations processes. This prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Commonwealth, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best knowledge and belief of the offices of the Commonwealth identified in this Official Statement as the sources of such information, the currently expected course of action and the currently expected future budgeted revenues and expenditures of the Commonwealth. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the Commonwealth’s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Official Statement, except as expressly stated.

## AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Susan E. Perez, Assistant Treasurer, Office of the Treasurer and Receiver-General, 3 Center Plaza, Suite 430, Boston, Massachusetts 02108, telephone (617) 367-3900, x. 816, or Jennifer F. Sullivan, Assistant Secretary for Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement and the Notes should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

## THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Deborah B. Goldberg  
Deborah B. Goldberg  
*Treasurer and Receiver-General*

By /s/ Kristen Lepore  
Kristen Lepore  
*Secretary of Administration and Finance*

September 22, 2015



**SUPPLEMENT DATED SEPTEMBER 11, 2015**

**TO**

**THE COMMONWEALTH OF MASSACHUSETTS**

**INFORMATION STATEMENT**

**DATED AUGUST 12, 2015**

The Commonwealth Information Statement dated August 12, 2015 is amended as follows:

Under the heading “THE GOVERNMENT – Initiative Petitions” the last paragraph in the section is replaced with the following:

On September 2, 2015, the Attorney General certified a petition to amend the state constitution to provide for an additional tax on certain income. See “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Income Tax*.” If the proponents of this petition collect 64,750 signatures by December 2, 2015, the petition will be placed before the Legislature.

Under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Income Tax*” the sixth paragraph is replaced with the following:

The Department of Revenue has just begun the same process during 2015 to determine whether the state income tax rate would be reduced further from 5.15% to 5.10%, effective January 1, 2016. On September 3, 2015, the Commissioner of Revenue certified that fiscal 2015 inflation-adjusted baseline revenues grew by 5.377% from fiscal 2014, which exceeds the initial trigger (2.5%) for the income tax rate reduction. To determine if there will be a positive inflation-adjusted baseline revenue growth for each consecutive three-month period starting in August and ending in November, 2015 as compared to the same consecutive three-month period in calendar 2014, the Commissioner will issue four more “three-month period” certifications by September 15, 2015, October 15, 2015, November 15, 2015 and December 15, 2015. Accordingly, it will not be known if the rate reduction will be triggered until the Commissioner issues a final certification by December 15, 2015 as to whether or not all of the statutory triggers were met. The Department of Revenue estimates that the revenue impact of this rate reduction (5.15% to 5.10%) for fiscal 2016 would be approximately \$74 million. The revenue impact for fiscal 2017 (assuming no further rate reduction in calendar year 2017) would be approximately \$152 million.

Under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Income Tax*” the paragraph following the table on page A-15 is replaced with the following:

On September 2, 2015, the Attorney General certified an initiative petition to amend the state constitution to provide for an additional tax of 4% on that portion of annual taxable income in excess of \$1 million for tax years beginning on or after January 1, 2019. The \$1 million figure would be adjusted annually for inflation. If the proponents collect 64,750 signatures by December 2, 2015, the petition will be placed before the Legislature. The petition would then need to be approved by the Legislature in two successive legislative sessions and by the voters in the November, 2018 general election in order to become effective. See “THE GOVERNMENT – Initiative Petitions.”

Under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2015 and Fiscal 2016 Tax Revenues; *Fiscal 2016*” the third and fourth paragraphs, and the table in between, are replaced with the following:

Preliminary tax revenues for the first two months of fiscal 2016, ended August 31, 2015, totaled approximately \$3.403 billion, an increase of approximately \$176.8 million, or 5.5%, over the same period in fiscal 2015. The following table shows the tax collections for the first two months of fiscal 2016 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the fiscal year that are dedicated to the MBTA and the MSBA.

**Fiscal 2016 Tax Collections (in millions)(1)**

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,673.4	\$77.2	4.8%	\$85.8	\$72.5	\$1,515.0
August	1,729.9	99.6	6.1	79.2	65.8	1,584.9
<b>Total</b>	<b>\$3,403.3</b>	<b>\$176.8</b>	<b>5.5%</b>	<b>\$165.0</b>	<b>\$138.3</b>	<b>\$3,099.9</b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

The year-to-date tax revenue increase of approximately \$176.8 million through August 31, 2015 from the same period in fiscal 2015 is attributable, in large part, to an increase of approximately \$114.5 million, or 6.7%, in withholding collections, an increase of approximately \$62.4 million, or 6.3%, in sales and use tax collections, and an increase of approximately \$13.1 million, or 15.7%, in corporate and business tax collections, which were partly offset by an increase of approximately \$24.4 million, or 69.7%, in income cash refunds. Year-to-date fiscal 2016 tax collections (through August) were approximately \$39 million above the benchmarks associated with the fiscal 2016 tax consensus tax revenue estimate of \$25.479 billion.

Under the heading “FISCAL 2015 AND FISCAL 2016 – Fiscal 2016” the last two paragraphs are replaced with the following:

**Fiscal 2016**

The Executive Office for Administration and Finance regularly reviews the Commonwealth’s fiscal condition throughout the fiscal year, and employs a number of tools to control spending. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Cash and Budgetary Controls.” The Executive Office for Administration and Finance has identified potential deficiencies in the fiscal 2016 budget in the range of approximately \$200 million to \$250 million, in addition to potential shortfalls from budgetary savings initiatives, additional spending associated with budget veto overrides, and revenue reductions anticipated in connection with the two-day suspension of the sales tax, discussed above. These potential deficiencies relate to, but are not limited to, compensation for legally appointed private counsel in connection with a program providing legal services for those unable to afford an attorney, collective bargaining and emergency shelter services. The Executive Office for Administration and Finance will closely monitor these exposures, as well as any other trends or exposures that may emerge, as the fiscal year progresses. Pursuant to state finance law, the Secretary of Administration and Finance is obligated to update or confirm the projection of tax revenues for fiscal 2016 on or before October 15, 2015. Projected and actual revenue and spending will be considered to ensure that the Commonwealth achieves fiscal balance in fiscal 2016. The Commonwealth will implement any gap-closing measures necessary in light of the facts and circumstances as they develop.

Legislation was approved as part of the fiscal 2016 budget establishing a Fiscal Control and Management Board to focus specifically on improving management of the MBTA, as originally proposed by the Governor. These MBTA provisions have no fiscal impact on the Commonwealth in fiscal 2016. In subsequent fiscal years, the legislation requires the Fiscal Control and Management Board to establish one- and five-year operating budgets that are balanced through a combination of internal cost controls and increased own-source revenues. Also enacted as part of the fiscal 2016 budget were provisions allowing the University of Massachusetts to retain all the tuition it collects. This change is not expected to have any fiscal impact in fiscal 2016. The Executive Office for Administration and Finance is developing its analysis of the fiscal impact of the change in fiscal 2017 and later years. See “COMMONWEALTH REVENUES AND EXPENDITURES – Education; *Department of Higher Education.*”



Under the heading “FISCAL 2015 AND FISCAL 2016 – Cash Flow” the section is replaced in its entirety with the following:

### **Cash Flow**

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Cash Management Practices of State Treasurer.” The Commonwealth does not engage in inter-fund borrowing. Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. All revenue anticipation notes, including those issued as commercial paper, must be repaid by the end of the fiscal year. The state currently has liquidity support for a \$200 million tax-exempt commercial paper program for general obligation notes. The Commonwealth has relied upon the commercial paper program for additional liquidity since 2002.

The Commonwealth ended fiscal 2015 with a non-segregated cash balance of approximately \$2.141 billion. The most recent cash flow statement projects a fiscal 2016 ending balance of approximately \$2.563 billion.

The fiscal 2015 and fiscal 2016 cash flow statements released by the State Treasurer and the Secretary of Administration and Finance on September 1, 2015 are summarized in the tables below. The fiscal 2015 statement is based upon the fiscal 2015 budget signed on July 11, 2014 and all supplemental appropriations filed, enacted or anticipated, and includes all prior appropriations continued into fiscal 2015. Fiscal 2016 projections are based on actual spending and revenue through July, 2015 and estimates for the remainder of the fiscal year. The fiscal 2016 statement is based upon the fiscal 2016 budget approved by the Governor on July 17, 2015 and subsequent overrides of the Governor’s vetoes. Quarterly cash flow statements, as submitted by the State Treasurer to the House and Senate Committees on Ways and Means, are posted on the cash management page of the State Treasurer’s website.

Commonwealth cash deposits are held in insured or collateralized bank accounts and with the Massachusetts Municipal Depository Trust (MMDT), the Commonwealth’s investment pool for governmental entities.

MMDT is comprised of two portfolios, professionally managed by Federated Investors Inc., the Cash Portfolio and the Short Term Bond Fund. The Cash Portfolio investments are carried at amortized cost, which approximates fair value and the Short Term Bond Fund investments are carried at fair value.

The Cash Portfolio invests in a diversified portfolio of high quality United States dollar-denominated money market instruments (eligible under Rule 2a-7 of the Securities and Exchange Commission) of domestic and foreign issuers, United States government securities and repurchase agreements. As of July 31, 2015, the Cash Portfolio holdings were made up of commercial paper and notes (46.1%), variable rate instruments (26.8%), repurchase agreements (9.3%) and bank instruments (17.8%). As of August 31, 2015 the Cash Portfolio’s monthly weighted average life was 86 days, and the monthly weighted average maturity was 42 days.

The Short Term Bond Fund invests in a diversified portfolio of investment grade debt securities. As of July 31, 2015, the Short Term Bond Fund holdings were made up of U. S. Treasury securities (53.5%), Financial Institution – Banking (6.1%), FNMA MBS (3.2%), FNMA Agency (2.7%), Technology (2.3%), Energy – Integrated (2.0%), Utility – Electric (1.9), Credit Card ABS (1.8%), Financial Institution – Insurance – Life (1.7%), Commercial MBS (1.7%), Other (23.1%).

The fiscal 2016 capital plan provides for \$4.107 billion of spending on capital projects, including \$2.125 billion of general obligation bond cap spending, \$405.9 million of spending authorized under the accelerated bridge program, \$394.0 million in special obligation spending, \$716.6 million in federal reimbursements and grants, \$98.6 million of spending on projects funded by anticipated savings or revenues, \$168.0 million in non-Commonwealth borrowings such as contributions from campuses, and \$198.0 million in pay-as-you go capital funded by tolls.

The capital spending federal reimbursement estimates included in the fiscal 2016 cash flow forecast assume re-capitalization of the Federal Highway Trust Fund. If necessary, future cash flow forecasts will be updated to take into account any lapse of federal funding or delay in reimbursements.

For cash flow needs for fiscal 2016, the State Treasurer plans to issue \$1.2 billion in revenue anticipation notes (RANs) on or about September 30, 2015. As in previous years, the RANs are expected to be repaid in April, May and June 2016.

The next cash flow statement is expected to be released on or about November 30, 2015.

The following table provides General Fund ending cash balances by month for fiscal 2012 through fiscal 2016.

	<b>Month End General Fund Cash Balances (in millions)</b>				
	<b><u>Fiscal 2012</u></b>	<b><u>Fiscal 2013</u></b>	<b><u>Fiscal 2014</u></b>	<b><u>Fiscal 2015</u></b>	<b><u>Fiscal 2016</u></b>
July	\$ 2,194.7	\$ 1,944.4	\$ 1,253.7	\$ 768.9	\$1,380.2
August	2,153.1	1,505.4	1,065.1	948.9	677.0 (1)
September	1,462.0	675.8	1,918.9	1,762.7	1,610.9 (1)
October	1,522.5	2,175.8	1,744.4	1,453.2	1,435.6 (1)
November	1,973.0	1,625.7	1,272.2	1,240.7	627.6 (1)
December	1,287.4	1,018.4	1,437.6	991.5	826.9 (1)
January	1,995.5	1,597.6	1,186.3	953.9	1,231.2 (1)
February	1,551.2	1,334.9	603.2	414.1	443.8 (1)
March	860.1	368.3	749.5	743.0	614.7 (1)
April	1,823.8	2,001.3	1,204.6	1,860.9	1,827.1 (1)
May	1,643.4	1,829.7	703.9	1,691.2	1,457.9 (1)
June	2,096.7	2,276.6	1,340.8	2,140.5	2,563.6 (1)

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2016 ending balances are estimated for August to June.

The following tables provide cash flow detail for fiscal 2015 and fiscal 2016.

*[Remainder of page intentionally left blank]*

**APPENDIX A**

**Overview of Fiscal 2015 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of September 1, 2015)

	<u>Jul-14</u>	<u>Aug-14</u>	<u>Sep -14</u>	<u>Oct-14</u>	<u>Nov -14</u>	<u>Dec-14</u>	<u>Jan-15</u>	<u>Feb-15</u>	<u>Mar-15</u>	<u>Apr-15</u>	<u>Mav-15</u>	<u>June-15</u>	<b>Total FY 2015</b>
<b>Opening Non-Segregated Operating Cash Balance</b>	<b>\$1,340.8</b>	<b>\$769.0</b>	<b>\$948.9</b>	<b>\$1,762.7</b>	<b>\$1,453.2</b>	<b>\$1,240.7</b>	<b>\$991.5</b>	<b>\$953.9</b>	<b>\$414.1</b>	<b>\$743.1</b>	<b>\$1,861.0</b>	<b>\$1,775.0</b>	<b>\$1,340.8</b>
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	84.6	300.5	2.5	0.0	135.5	0.0	0.0	0.0	1.8	0.0	1.0	0.0	525.8
Total Budgetary Revenue/Inflows	3,045.2	2,990.9	3,327.6	2,965.6	2,709.1	3,397.1	3,731.4	2,672.1	3,808.6	5,105.4	3,160.2	3,858.8	40,771.9
Total Budgetary Expenditures/Outflows	3,354.0	3,445.8	3,039.6	3,126.5	3,146.3	3,143.8	3,334.9	2,956.0	3,162.0	3,122.5	2,978.8	2,289.2	37,099.4
Net Budgetary Funds	(308.8)	(454.9)	288.0	(160.8)	(437.3)	253.3	396.5	(283.9)	646.6	1,982.9	181.4	1,569.6	3,672.5
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	959.5	1,351.6	654.8	802.3	1,209.5	824.5	722.4	682.9	783.4	515.6	972.4	236.9	9,715.8
Total Non Budgetary Expenditures/Outflows	1,081.4	1,061.1	1,115.4	967.7	909.3	1,373.7	949.5	1,118.1	1,001.3	1,008.9	973.6	1,236.3	12,796.2
Net Non Budgetary Funds	(122.0)	290.5	(460.5)	(165.3)	300.2	(549.2)	(227.1)	(435.2)	(217.9)	(493.3)	(1.2)	(999.4)	(3,080.4)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>0.9</u>	<u>1.2</u>	<u>0.9</u>	<u>16.8</u>	<u>1.2</u>	<u>1.2</u>	<u>1.4</u>	<u>6.9</u>	<u>3.9</u>	<u>3.2</u>	<u>1.5</u>	<u>2.3</u>	<u>41.4</u>
<b>Net Operating Activities</b>	<b>(\$429.9)</b>	<b>(\$163.2)</b>	<b>(\$171.6)</b>	<b>(\$309.3)</b>	<b>(\$135.9)</b>	<b>(\$294.8)</b>	<b>\$170.8</b>	<b>(\$712.2)</b>	<b>\$432.6</b>	<b>\$1,492.8</b>	<b>\$181.8</b>	<b>\$572.5</b>	<b>\$633.6</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	27.6	44.7	161.8	145.7	131.8	205.2	134.2	234.7	208.0	269.3	192.6	524.9	2,280.4
Total Federal Grants Expenditures/Outflows	<u>157.7</u>	<u>228.5</u>	<u>152.5</u>	<u>156.6</u>	<u>170.7</u>	<u>247.5</u>	<u>187.7</u>	<u>166.0</u>	<u>225.0</u>	<u>201.0</u>	<u>184.9</u>	<u>251.2</u>	<u>2,329.4</u>
<b>Net Federal Grants</b>	<b>(\$130.1)</b>	<b>(\$183.9)</b>	<b>\$9.3</b>	<b>(\$10.9)</b>	<b>(\$38.9)</b>	<b>(\$42.4)</b>	<b>(\$53.5)</b>	<b>\$68.7</b>	<b>(\$17.0)</b>	<b>\$68.2</b>	<b>\$7.7</b>	<b>\$273.7</b>	<b>\$(49.0)</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	298.0	787.5	79.8	265.2	203.3	399.0	94.8	276.9	139.6	154.9	323.8	407.8	3,430.6
Total Capital Expenditures/Outflows	<u>309.9</u>	<u>260.5</u>	<u>303.6</u>	<u>254.5</u>	<u>241.0</u>	<u>311.2</u>	<u>249.7</u>	<u>173.1</u>	<u>226.2</u>	<u>194.6</u>	<u>279.1</u>	<u>400.2</u>	<u>3,203.6</u>
<b>Net Capital Funds</b>	<b>(\$11.9)</b>	<b>\$526.9</b>	<b>(\$223.8)</b>	<b>\$10.7</b>	<b>(\$37.7)</b>	<b>\$87.9</b>	<b>(\$154.8)</b>	<b>\$103.7</b>	<b>(\$86.6)</b>	<b>(\$39.7)</b>	<b>\$44.7</b>	<b>\$7.6</b>	<b>\$226.9</b>
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	403.4	403.9	404.4	1,211.7
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>403.4</u>	<u>403.9</u>	<u>404.4</u>	<u>1,211.7</u>
<b>Net Financing Activities</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$403.4)</b>	<b>(\$403.9)</b>	<b>(\$404.4)</b>	<b>(\$11.7)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>\$769.0</b>	<b>\$948.9</b>	<b>\$1,762.7</b>	<b>\$1,453.2</b>	<b>\$1,240.7</b>	<b>\$991.5</b>	<b>\$953.9</b>	<b>\$414.1</b>	<b>\$743.1</b>	<b>\$1,861.0</b>	<b>\$1,691.2</b>	<b>\$2,140.6</b>	<b>\$2,140.6</b>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

**Overview of Fiscal 2016 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of September 1, 2015)

	<u>Jul-15</u>	<u>Aug-15 (2)</u>	<u>Sep -15 (2)</u>	<u>Oct-15 (2)</u>	<u>Nov -15 (2)</u>	<u>Dec-15 (2)</u>	<u>Jan-16 (2)</u>	<u>Feb-16 (2)</u>	<u>Mar-16 (2)</u>	<u>Apr-16 (2)</u>	<u>May-16(2)</u>	<u>June-16(2)</u>	<u>Total FY 2016 (2)</u>
<b>Opening Non-Segregated Operating Cash Balance</b>	<b>\$2,140.6</b>	<b>\$1,380.2</b>	<b>\$677.0</b>	<b>\$1,610.9</b>	<b>\$1,435.6</b>	<b>\$627.6</b>	<b>\$826.9</b>	<b>\$1,231.2</b>	<b>\$443.8</b>	<b>\$614.7</b>	<b>\$1,827.1</b>	<b>\$1,457.9</b>	<b>\$2,140.6</b>
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Budgetary Revenue/Inflows	3,258.7	2,837.0	3,644.3	2,965.9	2,800.5	3,614.1	3,768.8	2,956.5	4,013.7	4,781.0	3,337.5	4,089.4	42,067.4
Total Budgetary Expenditures/Outflows	3,950.3	3,539.9	3,834.6	3,143.6	3,478.2	3,318.0	3,152.9	3,585.8	3,524.5	3,285.2	3,153.4	2,373.4	40,340.0
Net Budgetary Funds	(691.6)	(702.9)	(190.3)	(177.7)	(677.7)	296.1	615.9	(629.3)	489.2	1,495.8	184.1	1,716.0	1,727.5
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	1,218.9	1,214.2	1,008.7	898.1	897.7	1,031.7	904.1	824.7	864.7	1,160.1	893.7	986.6	11,903.1
Total Non Budgetary Expenditures/Outflows	1,166.8	1,027.7	1,148.5	1,036.5	1,034.7	1,126.5	1,073.5	1,017.7	1,153.5	1,041.5	1,038.2	1,153.5	13,018.4
Net Non Budgetary Funds	52.1	186.4	(139.8)	(138.3)	(137.1)	(94.8)	(169.3)	(193.1)	(288.8)	118.7	(144.6)	(166.8)	(1,115.3)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>1.3</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>12.3</u>
<b>Net Operating Activities</b>	<b>(638.2)</b>	<b>(515.5)</b>	<b>(329.1)</b>	<b>(315.1)</b>	<b>(813.8)</b>	<b>202.4</b>	<b>447.5</b>	<b>(821.3)</b>	<b>201.4</b>	<b>1,615.5</b>	<b>40.5</b>	<b>1,550.1</b>	<b>624.4</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	155.5	170.0	190.0	185.0	190.0	185.0	190.0	185.0	190.0	185.0	190.0	215.0	2,230.5
Total Federal Grants Expenditures/Outflows	<u>193.1</u>	<u>213.7</u>	<u>191.3</u>	<u>168.7</u>	<u>191.3</u>	<u>198.7</u>	<u>236.3</u>	<u>168.7</u>	<u>221.3</u>	<u>178.7</u>	<u>210.3</u>	<u>198.6</u>	<u>2,370.7</u>
<b>Net Federal Grants</b>	<b>(37.7)</b>	<b>(43.7)</b>	<b>(1.3)</b>	<b>16.3</b>	<b>(1.3)</b>	<b>(13.7)</b>	<b>(46.3)</b>	<b>16.3</b>	<b>(31.3)</b>	<b>6.3</b>	<b>(20.3)</b>	<b>16.4</b>	<b>(140.3)</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	284.3	111.4	331.9	390.8	278.7	277.8	279.3	276.0	280.2	282.0	308.4	313.5	3,414.4
Total Capital Expenditures/Outflows	<u>368.8</u>	<u>255.5</u>	<u>267.6</u>	<u>267.3</u>	<u>271.6</u>	<u>267.2</u>	<u>276.2</u>	<u>258.4</u>	<u>279.4</u>	<u>288.3</u>	<u>294.9</u>	<u>370.3</u>	<u>3,465.5</u>
<b>Net Capital Funds</b>	<b>(84.5)</b>	<b>(144.1)</b>	<b>64.3</b>	<b>123.5</b>	<b>7.1</b>	<b>10.6</b>	<b>3.1</b>	<b>17.6</b>	<b>0.8</b>	<b>(6.3)</b>	<b>13.5</b>	<b>(56.8)</b>	<b>(51.2)</b>
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	403.0	403.0	404.0	1,210.0
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>403.0</u>	<u>403.0</u>	<u>404.0</u>	<u>1,210.0</u>
<b>Net Financing Activities</b>	<b>0.0</b>	<b>0.0</b>	<b>1,200.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(403.0)</b>	<b>(403.0)</b>	<b>(404.0)</b>	<b>(10.0)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>\$1,380.2</b>	<b>\$677.0</b>	<b>\$1,610.9</b>	<b>\$1,435.6</b>	<b>\$627.6</b>	<b>\$826.9</b>	<b>\$1,231.2</b>	<b>\$443.8</b>	<b>\$614.7</b>	<b>\$1,827.1</b>	<b>\$1,457.9</b>	<b>\$2,563.6</b>	<b>\$2,563.6</b>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

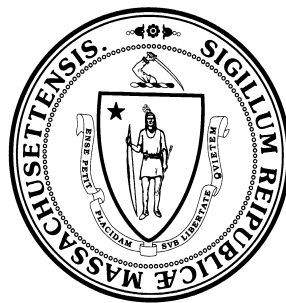
Under the heading “LEGAL MATTERS – Programs and Services” the last two sentences in the paragraph describing the *SEIU v. Department of Mental Health* matter are replaced with the following:

In late August 2015, the Superior Court issued a memorandum of decision dismissing SEIU’s complaint for lack of jurisdiction on the ground that the only extant contracts are renewal contracts, which are expressly excluded from the purview of the Pacheco Law. A judgment dismissing the case with prejudice was entered on August 28, 2015. SEIU has 60 days in which to appeal.

**THE COMMONWEALTH OF MASSACHUSETTS**

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**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT**

**Dated August 12, 2015**

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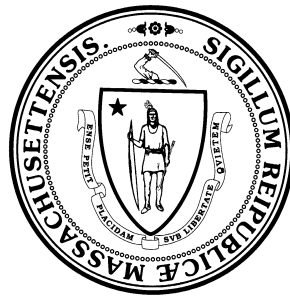
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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Charles D. Baker .....Governor**  
**Karyn E. Polito.....Lieutenant Governor**  
**William F. Galvin.....Secretary of the Commonwealth**  
**Maura Healey ..... Attorney General**  
**Deborah B. Goldberg..... Treasurer and Receiver-General**  
**Suzanne M. Bump ..... Auditor**

**LEGISLATIVE OFFICERS**

**Stanley C. Rosenberg..... President of the Senate**  
**Robert A. DeLeo.....Speaker of the House**

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# THE COMMONWEALTH OF MASSACHUSETTS

## INFORMATION STATEMENT

August 12, 2015

This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the Commonwealth). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its financial obligations. This Information Statement contains information only through its date, or as otherwise provided for herein, and should be read in its entirety.

The ability of the Commonwealth to meet its obligations will be affected by future social, environmental and economic conditions, among other things, as well as by legislative policies and the financial condition of the Commonwealth. Many of these conditions are not within the control of the Commonwealth.

Exhibit A to this Information Statement is the Statement of Economic Information as of July 16, 2015. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report and the Commonwealth's Comprehensive Annual Financial Report (the latter reported in accordance with generally accepted accounting principles (GAAP)) for the year ended June 30, 2014. The Commonwealth's independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

Specific reference is made to said Exhibits A, B and C, copies of which are attached hereto and have also been filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) System. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Financial Reports" under the "Publications and Reports" tab.

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## THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary.

### Executive Branch

*Governor.* The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (State Treasurer), the Secretary of the Commonwealth (State Secretary), the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 2015.

The Executive Council, also referred to as the “Governor’s Council,” consists of eight members who are elected to two-year terms in even-numbered years. The Executive Council is responsible for the confirmation of certain gubernatorial appointments, particularly judges, and must approve all warrants prepared by the Comptroller for payment by the State Treasurer. The warrant requirement under state finance law does not apply to debt service appropriations.

Also within the Executive Branch are certain independent offices, each of which performs a defined function, such as the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance.

*Governor’s Cabinet.* The Governor’s Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the seven Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Health and Human Services, the Executive Office of Public Safety and Security, the Executive Office of Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Energy and Environmental Affairs and the Executive Office of Education. In addition, the Secretary of Transportation, who is the chief executive of the Massachusetts Department of Transportation (MassDOT) and chairs MassDOT’s board of directors, is a member of the Governor’s Cabinet. (MassDOT has a legal existence separate from the Commonwealth but houses several departments of state government.) Cabinet secretaries and executive department chiefs, including the Secretary of Transportation, serve at the pleasure of the Governor. Most other agencies are grouped under one of the seven Executive Offices for administrative purposes.

The Governor’s chief fiscal officer is the Secretary of Administration and Finance. The activities of the Executive Office for Administration and Finance fall within five broad categories: (i) administrative and fiscal supervision, including supervision of the implementation of the Commonwealth’s budget and monitoring of all agency expenditures during the fiscal year; (ii) enforcement of the Commonwealth’s tax laws and collection of tax revenues through the Department of Revenue; (iii) human resource management, including administration of the state personnel system, civil service system and employee benefit programs and negotiation of collective bargaining agreements with certain of the Commonwealth’s public employee unions; (iv) capital facilities management, including coordinating and overseeing the construction, management and leasing of all state facilities; and (v) administration of general services, including information technology services. The Secretary of Administration and Finance serves on numerous state boards and commissions.

*State Treasurer.* The State Treasurer has four primary statutory responsibilities: (i) oversight of the collection of all state revenues by state agencies, including tax revenues remitted by the Department of Revenue (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investment of Commonwealth funds (other than the state employee and teacher pension funds), including all cash receipts; (iii) the disbursement of Commonwealth moneys and oversight of reconciliation of the state’s accounts; and (iv) the issuance of most debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds.

In addition to these responsibilities, the State Treasurer chairs the Massachusetts Lottery Commission, the State Board of Retirement, the Pension Reserves Investment Management Board, the Massachusetts Clean Water Trust and the Massachusetts School Building Authority. The State Treasurer also serves as a member of numerous other state boards and commissions.

*State Auditor.* The State Auditor is charged with improving the efficiency of state government by auditing the administration and expenditure of public funds and reporting the findings to the public. The State Auditor reviews the activities and operations of approximately 750 state entities and potentially thousands of private contractors doing business with the Commonwealth. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS.”

*Attorney General.* The Attorney General represents the Commonwealth in all legal proceedings in both the state and federal courts, including defending the Commonwealth in actions in which a state law or executive action is challenged. The Attorney General also brings actions to enforce environmental and consumer protection statutes, among others, and represents the Commonwealth in public utility rate-setting proceedings and in proceedings before the Division of Insurance and other administrative bodies. The Attorney General works in conjunction with the general counsel of the various state agencies and executive departments to coordinate and monitor all pending litigation.

*State Comptroller.* Accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth’s annual state single audit and manages the state accounting system. The Comptroller serves as a member of the Massachusetts Lottery Commission, the Inspector General Council, the Records Conservation Board and the State Retirees Benefits Trust. The Comptroller is appointed by the Governor for a term coterminous with the Governor’s and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Court Administrator of the Trial Court and two persons with relevant experience appointed by the Governor for three-year terms. The Commonwealth’s annual reports include financial statements on the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and audited financial statements on a GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2014, attached hereto as Exhibit B, was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2014, attached hereto as Exhibit C, was audited, by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS.”

*State Secretary.* The Secretary of the Commonwealth is responsible for collection and storage of public records and archives, securities regulation, state elections, administration of state lobbying laws, the registration of and reporting by corporations and custody of the seal of the Commonwealth.

## **Legislative Branch**

The Legislature (formally called the General Court) is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The Legislature meets every year. The joint rules of the House and Senate require all formal business to be concluded by the end of July in even-numbered years and by the third Wednesday in November in odd-numbered years.

All bills are presented to the Governor for approval or veto. The Legislature may override the Governor’s veto of any bill by a two-thirds vote of each house. The Governor also has the power to return a bill to the chamber of the Legislature in which it originated with a recommendation that certain amendments be made; such a bill is then before the Legislature and is subject to amendment or re-enactment by each branch, at which point the Governor has no further right to return the bill a second time with a recommendation to amend but may still veto the bill. The House of Representatives must originate any bill that imposes a tax. Once a tax bill is originated by the House and forwarded to the Senate for consideration, the Senate may amend it.

## **Judicial Branch**

The judicial branch of state government is composed of the Supreme Judicial Court, the Appeals Court and the Trial Court. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and in some cases, directly from the Trial Court. The Supreme Judicial Court is authorized to render advisory opinions on certain questions of law to the Governor, the Legislature and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

## **Independent Authorities and Agencies**

The Legislature has established a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statements 14 and 39, as amended by Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2014, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39, as amended by 61, with 40 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2014 Basic Financial Statements in the CAFR, attached hereto as Exhibit C.

## **Local Government**

The Commonwealth has 351 incorporated cities and towns that exercise the functions of local government, which include public safety, fire protection and public construction. Cities and towns or regional school districts established by them also provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one- or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). See "COMMONWEALTH REVENUES AND EXPENDITURES – Local Aid."

The cities and towns of the Commonwealth are also organized into 14 counties, but county government has been abolished in seven of those counties. The county governments that remain are responsible principally for the operation of courthouses and registries of deeds. Where county government has been abolished, the functions, duties and responsibilities of the government have been transferred to the Commonwealth, including all employees, assets, valid liabilities and debts.

## **Initiative Petitions**

Under the Massachusetts constitution, legislation may be enacted in the Commonwealth pursuant to a voter initiative process. Initiative petitions which have been certified by the Attorney General as to proper form and as to which the requisite number of voter signatures has been collected are submitted to the Legislature for consideration. If the Legislature fails to enact the measure into law as submitted, the petitioner may place the initiative on the ballot for the next statewide general election by collecting additional voter signatures. If approved by a majority of the voters at the general election, the petition becomes law 30 days after the date of the election. Initiative petitions so approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. Initiative petitions may not make appropriations. In recent years, ballots at statewide general elections typically have presented a variety of initiative petitions, sometimes including petitions relating to tax and fiscal policy. A number of these have been approved and become law. See particularly "COMMONWEALTH



REVENUES AND EXPENDITURES – Limitations on Tax Revenues” and “COMMONWEALTH REVENUES AND EXPENDITURES – Local Aid.”

Constitutional amendments also may be initiated by citizens, but they follow a longer adoption process, which includes gaining at least 25% of the votes of the House of Representatives and Senate jointly assembled in constitutional convention in two successive biennial legislative sessions before being decided by the voters.

A petition has been filed with the Attorney General to amend the state constitution to provide for an additional tax on certain income. See “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Income Tax*.” If certified by the Attorney General, the proponents of this petition would need to collect 67,750 signatures by November, 2015 to place the petition before the Legislature.

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## COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

### Operating Fund Structure

The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles (GAAP), as defined by the Governmental Accounting Standards Board (GASB). The General Fund and other funds that are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. Budgeted operating funds are created and repealed from time to time through the enactment of legislation, and existing funds may become inactive when no appropriations are made from them. Budgeted operating funds do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Capital Investment Process and Controls" below.

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Commonwealth Transportation Fund (formerly the Highway Fund), from which approximately 96.7% of the statutory basis budgeted operating fund outflows in fiscal 2014 were made. The remaining approximately 3.3% of statutory operating fund outflows occurred in other operating funds: the Commonwealth Stabilization Fund, the Intragovernmental Service Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Public Safety Training Fund, the Children and Families Protection Fund, the Massachusetts Tourism Fund, the Local Capital Projects Fund, the Local Aid Stabilization Fund, the Manufacturing Fund and the Community College Fund. There were also 9 funds which were authorized by law but had no activity: the Collective Bargaining Reserve Fund, the Tax Reduction Fund, the Dam Safety Trust Fund, the International Educational and Foreign Language Grant Program Fund, the Gaming Local Aid Fund, the Education Fund, the Gaming Economic Development Fund, the Temporary Holding Fund and the Substance Abuse Prevention and Treatment Fund. In fiscal 2014, the Commonwealth Stabilization Fund had both inflows and outflows. At the end of a fiscal year, undesignated balances in the budgeted operating funds, unless excluded by law, are used to calculate the consolidated net surplus. Under state finance law, balances in the Stabilization Fund and the Tax Reduction Fund, both of which may receive consolidated net surplus funds, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Fund, the Public Safety Training Fund and the Local Aid Stabilization Fund are excluded from the consolidated net surplus calculation.

### Overview of Operating Budget Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature. The process of preparing a budget begins with the executive branch early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in late January (or, in the case of a newly elected Governor, not later than early March) with the Governor's budget submission to the Legislature for the fiscal year commencing in the ensuing July. The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the upcoming fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures are to be defrayed. State finance law requires the Legislature and the Governor to approve a balanced budget for each fiscal year, and the Governor may approve no supplementary appropriation bills that would result in an unbalanced budget. However, this is a statutory requirement that may be superseded by an appropriation act.

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. In recent years, the legislative budget review process has included joint hearings by the Ways and Means Committees of the Senate and the House. After Senate action, a legislative conference committee develops a joint budget recommendation for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items (line item veto). The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the general appropriations act.

In years in which the general appropriations act is not approved by the Legislature and the Governor before the beginning of the applicable fiscal year, the Legislature and the Governor generally approve a temporary budget under which funds for the Commonwealth's programs and services are appropriated based upon the level of appropriations from the prior fiscal year budget.

State finance law requires the Commonwealth to monitor revenues and expenditures during a fiscal year. For example, the Comptroller publishes a quarterly report of planned and actual revenues. See "COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting." Department heads are required to notify the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for their departments from the federal government or other sources or if it appears that any appropriation will be insufficient to meet all expenditures required in the fiscal year by any law, rule, regulation or order not subject to administrative control. The Secretary of Administration and Finance must notify the Governor and the House and Senate Committees on Ways and Means whenever the Secretary determines that revenues will be insufficient to meet authorized expenditures. The Secretary of Administration and Finance is then required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies. The Supreme Judicial Court has ruled that, under current law, the Governor's authority to reduce allotments of appropriated funds extends only to appropriations of funds to state agencies under the Governor's control.

### **Cash and Budgetary Controls**

The Commonwealth has in place controls designed to ensure that: (i) sufficient cash is available to meet the Commonwealth's obligations, (ii) state expenditures are consistent with periodic allotments of annual appropriations, and (iii) moneys are expended consistently with statutory and public purposes. Two independently elected Executive Branch officials, the State Treasurer and the State Auditor, conduct the cash management and audit functions, respectively. Regarding periodic allotments, at the beginning of each fiscal year the Executive Office for Administration and Finance schedules the rate at which agencies will have access to funds included in their appropriation through a published periodic allotment calendar. This calendar is reviewed regularly, and depending on the fiscal climate, the Executive Office for Administration and Finance may choose to adjust the allotment schedule in order to tighten spending controls. In some cases agencies may request an ad hoc allotment in order to gain access to funds faster than the existing periodic allotment schedule would allow (*e.g.*, exceptional cases where unique payment concerns must be considered); such requests are carefully reviewed by the Executive Office for Administration and Finance before they are approved. The Comptroller conducts the expenditure control function. The Secretary of Administration and Finance is the Governor's chief fiscal officer and provides overall coordination of fiscal activities.

### **Capital Investment Process and Controls**

Capital expenditures are primarily financed with debt proceeds and federal grants. Authorization for capital investments requires approval by the Legislature, and the issuance of debt must be approved by a two-thirds vote of each house of the Legislature. The state constitution requires the Governor to file legislation to set the terms and conditions of the borrowing for the authorized debt. The State Treasurer issues authorized debt at the request of the Governor, and the Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds pursuant to such authorizations.

The Executive Office for Administration and Finance, at the direction of the Governor and in conjunction with the cabinet and other officials, establishes a capital investment plan each year. The capital investment plan is an administrative guideline and is subject to amendment from time to time. Pursuant to state law, the capital investment plan is to be released by the Executive Office for Administration and Finance on or before July 1 each year. The capital investment plan assigns authority for secretariats and agencies to spend on capital projects from debt authorizations approved by the Legislature. The primary policy objectives of the capital investment plan are to identify and prioritize the Commonwealth's investment needs, to determine the appropriate level of debt to be issued and to allocate limited capital investment resources among the highest priority projects. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

The Comptroller has established various funds to account for financial activity related to the acquisition or construction of capital assets. In addition, accounting procedures and financial controls have been instituted to limit agency capital spending to the levels approved by the Governor. Capital spending is tracked against the capital investment plan on both a cash and encumbrance accounting basis on the state's accounting system, and federal reimbursements are budgeted and monitored against anticipated receipts.

### **Cash Management Practices of State Treasurer**

The State Treasurer is responsible for ensuring that all Commonwealth financial obligations are met on a timely basis. The Massachusetts constitution requires that all payments by the Commonwealth (other than debt service) be made pursuant to a warrant approved by the Governor's Council. The Comptroller prepares certificates which, with the advice and consent of the Governor's Council and approval of the Governor, become the warrant to the State Treasurer. Once the warrant is approved, the State Treasurer's office disburses the money.

The Cash Management Division of the State Treasurer's office utilizes approximately 900 operating accounts to track cash collections and disbursements for the Commonwealth. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before the last day of August, November, February and May. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2015 AND FISCAL 2016 – Cash Flow." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper and revenue anticipation notes. See "LONG-TERM LIABILITIES – General Obligation Debt."

Under state finance law, the State Treasurer may invest Commonwealth funds in obligations of the United States Treasury, bonds or notes of various states and municipalities, corporate commercial paper meeting specified ratings criteria, bankers acceptances, certificates of deposit, repurchase agreements secured by United States Treasury obligations, money market funds meeting specified ratings criteria, securities eligible for purchase by a money market fund operated in accordance with Rule 2a-7 of the Securities and Exchange Commission or investment agreements meeting specified ratings criteria. Cash that is not needed for immediate funding needs is invested in the Massachusetts Municipal Depository Trust. The State Treasurer serves as trustee of the Trust and has sole authority pertaining to rules, regulations and operations of the Trust. The Trust has two investment options: a money market fund and a short-term bond fund. General operating cash is invested in the money market fund, which is administered in accordance with Rule 2a-7 of the Securities and Exchange Commission and additional policies and investment restrictions adopted by the State Treasurer. The three objectives for the money market fund are safety, liquidity and yield. The money market fund maintains a stable net asset value of one dollar and is marked to market daily. Moneys in the Stabilization Fund, which are not used by the Commonwealth for liquidity, are invested in both the money market fund and the short-term bond fund. The short-term bond fund invests in a diversified portfolio of high-quality investment-grade fixed-income assets that seeks to obtain the highest possible level of current income consistent with preservation of capital and liquidity. The portfolio is required to maintain an average credit rating of A-. The duration of the portfolio is managed to within +/- one half year duration of the benchmark. The benchmark for the short-term bond fund is the Barclays Capital 1-to-5-year Government/Credit Index, which includes all medium and larger issues of United States government, investment-grade corporate and investment-grade international dollar-denominated bonds.

### **Fiscal Control, Accounting and Reporting Practices of Comptroller**

The Comptroller is responsible for oversight of fiscal management functions, establishment of accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System (MMARS), the centralized state accounting system that is used by all state agencies and departments, but not the University of Massachusetts and not independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control

obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also has various modules for receivables, payables, capital assets and other processes management.

*Expenditure Controls.* The Comptroller requires that the amount of all obligations under purchase orders, contracts and other commitments for the expenditures of moneys be recorded as encumbrances. Once encumbered, these amounts are not available to support additional spending commitments. As a result of these encumbrances, spending agencies can use MMARS to determine at any given time the amount of their appropriations available for future commitments.

The Comptroller is responsible for compiling expenditure requests into the certificates for approval by the Governor's Council. The Council approves an estimated warrant giving the Treasurer authority to issue payments up to the amount on the warrant, provided that those payments are otherwise determined by the Comptroller to comply with state finance law. In preparing these certificates, which become the warrant, the Comptroller's office has systems in place to ensure that the necessary moneys for payment have been both appropriated by the Legislature and allotted by the Governor in each account and sub-account. By law, certain obligations may be placed upon the warrant even if the supporting appropriation or allotment is insufficient. These obligations include debt service, which is specifically exempted by the state constitution from the warrant requirement, and Medicaid payments, which are mandated by federal law.

Although state finance law generally does not create priorities among types of payments to be made by the Commonwealth in the event of a cash shortfall, the Comptroller has developed procedures, in consultation with the State Treasurer and the Executive Office for Administration and Finance, for prioritizing payments based upon state finance law and sound fiscal management practices.

*Internal Controls.* The Comptroller establishes internal control policies and procedures in accordance with state finance law. Agencies are required to adhere to such policies and procedures. All unaccounted-for variances, losses, shortages or thefts of funds or property must be reported to the State Auditor, who is authorized to investigate and recommend corrective action.

*Statutory Basis of Accounting.* In accordance with state law, the Commonwealth adopts its budget and maintains financial information on a statutory basis of accounting. Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including receivables from federal reimbursements with respect to paid expenditures. Expenditures are measured on a modified cash basis including actual cash disbursements and encumbrances for goods or services received prior to the end of a fiscal year.

For certain programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. Some prior year services billed after the start of a fiscal year have been paid from the new fiscal year's appropriation, in an amount determined by the specific timing of billings and the amount of prior year funds that remained after June 30 to pay the prior year's accrued billings, though this practice may vary from year to year.

*GAAP Basis of Accounting.* The Comptroller also prepares Commonwealth financial statements on a GAAP basis. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

GAAP employs an economic resources management focus and a current financial resources management focus as two bases for accounting and reporting. Under the economic resources management focus (also called the "entity-wide perspective") revenues and expenses (different from expenditures) are presented similarly to private-sector entities. 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 imposed by the provider have been met. Capital assets, including infrastructure assets net of depreciation, and the long-term portion of all liabilities are reported on the statement of net position.

Under the current financial resources management focus of GAAP (also called the “fund perspective”), the primary emphasis is to demonstrate inter-period equity. Revenues are reported in the period in which they become both measurable and available. Revenues are considered available when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal revenues (including both grants and reimbursements) and reimbursements for the use of materials and services. Tax accruals, which include the estimated amounts due to the Commonwealth on previous filings, over- and under-withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues.

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers’ compensation claims incurred but not reported and contract assistance and amounts due to municipalities and state authorities. See Exhibit C – Comprehensive Annual Financial Report for the year ended June 30, 2014; Page 3 and Notes to the Basic Financial Statements.

### **Audit Practices of State Auditor**

The State Auditor is mandated under state law to conduct an audit at least once every three years of the accounts of all departments, offices, commissions, institutions and activities of the Commonwealth. This audit encompasses hundreds of state entities, including the court system and independent authorities. The State Auditor also has the authority to audit federally aided programs and vendors and their subcontractors under contract with the Commonwealth as well as to conduct special audit projects. Further, the State Auditor upon a ratified majority vote by the board of selectmen or school committee, may, in the Auditor’s discretion, audit the accounts, programs, activities and other public functions of a town, district, regional school district, city or county. The State Auditor conducts both compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Within the State Auditor’s office is the Division of Local Mandates, which evaluates proposed and actual legislation to determine the financial impact on the Commonwealth’s cities and towns. In accordance with state law, the Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½, the statewide tax limitation enacted by the voters in 1980, unless expressly exempted from those provisions, and the State Auditor’s financial analysis is used to establish the amount of reimbursement due to the Commonwealth’s cities and towns. See “COMMONWEALTH REVENUES AND EXPENDITURES – Local Aid; *Property Tax Limits.*”

Also within the State Auditor’s office is the Bureau of Special Investigations, which is charged with the responsibility of investigating fraud within public assistance programs.

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## COMMONWEALTH REVENUES AND EXPENDITURES

This section contains a description of the major categories of Commonwealth revenues and expenditures, beginning with a table presenting combined revenues and expenditures in the budgeted operating funds, followed by descriptions of categories of revenues and expenditures.

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Commonwealth Transportation Fund (formerly the Highway Fund) and other budgeted operating funds. Revenues deposited in such funds will be referred to as budgeted operating revenues in this Information Statement. In fiscal 2014, on a statutory basis, approximately 58.6% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 22.5% of such revenues, with the remaining 18.9% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the budgeted operating funds on a statutory basis differs from governmental revenues on a GAAP basis. See "Selected Financial Data – GAAP Basis; Revenues – GAAP Basis." The Commonwealth's executive and legislative branches establish the Commonwealth's budget using the statutory basis of accounting.

### **Statutory Basis Distribution of Budgetary Revenues and Expenditures**

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's statutory basis financial statements for fiscal 2011 through 2014. Preliminary figures for fiscal 2015 and projections for fiscal 2016 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail.

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2011 through fiscal 2014, preliminary revenues and expenditures for fiscal 2015, and projected revenues and expenditures for fiscal 2016.

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**Budgeted Operating Funds – Statutory Basis (in millions) (1)**

	<u>Fiscal 2011</u>	<u>Fiscal 2012 (2)</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Preliminary Fiscal 2015</u>	<u>Projected Fiscal 2016 (3)</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$122.0	\$400.1	\$170.4	\$297.1	\$190.0	\$240.3
Stabilization Fund	669.8	1,379.1	1,652.1	1,556.7	1,248.4	1,178.5
Undesignated	<u>111.3</u>	<u>121.7</u>	<u>167.2</u>	<u>20.6</u>	<u>12.1</u>	<u>66.1</u>
<b>Total</b>	<b><u>\$903.1</u></b>	<b><u>\$1,900.8</u></b>	<b><u>\$1,989.7</u></b>	<b><u>\$1,874.4</u></b>	<b><u>\$1,450.5</u></b>	<b><u>\$1,484.9</u></b>
<u>Revenues and Other Sources</u>						
Alcoholic Beverages	72.7	76.1	76.3	78.8	79.9	81.7
Banks	(11.0)	266.6	78.0	135.8	51.9	23.1
Cigarettes	453.6	451.0	440.1	520.7	510.3	514.6
Corporations	1,951.4	1,771.1	1,821.9	2,049.1	2,172.1	2,225.6
Deeds	140.2	158.8	188.9	223.1	238.3	260.6
Income	11,576.0	11,911.4	12,830.9	13,201.6	14,448.3	14,788.9
Inheritance and Estate	309.6	293.3	313.4	401.5	340.9	336.1
Insurance	340.3	363.6	426.0	368.1	391.4	415.6
Motor Fuel	660.8	661.9	651.6	732.2	756.2	764.2
Public Utilities	(8.8)	(35.9)	(11.5)	9.8	3.4	22.8
Room Occupancy	110.4	121.6	129.2	138.3	150.7	154.4
Sales:						
Regular	3,476.3	3,544.4	3,595.9	3,810.6	3,986.5	4,180.7
Meals	813.3	868.8	901.2	948.9	998.8	991.0
Motor Vehicles	<u>615.2</u>	<u>646.1</u>	<u>666.9</u>	<u>736.4</u>	<u>788.5</u>	<u>835.8</u>
Sub-Total–Sales	4,904.8	5,059.3	5,163.9	5,495.9	5,773.9	6,007.5
Miscellaneous	<u>16.6</u>	<u>15.9</u>	<u>14.2</u>	<u>15.1</u>	<u>14.0</u>	<u>16.2</u>
<b>Total Tax Revenues</b>	<b><u>\$20,516.6</u></b>	<b><u>\$21,114.7</u></b>	<b><u>\$22,123.0</u></b>	<b><u>\$23,370.0</u></b>	<b><u>\$24,931.2</u></b>	<b><u>\$25,611.3</u></b>
MBTA Transfer (4)	(767.1)	(779.1)	(786.9)	(799.3)	(970.6)	(986.3)
MSBA Transfer	(654.6)	(670.5)	(682.0)	(727.5)	(764.0)	(802.7)
Workforce Training Fund Transfer (5)	-	(21.4)	(22.2)	(21.2)	(23.6)	(22.4)
<b>Total Budgeted Operating Tax Revenues</b>	<b><u>\$19,094.9</u></b>	<b><u>\$19,643.7</u></b>	<b><u>\$20,631.9</u></b>	<b><u>\$21,822.0</u></b>	<b><u>\$23,173.0</u></b>	<b><u>\$23,800.0</u></b>
Additional Tax Revenue	-	-	-	-	-	-
Federal Reimbursements	9,299.5	7,971.7	8,228.4	8,372.1	9,427.6	10,628.2
Departmental and Other Revenues (6)	2,912.3	3,175.0	3,370.5	3,712.4	3,568.7	4,088.9
Inter-fund Transfers from Non- budgeted Funds and other sources (7)	<u>1,768.6</u>	<u>1,032.3</u>	<u>1,548.1</u>	<u>1,566.6</u>	<u>2,011.5</u>	<u>2,022.9</u>
<b>Budgeted Revenues and Other Sources</b>	<b><u>\$33,075.3</u></b>	<b><u>\$32,546.5</u></b>	<b><u>\$33,778.9</u></b>	<b><u>\$35,473.1</u></b>	<b><u>\$38,180.8</u></b>	<b><u>\$40,540.0</u></b>
Inter-fund Transfers	<u>3,460.9</u>	<u>1,032.3</u>	<u>1,456.6</u>	<u>1,757.0</u>	<u>785.0</u>	<u>917.0</u>
<b>Total Budgeted Revenues and Other Sources</b>	<b><u>\$36,536.3</u></b>	<b><u>\$33,578.8</u></b>	<b><u>\$35,235.5</u></b>	<b><u>\$37,230.1</u></b>	<b><u>\$38,965.8</u></b>	<b><u>\$41,457.0</u></b>
<u>Expenditures and Uses</u>						
Direct Local Aid	4,784.7	4,929.5	5,115.7	5,292.5	5,421.8	5,570.7
Medicaid	10,237.3	10,431.1	10,799.7	11,900.8	13,651.5	14,633.0
Other Health and Human Services	4,614.8	4,710.5	4,768.9	4,979.5	5,383.8	5,537.5
Group Insurance	1,130.3	1,206.2	1,278.5	1,402.9	1,651.4	1,645.5
Department of Elementary and Secondary Education	349.4	435.9	489.2	515.3	596.4	625.6
Higher Education	943.0	937.1	990.8	1,091.5	1,153.0	1,179.2
Department of Early Education and Care	515.1	494.3	483.4	509.6	546.6	567.8
Public Safety	905.0	929.7	960.0	1,010.4	1,617.3	1,656.0
Energy and Environmental Affairs	185.6	186.8	201.8	215.0	229.1	228.4
Debt Service (8)	1,663.9	1,923.2	2,117.2	2,133.4	2,427.2	2,428.1



	<u>Fiscal 2011</u>	<u>Fiscal 2012 (2)</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Preliminary Fiscal 2015</u>	<u>Projected Fiscal 2016 (3)</u>
Post -Employment Benefits (9)	1,838.9	1,892.3	1,967.0	2,050.4	2,287.1	2,470.2
Other Program Expenditures	<u>2,850.4</u>	<u>2,898.7</u>	<u>3,006.7</u>	<u>3,293.7</u>	<u>2,236.6</u>	<u>2,383.6</u>
<b>Total - Programs and Services before transfers to Non-budgeted funds</b>	<b><u>\$30,018.6</u></b>	<b><u>\$30,975.3</u></b>	<b><u>\$32,178.7</u></b>	<b><u>\$34,395.0</u></b>	<b><u>\$37,201.9</u></b>	<b><u>\$38,925.6</u></b>
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund (10)	739.0	614.9	661.2	390.1	-	-
Medical Assistance Trust Fund (11)	886.1	220.9	390.9	395.0	72.0	1,027.5
Massachusetts Transportation Trust Fund	195.1	180.1	161.7	270.1	414.4	366.7
Other (12)	<u>238.8</u>	<u>466.4</u>	<u>501.8</u>	<u>446.7</u>	<u>457.6</u>	<u>557.5</u>
<b>Total Inter-Fund Transfers to Non-Budgeted Funds</b>	<b><u>\$2,059.0</u></b>	<b><u>\$1,482.3</u></b>	<b><u>\$1,715.6</u></b>	<b><u>\$1,501.9</u></b>	<b><u>\$944.0</u></b>	<b><u>\$1,951.7</u></b>
<b>Budgeted Expenditures and Other Uses</b>	<b><u>\$32,077.6</u></b>	<b><u>\$32,457.6</u></b>	<b><u>\$33,894.3</u></b>	<b><u>\$35,897.0</u></b>	<b><u>\$38,145.9</u></b>	<b><u>\$40,877.2</u></b>
Inter-fund Transfers	<u>3,460.9</u>	<u>1,032.3</u>	<u>1,456.6</u>	<u>1,757.0</u>	<u>785.0</u>	<u>917.0</u>
<b>Total Budgeted Expenditures and Other Uses (13)</b>	<b><u>\$35,538.5</u></b>	<b><u>\$33,489.9</u></b>	<b><u>\$35,350.9</u></b>	<b><u>\$37,654.0</u></b>	<b><u>\$39,930.9</u></b>	<b><u>\$41,794.2</u></b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<b><u>\$997.8</u></b>	<b><u>\$88.9</u></b>	<b><u>(\$115.4)</u></b>	<b><u>(\$423.8)</u></b>	<b><u>\$34.9</u></b>	<b><u>(\$337.2)</u></b>
<u>Ending Fund Balances</u>						
Reserved or Designated (14)	400.1	170.5	297.1	190.0	240.3	13.9
Stabilization Fund	1,379.1	1,652.1	1,556.7	1,248.4	1,178.5	1,184.0
Undesignated	<u>121.7</u>	<u>167.1</u>	<u>20.6</u>	<u>12.1</u>	<u>66.1</u>	<u>(50.4)</u>
<b>Total</b>	<b><u>\$1,900.8</u></b>	<b><u>\$1,989.7</u></b>	<b><u>\$1,874.4</u></b>	<b><u>\$1,450.5</u></b>	<b><u>\$1,484.9</u></b>	<b><u>\$1,147.5</u></b>

SOURCES: Fiscal 2011-2014, Office of the Comptroller; fiscal 2015-2016, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Some fiscal 2012 amounts were reclassified to conform to the fiscal 2013 presentation in the Statutory Basis Financial Report.
- (3) The Executive Office for Administration and Finance is tracking potential appropriation deficiencies in the range of approximately \$200 million to \$250 million for fiscal 2016. This potential fiscal 2016 spending is not reflected in this column.
- (4) Beginning in fiscal 2015, the amount of dedicated sales tax receipts statutorily required to be credited to the MBTA was increased by \$160 million annually.
- (5) The fiscal 2012 budget adopted changes to the Workforce Training Fund, which is funded annually through employer contributions for workforce training initiatives for incumbent workers in the private sector. Beginning in fiscal 2012 the Workforce Training Fund is not subject to annual appropriation, and the employer contributions are deposited directly in the Workforce Training Fund after their collection.
- (6) The fiscal 2015 budget assumes \$11.4 million from the modification of the existing tax and non-tax judgment and settlement law, and the fiscal 2016 budget assumes \$100 million from the modification of the existing tax and non-tax judgment and settlement law (see "Commonwealth Revenues and Expenditures – Federal and Other Non-Tax Revenues; *Settlements and Judgments*").
- (7) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds through fiscal 2012, abandoned property proceeds as well as other inter-fund transfers.
- (8) Fiscal 2016 includes \$140 million reduction for debt defeasance, as recommended in the final 2015 supplemental budget filed by the Governor on July 17, 2015.
- (9) Starting in fiscal 2010 Post-Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.
- (10) The fiscal 2015 budget does not include an appropriation of funding for the Health Connector because it assumes that increased dedicated revenues in the CCTF, federal grants and self-generated revenues will be able to cover the full program and administrative costs.
- (11) Fiscal 2015 and fiscal 2016 reflect the postponement of a \$565.5 million transfer from the General Fund to the Medical Assistance Trust Fund., which transfer has been delayed, pursuant to authorization filed on July 17, 2015, from fiscal 2015 to fiscal 2016 due to delay in CMS approval of the transfer.
- (12) Fiscal 2015 includes a transfer off-budget of \$140 million for debt defeasance, as proposed in the final 2015 supplemental budget filed by the Governor on July 17, 2015.
- (13) Fiscal 2016 assumes a spending reduction of \$200.1 million for estimated related payroll savings due to the early retirement incentive program.
- (14) Consists largely of appropriations authorized to be expended in following year.

## State Taxes

The major components of state taxes are the income tax, which accounted for approximately 58.0% of the preliminary total tax revenues in fiscal 2015, the sales and use tax, which accounted for approximately 23.2%, and the corporations and other business and excise taxes (including taxes on insurance companies and financial institutions), which accounted for approximately 10.3%. Other tax and excise sources accounted for the remaining 8.6% of total fiscal 2015 tax revenues.

The Governor annually files a “tax expenditure budget” that provides a list, description and revenue estimate of various tax credits, deductions and exemptions.

*Income Tax.* The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% was applied to most types of income from January 1, 2002 to January 1, 2012. Under current law, the state personal income tax rate on most classes of taxable income is scheduled to be reduced gradually to 5.0%, contingent upon “baseline” state tax revenue growth (*i.e.*, revenue growth after factoring out the impact of tax law and administrative processing changes) of at least 2.5 percentage points more than the rate of inflation as measured by the consumer price index for all urban consumers in Boston and that a series of triggers are met (see below). In the tax year following that in which the personal income tax rate is reduced to 5.0%, the charitable deduction, which was in effect for tax year 2000 but subsequently suspended, would be restored. Pursuant to this law, the state income tax rate on most classes of taxable income has been gradually reduced from 5.3% to its current rate of 5.15%, as described below. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12%, and the tax rate on gains from the sale of capital assets owned more than one year is now 5.15% (effective January 1, 2015). Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

The state income tax rate on most classes of taxable income was reduced from 5.3% to 5.25%, effective January 1, 2012, because the growth in fiscal 2011 inflation-adjusted baseline revenues (over fiscal 2010) exceeded 2.5%, and because, for each consecutive three-month period starting in August and ending in November, 2011, there was positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2010.

Fiscal 2012 inflation-adjusted baseline revenues grew by 2.77% over fiscal 2011, and the first two three-month period certifications also indicated positive inflation-adjusted baseline revenue growth. However, the growth for the third three-month period was negative. Accordingly, the Department of Revenue determined that the thresholds to lowering the income tax rate had not been met and the rate was kept unchanged at 5.25% for the tax year 2013.

The state income tax rate on most classes of taxable income was reduced from 5.25% to 5.20%, effective January 1, 2014, because the growth in fiscal 2013 inflation-adjusted baseline revenues (over fiscal 2012) exceeded 2.5%, and because, for each consecutive three-month period starting in August and ending in November, 2013, there was positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2012.

The state income tax rate on most classes of taxable income was reduced again, from 5.20% to 5.15%, effective January 1, 2015, because the growth in fiscal 2014 inflation-adjusted baseline revenues (over fiscal 2013) exceeded 2.5%, and because, for each consecutive three-month period starting in August and ending in November, 2014, there was positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2013.

The Department of Revenue will follow the same process during 2015 to determine whether the state income tax rate will be reduced further from 5.15% to 5.10%, effective January 1, 2016.

The following table shows the Department of Revenue’s estimated impacts of the state income tax rate reductions described above in fiscal years 2012 through 2016, inclusive.

**Impact of Income Tax Rate Reductions (millions)**

<u>Decrease from:</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015(1)</u>	<u>Fiscal 2016(1)</u>
5.3% to 5.25%	\$54	\$114	\$119	\$124	\$130
5.25% to 5.20%	-	-	65	133	138
5.20% to 5.15%	-	-	-	70	145

Source: Department of Revenue.

(1) Income tax revenue impacts in fiscal years 2015 and 2016 are projected and subject to change.

In August, 2015, a petition was filed with the Attorney General to amend the state constitution to provide for an additional tax of 4% on that portion of annual taxable income in excess of \$1 million for tax years beginning on or after January 1, 2019. The \$1 million figure would be adjusted annually for inflation. If the petition is certified by the Attorney General, the proponents would need to collect 67,750 signatures by November, 2015 in order to place the petition before the Legislature. The petition would then need to be approved by the Legislature in two successive legislative sessions and by the voters in the November, 2018 general election in order to become effective. See “THE GOVERNMENT – Initiative Petitions.”

Under state finance law, tax revenues collected from capital gains income during a fiscal year that exceed a specified threshold are required to be transferred to the Commonwealth’s Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund and an additional 5% transferred to the Commonwealth’s Pension Liability Fund. The Department of Revenue is also required, after each quarter, to certify the amount of tax revenues estimated to have been collected during the preceding quarter from capital gains income, and, once the threshold has been exceeded, the Comptroller is required to transfer the excess to the Commonwealth Stabilization Fund, with the final fiscal year transfer to be made following the Department of Revenue’s fourth quarter certification in July. The statute also requires the Department of Revenue to issue its final certification of capital gains tax revenues in November following the end of the fiscal year, but no adjustment is to be made to Stabilization Fund transfers if the final amount of capital gains taxes certified differs from the amount certified in July, as the books on that fiscal year will have already been closed on October 31. A threshold of \$1 billion was in effect for fiscal 2011, 2012 and 2013. For fiscal years after fiscal 2013, the threshold is subject to annual adjustment to reflect the average annual rate of growth in U.S. gross domestic product over the preceding five years. The adjusted threshold is certified annually by the Department of Revenue each December for the ensuing fiscal year.

For fiscal 2012, the July and final (November) certified amount of tax revenues collected from capital gains income were \$915.5 million and \$994.3 million, respectively, both of which were less than the statutory threshold.

On July 18, 2013, the Commissioner of Revenue certified the amount of capital gains tax revenues for fiscal 2013 to be \$1.467 billion, which resulted in aggregate transfers to the Commonwealth Stabilization Fund of approximately \$467 million, and subsequent transfers from the Stabilization Fund to the Pension Liability Fund and the State Retiree Benefit Trust Fund of approximately \$23.4 million each.

On December 28, 2012, the Department of Revenue determined the fiscal 2014 capital gains collections threshold to be approximately \$1.023 billion. On July 18, 2014, the Commissioner of Revenue certified the amount of capital gains tax revenues for fiscal 2014 to be \$1.069 billion, which resulted in a transfer of approximately \$46 million to the Commonwealth Stabilization Fund, and subsequent transfers from the Stabilization Fund to the Pension Liability Fund and the State Retiree Benefit Trust Fund of approximately \$2.3 million each.

On December 31, 2013, the Department of Revenue determined the fiscal 2015 capital gains collections threshold to be approximately \$1.048 billion. On February 13, 2015, the Governor approved legislation that suspended the requirement to transfer capital gains tax collections above the threshold to the Stabilization Fund for fiscal 2015. On July 22, 2015, the Commissioner of Revenue certified the amount of capital gains tax revenues for fiscal 2015 to be \$1.669 billion.

On December 24, 2014, the Department of Revenue determined the fiscal 2016 capital gains collections threshold to be approximately \$1.087 billion. The budget enacted by the Legislature and approved by the Governor for fiscal 2016 includes a section that suspends the requirement to transfer capital gains tax collections above the threshold to the Stabilization Fund for fiscal 2016 only.

*Sales and Use Tax.* Effective August 1, 2009, the sales tax rate imposed on retail sales of certain tangible property (including retail sales of meals) transacted in the Commonwealth and a corresponding use tax rate on the storage, use or other consumption of like tangible properties brought into the Commonwealth was raised from 5% to 6.25%. Food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries and property subject to other excises (except for cigarettes) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and a portion of residential use of telecommunications services.

In August, 2009, when the sales tax rate increase was enacted, it was projected to produce an additional \$759 million in fiscal 2010 and \$900 million annually thereafter. Based on the most recently available data, reflecting both the economic recession and the recovery, the Department of Revenue currently estimates that the sales tax increase resulted in additional revenues of approximately \$739 million in fiscal 2010, \$918 million in fiscal 2011, \$963 million in fiscal 2012, \$983 million in fiscal 2013, \$1.046 billion in fiscal 2014 and \$1.099 billion in fiscal 2015.

As part of the same legislation that increased the sales tax rate, the sales tax exemption on alcohol sales was eliminated effective August 1, 2009. However, on November 2, 2010, an initiative passed by the voters reinstated this exemption and removed the sales tax on alcoholic beverages effective January 1, 2011. The Department of Revenue estimates that the Commonwealth's collections from eliminating the alcoholic beverages exemption were approximately \$96.6 million in fiscal 2010 and approximately \$81 million during the first seven months of fiscal 2011. The Department of Revenue estimates that the tax revenue loss resulting from the removal of the sales tax on alcoholic beverage was approximately \$40 million to \$52 million for fiscal 2011 and between \$120 million and \$130 million annually thereafter.

Sales tax receipts from establishments that first opened on or after July 1, 1997 and that are located near the site of the Boston Convention and Exhibition Center, sales tax receipts from retail vendors in hotels in Boston and Cambridge that first opened on or after July 1, 1997 and sales tax receipts from retail vendors located in the Springfield Civic and Convention Center or in hotels near the Springfield Civic and Convention Center that first opened on or after July 1, 2000 are required to be credited to the Convention Center Fund. The Convention Center Fund is not included in the calculation of revenues for budgeted operating funds. See "LONG-TERM LIABILITIES—Special Obligation Debt; *Convention Center Fund.*"

A portion of the Commonwealth's receipts from the sales tax (other than the tax on meals) is dedicated through non-budgeted special revenue funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MBTA is the amount raised by a 1% sales tax (not including meals), subject to an inflation-adjusted floor. A comparable amount, though without the floor, is dedicated to the MSBA beginning in fiscal 2010, with lesser amounts dedicated to the MSBA from fiscal 2005 through fiscal 2009. Legislation approved by the Governor on October 31, 2014 increased the amount statutorily required to be credited to the MBTA by \$160 million annually, starting in fiscal 2015. The \$160 million increase in the dedicated sales tax revenue amount and the amount included in the inflation-adjusted floor was intended to replace the \$160 million annual state appropriation the MBTA received from fiscal 2010 through fiscal 2014.

Beginning in fiscal 2011, a portion of the Commonwealth's receipts from the sales tax has been dedicated to the Commonwealth Transportation Fund. From fiscal 2011 through fiscal 2013, the amount dedicated was the amount raised by a portion of the sales tax equal to a 0.385% sales tax, with a floor of \$275 million per fiscal year. Beginning in fiscal 2014, the amount dedicated to the Commonwealth Transportation Fund is the amount received on account of motor vehicle sales (net of amounts required to be credited to the Convention Center Fund or dedicated to the MBTA or MSBA).

*Business Corporations Tax.* Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 8.00%, as of January 1, 2012. The minimum tax is \$456.

*FAS 109 Deduction.* Corporate tax reform legislation enacted in 2008 included a new tax deduction designed to limit the impact of combined reporting in the Commonwealth on certain publicly traded corporations' financial statements. The deduction is generally referred to as the "FAS 109" deduction, in reference to the Statement of Financial Accounting Standards (FAS) No. 109, Accounting for Income Taxes. The Department of Revenue issued a report on "FAS 109" deductions on September 23, 2009, based on notices filed by the companies intending to claim FAS 109 deductions. The Department of Revenue used the aggregate amount of FAS 109 deductions intending to be claimed to calculate the aggregate potential tax benefit to such companies, and corresponding tax revenue reduction for the Commonwealth.

The Department of Revenue report indicated that the companies filing such notices stated that their FAS 109 deductions would total approximately \$178.1 billion, which would result in corporate tax savings of \$535 million at the applicable tax rates in the years in which the deductions would be claimed. Corporations were required by the 2008 legislation to claim deductions over a seven-year period starting in tax year 2012. These deductions were expected to result in corporate tax savings (and corresponding Commonwealth corporate tax revenue reductions) of \$76 million to \$79 million annually for tax years 2012 through 2018, inclusive. However, the fiscal 2013, fiscal 2014 and fiscal 2015 budgets each delayed implementation of the FAS 109 deduction for successive one-year periods. The fiscal 2016 budget enacted by the Legislature on July 8, 2015 would have repealed the FAS 109 deduction. In connection with his approval of the fiscal 2016 budget on July 17, 2015, the Governor announced an agreement with legislative leaders to delay implementation of the deduction for five years, followed by a phasing in of the deduction over a 30-year period, instead of seven years. Legislation to effectuate this agreement has been enacted by the Legislature and approved by the Governor.

In general, corporations apportion their income to Massachusetts based on the proportion of payroll, property and sales within the Commonwealth, with sales being double-weighted. This general rule does not apply to manufacturing companies nor to mutual fund service corporations. The net income of such entities is apportioned only by the percentage of their Massachusetts sales.

*Financial Institutions Tax.* Financial institutions (which include commercial and savings banks) are subject to an excise tax. The net income allocated to Massachusetts is taxed at 9.0% as of January 1, 2012 and thereafter.

*Insurance Taxes.* Life insurance companies are subject to a 2% tax on gross premiums. Domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2.28% tax on gross premiums. Domestic companies also pay a 1% tax on gross investment income.

*Public Utility Corporation Taxes.* Prior to January 1, 2014, public utility corporations were subject to an excise tax of 6.5% on net income. Legislation enacted in 2013 repealed the separate excise tax for utility corporations, which are now subject to the corporate excise imposed on business corporations.

*Other Taxes.* Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, and hotel/motel room occupancy, as well as taxes on estates, among other tax sources. Effective July 31, 2013, the excise tax on motor fuels was increased from 21¢ per gallon to 24¢ per gallon.

On July 1, 2008, the Governor approved legislation raising the tax on cigarettes from \$1.51 per pack to \$2.51 per pack. The Department of Revenue estimates that the \$1.00 per pack cigarette tax increase resulted in a fiscal 2009 revenue increase of \$145 million, and resulted in a revenue increase of approximately \$124 million annually, compared to revenue generated at the \$1.51 per pack rate, in each of the fiscal years from 2010 through 2014. The Department of Revenue estimates that revenue increases in subsequent years should be between \$115 million and \$130 million annually. Effective July 31, 2013, the excise tax on cigarettes was further increased from \$2.51 per pack to \$3.51 per pack, along with increases in the cigar excise rate (from 30% to 40%), the smoking

tobacco rate (from 30% to 40%) and the smokeless tobacco rate (from 90% to 210%). The Department of Revenue estimates that these most recent tobacco (cigarette and other tobacco) tax rate increases resulted in a fiscal 2014 revenue increase of \$102 million, and that revenue increases in subsequent years should be between \$108 million and \$116 million annually.

*Tax Credits and Other Incentives.* Massachusetts law provides for a variety of tax credits that may be applied against corporate excise or personal income taxes due, as applicable under relevant law. These credits are designed as benefits for specified economic activities as a means to encourage such business in the state. Certain of these credits, to the extent not used to reduce a current tax liability, may be carried forward, transferred or refunded, as specified in the applicable statute. In addition, certain statutory provisions may also provide an exemption from sales and use taxes for qualifying expenditures, or other specified tax benefits.

In July, 2007, the Commonwealth revised its film tax credit to provide tax credits of 25% of certain production costs incurred by film production companies in Massachusetts that incurred at least \$50,000 of film production costs in the state. Such production companies were also granted a sales and use tax exemption for goods purchased in the Commonwealth. A film production company may elect either to transfer all or part of its production credit to another taxpayer or to claim a refund of 90% of the amount that is not currently used. There is no cap on the amount of film tax credits that may be claimed. Under current law, the film tax credit will expire on January 1, 2023. Since the program's inception, approximately \$411.0 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue (figures are preliminary). The Department of Revenue estimates that the tax credits reduced fiscal 2007 tax revenues by approximately \$11.9 million, fiscal 2008 tax revenues by approximately \$10.5 million, fiscal 2009 tax revenues by approximately \$110.0 million, fiscal 2010 tax revenues by approximately \$90.8 million, fiscal 2011 tax revenues by approximately \$45.4 million, fiscal 2012 tax revenues by approximately \$55.7 million, fiscal 2013 tax revenues by approximately \$77.8 million and fiscal 2014 tax revenues by between \$70 million and \$90 million, and will reduce fiscal 2015 revenues by between \$70 million and \$90 million, not including any offsetting tax revenue from the film-related economic activity generated by the tax incentives. Virtually all of the reduction in tax payments resulting from credits that have been transferred or sold is reflected in the insurance, financial institutions, public utilities, and corporate tax categories. The Department of Revenue is required to prepare an annual report of the impact of the film tax credit.

The fiscal 2016 budget approved by the Governor on July 17, 2015 provides for an expansion of the Massachusetts counterpart to the federal earned income tax credit (EITC). Under current law, certain Massachusetts taxpayers (generally low- and moderate-income workers) are eligible for an income tax credit up to 15% of the federal EITC. The amendment contained in the fiscal 2016 budget increases that percentage to 23% beginning with tax year 2016.

The fiscal 2016 budget also includes a tax amnesty program for non-filers and non-registrants to be available for a two-month period during fiscal 2016. The most recent amnesty program that covered non-filer and non-registrants as well as accounts receivable for various tax types occurred in fiscal 2003, and generated approximately \$176 million in payments. The fiscal 2016 tax amnesty program targeted at non-filers and non-registrants is designed not only to generate revenue in fiscal 2016 but also to continue to boost the Commonwealth's baseline tax collections by bringing taxpayers into compliance and encouraging them to stay on the tax rolls. The fiscal 2016 budget assumes \$100 million in revenue will be collected as a result of this amnesty.

Under legislation approved June 16, 2008 in support of the life sciences industry, up to \$25 million per year in tax incentives is available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of \$250 million. The Department of Revenue estimates that this program resulted in a revenue reduction of \$5 million in fiscal 2010, a revenue reduction of \$21.1 million in fiscal 2011, a revenue reduction of \$21.8 million in fiscal 2012, and a revenue reduction of \$24.5 million in each of fiscal 2013 and fiscal 2014, and that it will result in a revenue reduction between \$23 million and \$27 million in fiscal 2015. The Governor's fiscal 2016 budget recommendation assumes that only \$20 million in tax incentives will be used in fiscal 2016. As of May 31, 2015, the Massachusetts Life Sciences Center board has approved \$19.015 million in tax incentives that are expected to be utilized in fiscal 2016.

*Tax Expenditure Commission.* The fiscal 2012 budget established a study commission on tax expenditures which was chaired by the Secretary of Administration and Finance and included legislators and economists. The commission was charged with reviewing and evaluating the administration and fiscal impact of tax expenditures and making recommendations to the Legislature on the administrative efficiency and cost benefit of tax expenditures. Tax expenditures include credits, deductions and exemptions from the basic provisions of the state tax code. The commission filed its report on April 30, 2012. The report includes recommendations to reduce the number and cost of existing tax expenditures, based on identified criteria, to provide for periodic review of tax expenditures, including an automatic sunset of discretionary “grant-like” tax expenditures every five years, based on data-driven analysis and reports regarding effectiveness, and to establish clawbacks and other enforcement measures for grant-like tax expenditures to ensure that recipients meet commitments.

## Tax Revenue Forecasting

Under state law, on or before October 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current fiscal year and the following fiscal year. On or before January 15 of each year (January 31 in the first year of a new Governor), the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. State finance law requires that the consensus tax revenue forecasts be net of the amounts necessary to fully fund the pension system according to the applicable funding schedule, and to fulfill statutory commitments to the MBTA and the MSBA. These amounts are to be transferred without further appropriation from the General Fund. See “Sales and Use Tax,” above; “Employee Benefits; *Pension*” below.

An additional component of the consensus revenue process is the requirement that the consensus tax revenue forecast joint resolution include a benchmark for the estimated growth rate of Massachusetts potential gross state product, or PGSP. Health care cost control legislation approved in 2012 requires that the Secretary and the House and Senate Committees on Ways and Means include a PGSP growth benchmark for the ensuing calendar year. The PGSP growth benchmark is used by the Massachusetts Health Policy Commission to establish the Commonwealth’s health care cost growth benchmark. See “Medicaid and the Health Connector; *Health Care Cost Containment.*”

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2011 to 2016. Figures for fiscal 2015 are preliminary, and figures for fiscal 2016 are projected. The figures include sales tax receipts dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority and amounts transferred to the state pension system.

### Tax Revenue Forecasting (in millions)

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Preliminary Fiscal 2015</u>	<u>Projected Fiscal 2016</u>
Consensus forecast	\$19,050	\$20,525	\$21,950	\$22,334	\$24,337	\$25,479
<b>Total taxes per enacted budget</b>	<b><u>\$19,078</u></b>	<b><u>\$20,615</u></b>	<b><u>\$22,011</u></b>	<b><u>\$22,797</u></b>	<b><u>\$24,387</u></b>	<b><u>\$25,611 (2)</u></b>
October revision	-	21,010	21,496 (1)	-	-	-
January revision	19,784	-	-	23,200	24,325	-
April revision	-	-	-	-	-	-
May revision	-	-	-	-	-	-
<b>Actual budgeted operating tax revenues</b>	<b><u>\$20,517</u></b>	<b><u>\$21,115</u></b>	<b><u>\$22,123</u></b>	<b><u>\$23,370</u></b>	<b><u>\$24,931</u></b>	
Actual revenues as a percentage of consensus forecast	108%	103%	101%	105%	102%	N/A
Actual revenues as a percentage of total taxes per enacted budget	108%	102%	101%	103%	102%	N/A

SOURCE: Executive Office for Administration and Finance; actual budgeted operating tax revenues, Office of the Comptroller.

(1) Revised on December 4, 2012.

(2) Consensus forecast adjusted for subsequent developments during fiscal 2016. See “Fiscal 2015 and Fiscal 2016 Tax Revenues; *Fiscal 2016.*”

On January 22, 2015, the Secretary of Administration and Finance and the House and Senate Ways and Means Committees conducted a hearing on state tax revenue estimates for fiscal 2016. The Commissioner of Revenue provided a forecast that fiscal 2016 tax revenue collections will be \$25.239 billion to \$25.723 billion, reflecting actual growth of 4.2% to 5.7% from the projected fiscal 2015 revenues, and baseline growth of 4.9% to 6.4% from fiscal 2015, which represents growth of \$1.021 billion to \$1.392 billion over projected fiscal 2015 revenues.

The Secretary of Administration and Finance and the Committees on Ways and Means also heard public testimony from economists and state budget experts from Northeastern University, the Massachusetts Taxpayers Foundation and the Beacon Hill Institute, who provided a range of forecasts for fiscal 2016 tax revenue collections, from \$25.502 billion to \$25.801 billion.

The Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means also agreed upon a potential gross state product (PGSP) estimate of 3.6% for calendar year 2016, which is identical to the PGSP figure that was adopted for calendar year 2015. The estimate of PGSP was developed through consultation with the Health Policy Commission, the Executive Office for Administration and Finance, the Department of Revenue, the House and Senate Ways and Means Committees and outside economists. The PGSP growth benchmark is to be used by the Health Policy Commission to establish the Commonwealth's health care cost growth benchmark. PGSP is a measure of the "full employment" output of the Commonwealth's economy. The PGSP estimate reflects long-term trends in the economy rather than fluctuations due to the business cycle and, as a result, is likely to be fairly stable from year to year.

### **Fiscal 2015 and Fiscal 2016 Tax Revenues**

*Fiscal 2015.* On January 14, 2014, a fiscal 2015 consensus tax revenue estimate of \$24.337 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2015 consensus tax revenue estimate represented actual revenue growth of 4.9% from the revised fiscal 2014 estimate of \$23.200 billion. The \$24.337 billion figure included off-budget transfers of \$1.793 billion for pension funding, \$811.3 million in dedicated sales tax receipts for the MBTA, \$771.5 million in dedicated sales tax receipts for the MSBA and \$22.2 million for the Workforce Training Fund. The fiscal 2015 budget as enacted assumed tax revenues of \$24.387 billion, reflecting the fiscal 2015 consensus tax estimate of \$24.337 billion, adjusted for the impact of revenue initiatives enacted as part of the budget, which included a one-year delay of the FAS 109 deductions (+\$45.8 million), tax revenue enhancements (+\$12 million) and a two-month tax amnesty program (+\$35 million), as well as the impact of revenue initiatives in separately enacted economic development legislation, including a modernizing research credit (-\$6.3 million), a farming and fishing investment tax credit (-\$0.4 million), sales tax holiday (-\$25.9 million) and sales tax exemption for limited partnerships (-4.9 million), and in county governments financial management legislation (-\$5.3 million). In January 2015, the \$24.387 billion estimate was further adjusted (to \$24.325 billion) to account for subsequent changes such as the reduction in the Part B rate (5.20% to 5.15%) (-\$70 million), elimination of gas/special fuels tax inflation indexing following its repeal by a November, 2014 ballot initiative (-\$4.7 million), transfer to the Substance Abuse Services Fund from the fall 2014 (non-corporate/business) amnesty tax collections (-\$5 million), and the spring 2015 corporate and business tax amnesty (+\$18 million). The revised \$24.325 billion tax estimate assumed that approximately \$1.379 billion would be generated from taxes on capital gains (the current preliminary results indicate that approximately \$1.669 billion of capital gains taxes were collected in fiscal 2015). On February 13, 2015, the Governor approved legislation that enables above-threshold capital gains taxes to be retained in the General Fund in fiscal 2015. Under state finance law, that amount would have been deposited in the Stabilization Fund and would not have been available for budgetary purposes.

Preliminary tax revenues for fiscal 2015 totaled approximately \$24.931 billion (including \$214.7 million in one-time tax-related settlements and judgments, exceeding \$10 million each), an increase of approximately \$1.562 billion, or 6.7%, over the same period in fiscal 2014. The following table shows the tax collections for fiscal 2015 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the fiscal year that are dedicated to the MBTA and the MSBA.



**Fiscal 2015 Tax Collections (in millions)**

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,596.2	\$11.3	0.7%	\$81.5	\$68.2	\$1,446.4
August	1,630.3	86.0	5.6	75.7	62.4	1,492.2
September	2,466.4	52.4	2.2	85.4	59.6	2,321.4
October	1,615.4	60.7	3.9	78.0	64.7	1,472.8
November	1,589.0	18.7	1.2	73.4	60.1	1,455.5
December	2,306.4	210.8	10.1	91.3	60.7	2,154.4
January	2,576.0	147.1	6.1	89.0	75.7	2,411.3
February	1,537.3	199.7	14.9	68.8	55.4	1,413.1
March	2,035.5	83.3	4.3	84.9	55.7	1,895.0
April	3,058.0	322.1	11.8	79.9	66.5	2,911.5
May	1,834.0	211.7	13.1	78.4	65.1	1,690.6
June (1)	2,686.8	157.2	6.2	84.4	70.1	2,532.4
<b>Total (2)</b>	<b>\$24,931.2</b>	<b>\$1,561.2</b>	<b>6.7%</b>	<b>\$970.6</b>	<b>\$764.0</b>	<b>\$23,196.6</b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

The tax revenue increase of approximately \$1.561 billion from fiscal 2014 to fiscal 2015 is attributable in large part to an increase of approximately \$554.8 million, or 5.3%, in withholding collections, an increase of approximately \$331.6 million, or 14.9%, in cash income tax estimated payments, an increase of approximately \$314.5 million, or 16.2%, in income tax payments with returns or bills, a decrease of approximately \$47.7 million, or 3.2%, in cash income tax refunds, an increase of approximately \$278.0 million, or 5.1%, in sales and use tax collections, and an increase of approximately \$50.1 million, or 2.0%, in corporate and business tax collections. Excluding the \$214.7 million in one-time tax-related settlements and judgments, fiscal 2015 tax collections were approximately \$391 million above the benchmarks associated with the fiscal 2015 tax revenue estimate of \$24.325 billion. Better than expected income estimated payments, withholding, and lower refunds were the main categories contributing to the above-benchmark performance.

Two tax amnesty programs took place in fiscal 2015. The first program, conducted in September and October, 2014, generated \$69.1 million in tax collections, exceeding the original estimate of \$35 million. The second program, conducted between March 16, 2015 and May 15, 2015, resulted in total collections of approximately \$16 million, \$2 million less than the original estimate of \$18 million. Processing for the second program will continue until all payments have been validated, at which point a final report will be released.

Under the general provisions of state finance law, fiscal 2015 tax revenues from realized capital gains in excess of \$1.048 billion would have been transferred to the Stabilization Fund, but that required transfer was suspended for fiscal 2015 by legislation approved by the Governor on February 13, 2015. On July 22, 2015, the Department of Revenue certified that the Commonwealth collected approximately \$1.669 billion in capital gains taxes during fiscal 2015. The final fiscal 2015 supplemental appropriations bill filed by the Governor provides for a \$50 million deposit into the Stabilization Fund.

*Fiscal 2016.* On January 30, 2015, a fiscal 2016 consensus tax revenue estimate of \$25.479 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2016 consensus tax revenue estimate represents revenue growth of 4.8% actual from the revised fiscal 2015 estimate of \$24.325 billion. The tax estimate assumes a further reduction in the Part B rate (5.15% to 5.10%) will occur on January 1, 2016 (-\$74 million). The \$25.479 billion figure includes off-budget transfers of \$1.972 billion for pension funding, \$985.2 million in dedicated sales tax receipts for the MBTA, \$803.9

million in dedicated sales tax receipts for the MSBA and \$22.4 million for the Workforce Training Fund. The total amount of off-budget transfers is \$3.783 billion. Accordingly, after taking into account the \$300 million of capital gains tax revenue that exceeds the fiscal 2016 threshold (and therefore must be deposited into the Stabilization Fund), the Secretary and Committee chairs agreed that \$21.396 billion would be the maximum amount of tax revenue available for the fiscal 2016 budget and that they would base their respective budget recommendations on that number.

On July 17, 2015, the Governor approved the fiscal 2016 budget (some of the vetoed items are still pending legislative overrides), which assumes tax revenues of \$25.611 billion, based on the consensus estimate of \$25.479 billion adjusted for the incremental impact of tax initiatives enacted as part of the budget such as non-filer/non-registrant tax amnesty (\$100 million), illegal tobacco task force (\$7 million), self-imposed reduction in the life sciences tax incentive cap (\$5 million), delay of the FAS 109 deduction (\$45.9 million), earned income tax credit rate increase (no impact on fiscal 2016 but it will have impact on fiscal 2017 and later years), tax enhancements (no impact on fiscal 2016 but it will have impact on fiscal 2017 and later years), and a two-day sales tax holiday to be held on August 15 and 16, 2015 (-\$25.54 million). The fiscal 2016 monthly benchmarks will be based on the \$25.611 billion estimate, which does not assume any large settlements. The enacted budget assumes that approximately \$1.387 billion would be generated from taxes on capital gains, and that the excess capital gains taxes of \$300 million (above the fiscal 2016 threshold total of \$1.087 billion) would be retained in the General Fund in fiscal 2016. Under state finance law, that amount would have been deposited in the Stabilization Fund and would not have been available for budgetary purposes. The fiscal 2016 budget assumes \$100 million during fiscal 2016 from settlement and judgment payments (both tax- and non-tax-related) of \$10 million or more; such payments will be tracked and reported separately by the Department of Revenue throughout the year.

Preliminary tax revenues for the first month of fiscal 2016, ended July 31, 2015, totaled approximately \$1.673 billion, an increase of approximately \$77.2 million, or 4.8%, over the same period in fiscal 2015. The following table shows the tax collections for the first month of fiscal 2016 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the fiscal year that are dedicated to the MBTA and the MSBA.

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,673.4	\$77.2	4.8%	\$85.8	\$72.5	\$1,515.0
<b>Total</b>	<b>\$1,673.4</b>	<b>\$77.2</b>	<b>4.8%</b>	<b>\$85.8</b>	<b>\$72.5</b>	<b>\$1,515.0</b>

SOURCE: Executive Office for Administration and Finance.  
 (1) Figures are preliminary.

The year-to-date tax revenue increase of approximately \$77.2 million through July 31, 2015 from the same period in fiscal 2015 is attributable, in large part, to an increase of approximately \$69.4 million, or 8.5%, in withholding collections, an increase of approximately \$34.1 million, or 6.6%, in sales and use tax collections, which were partly offset by an increase of approximately \$13.3 million, or 83.3%, in income cash refunds, and a decrease of approximately \$24.0 million, or 33.6%, in corporate and business tax collections. Year-to-date fiscal 2016 tax collections (through July) were approximately \$7 million above the benchmarks associated with the fiscal 2016 tax consensus tax revenue estimate of \$25.479 billion.

### **Federal and Other Non-Tax Revenues**

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance-of-effort spending level determined annually by the federal government. Federal reimbursements for fiscal 2014 were \$8.372 billion and are projected to be \$9.428 billion for fiscal 2015 and \$10.628 billion in fiscal 2016.

Departmental and other non-tax revenues are derived from a large number of sources, including but not limited to fees and assessments for services, licenses, tuition and reimbursements. For fiscal 2014, departmental and other non-tax revenues were \$3.175 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2014 included \$494.9 million for Registry of Motor Vehicles fees, fines and assessments, \$243 million from filing, registration and other fees paid to the Secretary of State's office, \$100.2 million in fees, fines and assessments charged by the court systems and \$652.3 million in reimbursements from cities, towns and non-state entities for retiree benefits. Departmental and other non-tax revenues are projected to be \$3.569 billion in fiscal 2015 and \$4.089 billion in fiscal 2016.

*Lottery Revenues.* For the budgeted operating funds, inter-fund transfers include transfers of net operating revenues from the State Lottery and Gaming Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for transfers from the Lottery of \$976.5 million, \$1.075 billion, \$1.050 billion, \$1.069 billion and \$1.084 billion (preliminary) in fiscal 2011 through 2015, respectively. Under state law, the net balance in the State Lottery and Gaming Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to provide local aid.

The following table shows Lottery revenues and profits for fiscal 2015.

**Fiscal 2015 Monthly Lottery Revenues and Profits (in thousands) (1)**

<u>Month</u>	<u>Revenues</u>	<u>Prizes</u>	<u>Subtotal Operating Expenses</u>	<u>Operating Revenues</u>	<u>Administrative Expenses</u>	<u>Net Profit before Distributions</u>
July	\$342,196	\$242,935	\$19,764	\$79,497	\$4,577	\$74,919
August	463,758	341,849	26,621	95,287	4,251	91,037
September	375,039	269,758	21,244	84,038	6,296	77,741
October	380,128	280,262	21,776	78,090	7,583	70,507
November	467,540	331,384	26,540	109,616	7,069	102,547
December	396,771	278,568	22,843	95,360	8,907	86,454
January	468,904	342,943	27,023	98,938	5,617	93,322
February	359,520	259,600	20,485	79,435	5,565	73,869
March	403,065	301,321	23,066	78,678	8,981	69,697
April	400,252	282,983	22,854	94,415	6,895	87,520
May	514,025	366,599	29,196	118,230	8,888	109,342
June	440,784	332,596	25,300	82,888	25,939	56,949
<b>Total</b>	<b>\$5,011,984</b>	<b>\$3,630,799</b>	<b>\$286,714</b>	<b>\$1,094,471</b>	<b>\$100,569</b>	<b>\$993,902</b>
Year-to-Date Prize Accrual	-	10,371	-	(10,371)	-	(10,371)
<b>Adjusted Totals</b>	<b>\$5,011,984</b>	<b>\$3,641,170</b>	<b>\$286,714</b>	<b>\$1,084,100</b>	<b>\$100,569</b>	<b>\$983,531</b>

Source: State Lottery Commission; Monthly values from the State Lottery Commission Statement of Operations.  
(1) Figures are preliminary.

A five-year history of Lottery revenues and profits is shown in the following table as well as current projections for fiscal 2016.

**Lottery Revenues and Profits**  
(amounts in thousands)

Fiscal Year	Revenues	Net Operating Revenues	Net Profits
2016 (1)	\$5,078,564	\$1,060,010	\$957,418
2015 (1)	5,011,984	1,084,100	983,531
2014	4,863,373	1,069,958	974,562
2013	4,850,482	1,050,128	955,801
2012	4,741,417	1,074,927	983,786
2011	4,427,961	976,547	887,913

Source: State Lottery Commission

(1) Fiscal 2015 figures are preliminary; fiscal 2016 figures are projected.

*Tobacco Settlement.* In November, 1998, the Commonwealth joined with other states in a master settlement agreement that resolved the Commonwealth’s and other states’ litigation against the cigarette industry. Under the agreement, cigarette companies have agreed to make both annual payments (in perpetuity) and five initial payments (for the calendar years 1999 to 2003, inclusive) to the settling states. Each payment amount is subject to applicable adjustments, reductions and offsets, including upward adjustments for inflation and downward adjustments for decreased domestic cigarette sales volume.

The Commonwealth’s allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%, which equals more than \$8.962 billion through fiscal 2024, subject to adjustments, reductions and offsets. However, since fiscal 2006 certain amounts have been withheld from each year’s payments by tobacco manufacturers in relation to ongoing disputes of payment calculations who claim that because of certain developments they are entitled to reduce future payments under the master settlement agreement. Certain manufacturers withheld annual payments to the states due in 2006 through 2011, inclusive. Those withheld amounts have ranged from \$21 million to \$35 million. A much smaller amount has been withheld for 2012 through 2015, inclusive. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See “LEGAL MATTERS – Other Revenues.” The Commonwealth was also awarded \$414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states’ particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is payable in equal annual installments during the years 2008 through 2017, inclusive.

Tobacco settlement payments were initially deposited in a permanent trust fund (the Health Care Security Trust), with only a portion of the moneys made available for appropriation. From fiscal 2003 through fiscal 2012, all payments received by the Commonwealth pursuant to the master settlement agreement were deposited in the General Fund. The fiscal 2008 budget established the State Retiree Benefits Trust Fund for the purposes of depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employees’ retirement system for health care and other non-pension benefits for retired members of the system, and the Health Care Security Trust’s balance was transferred to the State Retiree Benefits Trust Fund.

The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of the annual tobacco payments be transferred to the State Retiree Benefits Trust Fund, with the amount deposited to the State Retiree Benefits Trust Fund to increase by 10% increments annually thereafter until 100% of all payments would be transferred to that Fund. Pursuant to this requirement, in May, 2013, the Comptroller transferred \$25.3 million (10% of the \$253.5 million in fiscal 2013 tobacco settlement proceeds) to the State Retiree Benefits Trust Fund, with the balance deposited in the General Fund. The fiscal 2014 budget included a provision that funded the scheduled 20% transfer to the State Retiree Benefits Trust Fund from unspent debt service appropriations, to the extent that they were available, rather than through tobacco settlement proceeds, with any balance of the 20% to be made up through a transfer of tobacco settlement proceeds. In fiscal 2014 there were insufficient unspent debt

service appropriations to fund the full 20% transfer, equal to \$56.4 million, to the State Retirees Benefits Trust Fund, and approximately \$15 million of tobacco proceeds was used to fund the balance.

The fiscal 2015 budget contained a similar provision requiring the scheduled 30% transfer of tobacco settlement funds, equal to approximately \$73.7 million, to be funded from unspent debt service appropriations, to the extent that they are available, with any balance of the 30% to be made up through a transfer of tobacco settlement proceeds. The Governor’s fiscal 2016 budget proposal included an appropriation to transfer \$84.6 million from the General Fund to the State Retiree Benefits Trust Fund in lieu of the tobacco settlement funding mechanism for fiscal 2016, an amount equal to approximately 35%, rather than the statutorily required 40%, of projected fiscal 2016 tobacco settlement funds. The fiscal 2016 budget deleted this appropriation and substituted language requiring that 30% of the fiscal 2016 tobacco settlement proceeds (projected to be approximately \$73.2 million) be funded from unspent debt service appropriations, to the extent available, with the balance to be paid from tobacco settlement funds (House) or from non-tobacco moneys (Senate). See “PENSION AND OPEB FUNDING – Other Post-Retirement Benefit Obligations (OPEB).”

The following table sets forth the tobacco settlement amounts received by the Commonwealth to date.

**Payments Received Pursuant to the Tobacco Master Settlement Agreement (in millions) (1)**

<u>Fiscal Year</u>	<u>Initial Payments</u>	<u>Annual Payments</u>	<u>Total Payments</u>
2000	\$186.6 (2)	\$139.6	\$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
2011	-	248.7	248.7
2012	-	253.6	253.6
2013	-	253.5	253.5
2014	-	282.1	282.1
2015	-	245.8	245.8
<b>Total</b>	<b><u>\$434.0</u></b>	<b><u>\$3,882.9</u></b>	<b><u>\$4,316.9</u></b>

SOURCE: Office of the Comptroller.

(1) Amounts are approximate. Totals may not add due to rounding.

(2) Payments received for both 1999 and 2000.

*Settlements and Judgments.* The fiscal 2012 budget amended state finance law to provide that any one-time settlement or judgment amounting to \$10 million or more is to be deposited in the Stabilization Fund rather than used as miscellaneous revenue for the current fiscal year. Upon receiving a joint certification from the Commissioner of Revenue and the Attorney General that a state agency is in receipt of a one-time settlement or judgment for the Commonwealth in excess of \$10 million in any one fiscal year, the Comptroller is to transfer the proceeds of the settlement or judgment from the General Fund to the Stabilization Fund. Such transfers are made on a bi-monthly basis. In fiscal 2012, the Comptroller transferred \$375.0 million received on account of settlements and judgments. Such settlement and judgment payments totaled \$133.8 million during fiscal 2013. In supplemental appropriations acts during fiscal 2013 and in the fiscal 2014 budget, the Legislature directed that \$101 million of that amount be directed to other specified purposes – for a transfer to the Smart Growth Housing Trust Fund (\$4 million), to reimburse the General Fund for the costs related to the investigation and response to the breach at the Hinton Drug Testing Laboratory (\$30 million), to replace revenue foregone during the August, 2012 sales tax holiday (\$21 million) and to fund various end-of-year allocations and programs (\$46 million) – rather than be deposited in the Stabilization Fund. In fiscal 2014, there was \$436.5 million in settlement or judgment payments greater than \$10 million. Legislation authorizing a sales tax holiday in August 2013 directed the Comptroller to retain in the General Fund \$22.2 million of such settlement or judgment payments to reimburse it for the revenue foregone during the holiday. Legislation approved by the Governor on August 5, 2014 directed the Comptroller, for fiscal 2014 only, to retain settlements or judgments in the General Fund, but not more than necessary to result in a

consolidated net surplus of \$57.5 million, \$25 million of which was to be distributed to the Massachusetts Life Sciences Investment Fund, \$25 million of which was to be transferred to the Massachusetts Community Preservation Trust Fund and \$7.5 million of which was to be transferred to the Social Innovation Financing Trust Fund, to the extent that such amounts were available from the surplus. This requirement resulted in the transfer from the Stabilization Fund to the General Fund of all remaining settlement or judgment revenues received during fiscal 2014. As certified by the Comptroller in the fiscal 2014 Statutory Basis Financial Report, the fiscal 2014 consolidated net surplus was \$22.8 million after this transfer of settlements or judgments revenue, which surplus resulted in two equal transfers of approximately \$11.4 million to the Massachusetts Life Sciences Investment Fund and the Massachusetts Community Preservation Trust Fund. No amount was available to be transferred to the Social Innovation Financing Trust Fund.

The fiscal 2015 budget included a provision modifying the law, beginning in fiscal 2014, so that settlements and judgments in excess of \$10 million would be deposited in the Stabilization Fund only to the extent that the total of all such settlements and judgments exceeded the average of such total for the five preceding fiscal years. The average of such total settlements and judgments for fiscal 2014 (using fiscal 2009 through fiscal 2013) was \$240 million and for fiscal 2015 (using fiscal 2010 through fiscal 2014) is approximately \$263 million. In fiscal 2015, the final collections of tax and non-tax related settlements and judgments (exceeding \$10 million each) totaled \$226.1 million. (For budgeting purposes, the Executive Office for Administration and Finance assumed that \$100.0 million in tax and non-tax related settlements and judgments (exceeding \$10 million each) would be collected in fiscal 2016.) The intent of the modification was to align the judgment and settlement law with the Commonwealth's general policy on excess capital gains revenue where the recurring portion of the revenue stream is identified and budgeted against and the "larger than usual" amount is deposited into the Commonwealth's Stabilization Fund. On July 7, 2015, the Commissioner of Revenue and the Attorney General certified that the Commonwealth had received \$226.1 million in such payments (\$214.7 million of which were tax-related and \$11.4 million of which were non-tax-related) during fiscal 2015.

*Gaming.* On November 22, 2011 the Governor approved legislation that authorizes the licensing of up to three regional resort casinos (one per region) and one slot facility (up to 1,250 slots) in the Commonwealth. The legislation established an appointed, independent state gaming commission to oversee the implementation of the law and the regulation of the resultant gaming facilities. Licensing fees collected by the commission are to be applied to a variety of one-time state and local purposes, and gaming revenues received by the Commonwealth are to be applied to a variety of ongoing expenses, including local aid and education, with stipulated percentages also to be deposited in the Stabilization Fund and applied to debt reduction. The legislation stipulates that initial licensing fees, which are to be set by the gaming commission, must be at least \$85 million per casino (a "Category 1" license) and \$25 million for the slot facility (a "Category 2" license). According to the Massachusetts Gaming Commission, aggregate state tax revenues from gaming licenses are expected to total approximately \$300 million per year once the facilities are operational. A ballot initiative petition to repeal the authorizing legislation failed on November 4, 2014.

On June 13, 2014, the Massachusetts Gaming Commission entered into an agreement with the Category 1 licensee in Region B, pursuant to which the licensee received a license effective on November 7, 2014, following the defeat of the ballot initiative. On September 17, 2014, the Massachusetts Gaming Commission entered into an agreement with the Category 1 licensee in Region A pursuant to which the licensee received a license effective on November 7, 2014. Each agreement deferred the payment of the \$85 million license fee until after the outcome of the ballot initiative was determined. The Category 1 licensee in Region A made its payment on November 6, 2014, and the Category 1 licensee in Region B made its payment on November 17, 2014.

The Category 2 slot facility opened on June 24, 2015. The Region B Category 1 gaming establishment is scheduled to begin construction in 2015 and open in 2018. The Region A Category 1 gaming establishment is scheduled to begin construction in 2015 and open in 2017 or 2018.

In the third quarter of calendar 2014, the city of Revere, the city of Somerville and the city of Boston filed suit against the Massachusetts Gaming Commission contesting the validity of the Commission's award of the Region A Category 1 license. The Massachusetts Gaming Commission is vigorously defending these suits.

Current estimates project gaming to generate \$171.8 million in revenue for Commonwealth budgeted and non-budgeted funds in fiscal 2015. This includes a \$20 million transfer into the Stabilization Fund to reimburse previously paid startup costs. The fiscal 2016 budget for local aid assumes \$105 million of revenue related to the new slot casino in Plainville, Massachusetts.

**Limitations on Tax Revenues**

Chapter 62F of the General Laws, which was enacted by the voters in November, 1986, establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. The growth limit is used to calculate “allowable state tax revenue” for each fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then-current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. The law does not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that “although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems and payment of principal and interest on debt and other obligations of the Commonwealth.”

The following table sets forth the Commonwealth’s net state tax revenues and allowable state tax revenues, as defined in Chapter 62F, for fiscal 2010 through fiscal 2014. Pursuant to Chapter 62F, the State Auditor’s Office is expected to release its report for fiscal 2015 on or about the third Tuesday of September, 2015.

	<u>Net State Tax Revenues</u>	<u>Allowable State Tax Revenues</u>	<u>Net State Tax Revenues (under) Allowable State Tax Revenues</u>
2014	\$23,666,801,083.60	\$27,048,676,153.30	(\$3,381,875,069.70)
2013	22,397,185,748.50	26,074,941,365.50	(3,677,755,617.00)
2012	21,384,338,827.60	25,236,379,380.50	(3,852,040,552.90)
2011	20,776,233,462.10	25,063,267,392.60	(4,287,033,930.50)
2010	18,792,776,938.00	24,948,702,948.70	(6,155,926,010.70)

SOURCES: State Auditor’s Office.

**Local Aid**

*Commonwealth Financial Support for Local Governments.* The Commonwealth makes substantial payments to its cities, towns and regional school districts (local aid) to mitigate the impact of local property tax limits on local programs and services. See “Property Tax Limits” below. Local aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct local aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called “cherry sheet” prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. The Commonwealth’s budget for fiscal 2016 provides \$5.571 billion of state-funded local aid to municipalities.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula designed to provide more aid to the Commonwealth’s poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Beginning in fiscal 2007, the Legislature implemented a new model for education aid which was adjusted

to resolve aspects of the formula that were perceived to be creating inequities in the aid distribution. The fiscal 2016 budget includes state funding for Chapter 70 education aid of \$4.51 billion. This level of funding for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, ensures that all local educational authorities receive an increase of funding of at least \$25 per pupil, and is an increase of \$111 million over the fiscal 2015 state-supported amount of \$4.40 billion.

The fiscal 2010 budget eliminated lottery local aid and additional assistance and created a new local aid funding source called unrestricted general government aid. This account is now the other major component of direct local aid, providing unrestricted funds for municipal use. The fiscal 2016 budget provided for cities and towns to receive \$980 million in unrestricted general government aid, with funding allocated to ensure a 3.6% increase in funding over the fiscal year 2015 levels to all municipalities.

*Property Tax Limits.* In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein or (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. Between fiscal 1981 and fiscal 2014, the aggregate property tax levy grew from \$3.347 billion to \$13.94 billion, a compound annual growth rate of 4.36%.

### **Medicaid and the Health Connector**

*MassHealth.* The Commonwealth's Medicaid program, called MassHealth, provides health care to 1.8 million low-income children and families, low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, generally receives 50% in federal reimbursement on most expenditures for adults, and 65% in federal reimbursement on most expenditures for children's benefits reimbursable under the Children's Health Insurance Program (CHIP). Under the federal Affordable Care Act (ACA), beginning January 1, 2014, MassHealth began receiving enhanced federal reimbursement for spending on newly eligible members and some existing members. In calendar 2014, the federal reimbursement rate for these members was 75%, and in calendar 2015, the federal reimbursement rate is 80%. The reimbursement rate for this population will increase each year through 2019, and then will level off at 90% in 2020 and beyond. These federal reimbursement rates are also known as Federal Medical Assistance Percentages (FMAP).

Under the ACA, all Massachusetts residents below 133% of the federal poverty level (FPL) are eligible for MassHealth if they are citizens or qualified aliens, and most of the expansion population is enrolled in a new program called MassHealth CarePlus. On January 1, 2014, nearly 300,000 members successfully transitioned from their former programs into their new MassHealth programs. During calendar 2014, there were challenges with the Commonwealth's new online enrollment and eligibility system. As a result, many individuals who applied for subsidized health insurance coverage, and who were not enrolled in another state health care program, received temporary Medicaid coverage on a fee-for-service basis through MassHealth until the system could make accurate determinations of eligibility. The Commonwealth secured federal reimbursement for expenses of covering those up to 400% of the federal poverty level (FPL) from the Centers for Medicare and Medicaid Services (CMS) through February 23, 2015. There can be as much as a two- to three-month lag in receiving and processing claims. Based on available claims data as of June 30, 2015, MassHealth spent approximately \$659 million on services for the approximately 321,000 members who were enrolled in temporary Medicaid coverage through the end of February, 2015. The Commonwealth will continue to analyze claims data as it is received for the last few months of the temporary Medicaid coverage program to determine total spending.

Most of the significant problems with the online eligibility and enrollment system were resolved by November 15, 2014, which was the start of the ACA open enrollment period. This allowed individuals to apply for and enroll in health care coverage through MassHealth and the Health Connector via the online eligibility and enrollment system. More than 286,000 individuals were appropriately enrolled in MassHealth programs through the



new system during open enrollment beginning in November, 2014, including many who had previously been enrolled in the temporary Medicaid coverage program. At the end of open enrollment on February 23, 2015, the temporary Medicaid coverage program ended. With the new online system, eligible individuals will be able to apply for and enroll in MassHealth at any time going forward.

Fiscal 2015 was the first full fiscal year in which the ACA health care program shifts were in effect. While this represents a significant portion of the growth in MassHealth's programmatic appropriations, nearly 80% of the spending on the ACA Expansion population is offset by federal reimbursements due to the enhanced FMAP rates. The fiscal 2015 budget continued and expanded MassHealth's cash management strategies that were implemented in prior fiscal years, which moved certain payables into future fiscal years. Additional savings initiatives in the fiscal 2015 budget included \$13 million in savings attributed to MassHealth's predictive modeling system and programmatic improvements such as expanding service utilization review and refining payment processes for clinical laboratories.

The fiscal 2015 budget included \$14.3 billion in funding for non-administrative spending for the MassHealth program. The \$14.3 billion includes \$13.5 billion in programmatic spending and \$800 million to support supplemental payments to providers and costs related to the Hutchinson settlement. In February, 2015, the Executive Office for Administration and Finance identified a \$768 million budget shortfall, part of which was due to MassHealth programmatic spending that exceeded the then-current appropriations for the program by approximately \$200 million. The supplemental appropriation legislation that Governor Baker filed on July 17, 2015 included \$203 million to address the MassHealth shortfall in full. See "FISCAL 2015 AND FISCAL 2016 – Fiscal 2015." Reasons for higher than expected programmatic spending in fiscal 2015 included higher-than-anticipated Managed Care Organization (MCO) capitation rate increases at 3.7% (required to meet actuarial standards), a newly acquired payment to managed care entities for their Affordable Care Act section 9010(a) liabilities, significant costs related to new specialty drugs, and unanticipated costs related to the temporary Medicaid coverage program.

Certain supplemental payments to providers expected to be made by MassHealth in fiscal 2015 are now expected to be paid in fiscal 2016 due to a timing delay in CMS approval. The supplemental appropriation legislation that Governor Baker filed on July 17, 2015 included provisions to shift the appropriations for such payments into fiscal 2016.

The fiscal 2016 budget includes \$15.3 billion in funding for non-administrative spending for the MassHealth program. The \$15.3 billion includes \$14.6 billion in programmatic spending and approximately \$700 million to support supplemental payments to providers and costs related to the Hutchinson settlement. See "LEGAL MATTERS—Programs and Services." The fiscal year 2016 budget achieves significant MassHealth savings while supporting expansion of benefits for children with autism and critical eligibility and operations investments. The fiscal 2016 budget funds rate increases for certain providers including nursing facilities and MCOs. MassHealth currently projects that fiscal 2016 appropriations will be sufficient to fund programmatic spending.

In January, 2015 MassHealth began a process to conduct eligibility redeterminations for over one million members over the course of calendar 2015. Ordinarily, MassHealth redetermines member eligibility every 12 months. However, MassHealth redeterminations had been suspended since October, 2013 due to problems with the online eligibility system, resulting in a higher than expected MassHealth caseload. With the new system now functioning, MassHealth is required by CMS to resume and complete redeterminations for these members by the end of calendar 2015. As a result of these redeterminations, as well as other eligibility checks that MassHealth is resuming, the Commonwealth expects that MassHealth's caseload and spending will be reduced to more appropriately reflect the eligible population. MassHealth eligibility redeterminations are not retroactive.

The Executive Office of Health and Human Services (EOHHS) is initiating a renewed push toward MassHealth-wide system transformation efforts that will help make Massachusetts a national leader in accountable, coordinated care. EOHHS is in the process of soliciting input on a payment innovation and accountable care strategy designed to improve patient experience and health outcomes while reducing long-term cost growth for MassHealth. The development and launch of initiatives stemming from this effort are expected to be supported in large part by a \$44 million federal State Innovation Model grant that is intended to support the transition away from fee-for-service payments towards alternative payment methodologies to promote better healthcare and better value for Massachusetts residents.

**Budgeted Operating Funds Medicaid Expenditures and Enrollment (in millions)**

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014 (1)</u>	<u>Fiscal 2015 (2)</u>	<u>Fiscal 2016</u>
<b>Medicaid program expenses</b>	\$10,237.3	\$10,431.1	\$10,799.1	\$11,900.8	\$13,651.5	\$14,633.0
<b>Medicaid administrative expenses</b>	\$86.5	\$86.4	\$84.6	\$86.7	\$99.4	\$99.7
<b>Total expenditures (3)</b>	\$10,323.8	\$10,517.5	\$10,883.7	\$11,987.5	\$13,750.9	\$14,732.7
<b>Annual percentage growth in total expenditures</b>	10.1%	1.9%	3.5%	10.1%	15.4%	7.1%
<b>Enrollment (in average member months) (4)</b>	1,314,509	1,357,618	1,405,532	1,594,270	1,906,101	1,788,619
<b>Annual percentage growth in enrollment</b>	4.2%	3.2%	3.5%	13.4%	19.6%	-6.2%

SOURCE: Fiscal 2012-2014 (excluding Medicaid administrative expense), Office of the Comptroller; fiscal 2015-2016 and fiscal 2012-2014 (Medicaid administrative expense only), Executive Office for Administration and Finance. Enrollment, Executive Office of Health and Human Services.

(1) Fiscal 2014 figures include spending and enrollment growth for a half year of ACA implementation; enrollment figures include the temporary Medicaid coverage population starting January 1, 2014 through the end of the fiscal year.

(2) Fiscal 2015 figures are based on spending projections; spending and enrollment cover a full year of ACA implementation; enrollment figures include the temporary Medicaid coverage population through February 23, 2015.

(3) Total expenditures exclude supplemental payments to providers.

(4) Enrollment in prior fiscal years changes due to the effects of redeterminations, retroactive eligibility, application verification, and eligibility appeals.

*Commonwealth Health Insurance Connector Authority.* State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority (Health Connector). The Health Connector is governed by a board, of which the Secretary of Health and Human Services is the chairperson and the Secretary of Administration and Finance is also a member, each *ex officio*. Previously, the Health Connector administered the Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300% of the FPL and who do not have access to minimally subsidized employer-sponsored insurance or other public coverage. Commonwealth Care began enrolling individuals on October 1, 2006; the program ended January 31, 2015. In addition, the Health Connector administered the Commonwealth Choice program, a non-subsidized program providing health insurance coverage options to individuals ineligible for subsidies and to Massachusetts-based small employers. Most of the funding to support the Commonwealth Care program is paid out of the Commonwealth Care Trust Fund (CCTF), which is supported by dedicated revenue sources. The Health Connector is also responsible for policy development relative to the Affordability Schedule and Minimum Credible Coverage rules and public education and outreach, including the ACA-required Navigator program. The Health Connector also administers the Massachusetts risk adjustment program, the only state-based program in the nation.

The Health Connector administers the Commonwealth's Health Insurance Marketplace under the ACA. As the Commonwealth's Marketplace, the Health Connector offers qualified health plans (QHPs) to individuals and small businesses. Individuals with incomes under 400% FPL are eligible for federal tax credits, and certain small businesses shopping through the Marketplace will have access to small business health care tax credits through 2016. Individuals with incomes between 133% and 300% FPL, as well as certain Aliens with Special Status (AWSS) with incomes between 0% and 300% FPL, have access to additional state and federal subsidies through a new program called ConnectorCare. The state provides additional state subsidies via ConnectorCare to ensure that the premiums and point-of-service cost sharing for certain low-income members, after factoring in federal tax credits and cost sharing reductions, are equivalent to what was available through the Commonwealth Care program.

Due to challenges with the development of the online eligibility and enrollment system for the first federal open enrollment period in 2013 for plan year 2014, a strategy was implemented in the spring of 2014 to pursue development of two alternate online systems – a commercial off-the-shelf state-based solution (hCentive) and the federally facilitated Marketplace (FFM) – to ensure that at least one of the alternatives would be ready for launch by November 15, 2014, the beginning of the open enrollment period. On August 7, 2014, with CMS approval, the

Commonwealth decided to pursue the hCentive solution and therefore dropped the FFM track. The original project cost was projected at \$175 million (\$139 million of which was supported by federal resources). The current IT project cost is \$281 million, of which \$248 million is funded by federal sources and the remainder is funded through Commonwealth capital funding sources. As of June 30, 2015, the state had spent \$148.7 million. In October, 2014, the Commonwealth received approval from CMS for enhanced federal matching funds to support approximately \$80 million in additional project costs.

As a result of the challenges with the online eligibility and enrollment system, the Health Connector was only able to enroll a small number of individuals into ConnectorCare in 2013. This dynamic resulted in an approximate net \$10 million per-month additional cost for the last six months of fiscal 2014, principally due to forgoing more favorable federal reimbursement associated with ConnectorCare. The aggregate cost was net \$60 million from January through June, 2014.

The hCentive system that was developed to support the Health Connector and MassHealth successfully launched for the federal 2014 open enrollment period. Individuals and families were able to successfully enroll in ACA-compliant coverage for plan year 2015 (small groups successfully enrolled in ACA-compliant coverage using the legacy system administered by the Health Connector's customer service vendor). In order to provide members additional time to transition into ACA-compliant programs, CMS authorized the Commonwealth to extend coverage for Commonwealth Care members through January 31, 2015.

The fiscal 2016 budget does not include an appropriation of funding for the Health Connector. The Health Connector's resources are expected to be derived exclusively from increased dedicated revenues in the CCTF (a portion of cigarette taxes and employer contributions), federal grants and self-generated revenues. Health Connector spending in fiscal 2016 is projected to be \$202.8 million, a reduction of \$85.8 million from fiscal 2015 year-end projected spending of \$288.6 million. Based on these projections, all fiscal 2016 costs are expected to be covered by dedicated revenues in the CCTF. The Executive Office for Administration and Finance will continue to review Health Connector net program costs and monitor the CCTF's dedicated revenues to ensure all Health Connector net program costs will be covered.

*Federal 1115 MassHealth Demonstration Waiver.* Section 1115 of the Social Security Act gives the U.S. Secretary of Health and Human Services authority to waive provisions of major health and welfare programs, including certain Medicaid requirements, and to allow a state to use federal Medicaid funds in ways that are not otherwise allowed under federal rules. The Commonwealth's 1115 waiver was renewed on October 30, 2014 and extends through June 30, 2019. For the first time, CMS approved a five-year extension of the waiver, giving the state a stable and predictable platform from which to increase health care coverage and continue to build upon delivery system transformations and care coordination models. The \$41.4 billion agreement, which represents approximately a \$15 billion increase over the previous waiver, preserves existing Medicaid eligibility and benefit levels and continues support for state and federal health care subsidies for low-and-middle income individuals to keep insurance affordable for them. This waiver includes more than \$20 billion in revenue to the Commonwealth through federal financial participation.

The waiver approved on October 30, 2014 provides that successful programs that have been established under the waiver continue, including a bundled payment pilot program for children with high-risk asthma, an Express Lane Eligibility renewal process for parents and caretakers of children receiving Supplemental Nutritional Assistance Program (SNAP) benefits; authority to provide intensive early intervention services to children up to age three who have autism-spectrum disorders; and various payments to providers such as the Infrastructure and Capacity Building grants; the Health Safety Net; and supplemental payments to critical safety net providers such as Boston Medical Center and Cambridge Health Alliance (CHA), including a new Public Hospital Transformation and Incentive Initiative payment totaling \$220 million annually for CHA. In addition, the waiver supports the state's efforts to implement alternative payment methodologies that reward providers for delivering coordinated, high-quality, cost-effective care, *e.g.*, global payment programs like the Primary Care Payment Reform Initiative and a Medicaid Accountable Care Organization (ACO) model.

Lastly, the waiver supports \$771 million, over three years, for designated state health programs (DSHP) that provide comprehensive community-based health services for Medicaid-eligible individuals. Implemented through various agencies including the Department of Public Health and Department of Mental Health, programs

include homeless supports, chronic disease interventions, substance abuse prevention and rehabilitation, and expanded access to children's behavioral health services. In addition, the waiver provides DSHP authority to support Health Connector subsidies for enrollees in the ConnectorCare program, whose incomes are up to 300% of the Federal Poverty Level, throughout the five-year waiver term.

*Health Safety Net.* The Health Safety Net (HSN) makes payments to hospitals and community health centers for providing certain health care services to their low-income patients who are not eligible for health insurance or cannot afford it. The HSN is administered by the Office of Medicaid within the Executive Office of Health and Human Services, and is funded primarily through assessments on hospitals and health insurance providers. HSN demand in fiscal 2015 is expected to exceed available resources by \$24 million. HSN is administered according to the federal fiscal year, and the Office of Medicaid is in the process of updating projections for fiscal 2016.

*Health Care Cost Containment.* On August 6, 2012, the Governor signed legislation designed to improve the quality of health care and to reduce costs through increased transparency, efficiency, and innovation. This law seeks to move providers and payers away from fee-for-service payments toward alternative payment methodologies that are designed to support coordination of patient care, reduce costs, and improve quality. The law extended the presumptive disapproval criteria of the state Division of Insurance for premium rates in the small and non-group market. It also transferred the responsibilities of the Division of Health Care Finance and Policy to MassHealth, the Health Connector, and the newly-created Center for Health Information and Analysis (CHIA). CHIA was created as an independent state agency, funded through an industry assessment, to monitor the Massachusetts health care system through data collection and research and to release reliable information and meaningful analysis to a wide variety of audiences.

This health care legislation also established the Health Policy Commission (HPC), an independent agency within, but not subject to the control of, the Executive Office for Administration and Finance. The HPC is integral to the implementation of the cost containment law. The HPC monitors health care spending trends and the Commonwealth's performance against an annual health care cost growth benchmark, promotes transparency around how provider organizations are organized to deliver care, monitors changes in the health care marketplace, and establishes standards for patient-centered medical homes and accountable care organizations, among other responsibilities. In addition, the HPC now administers the Office of Patient Protection.

The HPC is governed by an 11-person board appointed by the Governor, the Attorney General, and the State Auditor. The HPC is funded through a portion of a one-time assessment on health care payers and providers as well a portion of any casino licenses issued in Massachusetts. The one-time assessment on health care payers and providers totals \$209 million over four years to support HPC operations, a community hospital grant program, a public health fund, and a health information technology fund. The amount dedicated to HPC operations is equal to 5% of the total assessment (approximately \$10.5 million over the four-year period, or approximately \$2.6 million each year).

The annual health care cost growth benchmark is established by statute. For calendar 2013, the benchmark was established as 3.6%. For calendar years 2014 through 2017, the statute provides that the health care cost growth benchmark will be equal to the growth rate of Potential Gross State Product (PGSP). The growth rate of PGSP is the long-run average growth rate of the Commonwealth's economy, ignoring fluctuations due to business cycles. From 2012 to 2013, the Commonwealth's overall per capita health care cost growth was 2.3%, which was below the 3.6% benchmark. As part of the consensus revenue process for fiscal 2014 and 2015, the Secretary of Administration and Finance and the chairs of the House and Senate Ways and Means Committees were required to establish PGSP. After consultation with economists, they determined a PGSP figure of 3.6% for calendar years 2014 and 2015, which was the same as the health care cost growth benchmark for calendar year 2013. The statutory cost growth target from 2018 through 2022 will be equal to the growth rate of PGSP minus 0.5%, and from 2023 on, will be equal to the growth rate of PGSP. However, the HPC and the Legislature have some ability to change those growth targets after 2018. Insurers and providers with cost growth exceeding the growth target may be required by the HPC to file performance improvement plans describing specific strategies, adjustments and action steps they propose to implement to improve cost performance. If statutory cost growth targets are met, it is estimated that the new law could result in statewide savings of up to \$200 billion over the next 15 years.

## Other Health and Human Services

### Other Health and Human Services—Budgeted Operating Funds (in millions)

<u>Expenditure Category</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Projected Fiscal 2015</u>	<u>Projected Fiscal 2016</u>
Office of Health Services						
Department of Mental Health	\$598.2	\$613.1	\$638.1	\$663.0	\$713.3	\$735.6
Department of Public Health	488.1	488.3	507.8	547.7	535.0	547.3
Division of Healthcare and Finance Policy (1)	<u>14.8</u>	<u>14.1</u>	<u>3.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Sub Total</b>	\$1,101.1	\$1,115.5	\$1,149.6	\$1,210.7	\$1,248.2	\$1,283.0
Office of Children, Youth, and Family Services						
Department of Children and Families	\$741.6	\$741.6	\$748.8	\$795.5	\$870.1	\$901.9
Department of Transitional Assistance	736.7	733.6	723.3	693.8	709.8	674.8
Department of Youth Services	142.1	141.2	150.8	160.6	173.5	176.4
Office for Refugees and Immigrants	<u>1.0</u>	<u>0.4</u>	<u>0.4</u>	<u>0.9</u>	<u>0.4</u>	<u>0.4</u>
<b>Sub Total</b>	\$1,621.4	\$1,616.8	\$1,623.2	\$1,650.8	\$1,753.8	\$1,753.6
Office of Disabilities and Community Services						
Department of Developmental Services	\$1,278.5	\$1,314.6	\$1,352.2	\$1,466.8	\$1,699.1	\$1,760.6
Other (2)	<u>124.6</u>	<u>126.8</u>	<u>120.5</u>	<u>124.1</u>	<u>73.5</u>	<u>75.7</u>
<b>Sub Total</b>	\$1,403.1	\$1,441.4	\$1,472.6	\$1,590.9	\$1,772.6	\$1,836.3
Department of Elder Affairs	\$250.2	\$265.8	\$248.2	\$260.1	\$276.5	\$283.0
Executive Office of Health and Human Services (2)	210.1 (3)	240.5 (3)	242.0 (3)	254.6	266.1	316.7
Veterans' Services (4)	<u>28.9</u>	<u>30.5</u>	<u>33.3</u>	<u>12.6</u>	<u>66.6</u>	<u>64.9</u>
<b>Sub Total</b>	\$489.2	\$536.8	\$523.5	\$527.2	\$609.2	\$664.7
<b>Budgeted Expenditures and Other Uses</b>	<b>\$4,614.8</b>	<b>\$4,710.5</b>	<b>\$4,768.9</b>	<b>\$4,979.5</b>	<b>\$5,383.8</b>	<b>\$5,537.5</b>

SOURCES: Fiscal 2010-2014 Office of the State Comptroller; fiscal 2015-2016, Executive Office for Administration and Finance.

(1) Cost containment legislation enacted in 2012 dissolved the Division and shifted its responsibilities to EHS, MassHealth and a newly created Center for Health Information and Analysis (CHIA). CHIA is an independent agency funded through an industry assessment beginning in fiscal 2014 and is no longer part of the Office of Health Services.

(2) Fiscal 2011 through 2015 includes Medicaid program administration.

(3) Fiscal 2010 through 2015 spending includes a new IT account that incorporates IT spending in other departments within the Executive Office of Health and Human Services.

(4) The fiscal 2015 budget transferred the Soldiers Homes in Chelsea and Holyoke from the Office of Disabilities and Community Services to Veterans' Services. Fiscal 2014 and fiscal 2015 Veterans' Services spending does not include veterans' annuities spending, which is now captured under local aid spending.

*Office of Health Services.* The Office of Health Services encompasses programs and services from the Department of Public Health and the Department of Mental Health. Their goal is to promote healthy people, families, communities and environments through coordinated care. The departments work in unison to determine that individuals and families can live and work in their communities self-sufficiently and safely. The following are a few examples of programs and services provided by this office: substance abuse programs, immunization services, early intervention programs, environmental health services, youth violence programs, supportive housing and residential services for the mentally ill of all ages, and emergency and acute hospital services.

*Office of Children, Youth and Family Services.* The Office of Children, Youth and Family Services works to provide services to children and their families through a variety of programs and services. The programs and services are offered through the Department of Children and Families, the Department of Youth Services, the Department of Transitional Assistance and the Office of Refugees and Immigrants. The collaborative goal of this office is to work to ensure that individuals, children and families are provided with public assistance needed as well as access to programs that will allow for them to be safe and self-sufficient.

Through the Department of Transitional Assistance (DTA), the Commonwealth funds three major programs of public assistance for eligible state residents: Transitional Aid to Families with Dependent Children (TAFDC); Emergency Aid to the Elderly, Disabled and Children (EAEDC); and the State Supplemental Program (SSP) for individuals enrolled in the federal Supplemental Security Income (SSI) program. In addition, DTA is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program (SNAP,

formerly the Food Stamp Program), as well as other smaller programs that assist DTA clients with completing their education, gaining career skills and finding employment.

*Office of Disabilities and Community Services.* The Office of Disabilities and Community Services assists in the welfare of many disadvantaged residents of the Commonwealth through a variety of agencies. Programs and services are provided by the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Deaf and Hard of Hearing, the Massachusetts Commission for the Blind, and the Department of Developmental Services (previously the Department of Mental Retardation). Legislation enacted in 2014 transferred the Soldiers' Homes in Chelsea and Holyoke from the Office of Disabilities and Community Services to Veterans' Services. These agencies provide assistance to this population and create public awareness to the citizens of the Commonwealth. Other facets of the Office of Disabilities and Community Services include both oversight and inter-agency collaboration which attend to the needs of the community, disabled and multi-disabled population. This holistic approach is designed to ensure that those of all ages with disabilities are able to lead functionally equivalent lives despite limitations that they may face.

*Department of Elder Affairs.* The Department of Elder Affairs (Elder Affairs) provides a variety of services and programs to eligible seniors and their families. Elder Affairs administers supportive and congregate housing programs, regulates assisted living residences, provides home care and caregiver support services, and nutrition programs. Eligibility for services is based largely on age, income, and disability status. The Department of Elder Affairs also administers the Prescription Advantage Program.

*Department of Veterans' Services.* The Department of Veterans' Services provides a variety of services, programs and benefits to eligible veterans and their families. The Department of Veterans' Services provides outreach services to help eligible veterans enroll in a variety of programs, administers supportive housing and homeless services, and provides approximately 65,000 veterans, veterans' spouses and parents with annuity and benefit payments. Legislation enacted in 2014 transferred the Soldiers' Homes in Chelsea and Holyoke from the Office of Disabilities and Community Services to Veterans' Services.

## **Education**

*Executive Office of Education.* In fiscal 2008, enacted reorganization legislation created an Executive Office of Education encompassing the Department of Early Education and Care, the Department of Elementary and Secondary Education (previously the Department of Education), the Department of Higher Education (previously the Board of Higher Education) and the University of Massachusetts system. The office is committed to advancing actions and initiatives that will improve achievement for all students, close persistent achievement gaps, and to create a 21<sup>st</sup> century public education system that prepares students for higher education, work and life in a world economy and global society.

*Department of Elementary and Secondary Education.* The Department of Elementary and Secondary Education serves the student population from kindergarten through 12<sup>th</sup> grade by providing support for students, educators, schools and districts and by providing state leadership. The Department of Elementary and Secondary Education is governed by the Executive Office of Education and by the Board of Education, which includes 12 members. There are 328 school districts in the Commonwealth, serving over 950,000 students.

*Department of Higher Education.* The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state universities and 15 community colleges. The higher education system is coordinated by the Department of Higher Education, which has a governing board, the Board of Higher Education. Each institution of higher education is governed by a separate board of trustees; the University of Massachusetts has one board that governs its five campuses. The Board of Higher Education nominates, and the Secretary of Education appoints, a Commissioner of Higher Education, who is responsible for carrying out the policies established by the board at the Department of Higher Education.

The operating revenues of each institution consist primarily of state appropriations and of student fees that are set by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education. State-supported tuition revenue is required to be remitted to the State Treasurer by each institution; however, the Massachusetts College of Art and Design and the Massachusetts Maritime Academy have the authority to retain tuition indefinitely and all higher education institutions are able to retain tuition received from out-of-state students.

The board of trustees of each institution submits annually audited financial statements to the Comptroller and the Board of Higher Education. The Department of Higher Education prepares annual operating budget requests on behalf of all institutions, which are submitted to the Executive Office of Education and subsequently to the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

The fiscal 2016 budget amended state law to allow the University of Massachusetts to establish its own tuition rates for all students, and retain all the tuition it collects. This change is effective for fiscal 2017 (*i.e.*, the fiscal year beginning July 1, 2016), and the Commonwealth and the University expect to devote significant effort during fiscal 2016 to successfully implementing this initiative.

*Department of Early Education and Care.* The Department of Early Education and Care provides support to children and families seeking a foundational education. Additionally, the Department strives to educate current and prospective early education and care providers in a variety of instructive aspects. Included within the Department's programs and services are supportive child care, TANF-related child care, low-income child care, Head Start grants, universal pre-kindergarten, quality enhancement programs, professional development programs, mental health programs, healthy families programs and family support and engagement programs. Two of these programs, the supportive and TANF-related child care, help children receiving or referred services by the Department of Social Services or the Department of Transitional Assistance.

## **Public Safety**

Twelve state agencies fall under the umbrella of the Executive Office of Public Safety and Security. The largest is the Department of Correction, which operates 18 correctional facilities and centers across the Commonwealth. Other public safety agencies include the State Police, Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner and six other public safety related agencies.

In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the departments of the 14 independently elected Sheriffs that operate 23 jails and correctional facilities. In fiscal 2010, all 14 Massachusetts state and county sheriffs were aligned under the state budgeting and finance laws. Prior to the transfer, the Commonwealth had seven sheriffs operating as state agencies under the state accounting and budgeting system and seven sheriffs operating as county entities. The sheriff departments have successfully transitioned onto the state budgeting and accounting system, and all sheriff employees have been placed on the state payroll. Appropriations have been established to support sheriff department operations for the balance of this fiscal year. Thus, all 14 sheriff departments are now functioning as independent state agencies within the Executive Branch.

## **Energy and Environmental Affairs**

In fiscal 2008, the Executive Office of Environmental Affairs was reorganized into the Executive Office of Energy and Environmental Affairs. This reorganization included the transfer of the Department of Energy Resources and Department of Public Utilities from the Executive Office of Economic Development to the new secretariat. The Executive Office of Energy and Environmental Affairs is responsible for policy development, environmental law enforcements services and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates over 450,000 acres of public parkland, recreational facilities, watersheds and forests across the Commonwealth. Other environmental agencies include the Department of Agricultural Resources, responsible for the state's agricultural and food safety programs, the Department of Environmental Protection, responsible for clean air, water, recycling and environmental remediation programs, and the Department of Fish and Game, responsible for the management and protection of endangered species, fisheries and habitat. Additional agencies include the Department of Public Utilities, responsible for oversight of electric, gas, water and transportation utilities and the Department of Energy Resources, responsible for energy planning, management and oversight.

## Debt Service

Debt service expenditures relate to general obligation bonds and notes, special obligation bonds and federal grant anticipation notes issued by the Commonwealth. See “LONG-TERM LIABILITIES.”

## Other Program Expenditures

The remaining expenditures on other programs and services for state government include the judiciary district attorneys, the Attorney General, the Executive Office for Administration and Finance, the Executive Office for Housing and Economic Development, the Executive Office of Labor and Workforce Development and various other programs.

## Employee Benefits

*Group Insurance.* The Group Insurance Commission (GIC) provides health insurance benefits to approximately 435,000 people, including state and participating municipalities’ employees, retirees, their spouses, and dependents, and certain retired municipal teachers, their spouses and dependents. State employee contributions are currently based on date of hire; employees hired on or before June 30, 2003 contribute 20% of total premium costs, and employees hired after June 30, 2003 pay 25% of premium costs. Similarly, state retirees contribute either 10%, 15% or 20%, depending on their retirement date. The GIC also provides health insurance benefits for the employees and retirees of participating municipalities; the municipalities reimburse the state for their enrollees’ premium costs. The contribution ratio(s) for municipal enrollees is set through a collective bargaining process within each community. In fiscal 2015, one municipality terminated its membership with the GIC, while 5,600 members of the MBTA’s largest union joined. Three additional municipalities joined at the beginning of fiscal 2015, while another two joined on January 1, 2015 for a net new enrollment of approximately 10,000 employees and retirees. As of July 1, 2015, the GIC provides health insurance to employees and retirees of 54 municipal entities: 11 cities, 33 towns, seven regional school districts, two regional school districts and one educational collaborative.

The fiscal 2015 budget is consistent with Government Accounting Standards Board (GASB) Statement No. 45 and the state’s intent to account separately for spending for current retirees with deposits towards the Commonwealth’s non-pension retiree liability. See “*Other Post-Retirement Benefit Obligations (OPEB)*” below.

Fiscal 2016 GIC appropriations total \$1.696 billion, approximately \$570 million of which are offset by municipal revenue and \$182 million of which are offset by non-state agency revenue to reimburse the state for providing health insurance benefits to the participating municipalities. In addition, the fiscal 2016 budget authorizes transfers of up to \$425 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current state retirees and their dependents.

In 2013, the GIC began implementation of the 2012 health care cost containment legislation, with the goal of accelerating changes in the way doctors, hospitals and other health care providers are paid for their services. Through this process the GIC aims to limit growth in premiums, avoid higher co-pays and deductibles and improve patient health. In keeping with this commitment to cost containment, the GIC recently approved a package of benefit changes that is designed to encourage greater use of primary care physicians to coordinate healthcare and to lower the utilization of higher-cost services (the highest-cost hospitals and prescription drugs; the less-efficient and/or lower quality specialists). The average fiscal 2016 premium rates for GIC state and municipal members are projected to increase by 5.7% over fiscal 2015.

*Pensions.* The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees’ retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the Massachusetts teachers’ retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). See “PENSION AND OPEB FUNDING.”

*Other Post-Retirement Benefit Obligations (OPEB).* 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. See “PENSION AND OPEB FUNDING – Other Post-Retirement Benefit Obligations (OPEB).”

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## PENSION AND OPEB FUNDING

### Retirement Systems

Almost all non-federal public employees in the Commonwealth participate in defined-benefit pension plans administered pursuant to state law by 104 public retirement systems. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the Massachusetts teachers' retirement system and teachers in the Boston public schools, who are members of the State Boston retirement system but whose pensions are also the responsibility of the Commonwealth). The members of the retirement system do not participate in the Social Security System. Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 102 separate retirement systems and the Commonwealth is not responsible for making contributions towards the funding of these retirement systems. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers' Retirement Board. Investment of the assets of the state employees' and Massachusetts teachers' retirement systems is managed by the Pension Reserves Investment Management (PRIM) Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. Retirement board members are required to complete 18 hours of training and to file annual statements of financial interest with the Public Employee Retirement Administration Commission. Many such retirement boards invest their assets with the PRIM Board, and legislation approved in 2007 allows the PRIM Board to take over the assets of local retirement systems that are less than 65% funded and have failed to come within 2% of the PRIM Board's performance over a ten-year period. With a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

The Massachusetts State Employees' Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) are the two largest plans of the public contributory retirement systems operated in the Commonwealth. Membership in MSERS and MTRS as of January 1, 2014, the date of the most recent combined valuations, is as follows:

#### Retirement Systems Membership

	<u>MSERS</u>	<u>MTRS</u>
<b>Retirees and beneficiaries currently receiving benefits</b>	56,327	61,034
<b>Terminated employees entitled to benefits but not yet receiving them</b>	4,216	N/A
<b>Subtotal</b>	60,543	61,034
<b>Current Members</b>	88,156	88,788
<b>Total</b>	148,699	149,822

SOURCE: Public Employee Retirement Administration Commission

The MSERS is a multiple-employer defined-benefit public employee retirement system. The MTRS is a defined-benefit public employee retirement system 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 benefits of the MTRS. Members become vested after ten years of creditable service. For members who joined the system prior to April 2, 2012 superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with ten years of service. Normal retirement for those employees who were system members before April 2, 2012 occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most members who joined the system after April 1, 2012 cannot retire prior to age 60.

The Commonwealth's retirement systems' funding policies have been statutorily established. The Legislature has the authority to amend these policies. The annuity portion of the MSERS and the MTRS 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 policies provide for uniform benefit and contribution requirements for all contributory public employee retirement systems. These requirements generally provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service and group creditable service, and group classification.

Boston teachers are not included in the membership data shown above for the MTRS. Legislation approved in May, 2010 changed the methodology for the Commonwealth's funding of pension benefits paid to Boston teachers. Prior to this change, the Commonwealth reimbursed the City of Boston for pension benefits paid to Boston teachers as certified by the State Boston Retirement System (SBRS). Those costs were funded one fiscal year in arrears. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. 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 accounting purposes. The 2010 legislation clarified that the Commonwealth is responsible for all employer contributions and future benefit requirements for Boston teachers that are members of the SBRS. The Commonwealth's actuarially required contribution to the SBRS was \$99.5 million for fiscal 2014.

Subject to legislative approval, annual increases in cost-of-living allowances are provided in an amount equal to the lesser of 3% or the previous year's percentage increase in the United States consumer price index on the first \$13,000 of benefits for members of the MSERS and MTRS. The Legislature approved the 3% increase in cost-of-living allowances for fiscal 2016. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules. Legislation approved in 1999 allows local retirement systems to increase the cost-of-living allowance up to 3% during years that the previous year's percentage increase in the United States consumer price index is less than 3%.

### Employee Contributions

The MSERS and MTRS are partially funded by employee contributions of regular compensation. The following tables indicate current employee contribution rates (figures are approximate):

<b>Employee Contribution Rates</b>			
<b>MTRS (1)</b>			
<b>Hire Date</b>	<b>% of Compensation (1)</b>	<b>Active Members</b>	<b>% of Total Active</b>
Pre-1975	5%	371	0.4%
1975-1983	7	940	1.1
1984-June 30, 1996	8	8,881	10.0
July 1, 1996-Present	9	15,120	17.0
July 1, 2001-Present	11	63,476	71.5
<b>Totals</b>		<b>88,788</b>	<b>100.0%</b>

SOURCE: Public Employee Retirement Administration Commission. Membership data from Teachers' Retirement System January 1, 2014 Actuarial Valuation.

(1) Employees hired after January 1, 1979 (except those contributing 11%) contribute an additional 2% of any regular compensation in excess of \$30,000 annually. Legislation enacted in fiscal 2000 established an alternative superannuation retirement benefit program for teachers hired on or after July 1, 2001 (and others who opt in) with an 11% contribution requirement for a minimum of five years. The contribution rate for most employees hired after April 1, 2012 will be reduced to 6% after 30 years of creditable service.

<b><u>MSERS (1)</u></b>			
<b><u>Hire Date</u></b>	<b><u>% of Compensation (1)</u></b>	<b><u>Active Members</u></b>	<b><u>% of Total Active</u></b>
Pre-1975	5%	1,115	1.3%
1975-1983	7	6,636	7.5
1984-June 30, 1996	8	21,361	24.2
July 1, 1996-Present	9	58,389	66.2
State Police 1996-Present	12	<u>655</u>	<u>0.7</u>
<b>Totals</b>		<b><u>88,156</u></b>	<b><u>100.0%</u></b>

SOURCE: Public Employee Retirement Administration Commission. Membership data from State Board of Retirement January 1, 2014 Actuarial Valuation.

(1) Employees hired after January 1, 1979 contribute an additional 2% of any regular compensation in excess of \$30,000 annually.

## **Funding Schedule**

The retirement systems were originally established as “pay-as-you-go” systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Under current law such unfunded liability is required to be amortized to zero by June 30, 2040. The law also requires that the Secretary of Administration and Finance file a proposed funding schedule with the legislature every three years identifying the appropriations or transfers required to amortize the unfunded liability to zero, to meet the normal cost of all future benefits for which the Commonwealth is obligated and to meet any other component of the Commonwealth’s pension liability. Previously designated amounts can be adjusted based on a new funding schedule so long as the adjustments represent an increase in the scheduled amounts for those years. The law requires the funding schedule submitted by the Secretary to be based on actuarial valuation reports and requires the Secretary to provide the actuarial, economic and demographic assumptions upon which the reports are based. The funding schedule is filed with the House Committee on Ways and Means and is deemed approved if no action is taken by the committee within 45 days.

The most recently approved funding schedule for payments into the Commonwealth’s Pension Liability Fund was filed by the Secretary of Administration and Finance on January 14, 2014. The assumptions underlying the new funding schedule include valuation of assets and liabilities as of January 1, 2013, an annual rate of return on assets of 8.0%, and appropriation increases of 10% per year until fiscal 2017 with 7% increases thereafter until the final amortization payment in fiscal 2036 (four years before the statutory requirement). The fiscal 2015 budget enacted by the Legislature and approved by the Governor included the fiscal 2015 amount shown below and, as has become customary, amended state law to mandate the funding of the amounts shown for fiscal 2016 and fiscal 2017. On May 4, 2015, the Governor approved an employee retirement incentive program, designed to be in place by the beginning of fiscal 2016, that was expected to add an annual cost of \$48.7 million to the amounts in the approved schedule for 15 years, beginning in fiscal 2016. Just under 2,500 employees of the executive branch agencies applied to retire under the incentive program. They will have an effective retirement date of June 30, 2015. The fiscal 2016 budget, as enacted by the Legislature, appropriated an additional \$48.7 million reserve to defray the expected pension-related costs of the employee retirement incentive program, but this amount was reduced by the Governor (to \$29.1 million) to reflect the smaller-than-expected number of employees electing to participate in the program. See “FISCAL 2015 AND FISCAL 2016 – Fiscal 2016.”

The next funding schedule is due to be filed by the Secretary of Administration and Finance in early 2017. It is expected to be based on the January 1, 2016 actuarial valuation report and to take into account, among other things, the full costs of the employee retirement incentive program approved in May, 2015. As noted above, the fiscal 2016 budget includes an additional \$29.1 million to account for such costs, and a like amount is expected to be included in the fiscal 2017 budget. The funding schedule filed in early 2017 will govern payments in fiscal 2018 and beyond.

### Current Funding Schedule for Pension Obligations (in thousands)

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
2015	\$1,793,000	2027	\$4,267,000
2016	1,972,000	2028	4,566,000
2017	2,169,000	2029	4,886,000
2018	2,321,000	2030	5,228,000
2019	2,483,000	2031	5,594,000
2020	2,657,000	2032	5,986,000
2021	2,843,000	2033	6,405,000
2022	3,042,000	2034	6,853,000
2023	3,255,000	2035	7,333,000
2024	3,483,000	2036	4,436,342
2025	3,727,000	2037	835,369
2026	3,988,000		

SOURCE: Executive Office for Administration and Finance

### Actuarial Valuations

On September 23, 2014, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the Commonwealth's total pension obligation as of January 1, 2014. This valuation was based on the plan provisions in effect at the time and on member data and asset information as of December 31, 2013.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$29.043 billion, including approximately \$9.098 billion for the Massachusetts State Employees' Retirement System (MSERS), \$17.801 billion for the Massachusetts Teachers' Retirement System (MTRS), \$1.942 billion for Boston Teachers and \$200.8 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2014 to be approximately \$74.937 billion (comprised of \$30.680 billion for MSERS, \$40.742 billion for MTRS, \$3.315 billion for Boston Teachers and \$200.8 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately \$45.894 billion based on a five-year average valuation method, which equaled 94.9% of the January 1, 2014 total asset market value.

The unfunded actuarial accrued liability decreased from \$22.1 billion on January 1, 2009 to \$18.6 billion on January 1, 2011, primarily because of better-than-assumed investment returns in 2009 and 2010 and the "corridor limit" which keeps actuarial asset values within 10% of market values in each year. The unfunded actuarial accrued liability increased to \$23.6 billion as of January 1, 2012 and to \$28.3 billion as of January 1, 2013, primarily because of the final recognition of the 2008 investment loss, the increase in the cost-of-living adjustment base from \$12,000 to \$13,000, the change from an 8.25% investment return assumption to an 8.0% assumption, and revised actuarial assumptions (retirement, termination, disability, mortality, salary increase) based on PERAC's recent experience analyses. If plan assumptions had been exactly realized in 2013, the unfunded actuarial accrued liability as of January 1, 2014 would have been approximately \$29.4 billion rather than \$29.0 billion.

For valuation reports beginning as of January 1, 2015, PERAC has reduced the assumed annual rate of return on investments used in the valuation of the Commonwealth's total pension liability from 8.0% to 7.75%. PERAC expects this to increase the actuarial accrued liability (and therefore the unfunded actuarial accrued liability) for the Commonwealth's total pension obligation by approximately \$1.8 billion as of January 1, 2015. Although this change is expected to increase the Commonwealth's accrued actuarial pension liability, it is not expected to result in an immediate adjustment to the current funding schedule, which is based on the January 1, 2013 actuarial valuation. PERAC expects that investment gains since January 1, 2013 will roughly offset the increase in liability due to the lower investment return assumption and that the amortization of the unfunded actuarial accrued liability will still be completed by fiscal 2036, taking into account the revised investment return assumption.

On February 27, 2014, PERAC issued a detailed MSERS experience analysis report which outlined the basis for the demographic assumptions used in the 2013 actuarial valuation. The experience study encompassed the years 2006-2011 and reviewed salary increases and rates of retirement, disability, turnover and mortality. The

January 1, 2014 valuation adjusted the mortality assumption slightly to reflect future mortality improvement. The actuarial accrued liability increased by approximately \$102 million to reflect this change.

On July 21, 2014, PERAC issued a detailed MTRS experience analysis report which outlined the basis for the demographic assumptions used in the 2013 actuarial valuation. The experience study encompassed the years 2006-2011 and reviewed salary increases and rates of retirement, disability, turnover and mortality. The January 1, 2014 valuation adjusted the mortality assumption slightly to reflect future mortality improvement. The actuarial accrued liability increased by approximately \$108 million to reflect this change.

A revision to the actuarial standards of practice in 2010 required that future mortality improvements (longer life expectancy) be considered in valuations performed after July 1, 2011. PERAC began implementing this standard in its January 1, 2012 actuarial valuation. PERAC made subsequent updates in its January 1, 2013 valuation, which also included the results of its experience studies. In the 2013 valuation, the mortality improvement for both MSERS and MTRS was projected to 2020 for active members and 2015 for retirees. In the 2014 valuation PERAC made a modest change by increasing the projection for two additional years to 2022 for active members and 2017 for retirees. The actuarial accrued liability increased by approximately \$218 million to reflect the mortality assumption change as of January 1, 2014.

PERAC recently performed an experience analysis of retirees for MSERS from January 1, 2012 to January 1, 2015. Based on that analysis, PERAC has revised its retiree mortality assumption for MSERS as of January 1, 2015 to reflect a fully generational mortality assumption. PERAC has been gradually moving toward a fully generational assumption since 2011. This assumption change reflects the final step in this process. This change increased the actuarial accrued liability (and therefore the unfunded actuarial accrued liability) for MSERS by \$593 million. PERAC expects to conduct a similar analysis for MTRS in the next few months, and it is likely that a fully generational assumption will be adopted for MTRS as well. When adopted, it is expected that the change may increase the actuarial accrued liability (and therefore the unfunded actuarial accrued liability) for MTRS by a similar amount.

PERAC releases an updated actuarial valuation of the Commonwealth's total pension obligation based on member data and asset information as of December 31 for each calendar year in the fall of the following calendar year. On August 12, 2015, PERAC approved a draft actuarial valuation of the Commonwealth's total pension obligation as of January 1, 2015. The draft valuation report reflects preliminary numbers and remains subject to change until a final report is completed. The final report is expected to be released in September, 2015.

The draft January 1, 2015 valuation takes into account the reduced assumed annual rate of return on investments of plan assets and the revised fully generational mortality assumption described above. The draft report indicates that the unfunded actuarial liability for the Commonwealth's total pension obligation was approximately \$33.429 billion as of January 1, 2015, an increase of approximately \$4.386 billion, or 15.1%, over the January 1, 2014 figure. The total actuarial accrued liability as of January 1, 2015 was approximately \$81.535 billion (an increase of approximately \$6.598 billion, or 8.8%), and total assets were valued on an actuarial basis at approximately \$48.106 billion (an increase of approximately \$2.212 billion, or 4.8%). The funded ratio (actuarial value) as of January 1, 2015 was 59.0%, down from 61.2% in the January 1, 2014 valuation. The two assumption changes increased the actuarial liability (and therefore the unfunded liability) by \$3.5 billion. If these changes had not been implemented, the unfunded liability would have been approximately \$29.9 billion and the funded ratio 61.6%.

On May 1, 2015, PERAC published the actuarial valuation for the MSERS as of January 1, 2015. The report determined the unfunded actuarial accrued liability for MSERS to be approximately \$10.959 billion. The total actuarial accrued liability as of January 1, 2015 was approximately \$33.679 billion and total assets were valued on an actuarial basis at approximately \$22.720 billion. The market value of assets was approximately \$23.739 billion. The actuarial value of assets was 95.7% of the market value. During 2014 there was an overall actuarial gain of \$4 million. There was a non-investment related loss (loss on actuarial accrued liability) of \$275 million. This loss was essentially offset by a gain of approximately \$279 million on the actuarial value of assets.

The MSERS unfunded actuarial accrued liability increased from \$9.098 billion to \$10.959 billion from January 1, 2014 to January 1, 2015. Much of this increase was due to two assumption changes. The investment

return assumption was reduced from 8.0% to 7.75% in this valuation. The actuarial accrued liability increased \$804 million (2.5%) to reflect this change. In addition, a fully generational mortality assumption was adopted in this valuation. As noted above, this change increased the actuarial accrued liability by \$593 million (1.8%).

The Actuarial Cost Method which was used to determine pension liabilities in this valuation is known as the Entry Age Normal Cost Method. Under this method, the Normal Cost for each active member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a retirement system member, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The actuarial accrued liability for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the actuarial accrued liability for inactive members, retirees and survivors is simply equal to the present value of all projected benefits. The unfunded actuarial accrued liability is the actuarial accrued liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership, except for changes in provisions of the plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also be changed by the addition of new members or the retirement, death, disability, or termination of members. The actuarial accrued liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the plan provisions or actuarial assumptions change.

Differences each year between the actual experience of the plan and the experience projected by the actuarial assumptions are reflected by adjustments to the unfunded actuarial accrued liability. An experience difference which increases the unfunded actuarial accrued liability is an actuarial loss and one which decreases the unfunded actuarial accrued liability is an actuarial gain.

The actuarial value of assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. In valuations prior to 1998, plan assets were determined at market value. As part of the 1998 valuation, this methodology was adjusted to reduce the potential volatility in the market value approach from year to year. The actuarial value of assets as of January 1, 2014 is 94.9% of the market value.

The following table shows, with respect to the Commonwealth's aggregate pension obligations, a ten-year comparison of the actuarial value of assets to the market values, the ratio of the actuarial value to market value, and the funded ratio based on actuarial value compared to the funded ratio based on the market value of assets:

**Ten Year Comparison of Actuarial and Market Values of Pension Assets (in millions)**

<u>Valuation Date (Jan. 1)</u>	<u>Actuarial Value of Assets (1)</u>	<u>Market Value of Assets</u>	<u>% of Actuarial Value to Market Value</u>	<u>Funded Ratio (Actuarial Value)</u>	<u>Funded Ratio (Market Value)</u>
2005	\$34,939	\$35,497	98.4%	72.3%	82.8%
2006	36,377	39,020	93.2	71.5	81.5
2007	40,412	44,902	90.0	75.2	83.5
2008	44,532	49,235	90.4	78.6	86.9
2009	37,058	33,689	110.0	62.7	57.0
2010	41,589	37,809	110.0	67.5	61.4
2011	45,631	41,482	110.0	71.1	64.6
2012	43,942	39,947	110.0	65.1	59.1
2013	43,517	43,760	99.4	60.6	60.9
2014	45,894	48,351	94.9	61.2	64.5

SOURCE: Public Employee Retirement Administration Commission.

(1) Based on five-year average smoothing methodology.

The following tables show, for each of the MSERS and the MTRS and for Commonwealth obligations in the aggregate (including Boston Teachers and cost-of-living allowances as well as MSERS and MTRS), the historical funded status for the most recent ten years, based on actuarial values and market values of assets:

**Historical Pension Funding Progress for the Last Ten Fiscal Years- Actuarial Value**

(Amounts in thousands except for percentages)

	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
<b>State Employees'</b>						
<b><u>Retirement System</u></b>						
Actuarial Valuation						
as of Jan. 1						
<b>2014</b>	\$21,581,133	\$30,679,600	\$9,098,467	70.3%	\$5,344,510	170.2%
<b>2013</b>	20,317,389	29,385,442	9,068,053	69.1	5,183,195	175.0
<b>2012</b>	20,507,604	27,784,731	7,277,127	73.8	4,922,388	185.7
<b>2011</b>	21,244,900	26,242,776	4,997,876	81.0	4,808,250	103.9
<b>2010</b>	19,019,062	24,862,421	5,843,359	76.5	4,711,563	124.0
<b>2009</b>	16,992,214	23,723,240	6,731,026	71.6	4,712,655	142.8
<b>2008</b>	20,400,656	22,820,502	2,419,846	89.4	4,574,233	52.9
<b>2007</b>	18,445,225	21,670,810	3,225,585	85.1	4,391,891	73.4
<b>2006</b>	16,638,043	20,406,926	3,768,883	81.5	4,200,577	89.7
<b>2005</b>	16,211,000	19,575,000	3,364,000	82.8	3,967,000	84.8
<b>Teachers'</b>						
<b><u>Retirement System</u></b>						
Actuarial Valuation						
as of Jan. 1						
<b>2014</b>	\$22,940,196	\$40,741,695	\$17,801,499	56.3%	\$5,962,650	298.6%
<b>2013</b>	21,787,470	39,135,218	17,347,748	55.7	5,783,294	300.0
<b>2012</b>	22,141,475	36,483,027	14,341,552	60.7	5,655,353	253.6
<b>2011</b>	23,117,952	34,890,991	11,773,039	66.3	5,558,311	211.8
<b>2010</b>	21,262,462	33,738,966	12,476,504	63.0	5,509,698	226.4
<b>2009</b>	18,927,731	32,543,782	13,616,051	58.2	5,389,895	252.6
<b>2008</b>	22,883,553	30,955,504	8,071,951	73.9	5,163,498	156.3
<b>2007</b>	20,820,392	29,320,714	8,500,322	71.0	4,969,092	171.1
<b>2006</b>	18,683,295	27,787,716	9,104,421	67.2	4,819,325	188.9
<b>2005</b>	17,684,000	26,167,000	8,483,000	67.6	4,643,000	182.7
<b>Aggregate</b>						
<b><u>Commonwealth</u></b>						
<b><u>Pension Obligations</u></b>						
Actuarial Valuation						
as of Jan. 1						
<b>2014</b>	\$45,894,034	\$74,936,994	\$29,042,960	61.2%	\$11,793,788	246.3%
<b>2013</b>	43,517,498	71,865,832	28,348,334	60.6	11,408,407	248.5
<b>2012</b>	43,941,682	67,546,587	23,604,905	65.1	11,011,466	214.4
<b>2011</b>	45,630,507	64,219,135	18,588,628	71.1	10,811,975	171.9
<b>2010</b>	41,589,706	61,575,676	19,985,970	67.5	10,655,881	187.6
<b>2009</b>	37,057,703	59,142,155	22,084,452	62.7	10,537,212	209.6
<b>2008</b>	44,531,652	56,636,710	12,105,058	78.6	10,156,252	119.2
<b>2007</b>	40,411,920	53,761,095	13,349,175	75.2	9,766,122	136.7
<b>2006</b>	36,376,773	50,864,974	14,488,201	71.5	9,406,336	154.0
<b>2005</b>	34,938,529	48,357,694	13,419,165	72.3	8,989,134	149.3

SOURCE: Public Employee Retirement Administration Commission.



## Historical Pension Funding Progress for the Last Ten Fiscal Years- Market Value

(Amounts in thousands except for percentages)

	<u>Market Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)- Market Value</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
<b>State Employees' Retirement System</b>						
Actuarial Valuation as of Jan. 1						
2014	\$22,721,053	\$30,679,600	\$7,958,547	74.1%	\$5,344,510	148.9%
2013	20,405,004	29,385,442	8,980,438	69.4	5,183,195	173.3
2012	18,643,313	27,784,731	9,141,418	67.1	4,922,388	147.8
2011	19,313,545	26,242,776	6,929,231	73.6	4,808,250	144.1
2010	17,290,056	24,862,421	7,572,365	69.5	4,711,563	160.7
2009	15,447,467	23,723,240	8,275,773	65.1	4,712,655	175.6
2008	22,538,610	22,820,502	281,892	98.8	4,574,233	6.2
2007	20,494,694	21,670,810	1,176,116	94.6	4,391,891	26.8
2006	17,875,032	20,406,926	2,531,894	81.5	4,200,577	89.7
2005	16,489,000	19,575,000	3,086,000	82.8	3,967,000	84.8
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of Jan. 1						
2014	\$24,183,391	\$40,741,695	\$16,558,304	59.4%	\$5,962,650	277.7%
2013	21,934,211	39,135,218	17,201,007	56.0	5,783,294	297.4
2012	20,128,614	36,483,027	16,354,413	55.2	5,655,353	289.2
2011	21,016,320	34,890,991	13,874,671	60.2	5,558,311	249.6
2010	19,329,511	33,738,966	14,409,455	57.3	5,509,698	261.5
2009	17,207,028	32,543,782	15,336,754	52.9	5,389,895	284.5
2008	25,316,044	30,955,504	5,639,460	81.8	5,163,498	109.2
2007	23,133,769	29,320,714	6,186,945	78.9	4,969,092	124.5
2006	20,013,412	27,787,716	7,774,304	67.2	4,819,325	188.9
2005	17,946,000	26,167,000	8,221,000	67.6	4,643,000	182.7
<b>Aggregate Commonwealth Pension Obligations</b>						
Actuarial Valuation as of Jan. 1						
2014	\$48,350,920	\$74,936,994	\$26,586,074	64.5%	\$11,793,788	225.4%
2013	43,760,381	71,865,832	28,105,451	60.9	11,408,407	246.4
2012	39,946,984	67,546,587	27,599,603	59.1	11,011,466	250.6
2011	41,482,279	64,219,135	22,736,856	64.6	10,811,975	210.3
2010	37,808,823	61,575,676	23,766,853	61.4	10,655,881	223.0
2009	33,688,821	59,142,155	25,453,334	57.0	10,537,212	241.3
2008	49,234,569	56,636,710	7,402,141	86.9	10,156,252	72.9
2007	44,902,133	53,761,095	8,858,962	83.5	9,766,122	90.7
2006	39,020,885	50,864,974	11,844,089	76.7	9,406,336	125.9
2005	35,496,704	48,357,694	12,860,990	73.4	8,989,134	143.1

SOURCE: Public Employee Retirement Administration Commission.

### Annual Required Contributions

The following table sets forth the annual required contribution (ARC) by the Commonwealth under generally accepted accounting principles, its reimbursement to Boston for its payments to SBRS (the fiscal 2010 payment includes both the final payment in arrears and the first annual contribution under the 2010 legislation described above) and payments for municipal COLAs for each of the fiscal years indicated. The ARC is determined annually based on the most recent Commonwealth valuation. Valuations have been performed annually since January 1, 2000. As noted above, the Commonwealth also develops a revised funding schedule by statute at least

every three years, and the Commonwealth made the full contribution required, under the then-current funding schedule, for each year displayed in the table. Since the funding schedule can be several years old when the ARC is determined, the funding schedule information lags the more current ARC information except in the year in which the funding schedule is developed. Accordingly, in some years the ARC will exceed the contribution made and in other years the contribution made will exceed the ARC. Due to significant investment losses in 2008, the unfunded liability (and therefore the ARC) increased significantly for fiscal 2009 and fiscal 2010. However, the funding schedule then in effect was based on the 2008 valuation, before the market downturn. This accounts for most of the discrepancy between the ARC and contributions made in fiscal 2009 and fiscal 2010, with the remainder accounted for by the double payment to SBRS described above.

**Annual Required Contributions and Other Pension Contributions**  
(amounts in thousands)

	<u>SERS</u>	<u>MTRS</u>	<u>Total</u>	<u>COLA(1)</u>	<u>BTRS(1)</u>
<u>2014</u>					
Annual required contribution (ARC).....	\$718,909	\$1,158,461	\$1,877,370	n/a	n/a
Contributions made, excluding COLAs.....	<u>573,428</u>	<u>935,936</u>	<u>1,509,364</u>	<u>21,104</u>	<u>99,532</u>
% Funded for the fiscal year.....	80%	81%	80%		
ARC as ratio of total government expenditures (2)	1.9%	3.1%	5.0%	n/a	n/a
<u>2013</u>					
Annual required contribution (ARC).....	\$699,962	\$1,104,486	\$1,804,448	n/a	n/a
Contributions made, excluding COLAs.....	<u>545,453</u>	<u>891,580</u>	<u>1,437,033</u>	<u>20,121</u>	<u>94,846</u>
% Funded for the fiscal year.....	78%	81%	80%		
ARC as ratio of total government expenditures (2)	2.1%	3.3%	5.3%	n/a	n/a
<u>2012</u>					
Annual required contribution (ARC).....	\$620,274	\$941,918	\$1,562,192	n/a	n/a
Contributions made, excluding COLAs.....	<u>518,918</u>	<u>849,496</u>	<u>1,368,414</u>	<u>19,187</u>	<u>90,399</u>
% Funded for the fiscal year.....	84%	90%	88%		
ARC as ratio of total government expenditures (2)	1.6%	2.6%	4.2%	n/a	n/a
<u>2011</u>					
Annual required contribution (ARC).....	\$471,096	\$767,960	\$1,239,056	n/a	n/a
Contributions made, excluding COLAs.....	<u>431,166</u>	<u>855,201</u>	<u>1,286,367</u>	<u>34,153</u>	<u>121,290</u>
% Funded for the fiscal year.....	92%	111%	104%		
ARC as ratio of total government expenditures (2)	1.5%	2.4%	3.9%	n/a	n/a
<u>2010</u>					
Annual required contribution (ARC).....	\$646,932	\$1,106,052	\$1,752,984	n/a	n/a
Contributions made, excluding COLAs.....	<u>410,682</u>	<u>690,397</u>	<u>1,101,079</u>	<u>32,683</u>	<u>242,857</u>
% Funded for the fiscal year.....	63%	62%	63%		
ARC as ratio of total government expenditures (2)	2.1%	3.6%	5.8%	n/a	n/a

SOURCE: Office of the Comptroller.

(1) COLA and BTRS contributions are additional amounts funded by the Commonwealth, but are not part of the Commonwealth's funding of ARC.

(2) Based on total budgeted fund expenditures and other uses.

On June 25, 2012, the Governmental Accounting Standards Board (GASB) voted to approve new standards that will modify the accounting and financial reporting of the Commonwealth's pension obligations. The new standard for governments that provide employee pension benefits will require the Commonwealth to report in its statement of net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The new standard will be effective for the Commonwealth's fiscal 2015 Comprehensive Annual Financial Report (CAFR).

### **Prospective Funded Status of the Pension System**

The following tables project the funded status of the State Employees Retirement System's, Massachusetts Teachers' Retirement System's, Boston Teachers' Retirement System's and the Commonwealth's aggregate pension liabilities through fiscal 2019. The fiscal 2014 actuarial results reflect assumptions outlined in the January 1, 2014 actuarial valuation report. All projections are estimates and will vary based on actual investment returns and plan experience. The projections in this table assume that all assumptions will be realized exactly. The actuarially determined contribution for fiscal 2013 was the ARC identified in the January 1, 2013 actuarial valuation report (4.0% annually increasing amortization of the unfunded actuarial liability to fiscal 2040). This amount is assumed to increase at the rate of 4% each year. The actuarially determined contribution values set forth below do not reflect the Commonwealth's most recently adopted funding schedule. The revised schedule increases the total appropriation by 10% in fiscal 2015, fiscal 2016, and fiscal 2017, and by 7% each year until fully-funded (fiscal 2036 based on the January 1, 2013 valuation). Although the appropriation under the adopted schedule will be less than the actuarial determined contribution for several years, the annual increases in the schedule are significant and will allow the Commonwealth to be fully funded in approximately 20 years. Actuarial figures other than the actuarially determined contribution reflect January 1 estimates of the fiscal year shown. The actuarial value of assets on January 1, 2013 was 99.4% of the market value of assets. The actuarial value of assets on January 1, 2014 was 94.9% of the market value of assets. The actuarial value of assets on January 1, 2015, 2016, 2017, 2018, and 2019 is assumed to be 96%, 97%, 98%, 99%, and 100% of the market value of assets, respectively. The actuarial value of assets is projected using the past history of PRIT Fund cash flows to estimate future cash flows. Net PRIT Fund cash flows are assumed to decrease by \$55 million per year after fiscal 2013. The actuarial liability is projected after January 1, 2014 using standard methodology. Projections beyond January 1, 2015 reflect slightly decreasing percentage increases to reflect the impact of pension reform legislation enacted in 2011 as well as employee contribution increases as a percentage of pay. Funding schedule information is based on the funding schedule filed by the Secretary of Administration and Finance on January 14, 2014. For the purpose of calculating the actuarially determined contribution as a percentage of total budgeted operating funds expenditures, the Executive Office for Administration and Finance used the 4.42% compound annual growth rate of budgeted revenues from fiscal 2006 to estimated fiscal 2016. This measure is also used in the Commonwealth's debt affordability analysis. This does not represent an official forecast of the growth in Total Budgeted Operating Funds expenditures by the Executive Office for Administration and Finance.

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**Prospective Funded Status of the Pension System** (dollars in millions) (1)

<u>Fiscal Year</u>	<u>Actuarially Determined Contribution (ADC)</u>	<u>Projected Contribution Based on Funding Schedule</u>	<u>Projected Contribution as % of Actuarially Determined Contribution</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>ADC as a % of Total Budgeted Operating Funds Expenditures</u>
<b>State Employees' Retirement System</b>								
2014	\$728	\$573	79%	\$21,581	\$30,680	\$9,099	70.3%	2.0%
2015	757	631	83	22,766	32,008	9,242	71.1	2.0
2016	787	694	88	24,027	33,353	9,326	72.0	1.9
2017	819	764	93	25,370	34,720	9,350	73.1	1.9
2018	852	817	96	26,804	36,109	9,304	74.2	1.9
2019	886	873	99	28,336	37,517	9,181	75.5	1.9
<b>Massachusetts Teachers' Retirement System</b>								
2014	\$1,148	\$936	82%	\$22,940	\$40,742	\$17,802	56.3%	3.2%
2015	1,194	1,030	86	23,995	42,073	18,078	57.0	3.1
2016	1,242	1,133	91	25,064	43,419	18,355	57.7	3.1
2017	1,292	1,246	96	26,187	44,765	18,578	58.5	3.0
2018	1,343	1,334	99	27,366	46,108	18,742	59.4	3.0
2019	1,397	1,427	102	28,605	47,491	18,886	60.2	3.0
<b>Boston Teachers' Retirement System (2)</b>								
2014	\$109	\$100	92%	\$1,374	\$3,315	\$1,941	41.4%	0.3%
2015	114	109	96	1,430	3,404	1,973	42.0	0.3
2016	118	120	102	1,485	3,496	2,010	42.5	0.3
2017	123	132	107	1,539	3,590	2,051	42.9	0.3
2018	128	141	110	1,592	3,687	2,095	43.2	0.3
2019	133	151	113	1,643	3,786	2,144	43.4	0.3
<b>Aggregate Commonwealth Pension System</b>								
2014	\$2,000	\$1,630	82%	\$45,895	\$74,937	\$29,042	61.2%	5.6%
2015	2,080	1,793	86	48,191	77,667	29,476	62.0	5.6
2016	2,163	1,972	91	50,576	80,442	29,866	62.9	5.6
2017	2,250	2,169	96	53,096	83,240	30,144	63.8	5.6
2018	2,340	2,321	99	55,762	86,059	30,297	64.8	5.5
2019	2,433	2,484	102	58,584	88,940	30,355	65.9	5.5

SOURCE: Executive Office for Administration and Finance and Public Employee Retirement Administration Commission.

(1) All figures as of January 1, 2014.

(2) January 1, 2014 actuarial value of assets decreased due to redemption of \$98 million for benefits paid by Boston Retirement System.

**PRIT Fund Investments**

The mission of the PRIT Fund is to ensure that current and future benefit obligations are adequately funded in a cost-effective manner. The PRIT Fund therefore seeks to maximize the total return on investment, within acceptable levels of risk for a public pension fund. Under current law, by the year 2040 the PRIT Fund will have grown, through annual payments in accordance with a legislatively approved funding schedule and through the total return of the fund, to an amount sufficient to meet the then existing pension obligations of the Commonwealth. The funding schedule of state pension appropriations that is currently in place assumes a long-term actuarial rate of return for the PRIT Fund of 8.0%. As of January 1, 2015, the rate of return assumption has been reduced to 7.75%, and this assumption will be reflected in the next triennial funding schedule, unless this assumption is adjusted further before that time.

The PRIM Board recognizes that over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The asset allocation plan adopted by the Board embodies its decisions about what proportions of the Fund are to be invested in domestic and international equity and fixed income securities, real estate, alternative investments and, where appropriate the various sub-asset classes of each category. At reasonable intervals of not more than three to five years, the Board conducts a comprehensive review of its asset allocation plan and its underlying assumptions, including the Commonwealth's current and projected pension assets and liabilities, long-term capital markets rate of return assumptions, and the Board's risk tolerances. The comprehensive review identifies a reasonable time horizon and investment strategy for matching assets and liabilities, a fund-level total return target, and an optimal allocation among available asset classes and sub-asset classes. The Board examines the asset allocation plan annually and makes adjustments to the plan as may be appropriate given the plan's long-term nature and objectives.

The actual asset allocation mix invariably deviates from the plan's targets due to market movement, cash flows, and manager performance. Material deviations from the asset allocation targets can alter the expected return and risk of the PRIT Fund. The following table sets forth the current targets and the actual PRIT Fund asset allocation for each of the most recent five fiscal years. The actual allocation figures are as of June 30 for each of the years indicated. The targets are those contained in the current asset allocation plan, which was most recently reviewed on February 11, 2015.

#### **PRIT Fund Asset Allocation**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Target</u>
Domestic Equity	19.9%	22.0%	19.2%	20.8%	19.0%	18.0%
International Equity	20.0	21.7	16.7	18.0	17.1	16.0
Emerging Markets Equity	5.7	6.6	6.7	6.5	7.0	6.0
Core Fixed Income	14.0	13.2	13.0	12.6	13.9	13.0
Value-Added Fixed Income	7.0	6.0	8.6	8.9	8.5	10.0
Private Equity	10.6	10.7	12.1	11.7	11.1	10.0
Real Estate	9.1	8.2	9.7	8.2	8.9	10.0
Timber/Natural Resources	4.1	4.0	3.9	4.0	3.9	4.0
Hedge Funds	7.7	7.2	9.9	9.2	9.6	9.0
Portfolio Completion Strategies	n/a	n/a	n/a	n/a	0.0	4.0

SOURCE: Pension Reserves Investment Management Board.

The following table sets forth the investment rates of return for the assets in the PRIT Fund for the last ten fiscal years:

#### **PRIT Fund Rates of Return (Gross of Fees)**

<u>Fiscal Year</u>	<u>Rate of Return</u>	<u>Fiscal Year</u>	<u>Rate of Return</u>
<b>2014</b>	17.53%	<b>2009</b>	(23.87)%
<b>2013</b>	12.69	<b>2008</b>	(1.81)
<b>2012</b>	(0.08)	<b>2007</b>	19.92
<b>2011</b>	22.30	<b>2006</b>	15.47
<b>2010</b>	12.82	<b>2005</b>	13.39
	<b>3yr average</b>		9.79%
	<b>5yr average</b>		12.80%
	<b>10yr average</b>		7.92%
	<b>Assumed Rate (1)</b>		8.00%

SOURCE: Pension Reserves Investment Management Board.

(1) Assumed rate changed to 8% as of January 1, 2013. As of January 1, 2015, the assumed rate was reduced to 7.75%.

## **Other Post-Retirement Benefit Obligations (OPEB)**

In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits (“other post-employment benefits” or “OPEB”) for retired employees of the Commonwealth, as well as retired employees of housing authorities, redevelopment authorities and certain other governmental agencies (offline agencies). Substantially all of the Commonwealth’s employees may become eligible for these benefits if they reach retirement age and eligibility while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs, which is 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. (Although, as noted above, the Commonwealth is required to pay pensions to retired municipal teachers, the Commonwealth has no OPEB obligations with respect to retired municipal teachers.)

The GIC manages the Commonwealth’s other post-employment benefits for all state and certain agency employees and retirees. The GIC has representation on the Board of Trustees of the State Retiree Benefits Trust (SRBT). The SRBT is set up to pay for former state employees’ OPEB benefits and to invest state and certain municipalities funds that have been set aside to pay for OPEB benefits and the cost to administer those funds and can only be dissolved when all such health care and other non-pension benefits, current and future, have been paid or defeased.

As of February, 2015, MassDOT completed the transfer of the Massachusetts Turnpike Authority Retiree Benefits Trust (\$75 million) to the Commonwealth for the management and administration of the funds. The funds are restricted for the benefit of the retirees of the former Massachusetts Turnpike Authority.

Employer and employee contribution rates are set by statute. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2014, Commonwealth participants contributed 10% to 25% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. The GIC had 157,741 state enrollees as of the end of fiscal 2014.

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its OPEB liability in its fiscal 2008 financial reports. In 2006, the Comptroller of the Commonwealth contracted with a consulting firm to produce an actuarial valuation that calculated the liability of the present value of benefits if the Commonwealth chose to continue to fund that liability on a pay-as-you-go basis and what the liability would be should the Commonwealth choose to fully fund the liability over 30 years.

The January 1, 2014 actuarial valuation was issued on November 3, 2014. According to the report, the Commonwealth’s actuarial accrued OPEB liability, assuming no pre-funding and using a discount rate of 4.5%, was approximately \$15.670 billion as of January 1, 2014. The 4.5% discount rate (which is the approximate rate of return since its inception of the Massachusetts Municipal Depository Trust) is intended to approximate the Commonwealth’s rate of return on non-pension (liquid) investments over the long term. Assuming pre-funding, the study estimated the Commonwealth’s liability to be approximately \$9.522 billion using a discount rate of 8.00%. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth must deposit annual contributions in a qualifying trust in accordance with the requirements of GASB Statement No. 45 (and similar to the program for funding the Commonwealth’s unfunded actuarial liability for pensions).

As the Commonwealth is not fully funding the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution is reflected on the Commonwealth’s statement of net position, as presented on a GAAP basis. The liability increases or decreases each year depending on the amount funded, investment return and changes in amortization and assumptions. This change in liability is reflected either as a revenue or expense item in the Commonwealth’s statement of activities as presented on a GAAP basis, dependent on these factors. As of June 30, 2013, this net OPEB obligation as reflected on the Commonwealth’s statement of net position is \$4.147 billion.

The independent actuarial report covers only the Commonwealth’s OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, perform their own valuations, as the Commonwealth

acts only as an agent for the entities that participate in the GIC with respect to providing OPEB health insurance benefits and does not assume the risk or financial burden of their health care costs.

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the Commonwealth enacts legislation that qualifies its OPEB obligations to be calculated on a pre-funded basis, by changes in the Commonwealth's employee profile and possibly by changes in OPEB coverage levels and retiree contribution requirements. Accordingly, it should be anticipated that the actuarial accrued liability of the Commonwealth for OPEB liabilities may fluctuate.

The executive and legislative branches have been working to develop a short- and long- term strategy for addressing the Commonwealth's OPEB liability. The State Retiree Benefits Trust Fund was created, and in fiscal 2008 spending for current state retirees' healthcare occurred from the fund, helping to consolidate the state's retiree funding efforts and better project future liabilities. In fiscal 2008, the fund benefited from a one-time transfer of approximately \$329 million from the Health Care Security Trust. The actuarial value of plan assets as of January 1, 2014 was approximately \$511.2 million.

**State Retiree Benefits Trust**  
(amounts in thousands)

	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Liability</u>	<u>Accrued Unfunded Liability (UAAL)</u>	<u>Actuarial Ratio Covered</u>	<u>Funded Payroll</u>	<u>Annual Covered Payroll as % of UAAL</u>
<b>Actuarial Valuation as of Jan. 1, 2014</b>	\$511,200	\$15,670,200	\$15,159,000	3.4%	\$5,344,500	283.6%
<b>Actuarial Valuation as of Jan. 1, 2013</b>	406,700	15,784,100	15,377,400	2.6	5,183,195	296.7
<b>Actuarial Valuation as of Jan. 1, 2012</b>	360,500	16,559,400	16,298,900	2.2	4,922,388	331.1
<b>Actuarial Valuation as of Jan. 1, 2011</b>	350,500	16,568,600	16,218,100	2.1	4,808,250	337.3
<b>Actuarial Valuation as of Jan. 1, 2010</b>	309,800	15,166,300	14,856,500	2.0	4,711,563	315.3
<b>Actuarial Valuation as of Jan. 1, 2009</b>	273,500	15,305,100	15,031,600	1.8	4,712,655	319.0
<b>Actuarial Valuation as of Jan. 1, 2008</b>	-	9,812,000	9,812,000	0.0	4,574,233	214.5

SOURCE: Office of the Comptroller and Public Employee Retirement Administration Commission.

A special commission to study retiree health care benefits for public employees in Massachusetts was mandated as part of the pension reform act passed in November, 2011. The commission held regular meetings between April and December, 2012 and filed a report on January 11, 2013. The report's recommendations include phasing in a higher minimum eligibility age to receive retiree health benefits and pro-rating the level of benefits received based on years of service.

State finance law was amended in 2010 to require deposits, on an annual basis, to the State Retiree Benefits Trust Fund in the amount of 5% of any capital gains tax revenues transferred to the Stabilization Fund because they are in excess of the statutory capital gains threshold. The 5% equated to a \$23.4 million deposit in the State Retiree Benefits Trust Fund in fiscal 2013 and \$2.3 million in fiscal 2014.

The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of annual tobacco settlement payments received by the Commonwealth are to be transferred to the State Retiree Benefits Trust Fund, with the amount to be deposited to the State Retiree Benefits Trust Fund to increase by 10% increments annually thereafter until 100% of all payments are transferred to that Fund. The fiscal 2013 budget followed this methodology. The fiscal 2014 and fiscal 2015 budgets provided that the transfer was to be funded from excess amounts appropriated for debt service, if available, with any balance to be made up from tobacco settlement payments. See "COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Tobacco Settlement.*" The Governor's fiscal 2016 budget proposal included an appropriation to transfer \$84.6 million from

the General Fund to the State Retiree Benefits Trust Fund in lieu of the tobacco settlement funding mechanism for fiscal 2016, an amount equal to approximately 35%, rather than the statutorily required 40%, of projected fiscal 2016 tobacco settlement funds. Both the House and Senate versions of the fiscal 2016 budget deleted this appropriation and substituted language requiring that 30% of fiscal 2016 tobacco settlement proceeds (projected to be approximately \$73.2 million) be funded from unspent debt service appropriations, to the extent available, with the balance to be paid from tobacco settlement revenues (House) or from revenue in excess of \$100 million generated under a tax amnesty program (Senate). The amount of debt service appropriations included in the House and Senate versions of the fiscal 2016 budget is not currently expected to produce excess moneys available for this purpose.

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## STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of the last five fiscal years.

	<u>June 2011</u>	<u>June 2012</u>	<u>June 2013</u>	<u>June 2014</u>	<u>June 2015 (2)</u>
Executive Office	76	69	68	70	76
Office of the Comptroller	113	109	111	113	109
Executive Departments					
Administration and Finance	2,679	2,784	2,823	2,882	3,072
Energy and Environmental Affairs	1,960	1,949	1,915	1,900	2,535
Health and Human Services	19,435	19,397	19,379	19,699	20,234
Board of Library Commissioners	10	10	10	10	11
Housing and Economic Development	673	677	684	702	699
Labor and Workforce Development	269	262	236	250	234
Executive Office of Education	318	322	359	523	584
Public Safety and Security	8,259	8,534	8,626	8,815	8,680
Elder Affairs	<u>39</u>	<u>37</u>	<u>38</u>	<u>39</u>	<u>36</u>
Subtotal under Governor's Authority	33,831	34,150	34,249	35,005	36,270
Judiciary	7,109	7,085	7,217	7,188	7,406
Higher Education	12,940	12,539	12,957	13,840	14,006
Other (1)	<u>10,111</u>	<u>10,084</u>	<u>10,356</u>	<u>10,606</u>	<u>10,812</u>
Subtotal funded by the Operating Budget	<u>63,991</u>	<u>63,858</u>	<u>64,779</u>	<u>66,638</u>	<u>68,495</u>
Federal Grant, Trust and Capital Funded	<u>20,078</u>	<u>20,654</u>	<u>20,650</u>	<u>19,963</u>	<u>20,754</u>
<b>Total</b>	<b><u>84,069</u></b>	<b><u>84,512</u></b>	<b><u>85,429</u></b>	<b><u>86,602</u></b>	<b><u>89,249</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Other includes members of the Legislature and their staff, the offices of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor.
- (2) June, 2015 figures do not take into account the approximately 2,500 executive branch employees who took advantage of the Early Retirement Incentive Program (ERIP) and left the state workforce as of July 1, 2015.

### Unions and Labor Negotiations

Under Massachusetts law, all employees of the Commonwealth, with the exception of managerial and confidential employees and employees of the Legislature, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all employees of the Commonwealth (except those noted below). Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Labor contracts are often funded by supplemental appropriations or advance-funded through reserve accounts.

The Trial Court, the Lottery Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth, public higher education management and the PCA Council negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in such agreements are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 35,015 executive branch full-time-equivalent state employees are organized in 13 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 30 bargaining units, and the employees of the judicial branch, the Department of Transportation, the Lottery Commission, the Registries of Deeds, sheriffs and the PCAs are organized in 59 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

The following is a description of certain terms of the most recent agreements with the collective bargaining units within the responsibility of the Human Resources Division. Negotiations have either concluded or are underway to finalize new contracts.

(1) The contract with the National Association of Government Employees, representing Units 1, 3 and 6, runs from July, 2014 to June, 2017 and provides increases of 3%, 3% and 3% in January, 2015, October, 2015 and July, 2016, respectively. The total estimated cost of the contract is \$96.3 million.

(2) The contract with the Service Employees International Union, representing employees in units 8 and 10, runs from December 31, 2013 through December 31, 2016 and provides semi-annual salary increases of 1.5% each January and July (equal to an annualized increase of 3.0%) in the years 2014, 2015 and 2016, respectively. The total estimated cost of the contract is \$107.1 million.

(3) The contract with the American Federation of State, Country and Municipal Employees, representing unit 2, runs from July, 2014 through June, 2017 and provides semi-annual salary increases of 1.5% each July and January (equal to an annualized increase of 3.0%) in the years 2015, 2016 and 2017, respectively. The total estimated cost of the contract is \$53.3 million.

(4) The contract with the Massachusetts Organization of State Engineers and Scientists, representing unit 9, runs from July, 2014 through June, 2017 and provides semi-annual salary increases of 1.5% in each September and February (equal to an annualized increase of 3.0%) in the years 2014, 2015 and 2016, respectively. The total estimated cost of the contract is \$20.0 million.

(5) The contract with the New England Police Benevolent Association, representing unit 4A, runs from July 1, 2014 through June 30, 2017 and provides a semi-annual increases of 1.5% in each January and July (equal to an annualized increase of 3.0%) in the years 2014, 2015 and 2016, respectively. The total estimated cost of the contract is \$1.04 million.

(6) The contract with the Massachusetts Nurses Association runs from January 1, 2015 through December 31, 2017 and provides semi-annual increases of 1.5%, 1.5% and 1.5% effective each January and July, (equal to an annualized increase of 3.0%) in the years 2015, 2016 and 2017, respectively. The total estimated cost of the contract is \$25.95 million.

(7) The contract with the State Police Association of Massachusetts runs from Jan 1, 2015 through Dec 31, 2017 and provides annual increases of 2%, 3.75%, and 3.75% respectively. The total estimated cost of the contract is \$38.5 million.

(8) The contract with the Massachusetts Correction Officers Federated Union runs from July 1, 2010 through June 30, 2013 and provides annual increases of 1%, 3% and 3% effective June 30, 2011, 2012 and 2013, respectively. The total estimated cost of the contract is \$16.6 million. The contract has been extended by two years to June, 2015, with semi-annual increases of 1.5%. The total estimated cost of the contract is \$11.4 million. This contract has now expired and negotiations are ongoing

(9) The contract with the Coalition of Public Safety runs from July 1, 2013 through June 30, 2015 and provides semi-annual increases of 1.5%. The total estimated cost of the contract is \$1.0 million. This contract has now expired and negotiations are ongoing.

(10) The contract with the International Association of Fire Fighters runs from January 1, 2013 through December 31, 2014 and provides semi-annual increases of 1.5%. The total estimated cost of the contract is \$0.1 million. This contract has now expired and negotiations are ongoing.

The following table sets forth information regarding the 13 bargaining units that are within the responsibility of the Human Resources Division.

### Human Resources Division Bargaining Units (1)

<u>Contract Unit</u>	<u>Bargaining Union</u>	<u>Type of Employee</u>	<u>FTEs</u>	<u>Contract Expiration Dates</u>
1, 3, 6	National Association of Government Employees	Clerical, Skilled Trades, Administrative Professionals	9,390	6/30/17
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	8,144	6/30/17
4	Massachusetts Correction Officers Federated Union	Corrections	4,013	6/30/15
4A	New England Police Benevolent Association	Corrections	84	6/30/17
5	Coalition of Public Safety	Law enforcement	195	6/30/15
5A, C22	State Police Association of Massachusetts	State Police	1,999	12/31/17
7	Massachusetts Nurses Association	Health professionals	1,495	12/31/17
8, 10	Alliance/Service Employees International Union	Social workers, Secondary Education	8,013	12/31/16
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	1,627	6/30/17
11	International Association of Fire Fighters	Fire fighters	55	12/31/14 (2)
		<b>Total</b>	<b>35,015</b>	

SOURCE: Executive Office for Administration and Finance.

(1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of July 25, 2015 whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

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## SELECTED FINANCIAL DATA

### Stabilization Fund

The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. The fund is sometimes referred to as the state's "rainy day fund," serving as a source of financial support for the state budget in times of slow or declining revenue growth and as the primary source of protection against having to make drastic cuts in state services in periods of economic downturns. See "FISCAL 2015 AND FISCAL 2016" for a description of fiscal 2015 and 2016 activity in the Stabilization Fund.

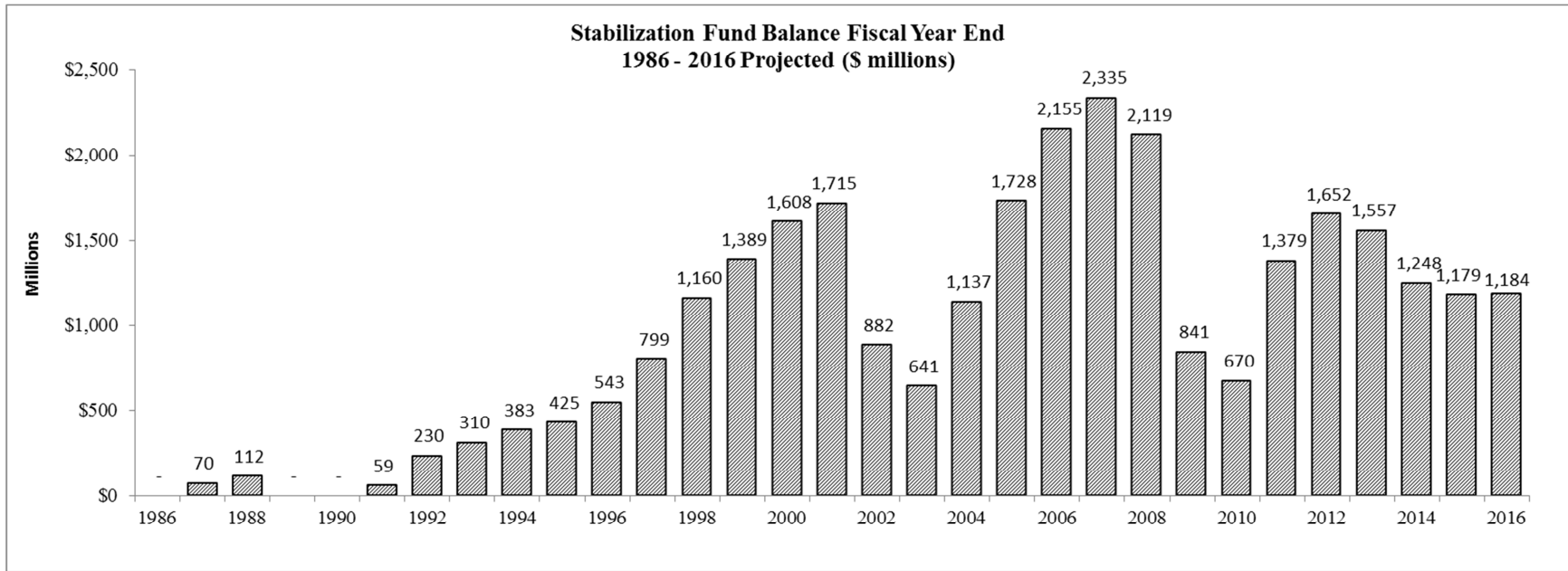
*Required Deposits and Allowable Stabilization Fund Balance.* Beginning July 1, 2004, state finance law provided that (i) 0.5% of current year net tax revenues from each fiscal year be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues be made available for the next fiscal year and (iii) any remaining amount of the year-end surplus be transferred to the Stabilization Fund. State finance law was amended in July, 2010 to provide that any tax revenue from capital gains that exceeds \$1 billion in a fiscal year (adjusted annually, beginning in fiscal 2014, for U. S. gross domestic product growth) is to be deposited into the Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund. In 2012, the law was amended to provide that 5% of the amount deposited to the Stabilization Fund from capital gains must be transferred to the Commonwealth's Pension Liability Fund, in addition to the 5% transferred to the State Retiree Benefits Trust Fund. Legislation approved in February, 2015 retains all capital gains tax revenue in the General Fund for fiscal 2015. The fiscal 2016 budget retains all capital gains tax revenue in the General Fund for fiscal 2016. State finance law was further amended in July, 2013 to eliminate the requirement that at year end 0.5% of current year net tax revenue be deposited in the Stabilization fund and that 0.5% of current year net tax revenue be made available for the next fiscal year. Therefore, effective for fiscal years beginning with 2014, state finance law requires the entire year-end surplus to be transferred to the Stabilization Fund. This requirement can be modified or superseded by individual appropriation acts.

Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10% of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15% of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund.

On July 17, 2015, the Governor filed a proposal as part of the final supplemental appropriations bill to dispose of the consolidated net surplus in the budgetary funds at the close of fiscal 2015 by (i) transferring \$50 million to the Stabilization Fund, (ii) transferring half of the balance, not to exceed \$10 million, to the Massachusetts Community Preservation Trust, (iii) transferring half of the balance, not to exceed \$10 million, to the Massachusetts Life Sciences Investment Fund, and (iv) transferring any remaining balance to the Stabilization Fund. The bill is currently being considered by the Legislature. The following chart assumes a transfer of \$50 million in fiscal 2015.

The following chart shows the Stabilization Fund balance from fiscal 1986 through fiscal 2014 (actual) and fiscal 2015 and fiscal 2016 (projected).

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SOURCE: Fiscal 1986-Fiscal 2014, Office of the Comptroller; Fiscal 2015 (projected) and 2016 (projected), Executive Office for Administration and Finance.

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The following table shows the sources and uses of the Stabilization Fund during fiscal 2010 through fiscal 2014:

**Stabilization Fund Sources and Uses (in thousands)**

	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>
Beginning fund balances	\$841,344	\$669,803	\$1,379,071	\$1,652,118	\$1,556,657
<u>Revenues and Other Sources</u>					
Consolidated net surplus	11,269	348,605	116,673	-	-
Deposits made directly during fiscal year	-	350,000	-	-	-
Capital gains tax transfers in excess of \$1 billion	-	-	-	467,500	45,457
Deposits due to judgments and settlements in excess of \$10 million	-	-	375,021	32,498	414,310
Lottery transfer taxes	1,982	1,619	1,353	1,291	867
Investment income	21,782	9,044	10,408	5,322	7,259
Excess permissible tax revenue	-	9,044	-	-	-
<b>Total Revenues and Other Sources</b>	<u>35,033</u>	<u>718,312</u>	<u>503,455</u>	<u>506,611</u>	<u>467,893</u>
<u>Total Expenditures and Other Uses</u>					
	<u>206,574</u>	<u>9,044</u>	<u>230,408</u>	<u>602,072</u>	<u>776,115</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>					
	<u>(171,541)</u>	<u>709,268</u>	<u>273,047</u>	<u>(95,461)</u>	<u>(308,222)</u>
<b>Ending fund balances</b>	<u>\$669,803</u>	<u>\$1,379,071</u>	<u>\$1,652,118</u>	<u>\$1,556,657</u>	<u>\$1,248,435</u>
<b>Allowable Stabilization Fund Balance</b>	<u>\$4,546,502</u>	<u>\$4,961,300</u>	<u>\$4,881,982</u>	<u>\$5,066,844</u>	<u>\$5,320,973</u>

SOURCE: Office of the Comptroller.

**GAAP Basis**

The Commonwealth's GAAP financial statements for the year ended June 30, 2014, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The GAAP financial statements present a government-wide perspective, including debt, capital assets and accrual activity on a comprehensive statement of net position. All capital assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities.

The table below presents the transition from the Commonwealth's statutory basis budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements, and then to the Commonwealth's "entity-wide" governmental financial position. Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid (as well as the somewhat related liability for uncompensated care), taxes, projected amounts due to the Commonwealth in the next fiscal year under the master tobacco settlement agreement, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect the GAAP basis measurement when viewed using a fund perspective under GAAP and the statutory basis measurement. While the difference in fund balances may vary in a given fiscal year, both balances generally trend in the same direction. To convert to a full accrual basis, major adjustments are made for the net book value of the Commonwealth's assets, inclusive of infrastructure, the realizable value of long-term deferred revenues (largely from tax payment plans) and the amount of the Commonwealth's outstanding long-term debt and other liabilities.

## Governmental Funds-Statutory to GAAP-Fund Perspective and to Governmental Net Position

(Amounts in Millions of Dollars)

<b>Governmental Funds-Statutory Basis, June 30, 2014</b>	
Budgeted Fund Balance	\$1,450.5
Non-budgeted special revenue fund balance	2,269.9
Capital Projects Fund Balance	<u>(1,101.2)</u>
<b>Governmental Fund Balance-Statutory Basis, June 30, 2014</b>	<b>\$2,619.2</b>
Plus: Expendable Trust and similar fund statutory balances that are considered governmental funds for GAAP reporting purposes	467.9
Less: Massachusetts Department of Transportation Funds	<u>(1,292.2)</u>
<b>Adjusted Statutory Governmental Fund Balance</b>	<b>\$1,795.0</b>
Short term accruals, net of allowances and deferrals for increases/(decreases)	
Taxes, net of refunds and abatements	1,951.6
Tobacco settlement agreement receivable	126.8
Medicaid	(355.2)
Assessments and other receivables	280.6
Amounts due to authorities and municipalities, net	(576.9)
Claims, judgments and other risks	(33.2)
Amounts due to healthcare providers and insurers	(78.5)
Workers' compensation and group insurance	(133.3)
Other accruals, net	<u>469.2</u>
<b>Net increase to governmental funds balances</b>	<b>\$1,651.1</b>
Massachusetts School Building Authority fund balance	<u>1,173.3</u>
<b>Total changes to governmental funds</b>	<b>\$2,824.4</b>
Governmental fund balance (fund perspective)	4,619.4
Plus: Capital assets including infrastructure, net of accumulated depreciation	4,572.6
Deferred revenue, net of other eliminations	682.2
Long term accruals:	
Pension benefits cumulative over/(under) funding	(2,219.0)
Post-employment benefits other than pensions cumulative over/(under) funding	(4,832.0)
Environmental remediation liability	(217.3)
Massachusetts School Building Authority debt and school construction payables	(7,403.8)
Long term debt, unamortized premiums and deferred losses on debt refundings	(23,109.6)
Compensated Absences	(527.2)
Capital leases	(55.9)
Accrued interest on bonds	(353.3)
Other long term liabilities	<u>(115.8)</u>
<b>Total governmental net position/(deficit) (government-wide perspective)</b>	<b>(\$28,959.7)</b>

SOURCE: Office of the Comptroller

The deficit of \$28.960 billion in government-wide net position can be largely attributed to the Commonwealth's policy decision to finance the construction of assets owned by other governmental entities, particularly Commonwealth roads and bridges, which as a result of transportation reform completed during fiscal 2010 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 fiscal 2014, MassDOT held \$22.798 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 \$6.174 billion in debt and grant obligations for the school building assistance program that finances construction of schools for the Commonwealth's cities and towns.

### Change in Statement of Net Position

(amounts in thousands of dollars)

	<u>Governmental Activities (1)</u>	<u>Business Type Activities (1)</u>	<u>Government Wide (1)</u>
<b>Total net position:</b>			
<b>Fiscal 2013</b>	(\$25,983,856)	\$4,819,317	(\$21,164,539)
<b>Fiscal 2014</b>	<u>(28,959,690)</u>	<u>5,487,641</u>	<u>(23,472,049)</u>
<b>Change in net position</b>	<u>(\$2,975,834)</u>	<u>\$668,324</u>	<u>(\$2,307,510)</u>

SOURCE: Office of the Comptroller

- (1) During fiscal 2014, the beginning net position of the governmental activities and business type activities were restated by approximately \$44 million and \$22 million, respectively due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and other various restatements by the University of Massachusetts System, State Universities and Community Colleges; see footnote 1 of the CAFR.

During the fiscal year, approximately \$1.366 billion in restricted net position was set aside for unemployment benefits and an additional approximate \$1.138 billion was restricted for debt retirement.

*Revenues – GAAP Basis.* The measurement of revenues for the budgeted operating funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2013:

### Comparison of Fiscal 2014 Governmental Revenues (in millions)

	<u>Governmental Funds</u>	<u>GAAP Basis – Governmental</u>	
	<u>Statutory Basis</u>	<u>Fund Perspective</u>	<u>Entity-wide Perspective</u>
Taxes	\$23,665	\$23,786	\$23,319
Federal Revenue	11,593	13,147	13,152
Departmental and Miscellaneous Revenue	<u>18,967</u>	<u>20,277</u>	<u>10,369</u>
<b>Total</b>	<b><u>\$54,225</u></b>	<b><u>\$57,210</u></b>	<b><u>\$46,840</u></b>

SOURCE: Office of the Comptroller.

The following table provides financial results on a GAAP basis for all governmental operating funds of the Commonwealth for fiscal 2010 through fiscal 2014.

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**Governmental Fund Operations – GAAP Basis – Fund Perspective (in millions)**

	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>
Beginning fund balances	\$5,061.3	\$4,585.7	\$5,267.6	\$6,318.9	\$4,869.9
Revenues and Financing Sources	49,853.1	53,898.4	54,370.1	55,289.9	57,210.0
Expenditures and Financing Uses	50,328.7	53,216.5	53,318.8	56,738.9	57,460.5
Excess/(deficit)	<u>(475.6)</u>	<u>681.9</u>	<u>1,051.3</u>	<u>(1,449.0)</u>	<u>(250.5)</u>
<b>Ending fund balances—GAAP fund perspective</b>	<b><u>\$4,585.7</u></b>	<b><u>\$5,267.6</u></b>	<b><u>\$6,318.9</u></b>	<b><u>\$4,869.9</u></b>	<b><u>\$4,619.4</u></b>

SOURCE: Office of the Comptroller.

*Financial Reports.* The Commonwealth issues annual reports, including financial statements on the statutory basis of accounting (reviewed not audited) and the GAAP basis audited financial statements. These financial statements are issued as two separate reports, the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Financial Report (CAFR). The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2014 and the CAFR for the year ended June 30, 2014 are attached hereto as Exhibits B and C, respectively. Copies of these financial reports are also available at the address provided under “CONTINUING DISCLOSURE.” The SBFR for fiscal 1997 through fiscal 2014 and the CAFR for fiscal 1995 through fiscal 2014 are also available on the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports” under the “Publications and Reports” tab.

The Comptroller retains an independent certified public accounting firm to audit the Commonwealth’s financial statements and issue certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. For fiscal 1991 through 2014 the independent auditors’ opinions were unqualified.

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2014 marked the 24th consecutive year that the Commonwealth has received this award.

**Discussion of Financial Condition**

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports.*” Without limiting the generality of the references to the SBFR for the year ended June 30, 2014 and the CAFR for the year ended June 30, 2014, attention is called in particular to the portion of the CAFR under the heading “Management’s Discussion and Analysis.”

### **Auditors' Report on Fiscal 2014 CAFR**

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2014 were audited by KPMG LLP (KPMG). The KPMG audit report dated December 23, 2014 on the general purpose financial statements included in the CAFR for the year ended June 30, 2014 contained an unqualified opinion. A copy of the audit report of KPMG dated December 23, 2014 has been filed with EMMA and is included within Exhibit C to this Information Statement. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to any official statement of which this Information Statement may be a part.

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## FISCAL 2015 AND FISCAL 2016

### Fiscal 2015

The fiscal 2015 budget was enacted by the Legislature on June 30, 2014 and approved by the former Governor on July 11, 2014. A \$4.6 billion interim budget for the first month of fiscal 2015 had been enacted by the Legislature and approved by the former Governor on June 26, 2014. Total spending in the fiscal 2015 budget approved by the former Governor amounted to approximately \$36.491 billion, after accounting for \$16.1 million in vetoes. The fiscal 2015 budget was approximately \$1.946 billion, or 5.6%, greater than fiscal 2014 estimated spending levels at the time of its approval.

The fiscal 2015 budget was based on a consensus tax revenue estimate of \$24.337 billion, which represented projected revenue growth of 4.9% over the fiscal 2014 revised estimate. After accounting for statutorily required transfers for pensions, to the MBTA, the MSBA, and the Workforce Training Fund and excess capital gains tax revenue, approximately \$20.817 billion of tax revenue was projected to be available for spending in the fiscal 2015 budget at the time of its approval by the former Governor. See “COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2015 and 2016 Tax Revenues; *Fiscal 2015*.” The fiscal 2015 budget also assumed tax revenues to be increased as a result of revenue initiatives enacted as part of the budget, including a one-year delay of the FAS 109 deductions (+ \$46 million), a tax amnesty program (+\$35 million) and enhanced tax enforcement initiatives (+ \$12 million). The enacted fiscal 2015 budget also assumed \$240 million from the modification of the existing tax and non-tax judgment and settlement law. See “COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Settlements and Judgments*.”

On July 25, 2014, the former Governor approved legislation that included approximately \$15.7 million in supplemental appropriations. On July 28, 2014, the former Governor approved legislation that allowed certain counties to use deeds excise revenues for their required maintenance of efforts, which was expected to result in an estimated revenue loss of approximately \$5.3 million in fiscal 2015. On August 6, 2014, the former Governor approved legislation that included approximately \$4.5 million in additional supplemental appropriations. On August 13, 2014, the former Governor approved legislation that included approximately \$82.4 million in additional supplemental appropriations and transfers. The legislation also authorized a two-day sales tax holiday, which was expected to result in approximately \$25.9 million in foregone revenue, plus additional tax credits and exemptions expected to result in an estimated tax revenue loss of approximately \$11.6 million in fiscal 2015.

On November 19, 2014, the former Secretary of Administration and Finance announced a revised estimate of revenue available to meet appropriations in fiscal 2015 and announced his determination that, as so revised, revenues would be insufficient to meet authorized expenditures for the fiscal year. The amount of the deficiency was estimated to be \$329 million. On the same date, the former Governor reduced spending allotments pursuant to Section 9C of Chapter 29 by \$198.1 million and filed legislation, which was not adopted, to reduce spending at most non-executive branch agencies and at MassDOT and to reduce the funding level for unrestricted local aid. In addition, the former Governor sought the return from several quasi-public authorities of a portion of the funding provided by economic development legislation approved in August, 2014. Ultimately, \$252 million of the outgoing Governor’s proposed solutions were implemented.

On January 8, 2015, a new Governor assumed office. On February 3, 2015, the new Secretary of Administration and Finance announced that she had identified a projected fiscal 2015 budget shortfall of \$768 million, after taking into account the \$252 million of budget solutions described above and assuming that \$200 million of capital gains tax revenue would be retained in the General Fund and not transferred to the Stabilization Fund. The projected budget gap was the result of both revenue shortfalls and spending exposures. The revenue shortfalls included lower than budgeted settlement and judgment receipts, a reduction in the income tax rate from 5.20% to 5.15% effective January 1, 2015, and lower than expected departmental revenues. Spending exposures included MassHealth spending due to temporary coverage and other factors, GIC spending due to enrollment and utilization growth, Emergency Assistance spending due to caseload increases, DCF spending due to caseload increases, snow and ice removal spending due to higher than budgeted costs and supplemental and other spending beyond projected fiscal 2015 revenues.

On the same day, the Governor further reduced spending allotments pursuant to Section 9C by \$145 million and announced \$168 million in additional MassHealth savings by implementing several management initiatives. The Governor also filed legislation to reduce spending at non-executive branch agencies and at MassDOT, to implement a corporate tax amnesty program and to direct excess capital gains tax collections in fiscal 2015 to the General Fund rather than the Stabilization Fund. The legislation was enacted and approved on February 13, 2015. The Governor's budget balancing plan for fiscal 2015 also assumed \$105 million from non-tax revenue opportunities that were expected to generate additional revenue without increases to fees or fines and \$108 million in appropriations that were expected to remain unspent by the close of the fiscal year.

On March 31, 2015, the Governor approved legislation that included supplemental appropriations totaling \$363.5 million (net after assuming off-setting reimbursements).

On July 17, 2015, the Governor filed a final supplemental appropriations bill providing for approximately \$254.7 million (net of federal reimbursements) of appropriations for fiscal 2015. The bill also provides for a transfer of \$140 million to a trust fund for the purpose of defeasing certain Commonwealth debt. The bill is currently pending before the Legislature. Based on preliminary results, the revised fiscal 2015 budget relied on approximately \$1.65 billion in one-time resources to support spending, and the Commonwealth expects to end fiscal 2015 with a \$50 million deposit into the Stabilization Fund.

Final fiscal 2015 results will be published by the Comptroller in the Statutory Basis Financial Report. The Statutory Basis Financial Report is required by state law to be published by October 31, 2015, but the timing of its publication is dependent upon approval of the final supplemental appropriations bill. Until the Statutory Basis Financial Report is published, fiscal 2015 results are unaudited and considered preliminary.

## **Fiscal 2016**

On January 30, 2015, a fiscal 2016 consensus tax revenue estimate of \$25.479 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2016 consensus tax revenue estimate represents revenue growth of 4.8% actual from the revised fiscal 2015 estimate. After accounting for statutorily required transfers for pensions, to the MBTA, the MSBA, and the Workforce Training Fund, and including expected capital gains tax revenue in excess of the fiscal 2016 threshold, the Secretary and Committee chairs agreed that \$21.396 billion would be the maximum amount of tax revenue available for the fiscal 2016 budget. See "COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2015 and 2016 Tax Revenues; *Fiscal 2016*."

An interim budget of approximately \$5.5 billion for the first month of fiscal 2016 was enacted by the Legislature on June 22, 2015 and approved by the Governor on June 23, 2015. The interim budget was immediately superseded by the fiscal 2016 budget when it went into effect. The fiscal 2016 budget was enacted by the Legislature on July 8, 2015 and approved by the Governor on July 17, 2015. Total spending in the fiscal 2016 budget approved by the Governor amounted to approximately \$38.2 billion, after accounting for \$162.8 million in vetoes.

The fiscal 2016 budget was approximately \$38.2 billion, or 3.4%, greater than fiscal 2015 estimated spending levels at the time of its approval. (This calculation assumes that a \$565.5 million transfer from the General Fund to the Medical Assistance Trust Fund, which has been delayed into fiscal 2016 to await necessary federal approval, is counted as fiscal 2015 actual spending.) The fiscal 2016 budget relies on approximately \$609 million in one-time resources to support recurring spending. Among the one-time resources assumed as part of the fiscal 2016 budget are: projected \$300 million in capital gains tax revenues retained in the General Fund, projected \$116 million of MassHealth cash management, projected \$80 million from a non-filer tax amnesty program, \$73 million to fund the fiscal 2016 OPEB transfer, \$67 million transfer from the Commonwealth Care Trust Fund, and \$46 million from FAS 109 delay. The fiscal 2016 budget also assumes savings for fiscal 2016 debt service attributable to the \$140 million debt defeasance proposed in the final fiscal 2015 supplemental appropriation bill. See "*Fiscal 2015*" above; "COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2015 and 2016 Tax Revenues; *Fiscal 2016*"; "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *FAS-109 Deduction*"; "PENSION AND OPEB FUNDING – Other Post-Retirement Benefit Obligations (OPEB)."

The fiscal 2016 budget also assumes gross payroll related savings of approximately \$200 million due to an early retirement incentive program signed into law by the Governor on May 4, 2015. That program is expected to result in fiscal 2016 net payroll related savings of approximately \$109 million, net of the costs of pension contributions, retiree benefit costs and a limited amount of re-hiring. The Executive Office for Administration and Finance has identified approximately \$15 million in additional federal revenues to partially offset the payroll related saving necessary to meet fiscal 2016 payroll savings targets, and is authorized to take additional measures to meet those payroll savings targets, including hiring and headcount restrictions, one-time incentive payments to induce additional retirements, and other initiatives. The early retirement incentive program is projected to increase the Commonwealth's annual required contribution to the pension fund for the next 15 years by approximately \$29.2 million annually. The fiscal 2016 budget provides for this additional contribution and includes language that would increase accordingly the scheduled fiscal 2017 pension funding payment. See "PENSION AND OPEB FUNDING – Funding Schedule."

On July 28, 2015, the Legislature passed overrides to the Governor's vetoes in the amount of \$97.9 million. On August 6, 2015, the Governor approved legislation that authorized a two-day suspension of the sales tax imposed by Chapter 64H of the General Laws on August 15 and 16, 2015, which is expected to result in approximately \$25.5 million in foregone revenue.

The Executive Office for Administration and Finance regularly reviews the Commonwealth's fiscal condition throughout the fiscal year, and employs a number of tools to control spending. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Cash and Budgetary Controls." The Executive Office for Administration and Finance has identified potential deficiencies in the fiscal 2016 budget in the range of approximately \$200 million to \$250 million, in addition to potential shortfalls from budgetary savings initiatives, additional spending associated with budget veto overrides, and revenue reductions anticipated in connection with the two-day suspension of the sales tax, discussed above. The Executive Office for Administration and Finance will closely monitor these exposures, as well as any other trends or exposures that may emerge, as the fiscal year progresses. Pursuant to state finance law, the Secretary of Administration and Finance is obligated to update or confirm the projection of tax revenues for fiscal 2016 on or before October 15, 2015. Projected and actual revenue and spending will be considered to ensure that the Commonwealth achieves fiscal balance in fiscal 2016. The Commonwealth will implement any gap-closing measures necessary in light of the facts and circumstances as they develop.

Legislation was approved as part of the fiscal 2016 budget establishing a Fiscal Control and Management Board to focus specifically on improving management of the MBTA, as originally proposed by the Governor. These MBTA provisions have no fiscal impact on the Commonwealth in fiscal 2016. In subsequent fiscal years, the legislation requires the Fiscal Control and Management Board to assume, in preparing the MBTA's operating budget, that assistance from the Commonwealth would not exceed the sum of debt payments associated with debt incurred by the MBTA before fiscal 2000 (see "LONG-TERM LIABILITIES – Contingent Liabilities; *Massachusetts Bay Transportation Authority*"), debt associated with transit mitigation commitments for the Central Artery/Ted Williams Tunnel project (approximately \$108 million annually through fiscal 2040) and any amount provided to facilitate the transfer of MBTA employees from the capital budget to the operating budget (projected to be up to approximately \$67 million annually). Also enacted as part of the fiscal 2016 budget were provisions allowing the University of Massachusetts to retain all the tuition it collects. This change is not expected to have any fiscal impact in fiscal 2016. The Executive Office for Administration and Finance is developing its analysis of the fiscal impact of the change in fiscal 2017 and later years. See "COMMONWEALTH REVENUES AND EXPENDITURES – Education; *Department of Higher Education*."

### **Cash Flow**

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer." The Commonwealth does not engage in inter-fund borrowing. Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. All revenue anticipation notes, including those issued as commercial paper, must be repaid by the end of the fiscal year. The state currently has liquidity support for a \$200 million tax-exempt commercial

paper program for general obligation notes. The Commonwealth has relied upon the commercial paper program for additional liquidity since 2002.

The Commonwealth ended fiscal 2014 with a non-segregated cash balance of approximately \$1.34 billion. The most recent cash flow statement projects a fiscal 2015 ending balance of approximately \$2.433 billion.

The fiscal 2015 and fiscal 2016 cash flow statements released by the State Treasurer and the Secretary of Administration and Finance on June 9, 2015 are summarized in the tables below. The fiscal 2015 statement is based upon the fiscal 2015 budget signed on July 11, 2014 and all supplemental appropriations filed, enacted or anticipated, and includes all prior appropriations continued into fiscal 2015. Fiscal 2015 projections are based on actual spending and revenue through April, 2015 and estimates for the remainder of the fiscal year. The fiscal 2016 statement is based upon the Governor's budget recommendations. Quarterly cash flow statements, as submitted by the State Treasurer to the House and Senate Committees on Ways and Means, are posted on the cash management page of the State Treasurer's website.

Commonwealth cash deposits are held in insured or collateralized bank accounts and with the Massachusetts Municipal Depository Trust (MMDT), the Commonwealth's investment pool for governmental entities.

MMDT is comprised of two portfolios, professionally managed by Federated Investors Inc., the Cash Portfolio and the Short Term Bond Fund. The Cash Portfolio investments are carried at amortized cost, which approximates fair value and the Short Term Bond Fund investments are carried at fair value.

The Cash Portfolio invests in a diversified portfolio of high quality United States dollar-denominated money market instruments (eligible under Rule 2a-7 of the Securities and Exchange Commission) of domestic and foreign issuers, United States government securities and repurchase agreements. As of June 30, 2015, the Cash Portfolio holdings were made up of commercial paper and notes (48.5%), variable rate instruments (24.0%), repurchase agreements (12.6%) and bank instruments (14.9%). As of June 30, 2015 the Cash Portfolio's weighted average life was 90 days, and the weighted average maturity was 50 days.

The Short Term Bond Fund invests in a diversified portfolio of investment grade debt securities. As of June 30, 2015, the Short Term Bond Fund holdings were made up of U. S. Treasury securities (53.4%), Financial Institution – Banking (5.9%), FNMA MBS (4.2%), FNMA Agency (2.9%), Technology (2.3%), Energy – Integrated (2.1%), Financial Institution – Insurance – Life (1.9%), Utility – Electric (1.9), Credit Card ABS (1.8%), Commercial MBS (1.7%), FHLMC Agency (1.4%), Other (20.5%).

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for fiscal 2016 capital spending of approximately \$4.107 billion, which includes \$2.125 billion in bond cap spending for fiscal 2016, \$405.9 million for the Accelerated Bridge Program, \$394.0 million for projects funded by special obligation transit bonds and \$98.1 million for project finance spending. The Commonwealth expects to file an updated five-year capital investment plan for fiscal 2017-2021 on or before July 1, 2016.

The capital spending federal reimbursement estimates included in the fiscal 2015 cash flow forecast assume re-capitalization of the Federal Highway Trust Fund. If necessary, future cash flow forecasts will be updated to take into account any lapse of federal funding or delay in reimbursements.

For cash flow needs for fiscal year 2015, the Treasurer's office issued \$1.2 billion in revenue anticipation notes on September 30, 2014. The first tranche was repaid on April 23, 2015. The second tranche was repaid on May 28, 2015. The final tranche was repaid on June 25, 2015.

The next cash flow statement is expected to be released on or about August 31, 2015.

The following table provides General Fund ending cash balances by month for fiscal 2011 through fiscal 2015.

**Month End General Fund Cash Balances (in millions)**

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>
July	\$ 1,082.2	\$ 2,194.7	\$ 1,944.4	\$ 1,253.7	\$ 768.9
August	1,852.1	2,153.1	1,505.4	1,065.1	948.9
September	1,715.3	1,462.0	675.8	1,918.9	1,762.7
October	1,522.2	1,522.5	2,175.8	1,744.4	1,453.2
November	1,661.9	1,973.0	1,625.7	1,272.2	1,240.7
December	1,558.0	1,287.4	1,018.4	1,437.6	991.5
January	1,948.2	1,995.5	1,597.6	1,186.3	953.9
February	1,591.3	1,551.2	1,334.9	603.2	414.1
March	924.8	860.1	368.3	749.5	743.0
April	2,246.0	1,823.8	2,001.3	1,204.6	1,860.9
May	2,363.0	1,643.4	1,829.7	703.9	1,775.0 (1)
June	2,200.4	2,096.7	2,276.6	1,340.8	2,433.0 (1)

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2015 ending balances are estimated for May and June.

The following table provides cash flow detail for fiscal 2015.

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**Overview of Fiscal 2015 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of June 9, 2015)

	<u>Jul-14</u>	<u>Aug-14</u>	<u>Sep -14</u>	<u>Oct-14</u>	<u>Nov -14</u>	<u>Dec-14</u>	<u>Jan-15</u>	<u>Feb-15</u>	<u>Mar-15</u>	<u>Apr-15</u>	<u>May-15(2)</u>	<u>June-15(2)</u>	<u>Total FY 2015 (2)</u>
<b>Opening Non-Segregated Operating Cash Balance</b>	<b>\$1,340.8</b>	<b>\$769.0</b>	<b>\$948.9</b>	<b>\$1,762.7</b>	<b>\$1,453.2</b>	<b>\$1,240.7</b>	<b>\$991.5</b>	<b>\$953.9</b>	<b>\$414.1</b>	<b>\$743.1</b>	<b>\$1,861.0</b>	<b>\$1,775.0</b>	<b>\$1,340.8</b>
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	84.6	300.5	2.5	0.0	135.5	0.0	0.0	0.0	1.8	0.0	1.0	0.0	525.8
Total Budgetary Revenue/Inflows	3,045.2	2,990.9	3,327.6	2,965.6	2,709.1	3,397.1	3,731.4	2,672.1	3,808.6	5,105.4	2,945.2	3,991.1	40,689.2
Total Budgetary Expenditures/Outflows	3,354.0	3,445.8	3,039.6	3,126.5	3,146.3	3,143.8	3,334.9	2,956.0	3,162.0	3,122.5	3,065.3	2,585.0	37,481.7
Net Budgetary Funds	(308.8)	(454.9)	288.0	(160.8)	(437.3)	253.3	396.5	(283.9)	646.6	1,982.9	(120.1)	1,406.1	3,207.5
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	959.5	1,351.6	654.8	802.3	1,209.5	824.5	722.4	682.9	783.4	515.6	1,382.3	933.4	10,822.1
Total Non Budgetary Expenditures/Outflows	1,081.4	1,061.1	1,115.4	967.7	909.3	1,373.7	949.5	1,118.1	1,001.3	1,008.9	1,034.6	1,224.2	12,845.1
Net Non Budgetary Funds	(122.0)	290.5	(460.5)	(165.3)	300.2	(549.2)	(227.1)	(435.2)	(217.9)	(493.3)	347.7	(290.9)	(2,023.0)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>0.9</u>	<u>1.2</u>	<u>0.9</u>	<u>16.8</u>	<u>1.2</u>	<u>1.2</u>	<u>1.4</u>	<u>6.9</u>	<u>3.9</u>	<u>3.2</u>	<u>1.4</u>	<u>1.4</u>	<u>40.5</u>
<b>Net Operating Activities</b>	<b>(\$429.9)</b>	<b>(\$163.2)</b>	<b>(\$171.6)</b>	<b>(\$309.3)</b>	<b>(\$135.9)</b>	<b>(\$294.8)</b>	<b>\$170.8</b>	<b>(\$712.2)</b>	<b>\$432.6</b>	<b>\$1,492.8</b>	<b>\$229.0</b>	<b>\$1,116.7</b>	<b>\$1,225.0</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	27.6	44.7	161.8	145.7	131.8	205.2	134.2	234.7	208.0	269.3	230.0	225.0	2,017.8
Total Federal Grants Expenditures/Outflows	<u>157.7</u>	<u>228.5</u>	<u>152.5</u>	<u>156.6</u>	<u>170.7</u>	<u>247.5</u>	<u>187.7</u>	<u>166.0</u>	<u>225.0</u>	<u>201.0</u>	<u>140.3</u>	<u>176.6</u>	<u>2,210.2</u>
<b>Net Federal Grants</b>	<b>(\$130.1)</b>	<b>(\$183.9)</b>	<b>\$9.3</b>	<b>(\$10.9)</b>	<b>(\$38.9)</b>	<b>(\$42.4)</b>	<b>(\$53.5)</b>	<b>\$68.7</b>	<b>(\$17.0)</b>	<b>\$68.2</b>	<b>\$89.7</b>	<b>\$48.4</b>	<b>(192.4)</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	298.0	787.5	79.8	265.2	203.3	399.0	94.8	276.9	139.6	154.9	334.8	275.0	3,308.8
Total Capital Expenditures/Outflows	<u>309.9</u>	<u>260.5</u>	<u>303.6</u>	<u>254.5</u>	<u>241.0</u>	<u>311.2</u>	<u>249.7</u>	<u>173.1</u>	<u>226.2</u>	<u>194.6</u>	<u>335.6</u>	<u>377.6</u>	<u>3,237.5</u>
<b>Net Capital Funds</b>	<b>(\$11.9)</b>	<b>\$526.9</b>	<b>(\$223.8)</b>	<b>\$10.7</b>	<b>(\$37.7)</b>	<b>\$87.9</b>	<b>(\$154.8)</b>	<b>\$103.7</b>	<b>(\$86.6)</b>	<b>(\$39.7)</b>	<b>(\$0.8)</b>	<b>(\$102.6)</b>	<b>\$71.3</b>
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	403.4	403.9	404.4	1,211.7
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>403.4</u>	<u>403.9</u>	<u>404.4</u>	<u>1,211.7</u>
<b>Net Financing Activities</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$403.4)</b>	<b>(\$403.9)</b>	<b>(\$404.4)</b>	<b>(\$11.7)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>\$769.0</b>	<b>\$948.9</b>	<b>\$1,762.7</b>	<b>\$1,453.2</b>	<b>\$1,240.7</b>	<b>\$991.5</b>	<b>\$953.9</b>	<b>\$414.1</b>	<b>\$743.1</b>	<b>\$1,861.0</b>	<b>\$1,775.0</b>	<b>\$2,433.0</b>	<b>\$2,433.0</b>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.



**Overview of Fiscal 2016 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of June 9, 2015)

	<u>Jul-15 (2)</u>	<u>Aug-15 (2)</u>	<u>Sep -15 (2)</u>	<u>Oct-15 (2)</u>	<u>Nov -15 (2)</u>	<u>Dec-15 (2)</u>	<u>Jan-16 (2)</u>	<u>Feb-16 (2)</u>	<u>Mar-16 (2)</u>	<u>Apr-16 (2)</u>	<u>May-16(2)</u>	<u>June-16(2)</u>	<u>Total FY 2016 (2)</u>
<b>Opening Non-Segregated Operating Cash Balance</b>	<b>\$2,433.0</b>	<b>\$1,670.8</b>	<b>\$795.3</b>	<b>\$1,170.3</b>	<b>\$1,832.9</b>	<b>\$1,224.4</b>	<b>\$1,395.9</b>	<b>\$1,784.4</b>	<b>\$1,044.6</b>	<b>\$1,086.5</b>	<b>\$3,256.3</b>	<b>\$2,548.4</b>	<b>\$2,433.0</b>
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Budgetary Revenue/Inflows	2,858.9	2,796.4	3,647.7	2,958.3	2,858.2	3,604.2	3,809.6	2,779.1	3,915.4	5,252.8	3,020.7	4,133.6	41,634.8
Total Budgetary Expenditures/Outflows	3,457.3	3,437.8	3,112.2	3,139.4	3,311.6	3,341.0	3,179.7	3,329.9	3,563.4	3,203.6	3,084.0	3,028.4	39,188.4
Net Budgetary Funds	(598.4)	(641.4)	535.5	(181.2)	(453.4)	263.2	630.0	(550.8)	352.0	2,049.2	(63.3)	1,105.2	2,446.4
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	925.4	870.5	1,003.7	891.9	893.4	1,026.9	898.8	820.2	860.0	1,121.4	922.3	982.3	11,216.8
Total Non Budgetary Expenditures/Outflows	1,062.7	1,033.0	1,152.7	1,040.7	1,040.0	1,130.7	1,077.7	1,010.7	1,170.0	1,045.7	1,031.2	1,170.0	12,964.9
Net Non Budgetary Funds	(137.3)	(162.5)	(149.0)	(148.8)	(146.6)	(103.8)	(178.9)	(190.5)	(310.0)	75.7	(108.9)	(187.7)	(1,748.1)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>12.0</u>
<b>Net Operating Activities</b>	<b>(\$734.7)</b>	<b>(\$802.9)</b>	<b>\$387.5</b>	<b>(\$328.9)</b>	<b>(\$599.0)</b>	<b>\$160.4</b>	<b>\$452.1</b>	<b>(\$740.3)</b>	<b>\$43.0</b>	<b>\$2,125.9</b>	<b>(\$171.2)</b>	<b>\$918.4</b>	<b>\$710.3</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	190.0	170.0	190.0	185.0	190.0	185.0	190.0	185.0	190.0	185.0	190.0	215.0	2,265.0
Total Federal Grants Expenditures/Outflows	<u>191.3</u>	<u>213.7</u>	<u>191.3</u>	<u>168.7</u>	<u>191.3</u>	<u>198.7</u>	<u>236.3</u>	<u>168.7</u>	<u>221.3</u>	<u>178.7</u>	<u>210.3</u>	<u>198.6</u>	<u>2,368.9</u>
<b>Net Federal Grants</b>	<b>(\$1.3)</b>	<b>(\$43.7)</b>	<b>(\$1.3)</b>	<b>\$16.3</b>	<b>(\$1.3)</b>	<b>(\$13.7)</b>	<b>(\$46.3)</b>	<b>\$16.3</b>	<b>(\$31.3)</b>	<b>\$6.3</b>	<b>(\$20.3)</b>	<b>\$16.4</b>	<b>(\$103.9)</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	355.0	340.0	315.0	315.0	290.0	340.0	270.0	267.0	312.0	300.0	300.0	340.0	3,744.0
Total Capital Expenditures/Outflows	<u>381.2</u>	<u>368.9</u>	<u>326.2</u>	<u>339.7</u>	<u>298.3</u>	<u>315.2</u>	<u>287.3</u>	<u>282.8</u>	<u>281.8</u>	<u>262.4</u>	<u>313.4</u>	<u>353.0</u>	<u>3,810.2</u>
<b>Net Capital Funds</b>	<b>(\$26.2)</b>	<b>(\$28.9)</b>	<b>(\$11.2)</b>	<b>(\$24.7)</b>	<b>(\$8.3)</b>	<b>\$24.8</b>	<b>(\$17.3)</b>	<b>(\$15.8)</b>	<b>\$30.2</b>	<b>\$37.6</b>	<b>(\$13.4)</b>	<b>(\$13.0)</b>	<b>(\$66.2)</b>
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	0.0	1,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,000.0
Total Cash Flow Financing Activities Inflows													
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	503.0	504.0	1,007.0
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>503.0</u>	<u>504.0</u>	<u>1,007.0</u>
<b>Net Financing Activities</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,000.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$503.0)</b>	<b>(\$504.0)</b>	<b>(\$7.0)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>\$1,670.8</b>	<b>\$795.3</b>	<b>\$1,170.3</b>	<b>\$1,832.9</b>	<b>\$1,224.4</b>	<b>\$1,395.9</b>	<b>\$1,784.4</b>	<b>\$1,044.6</b>	<b>\$1,086.5</b>	<b>\$3,256.3</b>	<b>\$2,548.4</b>	<b>\$2,966.2</b>	<b>\$2,966.2</b>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

## LONG-TERM LIABILITIES

### General Authority to Borrow

Under its constitution, the Commonwealth may borrow money (a) for defense or 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, or (b) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. 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. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner 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 Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which includes bonds and notes issued by it and all claims with respect thereto. 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 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, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to states.

*Commonwealth Debt.* The State Treasurer is statutorily responsible for the borrowing needs of the Commonwealth, including short-term cash flow needs and long-term borrowing needs for the capital budget. Borrowing is accomplished through the sale of short-term notes and long-term bonds. The Commonwealth is authorized to issue three types of direct debt – general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. See “General Obligation Debt” below. Special obligation debt may be secured either with a pledge of receipts credited to the Commonwealth Transportation Fund (formerly the Highway Fund) or with a pledge of receipts credited to the Convention Center Fund. See “Special Obligation Debt” below. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See “Federal Grant Anticipation Notes” below.

*Other Long-Term Liabilities.* 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 liabilities, (b) budgetary contract 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 liabilities arise from statutory requirements for (i) payments by the Commonwealth to the Massachusetts Clean Water 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 and (ii) payments from the Social Innovation Financing Trust Fund on “pay for success” contracts, as described below. Such liabilities constitute a pledge of the Commonwealth’s credit for which a two-thirds vote of the Legislature is required. See “General Obligation Contract Assistance Liabilities” below.

Budgetary contract assistance liabilities arise from statutory requirements for payments by the Commonwealth under capital leases and other contractual agreements. Such liabilities do not constitute a pledge of the Commonwealth’s credit. See “Budgetary Contract Assistance Liabilities” below.

Contingent liabilities relate to debt obligations of certain independent authorities and agencies of the Commonwealth 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 liabilities consist of guaranties and similar obligations with respect to which the Commonwealth’s credit has been or may be pledged, as in the case of certain debt obligations of the MBTA (pre-2000), the Woods Hole, Martha’s Vineyard and Nantucket Steamship Authority, and the higher education building authorities. 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 fund debt service, solely from moneys otherwise appropriated for the affected institution, owed by certain community colleges and state universities on bonds issued by the former Massachusetts Health and Educational Facilities Authority (now the Massachusetts Development Finance Agency) and the Massachusetts State College Building Authority. See "Contingent Liabilities" below.

*Statutory Limit on Direct Debt.* Since December, 1989, state finance law has included a limit on the amount of outstanding "direct" bonds of the Commonwealth. For fiscal 2012, the debt limit was \$18.944 billion under the statute in place during fiscal 2012. In August, 2012, state finance law was amended, effective January 1, 2013, to specify that the debt limit be calculated for fiscal years starting in fiscal 2013 using a fiscal 2012 base value of \$17,070,000,000 and increasing the limit for each subsequent fiscal year to 105% of the previous fiscal year's limit. Based on this calculation, the statutory limit on "direct" bonds during fiscal 2015 is \$19,760,658,750. Prior to June 10, 2013, this limit was calculated using a statutory definition that differed from GAAP in that the principal amount of outstanding bonds included the amount of any premium and was measured net of any discount, costs of issuance and other financing costs ("net proceeds"). On June 10, 2013, state finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal outstanding, a change that brings the debt outstanding definition in conformance with GAAP.

The debt limit law provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to special legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit, including Commonwealth refunding/restructuring bonds issued in September and October, 1991, federal grant anticipation notes, bonds issued to pay operating notes issued by the MBTA or to reimburse the Commonwealth for advances to the MBTA, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund, bonds issued to finance the Massachusetts School Building Authority and bonds issued to finance the Commonwealth's Accelerated Bridge Program.

The outstanding Commonwealth debt, the amounts of such outstanding debt excluded from the statutory debt limit, the net amounts of such outstanding Commonwealth debt subject to the statutory debt limit and the statutory debt limit as of the end of each of the last five fiscal years are shown in the following table on a statutory basis. Previous versions of this table published in Commonwealth Information Statements and in the corresponding schedules to the Commonwealth's Comprehensive Annual Financial Reports contained incorrect information for fiscal 2011 and fiscal 2012. That information has been corrected in this table. For fiscal 2011 through fiscal 2012, the table below shows the calculation of the debt limit prior to the passage of the legislation approved on June 10, 2013, as described above, and is presented showing net proceeds. For fiscal 2013 and thereafter the limit calculations are presented showing principal amounts as required by the amended law.

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**Calculation of the Debt Limit**  
(in thousands)

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013 (3)</u>	<u>Fiscal 2014 (4)</u>	<u>Fiscal 2015 (5)</u>	<u>Fiscal 2016 (6)</u>
Principal balance	\$20,875,055	\$21,433,553	\$21,513,039	\$22,419,852	\$23,826,301	\$24,021,126
Plus/ (less) amounts excluded:						
Net unamortized (discount)/premium and issuance costs	<u>335,078</u>	<u>477,815</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total net proceeds/principal	21,210,133	21,911,368	21,513,039	22,419,852	23,826,301	24,021,126
Less: net proceeds/principal of direct debt excluded from the statutory debt limit:						
Special obligation debt (1)	(1,025,739)	(986,050)	(935,095)	(888,405)	(829,340)	(829,340)
Accelerated bridge program	(672,587)	(1,035,859)	(988,605)	(1,403,850)	(1,495,150)	(1,495,150)
Federal grant anticipation notes (1)	(691,398)	(628,290)	(449,100)	(530,935)	(699,855)	(699,855)
Assumed county debt	(150)	(75)	-	-	-	-
MBTA forward funding	(45,907)	(207)	(207)	(207)	(207)	(207)
Transportation Infrastructure Fund School Building Assistance (SBA)	(1,362,894)	(1,345,406)	(1,303,013)	(1,241,263)	(1,197,127)	(1,197,127)
	<u>(841,841)</u>	<u>(811,088)</u>	<u>(764,338)</u>	<u>(723,917)</u>	<u>(689,446)</u>	<u>(689,446)</u>
Outstanding direct debt, net proceeds/principal (2)	<u>\$16,569,617</u>	<u>\$17,104,393</u>	<u>\$17,072,681</u>	<u>\$17,631,275</u>	<u>\$18,915,176</u>	<u>\$19,110,001</u>
Statutory Debt Limit	<u><b>\$18,042,424</b></u>	<u><b>\$18,944,152</b></u>	<u><b>\$17,923,500</b></u>	<u><b>\$18,819,675</b></u>	<u><b>\$19,760,659</b></u>	<u><b>\$20,748,692</b></u>

SOURCE: Office of the Comptroller.

- (1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
- (2) Includes capital appreciation bonds reported at original net proceeds.
- (3) For fiscal 2011 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.
- (4) In accordance with GAAP, includes \$200 million in principal related to commercial paper bond anticipation notes (BANs) which were retired subsequent to year-end upon the issuance of long-term general obligation bonds on July 11, 2014.
- (5) Amounts are unaudited and are as of June 30, 2015.
- (6) Amounts are unaudited and are as of July 31, 2015.

### General Obligation Debt

The Commonwealth issues general obligation bonds and notes pursuant to Chapter 29 of the General Laws. General obligation bonds and notes issued thereunder are deemed to be general obligations of the Commonwealth to which its full faith and credit is pledged for the payment of principal and interest when due, unless specifically provided otherwise on the face of such bond or note.

As of July 31, 2015, the Commonwealth had approximately \$21.0 billion in general obligation bonds outstanding, of which \$17.3 billion, or approximately 82% was fixed rate debt and \$3.7 billion, or 18%, was variable rate debt. The Commonwealth's outstanding general obligation variable rate debt consists of several variable rate structures. Much of the outstanding variable rate bonds is in the form of variable rate demand bonds, which account for \$703.5 million of outstanding general obligation debt as of July 31, 2015. Other outstanding variable rate structures include LIBOR Index bonds, auction rate securities, SIFMA Index Bonds and consumer price index bonds. The variable rate demand bonds are generally supported by liquidity facilities that require the bonds to be tendered by a specified date if the facility is not replaced or the bonds are not otherwise refinanced. See "Liquidity Facilities." Certain of the Commonwealth's variable rate demand bonds have been converted to an "index

floating mode” for direct purchase by a bank. As of July 31, 2015, the Commonwealth had approximately \$441.1 million of bonds in such a mode. Of the variable rate debt outstanding, the interest rates on \$2.5 billion, or approximately 12% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate swap agreements. These agreements are used as hedges to mitigate the risk associated with variable rate bonds.

Under state finance law, 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 constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The remaining variable rate debt of \$1.2 billion, or approximately 6% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a periodic basis.

The Commonwealth has announced its intention to implement a multi-year asset/liability management strategy. The intent of the asset/liability strategy is to better balance the Commonwealth’s interest rate exposure between its cash assets and debt liabilities by increasing the portion of its outstanding debt issued as unhedged, floating rate bonds. The Commonwealth intends to achieve this balance over a number of years, in part by issuing additional variable rate debt.

As of July 31, 2015, the Commonwealth had outstanding approximately \$142.3 million (\$76.9 million principal and including a discount equal to \$65.4 million) of variable rate “U. Plan” bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

The Commonwealth has issued general obligation bonds in the form of Build America Bonds (BABs). BABs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Commonwealth is entitled to receive a cash subsidy from the federal government equal to 35% of the investment payable on the BABs provided the Commonwealth makes certain required filings in accordance with applicable federal rules. Such interest subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. On March 4, 2013, the Internal Revenue Service indicated that such interest subsidy payment would be subject to a sequestration reduction of 8.7% through September 30, 2013 under the Budget Control Act of 2011, and on September 30, 2013, the Internal Revenue Service announced that such interest subsidy payment would be subject to a sequestration reduction of 7.2% through September 30, 2014. Federal legislation approved by the President on February 15, 2014 extended the sequestration provisions applicable to BABs through federal fiscal year 2024. On October 16, 2014, the Internal Revenue Service announced that the sequestration reduction would be 7.3% through September 30, 2015. On August 5, 2015, the Internal Revenue Service announced that the sequestration reduction will be 6.8% for the federal fiscal year ending September 30, 2016. Beginning in fiscal 2012, such payments received by the Commonwealth are required to be deposited in a Build America Bonds Subsidy Trust Fund and used, without further legislative appropriation, to pay debt service on the related BABs. The Commonwealth is obligated to make payments of principal and interest on the BABs whether or not it receives interest subsidy payments. As of July 31, 2015, the Commonwealth had approximately \$2.1 billion of BABs outstanding.

The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of revenue receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including, in some circumstances special obligation bonds. See “Special Obligation Debt” below. In addition, as of July 31, 2015 the Commonwealth had liquidity support for a \$200 million commercial paper program which it utilizes for cash flow purposes. In addition to borrowing via its commercial paper program, the Commonwealth issues fixed-rate revenue anticipation notes (or “RANs”).

### **Special Obligation Debt**

*Commonwealth Transportation Fund.* Section 20 of Chapter 29 of the General Laws, as amended, authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to

the Commonwealth Transportation Fund (formerly the Highway Fund). Revenues which are accounted to the Commonwealth Transportation Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax and registry of motor vehicles fees. In addition, a portion of the Commonwealth's receipts from the sales tax is dedicated to the Commonwealth Transportation Fund (see "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Sales and Use Tax*"), and state finance law currently provides for a series of substantial transfers from the General Fund to the Commonwealth Transportation Fund in fiscal 2015 through fiscal 2020; none of the sales tax receipts or General Fund transfers has been pledged to secure Commonwealth special obligation bonds.

Between 1992 and 2005, the Commonwealth issued special obligation bonds secured by a lien on a specified portion of the motor fuels excise tax. As of July 31, 2015, the Commonwealth had outstanding approximately \$210.6 million of such special obligation bonds secured by a pledge of 6.86¢ of the 24¢ motor fuels excise tax. In December, 2010, the trust agreement securing such bonds was closed to further issuance of debt.

The Commonwealth is also authorized to issue approximately \$2.383 billion of special obligation bonds secured by a pledge of all or a portion of revenues accounted to the Commonwealth Transportation Fund to fund a portion of the Commonwealth's accelerated structurally-deficient bridge program and other transportation improvements (CTF Bonds). As of July 31, 2015, the Commonwealth had outstanding approximately \$1.5 billion of CTF Bonds, which are secured by a pledge of registry fees and a specified portion of the motor fuels excise tax.

A portion of the outstanding CTF Bonds was issued as BABs (approximately \$419.8 million) and as Recovery Zone Economic Development Bonds (RZEDBs) (approximately \$156.4 million). Pursuant to ARRA, the Commonwealth is entitled to receive cash subsidy payments from the federal government equal to 35% of the debt service payable on the BABs and 45% of the debt service payable on the RZEDBs, provided, in both cases, that the Commonwealth makes certain required filings in accordance with applicable federal rules. As noted above, such subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. On March 4, 2013, the Internal Revenue Service indicated that such interest subsidy payment would be subject to a sequestration reduction of 8.7% through September 30, 2013 under the Budget Control Act of 2011, and on September 30, 2013, the Internal Revenue Service announced that such interest subsidy payment would be subject to a sequestration reduction of 7.2% through September 30, 2014. Federal legislation approved by the President on February 15, 2014 extended the sequestration provisions applicable to BABs and RZEDBs through federal fiscal year 2024. On October 16, 2014, the Internal Revenue Service announced that the sequestration reduction would be 7.3% through September 30, 2015. On August 5, 2015, the Internal Revenue Service announced that the sequestration reduction will be 6.8% for the federal fiscal year ending September 30, 2016. Beginning in fiscal 2012, such payments received by the Commonwealth are required to be deposited in a Build America Bonds Subsidy Trust Fund, to be used, without further legislative appropriation, to pay debt service related to such bonds. Subsidy payments received on account of CTF Bonds are pledged to secure the payment of debt service on CTF Bonds.

*Convention Center Fund.* Chapter 152 of the Acts of 1997, as amended, authorized \$694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston (\$609.4 million), the Springfield Civic Center (\$66 million) and the Worcester convention center (\$19 million). The bonds are payable from moneys 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%). In June, 2004, the Commonwealth issued \$686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, and in June, 2005, the Commonwealth issued \$527.6 million of special obligation refunding bonds, which advance refunded, in part, the 2004 issue. Of the 2004 and 2005 special obligation bonds secured solely by the pledge of receipts of tax revenues in the Convention Center Fund, approximately \$618.7 million remained outstanding as of July 31, 2015.

On July 29, 2014, the Governor approved legislation authorizing the Commonwealth to issue an additional \$1.1 billion in special obligation bonds to finance an expansion of the convention center in Boston, to finance costs of issuance and fund a debt service reserve fund. Such bonds would be secured by and payable from the Convention Center Fund, with the State Treasurer and Secretary of Administration and Finance having the authority to pledge additional state hotel/motel room occupancy excises to the new bonds. The expansion project is currently on hold.

### **Federal Grant Anticipation Notes**

Between 1998 and 2003, the Commonwealth issued federal grant anticipation notes yielding aggregate net proceeds of \$1.5 billion, the full amount authorized to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel (CA/T) project, in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes 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 grant anticipation 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 on the notes, subject to legislative appropriation. The 10¢-per-gallon pledge of motor fuel tax collections is subordinate to the pledge of Commonwealth Transportation Fund revenues securing the CTF Bonds. 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 grant anticipation notes 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 state appropriations. All of such notes have been defeased, and the lien securing such notes has been closed to further issuance.

The Commonwealth is also authorized to issue an additional \$1.1 billion of grant anticipation notes secured by future federal funds to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. Such notes are also secured by a back-up pledge of net amounts in the Commonwealth Transportation Fund after application of such amounts in accordance with the trust agreement securing the CTF Bonds and previously issued bonds secured by motor fuels excise taxes. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from state appropriations. As of July 31, 2015, \$699.9 million of such notes was outstanding.

Of the outstanding grant anticipation notes, \$100 million were issued as BABs, eligible for federal subsidy payments. As noted above, on October 1, 2013, the Internal Revenue Service indicated that such interest subsidy payment would be subject to a sequestration reduction of 7.2% through September 30, 2014 under the Budget Control Act of 2011. Federal legislation approved by the President on February 15, 2014 extended the sequestration provisions applicable to BABs through federal fiscal year 2024. On October 16, 2014, the Internal Revenue Service announced that the sequestration reduction would be 7.3% through September 30, 2015. On August 5, 2015, the Internal Revenue Service announced that the sequestration reduction would be 6.8% during the federal fiscal year ending September 30, 2016. Beginning in fiscal 2012, such payments received by the Commonwealth are required to be deposited in a Build America Bonds Subsidy Trust Fund, to be used, without further legislative appropriation, to pay debt service related to such bonds.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2011 through fiscal 2015, exclusive of unamortized bond premiums:

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**General and Special Obligation Long-Term Debt Issuance and Repayment Analysis (in thousands) (1)**

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014 (4)</u>	<u>Fiscal 2015 (5)</u>
<b>Beginning Balance as of July 1</b>	\$19,726,507	\$20,875,055	\$21,433,553	\$21,513,039	\$22,419,852
Debt Issued	<u>2,233,368</u>	<u>1,759,627</u>	<u>1,470,473</u>	<u>2,359,899</u>	<u>2,918,817</u>
Subtotal	<u>21,959,875</u>	<u>22,634,682</u>	<u>22,904,026</u>	<u>23,672,983</u>	<u>25,338,669</u>
Debt retired or defeased, exclusive of refunded debt	(974,770)	(1,202,094)	(1,386,527)	(1,434,511)	(1,486,243)
Refunding debt issued, net of refunded debt (3)	<u>(110,050)</u>	<u>965</u>	<u>(4,460)</u>	<u>(18,575)</u>	<u>(26,125)</u>
<b>Ending Balance June 30 (2)</b>	<b><u>\$20,875,055</u></b>	<b><u>\$21,433,553</u></b>	<b><u>\$21,513,039</u></b>	<b><u>\$22,419,852</u></b>	<b><u>\$23,826,301</u></b>

SOURCE: Office of the Comptroller.

(1) Including premium, discount and accretion of capital appreciation bonds.

(2) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(3) Amounts may be negative due to defeasances of debt of authorities from the issuance of Commonwealth debt as afforded under General Laws.

(4) In accordance with GAAP, includes \$200 million in principal related to commercial paper bond anticipation notes (BANs) which were retired subsequent to year-end upon the issuance of long-term general obligation bonds on July 11, 2014.

(5) Amounts are unaudited and are as of June 30, 2015.

The following table sets forth the amounts of Commonwealth long-term general obligation debt, special obligation debt and federal grant anticipation notes outstanding, exclusive of unamortized bond premiums, as of the end of the last five fiscal years.

**Outstanding Long Term Commonwealth Debt (in thousands)**

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014 (1)</u>	<u>Fiscal 2015 (2)</u>
General Obligation Debt	\$18,516,760	\$18,851,538	\$19,140,239	\$19,596,662	\$20,801,956
Special Obligation Debt	1,591,505	1,971,630	1,923,700	2,292,255	2,324,490
Federal Grant Anticipation Notes	<u>766,790</u>	<u>610,385</u>	<u>449,100</u>	<u>530,935</u>	<u>699,855</u>
<b>TOTAL</b>	<b><u>\$20,875,055</u></b>	<b><u>\$21,433,553</u></b>	<b><u>\$21,513,039</u></b>	<b><u>\$22,419,852</u></b>	<b><u>\$23,826,301</u></b>

SOURCE: Office of the Comptroller.

(1) In accordance with GAAP, includes \$200 million in principal related to commercial paper bond anticipation notes (BANs) which were retired subsequent to year-end upon the issuance of long-term general obligation bonds on July 11, 2014.

(2) Amounts are unaudited and are as of June 30, 2015.

**Debt Service Requirements**

The following table sets forth, as of July 31, 2015, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

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**Debt Service Requirements on Commonwealth Bonds as of July 31, 2015 through Maturity (in thousands)**

Period Ending	<u>General Obligation Bonds</u>						<u>Federal Highway Grant Anticipation Notes</u>				
	Principal	Gross Interest	CABs	Build America Bond Subsidies	Net Interest	Debt Service	Principal	Gross Interest	Build America Bond Subsidies	Net Interest	Debt Service
6/30/2016	\$1,538,410	\$837,169	\$6,652	(\$27,477)	\$809,691	\$2,354,752	\$42,815	\$33,234	(\$1,434)	\$31,799	\$74,614
6/30/2017	1,429,482	867,085	5,580	(36,557)	830,528	2,265,589	44,440	31,582	(1,302)	30,280	74,720
6/30/2018	1,218,810	811,970	4,958	(36,557)	775,412	1,999,181	47,150	29,776	(1,147)	28,629	75,779
6/30/2019	1,099,555	762,332	4,852	(36,557)	725,775	1,830,182	49,300	27,606	(973)	26,634	75,934
6/30/2020	1,145,879	712,332	4,410	(36,300)	676,032	1,826,321	51,615	25,261	(782)	24,479	76,094
6/30/2021	1,192,212	655,023	3,797	(35,014)	620,009	1,816,017	54,125	22,724	(577)	22,147	76,272
6/30/2022	1,095,752	601,407	3,587	(32,698)	568,708	1,668,047	56,780	20,053	(357)	19,696	76,476
6/30/2023	952,672	553,300	3,385	(31,412)	521,888	1,477,944	65,470	17,236	(122)	17,114	82,584
6/30/2024	968,208	507,518	3,168	(31,412)	476,106	1,447,482	67,725	14,371	-	14,371	82,096
6/30/2025	936,735	461,404	3,191	(31,177)	430,227	1,370,153	70,190	10,991	-	10,991	81,181
6/30/2026	856,196	419,235	3,238	(30,776)	388,459	1,247,893	73,425	7,492	-	7,492	80,917
6/30/2027	746,733	381,688	3,382	(30,203)	351,485	1,101,601	76,820	3,828	-	3,828	80,648
6/30/2028	748,584	348,366	3,416	(28,953)	319,413	1,071,413	-	-	-	-	-
6/30/2029	784,346	313,261	2,900	(26,687)	286,574	1,073,820	-	-	-	-	-
6/30/2030	745,007	276,434	2,552	(22,892)	253,542	1,001,101	-	-	-	-	-
6/30/2031	704,539	236,536	2,313	(16,808)	219,728	926,580	-	-	-	-	-
6/30/2032	568,825	210,516	1,895	(14,776)	195,740	766,459	-	-	-	-	-
6/30/2033	348,540	188,750	1,214	(12,440)	176,310	526,064	-	-	-	-	-
6/30/2034	369,593	172,276	644	(11,068)	161,208	531,445	-	-	-	-	-
6/30/2035	343,421	156,286	223	(9,647)	146,639	490,282	-	-	-	-	-
6/30/2036	352,625	139,974	-	(8,177)	131,798	484,423	-	-	-	-	-
6/30/2037	358,380	123,049	-	(6,654)	116,395	474,775	-	-	-	-	-
6/30/2038	343,570	106,202	-	(5,077)	101,125	444,695	-	-	-	-	-
6/30/2039	339,495	89,725	-	(3,445)	86,280	425,775	-	-	-	-	-
6/30/2040	330,500	72,811	-	(1,609)	71,202	401,702	-	-	-	-	-
6/30/2041	324,630	56,952	-	-	56,952	381,582	-	-	-	-	-
6/30/2042	318,140	42,098	-	-	42,098	360,238	-	-	-	-	-
6/30/2043	370,130	28,288	-	-	28,288	398,418	-	-	-	-	-
6/30/2044	262,725	11,463	-	-	11,463	274,188	-	-	-	-	-
6/30/2045	117,485	5,261	-	-	5,261	122,746	-	-	-	-	-
6/30/2046	18,320	427	-	-	427	18,747	-	-	-	-	-
<b>Totals (1)</b>	<b>\$20,929,498</b>	<b>\$10,149,138</b>	<b>\$65,356</b>	<b>(\$564,375)</b>	<b>\$9,584,763</b>	<b>\$30,579,617</b>	<b>\$699,855</b>	<b>\$244,153</b>	<b>(\$6,694)</b>	<b>\$237,459</b>	<b>\$937,314</b>

SOURCE: Office of the Comptroller.

(1) Totals may not add due to rounding.

**Special Obligation Revenue Bonds  
(Convention Center)**

**Special Obligation Revenue Bonds  
(CTF- Accelerated Bridge Program)**

**Special Obligation Revenue Bonds  
(Gas Tax)**

Period Ending	Principal	Gross Interest	Debt Service	Principal	Gross Interest	Build America Bond Subsidies	Net Interest	Debt Service	Principal	Interest	Debt Service
6/30/2016	\$21,075	\$16,718	\$37,793	\$9,260	\$74,627	(\$12,314)	\$62,313	\$71,573	\$39,900	\$11,006	\$50,906
6/30/2017	22,210	32,330	54,540	9,840	74,164	(12,314)	61,850	71,690	42,465	8,811	51,276
6/30/2018	23,310	31,164	54,474	10,635	73,672	(12,314)	61,358	71,993	23,040	6,785	29,825
6/30/2019	24,475	30,126	54,601	11,460	73,141	(12,314)	60,826	72,286	24,300	5,518	29,818
6/30/2020	23,380	28,842	52,222	12,530	72,568	(12,314)	60,253	72,783	25,640	4,182	29,822
6/30/2021	24,610	27,673	52,283	13,660	71,941	(12,314)	59,627	73,287	26,905	2,916	29,821
6/30/2022	25,970	26,380	52,350	14,480	71,258	(12,314)	58,944	73,424	28,385	1,436	29,821
6/30/2023	27,440	24,952	52,392	24,500	70,534	(12,314)	58,220	82,720	-	-	-
6/30/2024	28,990	23,443	52,433	34,005	69,309	(12,314)	56,995	91,000	-	-	-
6/30/2025	30,625	21,848	52,473	50,825	67,598	(11,937)	55,660	106,485	-	-	-
6/30/2026	32,360	20,164	52,524	53,415	65,011	(11,529)	53,482	106,897	-	-	-
6/30/2027	34,190	18,384	52,574	56,100	62,323	(11,065)	51,258	107,358	-	-	-
6/30/2028	36,125	16,504	52,629	45,975	59,429	(10,575)	48,853	94,828	-	-	-
6/30/2029	38,170	14,517	52,687	48,240	57,161	(10,058)	47,104	95,344	-	-	-
6/30/2030	40,330	12,418	52,748	50,555	54,850	(9,512)	45,338	95,893	-	-	-
6/30/2031	42,610	10,199	52,809	53,125	52,277	(8,935)	43,342	96,467	-	-	-
6/30/2032	45,020	7,856	52,876	55,865	49,536	(8,316)	41,220	97,085	-	-	-
6/30/2033	47,565	5,380	52,945	58,825	46,575	(7,661)	38,914	97,739	-	-	-
6/30/2034	50,250	2,764	53,014	61,850	43,553	(6,970)	36,584	98,434	-	-	-
6/30/2035	-	-	-	65,065	40,337	(6,239)	34,099	99,164	-	-	-
6/30/2036	-	-	-	68,455	36,946	(5,466)	31,479	99,934	-	-	-
6/30/2037	-	-	-	72,035	33,368	(4,650)	28,718	100,753	-	-	-
6/30/2038	-	-	-	75,625	29,778	(3,718)	26,060	101,685	-	-	-
6/30/2039	-	-	-	79,565	25,836	(2,546)	23,289	102,854	-	-	-
6/30/2040	-	-	-	83,665	21,735	(1,308)	20,427	104,092	-	-	-
6/30/2041	-	-	-	87,995	17,408	-	17,408	105,403	-	-	-
6/30/2042	-	-	-	91,665	13,740	-	13,740	105,405	-	-	-
6/30/2043	-	-	-	95,935	9,470	-	9,470	105,405	-	-	-
6/30/2044	-	-	-	100,000	5,000	-	5,000	105,000	-	-	-
6/30/2045	-	-	-	-	-	-	-	-	-	-	-
6/30/2046	-	-	-	-	-	-	-	-	-	-	-
<b>Totals (1)</b>	<b>\$618,705</b>	<b>\$371,662</b>	<b>\$990,367</b>	<b>\$1,495,150</b>	<b>\$1,443,145</b>	<b>(\$231,314)</b>	<b>\$1,211,830</b>	<b>\$2,706,980</b>	<b>\$210,635</b>	<b>\$40,654</b>	<b>\$251,289</b>

SOURCE: Office of the Comptroller.  
(1) Totals may not add due to rounding.

## Interest Rate Swaps

The Commonwealth has 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, predicated on the assumption that the interest on such bonds, combined with the cost of the associated interest rate swaps, would produce lower aggregate interest costs than fixed-rate bonds. Approximately \$2.5 billion of the Commonwealth's outstanding variable-rate debt is synthetically fixed via floating-to-fixed interest rate swap hedge agreements. Not included in this figure is an additional \$163.1 million in synthetically fixed debt associated with special obligation issues as shown in the table below.

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

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. 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 swaps, are assumed to be less costly than fixed-rate bonds, while hedging the risk of rising interest rates on those bonds to provide long-term budget certainty. As of July 31, 2015, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges, as provided for in GASB Statement No. 53.

The bonds and related swap agreements have final maturities ranging from 2015 to 2037. The total notional value of approximately \$2.7 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 3.616% to 5.25% 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.

All of the Commonwealth's counterparties are required to post collateral in certain circumstances. The Commonwealth is not required to post collateral under any of its existing swap agreements.

Prior to the bankruptcy filings by Lehman Brothers Holdings Inc. and its subsidiaries in September, 2008, the Commonwealth was a party to two master interest rate swap agreements relating to six different swap transactions with Lehman Brothers affiliates. Following the bankruptcy filings, the Commonwealth terminated those agreements in October and November, 2008, made termination payments to Lehman Brothers Special Financing Inc. (LBSF) and entered into replacement swap agreements with other counterparties. In early 2010, LBSF notified the Commonwealth that it disagreed with the termination amounts that the Commonwealth had paid in 2008 and issued a subpoena related to the terminations. In 2012, the Commonwealth participated in mandatory court-ordered mediation with LBSF, which concluded without resolution in 2013. On July 24, 2015, Lehman Brothers Holdings Inc., in its capacity as bankruptcy plan administrator on behalf of LBSF, brought suit against the Commonwealth alleging that the Commonwealth breached the interest rate swap agreements when it failed to pay LBSF the full amount due under the agreements. Lehman claims that the Commonwealth owes LBSF an additional payment of approximately \$10.3 million, plus an unliquidated amount in interest, cost and fees. The Commonwealth disputes the claims asserted by Lehman in the complaint and intends to defend vigorously against the complaint.

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The following table describes the interest rate swap agreements, all of which are floating-to-fixed rate hedges that the Commonwealth has entered into in connection with certain of its outstanding variable rate bond issues as of July 31, 2015.

Associated Bond Issue	Outstanding Notional Amount (thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Fair value as of 7/31/2015	Counterparty
<i>General Obligation Bonds:</i>								
Series 1997B (refunding)	\$22,074	VRDB	4.659%	Cost of Funds	8/12/1997	August 1, 2015	(\$90,948)	Goldman Sachs Matsui Marine Derivative Products Co., LP
Series 1997B (refunding)	14,716	VRDB	4.659%	SIFMA	9/1/2010	August 1, 2015	(60,460)	Sumitomo Mitsui Banking Corp
Series 1998A (refunding) Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B	80,700	VRDB	4.174%	60% 1-Month LIBOR + 25 basis points	11/17/2008	September 1, 2016	(1,380,934)	Deutsche Bank AG
Series 1998A (refunding) (1)	34,098	VRDB	4.174%	Cost of Funds	9/17/1998	September 1, 2016	(638,963)	Wells Fargo Bank
Series 2001B & C	482,230	VRDB	4.150%	Cost of Funds	2/20/2001	January 1, 2021	(49,334,303) (2)	Morgan Stanley Capital Services
Series 2012A, 2013A, 2014B, 2014D & 2014E (refunding)	508,915	SIFMA	3.616% - 4.004%	SIFMA	3/15/2005	February 1, 2028	(83,104,990)	Wells Fargo Bank
Series 2006C (refunding)	100,000	CPI	3.73% - 3.85%	CPI-based formula	1/1/2007	November 1, 2020	(6,245,186)	Wells Fargo Bank
Series 2007A	400,000	LIBOR	4.420%	67% 3-Month LIBOR + 0.57%	10/8/2008	May 1, 2037	(25,802,167)	Barclays Bank PLC
Series 2007A (refunding)	31,665	LIBOR	3.936%	67% 3-Month LIBOR + 0.46%	10/8/2008	November 1, 2020	(3,921,920)	Deutsche Bank AG
Series 2007A (refunding)	\$414,130	LIBOR	4.083%	67% 3-Month LIBOR + 0.55%	10/8/2008	November 1, 2025	(66,375,871)	Bank of NY Mellon

Associated Bond Issue	Outstanding Notional Amount (thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received SIFMA - 3 basis points	Effective Date	Termination Date	Fair value as of 7/31/2015	Counterparty
Series 2000A	100,658	VRDB	3.942%	SIFMA - 3 basis points	8/16/2007	August 1, 2018	(5,154,626)	Merrill Lynch Capital Services
Series 2000A	50,892	VRDB	3.942%	SIFMA - 3 basis points	8/16/2007	August 1, 2018	(2,403,931)	JP Morgan formerly Bear Stearns
Series 2006B, Series 2000D	294,000	VRDB/ ARS	4.515%	67% 3- MonthLIBOR	4/2/2009	June 15, 2033	(86,114,665)	Barclays Bank PLC
<b>Subtotal</b>	<b><u>\$2,534,078</u></b>						<b><u>(\$330,628,962)</u></b>	
<i>Special Obligation Dedicated Tax Revenue Bonds</i>								
Series 2004 (Convention Ctr)	22,198	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	January 1, 2018	(762,652)	Goldman Sachs Capital Markets
Series 2004 (Convention Ctr)	22,198	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	January 1, 2018	(647,107)	JP Morgan formerly Bear Stearns
Series 2004 (Convention Ctr)	22,198	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	January 1, 2018	(648,467)	JPMorgan Chase Bank
Series 2005A (Gas Tax)	96,490	CPI	4.771% - 5.059%	CPI-based formula	1/12/2005	June 1, 2022	(5,957,574)	Merrill Lynch Capital Services
<b>Subtotal</b>	<b><u>\$163,084</u></b>						<b><u>(\$8,015,800)</u></b>	
<b>Total</b>	<b><u>\$2,697,162</u></b>						<b><u>(\$338,644,761)</u></b>	

SOURCE: Office of the Treasurer and Receiver General.

- (1) The Series 1998A swap with Citi Swapco was partially terminated as part of the novation of the Commonwealth's swaps with Citi Swapco and Citibank to Wells Fargo on September 20, 2013.
- (2) As of August 3, 2015.

## Liquidity Facilities

Much of the Commonwealth's outstanding variable rate debt consists of variable rate demand bonds whose interest rates re-set daily or weekly through a remarketing process. Because these bonds offer a "put" or tender feature, they are supported by standby bond purchase agreements with commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. The following table describes the liquidity facilities that the Commonwealth had with respect to such bonds as of July 31, 2015.

<u>Variable Rate Bonds</u>	<u>Outstanding Principal Amount (in thousands)</u>	<u>Bank</u>	<u>Termination Date</u>
1997 Series B (Refunding)	\$36,790	TD Bank	8/10/2015 (1)
2000 Series A	200,000	Citibank	4/24/2018
2000 Series B	75,590	Bank of America	4/24/2018
2001 Series C (Refunding)	241,115	State Street Bank	4/17/2017
2006 Series A	150,000	Wells Fargo Bank	8/08/2017

SOURCE: Office of the Treasurer and Receiver General.

(1) The Commonwealth terminated this facility early, on August 3, 2015, to correspond with the final maturity of the related bonds.

The Commonwealth also has liquidity support for a \$200 million commercial paper program. A line of credit provided by TD Bank, N. A. expires on April 17, 2018.

## Direct Purchase Agreements

Certain of the Commonwealth's variable rate demand bonds have been converted to an "index floating mode" for direct purchase by a bank. The following table describes the Commonwealth's direct purchase agreements, each with a different bank, as of July 31, 2015.

<u>Direct Purchase Bonds</u>	<u>Outstanding Principal Amount (in thousands)</u>	<u>Mandatory Tender Date</u>
2001 Series B (Refunding)	\$241,115	8/01/2017
2006 Series B, Subseries B-1	100,000	5/31/2016
2006 Series B, Subseries B-2	100,000	5/31/2016

SOURCE: Office of the Treasurer and Receiver General.

## General Obligation Contract Assistance Liabilities

*Massachusetts Department of Transportation, as successor to the Massachusetts Turnpike Authority.* On February 19, 1999, the Commonwealth and the Massachusetts Turnpike Authority entered into a contract which provides for the Commonwealth to make annual operating assistance payments to the Massachusetts Department of Transportation (MassDOT), as successor to the Authority, which are capped at \$25 million annually and extend until the end of the 40<sup>th</sup> fiscal year following the transfer of certain facilities associated with the Commonwealth's Central Artery/Ted Williams Tunnel Project (CA/T) to MassDOT. On June 30, 2009, the Commonwealth and the Turnpike Authority entered into a contract for financial assistance which provides for the payment by the Commonwealth to MassDOT, as successor to the Authority, of \$100 million per fiscal year, commencing July 1, 2009 until June 30, 2039. Payments under both contracts constitute a general obligation pledge of the Commonwealth for which the full faith and credit of the Commonwealth are pledged.

*Massachusetts Clean Water Trust.* The Massachusetts Clean Water Trust (the “Trust”) manages the Commonwealth’s state revolving fund program under the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units and others to finance eligible water pollution abatement and drinking water projects. Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Currently, most new loans made by the Trust bear interest at 2%. Other loans made by the Trust may bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust’s enabling act, the aggregate annual contract assistance payment for the Trust’s programs may not exceed \$138 million. The Commonwealth’s agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its full faith and credit are pledged, and the Commonwealth’s contract assistance payments are pledged as security for repayment of the Trust’s debt obligations. As of July 31, 2015 the Trust had approximately \$3.0 billion of bonds outstanding. Approximately 8.20% of the Trust’s aggregate debt service is covered by Commonwealth contract assistance. Prior to August, 2014, the Trust was known as the Massachusetts Water Pollution Abatement Trust.

*Massachusetts Development Finance Agency.* Under the infrastructure investment incentive program, known as “I-Cubed,” up to \$600 million of public infrastructure improvements to support significant new private developments may be financed by bonds issued by the Massachusetts Development Finance Agency (MassDevelopment) that are secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. Until a related new private development is completed and occupied, the developer’s property is assessed by the municipality in which the development is located in amounts equal to the debt service cost on the bonds to reimburse the Commonwealth for such cost. After each phase of the private development is completed and occupied, the municipality is required to reimburse the Commonwealth for any portion of the debt service cost on the bonds that is not covered by new state tax revenues generated from the related private development. The municipality’s reimbursement obligation is secured by a general obligation pledge of the municipality, a local aid intercept and a reserve fund which must be funded in an amount equal to or greater than two years of debt service on the bonds. The obligation of the municipality ends when the Commonwealth has collected revenues sufficient to pay principal and interest payments to date plus all remaining principal payments due. Pursuant to this program, MassDevelopment has issued tax-exempt contract assistance bonds to finance and refinance infrastructure projects associated with the Fan Pier development in Boston, the Assembly Row project in Somerville and the Chestnut Hill Square project in Newton. As of July 31, 2015, total “I-Cubed” program bonds were outstanding in the amount of approximately \$52.1 million.

Legislation approved by the Governor on August 8, 2008 included an authorization to finance up to \$43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds issued by MassDevelopment to finance the parkway are secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. As of July 31, 2015, approximately \$26.5 million of such bonds were outstanding.

*Social Innovation Financing Trust Fund.* Legislation approved by the Governor on July 8, 2012 established a Social Innovation Financing Trust Fund for the purpose of funding contracts to improve outcomes and lower costs for contracted government services, referred to as “pay for success contracts.” The legislation authorized the Secretary of Administration and Finance to enter into pay for success contracts in which a substantial portion of Commonwealth payments, from amounts appropriated by the Legislature to the Trust Fund, would be conditioned on the achievement of specified performance outcomes. The legislation authorizes the Secretary of Administration and Finance to provide in any such contract that such payments constitute general obligations of the Commonwealth for which the full faith and credit of the Commonwealth shall be pledged for the benefit of the providers of the contracted government services. The total amount of payments backed by the full faith and credit of the Commonwealth under such contracts may not exceed, in the aggregate, \$50 million. The first such contract was entered into in January, 2014 with a nonprofit intermediary organization and a nonprofit social service agency that helps young men leaving the juvenile justice system or on probation avoid re-offending. The contract obligates the Commonwealth to make up to \$28 million in success payments, in the aggregate, through fiscal 2020, and the Commonwealth’s obligation to make such payments is a general obligation for which the Commonwealth’s full faith and credit are pledged. The Commonwealth entered into a second such contract in December, 2014 to address

chronic individual homelessness through permanent stable, supportive housing. The contract obligates the Commonwealth to make up to \$6 million in success payments, in the aggregate, through fiscal 2021. The Commonwealth's obligation to make such payments is a general obligation for which the Commonwealth's full faith and credit are pledged.

The following table sets forth the Commonwealth's general obligation contract assistance requirements for fiscal 2015 and thereafter pursuant to contracts with the Massachusetts Clean Water Trust, the Massachusetts Department of Transportation (as successor to the Massachusetts Turnpike Authority) and Massachusetts Development Finance Agency (including the I-Cubed Program and the South Weymouth naval air base contract assistance requirements) and contracts associated with the Social Innovation Financing Trust Fund.

**General Obligation Contract Assistance Requirements**  
(in thousands)

<u>Fiscal Year</u>	<u>Massachusetts Clean Water Trust</u>	<u>Massachusetts Department of Transportation</u>	<u>Massachusetts Development Finance Agency</u>	<u>Social Innovation Financing Trust Fund (3)</u>	<u>Total</u>
2016	\$57,417	\$125,000	\$5,278	\$1,782	\$189,477
2017	49,969	125,000	5,284	2,633	182,886
2018	44,086	125,000	5,282	14,630	188,998
2019	43,714	125,000	5,281	5,037	179,032
2020	38,242	125,000	5,277	8,661	177,180
2021	31,260	125,000	5,284	563	162,107
2022	21,934	125,000	5,283	-	152,217
2023	22,185	125,000	5,283	-	152,468
2024	13,987	125,000	5,285	-	144,272
2025	9,896	125,000	5,284	-	140,180
2026	7,599	125,000	5,283	-	137,882
2027 through 2049	<u>26,068 (1)</u>	<u>1,875,000</u>	<u>87,568</u>	-	<u>1,988,636</u>
<b>Total</b>	<b><u>\$366,357</u></b>	<b><u>\$3,250,000 (2)</u></b>	<b><u>\$145,672</u></b>	<b><u>\$33,306</u></b>	<b><u>\$3,795,335</u></b>

SOURCES: Massachusetts Clean Water Trust column – Office of the Treasurer and Receiver-General; Massachusetts Department of Transportation, Massachusetts Development Finance Agency and Social Innovation Financing Trust Fund columns - Executive Office for Administration and Finance.

- (1) Current contract assistance payments end in fiscal 2045.
- (2) Represents \$25 million per year for fiscal years 2027 to 2049, inclusive and \$100 million per year for fiscal years 2027 to 2039, inclusive.
- (3) Projected payment schedule. The actual amount and timing of payments will be based on the achievement of specified performance outcomes. Up to \$10,770,000 of these payments may be funded through a grant from the U. S. Department of Labor.

**Budgetary Contract Assistance Liabilities**

*City of Chelsea Commonwealth Lease Revenue Bonds.* In November, 1993, the Chelsea Industrial Development Financing Authority issued approximately \$95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax and data processing facility of the Department of Revenue and certain other departments and agencies of the Commonwealth. The bonds bore interest at a variable rate, and under two interest rate swap agreements that were entered into at the time with Lehman Brothers Special Financing, Inc. (LBSF), MassDevelopment received variable rate payments with respect to the bonds and was obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease, which provided for the payment of debt service on the bonds, including swap related payments, and certain other expenses associated with the project. In September, 2008, LBSF and its parent, Lehman Brothers Holdings Inc. (LBHI), filed for bankruptcy. In December, 2008, the bonds were refinanced by the Commonwealth through the issuance of general obligation debt, and the Commonwealth made a \$2.3 million payment to LBSF to terminate the swap agreements. In May, 2010, LBHI advised the Executive Office for Administration and Finance that it calculated the termination value to be approximately \$13.7 million. In June, 2011, LBHI issued a subpoena to the Executive Office for Administration and Finance relating to the termination of the swap agreements. In April, 2012, LBHI issued a Derivative ADR Notice obligating the parties to



submit to mandatory court ordered mediation. The Derivative ADR notice contains a settlement demand from LBHI in the amount of approximately \$16.5 million. A formal mediation process commenced on October 11, 2012 and concluded without resolution. Any obligation of the Commonwealth with respect to this termination does not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and is subject to appropriation by the Legislature.

*Long-Term Operating Leases and Capital Leases.* In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2014 are set forth in the table below.

The following table sets forth the Commonwealth’s budgetary contract assistance requirements. These figures are as of June 30, 2014.

**Budgetary Contract Assistance Liabilities (in thousands)**

<u>Fiscal Year</u>	<u>Leases (1)</u>
2015	\$191,637
2016	133,818
2017	121,314
2018	107,948
2019	83,623
2020	60,752
2021	33,999
2022	24,780
2023	21,549
2024	19,385
2025	16,173
2026 through 2044	<u>114,696</u>
<b>Total</b>	<b><u>\$929,674</u></b>

SOURCES: Office of the Comptroller.

(1) Includes operating and capital leases. Leases with the institutions of higher education that are supported by tuition and fees are not included.

**Contingent Liabilities**

*Massachusetts Bay Transportation Authority.* The MBTA issues its own bonds and notes. Prior to July 1, 2000, the Commonwealth supported MBTA bonds, notes and other obligations through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA’s net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth’s annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth’s sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into prior to July 1, 2000. The Commonwealth’s obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of July 31, 2015, the Massachusetts Bay Transportation Authority had approximately \$229.9 million of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately \$24 million to \$10 million through fiscal 2017 and declining thereafter.

*Massachusetts Development Finance Agency.* Under legislation approved in 2010 and amended in 2011, the Massachusetts Development Finance Agency (MassDevelopment) is authorized to issue bonds for the benefit of nonprofit community hospitals and nonprofit community health centers. Such bonds are to be secured by capital reserve funds funded at the time of bond issuance in an amount equal to the maximum annual debt service on the

bonds. The legislation provides that MassDevelopment is to notify the Governor if any such capital reserve fund needs to be replenished, and that the Legislature is to appropriate the amount necessary to restore the fund to its required level. The legislation contains no limit on the amount of such bonds that may be issued. Any project to be financed by such bonds must be approved by the Secretary of Health and Human Services, and any loan to a community hospital or community health center (and the issuance and terms of the related bonds) must be approved by the Secretary of Administration and Finance. If any such institution defaults on a loan, any moneys in the custody of the Commonwealth that are payable to the institution may be withheld by the Commonwealth and used to pay debt service or to replenish the applicable capital reserve fund. If, following a Commonwealth transfer to replenish a capital reserve fund, the applicable institution fails to reimburse the Commonwealth within six months, the Commonwealth may withhold funds payable to the institution, and all contracts issued by the Group Insurance Commission, the Commonwealth Health Insurance Connector Authority and MassHealth to a third party for the purposes of providing health care insurance paid for by the Commonwealth are to provide that the third party is to withhold payments to the institution and transfer the withheld amounts to the Commonwealth.

*Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.* The Steamship Authority operates passenger and vehicle ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to the Authority and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of July 31, 2015 the Steamship Authority had approximately \$71.9 million of bonds outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

*University of Massachusetts Building Authority and Massachusetts State College Building Authority.* These higher education building authorities, created to assist institutions of public higher education in the Commonwealth, have outstanding bonds some of which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student fees, are pledged to their respective debt service requirements. As of July 31, 2015, the Massachusetts State College Building Authority had approximately \$7.8 million of Commonwealth-guaranteed debt outstanding. Under its enabling act, the Massachusetts State College Building Authority is not permitted to issue any additional Commonwealth-guaranteed debt. The University of Massachusetts Building Authority may have outstanding up to \$200 million in Commonwealth-guaranteed debt and had approximately \$121.6 million of Commonwealth-guaranteed debt outstanding as of July 31, 2015.

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## Authorized and Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Capital Investment Process and Controls.” Over the last decade, the Commonwealth has typically had a large amount of authorized and unissued debt. However, the Commonwealth’s actual expenditures for capital projects in a given year relate more to the capital needs which the Commonwealth determines it can afford to finance in such year than to the total amount of authorized and unissued debt. The table below presents authorized and unissued debt at year end:

### Authorized and Unissued Debt (in thousands)

<u>Fiscal Year</u>	<u>Authorized and Unissued Debt</u>
2011	\$15,870,432
2012	13,893,469
2013	13,762,257
2014	26,255,768
2015	29,071,339 (1)

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SOURCE: Office of the Comptroller.

(1) Amount is unaudited and is as of June 30, 2015.

Authorized and unissued debt is measured in accordance with the statutory basis of accounting, which is different from GAAP. Only the net proceeds of bonds issued (exclusive of underwriters’ discount, costs of issuance and other financing costs) are deducted from the amount of authorized and unissued debt. Therefore, the change in authorized and unissued debt at the end of any fiscal year is not intended to correlate to the change in the principal amount of debt outstanding as measured and reported in conformity with GAAP.

The Legislature has enacted various bond authorizations to fund the Commonwealth’s capital investment plan. See “COMMONWEALTH CAPITAL INVESTMENT PLAN.” Capital spending and subsequent debt issuance is constrained by the debt affordability policy and the statutory debt limit, and will be published annually in the five-year capital investment plan.

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## COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan on a rolling basis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt and federal reimbursements. The capital investment plan for fiscal 2016 through fiscal 2020 provides resources for various Commonwealth facilities and programs.

The Executive Office for Administration and Finance also sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the “bond cap,” is to keep Commonwealth debt within affordable levels. On June 19, 2015, the Governor announced a five-year capital investment plan for fiscal 2016 through fiscal 2020 and an administrative bond cap of \$2.125 billion for fiscal 2016.

The following table shows the allocation of administrative bond cap spending by agency and the allocation of total capital spending from all sources of funding for fiscal 2016:

### Fiscal Year 2016 Capital Budget (in millions)

<u>Agency</u>	<u>Bond Cap</u>	<u>Project- Financed</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total</u>
Administration and Finance	\$186.0	\$8.0	-	\$86.0	\$280.0
Capital Asset Management	389.4	42.0	\$400.0	68.5	500.3
Energy and Environmental Affairs	236.4	-	1.9	5.5	243.8
Housing and Community Development	185.0	-	10.0	-	195.0
Housing and Economic Development	126.5	-	-	-	126.5
MassIT	168.0	45.0	29.6	8.9	251.5
Public Safety	17.8	3.2	-	-	21.0
MassDOT	<u>816.0</u>	<u>-</u>	<u>674.7</u>	<u>998.6</u>	<u>2,489.4</u>
<b>Total (1)</b>	<b>\$2,125.0</b>	<b>\$98.2</b>	<b>\$716.6</b>	<b>\$1,167.5</b>	<b>\$4,107.2</b>

SOURCE: Executive Office for Administration and Finance as of Executive Office for Administration and Finance as of June 19, 2015.

(1) Totals may not add due to rounding.

The different sources of funding for the capital program, as reflected in the table above, include:

- Administrative Bond Cap – Commonwealth general obligation borrowing to support the regular capital program.
- Project Financed – General obligation bonds, the debt service for which is supported by savings or revenue related to the project; for example, energy efficiency improvements to Commonwealth facilities, the capital costs for which are expected to be reimbursed through operating savings as a result of reduced energy consumption.
- Federal Funds – Federal reimbursements for capital expenditures.
- Other Funds:
  - Accelerated Bridge Program (ABP) – Commonwealth special obligation bonds secured by revenues credited to the Commonwealth Transportation Fund (CTF) or federal grant anticipation notes secured by federal highway reimbursements issued to fund capital improvements to structurally deficient bridges through the ABP.
  - Special Obligation Transit Bonds (SOTB) – Commonwealth special obligation bonds to be secured by revenues credited to the CTF to finance certain transit infrastructure projects through the SOTB.
  - Pay-As-You-Go – Funding from current revenue for capital projects, including toll revenue.

- Contributions made by third parties to capital projects being carried out by the Commonwealth, including the I-Cubed program, contributions from campuses for higher education projects, and capital projects funded by assessments.

The administrative bond cap is reviewed and subject to revision annually. Actual capital spending is subject to variance from budget due to the nature of capital projects and programs comprising the plan. In addition, debt affordability analysis and the assumptions and methodology that inform the analysis are subject to periodic review and are updated annually. These and other factors are expected to affect the out-years of the current five-year plan.

The Commonwealth aggregates its capital expenditures into eight major categories based primarily on the agencies responsible for spending and carrying out capital projects: information technology, infrastructure and facilities, environment, housing, public safety, transportation, convention centers, and other. The following table sets forth capital spending in fiscal 2010 through fiscal 2014 and projected capital spending for fiscal 2015 according to these categories.

### Commonwealth Historical Capital Spending (in millions)

<b>Investment Category:</b>	<b>Fiscal 2010</b>	<b>Fiscal 2011</b>	<b>Fiscal 2012</b>	<b>Fiscal 2013</b>	<b>Fiscal 2014</b>	<b>Projected Fiscal 2015 (2)</b>
Information technology	\$ 100	\$ 119	\$ 129	\$133	\$190	\$212
Infrastructure/facilities	391	458	518	452	457	416
Environment	158	142	131	130	138	190
Housing	318	174	185	183	182	180
Public safety	11	7	17	17	22	24
Transportation	1,694	1,512	1,618	1,528	1,790	1,925
Convention centers	5	-	-	-	-	-
Other	108	127	125	183	227	179
<b>Total (1)</b>	<b><u>\$2,785</u></b>	<b><u>\$2,539</u></b>	<b><u>\$2,724</u></b>	<b><u>\$2,626</u></b>	<b><u>\$3,006</u></b>	<b><u>\$3,126</u></b>

SOURCE: Fiscal 2010-2014, Executive Office for Administration and Finance and Office of the State Comptroller; Fiscal 2015, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Reflects fiscal 2015 spending identified on MMARS through July 31, 2015; spending amounts are expected to change substantially as fiscal 2015 bills continue to be paid during the accounts payable period.

The former Governor released the fiscal 2015 capital budget on July 1, 2014. Budgeted capital spending in the fiscal 2015 capital budget totaled approximately \$4.523 billion from all sources, including the administrative bond cap, project funded, federally funded, and other sources. The administrative bond cap for fiscal 2015 was set at \$2.125 billion in the capital plan that was released in July, 2014. Subsequent to the release of the fiscal 2015 capital plan, unused fiscal 2014 bond cap was carried forward in the amount of \$128 million, for total fiscal 2015 bond cap spending of \$2.253 billion. However, some capital projects expected to begin during fiscal 2015 were delayed or revised, thereby reducing the expenditure total. Because capital spending is generally funded in arrears by the issuance of bonds, sometimes months after the original spending occurred, the amount of capital spending in a particular fiscal year and the amount of general obligation bonds issued in that year will usually differ. Final fiscal 2015 capital expenditure totals will be available after the Commonwealth's annual audit is concluded.

### Debt Affordability Policy

The Executive Office for Administration and Finance has established a debt affordability policy for the Commonwealth. Pursuant to the debt affordability policy, the Executive Office for Administration and Finance has set an annual borrowing limit at a level designed to keep debt service on the Commonwealth's direct debt within 8% of budgeted revenues.

For this purpose, debt service includes programs expected to be funded both within and outside of the bond cap, including principal and interest payments on all general obligation debt, special obligation gas tax debt, ABP

debt, projected debt service for SOTB, general obligation contract assistance payment obligations and budgetary contract assistant payment obligations on certain capital lease financings. This inclusive definition ensures that while some programs are expected to be funded outside of the bond cap, the related debt service costs of the programs should be fully accounted for under the debt affordability policy in setting the bond cap at appropriate levels.

For the purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority (MBTA), the Massachusetts School Building Authority (MSBA) and the Massachusetts Convention Center Authority (MCCA).

For the fiscal 2016 capital budget, the Governor maintained the administrative bond cap at \$2.125 billion. The fiscal 2016 debt affordability analysis is based on debt service as described above and assumed growth of budgeted revenues at a rate of 4% annually. The compound annual growth rate in budgeted revenues from fiscal 2006 through fiscal 2016 (estimated) is 4.42%. In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than \$125 million.

The following table shows the projected total annual debt service payment obligations for the five-year capital investment plan period from fiscal 2016 through fiscal 2020, projected budgetary revenues and the resulting projected debt service as a percentage of projected budgeted revenues within 8% as prescribed by the Debt Affordability Policy.

**Affordability of Commonwealth Indebtedness (in thousands)**

	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u>	<u>Fiscal 2020</u>
Total Debt Service (1)	\$2,756,808	\$3,057,899	\$3,035,931	\$3,059,112	\$3,307,630
Estimated Budgeted Revenues (2)	\$40,041,900	\$41,643,576	\$43,309,319	\$45,041,692	\$46,843,359
Debt Service as % of Net Budgeted Revenues	6.88%	7.34%	7.01%	6.79%	7.06%

SOURCE: Executive Office for Administration and Finance.

- (1) For purposes of Debt Affordability Analysis, debt service includes principal and interest payments on all general obligation debt, special obligation debt, accelerated bridge program debt, general obligation contract assistance and budgetary contract assistant obligations. Projected general obligation borrowings assume level funding of administrative bond cap throughout the five-year capital plan period, special obligation transit spending and remaining authorized accelerated bridge program spending in fiscal years 2016-2020. Interest on new debt obligations is assumed to be payable at an annual rate of 4.5% for 30 year bonds, increasing annually by 0.10%. Debt structure is assumed to be level annual principal and interest payments. Projections are for planning purposes only and assumptions are subject to change. New debt service is added to existing debt service in the information statement, and does not take into account Treasury's active debt service management. Debt service projections will therefore exceed actual debt service in the short term.
- (2) Budgeted revenues are projected to grow at a rate of 4% annually. For purposes of Debt Affordability Analysis, budgeted revenues include all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. Budgeted revenues do not include off-budget revenues dedicated to the MBTA, the MSBA and the MCCA.

The Capital Debt Affordability Committee is charged with reviewing on a continuing basis the amount and condition of the Commonwealth's tax-supported debt, as well as the debt of certain state authorities. The Committee is also responsible for providing an estimate of the total amount of new Commonwealth debt that can prudently be authorized for the next fiscal year, taking into account certain criteria, to the Governor and Legislature on or before December 15 of each year. The committee's estimates are advisory and not binding on the Governor or the Legislature. The Legislature is responsible for authorizing Commonwealth debt. The Governor determines the total amount capital spending for each fiscal year and the amount of new Commonwealth debt that he considers advisable to finance such spending. For fiscal 2016, the committee determined that up to \$2.25 billion of capital debt issuance could be prudently authorized. The Committee consists of seven voting members – the Secretary of Administration and Finance (who chairs the committee), the State Treasurer, the Comptroller, the Secretary of Transportation, one appointee of the Governor and two appointees of the State Treasurer – and eight legislative leaders who are non-voting members.

It is the policy of the Executive Office for Administration and Finance to monitor the Commonwealth's debt capacity and affordability of proposed capital spending periodically, and to review the affordability analysis and revise estimates for future years annually in connection with the preparation of the five-year capital plan.

## LEGAL MATTERS

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to her knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

### Programs and Services

From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments.

*Rosie D., et al. v. The Governor*, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February, 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July, 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has undertaken implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. MassHealth estimates that its implementation of program changes in compliance with the remedy order will increase its costs, including administrative costs, prospectively by over \$20 million annually. The Court has extended the monitoring period several times, most recently through December 31, 2015. The Commonwealth maintains that it is in full compliance with the court's judgment and is providing the plaintiffs and the court monitor with a large volume of documentation that the plaintiffs requested. The next hearing is scheduled for September 22, 2015.

*SEIU v. Department of Mental Health*, Supreme Judicial Court. The Service Employees International Union ("SEIU") has challenged the Department of Mental Health's contracts for the provision of Community Based Flexible Supports ("CBFS") as unlawful privatization contracts under the so-called Pacheco Law. The union seeks declaratory relief invalidating portions of the CBFS contracts as well as reinstatement of and back pay for up to 100 former Department case managers who the union claims were laid off in 2009 as a result of these allegedly unlawful contracts. On August 15, 2012, the Department of Mental Health ("Department") filed a motion for judgment on the pleadings dismissing the case due to lack of subject matter jurisdiction based on SEIU's lack of standing to pursue the action and its failure to include as defendants in the action the private contractors whose contracts would be partially invalidated were the requested relief granted. By Memorandum of Decision and Order dated March 8, 2013, the Superior Court allowed the Department's motion, and on March 24, 2013, judgment entered dismissing the case. SEIU subsequently appealed. On August 15, 2014, the Supreme Judicial Court issued a decision affirming the Superior Court's determination that the complaint was deficient for failing to name the state contractors in the CBFS program as parties. It remanded the case to the Superior Court for the sole purpose of allowing SEIU to move to amend its complaint to add as necessary parties the DMH contractors. In its August 15, 2014 decision, the Supreme Judicial Court reversed the Superior Court's separate determination that, based on the pleadings, SEIU lacked direct standing to seek enforcement of the Pacheco Law. The union filed an amended complaint naming the CBFS contractors on October 8, 2014. In addition to other defenses, the Department continues to deny that it violated the Pacheco Law or that the 2009 lay-offs were due to the CBFS procurement. The 2009 layoffs were instead the result of mid-fiscal-year budget reductions. The Department further denies that reinstatement or back pay would be available as relief in the action even if portions of the CBFS contracts were invalidated. The Department believes that the potential cost associated with rehiring the laid-off case managers would be \$10 million annually. This would be in addition to whatever back pay might be awarded if the plaintiff prevails. The Department has served a dispositive motion that was heard by the court on July 22, 2015. The court took the matter under advisement and stayed discovery pending issuance of its decision.

*Hutchinson et al v. Patrick et al*, United States District Court, Massachusetts. This is a class action, commenced in 2007, brought by two organizations and five individuals with brain injuries who are residents of various nursing facilities. Plaintiffs claim that they and a class of between 2,000 and 4,000 brain-injured individuals are entitled to, among other things, placement in community settings. Plaintiffs asserted claims under the Americans with Disabilities Act, the Rehabilitation Act and the Medicaid Act; they sought declaratory and injunctive relief. After the court certified a class in October 2007, the parties engaged in an intensive period of settlement negotiations. In May, 2008, the parties entered into a settlement agreement which was subsequently amended in July, 2013 (“Agreement”). Under the terms of the Agreement, the defendants will use the Massachusetts Money Follows the Person Demonstration Project (“MFP Project”) and various waiver programs to provide community residential and non-residential supports in an integrated setting to Massachusetts Medicaid-eligible persons with an acquired brain injury who are in nursing and long-term rehabilitation facilities (“Class Members in Facilities”). Over the six-year term of the Agreement, the defendants will provide between 905 and 1,174 waiver slots for Class Members in Facilities. The exact number of slots to be added will depend on the level of demand for waiver services.

The cost of implementing these programs was originally projected to be approximately \$386 million, phased in over six years, with approximately half of that amount expected to be reimbursed by the federal government. The fiscal 2015 budget provided a new, \$34.3 million line item at EHS/MassHealth specifically for the purposes of funding the Hutchinson Settlement. The fiscal 2016 budget increased the appropriation to \$49.4 million. The majority of this funding will be allocated to the Department of Developmental Services and the Massachusetts Rehabilitation Commission to fund Hutchinson-related services, while the residual EHS/MassHealth funding will pay for the development of the IT systems necessary to support and track these services. By year six of the agreement, fiscal 2019, when the program will be fully implemented, the annualized cost of the program as initially projected will be approximately \$112 million (gross) or \$56 million (net) state cost.

*Massachusetts Council of Human Service Providers, Inc., et al. v. Secretary of the Executive Office of Health and Human Services* (Suffolk Superior Court). A coalition of providers of social services has brought suit against EOHHS, alleging that EOHHS has failed to promulgate new (higher) rates of reimbursement to providers of various behavioral health services, and to reimburse those providers consistent with such rates, notwithstanding statutory requirements which set a timetable by which such rates were required to be promulgated and to become effective. The plaintiffs argue that EOHHS had a non-discretionary statutory duty to promulgate the new rates, and to reimburse providers consistent with such rates, but has failed to do so in a timely manner. Plaintiffs have brought an action seeking relief under the mandamus and declaratory judgment statutes. In their complaint, plaintiffs allege that, if EOHHS is ordered promptly to set and pay according to all rates that have not yet been promulgated, EOHHS would be liable for approximately \$52 million in higher rate payments (*i.e.*, the difference between the currently extant rates and the new rates required to be set) in fiscal 2015 alone. The complaint was filed on or about June 30, 2014; on July 29, 2014, EOHHS filed its answer denying some allegations and asserting several affirmative defenses. The plaintiffs filed a motion for judgment on the pleadings on October 30, 2014. On January 12, 2015, the court granted the Plaintiffs’ motion for judgment on the pleadings, but permitted the parties to attempt to negotiate a schedule for rate promulgation and implementation. After negotiations, the court granted a joint motion for entry of judgment in the form proposed by the parties on May 14, 2015. Pursuant to this interim, agreed-upon resolution, the promulgation of new rates will be delayed up to two years – but, in the meanwhile, service providers will benefit from interim supplemental payments representing some fraction of the liability plaintiffs had alleged in their complaint.

*Paszko and Fowler, for themselves and others similarly situated v. Carol Higgins O’Brien, in her official capacity as the Commissioner of the Massachusetts Department of Correction, and the Massachusetts Partnership for Correctional Healthcare, LLC*, United States District Court, Massachusetts. Two state prisoners have filed a class action suit relating to treatment of the Hepatitis C virus (HCV) among prisoners in the custody of the Massachusetts Department of Correction. The suit alleges that the Department of Correction and its healthcare services provider, the Massachusetts Partnership for Correctional Healthcare, have failed to provide HCV-positive prisoners with access to new medications that, plaintiffs claim, enjoy higher success rates, fewer side effects, and shorter treatment duration than prior treatments. Employing the uppermost range estimate for the rate of HCV infection among prisoners nationwide—41.1%—to the Massachusetts prison population, the number of HCV-infected individuals in Massachusetts custody could be as high as 4,800. The new generation of HCV drugs costs



between \$83,000 to \$95,000 per patient, depending on the regimen. Based on these figures, the total cost of providing such treatments to all HCV-infected prisoners could run into the hundreds of millions of dollars.

## **Medicaid Audits and Regulatory Reviews**

*In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund).* The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. Updated federal regulations on health care-related taxes took effect June 30, 2010. By the end of Health Safety Net fiscal year 2015, the Commonwealth will have collected an estimated \$5.646 billion in acute hospital assessments since 1990 and an estimated \$2.527 billion in surcharge payments since 1998.

*In re: Office of the Inspector General Report Number: A-01-12-0006 (Claiming the correct Federal medical assistance percentage for claim adjustments made to the Form CMS-64).* On April 6, 2012, the federal Office of the Inspector General (OIG) initiated an audit of MassHealth's federal reporting of certain claims with dates of service between January 1, 2006 and December 31, 2010. The OIG issued a draft report on June 3, 2014. MassHealth responded on July 3, 2014. The OIG draft report concludes that during the audit period MassHealth over-claimed \$105 million in federal financial participation (FFP) due to timing issues associated with the temporary FMAP increase due to ARRA and EOHHS' "void and replace" claiming system. EOHHS' response to the draft report states that MassHealth worked closely with the federal Centers for Medicare and Medicaid Services (CMS) to develop the system it uses to submit claims and adjustments for federal matching funds on the CMS form since June 2009, and that CMS validated and accepted the "void and replace" claims adjustment system EOHHS used. The OIG's audit focused on a specific time period that, based on its calculations, resulted in a federal overpayment. Based on the OIG's methodology, there was a \$108 million federal underpayment to the Commonwealth for the subsequent period of January, 2011 through September, 2013. Based on the OIG's audit report, MassHealth has implemented the OIG's interpretation of the claiming rules after the audit period, and has requested increased federal reimbursement totaling approximately \$108.2 million from CMS, which will offset OIG's recommended adjustment. In its response to the OIG's report, EOHHS advised the OIG that if CMS agrees with the OIG's interpretation of federal claiming rules and the rules are applied consistently, EOHHS has no objection to the OIG's recommended finding. The OIG issued its final report in September, 2014. The OIG did not accept EOHHS' position. EOHHS is pursuing this matter further with CMS. CMS has not taken any action to disallow the \$108.2 million that the OIG insists is an overpayment.

*In re: Centers for Medicare and Medicaid Financial Management Review: 01-MS-2012-MA-01 (Massachusetts Medicaid Nursing Facility User Fees – Federal Fiscal Year 2010).* In 2011, the Centers for Medicare and Medicaid Services (CMS) Office initiated a financial review of Massachusetts' Nursing Facility User Fees for federal fiscal year 2010. In September 2013, CMS issued a draft audit report. In its report, CMS referenced that the Commonwealth collected \$220.7 million in federal fiscal year 2010 in nursing facility user fees and that non-compliance with requirements for federal funding could result in recoupment of federal funds. The findings and recommendations included a request to submit a new application for a waiver of federal requirements applicable to the user fee. EOHHS responded to CMS's draft report agreeing to seek new waiver authority from CMS. In June, 2014, CMS issued a final audit report accepting EOHHS' response and stating it would work with EOHHS to implement a new waiver. A change in state law was required to allow EOHHS to seek this new waiver authority from CMS. The necessary authority was requested and obtained in the fiscal 2016 budget. EOHHS is now working with CMS to gain approval of modifications to its nursing facility user fee structure.

*In re: Office of the Inspector General Report Number: A-01-15-00001 (Claiming Federal Financial Participation Timely).* On October 22, 2014, the federal Office of the Inspector General (OIG) initiated an audit of MassHealth's federal reporting of certain expenditures during the period October 1, 2008 through December 31,

2010 in order to review MassHealth's compliance with federal timely claiming rules. An entrance conference was held on November 18, 2014. According to MassHealth's estimates, if the OIG finds that MassHealth did not comply with these rules during the audit period, the maximum overpayment the OIG could find is approximately \$26.6 million.

## Taxes

*Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue*, Supreme Judicial Court (SJC), Appeals Court and Appellate Tax Board (ATB). A putative class of Massachusetts customers who purchased Dell computers between 1995 and 2006 brought suit in Superior Court against Dell seeking a declaration that Dell wrongfully collected (and remitted to the Department of Revenue) sales tax upon service contracts that were purchased at the same time customers purchased computers from Dell. The Supreme Judicial Court allowed the case to go forward in the face of an arbitration clause precluding class actions but ruled that Dell could not be liable for collecting taxes that it believed, in good faith, were due. The Court, however, let the action go forward if amended to include a lack of good faith. Dell filed a third-party complaint against the Commissioner of Revenue, seeking a declaration that the sales taxes it collected (and paid) on service contracts were wrongfully collected and should be paid back. The Commissioner successfully moved to stay Dell's third-party action until Dell had fully prosecuted appeals from the denials of the abatement applications that Dell and others had filed with the Appellate Tax Board ("ATB" or "Board"), seeking return of the same sales taxes. Dell's efforts to dismiss the Superior Court action based upon the arbitration clause and application of the Federal Arbitration Act resulted in two additional Supreme Judicial Court opinions. First, on June 12, 2013, the SJC ruled against Dell; and then, on August 1, 2013, based upon a June 2013 U.S. Supreme Court opinion, the SJC ruled in favor of Dell that the arbitration clause must be enforced. Subsequently, on October 24, 2013, the Superior Court granted Dell's motion to confirm the arbitration award and dismiss. The plaintiffs have appealed from this judgment of dismissal; a separate motion to substitute a new plaintiff was denied by the Superior Court in a margin order, and the would-be plaintiff has joined in the appeal. After full briefing, the Appeals Court conducted oral argument in November, 2014. On July 22, 2015, the Appeals Court affirmed the dismissal and rejected the plaintiffs' separate motion to substitute a new plaintiff. The plaintiffs may file an application for further appellate review within 20 days of the Appeals Court's decision.

Dell's sales tax appeals were heard by the Appellate Tax Board on June 12, 2013. The ATB case was presented on a lengthy stipulation of facts together with over 6,500 pages of exhibits. Post-hearing briefs were filed and on December 17, 2013, the Board issued an Order under its rules ("Order"). Per the Order, the Board indicated its intention to issue an abatement based on a variety of findings and rulings set forth in the Order, and ordered the parties to compute the amount to be abated under the Order within thirty days of the date of the Order's issuance. The Commissioner filed a motion to allow discovery previously deferred that is necessary to compute abatement amounts; she also requested that the time period be extended and that a hearing be held to establish the interest accrual date. Dell requested a stay of its response based upon the Superior Court's dismissal and its position that if the dismissal becomes final after appeal it will withdraw its abatement requests. Dell also advised that approximately 8 months of data processing work was required to generate a response to the Order. The ATB entered an Order staying all activity on the case until the motions were heard. The motions were argued on March 18, 2014, and are under advisement. Assuming the Board ultimately determines the amount to be abated under its Order, it will issue a decision, from which either or both parties may request that the Board issue findings of fact and a report explaining the rationale for its decision. It should be noted that, in a sales-tax abatement case like this one, the Commissioner is obligated to refund (*i.e.*, actually pay) only those amounts that the taxpayer/vendor (here, Dell) can demonstrate that it has actually repaid or credited to consumers. Accordingly, there is often a significant disparity between the amount of an ordered abatement and the actual exposure to the Commonwealth.

*DIRECTV, Inc. v. Commonwealth of Massachusetts Department of Revenue*, Supreme Judicial Court. Satellite-television providers DIRECTV and Dish Network claim that the excise tax on the sale of direct broadcast satellite services to subscribers or customers in the Commonwealth violates the Commerce Clause of the United States Constitution and the equal protection clauses of the United States and Massachusetts Constitution. Were the providers to prevail, the potential refund of taxes collected under the statute could be around \$12 million for each tax year, and a corresponding amount of annual revenue would be unavailable for collection in future tax years. (The Department of Revenue ("Department") estimated the amount of potential loss as of November 2014 at around \$63 million.) But on November 21, 2012, the Superior Court granted summary judgment in favor of the Department,

declaring that the statute imposing a tax on direct broadcast satellite services does not violate the Commerce Clause or the Equal Protection Clause of the U.S. Constitution. The Supreme Judicial Court affirmed the Superior Court's judgment on February 18, 2015. The satellite television providers filed a petition for writ of certiorari in the Supreme Court on June 18, 2015, which is currently pending before the Supreme Court. On June 24, 2015, the Attorney General's Office filed a waiver with the Supreme Court on the Commissioner's behalf, stating that Massachusetts does not intend to file a response to the petition for a writ of certiorari unless one is requested by the Court. The Supreme Court will not allow a certiorari petition without requesting that the Respondent file a response; however, the Court can and does deny petitions without requesting a response.

*Comcast of Massachusetts I, Inc. v. Commissioner of Revenue*, Appellate Tax Board. The two petitions filed by this taxpayer relate to ten others filed by related entities. All twelve appeals have been consolidated. In its first petition, the taxpayer is appealing the Commissioner's refusal to refund corporate excise tax for the years 2003-2008 on the basis that the correct apportionment methodology is cost of performance instead of market-based sourcing. In its second petition, the taxpayer is appealing the Commissioner's refusal to abate additionally assessed corporate excise tax for the years 2002-2008. This petition raises several issues: (1) apportionment; (2) bonus depreciation; (3) capital loss deduction; (4) charitable loss deductions; (5) combined return group; (6) exclusion of dividends; (7) addback; (8) loss carryforward deduction; (9) nexus; and (10) non-income measure. Together the claims total around \$84 million. The Commissioner filed her answers on May 2, 2014 and issued discovery in all 12 dockets. On June 13, 2014, the Commissioner issued discovery in the non-cost of performance cases; the taxpayers partially responded to the discovery requests, and later supplemented the responses. On September 4, 2014, the taxpayer filed an amended petition in which it conceded in full the issues relating to bonus depreciation, capital loss deduction, charitable loss deductions, and conceded, in part, the issues of exclusion of dividends and add back. The Commissioner has retained an expert in cable communications law, and has also interviewed but not yet hired other experts in the areas of cost accounting and state tax law policy. In November, 2014, the Commissioner issued discovery requests and filed motions for depositions in the cost of performance cases. The taxpayer consented to allowance of the motions for depositions, and an order was entered by the Board at the hearing on December 8, 2014. The parties have proposed to schedule a trial on October 13, 2015 and have agreed upon a deadline for completion of discovery and an exchange of witness lists. On March 3, 2015, the parties met and discussed in part, their positions on the various issues. The taxpayer has filed discovery requests, to which the Commissioner responded in part. The Commissioner has also filed motions for summary judgment in four of the appeals relating to the refund claim. Those motions were argued before the Appellate Tax Board on June 15, 2015 and are under advisement.

*Northeastern University, et al. v. Commissioner of Revenue* (Suffolk Superior Court) and related (unasserted) Brownfields Credits Claims. The plaintiffs in the Superior Court case, three Massachusetts universities, allege that the Commissioner of Revenue ("Commissioner") wrongfully denied their requests for Brownfields Tax Credits. Legislation in 2006 made not-for-profit institutions eligible, for the first time, to claim tax credits for work those institutions performed to remediate an environmentally contaminated site. (Because not-for-profits do not typically pay corporate excise taxes, against which such a credit may be applied, the legislation also made it possible, for the first time, for taxpayers granted such a credit to "sell" that credit to individuals or corporations who do incur tax liability, so that the buyer can make use of the credit. The law specifies that any unused portion of a credit, as reduced from year to year, can be carried over and applied to a tax liability for any subsequent year, not to exceed five years.) The sole issue in the *Northeastern University* litigation, filed in August, 2014, is whether the taxpayers are eligible for a Brownfields Tax Credit arising from site-remediation work they performed prior to 2006 (*i.e.*, prior to the effective date of the amended legislation). The Commissioner denied the plaintiffs' applications for the credit. If the plaintiffs were to prevail in their request for declaratory judgment, they would become entitled to tax credits in the cumulative amount of \$17.1 million. Additionally, if the plaintiffs were to prevail, other entities could be bolstered in their as-yet unasserted claims for credits worth tens of millions of dollars. In the category of claims not yet docketed at the Appellate Tax Board, the Department of Revenue estimates \$30.3 million worth of potential revenue loss (even though none of the individual credit amounts exceeds \$10 million). The Superior Court has marked this case for a hearing on September 16, 2015.

## Other Revenues

*Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al.*, Supreme Judicial Court, Middlesex Superior Court (a/k/a the Tobacco Master Settlement Agreement, Nonparticipating Manufacturer (“NPM”) Adjustment Disputes)

These matters arise under the Tobacco Master Settlement Agreement (“MSA”), entered into in 1998, that settled litigation and claims by Massachusetts and 51 other states or dependencies (collectively the “States”) against the major tobacco manufacturers. Under the MSA, yearly payments made by the Original Participating Manufacturers (“OPMs”) and Subsequent Participating Manufacturers (collectively the Participating Manufacturers or “PMs”) are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer (“NPM”) Adjustment, which can be triggered if the PMs suffer a specified market share loss as compared to their market share during the base year 1997. Under the MSA, a nationally recognized economic firm selected jointly by the States and the PMs must make a determination that “the disadvantages experienced” by the PMs as a result of complying with the MSA were “a significant factor contributing to the Market Share Loss” for a given year. Even if such a determination is made, the States can still avoid the NPM adjustment if it is determined that the States “diligently enforced” their individual NPM Escrow Statutes.

(a) (2004 NPM Adjustment) The PMs seek to reduce, by approximately \$1.1 billion, the MSA payments they made to the States for 2004 sales and so they deposited a portion of this amount into an escrow account pending a resolution of this claim. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2004 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$17 million, plus interest, up to but not exceeding the full amount of the state’s MSA payment for 2004 sales, depending upon the outcome of similar NPM proceedings against other states.

(b) (2005 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$753 million, the MSA payments they made to the States for 2005 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2005 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$30 million, plus interest, up to but not exceeding the full amount of the state’s MSA payment for 2005 sales, depending upon the outcome of similar NPM proceedings against other states.

(c) (2006 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$704 million, the MSA payments they made to the States for 2006 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2006 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$7 million, plus interest, up to but not exceeding the full amount of the state’s MSA payment for 2006 sales, depending upon the outcome of similar NPM proceedings against other states.

(d) (2007 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$791 million, the MSA payments they made to the States for 2007 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2007 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between

\$8.8 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2007 sales, depending upon the outcome of similar NPM proceedings against other states.

(e) (2008 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$888 million, the MSA payments they made to the States for 2008 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2008 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$900,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2008 sales, depending upon the outcome of similar NPM proceedings against other states.

(f) (2009 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$859 million, the MSA payments they made to the States for 2009 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2009. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$1.3 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2009 sales, depending upon the outcome of similar NPM proceedings against other states.

(g) (2010 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$873 million, the MSA payments they made to the States for 2010 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2010. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$500,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2010 sales, depending upon the outcome of similar NPM proceedings against other states.

(h) (2011 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$728 million, the MSA payments they made to the States for 2011 sales. This amount is subject to revision until a Final Calculation in March, 2016. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2011. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$500,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2011 sales, depending upon the outcome of similar NPM proceedings against other states.

(i) (2012 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$791 million, the MSA payments they made to the States for 2012 sales. This amount is subject to revision until a Final Calculation in March, 2017. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2012. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$200,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2012 sales, depending upon the outcome of similar NPM proceedings against other states.

(j) (2013 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$815 million, the MSA payments they made to the States for 2013 sales. This amount is subject to revision until a Final Calculation in March, 2018. A determination has been made that the PMs suffered a market

share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2013. The largest PMs have not yet had an opportunity to designate funds related to 2013 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March, 2018, the Commonwealth's potential exposure cannot be determined.

(k) (2014 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$825 million, the MSA payments they made to the States for 2014 sales. This amount is subject to revision until a Final Calculation in March, 2019. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2014. The largest PMs have not yet had an opportunity to designate funds related to 2014 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March, 2019, the Commonwealth's potential exposure cannot be determined.

## **Environment**

*In re Massachusetts Military Reservation* (pre-litigation). 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.

## **Other**

*Drug Testing Laboratory disputes.* In August, 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. Governor Patrick ordered the immediate closure of the laboratory, established a central office to identify individuals who may be affected by the chemist's alleged malfeasance, which the office estimated as possibly tens of thousands of criminal drug cases, and announced an independent assessment by the Inspector General of the laboratory's operations. In addition, the Attorney General's Office conducted a criminal investigation. In December, 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 pled guilty in 2013 and was sentenced to 3 to 5 years in state prison. 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. These additional costs cannot be fully estimated at this time.

*MedImmune, LLC v. Board of Trustees of the University of Massachusetts d/b/a University of Massachusetts Biologic Laboratories,* Maryland Court of Special Appeals. This case relates to a license agreement between MedImmune LLC and University of Massachusetts Biologic Laboratories ("MassBiologics"). Under the agreement, MedImmune currently pays MassBiologics approximately \$25 million per year in royalties based upon net sales of MedImmune's leading product, Synagis®. In the lawsuit, MedImmune alleges (1) breach of the license agreement and (2) that the agreement was terminable in August 2011, when suit was brought, or that it terminates on a date certain in the future. During the pendency of the lawsuit, MedImmune has continued to pay MassBiologics

royalties when due. MassBiologics has agreed that, if MedImmune obtains a judgment in any trial court that its obligations to pay royalties to MassBiologics ended on a date certain earlier than the date judgment is entered, MassBiologics would return any royalties paid during the pendency of the lawsuit for sales occurring after MedImmune's obligations were found to have ended, while retaining the right to contend in further litigation that MassBiologics was entitled to keep any and all of such royalties. In the lawsuit, MedImmune sought as damages for the alleged breaches repayment of any royalties paid after a breach occurred. The trial court granted summary judgment in favor of the University of Massachusetts ("UMass") as to all breach of contract allegations.

After a trial, the court ruled that the agreement was not terminated or terminable in August 2011 and will not terminate unless and until MedImmune stops making and selling Synagis®. MedImmune appealed the judgment to the Court of Special Appeals, Maryland's intermediate appellate court. UMass cross-appealed on the ground that the agreement continues indefinitely, unless terminated for cause under its termination provisions, and therefore MedImmune must pay royalties on other royalty-bearing products even if it ceases to make and sell Synagis®.

On June 3, 2015, the Court of Special Appeals issued its decision, denying MedImmune's appeal in its entirety and also denying UMass's cross-appeal. As a result, the trial court rulings that were challenged on appeal have been affirmed.

On June 30, 2015, MedImmune filed a petition for a writ of certiorari seeking further review by the Maryland Court of Appeals, Maryland's highest court. On July 15, UMass opposed MedImmune's petition and filed its own petition for a writ of certiorari seeking further review of the issue raised in UMass's cross-appeal. UMass also requested that the Maryland Court of Appeals certify a question of Massachusetts contract law to the Massachusetts Supreme Judicial Court. The Maryland Court of Appeals may grant or deny the parties' petitions in its discretion.

Given the amount of royalties that have been paid on sales of Synagis® made after August 2011, if the Maryland Court of Appeals grants further appellate review of MedImmune's appeal, and MedImmune ultimately prevails on a claim that the agreement was terminable prior to the date of judgment, MassBiologics would be required initially to return royalties to MedImmune in an amount that could exceed \$50 million, while retaining the right to contend that MassBiologics was entitled to keep any and all of such royalties. The precise amount of the repayment contingency would depend on the amount of royalties paid on sales made after August 2011 or after the date of termination.

In addition, given the amount of royalties that have been paid since the alleged breaches, if MedImmune ultimately prevails on its claim that the agreement was breached and that it is entitled to repayment of any royalties paid after the breach, MassBiologics could be required to pay in excess of \$50 million to MedImmune. Again, the precise amount of the repayment contingency depends on the amount of royalties paid between the date of breach and date of final judgment.

*Woodlands Commercial Corp. f/k/a Lehman Bros. Commercial Bank v. Massachusetts Department of Transportation*, Supreme Court of the State of New York, County of New York: On or about November 14, 2013, the plaintiff corporation (previously known as Woodlands Commercial Bank, a wholly-owned subsidiary of Lehman Bancorp, Inc.) filed suit against MassDOT, as successor to the Massachusetts Turnpike Authority, in New York state court. The suit seeks recovery of an unspecified amount allegedly withheld in breach of a contract concerning six derivatives transactions between the Turnpike Authority and a Lehman Brothers affiliate. According to the plaintiff, the Turnpike Authority terminated the contractual arrangement without making a full termination payment, which the plaintiff contends constituted a breach of the Authority's contractual obligations. In December, 2008, the Authority made an early termination payment of approximately \$3.17 million, but the plaintiff contends that payment should have been in the range of \$30 million to \$40 million. In addition to contractual damages, the plaintiff seeks interest on its claim of unpaid sums, dating back to late 2008, and attorneys' fees. The complaint acknowledges that the Legislature created MassDOT as "a body politic and corporate" that performs various public functions but is nonetheless separate from the Commonwealth. MassDOT answered the Complaint, denying the principal substantive allegations and asserting a variety of affirmative defenses. No claims are expressly lodged against the Commonwealth in this suit. The parties began the initial stages of discovery but suspended those efforts while they conducted early mediation. If mediation does not lead to a resolution of this matter, the parties will likely resume discovery efforts.

## MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of general and special laws and of other documents set forth or referred to in this Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

This Information Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the Commonwealth and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and others.

All estimates and assumptions in this Information Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Information Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

Neither the Commonwealth’s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The information, estimates and assumptions and expressions of opinion in this Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to any official statement of which this Information Statement is a part shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Information Statement, except as expressly stated.

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## CONTINUING DISCLOSURE

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by October 31 of the following fiscal year and the Comprehensive Annual Financial Report becomes available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's web site located at <http://www.mass.gov/osc> by clicking on "Financial Reports" under the "Publications and Reports" tab.

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth at least every two years. Copies of audit reports may be obtained from the State Auditor, State House, Room 229, Boston, Massachusetts 02133.

On behalf of the Commonwealth, the State Treasurer will provide to the Municipal Securities Rulemaking Board (MSRB), through its Electronic Municipal Market Access (EMMA) System no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. Except as noted below, the Commonwealth has not failed in the last five years to comply with its continuing disclosure undertakings with respect to any of its debt.

In 2009 and 2010, the Commonwealth failed to file event notices concerning rating changes related to bonds insured by Financial Security Assurance Inc. ("FSA"), which was subsequently renamed Assurance Guaranty Municipal Corp. ("Assured"). In October, 2009, Fitch downgraded the rating of FSA from AA+ to AA, and in February, 2010, Fitch withdrew its rating of Assured. In October, 2010, S&P downgraded Assured from AAA to AA+. The Commonwealth also failed to file event notices in April, 2010 with respect to upgrades in the ratings of its bonds by Fitch and Moody's due to changes in such rating agencies' rating methodologies, failed to file an event notice in October, 2013 when the Moody's rating on outstanding junior-lien GANs was upgraded from Aa2 to Aa1, and failed to file an event notice in March, 2014 when the S&P rating on certain insured special obligation bonds payable from the Convention Center Fund was upgraded from A to AA-. The Commonwealth has filed notices of all such rating changes with respect to the bonds that are currently outstanding.

The fiscal 2011, fiscal 2012 and fiscal 2013 annual financial information filed by the Commonwealth pursuant to its continuing disclosure undertakings related to its grant anticipation note program contained incorrect information concerning the amounts of CTF pledged funds. Amended filings have been posted with EMMA.

The fiscal 2011 annual financial information filed by the Commonwealth on March 26, 2012 and the fiscal 2012 annual financial information filed by the Commonwealth on March 26, 2013 pursuant to its continuing disclosure undertakings related to its general obligation bond program contained incorrect information about the amount of outstanding direct debt subject to the statutory debt limit and, in the case of the fiscal 2012 filing, about the amount of the limit. Amended filings for fiscal 2011 and for fiscal 2012 have been posted with EMMA, and a corrected table is included in this Information Statement. See "LONG-TERM LIABILITIES – General Authority to Borrow; *Statutory Limit on Direct Debt*."

The fiscal 2014 annual financial information was filed by the Commonwealth on March 27, 2015 pursuant to its continuing disclosure undertakings with respect to its general obligation bonds; however, there was a failure to link the filing to certain CUSIP numbers for Commonwealth general obligation bonds issued from October 29, 2014 through December 31, 2014. Corrective filings have since been posted on EMMA.

In the course of substituting liquidity facilities in connection with certain Commonwealth general obligation variable rate demand bonds, supplements to the respective official statements for such bonds were posted in a timely manner to EMMA setting forth detailed information regarding the substituted liquidity facilities; however, separate event notices were not posted at the time. Event notices of the liquidity substitutions have since been posted.

In the course of reviewing its event notice filings, the Commonwealth discovered that bond call notices were not posted in a timely manner to EMMA in connection with certain advance refunding transactions. The Commonwealth has posted such notices with respect to all Commonwealth bonds that have been advance refunded, where the funds to redeem or pay the bonds remain held in escrow.

The State Treasurer also regularly files information with EMMA beyond the documents required by the Commonwealth's continuing disclosure undertakings, including updated Information Statements. In addition, information of interest to investors may be posted on the Commonwealth's investor website at [www.massbondholder.com](http://www.massbondholder.com), on twitter at [twitter.com/BuyMassBonds](https://twitter.com/BuyMassBonds) and on the Commonwealth's "Mass. Investor Disclosure" mobile app.

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**AVAILABILITY OF OTHER FINANCIAL INFORMATION**

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Sue Perez, Assistant Treasurer, Office of the Treasurer and Receiver-General, 3 Center Plaza, Suite 430, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Jennifer Sullivan, Assistant Secretary for Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

By \_\_\_\_\_  
Deborah B. Goldberg  
Treasurer and Receiver-General

By \_\_\_\_\_  
Kristen Lepore  
Secretary of Administration and Finance

August 12, 2015

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# Exhibit A

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# The Massachusetts Economic Due Diligence Report

FOURTH QUARTER FY 2015



Produced by the University of Massachusetts President's Office Donahue Institute, Economic and Public Policy Research  
Funding provided by the Massachusetts State Treasurer's Office of Debt Management



Springfield's Union Station, circa 1910. Cover photo: Artist's rendering of Springfield's Union Station , anticipated opening Fall 2016. Springfield Redevelopment Authority, Springfield, MA.



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## ECONOMIC INFORMATION - QUARTER 4, FY 2015

The information in this section was prepared by the Massachusetts State Data Center (MassSDC) at the University of Massachusetts Donahue Institute Economic and Public Policy Research group. It may be relevant in evaluating the economic and financial condition and prospects of the Commonwealth of Massachusetts. The State Data Center archives data about Massachusetts. The economic and demographic data, which have been obtained by the MassSDC from the sources indicated, do not necessarily present all factors that may have a bearing on the Commonwealth's fiscal and economic affairs.

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on July 31, 2015. Information in the text, tables, charts, and graphs is current as of July 16, 2015.** Sources of information are indicated in the text or immediately following the charts and tables, and also from the *Sources* on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, it makes no independent verification of the information presented herein and therefore does not warrant its accuracy.

### Statistical Overview

<u>Population</u> (p. A-2)	<u>Massachusetts</u>	<u>United States</u>
Estimated Percent Change in Population, July 1, 2010 - July 1, 2014	3.1%	2.8%
<u>Personal Income, Consumer Prices, and Poverty</u> (p. A-8)		
Per Capita Personal Income, 2014	\$59,182	\$46,129
Average Annual Pay, All Industries, 2014	\$64,128	\$51,361
Percent Change in CPI-U*, 2013-2014	1.6%	1.6%
Percent Change in CPI-U*, May 2014 - May 2015	0.6%	0.0%
Poverty Rate, 2013	11.9%	15.8%
Average Weekly Earnings, Manufacturing Production Workers: 2014	\$877.40	\$822.24
Percent Change from previous year	0.1%	1.8%
<u>Employment</u> (p. A-18)		
Percent Change in Nonfarm Payroll Employment (Not Seasonally Adjusted), May 2014 - May 2015p	0.8%	2.1%
Unemployment Rate, 2014	5.8%	6.2%
Unemployment Rate, June 2015 (seasonally adjusted)	4.6%	5.3%
<u>Education</u> (p. A-24)		
Expenditure Per Pupil K-12 Public, 2013	\$14,515	\$10,700
Percent of Adults with a Bachelor's Degree or Higher, 2013	40.3%	29.6%
<u>Economic Base and Performance</u> (p. A-30)		
Percent Change in Gross Domestic Product, 2013-2014	2.3%	2.2%
Percent Change in International Exports, 2013-2014	2.0%	2.8%
Percent Change in Housing Permits Authorized, 2013-2014	-2.3%	4.8%

\*NOTE: Percent changes in the Consumer Price Index for All Urban Consumers (CPI-U) are for the Boston-Worcester-Lawrence, MA-NH-ME-CT CMSA & the United States. p = preliminary.

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last 25 years, significant changes have occurred in the age distribution of the population. Dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in the next 25 years. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher amounts of annual income than the national average. These higher levels of income have been accompanied by a consistently lower poverty rate. State unemployment rates have typically remained below the national average with the exception of a slight increase during the recession of the early 1990s and a seventeen-month stretch between 2006 and 2007. More recently, Massachusetts unemployment has hovered closer to the national average and currently stands at 4.6 percent, compared to the national rate of 5.3 percent. In 2014, Massachusetts was ranked second in the U.S. according to the American Human Development Index, modeled after the United Nations Human Development Index, which compares health, income, and education outcomes.

The following five sections provide detailed information on population characteristics, personal income, employment, human resources, economic base and performance, and infrastructure.

## POPULATION CHARACTERISTICS

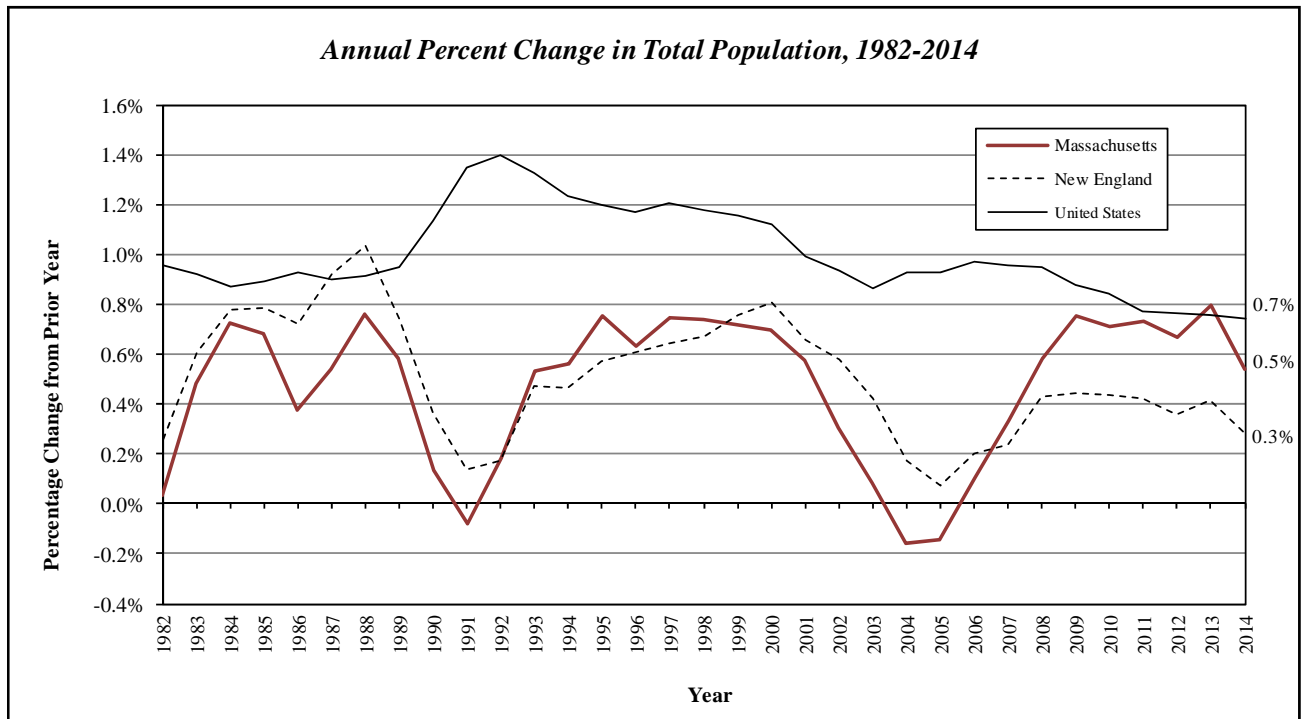
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2014 to be 864.8 persons per square mile, as compared to 90.3 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranked just behind the same two states in percentage of residents living in metropolitan areas. According to the current county-based definition, 97.8 percent of the state's population live in metropolitan areas.

The state's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a July 1, 2014 population estimated at 655,884 or 9.7 percent of the total state population. Boston is the hub of the seven-county Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and had a total population as of July 1, 2014 estimated at 4,732,161, or 32 percent of the total New England population. The Boston, MA Metropolitan division is the largest component of that MSA, with a total population as of July 1, 2014 estimated at 1,945,220.

The second largest MSA in the state is the Worcester, MA MSA, with a July 1, 2014 population estimated at 930,473. The city of Worcester, situated approximately 40 miles west of Boston with a July 1, 2014 estimated population of 183,016, is the second largest city, both in New England and the state. As a major medical and education center, the Worcester area is home to 18 patient care facilities, and 13 colleges and universities, including the University of Massachusetts Medical School.

The third largest MSA in Massachusetts is the three-county Springfield, MA MSA, with a July 1, 2014 population estimated at 629,100. Springfield, the third largest city in the Commonwealth with a July 1, 2013 estimated population of 153,991, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are Baystate Health Systems, Big Y Supermarkets, Hartford Hospital, and MassMutual Financial Group. In addition, Springfield is home to three independent colleges.

As the following graph and table indicate, the population in Massachusetts generally grows at a rate similar to the population of New England and more slowly than the nation as a whole. According to the Census Bureau's latest revised estimates released in December 2014, the Massachusetts population has only grown by 6 percent since Census 2000, while the U.S. has grown 13 percent.



SOURCE: United States Department of Commerce, Bureau of the Census.  
 NOTE: Figures for all years shown are estimates as of July 1.

The following table compares the population level and percentage change in the population of Massachusetts to the six-state New England region and to the United States.

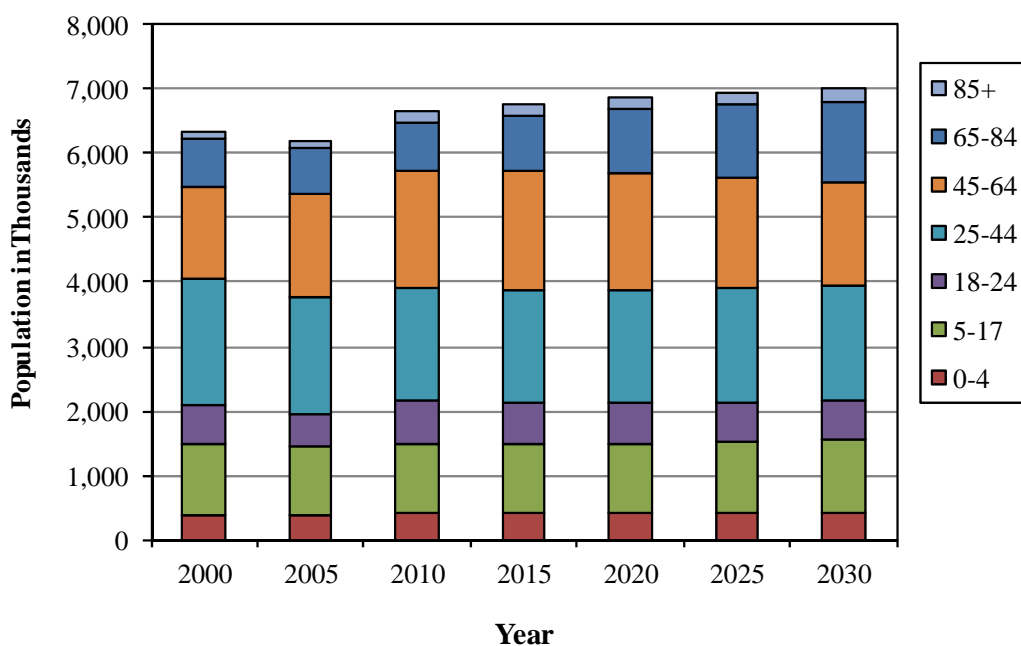
<i>Population, 1974-2014</i> <i>(in thousands)</i>						
<b>Year</b>	<b>Massachusetts</b>		<b>New England</b>		<b>United States</b>	
	<b>Total</b>	<b>Percent Change</b>	<b>Total</b>	<b>Percent Change</b>	<b>Total</b>	<b>Percent Change</b>
<b>1974</b>	5,774	-0.1%	12,146	0.0%	213,342	0.9%
<b>1975</b>	5,758	-0.3%	12,163	0.1%	215,465	1.0%
<b>1976</b>	5,744	-0.2%	12,192	0.2%	217,563	1.0%
<b>1977</b>	5,738	-0.1%	12,239	0.4%	219,760	1.0%
<b>1978</b>	5,736	0.0%	12,283	0.4%	222,095	1.1%
<b>1979</b>	5,738	0.0%	12,322	0.3%	224,567	1.1%
<b>1980</b>	5,737	0.0%	12,348	0.2%	226,546	0.9%
<b>1981</b>	5,769	0.6%	12,436	0.7%	229,466	1.3%
<b>1982</b>	5,771	0.0%	12,468	0.3%	231,664	1.0%
<b>1983</b>	5,799	0.5%	12,544	0.6%	233,792	0.9%
<b>1984</b>	5,841	0.7%	12,642	0.8%	235,825	0.9%
<b>1985</b>	5,881	0.7%	12,741	0.8%	237,924	0.9%
<b>1986</b>	5,903	0.4%	12,833	0.7%	240,133	0.9%
<b>1987</b>	5,935	0.5%	12,951	0.9%	242,289	0.9%
<b>1988</b>	5,980	0.8%	13,085	1.0%	244,499	0.9%
<b>1989</b>	6,015	0.6%	13,182	0.7%	246,819	0.9%
<b>1990</b>	6,023	0.1%	13,230	0.4%	249,623	1.1%
<b>1991</b>	6,018	-0.1%	13,248	0.1%	252,981	1.3%
<b>1992</b>	6,029	0.2%	13,271	0.2%	256,514	1.4%
<b>1993</b>	6,061	0.5%	13,334	0.5%	259,919	1.3%
<b>1994</b>	6,095	0.6%	13,396	0.5%	263,126	1.2%
<b>1995</b>	6,141	0.8%	13,473	0.6%	266,278	1.2%
<b>1996</b>	6,180	0.6%	13,555	0.6%	269,394	1.2%
<b>1997</b>	6,226	0.7%	13,642	0.6%	272,647	1.2%
<b>1998</b>	6,272	0.7%	13,734	0.7%	275,854	1.2%
<b>1999</b>	6,317	0.7%	13,838	0.8%	279,040	1.2%
<b>2000</b>	6,361	0.7%	13,950	0.8%	282,162	1.1%
<b>2001</b>	6,398	0.6%	14,041	0.7%	284,969	1.0%
<b>2002</b>	6,417	0.3%	14,122	0.6%	287,625	0.9%
<b>2003</b>	6,423	0.1%	14,182	0.4%	290,108	0.9%
<b>2004</b>	6,412	-0.2%	14,207	0.2%	292,805	0.9%
<b>2005</b>	6,403	-0.1%	14,217	0.1%	295,517	0.9%
<b>2006</b>	6,410	0.1%	14,246	0.2%	298,380	1.0%
<b>2007</b>	6,432	0.3%	14,279	0.2%	301,231	1.0%
<b>2008</b>	6,469	0.6%	14,340	0.4%	304,094	1.0%
<b>2009</b>	6,518	0.8%	14,404	0.4%	306,772	0.9%
<b>2010</b>	6,564	0.7%	14,466	0.4%	309,347	0.8%
<b>2011</b>	6,612	0.7%	14,527	0.4%	311,721	0.8%
<b>2012</b>	6,656	0.7%	14,579	0.4%	314,112	0.8%
<b>2013</b>	6,709	0.8%	14,640	0.4%	316,498	0.8%
<b>2014</b>	6,745	0.5%	14,681	0.3%	318,857	0.7%

SOURCE: United States Department of Commerce, Bureau of the Census.  
NOTE: Figures for all years shown are estimates as of July 1.

The next 16 years are expected to bring about a continued change in the age distribution of the Massachusetts population. As the following table and chart show, the share of the 65 and over age group and especially the 85 and over age group will continue to grow. The chart, table, and population pyramids (below, and on the following page) show the projected population by age for Massachusetts for 2000 through 2030. Census has not updated these projections to reflect the 2010 Census.

<i>Projected Massachusetts Population by Age Group 2000-2030 (in thousands)</i>									
<b>Year</b>	<b>0-4</b>	<b>5-17</b>	<b>18-24</b>	<b>25-44</b>	<b>45-64</b>	<b>65-84</b>	<b>85+</b>	<b>All Ages</b>	<b>Median Age</b>
<b>2000</b>	397.3	1,102.8	579.3	1,989.8	1,419.8	743.5	116.7	6,349.1	36.5
<b>2005</b>	395.1	1,055.6	488.9	1,844.0	1,602.5	693.1	103.7	6,182.9	38.2
<b>2010</b>	400.7	1,083.1	670.2	1,769.7	1,817.1	750.6	158.0	6,649.4	38.8
<b>2015</b>	409.7	1,064.2	656.0	1,746.1	1,857.1	856.5	168.9	6,758.6	39.2
<b>2020</b>	422.3	1,070.9	617.5	1,775.8	1,809.3	987.8	172.0	6,855.5	39.5
<b>2025</b>	431.0	1,087.7	616.2	1,782.5	1,703.3	1,137.8	180.1	6,938.6	39.7
<b>2030</b>	430.6	1,115.0	610.7	1,783.9	1,608.7	1,251.2	211.9	7,012.0	40.2

*Projected Massachusetts Population by Age Group  
2000-2030*

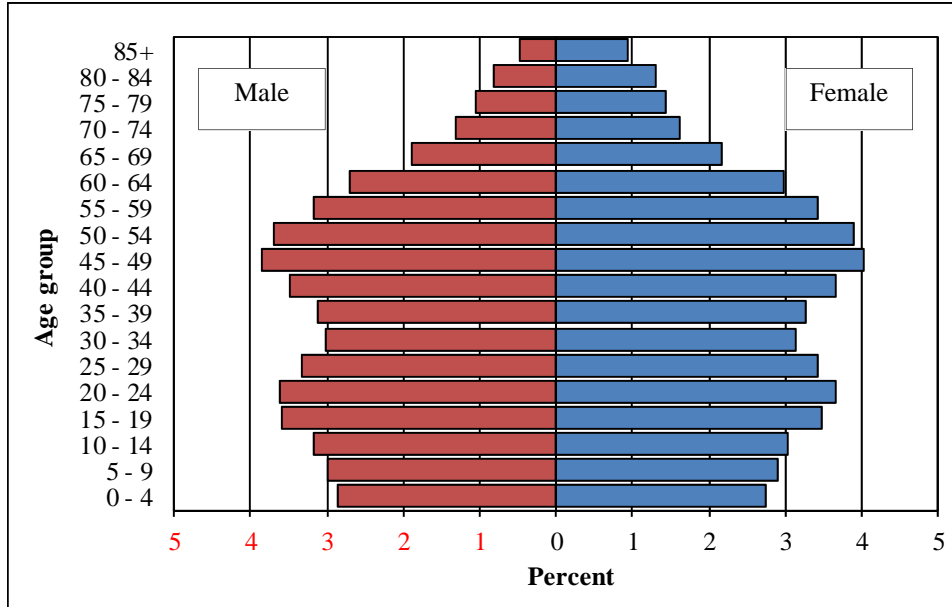


SOURCE: Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce.  
NOTE: Actual Census 2000 counts as of April 1; Population Estimates for 2005 as of July 1; all other figures are projections as of July 1 of the indicated year.

## Population Pyramids of Massachusetts

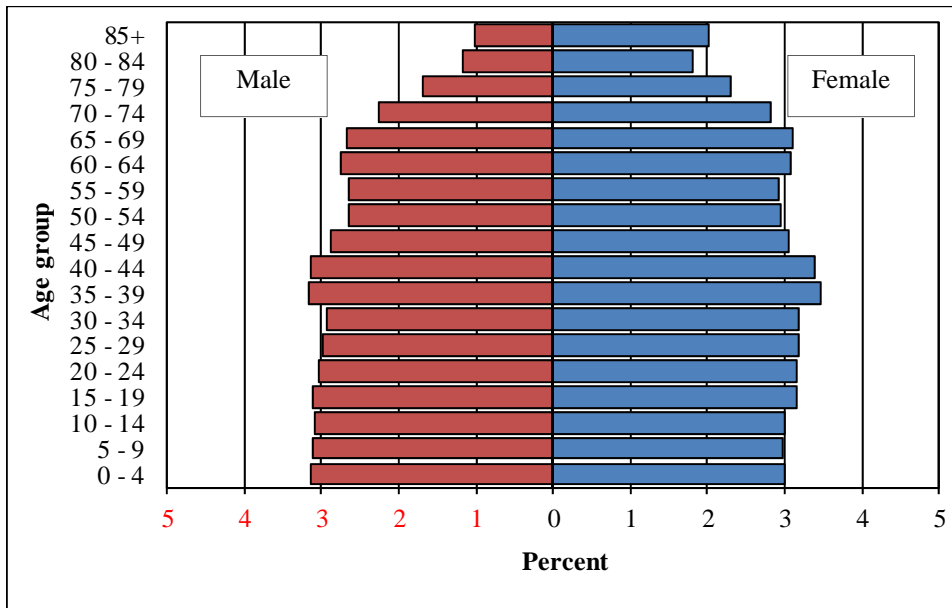
### Percent of Total Population

**2010**



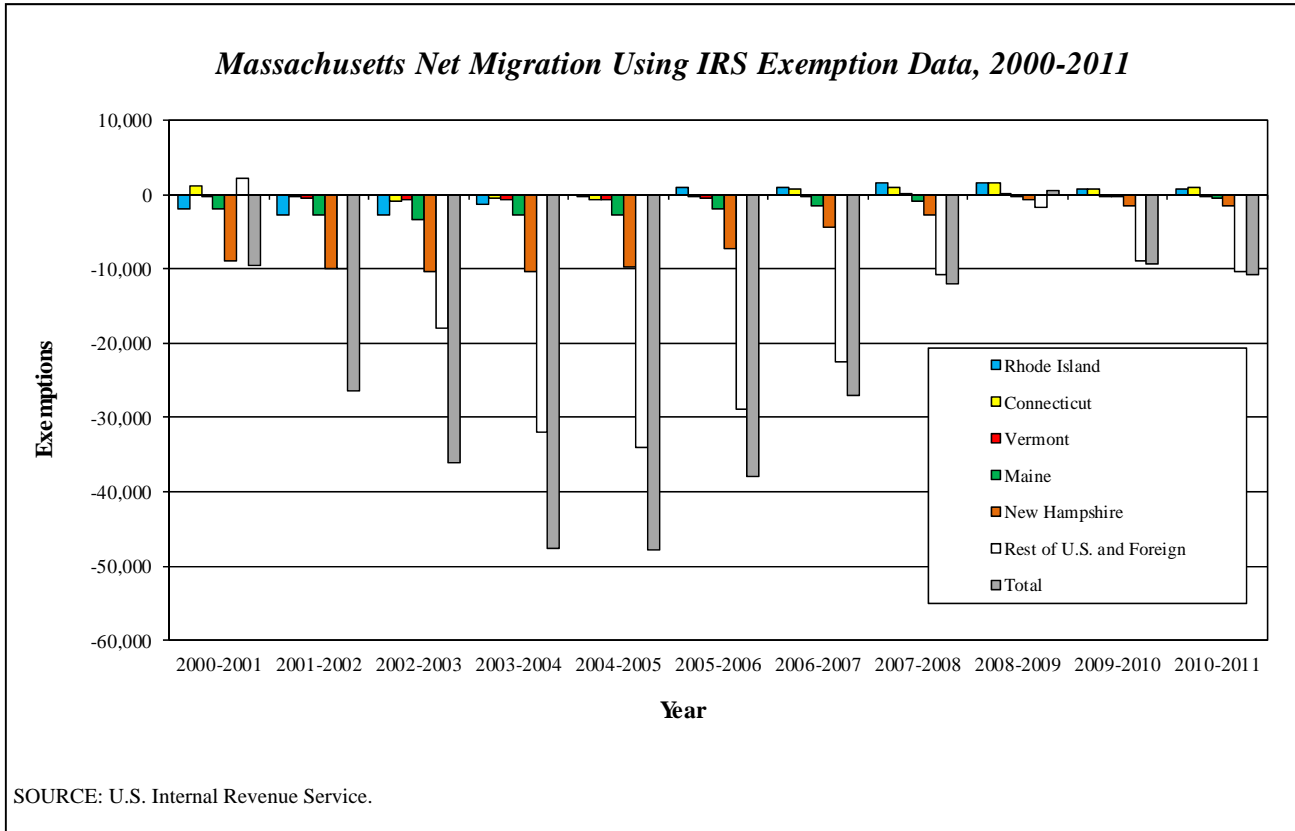
SOURCE: U.S. Census Bureau, 2010 Census.

**2030**



SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.  
Internet Release Date: April 21, 2005.

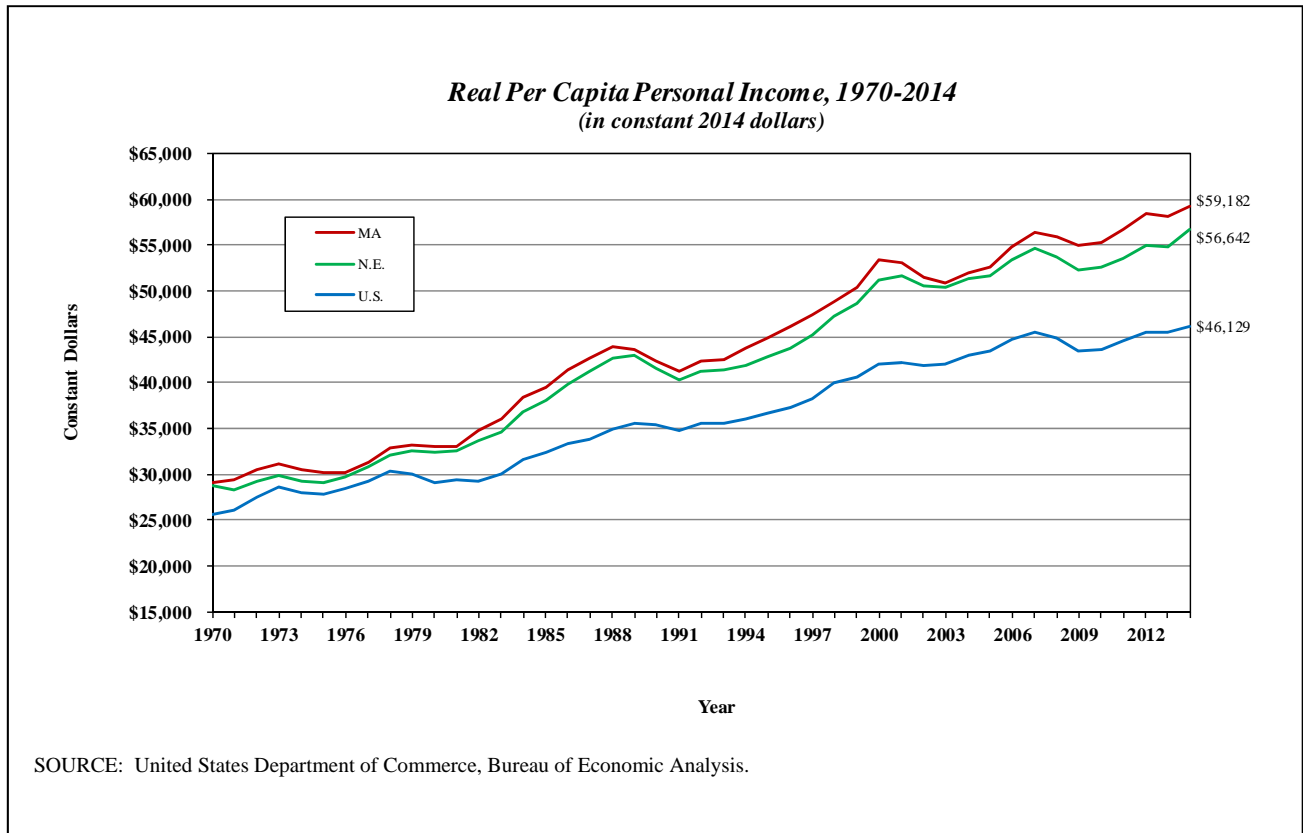
**Migration.** Migration is one of several components of annual population change in Massachusetts. The movement of people from place to place is often linked to economic opportunities or downturns. These data are derived from the filing addresses and number of exemptions submitted with federal tax returns. A tax filer is considered a migrant when he/she files a tax return with an address different from the previous year's filing address. Of the New England states, New Hampshire was the largest net loss for Massachusetts and Connecticut was the largest net gain for Massachusetts from 2000 through 2011. Massachusetts also sends many more migrants to Florida, California, Texas and North Carolina than it gains. The chart below illustrates the net migration for Massachusetts to and from the New England states and the rest of the country using IRS data.





## PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

**Personal Income.** Real per capita income levels in Massachusetts increased faster than the national average between 1992 and 1997. In 2000, Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 2.5 percentage points. From 2001 to 2003, real income declined in Massachusetts while staying roughly flat for the nation. However, real income levels in Massachusetts remained well above the national average. Following a significant decline in 2009, Massachusetts, New England, and the U.S. steadily increased until 2012. However, from 2006 to 2012, Massachusetts personal income either declined more slowly, or grew more quickly, than the nation during the recession and its aftermath. Only the District of Columbia and Connecticut have had higher levels of per capita personal income. In 2013, Massachusetts, New England and the U.S. all experienced a slight decline in real income. Most recently, the 2014 Massachusetts Per Capita Personal Income remains higher than New England and the Nation as a whole. The following graph illustrates these changes in real per capita personal income in Massachusetts, New England, and the United States since 1970.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2014.

<i>Per Capita Personal Income, 1970-2014</i>									
Year	Nominal Income (in current dollars)			Real Income (in 2014 dollars)			Percent Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,575	\$4,547	\$4,196	\$29,043	\$28,703	\$25,598	12.2%	12.4%	14.2%
1971	\$4,859	\$4,795	\$4,468	\$29,384	\$28,360	\$26,113	1.2%	-1.2%	2.0%
1972	\$5,228	\$5,156	\$4,853	\$30,531	\$29,312	\$27,481	3.9%	3.4%	5.2%
1973	\$5,647	\$5,589	\$5,352	\$31,126	\$29,928	\$28,532	1.9%	2.1%	3.8%
1974	\$6,108	\$6,056	\$5,824	\$30,445	\$29,167	\$27,962	-2.2%	-2.5%	-2.0%
1975	\$6,592	\$6,516	\$6,312	\$30,148	\$29,077	\$27,770	-1.0%	-0.3%	-0.7%
1976	\$7,096	\$7,059	\$6,854	\$30,182	\$29,791	\$28,512	0.1%	2.5%	2.7%
1977	\$7,731	\$7,700	\$7,493	\$31,267	\$30,775	\$29,267	3.6%	3.3%	2.6%
1978	\$8,546	\$8,526	\$8,337	\$32,845	\$32,069	\$30,266	5.0%	4.2%	3.4%
1979	\$9,499	\$9,500	\$9,211	\$33,117	\$32,493	\$30,031	0.8%	1.3%	-0.8%
1980	\$10,693	\$10,713	\$10,150	\$33,037	\$32,452	\$29,157	-0.2%	-0.1%	-2.9%
1981	\$11,865	\$11,912	\$11,260	\$32,984	\$32,594	\$29,321	-0.2%	0.4%	0.6%
1982	\$13,003	\$12,936	\$11,944	\$34,747	\$33,623	\$29,297	5.3%	3.2%	-0.1%
1983	\$14,065	\$13,894	\$12,649	\$35,966	\$34,665	\$30,060	3.5%	3.1%	2.6%
1984	\$15,753	\$15,471	\$13,858	\$38,397	\$36,864	\$31,571	6.8%	6.3%	5.0%
1985	\$16,936	\$16,590	\$14,717	\$39,507	\$38,108	\$32,375	2.9%	3.4%	2.5%
1986	\$18,195	\$17,793	\$15,457	\$41,385	\$39,878	\$33,382	4.8%	4.6%	3.1%
1987	\$19,606	\$19,181	\$16,263	\$42,728	\$41,173	\$33,886	3.2%	3.2%	1.5%
1988	\$21,400	\$20,897	\$17,422	\$43,972	\$42,720	\$34,859	2.9%	3.8%	2.9%
1989	\$22,433	\$22,215	\$18,647	\$43,602	\$43,013	\$35,595	-0.8%	0.7%	2.1%
1990	\$23,074	\$22,760	\$19,584	\$42,394	\$41,579	\$35,467	-2.8%	-3.3%	-0.4%
1991	\$23,462	\$23,050	\$19,976	\$41,293	\$40,277	\$34,716	-2.6%	-3.1%	-2.1%
1992	\$24,632	\$24,353	\$21,051	\$42,302	\$41,167	\$35,515	2.4%	2.2%	2.3%
1993	\$25,481	\$25,145	\$21,690	\$42,529	\$41,355	\$35,530	0.5%	0.5%	0.0%
1994	\$26,596	\$26,085	\$22,528	\$43,817	\$41,877	\$35,981	3.0%	1.3%	1.3%
1995	\$27,922	\$27,382	\$23,551	\$44,929	\$42,854	\$36,578	2.5%	2.3%	1.7%
1996	\$29,510	\$28,748	\$24,709	\$46,117	\$43,755	\$37,276	2.6%	2.1%	1.9%
1997	\$31,137	\$30,385	\$25,929	\$47,327	\$45,142	\$38,239	2.6%	3.2%	2.6%
1998	\$32,870	\$32,250	\$27,488	\$48,855	\$47,237	\$39,917	3.2%	4.6%	4.4%
1999	\$34,780	\$33,845	\$28,611	\$50,431	\$48,573	\$40,650	3.2%	2.8%	1.8%
2000	\$38,430	\$36,895	\$30,587	\$53,417	\$51,209	\$42,044	5.9%	5.4%	3.4%
2001	\$39,770	\$38,215	\$31,524	\$52,999	\$51,603	\$42,133	-0.8%	0.8%	0.2%
2002	\$39,674	\$38,253	\$31,800	\$51,526	\$50,611	\$41,840	-2.8%	-1.9%	-0.7%
2003	\$40,614	\$39,145	\$32,677	\$50,832	\$50,373	\$42,036	-1.3%	-0.5%	0.5%
2004	\$42,691	\$41,304	\$34,300	\$52,004	\$51,372	\$42,979	2.3%	2.0%	2.2%
2005	\$44,613	\$42,974	\$35,888	\$52,612	\$51,569	\$43,496	1.2%	0.4%	1.2%
2006	\$47,961	\$46,048	\$38,127	\$54,862	\$53,330	\$44,765	4.3%	3.4%	2.9%
2007	\$50,229	\$48,362	\$39,804	\$56,367	\$54,610	\$45,440	2.7%	2.4%	1.5%
2008	\$51,515	\$49,407	\$40,873	\$55,855	\$53,650	\$44,935	-0.9%	-1.8%	-1.1%
2009	\$50,330	\$48,213	\$39,379	\$54,942	\$52,345	\$43,447	-1.6%	-2.4%	-3.3%
2010	\$51,487	\$49,398	\$40,144	\$55,337	\$52,594	\$43,576	0.7%	0.5%	0.3%
2011	\$54,235	\$51,860	\$42,332	\$56,752	\$53,582	\$44,545	2.6%	1.9%	2.2%
2012	\$56,713	\$54,156	\$44,200	\$58,430	\$54,884	\$45,567	3.0%	2.4%	2.3%
2013	\$57,248	\$54,797	\$44,765	\$58,183	\$54,797	\$45,476	-0.4%	-0.2%	-0.2%
2014	\$59,182	\$56,642	\$46,129	\$59,182	\$56,642	\$46,129	1.7%	3.4%	1.4%

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

NOTES: Using midyear population estimates from the Census Bureau and two CPI-U series from the U.S. Bureau of Labor Statistics for price inflation.

**Annual Pay in Nominal Dollars.** Massachusetts saw steady growth in average annual pay for most of the past decade, lost ground in 2009, but resumed growth in 2010. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. Since 2004, average annual wages in the state have grown at an annual rate of 2.8 percent, compared to 2.7 percent for the nation. The level of average annual pay in Massachusetts in 2014 was 24.9 percent higher than the national average: \$64,128 compared to \$51,361.

**Wage and Salary Disbursements.** Wage and salary disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data are recorded on a place-of-work basis, they are then adjusted to a place-of-residence basis so that the personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1998 and 2000, the Massachusetts share of the New England and overall U.S. totals increased. In subsequent years, the Massachusetts share of New England and the U.S. decreased slightly until 2006 when it began to rise again, reaching 51.8 and 3.0 percent respectively in 2014.

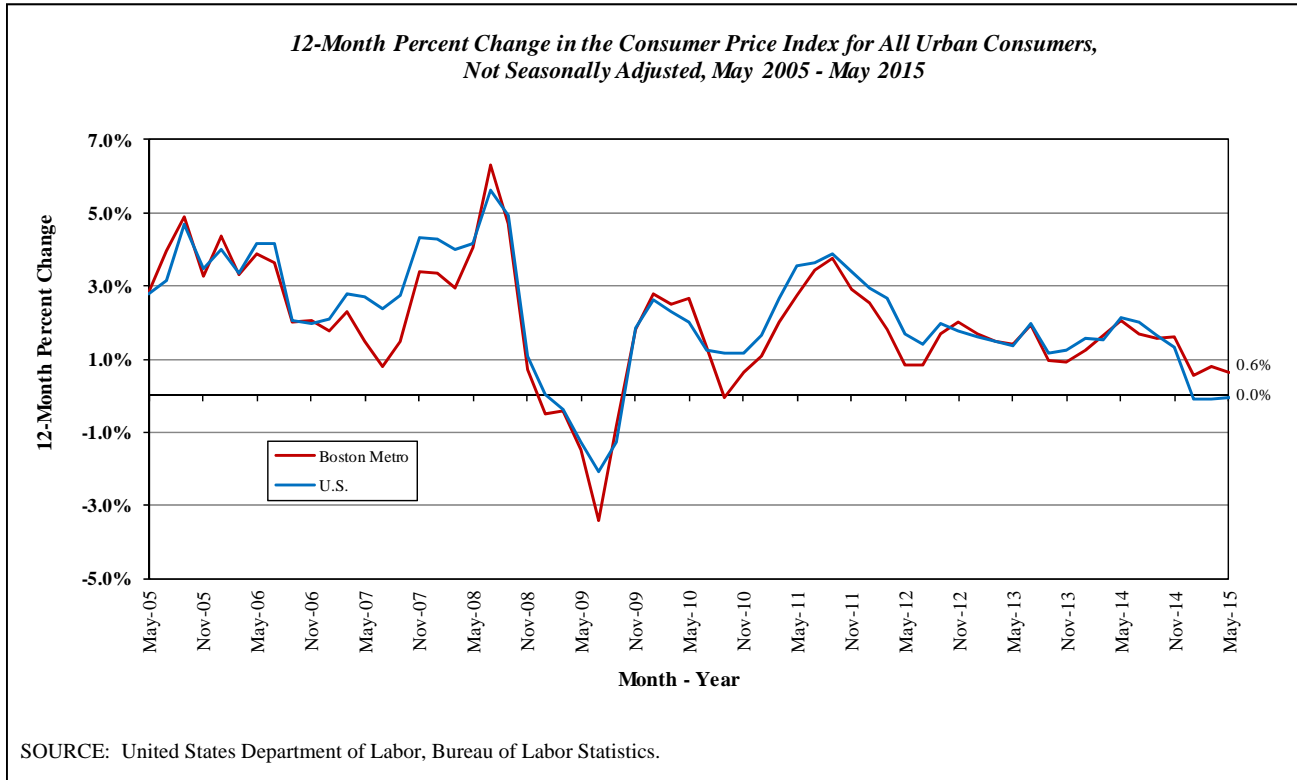
**Annual Wage and Salary Disbursements, 1990-2014**

(in millions of dollars)

Year	U.S.	N.E.	MA	MA as a pct. of N.E.	MA as a pct. of U.S.
1990	\$ 2,730	\$170	\$82	48.4%	3.0%
1991	\$ 2,802	\$169	\$82	48.3%	2.9%
1992	\$ 2,965	\$177	\$85	48.3%	2.9%
1993	\$ 3,070	\$182	\$88	48.5%	2.9%
1994	\$ 3,226	\$189	\$92	48.8%	2.9%
1995	\$ 3,414	\$201	\$98	49.0%	2.9%
1996	\$ 3,612	\$212	\$105	49.3%	2.9%
1997	\$ 3,872	\$229	\$113	49.3%	2.9%
1998	\$ 4,177	\$246	\$122	49.5%	2.9%
1999	\$ 4,457	\$264	\$133	50.2%	3.0%
2000	\$ 4,824	\$292	\$149	51.2%	3.1%
2001	\$ 4,950	\$299	\$152	50.7%	3.1%
2002	\$ 4,993	\$297	\$149	50.1%	3.0%
2003	\$ 5,134	\$303	\$151	49.6%	2.9%
2004	\$ 5,417	\$320	\$159	49.6%	2.9%
2005	\$ 5,689	\$331	\$163	49.4%	2.9%
2006	\$ 6,052	\$349	\$173	49.5%	2.9%
2007	\$ 6,391	\$369	\$184	49.9%	2.9%
2008	\$ 6,529	\$378	\$190	50.2%	2.9%
2009	\$ 6,244	\$362	\$182	50.3%	2.9%
2010	\$ 6,369	\$371	\$188	50.6%	2.9%
2011	\$ 6,623	\$385	\$196	50.8%	3.0%
2012	\$ 6,921	\$398	\$203	51.1%	2.9%
2013	\$ 7,110	\$408	\$210	51.4%	3.0%
2014	\$ 7,431	\$424	\$220	51.8%	3.0%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

**Consumer Prices.** Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following graph presents consumer price trends for the Boston metropolitan area and the United States for the period between May 2005 and May 2015. The latest available data for May 2015 show that the CPI-U for Boston area increased at a rate of 0.6 percent over May of 2014. Concurrently, the U.S. index remained unchanged over the same period.



In 2009, the Boston metropolitan area and U.S. experienced their first monthly year-over-year declines in the CPI-U since 1954 and 1955, respectively. The 2014 U.S. CPI-U increased 8.6 percent since 2010 while Boston's CPI-U only increased 7.5 percent during that period. However, the annual percent change from 2013 to 2014 shows that Boston and the U.S. increased at the same rate of 1.6 percent. The table on the following page shows the annual average of the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that average from the previous year from 1970 through the present.

**Consumer Price Index for All Urban Consumers (CPI-U), 1970-2015***(not seasonally adjusted; 1982-1984 base period average=100)*

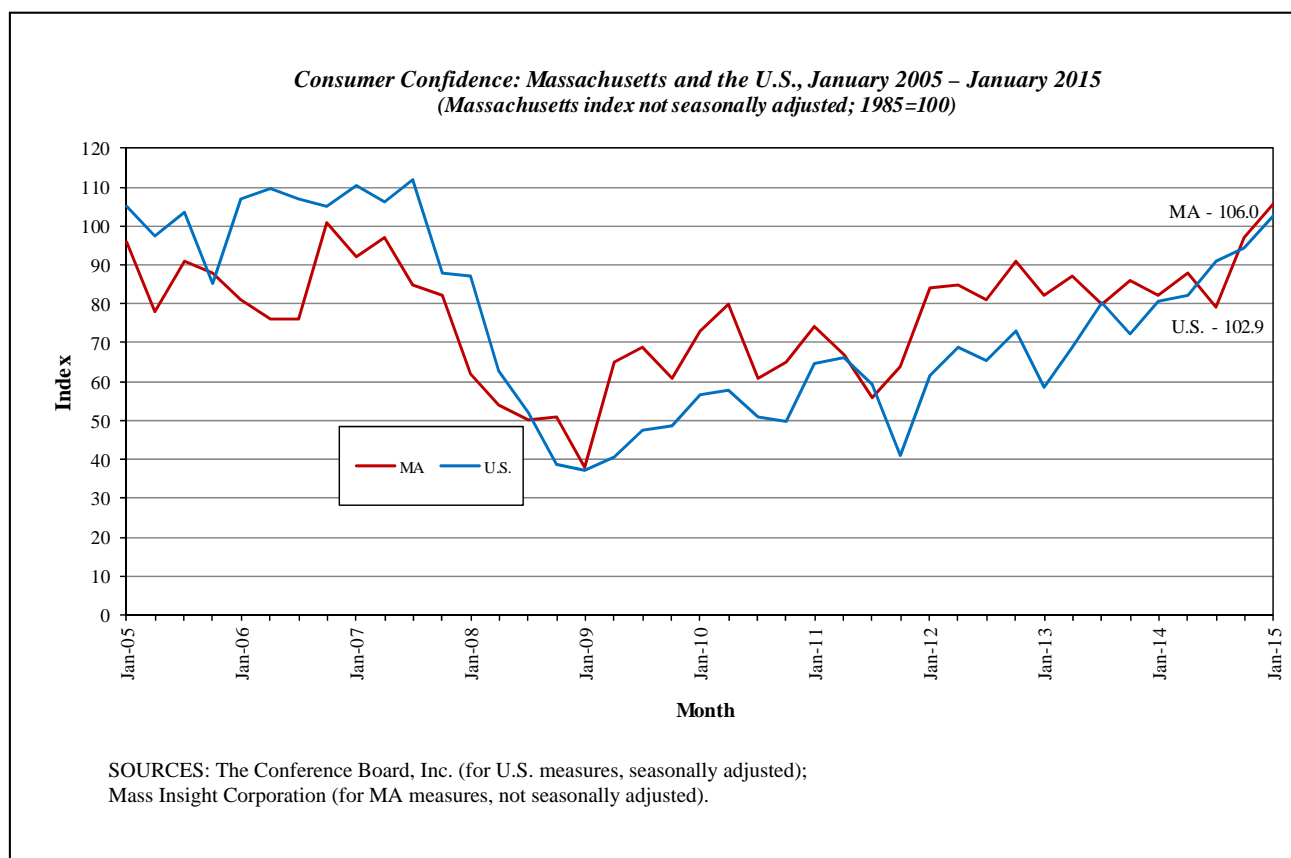
Year	Boston Metro Area		United States	
	CPI-U	Pct.Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
2003	203.9	3.8%	184.0	2.3%
2004	209.5	2.7%	188.9	2.7%
2005	216.4	3.3%	195.3	3.4%
2006	223.1	3.1%	201.6	3.2%
2007	227.4	1.9%	207.3	2.8%
2008	235.4	3.5%	215.3	3.8%
2009	233.8	-0.7%	214.5	-0.4%
2010	237.4	1.6%	218.1	1.6%
2011	243.9	2.7%	224.9	3.2%
2012	247.7	1.6%	229.6	2.1%
2013	251.1	1.4%	233.0	1.5%
2014	255.2	1.6%	236.7	1.6%
May-14	255.2		237.9	
May-15	256.8	0.6%	237.8	0.0%

SOURCE: United States Department of Labor, Bureau of Labor Statistics.

**Consumer Confidence, Present Situation, and Future Expectations.** These three measures offer multiple insights into consumer attitudes. The U.S. measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The survey for Massachusetts is conducted in a similar manner and the results are published by the Mass Insight Corporation, based on quarterly polling of 500 adult residents of Massachusetts. The "Present Situation" index measures consumers' appraisal of business and employment conditions at the time of the survey. The "Future Expectations" index focuses on consumers' expectations for six months hence regarding business and employment conditions, as well as expected family income. The overall "Consumer Confidence" index is a weighted average of the two sub-indices. Although the U.S. measures are compiled by a different source than the Massachusetts measures, according to the Federal Reserve Bank of Boston, the numbers are generally comparable. A score of 100 is considered neutral.

According to the Conference Board, consumer confidence nationally reached a six-year high of 111.9 in July 2007, followed by an all time low of 38.0 in February 2009. The Massachusetts index has been higher than the U.S. index since sharing lows in January 2009, except for a brief period when they tracked closely together in 2011 and then experienced a slight dip in July of 2013. Following a year of stable numbers higher than the U.S. index, the Mass Insight Corporation reported that the Massachusetts index dropped significantly to 79 points in July of 2014 only to bounce back in October with a gain of 18 points and an overall index of 97. In contrast, the U.S. index managed to grow slightly in July but as of October stood at 94.5, 2.5 points below that of Massachusetts.

In the first quarter of 2015, Consumer Confidence for both the Massachusetts and the U.S. reached an index over 100; something not experienced since 2006 and 2007, respectively. The following graph and table detail the recent record of these measures.

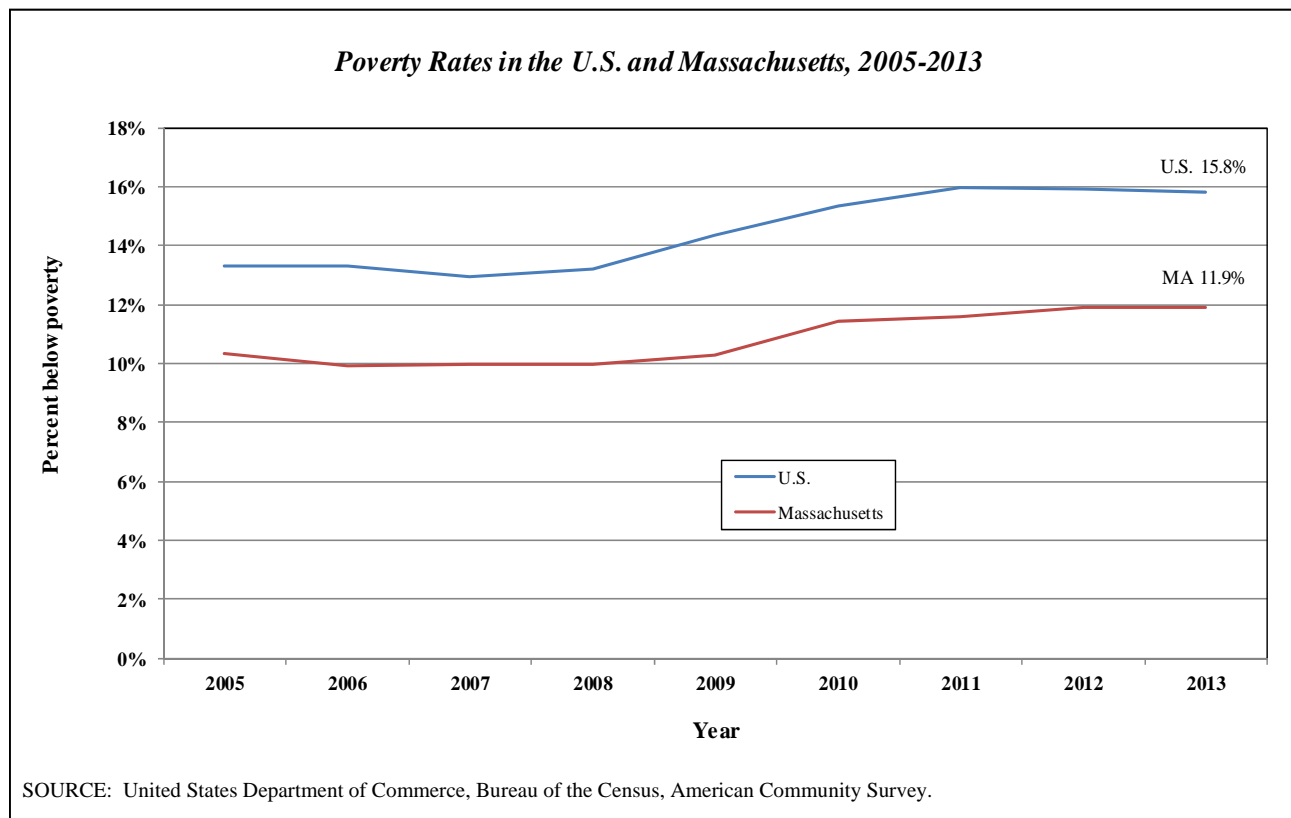


***Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S.  
(1985=100)***

	Consumer Confidence		Present Situation		Future Expectations	
	MA	U.S.	MA	U.S.	MA	U.S.
<b>Oct-04</b>	90.0	92.9	64.0	94.0	108.0	92.2
<b>Jan-05</b>	96.0	105.1	70.0	112.1	114.0	100.4
<b>Apr-05</b>	78.0	97.5	63.0	113.8	88.0	86.7
<b>Jul-05</b>	91.0	103.6	80.0	119.3	99.0	93.2
<b>Oct-05</b>	88.0	85.2	80.0	107.8	95.0	70.1
<b>Jan-06</b>	81.0	106.8	71.0	128.8	87.0	92.1
<b>Apr-06</b>	76.0	109.8	77.0	136.2	76.0	92.3
<b>Jul-06</b>	76.0	107.0	68.0	134.2	81.0	88.9
<b>Oct-06</b>	101.0	105.1	86.0	125.1	111.0	91.9
<b>Jan-07</b>	92.0	110.2	74.0	133.9	104.0	94.4
<b>Apr-07</b>	97.0	106.3	89.0	133.5	102.0	88.2
<b>Jul-07</b>	85.0	111.9	80.0	138.3	90.0	94.4
<b>Oct-07</b>	82.0	87.8	76.0	115.7	86.0	69.1
<b>Jan-08</b>	62.0	87.3	49.0	114.3	71.0	69.3
<b>Apr-08</b>	54.0	62.8	35.0	81.9	67.0	50.0
<b>Jul-08</b>	50.0	51.9	24.0	65.8	68.0	42.7
<b>Oct-08</b>	51.0	38.8	27.0	43.5	66.0	35.7
<b>Jan-09</b>	38.0	37.4	9.0	29.7	58.0	42.5
<b>Apr-09</b>	65.0	40.8	24.0	25.5	92.0	51.0
<b>Jul-09</b>	69.0	47.4	16.0	23.3	105.0	63.4
<b>Oct-09</b>	61.0	48.7	14.0	21.1	93.0	67.0
<b>Jan-10</b>	73.0	56.5	14.0	25.2	112.0	77.3
<b>Apr-10</b>	80.0	57.7	22.0	28.2	119.0	77.4
<b>Jul-10</b>	61.0	51.0	16.0	26.4	91.0	67.5
<b>Oct-10</b>	65.0	49.9	15.0	23.5	99.0	67.5
<b>Jan-11</b>	74.0	64.8	17.0	31.1	112.0	87.3
<b>Apr-11</b>	67.0	66.0	24.0	40.2	96.0	83.2
<b>Jul-11</b>	56.0	59.5	20.0	35.7	80.0	75.4
<b>Oct-11</b>	64.0	40.9	24.0	27.1	91.0	50.0
<b>Jan-12</b>	84.0	61.5	34.0	38.8	118.0	76.7
<b>Apr-12</b>	85.0	68.7	41.0	51.2	114.0	80.4
<b>Jul-12</b>	81.0	65.4	40.0	45.9	109.0	78.4
<b>Oct-12</b>	91.0	73.1	48.0	56.7	120.0	84.0
<b>Jan-13</b>	82.0	58.6	48.0	57.3	105.0	59.5
<b>Apr-13</b>	87.0	69.0	54.0	61.0	109.0	74.3
<b>Jul-13</b>	80.0	80.3	56.0	73.6	97.0	84.7
<b>Oct-13</b>	86.0	72.4	64.0	72.6	101.0	72.2
<b>Jan-14</b>	82.0	80.7	55.0	79.1	99.0	81.8
<b>Apr-14</b>	88.0	82.3	66.0	78.3	103.0	84.9
<b>Jul-14</b>	79.0	90.9	69.0	88.3	86.0	92.7
<b>Oct-14</b>	97.0	94.5	76.0	93.7	111.0	95.0
<b>Jan-15</b>	106.0	102.9	84.0	112.6	120.0	96.4

SOURCES: The Conference Board, Inc. (for U.S. measures, seasonally adjusted);  
Mass Insight Corporation (for MA measures, not seasonally adjusted).

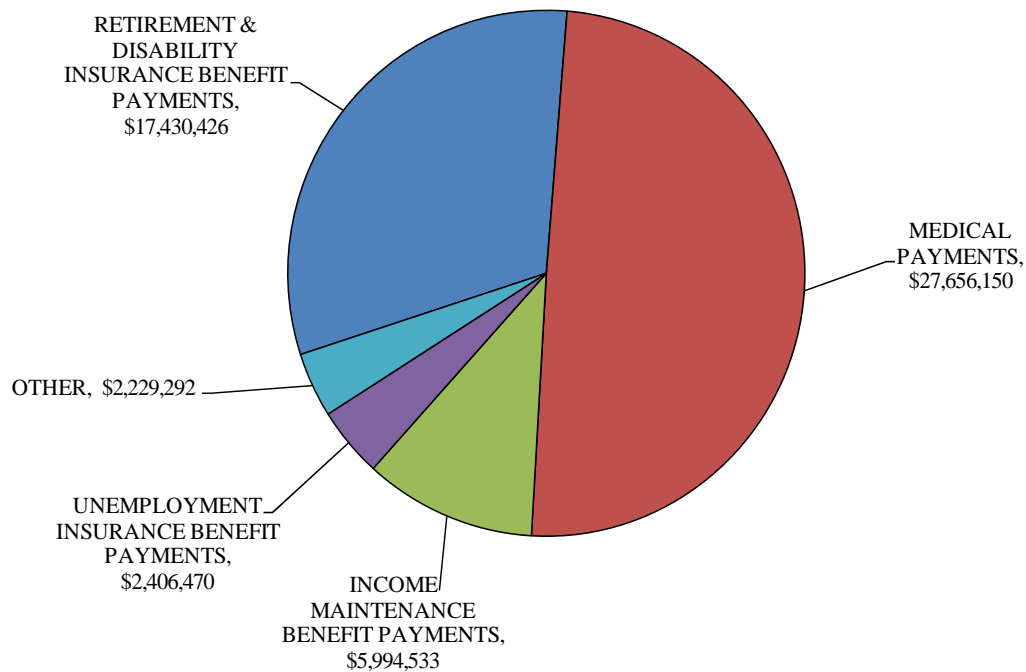
**Poverty.** Since 2005, the Massachusetts poverty rate, which was 11.9 percent in 2013, has been three to four percentage points lower than the national average, which was 15.8 percent in 2013. Massachusetts ranked 32nd out of the 50 states and the District of Columbia in 2013, for percent of persons whose ratio of income to the poverty level was below 100 percent in the past 12 months. Poverty status is not determined for all people. Institutionalized people, people in military quarters, people in college dormitories, and unrelated individuals under 15 years old are excluded.





**Transfer Payments.** Transfer payment income is payment to individuals from all levels of government and from businesses for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for 14.9 percent of total personal income in Massachusetts in 2013, dropping from 15.3 percent in 2012. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts from governments and businesses totaled \$57.1 billion for 2013. Fifty percent of government transfer payments to individuals were medical payments, up from just over 48.4 percent in 2012.

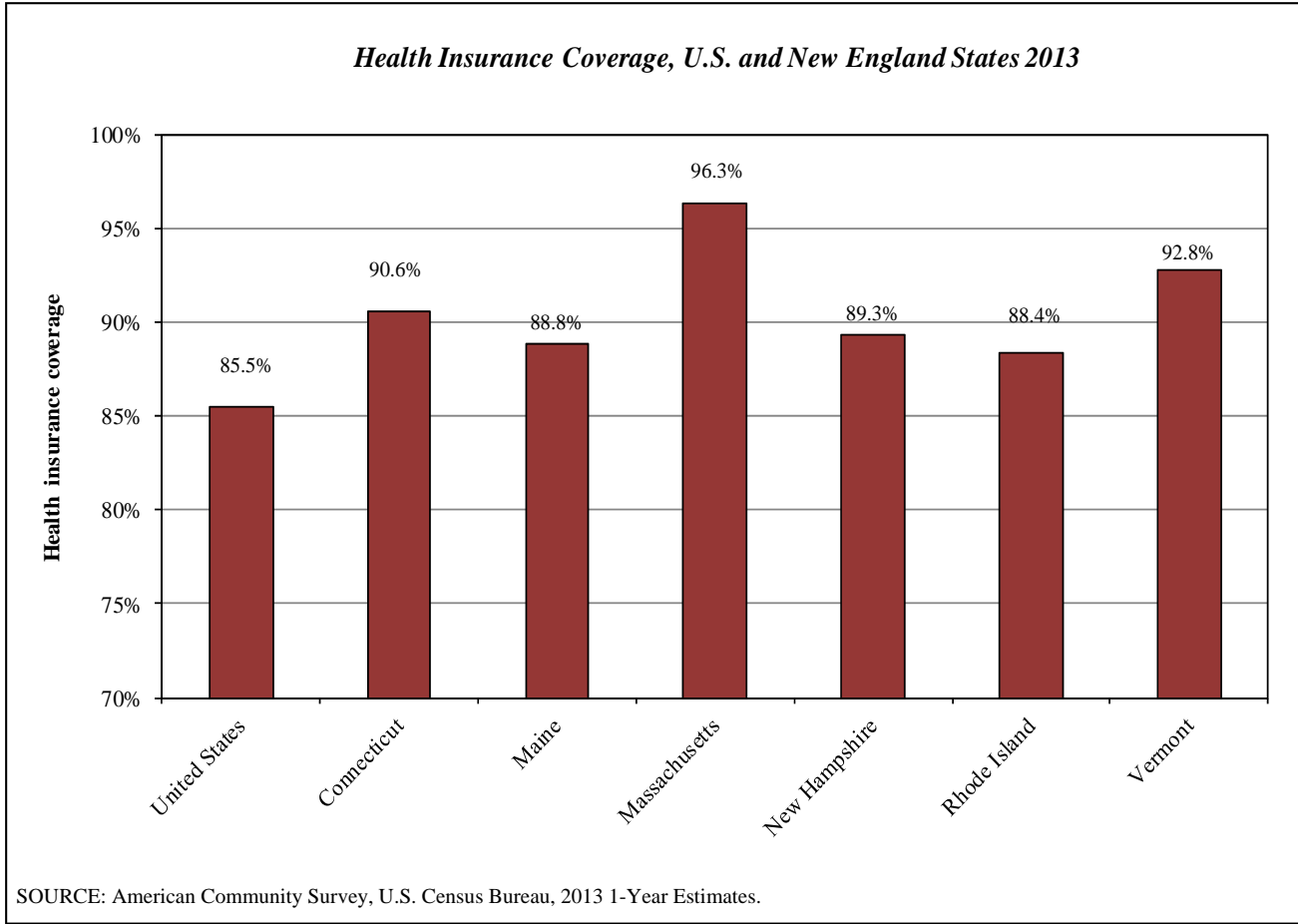
**Transfer Payments from Governments to Individuals in  
Massachusetts in 2013**  
(From Annual State Personal Income Estimates)  
(in thousands of current dollars)



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Annual State Personal Income Estimates.

NOTE: The category "other" includes veterans' benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

**Health Insurance Coverage.** Massachusetts leads the nation in the percent of individuals with health insurance coverage. Massachusetts passed legislation in 2006 mandating universal coverage in the Commonwealth. In 2013, 96.3 percent of the civilian non-institutionalized population was covered in the state by either public or private insurance, compared with 85.5 percent nationwide. Massachusetts also leads the other New England states in coverage, with Vermont as the next closest at 92.8 percent. All of the New England states have higher rates of coverage than the nation. These data do not indicate the comprehensiveness of coverage, however.



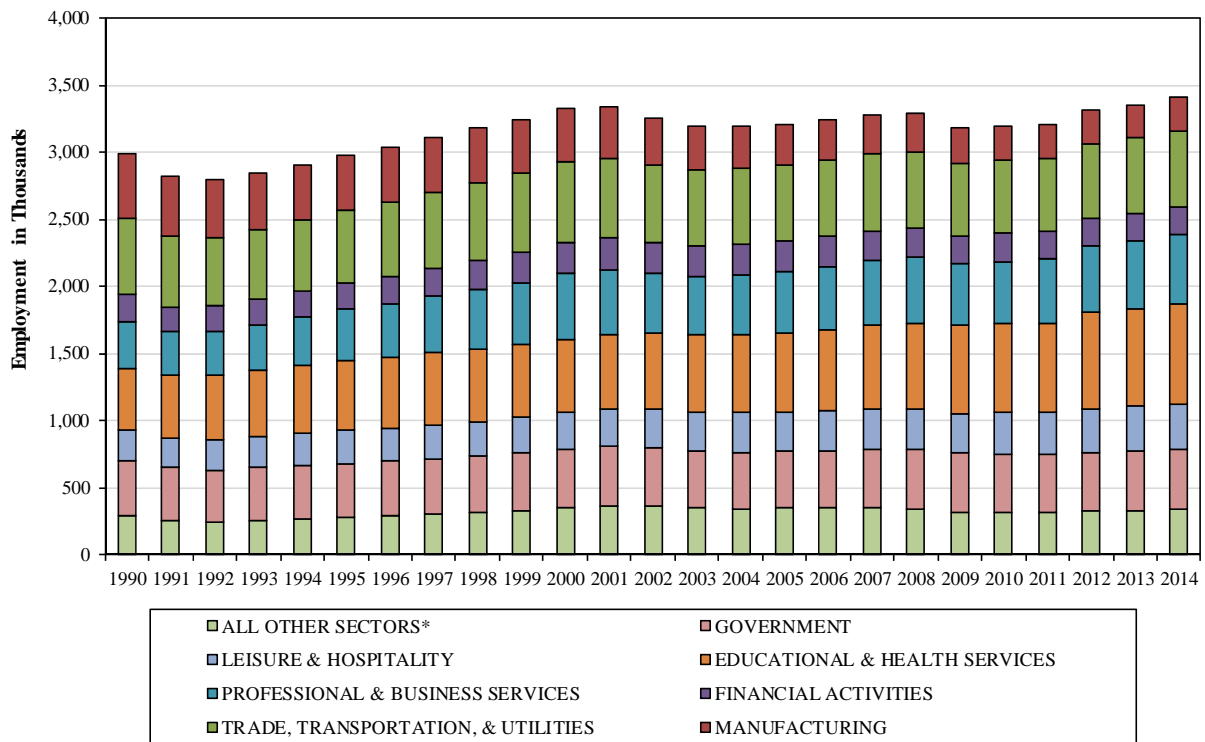
## EMPLOYMENT

**Employment by Industry.** The chart on this page shows the annual level of non-agricultural payroll employment in Massachusetts based on the North American Industry Classification System (NAICS) for the seven largest NAICS supersectors starting with 1990, the earliest year for which NAICS data are available. The chart on the following page compares the super-sector shares for the 2013-2014 period with the corresponding shares for the 1992-1993 period. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, not only as a share of total employment, but in absolute numbers of jobs as well. Several NAICS service sectors, Education and Health Services, Professional and Business Services, and Leisure and Hospitality have grown to take the place of manufacturing in driving the Massachusetts economy and now account for almost half of total payroll employment, while Financial Activities, Government, Information, and Trade, Transportation & Utilities have remained relatively level or declined in share.

After significant declines in 2002 and 2003, total non-agricultural employment in Massachusetts eventually increased 0.5 percent in 2005 and continued to increase every year through 2008. After a large dip in 2009, employment has continued to grow steadily with Non-Farm employment increasing 1.7 percent in 2014. With an annual average over 3.4 million Non-Farm employees, 2014 had the highest numbers to date. This trend continues to the present with employment averaging 3.4 million in the first quarter of 2015.

After years of moderate but steady declines or near-zero growth in the late nineties and early 2000s, manufacturing employment in the state experienced steep annual declines in 2002 (10.2 percent) and 2003 (7.0 percent) before returning to more moderate declines in 2004 (3.5 percent). After a steep drop of 9.5 percent in 2009, the decline returned to a less dramatic 2.2 percent in 2010. Employment grew slightly in 2011 at 0.2 percent but has since been decreasing slightly each year. December 2014 saw Manufacturing employment drop 0.8% since December of 2013. The seasonally adjusted estimate for 2014 was slightly lower than the 2013 estimate (249 thousand compared to 250). The first quarter data for 2015 shows Manufacturing employment increasing to 250 thousand.

*Annual Average Employment in Massachusetts,  
NAICS Super-Sectors, 1990-2014*

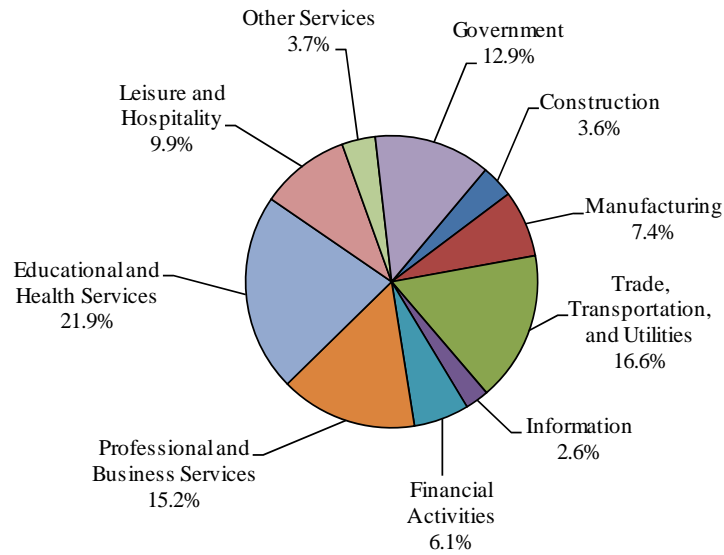


SOURCE: MA Executive Office of Workforce and Labor Development.

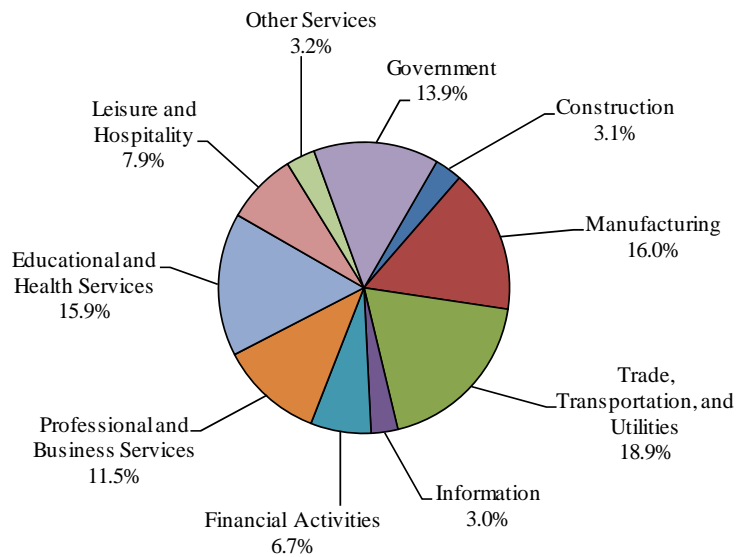
\*Includes Mining & Natural Resources, Construction, Information, and Other Services.

**Massachusetts Non-Farm Payroll Employment**  
*(NAICS Industry basis)*

**NAICS Super-Sectors: 2013-2014 Average Share**



**NAICS Super-Sectors: 1992-1993 Average Share**



SOURCE: MA Executive Office of Labor and Workforce Development.

**Largest Employers in Massachusetts.** The following inset lists the 25 largest private employers in Massachusetts based upon employment covered by the Unemployment Insurance system for March 2014. Tufts University and the Whole Foods Market Group replace TJX Companies and Verizon New England from the June 2013 list. As noted, the list may not include some employers who do business in the state under multiple legal names or register each facility as a separate employer.

***Twenty-five Largest Private Employers in Massachusetts in March 2014***  
(listed alphabetically)

Baystate Medical Center, Inc.	Raytheon Company
Beth Israel Deaconess Medical Center	Shaw's Supermarkets, Inc.
Boston Medical Center Corporation	Southcoast Hospitals Group, Inc.
Boston University	State Street Bank & Trust Company
Brigham & Women's Hospital, Inc.	Target Corporation
CVS Pharmacy, LLC	The Children's Hospital Corporation
Demoulas Super Markets, Inc.	The Stop & Shop Supermarkets Corporation
E.M.C. Corporation	Tufts University
General Hospital Corporation	UMass Memorial Medical Center
Harvard University	United Parcel Service, Inc.
Home Depot U.S.A., Inc.	Wal-Mart Associates, Inc.
Massachusetts Institute of Technology	Whole Foods Market Group
Partners Healthcare Systems, Inc.	

SOURCE: Massachusetts Executive Office of Labor & Workforce Development, Research Department, 10-15-14  
 NOTES: This alphabetic listing includes private employers reporting large numbers of jobs covered by the MA unemployment insurance program. The information is based on the March 2014 employment for employers as registered for unemployment insurance. The list may not include those employers who do business in MA under multiple legal corporations and those who register each store, facility or franchisee as a separate employer.

**Massachusetts Companies in the Fortune 500 List.** The economic base of Massachusetts is anchored by the twelve 2015 Fortune 500 companies headquartered here, the same twelve as 2014. When comparing the 2015 Fortune 500 list to the 2014, seven Massachusetts companies lost and five gained rank. Biogen located in Weston, climbed 77 places on the list, the largest leap for a Massachusetts company.

***Massachusetts Companies in the 2015 Fortune 500***

Rank		Company (location)	Industry	2014 revenues
2015	2014			(billions)
78	76	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	\$39.8
94	96	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	\$33.5
103	108	TJX (Framingham)	Specialty Retailers: Apparel	\$29.1
121	128	EMC (Hopkinton)	Computer Peripherals	\$24.4
129	126	Raytheon (Waltham)	Aerospace and Defense	\$22.8
133	127	Staples (Framingham)	Specialty Retailers: Other	\$22.5
180	146	Global Partners (Waltham)	Wholesalers: Diversified	\$17.3
181	215	Thermo Fisher Scientific (Waltham)	Scientific, Photo, Control Equipment	\$17.1
278	275	State St. Corp. (Boston)	Commercial Banks	\$10.7
298	375	Biogen Idec (Weston)	Pharmaceuticals	\$9.7
367	359	Eversource (Springfield)	Utilities: Gas and Electric	\$7.7
378	367	Boston Scientific (Natick)	Medical Products & Equipment	\$7.4

SOURCE: *Fortune*, May 2015 issue.

***Unemployment Insurance Trust Fund.*** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Insurance Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Insurance Trust Fund are not assets and liabilities of the Commonwealth.

As of May 31, 2015, the preliminary Massachusetts Unemployment Trust Fund had a balance of \$1.114 billion. This balance is the sum of the private contributory account balance of \$1.002 billion and the government contributory account balance of \$112 million. This compares to the April 30, 2015 balance of \$1.128 billion with a private contributory portion of \$1.015 billion. The April 2015 Unemployment Insurance Trust Fund report indicated that the private contributory account balance was estimated to be \$1.502 billion by the end of 2019 according to the Moody's-based outlook.

***Unemployment.*** The unemployment rate in Massachusetts was consistently below the national average from mid-1995 through November 2005, with similar patterns of gradual improvement after the mid-2003 peak. The Massachusetts rate exceeded the U.S. rate for 14 out of 17 months between January 2006 and May 2007, but only three of those months exceeded a 0.2 percent change. In March 2007 the Massachusetts rate was 4.5 percent, the lowest it had been since October 2001. From October 2009 to January 2010, the rate peaked at 8.7 percent. From June 2007 to October 2013, the state rate remained at or below the comparable (seasonally adjusted) U.S. unemployment rate.

Since reaching 7.2 percent in October 2013, The Massachusetts Unemployment rate has slowly declined to its present rate of 4.6 percent in June of 2015, 0.7% below the national rate of 5.3%. The tables and graphs on the following two pages compare the unemployment rate in the state with those in New England and the U.S.

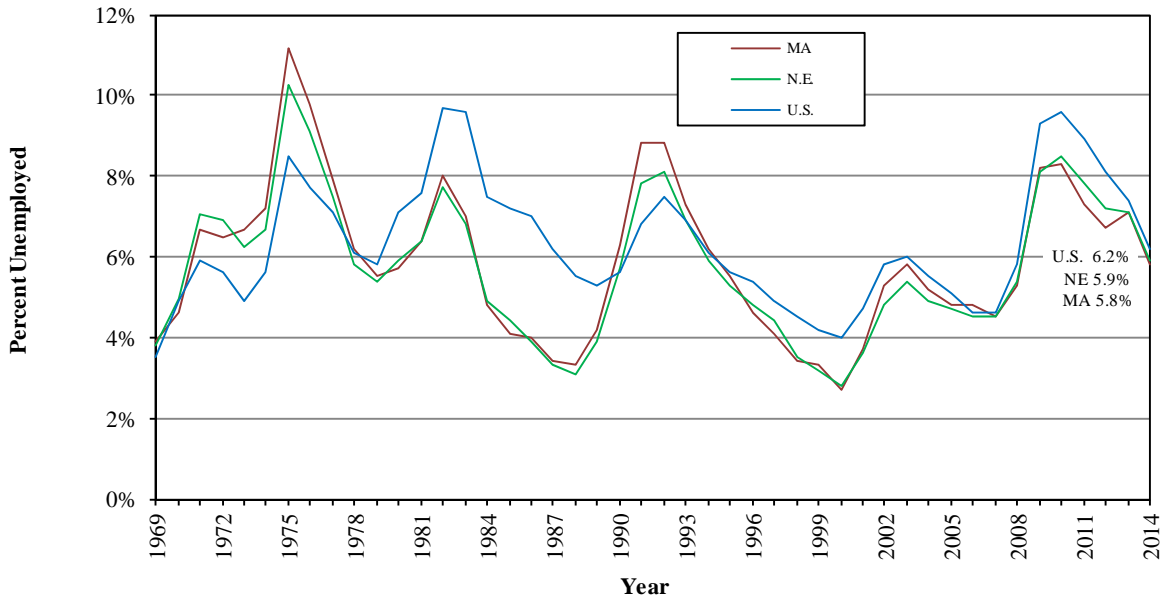
**Annual Average Civilian Labor Force and Unemployment, 1969-2014**

*(in thousands)*

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	Pct. of U.S.
1969	2,581	5,201	80,734	100	198	2,832	3.9%	3.8%	3.5%	111.2%
1970	2,465	5,128	82,771	113	253	4,093	4.6%	4.9%	4.9%	93.7%
1971	2,459	5,157	84,382	163	364	5,016	6.6%	7.1%	5.9%	112.7%
1972	2,487	5,260	87,034	161	363	4,882	6.5%	6.9%	5.6%	115.6%
1973	2,557	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.1%
1974	2,637	5,514	91,949	190	368	5,156	7.2%	6.7%	5.6%	128.5%
1975	2,725	5,633	93,775	305	578	7,929	11.2%	10.3%	8.5%	131.5%
1976	2,726	5,714	96,158	268	521	7,406	9.8%	9.1%	7.7%	127.3%
1977	2,760	5,820	99,009	218	437	6,991	7.9%	7.5%	7.1%	111.3%
1978	2,809	5,936	102,251	173	343	6,202	6.2%	5.8%	6.1%	101.6%
1979	2,863	6,080	104,962	156	326	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,885	6,154	106,940	164	365	7,637	5.7%	5.9%	7.1%	80.3%
1981	2,938	6,268	108,670	189	400	8,273	6.4%	6.4%	7.6%	84.2%
1982	2,966	6,345	110,204	236	489	10,678	8.0%	7.7%	9.7%	82.5%
1983	2,972	6,386	111,550	209	434	10,717	7.0%	6.8%	9.6%	72.9%
1984	3,032	6,540	113,544	146	318	8,539	4.8%	4.9%	7.5%	64.0%
1985	3,049	6,630	115,461	125	290	8,312	4.1%	4.4%	7.2%	56.9%
1986	3,080	6,724	117,834	123	264	8,237	4.0%	3.9%	7.0%	57.1%
1987	3,114	6,827	119,865	104	228	7,425	3.4%	3.3%	6.2%	54.8%
1988	3,156	6,907	121,669	104	215	6,701	3.3%	3.1%	5.5%	60.0%
1989	3,189	7,004	123,869	132	274	6,528	4.2%	3.9%	5.3%	79.2%
1990	3,226	7,128	125,840	204	409	7,047	6.3%	5.7%	5.6%	112.5%
1991	3,199	7,112	126,346	283	558	8,628	8.8%	7.8%	6.8%	129.4%
1992	3,181	7,105	128,105	281	573	9,613	8.8%	8.1%	7.5%	117.3%
1993	3,173	7,062	129,200	232	486	8,940	7.3%	6.9%	6.9%	105.8%
1994	3,188	7,041	131,056	199	415	7,996	6.2%	5.9%	6.1%	101.6%
1995	3,205	7,053	132,304	176	375	7,404	5.5%	5.3%	5.6%	98.2%
1996	3,231	7,118	133,943	148	340	7,236	4.6%	4.8%	5.4%	85.2%
1997	3,293	7,228	136,297	135	315	6,739	4.1%	4.4%	4.9%	83.7%
1998	3,322	7,257	137,673	113	253	6,210	3.4%	3.5%	4.5%	75.6%
1999	3,355	7,327	139,368	110	234	5,880	3.3%	3.2%	4.2%	78.6%
2000	3,366	7,348	142,583	92	204	5,692	2.7%	2.8%	4.0%	67.5%
2001	3,401	7,424	143,734	126	266	6,801	3.7%	3.6%	4.7%	78.7%
2002	3,424	7,496	144,863	181	363	8,378	5.3%	4.8%	5.8%	91.4%
2003	3,407	7,508	146,510	198	407	8,774	5.8%	5.4%	6.0%	96.7%
2004	3,381	7,476	147,401	177	366	8,149	5.2%	4.9%	5.5%	94.5%
2005	3,383	7,516	149,320	164	353	7,591	4.8%	4.7%	5.1%	94.1%
2006	3,418	7,607	151,428	162	344	7,001	4.8%	4.5%	4.6%	104.3%
2007	3,431	7,646	153,124	154	342	7,078	4.5%	4.5%	4.6%	97.8%
2008	3,463	7,713	154,287	185	418	8,924	5.3%	5.4%	5.8%	91.4%
2009	3,471	7,736	154,142	283	628	14,265	8.2%	8.1%	9.3%	88.2%
2010	3,475	7,763	153,889	288	659	14,825	8.3%	8.5%	9.6%	86.5%
2011	3,470	7,737	153,617	254	601	13,747	7.3%	7.8%	8.9%	83.1%
2012	3,475	7,721	154,975	234	557	12,506	6.7%	7.2%	8.1%	82.7%
2013	3,484	7,702	155,389	247	545	11,460	7.1%	7.1%	7.4%	95.9%
2014	3,558	7,785	155,922	205	458	9,617	5.8%	5.9%	6.2%	93.5%

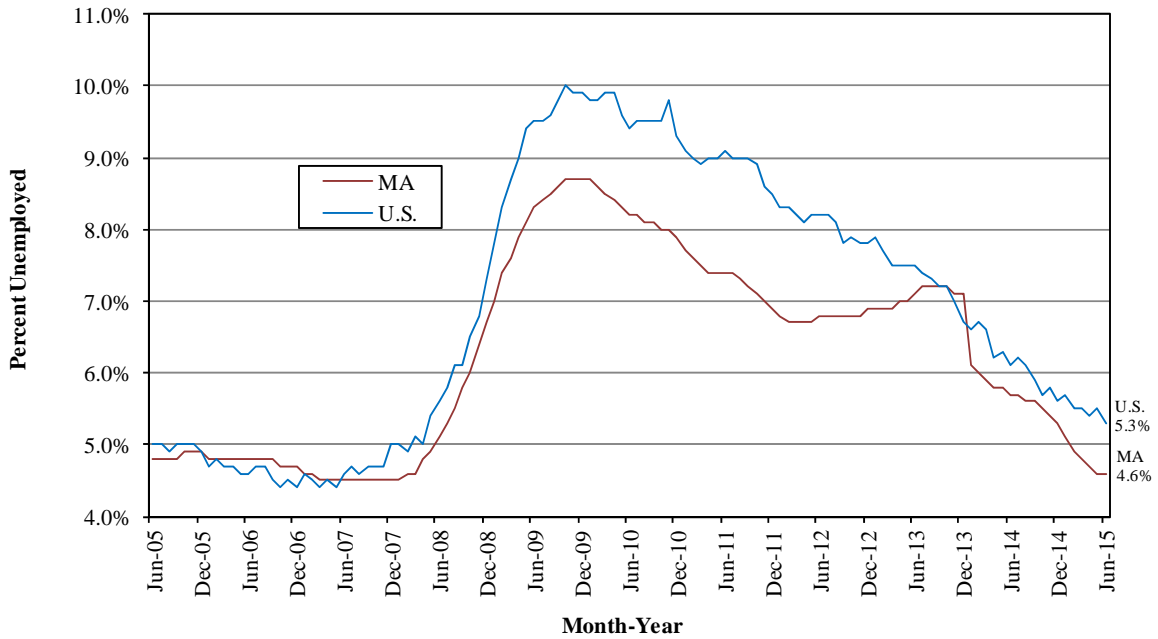
SOURCE: United States Department of Labor, Bureau of Labor Statistics.

**Annual Average Unemployment Rate, 1969-2014  
Massachusetts, New England, and United States**



SOURCE: United States Department of Labor, Bureau of Labor Statistics.

**Monthly Unemployment Rate, June 2005 - June 2015  
Massachusetts and United States  
(seasonally adjusted)**



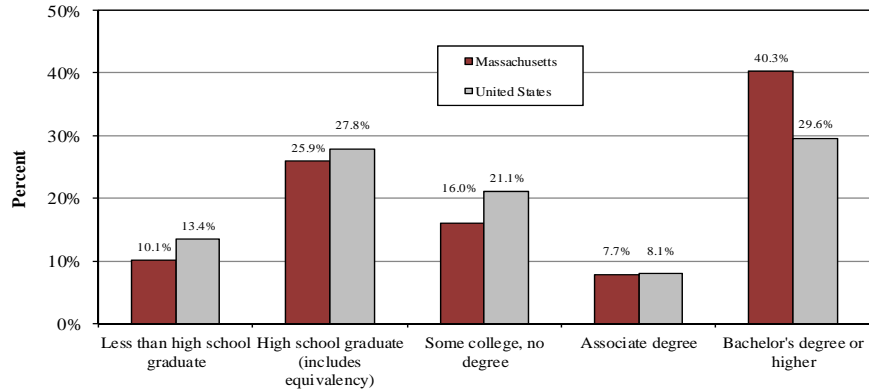
SOURCE: MA Executive Office of Labor and Workforce Development, United States Department of Labor, Bureau of Labor Statistics.



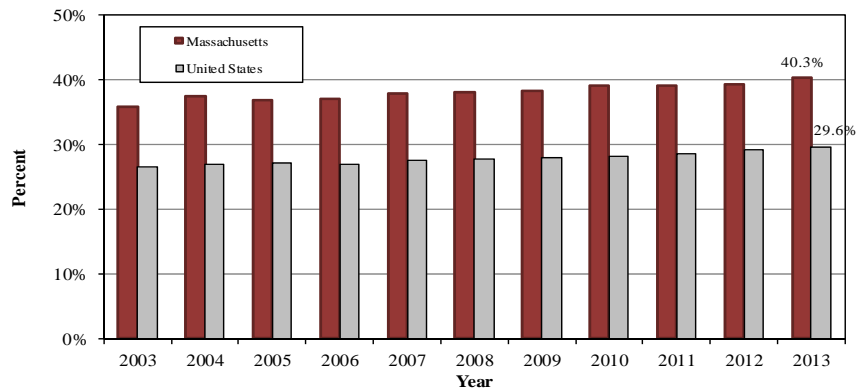
## EDUCATION AND TECHNOLOGY

**Educational Attainment.** The availability of a skilled and well-educated population is an important resource for the Commonwealth. Only the District of Columbia had a higher percentage of adults with a bachelor's degree or higher in 2013, according to the Census Bureau's American Community Survey (ACS). The ACS also reported that Massachusetts ranked 19th of persons who had not completed high school, 10.1 percent, less than the national average of 13.4. Massachusetts's black and Hispanic populations achieved college degrees at roughly half the rate of its white population but their rates were higher than their national averages. The most current Census data are shown below.

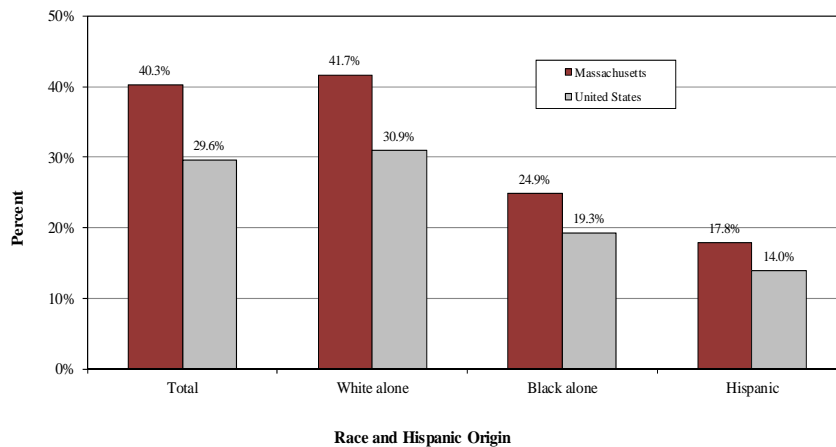
*Educational Attainment of Persons 25 Years and Older in 2013*



*Percent of Population in the U.S. and Massachusetts with a Bachelor's Degree or Higher, 2003-2013*



*Persons in the U.S. and Massachusetts 25 Years and Older with a Bachelor's Degree or Higher in 2013*



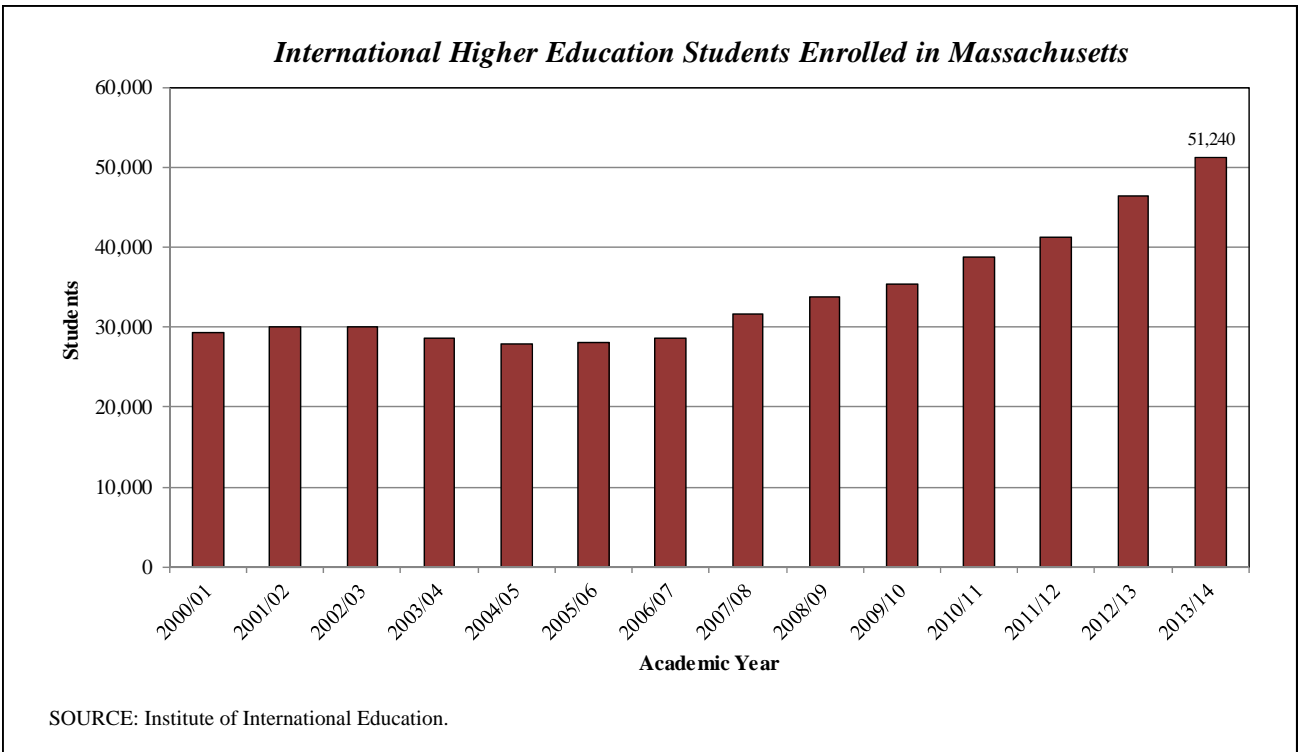
SOURCE: U.S. Census Bureau, ACS Estimates.

**Higher Education Data.** The table below compares Massachusetts residents' higher education enrollment by race and Hispanic Origin to the U.S. There were 0.5% less people enrolled in college in the U.S. in 2013 compared to 2012. This was a statistically significant change from 2012. Total enrollment in Massachusetts remained relatively unchanged.

<i>Higher Education Enrollment by Race and Hispanic Origin in 2013</i>							Hispanic or Latino
	Total	White alone	Black alone	Asian alone	All other races		
United States	23,301,982	68.3%	15.4%	7.7%	8.7%		15.7%
Massachusetts	594,746	73.1%	9.6%	10.2%	7.1%		10.0%

SOURCE: U.S. Census Bureau, American Community Survey estimates.

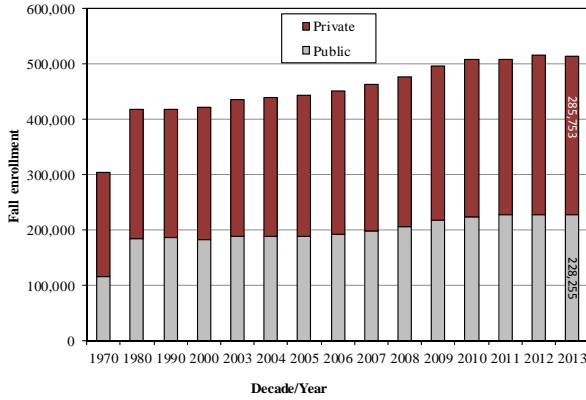
Survey data released by the Institute of International Education state that 51,240 foreign students were enrolled in Massachusetts colleges and universities in the 2013/2014 school year. This was an increase of 10.2 percent from the previous year. The national enrollment increased 8.1 percent. Massachusetts remains fourth ranked among states for foreign student enrollment.



U.S. Department of Education data show that from 2012 to 2013, higher education enrollment decreased 1.3 percent in the United States and 0.4 percent at Massachusetts institutions. During that 2000-2012 period, enrollment in public higher education increased 27 percent in the United States and 25 percent at Massachusetts institutions. Enrollment in private institutions increased 62 percent in the United States and 21 percent at Massachusetts institutions.

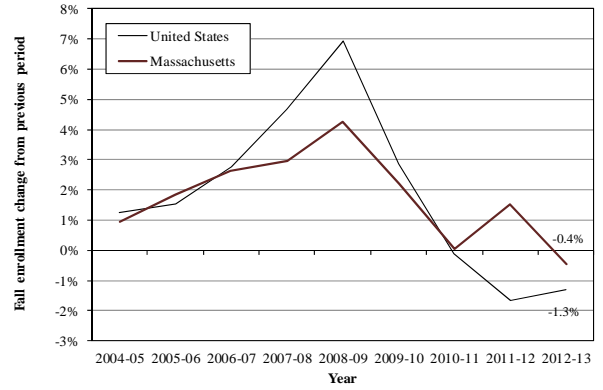
Research and development expenditures at universities and colleges increased 59 percent in the United States and 69 percent in Massachusetts between 2003 and 2012.

**Massachusetts Higher Education  
Public/Private Enrollment**



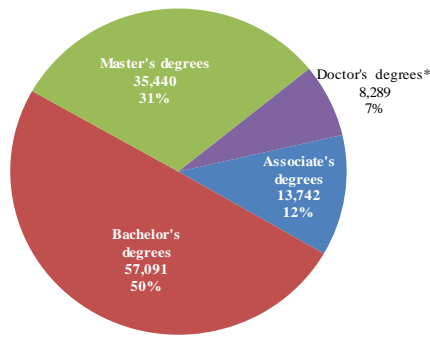
SOURCE: U.S. Department of Education, Digest of Education Statistics.

**Massachusetts Total Higher Education Enrollment  
Percent Change in Total Enrollment**



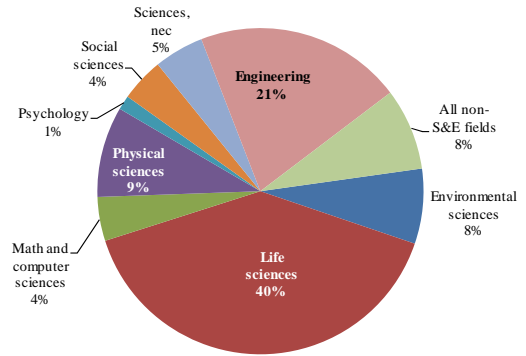
SOURCE: U.S. Department of Education, Digest of Education Statistics.

**Degrees Conferred by Degree-Granting Institutions in  
Massachusetts 2012-13**



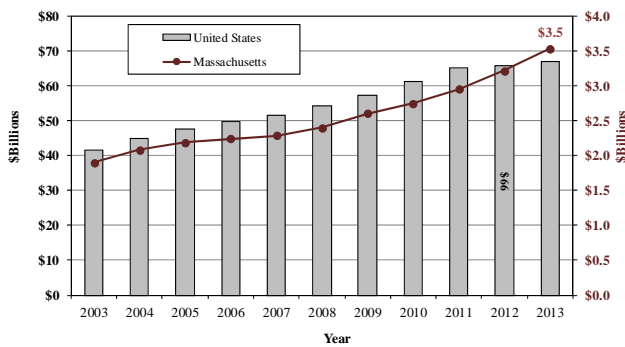
SOURCE: U.S. Department of Education, Digest of Education Statistics. \*Includes Ph.D., Ed.D., and comparable degrees at the doctoral level.

**R&D Expenditures at Massachusetts Universities and  
Colleges, by Science and Engineering Field: FY 2013**



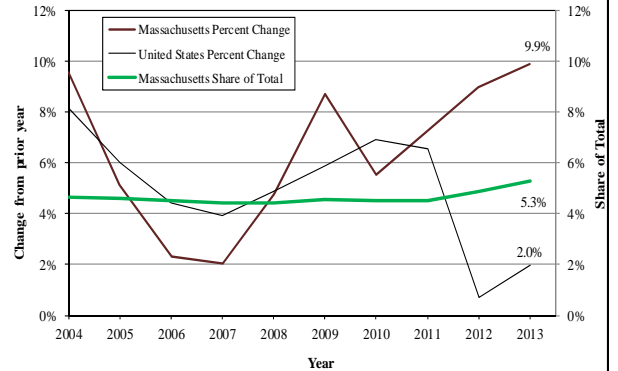
SOURCE: National Science Foundation. \$3.53 Billion in FY 2013.

**Research and Development Expenditures at Universities and  
Colleges**



SOURCE: National Science Foundation.

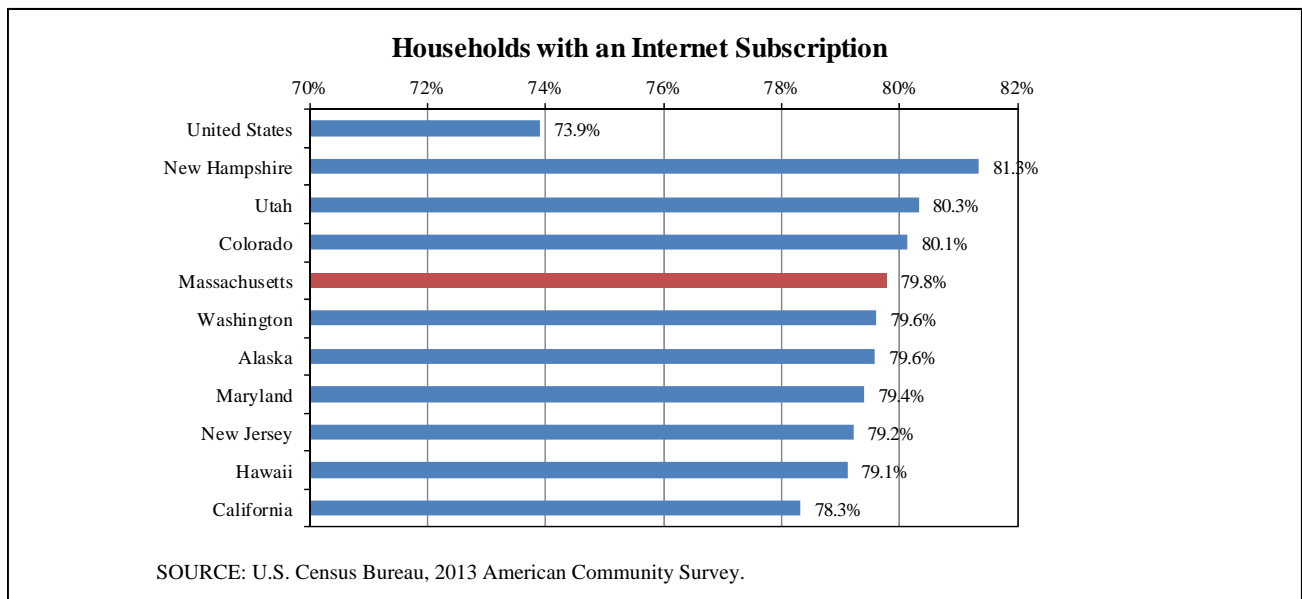
**Research and Development Expenditures at Universities and  
Colleges**



SOURCE: National Science Foundation.

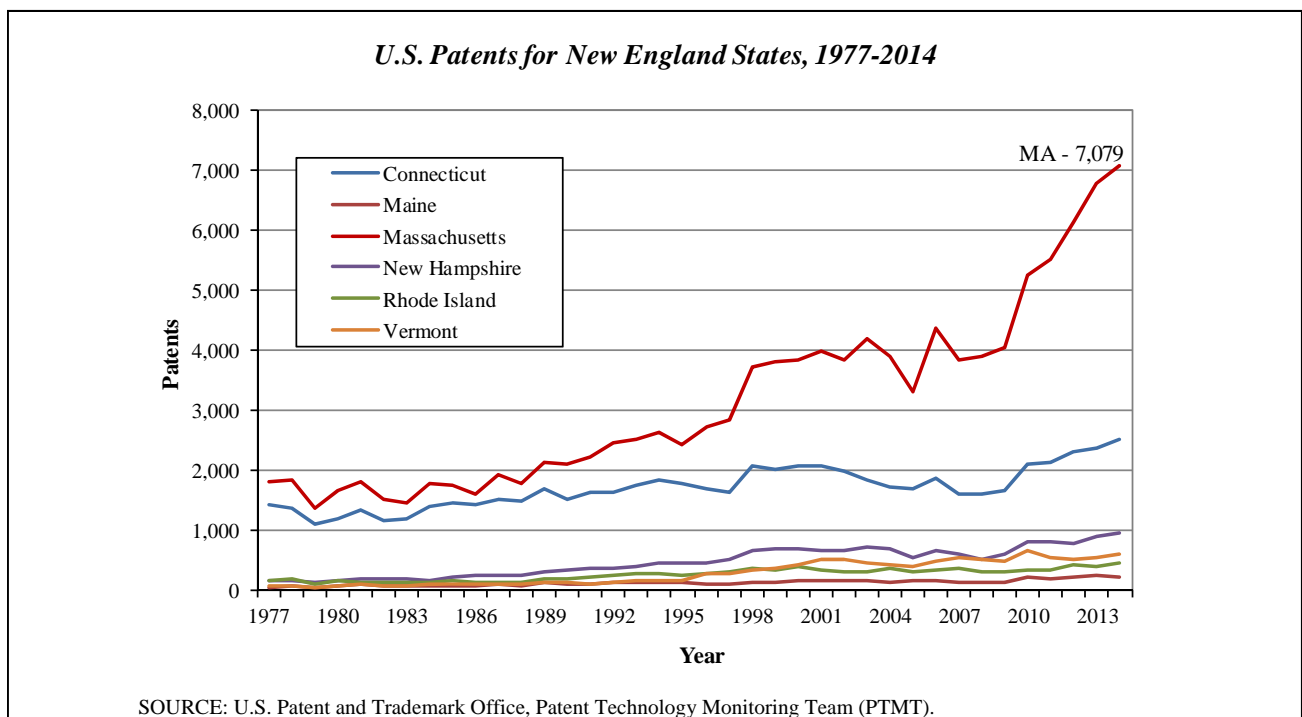
Enrollment -2013	MA Rank	Degrees Awarded - 2013	MA Rank	Research & Development\$ - FY 2013	MA Rank
Total	13	Total	10	Total	4
Public	23	Associate's	25	Environmental sciences	3
Private	7	Bachelor's	10	Life sciences	8
		Master's	6	Math/computer sciences	7
		Professional/Doctorate	7	Physical sciences	2
				Psychology	8
				Social sciences	3
				Sciences, nec	2
				Engineering	5

**Internet Access.** Massachusetts had the fourth highest household internet subscription rate in the U.S. according to the Census Bureau’s 2013 American Community Survey.



**Patents.** The U.S. Patent and Trademark Office notes: “This report shows the number of U.S. patent documents (i.e., utility patents, design patents, plant patents, reissue patents, defensive publications, and statutory invention registrations) granted since 1977, broken down by the state or country of origin (patent origin is determined by the residence of the first-named inventor).”

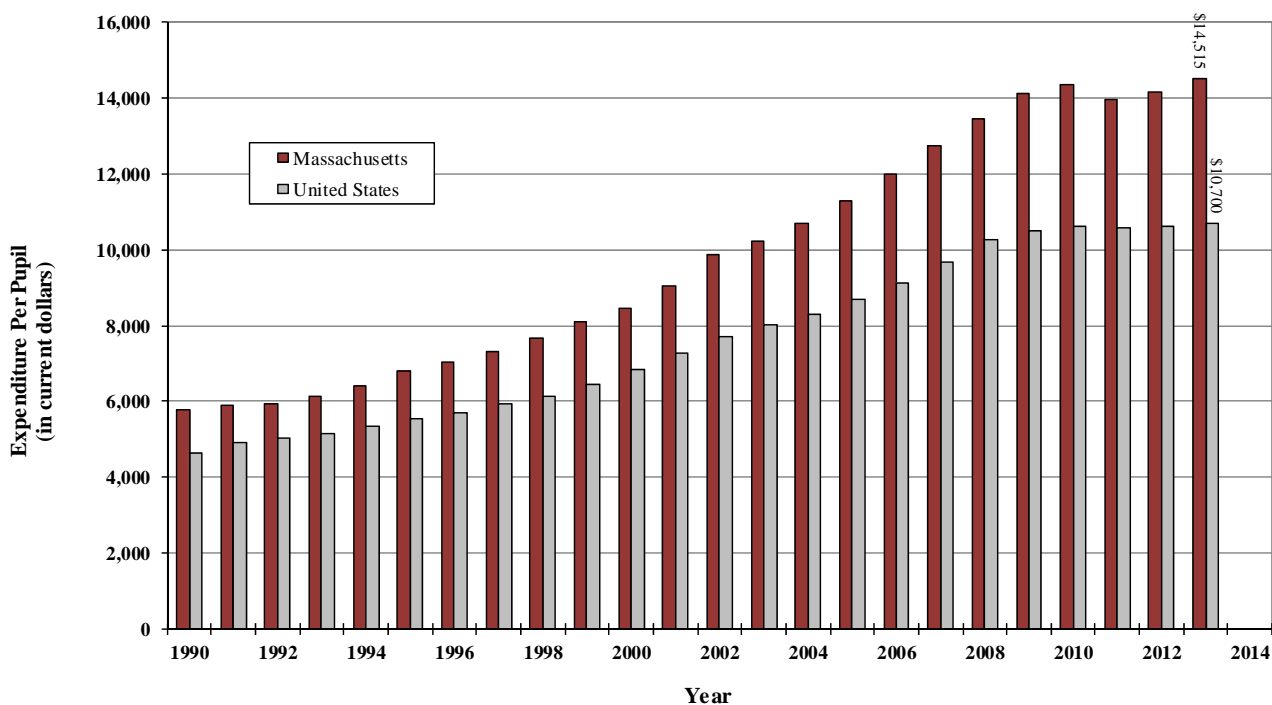
In 2014, Massachusetts was fifth among all states for the number of new patents issued. Only five nations originated more U.S. patents than Massachusetts, putting the state on par with Japan, Germany, The United Kingdom, Taiwan, and Canada for origination of U.S. patents. Since 1977, Massachusetts has received more new patents than any other New England state. With 7,079 new patents in 2014, a 4.6 percent increase since 2013, Massachusetts innovators were responsible for 60 percent of the new patents in New England.



**Primary and Secondary Education Expenditures.** Massachusetts has spent from 12 to 36 percent more per pupil on primary and secondary education than the national average since 1981. During the 2012-2013 school year, the average Massachusetts per student expenditures increased 2.6 percent to \$14,515. Massachusetts was ranked 8th in the nation among states and the District of Columbia in 2013. The table and chart below show expenditures per pupil for Massachusetts and the U.S. since fiscal year 1985.

***Per Pupil Expenditure in Public Elementary and Secondary Schools***  
(in current, unadjusted dollars)

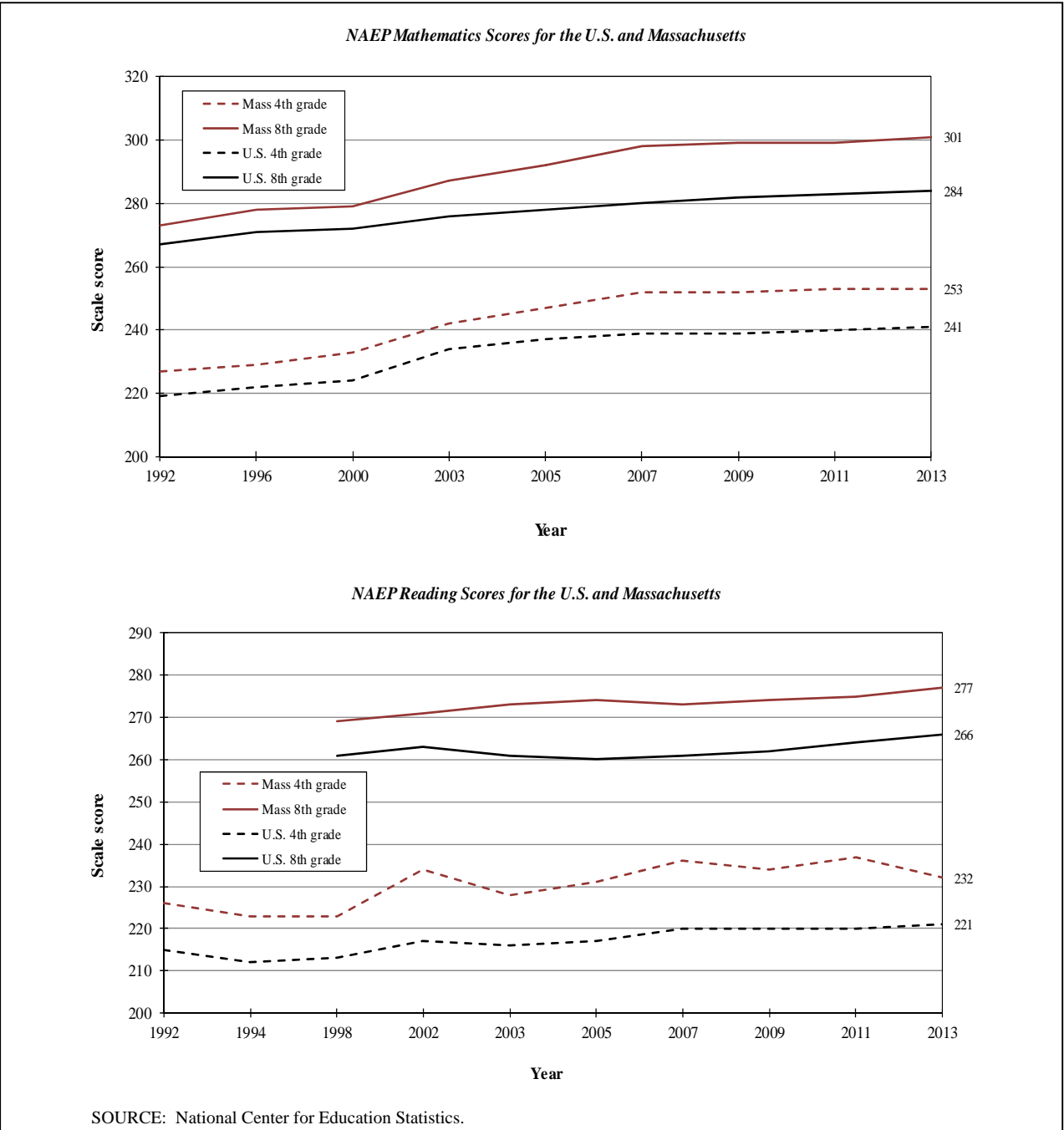
Fiscal Year	Massachusetts	United States	Ratio (MA/U.S.)	MA change from previous year
1985	\$3,653	\$3,222	1.13	10.8%
1990	5,766	4,643	1.24	5.1%
1995	6,783	5,529	1.23	5.6%
1996	7,033	5,689	1.24	3.7%
1997	7,331	5,923	1.24	4.2%
1998	7,651	6,137	1.25	4.4%
1999	8,106	6,458	1.26	5.9%
2000	8,444	6,836	1.24	4.2%
2001	9,038	7,284	1.24	7.0%
2002	9,856	7,701	1.28	9.1%
2003	10,223	8,019	1.27	3.7%
2004	10,693	8,287	1.29	4.6%
2005	11,267	8,701	1.29	5.4%
2006	11,981	9,138	1.31	6.3%
2007	12,738	9,666	1.32	6.3%
2008	13,454	10,259	1.31	5.6%
2009	14,118	10,499	1.34	4.9%
2010	14,350	10,615	1.35	1.6%
2011	13,941	10,560	1.32	-2.9%
2012	14,142	10,608	1.33	1.4%
2013	14,515	10,700	1.36	2.6%



SOURCE: U.S. Census Bureau, <http://www.census.gov/govs/www/school.html>.

**National Assessment of Educational Progress (NAEP) scores.** The National Assessment of Educational Progress (NAEP), also known as "the Nation's Report Card," is the only nationally representative and continuing assessment of what America's students know and can do in various subject areas. Since 1969, assessments have been conducted periodically in reading, mathematics, science, writing, U.S. history, civics, geography, and the arts. Under the current structure, the Commissioner of Education Statistics, who heads the National Center for Education Statistics in the U.S. Department of Education, is responsible by law for administering the NAEP project.

Since 1990, NAEP assessments have also been conducted to give results for participating states. Those that choose to participate receive assessment results that report on the performance of students in that state. In its content, the state assessment is identical to the assessment conducted nationally. However, because the national NAEP samples were not, and are not currently designed to support the reporting of accurate and representative state-level results, separate representative samples of students are selected for each participating jurisdiction/state. The graphs below compare the data available for Massachusetts to the nation.



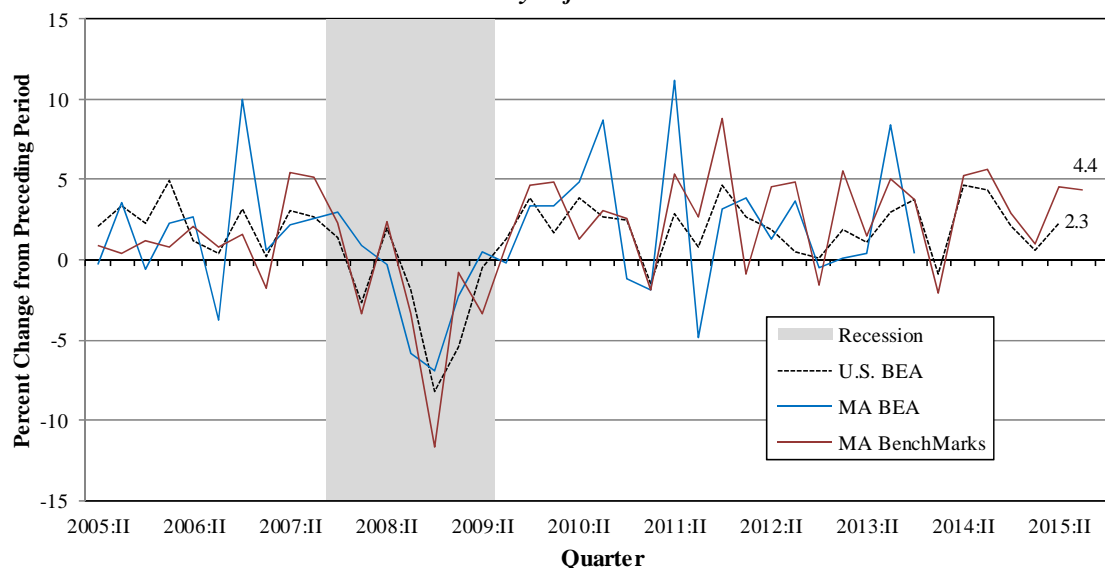
## ECONOMIC BASE AND PERFORMANCE—STATE OVERVIEW

**Comparing BEA GDP for the U.S., the region, and Massachusetts.** The U.S. Bureau of Economic Analysis (BEA) defines Gross Domestic Product by State (GDP) as “the value added in production by the labor and property located in a state. GDP for a state is derived as the sum of the gross state product originating in all industries in a state. In concept, an industry’s GDP, referred to as its “value added”, is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported).”

The BEA provides national (in January) and state (in June) annual and quarterly GDP estimates. *MassBenchmarks* releases quarterly estimates of Massachusetts economic activity. This is reported in the following section. While we do not have access to many of the components that BEA uses to calculate state GDP in advance of its release, we provide an overview of our state’s components when they are available. Additionally, we provide state economic indexes and industrial sector data that are released more frequently and in some cases, are among the components used to calculate state GDP.

<i>State Gross Domestic Product - Annual Change</i> (billions of chained 2009 dollars)						
Year	Massachusetts		New England		United States	
	GDP	Annual change	GDP	Annual change	GDP	Annual change
2000	\$348		\$720		\$12,560	
2001	\$351	1.0%	\$728	1.1%	\$12,682	1.0%
2002	\$353	0.5%	\$734	0.8%	\$12,909	1.8%
2003	\$362	2.5%	\$753	2.6%	\$13,271	2.8%
2004	\$369	2.1%	\$781	3.6%	\$13,774	3.8%
2005	\$375	1.6%	\$793	1.5%	\$14,234	3.3%
2006	\$381	1.6%	\$809	2.1%	\$14,614	2.7%
2007	\$391	2.6%	\$826	2.1%	\$14,874	1.8%
2008	\$392	0.2%	\$816	-1.2%	\$14,830	-0.3%
2009	\$382	-2.6%	\$793	-2.9%	\$14,419	-2.8%
2010	\$395	3.4%	\$814	2.6%	\$14,784	2.5%
2011	\$404	2.3%	\$821	0.9%	\$15,021	1.6%
2012	\$411	1.7%	\$830	1.1%	\$15,369	2.3%
2013	\$415	1.2%	\$839	1.1%	\$15,710	2.2%
2014	\$425	2.3%	\$853	1.6%	\$16,086	2.4%

**Real GDP: Percent Change from Preceding Quarter**  
Seasonally Adjusted Annual Rates



SOURCES: U.S. Bureau of Economic Analysis, *MassBenchmarks* calculations by Dr. Alan Clayton-Matthews. Updated July 30, 2015.

## ECONOMIC BASE AND PERFORMANCE—ECONOMIC INDICATORS

**State Coincident Indexes.** To track more recent changes in the state and national economies, we use the Federal Reserve Bank of Philadelphia’s Coincident Indexes. It “produces a monthly coincident index for each of the 50 states. The indexes are released a few days after the Bureau of Labor Statistics (BLS) releases the employment data for the states.

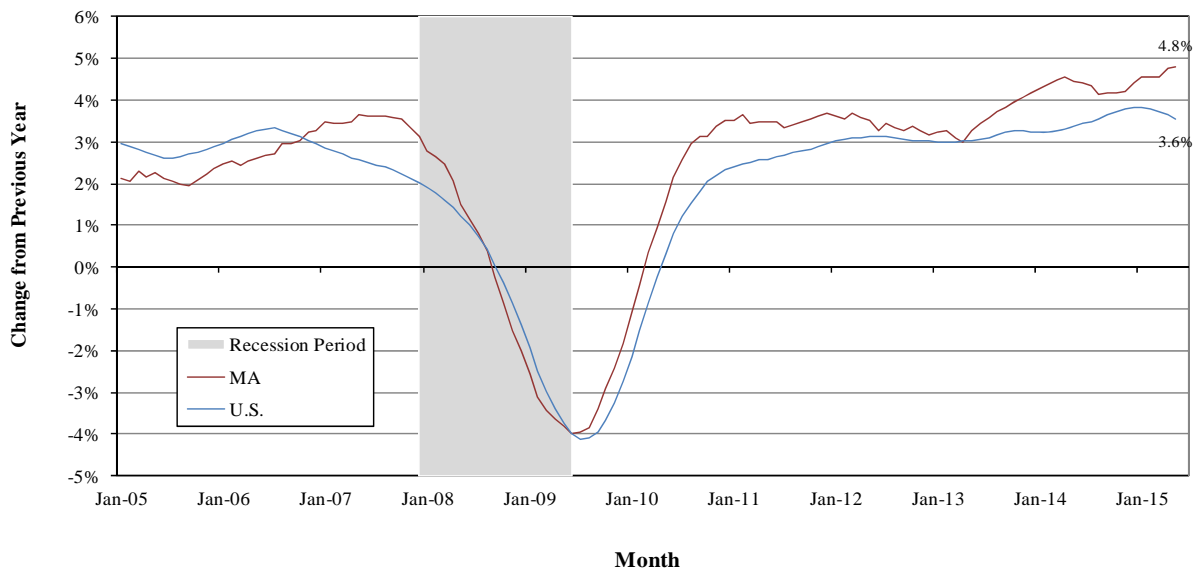
The coincident indexes combine four state-level indicators to summarize current economic conditions in a single statistic. The four state-level variables in each coincident index are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). The trend for each state’s index is set to the trend of its gross domestic product (GDP), so long term growth in the state’s index matches long term growth in its GDP.”

The graph below indicates the state and national index change from 12 months prior. Recent revisions to BLS data the Philadelphia Federal Reserve Bank uses to construct their indexes resulted in an improved trend for Massachusetts since the recession ended in 2009. The table below compares the Massachusetts index to its New England neighbors and the U.S.

*Comparing the U.S. and New England States Coincident Indexes*

Area	May 2015	1-Month Change	3-Month Change	12-Month Change
U.S.	173.6	0.2%	0.7%	3.6%
Massachusetts	193.2	0.4%	1.2%	4.8%
Connecticut	166.5	0.5%	1.2%	3.7%
Maine	145.3	0.1%	0.9%	3.0%
New Hampshire	204.5	0.3%	1.0%	3.4%
Rhode Island	168.0	0.5%	1.4%	4.4%
Vermont	168.1	0.0%	0.9%	3.5%

*Comparing the U.S. and Massachusetts Coincident Indexes*



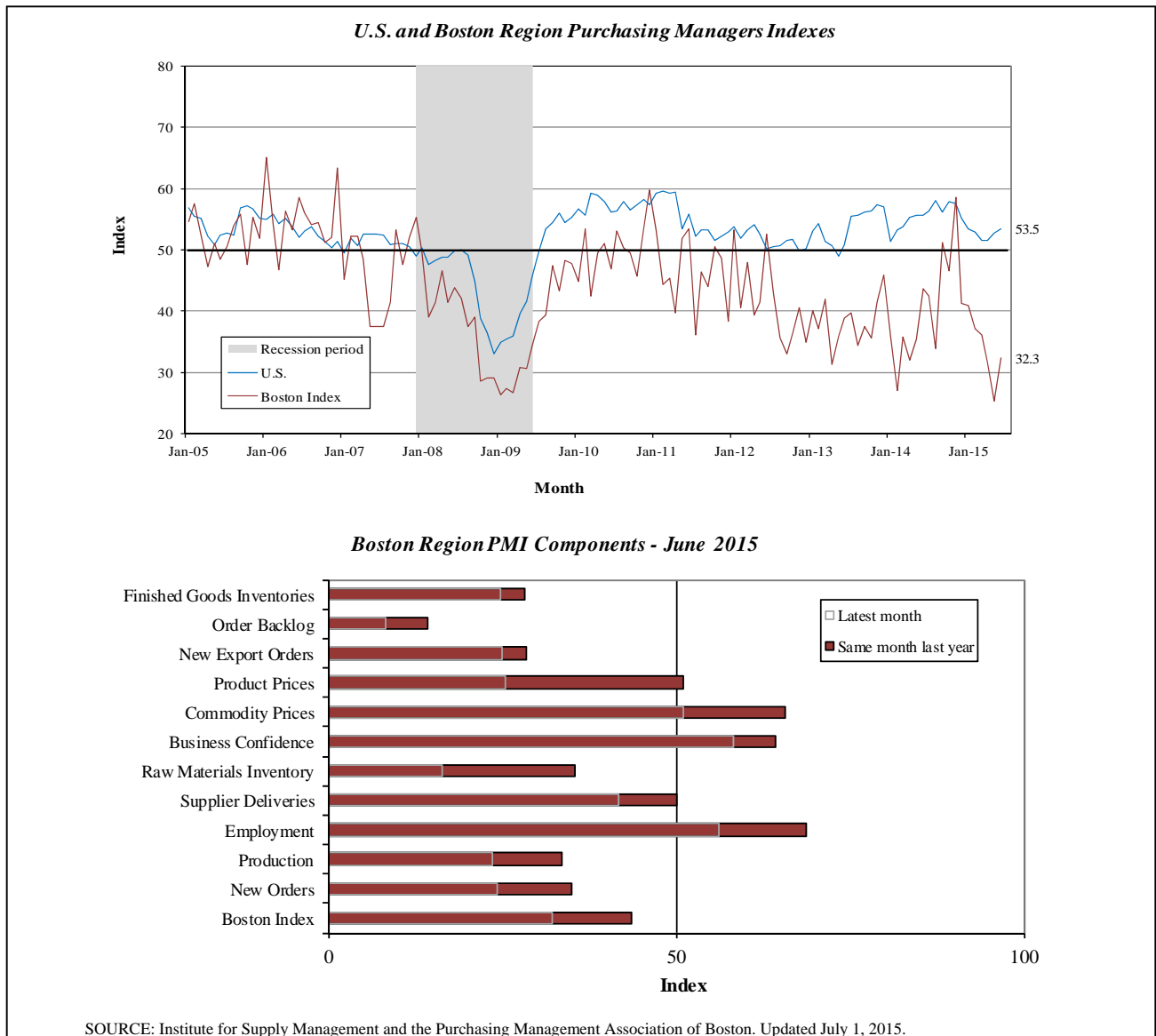
SOURCE: Federal Reserve Bank of Philadelphia. June, 2015. Shaded areas are recession periods.  
 Note: Indexes are set to 100 at July 1992.



**Institute for Supply Management Purchasing Manager Indexes (PMI).** These indexes are compiled using survey data from purchasing and supply executives and are used as a leading business indicator. While the national index is based on a survey of manufacturers, the Boston region’s is based on a survey of “companies representing industries as diverse as the banking and financial services, pharmaceuticals and biotechnology, software development and communication, medical products and equipment, computers, chemicals, consumer products, education, and the public sector.”

Index readings above 50 indicate the economy is generally expanding. Readings below 50 indicate the economy is generally contracting, although a reading above 42 for a period of time indicates the economy is generally expanding. Components of the national index include new orders, production, employment, supplier deliveries, inventories, customer inventories, prices, backlog of orders, exports and imports. The Boston region’s components are slightly different and include new orders, production, employment, supplier deliveries, raw monthly materials inventory, business confidence, commodity prices, product prices, new export orders, order backlog and finished goods inventories. These components show which segments of the business supply chain are expanding or contracting.

The June 2015 national index indicated that the manufacturing sector has been expanding since May 2009. The Boston region’s June 2015 index of 32.3 indicated that overall business conditions were contracting after hitting a four year high of 58.5 in November 2014. Eight of the eleven Boston region index components were contracting in the June 2015 survey but the business confidence, employment components, and commodity prices were expanding.



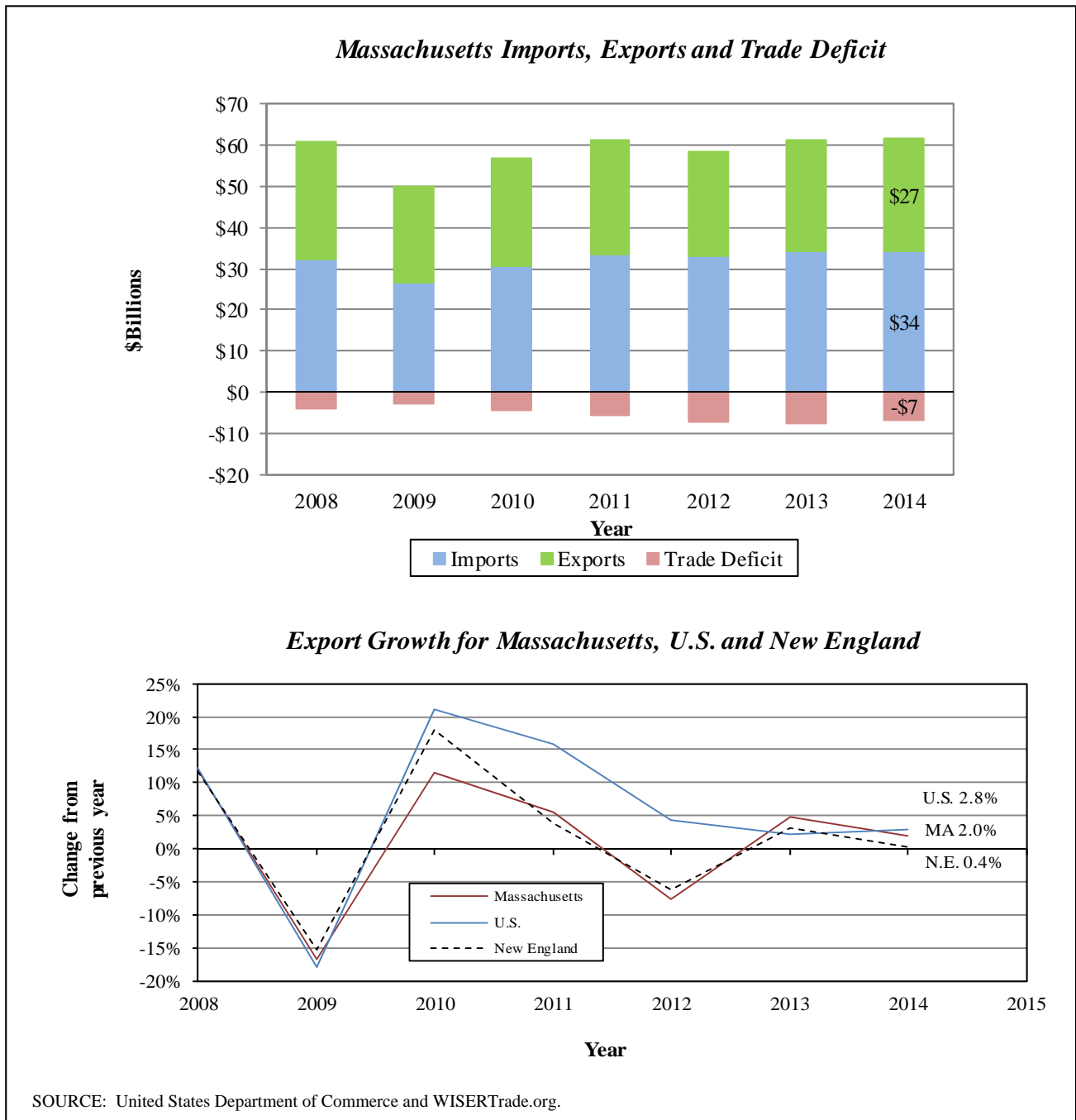
SOURCE: Institute for Supply Management and the Purchasing Management Association of Boston. Updated July 1, 2015.

## ECONOMIC BASE AND PERFORMANCE—INTERNATIONAL TRADE

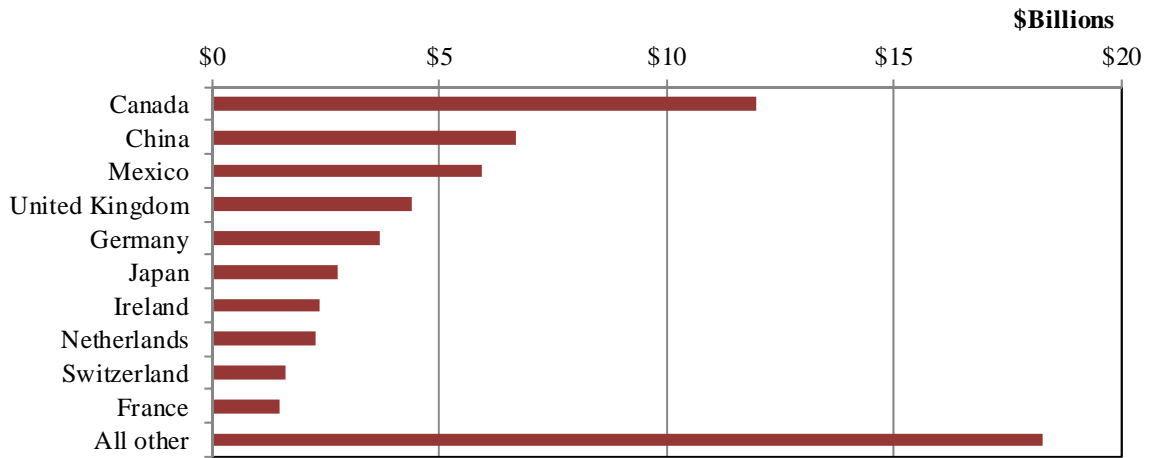
**Total Trade Volume.** Total trade volume, exports and imports, increased 0.7 percent from 2013 to \$61.5 billion in 2014. Canada trade volume was \$12.0 billion and 15.0 percent of the total state trade and was by far our most valuable trading partner. Massachusetts trade deficit, \$6.8 billion, shrank 9.3 percent in 2014. See appendix 8 for more trade data.

**Exports.** Massachusetts ranked 18th in the United States in 2014 and first in New England with \$27.4 billion in exports. This was a 2.0 percent increase from the previous year's export value, while national exports increased by 2.8 percent. Total exports from New England grew by 0.4 percent. Canada was again our top export destination in 2014 with \$3.6 billion.

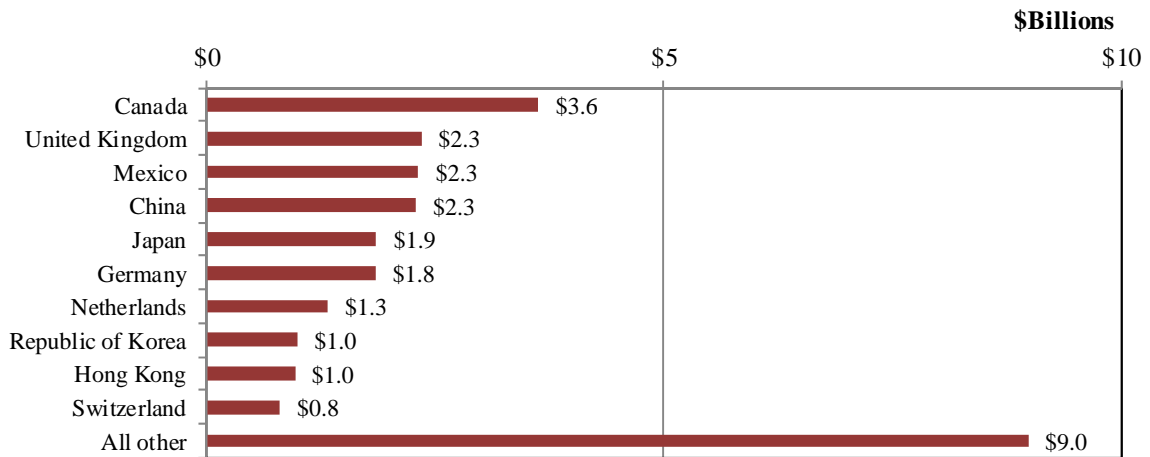
**Imports.** Imports decreased 0.5 percent to \$34.2 billion in 2014 after growing 4.0 percent in 2013. Canada was also the largest source for Massachusetts imports in 2014, from which we imported \$8.3 billion or 24.4 percent of our total.



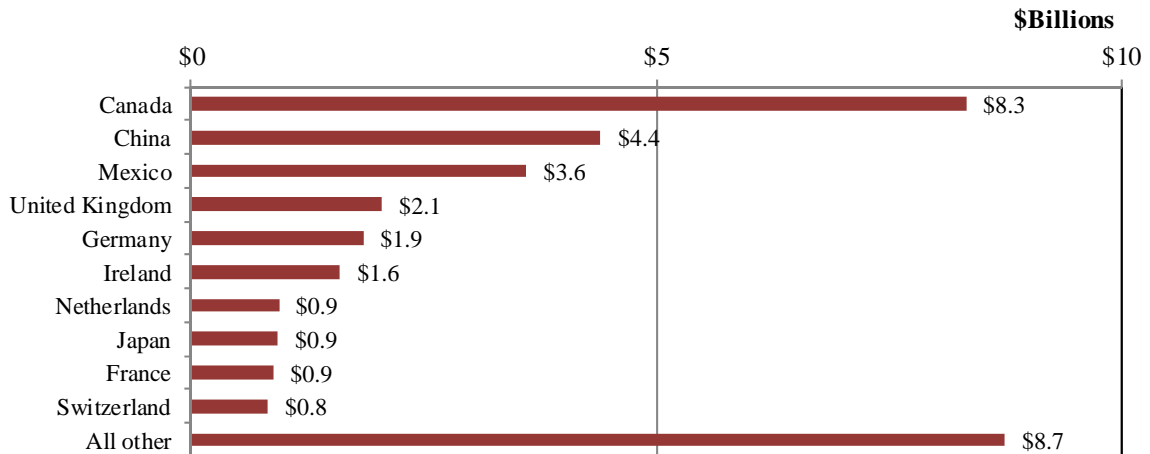
**Massachusetts 2014 Top Ten Trade Partners**



**Massachusetts 2014 Top Ten Export Partners**

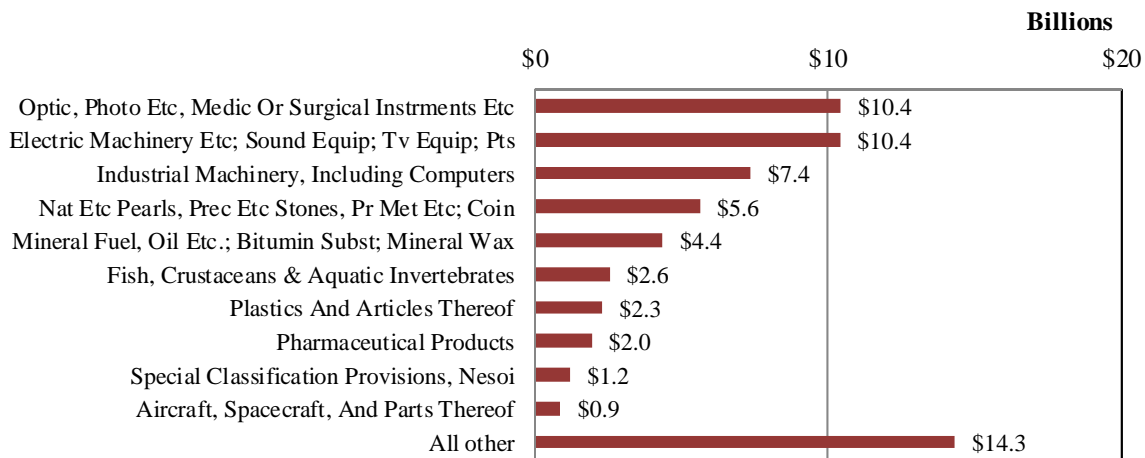


**Massachusetts 2014 Top Ten Import Partners**

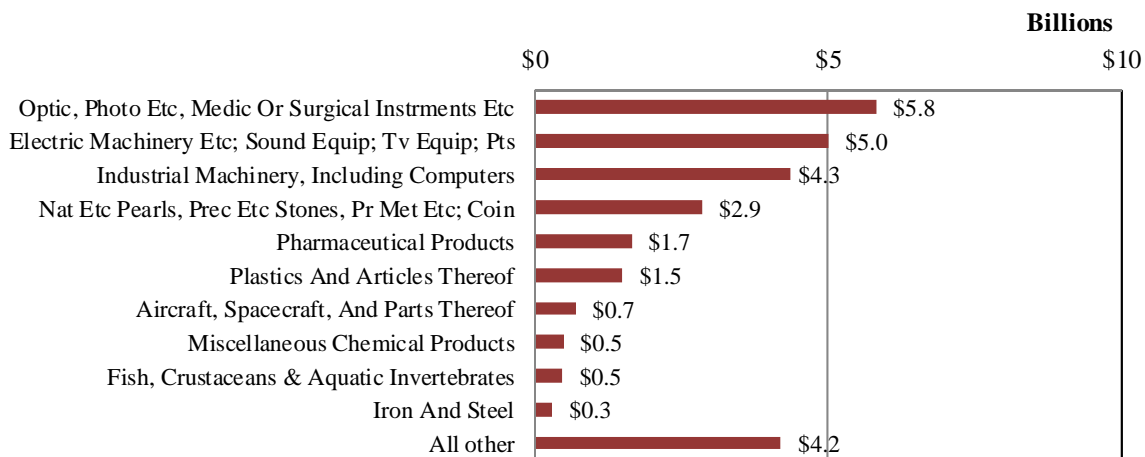


*Top Ten Commodities Traded by Trade Type from WISERTrade.org.*

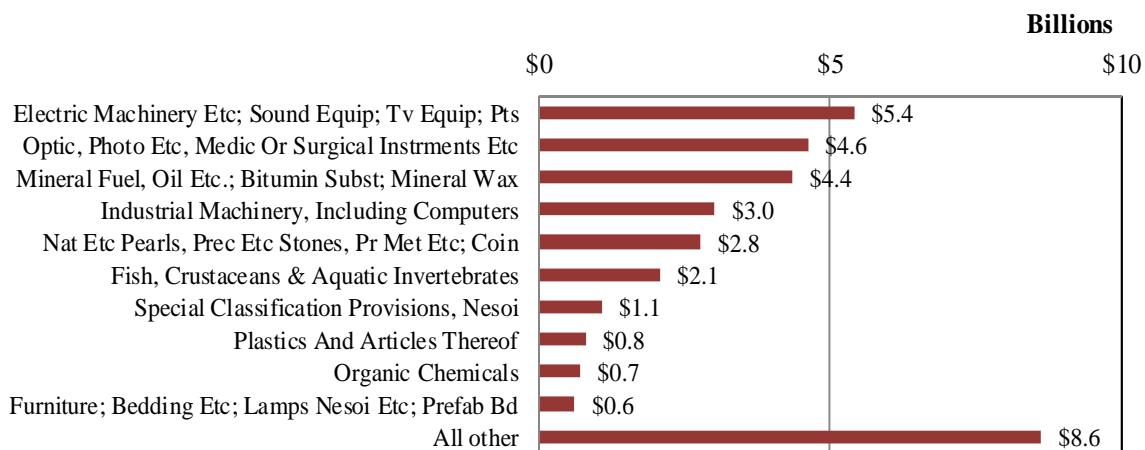
**Massachusetts 2014 Top Commodities Imported and Exported**



**Massachusetts 2014 Top Ten Commodities Exported**

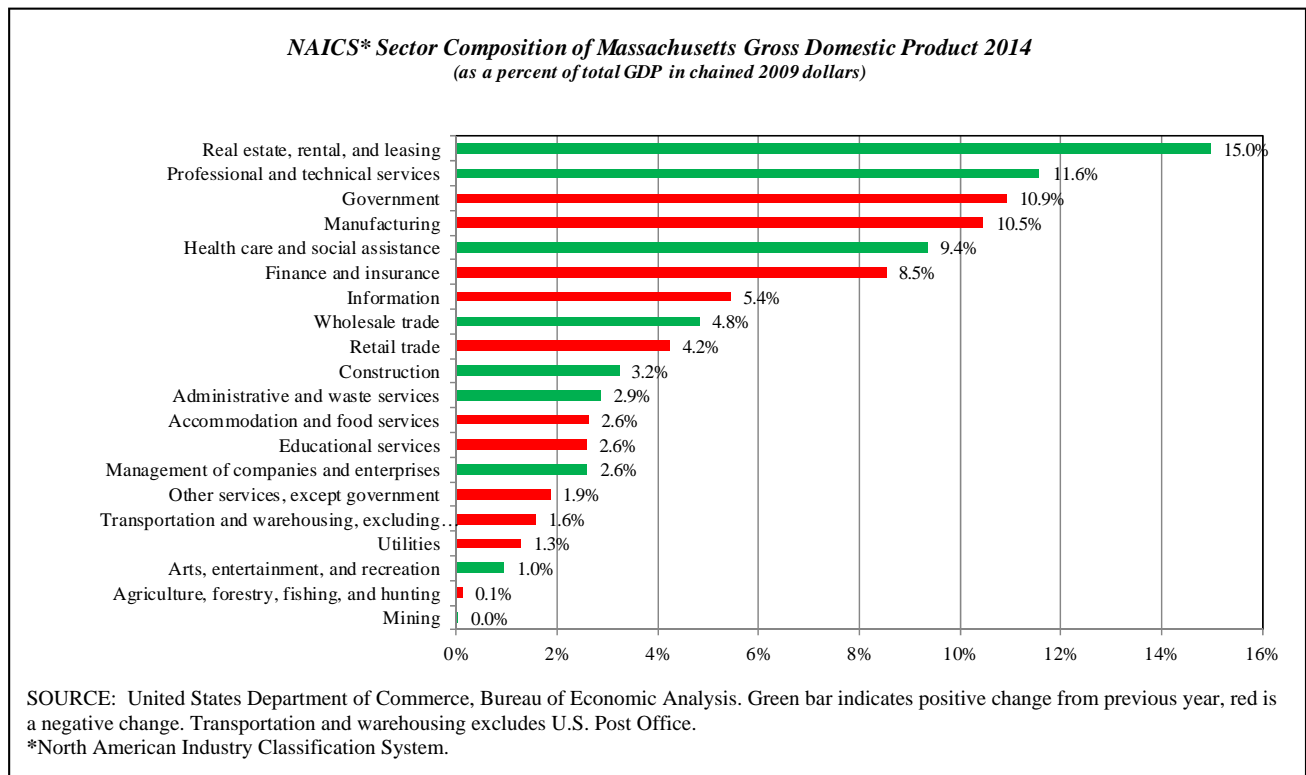


**Massachusetts 2014 Top Ten Commodities Imported**



## ECONOMIC BASE AND PERFORMANCE—INDUSTRY SECTOR DETAIL (NAICS BASIS)

The Massachusetts economy remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy, real estate, rental and leasing, professional and technical services, government, and manufacturing, contributed 47.9 percent of the GDP in 2014. The real estate, rental and leasing sector remained the largest contributor in 2014. The following bar chart displays the latest sector contributions to the Massachusetts GDP.



**GDP Subsectors.** When measured in chained 2009 dollars, the change in Massachusetts total GDP grew 15 percent between 2003 and 2013. Between 2003 and 2013 (the latest data available for subsector data), several industries grew much faster than the state average. Industry subsectors that experienced substantial cumulative growth or reduction are listed in the following chart.

**Industry Subsectors with a Substantial Growth or Reduction**  
(chained 2009 dollars)

NAICS* Industry Subsector	Percent change 2003-2013
Computer systems design and related services	134%
Motion picture and sound recording industries	84%
Computer and electronic products manufacturing	70%
Publishing industries, except Internet (includes software)	70%
Legal services	-13%
Plastics and rubber products manufacturing	-24%
Electrical equipment, appliance, and components manufacturing	-26%
Other transportation equipment manufacturing	-51%

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Updated June 2015.  
Note: Subsector represents at least a half percent of Massachusetts GDP in the latest year.  
\*North American Industry Classification System.

**Gross Domestic Product by Industry in Massachusetts**  
(millions of chained 2009 dollars)

NAICS* Industry Sector	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Gross Domestic Product by State	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private industries	88.3%	88.4%	88.4%	88.4%	88.2%	87.9%	88.4%	88.1%	88.9%	89.0%	89.1%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
Mining	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Construction	5.0%	4.7%	4.3%	3.9%	3.6%	3.3%	3.1%	3.1%	3.3%	3.3%	3.2%
Manufacturing	9.8%	10.0%	10.6%	11.5%	10.8%	10.5%	11.2%	10.8%	10.7%	10.4%	10.5%
Wholesale trade	5.9%	5.7%	5.9%	5.8%	5.8%	5.3%	5.2%	5.1%	4.8%	4.9%	4.8%
Retail trade	5.1%	5.1%	4.8%	4.5%	4.3%	4.4%	4.4%	4.3%	4.2%	4.2%	4.2%
Transportation and warehousing, excluding Postal Service	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.6%
Information	4.5%	4.9%	4.8%	5.1%	5.4%	5.2%	5.6%	5.4%	5.4%	5.3%	5.4%
Finance and insurance	8.6%	8.4%	8.6%	8.2%	7.5%	8.5%	8.1%	7.9%	8.5%	8.5%	8.5%
Real estate, rental, and leasing	14.2%	14.5%	14.1%	14.1%	14.2%	14.5%	14.6%	14.9%	15.1%	15.2%	15.0%
Professional and technical services	9.9%	10.0%	10.1%	10.1%	11.2%	10.8%	10.8%	10.9%	11.2%	11.3%	11.6%
Management of companies and enterprises	2.5%	2.5%	2.4%	2.3%	2.3%	2.2%	2.2%	2.4%	2.4%	2.5%	2.6%
Administrative and waste services	2.5%	2.7%	2.7%	2.8%	2.8%	2.6%	2.7%	2.8%	2.8%	2.8%	2.9%
Educational services	2.7%	2.6%	2.6%	2.6%	2.7%	2.8%	2.8%	2.8%	2.7%	2.7%	2.6%
Health care and social assistance	8.0%	8.1%	8.4%	8.4%	8.9%	9.2%	9.1%	9.1%	9.1%	9.3%	9.4%
Arts, entertainment, and recreation	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%
Accommodation and food services	2.9%	2.8%	2.7%	2.6%	2.6%	2.5%	2.6%	2.6%	2.7%	2.7%	2.6%
Other services, except government	2.4%	2.3%	2.2%	2.1%	2.1%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%
Government	11.7%	11.6%	11.6%	11.6%	11.8%	12.1%	11.6%	11.9%	11.1%	11.1%	10.9%

**Rank of Industry Contribution to GDP in Massachusetts**  
(millions of chained 2009 dollars)

NAICS* Industry Sector	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Gross Domestic Product by State											
Private industries											
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20	20	20	20	20
Utilities	17	17	17	17	17	17	17	17	17	17	17
Construction	9	10	10	10	10	10	10	10	10	10	10
Manufacturing	4	4	3	3	4	4	3	4	4	4	4
Wholesale trade	7	7	7	7	7	7	8	8	8	8	8
Retail trade	8	8	8	9	9	9	9	9	9	9	9
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	16	16	16	16	16	16
Information	10	9	9	8	8	8	7	7	7	7	7
Finance and insurance	5	5	5	6	6	6	6	6	6	6	6
Real estate, rental, and leasing	1	1	1	1	1	1	1	1	1	1	1
Professional and technical services	3	3	4	4	3	3	4	3	2	2	2
Management of companies and enterprises	13	14	14	14	14	14	14	14	14	14	13
Administrative and waste services	14	12	12	11	11	12	12	11	11	11	11
Educational services	12	13	13	13	12	11	11	12	12	12	14
Health care and social assistance	6	6	6	5	5	5	5	5	5	5	5
Arts, entertainment, and recreation	18	18	18	18	18	18	18	18	18	18	18
Accommodation and food services	11	11	11	12	13	13	13	13	13	13	12
Other services, except government	15	15	15	15	15	15	15	15	15	15	15
Government	2	2	2	2	2	2	2	2	3	3	3

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.  
\* North American Industry Classification System.

**Industry Sector Analysis.** The following section contains a summary for each of the twenty major NAICS sectors. The data series start in 2001, the last time the state experienced a downturn, commonly referred to as “The Telecom Bubble”. We report the latest quarterly data at an annual rate where available. This may skew sectors that experience seasonal trends, such as construction. Graphs include data value labels for the latest annual and quarterly annualized points.

Not all datasets are reported for all of the major NAICS sectors. The Massachusetts Department of Workforce and Labor Development’s Employment and Wages (ES-202) data series are available for every sector and contain the number of establishments, average monthly employment, total annual wages and average weekly wages for the establishments with employees. The data are reported quarterly and annually for employees in the private, federal government, state government, and local government sectors. **NOTE:** Beginning with the first quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013 on QCEW. As of October 10, 2014 the 2014 first quarter data are available.

The next graph, nonemployer businesses and receipts, uses the U.S. Census Nonemployer Statistics series and is available for every sector except 55 - Management of Companies and Enterprises and 92 - Public Administration. Some sectors also lack subsector (we used four digit NAICS) detail. These are annual data, with a two-year reporting lag for businesses that do not have paid employees and are subject to federal income tax. Census reports that “Nonemployers account for a majority of all business establishments, but average less than four percent of all sales or receipts.” These can be second or part-time businesses and not the owner’s primary source of income.

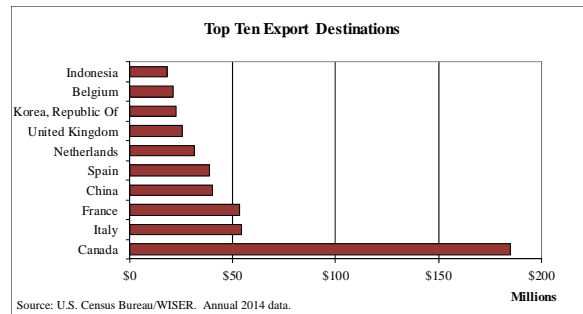
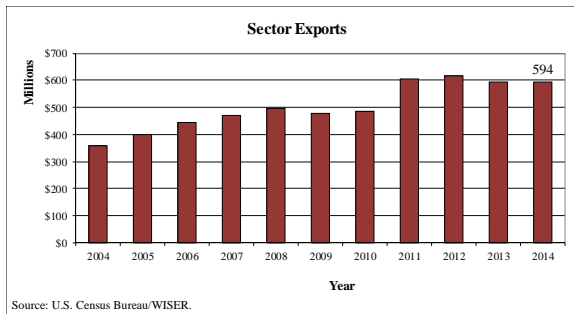
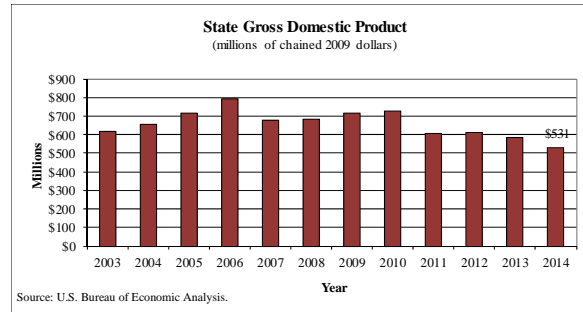
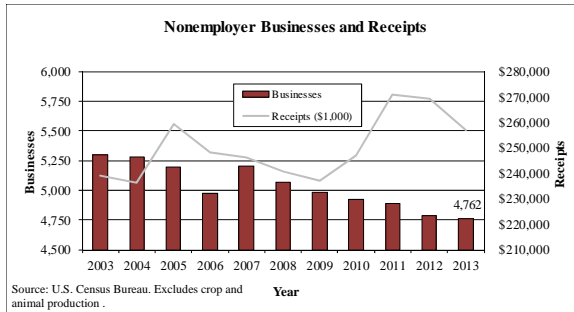
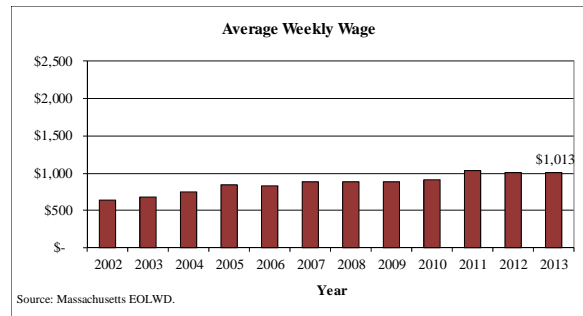
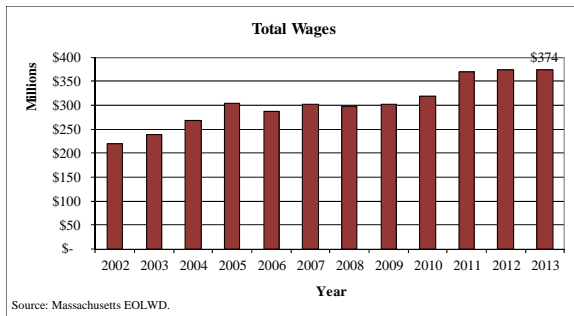
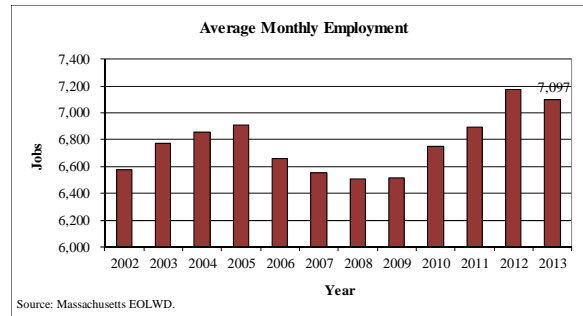
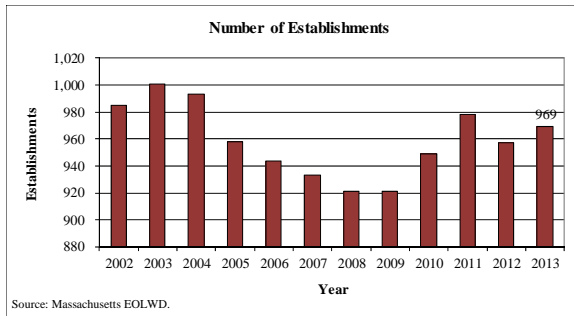
State Gross Domestic Product is an annual series from the U.S. Bureau of Economic Analysis’s Regional Economic Accounts. **NEW:** U.S. and state GDP is inflation adjusted to 2009. U.S. GDP is available quarterly and beginning in August 2014, quarterly state GDP will be reported. The June 2014 release included a comprehensive revision of gross domestic product by state. Go to [http://www.bea.gov/newsreleases/regional/gdp\\_state/gsp\\_newsrelease.htm](http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm) for more information.

Foreign exports from the U.S. Census Bureau’s Foreign Trade Division and WISERTrade, are available for four industries on a monthly basis. Total state exports are available on a monthly basis. Sector exports and the top ten export destinations for this industry sector are by dollar value.

Each sector analysis has a summary at the bottom of each page. The summary provides (when available):

1. GDP contribution to state total: this sector’s GDP divided by the state’s total GDP. A green figure indicates it is larger than the previous year’s GDP contribution . Red indicates it is smaller than the previous year’s and black indicates no change from the previous year’s GDP contribution.
2. GDP rank: this sector’s GDP rank versus all state sectors. A green figure indicates it is higher than the previous year’s rank. Red that indicates it is lower than the previous year’s and black that indicates no change from the previous year’s GDP rank.
3. Nonemployer to employer establishment ratio: the number of nonemployer establishments divided by the number of establishments with employers. In general, a ratio greater than one means there are more small businesses. A number less than one means there are more large businesses.
4. Establishments with employees: the subsector with the largest number of establishments who have employees.
5. Nonemployer establishments: the subsector with the largest number of establishments that do not have employees.
6. Employees: the subsector with the largest number of employees, at establishments with employees.
7. Annual wages: the subsector with the largest total annual wages, at establishments with employees.
8. Average weekly wage: the subsector with the largest average weekly wage, at establishments with employees.
9. Annual receipts at nonemployer establishments: the subsector with the most receipts, at establishments that do not have employees.
10. Most valuable export: the subsector export with the highest dollar value.

**NAICS 11 - Agriculture, Forestry, Fishing & Hunting.** The Agriculture, Forestry, Fishing and Hunting sector comprises establishments primarily engaged in growing crops, raising animals, harvesting timber, and harvesting fish and other animals from a farm, ranch, or their natural habitats.



**Summary.**

GDP contribution to state total: **0.1%**

GDP rank: **19 of 20**

Nonemployer to employer establishment ratio: **4.9 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Fishing**

Nonemployer establishments: **Fishing**

Employees: **Fishing and greenhouse and nursery production**

Annual wages: **Fishing**

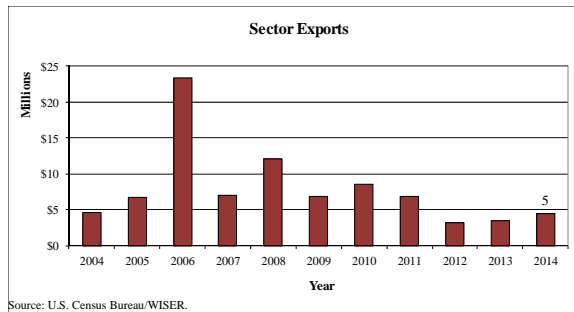
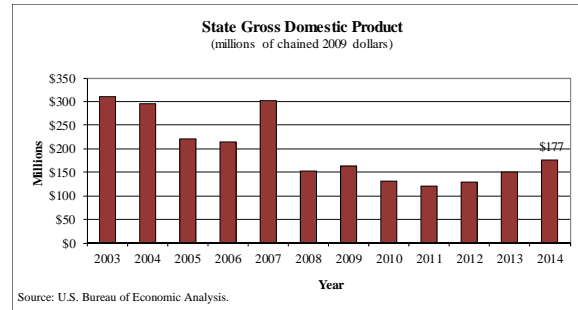
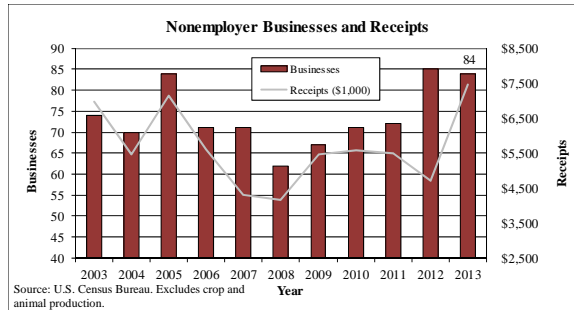
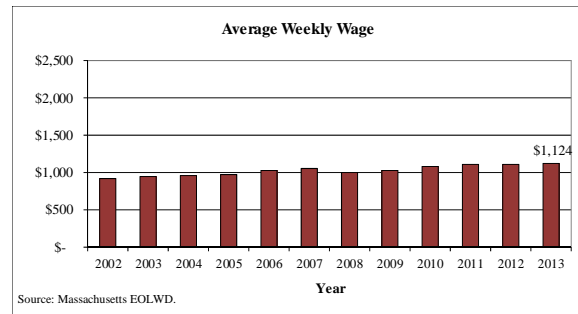
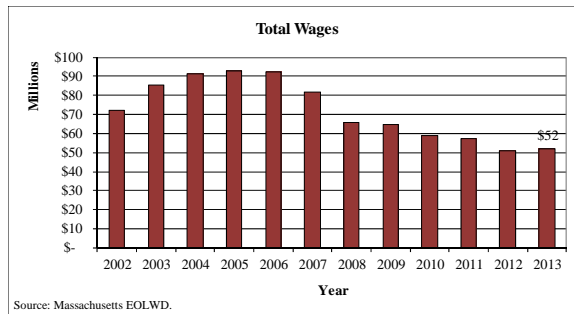
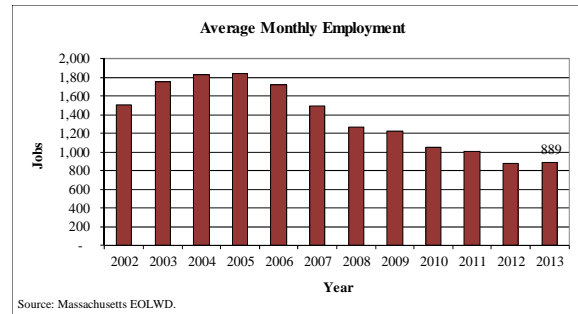
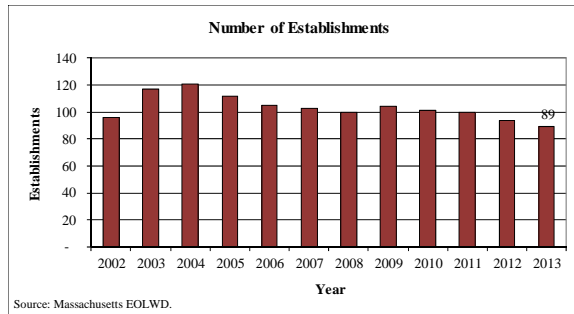
Average weekly wage: **Fishing**

Annual receipts at nonemployer establishments: **Fishing**

Most valuable export: **Fish, fresh, chilled or other frozen marine products**



**NAICS 21 – Mining.** The Mining, Quarrying, and Oil and Gas Extraction sector comprises establishments that extract naturally occurring mineral solids, such as coal and ores; liquid minerals, such as crude petroleum; and gases, such as natural gas. The term mining is used in the broad sense to include quarrying, well operations, beneficiating (e.g., crushing, screening, washing, and flotation), and other preparation customarily performed at the mine site, or as a part of mining activity.



**Summary.**

GDP contribution to state total: **0.04%**

GDP rank: **20 of 20**

Nonemployer to employer establishment ratio: **0.9 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Nonmetallic mineral mining and quarrying**

Nonemployer establishments: **Nonmetallic mineral mining and quarrying**

Employees: **Nonmetallic mineral mining and quarrying**

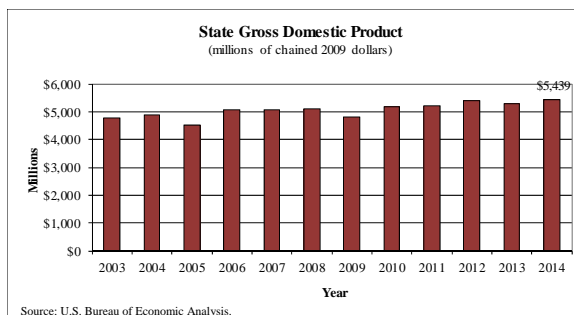
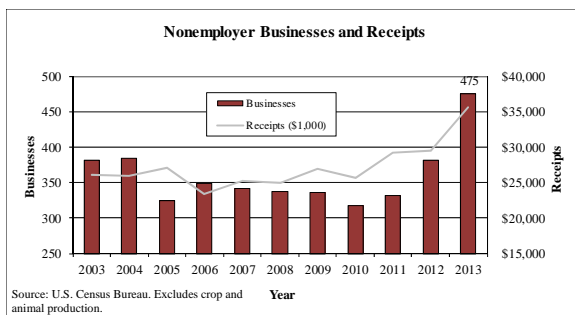
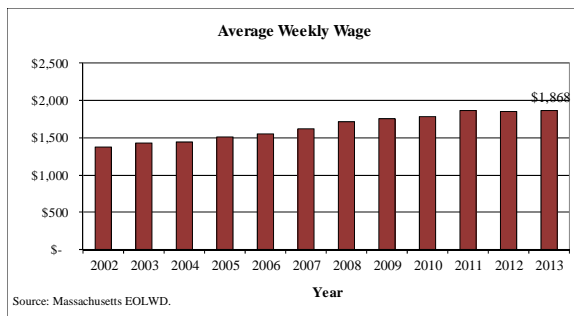
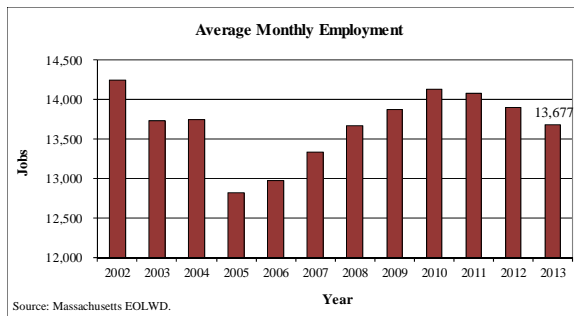
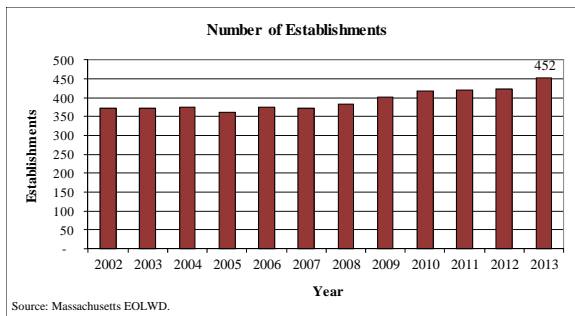
Annual wages: **Nonmetallic mineral mining and quarrying**

Average weekly wage: **Oil and gas extraction**

Annual receipts at nonemployer establishments: **Nonmetallic mineral mining and quarrying**

Most valuable export: **Minerals and ores**

**NAICS 22 – Utilities.** The Utilities sector comprises establishments engaged in the provision of the following utility services: electric power, natural gas, steam supply, water supply, and sewage removal. See the appendix, pages five and six for supplemental tables regarding electricity generation, supply and capacity.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **1.3%**

GDP rank: **17 of 20**

Nonemployer to employer establishment ratio: **1.1 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Water, sewage and other systems**

Nonemployer establishments: Subsector detail N/A

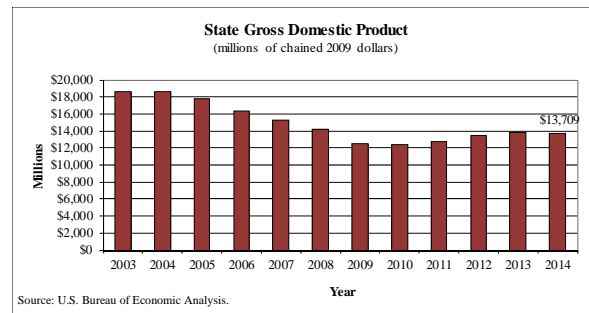
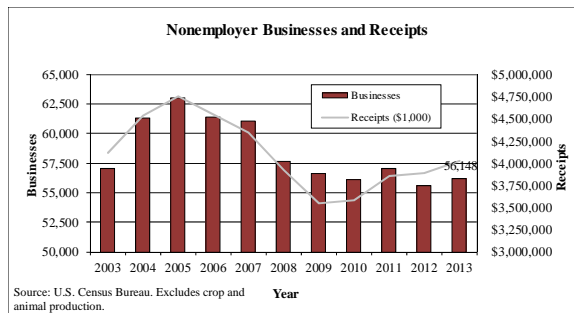
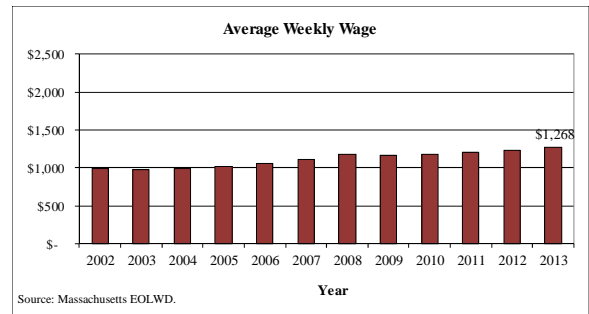
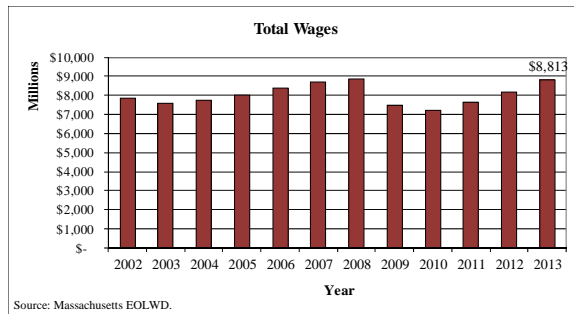
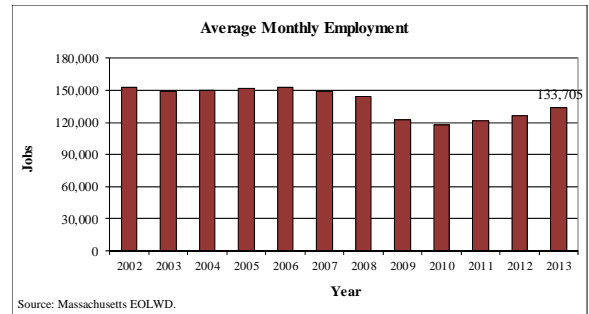
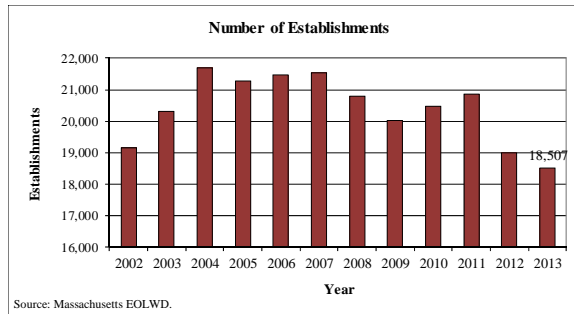
Employees: **Power generation and supply**

Annual wages: **Power generation and supply**

Average weekly wage: **Natural gas distribution**

Annual receipts at nonemployer establishments: Subsector detail N/A

**NAICS 23 – Construction.** The Construction sector comprises establishments primarily engaged in the construction of buildings or engineering projects (e.g., highways and utility systems). Establishments primarily engaged in the preparation of sites for new construction and establishments primarily engaged in subdividing land for sale as building sites also are included in this sector. See the appendix pages two through four for housing permits, housing sales, and housing sale prices.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **3.2%**

GDP rank: **10 of 20**

Nonemployer to employer establishment ratio: **3.0 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Building equipment contractors**

Nonemployer establishments: **Building finishing contractors**

Employees: **Building equipment contractors**

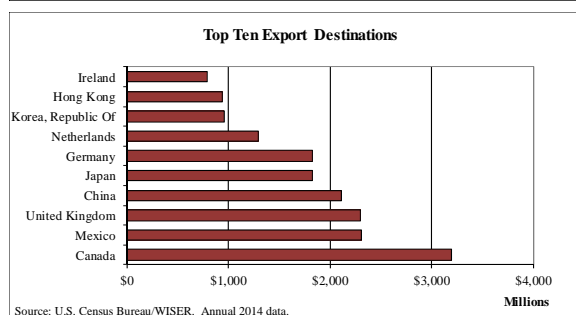
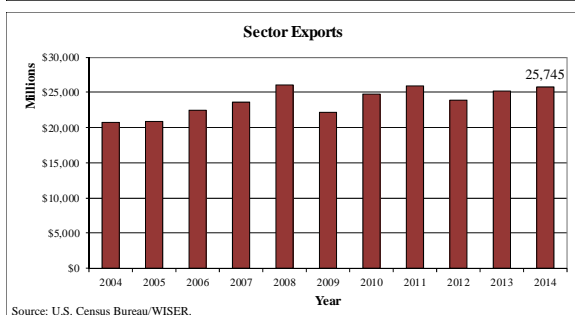
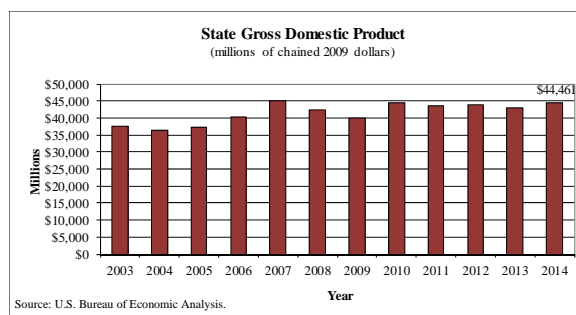
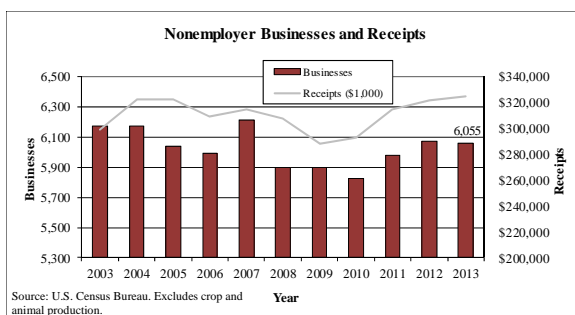
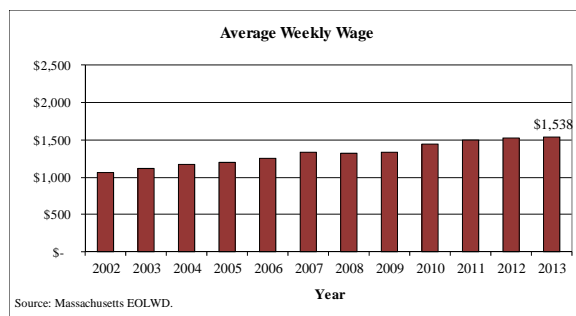
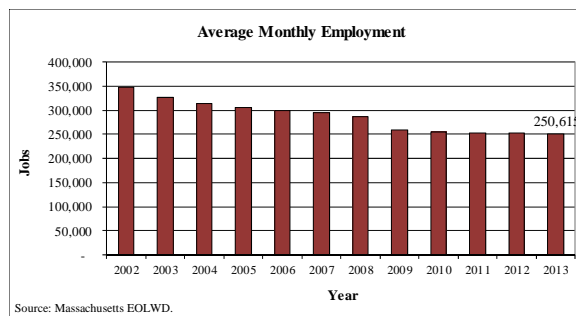
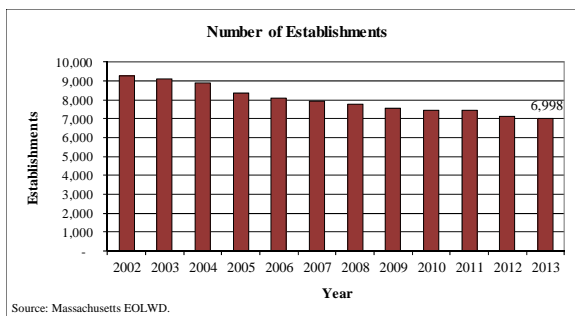
Annual wages: **Building equipment contractors**

Average weekly wage: **Utility system construction**

Annual receipts at nonemployer establishments: **Residential building construction**

Large employers in Massachusetts: **Suffolk Construction Company, J&S Electric Company, R.H. White Company and Interstate Electrical Services Group.**

**NAICS 31-33 – Manufacturing.** The Manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. The assembling of component parts of manufactured products is considered manufacturing, except in cases where the activity is appropriately classified in Sector 23, Construction.



**Summary.**

GDP contribution to state total: **10.5%**

GDP rank: **4 of 20**

Nonemployer to employer establishment ratio: **0.9 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Printing and related support activities**

Nonemployer establishments: **Other miscellaneous manufacturing**

Employees: **Electronic instrument**

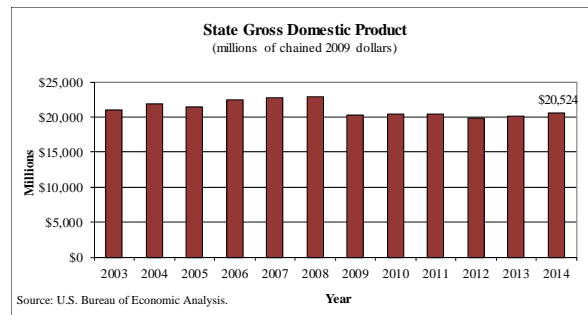
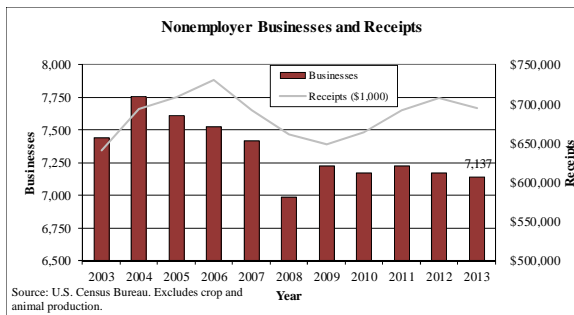
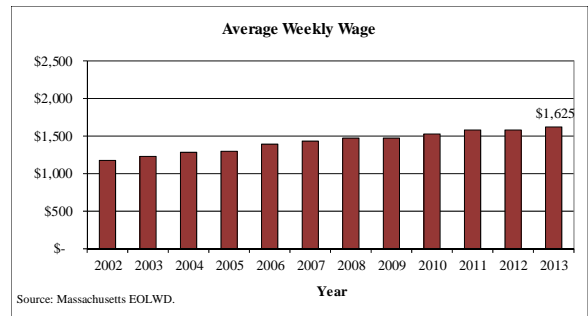
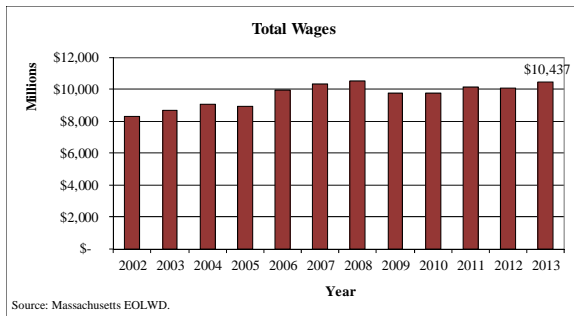
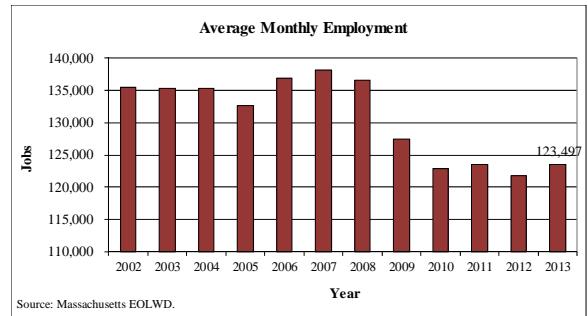
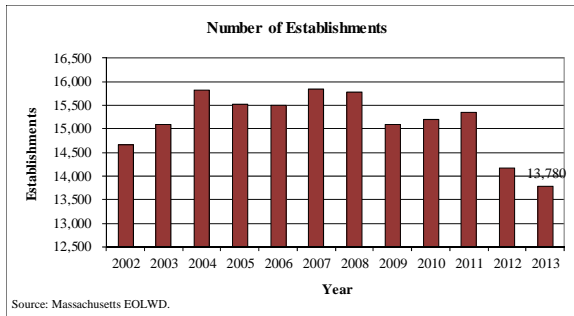
Annual wages: **Electronic instrument**

Average weekly wage: **Computers and peripheral equipment**

Annual receipts at nonemployer establishments: **Other miscellaneous manufacturing**

Most valuable export: **Computers and electronic products**

**NAICS 42 - Wholesale Trade.** The sector comprises establishments engaged in wholesaling merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The merchandise described in this sector includes the outputs of agriculture, mining, manufacturing, and certain information industries, such as publishing. The wholesaling process is an intermediate step in the distribution of merchandise.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **4.8%**

GDP rank: **8 of 20**

Nonemployer to employer establishment ratio: **0.5 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Electronic markets and agents/brokers**

Nonemployer establishments: **Miscellaneous durable goods merchant wholesalers**

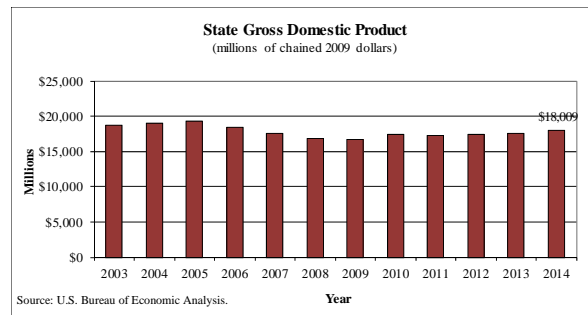
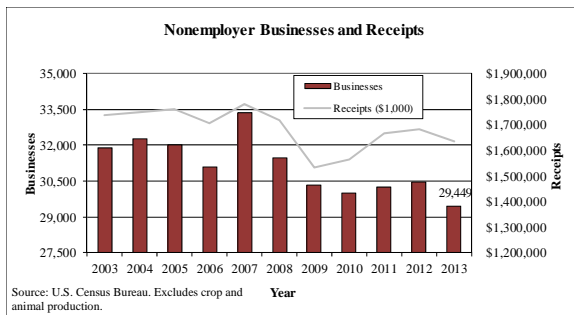
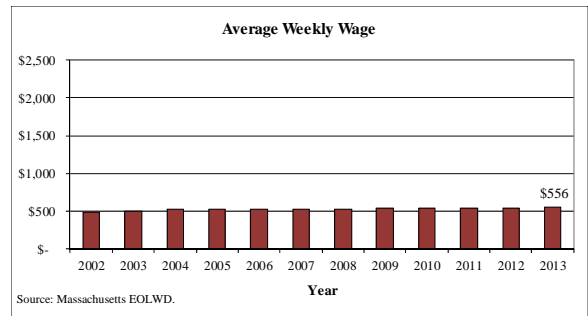
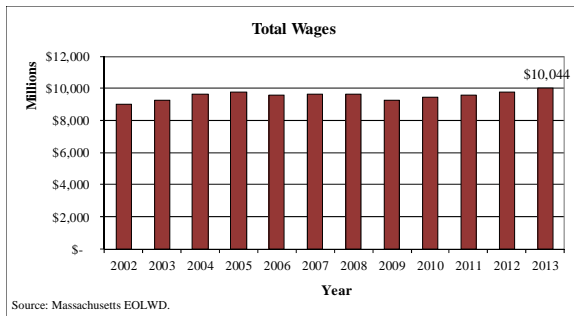
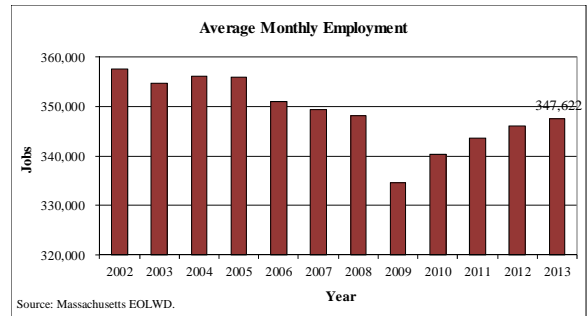
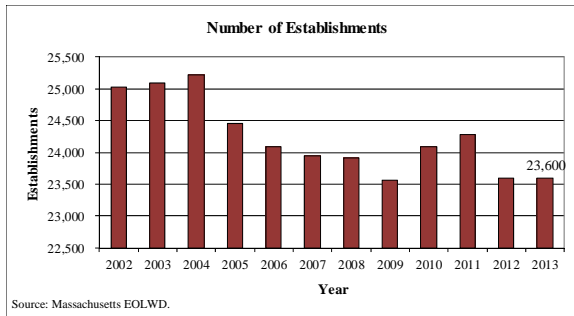
Employees: **Electronic markets and agents/brokers**

Annual wages: **Electronic markets and agents/brokers**

Average weekly wage: **Druggists' goods merchant wholesalers**

Annual receipts at nonemployer establishments: **Miscellaneous durable goods merchant wholesalers**

**NAICS 44-45 - Retail Trade.** The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are therefore organized to sell merchandise in small quantities to the general public. This sector comprises two main types of retailers: store and nonstore retailers.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **4.2%**

GDP rank: **9 of 20**

Nonemployer to employer establishment ratio: **1.2 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Grocery stores**

Nonemployer establishments: **Direct selling establishments**

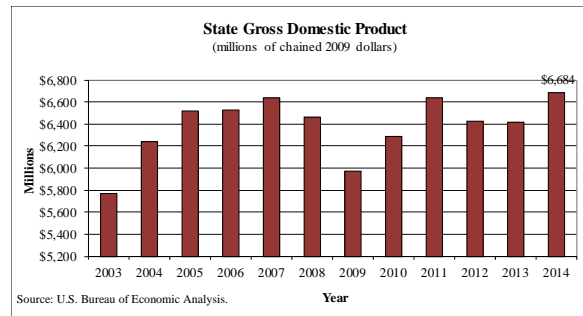
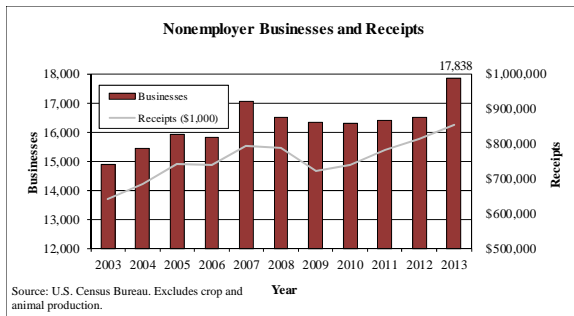
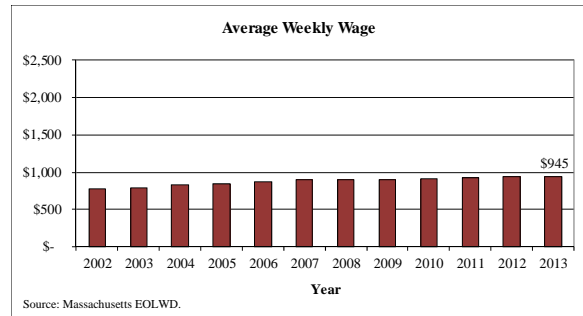
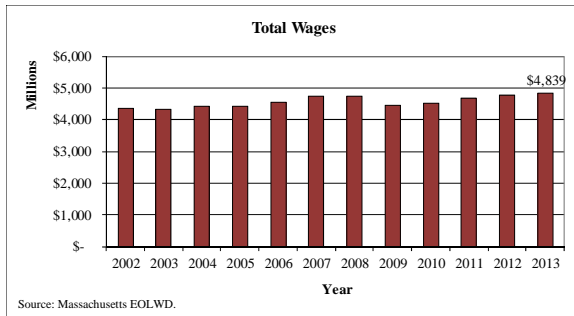
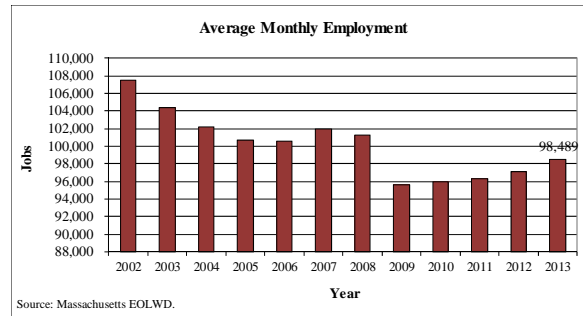
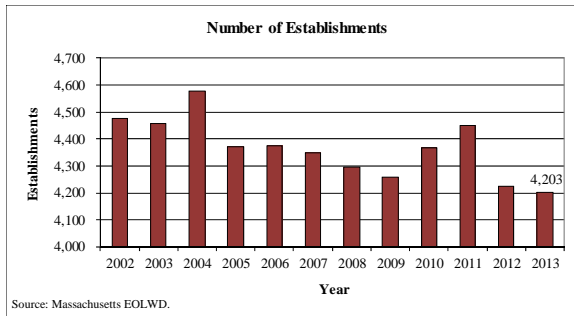
Employees: **Grocery stores**

Annual wages: **Grocery stores**

Average weekly wage: **Electronic shopping and mail-order houses**

Annual receipts at nonemployer establishments: **Direct selling establishments**

**NAICS 48-49 - Transportation and Warehousing.** The Transportation and Warehousing sector includes industries providing transportation of passengers and cargo, warehousing and storage for goods, scenic and sightseeing transportation, and support activities related to modes of transportation. Establishments in these industries use transportation equipment or transportation related facilities as a productive asset. The type of equipment depends on the mode of transportation. The modes of transportation are air, rail, water, road, and pipeline. See pages six and seven of the appendix for more information regarding transportation and warehousing.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **1.6%**

GDP rank: **16 of 20**

Nonemployer to employer establishment ratio: **4.2 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **General freight trucking**

Nonemployer establishments: **Taxi and limousine service**

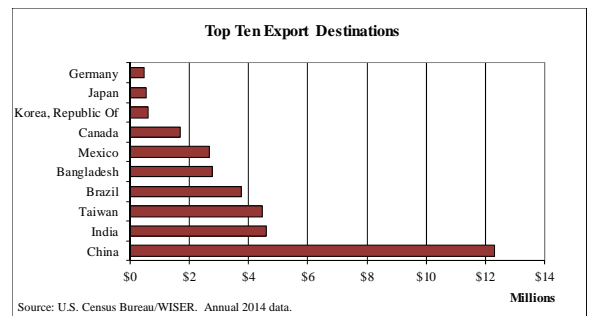
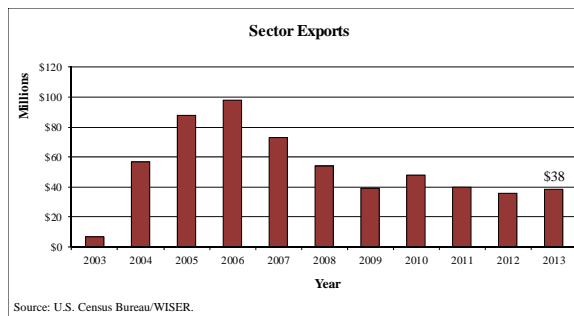
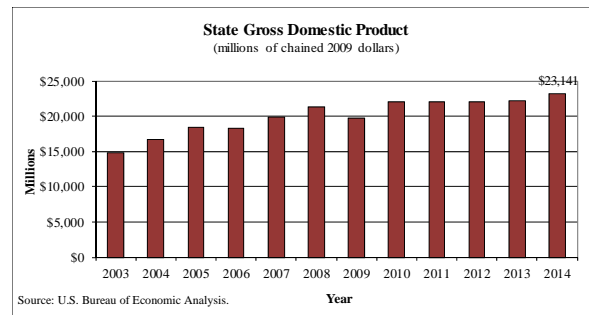
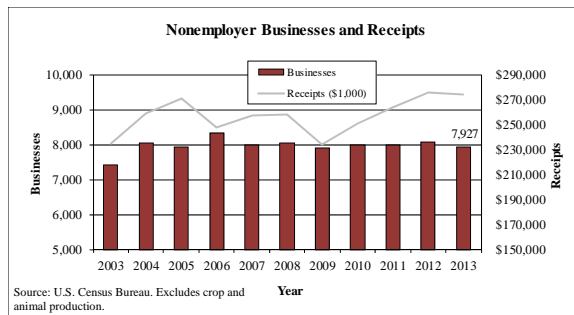
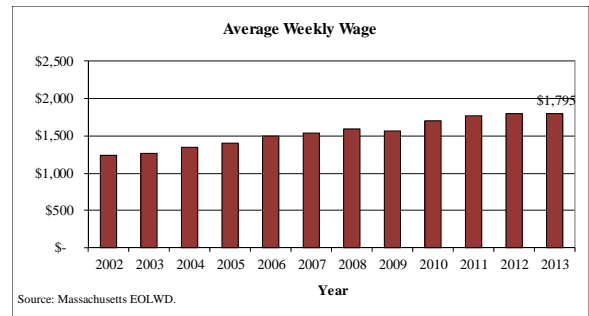
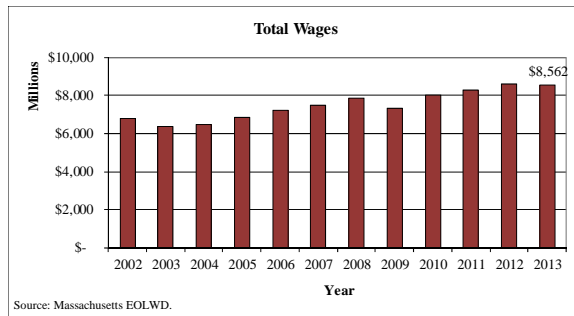
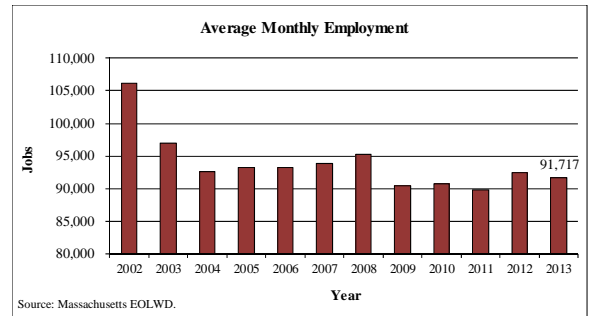
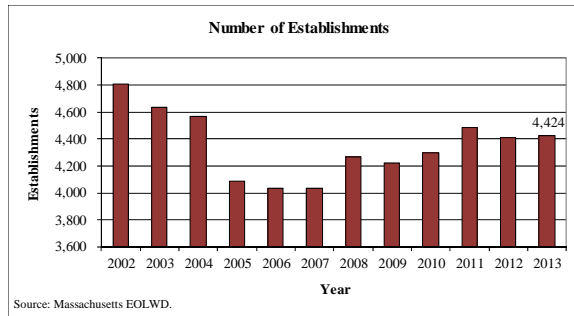
Employees: **Couriers**

Annual wages: **Warehousing and storage**

Average weekly wage: **Pipeline transportation of natural gas**

Annual receipts at nonemployer establishments: **General freight trucking**

**NAICS 51 – Information.** The Information sector comprises establishments engaged in the following processes: producing and distributing information and cultural products, providing the means to transmit or distribute these products as well as data or communications, and processing data. In 2014, Information exports of prepackaged software, NAICS code 511, were recoded to the Manufacturing NAICS code 334.



**Summary.**

GDP contribution to state total: **5.4%**

GDP rank: **7 of 20**

Nonemployer to employer establishment ratio: **1.8 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Other information services**

Nonemployer establishments: **Other information services**

Employees: **Software publishers**

Annual wages: **Software publishers**

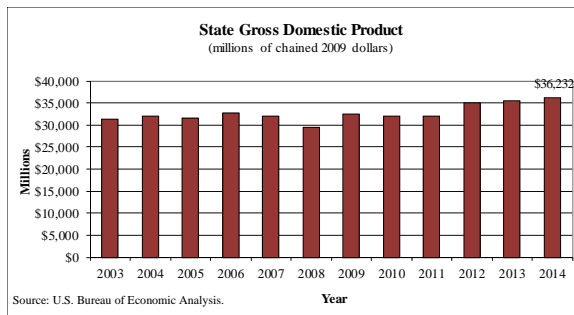
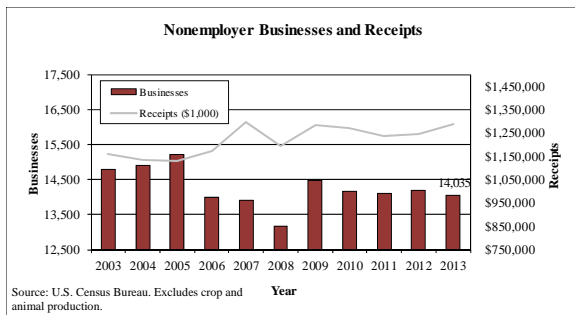
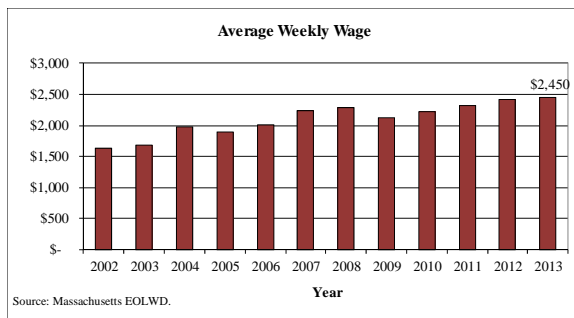
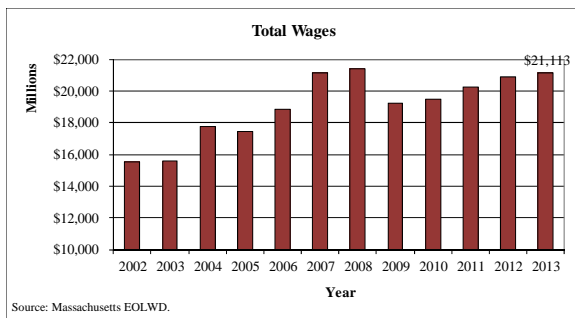
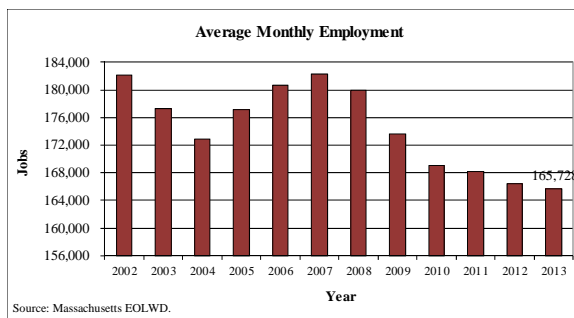
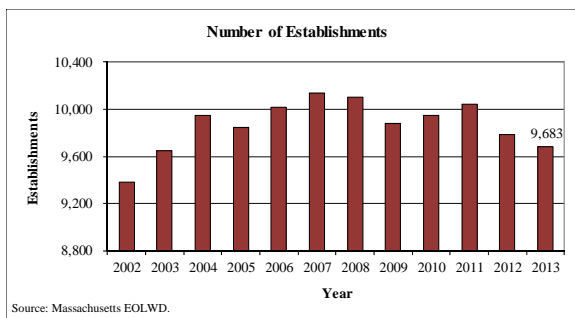
Average weekly wage: **Software publishers**

Annual receipts at nonemployer establishments: **Other information services**

Most valuable export: **Prepackaged software**



**NAICS 52 - Finance and Insurance.** The Finance and Insurance sector comprises establishments primarily engaged in financial transactions (transactions involving the creation, liquidation, or change in ownership of financial assets) and/or in facilitating financial transactions.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **8.5%**

GDP rank: **6 of 20**

Nonemployer to employer establishment ratio: **1.4 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Insurance agencies, brokerages & support**

Nonemployer establishments: **Other financial investment activities**

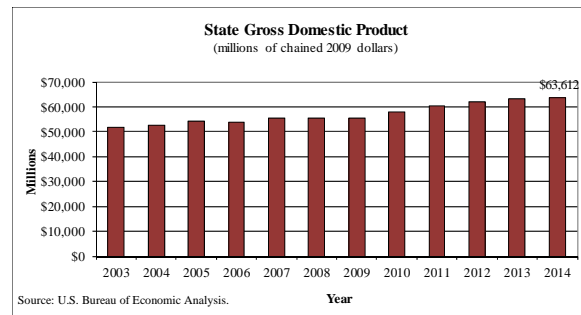
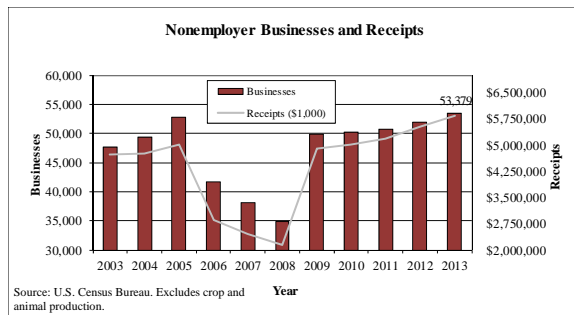
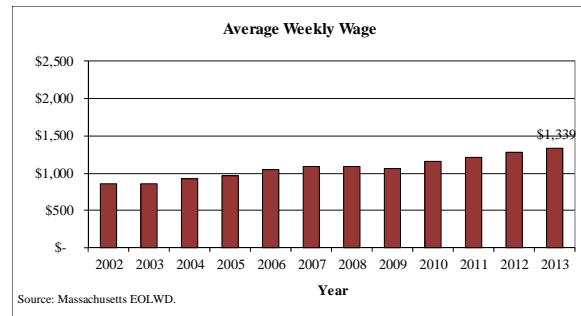
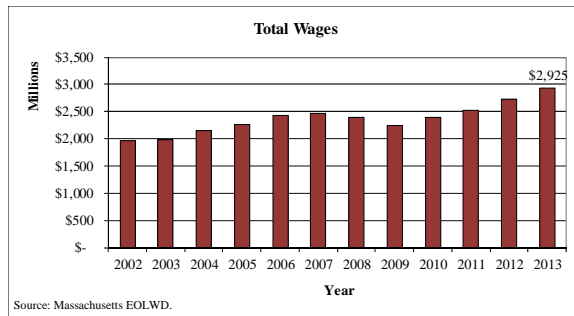
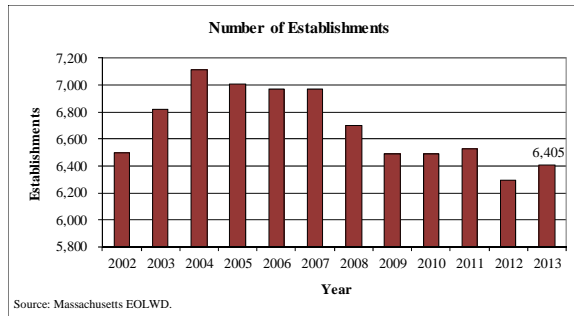
Employees: **Depository credit intermediation**

Annual wages: **Other financial investment activities**

Average weekly wage: **Security and commodity investment activity**

Annual receipts at nonemployer establishments: **Other financial investment activities**

**NAICS 53 - Real Estate and Rental and Leasing.** The Real Estate and Rental and Leasing sector comprises establishments primarily engaged in renting, leasing, or otherwise allowing the use of tangible or intangible assets, and establishments providing related services. The major portion of this sector comprises establishments that rent, lease, or otherwise allow the use of their own assets by others. The assets may be tangible, as is the case of real estate and equipment, or intangible, as is the case with patents and trademarks.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **15.0%**

GDP rank: **1 of 20**

Nonemployer to employer establishment ratio: **8.3 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Activities related to real estate**

Nonemployer establishments: **Lessors of real estate**

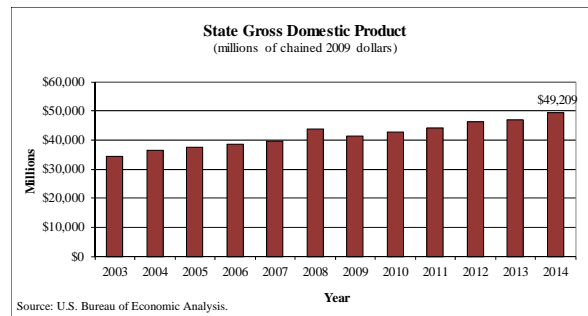
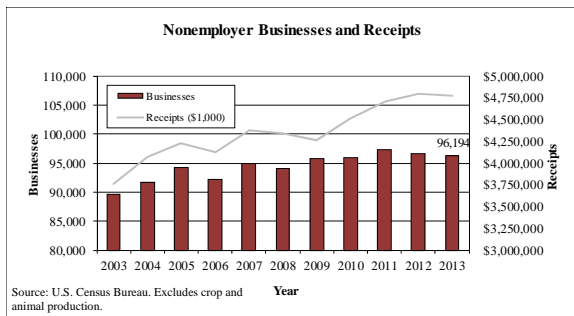
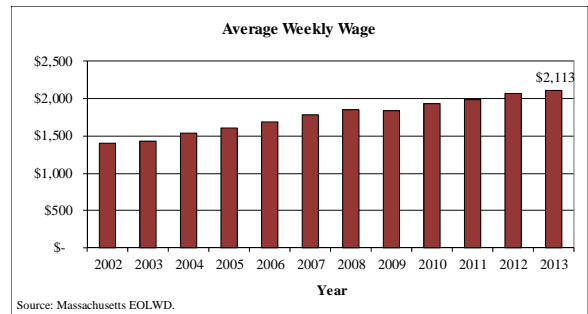
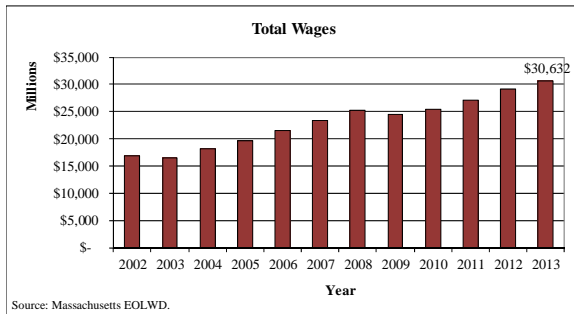
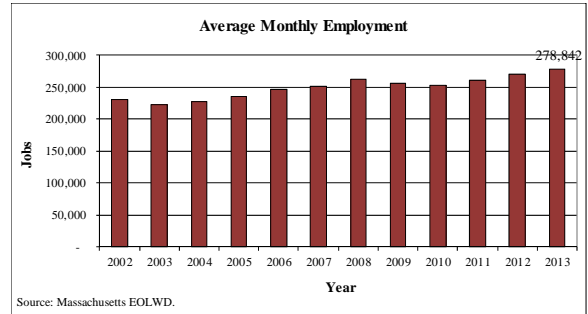
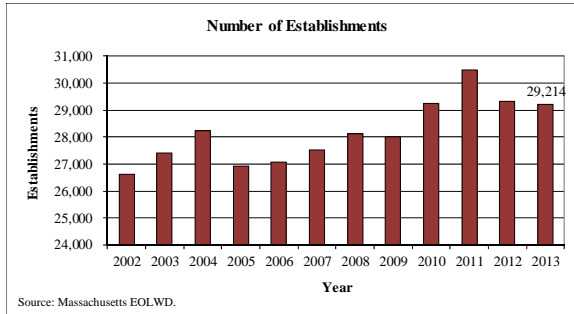
Employees: **Activities related to real estate**

Annual wages: **Activities related to real estate**

Average weekly wage: **Lessors, nonfinancial intangible assets**

Annual receipts at nonemployer establishments: **Lessors of real estate**

**NAICS 54 - Professional and Technical Services.** The Professional and Technical Services sector comprises establishments that specialize in performing professional, scientific, and technical activities for others. These activities require a high degree of expertise and training. The establishments in this sector specialize according to expertise and provide these services to clients in a variety of industries - in some cases, to households. Activities performed include: legal advice and representation, accounting, bookkeeping, and payroll services, architectural, engineering, and specialized design services, computer services, consulting services, research services, advertising services, photographic services, translation and interpretation services, veterinary services, and other professional, scientific, and technical services.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **11.6%**

GDP rank: **2 of 20**

Nonemployer to employer establishment ratio: **3.3 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Computer systems design and related services**

Nonemployer establishments: **Other professional, scientific, and technical services**

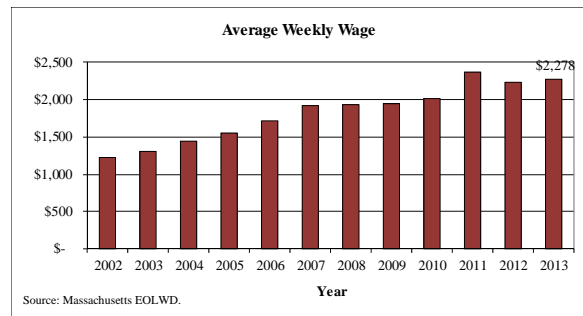
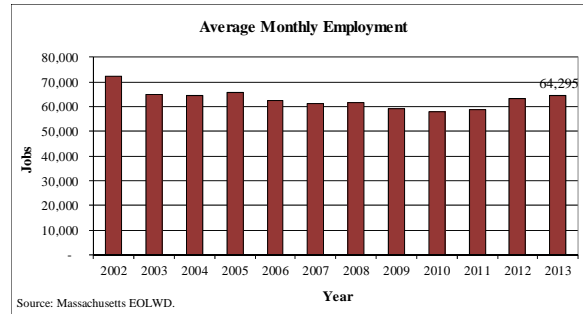
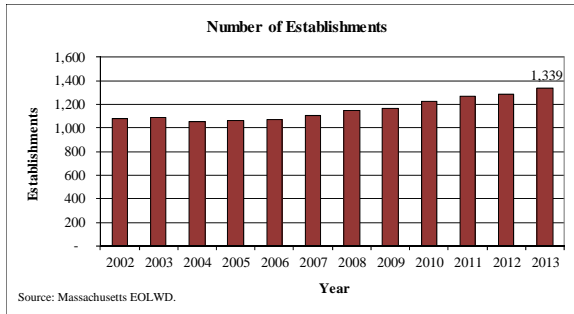
Employees: **Computer systems design and related services**

Annual wages: **Computer systems design and related services**

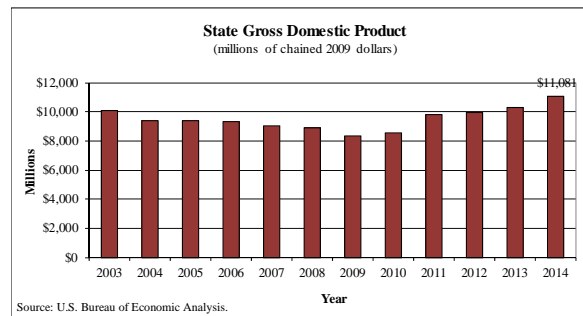
Average weekly wage: **Computer systems design and related services**

Annual receipts at nonemployer establishments: **Management, scientific, and technical consulting services**

**NAICS 55 - Management of Companies and Enterprises.** The Management of Companies and Enterprises sector comprises establishments that hold the securities of (or other equity interests in) companies and enterprises for the purpose of owning a controlling interest or influencing management decisions or establishments (except government establishments) that administer, oversee, and manage establishments of the company or enterprise and that normally undertake the strategic or organizational planning and decision making role of the company or enterprise. Establishments that administer, oversee, and manage may hold the securities of the company or enterprise.



**State nonemployer and export data are not available for this sector.**



**Summary.**

GDP contribution to state total: **2.6%**

GDP rank: **13 of 20**

Nonemployer to employer establishment ratio: **N/A**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll, and receipts.

Establishments with employees: Subsector detail **N/A**

Nonemployer establishments: **N/A**

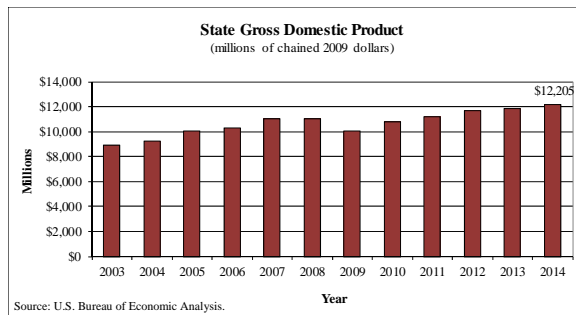
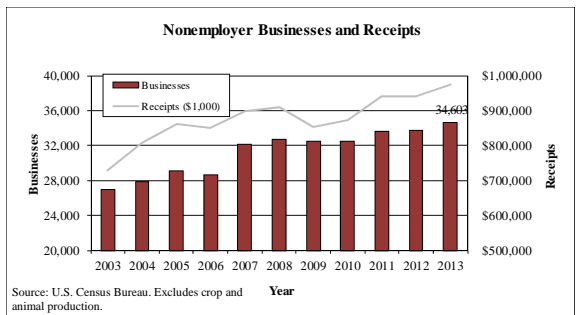
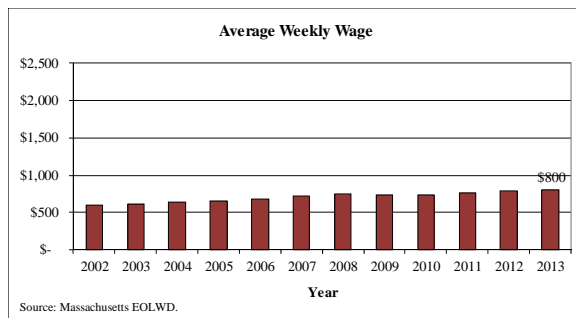
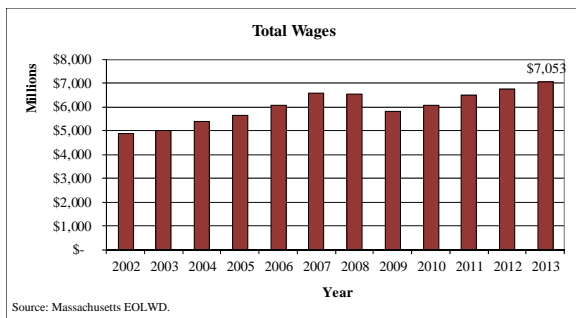
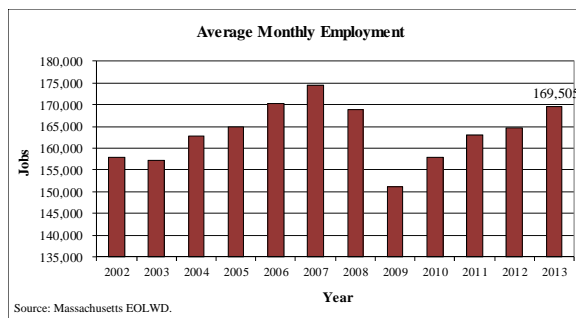
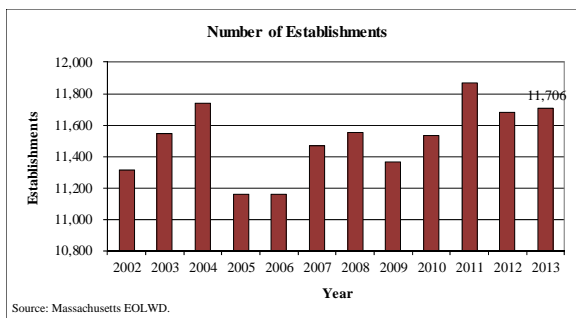
Employees: Subsector detail **N/A**

Annual wages: Subsector detail **N/A**

Average weekly wage: Subsector detail **N/A**

Annual receipts at nonemployer establishments: **N/A**

**NAICS 56 - Administrative and Waste Services.** The Administrative and Waste Services sector comprises establishments performing routine support activities for the day-to-day operations of other organizations. The establishments in this sector specialize in one or more of these support activities and provide these services to clients in a variety of industries and in some cases, to households. Activities performed include: office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **2.9%**

GDP rank: **11 of 20**

Nonemployer to employer establishment ratio: **3.0 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Services to buildings and dwellings**

Nonemployer establishments: **Services to buildings and dwellings**

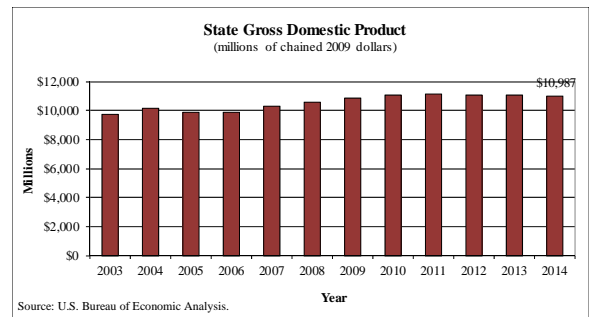
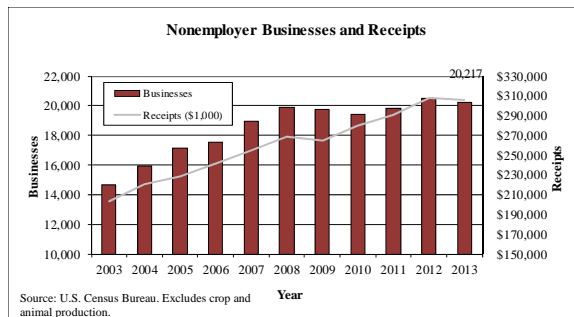
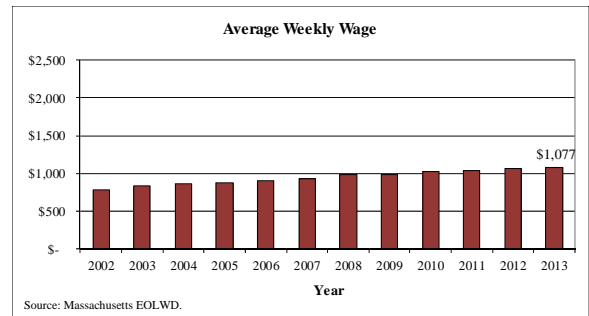
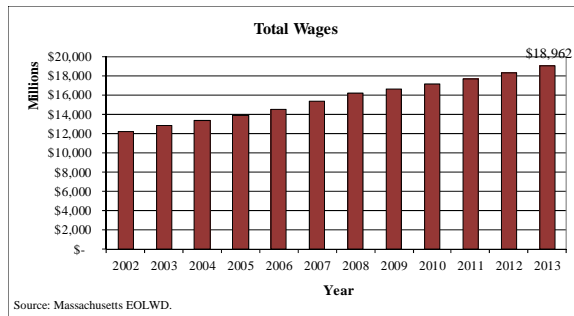
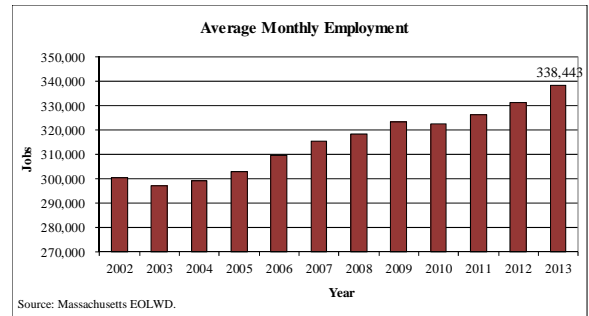
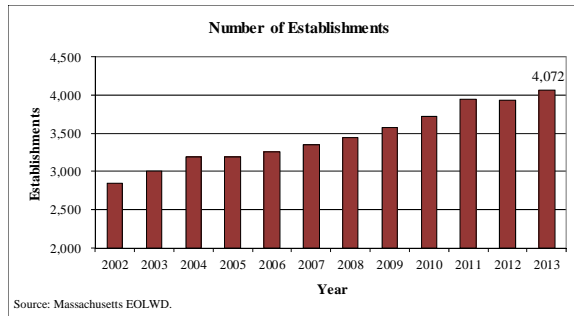
Employees: **Employment services**

Annual wages: **Employment services**

Average weekly wage: **Office administrative services**

Annual receipts at nonemployer establishments: **Services to buildings and dwellings**

**NAICS 61 - Educational Services.** The Educational Services sector comprises establishments that provide instruction and training in a wide variety of subjects. This instruction and training is provided by specialized establishments, such as schools, colleges, universities, and training centers. These establishments may be privately owned and operated for profit or not for profit, or they may be publicly owned and operated. They may also offer food and/or accommodation services to their students.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: 2.6%

GDP rank: 14 of 20

Nonemployer to employer establishment ratio: 5.0 to 1

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Other schools and instruction**

Nonemployer establishments: Subsector detail N/A

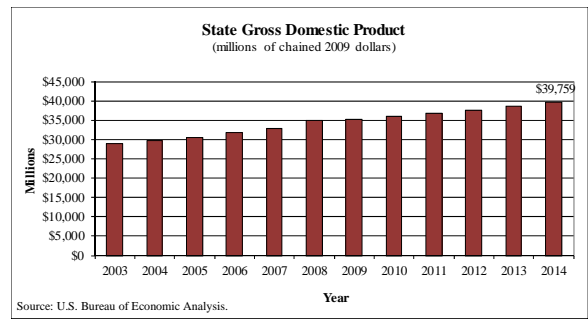
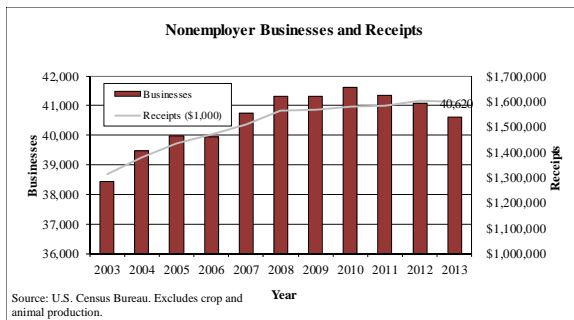
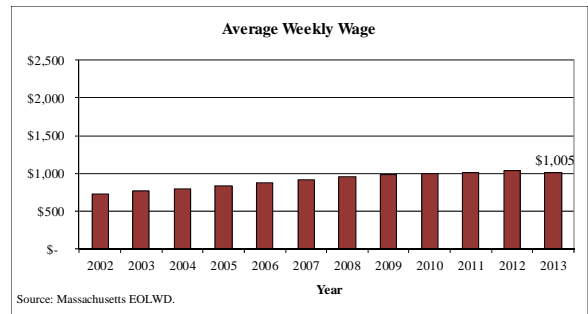
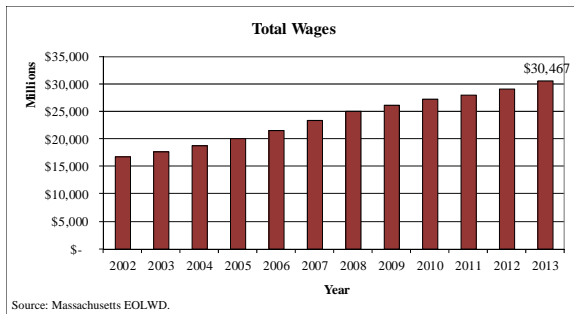
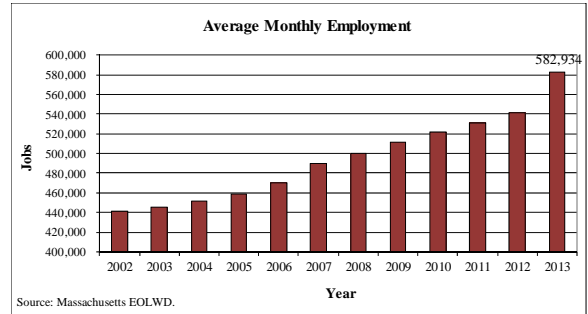
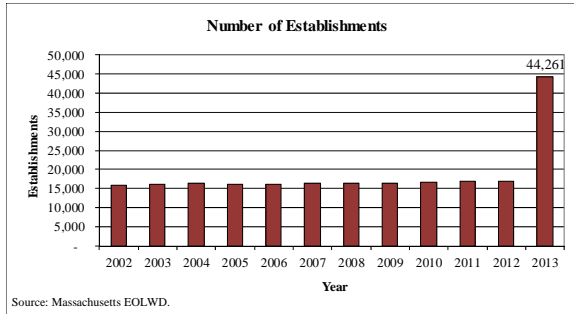
Employees: **Elementary and secondary schools**

Annual wages: **Elementary and secondary schools**

Average weekly wage: **Colleges and universities**

Annual receipts at nonemployer establishments: Subsector detail N/A

**NAICS 62 - Health Care and Social Assistance.** The Health Care and Social Assistance sector comprises establishments providing health care and social assistance for individuals. The sector includes both health care and social assistance because it is sometimes difficult to distinguish between the boundaries of these two activities. **Note:** Beginning with the first quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013 on QCEW.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **9.4%**

GDP rank: **5 of 20**

Nonemployer to employer establishment ratio: **0.9 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Offices of physicians**

Nonemployer establishments: **Offices of other health practitioners**

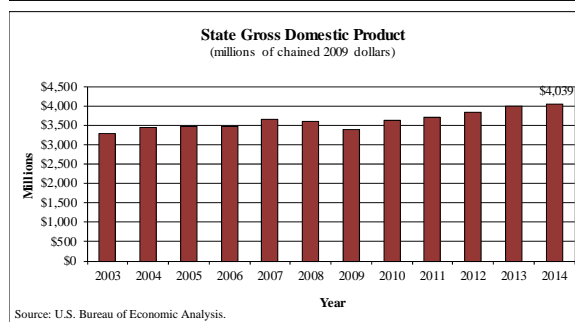
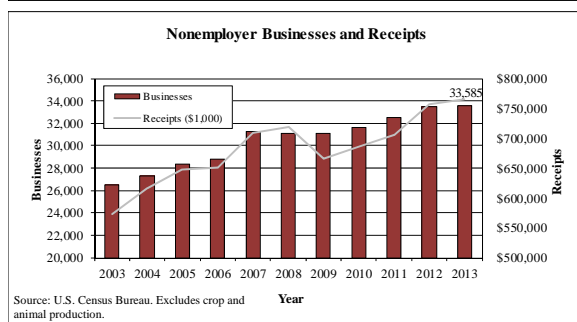
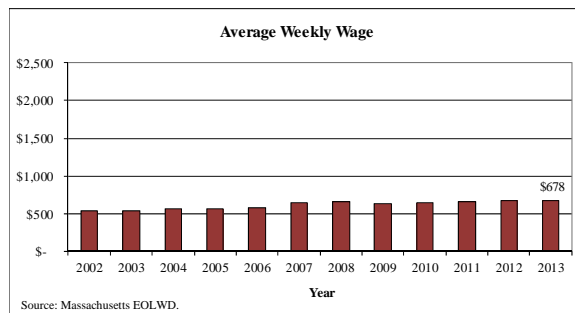
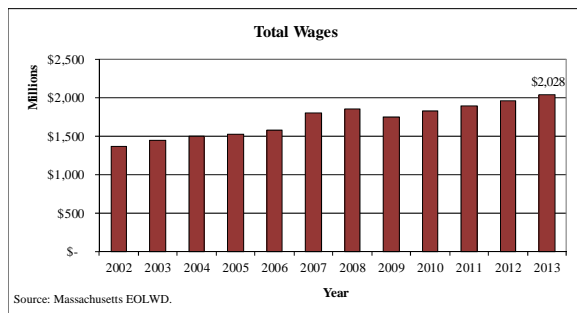
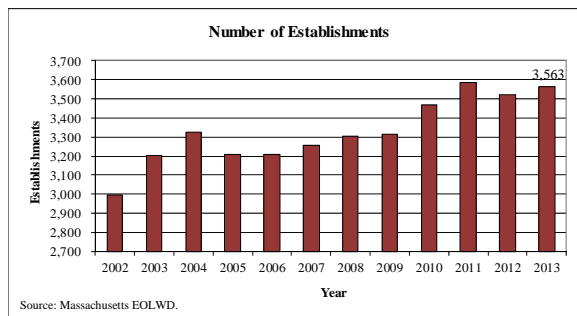
Employees: **General medical and surgical hospitals**

Annual wages: **General medical and surgical hospitals**

Average weekly wage: **Offices of physicians**

Annual receipts at nonemployer establishments: **Offices of other health practitioners**

**NAICS 71 - Arts, Entertainment, and Recreation.** The Arts, Entertainment, and Recreation sector includes a wide range of establishments that: operate facilities or provide services to meet varied cultural, entertainment, and recreational interests of their patrons, are involved in producing, promoting, or participating in live performances, events, or exhibits intended for public viewing, preserve and exhibit objects and sites of historical, cultural, or educational interest and operate facilities or provide services that enable patrons to participate in recreational activities or pursue amusement, hobby, and leisure-time interests. See the Appendix page six for travel and tourism information.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **1.0%**

GDP rank: **18 of 20**

Nonemployer to employer establishment ratio: **9.4 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Other amusement & recreation industries**

Nonemployer establishments: **Independent artists, writers, and performers**

Employees: **Other amusement & recreation industries**

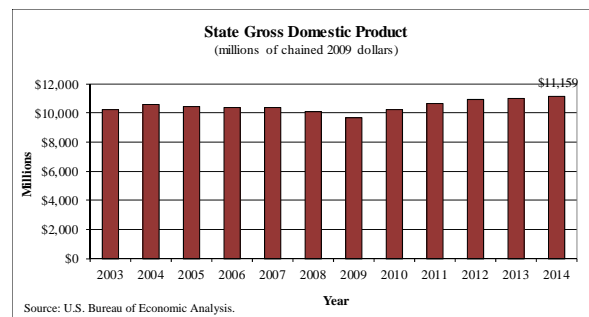
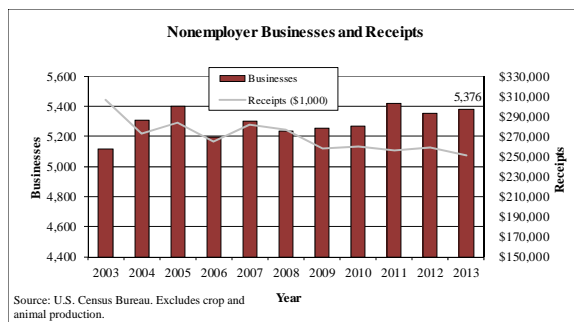
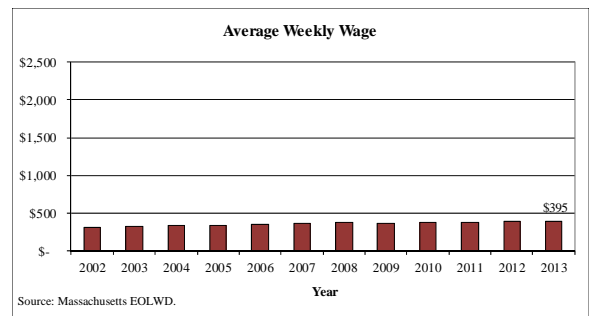
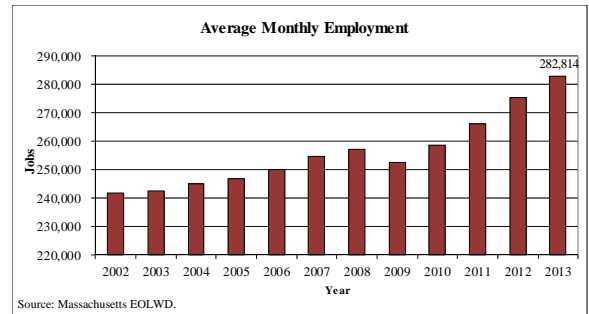
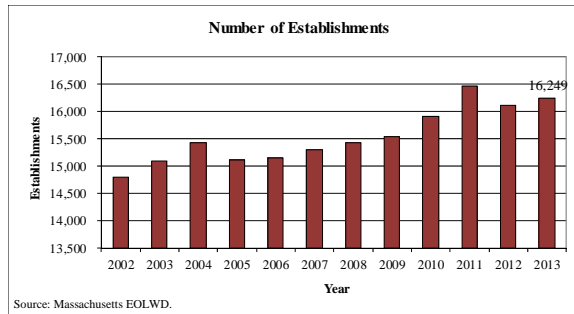
Annual wages: **Other amusement & recreation industries**

Average weekly wage: **Spectator sports**

Annual receipts at nonemployer establishments: **Independent artists, writers, and performers**



**NAICS 72 - Accommodation and Food Services.** The Accommodation and Food Services sector comprises establishments providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption. The sector includes both accommodation and food services establishments because the two activities are often combined at the same establishment.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **2.6%**

GDP rank: **12 of 20**

Nonemployer to employer establishment ratio: **0.3 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Restaurants and other eating places**

Nonemployer establishments: **Special food services**

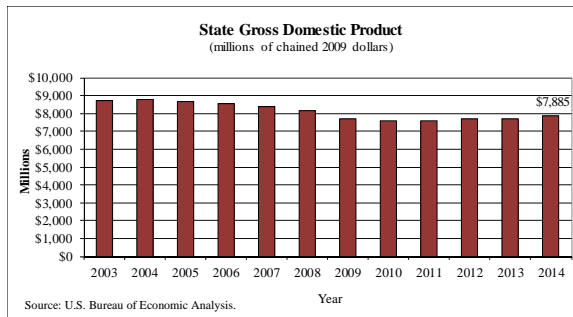
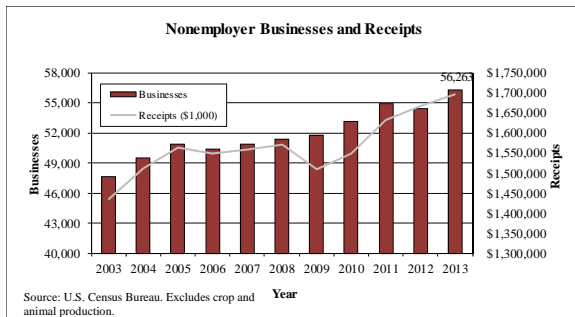
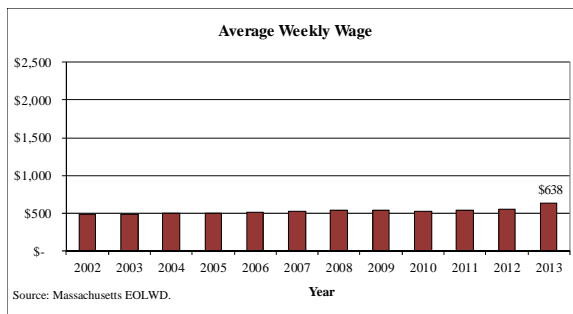
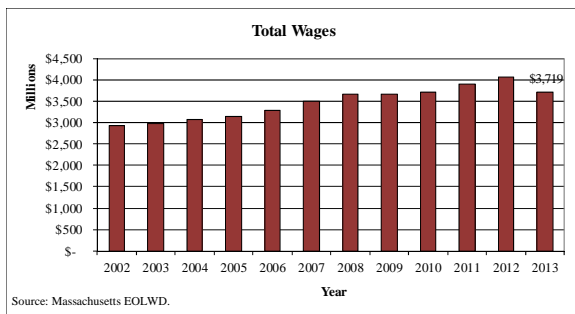
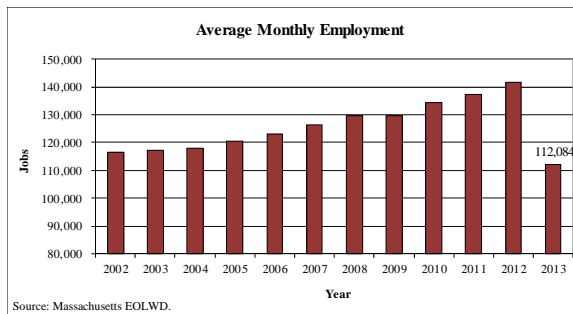
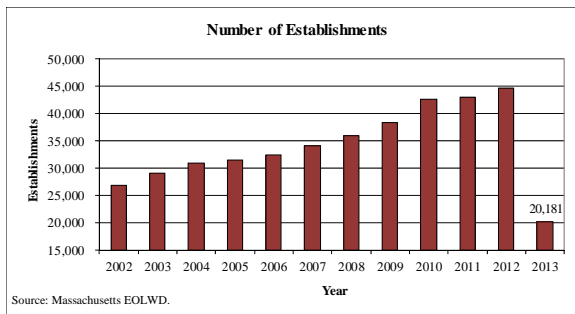
Employees: **Restaurants and other eating places**

Annual wages: **Restaurants and other eating places**

Average weekly wage: **Traveler accommodation**

Annual receipts at nonemployer establishments: **Restaurants and other eating places**

**NAICS 81 - Other Services, Except Public Administration.** The Other Services (except Public Administration) sector comprises establishments engaged in providing services not specifically provided for elsewhere in the classification system. Establishments in this sector are primarily engaged in activities such as equipment and machinery repairing, promoting or administering religious activities, grant making, advocacy, providing dry cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **1.9%**

GDP rank: **15 of 20**

Nonemployer to employer establishment ratio: **2.8 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Private households**

Nonemployer establishments: **Other personal services**

Employees: **Private households**

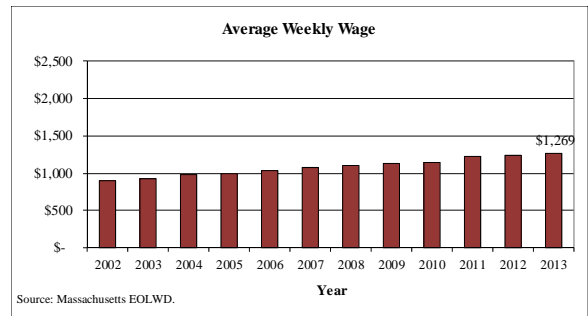
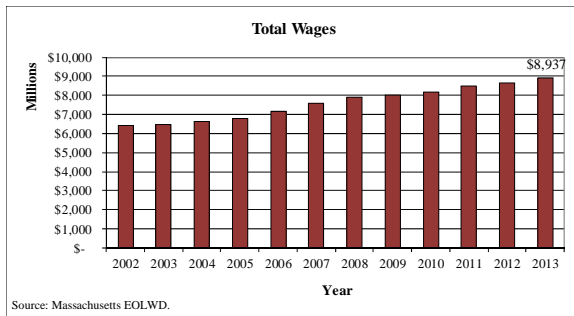
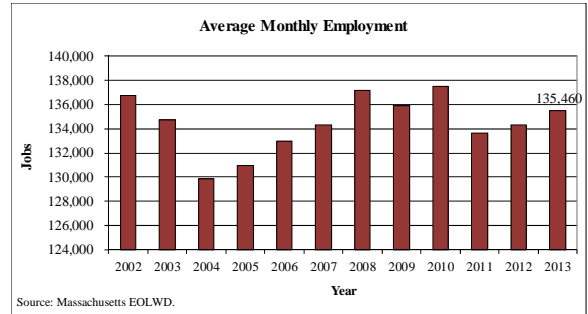
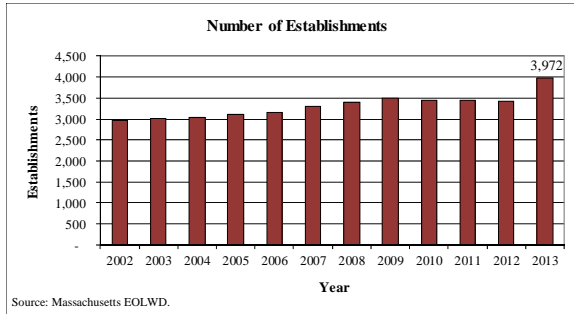
Annual wages: **Automotive repair and maintenance**

Average weekly wage: **Electronic equipment repair/maintenance**

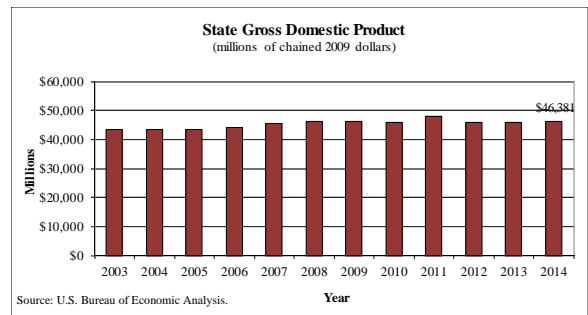
Annual receipts at nonemployer establishments: **Other personal services**

**Note:** Beginning with the first quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013 on QCEW.

**NAICS 92 - Public Administration.** The Public Administration sector consists of establishments of federal, state, and local government agencies that administer, oversee, and manage public programs and have executive, legislative, or judicial authority over other institutions within a given area. These agencies also set policy, create laws, adjudicate civil and criminal legal cases and provide for public safety and national defense.



State nonemployer and export data are not available for this sector.



**Summary.**

GDP contribution to state total: **10.9%**

GDP rank: **3 of 20**

Nonemployer to employer establishment ratio: **N/A**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Executive, legislative, & general government**

Nonemployer establishments: **N/A**

Employees: **Justice, public order, and safety activities**

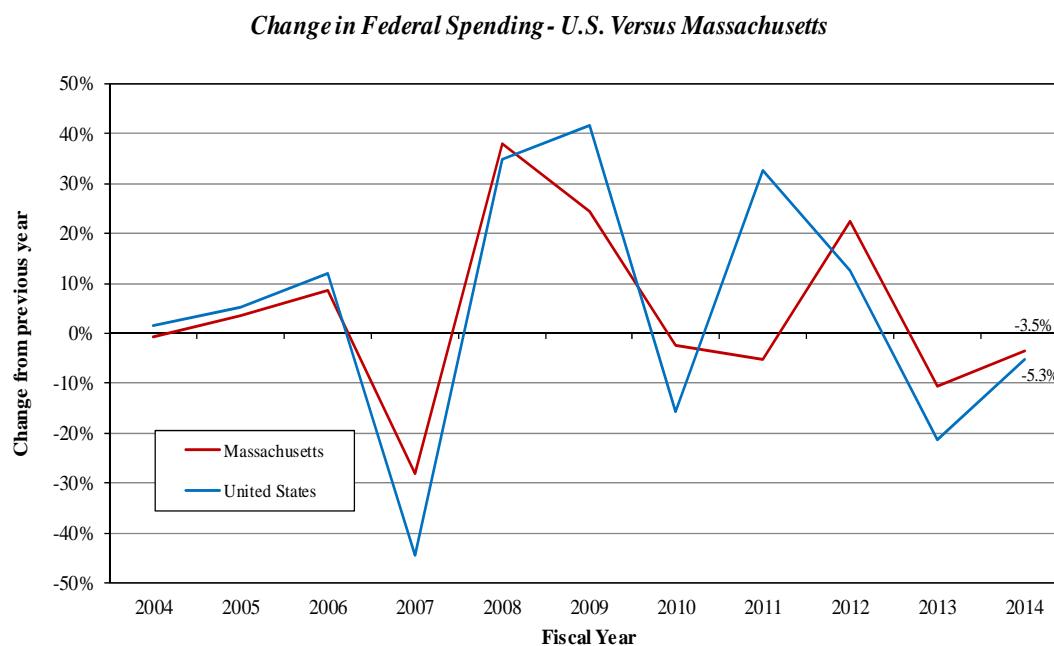
Annual wages: **Justice, public order, and safety activities**

Average weekly wage: **National security & international affairs**

Annual receipts at nonemployer establishments: **N/A**

## ECONOMIC BASE AND PERFORMANCE—GOVERNMENT REVENUES AND SPENDING

**Federal Spending in Massachusetts.** Massachusetts received approximately \$70.7 billion in contracts, grants, direct payments, insurance, loans and guarantees, and other spending from the federal government in federal FY 2014. Massachusetts received 2.6 percent of all federal spending in FY 2014 versus 2.5 percent in FY 2013. Federal dollars to Massachusetts have dropped for the last two fiscal years, after a large increase in 2012. The state saw an 11% increase in grants, \$1.7 billion, but the two other large categories, direct payments and contracts decreased. Massachusetts federal contracts have declined over the last three years but their proportion of all federal contracts remains steady. This is in contrast to direct payments and insurance which varies widely over the last decade.



### *Federal Spending in the United States and Massachusetts In \$Billions*

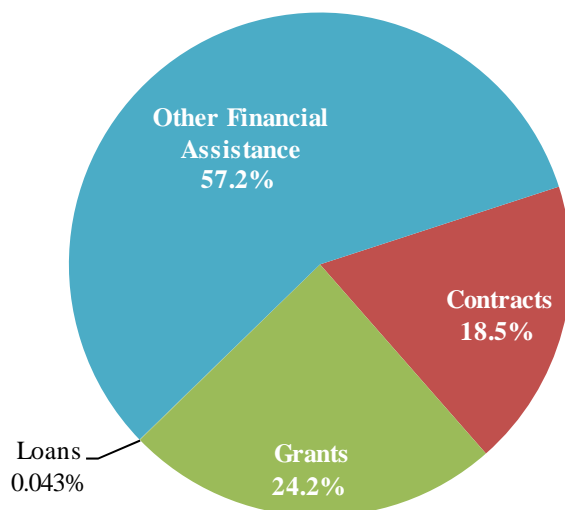
FY	Massachusetts*	YOY change	United States	YOY change
2003	\$52.5		\$2,327.5	
2004	52.1	-0.7%	2,366.3	1.7%
2005	53.9	3.4%	2,491.2	5.3%
2006	58.5	8.5%	2,788.9	12.0%
2007	42.1	-28.1%	1,545.1	-44.6%
2008	48.4	15.0%	2,083.7	34.9%
2009	72.2	49.3%	2,948.4	41.5%
2010	70.6	-2.3%	2,484.5	-15.7%
2011	67.0	-5.1%	3,291.3	32.5%
2012	82.0	22.5%	3,707.5	12.6%
2013	73.3	-10.6%	2,916.9	-21.3%
2014	70.7	-3.5%	2,763.7	-5.3%

SOURCE: <http://www.usaspending.gov> as of July 21, 2015.

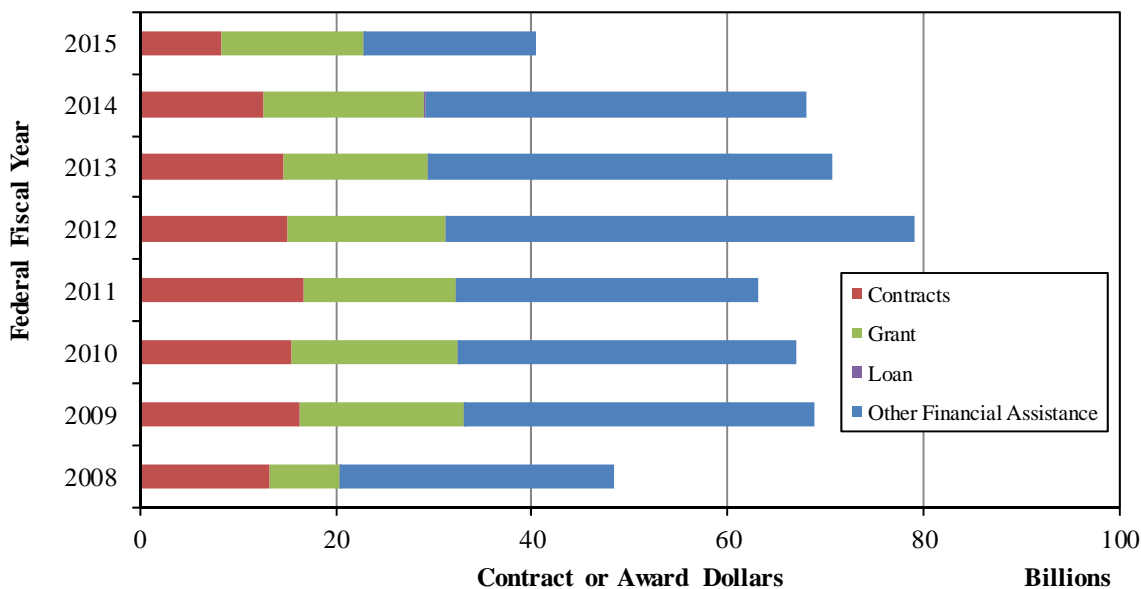
\*NOTE: Awardee was located in Massachusetts.

In FY 2014, the largest portion of federal spending in Massachusetts, 57 percent, was for Other Financial Assistance which includes direct payments to individuals (such as Medicare and food stamps), insurance payments (such as, unemployment benefits, flood insurance), and other types of assistance payments (such as, reimbursements for prescriptions for veterans). Other Financial Assistance decreased 6 percent and Contracts decreased 14% from FY 2013, but Grants increased 11 percent and Loans increased 1183 percent. The graphs below describes the most recent complete fiscal year and the last eight years of federal spending in Massachusetts, including the most recent data for the current fiscal year as reported by USASpending.gov.

***Federal Spending in Massachusetts - Federal Fiscal Year 2014***



***Composition of Federal Spending Awards to Massachusetts Recipients***

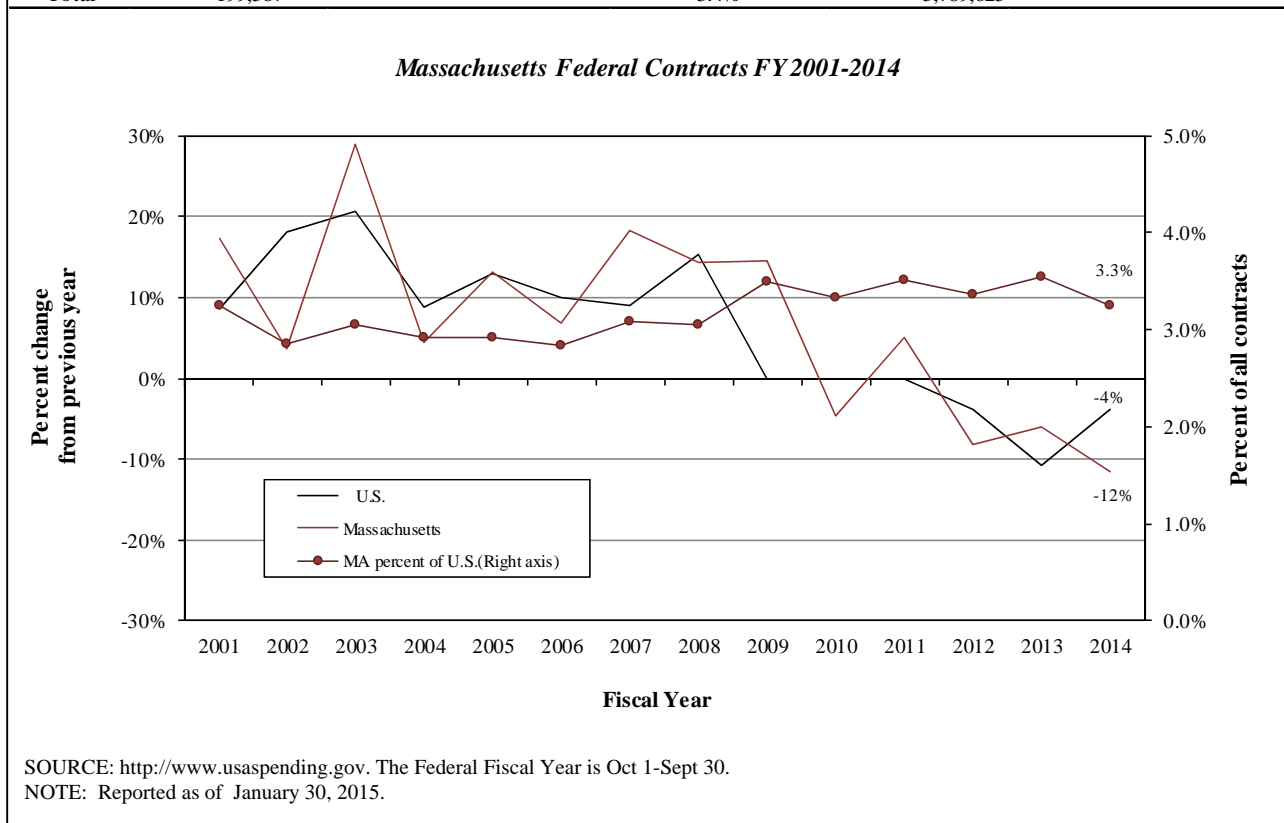


SOURCE: USASpending.gov as of July 21, 2015.

**Federal Contracts.** The table and graph below compare the annual summary of federal contracts awarded to contractors located in Massachusetts to the total awarded in the U.S. Massachusetts's annual contracts have decreased each of the last three years and it was awarded 24 percent less federal contracts in federal fiscal year 2014 than in 2011. It received 3.3 percent of all federal contracts in 2014, just slightly below its fifteen year average of 3.4 percent.

The following two pages summarize the federal contracts by top products or services, funding agencies and sub agencies, contractors and sub-awardees, over the long-term and the latest fiscal year. The work was primarily performed in Massachusetts and the vendors who were awarded the contracts may or may not have been located in Massachusetts.

<b>Federal Contracts Received by Massachusetts Companies as a Percent all Federal Contracts</b>					
<i>(millions of dollars)</i>					
Fiscal Year	Massachusetts	MA percent increase from previous year	MA portion of all	U.S.	U.S. percent increase from previous year
2000	\$6,173		3.0%	\$205,564	
2001	7,244	17.4%	3.2%	223,194	8.6%
2002	7,513	3.7%	2.9%	263,507	18.1%
2003	9,690	29.0%	3.0%	317,998	20.7%
2004	10,127	4.5%	2.9%	346,133	8.8%
2005	11,450	13.1%	2.9%	391,155	13.0%
2006	12,222	6.7%	2.8%	430,519	10.1%
2007	14,459	18.3%	3.1%	469,278	9.0%
2008	16,531	14.3%	3.1%	541,169	15.3%
2009	18,932	14.5%	3.5%	540,475	-0.1%
2010	18,046	-4.7%	3.3%	540,339	0.0%
2011	18,968	5.1%	3.5%	539,612	-0.1%
2012	17,406	-8.2%	3.4%	518,369	-3.9%
2013	16,365	-6.0%	3.5%	462,312	-10.8%
2014	14,460	-11.6%	3.3%	444,792	-3.8%
Total	199,587		3.4%	5,789,625	



## Summary of Federal Contracts Performed in Massachusetts

### FY 2000 to FY 2015\*

Total Dollars: \$172,487,275,396

Number of Transactions: 1,094,407

### Top 5 Products or Services Sold

Gas Turbines & Jet Engines Aircraft	\$13,073,311,779
Precious Metals Primary Forms	\$7,751,406,093
Engineering (Advanced)	\$5,455,326,067
R&D-Electronics & Communications Equipment-Basic Research	\$4,812,288,221
Misc Communication Equipment	\$4,656,774,714

### Top 5 Prime Award Major Agencies

Department of Defense	\$137,661,306,927
Department of the Treasury	\$8,614,138,025
Department of Veterans Affairs	\$4,882,378,796
Department of Transportation	\$3,981,460,800
Department of Health and Human Services	\$3,865,291,775

### Top 5 Prime Award Sub Agencies

Department of the Army	\$45,505,081,933
Department of the Navy	\$42,836,717,781
Department of the Air Force	\$33,500,350,213
United States Mint	\$7,792,320,759
Missile Defense Agency	\$5,534,136,302

### Top 5 Prime Award Contractors

Raytheon Company	\$41,314,009,887
General Dynamics Corporation	\$19,471,456,061
General Electric Company	\$18,635,494,789
Massachusetts Institute of Technology	\$10,829,726,950
Coins 'N Things	\$5,841,784,752

### Top 5 Contract Sub-Awardees

BAE Systems Information and Electronic Systems Integration	\$525,180,181
Raytheon Company	\$276,088,944
General Dynamics C4 Systems	\$118,479,982
KEYW Corporation	\$108,639,441
Mercury Systems	\$87,837,077

SOURCE: <http://www.usaspending.gov>, Federal Fiscal Year Oct 1-Sept 30.

NOTE: Reported as of January 29, 2015.

## *Federal Contracts Performed in Massachusetts*

### **Fiscal Year: 2014**

Total Dollars: \$12,578,074,924

This amount is 2.8% of all awarded dollars for the fiscal year.

Massachusetts is ranked 9th among states, D.C. and territories for this year.

Number of Transactions: 42,147

### **Top 5 Products or Services Sold**

Precious Metals Primary Forms	\$992,175,061
R&D- Defense System: Electronics/Communication Equipment (Basic Research)	\$956,326,771
Gas Turbines and Jet Engines, Aircraft, Prime Moving; and Components	\$955,280,101
Support- Professional: Engineering/Technical	\$891,834,510
Miscellaneous Communication Equipment	\$833,936,218

### **Top 5 Prime Award Major Agencies**

Department of Defense	\$9,453,625,981
Department of the Treasury	\$1,013,953,221
Department of Veterans Affairs	\$500,544,275
Department of Health and Human Services	\$333,242,957
Department of Transportation	\$305,782,570

### **Top 5 Prime Award Sub Agencies**

Department of the Navy	\$2,853,452,324
Department of the Army	\$2,637,740,581
Department of the Air Force	\$2,493,806,540
United States Mint	\$993,000,521
Missile Defense Agency	\$716,992,890

### **Top 5 Prime Award Contractors**

Raytheon Company	\$3,135,148,266
General Dynamics Corporation	\$1,226,180,762
Massachusetts Institute of Technology	\$977,780,049
General Electric Company	\$967,550,188
Coins 'N Things INC.	\$672,266,448

### **Top 5 Contract Sub-Awardees**

KEYW Corporation, the	\$56,044,366
Charles Stark Draper Laboratory	\$35,923,102
Ranor	\$21,204,112
Sevenson Environmental Services	\$17,876,547
P. H. Mechanical	\$11,560,000

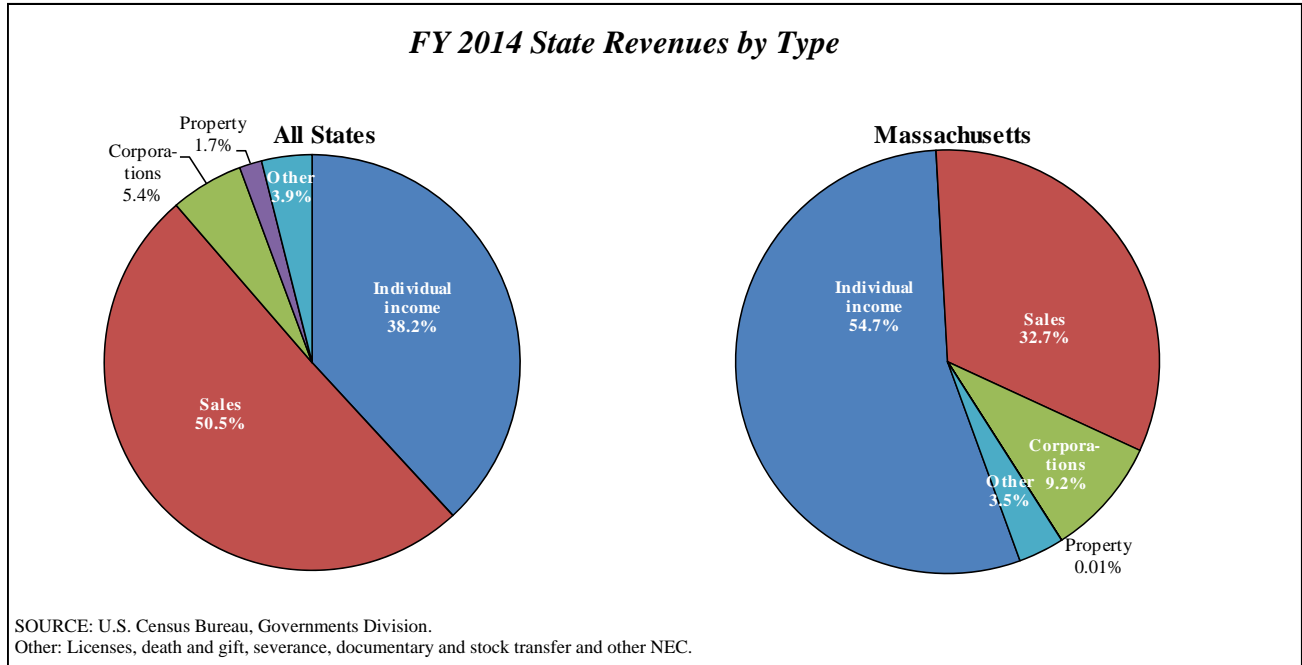
SOURCE: <http://www.usaspending.gov>, Federal Fiscal Year Oct 1-Sept 30.

NOTE: Reported as of January 29, 2015.

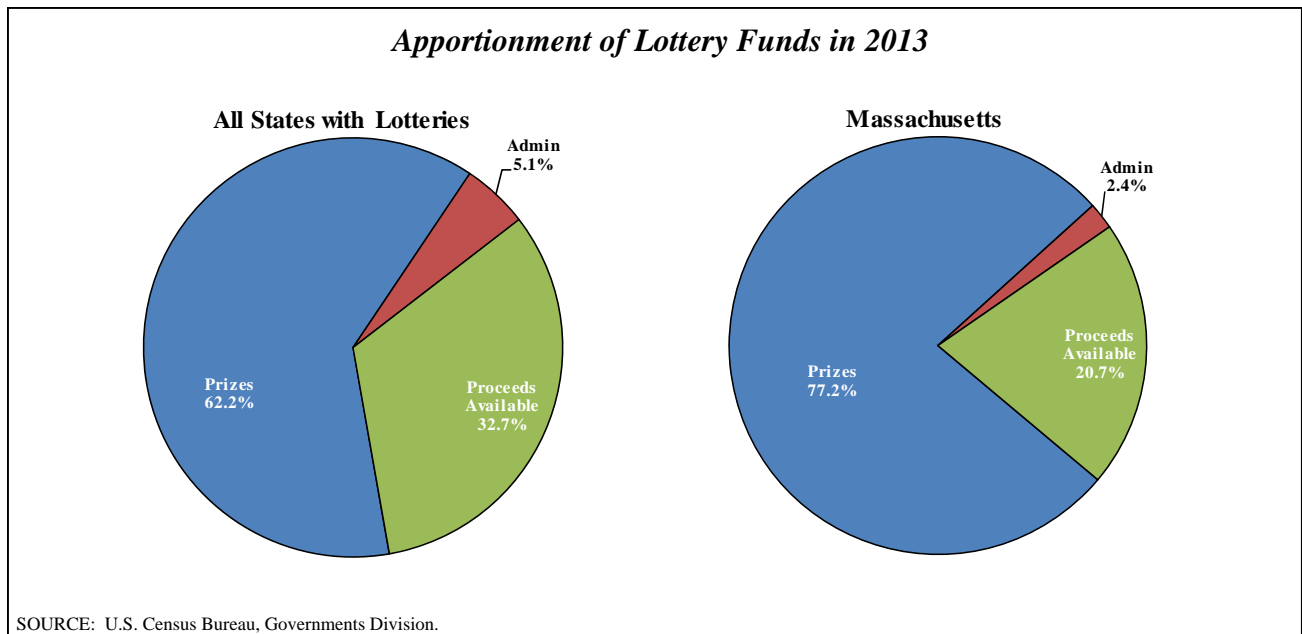


**State Revenues.** Taxes collected by all states in FY 2014 totaled \$865.8 billion, 2.3 percent more than FY 2013. Massachusetts collected \$25.2 billion in FY 2014, 5.6 percent more than in FY 2013. Massachusetts ranked 9th in the nation in total taxes collected in 2014 up from 10th in 2013.

In fiscal year 2014, the average state collected 83.4 percent of its revenue from individual income tax and sales and gross receipts tax. Massachusetts collected most of its revenue, 52.5 percent, from individual income tax while the average U.S. state collected 47.5 percent of its revenue from sales and gross receipts tax. Sales and gross receipts tax accounted for 35.8 percent of Massachusetts's \$1.3 billion in new revenue in 2014 and 95.7 percent of all U.S. state's \$19.5 billion in new revenue. Seven states do not have an individual income tax.



**State Lottery Proceeds.** Massachusetts ranked third in revenue, \$4.57 billion, and prize money awarded, \$3.52 billion, among the 43 states with lotteries in FY 2013. Massachusetts lottery revenue increased 2.5 percent from the previous year.

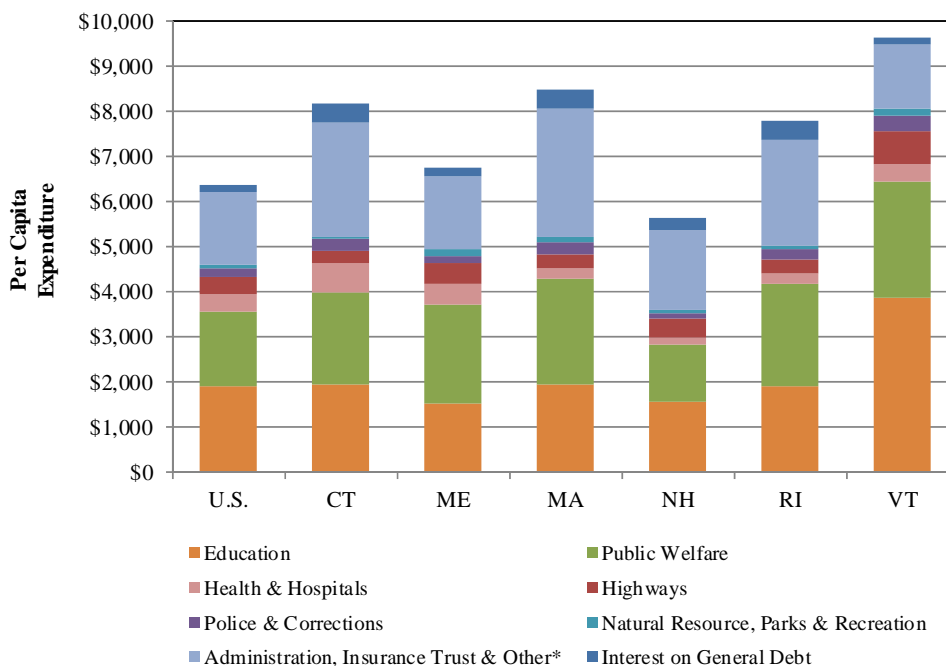


**State Expenditures.** The following table and graph depict fiscal 2013 per capita state government general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 6th in the nation in per capita expenditures, \$8,483 in 2013, while it ranked 6th and spent \$8,500 in 2012. This represents a 0.2 percent decrease in per capita expenditures from 2012 to 2013, with the largest per capita dollar increase in the Public Welfare function.

General expenditures, by function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Education	\$1,183	\$1,346	\$1,401	\$1,640	\$1,649	\$1,735	\$1,814	\$1,867	\$1,948	\$1,944
Public Welfare	\$1,647	\$1,719	\$1,843	\$1,877	\$1,952	\$2,030	\$2,103	\$2,227	\$2,285	\$2,325
Health & Hospitals	\$172	\$177	\$187	\$227	\$236	\$237	\$235	\$246	\$241	\$245
Highways	\$471	\$276	\$261	\$267	\$346	\$294	\$298	\$289	\$310	\$300
Police & Corrections	\$215	\$222	\$248	\$274	\$293	\$294	\$279	\$274	\$277	\$288
Natural Resource, Parks & Recreation	\$90	\$76	\$81	\$87	\$89	\$96	\$91	\$89	\$81	\$94
Administration, Insurance Trust & Other*	\$1,815	\$1,660	\$1,690	\$1,890	\$1,901	\$2,126	\$2,558	\$2,488	\$2,894	\$2,854
Interest on General Debt	\$401	\$435	\$487	\$518	\$558	\$561	\$522	\$474	\$464	\$433
<b>Total</b>	<b>\$5,994</b>	<b>\$5,911</b>	<b>\$6,198</b>	<b>\$6,779</b>	<b>\$7,023</b>	<b>\$7,373</b>	<b>\$7,901</b>	<b>\$7,954</b>	<b>\$8,500</b>	<b>\$8,483</b>

General expenditures, by function	U.S.	CT	ME	MA	NH	RI	VT
Education	\$1,895	\$1,952	\$1,520	\$1,944	\$1,563	\$1,889	\$3,842
Public Welfare	\$1,642	\$2,035	\$2,178	\$2,325	\$1,271	\$2,277	\$2,600
Health & Hospitals	\$413	\$623	\$449	\$245	\$143	\$214	\$377
Highways	\$355	\$294	\$463	\$300	\$422	\$303	\$727
Police & Corrections	\$201	\$251	\$160	\$288	\$127	\$242	\$361
Natural Resource, Parks & Recreation	\$85	\$63	\$148	\$94	\$75	\$84	\$153
Administration, Insurance Trust & Other*	\$1,607	\$2,532	\$1,645	\$2,854	\$1,735	\$2,327	\$1,394
Interest on General Debt	\$146	\$399	\$175	\$433	\$270	\$451	\$150
<b>Total</b>	<b>\$6,345</b>	<b>\$8,149</b>	<b>\$6,738</b>	<b>\$8,483</b>	<b>\$5,607</b>	<b>\$7,788</b>	<b>\$9,604</b>
State's rank of total per capita expenditures		10	19	6	32	9	2

*Fiscal 2013 Per Capita State Government General Expenditures, by Type  
(U.S. and the New England States)*

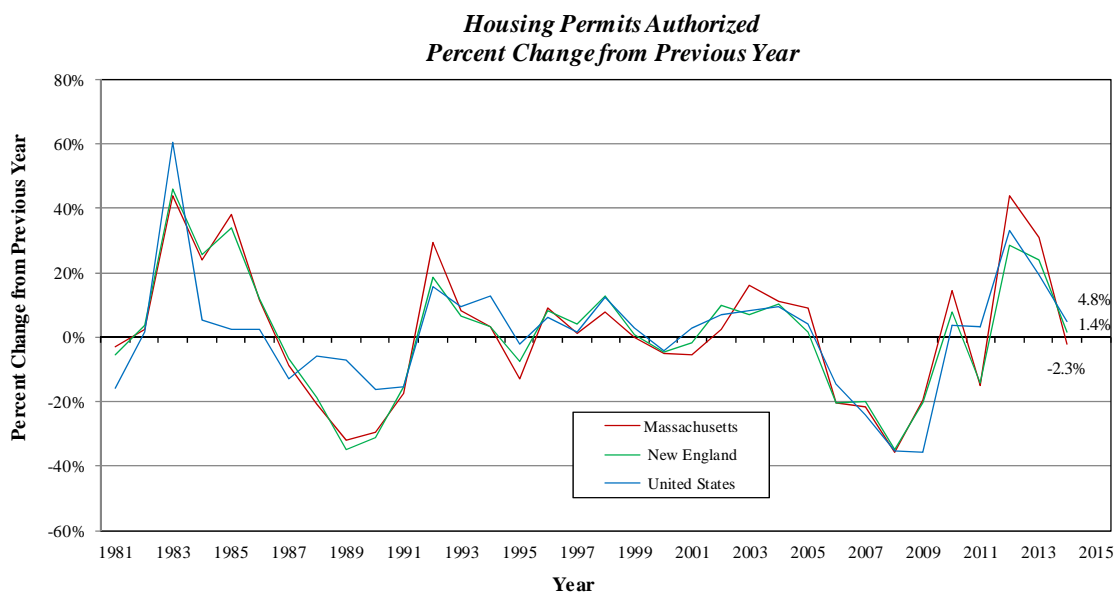


SOURCE: U.S. Census Bureau, Governments Division. \*Other includes utility, liquor store, other and unallocable expenditures. Update February 3, 2015

*Supplementary Data Section.* The following appendix contains more detailed data for industry sectors or subsectors.

**Building Permits.** The Census Bureau's Residential Construction Branch Building Permits Survey is a leading economic indicator used to track the housing industry.

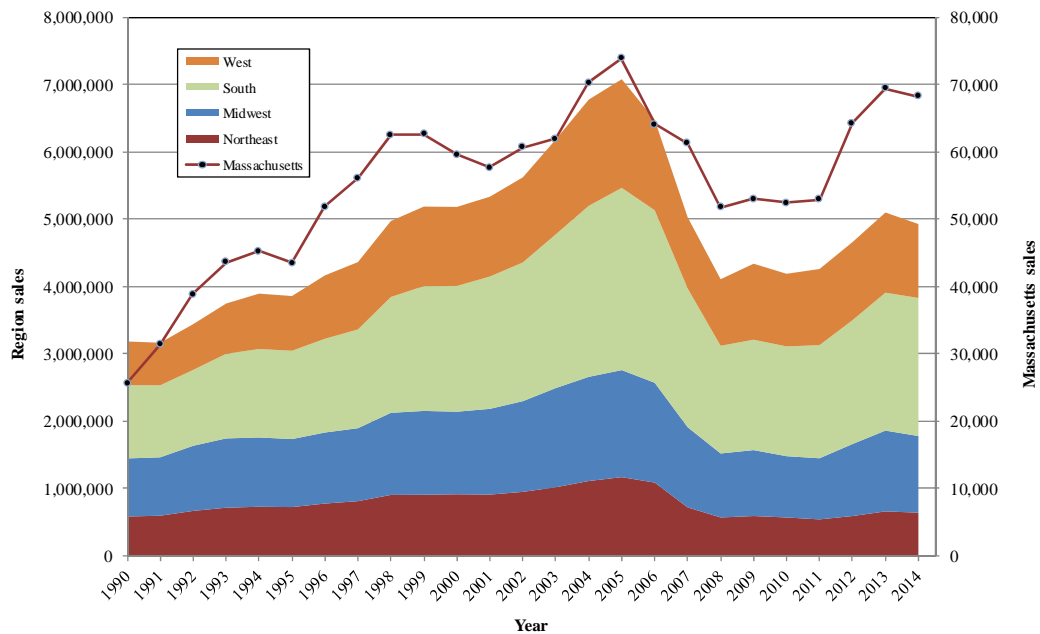
<i>Housing Permits Authorized</i>						
Year	Massachusetts		New England		United States	
	Total Units	Percent Change Previous Year	Total Units	Percent Change Previous Year	Total Units	Percent Change Previous Year
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
1998	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
1999	18,967	0.0%	47,632	0.6%	1,663,533	2.7%
2000	18,000	-5.1%	45,335	-4.8%	1,592,267	-4.3%
2001	17,034	-5.4%	44,594	-1.6%	1,636,676	2.8%
2002	17,465	2.5%	49,031	9.9%	1,747,678	6.8%
2003	20,257	16.0%	52,395	6.9%	1,889,214	8.1%
2004	22,477	11.0%	57,858	10.4%	2,070,077	9.6%
2005	24,549	9.2%	58,742	1.5%	2,155,316	4.1%
2006	19,580	-20.2%	46,782	-20.4%	1,838,903	-14.7%
2007	15,358	-21.6%	37,532	-19.8%	1,398,415	-24.0%
2008	9,883	-35.6%	24,454	-34.8%	905,359	-35.3%
2009	7,941	-19.6%	19,463	-20.4%	582,963	-35.6%
2010	9,075	14.3%	20,964	7.7%	604,610	3.7%
2011	7,725	-14.9%	17,987	-14.2%	624,061	3.2%
2012	11,111	43.8%	23,109	28.5%	829,658	32.9%
2013	14,569	31.1%	28,635	23.9%	990,822	19.4%
2014	14,237	-2.3%	29,042	1.4%	1,038,491	4.8%



SOURCE: U.S. Census Bureau. Reported data plus data imputed for non-reporters & partial reporters. January 2015. 2014 data is preliminary.

**Home Sales.** Sales of existing single-family homes for Massachusetts and the U.S. are presented in the following table and graph. The state existing-home sales report includes single-family houses, condos and co-ops.

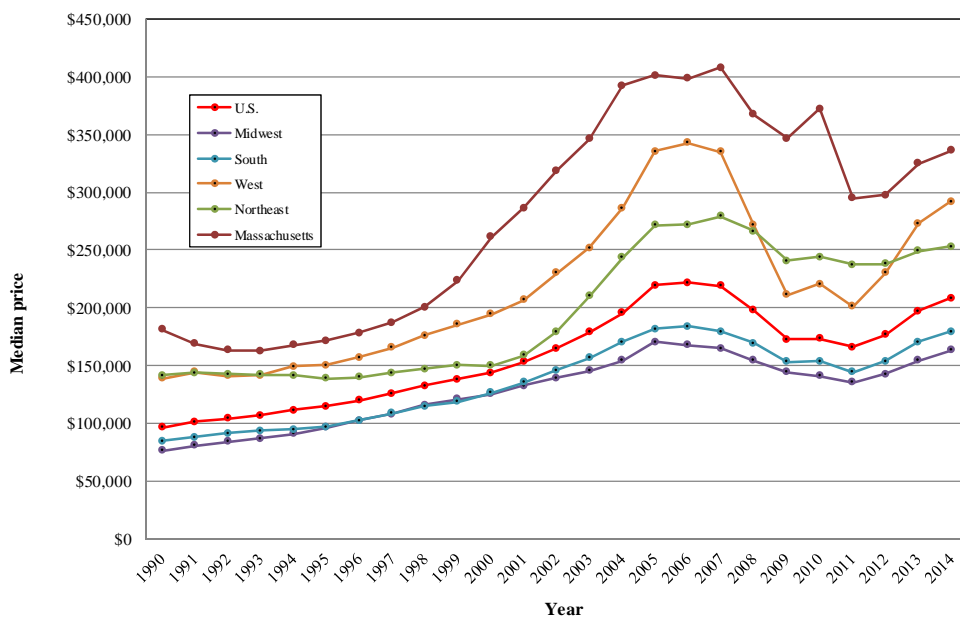
<i>Sales of Existing Homes United States, National Regions and Massachusetts</i>						
Year	U.S.	Northeast	Midwest	South	West	Massachusetts
1990	3,184,000	583,000	864,000	1,088,000	649,000	25,691
1991	3,146,000	596,000	867,000	1,070,000	633,000	31,379
1992	3,431,000	667,000	967,000	1,127,000	680,000	38,847
1993	3,737,000	714,000	1,031,000	1,257,000	745,000	43,588
1994	3,884,000	728,000	1,031,000	1,313,000	822,000	45,238
1995	3,849,000	725,000	1,010,000	1,312,000	812,000	43,509
1996	4,167,000	776,000	1,056,000	1,393,000	942,000	51,857
1997	4,374,000	813,000	1,084,000	1,466,000	1,001,000	56,107
1998	4,965,000	905,000	1,219,000	1,722,000	1,129,000	62,549
1999	5,179,000	908,000	1,245,000	1,854,000	1,182,000	62,662
2000	5,173,000	915,000	1,226,000	1,867,000	1,175,000	59,602
2001	5,335,000	910,000	1,274,000	1,965,000	1,186,000	57,665
2002	5,634,000	950,000	1,347,000	2,062,000	1,265,000	60,661
2003	6,176,000	1,020,000	1,473,000	2,283,000	1,410,000	61,979
2004	6,778,000	1,111,000	1,549,000	2,540,000	1,578,000	70,342
2005	7,080,000	1,168,000	1,591,000	2,707,000	1,614,000	73,887
2006	6,477,000	1,087,000	1,484,000	2,562,000	1,344,000	64,126
2007	5,030,000	720,000	1,190,000	2,060,000	1,060,000	61,299
2008	4,110,000	570,000	950,000	1,600,000	990,000	51,766
2009	4,340,000	590,000	980,000	1,640,000	1,130,000	52,992
2010	4,190,000	570,000	910,000	1,630,000	1,080,000	52,413
2011	4,260,000	540,000	910,000	1,680,000	1,130,000	52,902
2012	4,660,000	590,000	1,070,000	1,840,000	1,160,000	64,254
2013	5,090,000	660,000	1,200,000	2,050,000	1,190,000	69,423
2014	4,930,000	640,000	1,140,000	2,050,000	1,100,000	68,262



SOURCE: National Association of Realtors.

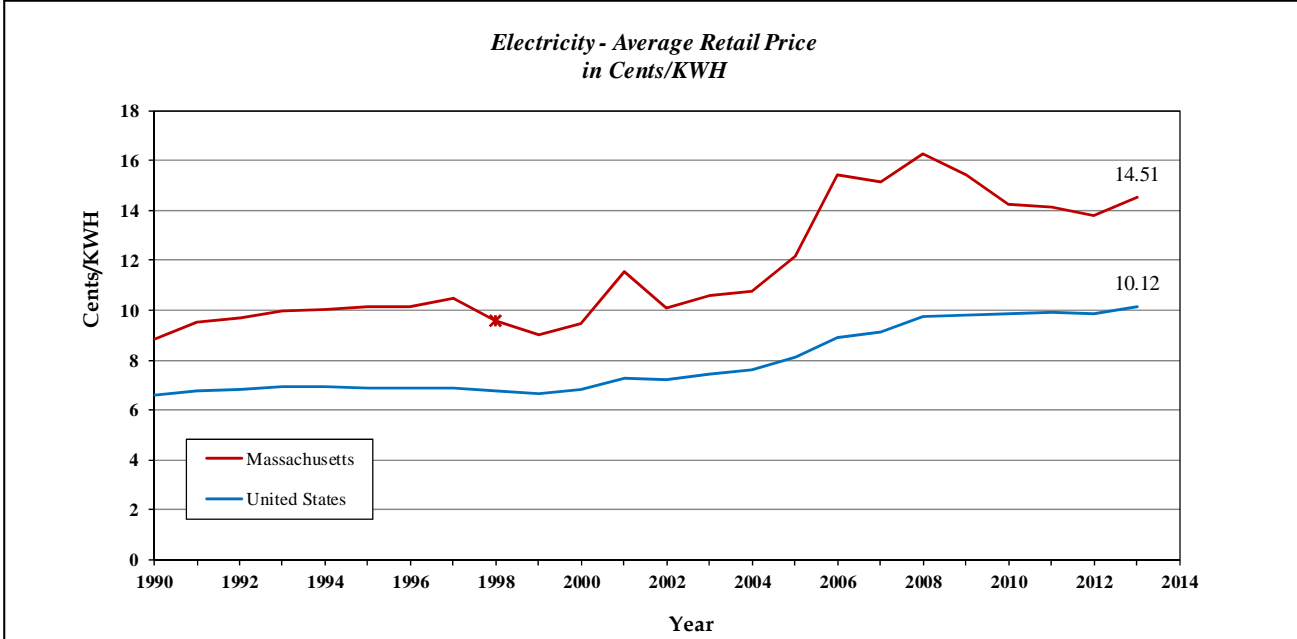
**Home prices.** Massachusetts sales prices are much higher than the national median but they are 20 percent less than the 2007 peak.

<i>Median Sales Price of Existing Homes United States, National Regions and Massachusetts</i>						
Year	U.S.	Northeast	Midwest	South	West	Massachusetts
1990	\$96,400	\$141,400	\$76,300	\$84,700	\$138,600	\$181,225
1991	\$101,400	\$143,600	\$80,500	\$88,100	\$144,500	\$168,895
1992	\$104,000	\$142,600	\$84,200	\$91,100	\$141,200	\$163,291
1993	\$107,200	\$142,100	\$87,000	\$93,700	\$141,800	\$162,854
1994	\$111,300	\$141,500	\$90,600	\$94,900	\$149,200	\$167,475
1995	\$114,600	\$138,500	\$96,100	\$96,900	\$150,600	\$171,702
1996	\$119,900	\$139,600	\$102,300	\$102,400	\$157,100	\$178,536
1997	\$126,100	\$143,600	\$108,200	\$108,400	\$165,700	\$187,213
1998	\$132,800	\$147,300	\$115,600	\$115,000	\$175,900	\$200,870
1999	\$138,000	\$150,500	\$121,000	\$118,900	\$185,400	\$223,593
2000	\$143,600	\$149,800	\$125,300	\$126,300	\$194,600	\$261,293
2001	\$153,100	\$158,700	\$132,500	\$135,500	\$207,000	\$286,277
2002	\$164,900	\$179,300	\$139,300	\$146,000	\$230,000	\$318,649
2003	\$178,800	\$210,000	\$145,600	\$156,700	\$251,800	\$346,210
2004	\$195,400	\$243,800	\$154,600	\$170,400	\$286,400	\$392,241
2005	\$219,600	\$271,300	\$170,600	\$181,700	\$335,300	\$401,548
2006	\$221,900	\$271,900	\$167,800	\$183,700	\$342,700	\$398,753
2007	\$219,000	\$279,100	\$165,100	\$179,300	\$335,100	\$407,826
2008	\$198,100	\$266,400	\$154,100	\$169,200	\$271,500	\$367,182
2009	\$172,500	\$240,500	\$144,100	\$153,000	\$211,100	\$346,921
2010	\$173,100	\$243,900	\$140,800	\$153,700	\$220,700	\$372,439
2011	\$166,100	\$237,500	\$135,400	\$144,200	\$201,300	\$295,000
2012	\$176,800	\$237,700	\$142,700	\$154,000	\$230,100	\$297,750
2013	\$197,100	\$249,100	\$154,600	\$170,700	\$273,100	\$325,000
2014	\$208,500	\$253,200	\$163,200	\$179,400	\$292,000	\$336,000

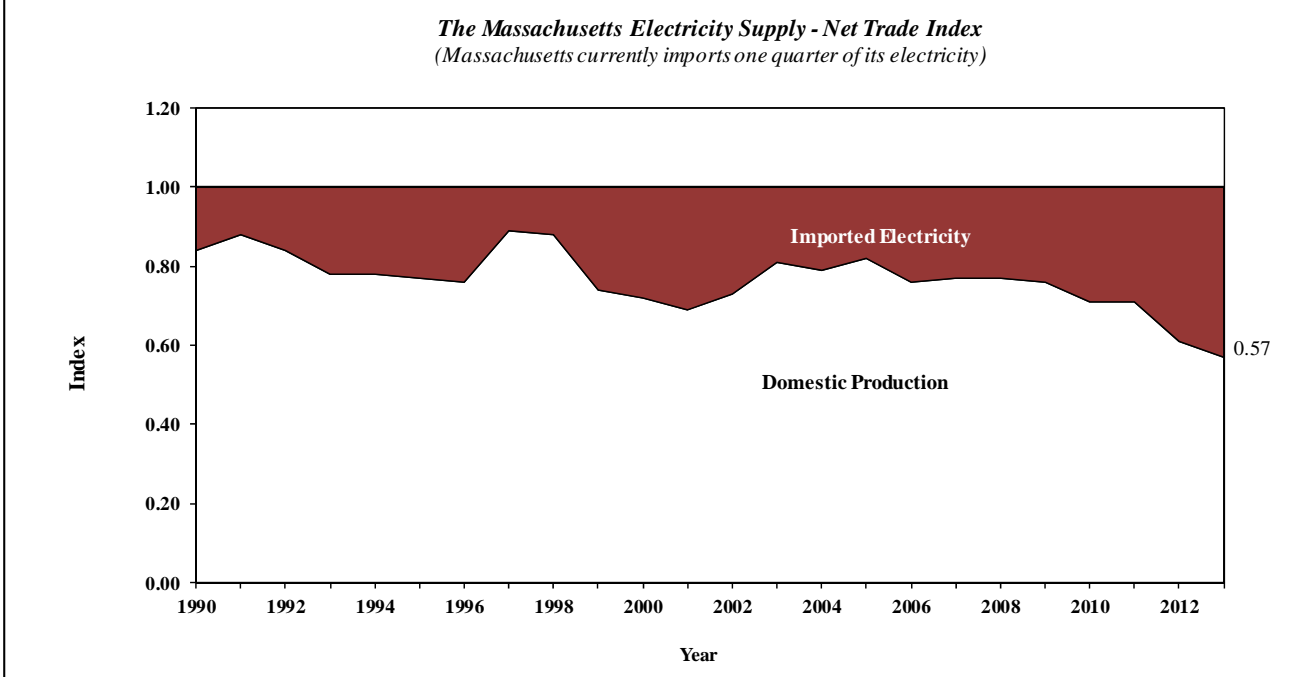


SOURCE: National and Massachusetts Associations of Realtors.

**Electricity Prices, Supply and Capacity by Source.** Massachusetts had the sixth highest electric rate in the country in 2013, 14.57 cents per kilowatt hour, while the U.S. average was 10.12. This was an increase of 5.2 percent for Massachusetts and an increase of 2.8 percent for the U.S. from the previous year. Massachusetts electric utilities generated \$8.0 billion in revenue in 2013. This was 5.2 percent less than in 2012, while they sold 0.1 percent less electricity. The Massachusetts Net Electricity Trade Index, which represents the state's electricity self-sufficiency, was 0.57 in 2013, the latest data available. This means that Massachusetts imported 43 percent of its electricity supply, 26.0 million megawatt hours, from out-of-state. In 2013, 56.8 percent of Massachusetts electricity was generated by burning natural gas, our top fuel source for power generation.

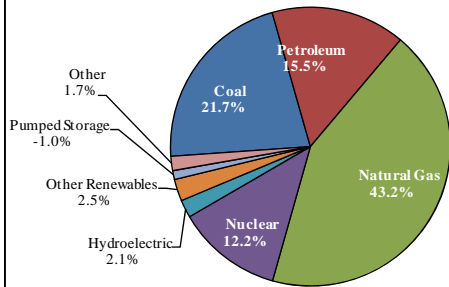


SOURCE: U.S. Dept. of Energy, [http://www.eia.doe.gov/cneaf/electricity/st\\_profiles/massachusetts.html](http://www.eia.doe.gov/cneaf/electricity/st_profiles/massachusetts.html).  
 \*NOTE: Massachusetts restructured the electric utility industry, to establish consumer electricity rate savings by March 1, 1998.  
<https://malegislature.gov/Laws/SessionLaws/Acts/1997/Chapter164>

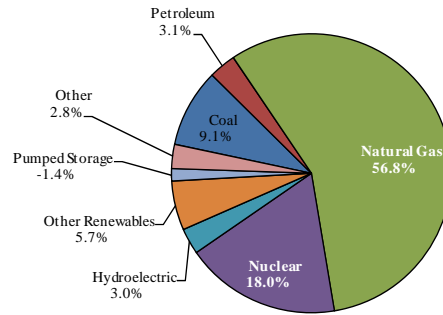


SOURCE: U.S. Dept. of Energy, [http://www.eia.doe.gov/cneaf/electricity/st\\_profiles/massachusetts.html](http://www.eia.doe.gov/cneaf/electricity/st_profiles/massachusetts.html).

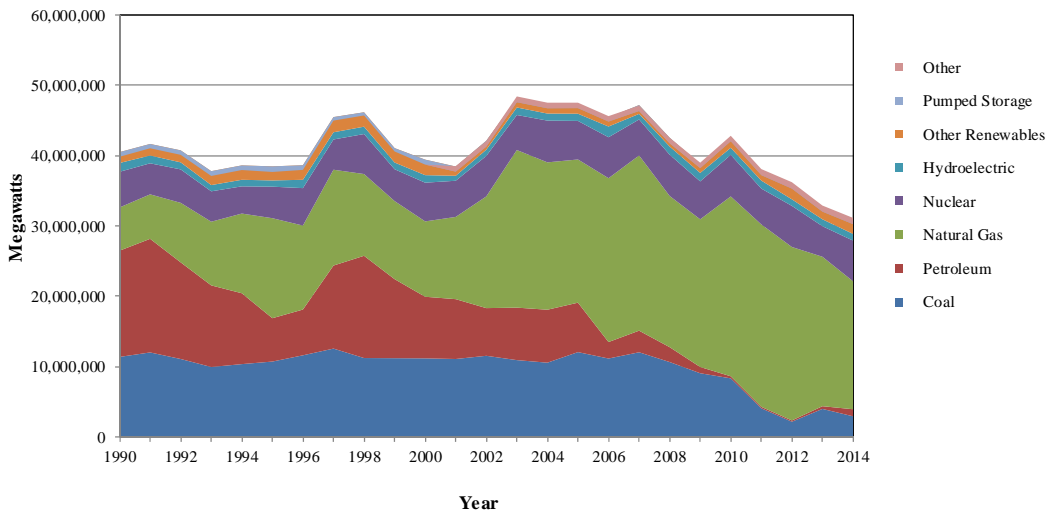
**Electric Power Generated in Massachusetts  
by Primary Energy Source 2004**



**Electric Power Generated in Massachusetts  
by Primary Energy Source 2014**



**Electric Power Generation by Primary Energy Source**



SOURCE: U.S. Dept. of Energy, <http://www.eia.doe.gov/>: state electricity profiles.

**Other Renewables** includes wood, black liquor, other wood waste, municipal solid waste, landfill gas, sludge waste, agriculture byproducts, other biomass, geothermal, solar thermal, photovoltaic energy, and wind. **Other** includes batteries, chemicals, hydrogen, pitch, purchased steam, sulfur, tire-derived fuels and misc. technologies.

**Travel and Tourism.** The Massachusetts Office of Travel and Tourism (MOTT) reported a 2.6 percent increase in museum and attraction attendance, 11.3 million visitors in 2014 compared to 2013. Museum attendance was down 1.2 percent in April 2015 compared to April 2014. For April FY 2015 year-to-date, net room occupancy tax collections totaled \$187.7 million, a 10.5 percent increase from the same period in FY2014.

**Transportation and Warehousing.** Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Based on preliminary total passenger volume in calendar year 2014 data, Logan Airport was the most active airport in New England, remaining the 18th most active in the U.S. according to the Federal Aviation Authority. Massport reported that as of June 2015 year-to-date, total airport flight operations were down 0.3 percent and total airport passengers were up 4.4 percent from the same period in 2014. According to the FAA, in calendar year 2014, preliminary data ranked Logan Airport 25th in the nation in total air cargo volume. In 2014, Massport reported the airport handled 585 million pounds of cargo; a 8.8 percent increase from 2013. Massport reported that as of June 2015 year-to-date, the combined cargo volume was up 5.0 percent and total express mail was up 0.8 percent from the same period in 2014. Please refer to the Aviation Activity charts on the following page.

Massport's Port of Boston properties processed 181,612 full TEUs (twenty-foot equivalent units) of containerized cargo in 2014, an increase of 10.0 percent from calendar year 2013. It also processed 60,048 automobiles, an increase of 15.0 percent and 316,851 cruise passengers, a 17.0 percent decrease, compared to 2013.

The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2012 decreased by 1.8 percent to 15.1 million short tons from 2011. Waterborne cargo in New England decreased 12.7 percent while the U.S. decreased 2.6 percent. Please refer to the Waterborne Tonnage by State charts on the following page.



**Aviation Activity for Massachusetts's Primary Airports**

<b>Passenger Boardings</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Logan International	13,544,552	13,783,297	12,820,489	12,566,797	13,561,814	14,180,730	14,293,675	14,810,153	15,425,869
Nantucket Memorial	276,866	282,197	258,214	204,981	201,390	169,352	178,918	183,557	170,361
Barnstable Municipal	206,980	204,152	191,906	138,858	124,560	100,596	95,693	87,648	85,184
Worcester Regional	14,823	460	3,182	17,241	35,833	53,541	10,746	8,007	57,818
Marthas Vineyard	45,881	49,205	45,002	42,248	43,904	49,095	50,464	56,313	52,362
Provincetown Municipal	11,375	12,459	11,468	10,747	11,450	10,967	11,577	11,288	10,410
New Bedford Regional	15,211	14,567	13,908	11,680	12,363	11,152	12,254	10,604	8,159
Hanscom Field	14,560	16,568	8,385	7,350	7,952	10,893	9,963	12,621	5,483
<b>Total</b>	<b>14,130,248</b>	<b>14,362,905</b>	<b>13,352,554</b>	<b>12,999,902</b>	<b>13,806,666</b>	<b>14,586,326</b>	<b>14,663,290</b>	<b>15,180,191</b>	<b>15,815,646</b>

<b>Cargo - Gross Landed Weight (lbs.)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Logan International	1,100,485,850	1,059,947,900	984,258,400	835,954,035	817,235,460	819,986,332	780,913,850	866,698,830	913,017,225

**Change in Aviation Activity at Massachusetts's Primary Airports**

<b>Passenger Boardings</b>	<b>2005-2006</b>	<b>2006-2007</b>	<b>2007-2008</b>	<b>2008-2009</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>
Logan International	2.5%	1.8%	-7.0%	-2.0%	7.9%	4.6%	0.8%	3.6%	4.2%
Nantucket Memorial	9.5%	1.9%	-8.5%	-20.6%	-1.8%	-15.9%	5.6%	2.6%	-7.2%
Barnstable Municipal	16.4%	-1.4%	-6.0%	-27.6%	-10.3%	-19.2%	-4.9%	-8.4%	-2.8%
Worcester Regional	628.0%	-96.9%	591.7%	441.8%	107.8%	49.4%	-79.9%	-25.5%	622.1%
Marthas Vineyard	-6.3%	7.2%	-8.5%	-6.1%	3.9%	11.8%	2.8%	11.6%	-7.0%
Provincetown Municipal	11.1%	9.5%	-8.0%	-6.3%	6.5%	-4.2%	5.6%	-2.5%	-7.8%
New Bedford Regional	-15.3%	-4.2%	-4.5%	-16.0%	5.8%	-9.8%	9.9%	-13.5%	-23.1%
Hanscom Field	4.8%	13.8%	-49.4%	-12.3%	8.2%	37.0%	-8.5%	26.7%	-56.6%
<b>Total</b>	<b>2.9%</b>	<b>1.6%</b>	<b>-7.0%</b>	<b>-2.6%</b>	<b>6.2%</b>	<b>5.6%</b>	<b>0.5%</b>	<b>3.5%</b>	<b>4.2%</b>

<b>Cargo</b>	<b>2005-2006</b>	<b>2006-2007</b>	<b>2007-2008</b>	<b>2008-2009</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>
Logan International	-4.2%	-3.7%	-7.1%	-15.1%	-2.2%	0.3%	-4.8%	11.0%	5.3%

SOURCE: Federal Aviation Administration June 25, 2015.

[http://www.faa.gov/airports\\_airtraffic/airports/planning\\_capacity/passenger\\_allcargo\\_stats/](http://www.faa.gov/airports_airtraffic/airports/planning_capacity/passenger_allcargo_stats/).

**Waterborne Tonnage by State (In Units of 1,000 Tons)**

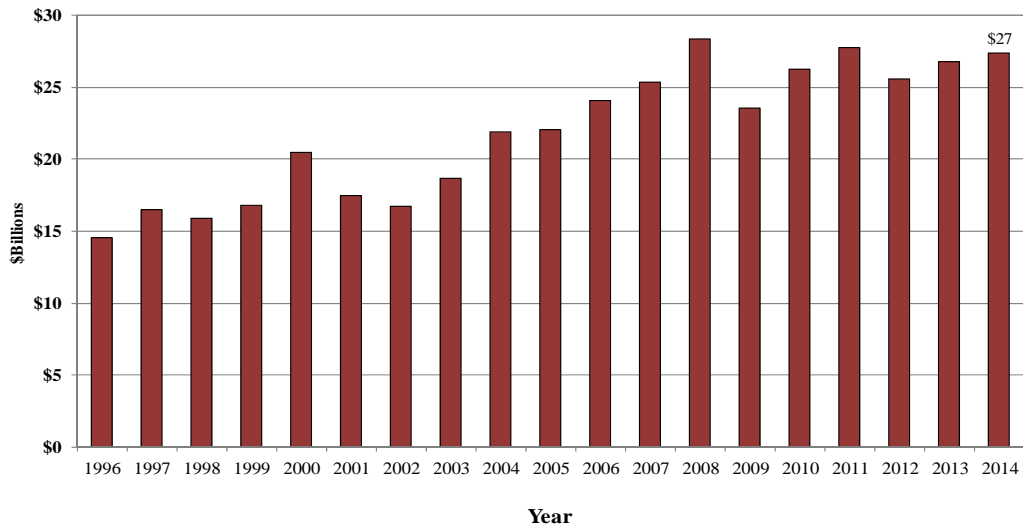
<b>State</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
U.S. total	2,551,939	2,527,622	2,588,440	2,563,972	2,477,094	2,210,752	2,334,399	2,367,484	2,306,770	2,274,778
Massachusetts	31,787	28,812	27,411	28,043	25,993	25,018	22,661	15,411	17,298	18,866
Maine	32,447	32,353	28,103	26,839	24,747	22,996	20,907	20,646	15,127	14,078
Connecticut	20,075	19,617	19,340	20,148	18,196	16,767	16,229	12,977	10,645	11,368
Rhode Island	9,764	10,972	11,016	11,184	10,517	8,404	8,315	8,378	7,567	9,072
New Hampshire	4,795	5,254	4,823	4,026	3,833	3,583	2,964	3,347	2,419	2,679
Vermont	-	-	-	-	-	-	-	-	-	-
New England	98,868	97,008	90,693	90,240	83,286	76,768	71,076	60,759	53,056	56,063

**Waterborne Tonnage by State - Percent Change from Previous Year**

<b>State</b>	<b>2003-2004</b>	<b>2004-2005</b>	<b>2005-2006</b>	<b>2006-2007</b>	<b>2007-2008</b>	<b>2008-2009</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>
U.S. total	6.6%	-1.0%	2.4%	-0.9%	-3.4%	-10.8%	5.6%	1.4%	-2.6%	-1.4%
Massachusetts	3.7%	-9.4%	-4.9%	2.3%	-7.3%	-3.8%	-9.4%	-32.0%	12.2%	9.1%
Maine	2.4%	-0.3%	-13.1%	-4.5%	-7.8%	-7.1%	-9.1%	-1.2%	-26.7%	-6.9%
Connecticut	8.1%	-2.3%	-1.4%	4.2%	-9.7%	-7.9%	-3.2%	-20.0%	-18.0%	6.8%
Rhode Island	3.7%	12.4%	0.4%	1.5%	-6.0%	-20.1%	-1.1%	0.8%	-9.7%	19.9%
New Hampshire	-3.5%	9.6%	-8.2%	-16.5%	-4.8%	-6.5%	-17.3%	12.9%	-27.7%	10.7%
Vermont	-	-	-	-	-	-	-	-	-	-
New England	3.7%	-1.9%	-6.5%	-0.5%	-7.7%	-7.8%	-7.4%	-14.5%	-12.7%	5.7%

SOURCE: Army Corps of Engineers, Waterborne Commerce Statistics Center (WCSC) June 2015, <http://www.navigationdatacenter.us/wcsc/wcsc.htm>.

### Massachusetts Annual Exports



SOURCE: <http://www.wisertrade.org>. Data from U.S. Census Bureau, Foreign Trade Division.

### Massachusetts Top Export Partners

(top ten export destinations ranked by value of 2014 exports, in millions)

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Canada	\$2,917	\$2,927	\$3,166	\$3,480	\$3,907	\$3,086	\$3,244	\$3,796	\$3,474	\$3,734	\$3,631
United Kingdom	\$1,508	\$1,628	\$1,972	\$2,306	\$3,504	\$4,049	\$3,214	\$3,285	\$2,589	\$1,408	\$2,349
Mexico	\$755	\$782	\$824	\$996	\$1,163	\$902	\$1,273	\$1,437	\$1,609	\$1,860	\$2,320
China	\$894	\$884	\$1,291	\$1,375	\$1,563	\$1,372	\$2,195	\$2,088	\$1,877	\$1,977	\$2,291
Japan	\$1,814	\$1,893	\$2,287	\$2,166	\$2,427	\$1,717	\$2,045	\$2,044	\$1,993	\$1,763	\$1,858
Germany	\$2,516	\$2,151	\$2,515	\$2,370	\$2,489	\$1,750	\$1,872	\$2,046	\$1,803	\$1,837	\$1,849
Netherlands	\$2,505	\$3,000	\$2,696	\$2,215	\$2,675	\$1,982	\$1,695	\$1,107	\$1,077	\$1,290	\$1,328
Korea, Republic Of	\$650	\$803	\$875	\$821	\$666	\$624	\$893	\$1,030	\$1,030	\$902	\$993
Hong Kong	\$523	\$507	\$561	\$579	\$590	\$525	\$668	\$751	\$709	\$1,762	\$963
Switzerland	\$278	\$269	\$237	\$211	\$446	\$362	\$471	\$563	\$434	\$1,281	\$804
Total Exports, Top Destinations	\$14,359	\$14,842	\$16,425	\$16,519	\$19,431	\$16,368	\$17,569	\$18,148	\$16,594	\$17,815	\$18,385
All other countries	\$7,540	\$7,210	\$7,632	\$8,833	\$8,938	\$7,225	\$8,736	\$9,723	\$9,020	\$9,009	\$8,979
Total Exports	\$21,899	\$22,052	\$24,057	\$25,351	\$28,369	\$23,593	\$26,305	\$27,871	\$25,615	\$26,823	\$27,364
Change from Prior Year	17.4%	0.7%	9.1%	5.4%	11.9%	-16.8%	11.5%	6.0%	-8.1%	4.7%	2.0%

### Value of International Shipments from Massachusetts

(top ten industry groups ranked by value of latest exports, in millions)

Major Industry Group/3-Digit NAICS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Computer and Electronic Products	\$7,519	\$7,012	\$7,513	\$7,711	\$7,821	\$6,600	\$7,488	\$7,704	\$7,310	\$7,268	\$8,151
Chemicals	\$4,910	\$5,285	\$5,189	\$5,258	\$5,515	\$3,863	\$3,626	\$3,364	\$3,448	\$3,614	\$3,508
Miscellaneous Manufactured Commodities	\$1,930	\$2,114	\$2,240	\$2,319	\$3,120	\$2,737	\$3,046	\$3,186	\$3,054	\$3,287	\$3,062
Machinery, Except Electrical	\$2,447	\$2,311	\$2,739	\$2,881	\$2,615	\$2,008	\$3,454	\$3,643	\$3,388	\$3,070	\$2,942
Primary Metal Manufacturing	\$423	\$405	\$647	\$982	\$2,052	\$2,735	\$2,398	\$2,794	\$1,947	\$2,841	\$2,392
Transportation Equipment	\$461	\$485	\$557	\$932	\$1,237	\$1,107	\$1,059	\$1,119	\$1,106	\$1,118	\$1,249
Electrical Equipment, Appliances, and Component	\$752	\$810	\$871	\$769	\$624	\$508	\$558	\$679	\$718	\$801	\$1,192
Fabricated Metal Products, Nesoi	\$621	\$664	\$679	\$615	\$721	\$605	\$809	\$864	\$733	\$805	\$787
Waste and Scrap	\$326	\$330	\$597	\$849	\$1,373	\$666	\$654	\$1,101	\$784	\$743	\$755
Plastics and Rubber Products	\$404	\$470	\$530	\$582	\$587	\$563	\$751	\$810	\$676	\$679	\$752
Total Exports, Top Massachusetts Industries	\$19,792	\$19,884	\$21,563	\$22,899	\$25,664	\$21,392	\$23,842	\$25,264	\$23,163	\$24,227	\$24,791
All other exports	\$2,107	\$2,168	\$2,494	\$2,453	\$2,705	\$2,202	\$2,463	\$2,607	\$2,451	\$2,597	\$2,573
Total Exports	\$21,899	\$22,052	\$24,057	\$25,351	\$28,369	\$23,593	\$26,305	\$27,871	\$25,615	\$26,823	\$27,364

SOURCE: United States Department of Commerce and WISERTrade.org.

# Sources

Listed below are the web sites of the original data sources used to compile Exhibit A. For more information contact UMass Donahue Institute Economic and Public Policy Research.

Web: <http://www.massbenchmarks.org> Email: [msdc-info@donahue.umassp.edu](mailto:msdc-info@donahue.umassp.edu) Tel: 413-577-2415

## Introduction

**American Human Development Project**

<http://www.measureofamerica.org/>

## Population Characteristics

**U.S. Department of Commerce, Bureau of the Census**

<http://www.census.gov>

**U.S. Internal Revenue Service**

<http://www.irs.gov>

## Personal Income, Consumer Prices, and Poverty

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.gov/regional/index.htm>

**U.S. Department of Labor, Bureau of Labor Statistics**

<http://www.bls.gov>

**The Conference Board, Inc.**

<http://www.conference-board.org>

**Mass Insight Corporation**

<http://www.massinsight.com/index.asp>

**U.S. Department of Commerce, Bureau of the Census**

<http://www.census.gov>

## Employment

**Mass. Executive Office of Labor and Workforce Development, Division of Unemployment Assistance**

<http://lmi2.detma.org/Lmi/LMIDataProg.asp>

**U.S. Department of Labor, Bureau of Labor Statistics**

<http://www.bls.gov/data/home.htm>

## Economic Base and Performance

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.gov/national/index.htm#gdp>

**Fortune Magazine**

<http://www.fortune.com/fortune/>

## Economic Base and Performance - Sector Detail (NAICS Basis)

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.gov/regional/index.htm>

**U.S. Census Bureau, Foreign Trade Division.**

**Prepared by the World Institute for Strategic Economic Research (WISER)**

<http://www.wisertrade.org>

## Massport

<http://www.massport.com>

**Airports Council International**

<http://www.aci.aero>

**Federal Aviation Administration**

[http://www.faa.gov/airports\\_airtraffic/airports/planning\\_capacity/passenger\\_allcargo\\_stats/](http://www.faa.gov/airports_airtraffic/airports/planning_capacity/passenger_allcargo_stats/)

**Army Corps of Engineers**

<http://www.navigationdatacenter.us/wcsc/wcsc.htm>

**Federal Reserve Bank of Boston**

<http://www.bos.frb.org>

**U.S. Department of Commerce**

<http://www.census.gov>

**National Association of Realtors**

<http://www.realtor.org/>

<http://www.marealtor.com/content/>

**Massachusetts Office of Travel and Tourism**

<http://www.massvacation.com>

**U.S. Census Bureau, Governments Division**

<http://www.census.gov/govs/www/statetax.html>

<http://www.census.gov/govs/www/state.html>

**U.S. Department of Commerce, Bureau of the Census, Consolidated Federal Funds Report**

<http://www.census.gov/govs/www/cffr.html>

**Federal Spending - contract, grant, and other award data**

<http://www.usaspending.gov>

**Large employers by sector**

<http://www.referenceusa.com/Home/Home>

## Human Resources and Infrastructure

**U.S. Census Bureau**

<http://www.census.gov/acs/www/>

**Massachusetts Department of Higher Education**

<http://www.mass.edu/campuses/facts.asp>

**New England Board of Higher Education**

<http://www.nebhe.org.connection.html>

**National Science Foundation**

<http://www.nsf.gov/statistics>

**U.S. Department of Education, National Center for**

**Education Statistics**

<http://nces.ed.gov>

**Institute of International Education**

<http://www.iee.org>

**U.S. Patent Office**

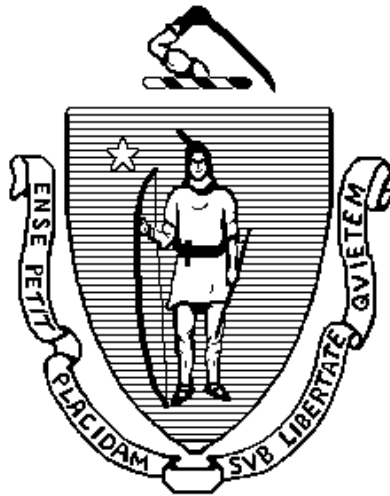
<http://www.uspto.gov>

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# Exhibit B

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# Commonwealth of Massachusetts



## Statutory Basis Financial Report

*For the Fiscal Year Ended June 30, 2014*

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

Prepared by  
*The Financial Reporting and Analysis Bureau  
Office of the Comptroller*

This Document is available at the Comptroller's website: [www.mass.gov/osc](http://www.mass.gov/osc)

Arthur Smith Covered Bridge – Colrain  
Photo Credit: Massachusetts Office of Travel and Tourism



# Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2014

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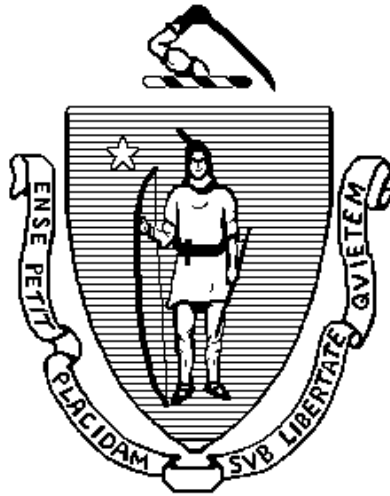
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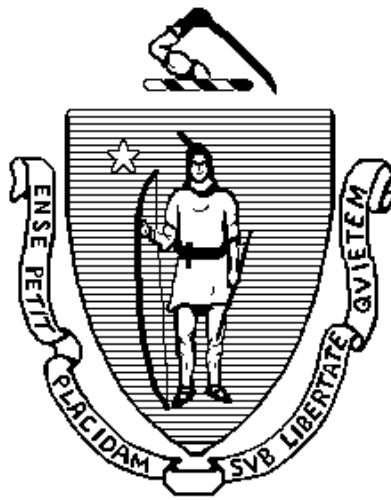
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# *Introductory Section*



Comptroller's Letter of Transmittal  
Constitutional, Legislative and Judicial Officers  
Organization Chart of State Government  
Advisory Board to the Comptroller  
Acknowledgements



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

*October 31, 2014*

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

I am pleased to present to you the Statutory Basis Financial Report (SBFR) of the Commonwealth for the fiscal year ended June 30, 2014 (FY14).

As of June 30, 2014, the Commonwealth had a budgeted fund balance of approximately \$1.451 billion and completed the fiscal year with a consolidated net surplus of \$22.8 million, sufficient to provide \$11.4 million to the Massachusetts Life Sciences Investment Fund and \$11.4 million to the Massachusetts Community Preservation Trust Fund. The total budgeted fund balance of \$1.451 billion reflects a loss (revenues and other financing sources less than expenditures and other financing uses) of approximately \$424 million, deducted from the FY14 beginning balance of \$1.874 billion. This follows an FY13 operating loss of \$115.4 million. Of the total budgeted fund balance, \$1.248 billion is reserved in the Stabilization Fund, compared to \$1.557 billion at the end of FY13. At the end of FY14, \$190 million is reserved for continuing appropriations (including \$22.8 million in FY14 end-of-year surplus allocations) and debt service into fiscal year 2015. The remaining undesignated balance of \$12.1 million is made up of smaller budgeted fund balances.

During FY14, budgeted fund tax revenues increased by \$1.190 billion, or 5.8%, from FY13, as the economy continued its moderate recovery. Income taxes increased by \$371 million, or 2.9%, from FY13 and sales and use taxes increased by \$335 million, or 6.5%. Total budgeted fund revenues and other financing sources increased by \$1.995 billion, or 5.7%.

In FY14, there were approximately \$754 million in one-time revenues and savings used to balance the Commonwealth's budget, down from approximately \$903 million in FY13 one-time solutions.

Significant FY14 uses of one-time resources included:

- \$350 million in Stabilization Fund reserves;
- \$196 million in judgments and settlements revenues that would have otherwise gone to the Stabilization Fund under recently revised statutory provisions;
- \$80 million in federal and departmental revenues;
- \$52 million due to a change in the Delivery System Transformation Incentive payment schedule;

- \$46 million in additional revenues from a delay in the implementation of the so-called FAS 1099 corporate tax deduction;
- \$23 million in transfers from Commonwealth trust accounts;
- \$7 million in one-time contributions from quasi-public entities.

In FY14, \$45 million was transferred to the Commonwealth Stabilization Fund as a result of a statutory requirement that capital gains tax revenues in excess of \$1.023 billion be deposited in that fund. This requirement is intended to reduce the Commonwealth's reliance on one-time revenue sources. Under a second statutory requirement, also intended to reduce reliance on one-time revenue sources, an additional \$437 million in one-time tax settlements received in FY14, would have been transferred to the Commonwealth Stabilization Fund. However, temporary changes to state finance laws enacted in FY14 (subsequently made permanent in modified form) required all such tax settlements to be retained in the General Fund and used to finance the Commonwealth's operating budget and fund up to \$57.5 million in year-end expenditures.

During FY14, the Commonwealth also transferred \$7 million in investment income earned by the Stabilization Fund to the General Fund.

As the Commonwealth continued its emergence from a recession that ended nationally in June 2009, employment in the Commonwealth continued to grow in FY14. Between June 2013 and June 2014, on a seasonally adjusted basis, Massachusetts employment grew by approximately 47,700, or 1.4%, compared to employment growth of 1.8% for the United States as a whole over the same period. In June 2014, the Massachusetts unemployment rate was 5.5%, compared to 6.1% nationally.

The General Appropriation Act for FY15 is based on a consensus tax revenue estimate of approximately \$24.337 billion, of which approximately \$20.939 billion represents taxes available for budget after adjusting for \$3.398 billion in tax revenue that is allocated to state pension contributions (\$1.793 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$811 million) and the Massachusetts School Building Authority (\$772 million) and revenue transferred to the non-budgetary Workforce Training Fund (\$22 million). The FY15 tax revenue estimate was further adjusted to \$24.627 billion (of which \$21.229 billion was available for budget, including \$122 million in capital gains revenue that is estimated to be transferred to the Stabilization Fund and will not be available for budgetary purposes) as a result of several tax law changes included in the FY15 budget or enacted separately.

As of September 30, 2014, FY15 tax collections were \$48 million below the year-to-date benchmark based on the \$24.627 billion estimate. On October 15, 2014 the Executive Office for Administration and Finance reaffirmed the FY15 tax revenue estimate of \$24.627 billion and taxes available for budget of \$21.229 billion.

## ***Overview of the Financial Statements***

This report focuses on the Commonwealth's budgeted funds. For the budgeted funds, the activity and balances of each fund are presented separately. For all other funds included in this report, the activity – inflows and outflows – are presented in tabular form.

The financial operations of these funds are maintained in the Massachusetts Management Accounting and Reporting System, (MMARS). The statewide accounting system is operated by the Commonwealth and contains detailed information summarized in this report.

The SBFR is intended to satisfy the requirements of state finance law and to present the results of FY14 activity in the Commonwealth's funds. The report contains computations required by state finance law, including the certification of transfers to and balances in the Stabilization Fund and Tax Reduction Fund.

### ***Basis of Accounting***

The statutory basis of accounting, defined in Massachusetts law, is used to budget and control fiscal operations. The statutory basis of accounting is not in conformity with accounting principles generally accepted in the United States of America (GAAP) as defined for governments by the Governmental Accounting Standards Board (GASB). In addition, Fiduciary Funds are not included in this presentation. I will report the Commonwealth's financial position on a GAAP basis in December, in the State's Comprehensive Annual Financial Report (CAFR). That report, which will be prepared in accordance with GAAP, provides a basis for comparison with other governments. There are significant differences between what is contained in the SBFR and what will be presented in the CAFR according to GAAP. The major differences are that the CAFR reflects capital assets and depreciation expense, all types of long-term obligations – including debt – and that in the CAFR the financial statements are presented in an all-encompassing, net position and net expense format.

In accordance with Section 12 of Chapter 7A of the Massachusetts General Laws, as amended, the Office of the Comptroller is required to transmit the SBFR by October 31<sup>st</sup>. The SBFR for the fiscal year ended June 30, 2014 herein is reviewed, not audited, by KPMG LLP and represents the closing of the Commonwealth's books for the fiscal year.

### ***Lottery***

In FY14, the Commonwealth transferred approximately \$920 million to municipalities in so-called Unrestricted General Government Aid (formerly called Lottery Aid), as appropriated in the FY15 General Appropriation Act.

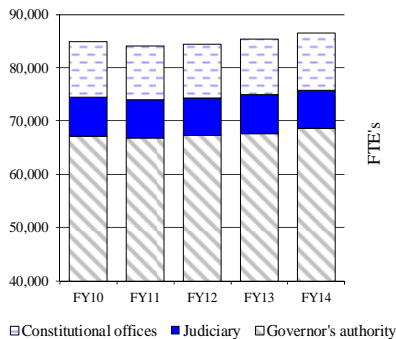
Gross Lottery revenues (including the Arts Lottery) increased from \$5.043 billion in FY13 to \$5.051 billion in FY14, or 0.1%. Lottery profits, after deducting administrative expenses and fringe benefit charges reimbursed to the Commonwealth's General Fund, totaled \$975 million, an increase of \$97 million, or 11.1%, from FY13.

The FY15 General Appropriation Act contains provisions for \$946 million in Unrestricted General Government Aid.

**Full-Time Equivalent Employment**

The chart to the left shows the Commonwealth's full-time equivalent employment including Massachusetts Department of Transportation (MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal and trust) over the past five fiscal years. In FY14, the number of Commonwealth FTEs increased by approximately 1,100, to a total of 86,490, with most of the increases in public safety (approximately 421 additional FTEs), health and human services (approximately 362 additional FTEs) and the courts (approximately 183 additional FTEs). Employment levels increased by a total of approximately 1,643 FTEs between June 30, 2010 and June 30, 2014 restoring some of the reductions that occurred in FY09 and FY10.

**Full Time Equivalent Workforce  
Including Higher Education  
June 2010 – June 2014**



**The Budgeted Funds**

The FY14 General Appropriation Act (GAA) authorized approximately \$33.527 billion in spending, exclusive of approximately \$1.630 billion in required pension contributions and \$283 million in FY13 spending authorized to be continued into FY14 as part of FY13 end-of-year supplemental budgets.

The FY14 budget as enacted by the Legislature was based on a FY14 consensus tax revenue estimate of \$22.334 billion, of which approximately \$19.179 billion represented taxes available for budget after adjusting for \$3.155 billion in tax revenue allocated to state pension contributions (\$1.630 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$799 million) and the Massachusetts School Building Authority (\$704 million) and revenue deposited in the non-budgeted Workforce Training Fund (\$22 million).

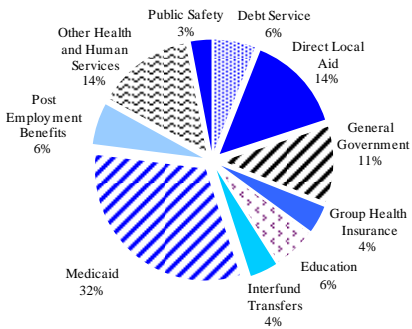
The FY14 tax revenue estimate was further adjusted to \$22.797 billion (of which \$19.642 billion was available for budget) as a result of several tax law changes included in the FY14 budget or enacted separately. On October 15, 2013 the Executive Office for Administration and Finance reaffirmed the FY14 tax revenue estimate of \$22.797 billion and taxes available for budget of \$19.642 billion.

The estimate was later revised upward by \$403 million to \$23.200 billion on January 14, 2014. Tax revenues ended the year at \$23.369 billion, \$169 million above the final FY14 tax estimate and \$572 million above the original FY14 tax estimate.

**Budgeted  
Revenues and Other  
Sources**



***Budgeted Expenditures  
and Other Uses***



Approximately \$582 million in supplemental appropriations were authorized during FY14 prior to June 30, 2014. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$89 million in new and continued appropriations, \$38 million of which was for FY14 expenditures and \$51 million of which was continued to FY15 and reappropriated. The year’s significant supplemental appropriation activity included:

- \$226 million transfer for payments to hospitals that provide care for low-income Massachusetts residents; the majority of the increase is aligning federal fiscal year 2013 payments with federal approval timelines;
- \$66 million for the Group Insurance Commission to pay health care benefits for Commonwealth employees;
- \$62 million for emergency homeless assistance for family shelters and services;
- \$34 million to compensate private counsel who defend indigent defendants;
- \$62 million for snow and ice removal costs;
- \$28 million to reimburse cities and towns for lost revenue from charter school funding;
- \$24 million to pay Sheriffs’ Departments costs;
- \$15 million to fund the costs of collective bargaining agreements;
- \$15 million to seed a brownfields redevelopment fund;
- \$11 million for a purchase of service rate increase;
- \$11 million for a facility services program;
- \$11 million for the operations of the House of Representatives;
- \$7 million for a reserve for Sheriffs’ facilities operations;
- \$6 million for delivery of group care services;
- \$5 million for a Community College critical investment reserve.

FY14 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 fund balances) totaled \$35.473 billion, an increase of \$1.694 billion, or 5.0%, from FY13. Tax revenue grew by \$1.190 billion, or 5.8%, as a result of continuing growth in the economy and despite a \$399 million decrease in capital gains tax revenues that resulted from a one-time acceleration of capital gains realizations by investors in FY13 in anticipation of tax increases effective January 1, 2014, much of which was “borrowed” from FY14. Federal reimbursements increased by \$144 million, or 1.7%, primarily due to growth in reimbursable Medicaid spending. Departmental revenue totaled \$3.712 billion, an increase of \$342 million, or 10.1%, primarily due to an increase of \$217 million in pharmacy rebates and \$52 million in employer portion of health insurance reimbursements from non-state entities and cities and towns. Interfund transfers from non-budgeted funds totaled \$1.567 billion, an increase of \$18 million, or 1.2%.

The Commonwealth continues to receive revenues from the Master Settlement Agreement (MSA) between the states and the tobacco industry to recover healthcare costs for tobacco-related illnesses. The MSA provides for three sets of payments to the states: Initial Payments in 1999-2003; Annual Payments starting in April 2000 and running in perpetuity; and Strategic Contribution Payments from 2008-2017. The MSA estimates Commonwealth revenues for the first 25 years of the settlement to be approximately \$8.962 billion, including Strategic Contribution Payments. However, this estimate is subject to future adjustments, including adjustments for inflation and changes in the volume of domestic cigarette sales. In FY14, the Commonwealth received \$282 million, an increase of \$29 million from FY13. The \$282 million represented approximately 76.2% of the estimated amounts shown in the MSA. By statute, in FY14 approximately \$56 million, or the equivalent of 20% of tobacco settlement proceeds, normally would have been transferred directly to the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth's liability for retiree health care. However, the FY14 General Appropriation Act altered this requirement so that an amount equivalent to 20% of tobacco fund proceeds be transferred from unspent debt service appropriations, rather than from tobacco proceeds themselves. The FY15 budget funds a transfer to the SRBTF equal to 30% of tobacco settlement proceeds from unspent debt service appropriations, with funds transferred from tobacco settlement proceeds if there are insufficient unspent debt service appropriations to make to finance the transfers. The transfers to the SRBTF will increase 10% per year until an amount equal to 100% of the tobacco settlement proceeds are transferred in FY23.

FY14 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$35.897 billion, an increase of \$2.003 billion, or 5.9%, from FY13, primarily due to increases in health care spending, including Medicaid and local aid.

Spending on programs and services totaled \$30.211 billion, an increase of \$2.117 billion, or 7.5% from FY13. Medicaid expenditures totaled \$11.901 billion, an increase of \$1.101 billion, or 10.2%, from FY13, due to provisions of the federal Affordable Care Act (ACA), which expanded eligibility for Medicaid as of January 1, 2014, as well as due to base enrollment growth.

Debt service totaled \$2.133 billion, up \$16 million, or 0.8% from FY13. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.502 billion, a decrease of \$214 million, or 12.5%, primarily due to decreases in health care transfers of \$116 million to the Delivery System Transformation Initiatives Trust Fund and \$117 million to the Commonwealth Care Trust Fund. Post-employment benefits (for pension contributions and retiree health insurance) grew by \$83 million, or 4.2%. Spending for direct local aid (both education aid and unrestricted aid), at \$5.293 billion, was up \$17 million, or 3.5%, from FY13. The Budgeted Funds – Operations table on page 7 displays the FY14 summary of budgeted funds compared to FY13. The FY14 financial statements for each of the thirteen active individual budgeted funds are included in the financial section of this report.

In conducting the budget process, the Commonwealth excludes from its forecast those “interfund” transactions within the budgeted funds that are included in this report; these transactions by their nature have no impact on the combined fund balance of the budgeted funds. The table Budgeted Funds – Operations isolates this “interfund” activity from the budgeted sources and uses to align forecasts prepared during the budget process to actual amounts in this report. In FY14, transfers among the Budgeted Funds increased by \$277 million, or 24.3%, due primarily to increased transfers from the Stabilization Fund to the General Fund. A detailed list of these interfund transfers is included in Note 3 of the financial statements and Schedule C of the Supplemental Information section of this report.

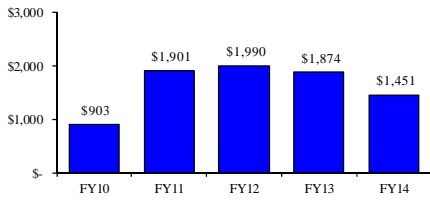
**Budgeted Funds - Operations**  
(Amounts in thousands)

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

The graph of Budgeted Funds – Fund Balance on the left portrays the combined fund balance in the budgeted funds for the past five years.

At June 30, 2014, the ending balance is comprised mainly of the fund balance of the General Fund and the Stabilization Fund. Due to designations of fund balances, \$190 million of the total budgeted fund balance, exclusive of the Stabilization Fund, is reserved for appropriations and debt service in FY15. The remainder is undesignated.

***Budgeted Funds – Fund Balance***  
***(Amounts in millions)***



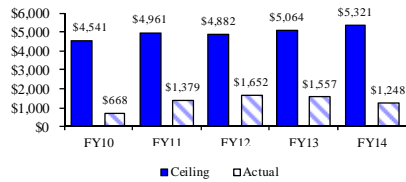
*The Stabilization Fund*

As states around the country continue to struggle with ongoing fiscal challenges, the importance of the Stabilization Fund (or “rainy day” fund) cannot be overemphasized. State fiscal conditions improved during FY14, according to the National Association of State Budget Officers’ (NASBO) publication *The Fiscal Survey of the States: Spring 2014*, with eight states reporting a total of \$1.0 billion in enacted mid-year budget cuts for fiscal 2014, compared with eleven states enacting \$1.3 billion in mid-year budget cuts in fiscal 2013 and eight states enacting \$1.7 billion in cuts in fiscal 2012. During FY14, the Commonwealth drew on \$350 million in Stabilization Fund resources to maintain budget balance.

In addition, \$7 million of investment income was transferred from the Stabilization Fund to the General Fund per the FY14 budget. These withdrawals from the Stabilization Fund were offset by a net transfer of \$41 million in capital gains tax revenue to the Fund in accordance with legislation that required all capital gains taxes over \$1.023 billion be transferred to the Stabilization Fund and then equal 5% transfers to the SRBTF (\$2.3 million) and the State Pension Liability Fund (\$2.3 million). For FY14, statute also required that all individual settlements and judgments in excess of \$10 million be deposited directly to the Stabilization Fund, which would have resulted in \$437 million being transferred to the Stabilization Fund in FY14, but this provision was suspended by budgetary legislation enacted during the fiscal year and all settlements and judgments were retained in the General Fund.

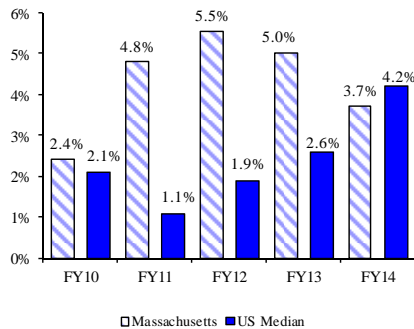
The FY15 General Appropriation Act requires that prior to making any FY14 end-of-year Stabilization Fund deposit, the Comptroller transfer up to \$25 million to the Massachusetts Life Sciences Investment Fund, \$25 million to the Massachusetts Community Preservation Trust Fund and \$7.5 million to the Social Innovation Financing Trust Fund. However, since the ending consolidated net surplus was \$22.8 million, only \$11.4 million was transferred to the Massachusetts Life Sciences Investment fund and \$11.4 million was transferred to the Massachusetts Community Preservation Trust Fund and there was no transfer to the Social Innovation Financing Trust Fund. At the end of FY14, the Stabilization Fund balance was \$1.248 billion, a decline of approximately \$308 million from FY13. For FY15, the General Appropriation Act authorizes that \$140 million be drawn from the Stabilization Fund and mandates that all investment income earned by the Stabilization Fund be transferred to the General Fund, which transfer was made in July 2014. Through September 30, 2014, there had been no deposits made to the Stabilization Fund in FY15.

**Stabilization Fund Balance  
(Amounts in millions)**



The chart on the left shows that the Stabilization Fund balance increased by more than \$709 million in FY11 and \$273 million in FY12 as the Commonwealth emerged from the recession, but declined by \$95 million in FY13 and \$308 million in FY14, as the Commonwealth drew on Stabilization reserves to maintain budget balance. *The Fiscal Survey of the States* ranked the Commonwealth fourth in the nation at the end of FY13 (the most recent year for which final stabilization fund balances were available for all states) in terms of the total balance in the Stabilization Fund. Seven states had no stabilization fund balance at the end of FY13.

**Stabilization Fund Percentage of  
Budget Compared To US  
Median**



Of the states with over \$10 billion in General Fund expenditures for FY13, the Commonwealth’s Stabilization Fund balance as a percentage of General Fund expenditures ranked third in the nation. The FY14 estimates released by NASBO in June 2014, together with the results reported in this SBFR, indicate that Massachusetts’s Stabilization Fund balance of \$1.248 billion, or 3.7% of General Fund expenditures, will rank fifth in the nation in absolute size and fourth in the nation as a percentage of expenditures for states with over \$10 billion in expenditures. The chart on the left shows the Commonwealth’s Stabilization Fund balance as a percentage of General Fund expenditures compared to the median of all 50 states. (The median is a better measure than the average of all states because Alaska and Texas - whose revenue streams have benefited from strong oil revenues in recent years - together accounted for almost half of all stabilization fund balances nationally in FY14.). By that measure, Massachusetts’s Stabilization Fund balance of 3.7% of General Fund expenditures was below the estimated national median of 4.2% of expenditures.

While Massachusetts maintains a Stabilization Fund balance that is larger than that of many states, the Commonwealth has continued to draw on the rainy day fund as its economy and tax revenues have been recovering. This is an indication that current expenditures have exceeded current available resources during the fiscal year. While credit rating agencies have continued to maintain the Commonwealth’s strong bond rating, they have identified the state’s continued reliance on reserves to balance its budget as an area requiring improvement. The Commonwealth’s Stabilization Fund balance has not yet been restored to pre-recession levels and thus may leave the state vulnerable when the next revenue downturn occurs. The General Appropriation Act for fiscal year 2015 reduces the net Stabilization withdrawal to \$30 million compared to \$308 million in fiscal year 2014.

**The Non-Budgeted Funds**

The Non-Budgeted Funds represent operations in which the government has imposed its sovereign authority but has excluded these operations from the annual budget process. During FY14, the Commonwealth maintained 92 non-budgeted funds, while another 17 were inactive.

The largest non-budgeted funds in terms of revenues include the Lottery Fund, the Federal Grants Fund and the Commonwealth Care Trust Fund. Other funds that show large inflows include the MBTA State and Local Contribution Trust Fund, the School Modernization Trust Fund

and the Grant Anticipation Notes Trust Fund, which are financed by transfers of tax revenues and federal grant receipts.

The table Non-Budgeted Special Revenue Funds – Operations below summarizes the FY14 non-budgeted funds. A Statement of Revenues, Expenditures and Changes in Fund Balance is presented in a table within this report for each of the individual non-budgeted funds in the financial section of this report.

As previously discussed, the State Lottery Funds ended the year with a profit of \$975 million, with \$45 million transferred to the General Fund, \$10 million to fund various programs and \$920 million reimbursing the Commonwealth for unrestricted local aid to cities and towns appropriated in the FY14 General Appropriation Act.

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

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

Non-Budgeted Funds with operating deficits in excess of \$10 million include:

- \$26 million – Medical Security Trust Fund;
- \$11 million – Child Support Enforcement Fund.

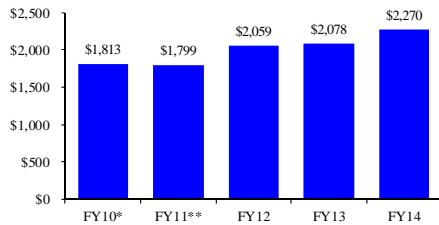
In FY14, \$171 million of the Commonwealth’s federal transportation funds were dedicated to paying off prior year expenditures of the Central Artery/Tunnel Project (CA/T), which were temporarily financed through Federal Grant Anticipation Notes (GANs). In addition, \$15 million in interest payments for the GANs was funded by a General Fund appropriation.

For the twelve Universal Health Care funds, revenues and other financing sources were nearly \$2.105 billion in FY14, a decrease of approximately \$133 million from FY13. This decrease was due primarily to a decrease of \$116 million in the Delivery System Transformation Initiatives Trust Fund transfer and a \$117 million

decrease in transfers to the Commonwealth Care Trust Fund, which were offset by an increase in assessments of \$49 million as a result of state health care legislation.

The graph Non-Budgeted Funds - Fund Balance at left shows the combined fund balance in the Non-Budgeted funds for the past five years.

***Non-Budgeted Funds –  
Fund Balance  
(Amounts in millions)***



\* FY10 balances were restated to include operations of three MassDOT funds as reported on MMARS

\*\* FY11 balances were restated to reflect payments to bond escrow agents related to debt refunding transactions

Individual funds that represent 84.8% of total non-budgeted fund balances include:

- \$862 million – Massachusetts Transportation Trust Fund;
- \$385 million – Central Artery/Tunnel Project Repair and Maintenance Trust Fund;
- \$219 million – Grant Anticipation Note Trust Fund;
- \$105 million – Enhanced 911 Fund;
- \$103 million – Convention and Exhibition Center Fund;
- \$79 million – Health Safety Net Trust Fund;
- \$62 million – Federal Grants Fund;
- \$58 million – Distressed Hospital Trust Fund;
- \$52 million – Section 1202 Trust Fund.

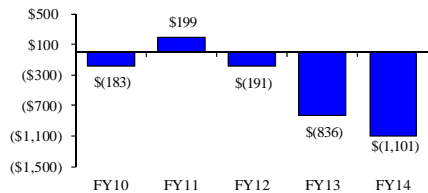
As noted in previous years’ reports, the Government Land Bank Fund has a chronic structural fund deficit. The FY14 deficit balance of approximately \$35 million remains an unbudgeted drain on the Commonwealth’s General Fund. While steps have been taken to stop the growth in this deficit, the Fund should be abolished and the deficit transferred to the General Fund. As explained in previous years’ financial reports, more consolidation and elimination is needed for the non-budgeted special revenue funds generally.

***The Capital Projects Funds***

The purpose of these funds is to account for the construction or acquisition of capital assets. The Governor may propose capital outlay budgets, which, upon enactment by the Legislature and approval by the Governor, become capital outlay acts. Capital outlay acts financed through the sale of debt require a two-thirds vote of the Legislature. Numerous acts may be combined for reporting in an individual Capital Projects Fund, but each act is accounted for separately within the fund. These accounts record authorizations for expenditures in itemized capital appropriation accounts and equivalent authorizations to issue bonds or notes.

The structure of these funds is such that each capital outlay authorization is in balance, creating authorization for inflows (which may be from sales of bonds, federal reimbursements or other revenues)

**Capital Projects Funds –  
Fund Balance (Deficit)  
(Amounts in millions)\***



\*FY10 balances were restated to include operations of one MassDOT fund as reported on MMARS

and authorization for expenditures. Imbalances due to timing differences develop when the expenditure precedes the inflow of funds from the sale of bonds or federal reimbursements. Because of federal tax arbitrage rules, tax exempt bonds are not routinely sold in anticipation of expenditures.

To fund the FY14 capital budget, the Commonwealth borrowed by issuing \$2.160 billion in long-term bonds, \$1.492 billion of which was general obligation debt and \$668 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, the Commonwealth issued \$637 million in debt to refund already existing obligations, taking advantage of continued low interest rates in FY14.

The graph Capital Projects Funds – Fund Balance (Deficit) at left shows the combined fund balance in Capital Projects Funds for the past five years. In some previous years, the combined ending balance in the Capital Projects Funds has been negative, as capital spending occurs prior to bonds being issued by the Commonwealth. At the end of FY14, the Capital Projects Funds had a \$1.101 billion deficit balance (including \$552 million in accounts payable), as at the end of the fiscal year the Commonwealth had not yet reimbursed itself for capital spending that it typically funds in arrears through subsequent bond issues. Most of this deficit was eliminated in August and September 2014 when the Commonwealth issued \$501 million and \$400 million, respectively, in General Obligation bonds.

The Capital Projects Funds – Operations table below includes the FY14 Capital Projects Funds, summarized and compared to FY13. Financial statements for each of the individual funds are included in the financial section of this report.

**Capital Projects Funds - Operations  
(Amounts in thousands)**

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



The Administration continues to oversee a coordinated fiscal strategy for the management of Capital Projects Funds. This strategy includes a five year capital budget linked to debt management and capital management. The focus of this strategy is to manage capital spending within outstanding debt levels the Administration considers appropriate for the Commonwealth. An important part of the strategy is to control capital spending within an administrative “cap.”

During FY14, significant capital spending included:

- \$491 million in bridge repair projects under the Commonwealth’s Accelerated Bridge Program;
- \$189 million in Chapter 90 municipal road and bridge projects;
- \$179 million invested in new academic buildings and improvements to existing facilities on several community college, state university and University of Massachusetts campuses. The Commonwealth’s spending leveraged an additional \$14 million in university investments in FY14;
- \$61 million spent on life sciences grants;
- \$36 million for open-space land protection;
- \$9 million spent for the Broadband Initiative, which invests capital funds to promote broadband expansion to unserved and underserved areas of Massachusetts.

During the fiscal year, the Commonwealth passed or agreed to terms to over approximately \$14.817 billion in bond authorizations. There were approximately \$8 million in de-authorizations of previously issued capital appropriations in FY14.

### ***The Non-Appropriated Funds of Higher Education***

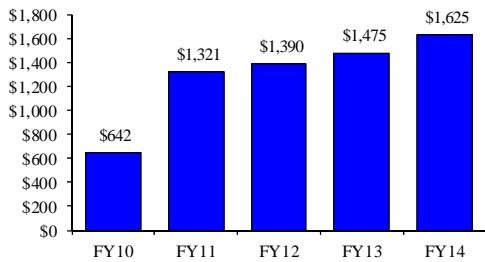
The statistical section of this SBFR includes data on the financial operations of the non-appropriated funds of the 25 institutions of higher education as reported on MMARS. Each institution of higher education is authorized and directed in its enabling statute to collect, retain and expend certain fees, rents, sales, donations, federal financial participation and other types of revenue through campus-based systems. These financial resources are integral parts of the total financial activity of each campus. They also represent resources in addition to amounts made available from Commonwealth appropriations. Over the past few years, significant efforts have been made by our office and the institutions to improve the accuracy and timeliness of higher education reporting through the issuance of audited financial statements. As budgeted resources are constrained, the Comptroller’s Office

recommends that the requirement for MMARS reporting by the institutions of higher education be eliminated and that interested parties rely entirely on the institutions' audited financial statements.

**Non-Appropriated Funds Of Higher Education - Operations**  
(Amounts in thousands)

	2014	2013
Beginning fund balance.....	\$ 1,474,511	\$ 1,390,239
Revenues and other financing sources:		
Federal grants and reimbursements.....	626,331	609,993
Departmental revenues.....	1,967,705	1,977,642
Transfers and other financing sources.....	1,795,000	1,744,500
Total revenues and other financing sources.....	4,389,036	4,332,135
Expenditures and other financing uses:		
Programs and services.....	4,238,275	4,247,863
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses.....	150,761	84,272
Ending fund balance.....	\$ 1,625,272	\$ 1,474,511

***Non-Appropriated Funds of Higher Education – Fund Balance***  
(Amounts in Millions)

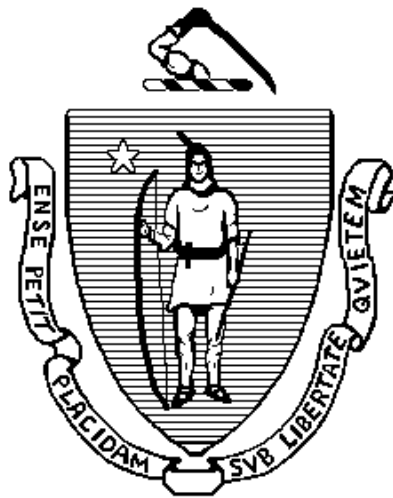


The Non-Appropriated Funds of Higher Education – Operations table above includes the FY14 activity in Higher Education funds, summarized and compared to FY13. Financial statements for each of the individual funds are included in the statistical section of this report. The graph Non-Appropriated Funds of Higher Education – Fund Balance shows the combined fund balance for the past five years. The combined balance represents an approximate \$895 million fund balance for the University of Massachusetts, an approximate \$442 million fund balance for the State University (formerly the State College) system and an approximate \$288 million fund balance for the Community Colleges.

As we close the books for FY14, I again would like to express my thanks to the many dedicated employees within the Office of the Comptroller. I am proud to have all the employees of the Comptroller’s Office on my team to help tackle these and other difficult issues as we prepare for the year ahead.

Respectfully submitted,

Martin J. Benison  
Comptroller of the Commonwealth



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**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*

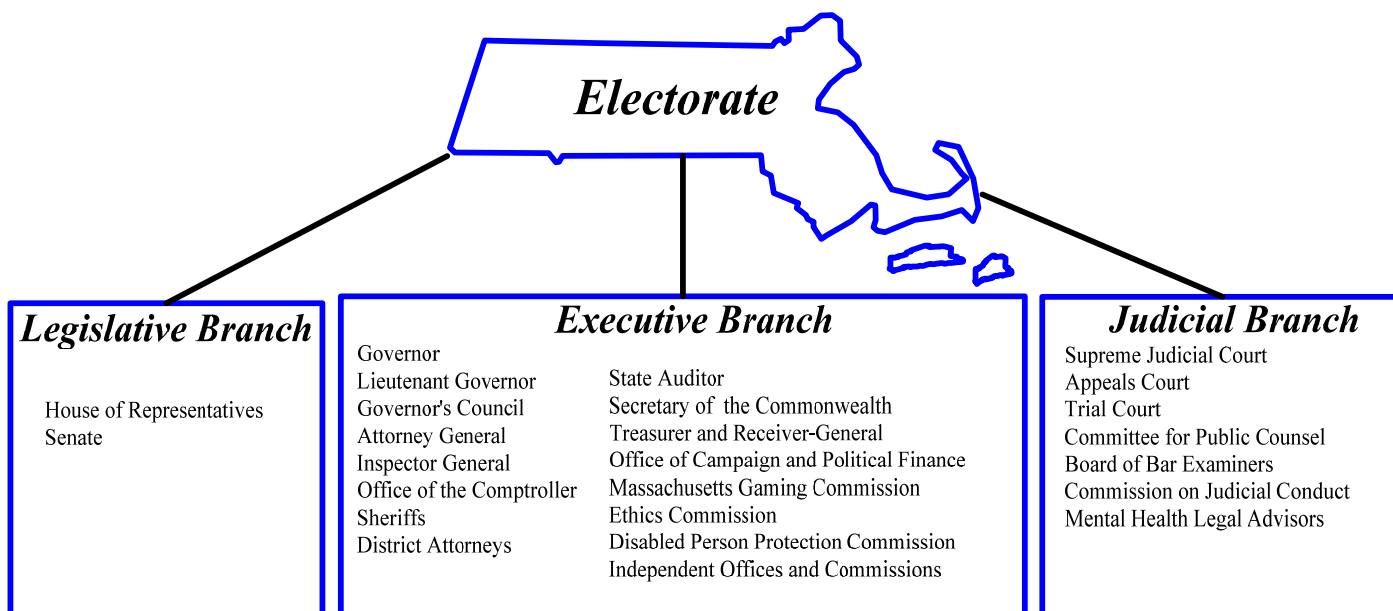
Robert A. DeLeo  
*Speaker of the House*

**JUDICIAL OFFICERS**

Ralph D. Gants  
*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 Homeland 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 Energy Resources Department of Environmental Protection Department of Fish and Game Department of Public Utilities 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>



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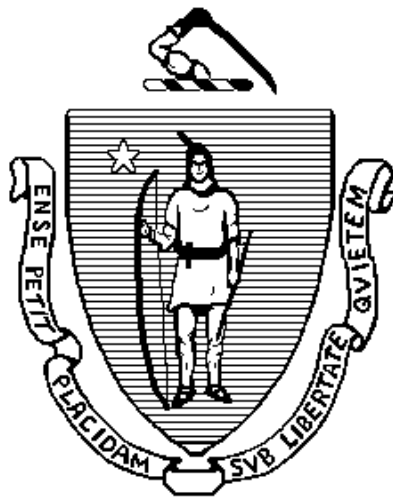
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# *Financial Section*



Independent Accountants' Review Report  
Combined Financial Statements – Statutory Basis  
Notes to Combined Financial Statements – Statutory Basis  
Combining and Individual Fund Financial Statements – Statutory Basis



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

## **Independent Accountants' Review Report**

Mr. Martin J. Benison, Comptroller  
Commonwealth of Massachusetts:

We have reviewed the accompanying combined financial statements – statutory basis of the Commonwealth of Massachusetts as of and for the year ended June 30, 2014, as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the combined financial statements – statutory basis as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the combined financial statements – statutory basis in accordance with Massachusetts General Laws and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the combined financial statements – statutory basis.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the combined financial statements – statutory basis. We believe that the results of our procedures provide a reasonable basis for our report.

As described in notes 1 and 2, these combined financial statements – statutory basis were prepared on the basis of accounting that demonstrates compliance with Section 12 of Chapter 7A Massachusetts General Laws, as amended and budgetary principles of the Commonwealth of Massachusetts, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Based on our review, we are not aware of any material modifications that should be made to the accompanying combined financial statements – statutory basis in order for them to be in conformity with the statutory basis of accounting described in notes 1 and 2.

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the combined financial statements – statutory basis in order for them to be in conformity with the basis of accounting described in notes 1 and 2. The introductory section, combining and individual fund financial statements – statutory basis, supplemental information, and statistical section listed in the foregoing table of contents, prepared in conformity with the basis of accounting described in notes 1 and 2, are presented for purposes of additional analysis and is not a required part of the combined financial statements – statutory basis. The combining and individual fund financial statements – statutory basis and



supplemental information have been subjected to the inquiry and analytical procedures applied in the review of the combined financial statements – statutory basis, and we did not become aware of any material modifications that should be made to such information. The introductory and statistical sections have not been subjected to the inquiry and analytical procedures applied in the review of the combined financial statements – statutory basis, but have been compiled from information that is the representation of management, without audit or review and, accordingly, we do not express an opinion or any other form of assurance on such information.

This report is intended solely for the information and use of elected and appointed officials of the Commonwealth of Massachusetts and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2014

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# *Combined Financial Statements - Statutory Basis*

**Budgeted Funds**  
**Combined Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

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

See accompanying notes to financial statements and accountants' review report

**Budgeted Funds**

Combined Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>			
Revenues:			
Taxes.....	\$ 21,342,000	\$ 21,822,030	\$ 480,030
Assessments.....	481,094	462,209	(18,885)
Federal grants and reimbursements.....	8,783,190	8,372,145	(411,045)
Tobacco settlement revenue.....	253,628	282,049	28,421
Departmental.....	2,601,444	3,043,132	441,688
Miscellaneous.....	257,982	264,697	6,715
Total revenues.....	<u>33,719,338</u>	<u>34,246,262</u>	<u>526,924</u>
Other financing sources:			
Fringe benefit cost recovery.....	294,051	310,559	16,508
Lottery reimbursements.....	91,216	95,891	4,675
Lottery distributions.....	946,917	921,730	(25,187)
Operating transfers in.....	332,961	256,395	(76,566)
Stabilization transfer.....	508,000	1,231,336	723,336
Other fund deficit support.....	-	167,972	167,972
Total other financing sources.....	<u>2,173,145</u>	<u>2,983,883</u>	<u>810,738</u>
Total revenues and other financing sources.....	<u>35,892,483</u>	<u>37,230,145</u>	<u>1,337,662</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>			
Expenditures:			
Legislature.....	74,274	56,299	17,975
Judiciary.....	822,826	814,129	8,697
Inspector General.....	6,251	6,162	89
Governor and Lieutenant Governor.....	9,355	5,161	4,194
Secretary of the Commonwealth.....	44,932	44,339	593
Treasurer and Receiver-General.....	236,874	203,358	33,516
Auditor of the Commonwealth.....	17,624	17,536	88
Attorney General.....	44,678	43,028	1,650
Ethics Commission.....	1,922	1,904	18
District Attorney.....	106,090	105,962	128
Office of Campaign & Political Finance.....	1,408	1,370	38
Sheriff's Departments.....	567,569	552,978	14,591
Disabled Persons Protection Commission.....	2,413	2,412	1
Board of Library Commissioners.....	22,241	22,184	57
Comptroller.....	13,249	12,811	438
Administration and Finance.....	2,240,249	2,128,851	111,398
Energy and Environmental Affairs.....	224,790	216,418	8,372
Health and Human Services.....	5,216,338	5,070,536	145,802
Massachusetts Department of Transportation.....	275,305	275,200	105
Executive Office of Education.....	2,152,013	2,116,430	35,583
Center for Health Information and Analysis.....	32,193	23,706	8,487
Public Safety and Homeland Security.....	1,088,751	1,058,775	29,976
Housing and Economic Development.....	587,889	534,725	53,164
Labor and Workforce Development.....	73,724	43,437	30,287
Direct local aid.....	5,294,063	5,292,467	1,596
Medicaid.....	12,116,397	11,900,776	215,621
Post employment benefits.....	2,050,361	2,050,361	-
Debt service:			
Principal retirement.....	1,286,724	1,247,974	38,750
Interest and fiscal charges.....	906,686	885,454	21,232
Total expenditures.....	<u>35,517,189</u>	<u>34,734,743</u>	<u>782,446</u>
Other financing uses:			
Fringe benefit cost assessment.....	2,295	8,291	(5,996)
Operating transfers out.....	521,001	594,826	(73,825)
State Retiree Benefits transfer.....	-	58,683	(58,683)
State Pension transfer.....	-	2,273	(2,273)
Stabilization transfer.....	401,700	1,231,336	(829,636)
Commonwealth care trust transfer.....	340,079	390,079	(50,000)
Medical assistance transfer.....	620,025	395,025	225,000
Delivery system transformation initiatives trust transfer.....	93,449	70,732	22,717
Other fund deficit support.....	-	167,972	(167,972)
Total other financing uses.....	<u>1,978,549</u>	<u>2,919,217</u>	<u>(940,668)</u>
Total expenditures and other financing uses.....	<u>37,495,738</u>	<u>37,653,960</u>	<u>(158,222)</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(1,603,255)	(423,815)	1,179,440
Fund balance (deficit) at beginning of year.....	1,874,357	1,874,357	-
Fund balance (deficit) at end of year.....	<u>\$ 271,102</u>	<u>\$ 1,450,542</u>	<u>\$ 1,179,440</u>

See accompanying notes to financial statements and accountants' review report

**Non-Budgeted Special Revenue and Capital Projects Funds**  
**Combined Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis**

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Non-Budgeted Special Revenue	Capital Projects	Totals (Memorandum only)	
			2014	2013
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 1,843,300	\$ -	\$ 1,843,300	\$ 1,764,078
Assessments.....	616,906	-	616,906	558,172
Federal grants and reimbursements.....	3,190,513	30,739	3,221,252	3,245,962
Departmental.....	6,070,007	3,480	6,073,487	6,032,231
Miscellaneous.....	132,941	1,710	134,651	130,491
<b>Total revenues.....</b>	<b>11,853,667</b>	<b>35,929</b>	<b>11,889,596</b>	<b>11,730,934</b>
Other financing sources:				
Issuance of general obligation bonds.....	-	1,492,049	1,492,049	1,470,474
Bond premiums (discounts) on general obligation bonds.....	-	47,378	47,378	42,241
Issuance of special obligation bonds.....	-	667,850	667,850	-
Bond premiums (discounts) on special obligation bonds.....	19,014	36,153	55,167	-
Issuance of current refunding bonds.....	-	159,335	159,335	230,539
Bond premiums (discounts) on current refunding bonds.....	-	-	-	(742)
Issuance of advance refunding bonds.....	-	477,461	477,461	-
Bond premiums (discounts) on advance refunding bonds.....	-	84,920	84,920	-
Operating transfers in.....	768,994	-	768,994	556,275
Commonwealth care trust transfer.....	390,079	-	390,079	661,249
Health safety net trust transfer.....	30,000	-	30,000	30,000
Medical assistance transfer.....	395,025	-	395,025	390,889
Federal reimbursement transfer in.....	-	404,481	404,481	430,022
State share of federal highway construction.....	-	62,105	62,105	38,619
Delivery system transformation initiatives trust transfer.....	70,732	-	70,732	186,908
<b>Total other financing sources.....</b>	<b>1,673,844</b>	<b>3,431,732</b>	<b>5,105,576</b>	<b>4,036,474</b>
<b>Total revenues and other financing sources.....</b>	<b>13,527,511</b>	<b>3,467,661</b>	<b>16,995,172</b>	<b>15,767,408</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Judiciary.....	1,215	15,262	16,477	10,971
Inspector General.....	256	-	256	101
Governor and Lieutenant Governor.....	103	121	224	103
Secretary of the Commonwealth.....	6,762	1,530	8,292	6,234
Treasurer and Receiver-General.....	5,709,502	15,151	5,724,653	5,674,546
Auditor of the Commonwealth.....	-	1,089	1,089	988
Attorney General.....	10,162	247	10,409	9,564
District Attorney.....	2,174	-	2,174	2,560
Sheriff's Departments.....	10,875	6,633	17,508	14,144
Board of Library Commissioners.....	2,939	19,999	22,938	19,466
Massachusetts Gaming Commission.....	22,125	-	22,125	13,336
Comptroller.....	3,027	2,429	5,456	2,389
Administration and Finance.....	917,518	595,179	1,512,697	1,609,871
Energy and Environmental Affairs.....	136,285	208,415	344,700	286,500
Health and Human Services.....	1,564,135	42,061	1,606,196	1,756,162
Massachusetts Department of Transportation.....	945,375	1,693,117	2,638,492	2,279,391
Executive Office of Education.....	991,478	22,147	1,013,625	988,381
Center for Health Information and Analysis.....	1,269	-	1,269	-
Public Safety and Homeland Security.....	208,647	45,340	253,987	321,504
Housing and Economic Development.....	478,153	237,887	716,040	753,228
Labor and Workforce Development.....	192,802	258	193,060	261,480
Debt service:				
Principal retirement.....	186,537	-	186,537	167,340
Interest and fiscal charges.....	54,985	-	54,985	66,516
<b>Total expenditures.....</b>	<b>11,446,324</b>	<b>2,906,865</b>	<b>14,353,189</b>	<b>14,244,775</b>
Other financing uses:				
Payments to advance refunding bonds escrow.....	-	562,353	562,353	-
Principal on current refundings.....	-	159,335	159,335	229,796
Fringe benefit cost assessment.....	115,536	42,148	157,684	149,414
Lottery operating reimbursements.....	95,891	-	95,891	93,517
Lottery distributions.....	921,730	-	921,730	949,428
Operating transfers out.....	321,884	-	321,884	228,502
Commonwealth care trust transfer.....	-	-	-	-
Health safety net trust transfer.....	30,000	-	30,000	30,000
Federal reimbursement transfer out.....	404,481	-	404,481	430,022
State share of federal highway construction.....	-	62,105	62,105	38,619
<b>Total other financing uses.....</b>	<b>1,889,522</b>	<b>825,941</b>	<b>2,715,463</b>	<b>2,149,298</b>
<b>Total expenditures and other financing uses.....</b>	<b>13,335,846</b>	<b>3,732,806</b>	<b>17,068,652</b>	<b>16,394,073</b>
Excess (deficiency) of revenues and other financing sources				
over / (under) expenditures and other financing uses.....	191,665	(265,145)	(73,480)	(626,665)
Fund balance (deficit) at beginning of year (restated).....	2,078,199	(836,052)	1,242,147	1,868,812
<b>Fund balance (deficit) at end of year.....</b>	<b>\$ 2,269,864</b>	<b>\$ (1,101,197)</b>	<b>\$ 1,168,667</b>	<b>\$ 1,242,147</b>

See accompanying notes to financial statements and accountants' review report



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**1. FINANCIAL STATEMENT PRESENTATION**

---

**A. INTRODUCTION**

The accompanying combined financial statements (Statutory Basis Financial Report) of the Commonwealth of Massachusetts (the Commonwealth) are presented in accordance with the requirements of Section 12 of Chapter 7A as amended by Section 4 of Chapter 88 of the Acts of 1997 of the Massachusetts General Laws, as amended most recently by Chapter 26, Section 4 of the Acts of 2009. The Office of the Comptroller also publishes the Commonwealth's Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America for governments.

The Statutory Basis Financial Report (SBFR) includes the budgeted, non-budgeted, special revenue and capital projects funds of the Commonwealth, as recorded by the Office of the Comptroller in compliance with Massachusetts General Laws and in accordance with the Commonwealth's budgetary principles.

The SBFR's financial statements are not intended to include independent authorities, non-appropriated funds of higher education or other organizations included in the Commonwealth's reporting entity as it would be defined under GAAP.

**B. GOVERNMENTAL FUND TYPES**

The fund types are organized as follows:

Governmental fund types account for the general governmental activities of the Commonwealth.

*Budgeted Funds* – are the primary operating funds of the Commonwealth. They account for all budgeted governmental transactions. Major budgeted funds include the General, Stabilization and Commonwealth Transportation Funds, which are identified by the Comptroller as the operating funds of the Commonwealth. In addition, there are ten smaller budgeted funds, the Intragovernmental Services Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Public Safety Training Fund, the Children and Families Protection Fund, the Massachusetts Tourism Fund, the Local Capital Projects Fund, the Local Aid Stabilization Fund, the Manufacturing Fund and the Community College Fund.

*Non-Budgeted Special Revenue Funds* – are established by law to account for revenue sources that have been segregated from the budgeted funds to support specific governmental activities such as federal grants, the operations of the state lottery and funds related to the Massachusetts Gaming Commission.

*Capital Projects Funds* – account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived from proceeds of bonds and other obligations, which are generally received after related expenditures have been incurred, operating transfers authorized by the Legislature and from federal reimbursements. Deficit balances in Capital Projects Funds represent amounts to be financed, primarily through future bond sales.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**A. STATUTORY BASIS OF ACCOUNTING**

The SBFR is prepared from the Commonwealth's books and records and other official reports which are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and budgetary control of appropriations. The SBFR is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis of accounting, revenues generally are recognized when cash deposits are received by the Treasury. However, revenues receivable for federal grants and reimbursements generally are recognized when related expenditures are incurred. Amounts due from political subdivisions of the Commonwealth are recognized when considered measurable and available. These are largely payments from municipalities reimbursing for pension costs paid by the Commonwealth on their behalf, for 3(8)C pension payments.

Under the statutory basis of accounting, expenditures are generally recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30, and payment made by August 31. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

The accounting policies followed in preparing the accompanying statutory basis financial report are described in the remainder of this section.

### **B. 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 Fund. 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 Fund investments are carried at fair value.

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. The statements can be downloaded 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.

### **C. DEDICATED REVENUE AND PLEDGES**

The Commonwealth has a number of bond programs in which bonds are secured by a pledge of dedicated revenues provided to bondholders, pursuant to trust agreements, as well as pledges of revenue for general operations. Like the Commonwealth, certain state authorities have also issued special obligation bonds secured by specific Commonwealth revenues. These other authorities' debts are not included in the SBFR, but are included in the CAFR.

All federal government reimbursements for the Commonwealth's highway spending are dedicated to the repayment of federal grant anticipation notes (GANs) issued in fiscal 1998, 1999, 2001, 2011, 2014 and refunding notes in FY03 and FY11. During FY14, the Commonwealth issued approximately \$253 million in GANs for new-money needs under the Commonwealth's Accelerated Bridge Program. All GANs issued prior to 2010 are scheduled to be repaid and retired by FY15. The Commonwealth will begin repayment of principal of the new-money notes issued in 2010 and 2014 beginning in FY16, after the original and refunded federal grant anticipation notes have been paid in full. As of June 30, 2014, total principal remaining to be paid on outstanding GANs is approximately \$531 million, with maturities ranging from FY15 through FY27. Principal paid during FY14 was approximately \$178 million and came from federal reimbursements. Interest paid in FY14 was funded by the Commonwealth.

In FY14, the Commonwealth issued approximately \$424 million in special obligation bonds for highway construction purposes under the Commonwealth's Accelerated Bridge Program (ABP). The FY14 and previously issued bonds mature from FY15 to FY43 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 in the Commonwealth Transportation Fund. The bonds also have a subordinate lien on 6.86 cents of the 21 cents per gallon gasoline tax not included in the senior lien. As of June 30, 2014, approximately \$1.401 billion in principal was outstanding on the ABP bonds and approximately \$1.125 billion of interest was expected to be paid through maturity. The ABP projected interest costs are net of federal subsidies under the Build America Bond (BABs) program. BABs is a temporary program under which the Commonwealth and other state and local governments issued taxable bonds in calendar 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% (depending on whether the proceeds are used for projects in economically distressed areas) of the interest costs on the 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 debt issued during FY14. As of June 30 2014, bonds secured by these pledged funds totaled approximately \$250 million in principal and approximately \$54 million in interest. These bonds mature from FY15 to FY22 and were issued in various series. Principal and interest paid during FY14 amounted to approximately \$38 million and \$15 million, respectively. The lien on these bonds has been closed, meaning that no new additional new-money bonds can be issued against these revenues under this trust agreement.

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 FY14, total dedicated sales tax revenue that was directed to the MBTA was approximately \$799 million, \$72 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY14 the MBTA received from the Commonwealth sales tax revenues effectively equal to 1.10% 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 FY14, approximately \$728 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, 2014, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$423 million of interest on debts related to these Convention Centers. Taxes collected in FY14 were approximately \$108 million, while debt service on the bonds was approximately \$35 million.

The Transportation Modernization Act of 2009, as amended, eliminated the pledges of sales tax revenue to MassDOT through the Commonwealth Transportation Fund (CTF). Beginning in FY14, the motor vehicle sales tax collections were shifted from the general fund to the CTF while also eliminating the 0.385% pledge of regular and meals sales tax. During FY14, approximately \$501 million in sales tax revenue was transferred to MassDOT. From the Commonwealth Transportation Fund, \$275 million was dedicated to funding the operations of the MBTA while an additional \$68 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

#### **D. INTERFUND/INTRAFUND TRANSACTIONS**

Transactions of a buyer/seller nature between departments within a fund are not eliminated.

Transfers in and out net to approximately \$13 million due to higher education non-appropriated fund activity, which is not included in the combined statements – statutory basis.

#### **E. CURRENT EMPLOYEE BENEFITS**

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 (not accrued on a statutory basis).

#### **F. FRINGE BENEFIT COST RECOVERY**

The Commonwealth pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation, and other costs necessary to support the state work force. As directed by Chapter 29, Sections 5D and 6B(f) of the Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct payments.

Since these fringe benefit costs and pensions are not appropriated in the budget, the required assessment creates a variance between budget and actual expenditures at year-end. The fringe benefit cost recoveries of approximately \$314 million into

the General Fund results from cost assessments of approximately \$166 million from the other budgeted funds, non-budgeted special revenue funds and capital funds. The remainder of approximately \$148 million was assessed to the non-appropriated activities of higher education, expendable trust and agency funds.

#### **G. LOTTERY REVENUE AND PRIZES**

Ticket revenues are recognized when sold and prizes awarded by the Massachusetts State Lottery Commission are recognized as drawings are held. Games expenditures are accrued at year-end only for open jackpots for Mega Millions, Powerball and Megabucks.

#### **H. RECEIVABLES**

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Due from federal government." Other receivables include reimbursement of fringe benefit assessments from authorities and the institutions of higher education along with other departmental receivables.

#### **I. 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.

#### **J. RISK MANAGEMENT**

The Commonwealth is self-insured for state employees' workers' compensation, casualty, theft, tort claims and other losses. Such liabilities are not recognized in the governmental funds on the statutory basis until encumbered and/or processed for payment. 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, Chapter 258 of the Massachusetts General Laws limits the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

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

#### **K. ENCUMBRANCES**

Encumbrance accounting is utilized in the Governmental Funds as a significant aspect of budgetary control. The full amounts of purchase orders, contracts and other commitments of appropriated resources are encumbered and recorded as deductions from appropriations prior to actual expenditure, ensuring that such commitments do not exceed appropriations. Encumbrances outstanding at year-end for goods or services received on or before June 30, but paid after, are reported as expenditures and statutory basis liabilities as a component of accounts payable.

#### **L. FUND BALANCES**

Fund balance has been reserved as follows:

"Reserved for continuing appropriations" – are unexpended amounts in appropriations, which the Legislature has specifically authorized to be carried into the next fiscal year.

"Reserved for Commonwealth Stabilization" – are amounts set aside in the Commonwealth Stabilization Fund in accordance with Section 5C of Chapter 29 of the Massachusetts General Laws.

"Reserved for debt service" – are amounts held by fiscal agents or the Commonwealth to fund future debt service obligations.

The remainder of fund balance is unreserved and undesignated and consists of cumulative surplus or deficits of the fund not otherwise designated.

#### **M. TOTAL COLUMN – MEMORANDUM ONLY**

Total and subtotal columns on the combined financial statements – statutory basis are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations or changes in financial position. Interfund eliminations have not been made in the aggregation of these data.

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Commonwealth’s financial statements for the year ended June 30, 2013, from which the summarized information was derived.

#### **N. ESTIMATES**

The preparation of the SBFR 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.

#### **O. RECLASSIFICATION**

Certain amounts for FY13 were reclassified to conform to current year presentation.

### **3. BUDGETARY CONTROL**

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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.

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 that 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.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003) amended Section 9C, of Chapter 29, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. This proposal must be delivered to the Legislature 15 days before any reductions take effect. Alternatively, funds from the Stabilization Fund may be used to cure the deficiency.

The following table summarizes budgetary activity for FY14 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 38 of the Acts of 2013:		
Direct appropriations.....	\$ 33,858,500	\$ 33,526,507
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2013.....	-	1,239,494
Total original budget.....	33,858,500	34,766,001
Supplemental Acts of 2013:		
Chapter 118.....	-	175,521
Supplemental Acts of 2014:		
Chapter 52.....	-	258,911
Chapter 62.....	-	450
Chapter 70.....	-	600
Chapter 119.....	-	144,679
Chapter 295.....	-	1,853
Chapter 359.....	-	38,000
Total budgeted revenues and expenditures per Legislative action.....	-	620,014
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending.....	2,033,983	2,109,723
Budgeted revenues and expenditures as reported.....	\$ 35,892,483	\$ 37,495,738

The following table identifies the interfund activity from budgeted sources and uses to reconcile forecasts prepared during the budget process to the results presented in these statements (amounts in thousands):

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Actual as presented in the combined budget and actual statement - statutory basis.....	\$37,230,145	\$37,653,960
Adjustments to revenues and expenditures		
Transfer of revenues to the Intragovernmental Service Fund.....	(339,715)	(339,715)
Adjustments to other financing sources and uses:		
Fringe benefit cost assessments.....	(8,291)	(8,291)
Transfer of expenditures from the Intragovernmental Service Fund to the General Fund.....	(3,478)	(3,478)
RMV license plates.....	(3,011)	(3,011)
Transfers from the General Fund to the Stabilization Fund.....	(459,767)	(459,767)
Transfers from the Stabilization Fund to the General Fund.....	(771,569)	(771,569)
Transfers from Budgeted Funds to the General Fund.....	(3,010)	(3,010)
Other fund deficit support.....	(167,972)	(167,972)
Other.....	(177)	(177)
Actual as presented on budgetary documents.....	\$35,473,155	\$35,896,970

The section divider for the budgeted funds contains a list of budgeted funds grouped by categories.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual appropriation account basis. Budgetary control is exercised through the state accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account's spending authorization.

#### **4. MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT)**

MassDOT is an entity legally separate from the Commonwealth. MassDOT operations are reported separately in the non-budgeted special revenue funds section of this report, which includes all of the Commonwealth's highway and turnpike-related operations as well as the activity of the Registry of Motor Vehicles. MassDOT capital spending and revenue activity are reported in the capital funds section of this report, in the Central Artery Statewide Road and Bridge Infrastructure Fund, the Highway Capital Projects Fund and the Federal Highway Construction Program Fund.

MassDOT financial activity is included in this report in order to reflect all activity reported on the Commonwealth's MMARS accounting system. For the SBFR, MassDOT is treated as an agency or department of the Commonwealth, as specified in Massachusetts General Laws. However, for GAAP reporting purposes, as reflected in the Commonwealth's CAFR, MassDOT will be included as a discretely presented component unit of the Commonwealth.

#### **5. INDIVIDUAL FUND DEFICITS**

The following Budgeted, Non-Budgeted Special Revenue and Capital Projects Funds are included in the combined totals and have individual fund deficits at June 30, 2014, as follows (amounts in thousands) (excludes MassDOT):

Budgeted Special Revenue:	
Local Aid Stabilization Fund.....	\$ (8,325)
Non-Budgeted Special Revenue:	
Other:	
Government Land Bank Fund.....	(35,033)
Capital Projects:	
General Capital Projects Fund.....	(740,140)
Highway Capital Projects Fund.....	(425,088)
Government Land Bank Capital Projects Fund.....	(129)
Local Aid Capital Projects Fund.....	(36)
Total Capital Projects Funds.....	(1,165,393)
Total.....	\$ (1,208,751)

None of the funds detailed above were in deficit due to finance-related contractual provisions and all were allowed to be in deficit by General Law.

#### **6. MEDICAID COSTS**

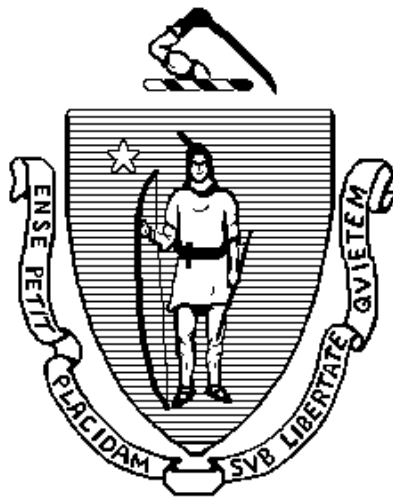
Approximately 39.4% of the Commonwealth's budgeted fund spending for programs and services is devoted to Medicaid. It is the largest and has been one of the fastest growing items in the Commonwealth's budget. For the fiscal year ended June 30, 2014, the General Fund includes approximately \$11.901 billion in expenditures for Medicaid claims. The combined financial statements – statutory basis include Medicaid claims processed but unpaid at June 30, 2014 of approximately \$23 million as accounts payable.



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# *Combining and Individual Fund Financial Statements - Statutory Basis*



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# *Individual Budgeted Funds*

## **MAJOR BUDGETED FUNDS:**

*The General Fund* – The General Fund is the Commonwealth’s primary Governmental Fund. All governmental activities not specifically directed to another fund are accounted for in the General Fund. As a result, most budgeted expenditures of the Executive secretariats, the Legislature, constitutional offices, Judiciary, institutions of higher education and independent commissions are paid from the General Fund. It similarly receives a significant portion of sales, individual income and corporate taxes and the full amount of most other governmental taxes.

*Commonwealth Transportation Fund* – to account for revenues from motor fuels taxes and all fees and fines received by the Registry of Motor Vehicles relating to the use and operation of motor vehicles and trailers. Spending is for debt service on general and special obligation debt formerly paid from the Highway Fund, as well as for amounts, subject to appropriation, to fund the programs and services of the Massachusetts Department of Transportation. This fund also includes activity of the Infrastructure Fund, which was a subfund of the Highway Fund.

*The Commonwealth Stabilization Fund* – to account for amounts calculated in accordance with state finance law and to maintain a reserve to enhance the Commonwealth's fiscal stability. Tax revenues from certain lottery winners selling their stream of future winnings in exchange for current payments are recorded in this fund, as are fiscal year capital gains tax revenues exceeding \$1 billion (adjusted annually for economic growth) and individual judgments and settlements of more than \$10 million.

## **ADMINISTRATIVE CONTROL FUND:**

This fund accounts for the revenues generated by certain administrative functions of government, for which the Legislature has required a separate fund be established.

*Intragovernmental Service Fund* – to account for the charges of any state agency for services provided by another state agency.

## **BUDGETED ENVIRONMENTAL FUNDS:**

*Inland Fisheries and Game Fund* – to account for revenues from license and permit fees for inland fishing, hunting, trapping, and sporting licenses and revenue producing stamps or the sales of land, rights and properties, gifts, interest, and federal grant reimbursements; used for developing, maintaining and operating the Division of Fisheries and Wildlife.

*Marine Recreational Fisheries Development Fund* – to account for salt water permit fees collected, funds, grants and gifts received as authorized, including investment income; used for development and administration of recreational salt water fishing improvement programs.

## **OTHER BUDGETED FUNDS:**

These funds account for a variety of miscellaneous taxes, fees, fines and other revenues, which are restricted to the financing of specific Commonwealth programs.

*Public Safety Training Fund* – to account for all revenues collected from the surcharge imposed by Section 12 of Chapter 89 and the seventh paragraph of Section 20 of Chapter 90 of the General Laws. The fund shall be used for the instruction of public safety personnel including, but not limited to, the recruitment of additional state police classes and for the municipal police training committee, under Section 116 of Chapter 6 of the General Laws, as necessary, to preserve and promote the public safety. The fund shall not be subject to Section 5C of Chapter 29 of the General Laws.

*Children and Families Protection Fund* – to account for any penalties collected for violations of the Massachusetts Pesticide Control Act under Chapter 132B, Sections 6C to 6I of the General Laws, inclusive, and any income derived from the investment of amounts credited to the fund. Amounts credited to the fund shall be used, subject to appropriation, for the implementation and enforcement of said Sections 6C to 6I.

*Massachusetts Tourism Fund* – to account for revenues received from hotel taxes; used to fund the Office of Travel and Tourism promotions and the Massachusetts Convention Center Authority.

*Local Capital Projects Fund* – to account for funds transferred from the Gaming Revenue Fund established in Section 59 of Chapter 23K of the General Laws and any monies credited to or transferred to the fund from any other fund or source.

*Local Aid Stabilization Fund* – to account for gaming tax revenues transferred under Section 59 of Chapter 23K of

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the General Laws, all other monies credited or transferred to it from any other fund or source and proceeds from the investment of such funds. Monies shall be distributed to cities and towns as a supplement to other sources of local aid distributions, but shall not be subject to Section 5C of Chapter 29 of the General Laws.

**Manufacturing Fund** – to account for gaming license fees transferred in accordance with Section 93 of Chapter 194 of the Acts of 2011 and any monies credited or transferred to the fund from any other fund or source.

**Community College Fund** – to account for gaming license fees transferred in accordance with Section 93 of Chapter 194 of the Acts of 2011 and any monies credited or transferred to the fund from any other fund or source.

**The following funds have been enacted in legislation but had no activity in FY14 and are not presented in this report:**

**Collective Bargaining Reserve Fund** – to account for transfers from the General Fund, which may be used to fund negotiated contracts for state employees.

**Tax Reduction Fund** – to account for the maintenance of a reserve, which shall be used only to reduce personal income taxes.

**Dam Safety Trust Fund** – to account for all receipts and revenues generated through agreements executed between the department of environmental management and public or private entities for dam safety purposes, and all fines, costs, expenses and interest imposed. Revenues over \$250,000 in a fiscal year shall be credited to the General Fund.

**International Educational and Foreign Language Grant Program Fund** – to account for appropriations, bond proceeds or other monies authorized to be used by the Commissioner of Education to increase the number of Massachusetts students, teachers, administrators and education policymakers to support programs and activities that advance cultural awareness through grants to local and regional high schools to support international education programs and promote the study of foreign languages.

**Gaming Local Aid Fund** – to account for gaming tax revenues transferred under Section 59 of Chapter 23K of the General Laws and all monies credited or transferred to the fund from any other fund or source. Monies from the fund shall be used in addition to the balance of the State Lottery Fund for distribution to cities and towns in accordance with Section 35 of Chapter 10 of the General

Laws and any monies so distributed shall be considered part of general revenue sharing aid for purposes of annual aid and contribution requirements established pursuant to Chapter 70 of the General Laws or Section 3 of the FY2011 General Appropriation Act.

**Education Fund** – to account for gaming tax revenues transferred under Section 59 of Chapter 23K of the General Laws and all monies credited to or transferred to the fund from any other fund or source. 35% of the funds received shall be appropriated for the purposes of both K-12 and higher education to supplement, not offset, any reduction in the General Appropriation Act from the previous fiscal year.

**Gaming Economic Development Fund** – to account for gaming tax revenues transferred from the Gaming Revenue Fund established in Section 59 of Chapter 23K of the General Laws. Expenditures from the fund shall be used to support economic development and job growth including, but not limited to: (1) workforce training, including transfers to the Workforce Competitiveness Trust Fund; (2) tourism promotion, including regional tourism promotion agencies and cultural and recreational attraction promotion; (3) summer jobs; (4) the Massachusetts marketing partnership; (5) higher education scholarships; (6) regional economic development initiatives; (7) support for small businesses, including small business lending; (8) green jobs promotion; (9) science, technology, engineering and mathematics career pipeline initiatives; and (10) agricultural development programs, including youth agricultural education.

**Temporary Holding Fund** – to account for cumulative tax revenues during the fiscal year in excess of permissible tax revenues as defined in Chapter 62F, Section 6A of the General Laws. The fund balance in the fund closes annually to the Stabilization Fund to the extent of expenditures from that fund. Any remaining balance transfers to the General Fund. This fund was repealed effective January 1, 2013.

**Substance Abuse Prevention and Treatment Fund** – to account for sales tax revenues (non-dedicated) collected from the sale of alcoholic beverages under Chapter 64H; used for substance abuse treatment and prevention services. In November 2010, the sales tax on alcoholic beverages was repealed via referendum, effective January 1, 2011. As of that date, no monthly sales tax revenue has been deposited in the Substance Abuse Fund.



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**Budgeted Funds**  
Combining Balance Sheet - Statutory Basis

June 30, 2014  
(Amounts in thousands)

ASSETS	Administrative Control			
	General	Commonwealth Transportation	Commonwealth Stabilization	Intragovernmental Service
Cash and short-term investments.....	\$ 379,763	\$ 608	\$ 986,598	\$ 41,709
Cash with fiscal agent.....	-	14,384	-	-
Investments.....	-	-	261,837	-
Receivables, net of allowance for uncollectibles:				
Due from federal government.....	708,833	-	-	-
Other receivables.....	11,022	-	-	-
Due from cities and towns.....	5,020	-	-	-
Total assets.....	\$ 1,104,638	\$ 14,992	\$ 1,248,435	\$ 41,709
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Deficiency in cash and short-term investments.....	\$ -	\$ -	\$ -	\$ -
Accounts payable.....	789,552	608	-	27,296
Accrued payroll.....	170,957	-	-	4,184
Total liabilities.....	960,509	608	-	31,480
Fund balance (deficit):				
Reserved for:				
Continuing appropriations.....	144,129	-	-	10,229
Commonwealth Stabilization.....	-	-	1,248,435	-
Debt service.....	-	14,384	-	-
Unreserved:				
Undesignated.....	-	-	-	-
Total fund equity (deficit).....	144,129	14,384	1,248,435	10,229
Total liabilities and fund equity.....	\$ 1,104,638	\$ 14,992	\$ 1,248,435	\$ 41,709

See accountants' review report

Environmental		Budgeted Other			
Inland Fisheries and Game	Marine Recreational Fisheries Development	Public Safety Training	Children & Families Protection	Massachusetts Tourism	Local Capital Projects
\$ 18,548	\$ 2,538	\$ 568	\$ -	\$ 1,376	\$ 21,250
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 18,548</u>	<u>\$ 2,538</u>	<u>\$ 568</u>	<u>\$ -</u>	<u>\$ 1,376</u>	<u>\$ 21,250</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
772	123	-	-	1,279	-
343	16	-	-	77	-
<u>1,115</u>	<u>139</u>	<u>-</u>	<u>-</u>	<u>1,356</u>	<u>-</u>
-	-	-	-	20	21,250
-	-	-	-	-	-
-	-	-	-	-	-
17,433	2,399	568	-	-	-
<u>17,433</u>	<u>2,399</u>	<u>568</u>	<u>-</u>	<u>20</u>	<u>21,250</u>
<u>\$ 18,548</u>	<u>\$ 2,538</u>	<u>\$ 568</u>	<u>\$ -</u>	<u>\$ 1,376</u>	<u>\$ 21,250</u>

continued

**Budgeted Funds**  
Combining Balance Sheet - Statutory Basis

June 30, 2014  
(Amounts in thousands)

	Budgeted Other			Totals (Memorandum only)	
	Local Aid Stabilization	Maufacturing	Community College	2014	2013
<b>ASSETS</b>					
Cash and short-term investments.....	\$ -	\$ 30	\$ 778	\$ 1,453,766	\$ 2,135,842
Cash with fiscal agent.....	-	-	-	14,384	13,932
Investments.....	-	-	-	261,837	258,347
Receivables, net of allowance for uncollectibles:					
Due from federal government.....	-	-	-	708,833	586,074
Other receivables.....	-	-	-	11,022	61,119
Due from cities and towns.....	-	-	-	5,020	9,088
Total assets.....	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 778</u>	<u>\$ 2,454,862</u>	<u>\$ 3,064,402</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Deficiency in cash and short-term investments.....	\$ 7,182	\$ -	\$ -	\$ 7,182	\$ 44,867
Accounts payable.....	1,143	30	-	820,803	979,276
Accrued payroll.....	-	-	758	176,335	165,902
Total liabilities.....	<u>8,325</u>	<u>30</u>	<u>758</u>	<u>1,004,320</u>	<u>1,190,045</u>
Fund balance (deficit):					
Reserved for:					
Continuing appropriations.....	-	-	20	175,648	283,189
Commonwealth Stabilization.....	-	-	-	1,248,435	1,556,657
Debt service.....	-	-	-	14,384	13,932
Unreserved:					
Undesignated.....	(8,325)	-	-	12,075	20,579
Total fund equity (deficit).....	<u>(8,325)</u>	<u>-</u>	<u>20</u>	<u>1,450,542</u>	<u>1,874,357</u>
Total liabilities and fund equity.....	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 778</u>	<u>\$ 2,454,862</u>	<u>\$ 3,064,402</u>

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**Budgeted Funds**

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control
				Intragovernmental Service
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 20,539,735	\$ 1,231,994	\$ 867	\$ -
Assessments.....	439,998	22,211	-	-
Federal grants and reimbursements.....	8,366,140	-	-	-
Tobacco settlement revenue.....	282,049	-	-	-
Departmental.....	2,156,954	522,364	-	354,758
Miscellaneous.....	254,968	2,430	7,259	-
Total revenues.....	<u>32,039,844</u>	<u>1,778,999</u>	<u>8,126</u>	<u>354,758</u>
Other financing sources:				
Fringe benefit cost recovery.....	310,559	-	-	-
Lottery reimbursements.....	95,891	-	-	-
Lottery distributions.....	921,730	-	-	-
Operating transfers in.....	241,225	11,428	-	-
Stabilization transfer.....	771,569	-	459,767	-
Other fund deficit support.....	-	102,495	-	-
Total other financing sources.....	<u>2,340,974</u>	<u>113,923</u>	<u>459,767</u>	<u>-</u>
Total revenues and other financing sources.....	<u>34,380,818</u>	<u>1,892,922</u>	<u>467,893</u>	<u>354,758</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Legislature.....	56,299	-	-	-
Judiciary.....	814,129	-	-	-
Inspector General.....	6,162	-	-	-
Governor and Lieutenant Governor.....	5,144	-	-	-
Secretary of the Commonwealth.....	44,240	-	-	99
Treasurer and Receiver-General.....	203,358	-	-	-
Auditor of the Commonwealth.....	17,536	-	-	-
Attorney General.....	43,028	-	-	-
Ethics Commission.....	1,904	-	-	-
District Attorney.....	105,962	-	-	-
Office of Campaign & Political Finance.....	1,370	-	-	-
Sheriff's Departments.....	552,978	-	-	-
Disabled Persons Protection Commission.....	2,412	-	-	-
Board of Library Commissioners.....	22,184	-	-	-
Comptroller.....	8,541	-	-	4,270
Administration and Finance.....	1,931,276	-	-	197,457
Energy and Environmental Affairs.....	200,882	-	-	1,384
Health and Human Services.....	4,979,491	-	-	91,045
Massachusetts Department of Transportation.....	-	275,200	-	-
Executive Office of Education.....	2,077,382	-	-	456
Center for Health Information and Analysis.....	23,706	-	-	-
Public Safety and Homeland Security.....	1,010,411	-	-	48,364
Housing and Economic Development.....	498,273	-	-	1,541
Labor and Workforce Development.....	41,437	-	-	-
Direct local aid.....	5,292,467	-	-	-
Medicaid.....	11,900,776	-	-	-
Post employment benefits.....	2,050,361	-	-	-
Debt service:				
Principal retirement.....	625,392	616,364	-	6,218
Interest and fiscal charges.....	428,601	456,853	-	-
Total expenditures.....	<u>32,945,702</u>	<u>1,348,417</u>	<u>-</u>	<u>350,834</u>
Other financing uses:				
Fringe benefit cost assessment.....	-	-	-	-
Operating transfers out.....	73,249	515,089	-	3,478
State Retiree Benefits transfer.....	27,346	29,064	2,273	-
State Pension transfer.....	-	-	2,273	-
Stabilization transfer.....	459,767	-	771,569	-
Commonwealth care transfer.....	390,079	-	-	-
Medical assistance transfer.....	395,025	-	-	-
Delivery system transformation initiatives trust transfer.....	70,732	-	-	-
Other fund deficit support.....	148,019	-	-	-
Total other financing uses.....	<u>1,564,217</u>	<u>544,153</u>	<u>776,115</u>	<u>3,478</u>
Total expenditures and other financing uses.....	<u>34,509,919</u>	<u>1,892,570</u>	<u>776,115</u>	<u>354,312</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(129,101)	352	(308,222)	446
Fund balance (deficit) at beginning of year.....	273,230	14,032	1,556,657	9,783
Fund balance (deficit) at end of year.....	<u>\$ 144,129</u>	<u>\$ 14,384</u>	<u>\$ 1,248,435</u>	<u>\$ 10,229</u>

See accountants' review report

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Environmental		Budgeted Other			
Inland Fisheries and Game	Marine Recreational Fisheries Development	Public Safety Training	Children & Families Protection	Massachusetts Tourism	Local Capital Projects
\$ 962	\$ -	\$ -	\$ -	\$ 48,472	\$ -
-	-	-	-	-	-
6,005	-	-	-	-	-
-	-	-	-	-	-
7,079	1,408	568	1	-	-
40	-	-	-	-	-
14,086	1,408	568	1	48,472	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
179	-	-	-	113	825
-	-	-	-	-	-
-	-	-	-	-	20,425
179	-	-	-	113	21,250
14,265	1,408	568	1	48,585	21,250
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	17	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
118	-	-	-	-	-
13,262	890	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	25,182	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	19,953	-
2,055	95	-	1	23,442	-
-	-	-	-	3,009	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	19,953	-
2,055	95	-	1	23,442	-
15,435	985	-	1	48,641	-
(1,170)	423	568	-	(56)	21,250
18,603	1,976	-	-	76	-
\$ 17,433	\$ 2,399	\$ 568	\$ -	\$ 20	\$ 21,250

continued

## Budgeted Funds

### Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	Budgeted Other			Totals (Memorandum only)	
	Local Aid Stabilization	Maunufacturing	Community College	2014	2013
	<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:					
Taxes.....	\$ -	\$ -	\$ -	\$ 21,822,030	\$ 20,631,882
Assessments.....	-	-	-	462,209	460,086
Federal grants and reimbursements.....	-	-	-	8,372,145	8,228,417
Tobacco settlement revenue.....	-	-	-	282,049	228,148
Departmental.....	-	-	-	3,043,132	2,781,359
Miscellaneous.....	-	-	-	264,697	217,475
Total revenues.....	-	-	-	34,246,262	32,547,367
Other financing sources:					
Fringe benefit cost recovery.....	-	-	-	310,559	294,675
Lottery reimbursements.....	-	-	-	95,891	93,517
Lottery distributions.....	-	-	-	921,730	949,428
Operating transfers in.....	375	975	1,275	256,395	224,067
Stabilization transfer.....	-	-	-	1,231,336	1,126,464
Other fund deficit support.....	-	12,608	32,444	167,972	-
Total other financing sources.....	375	13,583	33,719	2,983,883	2,688,151
Total revenues and other financing sources.....	375	13,583	33,719	37,230,145	35,235,518
<b>EXPENDITURES AND OTHER FINANCING USES</b>					
Expenditures:					
Legislature.....	-	-	-	56,299	57,254
Judiciary.....	-	-	-	814,129	790,620
Inspector General.....	-	-	-	6,162	5,870
Governor and Lieutenant Governor.....	-	-	-	5,161	5,572
Secretary of the Commonwealth.....	-	-	-	44,339	43,928
Treasurer and Receiver-General.....	-	-	-	203,358	192,785
Auditor of the Commonwealth.....	-	-	-	17,536	17,579
Attorney General.....	-	-	-	43,028	40,731
Ethics Commission.....	-	-	-	1,904	1,904
District Attorney.....	-	-	-	105,962	105,110
Office of Campaign & Political Finance.....	-	-	-	1,370	1,239
Sheriff's Departments.....	-	-	-	552,978	528,489
Disabled Persons Protection Commission.....	-	-	-	2,412	2,281
Board of Library Commissioners.....	-	-	-	22,184	21,775
Comptroller.....	-	-	-	12,811	12,038
Administration and Finance.....	-	-	-	2,128,851	1,981,484
Energy and Environmental Affairs.....	-	-	-	216,418	203,062
Health and Human Services.....	-	-	-	5,070,536	4,848,767
Massachusetts Department of Transportation.....	-	-	-	275,200	160,000
Executive Office of Education.....	8,700	1,582	28,310	2,116,430	1,963,589
Center for Health Information and Analysis.....	-	-	-	23,706	9,067
Public Safety and Homeland Security.....	-	-	-	1,058,775	1,002,745
Housing and Economic Development.....	-	9,729	-	534,725	460,801
Labor and Workforce Development.....	-	2,000	-	43,437	38,902
Direct local aid.....	-	-	-	5,292,467	5,115,737
Medicaid.....	-	-	-	11,900,776	10,799,693
Post employment benefits.....	-	-	-	2,050,361	1,967,042
Debt service:					
Principal retirement.....	-	-	-	1,247,974	1,220,685
Interest and fiscal charges.....	-	-	-	885,454	896,533
Total expenditures.....	8,700	13,311	28,310	34,734,743	32,495,282
Other financing uses:					
Fringe benefit cost assessment.....	-	272	5,389	8,291	2,460
Operating transfers out.....	-	-	-	594,826	440,885
State Retiree Benefits transfer.....	-	-	-	58,683	23,375
State Pension transfer.....	-	-	-	2,273	23,375
Stabilization transfer.....	-	-	-	1,231,336	1,126,464
Commonwealth care transfer.....	-	-	-	390,079	661,249
Medical assistance transfer.....	-	-	-	395,025	390,889
Delivery system transformation initiatives trust transfer.....	-	-	-	70,732	186,908
Other fund deficit support.....	-	-	-	167,972	-
Total other financing uses.....	-	272	5,389	2,919,217	2,855,605
Total expenditures and other financing uses.....	8,700	13,583	33,699	37,653,960	35,350,887
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....					
	(8,325)	-	20	(423,815)	(115,369)
Fund balance (deficit) at beginning of year.....	-	-	-	1,874,357	1,989,726
Fund balance (deficit) at end of year.....	\$ (8,325)	\$ -	\$ 20	1,450,542	\$ 1,874,357

See accountants' review report



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## Budgeted Funds

### Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	General			Commonwealth Transportation		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>						
Revenues:						
Taxes.....	\$ 20,077,700	\$ 20,539,735	\$ 462,035	\$ 1,217,400	\$ 1,231,994	\$ 14,594
Assessments.....	458,634	439,998	(18,636)	22,460	22,211	(249)
Federal grants and reimbursements.....	8,777,590	8,366,140	(411,450)	-	-	-
Tobacco settlement revenue.....	253,628	282,049	28,421	-	-	-
Departmental.....	2,069,011	2,156,954	87,943	523,795	522,364	(1,431)
Miscellaneous.....	245,544	254,968	9,424	1,410	2,430	1,020
<b>Total revenues.....</b>	<b>31,882,107</b>	<b>32,039,844</b>	<b>157,737</b>	<b>1,765,065</b>	<b>1,778,999</b>	<b>13,934</b>
Other financing sources:						
Fringe benefit cost recovery.....	294,051	310,559	16,508	-	-	-
Lottery reimbursements.....	91,216	95,891	4,675	-	-	-
Lottery distributions.....	946,917	921,730	(25,187)	-	-	-
Operating transfers in.....	249,706	241,225	(8,481)	-	11,428	11,428
Stabilization transfer.....	361,000	771,569	410,569	-	-	-
Other fund deficit support.....	-	-	-	-	102,495	102,495
<b>Total other financing sources.....</b>	<b>1,942,890</b>	<b>2,340,974</b>	<b>398,084</b>	<b>-</b>	<b>113,923</b>	<b>113,923</b>
<b>Total revenues and other financing sources.....</b>	<b>33,824,997</b>	<b>34,380,818</b>	<b>555,821</b>	<b>1,765,065</b>	<b>1,892,922</b>	<b>127,857</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>						
Expenditures:						
Legislature.....	74,274	56,299	17,975	-	-	-
Judiciary.....	822,826	814,129	8,697	-	-	-
Inspector General.....	6,251	6,162	89	-	-	-
Governor and Lieutenant Governor.....	9,338	5,144	4,194	-	-	-
Secretary of the Commonwealth.....	44,816	44,240	576	-	-	-
Treasurer and Receiver-General.....	236,874	203,358	33,516	-	-	-
Auditor of the Commonwealth.....	17,624	17,536	88	-	-	-
Attorney General.....	44,678	43,028	1,650	-	-	-
Ethics Commission.....	1,922	1,904	18	-	-	-
District Attorney.....	106,090	105,962	128	-	-	-
Office of Campaign and Political Finance.....	1,408	1,370	38	-	-	-
Sheriff's Departments.....	567,569	552,978	14,591	-	-	-
Disabled Persons Protection Commission.....	2,413	2,412	1	-	-	-
Board of Library Commissioners.....	22,241	22,184	57	-	-	-
Comptroller.....	8,544	8,541	3	-	-	-
Administration and Finance.....	1,944,169	1,931,276	12,893	-	-	-
Energy and Environmental Affairs.....	208,796	200,882	7,914	-	-	-
Health and Human Services.....	5,096,698	4,979,491	117,207	-	-	-
Massachusetts Department of Transportation.....	-	-	-	275,300	275,200	100
Executive Office of Education.....	2,109,402	2,077,382	32,020	-	-	-
Center for Health Information and Analysis.....	32,193	23,706	8,487	-	-	-
Public Safety and Homeland Security.....	1,034,019	1,010,411	23,608	-	-	-
Housing and Economic Development.....	519,696	498,273	21,423	-	-	-
Labor and Workforce Development.....	52,683	41,437	11,246	-	-	-
Direct local aid.....	5,294,063	5,292,467	1,596	-	-	-
Medicaid.....	12,116,397	11,900,776	215,621	-	-	-
Post employment benefits.....	2,050,361	2,050,361	-	-	-	-
Debt service:						
Principal retirement.....	643,059	625,392	17,667	637,447	616,364	21,083
Interest and fiscal charges.....	436,371	428,601	7,770	470,315	456,853	13,462
<b>Total expenditures.....</b>	<b>33,504,775</b>	<b>32,945,702</b>	<b>559,073</b>	<b>1,383,062</b>	<b>1,348,417</b>	<b>34,645</b>
Other financing uses:						
Fringe benefit cost assessment.....	-	-	-	-	-	-
Operating transfers out.....	8,922	73,249	(64,327)	512,079	515,089	(3,010)
State Retiree Benefits transfer.....	-	27,346	(27,346)	-	29,064	(29,064)
State Pension transfer.....	-	-	-	-	-	-
Stabilization transfer.....	37,000	459,767	(422,767)	-	-	-
Commonwealth care transfer.....	340,079	390,079	(50,000)	-	-	-
Medical assistance transfer.....	620,025	395,025	225,000	-	-	-
Delivery system transformation initiatives trust transfer.....	93,449	70,732	22,717	-	-	-
Other fund deficit support.....	-	148,019	(148,019)	-	-	-
<b>Total other financing uses.....</b>	<b>1,099,475</b>	<b>1,564,217</b>	<b>(464,742)</b>	<b>512,079</b>	<b>544,153</b>	<b>(32,074)</b>
<b>Total expenditures and other financing uses.....</b>	<b>34,604,250</b>	<b>34,509,919</b>	<b>94,331</b>	<b>1,895,141</b>	<b>1,892,570</b>	<b>2,571</b>
Excess (deficiency) of revenues and other financing sources						
over / (under) expenditures and other financing uses.....	(779,253)	(129,101)	650,152	(130,076)	352	130,428
Fund balances (deficit) at beginning of year.....	273,230	273,230	-	14,032	14,032	-
<b>Fund balances (deficit) at end of year.....</b>	<b>\$ (506,023)</b>	<b>\$ 144,129</b>	<b>\$ 650,152</b>	<b>\$ (116,044)</b>	<b>\$ 14,384</b>	<b>\$ 130,428</b>

See accountants' review report

Commonwealth Stabilizator			Administrative Control Intragovernmental Service			Environmental Inland Fisheries and Game		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ 867	\$ 867	\$ -	\$ -	\$ -	\$ 900	\$ 962	\$ 62
-	-	-	-	-	-	5,600	6,005	405
-	-	-	-	-	-	-	-	-
-	-	-	-	354,758	354,758	6,858	7,079	221
11,000	7,259	(3,741)	-	-	-	28	40	12
11,000	8,126	(2,874)	-	354,758	354,758	13,386	14,086	700
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	130	179	49
147,000	459,767	312,767	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
147,000	459,767	312,767	-	-	-	130	179	49
158,000	467,893	309,893	-	354,758	354,758	13,516	14,265	749
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	116	99	17	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	4,705	4,270	435	-	-	-
-	-	-	295,962	197,457	98,505	118	118	-
-	-	-	1,424	1,384	40	13,528	13,262	266
-	-	-	119,640	91,045	28,595	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,860	456	1,404	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	54,732	48,364	6,368	-	-	-
-	-	-	2,480	1,541	939	-	-	-
-	-	-	19,041	-	19,041	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	6,218	6,218	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	506,178	350,834	155,344	13,646	13,380	266
-	-	-	-	-	-	1,939	2,055	(116)
-	-	-	-	3,478	(3,478)	-	-	-
-	2,273	(2,273)	-	-	-	-	-	-
-	2,273	(2,273)	-	-	-	-	-	-
364,700	771,569	(406,869)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
364,700	776,115	(411,415)	-	3,478	(3,478)	1,939	2,055	(116)
364,700	776,115	(411,415)	506,178	354,312	151,866	15,585	15,435	150
(206,700)	(308,222)	(101,522)	(506,178)	446	506,624	(2,069)	(1,170)	899
1,556,657	1,556,657	-	9,783	9,783	-	18,603	18,603	-
\$ 1,349,957	\$ 1,248,435	\$ (101,522)	\$ (496,395)	\$ 10,229	\$ 506,624	\$ 16,534	\$ 17,433	\$ 899

continued

## Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Environmental			Budgeted Other		
	Marine Recreational Fisheries Developmen			Public Safety Trust		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>						
Revenues:						
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-
Tobacco settlement revenue.....	-	-	-	-	-	-
Departmental.....	1,780	1,408	(372)	-	568	568
Miscellaneous.....	-	-	-	-	-	-
Total revenues.....	1,780	1,408	(372)	-	568	568
Other financing sources:						
Fringe benefit cost recovery.....	-	-	-	-	-	-
Lottery reimbursements.....	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-
Operating transfers in.....	-	-	-	-	-	-
Stabilization transfer.....	-	-	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-
Total other financing sources.....	-	-	-	-	-	-
Total revenues and other financing sources.....	1,780	1,408	(372)	-	568	568
<b>EXPENDITURES AND OTHER FINANCING USES</b>						
Expenditures:						
Legislature.....	-	-	-	-	-	-
Judiciary.....	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-
Auditor of the Commonwealth.....	-	-	-	-	-	-
Attorney General.....	-	-	-	-	-	-
Ethics Commission.....	-	-	-	-	-	-
District Attorney.....	-	-	-	-	-	-
Office of Campaign and Political Finance.....	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	-
Disabled Persons Protection Commission.....	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	-	-
Energy and Environmental Affairs.....	1,042	890	152	-	-	-
Health and Human Services.....	-	-	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-
Center for Health Information and Analysis.....	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-
Housing and Economic Development.....	-	-	-	-	-	-
Labor and Workforce Development.....	-	-	-	-	-	-
Direct local aid.....	-	-	-	-	-	-
Medicaid.....	-	-	-	-	-	-
Post employment benefits.....	-	-	-	-	-	-
Debt service:						
Principal retirement.....	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-
Total expenditures.....	1,042	890	152	-	-	-
Other financing uses:						
Fringe benefit cost assessment.....	-	95	(95)	-	-	-
Operating transfers out.....	-	-	-	-	-	-
State Retiree Benefits transfer.....	-	-	-	-	-	-
State Pension transfer.....	-	-	-	-	-	-
Stabilization transfer.....	-	-	-	-	-	-
Commonwealth care transfer.....	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-
Delivery system transformation initiatives trust transfer.....	-	-	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-
Total other financing uses.....	-	95	(95)	-	-	-
Total expenditures and other financing uses.....	1,042	985	57	-	-	-
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	738	423	(315)	-	568	568
Fund balances (deficit) at beginning of year.....	1,976	1,976	-	-	-	-
Fund balances (deficit) at end of year.....	\$ 2,714	\$ 2,399	\$ (315)	\$ -	\$ 568	\$ 568

See accountants' review report



Budgeted Other								
Children and Families Protector			Massachusetts Tourism			Local Capital Projects		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 46,000	\$ 48,472	\$ 2,472	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	1	1	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	1	1	46,000	48,472	2,472	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	2,625	113	(2,512)	19,250	825	(18,425)
-	-	-	-	-	-	-	20,425	20,425
-	-	-	2,625	113	(2,512)	19,250	21,250	2,000
-	1	1	48,625	48,585	(40)	19,250	21,250	2,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	17	17	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	5	-	5	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	25,300	25,182	118	21,250	-	21,250
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	25,322	25,199	123	21,250	-	21,250
-	-	-	356	480	(124)	-	-	-
-	1	(1)	-	3,009	(3,009)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	19,953	(19,953)	-	-	-
-	1	(1)	356	23,442	(23,086)	-	-	-
-	1	(1)	25,678	48,641	(22,963)	21,250	-	21,250
-	-	-	22,947	(56)	(23,003)	(2,000)	21,250	23,250
-	-	-	76	76	-	-	-	-
\$ -	\$ -	\$ -	\$ 23,023	\$ 20	\$ (23,003)	\$ (2,000)	\$ 21,250	\$ 23,250

continued

## Budgeted Funds

### Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Budgeted Other					
	Local Aid Stabilization			Manufacturing		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>						
Revenues:						
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-
Tobacco settlement revenue.....	-	-	-	-	-	-
Departmental.....	-	-	-	-	-	-
Miscellaneous.....	-	-	-	-	-	-
Total revenues.....	-	-	-	-	-	-
Other financing sources:						
Fringe benefit cost recovery.....	-	-	-	-	-	-
Lottery reimbursements.....	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-
Operating transfers in.....	8,750	375	(8,375)	22,750	975	(21,775)
Stabilization transfer.....	-	-	-	-	-	-
Other fund deficit support.....	-	-	-	-	12,608	12,608
Total other financing sources.....	8,750	375	(8,375)	22,750	13,583	(9,167)
Total revenues and other financing sources.....	8,750	375	(8,375)	22,750	13,583	(9,167)
<b>EXPENDITURES AND OTHER FINANCING USES</b>						
Expenditures:						
Legislature.....	-	-	-	-	-	-
Judiciary.....	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-
Auditor of the Commonwealth.....	-	-	-	-	-	-
Attorney General.....	-	-	-	-	-	-
Ethics Commission.....	-	-	-	-	-	-
District Attorney.....	-	-	-	-	-	-
Office of Campaign and Political Finance.....	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	-
Disabled Persons Protection Commission.....	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	-	-
Energy and Environmental Affairs.....	-	-	-	-	-	-
Health and Human Services.....	-	-	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-
Executive Office of Education.....	8,700	8,700	-	1,582	1,582	-
Center for Health Information and Analysis.....	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-
Housing and Economic Development.....	-	-	-	19,163	9,729	9,434
Labor and Workforce Development.....	-	-	-	2,000	2,000	-
Direct local aid.....	-	-	-	-	-	-
Medicaid.....	-	-	-	-	-	-
Post employment benefits.....	-	-	-	-	-	-
Debt service:						
Principal retirement.....	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-
Total expenditures.....	8,700	8,700	-	22,745	13,311	9,434
Other financing uses:						
Fringe benefit cost assessment.....	-	-	-	-	272	(272)
Operating transfers out.....	-	-	-	-	-	-
State Retiree Benefits transfer.....	-	-	-	-	-	-
State Pension transfer.....	-	-	-	-	-	-
Stabilization transfer.....	-	-	-	-	-	-
Commonwealth care transfer.....	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-
Delivery system transformation initiatives trust transfer.....	-	-	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-
Total other financing uses.....	-	-	-	-	272	(272)
Total expenditures and other financing uses.....	8,700	8,700	-	22,745	13,583	9,162
Excess (deficiency) of revenues and other financing sources						
over / (under) expenditures and other financing uses.....	50	(8,325)	(8,375)	5	-	(5)
Fund balances (deficit) at beginning of year.....	-	-	-	-	-	-
Fund balances (deficit) at end of year.....	\$ 50	\$ (8,325)	\$ (8,375)	\$ 5	\$ -	\$ (5)

See accountants' review report

Budgeted Other Community College			Totals (Memorandum only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 21,342,000	\$ 21,822,030	\$ 480,030
-	-	-	481,094	462,209	(18,885)
-	-	-	8,783,190	8,372,145	(411,045)
-	-	-	253,628	282,049	28,421
-	-	-	2,601,444	3,043,132	441,688
-	-	-	257,982	264,697	6,715
-	-	-	33,719,338	34,246,262	526,924
-	-	-	294,051	310,559	16,508
-	-	-	91,216	95,891	4,675
-	-	-	946,917	921,730	(25,187)
29,750	1,275	(28,475)	332,961	256,395	(76,566)
-	-	-	508,000	1,231,336	723,336
-	32,444	32,444	-	167,972	167,972
29,750	33,719	3,969	2,173,145	2,983,883	810,738
29,750	33,719	3,969	35,892,483	37,230,145	1,337,662
-	-	-	74,274	56,299	17,975
-	-	-	822,826	814,129	8,697
-	-	-	6,251	6,162	89
-	-	-	9,355	5,161	4,194
-	-	-	44,932	44,339	593
-	-	-	236,874	203,358	33,516
-	-	-	17,624	17,536	88
-	-	-	44,678	43,028	1,650
-	-	-	1,922	1,904	18
-	-	-	106,090	105,962	128
-	-	-	1,408	1,370	38
-	-	-	567,569	552,978	14,591
-	-	-	2,413	2,412	1
-	-	-	22,241	22,184	57
-	-	-	13,249	12,811	438
-	-	-	2,240,249	2,128,851	111,398
-	-	-	224,790	216,418	8,372
-	-	-	5,216,338	5,070,536	145,802
-	-	-	275,305	275,200	105
30,469	28,310	2,159	2,152,013	2,116,430	35,583
-	-	-	32,193	23,706	8,487
-	-	-	1,088,751	1,058,775	29,976
-	-	-	587,889	534,725	53,164
-	-	-	73,724	43,437	30,287
-	-	-	5,294,063	5,292,467	1,596
-	-	-	12,116,397	11,900,776	215,621
-	-	-	2,050,361	2,050,361	-
-	-	-	1,286,724	1,247,974	38,750
-	-	-	906,686	885,454	21,232
30,469	28,310	2,159	35,517,189	34,734,743	782,446
-	5,389	(5,389)	2,295	8,291	(5,996)
-	-	-	521,001	594,826	(73,825)
-	-	-	-	58,683	(58,683)
-	-	-	-	2,273	(2,273)
-	-	-	401,700	1,231,336	(829,636)
-	-	-	340,079	390,079	(50,000)
-	-	-	620,025	395,025	225,000
-	-	-	93,449	70,732	22,717
-	-	-	-	167,972	(167,972)
-	5,389	(5,389)	1,978,549	2,919,217	(940,668)
30,469	33,699	(3,230)	37,495,738	37,653,960	(158,222)
(719)	20	739	(1,603,255)	(423,815)	1,179,440
-	-	-	1,874,357	1,874,357	-
\$ (719)	\$ 20	\$ 739	\$ 271,102	\$ 1,450,542	\$ 1,179,440

**General Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 379,763	\$ 774,717
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	708,833	586,074
Other receivables.....	11,022	15,607
Due from cities and towns.....	5,020	9,088
Total assets.....	\$ 1,104,638	\$ 1,385,486
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 789,552	\$ 951,066
Accrued payroll.....	170,957	161,190
Total liabilities.....	960,509	1,112,256
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	144,129	273,230
Total fund balance.....	144,129	273,230
Total liabilities and fund balance.....	\$ 1,104,638	\$ 1,385,486

See accountants' review report

**General Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 20,077,700	\$ 20,539,735	\$ 462,035	\$ 19,615,891
Assessments.....	458,634	439,998	(18,636)	438,295
Federal grants and reimbursements.....	8,777,590	8,366,140	(411,450)	8,221,900
Tobacco settlement revenue.....	253,628	282,049	28,421	228,148
Departmental.....	2,069,011	2,156,954	87,943	1,886,898
Miscellaneous.....	245,544	254,968	9,424	211,446
Total revenues.....	<u>31,882,107</u>	<u>32,039,844</u>	<u>157,737</u>	<u>30,602,578</u>
Other financing sources:				
Fringe benefit cost recovery.....	294,051	310,559	16,508	294,675
Lottery reimbursements.....	91,216	95,891	4,675	93,517
Lottery distributions.....	946,917	921,730	(25,187)	949,428
Operating transfers in.....	249,706	241,225	(8,481)	212,118
Stabilization transfer.....	361,000	771,569	410,569	626,466
Total other financing sources.....	<u>1,942,890</u>	<u>2,340,974</u>	<u>398,084</u>	<u>2,176,204</u>
Total revenues and other financing sources.....	<u>33,824,997</u>	<u>34,380,818</u>	<u>555,821</u>	<u>32,778,782</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Legislature.....	74,274	56,299	17,975	57,254
Judiciary.....	822,826	814,129	8,697	790,620
Inspector General.....	6,251	6,162	89	5,870
Governor and Lieutenant Governor.....	9,338	5,144	4,194	5,555
Secretary of the Commonwealth.....	44,816	44,240	576	43,815
Treasurer and Receiver-General.....	236,874	203,358	33,516	192,785
Auditor of the Commonwealth.....	17,624	17,536	88	17,579
Attorney General.....	44,678	43,028	1,650	40,731
Ethics Commission.....	1,922	1,904	18	1,904
District Attorney.....	106,090	105,962	128	105,110
Office of Campaign and Political Finance.....	1,408	1,370	38	1,239
Sheriff's Departments.....	567,569	552,978	14,591	528,489
Disabled Persons Protection Commission.....	2,413	2,412	1	2,281
Board of Library Commissioners.....	22,241	22,184	57	21,775
Comptroller.....	8,544	8,541	3	8,116

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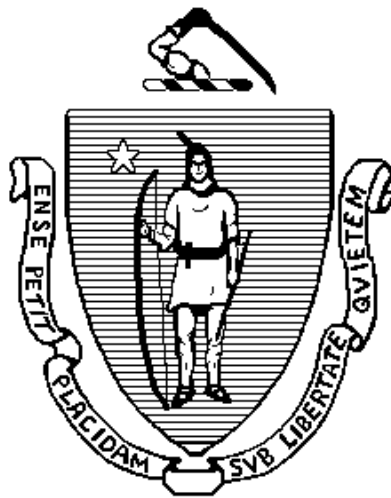
**General Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
Expenditures (continued):				
Administration and Finance.....	1,944,169	1,931,276	12,893	1,791,545
Energy and Environmental Affairs.....	208,796	200,882	7,914	188,527
Health and Human Services.....	5,096,698	4,979,491	117,207	4,768,918
Executive Office of Education.....	2,109,402	2,077,382	32,020	1,963,499
Center for Health Information and Analysis.....	32,193	23,706	8,487	9,067
Public Safety and Homeland Security.....	1,034,019	1,010,411	23,608	959,953
Housing and Economic Development.....	519,696	498,273	21,423	442,689
Labor and Workforce Development.....	52,683	41,437	11,246	38,902
Direct local aid.....	5,294,063	5,292,467	1,596	5,115,737
Medicaid.....	12,116,397	11,900,776	215,621	10,799,693
Post employment benefits.....	2,050,361	2,050,361	-	1,967,042
Debt service:				
Principal retirement.....	643,059	625,392	17,667	668,923
Interest and fiscal charges.....	436,371	428,601	7,770	432,648
<b>Total expenditures.....</b>	<b>33,504,775</b>	<b>32,945,702</b>	<b>559,073</b>	<b>30,970,266</b>
Other financing uses:				
Operating transfers out.....	8,922	73,249	(64,327)	97,891
Stabilization transfer.....	37,000	459,767	(422,767)	499,998
State Retiree Benefits transfer.....	-	27,346	(27,346)	-
Commonwealth care transfer.....	340,079	390,079	(50,000)	661,249
Medical assistance transfer.....	620,025	395,025	225,000	390,889
Delivery system transformation initiatives trust transfer.....	93,449	70,732	22,717	186,908
Other fund deficit support.....	-	148,019	(148,019)	-
<b>Total other financing uses.....</b>	<b>1,099,475</b>	<b>1,564,217</b>	<b>(464,742)</b>	<b>1,836,935</b>
<b>Total expenditures and other financing uses.....</b>	<b>34,604,250</b>	<b>34,509,919</b>	<b>94,331</b>	<b>32,807,201</b>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(779,253)	(129,101)	650,152	(28,419)
Fund balance (deficit) at beginning of year.....	273,230	273,230	-	301,649
<b>Fund balance (deficit) at end of year.....</b>	<b>\$ (506,023)</b>	<b>\$ 144,129</b>	<b>\$ 650,152</b>	<b>\$ 273,230</b>

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**Commonwealth Transportation Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 608	\$ -
Cash with fiscal agent.....	14,384	13,932
Receivables, net of allowance for uncollectibles:		
Other receivable.....	-	45,512
Total assets.....	\$ 14,992	\$ 59,444
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Deficiency in cash and short-term investments.....	\$ -	\$ 44,867
Accounts payable.....	608	545
Total liabilities.....	608	45,412
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	-	100
Reserved for debt service.....	14,384	13,932
Total fund balance.....	14,384	14,032
Total liabilities and fund balance.....	\$ 14,992	\$ 59,444

See accountants' review report



**Commonwealth Transportation Fund**  
Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 1,217,400	\$ 1,231,994	\$ 14,594	\$ 968,615
Assessments.....	22,460	22,211	(249)	21,791
Departmental.....	523,795	522,364	(1,431)	557,684
Miscellaneous.....	1,410	2,430	1,020	666
Total revenues.....	<u>1,765,065</u>	<u>1,778,999</u>	<u>13,934</u>	<u>1,548,756</u>
Other financing sources:				
Operating transfers in.....	-	11,428	11,428	11,779
Other fund deficit support.....	-	102,495	102,495	-
Total other financing sources.....	<u>-</u>	<u>113,923</u>	<u>113,923</u>	<u>11,779</u>
Total revenues and other financing sources.....	<u>1,765,065</u>	<u>1,892,922</u>	<u>127,857</u>	<u>1,560,535</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Massachusetts Department of Transportation.....	275,300	275,200	100	160,000
Debt service:				
Principal retirement.....	637,447	616,364	21,083	551,762
Interest and fiscal charges.....	470,315	456,853	13,462	463,885
Total expenditures.....	<u>1,383,062</u>	<u>1,348,417</u>	<u>34,645</u>	<u>1,175,647</u>
Other financing uses:				
Operating transfers out.....	512,079	515,089	(3,010)	335,079
State Retiree Benefits transfer.....	-	29,064	(29,064)	-
Stabilization transfer.....	-	-	-	43,358
Total other financing uses.....	<u>512,079</u>	<u>544,153</u>	<u>(32,074)</u>	<u>378,437</u>
Total expenditures and other financing uses.....	<u>1,895,141</u>	<u>1,892,570</u>	<u>2,570</u>	<u>1,554,084</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(130,076)	352	130,428	6,451
Fund balance (deficit) at beginning of year.....	14,032	14,032	-	7,581
Fund balance (deficit) at end of year.....	<u>\$ (116,044)</u>	<u>\$ 14,384</u>	<u>\$ 130,428</u>	<u>\$ 14,032</u>

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**Commonwealth Stabilization Fund**  
**Balance Sheet- Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 986,598	\$ 1,298,310
Investments.....	261,837	258,347
Total assets.....	\$ 1,248,435	\$ 1,556,657
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable.....	\$ -	\$ -
Total liabilities.....	-	-
Fund balance:		
Reserved fund balance:		
Reserved for Commonwealth Stabilization.....	1,248,435	1,556,657
Total fund balance.....	1,248,435	1,556,657
Total liabilities and fund balance.....	\$ 1,248,435	\$ 1,556,657

See accountants' review report

**Commonwealth Stabilization Fund**  
Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ -	\$ 867	\$ 867	\$ 1,291
Miscellaneous.....	11,000	7,259	(3,741)	5,322
Total revenues.....	<u>11,000</u>	<u>8,126</u>	<u>(2,874)</u>	<u>6,613</u>
Other financing sources:				
Stabilization transfer.....	147,000	459,767	312,767	499,998
Total other financing sources.....	<u>147,000</u>	<u>459,767</u>	<u>312,767</u>	<u>499,998</u>
Total revenues and other financing sources.....	<u>158,000</u>	<u>467,893</u>	<u>309,893</u>	<u>506,611</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Administration and Finance.....	-	-	-	-
Total expenditures.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing uses:				
State Retiree Benefits transfer.....	-	2,273	(2,273)	23,375
State Pension transfer.....	-	2,273	(2,273)	23,375
Stabilization transfer.....	364,700	771,569	(406,869)	555,322
Total other financing uses.....	<u>364,700</u>	<u>776,115</u>	<u>(411,415)</u>	<u>602,072</u>
Total expenditures and other financing uses.....	<u>364,700</u>	<u>776,115</u>	<u>(411,415)</u>	<u>602,072</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(206,700)	(308,222)	(101,522)	(95,461)
Fund balance (deficit) at beginning of year.....	<u>1,556,657</u>	<u>1,556,657</u>	<u>-</u>	<u>1,652,118</u>
Fund balance (deficit) at end of year.....	<u>\$ 1,349,957</u>	<u>\$ 1,248,435</u>	<u>\$ (101,522)</u>	<u>\$ 1,556,657</u>

See accountants' review report

**Intragovernmental Service Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 41,709	\$ 40,234
Total assets.....	\$ 41,709	\$ 40,234
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 27,296	\$ 26,109
Accrued payroll.....	4,184	4,342
Total liabilities.....	31,480	30,451
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	10,229	9,783
Total fund balance .....	10,229	9,783
Total liabilities and fund balance.....	\$ 41,709	\$ 40,234

See accountants' review report

**Intragovernmental Service Fund**  
**Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis**

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ -	\$ 354,758	\$ 354,758	\$ 328,654
Total revenues.....	-	354,758	354,758	328,654
Other financing sources:				
Operating transfers in.....	-	-	-	-
Total other financing sources.....	-	-	-	-
Total revenues and other financing sources.....	-	354,758	354,758	328,654
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Secretary of the Commonwealth.....	116	99	17	113
Comptroller.....	4,705	4,270	435	3,922
Administration and Finance.....	295,962	197,457	98,505	189,939
Energy and Environmental Affairs.....	1,424	1,384	40	1,259
Health and Human Services.....	119,640	91,045	28,595	79,849
Executive Office of Education.....	1,860	456	1,404	90
Public Safety and Homeland Security.....	54,732	48,364	6,368	42,792
Housing and Economic Development.....	2,480	1,541	939	1,147
Labor and Workforce Development.....	19,041	-	19,041	-
Debt service:				
Principal retirement.....	6,218	6,218	-	-
Total expenditures.....	506,178	350,834	155,344	319,111
Other financing uses:				
Operating transfers out.....	-	3,478	(3,478)	7,915
Total other financing uses.....	-	3,478	(3,478)	7,915
Total expenditures and other financing uses.....	506,178	354,312	151,866	327,026
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....				
	(506,178)	446	506,624	1,628
Fund balance (deficit) at beginning of year.....	9,783	9,783	-	8,155
Fund balance (deficit) at end of year.....	\$ (496,395)	\$ 10,229	\$ 506,624	\$ 9,783

See accountants' review report

**Inland Fisheries And Game Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 18,548	\$ 19,524
Total assets.....	\$ 18,548	\$ 19,524
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 772	\$ 617
Accrued payroll.....	343	304
Total liabilities.....	1,115	921
Fund balance:		
Unreserved fund balance:		
Undesignated.....	17,433	18,603
Total fund balance.....	17,433	18,603
Total liabilities and fund balance.....	\$ 18,548	\$ 19,524

See accountants' review report

**Inland Fisheries And Game Fund**  
**Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis**

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 900	\$ 962	\$ 62	\$ 857
Federal grants and reimbursements.....	5,600	6,005	405	6,517
Departmental.....	6,858	7,079	221	6,893
Miscellaneous.....	28	40	12	41
Total revenues.....	<u>13,386</u>	<u>14,086</u>	<u>700</u>	<u>14,308</u>
Other financing sources:				
Operating transfers in.....	130	179	49	170
Total other financing sources.....	<u>130</u>	<u>179</u>	<u>49</u>	<u>170</u>
Total revenues and other financing sources.....	<u>13,516</u>	<u>14,265</u>	<u>749</u>	<u>14,478</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Administration and Finance.....	118	118	-	-
Energy and Environmental Affairs.....	13,528	13,262	266	12,544
Total expenditures.....	<u>13,646</u>	<u>13,380</u>	<u>266</u>	<u>12,544</u>
Other financing uses				
Fringe benefit cost assessment.....	1,939	2,055	(116)	1,995
Total other financing uses.....	<u>1,939</u>	<u>2,055</u>	<u>(116)</u>	<u>1,995</u>
Total expenditures and other financing uses.....	<u>15,585</u>	<u>15,435</u>	<u>150</u>	<u>14,539</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(2,069)	(1,170)	899	(61)
Fund balance (deficit) at beginning of year.....	18,603	18,603	-	18,664
Fund balance (deficit) at end of year.....	<u>\$ 16,534</u>	<u>\$ 17,433</u>	<u>\$ 899</u>	<u>\$ 18,603</u>

See accountants' review report

**Marine Recreational Fisheries Development Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 2,538	\$ 2,096
Total assets.....	\$ 2,538	\$ 2,096
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 123	\$ 107
Accrued payroll.....	16	13
Total liabilities.....	139	120
Fund balance:		
Unreserved fund balance:		
Undesignated.....	2,399	1,976
Total fund balance.....	2,399	1,976
Total liabilities and fund balance.....	\$ 2,538	\$ 2,096

See accountants' review report



**Marine Recreational Fisheries Development Fund**  
**Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis**

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ 1,780	\$ 1,408	\$ (372)	\$ 1,230
Total revenues.....	<u>1,780</u>	<u>1,408</u>	<u>(372)</u>	<u>1,230</u>
Other financing sources:				
Operating transfers in.....	-	-	-	-
Total other financing sources.....	-	-	-	-
Total revenues and other financing sources.....	<u>1,780</u>	<u>1,408</u>	<u>(372)</u>	<u>1,230</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Energy and Environmental Affairs.....	1,042	890	152	732
Total expenditures.....	<u>1,042</u>	<u>890</u>	<u>152</u>	<u>732</u>
Other financing uses				
Fringe benefit cost assessment.....	-	95	(95)	81
Total other financing uses.....	-	95	(95)	81
Total expenditures and other financing uses.....	<u>1,042</u>	<u>985</u>	<u>57</u>	<u>813</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	738	423	(315)	417
Fund balance (deficit) at beginning of year.....	<u>1,976</u>	<u>1,976</u>	<u>-</u>	<u>1,559</u>
Fund balance (deficit) at end of year.....	<u>\$ 2,714</u>	<u>\$ 2,399</u>	<u>\$ (315)</u>	<u>\$ 1,976</u>

See accountants' review report

**Public Safety Training Fund**  
Balance Sheet - Statutory Basis

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 568	\$ -
Total assets.....	\$ 568	\$ -
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ -	\$ -
Total liabilities.....	-	-
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	568	-
Total fund balance (deficit).....	568	-
Total liabilities and fund balance.....	\$ 568	\$ -

**Public Safety Training Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ -	\$ 568	\$ 568	\$ -
Total revenues.....	-	568	568	-
Other financing sources:				
Operating transfer in.....	-	-	-	-
Total other financing sources.....	-	-	-	-
Total revenues and other financing sources.....	-	568	568	-
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Administration and finance.....	-	-	-	-
Total expenditures.....	-	-	-	-
Other financing uses:				
Operating transfer out.....	-	-	-	-
Total other financing uses.....	-	-	-	-
Total expenditures and other financing uses.....	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.	-	568	568	-
Fund balance (deficit) at beginning of year.....	-	-	-	-
Fund balance (deficit) at end of year.....	\$ -	\$ 568	\$ 568	\$ -

**Children and Families Protection Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ -	\$ -
Total assets.....	\$ -	\$ -
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ -	\$ -
Total liabilities.....	-	-
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	-	-
Total fund balance (deficit).....	-	-
Total liabilities and fund balance.....	\$ -	\$ -

**Children and Families Protection Fund**  
**Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis**

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ -	1	\$ 1	\$ -
Total revenues.....	-	1	1	-
Other financing sources:				
Operating transfers in.....	-	-	-	-
Total other financing sources.....	-	-	-	-
Total revenues and other financing sources.....	-	1	1	-
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Health and human services.....	-	-	-	-
Total expenditures.....	-	-	-	-
Other financing uses:				
Operating transfers out.....	-	1	(1)	-
Total other financing uses.....	-	1	(1)	-
Total expenditures and other financing uses.....	-	1	(1)	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	-	-	-	-
Fund balance (deficit) at beginning of year.....	-	-	-	-
Fund balance (deficit) at end of year.....	\$ -	\$ -	\$ -	\$ -

**Massachusetts Tourism Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 1,376	\$ 961
Total assets.....	\$ 1,376	\$ 961
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 1,279	\$ 832
Accrued payroll.....	77	53
Total liabilities.....	1,356	885
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	20	76
Total fund balance.....	20	76
Total liabilities and fund balance.....	\$ 1,376	\$ 961

See accountants' review report

**Massachusetts Tourism Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 46,000	\$ 48,472	\$ 2,472	\$ 45,228
Total revenues.....	<u>46,000</u>	<u>48,472</u>	<u>2,472</u>	<u>45,228</u>
Other financing sources:				
Operating transfers in.....	2,625	113	(2,512)	-
Total other financing sources.....	<u>2,625</u>	<u>113</u>	<u>(2,512)</u>	<u>-</u>
Total revenues and other financing sources.....	<u>48,625</u>	<u>48,585</u>	<u>(40)</u>	<u>45,228</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Governor and Lieutenant Governor.....	17	17	-	17
Massachusetts Department of Transportation.....	5	-	5	-
Total expenditures.....	<u>25,322</u>	<u>25,199</u>	<u>118</u>	<u>16,982</u>
Other financing uses:				
Fringe benefit cost assessment.....	356	480	(124)	384
Operating transfers out.....	-	3,009	(3,009)	-
Stabilization transfer.....	-	-	-	27,786
Other fund deficit support.....	-	19,953	(19,953)	-
Total other financing uses.....	<u>356</u>	<u>23,442</u>	<u>(23,086)</u>	<u>28,170</u>
Total expenditures and other financing uses.....	<u>25,678</u>	<u>48,641</u>	<u>(22,968)</u>	<u>45,152</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	22,947	(56)	(23,003)	76
Fund balance (deficit) at beginning of year.....	76	76	-	-
Fund balance (deficit) at end of year.....	<u>\$ 23,023</u>	<u>\$ 20</u>	<u>\$ (23,003)</u>	<u>\$ 76</u>

See accountants' review report

**Local Capital Projects Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 21,250	\$ -
Total assets.....	\$ 21,250	\$ -
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ -	\$ -
Total liabilities.....	-	-
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	21,250	-
Total fund balance (deficit).....	21,250	-
Total liabilities and fund balance.....	\$ 21,250	\$ -



**Local Capital Projects Fund**  
**Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis**

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ -	\$ -	\$ -	\$ -
Total revenues.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:				
Operating transfers in.....	19,250	825	(18,425)	-
Other fund deficit support.....	-	20,425	20,425	-
Total other financing sources.....	<u>19,250</u>	<u>21,250</u>	<u>2,000</u>	<u>-</u>
Total revenues and other financing sources.....	<u>19,250</u>	<u>21,250</u>	<u>2,000</u>	<u>-</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Housing and Economic Development.....	21,250	-	21,250	-
Total expenditures.....	<u>21,250</u>	<u>-</u>	<u>21,250</u>	<u>-</u>
Other financing uses:				
Operating transfers out.....	-	-	-	-
Total other financing uses.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures and other financing uses.....	<u>21,250</u>	<u>-</u>	<u>21,250</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(2,000)	21,250	23,250	-
Fund balance (deficit) at beginning of year.....	-	-	-	-
Fund balance (deficit) at end of year.....	<u>\$ (2,000)</u>	<u>\$ 21,250</u>	<u>\$ 23,250</u>	<u>\$ -</u>

**Local Aid Stabilization Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ -	\$ -
Total assets.....	\$ -	\$ -
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Deficiency in cash and short-term investments.....	\$ 7,182	\$ -
Accounts payable.....	1,143	-
Total liabilities.....	8,325	-
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	(8,325)	-
Total fund balance (deficit).....	(8,325)	-
Total liabilities and fund balance.....	\$ -	\$ -

**Local Aid Stabilization Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ -	\$ -	\$ -	\$ -
Total revenues.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:				
Operating transfers in.....	8,750	375	(8,375)	-
Total other financing sources.....	<u>8,750</u>	<u>375</u>	<u>(8,375)</u>	<u>-</u>
Total revenues and other financing sources.....	<u>8,750</u>	<u>375</u>	<u>(8,375)</u>	<u>-</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Executive Office of Education.....	8,700	8,700	-	-
Total expenditures.....	<u>8,700</u>	<u>8,700</u>	<u>-</u>	<u>-</u>
Other financing uses:				
Operating transfers out.....	-	-	-	-
Total other financing uses.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures and other financing uses.....	<u>8,700</u>	<u>8,700</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	50	(8,325)	(8,375)	-
Fund balance (deficit) at beginning of year.....	-	-	-	-
Fund balance (deficit) at end of year.....	<u>\$ 50</u>	<u>\$ (8,325)</u>	<u>\$ (8,375)</u>	<u>\$ -</u>

**Manufacturing Fund**  
Balance Sheet - Statutory Basis

June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 30	\$ -
Total assets.....	\$ 30	\$ -
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 30	\$ -
Total liabilities.....	30	-
Fund balance:		
Unreserved fund balance (deficit):		
Undesignated.....	-	-
Total fund balance (deficit).....	-	-
Total liabilities and fund balance.....	\$ 30	\$ -

**Manufacturing Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ -	\$ -	\$ -	\$ -
Total revenues.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:				
Operating transfers in.....	22,750	975	(21,775)	-
Other fund deficit support.....	-	12,608	12,608	-
Total other financing sources.....	<u>22,750</u>	<u>13,583</u>	<u>(9,167)</u>	<u>-</u>
Total revenues and other financing sources.....	<u>22,750</u>	<u>13,583</u>	<u>(9,167)</u>	<u>-</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Executive Office of Education.....	1,582	1,582	-	-
Housing and Economic Development.....	19,163	9,729	9,434	-
Labor and Workforce Development.....	2,000	2,000	-	-
Total expenditures.....	<u>22,745</u>	<u>13,311</u>	<u>9,434</u>	<u>-</u>
Other financing uses:				
Fringe benefit cost assessment.....	-	272	(272)	-
Total other financing uses.....	<u>-</u>	<u>272</u>	<u>(272)</u>	<u>-</u>
Total expenditures and other financing uses.....	<u>22,745</u>	<u>13,583</u>	<u>9,162</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	5	-	(5)	-
Fund balance (deficit) at beginning of year.....	-	-	-	-
Fund balance (deficit) at end of year.....	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ (5)</u>	<u>\$ -</u>

**Community College Fund**  
**Balance Sheet - Statutory Basis**

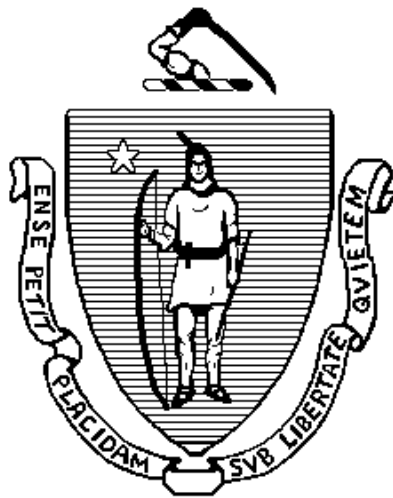
June 30, 2014  
(Amounts in thousands)

	2014	2013
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 778	\$ -
Total assets.....	\$ 778	\$ -
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accrued payroll.....	\$ 758	\$ -
Total liabilities.....	758	-
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	20	-
Total fund balance (deficit).....	20	-
Total liabilities and fund balance.....	\$ 778	\$ -

**Community College Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	2014 Budget	2014 Actual	Variance Favorable (Unfavorable)	2013 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ -	\$ -	\$ -	\$ -
Total revenues.....	-	-	-	-
Other financing sources:				
Operating transfers in.....	29,750	1,275	(28,475)	-
Other fund deficit support.....	-	32,444	32,444	-
Total other financing sources.....	29,750	33,719	3,969	-
Total revenues and other financing sources.....	29,750	33,719	3,969	-
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Executive Office of Education.....	30,469	28,310	2,159	-
Total expenditures.....	30,469	28,310	2,159	-
Other financing uses:				
Fringe benefit cost assessment.....	-	5,389	(5,389)	-
Total other financing uses.....	-	5,389	(5,389)	-
Total expenditures and other financing uses.....	30,469	33,699	(3,230)	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(719)	20	739	-
Fund balance (deficit) at beginning of year.....	-	-	-	-
Fund balance (deficit) at end of year.....	\$ (719)	\$ 20	\$ 739	\$ -



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# *Non-Budgeted Funds*

## **SPECIAL REVENUE FUNDS:**

These funds account for the proceeds of specific revenue sources that are restricted to finance specific functions. Funds that are not subject to appropriation are considered Non-Budgeted Special Revenue Funds.

*Federal Grants Fund* – to account for federal grants that are designated for specific programs, excluding federal highway construction grants, which are accounted for in the Federal Highway Construction Capital Projects Fund, and federal reimbursement programs, such as Medicaid, which are accounted for in the General Fund.

## **LOTTERY FUNDS:**

The two lottery funds account for the operations of the State and Arts Lotteries.

*State Lottery Fund* – to account for revenue from the sale of lottery tickets and for the payment of prizes, expenses of the State Lottery Commission and the distribution to municipalities and school districts. Transfers are made from lottery profits to the General Fund.

*Arts Lottery Fund* – to account for revenues from the sale of lottery tickets, for payment of prizes and the expenses of the State Lottery Commission, and for the administration of the Arts Lottery Council. Transfers are made to the General Fund at the end of the fiscal year.

## **GAMING FUNDS:**

*Massachusetts Gaming Control Fund* – to account for all gaming fees and assessments not recorded in other funds by legislative mandate and other monies authorized by the General Court. Expenditures are to finance the activities of the Massachusetts Gaming Commission (MGC).

*Gaming Licensing Fund* – to account for the collection of all gaming establishment licensing fees established under Chapter 23K of the General Laws and excluding initial application fees. Monies from this fund shall be transferred to various funds in accordance with Section 93 of Chapter 194 of the Acts of 2011. This fund shall expire on December 31, 2015.

## **UNIVERSAL HEALTH CARE FUNDS:**

The twelve Universal Healthcare Funds account for assessments and other revenues that are dedicated to making health care and health insurance accessible and affordable to all citizens of the Commonwealth.

*Catastrophic Illness in Children Relief Fund* – to account for receipts from a portion of an employer's unemployment health insurance contribution and certain Federal financial participation. The assistance is for medical expenses of childhood catastrophic illnesses not covered by any other state and federal program and subject to certain family income limits.

*Commonwealth Care Trust Fund* – to collect fair share employer assessments, free rider surcharges, cigarette tax revenues, transfers from the Health Safety Net Trust Fund and any funds that may be appropriated or transferred for deposit into the trust fund for the purpose of providing health care coverage in accordance with Chapter 58 of the Acts of 2006.

*Medical Assistance Trust Fund* – to account for any funds directed to the Commonwealth from public entities and federal revenues related to medical assistance; to be used for medical assistance payments to entities authorized by the general court.

*Health Safety Net Trust Fund* – to account for reimbursing hospitals and community health centers for a portion of the cost of reimbursable health services provided to low-income, uninsured or underinsured residents of the Commonwealth.

*Section 1202 Trust Fund* – to account for amounts equal to the Federal Financial Participation (FFP) received for the portion of expenditures eligible for 100% FFP under Section 1202 of the Patient Protection and Affordable Care Act, Public Law 111-152 and regulations adopted thereunder. The amount deposited shall not exceed the amount expended from the fund. Expenditures shall be exclusively for services provided in calendar years 2013 and 2014 that are eligible for 100% FFP under said Section 1202. The secretary of health and human services may incur expenses, and the comptroller may certify for payment from the fund amounts in anticipation of expected receipts, but no expenditure shall be made from the fund that shall cause the fund to be in deficit at the close of a fiscal year. Funds may be expended for services provided in prior fiscal years. This fund expires June 30, 2015.

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***Delivery System Transformation Initiatives Trust Fund*** – to account for funds expended for delivery system transformation initiatives payments to qualifying providers under an approved federal waiver.

***Money Follows the Person Rebalancing Demonstration Grant Trust Fund*** – to account for funds used for expenses that primarily benefit individuals who have disabilities or long-term illnesses or who are elders. The funds shall be used to fund slots for participants in the two new “money follows the person” home and community-based waiver programs established to support the commonwealth’s rebalancing initiative. Monies equal to the amount of federal financial participation collected from the previous quarter shall be transferred to the fund.

***Medical Security Trust Fund*** – to account for premiums, fees, and contributions; used for health insurance for workers receiving unemployment insurance.

***Healthcare Payment Reform Fund*** – to account for any gaming license fees transferred under Section 93 of Chapter 194 of the Acts of 2011, as amended by Section 10 of Chapter 3 of the Acts of 2013, 5% of the acute hospital assessments and any monies credited or transferred to the fund from any other fund or source. The Health Policy Commission is the trustee of the fund and may expend from the fund, without further appropriation, to carry out the purposes of Chapter 224 of the Acts of 2012, which is to improve the quality of and reduce the cost of health care in the Commonwealth.

***Distressed Hospital Trust Fund*** – to account for public and private sources such as gifts, grants and donations, interest earned on such revenues, 60% of the acute hospital assessment established in Section 241 of Chapter 224 of the Acts of 2012, and any funds provided from other sources. All expenditures from the Distressed Hospital Trust Fund shall support the State’s efforts to meet the health care cost growth benchmark established in Section 9 of Chapter 6D of the General Laws and shall be consistent with any activities funded by the e-Health Institute, the Healthcare Payment Reform Fund, and any delivery system transformation initiative funds authorized by the federal government. No more than 10% of the amounts held in the fund in any 1 year shall be used by the commission for the combined cost of program administration, technical assistance to grantees or program evaluation.

***Prevention and Wellness Trust Fund*** – to account for: (1) any revenue from appropriations or other monies authorized by the General Court and specifically designated to be credited to the fund; (2) any fines and penalties allocated to the fund; (3) any funds from public

and private sources such as gifts, grants and donations to further community-based prevention activities; (4) any interest earned on such revenues; and (5) any funds provided from other sources. Also, 26 2/3% of the acute hospital assessment established in Section 241 of Chapter 224 of the Acts of 2012 shall be credited to this fund. All expenditures from the fund shall support the state’s efforts to meet the health care cost growth benchmark established in Section 9 of Chapter 6D of the General Laws and any activities funded by the Healthcare Payment Reform Fund and other health related purposes. No more than 15% of the amounts held in the fund in any 1 year shall be used by the department for the combined cost of program administration, technical assistance to grantees or program evaluation.

***Massachusetts Health Information Exchange Fund*** – to account for expenditures to support the dissemination and development of the statewide health information exchange. There shall be credited to the fund any appropriations, proceeds of any bonds or notes of the commonwealth issued for the purpose, or other monies authorized by the general court and designated thereto; any federal grants or loans; any private gifts, grants or donations made available; and any income derived from the investment of amounts credited to the fund.

#### **OTHER FUNDS:**

The other special revenue funds account for a variety of miscellaneous taxes, assessments, fees, fines and other revenues, which are restricted to the financing of specific Commonwealth programs.

***Dam and Seawall Repair or Removal Fund*** – to account for amounts credited or transferred to the fund by the General Court or any other source including, without limitation, federal grants; loan repayments; investment earnings on monies in the fund; and any other amounts required to be credited to the fund by operation of law, resolution or agreement entered into by the Department of Conservation and Recreation. Amounts credited to the fund shall be used to provide grants or loans to local governmental bodies, charitable organizations and private dam owners to finance or refinance costs related to dams and flood or wave control repair or remediation projects. Grants from the fund shall only be available to local government bodies and charitable organizations.

***Department of Telecommunication and Energy Trust Fund*** – to account for expenditures by the Department of Telecommunications and Energy for activities of the Department related to the regulation of electric companies.

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***Fingerprint-Based Background Check Trust Fund*** – to account for any appropriations or other monies authorized by the General Court and specifically designated to be credited thereto and any additional funds designated for deposit into the fund, including any private donations made available for deposit into the fund. Expenditures shall be for the sole purpose of carrying out state and national criminal background checks and verifications.

***Liability Management and Reduction Fund*** – to account for chargebacks assessed to departments as premiums for the provision of insurance coverage for state agencies to cover payment of judgments, settlements and litigation costs in tort claims.

***Medical Marijuana Trust Fund*** – to account for revenues generated from fees collected after July 1, 2013, as authorized by Section 3B of Chapter 7 of the General Laws and Section 13 of Chapter 369 of the acts of 2012. Expenditures from the fund shall be for the administrative costs of operations and programs related to said Chapter 369. The department may incur expenses and the comptroller may certify for payment, amounts in anticipation of expected receipts; provided, however, that no expenditure shall be made from the fund which shall cause the fund to be in deficit at the close of a fiscal year.

***Essex Regional Emergency Communications Center Fund*** – The fund shall be used for the operation of the Essex Regional Emergency Communications Center to provide centralized emergency communication services to participating communities. There shall be credited to the fund amounts from the following sources: (i) the per capita assessment based on population on each member city or town that has accepted and executed the Regional Emergency Communications Center (RECC) intermunicipal agreement for the joint provision of public safety communications, dispatch and operations services, or IMA; and (ii) any other funding, including, but not limited to, appropriation, gift, grant, contribution, transfer or investment. Expenditures from the fund shall be made for the operating costs of the RECC in compliance with the annual operating plan and budget adopted by the finance advisory board under the IMA; provided, however, that funds shall not be used toward the capital budget requirements of the Essex County Regional Emergency Communications Center.

***Dockside Testing Trust Fund*** – to account for fees collected from harvesters of molluscan shellfish on Georges Bank in waters that are not monitored for the presence of paralytic shellfish toxin in the amount of \$35,000 per vessel that harvests molluscan shellfish in those waters. Expenditures shall be for the administrative costs of the operations and programs of the department

related to regulating and monitoring the shellfish harvesters, including the testing of shellfish as necessary to ensure that they are safe for human consumption. The department may incur expenses and the comptroller may certify for payment amounts in anticipation of expected receipts, but no expenditure shall be made from the fund that would cause the fund to be in deficit at the close of a fiscal year.

***Commonwealth of Massachusetts Civil Monetary Penalty (CMP) Fund*** – to account for civil monetary penalties paid by nursing homes participating in the medical program for the protection of health and property of residents in a nursing home if the facility is found deficient.

***MBTA State and Local Contribution Fund*** – to account for the transfer of dedicated sales tax revenue and MBTA service area assessments from the Commonwealth to the MBTA as set forth in Massachusetts General Laws, Chapter 10, Section 35T.

***Community Preservation Trust Fund*** – to account for revenues received from surcharges on real estate property taxes, public and private sources as gifts, grants and donations, from damages, penalties costs from litigation settlements and surcharge on municipal liens imposed by the cities and towns that accept funds from the trust, to further community open space preservation programs.

***Health Insurance Portability and Accountability Act Fund*** – to account for revenues received from Federal reimbursements under the Social Security Act, other Federal reimbursements, grants, gifts or other contributions to meet the costs of compliance with the Federal Health Insurance Portability and Accountability Act of 1996 (HIPPA).

***State Racing Fund*** – to account for racing-related taxes and assessments, to be used for expenditures governing simulcasting and to provide certain relief to the racing industry in the Commonwealth. This fund expires on July 31, 2016.

***Division of Professional Licensure Trust Fund*** – to support programs and administrative costs of the Division of Professional Licensure. Revenues are from professional registration fees and expenditures are for regulatory purposes. Moneys deposited into the trust fund that are unexpended at the end of the fiscal year, and that total not more than 50 per cent of the division's expenditures for the previous fiscal year, shall not revert to the General Fund.

***Victims of Drunk Driving Trust Fund*** – to account for fines collected from individuals convicted of driving under the influence of various substances defined by the law.

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Expenditures are for grants to community based programs to provide counseling and support services to victims of accidents.

**State Athletic Commission Fund** – to account for licensing fees, other fees and fines collected up to a maximum of \$200,000 per year. All revenues in excess of \$200,000 shall be transferred to the General Fund.

**Organ and Tissue Donor Registration Fund** – to account for funds received from public and private donations, fees collected by the department of Public Health, including interest revenue, for the purpose of registration of residents of the Commonwealth as organ and tissue donors. Administrative costs cannot exceed 3% per annum of the funds held in the fund in any given fiscal year.

**Department of Fire Services Hazardous Materials Emergency Mitigation Response Recovery Trust Fund** – to account for monies received from fees, fines and investment income up to a maximum of \$250,000 per year. All revenues in excess of \$250,000 are transferred to the General Fund. Expenditures are for emergency hazardous materials response and mitigation costs.

**Registers Technological Fund** – to account for funds received from deed surcharges for the benefit of abolished counties. Expenditures are for technological improvements at the registries of deeds in those counties.

**County Registers Technological Fund** – to account for monies received from deed surcharges for Barnstable, Bristol, Dukes, Norfolk, Plymouth and Nantucket Counties. Expenditures are for technical improvements at those counties.

**State Election Campaign Fund** – to account for the costs of quadrennial statewide elections provided for through contributions from citizens.

**Enhanced 911 Fund** – to account for expenditures by the State Police and the Executive Office of Public Safety and Security to automatically identify a telephone number used to place or route a 911 call.

**Counsel for Indigent Salary Enhancement Trust Fund** – to account for fees collected for private applications for criminal complaints for misdemeanors in Commonwealth courts, including investment income. Expenditures are for rate enhancements for advocates for the indigent.

**Smart Growth Housing Trust Fund** – to account for revenues from state surplus property sold for between \$25 million to \$50 million, or appropriations from the General Fund and monetary sanctions imposed by the department.

This fund is controlled by the Department of Housing and Community Development for the purpose of making payments to communities under the Smart Growth and Housing Production program.

**Special Projects Permitting and Oversight Fund** – to account for environmental permitting fees. Expenditures are for permitting, technical assistance, compliance and other activities related to environmental oversight.

**Division of Energy Resources Credit Trust Fund** – to account for the receipt, retention, redemption, sale or transfer of energy conservation credits, renewable energy certificates or credits, emission credits and similar allowances. The Division of Energy Resources may expend these funds, without further appropriation for the implementation of programs for energy reliability, renewable energy, public procurement of energy and energy efficiency and climate change.

**School Modernization and Reconstruction Trust Fund** – to account for dedicated sales tax revenues in support of the School Building Assistance Program.

**Roche Community Rink Fund** – to account for the residual net revenues of the privately operated ice skating rink located in the West Roxbury section of the city of Boston.

**Health Care Workforce Transformation Fund** – to account for all revenue received under Section 28 of Chapter 224 of the Acts of 2012, including payments made under the healthcare workforce loan repayment program, appropriations made by General Court and gifts, grants and interest income. Expenditures of not more than 10% of the amount held in the fund in any one year shall be used by the Secretary of Health and Human Services for the combined cost of program administration, technical assistance to grantees and program evaluation. Funds of not less than 20% may be transferred to the Department of Public Health and up to 10% may be transferred to the Massachusetts Nursing and Allied Health Workforce Development Trust Fund. Funds remaining shall be expended by the Executive Office of Labor and Workforce Development for various healthcare related jobs programs.

**Workforce Competitiveness Trust Fund** – to account for funds to support the development and implementation of employer and work responsive programs to enhance worker skills, income, productivity and retention and to increase the quality and competitiveness of Massachusetts firms. The fund is administered by the Executive Office of Labor and Workforce Development.

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**Fire Prevention and Public Safety Fund** – to account for all penalties recovered under the Cigarette Fire Safety Regulation Act to be used for fire safety and prevention programs.

**Cigarette Fire Safety and Firefighter Protection Act Enforcement Fund** – to account for the fire safety certification fees submitted by cigarette manufacturers. The fund is used solely to support state processing, testing, enforcement and oversight activities related to implementation of the cigarette fire safety regulation.

**Massachusetts Board of Higher Education Scholar-Internship Match Fund** – to provide a match for industry scholarships given to Massachusetts students going on to study for a post-secondary degree at Massachusetts public higher education institutions. The amount to be matched through the Scholar-Internship Match Fund shall not exceed \$5,000 per student, contingent upon receiving a corresponding industry scholarship or internship of up to the same amount.

**District Local Technical Assistance Fund** – to account for grants to regional planning agencies for technical assistance to municipalities and to develop a statewide permitting model. Technical assistance services funded by these grants shall include services for zoning, land use planning, conservation, public safety planning, information technology and statistical trend modeling. Expenditures from this fund may not exceed \$2.8 million in any fiscal year.

**Educational Rewards Grant Program Fund** – to account for grants to students in accredited post-secondary certificate or vocational technology programs or associate degrees in targeted high-demand occupations.

**Massachusetts Nursing and Allied Health Workforce Development Trust Fund** – to account for funds appropriated, grants, loans or private donations received to increase the number of public and private higher education faculty and students who participate in programs that support careers in fields related to nursing and allied health.

**Health Information Technology Trust Fund** – to account for federal reimbursements received under the Health Information Technology for Economic and Clinical Health Act and other revenues received from or in support of the health care provider incentive payment program for incentive payments to eligible Massachusetts Medicaid health care providers and for the promotion of electronic health record adoption and health information exchange in the Commonwealth. This fund may incur a deficit, after approval from the Secretary of Administration and

Finance, in an amount not to exceed the most recent revenue estimate as certified by the MassHealth Director.

**Build America Bonds Subsidy Trust Fund** – to account for subsidies from the United States Treasury related to taxable Build America bonds issued by the Commonwealth. Expenditures are used to pay debt service related to these bonds.

**Housing Preservation and Stabilization Fund** – to account for any unexpended funds from specific appropriations, which shall not revert to the General Fund but instead shall be deposited in the trust fund; other funds appropriated or transferred to the trust fund by the general court; and all interest earned on monies in the trust fund. Expenditures shall be made, without appropriation, only for providing affordable housing for low-income families and individuals in the commonwealth, particularly those most at risk of becoming homeless. Eligible grantees shall include, but are not limited to: local housing agencies, regional housing centers, private housing providers of affordable housing, other state agencies and municipalities. For the purpose of accommodating discrepancies between the receipt of revenues and related expenditures, the undersecretary may incur obligations and the comptroller may certify payment amounts not to exceed the most recent revenue estimate submitted by the undersecretary and approved by the secretary of administration and finance but the fund shall be in balance by the close of each fiscal year. Balances remaining at the end of a fiscal year shall not revert to the General Fund.

**Veterans Independence Plus Initiative Trust Fund** – to account for revenues collected by the department from this initiative. Expenditures from the fund shall be for the administration of the Veterans Independence Plus Initiative, a joint initiative of the United States Department of Veterans Affairs and the Administration on Aging in the United States Department of Health and Human Services. The department may incur expenses and the comptroller may certify for payment amounts in anticipation of expected receipts, provided that no expenditure shall be made from the fund which shall cause the fund to be in deficit at the close of a fiscal year. The secretary may expend from the fund for services provided in prior fiscal years.

**Government Land Bank Fund** – to account for proceeds from disposition, conversion and redevelopment of land used for industrial and low income housing developments to fund payments of principal and interest on bonds and notes of the Massachusetts Development Finance Agency.

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***Natural Heritage and Endangered Species Fund*** – to account for revenues from public and private sources and/or the federal government as reimbursements, grants, donations or other receipts; used to acquire by purchase, lease, easement or license land critical to nongame wildlife and endangered species for purposes of protecting and enhancing nongame wildlife.

***Massachusetts Mathematics, Science, Technology and Engineering Grant Fund*** – to account for support provided to Massachusetts students who participate in programs that support careers in fields related to mathematics, science, technology and engineering. The grants also support curriculum development in those fields.

***Commonwealth Covenant Fund*** – to support programs that provide accessible tuition loan repayments to students who attend public universities or colleges in Massachusetts and remain in the Commonwealth to pursue careers in the STEM (science, technology, engineering and mathematics) fields.

***Massachusetts Alternative and Clean Energy Investment Trust Fund*** – to account for any funds invested in clean energy technology research and issued as seed grants to companies, universities and nonprofits to encourage the creation of clean technology ventures and the training of workers to perform associated green jobs.

***Regional Greenhouse Gas Initiatives (RGGI) Auction Trust Fund*** – to account for auction proceeds under the carbon dioxide cap and trade program. Expenditures from the fund shall be made by the Department of Environmental Protection in consultation with the Department of Energy Resources to adopt rules and regulations establishing a carbon dioxide cap to limit and reduce the total carbon dioxide emissions released by electricity-generating stations.

***Mosquito and Greenhead Fly Control Fund*** – to account for assessments to cities and towns of various mosquito control districts; to support activities designed to control mosquitoes and/or “greenhead” flies.

***Ocean Resources and Waterways Trust Fund*** – to account for funds appropriated, investment income, grants or ocean development mitigation fees received; for use in restoring or enhancing marine habitat and resources affected by project developments.

***Off Highway Vehicle Program Fund*** – to account for fees, fines and investment income collected for use in enforcement and environmental development, repair and restorations of trails and facilities.

***Workforce Training Trust Fund*** – to account for revenues from the 0.075% unemployment surcharge on taxable wages on employers; to provide grants to employers, employer groups, labor organizations and training providers for projects to provide education and training to existing employees and newly hired workers.

***Oil Overcharge Fund*** – to account for the fines and penalties collected under federal litigation from certain oil companies; used to provide fuel assistance and home insulation for low-income residents.

***Substance Abuse Services Fund*** – to account for funds used to expand inpatient treatment facilities and ongoing case management for individuals civilly committed under Section 35 of Chapter 123 of the General Laws.

***State Low Income Housing Tax Credit Fund*** – to account for funds used to offset General Fund costs associated with the state low income housing tax credit claimed annually by eligible taxpayers. The aggregate amount of transferred funds for all fiscal years during which the fund is effective shall not exceed \$9.5 million. The fund expired as of June 30, 2014.

***Human Service Salary Reserve Fund*** – to account for funds transferred from the General Fund to provide a one-time subsidy to personnel earning less than \$40,000 in annual compensation who are employed by private human service providers that deliver human and social services under contracts with departments within the Executive Office of Health and Human Services and the Executive Office of Elder Affairs.

***Victims of Human Trafficking Trust Fund*** – to account for the proceeds of assets seized and forfeited and fines and assessments collected along with any interest earned. Funds shall be transferred to the Victim and Witness Assistance Board to administer grants to public, private non-profit or community-based programs in the Commonwealth.

***Department of Public Utilities Storm Trust Fund*** – to account for assessments charged against each electric company under the jurisdictional control of the Department of Public Utilities and any income derived from the investment of amounts credited to the Fund. Monies from this fund shall be used in investigating the preparation for and response to storm and other emergency events by electric companies in the Commonwealth.

***Homeless Animal Prevention and Care Fund*** – to offset costs associated with the vaccination, spaying and neutering of homeless dogs and cats, owned by low-

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income residents and to assist with the training of animal control officers consistent with Section 151C of Chapter 140 of the General Laws. The fund shall consist of all revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return and from public and private sources as gifts, grants and donations to further reduce the population of homeless animals.

**Horseneck Beach Reservation Trust Fund** – to account for the long-term preservation, maintenance, nourishment and public safety of Horseneck Beach in the Town of Westport. Revenues credited to the fund shall consist of a surcharge of \$1 imposed by the Department of Conservation and Recreation upon each fee charged and collected from admission to and parking in the Horseneck Beach Reservation. Expenditures from the fund for public safety may be made available to the town of Westport's police, fire, ambulance and emergency personnel.

**Environmental Trust Fund** – to account for fines, gifts and grants used for restoration, protection and improvement of the quality of Boston Harbor, Lynn Harbor, Massachusetts Bay, Buzzards Bay and Cape Cod Bay.

**Social Innovation Financing Trust Fund** – to account for funding contracts to improve outcomes and lower costs for contracted government services. The Secretary of Administration and Finance may provide that payments in future years under any such contracts shall constitute a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth shall be pledged for the benefit of the providers of the contracted government services, but the total amount of payments under such contracts secured by a pledge of the full faith and credit of the Commonwealth shall not exceed, in the aggregate, \$50 million.

**Children's Trust Fund** – to account for gifts, grants, interest and donations to the Child Abuse Prevention Board and certain appropriations designated to be transferred to the fund; used for support programs to raise awareness of child abuse and prevention programs.

**Child Support Enforcement Fund** – to account for federal grants used for activities associated with the collection of child support.

**Massachusetts Military Family Relief Fund** – to account for revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return, from public and private sources as gifts, grants, and donations to further the purposes of the fund, which is to help members

of the Massachusetts National Guard and Massachusetts residents who are members of the Armed Forces of the United States and who were called to active duty after September 11, 2001.

**Department of Industrial Accidents Special Fund** – to account for assessments to employers and cities and towns for workers' compensation insurance premiums and penalties assessed against employers who fail to insure for workers' compensation; used to reimburse the General Fund for the operating account of the Department of Industrial Accidents and for administrative overhead.

**Massachusetts AIDS Fund** – to account for revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return, from public and private sources as gifts, grants, and donations; used for research, treatment, and education related to acquired immune deficiency syndrome.

**Trust Fund for the Head Injury Treatment Services Fund** – to account for revenues from a surcharge on fines resulting from "driving under the influence" convictions; funds the Massachusetts Rehabilitation Commission's statewide head injury program to develop and maintain non-residential rehabilitation services for head injured persons.

**Board of Registration in Medicine Fund** – to account for certain revenues and expenditures of the Board.

**Water Pollution Abatement Projects Administration Fund** – to account for transfers from the Water Pollution Abatement Trust and general obligation bond proceeds; used for the administration of the Department of Environmental Protection to fund water pollution abatement projects.

**Child Care Quality Fund** – to account for revenues received from the sale of "Invest in Children" distinctive registration plates issued by the Registrar of Motor Vehicles and the expenditures by the commissioner of the Office for Children for providing grants for not-for-profit childcare organizations for the purpose of improving childcare services.

**Convention and Exhibition Center Fund** – to account for certain rooms and sales and use taxes, surcharges imposed on tourist tickets, including cruises and land-based sightseeing located in the Commonwealth, to finance the construction and operating expenses of a new Boston Convention Center and convention centers in Worcester and Springfield.

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***Firearms Fingerprint Identity Verification Trust Fund*** – to account for fees paid in firearms registrations for the purpose of financing fingerprint identification verifications with the fingerprint records maintained by the Federal Bureau of Investigations or any other federal agency for the verification of firearms license application identities.

***Grant Anticipation Note Trust Fund*** – to account for proceeds to cover federal grant anticipation note expenditures and pay the related debt service.

***Race Horse Development Fund*** – to account for the daily assessment of 9% of gross gaming revenues collected by slot machine-only venues, in accordance with Section 55c of Chapter 23K of the General Laws. Expenditures from this fund shall be made to each licensee under Chapter 128A of the General Laws.

## **MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT) FUNDS:**

***Massachusetts Transportation Trust Fund*** – to account for assessments, federal grants, departmental revenues, transfers and expenditures related to MassDOT.

***Central Artery / Tunnel Project Repair and Maintenance Trust Fund*** – to account for any costs incurred in connection with the repairs and maintenance of the Central Artery and the Ted Williams Tunnel.

***Motor Vehicle Safety Inspection Trust Fund*** – to account for motor vehicle inspection fees for administration and operation of safety inspection programs by the Registry of Motor Vehicles.

***The following funds have been enacted in legislation but were inactive in FY14 and are not presented in this report:***

***Essential Community Provider Trust Fund*** – to account for amounts appropriated for transfers and interest earned by the fund; used for payments to acute care hospitals and community health centers, as defined in Chapter 58 of the Acts of 2006, Section 8.

***Department of Mental Retardation Trust Fund*** – to account for any receipts from assessments, transfers by the Department of Mental Retardation for public facilities and any other federal financial participation. Expenditures are for operating the intermediate care facilities and community residences serving individuals with mental retardation.

***Natural Resources Damages Trust Fund*** – to account for gifts, grants and other contributions received to fund natural resources restoration projects.

***Agricultural Inspection and Infrastructure Trust Fund*** – to account for agricultural inspection fee revenues, interest or investment earnings on such monies; and all other monies credited or transferred to the fund by law. Expenditures from the fund shall be for agricultural programs and costs related to the Agricultural Innovation Center. Any unexpended balance in the fund at the end of the fiscal year, not to exceed \$200,000, shall not revert to the General Fund but shall remain available for expenditure in subsequent fiscal years.

***Office of Refugees and Immigrants Trust Fund*** – to account for grants, bequests, gifts or contributions of cash or securities and contributions of services or property in kind from persons or other governmental, nongovernmental, quasi-governmental or local governmental entities made for the purpose of supporting the office for refugees and immigrants. Expenditures shall be made only for the following purposes: (i) operating costs of the office for refugees and immigrants, including the divisions and programs within the office; (ii) costs related to carrying out the powers of the office under section 207; and (iii) costs associated with refugee and immigrant-related programs, grants and initiatives of the director. The trustee shall ensure that no expenditures from the fund shall cause the fund to be in deficiency at the close of a fiscal year.

***Housing and Economic Development Trust Fund*** – to account for (i) grants, bequests, gifts or contributions of cash or securities, or contributions of services or property in kind from any persons or other governmental, nongovernmental, quasi-governmental or local governmental entities made for the purpose of supporting the executive office of housing and economic development and (ii) all interest earned on monies in the trust. Expenditures shall be made only for the following purposes: (i) operating costs of the executive office of housing and community development, including the divisions and programs within the executive office; (ii) operating costs of the Massachusetts marketing partnership and the offices within the partnership, including the Massachusetts international trade office, the commonwealth marketing office, the office of travel and tourism, the Massachusetts film office and the Massachusetts sports partnership; and the Massachusetts office of business development, including the divisions and programs within that office; and (iii) costs associated with housing and economic development programs, grants and initiatives of the secretary. The trustee shall



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insure that no expenditures from the fund shall cause the fund to be in deficiency at the close of a fiscal year.

***Commonwealth Sewer Rate Relief Fund*** – to account for transfers of amounts from the General Fund or other funds; used for the purpose of mitigating sewer rate increases and making sewer rate relief grants to municipalities.

***Regional Transit Authorities Forward Funding Trust Fund*** – to account for revenues allocated to support capital or other eligible activities for regional transit authorities.

***County Correction Fund*** – to account for approximately 7.5% of the deeds excise tax distributed to counties for the operation of county correctional facilities. With consolidation of counties into the Commonwealth in FY10, this fund became inactive in FY11.

***Public Health Trust Fund*** – to account for the collection of fees on slot machines assessed under Section 56 of Chapter 23K of the General Laws and all other monies credited or transferred to the fund from any other source under law. Funds shall be expended to assist social service and public health programs dedicated to addressing problems associated with compulsive gambling including, but not limited to, gambling prevention and addiction services, substance abuse services, educational campaigns to mitigate the potential addictive nature of gambling and any studies and evaluations necessary.

***Gaming Revenue Fund*** – to account for revenues collected from taxes on gross gaming revenue received from gaming licenses. The revenues shall be transferred to other funds in accordance with Section 59 of Chapter 23K of the General Laws.

***Community Mitigation Fund*** – to account for gaming tax revenue transferred under Section 59 of Chapter 23K of the General Laws and all other monies credited or transferred to the fund from any other fund or source. Funds shall be expended to assist the host community and surrounding communities in offsetting costs related to the construction and operation of a gaming establishment including, but not limited to, communities and water and sewer districts in the vicinity of a gaming establishment, local and regional education, transportation, infrastructure, housing, environmental issues and public safety, including the office of the county district attorney, police, fire and emergency services.

***Transportation Infrastructure and Development Fund*** – to account for monies transferred from the Gaming Revenue Fund and all other monies credited or transferred to the fund from any other fund or source and proceeds

from the investment of such funds. Expenditures shall not be made until the Secretary of Administration and Finance has provided written approval annually of a proposed spending plan. Any expenditures from this fund shall be solely for the purpose of transportation and related infrastructure projects including but not limited to, transit expansion and maintenance. Not less than 50% of such expenditures shall be dedicated for the purpose of supplementing, and not offsetting, any expenditures made for the construction and reconstruction of municipal ways as described in Section 4 of Chapter 6C of the General Laws.

***Health Care Security Trust Fund*** – to account for revenues received from tobacco companies under the tobacco settlement and interest income for health-related services and programs intended to control or reduce the use of tobacco in the Commonwealth. Per statute, tobacco revenues were deposited directly into the General Fund, not into this fund.

***Financial Literacy Trust Fund*** – to account for private contributions, publicly or privately-funded grants and funds appropriated by the state or federal government. The fund shall be used to encourage financial literacy and education for residents, institutions, community organizations and entities that will promote financial literacy

***MBTA Infrastructure Renovation Fund*** – to account for supplemental appropriations beyond the MBTA State and Local Contribution Fund for certain MBTA infrastructure improvements. Funds are to be used for, but not limited to, compliance with the American with Disabilities Act, elevator and escalator improvements, waterproofing, fare gates, signage, lighting and structural improvements. No rolling stock is to be acquired through the fund.

***Infrastructure Development Fund*** – to create jobs and stimulate economic development through infrastructure-related investments. The fund may be used for shovel-ready infrastructure projects including, but not limited to, transit and highway projects, business expansion and redevelopment use and other related projects to create economic opportunity and jobs. Funds may be used to support matching funds for certain capital expenditures which are sponsored by higher educational institutions for scientific or technology research and development. This fund expired on June 30, 2013.

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	Lotteries			Gaming		Universal Health Care Funds	
	Federal Grants	State Lottery	Arts Lottery	Massachusetts Gaming Control	Gaming Licensing	Catastrophic Illness in Children Relief	Commonwealth Care Trust
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ 631	\$ -	\$ -	\$ -	\$ -	\$ 162,757
Assessments.....	-	-	-	-	-	-	-
Federal grants and reimbursements.....	2,328,438	-	-	-	-	-	-
Departmental.....	-	4,984,062	65,487	31,867	7,500	-	5,000
Miscellaneous.....	1,273	655	39	-	-	-	61,293
Total revenues.....	<u>2,329,711</u>	<u>4,985,348</u>	<u>65,526</u>	<u>31,867</u>	<u>7,500</u>	<u>-</u>	<u>229,050</u>
Other financing sources:							
Bond premiums (discounts) on special obligation bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	3,923	-	-	-	-	3,324	154,028
Commonwealth care trust transfer.....	-	-	-	-	-	-	390,079
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
Delivery system transformation initiatives trust transfer.....	-	-	-	-	-	-	-
Total other financing sources.....	<u>3,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,324</u>	<u>544,107</u>
Total revenues and other financing sources.....	<u>2,333,634</u>	<u>4,985,348</u>	<u>65,526</u>	<u>31,867</u>	<u>7,500</u>	<u>3,324</u>	<u>773,157</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	1,215	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	916	-	-	-	-	-	-
Treasurer and Receiver-General.....	1,044	3,925,105	55,811	-	-	-	-
Attorney General.....	9,559	-	-	72	-	-	-
District Attorney.....	1,850	-	-	-	-	-	-
Sheriff's Departments.....	3,437	-	-	-	-	-	-
Board of Library Commissioners.....	2,939	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	20,087	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and Finance.....	10,731	-	-	-	-	-	726,580
Energy and Environmental Affairs.....	40,106	-	-	-	-	-	-
Health and Human Services.....	430,608	-	-	-	-	615	-
Massachusetts Department of Transportation.....	446	-	-	-	-	-	-
Executive Office of Education.....	989,368	-	-	-	-	-	-
Center for Health Information and Analysis.....	676	-	-	-	-	-	-
Public Safety and Homeland Security.....	143,236	-	-	-	-	-	-
Housing and Economic Development.....	460,108	-	-	-	-	-	-
Labor and Workforce Development.....	146,762	-	-	-	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-
Total expenditures.....	<u>2,243,001</u>	<u>3,925,105</u>	<u>55,811</u>	<u>20,159</u>	<u>-</u>	<u>615</u>	<u>726,580</u>
Other financing uses:							
Fringe benefit cost assessment.....	52,117	7,586	-	861	-	-	-
Lottery operating reimbursements.....	-	87,811	8,080	-	-	-	-
Lottery distributions.....	-	921,730	-	-	-	-	-
Operating transfers out.....	42,882	43,116	1,635	-	5,662	-	650
Health safety net trust transfer.....	-	-	-	-	-	-	30,000
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Total other financing uses.....	<u>94,999</u>	<u>1,060,243</u>	<u>9,715</u>	<u>861</u>	<u>5,662</u>	<u>-</u>	<u>30,650</u>
Total expenditures and other financing uses.....	<u>2,338,000</u>	<u>4,985,348</u>	<u>65,526</u>	<u>21,020</u>	<u>5,662</u>	<u>615</u>	<u>757,230</u>
Excess (deficiency) of revenues and other financing sources							
over / (under) expenditures and other financing uses.....	(4,366)	-	-	10,847	1,838	2,709	15,927
Fund balance (deficit) at beginning of year.....	66,376	-	-	10,869	-	15	-
Fund balance (deficit) at end of year.....	<u>\$ 62,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,716</u>	<u>\$ 1,838</u>	<u>\$ 2,724</u>	<u>\$ 15,927</u>

See accountants' review report

Universal Health Care Funds

Medical Assistance Trust	Health Safety Net Trust	Section 1202 Trust	Delivery System Transformation Initiatives Trust	Money Follows the Person Rebalancing Demonstration Grant Trust	Medical Security Trust	Healthcare Payment Reform	Distressed Hospital Trust	Prevention and Wellness Trust
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	358,516	-	-	-	-	3,852	40,410	19,548
-	-	77,407	-	-	-	-	-	-
154,000	1,238	-	-	-	161,188	-	-	-
-	160	-	11,215	-	-	-	-	-
<u>154,000</u>	<u>359,914</u>	<u>77,407</u>	<u>11,215</u>	<u>-</u>	<u>161,188</u>	<u>3,852</u>	<u>40,410</u>	<u>19,548</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	2,718	-	1,725	-	-
-	-	-	-	-	-	-	-	-
395,025	30,000	-	-	-	-	-	-	-
-	-	-	70,732	-	-	-	-	-
<u>395,025</u>	<u>30,000</u>	<u>-</u>	<u>70,732</u>	<u>2,718</u>	<u>-</u>	<u>1,725</u>	<u>-</u>	<u>-</u>
<u>549,025</u>	<u>389,914</u>	<u>77,407</u>	<u>81,947</u>	<u>2,718</u>	<u>161,188</u>	<u>5,577</u>	<u>40,410</u>	<u>19,548</u>
-	-	-	-	-	-	-	-	-
-	12	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	4,185	8,427	-
-	-	-	-	-	-	-	-	-
548,000	378,904	25,738	81,947	806	-	-	-	2,893
-	-	-	-	-	-	-	-	-
-	426	-	-	-	-	149	18	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	29,829	-	-	-
-	-	-	-	-	-	-	-	-
<u>548,000</u>	<u>379,342</u>	<u>25,738</u>	<u>81,947</u>	<u>806</u>	<u>29,829</u>	<u>4,334</u>	<u>8,445</u>	<u>2,893</u>
-	513	-	-	-	624	563	53	88
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	8	-	-	-	156,767	-	-	47
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	521	-	-	-	157,391	563	53	135
<u>548,000</u>	<u>379,863</u>	<u>25,738</u>	<u>81,947</u>	<u>806</u>	<u>187,220</u>	<u>4,897</u>	<u>8,498</u>	<u>3,028</u>
1,025	10,051	51,669	-	1,912	(26,032)	680	31,912	16,520
-	68,586	-	945	1,496	39,869	2,280	25,994	11,553
<u>\$ 1,025</u>	<u>\$ 78,637</u>	<u>\$ 51,669</u>	<u>\$ 945</u>	<u>\$ 3,408</u>	<u>\$ 13,837</u>	<u>\$ 2,960</u>	<u>\$ 57,906</u>	<u>\$ 28,073</u>

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	Universal Health Care Funds		Non-Budgeted Other Funds				
	Massachusetts Health Information Exchange	Dam and Seawall Repair or Removal	Department of Telecommunication and Energy Trust	Fingerprint-Based Background Check	Liability Management and Reduction	Medical Marijuana Trust	Essex Regional Emergency Communications Center
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	6,397	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	-
Departmental.....	436	-	-	-	1,909	3,821	-
Miscellaneous.....	-	20,821	1	961	2	-	646
Total revenues.....	436	20,821	6,398	961	1,911	3,821	646
Other financing sources:							
Bond premiums (discounts) on special obligation bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	-	-	-	-	-
Commonwealth care trust transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
Delivery system transformation initiatives trust transfer.....	-	-	-	-	-	-	-
Total other financing sources.....	-	-	-	-	-	-	-
Total revenues and other financing sources.....	436	20,821	6,398	961	1,911	3,821	646
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-	-
Attorney General.....	-	-	-	-	37	-	-
District Attorney.....	-	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	-	572
Board of Library Commissioners.....	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	3,027	-	-
Administration and Finance.....	-	-	-	-	-	-	-
Energy and Environmental Affairs.....	-	1,172	3,318	-	-	-	-
Health and Human Services.....	275	-	-	-	-	3,028	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	11	-	-	-
Center for Health Information and Analysis.....	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	89	-	305	-
Housing and Economic Development.....	-	-	-	-	-	-	-
Labor and Workforce Development.....	-	-	-	-	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-
Total expenditures.....	275	1,172	3,318	100	3,064	3,333	572
Other financing uses:							
Fringe benefit cost assessment.....	-	-	684	-	20	62	36
Lottery operating reimbursements.....	-	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-	-
Operating transfers out.....	-	-	155	1	-	33	16
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Total other financing uses.....	-	-	839	1	20	95	52
Total expenditures and other financing uses.....	275	1,172	4,157	101	3,084	3,428	624
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	161	19,649	2,241	860	(1,173)	393	22
Fund balance (deficit) at beginning of year.....	185	-	2,467	-	3,102	-	-
Fund balance (deficit) at end of year.....	\$ 346	\$ 19,649	\$ 4,708	\$ 860	\$ 1,929	\$ 393	\$ 22

See accountants' review report

Non-Budgeted Other Funds

Dockside Testing Trust	Commonwealth of Massachusetts Civil Monetary Penalty (CMP)	MBTA State and Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	State Racing	Division of Professional Licensure Trust	Victims of Drunk Driving Trust	State Athletic Commission
\$ -	\$ -	\$ 799,295	\$ 23,771	\$ -	\$ 337	\$ -	\$ -	\$ 178
-	-	157,283	-	-	740	-	-	-
-	-	-	-	14,023	-	-	-	-
280	1,829	-	-	-	479	10,761	570	40
-	-	-	20	-	437	-	3	-
<u>280</u>	<u>1,829</u>	<u>956,578</u>	<u>23,791</u>	<u>14,023</u>	<u>1,993</u>	<u>10,761</u>	<u>573</u>	<u>218</u>
-	-	-	-	-	-	-	-	-
-	-	-	25,000	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	25,000	-	-	-	-	-
<u>280</u>	<u>1,829</u>	<u>956,578</u>	<u>48,791</u>	<u>14,023</u>	<u>1,993</u>	<u>10,761</u>	<u>573</u>	<u>218</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	956,578	-	-	-	-	-	-
-	-	-	-	-	-	-	494	-
-	-	-	-	-	-	-	104	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	2,038	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	55,008	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	333	-	-	10,400	101	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	38	138
-	-	-	-	-	-	8,375	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	333	956,578	55,008	10,400	2,139	8,375	636	138
-	-	-	29	37	138	1,249	51	20
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	15	269	-	530	29	32
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	44	306	138	1,779	80	52
-	333	956,578	55,052	10,706	2,277	10,154	716	190
280	1,496	-	(6,261)	3,317	(284)	607	(143)	28
-	1,561	-	30,163	5,221	1,351	1,923	2,442	177
<u>\$ 280</u>	<u>\$ 3,057</u>	<u>\$ -</u>	<u>\$ 23,902</u>	<u>\$ 8,538</u>	<u>\$ 1,067</u>	<u>\$ 2,530</u>	<u>\$ 2,299</u>	<u>\$ 205</u>

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	Non-Budgeted Other Funds						Counsel for Indigent Salary Enhancement Trust
	Organ And Tissues Donor Registration	Department of Fire Services Hazardous Materials Emergency Mitigation Response Recovery Trust	Registers Technological	County Registers Technological	State Election Campaign	Enhanced 911	
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	-
Departmental.....	164	169	4,386	2,154	-	74,685	67
Miscellaneous.....	-	-	-	-	249	90	-
Total revenues.....	164	169	4,386	2,154	249	74,775	67
Other financing sources:							
Bond premiums (discounts) on special obligation bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	-	-	-	-	-
Commonwealth care trust transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
Delivery system transformation initiatives trust transfer.....	-	-	-	-	-	-	-
Total other financing sources.....	-	-	-	-	-	-	-
Total revenues and other financing sources.....	164	169	4,386	2,154	249	74,775	67
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	5,846	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-	-
Attorney General.....	-	-	-	-	-	-	-
District Attorney.....	-	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	5,948	-
Board of Library Commissioners.....	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	2,355	-	495	-
Energy and Environmental Affairs.....	-	-	-	-	-	-	-
Health and Human Services.....	-	-	-	-	-	59	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-
Center for Health Information and Analysis.....	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	45	-	-	-	61,401	-
Housing and Economic Development.....	-	-	-	-	-	-	-
Labor and Workforce Development.....	-	-	-	-	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-
Total expenditures.....	-	45	5,846	2,355	-	67,903	-
Other financing uses:							
Fringe benefit cost assessment.....	-	-	393	-	-	1,874	-
Lottery operating reimbursements.....	-	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-	-
Operating transfers out.....	-	1	175	2,000	-	1,818	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Total other financing uses.....	-	1	568	2,000	-	3,692	-
Total expenditures and other financing uses.....	-	46	6,414	4,355	-	71,595	-
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	164	123	(2,028)	(2,201)	249	3,180	67
Fund balance (deficit) at beginning of year.....	315	241	4,410	6,452	1,000	101,989	285
Fund balance (deficit) at end of year.....	\$ 479	\$ 364	\$ 2,382	\$ 4,251	\$ 1,249	\$ 105,169	\$ 352

See accountants' review report

Non-Budgeted Other Funds

Smart Growth Housing Trust	Special Projects Permitting and Oversight	Division of Energy Resources Credit Trust	School Modernization and Reconstruction Trust	Roche Community Rink	Healthcare Workforce Transformation Trust	Workforce Competitiveness Trust	Fire Prevention and Public Safety	Cigarette Fire Safety And Firefighter Protection Act Enforcement
\$ -	\$ -	\$ -	\$ 727,526	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	1,606	-	-	49	-	-	37	1,722
-	-	-	-	-	-	1	-	-
-	1,606	-	727,526	49	-	1	37	1,722
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	1,606	-	727,526	49	-	1	37	1,722
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	727,526	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	4,608	297	-	-	-	-	-	-
-	-	-	-	-	794	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	11	937
1,203	-	-	-	-	-	-	-	-
-	-	-	-	-	1,282	-	-	-
-	-	-	-	-	-	-	-	-
1,203	4,608	297	727,526	-	2,076	-	11	937
-	365	-	-	-	11	-	-	39
-	-	-	-	-	-	-	-	-
-	215	27	-	-	6	-	-	39
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	580	27	-	-	17	-	-	78
1,203	5,188	324	727,526	-	2,093	-	11	1,015
(1,203)	(3,582)	(324)	-	49	(2,093)	1	26	707
4,510	5,370	2,248	-	353	20,000	38	33	2,394
\$ 3,307	\$ 1,788	\$ 1,924	\$ -	\$ 402	\$ 17,907	\$ 39	\$ 59	\$ 3,101

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	Non-Budgeted Other Funds						
	Massachusetts Board of Higher Education Scholar-Internship Match	District Local Technical Assistance	Educational Rewards Grant Program	Massachusetts Nursing & Allied Health Workforce Development Trust	Health Information Technology Trust	Build America Bonds Subsidy Trust	Housing Preservation and Stabilization
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	60,737	46,617	-
Departmental.....	-	-	-	-	-	-	-
Miscellaneous.....	-	-	-	542	1,875	-	-
Total revenues.....	-	-	-	542	62,612	46,617	-
Other financing sources:							
Bond premiums (discounts) on special obligation bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	-	250	1,125	-	17,380
Commonwealth care trust transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
Delivery system transformation initiatives trust transfer.....	-	-	-	-	-	-	-
Total other financing sources.....	-	-	-	250	1,125	-	17,380
Total revenues and other financing sources.....	-	-	-	792	63,737	46,617	17,380
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	33,747	-
Attorney General.....	-	-	-	-	-	-	-
District Attorney.....	-	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	-	-	-
Energy and Environmental Affairs.....	-	-	-	-	-	-	-
Health and Human Services.....	-	-	-	-	61,147	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	718	-	-	-
Center for Health Information and Analysis.....	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-	-
Housing and Economic Development.....	-	-	-	-	-	-	8,467
Labor and Workforce Development.....	-	-	-	-	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-
Total expenditures.....	-	-	-	718	61,147	33,747	8,467
Other financing uses:							
Fringe benefit cost assessment.....	-	-	-	15	46	-	-
Lottery operating reimbursements.....	-	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-	-
Operating transfers out.....	221	-	-	12	48	12,791	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Total other financing uses.....	221	-	-	27	94	12,791	-
Total expenditures and other financing uses.....	221	-	-	745	61,241	46,538	8,467
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(221)	-	-	47	2,496	79	8,913
Fund balance (deficit) at beginning of year.....	221	145	48	626	3,506	8,290	-
Fund balance (deficit) at end of year.....	\$ -	\$ 145	\$ 48	\$ 673	\$ 6,002	\$ 8,369	\$ 8,913

See accountants' review report



Non-Budgeted Other Funds

Veterans Independence Plus Initiative Fund Stabilization	Government Land Bank	Natural Heritage and Endangered Species	Massachusetts Mathematics, Science, Technology and Engineering Grant	Commonwealth Covenant	Massachusetts Alternative and Clean Energy Investment Trust	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Mosquito and Greenhead Fly Control	Ocean Resources and Waterways Trust
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	10,664	-
-	-	1,038	-	-	-	-	-	-
-	-	390	-	-	-	67,631	750	-
320	-	227	3	-	-	-	-	21
<u>320</u>	<u>-</u>	<u>1,655</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>67,631</u>	<u>11,414</u>	<u>21</u>
-	-	-	-	-	-	-	-	-
-	18,634	-	1,500	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	18,634	-	1,500	-	-	-	-	-
<u>320</u>	<u>18,634</u>	<u>1,655</u>	<u>1,503</u>	<u>-</u>	<u>-</u>	<u>67,631</u>	<u>11,414</u>	<u>21</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	65	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	1,631	-	-	-	64,839	9,877	4
-	-	-	-	-	-	-	140	-
-	-	-	-	-	-	-	-	-
-	-	-	453	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	15,827	-	-	-	-	-	-	-
-	2,807	-	-	-	-	-	-	-
<u>-</u>	<u>18,634</u>	<u>1,631</u>	<u>453</u>	<u>65</u>	<u>-</u>	<u>64,839</u>	<u>10,017</u>	<u>4</u>
-	-	145	46	-	-	-	1,116	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	14	-	-	-	5	1
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>145</u>	<u>60</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,121</u>	<u>1</u>
-	18,634	1,776	513	65	-	64,839	11,138	5
320	-	(121)	990	(65)	-	2,792	276	16
-	(35,033)	1,551	633	66	24	37,870	1,630	604
<u>\$ 320</u>	<u>\$ (35,033)</u>	<u>\$ 1,430</u>	<u>\$ 1,623</u>	<u>\$ 1</u>	<u>\$ 24</u>	<u>\$ 40,662</u>	<u>\$ 1,906</u>	<u>\$ 620</u>

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	Non-Budgeted Other Funds						
	Off Highway Vehicle Program	Workforce Training Trust Fund	Oil Overcharge	Substance Abuse Services	State Low Income Housing Tax Credit	Human Services Salary Reserve	Victims of Human Trafficking Trust
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ 21,234	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	1
Departmental.....	768	-	-	-	-	-	-
Miscellaneous.....	-	-	1	-	-	-	-
Total revenues.....	768	21,234	1	-	-	-	1
Other financing sources:							
Bond premiums (discounts) on special obligation bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	-	-	-	-	-
Commonwealth care trust transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
Delivery system transformation initiatives trust transfer.....	-	-	-	-	-	-	-
Total other financing sources.....	-	-	-	-	-	-	-
Total revenues and other financing sources.....	768	21,234	1	-	-	-	1
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-	-
Attorney General.....	-	-	-	-	-	-	-
District Attorney.....	-	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	-	-	-
Energy and Environmental Affairs.....	422	-	-	-	-	-	-
Health and Human Services.....	-	-	-	5,782	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-
Center for Health Information and Analysis.....	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-	-
Housing and Economic Development.....	-	-	-	-	-	-	-
Labor and Workforce Development.....	-	14,889	-	-	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-
Total expenditures.....	422	14,889	-	5,782	-	-	-
Other financing uses:							
Fringe benefit cost assessment.....	27	147	-	15	-	-	-
Lottery operating reimbursements.....	-	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-	-
Operating transfers out.....	35	15	-	8	9,500	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Total other financing uses.....	62	162	-	23	9,500	-	-
Total expenditures and other financing uses.....	484	15,051	-	5,805	9,500	-	-
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	284	6,183	1	(5,805)	(9,500)	-	1
Fund balance (deficit) at beginning of year.....	1,012	18,339	425	5,964	9,500	27	-
Fund balance (deficit) at end of year.....	\$ 1,296	\$ 24,522	\$ 426	\$ 159	\$ -	\$ 27	\$ 1

See accountants' review report

Non-Budget Other Funds

Department of Public Utilities Storm Trust	Homeless Animal Prevention and Care	Horseneck Beach Reservation	Environmental Trust	Social Innovation Financing Trust	Children's Trust	Child Support Enforcement	Massachusetts Military Family Relief	Department of Industrial Accidents Special
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
297	-	-	-	-	-	-	-	11,781
-	-	-	-	-	-	35,950	-	-
-	-	43	770	-	-	4,905	-	5,374
-	247	-	8	-	-	68	264	5
<u>297</u>	<u>247</u>	<u>43</u>	<u>778</u>	<u>-</u>	<u>-</u>	<u>40,923</u>	<u>264</u>	<u>17,160</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	7,500	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	7,500	-	-	-	-
<u>297</u>	<u>247</u>	<u>43</u>	<u>778</u>	<u>7,500</u>	<u>-</u>	<u>40,923</u>	<u>264</u>	<u>17,160</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	315	-	-
-	-	-	-	-	-	220	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	750	-	49,444	-	-
215	34	6	997	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	6	-	3	-	-	-
-	-	-	-	-	-	-	360	-
-	-	-	-	-	-	40	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>215</u>	<u>34</u>	<u>6</u>	<u>1,003</u>	<u>750</u>	<u>3</u>	<u>50,019</u>	<u>360</u>	<u>-</u>
53	7	-	59	-	-	960	-	3,531
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
11	9	-	32	-	-	496	-	18,347
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>64</u>	<u>16</u>	<u>-</u>	<u>91</u>	<u>-</u>	<u>-</u>	<u>1,456</u>	<u>-</u>	<u>21,878</u>
<u>279</u>	<u>50</u>	<u>6</u>	<u>1,094</u>	<u>750</u>	<u>3</u>	<u>51,475</u>	<u>360</u>	<u>21,878</u>
18	197	37	(316)	6,750	(3)	(10,552)	(96)	(4,718)
177	196	13	3,946	-	200	48,263	892	12,252
<u>\$ 195</u>	<u>\$ 393</u>	<u>\$ 50</u>	<u>\$ 3,630</u>	<u>\$ 6,750</u>	<u>\$ 197</u>	<u>\$ 37,711</u>	<u>\$ 796</u>	<u>\$ 7,534</u>

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	Non-Budgeted Other Funds						
	Massachusetts AIDS	Trust Fund for the Head Injury Treatment Services	Board of Registration in Medicine	Water Pollution Abatement Projects Administration	Child Care Quality	Convention and Exhibition Center	Firearms Fingerprint Identity Verification Trust
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,571	\$ -
Assessments.....	-	-	-	7,418	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	-
Departmental.....	-	6,900	8,419	-	238	-	1,777
Miscellaneous.....	103	1	-	-	-	2,308	-
Total revenues.....	<u>103</u>	<u>6,901</u>	<u>8,419</u>	<u>7,418</u>	<u>238</u>	<u>109,879</u>	<u>1,777</u>
Other financing sources:							
Bond premiums (discounts) on special obligation bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	-	-	-	-	-
Commonwealth care trust transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
Delivery system transformation initiatives trust transfer.....	-	-	-	-	-	-	-
Total other financing sources.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other financing sources.....	<u>103</u>	<u>6,901</u>	<u>8,419</u>	<u>7,418</u>	<u>238</u>	<u>109,879</u>	<u>1,777</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-	-
Attorney General.....	-	-	-	-	-	-	-
District Attorney.....	-	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	49,685	-
Administration and Finance.....	-	-	-	-	-	-	-
Energy and Environmental Affairs.....	-	-	-	3,946	-	-	-
Health and Human Services.....	81	6,660	5,612	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	919	-	-
Center for Health Information and Analysis.....	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-	1,900
Housing and Economic Development.....	-	-	-	-	-	-	-
Labor and Workforce Development.....	-	-	-	-	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	36,722	-
Total expenditures.....	<u>81</u>	<u>6,660</u>	<u>5,612</u>	<u>3,946</u>	<u>919</u>	<u>86,407</u>	<u>1,900</u>
Other financing uses:							
Fringe benefit cost assessment.....	-	177	1,008	945	-	-	-
Lottery operating reimbursements.....	-	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-	-
Operating transfers out.....	-	55	530	1,556	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Total other financing uses.....	<u>-</u>	<u>232</u>	<u>1,538</u>	<u>2,501</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures and other financing uses.....	<u>81</u>	<u>6,892</u>	<u>7,150</u>	<u>6,447</u>	<u>919</u>	<u>86,407</u>	<u>1,900</u>
Excess (deficiency) of revenues and other financing sources							
over / (under) expenditures and other financing uses.....	22	9	1,269	971	(681)	23,472	(123)
Fund balance (deficit) at beginning of year.....	78	3,295	6,061	966	1,104	79,731	3,318
Fund balance (deficit) at end of year.....	<u>\$ 100</u>	<u>\$ 3,304</u>	<u>\$ 7,330</u>	<u>\$ 1,937</u>	<u>\$ 423</u>	<u>\$ 103,203</u>	<u>\$ 3,195</u>

See accountants' review report

Non-Budgeted Other Funds		MassDOT			Totals	
Grant Anticipation Note Trust	Race Horse Development	Massachusetts Transportation Trust	Central Artery/ Tunnel Project Repairs and Maintenance Trust	Motor Vehicle Safety Inspection Trust	(Memorandum only)	
					2014	2013
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,843,300	\$ 1,764,078
-	-	-	-	-	616,906	558,172
582,871	-	43,431	-	-	3,190,513	3,227,276
-	-	424,710	-	31,826	6,070,007	6,029,687
71	-	26,858	2,125	28	132,941	130,170
582,942	-	494,999	2,125	31,854	11,853,667	11,709,383
19,014	-	-	-	-	19,014	-
9,773	375	521,739	-	-	768,994	556,275
-	-	-	-	-	390,079	661,249
-	-	-	-	-	30,000	30,000
-	-	-	-	-	395,025	390,889
-	-	-	-	-	70,732	186,908
28,787	375	521,739	-	-	1,673,844	1,825,321
611,729	375	1,016,738	2,125	31,854	13,527,511	13,534,704
-	-	-	-	-	1,215	1,186
-	-	244	-	-	256	101
-	-	103	-	-	103	103
-	-	-	-	-	6,762	4,706
9,070	-	241	-	-	5,709,502	5,660,556
-	-	-	-	-	10,162	9,093
-	-	-	-	-	2,174	2,560
-	-	918	-	-	10,875	10,518
-	-	-	-	-	2,939	2,966
-	-	-	-	-	22,125	13,336
-	-	-	-	-	3,027	1,715
-	-	9,858	-	-	917,518	1,061,235
-	-	2,924	-	1,889	136,285	119,700
-	-	212	-	-	1,564,135	1,727,570
-	-	930,852	2,446	11,631	945,375	819,126
-	-	-	-	-	991,478	959,607
-	-	-	-	-	1,269	-
-	-	187	-	-	208,647	284,813
-	-	-	-	-	478,153	507,539
-	-	-	-	-	192,802	259,412
170,710	-	-	-	-	186,537	167,340
15,456	-	-	-	-	54,985	66,516
195,236	-	945,539	2,446	13,520	11,446,324	11,679,698
-	-	38,741	-	1,085	115,536	104,799
-	-	-	-	-	95,891	93,517
-	-	-	-	-	921,730	949,428
-	-	3,737	-	18,333	321,884	228,502
-	-	-	-	-	30,000	30,000
404,481	-	-	-	-	404,481	430,022
404,481	-	42,478	-	19,418	1,889,522	1,836,268
599,717	-	988,017	2,446	32,938	13,335,846	13,515,966
12,012	375	28,721	(321)	(1,084)	191,665	18,738
206,871	-	833,330	385,765	10,080	2,078,199	2,059,461
\$ 218,883	\$ 375	\$ 862,051	\$ 385,444	\$ 8,996	\$ 2,269,864	\$ 2,078,199



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# Capital Projects Funds

The Capital Projects Funds are used to account for the financial resources used to acquire or construct major capital assets of the Commonwealth and to finance local governmental capital projects.

**General Capital Projects Fund** – to account for proceeds of bonds sold to fund the construction or acquisition of capital assets for general Commonwealth purposes, excluding highway construction and projects targeted for specific localities or purposes. Effective September 1, 2009, this fund includes reimbursements to MassDOT for capital projects activity.

**Convention and Exhibition Center Capital Fund** – to account for proceeds of bonds to finance the construction of a convention center in Boston.

**Capital Improvements and Investment Trust Fund** – to account for the Commonwealth's reimbursement to cities and towns for expenses incurred for projects for construction and reconstruction of town and county ways.

**Highway Capital Projects Fund** – to account for the proceeds of bonds sold to finance construction of state highways and to fund the Commonwealth's share of Federally sponsored highway construction.

**Federal Highway Construction Program** – to account for federal highway construction grants which, with the Commonwealth's required share of matching funds, finance interstate highways and similar projects within Massachusetts to promote a nationwide highway system.

## OTHER FUNDS:

This fund accounts for the proceeds of bonds used to finance land and transportation equipment for economic development.

**Government Land Bank Capital Projects Fund** – to account for proceeds of bonds used to finance the acquisition, holding, protection, maintenance, repair or use of lands and for personnel and the administrative costs of the Massachusetts Development Finance Agency.

## LOCAL AID FUND:

**Local Aid Capital Projects Fund** – to account for the proceeds of bonds sold to finance the construction of correctional facilities, water pollution abatement projects and other local projects in specific localities of the Commonwealth. The fund accounts for the proceeds of bonds to finance improvements to lockup facilities, state police lockup facilities and to finance improvements to County Correctional Facilities, and other monies received by the Department of Conservation and Recreation pertaining to state parks, reservations and recreation areas outside the metropolitan parks district.

## MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT) FUND:

**Central Artery Statewide Road and Bridge Infrastructure Fund** – to account for bond proceeds, certain revenues from Registry of Motor Vehicle fees, (net of debt service expenditures) and payments from authorities. The purpose of expenditures of the fund is to meet the estimated additional costs associated with the Central Artery/Ted Williams Tunnel Project and for costs of the statewide road and bridge program.

*The following funds have been enacted in legislation but were inactive in FY14 and are not presented in this report:*

**Capital Investment Trust Fund** – to account for a transfer from the General Fund to finance appropriated items of a capital nature pursuant to sections 2E and 107 of Chapter 88 of the Acts of 1997.

**Transportation Deferred Maintenance Trust Fund** – to account for funds transferred from various sources by the Secretary of Administration and Finance to design, construct, maintain and repair the Commonwealth's roads and bridges.

**Capital Projects Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2014  
 (Amounts in thousands)

	General Capital Projects	Convention and Exhibition Center Capital	Capital Improvements and Investment Trust	Highway Capital Projects
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Federal grants and reimbursements.....	\$ 16,742	\$ -	\$ -	\$ -
Departmental.....	-	-	-	-
Miscellaneous.....	1,313	-	-	327
Total revenues.....	<u>18,055</u>	<u>-</u>	<u>-</u>	<u>327</u>
Other financing sources:				
Issuance of general obligation bonds .....	979,662	-	259	510,675
Bond premiums (discounts) on general obligation bonds.....	30,828	-	-	16,550
Issuance of special obligation bonds .....	-	-	-	667,850
Bond premiums (discounts) on special obligation bonds.....	-	-	-	36,153
Issuance of current refunding bonds.....	45,622	-	1,563	69,768
Issuance of advance refunding bonds.....	148,445	-	-	162,364
Bond premiums (discounts) on advance refunding bonds.....	33,780	-	-	33,577
Federal reimbursement transfer in.....	-	-	-	-
State share of federal highway construction.....	-	-	-	-
Total other financing sources.....	<u>1,238,337</u>	<u>-</u>	<u>1,822</u>	<u>1,496,937</u>
Total revenues and other financing sources.....	<u>1,256,392</u>	<u>-</u>	<u>1,822</u>	<u>1,497,264</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Judiciary.....	15,262	-	-	-
Governor and Lieutenant Governor.....	121	-	-	-
Secretary of the Commonwealth.....	1,530	-	-	-
Treasurer and Receiver-General.....	13,486	-	-	1,665
Auditor of the Commonwealth.....	1,089	-	-	-
Attorney General.....	-	-	-	229
Sheriff's Departments.....	6,633	-	-	-
Board of Library Commissioners.....	19,999	-	-	-
Comptroller.....	2,429	-	-	-
Administration and Finance.....	592,013	-	-	2,195
Energy and Environmental Affairs.....	197,493	-	105	10,432
Health and Human Services.....	42,052	-	-	-
Massachusetts Department of Transportation.....	166,504	-	-	1,065,448
Executive Office of Education.....	22,147	-	-	-
Public Safety and Homeland Security.....	45,340	-	-	-
Housing and Economic Development.....	213,078	-	-	24,809
Labor and Workforce Development.....	258	-	-	-
Total expenditures.....	<u>1,339,434</u>	<u>-</u>	<u>105</u>	<u>1,104,778</u>
Other financing uses:				
Payments to advance refunding bonds escrow.....	182,225	-	-	195,913
Principal on current refundings.....	45,622	-	1,563	69,768
Fringe benefit cost assessment.....	11,859	-	-	22,761
State share of federal highway construction.....	-	-	-	62,105
Total other financing uses.....	<u>239,706</u>	<u>-</u>	<u>1,563</u>	<u>350,547</u>
Total expenditures and other financing uses.....	<u>1,579,140</u>	<u>-</u>	<u>1,668</u>	<u>1,455,325</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(322,748)	-	154	41,939
Fund balance (deficit) at beginning of year.....	(417,392)	8,393	(154)	(467,027)
Fund balance (deficit) at end of year.....	<u>\$ (740,140)</u>	<u>\$ 8,393</u>	<u>\$ -</u>	<u>\$ (425,088)</u>

See accountants' review report

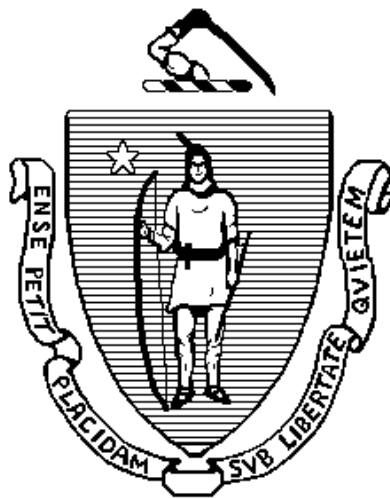


Federal Highway Construction Program	Government Land Bank Capital Projects	Local Aid Capital Projects	MassDOT	Totals	
			Central Artery Statewide Road and Bridge Infrastructure	(Memorandum only)	
				2014	2013
\$ 13,997	\$ -	\$ -	\$ -	\$ 30,739	\$ 18,686
3,272	-	-	208	3,480	2,544
-	-	-	70	1,710	321
<u>17,269</u>	<u>-</u>	<u>-</u>	<u>278</u>	<u>35,929</u>	<u>21,551</u>
-	1,108	345	-	1,492,049	1,470,474
-	-	-	-	47,378	42,241
-	-	-	-	667,850	-
-	-	-	-	36,153	-
-	-	1,270	41,112	159,335	230,539
-	-	166,652	-	477,461	-
-	-	17,563	-	84,920	(742)
404,481	-	-	-	404,481	430,022
62,105	-	-	-	62,105	38,619
<u>466,586</u>	<u>1,108</u>	<u>185,830</u>	<u>41,112</u>	<u>3,431,732</u>	<u>2,211,153</u>
<u>483,855</u>	<u>1,108</u>	<u>185,830</u>	<u>41,390</u>	<u>3,467,661</u>	<u>2,232,704</u>
-	-	-	-	15,262	9,785
-	-	-	-	121	-
-	-	-	-	1,530	1,528
-	-	-	-	15,151	13,990
-	-	-	-	1,089	988
18	-	-	-	247	471
-	-	-	-	6,633	3,626
-	-	-	-	19,999	16,500
-	-	-	-	2,429	674
101	823	47	-	595,179	548,636
378	-	7	-	208,415	166,800
9	-	-	-	42,061	28,592
459,273	-	-	1,892	1,693,117	1,460,265
-	-	-	-	22,147	28,774
-	-	-	-	45,340	36,691
-	-	-	-	237,887	245,689
-	-	-	-	258	2,068
<u>459,779</u>	<u>823</u>	<u>54</u>	<u>1,892</u>	<u>2,906,865</u>	<u>2,565,077</u>
-	-	184,215	-	562,353	-
-	-	1,270	41,112	159,335	229,796
7,528	-	-	-	42,148	44,615
-	-	-	-	62,105	38,619
<u>7,528</u>	<u>-</u>	<u>185,485</u>	<u>41,112</u>	<u>825,941</u>	<u>313,030</u>
<u>467,307</u>	<u>823</u>	<u>185,539</u>	<u>43,004</u>	<u>3,732,806</u>	<u>2,878,107</u>
16,548	285	291	(1,614)	(265,145)	(645,403)
3,558	(414)	(327)	37,311	(836,052)	(190,649)
<u>\$ 20,106</u>	<u>\$ (129)</u>	<u>\$ (36)</u>	<u>\$ 35,697</u>	<u>\$ (1,101,197)</u>	<u>\$ (836,052)</u>



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# *Supplemental Information*



Calculation of Transfers – Stabilization and Tax Reduction Funds  
Non-Tax Revenue Initiatives  
Schedule of Post Employment Benefits – Last Six Fiscal Years

See review report

## Calculation of Transfers: Stabilization Fund

June 30, 2014  
(Amounts are in thousands)

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

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

### Stabilization Balance Reconciliation:

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

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2014  
(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. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

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.....	\$ 1,248,435
Allowable Stabilization Fund balance (per Schedule B).....	<u>5,320,973</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,248,435
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 1,248,435</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>

**Schedule A**  
**FY2014 Tax Revenues By Revenue Class**

June 30, 2014  
(Amounts in thousands)

Alcoholic beverages.....	\$ 77,735
Banks: financial institutions.....	135,774
Cigarette.....	520,668
Cigarette excise - Commonwealth Care.....	135,750
Cigarette inventory - Commonwealth Care.....	3,611
Corporations.....	2,049,051
Deeds.....	223,080
Estate and inheritance.....	401,512
Health care coverage penalty - Commonwealth Care.....	23,396
Income.....	13,201,591
Insurance.....	315,776
Motor and special fuels.....	732,207
Public utilities.....	9,795
Room occupancy.....	208,488
Sales and use.....	5,518,580
Club alcoholic beverages.....	1,082
Motor vehicle excise.....	66
Convention center surcharges.....	14,852
Community preservation.....	23,771
Satellite.....	12,166
State racing - Mass Gaming Commission.....	1,308
Beano.....	1,578
Raffles and bazaars.....	1,031
Boxing.....	176
DOI excess and surplus lines.....	31,052
UI surcharge.....	21,234
FY 2014 state tax revenue.....	<u>\$ 23,665,330</u>

This schedule is prepared on the statutory basis of accounting. It presents tax revenues as reported in the governmental funds of the Commonwealth. It differs from the schedule of tax collections prepared by the Comptroller, Commissioner of Revenue and State Auditor for calculations in accordance with Chapter 62F of the General Laws, as amended. The differences are due to 2/5ths of Beano revenue and the health care coverage penalty in the Commonwealth Care Fund, both of which are recognized on the statutory basis of accounting but are not accounted for on the schedule of tax collections prepared by the Department of Revenue.

**Schedule B**  
**Calculation of Cap on Stabilization Fund**

June 30, 2014  
(Amounts in thousands)

Total budgeted revenues and other financial resources pertaining to the budgeted funds.....	\$	37,230,145
Elimination of budgetary interfund activity exclusive of fund closure (per Schedule C).....		(1,756,990)
Budgeted revenues and other financial resources pertaining to the budgeted funds.....		35,473,155
Allowable Stabilization Fund balance, 15% of budgeted revenue.....	\$	5,320,973

Calculation of Stabilization Fund Cap as defined by Massachusetts General Laws Chapter 29 section 2H.

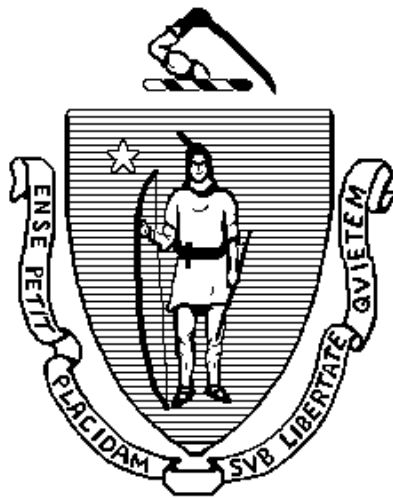
**Schedule C**  
**Detail of Elimination of Budgetary Inter Fund Activity**

June 30, 2014  
(Amounts in thousands)

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Adjustments to revenues :	
Transfer to the Intragovernmental Service Fund .....	\$ (339,715)
Adjustments to other financing sources and uses:	
Fringe benefit cost assessments.....	(8,291)
Transfer from the Intragovernmental Service Fund to the General Fund.....	(3,478)
RMV license plates.....	(3,011)
Transfer to Stabilization Fund from General Fund.....	(459,767)
Transfer to fund the General Fund consolidated net surplus calculation.....	(3,010)
Transfer from Stabilization Fund to the General Fund.....	(771,569)
Other fund deficit support.....	(167,972)
Other.....	<u>(177)</u>
Elimination of budgetary interfund activity.....	<u>\$ (1,756,990)</u>





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## Non-Tax Revenue Initiatives

June 30, 2014  
(Amounts in thousands)

Chapter 653, Acts of 1989, amended Chapter 29 of the Massachusetts General Laws by adding Sections 29D and 29E, which authorize certain non-tax revenue initiatives and require reporting thereon, as follows.

### I. Debt Collection:

Pursuant to Massachusetts General Laws Chapter 29, Section D, Chapter 7A Section 8, allows private debt collection agencies to engage in debt collection for the Commonwealth. The fees paid are contingency-based from the proceeds collected. Collections and fees paid during FY14 were (amounts in thousands):

Department Collectors	Collections	Fees
Collecto, Inc.....	\$ 3,455	\$ 414
Delta.....	1,379	210
Allen Daniels.....	1,162	182
Premier Credit of North America, LLC.....	242	47
Financial Asset Management Systems, Inc.....	119	15
Linebarger, Goggan, Blair & Sampson LLP.....	69	11
Total.....	<u>\$ 6,426</u>	<u>\$ 879</u>

Under the same program, the following amounts were collected and fees paid for the Institutions of Higher Education (these figures are as subset of the above) (amounts in thousands):

Department Collectors	Collections	Fees
Collecto, Inc.....	\$ 2,617	\$ 342
Delta.....	1,061	160
Allen Daniels.....	675	103
Premier Credit of North America, LLC.....	157	29
Total.....	<u>\$ 4,510</u>	<u>\$ 634</u>

### II. Revenue Maximization:

Pursuant to Massachusetts General Law Chapter 29 Section 29E, contractors were engaged on a contingent fee basis to assist several of the Commonwealth's departments in the identification and collection of federal and other non-tax revenues. During FY14, the following amounts were generated (amounts in thousands):

Gross revenue maximization realized.....	\$ 1,258,122
Amounts credited to the federal government.....	(52,714)
Contractor payments.....	<u>(17,343)</u>
Net revenue maximization realized.....	<u>\$ 1,188,065</u>

### III. Cost Avoidance:

The Comptroller's appropriation authorizes contract arrangements engaged on a contingent fee basis for the purpose of identification and pursuit of cost saving/avoidance opportunities. During FY14, the following amounts were generated (amounts in thousands):

State expenditures avoided.....	\$ 2,695,182
Amounts credited to the federal government in provider offsets.....	(12,400)
Contractor payments.....	<u>(19,855)</u>
Net cost savings/avoidance.....	<u>\$ 2,662,927</u>

### IV. Intercept:

Intercept is authorized by M.G.L. Chapter 7A Section 3 and 815 CMR 9:06. Intercept is an automated process that offsets Commonwealth payments to delinquent receivables that have been approved by the Office of the State Comptroller. FY14 activity (amounts in thousands):

Total Commonwealth intercepts.....	\$ 11,548
Amounts included above that were intercepted on behalf of the Institutions of Higher Education.....	\$ 6,467

## 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, 2014*..	\$ 21,581,133	\$ 30,679,600	\$ 9,098,467	70.3%	\$ 5,344,510	170.2%
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	26,242,776	4,997,876	81.0%	4,808,250	103.9%
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%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2014*..	\$ 22,940,196	\$ 40,741,695	\$ 17,801,499	56.3%	\$ 5,962,650	298.6%
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%

\* The actuarial valuations as of January 1, 2014 are prepared in conformity with Governmental Accounting Standards Board (GASB) Statements in effect prior to GASB Statement No 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*. Actuarial valuations which comply with Statement No. 67 will be presented in the fiscal 2014 CAFR.

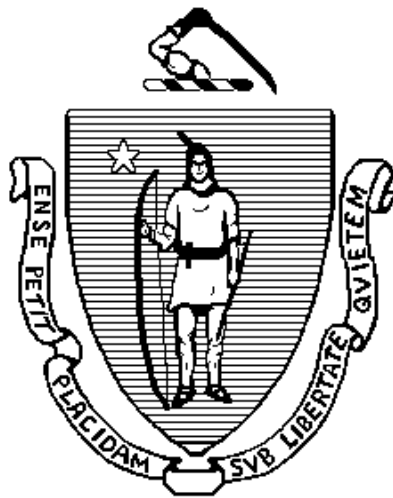
For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac>.

Alternatively, copies of the Commonwealth's actuarial valuation 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 Fund

	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, 2014....	\$ 511,200	\$ 15,670,200	\$ 15,159,000	3.3%	\$ 5,344,510	283.6%
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....	310,000	15,166,000	14,856,000	2.0%	4,711,563	315.3%
Actuarial Valuation as of January 1, 2009....	273,500	15,305,000	15,031,500	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. Telephone number: (617) 727-5000.



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# *Statistical Section*



Ten-Year Schedules – Statutory Basis  
Higher Education Non-appropriated Funds – Statutory Basis

See review report

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

June 30, 2014  
(Amounts in millions)

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

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	2010	% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total	2005	% Total
\$	18,792	40.3	\$ 18,513	38.8	\$ 21,009	44.6	\$ 19,849	44.4	\$ 18,593	43.9	\$ 17,192	40.7
	9,374	20.1	9,139	19.1	6,937	14.7	6,830	15.3	6,307	14.9	6,018	14.3
	3,134	6.7	2,646	5.5	2,065	4.4	1,989	4.5	2,046	4.8	1,996	4.7
	4,629	9.9	4,649	9.7	4,915	10.4	4,670	10.4	4,739	11.2	4,705	11.2
	971	2.1	894	1.9	806	1.7	794	1.8	793	1.9	785	1.9
	463	1.0	383	0.8	376	0.8	374	0.8	361	0.9	401	1.0
	2,830	6.0	2,800	5.9	3,200	6.8	2,450	5.6	2,891	6.8	2,945	6.8
	1,672	3.6	2,141	4.5	1,306	2.8	1,604	3.6	1,838	4.3	1,354	3.2
	538	1.2	390	0.8	-	0.0	1,531	3.4	633	1.5	1,385	3.3
	4,233	9.1	6,197	13.0	6,538	13.9	4,605	10.3	4,145	9.8	5,409	12.8
<u>\$</u>	<u>46,636</u>	<u>100.0</u>	<u>\$ 47,752</u>	<u>100.0</u>	<u>\$ 47,152</u>	<u>100.0</u>	<u>\$ 44,696</u>	<u>100.0</u>	<u>\$ 42,346</u>	<u>100.0</u>	<u>\$ 42,190</u>	<u>100.0</u>

**Ten-Year Schedule of Tax Revenues By Source**  
**All Governmental Fund Types - Statutory Basis**

June 30, 2014  
(Amounts in millions)

	2014	%	2013	%	2012	%	2011	%
		Total		Total		Total		Total
Income.....	\$ 13,202	55.8	\$ 12,831	57.3	\$ 11,911	55.7	\$ 11,576	55.7
Sales and use.....	5,519	23.3	5,184	23.1	5,079	23.8	4,921	23.7
Corporations.....	2,049	8.7	1,822	8.1	1,771	8.3	1,951	9.4
Motor fuels.....	732	3.1	651	2.9	662	3.1	661	3.2
Cigarette.....	521	2.2	440	2.0	451	2.1	454	2.2
Insurance.....	316	1.3	373	1.7	318	1.5	296	1.4
Estate and inheritance.....	402	1.7	313	1.4	293	1.4	310	1.5
Banks: Financial Institutions*.....	136	0.6	78	0.3	267	1.2	(11)	-0.1
Alcoholic beverages.....	79	0.3	77	0.3	77	0.4	73	0.4
Other.....	711	3.0	625	2.7	555	2.5	545	2.6
<b>Total taxes.....</b>	<b>\$ 23,665</b>	<b>100.0</b>	<b>\$ 22,396</b>	<b>100.0</b>	<b>\$ 21,384</b>	<b>100.0</b>	<b>\$ 20,776</b>	<b>100.0</b>

\*Negative amounts in FY11 are primarily due to changes in corporate tax laws, which resulted in some financial institutions tax being classified as corporations tax.



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2010	% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total	2005	% Total
\$ 10,110	53.8	\$ 10,584	57.2	\$ 12,484	59.4	\$ 11,400	57.4	\$ 10,483	56.4	\$ 9,690	56.4
4,626	24.6	3,880	21.0	4,098	19.5	4,076	20.5	4,009	21.6	3,891	22.6
1,600	8.5	1,549	8.4	1,512	7.2	1,588	8.0	1,391	7.5	1,063	6.2
655	3.5	654	3.5	673	3.2	676	3.4	672	3.6	685	4.0
456	2.4	457	2.5	437	2.1	438	2.2	435	2.3	424	2.5
285	1.5	309	1.7	369	1.8	369	1.9	397	2.1	373	2.2
221	1.2	260	1.4	254	1.2	250	1.3	196	1.1	255	1.5
235	1.3	243	1.3	548	2.6	341	1.7	350	1.9	199	1.2
72	0.4	73	0.4	72	0.3	71	0.4	70	0.4	69	0.4
532	2.8	504	2.6	562	2.7	640	3.2	590	3.1	543	3.3
<u>\$ 18,792</u>	<u>100.0</u>	<u>\$ 18,513</u>	<u>100.0</u>	<u>\$ 21,009</u>	<u>100.0</u>	<u>\$ 19,849</u>	<u>100.0</u>	<u>\$ 18,593</u>	<u>100.0</u>	<u>\$ 17,192</u>	<u>100.0</u>

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

June 30, 2014  
(Amounts in millions)

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

Schedule reflects changes in accordance with Article 87 reorganizations of the Massachusetts Constitution at various times over the last ten years at point of implementation.

For fiscal years 2009 to 2014, this schedule reflects Budgeted, Non-Budgeted and Capital Projects expenditures and other financing uses only.

2010	% Total	2009	% Total	2008	% Total	2007	% Total	2006	% Total	2005	% Total
\$ 59	0.1	\$ 60	0.1	\$ 58	0.1	\$ 59	0.2	\$ 55	0.1	\$ 54	0.1
788	1.7	814	1.6	831	1.7	788	1.8	672	1.6	634	1.5
4	-	3	-	3	-	3	-	3	-	4	-
5	-	8	-	9	-	5	-	5	-	5	-
54	0.1	53	0.1	53	0.1	55	0.1	45	0.1	50	0.1
5,483	11.5	6,043	12.2	5,640	11.8	5,267	11.7	5,635	13.6	5,760	13.7
17	-	20	-	19	-	18	-	19	-	18	-
53	0.1	57	0.1	56	0.1	52	0.1	49	0.1	45	0.1
2	-	2	-	2	-	2	-	1	-	2	-
96	0.2	104	0.2	104	0.2	96	0.2	88	0.2	82	0.2
1	-	1	-	1	-	2	-	1	-	1	-
378	0.8	295	0.6	296	0.7	275	0.6	251	0.6	226	0.5
2	-	3	-	2	-	2	-	2	-	2	-
34	0.1	48	0.1	46	0.1	42	0.1	49	0.1	47	0.1
-	-	-	-	-	-	-	-	-	-	-	-
15	-	14	-	14	-	14	-	14	0.0	21	-
7,040	14.9	6,892	14.2	7,059	14.8	7,043	15.7	6,601	16.1	6,235	14.8
529	1.1	526	1.1	473	1.0	450	1.0	390	0.9	346	0.8
-	-	-	-	-	-	509	1.1	659	1.6	597	1.4
16,044	33.8	16,468	33.3	15,504	32.5	14,456	32.2	13,539	32.6	13,383	31.8
509	1.1	1,689	3.4	1,378	2.9	1,404	3.1	1,376	3.3	1,569	3.7
1,542	3.2	-	-	-	-	-	-	-	-	-	-
3,184	6.7	3,390	6.9	2,989	6.3	2,936	6.5	2,726	6.6	2,250	5.4
-	-	-	-	-	-	-	-	-	-	-	-
1,308	2.7	1,456	2.9	1,381	2.9	1,253	2.8	1,180	2.8	1,111	2.6
1,245	2.6	981	2.0	857	1.8	508	1.1	323	0.8	299	0.7
403	0.8	331	0.7	274	0.6	67	0.1	-	-	-	-
1,749	3.7	1,314	2.7	1,399	2.9	1,335	3.0	1,275	3.1	1,217	2.9
2,117	4.5	2,145	4.3	2,239	4.7	2,352	5.2	2,028	4.9	1,719	4.1
538	1.1	-	-	-	-	1,531	3.4	633	1.5	1,153	2.7
4,373	9.2	6,456	13.1	5,403	11.3	4,383	9.8	3,887	9.4	5,197	12.4
<u>\$ 47,572</u>	<u>100.0</u>	<u>\$ 49,393</u>	<u>100.0</u>	<u>\$ 47,683</u>	<u>100.0</u>	<u>\$ 44,907</u>	<u>100.0</u>	<u>\$ 41,506</u>	<u>100.0</u>	<u>\$ 42,027</u>	<u>100.0</u>

**Ten-Year Schedule of Budgeted Funds Expenditures and Other Financing Uses By  
Major Program Category**  
June 30, 2014  
(Amounts in millions)

	2014	2013	2012	2011	2010	2009	2008*	2007	2006	2005
Direct local aid.....	\$ 5,292	\$ 5,116	\$ 4,929	\$ 4,785	\$ 4,837	\$ 4,724	\$ 5,040	\$ 5,033	\$ 4,619	\$ 4,477
Medicaid**.....	11,901	10,800	10,431	10,237	9,287	8,537	8,104	7,413	6,726	5,857
Other Health and Human Services.....	4,980	4,769	4,711	4,615	4,616	4,970	5,014	-	-	-
Public Assistance.....	-	-	-	-	-	-	-	1,258	1,129	1,095
Elementary and Secondary Education.....	515	489	436	349	358	496	486	-	-	-
Higher Education.....	1,092	991	937	943	846	1,036	1,085	1,116	988	915
Early education and care.....	510	483	494	515	513	560	550	-	-	-
Public Safety and Homeland Security.....	1,010	960	930	905	1,053	1,224	1,265	-	-	-
Energy and Environmental Affairs.....	215	202	187	186	202	216	227	-	-	-
MBTA and regional transit authorities.....	-	-	-	-	-	-	-	52	50	49
Post employment benefits.....	2,050	1,967	1,892	1,839	1,749	1,314	1,399	1,335	1,275	1,217
Group health insurance.....	1,403	1,278	1,206	1,130	1,064	973	853	1,022	964	846
Debt service.....	2,133	2,117	1,923	1,664	1,860	1,891	1,868	2,085	1,666	1,581
<b>Major programs.....</b>	<b>31,101</b>	<b>29,172</b>	<b>28,076</b>	<b>27,168</b>	<b>26,385</b>	<b>25,941</b>	<b>25,891</b>	<b>19,314</b>	<b>17,417</b>	<b>16,037</b>
Other program expenditures.....	3,671	3,007	2,899	2,851	2,999	2,762	2,739	8,343	7,777	7,247
Interfund transfers and other financing uses.....	2,882	3,172	2,515	5,520	1,810	3,867	4,405	1,819	1,749	2,726
<b>Total expenditures and other financing uses.....</b>	<b>\$ 37,654</b>	<b>\$ 35,351</b>	<b>\$ 33,490</b>	<b>\$ 35,539</b>	<b>\$ 31,194</b>	<b>\$ 32,570</b>	<b>\$ 33,035</b>	<b>\$ 29,476</b>	<b>\$ 26,943</b>	<b>\$ 26,010</b>

\* Fiscal years 2008 through 2014 presentation aligned with Bond Official Statements - Commonwealth Expenditures - Budgeted Operating Funds

\*\* Exclusive of Non-Budgeted Medicaid spending from FY05 through FY2007 within the Health Care Quality Improvement Fund, totaling \$292 million, \$292 million and \$290 million in FY05 through FY07, respectively.

## Ten-Year Schedule of Long-Term Bonds And Notes Outstanding

Fiscal Year Ended June 30, 2014  
(Amounts in millions)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General obligation bonds.....	\$19,387	\$19,140	\$18,852	\$18,517	\$17,683	\$17,052	\$ 16,085	\$ 16,033	\$ 15,393	\$ 14,492
Grant anticipation notes*.....	531	449	610	766	991	1,134	1,536	1,666	1,789	1,907
Special obligation bonds.....	2,292	1,924	1,972	1,592	1,053	1,079	1,113	1,249	1,279	1,458
Commonwealth long-term bonds.....	<u>\$ 22,210</u>	<u>\$ 21,513</u>	<u>\$ 21,434</u>	<u>\$ 20,875</u>	<u>\$ 19,727</u>	<u>\$ 19,265</u>	<u>\$ 18,734</u>	<u>\$ 18,948</u>	<u>\$ 18,461</u>	<u>\$ 17,857</u>

\*Inclusive of cross-over refunding notes but exclusive of unamortized premiums.



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# ***HIGHER EDUCATION NON- APPROPRIATED ACTIVITY***

The Commonwealth's Public Institutions of Higher Education are allowed, by their enabling statutes, to collect, retain, and expend certain fees, rents, donations and other types of revenue. These financial resources are important elements in the overall financial operations of the respective institutions, and are in addition to amounts made available from appropriations. The Public Institutions of Higher Education include:

***University of Massachusetts System*** – The University system includes the campuses at Amherst, Worcester, Boston, Lowell, Dartmouth and certain institutes and programs operated by the Office of the University President.

***State University Systems*** – The State College and University Systems include the three state colleges, and six state universities, which provide four-year post-secondary education programs. These include:

Bridgewater State University  
Framingham State University  
Fitchburg State University  
Massachusetts College of Art & Design  
Massachusetts Maritime Academy  
Massachusetts College of Liberal Arts  
Salem State University  
Worcester State University  
Westfield State University

***Community College System*** - The Community College System includes the fifteen community colleges, which provide two-year post secondary education programs.

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

**Higher Education System**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	University of Massachusetts	State Universities and Colleges	Community Colleges	Totals	
				2014	2013
<b>Revenues and other financing sources</b>					
Federal grants and reimbursements.....	\$ 379,346	\$ 53,660	\$ 193,325	\$ 626,331	\$ 609,993
Departmental revenue.....	1,182,978	424,659	360,068	1,967,705	1,977,642
Miscellaneous revenue.....	1,092,832	395,057	307,111	1,795,000	1,744,500
Total revenues and other financing sources.....	<u>2,655,156</u>	<u>873,376</u>	<u>860,504</u>	<u>4,389,036</u>	<u>4,332,135</u>
<b>Expenditures and other financing uses</b> (by MMARS subsidiary):					
AA Regular employee compensation.....	621,159	148,649	184,172	953,980	1,002,086
BB Regular employee related expenses.....	22,698	4,036	3,930	30,664	30,865
CC Special employees and contracted services.....	240,146	116,573	209,805	566,524	567,081
DD Pension and insurance.....	168,011	35,001	36,055	239,067	247,977
EE Administrative expenditures.....	109,489	68,607	36,802	214,898	369,656
FF Facility operational supplies.....	147,853	13,777	25,194	186,824	211,750
GG Energy costs and space rental.....	146,066	28,931	25,290	200,287	196,298
HH Consultant services.....	235,208	12,494	19,110	266,812	242,496
JJ Operational services.....	37,133	30,296	11,488	78,917	81,367
KK Equipment purchase.....	31,917	5,880	9,490	47,287	38,437
LL Equipment leases, maintenance and repair.....	25,063	7,773	6,028	38,864	35,901
MM Purchased client services and programs.....	29,025	2,593	4,065	35,683	38,052
NN Construction and improvements.....	101,594	47,813	22,799	172,206	206,189
PP Aid to local governments.....	1	78	427	506	386
RR Benefit programs.....	343,232	92,570	199,390	635,192	471,212
SS Debt payment.....	10,781	2,885	4,010	17,676	13,952
TT Loans and special payments.....	241,925	140,222	26,499	408,646	359,945
UU Information technology (IT) expenses .....	92,345	25,288	26,609	144,242	134,213
Total expenditures and other financing uses.....	<u>2,603,646</u>	<u>783,466</u>	<u>851,163</u>	<u>4,238,275</u>	<u>4,247,863</u>
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	51,510	89,910	9,341	150,761	84,272
Fund balance at beginning of year.....	843,214	352,742	278,555	1,474,511	1,390,239
Fund balance at end of year.....	<u>\$ 894,724</u>	<u>\$ 442,652</u>	<u>\$ 287,896</u>	<u>\$ 1,625,272</u>	<u>\$ 1,474,511</u>



**University of Massachusetts**  
Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	<u>2014</u>	<u>2013</u>
<b>Revenues and other financing sources</b>		
Federal grants and reimbursements.....	\$ 379,346	\$ 379,593
Departmental revenue.....	1,182,978	1,164,742
Miscellaneous revenue.....	<u>1,092,832</u>	<u>1,046,438</u>
Total revenues and other financing sources.....	<u>2,655,156</u>	<u>2,590,773</u>
<b>Expenditures and other financing uses</b>		
(by MMARS subsidiary):		
AA Regular employee compensation.....	621,159	646,668
BB Regular employee related expenses.....	22,698	22,197
CC Special employees and contracted services.....	240,146	234,688
DD Pension and insurance.....	168,011	171,950
EE Administrative expenditures.....	109,489	220,797
FF Facility operational supplies.....	147,853	174,451
GG Energy costs and space rental.....	146,066	138,844
HH Consultant services.....	235,208	216,577
JJ Operational services.....	37,133	39,577
KK Equipment purchase.....	31,917	21,517
LL Equipment leases, maintenance and repair.....	25,063	21,598
MM Purchased client services and programs.....	29,025	31,631
NN Construction and improvements.....	101,594	130,151
PP Aid to local governments.....	1	1
RR Benefit programs.....	343,232	224,358
SS Debt payment.....	10,781	1,338
TT Loans and special payments.....	241,925	188,250
UU Information technology (IT) expenses .....	<u>92,345</u>	<u>71,055</u>
Total expenditures and other financing uses.....	<u>2,603,646</u>	<u>2,555,648</u>
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	51,510	35,125
Fund balance at beginning of year.....	<u>843,214</u>	<u>808,089</u>
Fund balance at end of year.....	<u>\$ 894,724</u>	<u>\$ 843,214</u>

**State University and College System**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	Bridgewater State University	Framingham State University	Fitchburg State University	Massachusetts College of Art
<b>Revenues and other financing sources</b>				
Federal grants and reimbursements.....	\$ 14,025	\$ 5,822	\$ 7,219	\$ 2,517
Departmental revenue.....	115,958	46,578	48,877	27,536
Miscellaneous revenue.....	78,456	51,938	39,206	18,286
Total revenues and other financing sources.....	<u>208,439</u>	<u>104,338</u>	<u>95,302</u>	<u>48,339</u>
<b>Expenditures and other financing uses</b> (by MMARS subsidiary):				
AA Regular employee compensation.....	56,948	8,437	16,476	8,667
BB Regular employee related expenses.....	1,413	458	426	384
CC Special employees and contracted services.....	41,307	10,563	11,275	6,154
DD Pension and insurance.....	14,797	2,269	3,775	633
EE Administrative expenditures.....	7,614	36,012	2,137	2,179
FF Facility operational supplies.....	2,000	1,662	1,239	1,285
GG Energy costs and space rental.....	5,333	3,079	4,947	1,705
HH Consultant services.....	2,096	1,391	745	1,456
JJ Operational services.....	11,181	6,077	1,280	2,054
KK Equipment purchase.....	1,738	737	497	429
LL Equipment leases, maintenance and repair.....	2,318	605	724	224
MM Purchased client services and programs.....	1,245	418	264	-
NN Construction and improvements.....	13,854	2,551	12,453	4,818
PP Aid to local governments.....	-	78	-	-
RR Benefit programs.....	22,667	8,036	9,462	7,328
SS Debt payment.....	2,065	702	-	-
TT Loans and special payments.....	24,494	13,439	21,275	6,869
UU Information technology (IT) expenses.....	5,065	3,332	3,424	1,744
Total expenditures and other financing uses.....	<u>216,135</u>	<u>99,846</u>	<u>90,399</u>	<u>45,929</u>
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses...	(7,696)	4,492	4,903	2,410
Fund balance at beginning of year.....	<u>34,607</u>	<u>46,631</u>	<u>52,039</u>	<u>14,100</u>
Fund balance at end of year.....	<u>\$ 26,911</u>	<u>\$ 51,123</u>	<u>\$ 56,942</u>	<u>\$ 16,510</u>

Note: Details might not add up due to rounding

Massachusetts Maritime Academy	Massachusetts College of Liberal Arts	Salem State University	Worcester State University	Westfield State University	Totals	
					2014	2013
\$ 597	\$ 3,353	\$ 11,664	\$ 245	\$ 8,218	\$ 53,660	\$ 51,260
17,057	20,695	22,259	52,841	72,858	424,659	415,753
9,010	16,893	129,347	20,536	31,385	395,057	376,968
<u>26,664</u>	<u>40,941</u>	<u>163,270</u>	<u>73,622</u>	<u>112,461</u>	<u>873,376</u>	<u>843,981</u>
4,568	8,127	25,002	3,058	17,366	148,649	155,318
295	556	437	31	36	4,036	4,542
4,915	7,985	16,722	8,064	9,588	116,573	120,422
552	1,024	6,536	471	4,944	35,001	37,340
578	1,858	11,645	6,365	219	68,607	63,123
524	726	3,147	3,150	44	13,777	13,063
440	1,486	5,197	6,486	258	28,931	31,794
354	1,590	2,071	2,694	97	12,494	13,082
3,482	3,036	1,506	1,564	116	30,296	33,621
207	702	420	1,079	71	5,880	7,641
387	854	440	2,173	48	7,773	7,419
-	-	662	-	4	2,593	2,844
423	4,329	3,764	4,597	1,024	47,813	58,262
-	-	-	-	-	78	77
619	4,814	18,613	13,604	7,427	92,570	75,803
-	89	-	-	29	2,885	9,702
2,421	2,645	58,151	10,706	222	140,222	140,906
1,315	1,035	6,108	3,152	113	25,288	24,957
<u>21,080</u>	<u>40,856</u>	<u>160,421</u>	<u>67,194</u>	<u>41,606</u>	<u>783,466</u>	<u>799,916</u>
5,584	85	2,849	6,428	70,855	89,910	44,065
16,968	14,229	38,781	92,618	42,770	352,742	308,677
<u>\$ 22,552</u>	<u>\$ 14,314</u>	<u>\$ 41,630</u>	<u>\$ 99,046</u>	<u>\$ 113,625</u>	<u>\$ 442,652</u>	<u>\$ 352,742</u>

**Community College System**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Berkshire Community College	Bunker Hill Community College	Bristol Community College	Cape Cod Community College	Greenfield Community College	Holyoke Community College	Massasoit Community College
<b>Revenues and other financing sources</b>							
Federal grants and reimbursements.....	\$ 4,493	\$ 27,328	\$ 26,242	\$ 5,383	\$ 3,738	\$ 13,712	\$ 18,097
Departmental revenue.....	8,442	24,079	10,825	10,996	8,755	16,979	36,916
Miscellaneous revenue.....	6,073	31,810	57,580	13,684	6,318	16,936	23,124
Total revenues and other financing sources.....	19,008	83,217	94,647	30,063	18,811	47,627	78,137
<b>Expenditures and other financing uses</b>							
(by MMARS subsidiary):							
AA Regular employee compensation.....	3,367	35,522	15,960	5,679	4,294	5,870	12,974
BB Regular employee related expenses.....	109	169	436	124	163	492	134
CC Special employees and contracted services.....	6,168	17,892	32,232	9,044	4,619	9,238	19,736
DD Pension and insurance.....	915	2,515	4,514	1,749	1,105	1,545	3,847
EE Administrative expenditures.....	1,652	2,505	2,552	859	439	2,019	1,533
FF Facility operational supplies.....	692	1,292	1,046	311	239	3,433	1,454
GG Energy costs and space rental.....	768	2,331	2,726	1,171	861	1,282	1,135
HH Consultant services.....	476	543	634	123	371	460	364
JJ Operational services.....	548	2,021	740	252	341	681	343
KK Equipment purchase.....	279	856	1,157	92	17	368	763
LL Equipment leases, maintenance and repair.....	136	809	243	82	121	142	647
MM Purchased client services and programs.....	29	425	2,118	-	12	14	434
NN Construction and improvements.....	500	2,533	1,736	973	178	1,535	2,467
PP Aid to local governments.....	-	-	203	-	-	-	23
RR Benefit programs.....	2,592	29,075	26,735	7,070	4,652	15,894	13,761
SS Debt payment.....	22	245	-	-	-	308	1,069
TT Loans and special payments.....	85	-	294	120	114	-	5,825
UU Information technology (IT) expenses.....	689	4,470	1,929	1,076	539	1,843	2,361
Total expenditures and other financing uses.....	19,027	103,203	95,255	28,725	18,065	45,124	68,870
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	(19)	(19,986)	(608)	1,338	746	2,503	9,267
Fund balance at beginning of year.....	2,842	41,001	14,761	17,096	1,279	12,472	22,825
Fund balance at end of year.....	\$ 2,823	\$ 21,015	\$ 14,153	\$ 18,434	\$ 2,025	\$ 14,975	\$ 32,092

Note: Details might not add up due to rounding

Massachusetts Bay Community College	Middlesex Community College	Mount Wachusett Community College	Northern Essex Community College	North Shore Community College	Quinsigamond Community College	Roxbury Community College	Springfield Technical Community College	Totals	
								2014	2013
\$ 5,982	\$ 19,023	\$ 1,177	\$ 13,545	\$ 17,199	\$ 16,350	\$ 5,477	\$ 15,579	\$ 193,325	\$ 179,140
20,473	32,711	33,100	48,172	32,966	47,394	2,041	26,219	360,068	397,147
19,500	33,994	19,094	26,491	16,447	5,223	17,051	13,786	307,111	321,094
45,955	85,728	53,371	88,208	66,612	68,967	24,569	55,584	860,504	897,381
3,280	18,224	24,827	12,988	27,161	10,447	1,539	2,040	184,172	200,100
144	465	308	332	192	505	40	317	3,930	4,126
14,416	26,099	9,218	16,394	8,550	12,944	13,353	9,902	209,805	211,971
1,689	5,593	3,243	3,927	2,176	2,133	450	654	36,055	38,687
4,227	2,862	2,368	6,315	2,940	2,863	578	3,090	36,802	85,736
550	1,243	628	3,673	3,502	4,405	968	1,758	25,194	24,236
2,091	5,835	624	1,997	1,501	1,266	873	829	25,290	25,660
-	296	671	793	1,342	9,452	1,179	2,406	19,110	12,837
-	-	698	2,657	198	314	849	1,846	11,488	8,169
-	311	697	1,053	237	836	201	2,623	9,490	9,279
-	654	301	192	150	892	176	1,483	6,028	6,884
282	-	51	-	201	-	-	499	4,065	3,577
1,912	1,450	3,842	3,337	1,113	608	257	358	22,799	17,776
-	-	116	-	45	-	35	5	427	308
11,966	194	1,501	32,486	15,187	18,691	384	19,202	199,390	171,051
93	-	351	340	1,350	-	-	232	4,010	2,912
-	19,739	11	-	-	297	12	2	26,499	30,789
4,590	85	51	2,576	2,064	3,606	667	63	26,609	38,201
45,240	83,050	49,506	89,060	67,909	69,259	21,561	47,309	851,163	892,299
715	2,678	3,865	(852)	(1,297)	(292)	3,008	8,275	9,341	5,082
11,873	4,999	7,650	8,363	13,263	4,163	17,179	98,790	278,555	273,473
\$ 12,588	\$ 7,677	\$ 11,515	\$ 7,511	\$ 11,966	\$ 3,871	\$ 20,187	\$ 107,065	\$ 287,896	\$ 278,555



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# Exhibit C

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# Commonwealth of Massachusetts



## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2014*

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

*This document and related information are available at*

**Mass.gov**

*"Your Government, Your Way"*

*The Office of the Comptroller's home page is [www.mass.gov/osc](http://www.mass.gov/osc)*

**Arthur Smith Covered Bridge – Colrain**  
Photo Credit: Massachusetts Office of Travel and Tourism

# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

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# *Introductory Section*

*(Unaudited)*



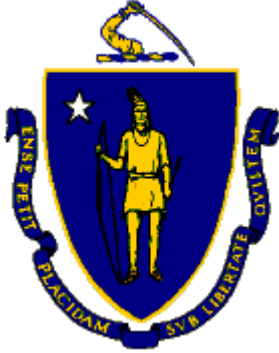
## *BU Bridge, Boston*

*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 23, 2014*

*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 2014 (FY14) 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 FY14 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 the 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, 2014:</b>	
Budgeted Fund Balance.....	\$ 1,450.5
Non Budgeted Special Revenue Fund Balance.....	2,269.9
Capital Projects Fund Balance.....	<u>(1,101.2)</u>
<b>Governmental Fund Balance - Statutory Basis, June 30, 2014.....</b>	<b>\$ 2,619.2</b>
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes.....	467.9
Less: Massachusetts Department of Transportation Funds.....	<u>(1,292.2)</u>
<b>Adjusted Statutory Governmental Fund Balance.....</b>	<b>1,795.0</b>
Short term accruals, net of allowances and deferrals for increases /(decreases):	
Taxes, net of refunds and abatements.....	\$ 1,951.6
Tobacco Settlement Agreement receivable.....	126.8
Medicaid.....	(355.2)
Other short term accruals:	
Assessments and other receivables.....	280.6
Amounts due to authorities and municipalities, net.....	(576.9)
Claims, judgments and other risks.....	(33.2)
Amounts due to health care providers and insurers.....	(78.5)
Workers' compensation and group insurance.....	(133.3)
Other accruals, net.....	<u>469.2</u>
<b>Net increase to governmental fund balances.....</b>	<b><u>1,651.1</u></b>
<b>Massachusetts School Building Authority fund balance.....</b>	<b><u>1,173.3</u></b>
<b>Total changes to governmental funds.....</b>	<b><u>2,824.4</u></b>
<b>Governmental fund balance (fund perspective).....</b>	<b>\$ 4,619.4</b>
Plus: Capital assets including infrastructure, net of accumulated depreciation.....	4,572.6
Deferred revenue, net of other eliminations.....	682.2
Long term accruals:	
Pension Benefits cumulative over / (under) funding.....	(2,219.0)
Post employment benefits other than pensions cumulative over / (under) funding.....	(4,832.0)
Environmental Remediation Liability.....	(217.3)
Massachusetts School Building Authority debt and school construction payables.....	(7,403.8)
Long term debt, unamortized premiums and deferred losses on debt refundings.....	(23,109.6)
Compensated Absences.....	(527.2)
Capital leases.....	(55.9)
Accrued interest on bonds.....	(353.3)
Other Long term liabilities.....	<u>(115.8)</u>
<b>Total governmental net position (entity wide perspective).....</b>	<b><u>\$ (28,959.7)</u></b>

The deficit of \$28.960 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 FY14, MassDOT held \$22.798 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 \$6.174 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 FY14 the Commonwealth's capital spending on Higher Education capital projects exceeded \$1.08 billion, capital spending for transportation-related financial assistance to local governments totaled more than \$2.1 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 \$3.9 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 and other quasi-governmental authorities.

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

Net Position as of June 30, 2014:

Commonwealth's Governmental Activity.....	\$ (28,959,690)
Massachusetts Department of Transportation (major assets include roads and bridges).....	<u>21,474,790</u>
Total Net Position of the Commonwealth, including MassDOT...	<u>\$ (7,484,900)</u>

Since MassDOT's governmental activity ended FY14 with a positive net position of \$21.475 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 governmental activities (which excludes "business-type activities" of Unemployment Insurance and Higher Education) grew by almost \$2.976 billion in FY14. While tax revenues experienced healthy growth on a statutory basis in FY14, much of this growth resulted from tax settlements, which reduced tax receivables and thus did not increase governmental net position on a GAAP basis. In addition, Medicaid expenditures grew more than 9% in FY14, mostly due to expanded Medicaid eligibility under the Affordable Care Act, federal reimbursements for which are 75% of expenditures and are expected to increase over the next several years, reducing the growth in net state cost. The other main factors underlying the change in the net deficit were as follows:

- 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 \$2.219 billion since 2009, with FY14 being underfunded by \$404 million.

- The Commonwealth had until recently funded 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 \$685 million in FY14, reducing net position; cumulative OPEB underfunding is \$4.832 billion. However, the Commonwealth has dedicated payments from the Master Settlement Agreement with tobacco companies to fund its OPEB liability. These payments are being phased in over ten years, and are projected to increase from \$56 million in FY14 to approximately \$250 million annually by FY23.
- As explained on page 4, 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 FY14, approximately \$2.0 billion of the more than \$2.5 billion in state-funded capital spending generated assets not owned by the Commonwealth, including \$1.36 billion in transportation spending (including more than \$246 million in grants and other financial assistance to cities and towns), \$206 million for Institutions of Higher Education (which are attributed to the Commonwealth's business-type activities) and approximately \$424 million in other capital grants and financial assistance to local governments and quasi-public entities.

The net deficit in government-wide activities, which includes the Commonwealth's business-type as well as governmental activities, increased by \$2.308 billion from FY13, with the deficit in governmental activities partially offset by surpluses in Unemployment Insurance and Higher Education.

#### **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, 2014. 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



*French King Bridge Over Connecticut River - Erving*

## **CONSTITUTIONAL OFFICERS**

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William F. Galvin  
*Secretary of State*

Martha Coakley  
*Attorney General*

Steven Grossman  
*Treasurer and Receiver-General*

Suzanne Bump  
*Auditor*

## **LEGISLATIVE OFFICERS**

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*President of the Senate*

Robert A. DeLeo  
*Speaker of the House*

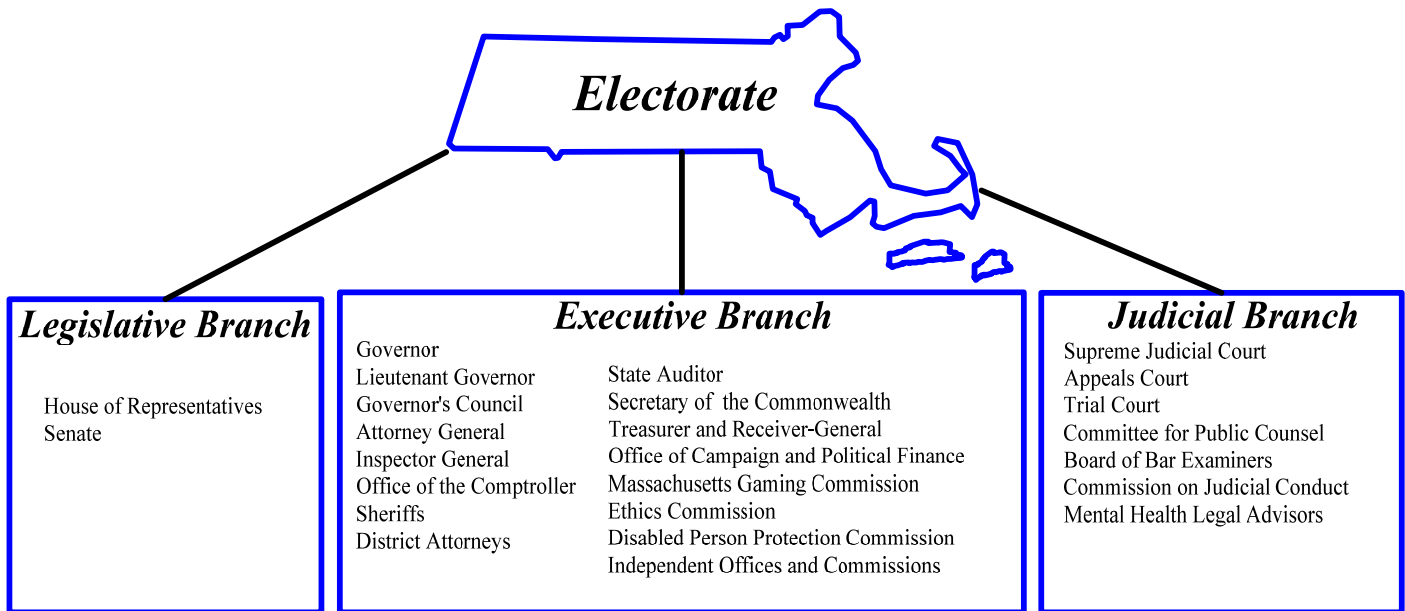
## **JUDICIAL OFFICERS**

Ralph D. Gants  
*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 Homeland 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 Energy Resources Department of Environmental Protection Department of Fish and Game Department of Public Utilities 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*

Timothy C. Sullivan  
*Gubernatorial Appointee*

**REPORT PREPARED BY:**

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*Deputy Comptroller*

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for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO



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# *Financial Section*



## *French King Bridge – Erving*

*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, 2014, 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 Universities and certain of the Community Colleges all of which are major enterprise funds and represent 85% of the total assets and deferred outflows of the business-type activities. We did not audit 74% 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, 2014, 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.

### ***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, in fiscal year 2014, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 65, *Items Previously Reported as Assets and Liabilities* and No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our opinions are not modified with respect to these matters.

### ***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 23, 2014, 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 23, 2014



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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, 2014 (FY14). 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 FY14 by almost \$23.472 billion, an increase in the net deficit of \$2.308 billion from FY13.

Of the \$23.472 billion deficit, “unrestricted net position” has a deficit of \$28.811 billion and there is a \$2.292 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 \$6.174 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. These assets were valued at \$22.798 billion as of June 30, 2014. However, the Commonwealth originally paid and continues to pay for the construction of these assets and retains a large amount of transportation-related debt, which is now 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 funding 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 \$2.219 billion. The Commonwealth's pension funding schedule was updated beginning in fiscal 2015.

5. The Commonwealth had, until recently, funded 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, 2014, it had accumulated a \$4.832 billion liability for OPEB. However, the Commonwealth has dedicated payments from the Master Settlement Agreement with tobacco companies to fund its OPEB liability. These payments are being phased in over ten years, and are projected to increase from \$56 million in FY14 to approximately \$250 million annually by FY23.

At the end of FY14, the Commonwealth also held \$3.046 billion in "restricted net position", which are assets restricted primarily for payment of debt service, unemployment insurance benefits and the Institutions of Higher Education. Approximately \$1.366 billion in restricted net position balances were set aside for unemployment benefits, an additional \$1.138 billion was restricted for debt retirement (of which \$831 million was restricted for MSBA debt retirement), \$224 million was restricted for Higher Education and \$318 million was restricted for other governmental purposes.

The Commonwealth's governmental activities (which excludes the "business-type activities" of the Institutions of Higher Education and Unemployment Insurance) net deficit increased by \$2.976 billion, to \$28.960 billion, and its governmental activities unrestricted net deficit increased by approximately \$3.179 billion in FY14, to \$29.913 billion. Approximately \$1.089 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 \$877 million, or 1.7% in FY14, to \$53.040 billion. Total expenses of the primary government increased by \$2.047 billion, or approximately 3.8%, to \$55.347 billion. Detail on revenue and expenses can be found on pages 28 to 30.

Net position of business-type activities increased by \$668 million, due to a surplus of \$363 million in the Unemployment Insurance Trust Fund and a surplus of \$305 million for Higher Education activity.

At June 30, 2014, the Commonwealth's governmental funds reported a combined ending fund balance of about \$4.619 billion, a decrease of \$251 million from June 30, 2013. Of the ending balances:

- \$1 million is nonspendable, \$1.518 billion is restricted, \$2.250 billion is committed, \$510 million is assigned and \$341 million is unassigned fund balance. (A full discussion of these classifications is included in Note 1 to the basic financial statements, on pages 69 - 71)
- The MSBA's fund balance of approximately \$1.173 billion is blended into the Commonwealth. Within this fund balance is

over \$1.058 billion in cash and restricted investments which were funded by bond proceeds in FY14 and previous fiscal years, and other assets, less approximately \$64 million in liabilities. In FY14, over \$731 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals, and the MSBA issued \$549 million in long-term dedicated sales tax bonds.

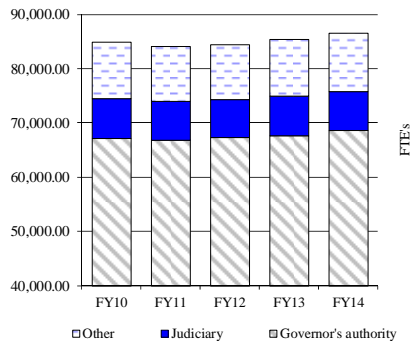
- Lottery revenues for FY14 were \$5.050 billion, an increase of approximately \$7 million, or 0.1%, from FY13. Prizes were approximately \$3.980 billion and operating expenses and mandated transfers to the governmental funds were \$1.070 billion.

Other highlights of FY14 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$282 million on a GAAP basis, an increase of approximately \$29 million from FY13. 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 FY15. By statute, in FY14 approximately \$56 million, or the equivalent of 20% of tobacco settlement proceeds, was transferred to the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth’s liability for retiree health care. The FY15 budget funds a transfer to the SRBTF equal to 30% of tobacco settlement proceeds. The transfers to the SRBTF will increase 10% per year until an amount equal to 100% of the tobacco settlement proceeds is transferred in FY23.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$14.817 billion in bond authorizations and approximately \$8 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 2010 – June 2014



**Full-Time Equivalent Employment**

The chart to the left shows the Commonwealth’s full-time equivalent employment including Massachusetts Department of Transportation (MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal and trust) over the past five fiscal years. In FY14, the number of Commonwealth FTEs increased by approximately 1,100, to a total of 86,490, with most of the increases in public safety (approximately 421 additional FTEs), health and human services (approximately 362 additional FTEs) and the courts (approximately 183 additional FTEs). Employment levels increased by a total of approximately 1,643 FTEs between June 30, 2010 and June 30, 2014 restoring some of the reductions that occurred in FY09 and FY10.

## **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 post-employment 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 unemployment insurance compensation system and the Institutions of Higher Education. 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 63-123.

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. Required pension schedules under GASB Statement No. 67, *Financial Reporting for Pension Plans*, are also presented 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.....	\$ 6,174,141
Outstanding bonds issued to fund the MBTA.....	207
Debt related to MassDOT assets.....	<u>10,972,954</u>
Effect on unrestricted net position of items unique to the Commonwealth....	<u>\$ 17,147,302</u>

The primary government’s combined net position (governmental and business-type activities) showed a net deficit of \$23.472 billion at the end of FY14, an increase in the net deficit of \$2.308 billion. Governmental activities unrestricted net position is negative by \$29.913 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 FY14, MassDOT reports its capital assets on its financial statements, which are incorporated into the Commonwealth’s financial statements similarly to other component units.

Of the Commonwealth’s more than \$2.5 billion in FY14 capital spending, approximately \$2.0 billion in state-funded capital spending did not result in capital assets attributed to governmental activities of the Commonwealth, including approximately \$1.36 billion in transportation spending (including more than \$246 million in grants and other financial assistance to cities and towns), \$206 million for Institutions of Higher Education (which are included in the Commonwealth’s business-type activities) and approximately \$424 million in other capital grants and financial assistance to local governments and quasi-public entities. Between FY05 and FY14 the Commonwealth’s capital spending on projects owned by non-Commonwealth entities or by the Institutions of Higher Education totaled \$14.5 billion. These include Higher Education capital projects totaling approximately \$1.08 billion, capital spending for transportation projects now owned by the Massachusetts Department of Transportation totaling approximately \$7.5 billion, transportation-related financial assistance to local governments totaling more than \$2.1 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 of almost \$3.9 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 (beyond its initial \$1 billion capitalization), 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, 2014, the Commonwealth’s government-wide current cash and short-term investments totaled \$3.750 billion, a decrease of \$541 million from June 30, 2013. Total current assets were \$9.996 billion, an increase of \$53 million from June 30, 2014. During the year, the Commonwealth issued \$800 million in Revenue Anticipation Notes (RANs). The RANS were retired in April, May and June 2014. As of June 30, 2014, the Commonwealth’s current liabilities were \$8.882 billion, an increase of \$518 million from June 30, 2013.

The primary government's non-current assets totaled \$16.885 billion, an increase of \$660 million from June 30, 2013. This increase was due mainly to a \$744 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 \$10.769 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:

- As described in more detail on page 21, 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 pension obligation by a cumulative \$2.219 billion, including underfunding of the obligation by \$404 million in FY14;
- 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 \$685 million in FY14, reducing net position; cumulative underfunding of the Commonwealth's OPEB obligation was \$4.832 billion as of June 30, 2014.

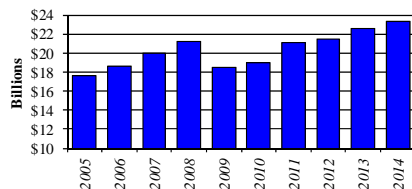
**Net Position as of June 30, 2014 and 2013**  
(in thousands of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current assets.....	\$ 8,292,538	\$ 8,315,303	\$ 1,691,508	\$ 1,627,511	\$ 9,984,046	\$ 9,942,814
Non-capital non-current assets.....	3,274,393	3,782,145	2,842,280	2,418,725	6,116,673	6,200,870
Capital assets.....	4,572,621	4,366,071	6,196,149	5,658,798	10,768,770	10,024,869
Deferred outflows of resources.....	505,587	566,095	143,319	72,304	648,906	638,399
<b>Total assets and deferred outflows.....</b>	<b>16,645,139</b>	<b>17,029,614</b>	<b>10,873,256</b>	<b>9,777,338</b>	<b>27,518,395</b>	<b>26,806,952</b>
Current liabilities.....	7,852,089	7,337,053	1,029,600	1,026,890	8,881,689	8,363,943
Long term liabilities.....	37,733,551	35,632,437	4,337,997	3,895,042	42,071,548	39,527,479
Deferred inflows of resources.....	19,189	-	18,018	14,283	37,207	14,283
<b>Total liabilities and deferred outflows.....</b>	<b>45,604,829</b>	<b>42,969,490</b>	<b>5,385,615</b>	<b>4,936,215</b>	<b>50,990,444</b>	<b>47,905,705</b>
Net position:						
Net investment in capital assets.....	(502,370)	(592,483)	2,794,845	2,605,263	2,292,475	2,012,780
Restricted.....	1,455,704	1,386,416	1,590,545	1,209,630	3,046,249	2,596,046
Unrestricted.....	(29,913,024)	(26,733,809)	1,102,251	1,026,230	(28,810,773)	(25,707,579)
<b>Total net position.....</b>	<b>\$ (28,959,690)</b>	<b>\$ (25,939,876)</b>	<b>\$ 5,487,641</b>	<b>\$ 4,841,123</b>	<b>(23,472,049)</b>	<b>\$ (21,098,753)</b>

As noted earlier, the Commonwealth's total primary government net deficit increased by approximately \$2.308 billion between FY13 and FY14. The table on page 29 shows the major categories of government-wide revenues and expenses for FY13 and FY14, as well as net position for the two fiscal years. In FY14, approximately 44.0% 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 was federal aid. Total revenues increased by \$877 million, or 1.7%, with tax revenue increasing by \$720 million, or 3.2%, from FY13. The increase in tax revenue was attributable primarily to sales tax revenue growth of \$291 million, or 5.5%, corporate excise tax growth of \$229 million, or 11.8% (due primarily to an increase in tax settlements), and motor fuels tax revenue growth of \$90 million, or 13.8%, due to an increase in gasoline tax rates.

**Changes in Net Position**

**Revenue from Taxation  
FY05-FY14**



Operating grants and contributions (including federal revenue for Medicaid and Unemployment Insurance) decreased by \$158 million, or 1.1%, in FY14, with unemployment insurance benefit reimbursements from the federal government declining by \$466 million, or 48.2%, as the extended unemployment benefits program expired. These declines in federal funding were partially offset by an increase in federal Medicaid reimbursements due to growth in state Medicaid spending and an increased reimbursement rate under the Affordable Care Act.

Total charges for services increased by approximately \$124 million, or 0.9%, with charges increasing by a net of \$79 million across various governmental activities programs. In business-type activities, charges for Higher Education services increased by \$71 million, offset by a decline in charges for Unemployment Compensation of \$26 million.

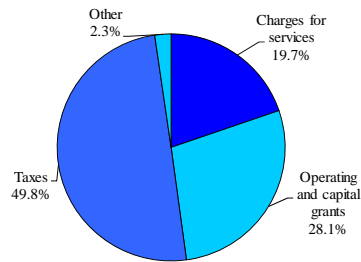
Government-wide restricted net position increased by \$450 million due primarily to a \$363 million increase in assets restricted for unemployment benefits, a \$105 million increase in assets restricted for indebtedness, offset by a \$18 million decrease in assets restricted for other purposes.

Total primary government spending increased by \$2.047 billion, or 3.8%, from FY13, with governmental activities spending growing by \$2.467 billion, or 5.3%, to \$48.611 billion, and business-type activities spending declining by \$420 million, or 5.9%, to \$6.737 billion. Medicaid expenses increased by \$1.749 billion, or 14.2%, although \$564 million of this increase was due to reclassification of certain health care spending formerly included in the health and human services category. Medicaid spending increased by \$1.185 billion, or 9.6%, adjusting for this reclassification, with growth primarily due to expanded Medicaid eligibility under the Affordable Care Act. The reimbursement rate for this expanded coverage is 75% of expenditures and is expected to increase over the next several years, limiting the growth in net state cost. Unemployment insurance compensation declined by \$682 million, or 25.1%, as unemployment declined in the Commonwealth and the extended benefit program expired. Other significant spending changes occurred in health and human services, where spending declined by \$427 million, or 5.5%, after adjusting for the Medicaid reclassification noted above, in transportation and public works, where spending grew by \$512 million, or 27.2%, in direct local aid, where spending increased by \$174 million, or 3.4%, and in general government expenses, where spending declined by \$49 million, or 1.9%.

**Changes in Net Position during the Fiscal Years Ended June 30, 2014 and 2013**  
(in thousands of dollars except percentages)

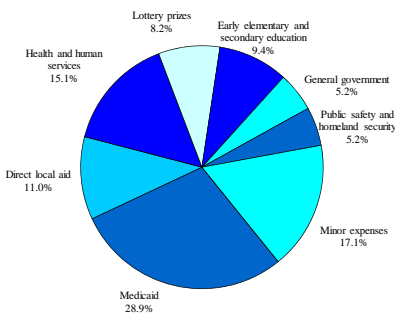
	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014 Distribution	June 30, 2013 Distribution	'14 to '13 % Change
<b>Revenues</b>									
<b>Program Revenues:</b>									
Charges for services.....	\$ 9,236,702	\$ 9,158,100	\$ 4,423,762	\$ 4,378,547	\$ 13,660,464	\$ 13,536,647	25.8%	26.0%	0.9%
Operating grants and contributions.....	13,121,648	12,836,122	1,347,423	1,791,196	14,469,071	14,627,318	27.3%	28.0%	-1.1%
Capital grants and contributions.....	30,699	18,726	-	-	30,699	18,726	0.1%	0.0%	63.9%
<b>General Revenues:</b>									
Taxes.....	23,319,168	22,599,332	-	-	23,319,168	22,599,332	44.0%	43.3%	3.2%
Other.....	1,131,754	985,713	428,771	395,228	1,560,525	1,380,941	3.0%	2.5%	13.0%
<b>Total Revenues.....</b>	<b>46,839,971</b>	<b>45,597,993</b>	<b>6,199,956</b>	<b>6,564,971</b>	<b>53,039,927</b>	<b>52,162,964</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.7%</b>
<b>Expenses</b>									
Medicaid.....	14,034,862	12,286,342	-	-	14,034,862	12,286,342	25.4%	23.1%	14.2%
Direct local aid.....	5,353,521	5,179,104	-	-	5,353,521	5,179,104	9.7%	9.7%	3.4%
Health and human services.....	7,360,519	7,787,051	-	-	7,360,519	7,787,051	13.3%	14.6%	-5.5%
Lottery.....	3,980,980	3,982,700	-	-	3,980,980	3,982,700	7.2%	7.5%	0.0%
Higher education.....	-	-	4,700,342	4,437,894	4,700,342	4,437,894	8.5%	8.3%	5.9%
Early elementary and secondary education.....	4,545,848	4,335,639	-	-	4,545,848	4,335,639	8.2%	8.1%	4.8%
Unemployment compensation.....	-	-	2,036,431	2,718,447	2,036,431	2,718,447	3.7%	5.1%	-25.1%
Other.....	13,334,933	12,573,184	-	-	13,334,933	12,573,184	24.1%	23.6%	6.1%
<b>Total Expenses.....</b>	<b>48,610,664</b>	<b>46,144,020</b>	<b>6,736,773</b>	<b>7,156,341</b>	<b>55,347,437</b>	<b>53,300,361</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3.8%</b>
<b>Excess/(Deficiency)</b>									
<b>before transfers.....</b>	<b>(1,770,693)</b>	<b>(546,027)</b>	<b>(536,817)</b>	<b>(591,370)</b>	<b>(2,307,510)</b>	<b>(1,137,397)</b>			
Transfers.....	(1,205,141)	(1,096,061)	1,205,141	1,096,061	-	-			
Change in net position (deficits).....	(2,975,834)	(1,642,088)	668,324	504,691	(2,307,510)	(1,137,397)			
Net position/(deficit) - beginning, as restated....	(25,983,856)	(24,297,788)	4,819,317	4,336,432	(21,164,539)	(19,961,356)			
Net position/(deficit) - ending.....	<b>\$(28,959,690)</b>	<b>\$(25,939,876)</b>	<b>\$ 5,487,641</b>	<b>\$ 4,841,123</b>	<b>\$(23,472,049)</b>	<b>\$(21,098,753)</b>			

**Revenue—Governmental Activities**  
**Fiscal Year Ending June 30, 2014**



The largest category of tax revenue is income taxes. Of the \$23.319 billion in tax revenue within governmental activities, \$12.866 billion, or 55.2% of total taxes, was from income taxes, \$5.543 billion, or 23.8%, was from sales taxes, \$2.173 billion, or 9.3%, was from corporate taxes, \$740 million, or 3.2%, was from motor fuels taxes and \$1.998 billion, or 8.6%, was from other forms of taxation. Lottery revenues of \$5.050 billion made up 54.7% of the Commonwealth’s governmental charges for services. The largest operating grants were federal Medicaid subsidies, which totaled \$7.618 billion, other health and human services grants of \$2.632 billion and education grants of \$1.230 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, 2014**



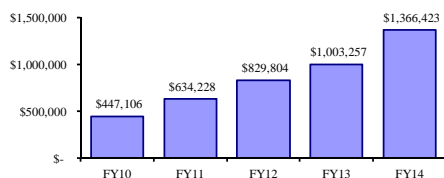
Medicaid expenses of \$14.035 billion accounted for 28.9% of the Commonwealth’s governmental activities expenses. Historically, approximately half of Medicaid expenses have been reimbursed by the federal government, although under the Affordable Care Act some Medicaid expenditures are reimbursed at higher rates. 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 \$7.361 billion, accounting for 15.1% of governmental expenses, pre-kindergarten through secondary education costs of approximately \$4.546 billion, accounting for 9.4% of governmental expenses and public safety and homeland security costs of approximately \$2.504 billion, accounting for 5.2% of governmental expenses. State employees’ pensions and other post-employment benefits, which are included in the department spending amounts above, were \$1.954 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 2010 - 2014**  
*(Amounts in Thousands)*

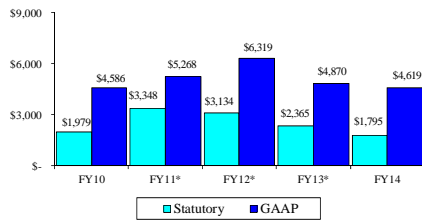


Business-type activities increased the Commonwealth’s net position by approximately \$668 million in FY14. Operating grants and contributions dropped by \$466 million, due almost entirely to reduced unemployment insurance reimbursements from the federal government as unemployment fell in the Commonwealth and the extended benefits program expired. Charges for services increased by \$45 million due largely to a \$71 million increase in sales and service revenue from the Institutions of Higher Education, offset by a decline of \$26 million in Unemployment Insurance charges. Total revenues of business-type activities dropped by \$365 million, but unemployment insurance benefit spending declined by \$682 million as the economy recovered. The net position of the Unemployment Compensation Trust Fund increased by \$363 million. The net position of the Institutions of Higher Education increased by \$305 million, not including a restatement of beginning

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

**Governmental Funds**

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



\*Statutory basis excludes MassDOT

balance by \$309 million, as expenses increased by \$262 million and revenues increased by \$236 million.

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 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 FY14, the fund balance of the General Fund was \$2.835 billion. Of this amount, \$1.248 billion represents the balance in the Commonwealth's Stabilization Fund. \$154 million was also assigned for continuing appropriations from FY14 into FY15.

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 FY14 ARRA revenues had declined to approximately \$155 million, almost entirely for education and transportation projects. Also reported in this fund is almost \$1.316 billion in food stamp benefit payments, \$61 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)

	FY14	FY13	FY12	FY11	FY10
Beginning fund balances.....	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628	\$ 4,585,715	\$ 5,061,342
Revenues and other financing sources.....	57,209,970	55,289,871	54,370,101	53,898,404	49,853,115
Expenditures and other financing uses.....	57,460,487	56,738,878	53,318,771	53,216,491	50,328,742
Excess/(deficiency).....	(250,517)	(1,449,007)	1,051,330	681,913	(475,627)
Ending fund balances.....	\$ 4,619,434	\$ 4,869,951	\$ 6,318,958	\$ 5,267,628	\$ 4,585,715

Governmental fund tax revenues increased by \$1.396 billion, or 6.2%, primarily due to growth in income, sales and corporate taxes as the Massachusetts economy continued to recover from recession. Federal grants and reimbursements increased by \$280 million, or 2.2%, due to growth in reimbursable Medicaid spending, but would have grown by \$377 million, or 3.0%, had certain pharmacy rebate revenues not been reclassified from federal reimbursements to departmental revenue in FY14. Assessments, fees and investment earnings combined increased by \$403 million, or 3.9%, but would have grown by \$306 million or 2.9%, if not for the pharmacy rebate revenue classification. Revenues from other financing sources decreased by \$159 million, or 1.6%. Overall revenues increased by \$1.920 billion, or approximately 3.5%.

During FY14, governmental fund expenditures and other financing uses increased by \$722 million, or 1.3%. Medicaid expenditures increased by \$1.749 billion, or 14.2%, but would have increased by \$1.185 billion, or 9.2%, if not for a reclassification of \$564 million in health care expenditures as Medicaid spending in FY14. Debt service expenditures grew by \$15.8 million, or 0.6%, post-employment benefits decreased by \$13 million, or 1.5% and direct local aid grew by \$175 million or 3.4%. Other financing uses declined by \$1.549 billion, or 17.2%, due primarily to a decline in payments to refunding escrows.

As of the end of FY14, the Commonwealth's governmental funds reported combined ending fund balances of \$4.619 billion, a decrease of \$251 million from the previous year. The decline in fund balance was due primarily to expenditures that exceeded revenues for the Commonwealth's general operations paid from the state's General Fund.

### Governmental Funds - Fund Balance Classification

(Amounts in thousands)

	2014	2013	Change	Percentage Change
<b><u>Nonspendable/Restricted:</u></b>				
Nonspendable.....	\$ 1,116	\$ 914	\$ 202.0	22.1%
Restricted.....	1,517,555	1,557,928	(40,374)	-2.6%
<b>Total Nonspendable/Restricted.....</b>	<b>1,518,671</b>	<b>1,558,842</b>	<b>(40,172)</b>	<b>-2.6%</b>
<b><u>Unrestricted</u></b>				
Committed.....	2,249,906	2,324,228	(74,323)	-3.2%
Assigned.....	510,353	595,085	(84,732)	-14.2%
Unassigned.....	340,505	391,795	(51,290)	-13.1%
<b>Total Unrestricted.....</b>	<b>3,100,763</b>	<b>3,311,108</b>	<b>(210,345)</b>	<b>-6.4%</b>
<b>Total fund balances.....</b>	<b>\$ 4,619,434</b>	<b>\$ 4,869,951</b>	<b>\$ (250,517)</b>	<b>-5.1%</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 the fund balance of 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 69-71.

### 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 \$669 million.



## BUDGETARY HIGHLIGHTS

The FY14 General Appropriation Act (GAA) authorized approximately \$33.527 billion in spending, exclusive of approximately \$1.630 billion in required pension contributions and \$283 million in FY13 spending authorized to be continued into FY14 as part of FY13 end-of-year supplemental budgets.

The FY14 budget as enacted by the Legislature was based on a FY14 consensus tax revenue estimate of \$22.334 billion, of which approximately \$19.179 billion represented taxes available for budget after adjusting for \$3.155 billion in tax revenue allocated to state pension contributions (\$1.630 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$799 million) and the Massachusetts School Building Authority (\$704 million) and revenue deposited in the non-budgeted Workforce Training Fund (\$22 million).

The FY14 tax revenue estimate was further adjusted to \$22.797 billion (of which \$19.642 billion was available for budget) as a result of several tax law changes included in the FY14 budget or enacted separately. On October 15, 2013 the Executive Office for Administration and Finance reaffirmed the FY14 tax revenue estimate of \$22.797 billion and taxes available for budget of \$19.642 billion.

The estimate was revised upward by \$403 million to \$23.200 billion on January 14, 2014. Tax revenues ended the year at \$23.369 billion, \$169 million above the final FY14 tax estimate and \$572 million above the original FY14 tax estimate.

Approximately \$582 million in supplemental appropriations were authorized during FY14 prior to June 30, 2014. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$89 million in new and continued appropriations, \$38 million of which was for FY14 expenditures and \$51 million of which was continued to FY15 and reappropriated. The year's significant supplemental appropriation activity included:

- \$226 million transfer for payments to hospitals that provide care for low-income Massachusetts residents; the majority of the increase aligned federal fiscal year 2013 payments with federal approval timelines;
- \$66 million for the Group Insurance Commission to pay health care benefits for Commonwealth employees;
- \$62 million for emergency homeless assistance for family shelters and services;
- \$34 million to compensate private counsel who defend indigent defendants;
- \$62 million for snow and ice removal costs;
- \$28 million to reimburse cities and towns for lost revenue from charter school funding;
- \$24 million to pay Sheriffs' Departments costs;
- \$15 million to fund the costs of collective bargaining agreements;

- \$15 million to seed a brownfields redevelopment fund;
- \$11 million for a purchase of service rate increase;
- \$11 million for a facility services program;
- \$11 million for the operations of the House of Representatives;
- \$7 million for a reserve for Sheriffs' facilities operations;
- \$6 million for delivery of group care services;
- \$5 million for a Community College critical investment reserve.

FY14 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 fund balances) totaled \$35.473 billion, an increase of \$1.694 billion, or 5.0%, from FY13. Tax revenue grew by \$1.190 billion, or 5.8%, as a result of continuing growth in the economy and increased tax settlements, and despite a \$399 million decrease in capital gains tax revenues that resulted from a one-time acceleration of capital gains realizations by investors in FY13 in anticipation of tax increases effective January 1, 2014, much of which was "borrowed" from FY14. Federal reimbursements increased by \$144 million, or 1.7%, primarily due to growth in reimbursable Medicaid spending, but would have grown by \$241 million, or 3.0%, had certain pharmacy rebate revenues not been reclassified from federal to departmental. Departmental revenue totaled \$3.712 billion, an increase of \$342 million, or 10.1%, but would have grown by 7.1% if not for the pharmacy rebate reclassification, with the remaining growth primarily due to a \$52 million increase in the employer portion of health insurance reimbursements from non-state entities and cities and towns. Interfund transfers from non-budgeted funds totaled \$1.567 billion, an increase of \$18 million, or 1.2%.

FY14 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$35.897 billion, an increase of \$2.003 billion, or 5.9%, from FY13, primarily due to increases in health care spending, including Medicaid and local aid.

Spending on programs and services totaled \$30.211 billion, an increase of \$2.117 billion, or 7.5% from FY13. Medicaid expenditures totaled \$11.901 billion, an increase of \$1.101 billion, or 10.2%, from FY13, due to provisions of the federal Affordable Care Act (ACA), which expanded eligibility for Medicaid as of January 1, 2014, as well as to base enrollment growth.

Debt service totaled \$2.133 billion, up \$16 million, or 0.8% from FY13. Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.502 billion, a decrease of \$214 million, or 12.5%, primarily due to decreases in health care transfers of \$116 million to the Delivery System Transformation Initiatives Trust Fund and \$117 million to the Commonwealth Care Trust Fund. Post-employment benefits (for pension contributions and retiree health insurance) grew by \$83 million, or 4.2%. Spending for direct local aid (both education aid and unrestricted aid), at \$5.293 billion, was up \$174 million, or 3.5%, from FY13.

**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, 2014 amounts to approximately \$18.578 billion, with accumulated depreciation of approximately \$7.809 billion, leaving a net book value of \$10.769 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 do not include capital assets owned by MassDOT.) The total increase in the Commonwealth’s investment in capital assets from 2013 to 2014 was approximately \$740 million, with \$207 million in governmental activities and \$533 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 below 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	
	2014	2013	2014	2013*	2014	2013*
Land.....	\$ 842,713	\$ 822,076	\$ 114,530	\$ 107,847	\$ 957,243	\$ 929,923
Historical treasures.....	-	-	1,162	1,101	1,162	1,101
Construction in process.....	866,236	649,712	1,139,836	1,317,594	2,006,072	1,967,306
Buildings.....	2,483,617	2,546,882	4,125,043	3,398,886	6,608,660	5,945,768
Machinery and equipment.....	245,966	241,082	728,235	740,675	974,201	981,757
Infrastructure, excluding central artery.....	134,089	106,319	-	-	134,089	106,319
Library collections.....	-	-	87,343	96,584	87,343	96,584
<b>Total .....</b>	<b>\$ 4,572,621</b>	<b>\$ 4,366,071</b>	<b>\$ 6,196,149</b>	<b>\$ 5,662,687</b>	<b>\$ 10,768,770</b>	<b>\$ 10,028,758</b>

\*Re-stated

Additional detail on the Commonwealth’s FY14 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 FY14 capital budget, the Commonwealth borrowed by issuing \$2.160 billion in long-term bonds, \$1.492 billion of which was general obligation debt and \$668 million of which was special obligation debt secured by motor fuels taxes, motor vehicle license and registration fees and future federal reimbursements for transportation spending. All new bond sales were either for general government purposes, for road and bridge repair, or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. In addition, the Commonwealth issued \$637 million in debt to refund already existing debt, taking advantage of continued low interest rates in FY14.

Approximately 18.3% percent of the Commonwealth’s \$19.597 billion in general obligation debt outstanding as of June 30, 2014 was issued as variable rate bonds. Included in this variable rate debt was approximately \$402 million in auction rate securities (about 2.0% 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 pages 87-88 and Note 7 (“Long-Term Obligations”) on pages 88 – 103.

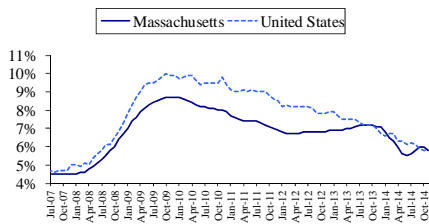
**Outstanding Long - Term Debt Obligations**

(Amounts in thousands)

	Governmental Activities		Business - Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds.....	\$ 19,596,662	\$ 19,140,239	\$ -	\$ -	\$ 19,596,662	\$ 19,140,239
Special obligation bonds (excluding GANs).....	2,292,255	1,923,700	-	-	2,292,255	1,923,700
Revenue obligation bonds.....	-	-	4,243,731	3,736,432	4,243,731	3,736,432
Grant anticipation notes.....	530,935	449,100	-	-	530,935	449,100
<b>Subtotal.....</b>	<b>22,419,852</b>	<b>21,513,039</b>	<b>4,243,731</b>	<b>3,736,432</b>	<b>26,663,583</b>	<b>25,249,471</b>
Massachusetts School Building Authority.....	5,632,470	5,195,160	-	-	5,632,470	5,195,160
<b>Total.....</b>	<b>\$ 28,052,322</b>	<b>\$ 26,708,199</b>	<b>\$ 4,243,731</b>	<b>\$ 3,736,432</b>	<b>\$ 32,296,053</b>	<b>\$ 30,444,631</b>

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

*Unemployment Rate  
July 2007 – November 2014*



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 the state 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. While the national recession ended in June 2009, recovery has been slow compared to previous recessions.

The 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 5.6% in June 2014, and stood at 5.8% as of November 2014. Nationally, the unemployment rose from 5.8% in July 2008 to a high of 10.0 % in

October 2009 (a rate that had not been seen since 1983), and had declined to 5.8% as of November 2014. 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 has exceeded the nation’s both since the start and end of the most recent recession.

At the time of its enactment, the Commonwealth’s FY15 statutory-based budget assumed revenues of \$38.286 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, but including tax revenues allocated to budgeted pension contributions) an increase of \$2.813 billion, or 7.9%, from FY14, and expenditures of \$38.331 billion (including expenditures for pension contributions), an increase of \$2.433 billion, or 6.8%, from FY14. Tax revenues available for budget (including revenues allocated for budgeted pension expenditures) were projected to total \$23.604 billion, representing growth of \$1.242 billion, or 5.7% from FY14.

Based on tax revenue collections through September 2014, the Secretary for Administration and Finance affirmed the tax revenue estimate reflected in the enacted budget. Through November 30, 2014, tax revenue collections were reported by the Department of Revenue to have been \$48 million below the year-to-date benchmark based on the FY14 official tax revenue estimate. In November 2014, the Secretary estimated that FY15 tax revenue would be reduced by approximately \$70 million due to an anticipated reduction in the personal income tax rate, a reduction that was officially certified by the Department of Revenue on December 3, 2014.

## **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*



*Burkeville Covered Bridge - Conway*

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

## Statement of Net Position

June 30, 2014

(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.....	\$ 2,547,529	\$ 894,786	\$ 3,442,315	\$ 2,762,301
Cash with fiscal agent.....	307,371	-	307,371	-
Assets held in trust.....	-	-	-	194,137
Receivables, net of allowance for uncollectibles:				
Taxes.....	3,079,790	-	3,079,790	-
Federal grants and reimbursements receivable.....	1,957,550	87,106	2,044,656	188,428
Loans.....	8,710	48,092	56,802	482,962
Other receivables.....	386,096	627,381	1,013,477	233,656
Due from cities and towns.....	5,020	-	5,020	-
Due from component units.....	472	328	800	-
Due from primary government.....	-	-	-	573,596
Other current assets.....	-	33,815	33,815	59,312
<b>Total current assets.....</b>	<b>8,292,538</b>	<b>1,691,508</b>	<b>9,984,046</b>	<b>4,494,392</b>
Noncurrent assets:				
Cash and cash equivalents - restricted.....	-	747,011	747,011	1,017,547
Long - term investments.....	-	1,011,213	1,011,213	1,673,565
Investments, restricted investments and annuity contracts.....	2,474,298	924	2,475,222	157,173
Receivables, net of allowance for uncollectibles:				
Taxes.....	511,972	-	511,972	-
Federal grants and reimbursements receivable.....	62,064	-	62,064	-
Loans.....	107,898	12,268	120,166	4,053,861
Other receivables.....	108,165	44,107	152,272	14,927
Due from component units.....	9,996	-	9,996	-
Non-depreciable capital assets.....	1,708,949	1,255,528	2,964,477	7,306,047
Depreciable capital assets, net.....	2,863,672	4,940,621	7,804,293	25,750,603
Other noncurrent assets.....	-	42,113	42,113	35,588
Other noncurrent assets - restricted.....	-	984,644	984,644	-
<b>Total noncurrent assets.....</b>	<b>7,847,014</b>	<b>9,038,429</b>	<b>16,885,443</b>	<b>40,009,311</b>
Deferred outflows of resources:				
Deferred change in fair value of interest rate swaps.....	353,639	42,398	396,037	219,627
Deferred loss on refunding.....	151,948	100,921	252,869	390,500
Total deferred outflows of resources.....	505,587	143,319	648,906	610,127
<b>Total assets and deferred outflows.....</b>	<b>16,645,139</b>	<b>10,873,256</b>	<b>27,518,395</b>	<b>45,113,830</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and other liabilities.....	2,951,052	309,238	3,260,290	1,080,685
Accrued payroll.....	194,809	189,113	383,922	1,623
Compensated absences.....	348,880	141,272	490,152	34,046
Accrued interest payable.....	353,308	22,145	375,453	216,603
Tax refunds and abatements payable.....	1,073,247	6,194	1,079,441	-
Due to component units.....	541,254	354	541,608	-
Due to primary government.....	-	-	-	29,377
Due to federal government.....	23,962	-	23,962	-
Claims and judgments.....	33,203	-	33,203	-
Deferred revenue.....	-	107,617	107,617	302,182
Deposits and unearned revenue.....	-	69,826	69,826	-
School construction grants payable.....	397,171	-	397,171	-
Capital leases.....	9,383	4,852	14,235	4,160
Massachusetts School Building Authority bonds and unamortized premiums.....	157,204	-	157,204	-
Bonds payable and unamortized premiums.....	1,757,106	177,542	1,934,648	781,111
Environmental remediation liability.....	11,510	1,447	12,957	-
<b>Total current liabilities.....</b>	<b>7,852,089</b>	<b>1,029,600</b>	<b>8,881,689</b>	<b>2,449,787</b>



## Statement of Net Position

June 30, 2014

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
Noncurrent liabilities:				
Compensated absences.....	178,320	64,089	242,409	18,444
Accrued interest payable.....	-	-	-	199,068
Due to primary government.....	-	-	-	9,996
Due to federal government - grants.....	-	10,750	10,750	-
Claims and judgments.....	2,500	-	2,500	-
Deferred revenue.....	-	-	-	55,348
Prizes payable.....	1,370,277	-	1,370,277	-
Capital leases.....	46,495	9,677	56,172	69,591
Bonds payable and unamortized premiums.....	21,333,328	4,066,189	25,399,517	11,353,138
Massachusetts School Building Authority bonds and unamortized premiums.....	5,986,042	-	5,986,042	-
School construction grants payable.....	927,387	-	927,387	-
Retirement system net pension obligations.....	2,218,980	-	2,218,980	-
Post - employment benefits obligations.....	4,832,000	-	4,832,000	863,748
Environmental remediation liability.....	205,836	-	205,836	-
Liability for derivative instruments.....	353,639	70,145	423,784	464,994
Other noncurrent liabilities.....	278,747	117,147	395,894	179,083
<b>Total noncurrent liabilities.....</b>	<b>37,733,551</b>	<b>4,337,997</b>	<b>42,071,548</b>	<b>13,213,410</b>
Deferred inflows of resources:				
Deferred service concession arrangements.....	-	18,018	18,018	-
Deferred gain on refunding.....	19,189	-	19,189	238
<b>Total deferred inflows of resources.....</b>	<b>19,189</b>	<b>18,018</b>	<b>37,207</b>	<b>238</b>
<b>Total liabilities and deferred inflows.....</b>	<b>45,604,829</b>	<b>5,385,615</b>	<b>50,990,444</b>	<b>15,663,435</b>
<b>NET POSITION</b>				
Net investment in capital assets.....	(502,370)	2,794,845	2,292,475	26,105,633
Restricted for:				
Unemployment benefits.....	-	1,366,423	1,366,423	-
Retirement of indebtedness.....	1,137,947	-	1,137,947	-
Higher education endowment funds.....	-	17,442	17,442	-
Higher education academic support and programs.....	-	3,377	3,377	-
Higher education scholarships and fellowships:				
Nonexpendable.....	-	3,176	3,176	-
Expendable.....	-	5,865	5,865	-
Other nonexpendable purposes.....	-	4,026	4,026	-
Capital projects - expendable purposes.....	-	1,744	1,744	-
Other purposes.....	317,757	188,492	506,249	3,667,519
Unrestricted (deficits).....	(29,913,024)	1,102,251	(28,810,773)	(322,757)
<b>Total net position.....</b>	<b>\$ (28,959,690)</b>	<b>\$ 5,487,641</b>	<b>\$ (23,472,049)</b>	<b>\$ 29,450,395</b>

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

(concluded)

**Statement of Activities**  
 Fiscal Year Ended June 30, 2014  
 (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.....	\$ 2,538,043	\$ 361,105	\$ 752,124	\$ -	\$ (1,424,813)	\$ -	\$ (1,424,813)	\$ -
Judiciary.....	1,027,875	108,766	1,436	-	(917,673)	-	(917,673)	-
Direct local aid.....	5,353,521	-	-	-	(5,353,521)	-	(5,353,521)	-
Medicaid.....	14,034,862	1,226,108	7,617,732	307	(5,190,714)	-	(5,190,714)	-
Group health insurance.....	1,403,590	660,359	-	-	(743,231)	-	(743,231)	-
Energy and environmental affairs.....	623,952	262,339	467,084	-	105,470	-	105,470	-
Housing and economic development.....	1,291,676	165,365	53,074	-	(1,073,237)	-	(1,073,237)	-
Health and human services.....	7,360,519	483,080	2,631,581	16,395	(4,229,463)	-	(4,229,463)	-
Transportation and public works.....	2,391,322	530,853	460	13,997	(1,846,011)	-	(1,846,011)	-
Early elementary and secondary education.....	4,545,848	10,067	1,229,640	-	(3,306,141)	-	(3,306,141)	-
Public safety and homeland security.....	2,503,812	228,730	202,798	-	(2,072,285)	-	(2,072,285)	-
Labor and workforce development.....	356,954	150,394	165,719	-	(40,841)	-	(40,841)	-
Lottery.....	3,980,980	5,049,536	-	-	1,068,556	-	1,068,556	-
Interest (unallocated).....	1,197,709	-	-	-	(1,197,709)	-	(1,197,709)	-
<b>Total governmental activities.....</b>	<b>48,610,664</b>	<b>9,236,702</b>	<b>13,121,648</b>	<b>30,699</b>	<b>(26,221,614)</b>	<b>-</b>	<b>(26,221,614)</b>	<b>-</b>
Business-Type Activities:								
Unemployment Compensation.....	2,036,431	1,897,495	502,102	-	-	363,166	363,166	-
Higher Education:								
University of Massachusetts.....	2,925,013	1,697,585	518,714	-	-	(708,714)	(708,714)	-
State Universities.....	922,383	558,170	68,647	-	-	(295,566)	(295,566)	-
Community Colleges.....	852,946	270,512	257,960	-	-	(324,474)	(324,474)	-
<b>Total business-type activities.....</b>	<b>6,736,773</b>	<b>4,423,762</b>	<b>1,347,423</b>	<b>-</b>	<b>-</b>	<b>(965,588)</b>	<b>(965,588)</b>	<b>-</b>
<b>Total primary government.....</b>	<b>\$ 55,347,437</b>	<b>\$ 13,660,464</b>	<b>\$ 14,469,071</b>	<b>\$ 30,699</b>	<b>(26,221,614)</b>	<b>(965,588)</b>	<b>(27,187,202)</b>	<b>-</b>
Component Units:								
Massachusetts Department of Transportation.....	\$ 4,841,647	\$ 1,322,535	\$ 1,955,084	\$ 2,334,862	-	-	-	770,834
Commonwealth Health Insurance Connector.....	874,825	796,883	76,830	-	-	-	-	(1,112)
Massachusetts Clean Water Trust.....	177,327	148,090	32,388	74,155	-	-	-	77,306
Other nonmajor component units.....	446,017	352,661	140,080	14,329	-	-	-	61,053
<b>Total component units.....</b>	<b>\$ 6,339,816</b>	<b>\$ 2,620,169</b>	<b>\$ 2,204,382</b>	<b>\$ 2,423,346</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>908,081</b>

(continued)

	<b>Primary Government</b>			Component Units
	Governmental Activities	Business-Type Activities	Total	
General revenues:				
Taxes:				
Income.....	12,866,096	-	12,866,096	-
Sales taxes.....	5,542,740	-	5,542,740	-
Corporate taxes.....	2,172,608	-	2,172,608	-
Motor and special fuel taxes.....	740,128	-	740,128	-
Other taxes.....	1,997,596	-	1,997,596	-
Miscellaneous:				
Investment earnings.....	41,674	111,827	153,501	99,828
Tobacco settlement.....	282,049	-	282,049	-
Contribution from municipalities.....	41,700	-	41,700	-
Other revenue.....	766,330	316,944	1,083,274	43,896
Transfers.....	(1,205,141)	1,205,141	-	-
<b>Total general revenues and transfers.....</b>	<b>23,245,781</b>	<b>1,633,912</b>	<b>24,879,693</b>	<b>143,724</b>
<b>Change in net position.....</b>	<b>(2,975,834)</b>	<b>668,324</b>	<b>(2,307,510)</b>	<b>1,051,805</b>
Net position (deficits) - beginning, as restated.....	(25,983,856)	4,819,317	(21,164,539)	28,398,590
<b>Net position (deficits) - ending.....</b>	<b>\$ (28,959,690)</b>	<b>\$ 5,487,641</b>	<b>\$ (23,472,049)</b>	<b>\$ 29,450,395</b>

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

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# *Governmental Fund Financial Statements*



*Old North Bridge - Concord*

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**  
**(Amounts in thousands)**

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash, cash equivalents and short-term investments.....	\$ 874,844	\$ 48,099	\$ 215,431	\$ 1,409,155	\$ 2,547,529
Cash with fiscal agent.....	-	-	-	307,371	307,371
Investments and restricted investments.....	261,837	-	842,184	-	1,104,021
Receivables, net of allowance for uncollectibles:					
Taxes.....	3,377,368	-	55,068	159,326	3,591,762
Due from federal government.....	1,593,740	-	-	425,874	2,019,614
Loan receivable.....	-	-	114,578	2,030	116,608
Other receivables.....	278,022	4,944	10,263	197,580	490,809
Due from cities and towns.....	5,020	-	-	-	5,020
Due from other funds.....	533,226	-	-	80,348	613,574
Due from component units.....	472	-	-	-	472
<b>Total assets.....</b>	<b>\$ 6,924,529</b>	<b>\$ 53,043</b>	<b>\$ 1,237,524</b>	<b>\$ 2,581,684</b>	<b>\$ 10,796,780</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable.....	\$ 2,100,085	\$ 45,754	\$ -	\$ 726,751	\$ 2,872,590
Accrued payroll.....	175,141	-	-	19,668	194,809
Tax refunds and abatements payable.....	1,072,899	-	174	174	1,073,247
Due to other funds.....	-	-	-	613,574	613,574
Due to component units.....	68,100	-	-	473,154	541,254
Due to federal government.....	23,962	-	-	-	23,962
Claims and judgments.....	33,203	-	-	-	33,203
School construction grants payable.....	-	-	64,044	-	64,044
Other accrued liabilities.....	-	-	-	78,462	78,462
<b>Total liabilities.....</b>	<b>3,473,390</b>	<b>45,754</b>	<b>64,218</b>	<b>1,911,783</b>	<b>5,495,145</b>
Deferred inflows of resources.....	615,825	5,240	-	61,136	682,201
<b>Total liabilities and deferred inflows of resources.....</b>	<b>4,089,215</b>	<b>50,994</b>	<b>64,218</b>	<b>1,972,919</b>	<b>6,177,346</b>
Fund balances:					
Nonspendable.....	-	-	-	1,116	1,116
Restricted.....	-	-	840,610	676,945	1,517,555
Committed.....	1,248,435	-	-	1,001,470	2,249,906
Assigned.....	154,358	2,049	332,696	21,250	510,353
Unassigned (deficits).....	1,432,521	-	-	(1,092,016)	340,505
<b>Fund balances.....</b>	<b>2,835,314</b>	<b>2,049</b>	<b>1,173,306</b>	<b>608,765</b>	<b>4,619,434</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 6,924,529</b>	<b>\$ 53,043</b>	<b>\$ 1,237,524</b>	<b>\$ 2,581,684</b>	<b>\$ 10,796,780</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, 2014  
(Amounts in thousands)

<b>Total fund balances - governmental funds</b> .....	<b>\$</b>	<b>4,619,434</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.....	\$ 1,708,949	
Capital assets being depreciated, net.....	<u>2,863,672</u>	
Capital assets, net of accumulated depreciation.....		4,572,621
Revenues are not available soon enough after year end to pay for the current period's expenditures and therefore are unavailable deferred inflows of resources in the governmental funds.....		682,201
Massachusetts School Building Authority assets and deferred outflows.....		155,400
Lottery annuity contracts.....		1,370,277
Due from component units.....		9,996
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.....	(2,218,980)	
Net post-employment benefits obligations.....	(4,832,000)	
Commonwealth bonded debt.....	(22,419,852)	
Unamortized bond premiums.....	(670,582)	
Deferred loss/(gain) on refunding.....	(19,189)	
Accrued interest on bonds.....	(353,308)	
Massachusetts School Building Authority bonded debt.....	(6,143,246)	
Massachusetts School Building Authority grants to municipalities.....	(1,260,514)	
Prizes payable.....	(1,370,277)	
Capital leases.....	(55,878)	
Environmental remediation liability.....	(217,346)	
Claims and judgments.....	(2,500)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....	<u>(805,947)</u>	
Long - term liabilities (including current portions).....		<u>(40,369,619)</u>
<b>Total net (deficit) - governmental activities</b> .....	<b>\$</b>	<b><u>(28,959,690)</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, 2014**  
**(Amounts in thousands)**

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
<b>REVENUES</b>					
Taxes.....	\$ 20,667,904	\$ 631	\$ 731,239	\$ 2,386,427	\$ 23,786,201
Assessments.....	440,227	-	-	640,087	1,080,314
Federal grants and reimbursements.....	8,542,565	-	-	4,604,130	13,146,695
Departmental.....	2,470,761	5,048,502	-	1,121,025	8,640,288
Miscellaneous.....	470,116	694	69,519	515,736	1,056,065
<b>Total revenues.....</b>	<b>32,591,574</b>	<b>5,049,827</b>	<b>800,758</b>	<b>9,267,405</b>	<b>47,709,563</b>
<b>EXPENDITURES</b>					
Current:					
Legislature.....	56,299	-	-	-	56,299
Judiciary.....	814,405	-	-	1,322	815,727
Inspector General.....	6,162	-	-	12	6,174
Governor and Lieutenant Governor.....	5,144	-	-	89	5,233
Secretary of the Commonwealth.....	44,339	-	-	6,762	51,101
Treasurer and Receiver-General.....	206,885	3,979,882	13,374	1,126,734	5,326,875
Auditor of the Commonwealth.....	17,536	-	-	-	17,536
Attorney General.....	63,533	-	-	24,106	87,639
Ethics Commission.....	1,904	-	-	-	1,904
District Attorney.....	105,962	-	-	9,219	115,181
Office of Campaign and Political Finance.....	1,370	-	-	-	1,370
Sheriff's Departments.....	553,390	-	-	11,500	564,890
Disabled Persons Protection Commission.....	2,412	-	-	-	2,412
Board of Library Commissioners.....	22,184	-	-	2,994	25,178
Massachusetts Gaming Commission.....	-	-	-	22,869	22,869
Comptroller.....	12,811	-	-	3,482	16,293
Administration and Finance.....	1,942,401	-	-	353,775	2,296,176
Energy and Environmental Affairs.....	201,257	-	-	209,120	410,377
Health and Human Services.....	4,980,556	-	-	1,976,796	6,957,353
Massachusetts Department of Transportation.....	-	-	-	2,295,787	2,295,787
Executive Office of Education.....	2,156,311	-	-	1,044,484	3,200,795
Center for Health and Information Analysis.....	23,706	-	-	1,967	25,673
Massachusetts School Building Assistance.....	-	-	868,948	-	868,948
Public Safety and Homeland Security.....	1,058,890	-	-	214,918	1,273,808
Housing and Economic Development.....	499,814	-	-	535,294	1,035,108
Labor and Workforce development.....	56,419	-	-	274,066	330,485
Medicaid.....	12,247,883	-	-	1,786,979	14,034,862
Post employment benefits.....	864,693	-	-	-	864,693
Direct local aid.....	5,353,467	-	-	-	5,353,467
Capital outlay:					
Local aid.....	-	-	-	54	54
Capital acquisition and construction.....	-	-	-	998,484	998,484
Debt service.....	-	-	394,516	2,374,950	2,769,466
Principal on current refundings.....	-	-	-	159,335	159,335
<b>Total expenditures.....</b>	<b>31,299,733</b>	<b>3,979,882</b>	<b>1,276,838</b>	<b>13,435,098</b>	<b>49,991,552</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>1,291,841</b>	<b>1,069,945</b>	<b>(476,080)</b>	<b>(4,167,694)</b>	<b>(2,281,988)</b>
<b>OTHER FINANCING SOURCES</b>					
Bonds premium.....	-	-	-	192,575	192,575
Issuance of general and special obligation bonds.....	-	-	599,125	2,359,899	2,959,024
Issuance of current refunding bonds.....	-	-	-	159,335	159,335
Issuance of advance refunding bonds.....	-	-	-	477,460	477,460
Proceeds of capital leases.....	10,571	-	-	-	10,571
Transfers in for debt service.....	-	-	-	2,374,950	2,374,950
Transfers in.....	1,523,264	-	-	1,803,228	3,326,492
<b>Total other financing sources.....</b>	<b>1,533,835</b>	<b>-</b>	<b>599,125</b>	<b>7,367,447</b>	<b>9,500,407</b>
<b>OTHER FINANCING USES</b>					
Payments to refunding bond escrow agent.....	-	-	-	562,352	562,352
Transfers out.....	1,104,450	1,069,958	-	1,061,286	3,235,694
Transfers of appropriations.....	1,058,662	-	-	21,587	1,080,249
Transfers of bond proceeds.....	-	-	-	215,690	215,690
Transfers out for debt service.....	1,060,211	-	-	1,314,739	2,374,950
<b>Total other financing uses.....</b>	<b>3,223,323</b>	<b>1,069,958</b>	<b>-</b>	<b>3,175,655</b>	<b>7,468,936</b>
<b>Total other financing sources and uses.....</b>	<b>(1,689,488)</b>	<b>(1,069,958)</b>	<b>599,125</b>	<b>4,191,792</b>	<b>2,031,471</b>
<b>Net change in fund balances (deficits).....</b>	<b>(397,647)</b>	<b>(13)</b>	<b>123,045</b>	<b>24,098</b>	<b>(250,517)</b>
Fund balances at beginning of year.....	3,232,961	2,062	1,050,261	584,667	4,869,951
<b>Fund balances at end of year.....</b>	<b>\$ 2,835,314</b>	<b>\$ 2,049</b>	<b>\$ 1,173,306</b>	<b>\$ 608,765</b>	<b>\$ 4,619,434</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, 2014

(Amounts in thousands)

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<b>Net change in fund balances - total governmental funds</b> .....	<b>\$</b>	<b>(250,517)</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.....		401,844
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Current year depreciation expense.....		(195,292)
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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.....		(485,171)
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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 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.....		(1,094,399)
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Decrease in capital leases.....		(5,047)
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Massachusetts School Building Authority.....		(261,551)
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Net underfunding of post employment benefit obligations.....		(1,088,971)
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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.....		3,271
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<b>Change in net position of governmental activities</b> .....	<b>\$</b>	<b>(2,975,834)</b>
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The notes to the financial statements are an integral part of this statement



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# *Proprietary Fund Financial Statements*



*Bass River Bridge - Dennis*

**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**  
**(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.....	\$ 26,369	\$ 91,619	\$ 378,721	\$ 117,299	\$ 614,008
Short-term investments.....	-	192,957	25,701	62,120	280,778
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	81,006	1,295	4,805	87,106
Loans.....	-	46,573	1,329	190	48,092
Other receivables.....	414,789	114,897	20,766	36,122	586,574
Due from affiliates.....	-	40,807	-	-	40,807
Due from foundation.....	-	181	37	110	328
Other current assets.....	-	24,710	4,947	4,158	33,815
<b>Total current assets.....</b>	<b>441,158</b>	<b>592,750</b>	<b>432,796</b>	<b>224,804</b>	<b>1,691,508</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	712,615	32,309	2,087	747,011
Long-term investments.....	-	775,953	196,596	38,664	1,011,213
Investments, restricted investments and annuity contracts.....	-	-	924	-	924
Accounts receivable, net.....	-	40,498	3,609	-	44,107
Loans receivable, net.....	-	-	11,784	484	12,268
Non-depreciable capital assets.....	-	848,253	330,006	77,269	1,255,528
Depreciable capital assets, net.....	-	3,202,037	1,368,033	370,551	4,940,621
Other noncurrent assets.....	-	28,821	13,277	15	42,113
Other noncurrent assets - restricted.....	984,644	-	-	-	984,644
<b>Total noncurrent assets.....</b>	<b>984,644</b>	<b>5,608,177</b>	<b>1,956,538</b>	<b>489,070</b>	<b>9,038,429</b>
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	-	41,082	-	1,316	42,398
Loss on debt refunding.....	-	71,798	29,123	-	100,921
Total deferred outflows of resources.....	-	112,880	29,123	1,316	143,319
<b>Total assets and deferred outflows.....</b>	<b>1,425,802</b>	<b>6,313,807</b>	<b>2,418,457</b>	<b>715,190</b>	<b>10,873,256</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Current liabilities:					
Accounts payable and other liabilities.....	53,185	177,785	51,909	26,359	309,238
Accrued payroll.....	-	110,464	44,143	34,506	189,113
Compensated absences.....	-	74,092	32,623	34,557	141,272
Accrued interest payable.....	-	21,872	131	142	22,145
Tax refunds and abatements payable.....	6,194	-	-	-	6,194
Deferred revenue.....	-	-	104,168	3,449	107,617
Student deposits and unearned revenues.....	-	40,923	9,972	18,931	69,826
Due to Foundation.....	-	354	-	-	354
Capital leases.....	-	2,232	1,227	1,393	4,852
Environmental remediation liability.....	-	-	1,447	-	1,447
Bonds, notes payable and other obligations.....	-	137,321	35,647	4,574	177,542
<b>Total current liabilities.....</b>	<b>59,379</b>	<b>565,043</b>	<b>281,267</b>	<b>123,911</b>	<b>1,029,600</b>
Noncurrent liabilities:					
Compensated absences.....	-	31,779	16,050	16,260	64,089
Due to federal government - grants.....	-	-	10,735	15	10,750
Capital leases.....	-	-	7,046	2,631	9,677
Bonds, notes payable and other obligations.....	-	2,726,436	1,280,425	59,328	4,066,189
Liability for derivative instruments.....	-	68,843	-	1,302	70,145
Other noncurrent liabilities.....	-	103,411	8,203	5,533	117,147
<b>Total noncurrent liabilities.....</b>	<b>-</b>	<b>2,930,469</b>	<b>1,322,459</b>	<b>85,069</b>	<b>4,337,997</b>
Deferred inflows of resources:					
Deferred service concession arrangements.....	-	-	17,664	354	18,018
<b>Total liabilities and deferred inflows.....</b>	<b>59,379</b>	<b>3,495,512</b>	<b>1,621,390</b>	<b>209,334</b>	<b>5,385,615</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	-	1,800,767	608,062	386,016	2,794,845
Restricted for:					
Unemployment benefits.....	1,366,423	-	-	-	1,366,423
Higher education endowment funds.....	-	17,387	35	20	17,442
Higher education academic support and programs.....	-	-	-	3,377	3,377
Higher education scholarships and fellowships:					
Nonexpendable.....	-	-	3,176	-	3,176
Expendable.....	-	-	4,812	1,053	5,865
Other nonexpendable purposes.....	-	-	4,026	-	4,026
Capital projects - expendable purposes.....	-	-	1,744	-	1,744
Other purposes.....	-	174,530	12,142	1,820	188,492
Unrestricted.....	-	825,611	163,070	113,570	1,102,251
<b>Total net position.....</b>	<b>\$ 1,366,423</b>	<b>\$ 2,818,295</b>	<b>\$ 797,067</b>	<b>\$ 505,856</b>	<b>\$ 5,487,641</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, 2014

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>Operating revenues:</b>					
Unemployment compensation contribution.....	\$ 1,858,020	\$ -	\$ -	\$ -	\$ 1,858,020
Net tuition and fees.....	-	740,116	350,303	208,793	1,299,212
Grants and reimbursements.....	-	511,694	68,647	257,960	838,301
Auxiliary enterprises.....	-	349,485	102,560	14,848	466,893
Sales & services.....	-	514,566	91,865	28,694	635,125
Miscellaneous.....	39,475	93,418	13,442	18,177	164,512
<b>Total operating revenues</b> .....	<b>1,897,495</b>	<b>2,209,279</b>	<b>626,817</b>	<b>528,472</b>	<b>5,262,063</b>
<b>Operating expenses:</b>					
Unemployment compensation.....	2,036,431	-	-	-	2,036,431
Instruction.....	-	690,635	284,807	316,972	1,292,414
Research.....	-	407,425	2	11	407,438
Academic support.....	-	151,000	79,723	93,409	324,132
Student services.....	-	119,295	92,062	113,226	324,583
Scholarships and fellowships.....	-	49,242	23,396	79,235	151,873
Public service.....	-	77,985	4,710	9,843	92,538
Operation and maintenance of plant.....	-	214,972	84,715	74,150	373,837
Institutional support.....	-	219,920	105,613	113,038	438,571
Other operating expenses.....	-	414,090	2,881	4,832	421,803
Depreciation.....	-	200,256	73,188	30,383	303,827
Auxiliary operations.....	-	265,080	124,128	14,498	403,706
<b>Total operating expenses</b> .....	<b>2,036,431</b>	<b>2,809,900</b>	<b>875,225</b>	<b>849,597</b>	<b>6,571,153</b>
<b>Operating income/(loss)</b> .....	<b>(138,936)</b>	<b>(600,621)</b>	<b>(248,408)</b>	<b>(321,125)</b>	<b>(1,309,090)</b>
<b>Nonoperating revenues/(expenses):</b>					
Other federal revenues.....	486,160	7,020	-	-	493,180
Other revenues.....	-	205,864	88,355	22,725	316,944
Other expenses.....	-	(115,113)	(47,158)	(3,349)	(165,620)
Investment income/(loss).....	15,942	86,685	15,583	9,559	127,769
<b>Total nonoperating revenues/(expenses)</b> .....	<b>502,102</b>	<b>184,456</b>	<b>56,780</b>	<b>28,935</b>	<b>772,273</b>
<b>Income/(loss) before transfers</b> .....	<b>363,166</b>	<b>(416,165)</b>	<b>(191,628)</b>	<b>(292,190)</b>	<b>(536,817)</b>
Transfers, net.....	-	620,103	271,651	313,387	1,205,141
<b>Change in net position</b> .....	<b>363,166</b>	<b>203,938</b>	<b>80,023</b>	<b>21,197</b>	<b>668,324</b>
Total net position - beginning, as restated.....	1,003,257	2,614,357	717,044	484,659	4,819,317
<b>Total net position - ending</b> .....	<b>\$ 1,366,423</b>	<b>\$ 2,818,295</b>	<b>\$ 797,067</b>	<b>\$ 505,856</b>	<b>\$ 5,487,641</b>

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

## Statement of Cash Flows

Proprietary Funds

June 30, 2014

(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.....	\$ 1,579,214	\$ -	\$ -	\$ -	\$ 1,579,214
Tuition, residence, dining and other student fees.....	-	793,246	356,525	227,236	1,377,007
Research grants and contracts.....	-	798,973	154,085	282,305	1,235,363
Payments to suppliers.....	-	(1,273,332)	(229,378)	(216,673)	(1,719,383)
Payments to employees.....	-	(1,587,022)	(453,310)	(470,958)	(2,511,290)
Payments to students.....	-	(56,448)	(20,432)	(72,018)	(148,898)
Payments for unemployment benefits.....	(2,109,271)	-	-	-	(2,109,271)
Collection of loans to students and employees.....	-	5,302	1,463	33	6,798
Income from contract services.....	-	-	4,847	2,278	7,125
Maintenance costs.....	-	-	(936)	-	(936)
Auxiliary enterprise charges.....	-	336,456	59,635	(4,970)	391,121
Other receipts.....	39,475	575,524	15,824	32,363	663,186
<b>Net cash used by operating activities.....</b>	<b>(490,582)</b>	<b>(407,301)</b>	<b>(111,677)</b>	<b>(220,404)</b>	<b>(1,229,964)</b>
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
State appropriations.....	-	594,212	232,571	248,414	1,075,197
Grants and contracts.....	486,160	74,279	606	606	561,651
Student organizations agency transactions.....	-	30	-	219	249
Principal on notes payable.....	-	-	-	(288)	(288)
<b>Net cash provided by non-capital financing activities.....</b>	<b>486,160</b>	<b>668,521</b>	<b>233,177</b>	<b>248,951</b>	<b>1,636,809</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital appropriations.....	-	112,132	4,932	5,017	122,081
Purchases of capital assets.....	-	(565,648)	(184,775)	(20,159)	(770,582)
Proceeds from sales of capital assets.....	-	-	2	-	2
Proceeds from revenue obligation debt issuance.....	-	587,555	187,561	11,090	786,206
Other capital asset activity.....	-	33,937	(31,756)	(969)	1,212
Investments held by bond trustee, net.....	-	-	(1,150)	2,720	1,570
Principal paid on capital debt and leases.....	-	(257,837)	(32,259)	(15,215)	(305,311)
Interest paid on capital debt and leases.....	-	(104,441)	(59,732)	(2,959)	(167,132)
<b>Net cash provided by (used in) capital financing activities.....</b>	<b>-</b>	<b>(194,302)</b>	<b>(117,177)</b>	<b>(20,475)</b>	<b>(331,954)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments.....	-	1,141,206	196,207	94,955	1,432,368
Purchases of investments.....	-	(1,162,801)	(192,504)	(87,437)	(1,442,742)
Investment earnings.....	15,942	8,959	6,516	621	32,038
<b>Net cash provided by (used by) investing activities.....</b>	<b>15,942</b>	<b>(12,636)</b>	<b>10,219</b>	<b>8,139</b>	<b>21,664</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>11,520</b>	<b>54,282</b>	<b>14,542</b>	<b>16,211</b>	<b>96,555</b>
Cash and cash equivalents at the beginning of the fiscal year.....	14,849	749,952	396,488	103,175	1,264,464
<b>Cash and cash equivalents at the end of the fiscal year.....</b>	<b>\$ 26,369</b>	<b>\$ 804,234</b>	<b>\$ 411,030</b>	<b>\$ 119,386</b>	<b>\$ 1,361,019</b>
<b>Reconciliation of net operating revenues and expenses to cash used by operating activities:</b>					
<b>Operating loss.....</b>	<b>\$ (138,936)</b>	<b>\$ (600,621)</b>	<b>\$ (248,408)</b>	<b>\$ (321,125)</b>	<b>\$ (1,309,090)</b>
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>					
Depreciation expense.....	-	200,256	73,188	30,383	303,827
Fringe benefits paid by the Commonwealth.....	-	-	55,975	64,503	120,478
<b>Changes in assets and liabilities:</b>					
Accounts receivable, prepaids and other assets.....	23,233	(6,609)	1,897	(1,191)	17,330
Accounts payable, accrued liabilities and benefits.....	(72,840)	754	7,165	4,155	(60,766)
Student deposits and other unearned and deferred revenues.....	-	696	979	854	2,529
Other noncurrent assets - restricted and liabilities.....	(302,039)	(1,777)	(2,473)	2,017	(304,272)
<b>Net cash used by operating activities.....</b>	<b>\$ (490,582)</b>	<b>\$ (407,301)</b>	<b>\$ (111,677)</b>	<b>\$ (220,404)</b>	<b>\$ (1,229,964)</b>

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

The University System had approximately \$74 million of non-cash activities, and the State Universities and Community Colleges had approximately \$298 million and \$82 million, respectively, 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*



*Stockbridge, MA*

## Statement of Net Position

Fiduciary Funds

June 30, 2014

(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	\$ 679,599
Assets held in trust for post-employment benefits:				
Cash and short-term investments.....	238,343	-	-	-
Net investment in PRIT at fair value.....	49,752,178	10,923,596	-	-
Assets held in trust for pool participants:				
Cash and short-term investments.....	-	2,747,948	-	-
Investments, restricted investments and annuity contracts.....	-	-	-	1,960,631
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	-	-	2,183
Other receivables.....	85,992	-	-	134,492
Other assets.....	15,405	-	-	-
<b>Total assets.....</b>	<b>50,091,918</b>	<b>13,671,544</b>	<b>819</b>	<b>2,776,905</b>
<b>LIABILITIES</b>				
Accounts payable and other accrued liabilities.....	17,308	-	-	137,256
Due to cities and towns.....	-	-	-	33,065
Lottery prizes payable.....	-	-	-	1,370,277
Agency liabilities.....	-	-	-	1,236,307
<b>Total liabilities.....</b>	<b>17,308</b>	<b>-</b>	<b>-</b>	<b>\$ 2,776,905</b>
<b>NET POSITION</b>				
Restricted for employees' post-employment benefits.....	50,074,610	-	-	
Restricted for external investment trust fund participants.....	-	13,671,544	-	
Restricted for private purposes.....	-	-	819	
<b>Total net position.....</b>	<b>\$ 50,074,610</b>	<b>\$ 13,671,544</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, 2014

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
<b>ADDITIONS</b>			
Contribution:			
Employer contributions.....	\$ 1,081,091	\$ -	\$ -
Non-employer contributions.....	1,035,418	-	-
Employee contributions.....	1,154,434	793,507	-
Proceeds from sale of units.....	-	20,642,368	-
Other additions.....	122,894	-	-
<b>Total contributions.....</b>	<b>3,393,837</b>	<b>21,435,875</b>	<b>-</b>
Net investment gain/(loss):			
Investment gain/(loss).....	7,663,234	1,678,298	-
Less: investment expense.....	(247,698)	(73,741)	-
<b>Net investment gain/(loss).....</b>	<b>7,415,536</b>	<b>1,604,557</b>	<b>-</b>
<b>Total additions.....</b>	<b>10,809,373</b>	<b>23,040,432</b>	<b>-</b>
<b>DEDUCTIONS</b>			
Administration.....	77,937	-	-
Retirement benefits and refunds.....	4,797,113	739,175	-
Payments to State Boston Retirement System.....	99,532	-	-
Cost of units redeemed.....	-	20,606,497	-
Distribution to unit holders.....	-	5,705	-
<b>Total deductions.....</b>	<b>4,974,582</b>	<b>21,351,377</b>	<b>-</b>
<b>Net increase/(decrease).....</b>	<b>5,834,791</b>	<b>1,689,055</b>	<b>-</b>
Net position - beginning.....	44,239,819	11,982,489	819
<b>Net position - ending.....</b>	<b>\$ 50,074,610</b>	<b>\$ 13,671,544</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*



*Bourne Bridge*

**Statement of Net Position**  
**Component Units**  
**June 30, 2014**  
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 368,390	\$ 38,469	\$ 367,669	\$ 184,678	\$ 959,206
Short-term investments.....	-	-	43,576	266,460	310,036
Restricted cash and investments.....	1,382,468	3,532	-	107,059	1,493,059
Assets held in trust.....	-	-	16,540	177,597	194,137
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	73,014	33,100	81,507	807	188,428
Loans.....	-	4,277	437,317	41,368	482,962
Other receivables.....	145,055	-	58,520	30,081	233,656
Due from primary government.....	470,968	34,174	-	68,454	573,596
Inventory.....	-	-	-	195	195
Other current assets.....	39,610	110	-	19,397	59,117
<b>Total current assets.....</b>	<b>2,479,505</b>	<b>113,662</b>	<b>1,005,129</b>	<b>896,096</b>	<b>4,494,392</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	909,409	-	-	108,138	1,017,547
Long-term investments.....	-	-	1,029,899	643,666	1,673,565
Restricted investments and annuity contracts.....	-	-	-	157,173	157,173
Accounts receivables, net.....	5,216	-	-	9,711	14,927
Loans receivables, net.....	-	-	3,469,108	584,753	4,053,861
Non-depreciable capital assets.....	7,078,091	-	-	227,956	7,306,047
Depreciable capital assets, net.....	24,699,239	743	-	1,050,621	25,750,603
Other noncurrent assets.....	23,564	-	42	11,982	35,588
<b>Total noncurrent assets.....</b>	<b>32,715,519</b>	<b>743</b>	<b>4,499,049</b>	<b>2,794,000</b>	<b>40,009,311</b>
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps.....	203,156	-	2,206	14,265	219,627
Deferred loss on refunding.....	279,490	-	111,010	-	390,500
<b>Total deferred outflows of resources.....</b>	<b>482,646</b>	<b>-</b>	<b>113,216</b>	<b>14,265</b>	<b>610,127</b>
<b>Total assets and deferred outflows.....</b>	<b>35,677,670</b>	<b>114,405</b>	<b>5,617,394</b>	<b>3,704,361</b>	<b>45,113,830</b>
<b>LIABILITIES AND DEFERRED INFLOWS</b>					
Current liabilities:					
Accounts payable and other liabilities.....	885,996	70,817	16,977	106,895	1,080,685
Accrued payroll.....	-	623	-	1,000	1,623
Compensated absences.....	31,205	-	-	2,841	34,046
Accrued interest payable.....	161,266	-	53,749	1,588	216,603
Due to primary government.....	28,577	-	-	800	29,377
Deferred revenue.....	59,214	12,827	-	230,141	302,182
Capital leases.....	3,867	-	-	293	4,160
Bonds, notes payable and other obligations.....	554,780	-	205,540	20,791	781,111
<b>Total current liabilities.....</b>	<b>1,724,905</b>	<b>84,267</b>	<b>276,266</b>	<b>364,349</b>	<b>2,449,787</b>
Noncurrent liabilities:					
Compensated absences.....	16,974	-	-	1,470	18,444
Accrued interest payable.....	196,429	-	-	2,639	199,068
Due to primary government.....	-	-	-	9,996	9,996
Deferred revenue.....	-	-	28,065	27,283	55,348
Capital leases.....	69,591	-	-	-	69,591
Bonds, notes payable and other obligations.....	7,497,768	-	3,183,470	671,900	11,353,138
Post-employment benefits obligations.....	854,571	3,064	-	6,113	863,748
Liability for derivative instruments.....	448,523	-	2,206	14,265	464,994
Other noncurrent liabilities.....	144,833	-	-	34,250	179,083
<b>Total noncurrent liabilities.....</b>	<b>9,228,689</b>	<b>3,064</b>	<b>3,213,741</b>	<b>767,916</b>	<b>13,213,410</b>
Deferred inflows of resources:					
Deferred gain on refundings.....	238	-	-	-	238
<b>Total liabilities and deferred inflows.....</b>	<b>10,953,832</b>	<b>87,331</b>	<b>3,490,007</b>	<b>1,132,265</b>	<b>15,663,435</b>
<b>NET POSITION</b>					
Net investment in capital assets.....	24,973,627	743	-	1,131,263	26,105,633
Restricted for:					
Clean energy trusts.....	-	-	-	221,105	221,105
Economic development financing.....	-	-	-	172,629	172,629
Other purposes.....	839,181	-	1,718,052	716,552	3,273,785
Unrestricted.....	(1,088,970)	26,331	409,335	330,547	(322,757)
<b>Total net position.....</b>	<b>\$ 24,723,838</b>	<b>\$ 27,074</b>	<b>\$ 2,127,387</b>	<b>\$ 2,572,096</b>	<b>\$ 29,450,395</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, 2014

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
<b>Operating revenues:</b>					
Charges for services.....	\$ 1,255,832	\$ 776,053	\$ 5,156	\$ 230,354	\$ 2,267,395
Other.....	66,703	20,830	142,934	122,307	352,774
<b>Total operating revenues.....</b>	<b>1,322,535</b>	<b>796,883</b>	<b>148,090</b>	<b>352,661</b>	<b>2,620,169</b>
<b>Operating expenses:</b>					
Cost of services.....	2,980,957	776,052	169,467	229,365	4,155,841
Administration costs.....	804,086	98,687	7,860	154,797	1,065,430
Depreciation.....	1,056,604	86	-	61,855	1,118,545
<b>Total operating expenses.....</b>	<b>4,841,647</b>	<b>874,825</b>	<b>177,327</b>	<b>446,017</b>	<b>6,339,816</b>
<b>Operating income (loss).....</b>	<b>(3,519,112)</b>	<b>(77,942)</b>	<b>(29,237)</b>	<b>(93,356)</b>	<b>(3,719,647)</b>
<b>Nonoperating revenues (expenses):</b>					
Operating grants.....	1,955,084	76,830	32,388	140,080	2,204,382
Interest income.....	29,121	61	-	70,646	99,828
Other nonoperating revenues (expenses).....	23,841	-	(20,812)	40,867	43,896
<b>Nonoperating revenues (expenses), net.....</b>	<b>2,008,046</b>	<b>76,891</b>	<b>11,576</b>	<b>251,593</b>	<b>2,348,106</b>
<b>Income (loss) before contributions.....</b>	<b>(1,511,066)</b>	<b>(1,051)</b>	<b>(17,661)</b>	<b>158,237</b>	<b>(1,371,541)</b>
Capital contributions.....	2,334,862	-	74,155	14,329	2,423,346
<b>Change in net position (deficits).....</b>	<b>823,796</b>	<b>(1,051)</b>	<b>56,494</b>	<b>172,566</b>	<b>1,051,805</b>
Net position - beginning, as restated.....	23,900,042	28,125	2,070,893	2,399,530	28,398,590
<b>Net position - ending.....</b>	<b>\$ 24,723,838</b>	<b>\$ 27,074</b>	<b>\$ 2,127,387</b>	<b>\$ 2,572,096</b>	<b>\$ 29,450,395</b>

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



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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 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, that starting in FY11, increased to 1% of applicable sales in the Commonwealth but with no annual floor or ceiling. The MSBA's bonded debt is secured by these sales tax revenues. 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 \$10.924 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 \$2.748 billion at June 30, 2014, 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 Clean Water Trust** 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 MassDOT's 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 by contacting the Office of the Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for component unit 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** results 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.

**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 103 - 113.

*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 FY14 ending fund balances is shown below.

**Governmental Fund Balances at June 30, 2014**  
(amounts in thousands)

	Nonspendable Purposes	Restricted Purposes	Committed Purposes	Assigned Purposes	Unassigned Purposes	Totals
<b>General Fund</b>						
General Government.....	\$ -	\$ -	\$ -	\$ -	\$ 1,432,521	\$ 1,432,521
Stabilization Fund.....	-	-	1,248,435	-	-	1,248,435
FY 14 Appropriations Reappropriated in FY15.....	-	-	-	154,358	-	154,358
<b>Subtotals, General Fund.....</b>	<b>-</b>	<b>-</b>	<b>1,248,435</b>	<b>154,358</b>	<b>1,432,521</b>	<b>2,835,314</b>
<b>Lottery Funds</b>						
Lottery Operations.....	-	-	-	2,049	-	2,049
<b>Subtotals, Lottery Funds.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,049</b>	<b>-</b>	<b>2,049</b>
<b>Massachusetts School Building Authority (MSBA)</b>						
Debt Service.....	-	830,576	-	-	-	830,576
Grants to Cities, Towns and Local School Districts.....	-	10,034	-	332,696	-	342,730
<b>Subtotals, MSBA.....</b>	<b>-</b>	<b>840,610</b>	<b>-</b>	<b>332,696</b>	<b>-</b>	<b>1,173,306</b>
<b>Other Governmental Funds</b>						
Restricted by Federal Grantors.....	-	78,852	-	-	-	78,852
Child Support -- Restricted by Federal Grantors.....	-	41,133	-	-	-	41,133
Environmental.....	-	-	20,850	-	(844)	20,006
Public Safety -- Enhanced 911 Services.....	-	-	105,169	-	-	105,169
Public Safety -- Other.....	-	-	3,195	-	-	3,195
Universal Health Care - Distressed Hospital Relief.....	-	-	84,336	-	-	84,336
Universal Health Care - Affordable Care Act Primary Care Payments.....	-	-	51,669	-	-	51,669
Universal Health Care - Health Insurance for the Unemployed.....	-	-	65,425	-	-	65,425
Universal Health Care - Other.....	-	-	51,366	-	-	51,366
Other Health Care.....	-	-	24,068	-	-	24,068
Workforce Training.....	-	-	30,570	-	-	30,570
Convention Centers.....	-	-	126,104	-	-	126,104
General Government Capital Projects Fund.....	-	-	-	-	(556,769)	(556,769)
Highway Capital Projects Fund.....	-	-	-	-	(484,066)	(484,066)
General Government Debt Service.....	-	20,320	-	-	-	20,320
Transportation (GANS/Commonwealth Transportation Fund).....	-	218,883	75,279	-	-	294,162
Local Aid.....	-	-	-	21,250	(8,325)	12,925
Gaming.....	-	-	23,626	-	-	23,626
Expendable Trusts.....	-	317,757	158,878	-	-	476,635
Other.....	1,116	-	180,935	-	(42,012)	140,039
<b>Subtotals, Other Governmental Funds.....</b>	<b>1,116</b>	<b>676,945</b>	<b>1,001,470</b>	<b>21,250</b>	<b>(1,092,016)</b>	<b>608,765</b>
<b>Totals.....</b>	<b>\$ 1,116</b>	<b>\$ 1,517,555</b>	<b>\$ 2,249,906</b>	<b>\$ 510,353</b>	<b>\$ 340,505</b>	<b>\$ 4,619,434</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 103.

### **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 (adjusted annually for economic growth) 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. For FY14, this statute was suspended by budgetary legislation enacted during the fiscal year and all settlements and judgments revenue was retained in the General Fund.

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 FY14 with a balance of \$1.248 billion. For the fiscal year ending June 30, 2014, the Stabilization Fund's balance decreased by \$308 million as a result of inflows, including approximately \$45 million in capital gains tax revenue, \$414 million in judgment and settlement receipts (which were transferred to the General Fund) and approximately \$1 million in statutorily mandated deposits of withholding taxes on certain Lottery proceeds, offset by \$776 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.

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 39.4%, 41.7 % 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 domestic and international equities (marketable securities) and fixed income securities, as well as the following alternative investments: 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. Investments in fixed income securities, including U.S. government agency obligations, are reported at fair value using independent pricing services. In determining the price, the services may reflect such factors as market prices, yields, maturities, and rating, supplemented by deal quotations. Alternative investments are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Alternative investment securities comprise approximately 34.1 % of the total investments 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 FY14 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 FY15 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 FY43. 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, 2014 were \$114.6 million, of which \$6.7 million is due in FY15. During FY14, the MSBA executed one new loan for \$6.3 million and collected \$6.5 million of scheduled principal payments.

**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:

<i>Type of Asset</i>	<b>Estimated Useful Life (in years)</b>
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, \$1.0 billion as of June 30, 2014, 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, 2014, MSBA had an outstanding liability of \$145 million, and \$23 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, 2014, MSBA had an outstanding liability of \$177 million, and \$1.1 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 Clean Water Trust (the Trust). This assistance is applied as a subsidy to repayments from the Trust loan borrowers. The expectation is that the assistance will be available for the life of the Trust 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 the Trust in an annuitized fashion to be used beyond year 20. If assistance is not provided by the Commonwealth, the Trust 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 \$1.149 billion.

#### ***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, 2014 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 92-93.

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 FY14, total dedicated sales tax revenue that was directed to the MBTA was approximately \$799 million, \$72 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY14 the MBTA received from the Commonwealth sales tax revenues effectively equal to 1.10% 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 FY14, approximately \$728 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, 2014, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$423 million of interest on debts related to these Convention Centers. Taxes collected in FY14 were approximately \$109 million, while debt service on the bonds was approximately \$37 million.

The Transportation Modernization Act of 2009, as amended, eliminated the pledges of sales tax revenue to MassDOT through the Commonwealth Transportation Fund (CTF). Under additional transportation finance reform effective July 1, 2013, motor vehicle sales tax collections were shifted from the general fund to the CTF while also eliminating the 0.385% pledge of regular and meals sales tax. During FY14, approximately \$501 million in sales tax revenue was transferred to

MassDOT. From the Commonwealth Transportation Fund, \$275 million was dedicated to funding the operations of the MBTA while an additional \$68 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

#### **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.

"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, 2014, 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 .....	\$ -	\$ 1,366,423	\$ 1,366,423
Retirement of indebtedness .....	1,137,947	-	1,137,947
Restricted for other purposes including:			
Higher education endowment funds .....	-	17,442	17,442
Higher education academic support and programs .....	-	3,377	3,377
Higher education scholarships and fellowships:			
Nonexpendable .....	-	3,176	3,176
Expendable .....	-	5,865	5,865
Other nonexpendable purposes .....	-	4,026	4,026
Capital projects - expendable trusts .....	-	1,744	1,744
Other purposes .....	317,757	188,492	506,249
Total restricted net position .....	<u>\$ 1,455,704</u>	<u>\$ 1,590,545</u>	<u>\$ 3,046,249</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. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS**

The Commonwealth has implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, for the fiscal year ending June 30, 2014. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans*, and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan. GASB Statement No. 67 requires plans to calculate a net pension liability (or NPL) to be measured as the total pension liability less the amount of the pension plan's fiduciary net position.

In March, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets or liabilities. The Commonwealth implemented this new standard during the fiscal year ended June 30, 2014 resulting in the restatement of the beginning net position of the governmental activities and the following business-type activities: the University of Massachusetts, State Universities and Community Colleges

The table below details the restatement and other prior period adjustments:

	Governmental Activities	Business-type Activities	Discretely Presented Component Units
Net position/(deficit) as of June 30, 2013, as previously reported.....	\$ (25,939,876)	\$ 4,841,123	\$ 28,397,382
Plus:			
Other Restatements.....	-	648	1,208
Less:			
Reclassification of bond issue costs.....	(43,980)	(22,454)	-
Net position/(deficit) as of July 1, 2013, as restated.....	<u>\$ (25,983,856)</u>	<u>\$ 4,819,317</u>	<u>\$ 28,398,590</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".

	Governmental Activities	Business-Type Activities	Government Wide Total	Fiduciary Funds
Cash and cash equivalents.....	\$ 1,192,194	\$ 614,008	\$ 1,806,202	\$ 918,761
Short-term investments.....	1,355,335	280,778	1,636,113	-
Cash with fiscal agent.....	307,371	-	307,371	-
Total.....	<u>\$ 2,854,900</u>	<u>\$ 894,786</u>	<u>\$ 3,749,686</u>	<u>\$ 918,761</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, 2014, the amortized cost of annuities is approximately \$137 million. At June 30, 2014, the Commonwealth held these investments with a maturity value of approximately \$1.109 billion and with a carrying value of approximately \$1.233 billion. Approximately 89% of these amounts are held in United States Treasury strips at a custodial bank. No insurance company has an amount of annuities over 4.5% 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, 2014, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$	151,251
Cash and cash equivalents held in pooled cash.....		64,180
Restricted investments.....		842,184
		<hr/>
Total.....	\$	<u>1,057,615</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, 2014, the bank balances of uninsured deposits totaled approximately \$392 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, 2014, 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 63 days on July 1, 2013 to 57 days on June 30, 2014.

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 2.18 to 2.52 years. At June 30, 2014, investments in the MMDT Short Term Bond Portfolio had a total net position of \$441 million with investment maturities ranging from less than one year to more than ten years. At June 30, 2014, 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.....	17.10%
One to five years.....	78.50%
Six to ten years.....	2.00%
Greater than ten years.....	<u>0.20%</u>
Total* .....	<u><u>97.80%</u></u>

\*The remaining 2.2% consists of cash equivalents and other assets.

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

As of June 30, 2014, the Institutions of Higher Education had debt investments stated at fair value of approximately \$805 million and had investment maturities ranging from less than one year to more than ten years, with approximately 50.1% of the investment's fair values maturing in less than 1 year, approximately 29.8% from one to five years, approximately 10.2% from six to ten years, and approximately 9.9% 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, 2014, the MSBA had approximately \$226 million invested in a collateralized guaranteed investment contract and approximately \$407 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 2043. These investments represent approximately 76% of the MSBA's total investments.

#### *Interest Rate Risk – Agency Funds*

The agency funds hold certain debt investments in trust as collateral for regulatory purposes. As of June 30, 2014, these investments had a fair value of approximately \$590 million with investment maturities ranging from less than one year to more than ten years. Of the total fair value, approximately 27.9% has maturities of less than one year, 43.8% from one to five years, 14.2% from six to ten years and 14.1% greater than ten years.

#### *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, 2014, the Cash Portfolio's securities were rated as follows: First tier 96.7% and Second Tier 3.3%.



At June 30, 2014, the Short Term Bond Portfolio's follows:

<u>Portfolio Composition</u>	<u>Percentage of Total Net Position</u>
AAA.....	61.40%
AA.....	6.90%
A.....	17.40%
BBB.....	<u>12.10%</u>
Total* .....	<u><u>97.80%</u></u>

\* The remaining 2.2% 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 \$473 million at AAA, approximately \$180 million from AA+ to A- and approximately \$152 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, 2014, the guaranteed investment contracts were not rated; however, the issuer was rated AA by Standard & Poor's and A2 by Moody's and the guaranteed investment contracts were collateralized.

As of June 30, 2014, the MSBA's investments in municipal bonds were rated AA+ or above.

#### *Credit Risk – Agency Funds*

The agency funds debt investments with a fair value of \$590 million, of which approximately \$472 million were in U.S Government securities. The remaining \$118 million were unrated as of June 30, 2014.

#### *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 fixed income investment managers. The guidelines with each individual manager require that the effective duration of the domestic fixed income investment portfolio be within a specified percentage or number of years of the effective 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 \$16.095 billion at fair value with an effective weighted average duration range from 1.33 to 21.81 years at June 30, 2014.

*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, 2014.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$3.205 billion, BBB+ to B- investments with a fair value of approximately \$2.555 billion, \$245 million rated CCC+ to D, \$5.407 billion are unrated and the remaining \$4.683 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, 2014 were approximately \$191 million in cash and investments, \$13.154 billion in equities, \$2.297 billion in fixed income investments, \$1.455 billion in private equity investments and \$172 million in timber investments. An additional \$2.867 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, 2014.

**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, 2014, PRIT had open foreign exchange contracts with combined net unrealized losses 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, 2014 with various expirations from FY15 to FY17. 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, 2014 was approximately \$3.212 billion with a fair value of \$3.236 billion, yielding an unrealized net gain of approximately \$23 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, 2014, PRIT had contracts in effect with an aggregated notional amount of approximately \$1.927 billion to various investment banks that had maturity dates from FY15 to FY46. The contracts have an aggregate fair value gain of approximately \$11 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRIT's 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, 2014 were as follows (amounts in thousands):

Counterparty	Credit Ratings	Interest Rate Swaps		Credit Default Swaps		Inflation Swaps	
		Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
Barclays Bank PLC.....	A	\$ 23,150	\$ 291	\$ 12,500	\$ (64)	\$ 116,010	\$ 92
CME Group Inc.....	AA-	784,699	4,955	-	-	-	-
Citibank NA.....	A	181,717	107	29,361	14	-	-
Deutsche Bank AG.....	A	-	-	35,700	255	-	-
Intercontinental Exchange Inc.....	A-	-	-	78,294	2,653	-	-
JPMorgan Chase Bank NA.....	A+	22,617	(19)	9,900	45	-	-
UBS AG.....	A	4,582	42	27,346	152	-	-
U.S. Bank National Association.....	AA-	500,000	2,603	-	-	-	-
All others.....	Various	4,741	99	95,900	(142)	-	-
Totals.....		\$ 1,521,506	\$ 8,078	\$ 289,001	\$ 2,913	\$ 116,010	\$ 92

**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):

<i>Primary Government</i>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
<u>Governmental activities:</u>					
Gross receivables.....	\$ 4,885,913	\$ 2,137,327	\$ 116,608	\$ 1,822,052	\$ 8,961,900
Less: allowance for uncollectibles.....	(1,294,151)	(117,713)	-	(1,327,791)	(2,739,655)
Receivables, net of allowance for uncollectibles..	3,591,762	2,019,614	116,608	494,261	6,222,245
Less: current portion.....	(3,079,790)	(1,957,550)	(8,710)	(386,096)	(5,432,146)
Noncurrent receivables.....	<u>\$ 511,972</u>	<u>\$ 62,064</u>	<u>\$ 107,898</u>	<u>\$ 108,165</u>	<u>\$ 790,099</u>
<u>Business-Type activities:</u>					
Gross receivables.....	\$ -	\$ 88,366	\$ 61,720	\$ 864,140	\$ 1,014,226
Less: allowance for uncollectibles.....	-	(1,260)	(1,360)	(192,652)	(195,272)
Receivables, net of allowance for uncollectibles..	-	87,106	60,360	671,488	818,954
Less: current portion.....	-	(87,106)	(48,092)	(627,381)	(762,579)
Noncurrent receivables.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,268</u>	<u>\$ 44,107</u>	<u>\$ 56,375</u>

**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	Other Governmental Funds	Total
<b>Governmental funds:</b>				
<u>Transfers in:</u>				
Debt service.....	\$ -	\$ -	\$ 2,374,950	\$ 2,374,950
Transfers in.....	1,523,264	-	1,803,228	3,326,492
Subtotal.....	1,523,264	-	4,178,178	5,701,442
<u>Transfers out:</u>				
Appropriations.....	(1,058,662)	-	(21,587)	(1,080,249)
Transfer of bond proceeds.....	-	-	(215,690)	(215,690)
Debt service.....	(1,060,211)	-	(1,314,739)	(2,374,950)
Transfers out.....	(1,104,450)	(1,069,958)	(1,061,286)	(3,235,694)
Subtotal.....	(3,223,323)	(1,069,958)	(2,613,303)	(6,906,583)
<b>Total governmental funds.....</b>	<b>(1,700,059)</b>	<b>(1,069,958)</b>	<b>1,564,875</b>	<b>(1,205,141)</b>
	University of Massachusetts	State Universities	Community Colleges	Total
<u>Transfers in:</u>				
Transfers in from the General Fund and other governmental funds.....	\$ 676,365	\$ 289,175	\$ 330,399	\$ 1,295,939
<u>Transfers out:</u>				
Transfers out to the General Fund.....	(56,262)	(17,524)	(17,011)	(90,798)
<b>Total proprietary funds.....</b>	<b>\$ 620,103</b>	<b>\$ 271,651</b>	<b>\$ 313,387</b>	<b>1,205,141</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 \$3 million at year end.

Remaining receivables and payables between funds as of June 30, 2014 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2014. 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, 2014 (amounts in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Governmental Funds:</b>		
General	Nonmajor Governmental Funds.....	\$ 533,226
Non-major Governmental Funds	Nonmajor Governmental Funds.....	80,348
<b>Total Governmental Funds.....</b>		<b>\$ 613,574</b>

## 5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2014 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2013 Beginning Balance*	Increases	Decreases and Reclassifications	June 30, 2014 Ending Balance
Capital assets not being depreciated:				
Land.....	\$ 822,076	\$ 21,658	\$ (1,021)	\$ 842,713
Construction in process.....	649,712	327,211	(110,687)	866,236
Total capital assets not being depreciated.....	1,471,788	348,869	(111,708)	1,708,949
Capital assets being depreciated:				
Buildings.....	5,410,250	45,994	(4,745)	5,451,499
Machinery and equipment.....	1,028,669	89,468	(14,744)	1,103,393
Infrastructure non - central artery/tunnel project.....	333,004	35,750	(3,500)	365,254
Total capital assets being depreciated.....	6,771,923	171,212	(22,989)	6,920,146
Less, accumulated depreciation:				
Buildings.....	(2,863,368)	(108,133)	3,619	(2,967,882)
Machinery and equipment.....	(787,587)	(79,238)	9,398	(857,427)
Infrastructure non - central artery/tunnel project.....	(226,685)	(7,921)	3,441	(231,165)
Total accumulated depreciation.....	(3,877,640)	(195,292)	16,458	(4,056,474)
Total capital assets being depreciated, net.....	2,894,283	(24,080)	(6,531)	2,863,672
Governmental activity capital assets, net.....	4,366,071	324,789	(118,239)	4,572,621
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land.....	107,847	7,201	(518)	114,530
Construction in process.....	1,317,594	797,531	(975,289)	1,139,836
Historical treasures.....	1,101	61	-	1,162
Total capital assets not being depreciated.....	1,426,542	804,793	(975,807)	1,255,528
Capital assets being depreciated:				
Buildings.....	6,610,770	962,622	(10,474)	7,562,918
Machinery and equipment.....	990,186	57,605	(22,351)	1,025,440
Library collections, not including historical treasures.....	113,739	551	(9,590)	104,700
Total capital assets being depreciated.....	7,714,695	1,020,778	(42,415)	8,693,058
Less, accumulated depreciation:				
Buildings.....	(3,211,884)	(243,122)	17,131	(3,437,875)
Machinery and equipment.....	(249,511)	(60,087)	12,393	(297,205)
Library collections, not including historical treasures.....	(17,155)	(618)	416	(17,357)
Total accumulated depreciation.....	(3,478,550)	(303,827)	29,940	(3,752,437)
Total capital assets being depreciated, net.....	4,236,145	716,951	(12,475)	4,940,621
Business - type activity capital assets, net.....	5,662,687	1,521,744	(988,282)	6,196,149
<b>Total Primary Government capital assets, net.....</b>	<b>\$ 10,028,758</b>	<b>\$ 1,846,533</b>	<b>\$ (1,106,521)</b>	<b>\$ 10,768,770</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):

Function	Amount
General government.....	\$ 50,315
Judiciary.....	32,796
Health and human services.....	43,345
Early elementary and secondary education.....	820
Public safety and homeland security.....	57,631
Housing and economic development.....	48
Labor and workforce development.....	10,337
<b>Total depreciation, governmental activities.....</b>	<b>\$ 195,292</b>
University of Massachusetts.....	\$ 200,256
State universities.....	73,188
Community colleges.....	30,383
<b>Total depreciation, business-type activities.....</b>	<b>\$ 303,827</b>

**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. In terms of short-term borrowing for cash flow purposes, the Commonwealth borrowed \$800 million by selling RANs in September 2013. All of the \$800 million in RANs were retired in April, May and June of 2014.

On June 30, 2014, the Commonwealth issued \$200 million in commercial paper bond anticipation notes (BANs) in anticipation of the issuance of bonds. These notes were redeemed subsequent to year end with a portion of the long-term General Obligation Bonds, Consolidated Loan of 2014, Series C, dated July 11, 2014. The bonds mature annually starting in FY2022 through FY2032 and carry interest rates ranging from 3.0% to 5.0%. The BANs meet long-term financing criteria and, therefore, are reported as long-term debt rather than as fund liability.

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

	Beginning Balance July 1, 2013	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2014
General Fund:				
Revenue anticipation notes.....	\$ -	\$ 800,000	\$ (800,000)	\$ -
Capital Projects Funds:				
Commercial paper - Bond anticipation notes.....	-	200,000	(200,000)	-
<b>Total primary government.....</b>	<b>\$ -</b>	<b>\$ 1,000,000</b>	<b>\$(1,000,000)</b>	<b>\$ -</b>

## **B. CREDIT FACILITIES**

During FY14, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$400 million. The Commonwealth started FY14 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, 2014, these agreements totaled \$759 million.

## **7. LONG-TERM OBLIGATIONS**

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, 2014, 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.....	\$ 20,149,098
Special obligation bonds (including GANs), net proceeds.....	<u>2,941,336</u>
Outstanding Commonwealth bonds, net proceeds.....	23,090,434
MSBA bonds, net proceeds.....	<u>6,143,246</u>
<b>Total governmental activities, net proceeds.....</b>	<b>29,233,680</b>
Less:	
Unamortized premiums on general obligation bonds.....	(552,436)
Unamortized premiums on special obligation bonds.....	(118,146)
Unamortized premiums on MSBA bonds.....	<u>(510,776)</u>
<b>Total governmental activities, principal.....</b>	<b><u>\$ 28,052,322</u></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, 2014, 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 that 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, 2014, (amounts in thousands):

<u>General Obligation Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total GO</u>
Fixed rate bonds.....	\$ 16,004,332	81.7%
Variable rate bonds.....	<u>3,592,330</u>	<u>18.3%</u>
Total.....	<u>\$ 19,596,662</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.....	\$ 443,545	2.3%
Variable rate demand bonds.....	759,265	3.9%
Auction rate securities.....	401,500	2.0%
CPI-index bonds.....	145,765	0.7%
LIBOR index bonds.....	845,795	4.3%
SIFMA index bonds.....	<u>996,460</u>	5.1%
Total.....	<u>\$ 3,592,330</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.....	\$ 2,820,455	78.5%
Unhedged variable rate GO bonds..	<u>771,875</u>	<u>21.5%</u>
Total variable rate GO bonds.....	<u>\$ 3,592,330</u>	<u>100.0%</u>

The following is a table of SO bond principal, by rate structure, outstanding as of June 30, 2014, (amounts in thousands):

<u>Special Obligation Bonds</u>	<u>Principal Outstanding</u>	<u>Percent of Total SO</u>
Fixed rate bonds.....	\$ 2,640,110	93.5%
Variable rate bonds.....	<u>183,080</u>	<u>6.5%</u>
Total.....	<u>\$ 2,823,190</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.....	156,234
CPI variable rate gas tax bonds.....	<u>96,490</u>
Total gas tax bonds, net proceeds.....	252,724
Special obligation revenue bonds, net proceeds:	
Accelerated bridge program.....	1,466,857
Special obligation federal highway grant anticipation notes and accelerated bridge program.....	<u>578,040</u>
Total special obligation bonds, net proceeds.....	2,941,336
Less: unamortized premiums.....	<u>(118,146)</u>
Outstanding special obligation principal.....	<u>\$ 2,823,190</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, 2014, the Commonwealth had approximately \$142 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, 2014, approximately 81.7% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 18.3% 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, 2014, the Commonwealth had approximately \$759 million in outstanding VRDBs. This accounts for approximately 3.9% of total GO debt and approximately 21.1% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2014, 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 FY14, 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, 2014, the Commonwealth had \$444 million direct purchase bonds outstanding. 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 following table details the general obligation direct purchase bonds (amounts in thousands):

Series	Par Outstanding	Final Maturity	Reset Mode/ Payment Frequency	Direct Purchase Bank	Direct Purchase Agreement Date	Direct Purchase Expiration Date
2001 Series B Refunding Bonds..	\$ 243,545	1/1/2021	1 Month LIBOR/ Monthly Pay	Royal Bank of Canada	8/1/2014	8/1/2017
2006 Series B, Subseries B-1.....	100,000	3/1/2026	1 Month LIBOR/ Monthly Pay	JP Morgan Chase Bank	5/17/2013	5/31/2016
2006 Series B, Subseries B-2.....	100,000	3/1/2026	1 Month LIBOR/ Monthly Pay	TD Bank	5/17/2013	5/31/2016
Total.....	<u>\$ 443,545</u>					

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2014, the Commonwealth had approximately \$146 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 \$996 billion of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 0.7%, 4.3% and 5.1% of total outstanding general obligation indebtedness, respectively.

To fund the FY14 capital budget, the Commonwealth borrowed by issuing \$2.160 billion in long-term bonds, \$1.492 billion of which was general obligation debt and \$668 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, \$637 million in refunding bonds were issued in three separate transactions; one current and two advanced refunding transactions. The present value savings of these refunding transactions are immaterial to these financial statements.

#### *MSBA Debt*

As of June 30, 2014, the MSBA had outstanding approximately \$5.632 billion of Dedicated Sales Tax bonds, including approximately \$511 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 FY43. A portion of the interest on the Dedicated Sales Tax Bonds is reimbursed by the federal government. Of the \$5.632 billion of debt outstanding as of June 30, 2014, \$450 million is 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 was 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 and FY14, 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. 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%. 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. The reductions were approximately \$662,000 on the 2010 Series A Bonds and 2011 Series A Bonds in FY13, and \$2.1 million on the 2009 Series B Bonds, 2010 Series A Bonds and 2011 Series A Bonds in FY 14.

## **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. In FY14, the Commonwealth issued approximately \$424 million in special obligation bonds under the Accelerated Bridge Program (ABP). These bonds mature from FY15 to FY43 and are secured by a senior lien on 17 cents of the total 24 cents per gallon gasoline tax, the full 24 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 24 cent per gallon gasoline tax not included in the senior lien. As of June 30, 2014, approximately \$1.404 billion in principal was outstanding on the ABP bonds and approximately \$1.125 billion 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 24 cent per gallon gasoline tax. During FY14, the Commonwealth issued current refunding bonds of approximately \$10 million to refund, in the current year, a future maturity. As of June 30, 2014 bonds secured by these pledged funds totaled approximately \$250 million of principal and approximately \$54 million in interest. These bonds mature from FY14 to FY22 and were issued in various series. Principal and interest paid during FY14 amounted to approximately \$37 million and \$15 million, respectively.

#### *Convention Center Fund*

Chapter 152 of the Acts of 1997, as amended, authorized \$694 million of special obligation bonds to be issued for the purpose 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 that 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, 2014, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$423 million of interest on debts related to these Convention Centers. Taxes collected in FY14 were approximately \$109 million, while debt service on the bonds was approximately \$37 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, 2014 and refunding notes in fiscal 2003 and fiscal 2011. During FY14, the Commonwealth issued approximately \$253 million in GANs for new-money needs under the Commonwealth's Accelerated Bridge Program. As of June 30, 2014, total principal remaining to be paid is approximately \$531 million. Maturities are from FY15 through FY27. Debt service paid during FY14 was approximately \$186 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, 2014, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled \$862 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 \$3.592 billion, approximately \$2.820 billion were hedged via floating-to-fixed interest rate swap agreements. Of this amount, \$2.740 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, 2014, 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 2014 to 2037. The swaps' total notional value of approximately \$2.923 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 3.555% 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, 2014, 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	Effective Date	Replacement Agreement 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	2014	2013				
<i>General Obligation Bonds:</i>											
Series 1997B	\$ 54,075	8/12/1997	8/12/1997	4.659%	Cost of Funds	\$ (1,427)	\$ (4,013)	\$ 2,586	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP	Aa2/AAA/NA
Series 1997B	36,050	8/12/1997	9/1/2010	4.659%	SIFMA	(938)	(2,633)	1,695	8/1/2015	Sumitomo Mitsui Banking Corp	Aa3/A+/A-
Series 1998A	60,775	9/17/1998	9/3/2012	4.174%	Cost of Funds	(2,155)	(7,452)	5,297	9/1/2016	Wells Fargo Bank	A2/A/A+
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	143,838	9/17/1998	11/17/2008	4.174%	60% 1-Month LIBOR + 25 basis points	(5,208)	(10,608)	5,400	9/1/2016	Deutsche Bank AG	Aa3/AA-/AA-
Series 2000A	105,417	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(8,713)	(11,693)	2,980	8/1/2018	Merrill Lynch Cap Svcs	Baa2/A-/A
Series 2000A	53,108	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(4,224)	(5,882)	1,658	8/1/2018	JP Morgan formerly Bear Stearns	Aa3/A+/A+
Series 2001B & C	487,095	2/20/2001	2/20/2001	4.150%	Cost of Funds	(61,534)	(71,913)	10,379	1/1/2021	Morgan Stanley Capital Services	Baa2/A-/A
Series 2003B	45,765	3/12/2003	3/12/2003	4.500%	CPI-based formula	(2)	(979)	977	12/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP	Aa2 / AAA / NA
Series 2003B	-	-	-	-	-	-	(93)	93	12/1/2013	Deutsche Bank AG	A2 / A+ / A+
Series 2006B, Series 2000D	294,000	11/25/2008	4/2/2009	4.515%	67% 3-Month LIBOR	(80,716)	(81,725)	1,009	6/15/2033	Barclays Bank PLC	A2/A/A
Series 2006C	100,000	1/1/2007	9/1/2013	3.73%-3.85%	CPI-based formula	(2,762)	(4,813)	2,051	11/1/2020	Wells Fargo Bank	Aa3/AA-/AA-
Series 2007A	400,000	5/30/2007	10/8/2008	4.420%	67% 3-Month LIBOR + 0.57%	(35,836)	(41,967)	6,131	5/1/2037	Barclays Bank PLC	A2/A/A
Series 2007A (refunding)	414,130	5/30/2007	10/8/2008	4.083%	67% 3-Month LIBOR + 0.57%	(64,950)	(66,641)	1,691	11/1/2025	Bank of NY Mellon	Aa2/AA-/AA-
Series 2007A (refunding)	31,665	5/30/2007	10/8/2008	3.936%	67% 3-Month LIBOR + 0.57%	(4,212)	(4,575)	363	11/1/2020	Deutsche Bank AG	A2/A/A+
Series 2010A, 2011A, 2012A(refunding) & 2013A	513,680	3/15/2005	9/1/2013	3.555% - 4.004%	SIFMA	(73,991)	(78,161)	4,170	2/1/2028	Wells Fargo Bank	Aa3/AA-/AA-
Subtotal	2,739,598					(346,668)	(393,148)	46,480			
<i>Special Obligation Dedicated Tax Revenue Bonds</i>											
Series 2004 (Convention Ctr)	28,863	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(932)	(1,861)	929	1/1/2018	Goldman Sachs Cap Markets	A2/A-/A
Series 2004 (Convention Ctr)	28,864	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(942)	(1,861)	919	1/1/2018	JP Morgan formerly Bear Stearns	A3/A/A+
Series 2004 (Convention Ctr)	28,863	6/29/2004	6/29/2004	4.45% - 5.25%	CPI-based formula	(940)	(1,861)	921	1/1/2018	JPMorgan Chase Bank	Aa3/A+/A+
Series 2005A (Gas Tax)	96,490	1/12/2005	1/12/2005	4.771% - 5.059%	CPI-based formula	(4,157)	(5,993)	1,836	6/1/2022	Merrill Lynch Cap Serv	Baa2/A-/A
Subtotal	183,080					(6,971)	(11,576)	4,605			
Total	\$ 2,922,678					\$(353,639)	\$(404,724)	\$ 51,085			

#### Fair value of the Interest Rate Swap Agreements

The aggregate fair value balance of interest rate swaps at June 30, 2014 is negative \$354 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, 2014 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 FY14, 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 notional hedge agreement with Barclays and the 2010A bonds being hedged by the \$513 million notional swap with Wells Fargo Bank. 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, 2014 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, 2014. 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, 2014 are provided below (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2015.....	\$ 225,515	\$ 17,512	\$ 99,066	\$ 342,093
2016.....	238,668	15,333	91,876	345,877
2017.....	343,700	14,026	83,089	440,815
2018.....	114,840	11,455	75,082	201,377
2019.....	205,290	10,971	69,488	285,749
2020-2024.....	1,000,875	31,819	237,353	1,270,047
2025-2029.....	497,535	10,817	93,629	601,981
2030-2034.....	212,605	5,469	35,288	253,362
2035-2039.....	83,650	933	4,721	89,304
Total.....	<u>\$2,922,678</u>	<u>\$ 118,335</u>	<u>\$ 789,592</u>	<u>\$ 3,830,605</u>

*Business - Type Activities – Swapped Debt*

The University System has various swaps. At June 30, 2014, 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, 2014, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$449 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, 2014 is as follows (amounts in thousands):

Purpose	Principal Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 530,935	2015-2027	\$ -
Capital projects:			
General.....	9,393,350	2015-2044	9,131,114
Highway.....	10,605,205	2015-2044	17,107,407
Local aid.....	1,251,662	2015-2038	17,247
Other.....	638,700	2015-2034	-
Subtotal.....	21,888,917		26,255,768
Subtotal - governmental activities debt (exclusive of MSBA)..	22,419,852		\$ 26,255,768
MSBA debt.....	5,632,470		
Governmental activities debt.....	\$ 28,052,322		

Interest rates on the Commonwealth's outstanding debt at the end of FY14 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, 2014 are as follows (amounts in thousands):

	Governmental Funds		Governmental	
	Debt - Primary Government	MSBA	Funds Bonded Debt	Authorized and Unissued
Balance July 1, 2013.....	\$ 21,513,039	\$ 5,195,160	\$ 26,708,199	\$ 13,762,257
Plus: Increases in bonds authorized.....	-	-	-	14,816,620
Less: Authorizations deauthorized.....	-	-	-	(8,048)
General and special obligation bonds:				
Proceeds, as defined as principal, premium				
less discount.....	3,189,269	599,125	3,788,394	(2,315,061)
Less: Net premium.....	(192,575)	(50,125)	(242,700)	-
Less: Principal on refunded bonds.....	(655,370)	-	(655,370)	-
Less: Bonds retired.....	(1,434,511)	(111,690)	(1,546,201)	-
Outstanding principal June 30, 2014.....	\$ 22,419,852	\$ 5,632,470	\$ 28,052,322	\$ 26,255,768

**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, 2014, 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 (1)	Principal	Interest
2015.....	\$ 1,691,269	\$ 949,381	\$ 116,555	\$ 278,385	\$ (22,470)	\$ 177,542	\$ 180,363
2016.....	1,596,448	889,779	119,885	272,158	(24,213)	136,691	174,041
2017.....	1,353,826	828,344	128,420	266,328	(24,213)	137,061	169,608
2018.....	1,226,674	773,928	132,665	260,118	(24,213)	142,712	162,058
2019.....	1,100,787	722,135	154,630	253,838	(24,213)	145,525	161,095
2020 - 2024.....	5,429,819	2,822,841	810,640	1,153,765	(121,065)	780,156	714,370
2025- 2029.....	3,996,950	1,735,559	1,070,285	937,646	(101,074)	765,044	549,371
2030 - 2034.....	2,792,324	978,905	1,227,660	625,924	(41,062)	665,124	365,809
2035 - 2039.....	1,892,655	498,721	1,270,385	314,308	(19,093)	729,654	205,089
2040 - 2044.....	1,339,100	146,135	601,345	69,311	(578)	440,671	59,853
2045 - 2049.....	-	-	-	-	-	123,551	4,431
Total long - term debt..	22,419,852	10,345,728	5,632,470	4,431,781	(402,194)	4,243,731	2,746,088
Less: current portion...	(1,691,269)	(949,381)	(116,555)	(278,385)	22,470	(177,542)	(180,363)
Long - term debt.....	\$ 20,728,583	\$ 9,396,347	\$ 5,515,915	\$ 4,153,396	\$ (379,724)	\$ 4,066,189	\$ 2,565,725

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

(1) FY15 Interest Subsidies reflect projected sequestration reductions of 7.2%. There may be sequestration reductions in future years as well.

## H. PRIOR DEFEASANCE

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, 2014, approximately \$2.436 billion of bonds outstanding from advance refunding activities is considered defeased.

### *Business - Type Activities*

The University of Massachusetts (UMass) and the Massachusetts State College Building Authority (MSCBA) defeased various bonds by issuing refunding bonds and placing the proceeds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust assets and the liabilities of the defeased bonds are not included in the business type activity financial statements. As of June 30, 2014, approximately \$309 million and \$133 million of bonds outstanding from advanced refunding transactions are considered defeased for UMass and MSCBA, respectively.

## 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 FY14 was approximately \$18.820 billion. Outstanding debt subject to the limit at June 30, 2014 was approximately \$17.631 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 and discount, 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):

	Principal Outstanding
Statutory debt June 30, 2014.....	\$ 22,419,852
Less amounts excluded:	
Central artery project bonds.....	(1,241,263)
Accelerated bridge program.....	(1,756,395)
GANs.....	(178,390)
MBTA forward funding.....	(207)
SMART bonds.....	(723,917)
Convention center bonds.....	(638,700)
Special obligation gas bonds.....	(249,705)
Outstanding direct debt.....	<u>\$ 17,631,275</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 2014. 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, (amounts in thousands):

	Fiscal 2014
Bond cap as approved by the Governor.....	<u>\$ 2,205,673</u>
Total annual debt service obligations.....	2,354,910
Budgeted fund revenues.....	37,230,145
Debt service as % of budgeted revenues.....	6.3%

**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):

*Changes in Long Term Liabilities - Governmental Activities:*

Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 518,309	\$ 527,200	\$ 518,309	\$ 527,200	\$ 348,880
Claims and judgments.....	12,831	36,137	13,265	35,703	33,203
Prizes payable.....	1,486,299	175,999	292,021	1,370,277	-
School construction grants payable.....	1,519,769	869,223	1,064,434	1,324,558	397,171
Retirement system pension obligations.....	1,815,009	1,913,335	1,509,364	2,218,980	-
Post employment benefit obligations.....	4,147,000	1,293,000	608,000	4,832,000	-
Environmental remediation liability.....	230,784	-	13,438	217,346	11,510
Lottery instant grand prizes.....	29,771	803	-	30,574	-
Workers' compensation.....	282,694	43,035	52,297	273,432	38,554
Arbitrage rebate - MSBA.....	10,022	1,042	-	11,064	-
Group insurance claims.....	96,356	1,403,590	1,402,925	97,021	94,790
<b>Total other long-term obligations.....</b>	<b>10,148,844</b>	<b>6,263,364</b>	<b>5,474,053</b>	<b>10,938,155</b>	<b>924,108</b>
Liability for derivative instruments.....	404,724	353,639	404,724	353,639	-
Bonded Debt:					
Bonds and notes payable - non MSBA.....	21,513,039	2,341,324	1,434,511	22,419,852	1,691,269
Unamortized bond and note premiums - non MSBA...	532,634	192,575	54,627	670,582	65,837
MSBA Bonds and notes payable excluding premium...	5,195,160	549,000	111,690	5,632,470	116,555
Unamortized bond and note premiums - MSBA.....	466,437	50,125	5,786	510,776	40,649
Other financing arrangements:					
Capital leases.....	50,831	10,569	5,522	55,878	9,383
<b>Total bonded debt and other financing arrangements.....</b>	<b>27,758,101</b>	<b>3,143,593</b>	<b>1,612,136</b>	<b>29,289,558</b>	<b>1,923,693</b>
<b>Long-term liabilities, governmental activities.....</b>	<b>\$ 38,311,669</b>	<b>\$ 9,760,596</b>	<b>\$ 7,490,913</b>	<b>\$ 40,581,352</b>	<b>\$ 2,847,801</b>

*Changes in Major Long Term Liabilities - Business-Type Activities:*

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences.....	\$ 201,006	\$ 32,506	\$ 28,151	\$ 205,361	\$ 141,272
Environmental remediation liability.....	1,467	-	20	1,447	1,447
<b>Total other long-term obligations.....</b>	<b>202,473</b>	<b>32,506</b>	<b>28,171</b>	<b>206,808</b>	<b>142,719</b>
Liability for derivative instruments.....	70,610	-	465	70,145	-
Bonded Debt:					
Bonds and notes payable, including MSCBA.....	3,736,937	766,921	260,127	4,243,731	177,542
Other financing arrangements:					
Capital leases.....	19,299	1,650	6,420	14,529	4,852
<b>Total bonded debt and other financing arrangements.....</b>	<b>3,756,236</b>	<b>768,571</b>	<b>266,547</b>	<b>4,258,260</b>	<b>182,394</b>
<b>Long-term liabilities, business - type activities.....</b>	<b>\$ 4,029,319</b>	<b>\$ 801,077</b>	<b>\$ 295,183</b>	<b>\$ 4,535,213</b>	<b>\$ 325,113</b>

\*as restated and more fully described in footnote 1

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

**Discretely Presented Component Units** – The change in bonds and notes outstanding at June 30, 2014, net of unamortized discounts and premiums and compensated absences are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>			July 1, 2013			June 30, 2014	Due	
	<u>Interest Rates</u>	<u>Maturities</u>	Beginning Balance*	Increases	Decreases	Ending Balance	Within One Year	Long Term
Major component units:								
MassDOT.....	0.00 - 7.00%	2015-2041	\$ 8,107,623	\$ 251,073	\$ (306,148)	\$ 8,052,548	\$ 554,780	\$ 7,497,768
MCWT.....	1.00 - 6.375%	2015-2043	3,771,008	668,168	(1,050,166)	3,389,010	205,540	3,183,470
Nonmajor component units.....	1.00 - 6.50%	2015-2038	640,276	126,009	(73,594)	692,691	20,791	671,900
Total bonds and notes payable.....			12,518,907	1,045,250	(1,429,908)	12,134,249	781,111	11,353,138
Compensated absences, net.....			50,239	4,847	(2,596)	52,490	34,046	18,444
Total long term liabilities.....			<u>\$ 12,569,146</u>	<u>\$ 1,050,097</u>	<u>\$ (1,432,504)</u>	<u>\$ 12,186,739</u>	<u>\$ 815,157</u>	<u>\$ 11,371,582</u>

\*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, 2014. 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):

Other Governmental Funds	Amount
Other Special Revenue Funds:	
Government land bank fund.....	\$ 35,033
Local aid stabilization fund.....	8,325
Community preservation trust fund.....	844
General capital projects fund.....	556,769
Highway capital projects fund.....	484,066
Other Capital Project Funds:	
Federal highway construction program capital projects fund.....	6,814
Government land bank capital projects fund.....	129
Local aid capital projects fund.....	36

## 9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

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.

**A. PLAN DESCRIPTIONS*****Plan administration***

The Massachusetts *State Employees' Retirement System* (SERS) is a public employee retirement system (PERS), that administers a cost-sharing multi-employer defined benefit plan 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.

Management of the SERS is vested in the Massachusetts State Retirement Board (the SRB), which consists of five members—two elected by current and active SERS members, one by the remaining members of the SRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chairman of the SRB.

Certain Commonwealth employees and current retirees employed prior to the establishment of SERS are covered on a “pay-as-you-go” basis. Benefits are recorded when due and payable.

The Massachusetts *Teachers' Retirement System* (MTRS) is a PERS that administers a cost-sharing multi-employer defined benefit plan 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 (except Boston), towns, regional school districts and Quincy College. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone audited financial report.

Management of the MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves as ex-officio and is the Chairman of the MTRB.

***Plan membership.*** As of January 1, 2014, the date of the most recent valuation, plan membership consisted of the following:

	<u>SERS</u>	<u>MTRS</u>
Retirees and beneficiaries		
currently receiving benefits.....	56,327	61,034
Terminated employees entitled to		
benefits but not yet receiving them.....	<u>4,216</u>	<u>-</u>
Subtotal.....	60,543	61,034
Current members.....	<u>88,156</u>	<u>88,788</u>
Total.....	<u><u>148,699</u></u>	<u><u>149,822</u></u>

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

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



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

The retirement systems' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the 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. Member contributions for SERS and MTRS 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

**B. INVESTMENTS**

**Investment Policy.** Investment of assets in the SERS and MTRS are with the Pension Reserves Investment Trust (PRIT) Fund, which is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board seeks to maximize the total return on investments within acceptable levels of risk for a public pension fund. The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during fiscal 2014. See note 1 (D) for a description of the fair value policies of PRIT's investments.

The following was the PRIT Fund asset allocation as of June 30, 2014:

Asset Class	Target Allocation	
	SERS	MTRS
Global Equity.....	43.0%	43.0%
Core Fixed Income.....	13.0%	13.0%
Hedge Funds.....	10.0%	10.0%
Private Equity.....	10.0%	10.0%
Real Estate.....	10.0%	10.0%
Value Added Fixed Income.....	10.0%	10.0%
Timber/Natural Resources.....	4.0%	4.0%
Total.....	<u>100.0%</u>	<u>100.0%</u>

The annual money-weighted return on pension plan investments calculated as the internal rate of return on pension plan investments net of pension plan expenses for fiscal 2014 was 17.13% for SERS and 17.12% for MTRS. A money-weighted

rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

### C. NET PENSION LIABILITY OF THE SYTEMS REQUIRED BY GASB 67

The components of the net pension liability for SERS and MTRS at June 30, 2014 are as follows (amounts in thousands):

	<u>SERS</u>	<u>MTRS</u>
Total pension liability .....	\$ 31,355,000	\$ 41,435,000
Plan fiduciary net position .....	<u>(23,930,895)</u>	<u>(25,538,646)</u>
Net pension liability .....	<u>\$ 7,424,105</u>	<u>\$ 15,896,354</u>
Fiduciary net position as a percentage of the total pension liability .....	76.3%	61.6%

Additional information regarding changes in the net pension liability can be found in the Required Supplementary Information section of these financial statements.

**Actuarial assumptions.** The total pension liability, for both SERS and MTRS, was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
  - a. **SERS:**
    - Pre-retirement - reflects RP-2000 Employees Table projected 20 years with Scale AA (gender distinct)
    - Post-retirement - reflects Healthy Annuitant table projected 15 years with Scale AA (gender distinct)
    - Disability - the morality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.
  - b. **MTRS:**
    - Pre-retirement - reflects RP-2000 Employees table adjusted for "white-collar" employment projected 20 years with Scale AA (gender distinct)
    - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)
    - Disability - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 (see the discussion of the pension plan’s investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	
	SERS	MTRS
Private Equity .....	8.8%	8.8%
Global Equity .....	7.2%	7.2%
Real Estate .....	6.3%	6.3%
Value Added Fixed Income .....	6.3%	6.3%
Hedge Funds .....	5.5%	5.5%
Timber/Natural Resources .....	5.0%	5.0%
Core Fixed Income .....	2.5%	2.5%

**Discount rate.** The discount rate used to measure the pension liability for SERS and MTRS was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the SERS and MTRS net positions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for SERS and MTRS.

**Sensitivity of the net pension liability to changes in the discount rate.** The following presents the net pension liability of SERS and MTRS, calculated using the discount rate of 8.0%, as well as what the SERS and MTRS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate (amounts in thousands):

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
SERS net pension liability .....	\$ 10,748,000	\$ 7,424,105	\$ 4,571,000
MTRS net pension liability .....	20,247,000	15,896,354	12,200,000

**D. ANNUAL PENSION COST AND NET PENSION OBLIGATION REQUIRED BY GASB 27**

GASB Statement No. 68, *Accounting and Reporting for Pensions*, which determines how employers and nonemployer contributing entities will report their pension liabilities on their financial statements, is effective for years beginning after June 15, 2014. Until that statement is implemented, the Commonwealth continues to report its annual pension cost and net pension obligation in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

**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 \$1.629 billion were made during the fiscal year ended June 30, 2014. Of this amount \$21 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately \$100 million represents payments for Boston Teachers.

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, 2014 was \$201 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 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), under GASB 27 reporting requirements:

	<u>SERS</u>	<u>MTRS</u>	<u>Total</u>
<u>2014</u>			
Annual required contribution.....	\$ 718,909	\$ 1,158,461	\$ 1,877,370
Interest on net pension obligation.....	36,852	93,677	130,529
Adjustment to annual required contribution.....	<u>(26,698)</u>	<u>(67,866)</u>	<u>(94,564)</u>
Annual pension cost.....	729,063	1,184,272	1,913,335
Less: Contributions made, excluding COLAs.....	<u>(573,428)</u>	<u>(935,936)</u>	<u>(1,509,364)</u>
Increase in net pension obligation.....	155,635	248,336	403,971
Net pension obligation beginning of year.....	<u>541,056</u>	<u>1,273,953</u>	<u>1,815,009</u>
Net pension obligation end of year.....	<u>\$ 696,691</u>	<u>\$ 1,522,289</u>	<u>\$ 2,218,980</u>
Percentage of annual pension cost contributed.....	78.7%	79.0%	78.9%
<u>2013</u>			
Annual pension cost.....	\$ 706,912	\$ 1,126,236	\$ 1,833,148
Percentage of annual pension cost contributed.....	77.2%	79.2%	78.4%
Net pension obligation end of year.....	\$ 541,056	\$ 1,273,953	\$ 1,815,009
<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

The funded status of SERS and MTRS as of January 1, 2014, the most recent actuarial valuation date, is as follows (amounts in thousands except for percentages), under GASB 27 reporting requirements:

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued 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, 2014.....	\$ 21,581,133	\$ 30,679,600	\$ 9,098,467	70.3%	\$ 5,344,510	170.2%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2014.....	\$ 22,940,196	\$ 40,741,695	\$ 17,801,499	56.3%	\$ 5,962,650	298.6%

\* The covered payroll amount approximates the employer payroll

The actuarial assumptions used to determine the annual pension cost and net pension obligation are based on an actuarial valuation as of January 1, 2014. In addition to those assumptions described in section C of this note, the additional actuarial assumptions that are applicable to the GASB 27 tables above are:

1. 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.
2. Normal costs are amortized using level percentage of payroll, closed.
3. The remaining amortization period for the unfunded pension liability at January 1, 2014 was 27 years to FY40.

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, 2014, the Commonwealth contributed \$100 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>.

#### **E. STATEMENTS OF NET POSITION AND CHANGES IN NET POSITION**

The following table displays the Statement of Net Position and the Statement of Changes in Net Position for the SERS, the MTRS and the SRBT as of June 30, 2014, (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.....	\$ 52,178	\$ 126,380	\$ 59,785	\$ 238,343
Net investment in PRIT at fair value.....	23,882,168	25,324,715	545,295	49,752,178
Other receivables.....	1,602	84,390	-	85,992
Other assets.....	10	15,395	-	15,405
<b>Total assets.....</b>	<b>23,935,958</b>	<b>25,550,880</b>	<b>605,080</b>	<b>50,091,918</b>
<b>LIABILITIES</b>				
Accounts payable.....	5,063	12,234	11	17,308
<b>Net position available for post-employment benefits.....</b>	<b>\$ 23,930,895</b>	<b>\$ 25,538,646</b>	<b>\$ 605,069</b>	<b>\$ 50,074,610</b>
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 593,932	\$ -	\$ 487,159	\$ 1,081,091
Non-employer contributions.....	-	1,035,418	-	1,035,418
Employee contributions.....	501,106	653,328	-	1,154,434
Other additions.....	49,115	73,659	120	122,894
<b>Total contributions.....</b>	<b>1,144,153</b>	<b>1,762,405</b>	<b>487,279</b>	<b>3,393,837</b>
Net investment gain/(loss):				
Investment gain/(loss).....	3,675,419	3,904,048	83,767	7,663,234
Less: investment expense.....	(112,563)	(132,165)	(2,970)	(247,698)
<b>Net investment gain/(loss).....</b>	<b>3,562,856</b>	<b>3,771,883</b>	<b>80,797</b>	<b>7,415,536</b>
<b>Total additions.....</b>	<b>4,707,009</b>	<b>5,534,288</b>	<b>568,076</b>	<b>10,809,373</b>
<b>DEDUCTIONS</b>				
Administration.....	36,057	41,675	205	77,937
Retirement benefits and refunds.....	1,825,015	2,551,737	420,361	4,797,113
Payments to State Boston Retirement System.....	-	99,532	-	99,532
<b>Total deductions.....</b>	<b>1,861,072</b>	<b>2,692,944</b>	<b>420,566</b>	<b>4,974,582</b>
<b>Net increase/(decrease).....</b>	<b>2,845,937</b>	<b>2,841,344</b>	<b>147,510</b>	<b>5,834,791</b>
Net position available for post-employment benefits at beginning of year.....				
	21,084,958	22,697,302	457,559	44,239,819
<b>Net position available for post-employment benefits at end of year.....</b>	<b>\$ 23,930,895</b>	<b>\$ 25,538,646</b>	<b>\$ 605,069</b>	<b>\$ 50,074,610</b>

**F. RESERVES**

Chapter 32 of the MGL establishes certain legally required reserve accounts for both SERS and MTRS. These reserves are used to account for the accumulation of resources according to purpose for which they are received, acquired or held. The reserve accounts can only be modified or changed by legislation.

The balances of legally required reserves at June 30, 2014 were as follows (amounts in thousands):

	SERS	MTRS	Purpose
Annuity Savings Fund.....	\$ 5,684,452	\$ 6,136,294	Active members' contribution balance
Annuity Reserve Fund.....	1,543,995	2,559,907	Retired members' contribution account
Special Military Service Fund.....	44	223	Members' contribution account while on military leave
Pension Reserve Fund.....	<u>16,702,404</u>	<u>16,842,222</u>	Amounts appropriated to fund future retirement benefits
Total	<u>\$23,930,895</u>	<u>\$25,538,646</u>	

### 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 \$77 million as of June 30, 2014 and the trustees had yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets. On December 17, 2014, the Trustees voted to transfer the assets of the trust to the State Retiree Benefits Trust Fund (SRBTF) for the exclusive benefit and use of the members of the MTA Retirement System and their beneficiaries pending acceptance by the SRBT Board.

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 FY14 General Appropriation Act transferred approximately \$420 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, 2014 and as of the valuation date (January 1, 2014), 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 FY14 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY14 totaled approximately \$608 million. There are approximately 151,007 participants eligible to receive benefits at June 30, 2014.

Effective beginning FY13, the Commonwealth by statute is required to allocate, to the SRBTF, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in FY13 to 100% by FY23. In FY14, 20% of tobacco settlement proceeds or approximately \$56 million was allocated to the SRBTF.

*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 FY14, the Commonwealth’s annual OPEB contribution of approximately \$608 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 FY14 are as follows from the valuation calculated as of January 1, 2014 (amounts in millions except percentages):

<u>2014</u>	<u>SRBT</u>
Annual required contribution (ARC).....	\$ 1,251
Interest on net OPEB obligation.....	187
Adjustment to annual required contribution.....	(145)
Annual OPEB cost (AOC).....	1,293
Less: Contributions made*.....	(608)
Increase in net OPEB obligation.....	685
Net OPEB obligation as reported at beginning of year.....	4,147
Net OPEB obligation - end of year.....	<u>\$ 4,832</u>
Percentage of annual OPEB cost contribution.....	47.0%
 <u>2013</u>	
Annual OPEB cost.....	\$ 1,286
Percentage of annual OPEB cost contributed.....	45.5%
Net OPEB obligation - end of year.....	\$ 4,147
 <u>2012</u>	
Annual OPEB cost.....	\$ 1,313
Percentage of annual OPEB cost contributed.....	42.4%
Net OPEB obligation - end of year.....	\$ 3,446

\*Includes approximately \$32 million in Medicare Part D Retiree Drug Subsidy Payments

	<u>Actuarial</u>	<u>Actuarial</u>	<u>Unfunded</u>	<u>Funded</u>	<u>Annual</u>	<u>UAAL</u>
	<u>Value of</u>	<u>Accrued</u>	<u>Actuarial</u>	<u>Ratio</u>	<u>Covered Payroll *</u>	<u>as a % of</u>
	<u>Plan Assets</u>	<u>Liability</u>	<u>Liability (UAAL)</u>			<u>Covered Payroll *</u>
Actuarial Valuation as of January 1, 2014...	\$ 511,200	\$ 15,670,200	\$ 15,159,000	3.3%	\$ 5,344,510	283.6%

\* The covered payroll amount approximates the employer payroll

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 6.5%, decreasing to 6.0% for the next eight years, and then decreasing by 0.5% for two 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***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 FY14, these additions are approximately \$11 million. 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, 2014 (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		
2015.....	\$ 9,383	\$ 2,095	\$ 179,580	\$ 579	\$ 191,637	\$ 4,852	\$ 497	\$ 25,673	\$ 31,022
2016.....	8,225	1,836	123,757	-	133,818	2,397	373	24,110	26,880
2017.....	7,938	1,772	111,604	-	121,314	1,969	295	20,056	22,320
2018.....	7,514	1,675	98,759	-	107,948	835	279	17,301	18,415
2019.....	3,517	785	79,321	-	83,623	586	228	133,912	134,726
2020 - 2024.....	15,147	3,384	141,934	-	160,465	2,379	770	6,170	9,319
2025 - 2029.....	4,144	926	65,249	-	70,319	1,511	116	1,555	3,182
2030 - 2034.....	10	2	47,823	-	47,835	-	-	-	-
2034 - 2038.....	-	-	6,399	-	6,399	-	-	-	-
2040 - 2044.....	-	-	6,316	-	6,316	-	-	-	-
Total lease obligations.....	55,878	12,475	860,742	579	929,674	14,529	2,558	228,777	245,864
Less: current portion.....	(9,383)	(2,095)	(179,580)	(579)	(191,637)	(4,852)	(497)	(25,673)	(31,022)
Long - term lease obligations....	\$ 46,495	\$ 10,380	\$ 681,162	\$ -	\$ 738,037	\$ 9,677	\$ 2,061	\$ 203,104	\$ 214,842

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

Asset type:	Primary Government	
	Governmental Activities	Business-type Activities
Buildings.....	\$ -	\$ 12,298
Machinery and equipment.....	71,934	70,682
Total assets.....	71,934	82,980
Less: accumulated depreciation.....	(15,988)	(67,236)
Total.....	\$ 55,946	\$ 15,744

## 11. COMMITMENTS

### A. PRIMARY GOVERNMENT

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2014, totaling approximately \$297 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, 2014, the University of Massachusetts Building Authority has approximately \$2.478 billion, of outstanding debt, of which approximately \$126 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$1.031 billion of outstanding debt, of which approximately \$32 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, 2014, the Commonwealth had commitments of approximately \$489 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, 2014 to be \$23 million and \$1.1 billion, respectively.

## **12. CONTINGENCIES**

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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 \$33 million is recorded based on; 1) historical payments made and 2) actual claims settled and to be paid prior to June 30, 2015.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2014 is estimated to be \$273 million of which approximately \$39 million is expected to be paid during FY15.

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 FY14 totaled approximately \$99 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. 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. In addition, there may be costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. Those additional state costs cannot be fully estimated at this time.

#### **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 FY14, the Commonwealth received approximately \$282 million or 76.2% of the estimated amounts shown in the MSA. During FY14, 20.0% of tobacco settlement payments, or approximately \$56 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. While fiscal 2012 legislation required that 30% of fiscal 2015 tobacco settlement proceeds be transferred to SRBT, the fiscal 2015 budget, as approved by the Governor on July 15, 2014, included provisions that temporarily changed the funding source for this transfer for fiscal 2014. Those provisions direct that all tobacco settlement proceeds be deposited in the General Fund, but that unspent debt service appropriations be transferred to the SRBT, up to 30% of the value of fiscal 2015 tobacco settlement proceeds. In the event that unspent debt service appropriations are less than 30% of tobacco settlement proceeds, the provisions require that the difference between unspent debt service appropriations and 30% of tobacco settlement proceeds be transferred from tobacco settlement proceeds to the SRBT. Amounts received in FY14 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, 2014, 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 2014, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately \$273 million.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY14 and FY13 were (amounts in thousands):

	<u>FY14</u>	<u>FY13</u>
Claim liability, beginning of year.....	\$ 282,694	\$ 276,132
Increase in liability estimate.....	43,035	58,354
Payments and decreases in liability estimate.....	<u>(52,297)</u>	<u>(51,792)</u>
Claims liability, end of year.....	<u>\$ 273,432</u>	<u>\$ 282,694</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 \$98 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY14 and FY13 were (amounts in thousands):

	<u>FY14</u>	<u>FY13</u>
Claim liability, beginning of year.....	\$ 96,356	\$ 92,176
Increase in liability estimate.....	1,403,590	1,282,661
Payments and decreases in liability estimate.....	<u>(1,402,925)</u>	<u>(1,278,481)</u>
Claims liability, end of year.....	<u>\$ 97,021</u>	<u>\$ 96,356</u>

**C. OTHER CLAIMS & JUDGMENTS**

The following amounts were recognized for claims and judgments in FY14 and FY13 (amounts in thousands):

	<u>FY14</u>	<u>FY13</u>
Unpaid claims, beginning of year.....	\$ 12,831	\$ 40,000
Incurring claims.....	36,137	9,002
Claim payments and reductions.....	<u>(13,265)</u>	<u>(36,171)</u>
Unpaid claims end of year.....	<u>\$ 35,703</u>	<u>\$ 12,831</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.....	\$ 230,784	\$ 1,467	\$ 232,251
Expected additional future outlays, changes in liability estimates.	(5,627)	-	(5,627)
FY14 outlays for environmental remediation .....	<u>(7,811)</u>	<u>(20)</u>	<u>(7,831)</u>
Environmental remediation liability, end of year.....	<u>\$ 217,346</u>	<u>\$ 1,447</u>	<u>\$ 218,793</u>

*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.

#### **E. SOCIAL IMPACT BONDS**

In January 2014, the Commonwealth entered into a "pay for success contract" (Social Impact Bonds) with a nonprofit intermediary organization and a nonprofit social service agency to reduce the re-recidivism rate of young men in the juvenile justice system or on probation. The Commonwealth is obligated to make success payments totaling \$27 million through calendar year 2019 and the Commonwealth's obligation to make such payments is a general obligation for which the Commonwealth's full faith and credit are pledged. Payments are only made based upon successful achievement of specified outcomes based on defined performance targets contained in the contract. The total amount of payments backed by the full faith and credit of the Commonwealth under such contracts may not exceed, in the aggregate, \$50 million. As the amount required to be paid as of June 30, 2014 cannot be determined until performance targets have been achieved as determined by an independent evaluator, no liability has been accrued in these financial statements for this contract.

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

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 Clean Water Trust  
 Commonwealth Health Insurance Connector Authority  
 \*§The Massachusetts Municipal Depository Trust (MMDT)

\*Community Colleges:

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 three Community Colleges audited by KPMG LLP, above):

Berkshire Community College  
 Bristol Community College  
 Bunker Hill 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

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## 14. SUBSEQUENT EVENTS

### ***SUBSEQUENT BOND ISSUANCES***

On July 2, 2014, the Commonwealth issued \$30 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 7. These bonds carry interest rates from 2.00% to 5.00% with the first payment due July 1, 2017 and final maturity on July 1, 2024.

On July 2, 2014, the Commonwealth issued approximately \$28 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 8. These bonds carry interest rates from 2.00% to 5.00% with the first payment due July 1, 2016 and final maturity on July 1, 2023.

On July 10, 2014, the Commonwealth issued \$450 million in General Obligation Bonds, Consolidated Loan of 2014, Series C. These bonds carry interest rates from 3.00% to 5.00% with the first payment due July 1, 2022 and final maturity on July 1, 2031.

On July 17, 2014, the MSBA issued \$300 million 2014 Series A Subordinated Dedicated Sales Tax Bond Anticipation Notes plus approximately \$8.9 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the Notes range from approximately 1.0% to 5.0% with interest payable at maturity on July 16, 2015.

On August 1, 2014, the Commonwealth issued approximately \$10 million in General Obligation Bonds, Consolidated Loan of 2014 (College Opportunity Bonds), Series A. These bonds carry an interest rate of 0.50% with the first principal payment due on August 1, 2019 and final maturity on August 1, 2034.

On August 5, 2014, the Commonwealth issued \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series D-1 (Multi-Modal Bonds). These bonds carry variable interest rates equal to the SIFMA Rate plus or minus a stated spread, which is 0.20% or 20 basis points. The Commonwealth will pay interest only starting on September 1, 2014 with the first principal payment due on August 1, 2038 and final maturity on August 1, 2043.

On August 5, 2014, the Commonwealth issued \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series D-2 (Multi-Modal Bonds). These bonds carry variable interest rates equal to the SIFMA Rate plus or minus a stated spread, which is 0.30% or 30 basis points. The Commonwealth will pay interest only starting on September 1, 2014 with the principal payment and final maturity due on August 1, 2017.

On August 13, 2014, the Commonwealth issued approximately \$44 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 9. These bonds carry interest rates from 2.00% to 5.00% with the first payment due August 1, 2017 and final maturity on August 1, 2024.

On September 24, 2014, the Commonwealth issued approximately \$429 million in General Obligation Refunding Bonds 2014 Series C. These bonds were issued to advance refund approximately \$453 million of various General Obligation Bonds and carry interest rates from 1.25% to 5.00% with final maturity on August 1, 2025. The refunding resulted in reduced debt service principal of approximately \$24 million and a present value savings of approximately \$38 million over the life of the bonds.

On September 24, 2014, the Commonwealth issued \$350 million in General Obligation Bonds, Consolidated Loan of 2014, Series E (Green Bonds). These bonds carry interest rates from 2.00% to 5.00% with the first payment due on September 1, 2019 with final maturity on September 1, 2031.

On October 29, 2014, the Commonwealth issued approximately \$500 million in General Obligation Bonds, Consolidated Loan of 2014, Series F. These bonds carry interest rates from 3.00% to 5.00% with the first payment due November 1, 2023 and final maturity on November 1, 2031.

On October 29, 2014, the Commonwealth issued approximately \$200 million in General Obligation Bonds, Consolidated Loan of 2014, Series G (Federally Taxable). These bonds carry interest rates from 0.25% to 1.85% with the first payment due November 1, 2015 and final maturity on November 1, 2019.

On November 5, 2014, the Commonwealth issued approximately \$30 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 10. These bonds carry interest rates from 1.50% to 5.00% with the first payment due November 1, 2017 and final maturity on November 1, 2024.

On November 5, 2014, the Commonwealth issued approximately \$6 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 11. These bonds carry interest rates from 1.50% to 5.00% with the first payment due November 1, 2016 and final maturity on November 1, 2023.

On December 3, 2014, the Commonwealth issued approximately \$35 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 12. These bonds carry interest rates from 2.00% to 5.00% with the first payment due December 1, 2017 and final maturity on December 1, 2024.

On December 3, 2014, the Commonwealth issued approximately \$5 million in General Obligation Bonds, Consolidated Loan of 2014 (MassDirect Notes), Series 13. These bonds carry interest rates from 2.00% to 5.00% with the first payment due December 1, 2016 and final maturity on December 1, 2023.

On December 10, 2014, the Commonwealth issued approximately \$347 million in Federal Highway Grant Anticipation Notes (Accelerated Bridge Program) 2014 Series A. These notes carry interest rates from 2.00% to 5.00% with the first payment due June 15, 2016 and final maturity on June 15, 2027.

On December 16, 2014, the Commonwealth issued approximately \$100 million in Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program) 2014 Series A. This bond carries an interest rate of 5.00%. The Commonwealth will pay interest only starting on June 1, 2015 with the principal payment due on June 1, 2044.

All debt issues were sold as tax exempt.



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

(Unaudited)



## *Covered Bridge at Governor's Academy - Byfield*

*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*

*Required Pension Schedules*

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

General Fund

Fiscal Year Ended June 30, 2014

(Amounts in thousands )

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
<b>Revenues:</b>				
Taxes.....	\$ 20,077,700	\$ 20,077,700	\$ 20,540,602	\$ 462,902
Assessments.....	458,634	458,634	439,998	(18,636)
Federal grants and reimbursements.....	8,777,590	8,777,590	8,366,140	(411,450)
Tobacco settlement revenue.....	253,628	253,628	282,049	28,421
Departmental.....	2,069,011	2,069,011	2,511,712	442,701
Miscellaneous.....	256,544	256,544	262,227	5,683
<b>Total revenues.....</b>	<b>31,893,107</b>	<b>31,893,107</b>	<b>32,402,728</b>	<b>509,621</b>
<b>Other financing sources:</b>				
Fringe benefit cost recovery.....	294,051	294,051	310,559	16,508
Lottery reimbursements.....	91,216	91,216	95,891	4,675
Lottery distributions.....	946,917	946,917	921,730	(25,187)
Operating transfers in.....	249,706	249,706	241,225	(8,481)
Stabilization transfer.....	508,000	508,000	1,231,336	723,336
<b>Total other financing sources.....</b>	<b>2,089,890</b>	<b>2,089,890</b>	<b>2,800,741</b>	<b>710,851</b>
<b>Total revenues and other financing sources.....</b>	<b>33,982,997</b>	<b>33,982,997</b>	<b>35,203,469</b>	<b>1,220,472</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
<b>Expenditures:</b>				
Legislature.....	74,274	74,274	56,299	17,975
Judiciary.....	780,288	822,826	814,129	8,697
Inspector General.....	3,745	6,251	6,162	89
Governor and Lieutenant Governor.....	9,024	9,338	5,144	4,194
Secretary of the Commonwealth.....	44,490	44,932	44,339	593
Treasurer and Receiver-General.....	1,071,200	236,874	203,358	33,516
Auditor of the Commonwealth.....	17,624	17,624	17,536	88
Attorney General.....	40,775	44,678	43,028	1,650
Ethics Commission.....	1,922	1,922	1,904	18
District Attorney.....	102,648	106,090	105,962	128
Office of Campaign & Political Finance.....	1,408	1,408	1,370	38
Sheriff's Departments.....	482,822	567,569	552,978	14,591
Disabled Persons Protection Commission.....	2,413	2,413	2,412	1
Board of Library Commissioners.....	22,241	22,241	22,184	57
Comptroller.....	8,544	13,249	12,811	438
Administration and finance.....	2,812,963	2,240,131	2,128,733	111,398
Energy and environmental affairs.....	184,115	210,220	202,266	7,954
Health and human services.....	16,904,766	5,216,338	5,070,536	145,802
Executive office of education.....	6,458,160	2,111,262	2,077,838	33,424
Center for Health Information and Analysis.....	26,668	32,193	23,706	8,487
Public safety and homeland security.....	940,357	1,088,751	1,088,751	29,976
Housing and economic development.....	443,124	522,176	499,814	22,362
Labor and workforce development.....	50,312	71,724	41,437	30,287
Direct local aid.....	-	5,294,063	5,292,467	1,596
Medicaid.....	-	12,116,397	11,900,776	215,621
Post employment benefits.....	-	2,050,361	2,050,361	-
Debt service:				
Principal retirement.....	643,059	649,277	631,610	17,667
Interest and fiscal charges.....	436,371	436,371	428,601	7,770
<b>Total expenditures.....</b>	<b>31,563,312</b>	<b>34,010,953</b>	<b>33,296,536</b>	<b>714,417</b>
<b>Other financing uses:</b>				
Operating transfers out.....	2,268,439	8,922	76,727	(67,805)
State Retiree Benefits transfer.....	-	-	29,619	(29,619)
State Pension transfer.....	-	-	2,273	(2,273)
Commonwealth care transfer.....	340,079	340,079	390,079	(50,000)
Medical assistance transfer.....	394,000	620,025	395,025	225,000
Stabilization transfer.....	364,700	401,700	1,231,336	(829,636)
Delivery system transformation initiatives trust transfer.....	93,449	93,449	70,732	22,717
Other fund deficit support.....	-	-	148,019	(148,019)
<b>Total other financing uses.....</b>	<b>3,460,667</b>	<b>1,464,175</b>	<b>2,343,810</b>	<b>(879,635)</b>
<b>Total expenditures and other financing uses.....</b>	<b>35,023,979</b>	<b>35,475,128</b>	<b>35,640,346</b>	<b>(165,218)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>807,095</b>	<b>(1,492,131)</b>	<b>(436,877)</b>	<b>1,055,254</b>
Fund balances (deficit) at beginning of year.....	1,839,670	1,839,670	1,839,670	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 2,646,765</b>	<b>\$ 347,539</b>	<b>\$ 1,402,793</b>	<b>\$ 1,055,254</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.....	\$ 32,402,728
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax revenue.....	127,302
Federal reimbursements and other receivables.....	228,192
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	(166,665)
Inflows from component units and other miscellaneous financing sources.....	17
<b>Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 32,591,574</u></b>
<b>EXPENDITURES</b>	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 33,296,536
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	255,600
Compensated absences and other accrued liabilities.....	28,589
Reclassifications:	
State Retiree Benefits Trust Fund transfers are reclassified to expenditures for GAAP reporting.....	4,546
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.....	(1,060,211)
Higher education expenditures are reclassified for GAAP reporting.....	(1,225,327)
<b>Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 31,299,733</u></b>
<b>OTHER FINANCING SOURCES</b>	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 2,800,741
Adjustments:	
Consolidation of transfers between funds.....	(1,277,477)
Inflows from component units and other miscellaneous financing sources.....	10,571
<b>Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 1,533,835</u></b>
<b>OTHER FINANCING USES</b>	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 2,343,810
Adjustments and Reclassifications:	
Consolidation of transfers between funds.....	(1,234,814)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	1,058,662
State Retiree Benefits Trust Fund transfers are reclassified to expenditures for GAAP reporting.....	(4,546)
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.....	1,060,211
<b>Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....</b>	<b><u>\$ 3,223,323</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 below summarizes budgetary activity for FY14 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 38 of the Acts of 2013:		
Direct appropriations.....	\$ 33,858,500	\$ 33,526,507
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2013.....	-	1,239,494
Total original budget.....	<u>33,858,500</u>	<u>34,766,001</u>
Supplemental Acts of 2013:		
Chapter 118.....	-	175,521
Supplemental Acts of 2014:		
Chapter 52.....	-	258,911
Chapter 62.....	-	450
Chapter 70.....	-	600
Chapter 119.....	-	144,679
Chapter 295.....	-	1,853
Chapter 359.....	-	38,000
Total budgeted revenues and expenditures per Legislative action.....	-	620,014
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending.....	<u>2,033,983</u>	<u>2,109,723</u>
Budgeted revenues and expenditures as reported.....	<u>\$ 35,892,483</u>	<u>\$ 37,495,738</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 Funding Progress

(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, 2014....	\$ 21,581,133	\$ 30,679,600	\$ 9,098,467	70.3%	\$ 5,344,510	170.2%
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%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2014....	\$ 22,940,196	\$ 40,741,695	\$ 17,801,499	56.3%	\$ 5,962,650	298.6%
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%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2014commonwealth.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 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
Actuarial Valuation as of January 1, 2014....	\$ 511,200	\$ 15,670,200	\$ 15,159,000	3.3%	\$ 5,344,510	283.6%
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 Employer and Non-Employer Contributions

(Amounts in thousands except for percentages)

Retirement System	Fiscal Year Ended June 30,	Actuarially Determined Contribution	Amount Contributed	Percentage Contributed	Covered Employee Payroll	Contribution as a Percentage of Payroll
State Employees' Retirement System	2014	\$ 718,909	\$ 573,428	79.8%	\$ 5,344,510	10.7%
	2013	699,962	545,453	77.9%	5,183,195	10.5%
	2012	620,274	518,918	83.7%	4,922,388	10.5%
	2011	471,096	431,166	91.5%	4,808,250	9.0%
	2010	646,932	410,682	63.5%	4,711,563	8.7%
	2009	697,340	397,482	57.0%	4,712,655	8.4%
	2008	369,866	460,788	124.6%	4,574,233	10.1%
	2007	432,219	435,610	100.8%	4,391,891	9.9%
	2006	445,527	425,751	95.6%	4,200,577	10.1%
	2005	390,867	415,296	106.2%	3,967,000	10.5%
Teachers' Retirement System	2014	\$ 1,158,461	\$ 935,936	80.8%	\$ 5,962,650	15.7%
	2013	1,104,486	891,580	80.7%	5,783,294	15.4%
	2012	941,918	849,496	90.2%	5,655,353	15.0%
	2011	767,960	855,201	111.4%	5,558,311	15.4%
	2010	1,106,052	690,397	62.4%	5,509,698	12.5%
	2009	1,149,629	781,026	67.9%	5,389,895	14.5%
	2008	749,853	809,000	107.9%	5,163,498	15.7%
	2007	763,798	747,000	97.8%	4,969,092	15.0%
	2006	779,158	727,000	93.3%	4,819,325	15.1%
	2005	699,722	682,000	97.5%	4,643,000	14.7%

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 six fiscal years.

	Annual Required Contribution	Percentage Contributed
2014	\$ 1,251,000	48.6%
2013	1,251,000	46.8%
2012	1,286,000	43.4%
2011	1,276,000	43.7%
2010	1,163,000	32.0%
2009	1,222,000	28.8%

See Independent Auditor's Report

**Schedule of Changes in the State Employees' Retirement System (SERS) Net Pension Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2014
Total pension liability, July 1.....	\$ 29,918,000
Service cost.....	677,845
Interest.....	2,320,439
Differences between expected and actual experience.....	161,731
Changes of assumptions.....	102,000
Benefit payments, including refunds of member contributions.....	<u>(1,825,015)</u>
Net change in total pension liability.....	<u>1,437,000</u>
Total pension liability, June 30 (a).....	<u>\$ 31,355,000</u>
Plan fiduciary net position, July 1.....	\$ 21,084,958
Contributions:	
Employers.....	593,932
Plan members.....	501,106
Other additions.....	<u>49,115</u>
Total contributions.....	1,144,153
Net investment income.....	3,562,856
Benefit payments, including refunds of plan member contributions.....	(1,825,015)
Administrative expense.....	<u>(36,057)</u>
Net change in plan fiduciary net position.....	<u>2,845,937</u>
Plan fiduciary net position, June 30 (b).....	<u>\$ 23,930,895</u>
Plan net pension liability/(asset) - June 30 (a) - (b).....	<u>\$ 7,424,105</u>
Plan fiduciary net position as a percentage of the total pension liability.....	76.3%
Covered employee payroll.....	\$ 5,344,510
Net pension liability/(asset) as a percentage of covered employee payroll.....	138.9%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report

**NOTES TO THE SERS SCHEDULE**

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Valuation date..... January 1, 2014

Methods and assumptions:

Inflation..... 3.0%

Salary increases..... 3.5% for 2013, 3.75% for 2014 and 4.0% for 2015. After 2015, salary increase are from 4.0% to 9.0%, depending on group and years of service.

Investment rate of return..... 8.0%

Retirement age..... The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

Mortality..... Pre-retirement mortality reflects RP-2000 Employees table projected 20 years with Scale AA (gender distinct)  
Post-retirement mortality reflects RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct)  
For disabled members, the mortality rate is assumed to be in accordance with the RP-2000 Table projected 5 years with Scale AA (gender distinct) set forward 3 years for males.

Other information..... Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, among other things, increased the normal retirement age by two years, increased the age (early retirement) reduction factor for ages below the maximum age and increased the period for determining a member's average annual compensation (from 3 years to 5 years) for all members hired after April 1, 2012.

See Independent Auditor's Report

**Schedule of Changes in the Massachusetts Teachers' Retirement  
System (MTRS) Net Pension Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2014
Total pension liability, July 1.....	\$ 39,952,000
Service cost.....	747,049
Interest.....	3,094,091
Differences between expected and actual experience.....	85,597
Changes of assumptions.....	108,000
Benefit payments, including refunds of member contributions.....	<u>(2,551,737)</u>
Net change in total pension liability.....	<u>1,483,000</u>
Total pension liability, June 30 (a).....	<u>\$ 41,435,000</u>
Plan fiduciary net position, July 1.....	\$ 22,697,302
Contributions:	
Employers.....	1,035,418
Plan members.....	653,328
Other additions.....	<u>73,659</u>
Total contributions.....	1,762,405
Net investment income.....	3,771,883
Benefit payments, including refunds of plan member contributions.....	(2,551,737)
Administrative expense.....	(41,675)
Other changes.....	<u>(99,532)</u>
Net change in plan fiduciary net position.....	<u>2,841,344</u>
Plan fiduciary net position, June 30 (b).....	<u>\$ 25,538,646</u>
Plan net pension liability/(asset) - June 30 (a) - (b).....	<u>\$ 15,896,354</u>
Plan fiduciary net position as a percentage of the total pension liability.....	61.6%
Covered employee payroll.....	\$ 5,962,650
Net pension liability/(asset) as a percentage of covered employee payroll.....	266.6%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report

**NOTES TO THE MTRS SCHEDULE**

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Valuation date..... January 1, 2014

Methods and assumptions:

Inflation..... 3.0%

Salary increases..... 4.0% to 7.5% depending on length of service

Investment rate of return..... 8.0%

Retirement age..... The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 2 and Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

Mortality..... Pre-retirement mortality reflects RP-2000 Employees table adjusted for "white-collar" employment projected 20 years with Scale AA (gender distinct)

Post-retirement mortality reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

For disabled members, post-retirement mortality reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 15 years with Scale AA (gender distinct)

Other information..... Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, among other things, increased the normal retirement age by two years, increased the age (early retirement) reduction factor for ages below the maximum age and increased the period for determining a member's average annual compensation (from 3 years to 5 years) for all members hired after April 1, 2012.

See Independent Auditor's Report

## Schedule of Investment Returns

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	<u>2014</u>
Annual money-weighted rate of return net of investment expense - SERS.....	17.13%
Annual money-weighted rate of return net of investment expense - MTRS.....	17.12%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditor's Report



# *Other Supplementary Information*



## *Charlemont Bissell Bridge*

*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, 2014

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Massachusetts Tourism	Local Capital Projects	Local Aid Stabilization	Manufacturing
<b>ASSETS</b>								
Cash and short-term investments.....	\$ 608	\$ -	\$ 272,094	\$ 21,086	\$ 1,376	\$ 21,250	\$ -	\$ 30
Cash with fiscal agent.....	14,384	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:								
Taxes.....	64,125	-	14,251	84	5,242	-	-	-
Due from federal government.....	-	324,277	-	735	-	-	-	-
Loans receivable.....	-	-	-	-	-	-	-	-
Other receivables.....	2,372	-	154,860	199	-	-	-	-
Due from other funds.....	-	-	-	-	-	-	-	-
<b>Total assets.....</b>	<b>\$ 81,489</b>	<b>\$ 324,277</b>	<b>\$ 441,205</b>	<b>\$ 22,104</b>	<b>\$ 6,618</b>	<b>\$ 21,250</b>	<b>\$ -</b>	<b>\$ 30</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable.....	\$ 608	\$ 208,942	\$ 14,340	\$ 895	\$ 1,279	\$ -	\$ 1,143	\$ 30
Accrued payroll.....	-	10,767	297	359	77	-	-	-
Tax refunds and abatements payable.....	-	-	-	-	-	-	-	-
Due to other funds.....	-	25,716	-	-	-	-	7,182	-
Due to component units.....	5,602	-	34,174	-	-	-	-	-
Other accrued liabilities.....	-	-	78,462	-	-	-	-	-
<b>Total liabilities.....</b>	<b>6,210</b>	<b>245,425</b>	<b>127,273</b>	<b>1,254</b>	<b>1,356</b>	<b>-</b>	<b>8,325</b>	<b>30</b>
Deferred inflows of resources.....	-	-	61,136	-	-	-	-	-
<b>Total liabilities and deferred inflows of resources.....</b>	<b>6,210</b>	<b>245,425</b>	<b>188,409</b>	<b>1,254</b>	<b>1,356</b>	<b>-</b>	<b>8,325</b>	<b>30</b>
Fund balances:								
Nonspendable.....	-	-	-	-	-	-	-	-
Restricted.....	-	78,852	-	-	-	-	-	-
Committed.....	75,279	-	252,796	20,850	5,262	-	-	-
Assigned.....	-	-	-	-	-	21,250	-	-
Unassigned (deficits).....	-	-	-	-	-	-	(8,325)	-
<b>Fund balances (deficits).....</b>	<b>75,279</b>	<b>78,852</b>	<b>252,796</b>	<b>20,850</b>	<b>5,262</b>	<b>21,250</b>	<b>(8,325)</b>	<b>-</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 81,489</b>	<b>\$ 324,277</b>	<b>\$ 441,205</b>	<b>\$ 22,104</b>	<b>\$ 6,618</b>	<b>\$ 21,250</b>	<b>\$ -</b>	<b>\$ 30</b>

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<b>Special Revenue</b>									
Community College	Gaming Control	Dam and Seawall Repair or Removal	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Healthcare Workforce Transformation Trust	Health Information Technology Trust
\$ 778	\$ 23,407	\$ 19,705	\$ 74,513	\$ 23,902	\$ 8,702	\$ 2,949	\$ 122,876	\$ 18,552	\$ 5,629
-	-	-	-	-	-	-	-	-	-
-	-	-	55,068	-	-	-	-	-	-
-	-	-	-	-	267	-	-	-	10,192
-	-	1,116	-	-	-	-	-	-	-
-	72	-	-	11,390	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<b>\$ 778</b>	<b>\$ 23,479</b>	<b>\$ 20,821</b>	<b>\$ 129,581</b>	<b>\$ 35,292</b>	<b>\$ 8,969</b>	<b>\$ 2,949</b>	<b>\$ 122,876</b>	<b>\$ 18,552</b>	<b>\$ 15,821</b>
\$ -	\$ 1,531	\$ 56	\$ 41,968	\$ 36,136	\$ 425	\$ 119	\$ 17,565	\$ 642	\$ 9,810
758	160	-	-	-	6	300	142	3	9
-	-	-	174	-	-	-	-	-	-
-	-	-	87,439	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<b>758</b>	<b>1,691</b>	<b>56</b>	<b>129,581</b>	<b>36,136</b>	<b>431</b>	<b>419</b>	<b>17,707</b>	<b>645</b>	<b>9,819</b>
-	-	-	-	-	-	-	-	-	-
<b>758</b>	<b>1,691</b>	<b>56</b>	<b>129,581</b>	<b>36,136</b>	<b>431</b>	<b>419</b>	<b>17,707</b>	<b>645</b>	<b>9,819</b>
-	-	1,116	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
20	21,788	19,649	-	-	8,538	2,530	105,169	17,907	6,002
-	-	-	-	-	-	-	-	-	-
-	-	-	-	(844)	-	-	-	-	-
<b>20</b>	<b>21,788</b>	<b>20,765</b>	<b>-</b>	<b>(844)</b>	<b>8,538</b>	<b>2,530</b>	<b>105,169</b>	<b>17,907</b>	<b>6,002</b>
<b>\$ 778</b>	<b>\$ 23,479</b>	<b>\$ 20,821</b>	<b>\$ 129,581</b>	<b>\$ 35,292</b>	<b>\$ 8,969</b>	<b>\$ 2,949</b>	<b>\$ 122,876</b>	<b>\$ 18,552</b>	<b>\$ 15,821</b>

continued

## Combining Balance Sheet

### Other Governmental Funds

June 30, 2014

(Amounts in thousands)

	<b>Special Revenue</b>						
	Build America Bonds Subsidy Trust	Housing Preservation and Stabilization	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents	Convention and Exhibition Center
<b>ASSETS</b>							
Cash and short-term investments.....	\$ 8,426	\$ 9,811	\$ 45,345	\$ 36,401	\$ 38,544	\$ 7,534	\$ 41,578
Cash with fiscal agent.....	-	-	-	-	-	-	76,542
Receivables, net of allowance for uncollectibles:							
Taxes.....	-	-	-	6,048	-	-	14,508
Due from federal government.....	-	-	-	-	3,956	-	-
Loans receivable.....	-	-	-	-	-	-	-
Other receivables.....	-	-	-	-	3,379	18,238	-
Due from other funds.....	-	-	-	-	-	-	-
<b>Total assets.....</b>	<b>\$ 8,426</b>	<b>\$ 9,811</b>	<b>\$ 45,345</b>	<b>\$ 42,449</b>	<b>\$ 45,879</b>	<b>\$ 25,772</b>	<b>\$ 132,628</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable.....	\$ 57	\$ 898	\$ 4,617	\$ 11,862	\$ 4,436	\$ -	\$ 14,917
Accrued payroll.....	-	-	66	17	310	-	-
Tax refunds and abatements payable.....	-	-	-	-	-	-	-
Due to other funds.....	-	-	-	-	-	-	-
Due to component units.....	-	-	-	-	-	-	-
Other accrued liabilities.....	-	-	-	-	-	-	-
<b>Total liabilities.....</b>	<b>57</b>	<b>898</b>	<b>4,683</b>	<b>11,879</b>	<b>4,746</b>	<b>-</b>	<b>14,917</b>
Deferred inflows of resources.....	-	-	-	-	-	-	-
<b>Total liabilities and deferred inflows of resources.....</b>	<b>57</b>	<b>898</b>	<b>4,683</b>	<b>11,879</b>	<b>4,746</b>	<b>-</b>	<b>14,917</b>
Fund balance:							
Nonspendable.....	-	-	-	-	-	-	-
Restricted.....	8,369	-	-	-	41,133	-	-
Committed.....	-	8,913	40,662	30,570	-	25,772	117,711
Assigned.....	-	-	-	-	-	-	-
Unassigned (deficits).....	-	-	-	-	-	-	-
<b>Fund balances (deficits).....</b>	<b>8,369</b>	<b>8,913</b>	<b>40,662</b>	<b>30,570</b>	<b>41,133</b>	<b>25,772</b>	<b>117,711</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 8,426</b>	<b>\$ 9,811</b>	<b>\$ 45,345</b>	<b>\$ 42,449</b>	<b>\$ 45,879</b>	<b>\$ 25,772</b>	<b>\$ 132,628</b>

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Grant Anticipation Note Trust	Special Revenue			Debt Service	Capital Projects					Total
	Expendable Trust	Other			General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	
\$ 14,389	\$ 523,630	\$ 48,092	\$ -	\$ -	\$ -	\$ 8,393	\$ -	\$ 9,555	\$ -	\$ 1,409,155
204,494	-	-	11,951	-	-	-	-	-	-	307,371
-	-	-	-	-	-	-	-	-	-	159,326
80,348	840	400	-	-	4,717	-	-	142	-	425,874
-	914	-	-	-	-	-	-	-	-	2,030
-	6,968	84	-	-	-	-	-	18	-	197,580
-	-	-	-	-	-	-	-	80,348	-	80,348
<b>\$ 299,231</b>	<b>\$ 532,352</b>	<b>\$ 48,576</b>	<b>\$ 11,951</b>	<b>\$ 4,717</b>	<b>\$ 8,393</b>	<b>\$ -</b>	<b>\$ 90,063</b>	<b>\$ -</b>	<b>\$ 2,581,684</b>	
\$ -	\$ 52,895	\$ 7,732	\$ -	\$ 293,847	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 726,751
-	2,822	1,096	-	2,479	-	-	-	-	-	19,668
-	-	-	-	-	-	-	-	-	-	174
80,348	-	-	-	248,531	-	251,633	-	-	164	613,574
-	-	-	-	16,629	-	232,433	96,877	-	-	473,154
-	-	-	-	-	-	-	-	-	-	78,462
<b>80,348</b>	<b>55,717</b>	<b>8,828</b>	<b>-</b>	<b>561,486</b>	<b>-</b>	<b>484,066</b>	<b>96,877</b>	<b>165</b>	<b>1,911,783</b>	
-	-	-	-	-	-	-	-	-	-	61,136
<b>80,348</b>	<b>55,717</b>	<b>8,828</b>	<b>-</b>	<b>561,486</b>	<b>-</b>	<b>484,066</b>	<b>96,877</b>	<b>165</b>	<b>1,972,919</b>	
-	-	-	-	-	-	-	-	-	-	1,116
218,883	317,757	-	11,951	-	-	-	-	-	-	676,945
-	158,878	74,781	-	-	8,393	-	-	-	-	1,001,470
-	-	-	-	-	-	-	-	-	-	21,250
-	-	(35,033)	-	(556,769)	-	(484,066)	(6,814)	(165)	-	(1,092,016)
<b>218,883</b>	<b>476,635</b>	<b>39,748</b>	<b>11,951</b>	<b>(556,769)</b>	<b>8,393</b>	<b>(484,066)</b>	<b>(6,814)</b>	<b>(165)</b>	<b>608,765</b>	
<b>\$ 299,231</b>	<b>\$ 532,352</b>	<b>\$ 48,576</b>	<b>\$ 11,951</b>	<b>\$ 4,717</b>	<b>\$ 8,393</b>	<b>\$ -</b>	<b>\$ 90,063</b>	<b>\$ -</b>	<b>\$ 2,581,684</b>	

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

## Other Governmental Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Special Revenue							
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Massachusetts Tourism	Local Capital Projects	Local Aid Stabilization	Manufacturing
<b>REVENUES</b>								
Taxes.....	\$ 1,215,075	\$ -	\$ 163,293	\$ 972	\$ 48,854	\$ -	\$ -	\$ -
Assessments.....	23,133	-	403,813	-	-	-	-	-
Federal grants and reimbursements.....	-	3,729,503	77,407	6,060	-	-	-	-
Departmental.....	522,409	-	304,291	8,564	-	-	-	-
Miscellaneous.....	3,629	1,273	79,727	40	-	-	-	-
<b>Total revenues.....</b>	<b>1,764,246</b>	<b>3,730,776</b>	<b>1,028,531</b>	<b>15,636</b>	<b>48,854</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>OTHER FINANCING SOURCES</b>								
Bonds premium.....	-	-	-	-	-	-	-	-
Issuance of general and special obligation bonds.....	-	-	-	-	-	-	-	-
Issuance of current refunding bonds.....	-	-	-	-	-	-	-	-
Issuance of advance refunding bonds.....	-	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-	-
Transfers in.....	112,759	3,923	1,047,631	179	113	21,250	375	13,583
<b>Total other financing sources.....</b>	<b>112,759</b>	<b>3,923</b>	<b>1,047,631</b>	<b>179</b>	<b>113</b>	<b>21,250</b>	<b>375</b>	<b>13,583</b>
<b>Total revenues and other financing sources.....</b>	<b>1,877,005</b>	<b>3,734,699</b>	<b>2,076,162</b>	<b>15,815</b>	<b>48,967</b>	<b>21,250</b>	<b>375</b>	<b>13,583</b>
<b>EXPENDITURES</b>								
Current:								
Judiciary.....	-	1,215	-	-	-	-	-	-
Inspector General.....	-	-	12	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	17	-	-	-
Secretary of the Commonwealth.....	-	916	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	1,044	-	-	-	-	-	-
Attorney General.....	-	9,559	-	-	-	-	-	-
District Attorney.....	-	1,850	-	-	-	-	-	-
Sheriff's Departments.....	-	3,437	-	-	-	-	-	-
Board of Library Commissioners.....	-	2,939	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-	-
Administration and Finance.....	125,000	10,731	12,612	118	-	-	-	-
Energy and Environmental Affairs.....	-	40,106	-	14,152	-	-	-	-
Health and Human Services.....	-	1,807,561	37,342	-	-	-	-	-
Massachusetts Department of Transportation.....	586,382	446	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-	-
Center for Health and Information Analysis.....	-	1,008,560	-	-	-	-	8,700	0
Massachusetts School Building Assistance.....	-	676	593	-	-	-	-	-
Public Safety and Homeland Security.....	-	143,236	-	-	-	-	-	-
Housing and Economic Development.....	-	460,108	-	-	25,182	-	-	9,729
Labor and Workforce development.....	-	146,762	29,829	-	-	-	-	2,000
Medicaid.....	-	-	1,776,579	-	-	-	-	-
Capital outlay:								
Local aid.....	-	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-	-
Principal on current refundings.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>711,382</b>	<b>3,639,146</b>	<b>1,856,967</b>	<b>14,270</b>	<b>25,199</b>	<b>-</b>	<b>8,700</b>	<b>11,729</b>
<b>OTHER FINANCING USES</b>								
Payments to refunding bond escrow agent.....	-	-	-	-	-	-	-	-
Transfers out.....	40,483	94,999	189,313	2,150	23,442	-	-	272
Transfers of appropriations.....	-	-	-	-	-	-	-	1,582
Transfers of bond proceeds.....	-	-	-	-	-	-	-	-
Transfers out for debt service.....	1,073,217	-	-	-	-	-	-	-
<b>Total other financing uses.....</b>	<b>1,113,700</b>	<b>94,999</b>	<b>189,313</b>	<b>2,150</b>	<b>23,442</b>	<b>-</b>	<b>-</b>	<b>1,854</b>
<b>Total expenditures and other financing uses.....</b>	<b>1,825,082</b>	<b>3,734,145</b>	<b>2,046,280</b>	<b>16,420</b>	<b>48,641</b>	<b>-</b>	<b>8,700</b>	<b>13,583</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses...</b>	<b>51,923</b>	<b>554</b>	<b>29,882</b>	<b>(605)</b>	<b>326</b>	<b>21,250</b>	<b>(8,325)</b>	<b>-</b>
Fund balances (deficits) at beginning of year.....	23,356	78,298	222,914	21,455	4,936	-	-	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 75,279</b>	<b>\$ 78,852</b>	<b>\$ 252,796</b>	<b>\$ 20,850</b>	<b>\$ 5,262</b>	<b>\$ 21,250</b>	<b>\$ (8,325)</b>	<b>\$ -</b>

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<b>Special Revenue</b>									
Community College	Gaming Control	Dam and Seawall Repair or Removal	MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Healthcare Workforce Transformation Trust	Health Information Technology Trust
\$ -	\$ -	\$ -	\$ 802,831	\$ 23,771	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	157,283	-	-	-	-	-	-
-	31,939	-	-	-	13,241	-	-	-	60,711
-	-	21,937	-	11,410	-	10,761	74,685	-	1,875
-	<b>31,939</b>	<b>21,937</b>	<b>960,114</b>	<b>35,181</b>	<b>13,241</b>	<b>10,761</b>	<b>74,775</b>	-	<b>62,586</b>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
33,719	-	-	-	25,000	-	-	-	-	1,125
<b>33,719</b>	-	-	-	<b>25,000</b>	-	-	-	-	<b>1,125</b>
<b>33,719</b>	<b>31,939</b>	<b>21,937</b>	<b>960,114</b>	<b>60,181</b>	<b>13,241</b>	<b>10,761</b>	<b>74,775</b>	-	<b>63,711</b>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	960,114	-	-	-	-	-	-
-	72	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	5,948	-	-
-	20,087	-	-	-	-	-	-	-	-
-	-	-	-	63,432	-	-	495	-	-
-	-	1,172	-	-	-	-	-	-	-
-	-	-	-	-	-	-	59	794	61,147
-	-	-	-	-	-	-	-	-	-
8,311	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	61,401	-	-
-	-	-	-	-	-	8,375	-	-	-
-	-	-	-	-	10,400	-	-	1,282	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<b>8,311</b>	<b>20,159</b>	<b>1,172</b>	<b>960,114</b>	<b>63,432</b>	<b>10,400</b>	<b>8,375</b>	<b>67,903</b>	<b>2,076</b>	<b>61,147</b>
-	-	-	-	-	-	-	-	-	-
5,389	861	-	-	44	306	1,779	3,692	17	94
19,999	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<b>25,388</b>	<b>861</b>	-	-	<b>44</b>	<b>306</b>	<b>1,779</b>	<b>3,692</b>	<b>17</b>	<b>94</b>
<b>33,699</b>	<b>21,020</b>	<b>1,172</b>	<b>960,114</b>	<b>63,476</b>	<b>10,706</b>	<b>10,154</b>	<b>71,595</b>	<b>2,093</b>	<b>61,241</b>
<b>20</b>	<b>10,919</b>	<b>20,765</b>	-	<b>(3,295)</b>	<b>2,535</b>	<b>607</b>	<b>3,180</b>	<b>(2,093)</b>	<b>2,470</b>
-	10,869	-	-	2,451	6,003	1,923	101,989	20,000	3,532
<b>\$ 20</b>	<b>\$ 21,788</b>	<b>\$ 20,765</b>	<b>\$ -</b>	<b>\$ (844)</b>	<b>\$ 8,538</b>	<b>\$ 2,530</b>	<b>\$ 105,169</b>	<b>\$ 17,907</b>	<b>\$ 6,002</b>

continued

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

## Other Governmental Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Special Revenue						
	Build America Bonds Subsidy Trust	Housing Preservation and Stabilization	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents	Convention and Exhibition Center
<b>REVENUES</b>							
Taxes.....	\$ -	\$ -	\$ -	\$ 22,219	\$ -	\$ -	\$ 108,897
Assessments.....	-	-	-	-	-	11,548	-
Federal grants and reimbursements.....	46,617	-	-	-	35,969	-	-
Departmental.....	-	-	67,631	-	4,987	2,391	-
Miscellaneous.....	-	-	-	-	68	5	2,308
<b>Total revenues.....</b>	<b>46,617</b>	<b>-</b>	<b>67,631</b>	<b>22,219</b>	<b>41,024</b>	<b>13,944</b>	<b>111,205</b>
<b>OTHER FINANCING SOURCES</b>							
Bonds premium.....	-	-	-	-	-	-	-
Issuance of general and special obligation bonds.....	-	-	-	-	-	-	-
Issuance of current refunding bonds.....	-	-	-	-	-	-	-
Issuance of advance refunding bonds.....	-	-	-	-	-	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-
Transfers in.....	-	17,380	-	-	-	-	-
<b>Total other financing sources.....</b>	<b>-</b>	<b>17,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenues and other financing sources.....</b>	<b>46,617</b>	<b>17,380</b>	<b>67,631</b>	<b>22,219</b>	<b>41,024</b>	<b>13,944</b>	<b>111,205</b>
<b>EXPENDITURES</b>							
Current:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	33,747	-	-	-	315	-	-
Attorney General.....	-	-	-	-	-	-	-
District Attorney.....	-	-	-	-	220	-	-
Sheriff's Departments.....	-	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-	-
Massachusetts Gaming Commission.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	49,444	-	49,685
Energy and Environmental Affairs.....	-	-	64,839	-	-	-	-
Health and Human Services.....	-	-	-	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-
Center for Health and Information Analysis.....	-	-	-	-	-	-	-
Massachusetts School Building Assistance.....	-	-	-	-	-	-	-
Public Safety and Homeland Security.....	-	-	-	-	-	-	-
Housing and Economic Development.....	-	8,467	-	-	-	-	-
Labor and Workforce development.....	-	-	-	14,889	40	-	-
Medicaid.....	-	-	-	-	-	-	-
Capital outlay:							
Local aid.....	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-
Principal on current refundings.....	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>33,747</b>	<b>8,467</b>	<b>64,839</b>	<b>14,889</b>	<b>50,019</b>	<b>-</b>	<b>49,685</b>
<b>OTHER FINANCING USES</b>							
Payments to refunding bond escrow agent.....	-	-	-	-	-	-	-
Transfers out.....	12,791	-	-	162	1,456	21,878	-
Transfers of appropriations.....	-	-	-	-	-	-	-
Transfers of bond proceeds.....	-	-	-	-	-	-	-
Transfers out for debt service.....	-	-	-	-	-	-	36,722
<b>Total other financing uses.....</b>	<b>12,791</b>	<b>-</b>	<b>-</b>	<b>162</b>	<b>1,456</b>	<b>21,878</b>	<b>36,722</b>
<b>Total expenditures and other financing uses.....</b>	<b>46,538</b>	<b>8,467</b>	<b>64,839</b>	<b>15,051</b>	<b>51,475</b>	<b>21,878</b>	<b>86,407</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>79</b>	<b>8,913</b>	<b>2,792</b>	<b>7,168</b>	<b>(10,451)</b>	<b>(7,934)</b>	<b>24,798</b>
Fund balances (deficits) at beginning of year.....	8,290	-	37,870	23,402	51,584	33,706	92,913
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 8,369</b>	<b>\$ 8,913</b>	<b>\$ 40,662</b>	<b>\$ 30,570</b>	<b>\$ 41,133</b>	<b>\$ 25,772</b>	<b>\$ 117,711</b>

See Independent Auditor's Report



Special Revenue			Capital Projects						Total
Grant Anticipation Note Trust	Expendable Trust	Other	Debt Service	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	Total
\$ -	\$ -	\$ 515	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,386,427
-	18,794	25,516	-	-	-	-	-	-	640,087
582,871	19,810	1,242	-	16,702	-	-	13,997	-	4,604,130
-	42,839	47,313	-	-	-	-	3,215	-	1,121,025
71	387,626	4,037	-	1,313	-	327	-	-	515,736
<b>582,942</b>	<b>469,069</b>	<b>78,623</b>	-	<b>18,015</b>	-	<b>327</b>	<b>17,212</b>	-	<b>9,267,405</b>
19,014	-	-	84,920	35,185	-	53,456	-	-	192,575
-	-	-	-	1,179,662	-	1,178,525	-	1,712	2,359,899
-	-	-	159,335	-	-	-	-	-	159,335
-	-	-	477,460	-	-	-	-	-	477,460
-	-	-	2,374,950	-	-	-	-	-	2,374,950
9,773	21,573	28,259	-	-	-	-	466,586	-	1,803,228
<b>28,787</b>	<b>21,573</b>	<b>28,259</b>	<b>3,096,664</b>	<b>1,214,847</b>	-	<b>1,231,981</b>	<b>466,586</b>	<b>1,712</b>	<b>7,367,447</b>
<b>611,729</b>	<b>490,642</b>	<b>106,882</b>	<b>3,096,664</b>	<b>1,232,862</b>	-	<b>1,232,308</b>	<b>483,798</b>	<b>1,712</b>	<b>16,634,851</b>
-	107	-	-	-	-	-	-	-	1,322
-	-	-	-	-	-	-	-	-	12
-	72	-	-	-	-	-	-	-	89
-	-	5,846	-	-	-	-	-	-	6,762
9,070	117,242	65	27	4,357	-	753	-	-	1,126,734
-	13,944	531	-	-	-	-	-	-	24,106
-	7,045	104	-	-	-	-	-	-	9,219
-	1,543	572	-	-	-	-	-	-	11,500
-	55	-	-	-	-	-	-	-	2,994
-	744	2,038	-	-	-	-	-	-	22,869
-	455	3,027	-	-	-	-	-	-	3,482
-	39,903	2,355	-	-	-	-	-	-	353,775
-	62,746	26,105	-	-	-	-	-	-	209,120
-	48,147	21,737	-	-	-	-	9	-	1,976,796
-	-	11	-	174,867	-	1,082,167	451,914	-	2,295,787
-	16,821	2,093	-	-	-	-	-	-	18,914
-	609	89	-	-	-	-	-	-	1,026,268
-	-	-	-	-	-	-	-	-	1,269
-	6,547	3,734	-	-	-	-	-	-	214,918
-	22,230	1,203	-	-	-	-	-	-	535,294
-	79,264	-	-	-	-	-	-	-	274,066
-	-	-	-	-	-	-	-	-	1,786,979
-	-	-	-	-	-	-	-	54	54
-	-	-	-	957,757	-	39,302	497	928	998,484
-	-	-	2,374,950	-	-	-	-	-	2,374,950
-	-	-	159,335	-	-	-	-	-	159,335
<b>9,070</b>	<b>417,474</b>	<b>69,510</b>	<b>2,534,312</b>	<b>1,136,981</b>	-	<b>1,122,222</b>	<b>452,420</b>	<b>982</b>	<b>13,435,098</b>
-	-	-	562,352	-	-	-	-	-	562,352
404,481	128,145	25,796	-	11,342	-	84,866	7,528	-	1,061,286
-	-	6	-	-	-	-	-	-	21,587
-	-	-	-	215,690	-	-	-	-	215,690
186,166	-	18,634	-	-	-	-	-	-	1,314,739
<b>590,647</b>	<b>128,145</b>	<b>44,436</b>	<b>562,352</b>	<b>227,032</b>	-	<b>84,866</b>	<b>7,528</b>	-	<b>3,175,655</b>
<b>599,717</b>	<b>545,619</b>	<b>113,946</b>	<b>3,096,664</b>	<b>1,364,013</b>	-	<b>1,207,088</b>	<b>459,948</b>	<b>982</b>	<b>16,610,753</b>
<b>12,012</b>	<b>(54,977)</b>	<b>(7,064)</b>	-	<b>(131,151)</b>	-	<b>25,220</b>	<b>23,850</b>	<b>730</b>	<b>24,098</b>
206,871	531,612	46,812	11,951	(425,618)	8,393	(509,286)	(30,664)	(895)	584,667
<b>\$ 218,883</b>	<b>\$ 476,635</b>	<b>\$ 39,748</b>	<b>\$ 11,951</b>	<b>\$ (556,769)</b>	<b>\$ 8,393</b>	<b>\$ (484,066)</b>	<b>\$ (6,814)</b>	<b>\$ (165)</b>	<b>\$ 608,765</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, 2014  
(Amounts in thousands)

	Commonwealth Transportation Fund				Environmental Funds			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes.....	\$ 1,217,400	\$ 1,217,400	\$ 1,231,994	\$ 14,594	\$ 900	\$ 900	\$ 962	\$ 62
Assessments.....	22,460	22,460	22,211	(249)	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	5,600	5,600	6,005	405
Departmental.....	523,795	523,795	522,364	(1,431)	8,638	8,638	8,487	(151)
Miscellaneous.....	1,410	1,410	2,430	1,020	28	28	40	12
Total revenues.....	<u>1,765,065</u>	<u>1,765,065</u>	<u>1,778,999</u>	<u>13,934</u>	<u>15,166</u>	<u>15,166</u>	<u>15,494</u>	<u>328</u>
Other financing sources:								
Operating transfers in.....	-	-	11,428	11,428	130	130	179	49
Other fund deficit support.....	-	-	102,495	102,495	-	-	-	-
Total other financing sources.....	<u>-</u>	<u>-</u>	<u>113,923</u>	<u>113,923</u>	<u>130</u>	<u>130</u>	<u>179</u>	<u>49</u>
Total revenues and other financing sources.....	<u>1,765,065</u>	<u>1,765,065</u>	<u>1,892,922</u>	<u>127,857</u>	<u>15,296</u>	<u>15,296</u>	<u>15,673</u>	<u>377</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	177,981	-	-	-	-	-	-	-
Administration and Finance.....	-	-	-	-	-	118	118	-
Energy and Environmental Affairs.....	-	-	-	-	14,689	14,570	14,152	418
Massachusetts Department of Transportation.....	351,895	275,300	275,200	100	-	-	-	-
Executive Office of Education.....	-	-	-	-	-	-	-	-
Housing and Economic Development.....	-	-	-	-	-	-	-	-
Labor and Workforce Development.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	-	637,447	616,364	21,083	-	-	-	-
Interest and fiscal charges.....	-	470,315	456,853	13,462	-	-	-	-
Total expenditures.....	<u>529,877</u>	<u>1,383,062</u>	<u>1,348,417</u>	<u>34,645</u>	<u>14,689</u>	<u>14,688</u>	<u>14,270</u>	<u>418</u>
Other financing uses:								
Fringe benefit cost assessment.....	-	-	-	-	-	1,939	2,150	(211)
Operating transfers out.....	238,462	512,079	515,089	(3,010)	-	-	-	-
State Retiree Benefits transfer.....	-	-	29,064	(29,064)	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-	-	-
Total other financing uses.....	<u>238,462</u>	<u>512,079</u>	<u>544,153</u>	<u>(32,074)</u>	<u>-</u>	<u>1,939</u>	<u>2,150</u>	<u>(211)</u>
Total expenditures and other financing uses.....	<u>768,339</u>	<u>1,895,141</u>	<u>1,892,570</u>	<u>2,571</u>	<u>14,689</u>	<u>16,627</u>	<u>16,420</u>	<u>207</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	996,726	(130,076)	352	130,428	607	(1,331)	(747)	584
Fund balances/(deficit) at beginning of year.....	-	14,032	14,032	-	-	20,579	20,579	-
Fund balances/(deficit) at end of year.....	<u>\$ 996,726</u>	<u>\$ (116,044)</u>	<u>\$ 14,384</u>	<u>\$ 130,428</u>	<u>\$ 607</u>	<u>\$ 19,248</u>	<u>\$ 19,832</u>	<u>\$ 584</u>

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Massachusetts Tourism Fund				Local Capital Projects Fund				Local Aid Stabilization Fund			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ 46,000	\$ 46,000	\$ 48,472	\$ 2,472	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
46,000	46,000	48,472	2,472	-	-	-	-	-	-	-	-
2,625	2,625	113	(2,512)	19,250	19,250	825	(18,425)	8,750	8,750	375	(8,375)
-	-	-	-	-	-	20,425	20,425	-	-	-	-
2,625	2,625	113	(2,512)	19,250	19,250	21,250	2,000	8,750	8,750	375	(8,375)
48,625	48,625	48,585	(40)	19,250	19,250	21,250	2,000	8,750	8,750	375	(8,375)
-	17	17	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	5	-	5	-	-	-	-	-	-	-	-
25,033	25,300	25,182	118	19,250	21,250	-	21,250	7,350	8,700	8,700	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
25,033	25,322	25,199	123	19,250	21,250	-	21,250	7,350	8,700	8,700	-
-	356	480	(124)	-	-	-	-	-	-	-	-
-	-	3,009	(3,009)	-	-	-	-	-	-	-	-
-	-	19,953	(19,953)	-	-	-	-	-	-	-	-
-	356	23,442	(23,086)	-	-	-	-	-	-	-	-
25,033	25,678	48,641	(22,963)	19,250	21,250	-	21,250	7,350	8,700	8,700	-
23,592	22,947	(56)	(23,003)	-	(2,000)	21,250	23,250	1,400	50	(8,325)	(8,375)
76	76	76	-	-	-	-	-	-	-	-	-
<u>\$ 23,668</u>	<u>\$ 23,023</u>	<u>\$ 20</u>	<u>\$ (23,003)</u>	<u>\$ -</u>	<u>\$ (2,000)</u>	<u>\$ 21,250</u>	<u>\$ 23,250</u>	<u>\$ 1,400</u>	<u>\$ 50</u>	<u>\$ (8,325)</u>	<u>\$ (8,375)</u>

**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, 2014  
(Amounts in thousands)

	Manufacturing Fund				Community College Fund			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
<b>REVENUES AND OTHER FINANCING SOURCES</b>								
Revenues:								
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	-	-
Departmental.....	-	-	-	-	-	-	-	-
Miscellaneous.....	-	-	-	-	-	-	-	-
Total revenues.....	-	-	-	-	-	-	-	-
Other financing sources:								
Operating transfers in.....	22,750	22,750	975	(21,775)	29,750	29,750	1,275	(28,475)
Other fund deficit support.....	-	-	12,608	12,608	-	-	32,444	32,444
Total other financing sources.....	22,750	22,750	13,583	(9,167)	29,750	29,750	33,719	3,969
Total revenues and other financing sources.....	22,750	22,750	13,583	(9,167)	29,750	29,750	33,719	3,969
<b>EXPENDITURES AND OTHER FINANCING USES</b>								
Expenditures:								
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	-	-	-	-	-	-	-
Administration and Finance.....	1,582	-	-	-	-	-	-	-
Energy and Environmental Affairs.....	-	-	-	-	-	-	-	-
Massachusetts Department of Transportation.....	-	-	-	-	-	-	-	-
Executive Office of Education.....	-	1,582	1,582	-	24,750	30,469	28,310	2,159
Housing and Economic Development.....	18,750	19,163	9,729	9,434	-	-	-	-
Labor and Workforce Development.....	2,000	2,000	2,000	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-	-
Total expenditures.....	22,332	22,745	13,311	9,434	24,750	30,469	28,310	2,159
Other financing uses:								
Fringe benefit cost assessment.....	-	-	272	(272)	-	-	5,389	(5,389)
Operating transfers out.....	-	-	-	-	-	-	-	-
State Retiree Benefits transfer.....	-	-	-	-	-	-	-	-
Other fund deficit support.....	-	-	-	-	-	-	-	-
Total other financing uses.....	-	-	272	(272)	-	-	5,389	(5,389)
Total expenditures and other financing uses.....	22,332	22,745	13,583	9,162	24,750	30,469	33,699	(3,230)
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	418	5	-	(5)	5,000	(719)	20	739
Fund balances/(deficit) at beginning of year.....	-	-	-	-	-	-	-	-
Fund balances/(deficit) at end of year.....	\$ 418	\$ 5	\$ -	\$ (5)	\$ 5,000	\$ (719)	\$ 20	\$ 739

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Public Safety Trust Fund				Children and Families Protection Fund				Totals			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,264,300	\$ 1,264,300	\$ 1,281,428	\$ 17,128
-	-	-	-	-	-	-	-	22,460	22,460	22,211	(249)
-	-	-	-	-	-	-	-	5,600	5,600	6,005	405
-	-	568	568	-	-	1	1	532,433	532,433	531,420	(1,013)
-	-	-	-	-	-	-	-	1,438	1,438	2,470	1,032
-	-	568	568	-	-	1	1	1,826,231	1,826,231	1,843,534	17,303
-	-	-	-	-	-	-	-	83,255	83,255	15,170	(68,085)
-	-	-	-	-	-	-	-	-	-	167,972	167,972
-	-	-	-	-	-	-	-	83,255	83,255	183,142	99,887
-	-	568	568	-	-	1	1	1,909,486	1,909,486	2,026,676	117,190
-	-	-	-	-	-	-	-	-	17	17	-
-	-	-	-	-	-	-	-	177,981	-	-	-
-	-	-	-	-	-	-	-	1,582	118	118	-
-	-	-	-	-	-	-	-	14,689	14,570	14,152	418
-	-	-	-	-	-	-	-	351,895	275,305	275,200	105
-	-	-	-	-	-	-	-	32,100	40,751	38,592	2,159
-	-	-	-	-	-	-	-	63,033	65,713	34,911	30,802
-	-	-	-	-	-	-	-	2,000	2,000	2,000	-
-	-	-	-	-	-	-	-	-	637,447	616,364	21,083
-	-	-	-	-	-	-	-	-	470,315	456,853	13,462
-	-	-	-	-	-	-	-	643,280	1,506,236	1,438,207	68,029
-	-	-	-	-	-	-	-	-	2,295	8,291	(5,996)
-	-	-	-	-	-	1	(1)	238,462	512,079	518,099	(6,020)
-	-	-	-	-	-	-	-	-	-	29,064	(29,064)
-	-	-	-	-	-	-	-	-	-	19,953	(19,953)
-	-	-	-	-	-	1	(1)	238,462	514,374	575,407	(61,033)
-	-	-	-	-	-	1	(1)	881,743	2,020,610	2,013,614	6,996
-	-	568	568	-	-	-	-	1,027,743	(111,124)	13,062	124,186
-	-	-	-	-	-	-	-	76	34,687	34,687	-
\$ -	\$ -	\$ 568	\$ 568	\$ -	\$ -	\$ -	\$ -	\$ 1,027,819	\$ (76,437)	\$ 47,749	\$ 124,186

**Combining Budget to GAAP Reconciliation**  
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2014  
(Amounts in thousands)

	Commonwealth Transportation Fund	Environmental Funds	Massachusetts Tourism Fund	Local Capital Projects Fund
Total actual revenues - budgetary basis (pages 142-145).....	\$ 1,778,999	\$ 15,494	\$ 48,472	\$ -
Adjustments:				
Taxes receivable, net.....	(16,919)	10	382	-
Federal grants and other receivables, net.....	2,166	132	-	-
Total actual revenues - GAAP basis (pages 138-141).....	<u>\$ 1,764,246</u>	<u>\$ 15,636</u>	<u>\$ 48,854</u>	<u>\$ -</u>
Total actual other financing sources - budgetary basis (page 142-145).....	\$ 113,923	\$ 179	\$ 113	\$ 21,250
MassDOT transfers in is reclassified to revenues.....	(1,164)	-	-	-
Total actual other financing sources - GAAP basis (pages 138-141).....	<u>\$ 112,759</u>	<u>\$ 179</u>	<u>\$ 113</u>	<u>\$ 21,250</u>
Total actual expenditures- budgetary basis (pages 142-145).....	\$ 1,348,417	\$ 14,270	\$ 25,199	\$ -
Adjustment:				
Due to component units accrual, net.....	(67,488)	-	-	-
Reclassification:				
MassDOT transfers out is reclassified to expenditures.....	503,670	-	-	-
Higher education expenditures are reclassified to transfers out.....	-	-	-	-
Debt service principal and interest payments are reclassified to transfers out to the debt service fund.....	(1,073,217)	-	-	-
Total actual expenditures - GAAP basis (pages 138-141).....	<u>\$ 711,382</u>	<u>\$ 14,270</u>	<u>\$ 25,199</u>	<u>\$ -</u>
Total actual other financing uses - budgetary basis (pages 142-145).....	\$ 544,153	\$ 2,150	\$ 23,442	\$ -
Reclassification:				
MassDOT transfers out is reclassified to expenditures.....	(503,670)	-	-	-
Higher education expenditures are reclassified to transfers out.....	-	-	-	-
Debt service principal and interest payments are reclassified to transfers out to the debt service fund.....	1,073,217	-	-	-
Total actual other financing uses - GAAP basis (pages 138-141).....	<u>\$ 1,113,700</u>	<u>\$ 2,150</u>	<u>\$ 23,442</u>	<u>\$ -</u>

\* On a GAAP basis, the activity of these funds is combined in the other special revenue funds column on the combined statement of revenues, expenditures and changes in f balance. The revenues, other financing sources, expenditures and other financing uses of these other special revenue funds are \$205,437, \$28,259, \$68,135 and \$172,625, respectively (all amounts in thousands).

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Local Aid Stabilization Fund	Manufacturing Fund	Community College Fund	Public Safety Trust Fund*	Children and Families Protection Fund*	Totals
\$ -	\$ -	\$ -	\$ 568	\$ 1	\$ 1,843,534
-	-	-	-	-	(16,527)
-	-	-	-	2	2,300
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 568</u>	<u>\$ 3</u>	<u>\$ 1,829,307</u>
\$ 375	\$ 13,583	\$ 33,719	\$ -	\$ -	\$ 183,142
-	-	-	-	-	(1,164)
<u>\$ 375</u>	<u>\$ 13,583</u>	<u>\$ 33,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,978</u>
\$ 8,700	\$ 13,311	\$ 28,310	\$ -	\$ -	\$ 1,438,207
-	-	-	-	-	(67,488)
-	-	-	-	-	503,670
-	(1,582)	(19,999)	-	-	(21,581)
-	-	-	-	-	(1,073,217)
<u>\$ 8,700</u>	<u>\$ 11,729</u>	<u>\$ 8,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 779,590</u>
\$ -	\$ 272	\$ 5,389	\$ -	\$ 1	\$ 575,407
-	-	-	-	-	(503,670)
-	1,582	19,999	-	-	21,581
-	-	-	-	-	1,073,217
<u>\$ -</u>	<u>\$ 1,854</u>	<u>\$ 25,388</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,166,536</u>

**Combining Statement of Net Position Available for Post-Employment Benefits**  
Pension Trust Funds  
June 30, 2014  
(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.....	\$ 52,178	\$ 126,380	\$ 59,785	\$ 238,343
Net investment in PRIT at fair value.....	23,882,168	25,324,715	545,295	49,752,178
Other receivables.....	1,602	84,390	-	85,992
Other assets.....	10	15,395	-	15,405
<b>Total assets.....</b>	<b>23,935,958</b>	<b>25,550,880</b>	<b>605,080</b>	<b>50,091,918</b>
<b>LIABILITIES</b>				
Accounts payable.....	5,063	12,234	11	17,308
<b>Net position available for post-employment benefits.....</b>	<b>\$ 23,930,895</b>	<b>\$ 25,538,646</b>	<b>\$ 605,069</b>	<b>\$ 50,074,610</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, 2014  
(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 593,932	\$ -	\$ 487,159	\$ 1,081,091
Non-employer contributions.....	-	1,035,418	-	1,035,418
Employee contributions.....	501,106	653,328	-	1,154,434
Other additions.....	49,115	73,659	120	122,894
<b>Total contributions.....</b>	<b>1,144,153</b>	<b>1,762,405</b>	<b>487,279</b>	<b>3,393,837</b>
Net investment gain/(loss):				
Investment gain/(loss).....	3,675,419	3,904,048	83,767	7,663,234
Less: investment expense.....	(112,563)	(132,165)	(2,970)	(247,698)
<b>Net investment gain/(loss).....</b>	<b>3,562,856</b>	<b>3,771,883</b>	<b>80,797</b>	<b>7,415,536</b>
<b>Total additions.....</b>	<b>4,707,009</b>	<b>5,534,288</b>	<b>568,076</b>	<b>10,809,373</b>
<b>DEDUCTIONS</b>				
Administration.....	36,057	41,675	205	77,937
Retirement benefits and refunds.....	1,825,015	2,551,737	420,361	4,797,113
Payments to State Boston Retirement System.....	-	99,532	-	99,532
<b>Total deductions.....</b>	<b>1,861,072</b>	<b>2,692,944</b>	<b>420,566</b>	<b>4,974,582</b>
<b>Net increase/(decrease).....</b>	<b>2,845,937</b>	<b>2,841,344</b>	<b>147,510</b>	<b>5,834,791</b>
Net position available for post-employment benefits				
at beginning of year.....	21,084,958	22,697,302	457,559	44,239,819
<b>Net position available for post-employment benefits at end of year.....</b>	<b>\$ 23,930,895</b>	<b>\$ 25,538,646</b>	<b>\$ 605,069</b>	<b>\$ 50,074,610</b>

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**Combining Statement of Net Position Held in Trust for Pool Participants**  
 External Investment Trust Funds  
 June 30, 2014  
 (Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ASSETS</b>			
Assets held in trust for pension benefits:			
Net investment in PRIT at fair value.....	\$ -	\$ 10,923,596	\$ 10,923,596
Assets held in trust for pool participants:			
Cash and short-term investments.....	2,747,948	-	2,747,948
<b>Total assets.....</b>	<b>2,747,948</b>	<b>10,923,596</b>	<b>13,671,544</b>
<b>LIABILITIES</b>			
Accounts payable.....	-	-	-
<b>Net position held in trust for pool/pension participants.....</b>	<b>\$ 2,747,948</b>	<b>\$ 10,923,596</b>	<b>\$ 13,671,544</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, 2014**  
**(Amounts in thousands)**

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ADDITIONS</b>			
Contribution:			
Employees contributions.....	\$ -	\$ 793,507	\$ 793,507
Proceeds from sale of units.....	20,642,368	-	20,642,368
<b>Total contributions.....</b>	<b>20,642,368</b>	<b>793,507</b>	<b>21,435,875</b>
Net investment gain/(loss):			
Investment gain/(loss).....	7,433	1,670,865	1,678,298
Less: investment expense.....	(1,515)	(72,226)	(73,741)
<b>Net investment gain/(loss).....</b>	<b>5,918</b>	<b>1,598,639</b>	<b>1,604,557</b>
<b>Total additions.....</b>	<b>20,648,286</b>	<b>2,392,146</b>	<b>23,040,432</b>
<b>DEDUCTIONS</b>			
Cost of units redeemed.....	20,606,497	-	20,606,497
Distributions to unit holders from net interest income.....	5,705	-	5,705
Retirement benefits and refunds.....	-	739,175	739,175
<b>Total deductions.....</b>	<b>20,612,202</b>	<b>739,175</b>	<b>21,351,377</b>
<b>Net increase/(decrease).....</b>	<b>36,084</b>	<b>1,652,971</b>	<b>1,689,055</b>
Net position held in trust for pool/pensions participants at beginning of year.....	2,711,864	9,270,625	11,982,489
<b>Net position held in trust for pool/pensions participants at end of year .....</b>	<b>\$ 2,747,948</b>	<b>\$ 10,923,596</b>	<b>\$ 13,671,544</b>

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## Combining Statement of Changes in Assets and Liabilities

### Agency Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b><u>Central Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 334,680	\$ 9,556,140	\$ 9,483,824	\$ 406,996
Investments, restricted investments and annuity contracts.....	1,486,299	175,999	292,021	1,370,277
Taxes receivable.....	2,417	2,183	2,417	2,183
Other receivables.....	22,743	12,927	22,743	12,927
<b>Total assets.....</b>	<b>\$ 1,846,139</b>	<b>\$ 9,747,249</b>	<b>\$ 9,801,005</b>	<b>\$ 1,792,383</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 71,270	\$ 3,646,641	\$ 3,587,254	\$ 130,657
Due to cities and towns.....	23,450	507,830	498,215	33,065
Due to federal government.....	-	110	110	-
Lottery prizes payable.....	1,486,299	175,999	292,021	1,370,277
Agency liabilities.....	252,429	4,054,348	4,054,750	252,027
Other liabilities.....	12,691	6,357	12,691	6,357
<b>Total liabilities.....</b>	<b>\$ 1,846,139</b>	<b>\$ 8,391,285</b>	<b>\$ 8,445,041</b>	<b>\$ 1,792,383</b>
<b><u>Court Escrow and Client Accounts</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 144,044	\$ 1,700,318	\$ 1,685,436	\$ 158,926
Other receivables.....	116,660	121,565	116,660	121,565
<b>Total assets.....</b>	<b>\$ 260,704</b>	<b>\$ 1,821,883</b>	<b>\$ 1,802,096</b>	<b>\$ 280,491</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 422	\$ 1,953,237	\$ 1,953,417	\$ 242
Agency liabilities.....	260,282	1,126,780	1,106,813	280,249
<b>Total liabilities.....</b>	<b>\$ 260,704</b>	<b>\$ 3,080,017</b>	<b>\$ 3,060,230</b>	<b>\$ 280,491</b>
<b><u>Statutory Bonds and Deposits</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 113,794	\$ 531,862	\$ 531,979	\$ 113,677
Investments, restricted investments and annuity contracts.....	564,610	36,374	10,630	590,354
<b>Total assets.....</b>	<b>\$ 678,404</b>	<b>\$ 568,236</b>	<b>\$ 542,609</b>	<b>\$ 704,031</b>
<b>LIABILITIES</b>				
Agency liabilities.....	<b>\$ 678,404</b>	<b>\$ 568,236</b>	<b>\$ 542,609</b>	<b>\$ 704,031</b>

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## Combining Statement of Changes in Assets and Liabilities

### Agency Funds

Fiscal Year Ended June 30, 2014

(Amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 592,518	\$ 11,788,320	\$ 11,701,239	\$ 679,599
Investments, restricted investments and annuity contracts.....	2,050,909	212,373	302,651	1,960,631
Taxes receivable.....	2,417	2,183	2,417	2,183
Other receivables.....	139,403	134,492	139,403	134,492
<b>Total assets.....</b>	<b><u>\$ 2,785,247</u></b>	<b><u>\$ 12,137,368</u></b>	<b><u>\$ 12,145,710</u></b>	<b><u>\$ 2,776,905</u></b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 71,692	\$ 5,599,878	\$ 5,540,671	\$ 130,899
Due to cities and towns.....	23,450	507,830	498,215	33,065
Due to federal government.....	-	110	110	-
Lottery prizes payable.....	1,486,299	175,999	292,021	1,370,277
Agency liabilities.....	1,191,115	5,749,364	5,704,172	1,236,307
Other liabilities.....	12,691	6,357	12,691	6,357
<b>Total liabilities.....</b>	<b><u>\$ 2,785,247</u></b>	<b><u>\$ 12,039,538</u></b>	<b><u>\$ 12,047,880</u></b>	<b><u>\$ 2,776,905</u></b>

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**Combining Statement of Net Position**  
**Nonmajor Component Units**  
**June 30, 2014**  
**(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.....	\$ 28,275	\$ 9,498	\$ 40,400	\$ 129	\$ 14,876	\$ 68,287	\$ 23,213	\$ 184,678
Short-term investments.....	-	116,264	-	38,376	-	44,723	67,097	266,460
Restricted cash and investment.....	1,033	16,922	-	-	59,175	27,151	2,778	107,059
Assets held in trust.....	-	-	177,597	-	-	-	-	177,597
Receivables, net of allowance for uncollectibles:								
Federal grants and reimbursement receivable.....	-	-	-	-	-	807	-	807
Loans.....	318	15,559	1,984	-	12,280	11,227	-	41,368
Other receivables.....	2,057	13,103	2,582	1,541	2,194	2,497	6,107	30,081
Due from primary government.....	14,917	762	-	1,634	-	50,787	354	68,454
Inventory.....	-	139	-	-	-	56	-	195
Other current assets.....	1,944	1,999	86	402	-	13,730	1,236	19,397
<b>Total current assets.....</b>	<b>48,544</b>	<b>174,246</b>	<b>222,649</b>	<b>42,082</b>	<b>88,525</b>	<b>219,265</b>	<b>100,785</b>	<b>896,096</b>
Noncurrent assets:								
Cash and cash equivalents - restricted.....	-	34,690	63,950	8,120	-	-	1,378	108,138
Long - term investments.....	-	74,138	8,803	-	-	1,690	559,035	643,666
Restricted investments.....	-	-	113,904	-	-	-	43,269	157,173
Accounts receivables, net.....	-	-	-	-	-	601	9,110	9,711
Loans receivables, net.....	17,095	79,539	-	-	446,968	41,151	-	584,753
Non-depreciable capital assets.....	189,082	19,789	2,536	1,984	-	495	14,070	227,956
Depreciable capital assets, net.....	634,886	214,138	73,500	90,112	-	12,400	25,585	1,050,621
Other noncurrent assets.....	-	7,890	-	-	609	-	3,483	11,982
<b>Total noncurrent assets.....</b>	<b>841,063</b>	<b>430,184</b>	<b>262,693</b>	<b>100,216</b>	<b>447,577</b>	<b>56,337</b>	<b>655,930</b>	<b>2,794,000</b>
Deferred outflows of resources:								
Deferred change in fair value of interest rate swaps.....	-	14,265	-	-	-	-	-	14,265
<b>Total assets and deferred outflows.....</b>	<b>889,607</b>	<b>618,695</b>	<b>485,342</b>	<b>142,298</b>	<b>536,102</b>	<b>275,602</b>	<b>756,715</b>	<b>3,704,361</b>
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and other liabilities.....	13,690	8,785	10,610	7,894	1,256	47,524	17,136	106,895
Accrued payroll.....	-	-	-	-	840	160	-	1,000
Compensated absences.....	1,187	833	-	-	-	821	-	2,841
Accrued interest payable.....	-	-	-	-	1,572	-	16	1,588
Due to primary government.....	-	472	-	-	-	-	328	800
Deferred revenue.....	10,858	-	177,591	-	-	39,997	1,695	230,141
Capital leases.....	-	-	-	-	-	-	293	293
Bonds, notes payable and other obligations.....	-	4,350	-	-	10,848	4,326	1,267	20,791
<b>Total current liabilities.....</b>	<b>25,735</b>	<b>14,440</b>	<b>188,201</b>	<b>7,894</b>	<b>14,516</b>	<b>92,828</b>	<b>20,735</b>	<b>364,349</b>
Noncurrent liabilities:								
Compensated absences.....	1,350	-	-	-	-	120	-	1,470
Accrued interest payable.....	-	2,639	-	-	-	-	-	2,639
Due to primary government.....	-	9,996	-	-	-	-	-	9,996
Deferred revenue.....	-	-	-	-	25,862	1,421	-	27,283
Bonds, notes payable and other obligations.....	-	162,338	-	-	436,882	60,250	12,430	671,900
Post - employment obligations.....	6,113	-	-	-	-	-	-	6,113
Liability for derivative instruments.....	-	14,265	-	-	-	-	-	14,265
Other noncurrent liabilities.....	6,179	8,705	-	-	13,773	1,900	3,693	34,250
<b>Total noncurrent liabilities.....</b>	<b>13,642</b>	<b>197,943</b>	<b>-</b>	<b>-</b>	<b>476,517</b>	<b>63,691</b>	<b>16,123</b>	<b>767,916</b>
<b>Total liabilities.....</b>	<b>39,377</b>	<b>212,383</b>	<b>188,201</b>	<b>7,894</b>	<b>491,033</b>	<b>156,519</b>	<b>36,858</b>	<b>1,132,265</b>
<b>NET POSITION</b>								
Net investment in capital assets.....	823,968	103,036	76,036	92,096	-	12,889	23,238	1,131,263
Restricted for:								
Clean energy trusts.....	-	-	221,105	-	-	-	-	221,105
Economic development financing.....	-	163,473	-	-	-	9,156	-	172,629
Other purposes.....	1,033	-	-	30,345	19,117	43,941	622,116	716,552
Unrestricted.....	25,229	139,803	-	11,963	25,952	53,097	74,503	330,547
<b>Total net position.....</b>	<b>\$ 850,230</b>	<b>\$ 406,312</b>	<b>\$ 297,141</b>	<b>\$ 134,404</b>	<b>\$ 45,069</b>	<b>\$ 119,083</b>	<b>\$ 719,857</b>	<b>\$ 2,572,096</b>

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

Nonmajor Component Units

Fiscal Year Ended June 30, 2014

(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.....	\$ 51,519	\$ 50,603	\$ -	\$ -	\$ 7,882	\$ 105,771	\$ 14,579	\$ 230,354
Other.....	805	29,168	26,456	34,738	6,351	6,613	18,176	122,307
<b>Total operating revenues.....</b>	<b>52,324</b>	<b>79,771</b>	<b>26,456</b>	<b>34,738</b>	<b>14,233</b>	<b>112,384</b>	<b>32,755</b>	<b>352,661</b>
<b>Operating expenses:</b>								
Cost of services.....	47,952	10,085	21,980	26,883	6,367	116,098	-	229,365
Administration costs.....	30,265	61,066	8,485	41	5,485	11,935	37,520	154,797
Depreciation.....	45,524	11,979	1,804	552	107	885	1,004	61,855
<b>Total operating expenses.....</b>	<b>123,741</b>	<b>83,130</b>	<b>32,269</b>	<b>27,476</b>	<b>11,959</b>	<b>128,918</b>	<b>38,524</b>	<b>446,017</b>
<b>Operating income (loss).....</b>	<b>(71,417)</b>	<b>(3,359)</b>	<b>(5,813)</b>	<b>7,262</b>	<b>2,274</b>	<b>(16,534)</b>	<b>(5,769)</b>	<b>(93,356)</b>
<b>Nonoperating revenues (expenses):</b>								
Operating grants.....	49,684	434	64,008	-	-	25,954	-	140,080
Interest income.....	796	1,834	-	88	-	113	67,815	70,646
Other nonoperating revenue (expense).....	(67)	-	8,091	-	(14)	(1,275)	34,132	40,867
<b>Nonoperating revenues (expenses), net.....</b>	<b>50,413</b>	<b>2,268</b>	<b>72,099</b>	<b>88</b>	<b>(14)</b>	<b>24,792</b>	<b>101,947</b>	<b>251,593</b>
<b>Income (loss) before contributions.....</b>	<b>(21,004)</b>	<b>(1,091)</b>	<b>66,286</b>	<b>7,350</b>	<b>2,260</b>	<b>8,258</b>	<b>96,178</b>	<b>158,237</b>
Capital contributions.....	-	13,736	-	-	-	593	-	14,329
<b>Change in net position (deficits).....</b>	<b>(21,004)</b>	<b>12,645</b>	<b>66,286</b>	<b>7,350</b>	<b>2,260</b>	<b>8,851</b>	<b>96,178</b>	<b>172,566</b>
Net position - beginning, as restated.....	871,234	393,667	230,855	127,054	42,809	110,232	623,679	2,399,530
<b>Net position - ending.....</b>	<b>\$ 850,230</b>	<b>\$ 406,312</b>	<b>\$ 297,141</b>	<b>\$ 134,404</b>	<b>\$ 45,069</b>	<b>\$ 119,083</b>	<b>\$ 719,857</b>	<b>\$ 2,572,096</b>

See Independent Auditor's Report



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# *Statistical Section*

*(Unaudited)*



## *Old North Bridge, Concord*

*Schedule of Net Position by Component – Last Ten Fiscal Years*  
*Changes in Net Position – Last Ten Fiscal Years*  
*Fund Balances, Governmental Funds – 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)

	2014	2013	2012	2011	2010*
<b>Governmental activities</b>					
Net investment in capital assets.....	\$ (502,370)	\$ (592,483)	\$ (849,338)	\$ (722,469)	\$ (885,593)
Restricted.....	1,455,704	1,386,416	1,456,715	1,520,702	1,403,877
Unrestricted.....	<u>(29,913,024)</u>	<u>(26,733,809)</u>	<u>(24,905,165)</u>	<u>(23,631,098)</u>	<u>(22,891,629)</u>
<b>Total governmental activities net position.....</b>	<b><u>\$ (28,959,690)</u></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>Business-type activities</b>					
Net investment in capital assets.....	\$ 2,794,845	\$ 2,605,263	\$ 2,366,038	\$ 2,026,223	\$ 1,767,434
Restricted.....	1,590,545	1,209,630	1,576,865	1,364,646	1,148,751
Unrestricted.....	<u>1,102,251</u>	<u>1,026,230</u>	<u>969,309</u>	<u>978,043</u>	<u>857,263</u>
<b>Total business-type activities net position.....</b>	<b><u>\$ 5,487,641</u></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>Commonwealth net position</b>					
Net investment in capital assets.....	\$ 2,292,475	\$ 2,012,780	\$ 1,516,700	\$ 1,303,754	\$ 881,841
Restricted.....	3,046,249	2,596,046	3,033,580	2,885,348	2,552,628
Unrestricted.....	<u>(28,810,773)</u>	<u>(25,707,579)</u>	<u>(23,935,856)</u>	<u>(22,653,055)</u>	<u>(22,034,366)</u>
<b>Total Commonwealth net position.....</b>	<b><u>\$ (23,472,049)</u></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>

\* Restated

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2009*	2008*	2007*	2006*	2005*
\$ 189,913	\$ 446,666	\$ 489,432	\$ 101,510	\$ 196,765
1,377,951	1,413,968	1,271,051	2,010,373	1,526,576
<u>(13,721,519)</u>	<u>(11,022,084)</u>	<u>(11,357,260)</u>	<u>(12,409,269)</u>	<u>(13,267,433)</u>
<b><u>\$ (12,153,655)</u></b>	<b><u>\$ (9,161,450)</u></b>	<b><u>\$ (9,596,777)</u></b>	<b><u>\$ (10,297,385)</u></b>	<b><u>\$ (11,544,092)</u></b>
\$ 1,698,825	\$ 1,562,002	\$ 1,392,363	\$ 1,283,570	\$ 1,149,352
1,609,145	2,390,206	2,295,507	1,816,066	1,331,053
<u>621,952</u>	<u>644,363</u>	<u>645,211</u>	<u>548,774</u>	<u>562,777</u>
<b><u>\$ 3,929,922</u></b>	<b><u>\$ 4,596,571</u></b>	<b><u>\$ 4,333,081</u></b>	<b><u>\$ 3,648,410</u></b>	<b><u>\$ 3,043,182</u></b>
\$ 1,888,738	\$ 2,008,668	\$ 1,881,795	\$ 1,385,080	\$ 1,346,117
2,987,096	3,804,174	3,566,558	3,826,439	2,857,629
<u>(13,099,567)</u>	<u>(10,377,721)</u>	<u>(10,712,049)</u>	<u>(11,860,495)</u>	<u>(12,704,656)</u>
<b><u>\$ (8,223,733)</u></b>	<b><u>\$ (4,564,879)</u></b>	<b><u>\$ (5,263,696)</u></b>	<b><u>\$ (6,648,975)</u></b>	<b><u>\$ (8,500,910)</u></b>

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

(Amounts in thousands)

	2014	2013	2012	2011	2010
<b>EXPENSES</b>					
<b>Governmental Activities:</b>					
General government.....	\$ 2,538,043	\$ 2,587,273	\$ 2,391,694	\$ 2,305,783	\$ 2,358,706
Judiciary.....	1,027,875	1,002,797	945,457	992,990	1,043,004
Direct local aid.....	5,353,521	5,179,104	4,991,532	4,845,738	5,030,363
Medicaid.....	14,034,862	12,286,342	11,708,397	12,124,261	10,677,999
Group health insurance.....	1,403,590	1,282,661	1,218,079	1,113,544	1,092,178
Energy and environmental.....	623,952	532,330	572,632	685,032	326,128
Housing and economic development*.....	1,291,676	1,252,292	1,247,310	1,362,822	1,297,143
Health and human services*.....	7,360,519	7,787,051	7,643,950	7,124,856	7,244,968
Transportation and public works.....	2,391,322	1,879,271	1,765,101	2,262,374	2,088,354
Early elementary and secondary education*.....	4,545,848	4,335,639	4,259,568	3,649,543	3,395,360
Public safety and homeland security.....	2,503,812	2,440,212	2,346,958	2,276,402	2,409,557
Labor and workforce development*.....	356,954	389,806	474,096	497,927	483,091
Lottery.....	3,980,980	3,982,700	3,877,305	3,661,834	3,649,396
Interest (unallocated).....	1,197,709	1,206,542	1,202,772	1,177,569	1,090,471
<b>Total governmental activities.....</b>	<b>48,610,664</b>	<b>46,144,020</b>	<b>44,644,851</b>	<b>44,080,674</b>	<b>42,186,717</b>
<b>Business-type Activities:</b>					
Unemployment compensation.....	2,036,431	2,718,447	3,466,500	4,388,360	5,435,611
<b>Higher Education:</b>					
University of Massachusetts.....	2,925,013	2,759,488	2,684,039	2,865,015	2,640,134
State Universities.....	922,383	864,161	851,118	834,453	762,043
Community Colleges.....	852,946	814,245	801,038	772,883	716,526
<b>Total business-type activities.....</b>	<b>6,736,773</b>	<b>7,156,341</b>	<b>7,802,695</b>	<b>8,860,711</b>	<b>9,554,314</b>
<b>Total Commonwealth expenses.....</b>	<b>\$ 55,347,437</b>	<b>\$ 53,300,361</b>	<b>\$ 52,447,546</b>	<b>\$ 52,941,385</b>	<b>\$ 51,741,031</b>
<b>REVENUES</b>					
<b>Program Revenues:</b>					
<b>Governmental Activities:</b>					
<b>Charges for services:</b>					
General government.....	\$ 361,105	\$ 352,291	\$ 458,320	\$ 443,869	\$ 464,592
Judiciary.....	108,766	111,384	114,170	120,293	128,198
Medicaid.....	1,226,108	471,539	297,566	258,032	185,463
Group health insurance.....	660,359	619,982	495,377	431,078	349,870
Energy and environmental.....	262,339	228,019	214,340	270,449	214,269
Housing and economic development*.....	165,365	150,690	142,320	142,387	221,340
Health and human services*.....	483,080	1,143,551	931,535	896,328	797,929
Transportation and public works.....	530,853	567,348	505,842	502,004	517,045
Early elementary and secondary education*.....	10,067	6,748	6,783	6,645	9,661
Public safety and homeland security.....	228,730	218,643	205,546	193,983	202,427
Labor and workforce development*.....	150,394	246,577	237,772	142,731	38,319
Lottery.....	5,049,536	5,041,329	4,940,151	4,630,205	4,626,777
Total Charges for services.....	9,236,702	9,158,100	8,549,722	8,038,003	7,755,891
Operating grants and contributions.....	13,121,648	12,836,122	12,909,908	14,217,481	12,771,164
Capital grants and contributions.....	30,699	18,726	79,733	168,912	779,403
<b>Total governmental activities.....</b>	<b>22,389,049</b>	<b>22,012,948</b>	<b>21,539,363</b>	<b>22,424,397</b>	<b>21,306,458</b>
<b>Business-type Activities:</b>					
<b>Charges for services:</b>					
Unemployment Compensation.....	1,897,495	1,923,476	1,982,602	1,945,801	1,727,964
<b>Higher Education:</b>					
University of Massachusetts.....	1,697,585	1,640,296	1,519,496	1,685,386	1,527,880
State Universities.....	558,170	533,347	523,979	530,078	479,900
Community Colleges.....	270,512	281,428	275,778	250,341	235,865
Operating grants and contributions.....	1,347,423	1,791,196	2,525,342	3,500,210	4,020,351
<b>Total business-type activities.....</b>	<b>5,771,185</b>	<b>6,169,743</b>	<b>6,827,197</b>	<b>7,911,816</b>	<b>7,991,960</b>
<b>Total Commonwealth program revenues.....</b>	<b>\$ 28,160,234</b>	<b>\$ 28,182,691</b>	<b>\$ 28,366,560</b>	<b>\$ 30,336,213</b>	<b>\$ 29,298,418</b>
<b>General Revenues and Other Changes in Net Position (all types consolidated):</b>					
<b>Governmental Activities:</b>					
Taxes (all types).....	\$ 23,319,168	\$ 22,599,332	\$ 21,403,426	\$ 21,066,430	\$ 19,034,227
Investment earnings and miscellaneous.....	1,131,754	985,713	1,393,094	991,230	1,474,995
Gain on sale of capital assets.....	-	-	-	-	-
Transfers.....	(1,205,141)	(1,096,061)	(1,155,955)	(860,904)	(864,697)
Transfers to/from MassDOT.....	-	-	-	-	(8,983,955)
<b>Total governmental activities.....</b>	<b>23,245,781</b>	<b>22,488,984</b>	<b>21,640,565</b>	<b>21,196,756</b>	<b>10,660,570</b>
<b>Business-type Activities:</b>					
Investment earnings and miscellaneous.....	\$ 428,771	\$ 395,228	\$ 376,327	\$ 695,308	\$ 553,088
Other losses.....	-	-	-	(10,746)	(12,125)
Transfers.....	1,205,141	1,096,061	1,155,955	860,904	864,697
<b>Total business -type activities.....</b>	<b>1,633,912</b>	<b>1,491,289</b>	<b>1,532,282</b>	<b>1,545,466</b>	<b>1,405,660</b>
<b>Total Commonwealth general revenues.....</b>	<b>\$ 24,879,693</b>	<b>\$ 23,980,273</b>	<b>\$ 23,172,847</b>	<b>\$ 22,742,222</b>	<b>\$ 12,066,230</b>
<b>CHANGES IN NET POSITION</b>					
Governmental activities.....	\$ (2,975,834)	\$ (1,642,088)	\$ (1,464,923)	\$ (459,521)	\$ (10,219,688)
Business-type activities.....	668,324	504,691	556,784	596,571	(156,694)
Current year restatements.....	-	-	-	-	-
<b>Total changes in net position including restatements.....</b>	<b>\$ (2,307,510)</b>	<b>\$ (1,137,397)</b>	<b>\$ (908,139)</b>	<b>\$ 137,050</b>	<b>\$ (10,376,382)</b>

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

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	2009	2008	2007	2006	2005
\$	2,630,554	\$ 2,321,251	\$ 2,198,999	\$ 2,043,365	\$ 1,861,827
	1,138,179	993,424	852,124	731,931	694,245
	5,210,451	5,118,858	5,081,359	4,682,027	4,525,847
	10,842,549	9,769,893	9,044,420	8,150,576	7,705,717
	977,565	828,297	1,033,796	970,150	872,970
	426,808	537,691	488,883	438,731	419,329
	1,042,084	899,474	519,399	670,518	609,409
	7,452,418	6,726,961	6,414,249	6,585,029	6,441,959
	1,336,257	1,199,103	1,271,608	1,286,857	1,566,773
	3,210,200	2,932,143	1,870,250	1,948,769	8,226,508
	2,561,607	2,097,076	1,763,191	1,768,924	1,638,434
	474,438	340,668	641,134	387,132	358,839
	3,693,318	3,910,362	3,689,221	3,708,713	3,692,520
	1,116,278	1,152,162	1,079,551	985,474	861,265
	<b>42,112,704</b>	<b>38,827,362</b>	<b>35,948,184</b>	<b>34,358,196</b>	<b>39,488,186</b>
	3,475,027	1,554,885	1,430,130	1,337,565	1,662,955
	2,474,797	2,274,312	2,233,634	2,116,226	1,977,546
	736,972	733,842	624,470	568,592	514,122
	671,923	685,235	627,400	592,310	548,017
	<b>7,358,719</b>	<b>5,248,274</b>	<b>4,915,634</b>	<b>4,614,693</b>	<b>4,702,640</b>
\$	<b>49,471,424</b>	<b>44,075,636</b>	<b>40,863,818</b>	<b>38,972,889</b>	<b>44,190,826</b>
\$	436,344	\$ 414,614	\$ 564,347	\$ 451,753	\$ 492,750
	123,819	124,542	118,652	115,443	105,072
	180,380	176,471	172,136	702,104	937,422
	230,456	209,008	151,604	131,611	111,342
	226,754	162,639	168,789	156,074	138,854
	178,011	185,019	1,892	6,245	3,515
	718,628	601,483	538,543	613,780	756,469
	494,733	477,420	461,217	448,349	478,154
	15,728	10,766	8,042	6,346	5,583
	175,069	153,641	126,962	135,846	112,350
	37,728	31,758	187,256	213,078	199,817
	4,643,592	4,905,509	4,656,110	4,726,339	4,698,935
	7,461,243	7,452,873	7,155,550	7,706,968	8,040,263
	12,059,019	9,271,936	8,849,046	8,347,822	7,961,904
	853,221	484,172	487,365	481,780	461,371
	<b>20,373,482</b>	<b>17,208,980</b>	<b>16,491,961</b>	<b>16,536,570</b>	<b>16,463,538</b>
	1,671,098	1,587,543	1,698,249	1,741,101	242,769
	1,419,932	1,160,513	1,194,393	1,076,875	424,184
	442,685	400,369	287,195	272,918	64,872
	219,986	204,190	190,808	175,418	122,828
	1,721,199	710,974	746,385	684,108	854,653
	<b>5,474,900</b>	<b>4,063,589</b>	<b>4,117,030</b>	<b>3,950,420</b>	<b>4,108,237</b>
\$	<b>25,848,382</b>	<b>21,272,569</b>	<b>20,608,991</b>	<b>20,486,988</b>	<b>20,571,775</b>
\$	18,499,273	\$ 21,174,430	\$ 20,001,189	\$ 18,668,322	\$ 17,580,271
	1,489,018	2,057,309	1,318,008	1,396,033	1,168,540
	-	-	-	26,300	-
	(1,070,652)	(1,178,030)	(1,167,367)	(1,022,320)	(926,715)
	-	-	-	-	-
	<b>18,917,639</b>	<b>22,053,709</b>	<b>20,151,830</b>	<b>19,068,335</b>	<b>17,822,096</b>
\$	140,227	\$ 270,145	\$ 315,908	247,181	228,643
	(11,530)	-	-	-	-
	1,070,652	1,178,030	1,167,367	1,022,320	926,715
	<b>1,199,349</b>	<b>1,448,175</b>	<b>1,483,275</b>	<b>1,269,501</b>	<b>1,155,358</b>
\$	<b>20,116,988</b>	<b>23,501,884</b>	<b>21,635,105</b>	<b>20,337,836</b>	<b>18,977,454</b>
\$	(2,821,583)	\$ 435,327	\$ 695,608	\$ 1,246,707	\$ (5,202,551)
	(684,470)	263,490	684,671	605,228	560,955
	(152,800)	-	-	-	-
\$	<b>(3,658,854)</b>	<b>698,817</b>	<b>1,380,279</b>	<b>1,851,935</b>	<b>(4,641,596)</b>

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

*(Modified accrual basis of accounting)*

(Amounts in thousands)

	2014	2013	2012	2011	2010*
<b>Total Unreserved general fund.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>All Other Governmental Funds</b>					
Reserved.....	-	-	-	-	-
Unreserved:					
Special Revenue Funds.....	-	-	-	-	-
Capital Projects Funds.....	-	-	-	-	-
Permanent Trust Funds.....	-	-	-	-	-
Total Unreserved.....	-	-	-	-	-
<b>Total all other governmental funds.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total governmental fund balances.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

**Fund balances (deficits) GASB 54 :**

Nonspendable.....	\$ 1,116	\$ 914	\$ 914	\$ 914	\$ 5,914
Restricted.....	1,517,555	1,557,928	2,195,287	1,675,055	1,905,749
Committed.....	2,249,906	2,324,228	2,404,158	2,020,009	2,166,175
Assigned.....	510,353	595,085	574,621	750,462	156,483
Unassigned.....	340,505	391,795	1,143,978	821,188	351,395
<b>Total governmental fund balances.....</b>	<b>\$ 4,619,434</b>	<b>\$ 4,869,951</b>	<b>\$ 6,318,958</b>	<b>\$ 5,267,628</b>	<b>\$ 4,585,716</b>

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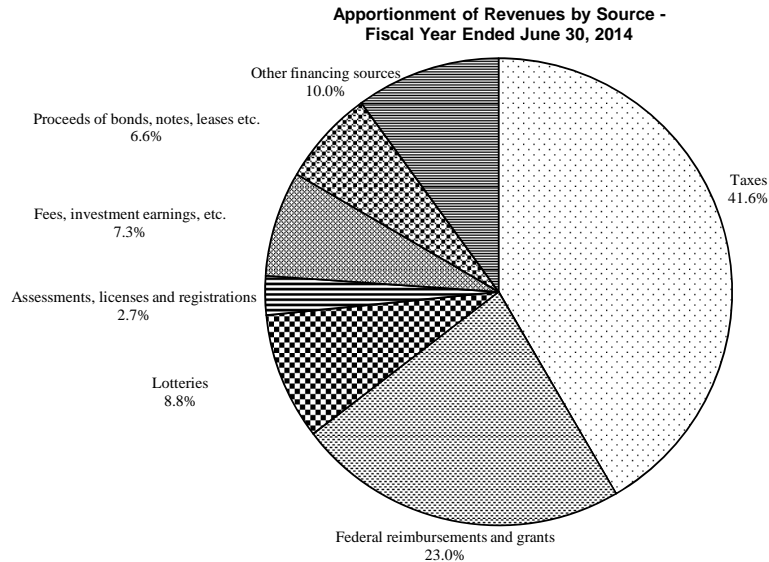
2009*	2008*	2007*	2006*	2005*
<b>\$ 1,734,822</b>	<b>\$ 3,171,278</b>	<b>\$ 4,899,154</b>	<b>\$ 4,922,074</b>	<b>\$ 4,067,885</b>
1,401,985	1,809,058	1,496,094	1,361,980	1,392,209
2,044,674	2,437,897	1,587,596	1,476,440	91,913
(125,138)	(360,570)	(251,985)	(497,300)	(503,441)
5,000	5,000	5,000	-	-
1,924,535	2,082,327	1,340,611	979,140	(411,528)
<b>3,326,520</b>	<b>3,891,385</b>	<b>2,836,705</b>	<b>2,341,120</b>	<b>980,681</b>
<b>\$ 5,061,342</b>	<b>\$ 7,062,663</b>	<b>\$ 7,735,859</b>	<b>\$ 7,263,194</b>	<b>\$ 5,048,566</b>

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

(Amounts in millions)

	2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010
Taxes.....	\$ 23,786	41.6	\$ 22,391	40.5	\$ 21,533	39.6	\$ 20,854	38.7	\$ 18,991
Federal reimbursements.....	9,417	16.5	8,981	16.2	8,934	16.4	10,066	18.8	9,453
Federal grants.....	3,730	6.5	3,887	7.0	4,051	7.5	4,311	8.0	4,097
Lotteries.....	5,049	8.8	5,042	9.1	4,944	9.1	4,631	8.6	4,628
Assessments.....	1,080	1.8	1,093	2.0	1,024	1.9	980	1.8	965
Motor vehicle licenses and registrations.....	495	0.9	487	0.9	474	0.9	461	0.9	463
Fees, investment earnings, etc.....	4,152	7.3	3,750	6.8	3,823	7.0	3,246	6.0	3,365
Issuance of general and special obligation bonds...	2,360	4.1	1,471	2.7	2,902	5.3	2,233	4.1	2,419
Issuance of refunding bonds.....	1,236	2.2	1,913	3.5	388	0.7	888	1.6	538
Bond premiums.....	193	0.3	398	0.7	260	0.5	130	0.2	16
Proceeds of capital lease.....	11	-	1	-	4	-	12	-	17
Other financing sources.....	5,701	10.0	5,876	10.6	6,033	11.1	6,086	11.3	6,027
<b>Total revenues and other financing sources.....</b>	<b>\$ 57,210</b>	<b>100.0</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>

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<u>% Total</u>	<u>2009</u>	<u>% Total</u>	<u>2008</u>	<u>% Total</u>	<u>2007</u>	<u>% Total</u>	<u>2006</u>	<u>% Total</u>	<u>2005</u>	<u>% Total</u>
37.3	\$ 18,354	36.9	\$ 21,120	42.1	\$ 19,985	40.5	\$ 18,754	39.7	\$ 17,671	40.6
18.5	9,392	18.9	7,037	14.0	6,847	13.9	6,350	13.5	6,053	13.9
8.0	3,510	7.0	2,681	5.4	2,489	5.0	2,479	5.3	2,369	5.4
9.1	4,650	9.3	4,915	9.8	4,670	9.5	4,739	10.0	4,705	10.8
2.0	929	1.9	858	1.8	860	1.7	850	1.9	831	1.9
0.9	383	0.8	376	0.7	380	0.8	361	0.8	401	0.9
6.6	3,204	6.4	3,546	7.1	2,875	5.8	3,270	7.0	3,213	7.5
4.7	2,042	4.1	1,281	2.6	3,104	6.3	4,445	9.4	1,371	3.1
1.1	390	0.8	-	-	1,428	2.9	633	1.3	1,385	3.2
-	99	0.2	25	-	129	0.3	47	0.1	(17)	-
-	18	0.0	17	-	21	-	30	0.1	58	0.1
11.8	6,817	13.7	8,280	16.5	6,743	13.6	5,232	11.1	5,493	12.6
<u>100.0</u>	<u>\$ 49,788</u>	<u>100.0</u>	<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>

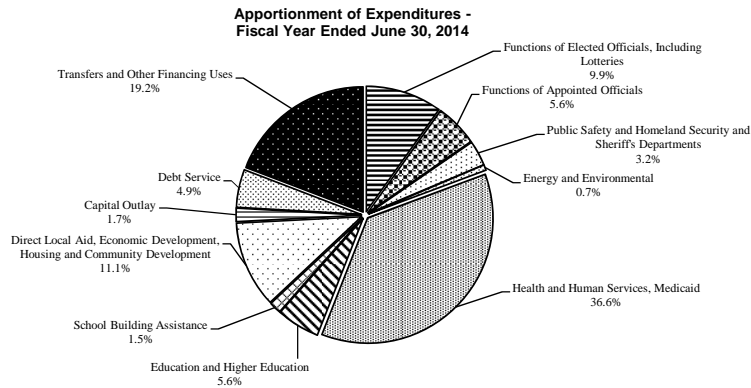
**Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat**  
**All Governmental Fund Types - Fund Perspective**  
*(Modified Accrual Basis of Accounting)*

(Amounts in millions)

	2014		2013		2012		2011		2010	
	\$	% Total	\$	% Total	\$	% Total	\$	% Total	\$	% Total
Legislature.....	56	0.1	57	0.1	58	0.1	58	0.1	59	0.1
Judiciary.....	816	1.4	792	1.4	757	1.4	771	1.4	769	1.5
Inspector General.....	6	-	6	-	3	-	4	0.0	4	0.0
Governor and Lieutenant Governor.....	5	-	6	-	7	-	5	0.0	5	0.0
Secretary of the Commonwealth.....	51	0.1	49	0.1	41	0.1	45	0.1	52	0.1
Treasurer and Receiver-General.....	5,327	9.5	5,307	9.5	5,282	9.9	5,084	9.6	4,862	9.4
Auditor of the Commonwealth.....	18	-	18	-	17	-	18	0.0	18	0.0
Attorney General.....	88	0.2	76	0.1	55	0.1	34	0.1	52	0.1
Ethics Commission.....	2	-	2	-	2	-	2	0.0	2	0.0
District Attorney.....	115	0.2	115	0.2	110	0.2	104	0.2	102	0.2
Office of Campaign and Political Finance.....	1	-	1	-	1	-	3	0.0	1	0.0
Sheriff's Department.....	565	1.0	541	1.0	529	1.0	514	1.0	394	0.8
Disabled Persons Protection Commission.....	2	-	2	-	2	-	2	0.0	2	0.0
Board of Library Commissioners.....	25	-	25	-	24	-	25	0.0	28	0.1
Massachusetts Gaming Commission.....	23	-	14	-	1	-	-	-	-	-
Comptroller.....	16	-	14	-	14	-	14	0.0	13	0.0
Administration and finance.....	2,296	4.0	2,295	4.1	1,949	3.7	1,852	3.3	1,686	3.3
Energy and environmental.....	410	0.7	365	0.6	351	0.7	368	0.7	403	0.8
Housing and communities development.....	-	-	-	-	-	-	-	-	-	-
Early education and care.....	-	-	-	-	-	-	-	-	-	-
Health and human services.....	6,957	12.1	7,384	13.1	7,301	13.6	6,791	12.8	6,655	12.9
Transportation and public works.....	-	-	-	-	-	-	-	-	474	0.9
Massachusetts department of transportation.....	2,296	4.0	1,785	3.1	1,679	3.1	2,086	3.9	1,209	2.3
Executive office of education*.....	3,201	5.6	3,008	5.3	3,069	5.8	3,232	6.1	2,968	5.8
Center for Health and Information Analysis.....	26	-	9	-	-	-	-	-	-	-
Massachusetts school building assistance.....	869	1.5	1,037	1.8	975	1.8	791	1.5	973	1.9
Higher education.....	-	-	-	-	-	-	-	-	-	-
Public safety and homeland security.....	1,274	2.2	1,296	2.3	1,208	2.3	1,146	2.2	1,282	2.5
Housing and economic development*.....	1,035	1.8	988	1.7	999	1.9	1,082	2.0	1,060	2.1
Labor and workforce development*.....	330	0.6	350	0.6	455	0.9	478	0.9	447	0.9
Elder affairs*.....	-	-	-	-	-	-	-	-	-	-
Consumer affairs*.....	-	-	-	-	-	-	-	-	-	-
Labor*.....	-	-	-	-	-	-	-	-	-	-
Medicaid.....	14,035	24.4	12,286	21.7	11,708	22.0	12,124	22.8	10,678	20.8
Pension.....	865	1.5	878	1.5	801	1.5	744	1.4	587	1.1
Direct local aid.....	5,353	9.3	5,179	9.1	4,991	9.4	4,846	9.1	5,030	9.8
Capital outlay:										
Local aid.....	0	-	-	-	-	-	-	-	1	-
Capital acquisition and construction.....	999	1.7	854	1.5	847	1.6	885	1.7	1,300	2.5
Debt service.....	2,769	4.8	2,754	4.9	2,504	4.7	2,220	4.2	2,407	4.7
Principal on current refunding.....	159	0.3	230	0.4	-	-	-	-	-	-
Other financing uses:										
Payments to refunding bond escrow agent.....	562	1.0	2,046	3.6	388	0.7	945	1.8	537	1.0
Transfers.....	6,907	12.0	6,972	12.3	7,189	13.5	6,947	13.1	7,395	14.4
<b>Total expenditures and other financing uses.....</b>	<b>\$ 57,461</b>	<b>100.0</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>Change in Governmental Fund Balance.....</b>	<b>\$ (251)</b>		<b>\$ (1,448)</b>		<b>\$ 1,051</b>		<b>\$ 681</b>		<b>\$ (476)</b>	

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

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	2009	% Total	2008	% Total	2007	% Total	2006	% Total	2005	% Total
\$	60	0.1	\$ 58	0.1	\$ 59	0.1	\$ 55	0.1	\$ 50	0.1
	797	1.5	796	1.6	799	1.6	660	1.5	580	1.4
	3	0.0	3	0.0	3	0.0	3	0.0	3	-
	8	0.0	9	0.0	5	0.0	5	0.0	5	-
	51	0.1	51	0.1	52	0.1	44	0.1	46	0.1
	5,097	9.8	5,089	10.0	4,712	9.6	4,803	10.7	4,706	11.0
	19	0.0	19	0.0	18	0.0	18	0.0	16	-
	53	0.1	45	0.1	62	0.1	52	0.1	70	0.2
	2	-	2	-	2	-	1	-	1	-
	112	0.2	111	0.2	102	0.2	94	0.2	84	0.2
	1	-	1	-	2	-	1	-	1	-
	296	0.6	295	0.6	272	0.6	247	0.5	216	0.5
	3	-	2	-	2	-	2	-	2	-
	37	0.1	36	0.1	10	0.0	8	0.0	7	-
	-	-	-	-	-	-	-	-	-	-
	14	0.0	14	0.0	14	0.0	14	0.0	12	-
	1,709	3.4	1,528	3.1	1,849	3.9	1,651	3.9	1,536	3.5
	352	0.7	312	0.6	318	0.6	282	0.6	238	0.6
	-	-	-	-	402	0.8	536	1.2	483	1.1
	-	-	560	1.1	518	1.1	482	1.1	-	-
	6,684	12.9	6,423	12.6	5,907	12.1	5,865	13.0	6,208	14.5
	389	0.8	347	0.7	350	0.7	282	0.6	316	0.7
	-	-	-	-	-	-	-	-	-	-
	2,920	5.6	2,205	4.3	2,048	4.2	1,978	4.4	2,990	7.0
	-	-	-	-	-	-	-	-	-	-
	657	1.3	765	1.5	1,411	2.9	2,330	5.2	-	-
	-	-	131	0.3	126	0.3	106	0.2	114	0.3
	1,416	2.7	1,407	2.8	1,238	2.5	1,165	2.6	1,053	2.5
	793	1.5	710	1.4	512	1.0	384	0.9	346	0.8
	398	0.8	308	0.6	81	0.2	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	10,843	20.9	9,770	19.2	9,044	18.5	8,151	18.1	7,706	18.0
	647	1.2	368	0.7	373	0.8	346	0.8	439	1.0
	5,208	10.1	5,108	10.1	5,072	10.4	4,674	10.4	4,515	10.5
	-	-	-	-	-	-	-	-	-	-
	3	0.0	10	0.0	9	0.0	8	0.0	11	-
	2,514	4.9	1,698	3.3	1,724	3.5	1,754	3.9	1,863	4.3
	2,410	4.7	2,486	4.9	2,538	5.2	2,088	4.6	1,719	4.0
	-	-	-	-	-	-	-	-	-	4.0
	410	0.8	-	-	1,520	3.1	633	1.4	1,153	2.7
	7,887	15.2	10,141	20.0	7,781	15.9	6,253	13.9	6,419	15.0
<b>\$</b>	<b>51,789</b>	<b>100.0</b>	<b>\$ 50,810</b>	<b>100.0</b>	<b>\$ 48,935</b>	<b>100.0</b>	<b>\$ 44,975</b>	<b>100.0</b>	<b>\$ 42,908</b>	<b>104.0</b>
<b>\$</b>	<b>(2,001)</b>		<b>\$ (674)</b>		<b>\$ 467</b>		<b>\$ 2,215</b>		<b>\$ 624</b>	

## Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

	2013	2012	2011	2010	2009
<b>Total personal income.....</b>	<b>\$ 381,271</b>	<b>\$ 363,944</b>	<b>\$ 352,243</b>	<b>\$ 336,400</b>	<b>\$ 324,680</b>
Unearned income.....	91,615	87,333	83,338	81,190	78,336
Farm earnings.....	151	150	136	186	137
Nonfarm earnings.....	289,505	276,461	268,769	255,024	246,208
<b>Private earnings.....</b>	<b>252,939</b>	<b>243,502</b>	<b>236,763</b>	<b>223,784</b>	<b>215,396</b>
Agricultural services, forestry, fishing.....	373	426	409	383	376
Mining.....	201	113	124	97	101
Construction.....	14,759	13,426	12,526	11,687	11,717
<b>Manufacturing.....</b>	<b>25,341</b>	<b>26,375</b>	<b>25,387</b>	<b>25,108</b>	<b>23,290</b>
Durable goods.....	17,977	19,223	18,319	18,053	16,466
Nondurable goods.....	7,364	7,152	7,069	7,055	6,824
Transportation and utilities.....	7,083	6,742	6,604	6,208	6,029
Wholesale trade.....	13,483	12,979	13,082	12,501	12,458
Retail trade.....	13,565	13,333	12,891	12,599	12,255
Services.....	178,134	170,109	165,740	155,202	149,171
<b>Government.....</b>	<b>36,567</b>	<b>32,959</b>	<b>32,006</b>	<b>31,240</b>	<b>30,812</b>
Federal, civilian.....	4,792	5,442	5,426	5,431	5,314
Military.....	943	1,221	1,245	1,260	1,220
State and local.....	30,832	26,296	25,335	24,550	24,278
Personal income tax revenue (fiscal year, statutory basis)....	\$ 12,831	\$ 11,911	\$ 11,576	\$ 10,110	\$ 10,584
Total personal income.....	381,271	363,944	352,243	336,400	324,680
Average Effective Rate.....	3.4%	3.3%	3.3%	3.0%	3.3%
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.

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	2008	2007	2006	2005	2004
\$	<b>335,722</b>	\$ <b>322,543</b>	\$ <b>304,855</b>	\$ <b>282,368</b>	\$ <b>271,086</b>
	80,365	71,529	65,384	55,211	51,966
	180	135	131	126	147
	255,176	250,878	239,340	227,030	218,974
	<b>225,122</b>	<b>222,302</b>	<b>211,900</b>	<b>200,639</b>	<b>193,996</b>
	383	405	396	400	371
	181	301	363	311	297
	13,671	14,900	15,193	14,460	13,976
	<b>25,449</b>	<b>25,865</b>	<b>24,698</b>	<b>24,485</b>	<b>24,356</b>
	18,170	18,464	17,639	17,539	17,547
	7,280	7,401	7,059	6,947	6,809
	6,235	5,891	5,706	5,456	5,388
	13,412	13,025	12,538	11,478	11,529
	12,545	12,960	12,952	13,188	12,900
	153,246	148,954	140,056	130,864	125,180
	<b>30,054</b>	<b>28,577</b>	<b>27,439</b>	<b>26,392</b>	<b>24,978</b>
	5,157	5,045	4,873	4,700	4,626
	1,092	1,025	1,005	1,009	934
	23,806	22,507	21,561	20,683	19,419
\$	12,484	\$ 11,400	\$ 10,483	\$ 9,690	\$ 8,830
	335,722	322,543	304,855	282,368	271,086
	3.7%	3.5%	3.4%	3.4%	3.3%
	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 2012 and 2003**

(Amounts, except income level are in thousands)

**Calendar Year 2012 (or Fiscal Year 2013)**

<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.....	651,136	18.2%	\$ 8,525,382	70.6%
\$75,001 - \$100,000.....	286,030	8.0%	1,064,216	8.8%
\$50,001 - \$75,000.....	459,265	12.8%	1,163,314	9.6%
\$25,001 - \$50,000.....	771,026	21.6%	1,014,322	8.4%
\$10,001 - \$25,000.....	674,488	18.9%	277,196	2.3%
\$10,000 and lower.....	<u>733,227</u>	<u>20.5%</u>	<u>30,289</u>	<u>0.3%</u>
Total.....	<u><u>3,575,172</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 12,074,719</u></u>	<u><u>100.0%</u></u>

**Calendar Year 2003 (or Fiscal Year 2004)**

<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.....	405,104	12.3%	\$ 4,416,981	54.8%
\$75,001 - \$100,000.....	266,179	8.1%	1,008,220	12.5%
\$50,001 - \$75,000.....	450,676	13.7%	1,164,688	14.4%
\$25,001 - \$50,000.....	807,287	24.6%	1,127,217	14.0%
\$10,001 - \$25,000.....	674,895	20.5%	317,698	3.9%
\$10,000 and lower.....	<u>681,768</u>	<u>20.7%</u>	<u>25,383</u>	<u>0.3%</u>
Total.....	<u><u>3,285,909</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 8,060,187</u></u>	<u><u>100.0%</u></u>

Source: *Massachusetts Department of Revenue - 2012 is the most recent tax year for which complete data are available.*

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## 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					
2014	\$ 22,419,852	\$ 55,878	\$ 4,243,731	\$ 14,529	\$ 26,733,990	\$ 381,271,000	6,693	7.0%	\$ 3.99
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

(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.

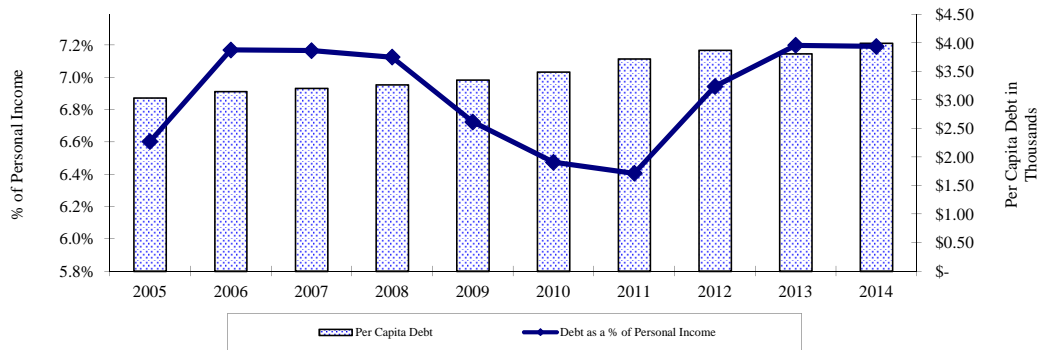
(3) Business-type activities bond debt includes notes payable of the Institutions of Higher Education.

(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.)

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



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

(Amounts in thousands)

	2014 (3)	2013 (3)	2012	2011	2010
Outstanding principal as of June 30 (1).....	\$ 22,419,852	\$ 21,513,039	\$ 21,433,553	\$ 20,875,056	\$ 19,509,819
Plus/(less) amounts excluded:					
Net amortized (discount)/premium and issuance costs.....	-	-	474,130	335,078	216,688
Total net proceeds/principal.....	22,419,852	21,513,039	21,907,683	21,210,134	19,726,507
Less net proceeds/principal of direct debt excluded from statutory debt limit:					
Central artery project bonds.....	(1,241,263)	(1,303,013)	(1,342,841)	(1,356,606)	(1,243,250)
Accelerated bridge program.....	(1,756,395)	(1,088,605)	(1,095,385)	(676,125)	-
County debt assumed.....	-	-	(75)	(150)	(225)
(Premium)/discount.....	-	-	(474,130)	(335,078)	216,688
Grant anticipation notes (2).....	(178,390)	(349,100)	(510,385)	(666,790)	(997,467)
School Modernization and Reconstruction Trust Bonds.....	(723,917)	(764,337)	(795,009)	(824,279)	(894,502)
Convention center bonds.....	(638,700)	(638,700)	(638,700)	(643,715)	(643,715)
MBTA forward funding bonds.....	(207)	(207)	(207)	(44,472)	(165,559)
Special obligation gas bonds.....	(249,705)	(296,395)	(337,545)	(371,665)	(419,785)
Outstanding direct debt, net proceeds/principal.....	17,631,275	17,072,682	16,713,406	16,291,254	15,578,692
Statutory debt limit*.....	18,819,675	17,923,500	17,070,000	18,042,424	17,183,261
Debt margin (debt limit less direct debt).....	<u>\$ 1,188,400</u>	<u>\$ 850,818</u>	<u>\$ 356,594</u>	<u>\$ 1,751,170</u>	<u>\$ 1,604,569</u>
Debt margin as a percentage of direct debt limit.....	<u>6.3%</u>	<u>4.7%</u>	<u>2.1%</u>	<u>9.7%</u>	<u>9.3%</u>

(1) Exclusive of the Massachusetts School Building Authority debt

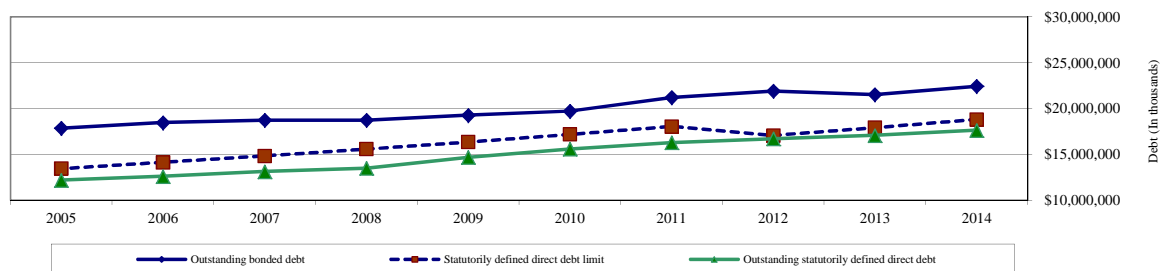
(2) Inclusive of crossover refunding amounts

(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

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**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit  
2005 - 2014**



2009	2008	2007	2006	2005
\$ 19,047,679	\$ 18,611,105	\$ 18,634,913	\$ 18,348,733	\$ 17,785,862
216,890	123,335	102,048	112,673	70,937
19,264,569	18,734,440	18,736,961	18,461,406	17,856,799
(1,401,581)	(1,434,654)	(1,462,870)	(1,476,287)	(1,336,741)
-	-	-	-	-
(300)	(375)	(450)	(525)	(600)
216,890	123,335	102,048	112,673	70,937
(1,134,797)	(1,536,206)	(1,666,690)	(1,789,876)	(1,908,015)
(921,751)	(946,285)	(946,285)	(1,000,002)	(500,000)
(643,715)	(643,715)	(643,715)	(643,715)	(693,400)
(231,000)	(309,203)	(368,873)	(416,830)	(511,546)
(456,984)	(482,953)	(617,226)	(647,551)	(792,148)
14,691,331	13,504,384	13,132,900	12,599,293	12,185,286
16,365,011	15,585,725	14,843,547	14,136,712	13,463,535
\$ 1,673,680	\$ 2,081,341	\$ 1,710,647	\$ 1,537,419	\$ 1,278,249
10.2%	13.4%	11.5%	10.9%	9.5%

**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)

	2014	2013	2012	2011	2010
<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, May 2012 and November 2013 (Commonwealth Transportation Fund, or "CTF bonds") are secured by a senior lien on 17.085 cents of the total 24 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 all CTF bonds. The bonds also have a subordinate lien on 6.86¢ of the 24¢ 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.....	\$ 187,467	\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 187,467	\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666
Annual Debt Service.....	\$ 52,228	\$ 58,922	\$ 58,939	\$ 59,453	\$ 58,931
Debt Service Coverage Ratio.....	3.59	3.17	3.23	3.19	3.20
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	6469	AA+, Aa1, AAA	AA, Aa1, AAA	AA, Aa2, AA+
<b>Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds)</b>					
Receipts.....	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709	\$ 626,619	
Operating Expenses.....	N/A	N/A	N/A	N/A	
Net Available Revenues.....	\$ 1,149,580	\$ 1,170,297	\$ 1,121,709	\$ 626,619	
Annual Debt Service.....	\$ 69,921	\$ 58,108	\$ 32,623	\$ 14,318	
Debt Service Coverage Ratio.....	16.44	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	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.....	\$ 109,879	\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 109,879	\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432
Annual Debt Service.....	\$ 36,722	\$ 36,469	\$ 36,345	\$ 35,391	\$ 36,296
Debt Service Coverage Ratio.....	2.99	2.76	2.59	2.40	2.08
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.....	\$ 598,463	\$ 636,116	\$ 755,985	\$ 623,410	\$ 761,351
Operating Expenses.....	N/A	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 598,463	\$ 636,116	\$ 755,985	\$ 623,410	\$ 761,351
Annual Debt Service.....	\$ 176,215	\$ 174,467	\$ 184,394	\$ 188,379	\$ 196,248
Debt Service Coverage Ratio.....	3.40	3.65	4.10	3.31	3.88
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+(2), Aa2, AA+
Amount Appropriated for National Federal Highway Spending (Federal Fiscal Year) (billions) (1).....	\$ 43,449	\$ 43,427	\$ 43,896	\$ 44,323	\$ 43,040
<b>Post 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds and GANS)</b>					
Receipts.....	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485	\$ 909,546	
Operating Expenses.....	N/A	N/A	N/A	N/A	
Net Available Revenues.....	\$ 1,503,272	\$ 1,575,266	\$ 1,674,485	\$ 909,546	
Annual Debt Service.....	\$ 7,173	\$ 6,402	\$ 4,271	\$ 2,039	
Debt Service Coverage Ratio.....	209.58	246.04	392.10	446.01	
Ratings History of Bonds (Fitch, Moody's and S&P)*.....	AA+, Aa1, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA	

(1) Source: The Federal Budget for Fiscal 2015, Historical Tables, Table 9.6 2014 is estimated. \*Uninsured rating, if available.

(2) Reflects rating recalibration

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2009	2008	2007	2006	2005
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\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469	\$ 196,210
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 189,246	\$ 194,785	\$ 148,047	\$ 239,469	\$ 196,210
\$ 58,924	\$ 56,535	\$ 58,867	\$ 56,545	\$ 48,378
3.21	3.45	2.51	4.24	4.06
AA+, Aa3, AA+	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA

\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052	\$ 50,561
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 73,918	\$ 78,984	\$ 66,347	\$ 55,052	\$ 50,561
\$ 36,293	\$ 35,600	\$ 34,486	\$ 33,964	\$ 18,350
2.04	2.22	1.92	1.62	2.76
NA, A1, A	NA, A2, A	A2, A	A2, A	A2, A

\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284	\$ 449,331
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 828,956	\$ 463,588	\$ 462,484	\$ 451,284	\$ 449,331
\$ 204,788	\$ 211,709	\$ 211,712	\$ 211,712	\$ 95,223
4.05	2.19	2.18	2.13	4.72
AA, Aa3, AA+	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA

\$ 39,358	\$ 36,747	\$ 34,373	\$ 33,975	\$ 31,433
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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)

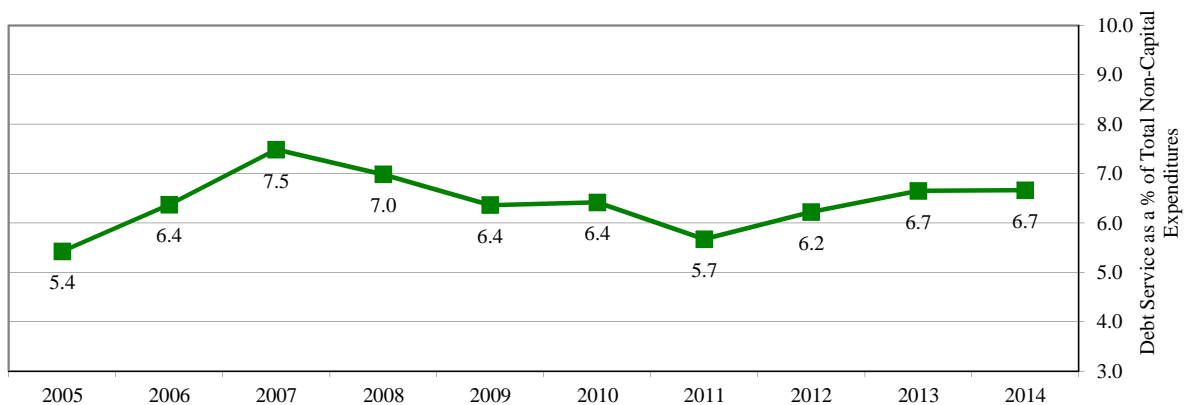
Fiscal year ended June 30	Debt service(1)	Total Non-capital expenditures(2)	Ratio (%)
2014	\$ 2,928,801	\$ 43,953,346	6.7
2013	2,753,715	41,403,978	6.7
2012	2,504,253	40,234,846	6.2
2011	2,219,667	39,126,733	5.7
2010	2,407,270	37,519,262	6.4
2009	2,409,590	37,878,441	6.4
2008	2,486,403	35,608,652	7.0
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

(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.

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**Debt Service to Non-Capital Expenditures Ratio 2005 - 2014**



## 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 (%)
2014	\$ 1,481,374	\$ 1,126,392	1.32
2013	1,585,500	1,244,358	1.27
2012	1,584,013	1,517,899	1.04
2011	1,444,813	1,170,149	1.23
2010	1,460,045	1,383,231	1.06
2009	1,825,018	1,066,175	1.71
2008	1,753,149	831,978	2.11
2007	1,725,941	853,752	2.02
2006	1,499,896	825,170	1.82
2005	1,613,858	766,686	2.10

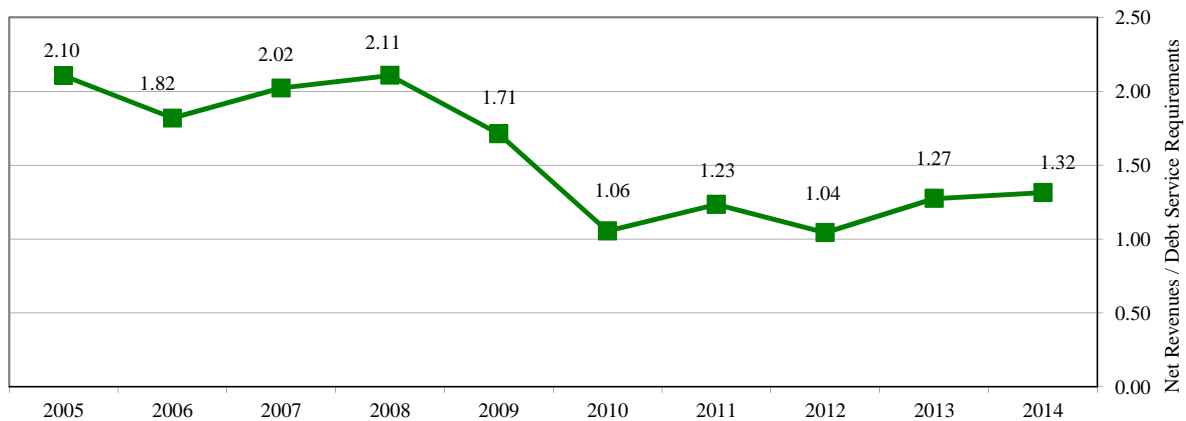
(1) Net revenues represent revenue pledged and available for the repayment of revenue bonds. In most cases, revenue pledged for the bonds is available prior to use for any other purposes. Thus operating expenses paid from these revenue sources are not applicable when calculating debt service coverage and are not subtracted from pledged revenues.

(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.

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Source: Office of the Comptroller

### Component Units Revenue Bond Coverage 2005 - 2014



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

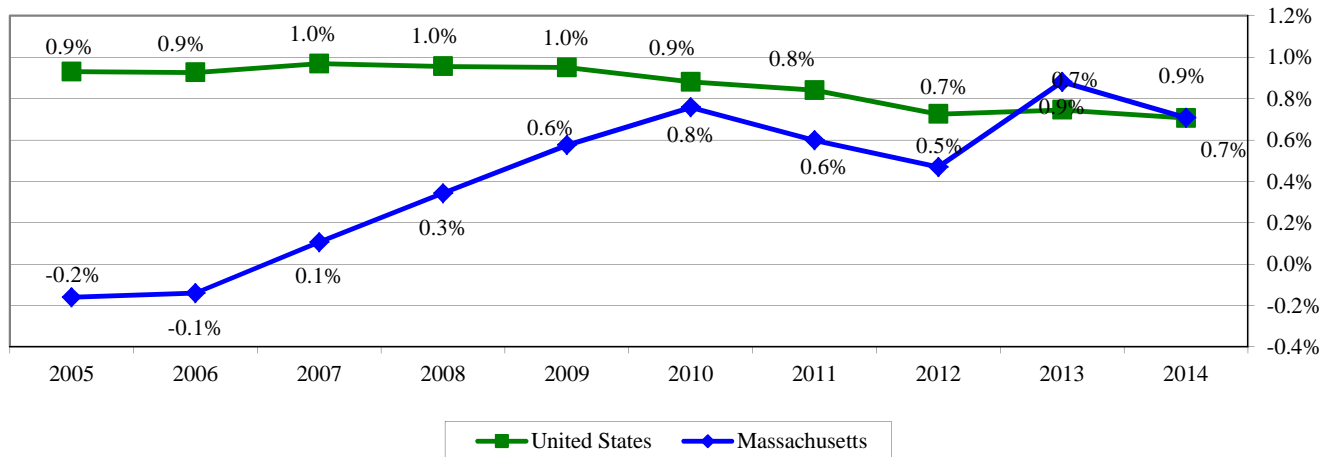
(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2014	316,129	0.7%	6,693	0.7%	2.1%
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%

(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 and has been restated to most recent United States Census Bureau Data.

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**Massachusetts and United States Estimated Year-to-Year Population Change  
2005 - 2014**





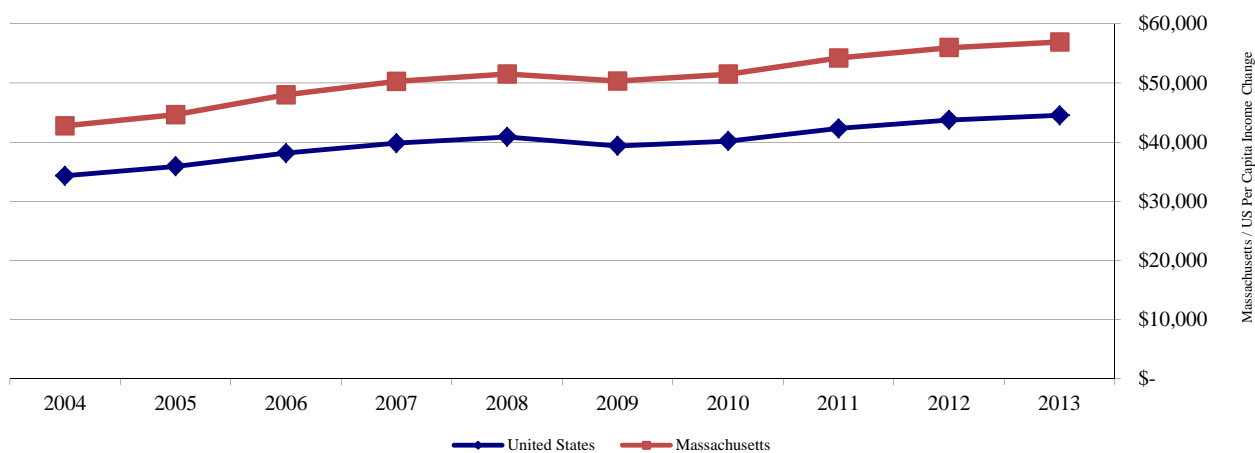
## Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar Year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2013	\$ 44,543	1.8%	\$ 56,923	1.7%	127.8%
2012	43,735	3.4%	55,976	3.2%	128.0%
2011	42,298	5.3%	54,218	5.3%	128.2%
2010	40,163	2.0%	51,488	2.4%	128.2%
2009	39,357	-3.7%	50,304	-2.4%	127.8%
2008	40,873	2.7%	51,515	2.5%	126.0%
2007	39,804	4.4%	50,257	4.7%	126.3%
2006	38,127	6.2%	47,993	7.5%	125.9%
2005	35,888	4.6%	44,646	4.5%	124.4%
2004	34,300	5.0%	42,726	5.2%	124.6%

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Source: Bureau of Economic Analysis, US Department of Commerce. Prior years restated due to revised estimates released on May 30, 2014.

**Massachusetts vs. United States Year-to-Year Per Capita Net Income  
Calendar Years 2004 - 2013**



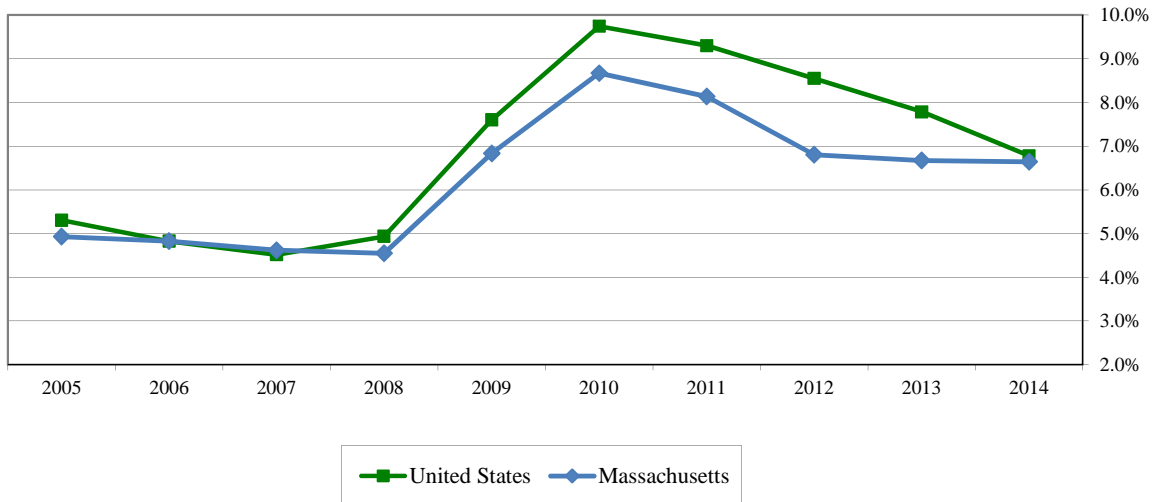
**Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force,  
Unemployment and Unemployment Rates  
For Massachusetts and the United States**

(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 %	
2014	3,492	232	6.6%	155,466	10,534	6.8%	98.1%
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%	79.6%
2011	3,497	284	8.1%	153,654	14,288	9.3%	87.5%
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%

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**Massachusetts and United States Average Unemployment Rates  
FY2005 to FY2014**



Source: Federal Bureau of Labor Statistics, November 2014. Seasonally adjusted. Previous data has been updated by the Federal Bureau of Labor Statistics

**Largest Private Sector Massachusetts Employers 2014 and 2005**  
(Alphabetical Order)

2014			2005		
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
The Stop & Shop Supermarkets , Co.	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
Tufts University	Medford	University	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 2014 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 register each store, facility or franchisee as a separate employer.*

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

Functions / Programs	2014	2013	2012	2011	2010
General government.....	7,637	7,627	7,408	8,020	8,280
Judiciary.....	7,195	7,297	7,087	7,111	7,388
Energy and environmental affairs.....	2,629	2,684	2,685	2,737	2,783
Health and human services.....	21,496	21,996	21,042	21,011	21,401
Transportation and construction.....	4,301	4,243	4,230	4,209	4,127
Education.....	1,099	928	922	1,037	1,575
Public safety and homeland security.....	17,215	16,907	16,503	15,785	15,857
Housing and economic development.....	891	868	845	831	846
Higher Education:					
University of Massachusetts.....	14,066	14,688	14,159	14,159	14,031
State universities.....	4,969	4,856	4,747	4,487	4,282
Community colleges.....	4,990	5,111	4,834	4,684	4,276
<b>Totals.....</b>	<b>86,488</b>	<b>87,205</b>	<b>84,462</b>	<b>84,070</b>	<b>84,846</b>
<b>Percentage Change .....</b>	<b>-0.8%</b>	<b>3.2%</b>	<b>0.5%</b>	<b>-0.9%</b>	<b>2.2%</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).

See Independent Auditor's Report

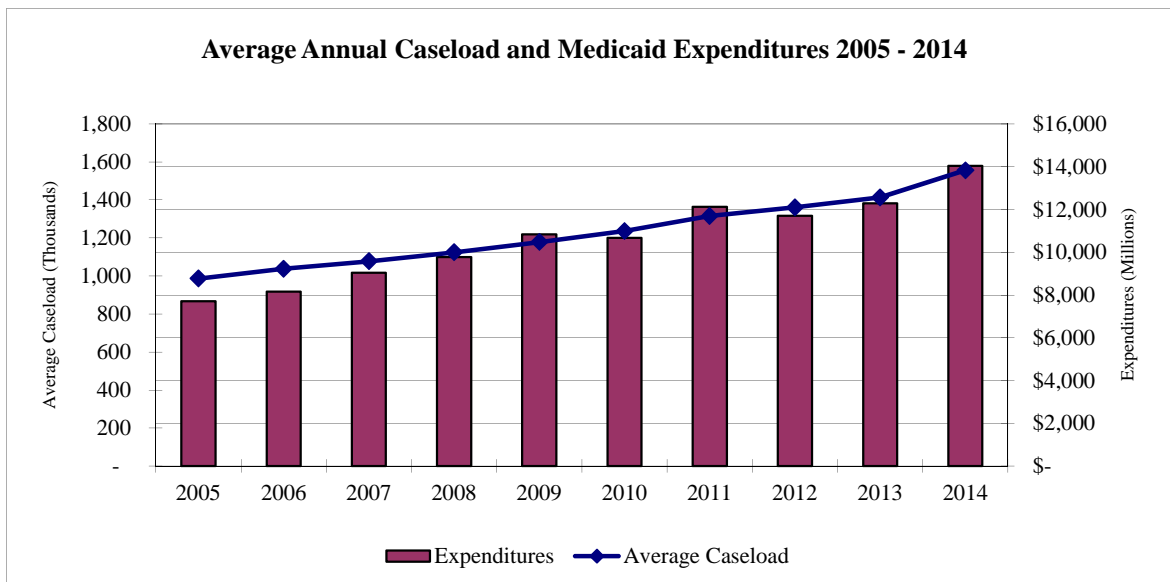
2009	2008	2007	2006	2005	Change - 2014 from 2005
6,277	6,368	6,204	6,177	5,750	32.8%
7,821	8,021	7,993	7,635	7,467	-3.6%
2,955	2,928	2,847	2,686	2,744	-4.2%
22,605	23,322	22,972	22,935	22,855	-5.9%
3,043	2,892	1,903	2,708	2,759	55.9%
844	615	617	651	587	87.2%
13,951	14,242	14,550	13,517	13,152	30.9%
2,314	2,302	2,339	2,264	2,299	-61.2%
13,814	13,651	13,602	13,360	12,807	9.8%
4,650	4,519	4,495	4,301	4,224	17.6%
4,781	4,775	4,689	4,603	4,523	10.3%
<b>83,055</b>	<b>83,636</b>	<b>82,211</b>	<b>80,837</b>	<b>79,167</b>	9.2%
<b>-0.7%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>2.1%</b>	<b>4.0%</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
2014*	1,556	\$ 14,035	\$ 9,020
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

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\* Includes members in transitional coverage program starting January 1, 2014.

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

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Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2013	3,211	15,674	9,058	44,438	72,381	0.16%	85.7%	14.3%
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	0.40%	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%

\*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.*

See Independent Auditor's Report

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

Functions / Programs	Survey Year 2014	Survey Year 2013	Survey Year 2012	Survey Year 2011	Survey Year 2010
<b>General Government:</b>					
Total Acreage.....	3,114	3,101	3,039	2,993	2,373
Number of Improvements.....	513	333	279	255	227
Gross square footage.....	10,916,681	9,076,550	7,690,761	7,206,548	6,797,819
<b>Judiciary:</b>					
Total Acreage.....	149	148	148	141	141
Number of Improvements.....	74	73	73	68	68
Gross square footage.....	5,310,049	4,700,920	4,700,920	4,787,564	4,787,564
<b>Energy and environmental affairs</b>					
Total Acreage.....	668,631	652,400	642,799	627,286	623,952
Number of Improvements.....	1,806	2,192	2,191	2,182	2,183
Gross square footage.....	6,507,161	7,287,961	7,283,666	7,295,922	7,299,322
<b>Housing and economic development:</b>					
Total Acreage.....	-	2	2	2	2
Number of Improvements.....	4	5	5	6	6
Gross square footage.....	57,812	68,412	68,412	77,642	77,642
<b>Health and human services:</b>					
Total Acreage.....	5,834	5,829	6,407	6,449	7,196
Number of Improvements.....	907	792	855	866	866
Gross square footage.....	10,995,096	9,759,611	10,923,090	10,834,266	10,809,259
<b>Transportation and public works:</b>					
Total Acreage.....	7,014	6,965	6,972	7,013	6,966
Number of Improvements.....	675	921	919	918	918
Gross square footage.....	1,989,583	4,876,689	4,876,689	4,873,783	4,876,689
<b>Education:</b>					
Total Acreage.....	208	208	208	233	233
Number of Improvements.....	40	43	43	43	43
Gross square footage.....	205,503	272,352	272,352	272,352	272,352
<b>Public safety and homeland security:</b>					
Total Acreage.....	19,166	19,169	19,172	19,158	18,693
Number of Improvements.....	1,083	997	990	991	1,029
Gross square footage.....	14,402,161	12,213,112	12,191,229	12,141,396	12,685,447
<b>Higher Education:</b>					
Total Acreage.....	7,128	7,473	7,254	7,178	7,169
Number of Improvements.....	873	1,009	1,007	987	975
Gross square footage.....	29,666,140	32,594,800	32,523,400	32,144,815	32,117,854
<b>Totals for Commonwealth (exclusive of Component Units):</b>					
<b>Total Acreage.....</b>	<b>711,244</b>	<b>695,295</b>	<b>686,001</b>	<b>670,454</b>	<b>666,725</b>
<b>Number of Improvements.....</b>	<b>5,975</b>	<b>6,365</b>	<b>6,362</b>	<b>6,316</b>	<b>6,315</b>
<b>Gross square footage.....</b>	<b>80,050,186</b>	<b>80,850,407</b>	<b>80,530,519</b>	<b>79,634,288</b>	<b>79,723,948</b>
<b>Percentage Change for Commonwealth:</b>					
<b>Acreage.....</b>	<b>2.3%</b>	<b>1.4%</b>	<b>2.3%</b>	<b>0.6%</b>	<b>2.7%</b>
<b>Improvements.....</b>	<b>-6.1%</b>	<b>0.0%</b>	<b>0.7%</b>	<b>0.0%</b>	<b>0.1%</b>
<b>Gross square footage.....</b>	<b>-1.0%</b>	<b>0.4%</b>	<b>1.1%</b>	<b>-0.1%</b>	<b>1.0%</b>

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

See Independent Auditor's Report



Survey Year 2009	Survey Year 2008	Survey Year 2007	Survey Year 2006	Survey Year 2005
2,495	1,858	1,681	2,050	2,772
240	163	84	232	300
6,660,792	5,736,028	4,767,751	6,745,962	8,429,827
141	145	135	118	117
69	71	71	68	68
4,826,836	5,080,836	4,889,645	4,351,128	4,884,206
606,662	591,511	586,173	569,282	558,347
2,170	2,162	2,156	2,159	2,168
7,246,280	7,242,870	7,185,678	7,057,840	7,039,038
2	2	2	2	2
6	6	6	6	6
77,642	77,642	77,642	77,642	76,812
7,166	7,259	7,604	7,615	7,311
902	980	1,059	1,001	992
11,214,034	12,270,433	13,371,858	12,333,804	12,251,382
7,050	6,930	6,933	7,217	7,175
915	915	914	910	908
4,876,936	4,876,936	4,856,942	4,845,365	4,812,965
233	233	233	233	233
43	43	43	43	43
272,352	272,352	272,352	272,352	272,352
18,331	18,324	18,319	17,530	17,515
1,028	1,023	1,031	1,026	1,038
12,632,897	12,631,497	12,768,250	12,885,742	13,137,177
7,151	7,149	7,133	7,089	7,138
937	940	932	933	941
31,101,329	31,197,929	30,947,996	30,870,743	30,997,427
<b>649,231</b>	<b>633,412</b>	<b>628,212</b>	<b>611,136</b>	<b>600,609</b>
<b>6,310</b>	<b>6,303</b>	<b>6,296</b>	<b>6,378</b>	<b>6,464</b>
<b>78,909,098</b>	<b>79,386,523</b>	<b>79,138,114</b>	<b>79,440,578</b>	<b>81,901,186</b>
2.5%	0.8%	2.8%	1.8%	0.9%
0.1%	0.1%	-1.3%	-1.3%	3.9%
-0.6%	0.3%	-0.4%	-3.0%	0.6%

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

Academic Year	Fall 2013	Fall 2012	Fall 2011	Fall 2010	Fall 2009
<b><u>ENROLLMENT</u></b>					
<b><u>University System</u></b>					
Undergraduate (FTE).....	48,893	48,136	47,432	48,018	44,543
Graduate (FTE).....	12,442	12,202	12,048	11,734	10,177
<b>System Enrollment.....</b>	<b>61,335</b>	<b>60,338</b>	<b>59,480</b>	<b>59,752</b>	<b>54,720</b>
<b><u>State University System</u></b>					
Undergraduate (FTE).....	35,429	34,773	35,639	36,721	34,129
Graduate (FTE).....	7,704	7,894	6,224	7,227	4,582
<b>System Enrollment.....</b>	<b>43,133</b>	<b>42,667</b>	<b>41,863</b>	<b>43,948</b>	<b>38,711</b>
<b><u>Community College System</u></b>					
Undergraduate (FTE).....	64,584	62,445	64,586	64,971	60,602
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b><u>DEGREES CONFERRED</u></b>					
<b><u>University System</u></b>					
Certificates (MD's).....	376	426	348	246	329
Associate's.....	96	121	97	100	111
Bachelors.....	11,544	10,910	10,399	9,958	9,362
Masters.....	3,559	3,442	3,360	3,242	3,029
Doctoral.....	502	486	450	414	400
Cert. of Adv. Grad. Study.....	77	62	89	87	79
Post-Bacc. Certificate.....	691	664	659	550	509
First Professional.....	79	103	43	47	-
<b>Total Degrees.....</b>	<b>16,924</b>	<b>16,214</b>	<b>15,445</b>	<b>14,644</b>	<b>13,819</b>
<b><u>State University System</u></b>					
Certificates.....	34	37	29	35	572
Bachelors.....	8,184	8,024	7,722	7,190	6,886
Masters.....	2,478	2,327	2,404	2,376	2,467
Cert. of Adv. Grad. Study.....	114	108	143	116	170
Post-Bacc. Certificate.....	327	371	362	408	362
<b>Total Degrees.....</b>	<b>11,137</b>	<b>10,867</b>	<b>10,660</b>	<b>10,125</b>	<b>10,457</b>
<b><u>Community College System</u></b>					
Certificates.....	3,365	2,929	2,888	3,020	2,770
Associates.....	11,341	10,772	10,404	9,693	9,257
<b>Total Degrees.....</b>	<b>14,706</b>	<b>13,701</b>	<b>13,292</b>	<b>12,713</b>	<b>12,027</b>
<b>Total All Systems - Degrees.....</b>	<b>42,767</b>	<b>40,782</b>	<b>39,397</b>	<b>37,482</b>	<b>36,303</b>

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

See Independent Auditor's Report

Fall 2008	Fall 2007	Fall 2006	Fall 2005	Fall 2004	Change - 2013 from 2004
42,768	40,806	39,283	38,286	37,598	30.0%
9,460	9,328	8,906	8,549	8,494	46.5%
<b>52,228</b>	<b>50,134</b>	<b>48,189</b>	<b>46,835</b>	<b>46,093</b>	33.1%
33,040	32,106	31,384	30,464	29,051	22.0%
4,495	4,428	4,352	4,258	8,658	-11.0%
<b>37,535</b>	<b>36,535</b>	<b>35,736</b>	<b>34,722</b>	<b>37,709</b>	14.4%
54,228	51,257	49,347	48,555	50,972	26.7%
2009	2008	2007	2006	2005	Change - 2014 from 2005
280	270	268	260	167	125.1%
103	96	117	99	95	1.1%
8,763	8,437	8,191	8,089	8,205	40.7%
2,882	2,808	2,503	2,484	2,588	37.5%
381	390	443	371	389	29.0%
70	86	77	97	88	-12.5%
173	133	146	115	63	996.8%
-	-	-	-	-	100.0%
<b>12,652</b>	<b>12,220</b>	<b>11,745</b>	<b>11,515</b>	<b>11,595</b>	46.0%
605	597	615	556	540	-93.7%
6,621	6,328	6,207	5,885	5,549	47.5%
2,343	2,318	2,201	2,190	2,048	21.0%
157	224	151	179	142	-19.7%
406	347	431	361	369	-11.4%
<b>10,132</b>	<b>9,814</b>	<b>9,605</b>	<b>9,171</b>	<b>8,648</b>	28.8%
2,587	2,495	2,297	2,422	2,278	47.7%
8,549	8,247	7,942	8,024	7,993	41.9%
<b>11,136</b>	<b>10,742</b>	<b>10,239</b>	<b>10,446</b>	<b>10,271</b>	43.2%
<b>33,920</b>	<b>31,986</b>	<b>31,589</b>	<b>31,132</b>	<b>30,514</b>	40.2%

## Calculation of Transfers: Stabilization Fund

June 30, 2014  
(Amounts are in thousands)

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

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

### Stabilization Balance Reconciliation:

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

See Independent Auditor's Report

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2014  
(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. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

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.....	\$ 1,248,435
Allowable Stabilization Fund balance.....	<u>5,320,973</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,248,435
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 1,248,435</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>

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# MASSACHUSETTS GENERAL INFORMATION

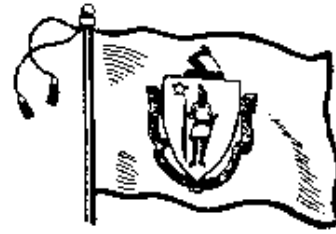
**Admitted to Union (6<sup>th</sup> State):** 1788  
**Population:** 6,692,824

**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



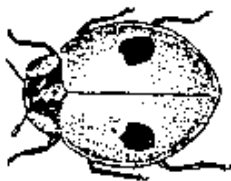
**The Cod**, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

## 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

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Notes described below, Bond Counsel proposes to deliver an opinion in substantially the following form:

MINTZ LEVIN

One Financial Center  
Boston, MA 02111  
617-542-6000  
617-542-2241 fax  
www.mintz.com

[Date of Closing]

Honorable Deborah B. Goldberg  
Treasurer and Receiver-General  
State House, Room 227  
Boston, MA 02133

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of its \$1,200,000,000 General Obligation Revenue Anticipation Notes, 2015 Series A, 2015 Series B and 2015 Series C, dated the date of delivery (the “Notes”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

(a) The Notes are valid and binding general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Notes. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit.

(b) Interest on the Notes, including any accrued original issue discount, will not be included in the gross income of the holders of the Notes for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Notes in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Notes to be included in the gross income of holders of the Notes retroactive to the date of issuance of the Notes. While interest on the Notes will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Notes will be included in the “adjusted current earnings” of corporate holders of the Notes and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Notes.

(c) Interest on the Notes and any profit made on the sale thereof are exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Notes nor as to the

Honorable Deborah B. Goldberg  
[Date of Closing]  
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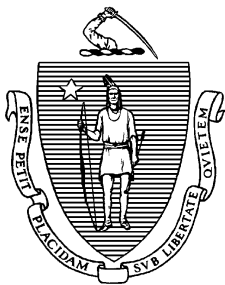
taxability of the Notes, their transfer and the income therefrom, including any profit made on the sale thereof, under the laws of any state other than Massachusetts.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.





### Official Notice of Sale

**\$1,200,000,000**

**The Commonwealth of Massachusetts  
General Obligation Revenue Anticipation Notes  
2015 Series A, 2015 Series B, and 2015 Series C**

September 11, 2015

**NOTICE IS HEREBY GIVEN** that electronic bids will be received by Deborah B. Goldberg, Treasurer and Receiver-General of The Commonwealth of Massachusetts (the “State Treasurer”), for the purchase of all or a part of the General Obligation Revenue Anticipation Notes, 2015 Series A, 2015 Series B, and 2015 Series C (collectively, the “Notes”), of The Commonwealth of Massachusetts (the “Commonwealth”) to be sold in an aggregate principal amount of \$1,200,000,000. Bids for the purchase of the Notes will be submitted via Parity. No other method of submitting bids will be accepted. The bids will be received via Parity up to the time described below under the captions “Time” and “Procedures for Electronic Bidding.”

The Notes will constitute general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Notes. The Preliminary Official Statement referred to below contains certain information regarding certain statutory limits on state tax revenue growth and should be read in conjunction herewith.

**Time.** Bids will be received by the Commonwealth at the times shown below for each series of Notes on September 22, 2015 (subject to the provisions described below under the caption “Procedures for Electronic Bidding”) or at such later date and/or other time as shall be established by the State Treasurer and communicated on Thomson Municipal Market Monitor News ([www.tm3.com](http://www.tm3.com)) (“TM3”), as described herein under the caption “Cancellation or Postponement.” If no legal bid or bids are received for the Notes on September 22, 2015, an alternate date and time may be designated by the State Treasurer and communicated on TM3.

#### Time for Receipt of Bids

2015 Series A	10:00 a.m. Boston time
2015 Series B	10:15 a.m. Boston time
2015 Series C	10:30 a.m. Boston time

**Procedures for Electronic Bidding.** A prospective electronic bidder must register electronically to bid for the Notes via Parity pursuant to this Official Notice of Sale. By submitting its bid for the Notes, a prospective bidder represents and warrants to the Commonwealth that such bidder’s bid for the purchase of any of the Notes is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Notes.

Each prospective electronic bidder shall be solely responsible to register to bid via Parity. Each qualified prospective electronic bidder shall be solely responsible to make necessary arrangements to access Parity for the purpose of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the Commonwealth nor Parity shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the Commonwealth nor Parity shall be responsible for a bidder’s failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by Parity. The Commonwealth is using Parity as a communication mechanism, and not as the Commonwealth’s agent, to conduct the electronic bidding for the Notes. The Commonwealth is not bound by any advice or determination of Parity to the effect that any particular

bid complies with the terms of this Official Notice of Sale. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via Parity are the sole responsibility of the bidders, and the Commonwealth is not responsible, directly or indirectly, for any such costs or expenses. To the extent that any instructions or directions set forth in Parity conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Notes, such bidder should telephone Parity's new issues desk at (212) 849-5021.

Electronic bids must be submitted for the purchase of the Notes via Parity by the time specified above for the applicable series of Notes on Tuesday, September 22, 2015. Bids submitted after such applicable time will not be deemed received via Parity for the purposes of this bidding process. Bids will be communicated electronically to the Commonwealth at the respective deadline for each series of Notes on Tuesday, September 22, 2015. Prior to that time, an eligible prospective bidder may (i) input the proposed terms of its bid via Parity, (ii) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Notes, or (iii) withdraw its proposed bid. Once the bids are communicated electronically via Parity to the Commonwealth, each bid will constitute an irrevocable offer to purchase the Notes on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on Parity shall constitute the official time. For information purposes only, bidders are requested to state in their bids the net effective interest rate to the Commonwealth, as described under "Basis of Award" set forth below, represented by the rate or rates of interest and the bid price specified in their respective bids.

**Details of Notes.** The Notes will be dated September 29, 2015, will not be subject to redemption prior to maturity and will mature in the principal amounts and on the respective dates shown below:

<u>Series</u>	<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Interest Basis</u>
2015 Series A	\$400,000,000	April 27, 2016	211/366
2015 Series B	400,000,000	May 25, 2016	239/366
2015 Series C	400,000,000	June 22, 2016	267/366

Interest will be payable at maturity calculated on the basis of actual days elapsed over a 366-day year, as shown above. The Notes will be issued as fixed rate notes and will bear interest at a rate of 2.00% per annum, which rate is subject to change as determined by the Commonwealth no later than 8:30 a.m. (Boston time) on September 22, 2015 (see "Right to Modify or Amend Notice of Sale" below).

The Notes will be issued by means of a book-entry-only system evidencing ownership therein, in principal amounts of \$5,000 or integral multiples thereof, and transfer thereof on the records of The Depository Trust Company ("DTC") and its participants. The book-entry-only system is more fully described in the Preliminary Official Statement.

**Bidding Parameters.** Bids to purchase the Notes may be for all or part of the offering. Bidders may submit separate bids for any portion of the Notes, provided that no bid for less than \$25,000,000 of any series will be considered, and all bids must be in integral multiples of \$5,000,000. No "all or none" bids will be accepted. Bidders shall specify the principal amount of Notes to be purchased pursuant to such bid and the amount of premium, if any, that they will pay, in addition to the par value, to purchase such Notes. No bid to purchase the Notes at less than par will be accepted. Bidders may submit more than one bid to purchase the Notes, subject to the provisions noted above under "Procedures for Electronic Bidding."

The Commonwealth reserves the right to reduce the aggregate principal amount of any series of the Notes after the determination of the winning bid by such amount as may be necessary to produce sufficient funds for the purposes for which the Notes are being issued after taking into account any premium to be received by the Commonwealth. In such event, the final aggregate principal amount of the Notes will be decreased by not more than 2% of the aggregate principal amount of any series of the Notes stated in this Official Notice of Sale. The dollar amount bid for the affected Notes by the winning bidder will be adjusted, if applicable, to reflect changes in the aggregate dollar amount of the affected Notes. Any such adjustments will be communicated to the winning bidder by 2:00 p.m. (Boston time) on the day of the sale.

The Commonwealth has not contracted for the issuance of any credit enhancement for the Notes. If the Notes qualify for any credit enhancement, any purchase of such credit enhancement shall be at the sole option and expense of the successful bidder(s) and any increased costs of issuance or delivery of the Notes resulting by reason

of such credit enhancement shall be assumed by such bidder(s). Bids shall not be conditioned upon the issuance of any such credit enhancement. Any failure of the Notes to be enhanced or of any such credit enhancement to be issued shall not in any way relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the Notes.

Bids may not include any conditions not otherwise expressly provided for herein.

**Good Faith Deposit.** Upon notification from the Commonwealth, each successful bidder shall wire transfer to the State Treasurer an amount equal to 1% of the aggregate principal amount of the Notes (the “Good Faith Deposit”) awarded to it, in immediately available funds, no later than 1:00 p.m. (Boston time) on the bid date. In the event that the State Treasurer has not received such funds by the time stated, the State Treasurer may revoke prior acceptance of the bid. No interest on the Good Faith Deposit will accrue to the successful bidder(s). The Good Faith Deposit will be applied to the purchase price of the applicable Notes. If a successful bidder fails to honor its accepted bid, its Good Faith Deposit will be retained by the Commonwealth.

**Basis of Award.** The Commonwealth reserves the right to reject any or all proposals and to waive any irregularity or informality with respect to any proposal.

Each series of Notes will be awarded to the bidder or bidders offering to purchase such Notes at the lowest net effective interest rate, determined in the manner hereinafter stated. For each proposal to purchase Notes, the net effective interest rate shall be determined by (i) computing the total amount of interest payable on such Notes at the stated interest rate, based on a 366-day year, (ii) deducting any premium for such Notes (ratably apportioned) offered in such proposal from such amount and (iii) dividing the resulting difference by the product of the par value of the Notes that the bidder proposes to purchase times the average life of the Notes. If this procedure produces a tie, the Notes will be awarded and sold to bidders based on a ratable apportionment between or among such bidders. The Commonwealth reserves the right to award the Notes, if issued, to any bidder in an amount less than the principal amount of Notes bid for in any proposal, in which event any premium bid shall be proportionately reduced.

**Official Statement.** The Preliminary Official Statement dated September 11, 2015 and the information contained therein has been deemed final by the Commonwealth as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (“Rule 15c2-12”) with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the “Final Official Statement”). The Preliminary Official Statement may be viewed and downloaded from the State Treasurer’s website, [www.massbondholder.com](http://www.massbondholder.com) and via the Electronic Municipal Market Access (EMMA) system established by the Municipal Securities Rulemaking Board at [www.emma.msrb.org](http://www.emma.msrb.org).

The Commonwealth does not intend to print physical copies of the Final Official Statement but instead will make available to the successful bidder or bidders an electronic version of the Final Official Statement via the EMMA system. The Commonwealth will post the Final Official Statement within seven business days of the date of sale but not later than two business days prior to settlement. Once posted, the Final Official Statement may be viewed and downloaded from the EMMA website, [www.emma.msrb.org](http://www.emma.msrb.org), or from the State Treasurer’s website, [www.massbondholder.com](http://www.massbondholder.com). Each successful bidder shall be required to cooperate in providing the information required to complete the Final Official Statement.

The successful bidder(s) shall comply with the requirements of Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board, including an obligation, if any, to update the Final Official Statement.

**Reoffering Price Certification.** At the time of settlement of the Notes, each successful bidder shall furnish to the Commonwealth a certificate acceptable to Bond Counsel to the effect that (i) all of the Notes awarded to it have been the subject of a bona fide initial offering to the public, excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers (the “General Public”), at the price, or a price corresponding to the yield, identified in the Final Official Statement, (ii) as of the bid date, the successful bidder reasonably expected that the first price at which at least 10% of all substantially identical Notes awarded to it would be sold was the price, or a price corresponding to the yield, identified in the Final Official Statement with respect to such bidder, and such price represented a fair market price of such Notes, and (iii) based on the records of and information available to the successful bidder, the first price at which 10% of all substantially identical Notes awarded to it was actually sold to the General Public was the initial offering price described in (ii) above. In the event that the successful bidder cannot provide the certification in (iii) above, such bidder shall consult with Bond Counsel as to alternative certifications that will be suitable to establish the “issue price” of the Notes awarded to it for federal tax law purposes.

In addition to executing and delivering a certificate as described in the previous paragraph, each successful bidder may be required to (a) demonstrate that it has made a bona fide offering to the General Public, at the initial offering price, of all Notes awarded to it, (b) provide an explanation of why any Note sold by it between the bid date and the settlement date was sold for a price higher than, or a price corresponding to a yield lower than, the initial public offering price and (c) provide documentation identifying the initial purchasers of the Notes awarded to it, including information sufficient to enable the Commonwealth and Bond Counsel to determine whether such purchasers are the General Public. If any of the Notes were also offered to institutional or other investors at a discount from the price at which the Notes were offered to the General Public, the successful bidder will be asked for additional certifications as to actual and expected sales of Notes at such discounted price.

**Expenses.** Each bid will be deemed to be an all-in bid. The successful bidder(s) will be under no obligation to pay the Commonwealth's costs of issuance. The Commonwealth will not pay the expenses of any bidder(s), whether or not successful, in connection with the issuance or purchase of the Notes.

**Delivery of Notes.** The Notes will be delivered on September 29, 2015, in New York, New York, at DTC against payment of the purchase price therefor (less the amount of the Good Faith Deposit). The successful bidder(s) must make payment of the purchase price of the Notes by 10:00 a.m. (Boston time) September 29, 2015 in Federal Funds in Boston.

There will also be furnished the usual closing papers, including (a) a certificate signed by the Attorney General of the Commonwealth stating that no litigation of any kind is now pending or, to her knowledge, threatened seeking to restrain or enjoin the issuance or delivery of the Notes or the levy or collection of a material portion of the taxes or other revenues of the Commonwealth, or in any manner questioning the proceedings or authority under which the Notes are issued, or affecting the validity of the Notes, or contesting in any way the completeness, accuracy or fairness of the Preliminary Official Statement or Final Official Statement or contesting the title to his or her office of any official signing the Notes or the Final Official Statement; and (b) a certificate signed by the State Treasurer and the Secretary of Administration and Finance to the effect that, except for the initial offering prices or yields of the Notes on the cover page of the Final Official Statement and any other information concerning the reoffering of the Notes included therein at the request of the successful bidder(s) and the information in the Preliminary Official Statement and Final Official Statement under the heading "Book-Entry-Only System" and in any Appendix other than Appendix A, to the best of their respective knowledge and belief, the Preliminary Official Statement, as of the date of sale of the Notes, and the Final Official Statement, both as of the date of sale and the date of settlement of the Notes, did not contain any untrue statement of a material fact and did not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

**Legal Opinions.** The approving opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel, in substantially the form set forth in the Preliminary Official Statement, will be furnished to each successful bidder. The Preliminary Official Statement contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on the exclusion from gross income of interest on the Notes and a discussion of Bond Counsel's opinion insofar as it concerns such exclusion. An opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel, will also be furnished to the successful bidder to the effect that (i) the information contained in the Preliminary Official Statement and the Final Official Statement under the headings "The Notes," "Security for the Notes" and in Appendix B, insofar as such information constitutes summaries of certain provisions of the Notes and applicable Massachusetts law, presents a fair summary of such provisions and that the statements in the Preliminary Official Statement and the Final Official Statement under the caption "Tax Exemption" and in the summary tax opinion contained on the cover of the Preliminary Official Statement and the Final Official Statement, insofar as such statements purport to summarize certain provisions of the Internal Revenue Code of 1986 or purport to summarize such counsel's opinion regarding the Notes, are correct in all material respects, and (ii) in the course of such counsel's participation in the preparation of the Preliminary Official Statement and the Final Official Statement, no facts came to such counsel's attention that have caused it to conclude that the Preliminary Official Statement, as of its date, or the Final Official Statement, as of the date of sale or the date of settlement of the Notes (except for the financial and statistical data included therein, the initial offering prices or yields of the Notes, if any, on the inside cover page of the Final Official Statement, any other information concerning the reoffering of the Notes included therein at the request of the successful bidder and the stabilization clause, if any, and the information in the Preliminary Official Statement and the Final Official Statement under the headings "Book-Entry-Only System," "Ratings" and "Competitive Sale of Notes" and in any other document specifically referenced therein, including any Appendix other than Appendix B, as to which no opinion need be expressed) contained any untrue statement of a material fact or omitted to state a material fact necessary

to make the statements made therein, in light of the circumstances under which they were made, not misleading. An opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel, will also be furnished to the successful bidder to the effect that in the course of such counsel's participation in the preparation of the Commonwealth Information Statement (as defined in the Preliminary Official Statement), and as it may have been further supplemented as of the date of sale of the Notes, no facts came to such counsel's attention that have caused it to conclude that the Commonwealth Information Statement as of the date of the Preliminary Official Statement, or, as it may have been supplemented as of the date of sale of the Notes, as of said date of sale or as of the date of settlement of the Notes (except for the financial and statistical data included therein and the information contained in the Exhibits thereto, as to which no opinion need be expressed), contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

**CUSIP Numbers.** CUSIP numbers will be applied for with respect to the Notes, but the Commonwealth will assume no obligation for the assignment or printing of such numbers on the Notes or for the correctness of such numbers. Neither failure to print such numbers on any Note nor any error with respect thereto shall constitute cause for a failure or refusal by any successful bidder to accept delivery of and make payment for the Notes. The CUSIP Service Bureau charge for the assignment of CUSIP numbers on the Notes shall be the responsibility of and shall be paid for by each successful bidder.

**Right to Modify or Amend Notice of Sale.** The Commonwealth reserves the right to modify or amend this Official Notice of Sale in any respect prior to the bid date. If any modifications occur, supplemental information with respect to the Notes will be communicated by posting on TM3 not later than 8:30 a.m. (Boston time) on the day on which proposals may be submitted, and bidders shall bid upon the Notes based upon the terms thereof set forth in this Official Notice of Sale, as so modified by such supplemental information.

**Cancellation or Postponement.** The Commonwealth reserves the right to cancel or postpone the date and time established for the receipt of bids. **Any such cancellation or postponement will be announced by posting on TM3 prior to commencement of the bidding.** If any date and time fixed for the receipt of bids and the sale of the Notes is postponed, an alternate sale date and time will be announced at least one business day prior to such alternate sale date. On any such alternate sale date and time, any bidder may submit bids electronically as described above for the purchase of the Notes in conformity in all respects with the provisions of this Official Notice of Sale, except for the date and time of sale and except for any changes announced by posting on TM3 at the time the sale date and time are announced.

**Minority/Women Business Enterprises.** It is the policy of the Commonwealth that appropriate consideration be given to firms who (a) are minority business enterprises and women's business enterprises; and (b) have significant local ownership or presence. The State Treasurer requests and strongly urges bidders to make a good-faith effort to meet this goal by including such firms in their management group or syndicate and/or in the provision of legal services or other advisory services.

**Additional Information.** Further information concerning the Commonwealth and the Notes are contained in the Preliminary Official Statement dated September 11, 2015, to which prospective bidders are directed, and to which this Official Notice of Sale is attached. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Official Notice of Sale. Copies of the Preliminary Official Statement and this Official Notice of Sale may be viewed and downloaded at the State Treasurer's website, [www.massbondholder.com](http://www.massbondholder.com), and at the EMMA website, [www.emma.msrb.org](http://www.emma.msrb.org). Additional information may be obtained by calling Susan E. Perez, Assistant Treasurer, Office of the Treasurer and Receiver General (617-367-3900, ext. 816).

The Commonwealth of Massachusetts

Deborah B. Goldberg  
Treasurer and Receiver-General

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Commonwealth Cash Flow for Fiscal Year 2015

(presented in millions)	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Total FY 2015
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	
<b>OPENING NON-SEGREGATED OPERATING CASH BALANCE:</b>	\$1,340.8	\$769.0	\$948.9	\$1,762.7	\$1,453.2	\$1,240.7	\$991.5	\$953.9	\$414.1	\$743.1	\$1,861.0	\$1,691.2	\$1,340.8
<b>OPERATING ACTIVITIES:</b>													
<b>Budgetary Funds:</b>													
Tax Revenue	\$1,658.9	\$1,710.0	\$2,546.5	\$1,804.7	\$1,709.2	\$2,351.4	\$2,696.3	\$1,810.6	\$2,504.7	\$3,424.0	\$1,972.5	\$2,801.2	\$26,990.0
Federal Reimbursements	\$1,044.1	\$707.0	\$611.6	\$768.8	\$640.1	\$749.2	\$747.4	\$626.3	\$1,001.3	\$937.9	\$908.2	\$668.9	\$9,410.8
Other Budgetary Revenue	\$257.7	\$273.4	\$167.0	\$392.2	\$224.3	\$296.5	\$287.7	\$235.1	\$300.8	\$743.4	\$278.5	\$388.8	\$3,845.4
Transfer from/(to) Stabilization Fund	\$84.6	\$300.5	\$2.5	\$0.0	\$135.5	\$0.0	\$0.0	\$0.0	\$1.8	\$0.0	\$1.0	\$0.0	\$525.8
<b>Total Budgetary Revenue/Inflows</b>	<b>\$3,045.2</b>	<b>\$2,990.9</b>	<b>\$3,327.6</b>	<b>\$2,965.6</b>	<b>\$2,709.1</b>	<b>\$3,397.1</b>	<b>\$3,731.4</b>	<b>\$2,672.1</b>	<b>\$3,808.6</b>	<b>\$5,105.4</b>	<b>\$3,160.2</b>	<b>\$3,858.8</b>	<b>\$40,771.9</b>
Local Aid	\$434.1	\$472.7	\$512.1	\$440.7	\$458.3	\$460.3	\$404.7	\$393.1	\$426.5	\$393.4	\$415.3	\$478.0	\$5,289.4
Tax Refunds	\$31.1	\$66.9	\$68.7	\$109.2	\$128.7	\$44.6	\$72.5	\$237.6	\$465.7	\$348.7	\$94.7	\$89.2	\$1,757.7
Debt Service for General Obligation (including CA/T)	\$79.5	\$512.9	\$203.8	\$98.5	\$344.4	\$127.6	\$226.6	\$147.6	\$63.1	\$74.7	\$110.7	\$81.7	\$2,071.2
Debt Service for Special Obligations	\$17.2	\$0.0	\$0.0	\$0.0	\$0.0	\$35.9	\$37.2	\$0.0	\$0.0	\$0.0	\$0.0	\$86.0	\$176.3
Debt Service for GANS	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$12.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$20.7	\$33.5
Other Budgetary Expenditures	\$2,792.0	\$2,393.3	\$2,254.9	\$2,478.0	\$2,215.0	\$2,462.5	\$2,593.9	\$2,177.7	\$2,206.6	\$2,305.7	\$2,358.0	\$1,533.6	\$27,771.3
<b>Total Budgetary Expenditures/Outflows</b>	<b>\$3,354.0</b>	<b>\$3,445.8</b>	<b>\$3,039.6</b>	<b>\$3,126.5</b>	<b>\$3,146.3</b>	<b>\$3,143.8</b>	<b>\$3,334.9</b>	<b>\$2,956.0</b>	<b>\$3,162.0</b>	<b>\$3,122.5</b>	<b>\$2,978.8</b>	<b>\$2,289.2</b>	<b>\$37,099.4</b>
<b>Net Budgetary Funds</b>	<b>(\$308.8)</b>	<b>(\$454.9)</b>	<b>\$288.0</b>	<b>(\$160.8)</b>	<b>(\$437.3)</b>	<b>\$253.3</b>	<b>\$396.5</b>	<b>(\$283.9)</b>	<b>\$646.6</b>	<b>\$1,982.9</b>	<b>\$181.4</b>	<b>\$1,569.6</b>	<b>\$3,672.5</b>
<b>Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):</b>													
Lottery Revenue	\$117.8	\$178.7	\$61.9	\$193.8	\$197.2	\$129.7	\$133.9	\$177.9	\$159.9	\$130.2	\$207.1	\$144.4	\$1,832.6
Pension Receipts (PRIM and Annuity Receipts)	\$246.2	\$263.5	\$251.2	\$256.0	\$244.4	\$249.5	\$244.6	\$184.4	\$244.0	\$227.4	\$165.7	\$320.5	\$2,897.3
Transfers in & out for Non Pooled / Trust / Fiduciary Fund Investments	\$254.6	\$576.4	(\$136.4)	(\$85.1)	\$215.8	(\$101.4)	\$15.1	(\$10.9)	(\$76.4)	(\$209.8)	\$156.3	(\$724.7)	(\$126.5)
Non Budgetary Tax Receipts	\$32.4	\$37.6	\$38.7	\$43.4	\$28.0	\$29.4	\$23.3	\$21.1	\$57.1	\$28.8	\$25.5	\$37.2	\$402.3
Other Non Budgetary Revenue	\$308.5	\$295.5	\$439.4	\$394.2	\$524.2	\$517.4	\$305.4	\$310.4	\$398.7	\$339.1	\$417.9	\$459.4	\$4,710.0
<b>Total Non Budgetary Revenue/Inflows</b>	<b>\$959.5</b>	<b>\$1,351.6</b>	<b>\$654.8</b>	<b>\$802.3</b>	<b>\$1,209.5</b>	<b>\$824.5</b>	<b>\$722.4</b>	<b>\$682.9</b>	<b>\$783.4</b>	<b>\$515.6</b>	<b>\$972.4</b>	<b>\$236.9</b>	<b>\$9,715.8</b>
Lottery Payments	\$60.7	\$54.6	\$64.3	\$81.9	\$42.7	\$58.0	\$60.0	\$55.8	\$79.7	\$67.6	\$53.6	\$57.9	\$736.9
MBTA Sales Tax	\$64.0	\$72.1	\$68.8	\$72.1	\$64.7	\$126.7	\$74.0	\$106.3	\$68.8	\$84.9	\$79.9	\$78.4	\$960.6
MBTA Assessments	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$0.0	\$26.7	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$160.1
MSBA Payments	\$64.0	\$68.2	\$62.4	\$59.6	\$64.7	\$60.1	\$60.7	\$75.7	\$55.4	\$55.7	\$66.5	\$65.1	\$758.0
Pension Payments	\$372.4	\$378.4	\$385.5	\$384.2	\$380.1	\$501.0	\$378.1	\$377.2	\$389.3	\$381.2	\$381.7	\$405.2	\$4,714.4
Non Pooled / Trust / Fiduciary Fund Expenditures	\$295.7	\$278.5	\$344.1	\$207.6	\$267.0	\$364.6	\$258.1	\$378.3	\$246.8	\$258.6	\$218.4	\$321.2	\$3,438.9
Other Non Budgetary Expenditures	\$211.3	\$195.8	\$177.0	\$149.1	\$76.8	\$263.4	\$91.7	\$111.5	\$147.9	\$147.6	\$160.1	\$295.1	\$2,027.4
<b>Total Non Budgetary Expenditures/Outflows</b>	<b>\$1,081.4</b>	<b>\$1,061.1</b>	<b>\$1,115.4</b>	<b>\$967.7</b>	<b>\$909.3</b>	<b>\$1,373.7</b>	<b>\$949.5</b>	<b>\$1,118.1</b>	<b>\$1,001.3</b>	<b>\$1,008.9</b>	<b>\$973.6</b>	<b>\$1,236.3</b>	<b>\$12,796.2</b>
<b>Net Non Budgetary Funds</b>	<b>(122.0)</b>	<b>290.5</b>	<b>(460.5)</b>	<b>(165.3)</b>	<b>300.2</b>	<b>(549.2)</b>	<b>(227.1)</b>	<b>(435.2)</b>	<b>(217.9)</b>	<b>(493.3)</b>	<b>(1.2)</b>	<b>(999.4)</b>	<b>(3,080.4)</b>
<b>Undesignated Revenue/Inflows and Expenditures/Outflows:</b>													
General Fund Investment Earnings	\$0.9	\$1.2	\$0.9	\$16.8	\$1.2	\$1.2	\$1.4	\$6.9	\$3.9	\$3.2	\$1.5	\$2.3	\$41.4
<b>Net Undesignated Revenue/Inflows and Expenditures/Outflows</b>	<b>\$0.9</b>	<b>\$1.2</b>	<b>\$0.9</b>	<b>\$16.8</b>	<b>\$1.2</b>	<b>\$1.2</b>	<b>\$1.4</b>	<b>\$6.9</b>	<b>\$3.9</b>	<b>\$3.2</b>	<b>\$1.5</b>	<b>\$2.3</b>	<b>\$41.4</b>
<b>NET OPERATING ACTIVITIES</b>	<b>(\$429.9)</b>	<b>(\$163.2)</b>	<b>(\$171.6)</b>	<b>(\$309.3)</b>	<b>(\$135.9)</b>	<b>(\$294.8)</b>	<b>\$170.8</b>	<b>(\$712.2)</b>	<b>\$432.6</b>	<b>\$1,492.8</b>	<b>\$181.8</b>	<b>\$572.5</b>	<b>\$633.6</b>
<b>FEDERAL GRANTS:</b>													
<b>Total Federal Grants Revenue/Inflows</b>	<b>\$27.6</b>	<b>\$44.7</b>	<b>\$161.8</b>	<b>\$145.7</b>	<b>\$131.8</b>	<b>\$205.2</b>	<b>\$134.2</b>	<b>\$234.7</b>	<b>\$208.0</b>	<b>\$269.3</b>	<b>\$192.6</b>	<b>\$524.9</b>	<b>\$2,280.4</b>
<b>Total Federal Grants Expenditures/Outflows</b>	<b>\$157.7</b>	<b>\$228.5</b>	<b>\$152.5</b>	<b>\$156.6</b>	<b>\$170.7</b>	<b>\$247.5</b>	<b>\$187.7</b>	<b>\$166.0</b>	<b>\$225.0</b>	<b>\$201.0</b>	<b>\$184.9</b>	<b>\$251.2</b>	<b>\$2,329.4</b>
<b>NET FEDERAL GRANTS</b>	<b>(\$130.1)</b>	<b>(\$183.9)</b>	<b>\$9.3</b>	<b>(\$10.9)</b>	<b>(\$38.9)</b>	<b>(\$42.4)</b>	<b>(\$53.5)</b>	<b>\$68.7</b>	<b>(\$17.0)</b>	<b>\$68.2</b>	<b>\$7.7</b>	<b>\$273.7</b>	<b>(\$49.0)</b>
<b>CAPITAL FUNDS:</b>													
<b>Capital Revenue/Inflows:</b>													
Capital Inflow from Federal Reimbursements	\$0.4	\$0.0	\$53.0	\$52.5	\$46.0	\$72.7	\$29.7	\$29.1	\$46.1	\$24.0	\$23.7	\$203.2	\$580.5
Capital Inflow from Financing Activities:													
Capital Inflow to General Fund from Segregated Bond Funds	\$297.6	\$787.5	\$26.8	\$212.7	\$157.2	\$326.3	\$65.1	\$247.7	\$93.5	\$130.9	\$300.1	\$204.6	\$2,850.1
<b>Total Capital Revenue/Inflows</b>	<b>\$298.0</b>	<b>\$787.5</b>	<b>\$79.8</b>	<b>\$265.2</b>	<b>\$203.3</b>	<b>\$399.0</b>	<b>\$94.8</b>	<b>\$276.9</b>	<b>\$139.6</b>	<b>\$154.9</b>	<b>\$323.8</b>	<b>\$407.8</b>	<b>\$3,430.6</b>
<b>Total Capital Expenditures/Outflows</b>	<b>\$309.9</b>	<b>\$260.5</b>	<b>\$303.6</b>	<b>\$254.5</b>	<b>\$241.0</b>	<b>\$311.2</b>	<b>\$249.7</b>	<b>\$173.1</b>	<b>\$226.2</b>	<b>\$194.6</b>	<b>\$279.1</b>	<b>\$400.2</b>	<b>\$3,203.6</b>
<b>NET CAPITAL FUNDS</b>	<b>(\$11.9)</b>	<b>\$526.9</b>	<b>(\$223.8)</b>	<b>\$10.7</b>	<b>(\$37.7)</b>	<b>\$87.9</b>	<b>(\$154.8)</b>	<b>\$103.7</b>	<b>(\$86.6)</b>	<b>(\$39.7)</b>	<b>\$44.7</b>	<b>\$7.6</b>	<b>\$226.9</b>
<b>FINANCING ACTIVITIES:</b>													
<b>Cash Flow Financing Activities Inflows:</b>													
Commercial Paper	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revenue Anticipation Notes (RANS)	\$0.0	\$0.0	\$1,200.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0
<b>Total Cash Flow Financing Activities Inflows</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>
<b>Cash Flow Financing Activities Outflows:</b>													
Commercial Paper – (Principal + Interest)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
RANS – (Principal + Interest)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$403.4	\$403.9	\$404.4	\$1,211.7
<b>Total Cash Flow Financing Activities Outflows</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$403.4</b>	<b>\$403.9</b>	<b>\$404.4</b>	<b>\$1,211.7</b>
<b>NET FINANCING ACTIVITIES</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$403.4)</b>	<b>(\$403.9)</b>	<b>(\$404.4)</b>	<b>(\$11.7)</b>
<b>ENDING NON-SEGREGATED OPERATING CASH BALANCE:</b>	<b>\$769.0</b>	<b>\$948.9</b>	<b>\$1,762.7</b>	<b>\$1,453.2</b>	<b>\$1,240.7</b>	<b>\$991.5</b>	<b>\$953.9</b>	<b>\$414.1</b>	<b>\$743.1</b>	<b>\$1,861.0</b>	<b>\$1,691.2</b>	<b>\$2,140.6</b>	<b>\$2,140.6</b>
<b>Capital Budget Bonding Activity:</b>													
<b>Opening Balance Segregated Bond Funds</b>	<b>\$205.3</b>	<b>\$274.4</b>	<b>\$134.4</b>	<b>\$507.3</b>	<b>\$869.1</b>	<b>\$749.5</b>	<b>\$1,030.7</b>	<b>\$965.6</b>	<b>\$717.9</b>	<b>\$624.4</b>	<b>\$493.5</b>	<b>\$764.0</b>	
Bonds	\$566.7	\$447.4	\$399.7	\$774.5	\$37.7	\$607.5	\$0.0	\$0.0	\$0.0	\$0.0	\$570.6	\$9.4	\$3,413.6
BANs	(\$200.0)	\$200.0	\$0.0	(\$200.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Segregated Bond Funds Available	\$572.0	\$921.8	\$534.1	\$1,081.8	\$906.8	\$1,357.0	\$1,030.7	\$965.6	\$717.9	\$624.4	\$1,064.1	\$773.4	
Bond / BANs Proceeds Allocated	\$297.6	\$787.5	\$26.8	\$212.7	\$157.2	\$326.3	\$65.1	\$247.7	\$93.5	\$130.9	\$300.1	\$204.6	\$2,850.1
<b>Ending Balance Segregated Bond Funds</b>	<b>\$274.4</b>	<b>\$134.4</b>	<b>\$507.3</b>	<b>\$869.1</b>	<b>\$749.5</b>	<b>\$1,030.7</b>	<b>\$965.6</b>	<b>\$717.9</b>	<b>\$624.4</b>	<b>\$493.5</b>	<b>\$764.0</b>	<b>\$568.8</b>	

Commonwealth Forecasted Cash Flow for Fiscal Year 2016

(presented in millions)	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Total FY 2016
	Actual	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	Est	
<b>OPENING NON-SEGREGATED OPERATING CASH BALANCE:</b>	\$2,140.6	\$1,380.2	\$677.0	\$1,610.9	\$1,435.6	\$627.6	\$826.9	\$1,231.2	\$443.8	\$614.7	\$1,827.1	\$1,457.9	\$2,140.6
<b>OPERATING ACTIVITIES:</b>													
<b>Budgetary Funds:</b>													
Tax Revenue	\$1,743.4	\$1,756.0	\$2,605.0	\$1,802.0	\$1,723.0	\$2,397.0	\$2,596.0	\$1,883.0	\$2,661.0	\$3,333.0	\$1,986.0	\$2,831.0	\$27,316.4
Federal Reimbursements	\$1,186.0	\$807.2	\$743.1	\$729.8	\$743.0	\$903.4	\$754.7	\$785.8	\$991.9	\$763.6	\$967.1	\$768.4	\$10,144.0
Other Budgetary Revenue	\$329.3	\$273.8	\$296.2	\$434.1	\$334.5	\$313.7	\$418.1	\$287.7	\$360.8	\$684.4	\$384.4	\$490.0	\$4,607.0
Transfer from/(to) Stabilization Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total Budgetary Revenue/Inflows</b>	<b>\$3,258.7</b>	<b>\$2,837.0</b>	<b>\$3,644.3</b>	<b>\$2,965.9</b>	<b>\$2,800.5</b>	<b>\$3,614.1</b>	<b>\$3,768.8</b>	<b>\$2,956.5</b>	<b>\$4,013.7</b>	<b>\$4,781.0</b>	<b>\$3,337.5</b>	<b>\$4,089.4</b>	<b>\$42,067.4</b>
Local Aid	\$478.4	\$463.9	\$463.9	\$463.9	\$463.9	\$463.9	\$463.9	\$463.9	\$463.9	\$463.9	\$463.9	\$463.9	\$5,581.3
Tax Refunds	\$47.5	\$60.0	\$50.0	\$180.0	\$60.0	\$22.0	\$86.0	\$419.0	\$340.0	\$283.0	\$84.0	\$76.0	\$1,707.5
Debt Service for General Obligation (including CA/T)	\$87.4	\$529.1	\$217.3	\$146.8	\$325.9	\$187.4	\$109.4	\$172.5	\$70.0	\$80.7	\$123.5	\$86.6	\$2,136.9
Debt Service for Special Obligations	\$16.7	\$0.0	\$0.0	\$0.0	\$0.0	\$37.1	\$37.8	\$0.0	\$0.0	\$0.0	\$0.0	\$86.3	\$177.9
Debt Service for GANS	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$26.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$47.9	\$74.8
Other Budgetary Expenditures	\$3,320.2	\$2,486.9	\$3,103.4	\$2,352.9	\$2,628.4	\$2,580.6	\$2,455.8	\$2,530.4	\$2,650.6	\$2,457.6	\$2,482.0	\$1,612.7	\$30,661.5
<b>Total Budgetary Expenditures/Outflows</b>	<b>\$3,950.3</b>	<b>\$3,539.9</b>	<b>\$3,834.6</b>	<b>\$3,143.6</b>	<b>\$3,478.2</b>	<b>\$3,318.0</b>	<b>\$3,152.9</b>	<b>\$3,585.8</b>	<b>\$3,524.5</b>	<b>\$3,285.2</b>	<b>\$3,153.4</b>	<b>\$2,373.4</b>	<b>\$40,340.0</b>
<b>Net Budgetary Funds</b>	<b>(\$691.6)</b>	<b>(\$702.9)</b>	<b>(\$190.3)</b>	<b>(\$177.7)</b>	<b>(\$677.7)</b>	<b>\$296.1</b>	<b>\$615.9</b>	<b>(\$629.3)</b>	<b>\$489.2</b>	<b>\$1,495.8</b>	<b>\$184.1</b>	<b>\$1,716.0</b>	<b>\$1,727.5</b>
<b>Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):</b>													
Lottery Revenue	\$119.8	\$137.8	\$137.8	\$172.3	\$137.8	\$137.8	\$172.3	\$137.8	\$137.8	\$172.3	\$137.8	\$137.8	\$1,739.3
Pension Receipts (PRIM and Annuity Receipts)	\$251.6	\$230.7	\$230.7	\$230.7	\$230.7	\$230.7	\$230.7	\$230.7	\$230.7	\$230.7	\$230.7	\$230.6	\$2,788.9
Transfers in & out for Non Pooled / Trust / Fiduciary Fund Investments	\$485.8	\$679.5	\$365.0	\$325.0	\$325.0	\$365.0	\$340.0	\$330.0	\$370.0	\$330.0	\$330.0	\$370.0	\$4,615.3
Non Budgetary Tax Receipts	\$35.3	\$39.0	\$41.0	\$46.0	\$29.0	\$31.0	\$24.0	\$22.0	\$60.0	\$49.0	\$41.0	\$47.0	\$464.3
Other Non Budgetary Revenue	\$326.6	\$127.2	\$234.2	\$124.2	\$175.2	\$267.2	\$137.2	\$104.2	\$66.2	\$378.2	\$154.2	\$201.2	\$2,295.4
<b>Total Non Budgetary Revenue/Inflows</b>	<b>\$1,218.9</b>	<b>\$1,214.2</b>	<b>\$1,008.7</b>	<b>\$898.1</b>	<b>\$897.7</b>	<b>\$1,031.7</b>	<b>\$904.1</b>	<b>\$824.7</b>	<b>\$864.7</b>	<b>\$1,160.1</b>	<b>\$893.7</b>	<b>\$986.6</b>	<b>\$11,903.1</b>
Lottery Payments	\$79.1	\$56.3	\$45.1	\$45.1	\$56.3	\$45.1	\$45.1	\$56.3	\$45.1	\$45.1	\$56.3	\$45.1	\$619.9
MBTA Sales Tax	\$75.1	\$82.1	\$82.1	\$82.1	\$82.1	\$82.1	\$82.1	\$82.1	\$82.1	\$82.1	\$82.1	\$82.1	\$978.2
MBTA Assessments	\$13.6	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$13.3	\$159.9
MSBA Payments	\$70.1	\$67.0	\$67.0	\$67.0	\$67.0	\$67.0	\$67.0	\$67.0	\$67.0	\$67.0	\$67.0	\$67.0	\$807.0
Pension Payments	\$392.3	\$395.0	\$395.0	\$395.0	\$395.0	\$395.0	\$395.0	\$395.0	\$395.0	\$395.0	\$395.0	\$395.0	\$4,737.3
Non Pooled / Trust / Fiduciary Fund Expenditures	\$363.7	\$340.0	\$365.0	\$325.0	\$325.0	\$365.0	\$340.0	\$330.0	\$370.0	\$330.0	\$330.0	\$370.0	\$4,153.7
Other Non Budgetary Expenditures	\$173.0	\$74.0	\$181.0	\$109.0	\$96.0	\$159.0	\$131.0	\$74.0	\$181.0	\$109.0	\$94.5	\$181.0	\$1,562.5
<b>Total Non Budgetary Expenditures/Outflows</b>	<b>\$1,166.8</b>	<b>\$1,027.7</b>	<b>\$1,148.5</b>	<b>\$1,036.5</b>	<b>\$1,034.7</b>	<b>\$1,126.5</b>	<b>\$1,073.5</b>	<b>\$1,017.7</b>	<b>\$1,153.5</b>	<b>\$1,041.5</b>	<b>\$1,038.2</b>	<b>\$1,153.5</b>	<b>\$13,018.4</b>
<b>Net Non Budgetary Funds</b>	<b>\$52.1</b>	<b>\$186.4</b>	<b>(\$139.8)</b>	<b>(\$138.3)</b>	<b>(\$137.1)</b>	<b>(\$94.8)</b>	<b>(\$169.3)</b>	<b>(\$193.1)</b>	<b>(\$288.8)</b>	<b>\$118.7</b>	<b>(\$144.6)</b>	<b>(\$166.8)</b>	<b>(\$1,115.3)</b>
<b>Undesignated Revenue/Inflows and Expenditures/Outflows:</b>													
General Fund Investment Earnings	\$1.3	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$12.3
<b>Net Undesignated Revenue/Inflows and Expenditures/Outflows</b>	<b>\$1.3</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$1.0</b>	<b>\$12.3</b>
<b>NET OPERATING ACTIVITIES</b>	<b>(\$638.2)</b>	<b>(\$515.5)</b>	<b>(\$329.1)</b>	<b>(\$315.1)</b>	<b>(\$813.8)</b>	<b>\$202.4</b>	<b>\$447.5</b>	<b>(\$821.3)</b>	<b>\$201.4</b>	<b>\$1,615.5</b>	<b>\$40.5</b>	<b>\$1,550.1</b>	<b>\$624.4</b>
<b>FEDERAL GRANTS:</b>													
<b>Total Federal Grants Revenue/Inflows</b>	<b>\$155.5</b>	<b>\$170.0</b>	<b>\$190.0</b>	<b>\$185.0</b>	<b>\$190.0</b>	<b>\$185.0</b>	<b>\$190.0</b>	<b>\$185.0</b>	<b>\$190.0</b>	<b>\$185.0</b>	<b>\$190.0</b>	<b>\$215.0</b>	<b>\$2,230.5</b>
<b>Total Federal Grants Expenditures/Outflows</b>	<b>\$193.1</b>	<b>\$213.7</b>	<b>\$191.3</b>	<b>\$168.7</b>	<b>\$191.3</b>	<b>\$198.7</b>	<b>\$236.3</b>	<b>\$168.7</b>	<b>\$221.3</b>	<b>\$178.7</b>	<b>\$210.3</b>	<b>\$198.6</b>	<b>\$2,370.7</b>
<b>NET FEDERAL GRANTS</b>	<b>(\$37.7)</b>	<b>(\$43.7)</b>	<b>(\$1.3)</b>	<b>\$16.3</b>	<b>(\$1.3)</b>	<b>(\$13.7)</b>	<b>(\$46.3)</b>	<b>\$16.3</b>	<b>(\$31.3)</b>	<b>\$6.3</b>	<b>(\$20.3)</b>	<b>\$16.4</b>	<b>(\$140.3)</b>
<b>CAPITAL FUNDS:</b>													
<b>Capital Revenue/Inflows:</b>													
Capital Inflow from Federal Reimbursements	\$49.1	\$50.1	\$52.9	\$52.8	\$53.7	\$52.8	\$54.3	\$51.0	\$55.2	\$57.0	\$58.4	\$73.5	\$660.8
Capital Inflow from Financing Activities:													
Capital Inflow to General Fund from Segregated Bond Funds	\$235.2	\$61.3	\$279.0	\$338.0	\$225.0	\$225.0	\$225.0	\$225.0	\$225.0	\$225.0	\$250.0	\$240.0	\$2,753.6
<b>Total Capital Revenue/Inflows</b>	<b>\$284.3</b>	<b>\$111.4</b>	<b>\$331.9</b>	<b>\$390.8</b>	<b>\$278.7</b>	<b>\$277.8</b>	<b>\$279.3</b>	<b>\$276.0</b>	<b>\$280.2</b>	<b>\$282.0</b>	<b>\$308.4</b>	<b>\$313.5</b>	<b>\$3,414.4</b>
<b>Total Capital Expenditures/Outflows</b>	<b>\$368.8</b>	<b>\$255.5</b>	<b>\$267.6</b>	<b>\$267.3</b>	<b>\$271.6</b>	<b>\$267.2</b>	<b>\$276.2</b>	<b>\$258.4</b>	<b>\$279.4</b>	<b>\$288.3</b>	<b>\$294.9</b>	<b>\$370.3</b>	<b>\$3,465.5</b>
<b>NET CAPITAL FUNDS</b>	<b>(\$84.5)</b>	<b>(\$144.1)</b>	<b>\$64.3</b>	<b>\$123.5</b>	<b>\$7.1</b>	<b>\$10.6</b>	<b>\$3.1</b>	<b>\$17.6</b>	<b>\$0.8</b>	<b>(\$6.3)</b>	<b>\$13.5</b>	<b>(\$56.8)</b>	<b>(\$51.2)</b>
<b>FINANCING ACTIVITIES:</b>													
<b>Cash Flow Financing Activities Inflows:</b>													
Commercial Paper	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Revenue Anticipation Notes (RANS)	\$0.0	\$0.0	\$1,200.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0
<b>Total Cash Flow Financing Activities Inflows</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>
<b>Cash Flow Financing Activities Outflows:</b>													
Commercial Paper – (Principal + Interest)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
RANS – (Principal + Interest)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$403.0	\$403.0	\$404.0	\$1,210.0
<b>Total Cash Flow Financing Activities Outflows</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$403.0</b>	<b>\$403.0</b>	<b>\$404.0</b>	<b>\$1,210.0</b>
<b>NET FINANCING ACTIVITIES</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$1,200.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$403.0)</b>	<b>(\$403.0)</b>	<b>(\$404.0)</b>	<b>(\$10.0)</b>
<b>ENDING NON-SEGREGATED OPERATING CASH BALANCE:</b>	<b>\$1,380.2</b>	<b>\$677.0</b>	<b>\$1,610.9</b>	<b>\$1,435.6</b>	<b>\$627.6</b>	<b>\$826.9</b>	<b>\$1,231.2</b>	<b>\$443.8</b>	<b>\$614.7</b>	<b>\$1,827.1</b>	<b>\$1,457.9</b>	<b>\$2,563.6</b>	<b>\$2,563.6</b>
<b>Capital Budget Bonding Activity:</b>													
<b>Opening Balance Segregated Bond Funds</b>	<b>\$568.8</b>	<b>\$615.5</b>	<b>\$554.2</b>	<b>\$275.2</b>	<b>\$437.2</b>	<b>\$262.2</b>	<b>\$307.2</b>	<b>\$582.2</b>	<b>\$407.2</b>	<b>\$232.2</b>	<b>\$57.2</b>	<b>\$457.2</b>	<b>\$2,602.0</b>
Bonds	\$282.0	\$0.0	\$0.0	\$500.0	\$50.0	\$270.0	\$500.0	\$50.0	\$50.0	\$50.0	\$650.0	\$200.0	\$2,602.0
BANs	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Segregated Bond Funds Available	\$850.8	\$615.5	\$554.2	\$775.2	\$487.2	\$532.2	\$807.2	\$632.2	\$457.2	\$282.2	\$707.2	\$657.2	\$2,753.6
Bond / BANs Proceeds Allocated	\$235.2	\$61.3	\$279.0	\$338.0	\$225.0	\$225.0	\$225.0	\$225.0	\$225.0	\$225.0	\$250.0	\$240.0	\$2,753.6
<b>Ending Balance Segregated Bond Funds</b>	<b>\$615.5</b>	<b>\$554.2</b>	<b>\$275.2</b>	<b>\$437.2</b>	<b>\$262.2</b>	<b>\$307.2</b>	<b>\$582.2</b>	<b>\$407.2</b>	<b>\$232.2</b>	<b>\$57.2</b>	<b>\$457.2</b>	<b>\$417.2</b>	



## The Commonwealth of Massachusetts

\$400,000,000  
Revenue Anticipation Notes  
2015 Series A

\$400,000,000  
Revenue Anticipation Notes  
2015 Series B

\$400,000,000  
Revenue Anticipation Notes  
2015 Series C

Continuing Disclosure Undertaking  
[to be included in note form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Notes to provide the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system pursuant to the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), in a timely manner, not in excess of ten business days after occurrence of the event, notice of any of the following events with respect to the Notes (numbered in accordance with the provisions of the Rule):

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;<sup>1/</sup>
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes;
- (vii) modifications to the rights of security holders, if material;
- (viii) bond calls, if material;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Notes, if material;<sup>2/</sup>
- (xi) rating changes;
- (xii) tender offers;

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<sup>1/</sup>Not applicable to the Notes, since there is no debt service reserve fund securing the Notes.

<sup>2/</sup>Not applicable to the Notes, since there is no property securing repayment of the Notes that could be released, substituted or sold.

- (xiii) bankruptcy, insolvency, receivership or similar event of the Commonwealth;<sup>3/</sup>
- (xiv) the consummation of a merger, consolidation, or acquisition or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xv) appointment of a successor or additional trustee or the change of name of a trustee, if material.<sup>4/</sup>

Nothing herein shall preclude the Commonwealth from disseminating any information in addition to that required hereunder. If the Commonwealth disseminates any such additional information, nothing herein shall obligate the Commonwealth to update such information or include it in any future materials disseminated.

To the extent permitted by law, the foregoing provisions of this Note related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Note, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Notes, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid; provided however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Notes remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Note relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Notes, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Notes, or (d) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing a state information depository or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Notes, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Notes, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Notes affected thereby at or prior to the time of such amendment.

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<sup>3/</sup> As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.

<sup>4/</sup> Not applicable to the Notes.