

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

*In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.*

### **THE COMMONWEALTH OF MASSACHUSETTS**



**\$400,000,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2012, Series C**

**Dated: Date of Delivery**

**Due: As shown on the inside cover hereof**

*The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their date of delivery and interest will be payable on April 1, 2013 and semiannually thereafter on October 1 and April 1 and at maturity, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity as more fully described herein.*

The Bonds 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 Bonds. However, for information regarding the statutory limit on state tax revenue growth, see "SECURITY FOR THE BONDS" (herein) and the Commonwealth Information Statement (described herein) under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues."

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Edwards Wildman Palmer LLP, 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 Bonds. Settlement of the issue is expected at DTC in New York, New York, on or about October 3, 2012.

September 25, 2012

# THE COMMONWEALTH OF MASSACHUSETTS

**\$400,000,000**

## General Obligation Bonds

### Consolidated Loan of 2012, Series C

**Dated: Date of Delivery**

**Due: October 1, as shown below**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number*</u>
2027	\$31,745,000	4.000%	2.31% <sup>C</sup>	57582PG46
2028	10,000,000	3.000	2.87 <sup>C</sup>	57582PG53
2029	10,000,000	3.000	2.93 <sup>C</sup>	57582PG61
2030	22,000,000	3.000	2.99 <sup>C</sup>	57582PG79
2031	32,000,000	3.000	3.05	57582PG87
2032	22,000,000	3.250	3.21 <sup>C</sup>	57582PG95
2033	21,965,000	3.250	3.28	57582PH29
2034	23,090,000	3.250	3.36	57582PH37
2035	24,275,000	3.375	3.44	57582PH45
2036	25,520,000	3.500	3.51	57582PH52
2037	26,690,000	3.500	3.58	57582PH60
2038	27,780,000	3.600	100	57582PH78
2039	28,915,000	3.625	3.62 <sup>C</sup>	57582PH86
2040	30,095,000	3.625	3.63	57582PH94
2041	31,325,000	3.625	3.64	57582PJ27
2042	32,600,000	3.625	3.65	57582PJ35

\* 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 Bonds 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.

<sup>C</sup> Priced at the stated yield to the October 1, 2020 optional redemption date at a redemption price of 100%. See "THE BONDS – REDEMPTION" herein.

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the original purchasers of the Bonds 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 Bonds 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 Bonds 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**

**Deval L. Patrick..... Governor**  
**Timothy P. Murray ..... Lieutenant Governor**  
**William F. Galvin ..... Secretary of the Commonwealth**  
**Martha Coakley ..... Attorney General**  
**Steven Grossman..... Treasurer and Receiver-General**  
**Suzanne M. Bump ..... Auditor**

**LEGISLATIVE OFFICERS**

**Therese Murray..... President of the Senate**  
**Robert A. DeLeo..... Speaker of the House**

## OFFICIAL STATEMENT

### THE COMMONWEALTH OF MASSACHUSETTS

**\$400,000,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2012, Series C**

#### INTRODUCTION

This Official Statement (including the cover page and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the “Commonwealth”) of its \$400,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2012, Series C (the “Bonds”). The Bonds 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 Bonds. However, for information regarding the statutory limit on state tax revenue growth, see “SECURITY FOR THE BONDS” and the Commonwealth Information Statement (described below) under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues.”

The Bonds are being issued to finance certain authorized capital projects of the Commonwealth. See “THE BONDS – Application of Proceeds of the Bonds.”

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

This Official Statement describes the terms and use of proceeds of, and security for, the Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through D. 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 September 10, 2012, as supplemented September 24, 2012 (the “Information Statement”), which is attached here to 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 Bonds, 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, 2011, 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, 2011, 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 website of the Comptroller of the Commonwealth.

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth’s continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the successful bidders of the Bonds with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix D attached hereto contains the Amended and Restated Official Notice of Sale with respect to the Bonds.

## THE BONDS

### General

The Bonds will mature on the dates and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Bonds will be dated their date of delivery and will bear interest from such date. Interest on the Bonds will be payable semiannually on April 1 and October 1 of each year, and at maturity, commencing April 1, 2013, until the principal amount is paid. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

*Book-Entry-Only System.* The Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity bearing a particular interest rate 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 Bonds 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 Bonds will be paid in federal funds to DTC or its nominee as registered owner of the Bonds. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds 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

*Optional Redemption.* The Bonds will be subject to redemption on any date prior to their stated maturity dates on and after October 1, 2020 at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

*Notice of Redemption.* The Commonwealth shall give notice of redemption to the owners of the applicable Bonds not less than 30 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for such Bonds, notices of redemption will be sent by the Commonwealth only to DTC or its nominee. Any failure on the part of DTC, any DTC participant or any nominee of a beneficial owner of any such Bond (having received notice from a DTC participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

On the specified redemption date, all Bonds called for redemption shall cease to bear interest, provided the Commonwealth has monies on hand to pay such redemption in full.

*Selection for Redemption.* In the event that less than all of any maturity of any Bond is to be redeemed, and so long as the book-entry-only system remains in effect for such Bonds, the particular Bonds or portion of any such Bonds of a particular maturity to be redeemed will be selected by DTC by lot. If the book-entry-only system no longer remains in effect for the Bonds, selection for redemption of less than all of any one maturity of the Bonds will be made by the Commonwealth by lot in such manner as in its discretion it shall deem appropriate and fair. For purposes of selection by lot within a maturity, each \$5,000 of principal amount of a Bond will be considered a separate Bond.

### Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and specific bond authorizations enacted by the Legislature. The net proceeds of the sale of the Bonds, including any premium received by the Commonwealth upon original delivery of the Bonds, will be applied by the Treasurer and Receiver-General of the Commonwealth (the “State Treasurer”) to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws, or to reimburse the Commonwealth’s treasury for expenditures previously made pursuant to such laws. Any

remaining premium received by the Commonwealth upon original delivery of the Bonds and not applied to the various purposes for which bonds have been authorized will be applied to the costs of issuance thereof.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations. The proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations and establishes annual capital spending limits. See the Commonwealth Information Statement under the heading "COMMONWEALTH CAPITAL INVESTMENT PLAN."

### **SECURITY FOR THE BONDS**

The Bonds 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 Bonds, 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 or interest on the Bonds 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 Bonds have all of the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds 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 Bonds or in any way contesting or affecting the validity of the Bonds.

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 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. 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 Bonds. The Bonds 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 Bond will be issued for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds 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 Bonds 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 BOND OWNER.**

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Commonwealth. Under such circumstances, in the event that a successor depository is not obtained, Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondowner. Bond 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, Bond 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 Bonds have been assigned long-term ratings of "AA+," "Aa1" and "AA+" by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's"), 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 Bonds.

### **COMPETITIVE SALE OF BONDS**

After competitive, electronic bidding on September 25, 2012, the Bonds were awarded by the Commonwealth to Merrill Lynch, Pierce, Fenner & Smith Incorporated, as purchaser. The purchaser of the Bonds has supplied the information as to the public reoffering yields of the Bonds set forth on the inside cover hereof. If all of the Bonds were resold to the public at such yields, the purchaser of the Bonds has informed the Commonwealth that its total compensation is expected to be approximately 0.059% of the aggregate principal amount of the Bonds. The purchaser of the Bonds may change the public offering yields from time to time.

### **TAX EXEMPTION**

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Commonwealth has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue

discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds (“Premium Bonds”), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a holder’s basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such holder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective holders of the Bonds are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a holder’s federal or state tax liability. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the holder or the holder’s other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

#### **OPINION OF COUNSEL**

The unqualified approving opinion as to the legality of the Bonds will be rendered by Edwards Wildman Palmer LLP, of Boston, Massachusetts, Bond Counsel to the Commonwealth. The proposed form of the opinion of Bond Counsel relating to the Bonds 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.

#### **CONTINUING DISCLOSURE**

In order to assist the successful bidder in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix C attached hereto.

For information concerning the availability of certain other financial information from the Commonwealth, see the Commonwealth 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 Bonds.

## 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, including, in particular, the current unprecedented adverse global financial market and economic conditions, 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.



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**SUPPLEMENT DATED SEPTEMBER 24, 2012**

**TO**

**THE COMMONWEALTH OF MASSACHUSETTS**

**INFORMATION STATEMENT**

**DATED SEPTEMBER 10, 2012**

The Commonwealth's Information Statement dated September 10, 2012 is hereby supplemented by inserting the following paragraph at the end of the section captioned "LEGAL MATTERS":

**Drug Testing Laboratory**

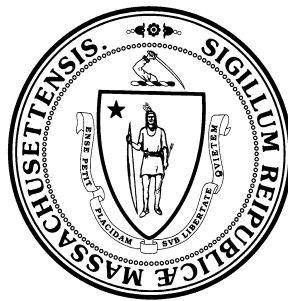
On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor has since established a central office to identify individuals who may be affected by the chemist's malfeasance, which has the potential to affect tens of thousands of criminal drug cases. There may be significant, but as yet undetermined, state costs required to account for the chemist's malfeasance. In addition, there may be costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. As neither the criminal investigation nor the determination of the number or specific cases affected has been completed, there is not sufficient information to estimate these additional state costs at this time.

**THE COMMONWEALTH OF MASSACHUSETTS**

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**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT**

**Dated September 10, 2012**

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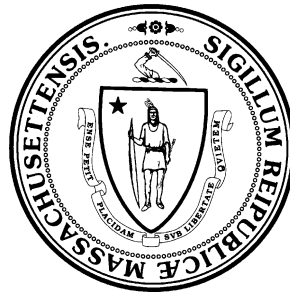
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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Deval L. Patrick.....Governor**  
**Timothy P. Murray ..... Lieutenant Governor**  
**William F. Galvin..... Secretary of the Commonwealth**  
**Martha Coakley..... Attorney General**  
**Steven Grossman..... Treasurer and Receiver-General**  
**Suzanne M. Bump ..... Auditor**

**LEGISLATIVE OFFICERS**

**Therese Murray..... President of the Senate**  
**Robert A. DeLeo..... Speaker of the House**

**THE COMMONWEALTH OF MASSACHUSETTS**

**INFORMATION STATEMENT**

**September 10, 2012**

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 3, 2012. 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 for the year ended June 30, 2011 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2011. 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, 2011.

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 (other than for debt service) prepared by the Comptroller for payment by the State Treasurer.

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), is a member of the Governor’s Cabinet. (MassDOT has a legal existence separate from the Commonwealth but houses several former departments of state government, including the Executive Office of Transportation, the Highway Department and the Department of Conservation and Recreation.) Cabinet secretaries and executive department chiefs, as well as 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 for remittance to the State Treasurer; (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. In addition, the Secretary of Administration and Finance chairs the Commonwealth Health Insurance Connector Authority and co-chairs the Massachusetts Life Sciences Center.

*State Treasurer.* The State Treasurer has four primary statutory responsibilities: (i) the collection of all state revenues (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investments 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 almost all debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds.



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

*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 contract compliance of private vendors 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 and automobile and health insurance rate setting procedures. 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 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 Chief Administrative Justice 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 the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2011, included herein by reference as Exhibit B was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2011, included herein by reference 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 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.

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. 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 was 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, 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.

## **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 articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2011, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39 (as amended), with 16 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2011 Basic Financial Statements in the CAFR, included herein by reference as Exhibit C.

## **Local Government**

All territory in the Commonwealth is in one of the 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.

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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 (the "Transportation Fund") (formerly the Highway Fund), from which approximately 95.2% of the statutory basis budgeted operating fund outflows in fiscal 2011 were made. The remaining approximately 4.8% of statutory operating fund outflows occurred in other operating funds: the Commonwealth Stabilization Fund, the Administrative Control funds, the Temporary Holding Fund, the Intragovernmental Service Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Workforce Training Fund, the Substance Abuse Prevention and Treatment Fund, and the Massachusetts Tourism Fund. There were also six 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 Bay State Competitiveness Investment Fund, and the Highway Fund. In fiscal 2011, 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, and the Inland Fisheries and Game 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.

In May, 2012, the Executive Office for Administration and Finance published a long-term fiscal policy framework to inform and guide annual budgetary decisions. The framework is intended to promote the achievement of three goals: (i) structural budgetary balance (budgetary spending based on sustainable levels of revenue, excluding fluctuations that occur as a result of economic cycles), (ii) sustainable spending growth (targeted to maintain structural balance throughout a five-year rolling forecast period and evaluated by comparing annual spending growth to projected long-term rates of revenue growth) and (iii) disciplined management of long-term liabilities (to protect intergenerational equity by preventing the costs associated with debt and unfunded retirement benefit obligations from crowding out other government services and investments in the future). The framework does not attempt to assess the proper level of services and investments, but rather how to ensure that any particular level of services is sustainable over time based on existing resources.

State finance law requires the Commonwealth to monitor revenues and expenditures during a fiscal year. For example, the Secretary of Administration and Finance is required to provide quarterly revenue estimates to the Governor and the Legislature, and 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 the 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 sufficient cash is available to meet the Commonwealth's obligations, that state expenditures are consistent with periodic allotments of annual appropriations and that 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. Upon such approval to issue debt, the Governor submits a bill to the Legislature, as required by the state constitution, 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.

Based on outstanding 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. The plan is an administrative guideline and subject to amendment at any time. The plan assigns authority for secretariats and agencies to spend on capital projects and is reviewed each fiscal year. The primary policy objectives of the plan are to determine and prioritize the Commonwealth's investment needs, to determine the affordable level of debt that may be issued and the other funding sources available to address these investment needs, and to allocate these 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. All agency 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 2012 AND FISCAL 2013 – 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 federal 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 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, fixed 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. 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. Under those procedures, debt service on the Commonwealth's bonds and notes is given the highest priority among the Commonwealth's various payment obligations.

*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 assets.

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 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 to state authorities. See Exhibit C - Comprehensive Annual Financial Report for the year ended June 30, 2011; 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 two years of all activities of the Commonwealth. The audit encompasses 750 entities, including the court system and the independent authorities, and includes an overall evaluation of management operations. The State Auditor also has the authority to audit federally aided programs and vendors under contract with the Commonwealth, as well as to conduct special audit projects. The State Auditor conducts both financial compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. In addition, and in conjunction with an independent public accounting firm, the State Auditor performs a significant portion of the audit work relating to the state single audit.

Within the State Auditor’s office is the Division of Local Mandates, which evaluates all 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 Transportation Fund (formerly the Highway Fund) and other operating budgeted funds. For purposes of this Information Statement, these funds will be referred to as budgeted operating funds, and revenues deposited in such funds will be referred to as budgeted operating revenues. In fiscal 2011, on a statutory basis, approximately 56.7% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 28.2% of such revenues, with the remaining 15.1% 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 2008 through 2011. Projections for fiscal 2012 and 2013 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 2008 through fiscal 2011, preliminary fiscal 2012 revenues and expenditures and projected revenues and expenditures for fiscal 2013.

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

	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Preliminary Fiscal 2012</u>	<u>Projected Fiscal 2013</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$351.3	\$171.5	\$68.9	\$122.0	\$400.1	\$109.3
Bay State Competitiveness Investment Fund	100	-	-	-	-	-
Stabilization Fund	2,335.0	2,119.2	841.3	669.8	1,379.1	1,539.0
Undesignated	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>	<u>121.7</u>	<u>127.8</u>
<b>Total</b>	<b><u>\$2,901.0</u></b>	<b><u>\$2,405.8</u></b>	<b><u>\$1,016.6</u></b>	<b><u>\$903.1</u></b>	<b><u>\$1,900.8</u></b>	<b><u>\$1,776.1</u></b>
<u>Revenues and Other Sources(2)</u>						
Alcoholic Beverages	71.2	71.9	71	72.7	76.1	79.5
Banks	547.8	242.6	234.9	(11.0)	266.6	83.8
Cigarettes	436.9	456.8	456.2	453.6	451.0	455.5
Corporations	1,512.2	1,548.6	1,600.3	1,951.4	1,771.1	1,733.6
Deeds	153.9	105.5	137.9	140.2	158.8	165.4
Income	12,483.8	10,583.7	10,110.3	11,576.0	11,911.4	12,720.5
Inheritance and Estate	254	259.7	221.4	309.6	293.3	281.4
Insurance	417.7	356.7	330	340.3	363.5	387.7
Motor Fuel	672.2	654	654.6	660.8	662.0	685.6
Public Utilities	120.2	(1.7)	(0.3)	(8.8)	(35.9)	(35.1)
Room Occupancy	119.2	109.5	101.6	110.4	121.6	126.6
Sales:						
Regular	2,952.2	2,799.7	3,282.8	3,476.3	3,544.4	3,703.8
Meals	632.9	629.6	759.6	813.3	868.8	920.7
Motor Vehicles	<u>501.6</u>	<u>439.3</u>	<u>569.3</u>	<u>615.2</u>	<u>646.2</u>	<u>685.6</u>
Sub-Total–Sales	4,086.7	3,868.6	4,611.7	4,904.8	5,059.4	5,310.1
Miscellaneous	<u>3.1</u>	<u>3.3</u>	<u>14.1</u>	<u>16.6</u>	<u>15.7</u>	<u>16.1</u>
<b>Total Tax Revenues</b>	<b><u>\$20,879.2</u></b>	<b><u>\$18,259.5</u></b>	<b><u>\$18,543.7</u></b>	<b><u>\$20,516.6</u></b>	<b><u>\$21,114.6</u></b>	<b><u>\$22,010.7</u></b>
MBTA Transfer	(756)	(767.1)	(767.1)	(767.1)	(779.1)	(786.9)
MSBA Transfer	(634.7)	(702.3)	(605.2)	(654.6)	(670.5)	(702.3)
WTF Transfer(3)	-	-	-	-	(19.2)	(21.4)
<b>Total Budgeted Operating Tax Revenues</b>	<b><u>\$19,488.5</u></b>	<b><u>\$16,790.0</u></b>	<b><u>\$17,171.4</u></b>	<b><u>\$19,094.9</u></b>	<b><u>\$19,648.2</u></b>	<b><u>\$20,500.1</u></b>
Federal Reimbursements	6,429.5	8,250.9	8,548.8	9,299.5	7,771.8	8,034.2
Departmental and Other Revenues	2,355.9	2,326.2	2,800.9	2,912.3	3,006.8	3,331.1
Inter-fund Transfers from Non-budgeted Funds and other sources (4)	<u>2,039.3</u>	<u>1,850.3</u>	<u>1,788.8</u>	<u>1,768.6</u>	<u>1,887.8</u>	<u>1,709.7</u>
<b>Budgeted Revenues and Other Sources</b>	<b><u>\$30,313.2</u></b>	<b><u>\$29,217.4</u></b>	<b><u>\$30,310.0</u></b>	<b><u>\$33,075.3</u></b>	<b><u>\$32,314.6</u></b>	<b><u>\$33,575.1</u></b>
Inter-fund Transfers	<u>2,226.3</u>	<u>1,963.8</u>	<u>770.8</u>	<u>3,460.9</u>	<u>668.2</u>	<u>937.0</u>
<b>Total Budgeted Revenues and Other Sources</b>	<b><u>\$32,539.5</u></b>	<b><u>\$31,181.2</u></b>	<b><u>\$31,080.8</u></b>	<b><u>\$36,536.3</u></b>	<b><u>\$32,982.8</u></b>	<b><u>\$34,512.1</u></b>
<u>Expenditures and Uses</u>						
Direct Local Aid	5,040.5	4,723.6	4,837.4	4,784.7	4,929.9	5,115.4
Medicaid (5)	8,246.3	8,679.2	9,287.6	10,237.3	10,435.0	10,991.0
Other Health and Human Services	4,796.5	4,828.3	4,616.6	4,614.8	4,771.4	4,876.7
Group Insurance	852.5	973.1	1,063.8	1,130.3	1,201.1	1,306.4
Department of Elementary and Secondary Education	485.8	495.9	358.1	349.4	507.7	553.8
Higher Education	1,084.4	1,035.5	845.6	943.0	926.5	940.1
Department of Early Education and Care	549.9	560.3	513.5	515.1	504.8	499.6
Public Safety	1,544.4	1,514.3	1,423.2	905.0	1,453.4	1,458.0
Energy and Environmental Affairs	227.1	215.9	202.2	185.6	188.1	203.7
Debt Service	1,990.1	2,011.7	1,979.9	1,663.9	2,208.4	2,422.8

	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Preliminary Fiscal 2012</u>	<u>Projected Fiscal 2013</u>
Post Employment Benefits (6)	1,398.6	1,314.4	1,748.6	1,838.9	1,892.3	1,967.0
Other Program Expenditures	<u>2,414.1</u>	<u>2,350.9</u>	<u>2,509.0</u>	<u>2,850.4</u>	<u>1,972.1</u>	<u>2,072.4</u>
<b>Total - Programs and Services before transfers to Non-budgeted funds</b>	<b>\$28,630.2</b>	<b>\$28,703.1</b>	<b>\$29,384.5</b>	<b>\$30,018.6</b>	<b>\$30,990.7</b>	<b>\$32,406.9</b>
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	1,045.9	987.6	631.7	739.0	614.9	740.3
State Retiree Benefit Trust Fund (7)	\$354.7	\$352.0	-	-	-	-
Medical Assistance Trust Fund	376.7	374	313.3	886.1	234.0	394.0
Massachusetts Transportation Trust Fund	-	-	(6)	195.1	180.1	166.6
Other	<u>400.9</u>	<u>189.9</u>	<u>94.1</u>	<u>238.8</u>	<u>419.7</u>	<u>375.6</u>
<b>Total Inter-Fund Transfers to Non-Budgeted Funds</b>	<b>\$2,178.2</b>	<b>\$1,903.5</b>	<b>\$1,039.1</b>	<b>\$2,059.0</b>	<b>\$1,448.7</b>	<b>\$1,676.5</b>
Budgeted Expenditures and Other Uses	<u>\$30,808.4</u>	<u>\$30,606.6</u>	<u>\$30,423.6</u>	<u>\$32,077.6</u>	<u>\$32,439.4</u>	<u>\$34,083.4</u>
Inter-fund Transfers	<u>2,226.3</u>	<u>1,963.8</u>	<u>770.8</u>	<u>3,460.9</u>	<u>668.2</u>	<u>937.0</u>
<b>Total Budgeted Expenditures and Other Uses</b>	<b>\$33,034.7</b>	<b>\$32,570.4</b>	<b>\$31,194.4</b>	<b>\$35,538.5</b>	<b>\$33,107.6</b>	<b>\$35,020.4</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>(\$495.2)</b>	<b>(\$1,389.2)</b>	<b>(\$113.6)</b>	<b>\$997.8</b>	<b>(\$124.8)</b>	<b>(\$508.3)</b>
<u>Ending Fund Balances</u>						
Reserved or Designated (8)	171.5	68.9	122	400.1	109.3	19.2
Stabilization Fund	2,119.2	841.3	669.8	1,379.1	1,539.0	1,284.1
Undesignated	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>	<u>121.7</u>	<u>127.8</u>	-
<b>Total</b>	<b>\$2,405.8</b>	<b>\$1,016.6</b>	<b>\$903.1</b>	<b>\$1,900.8</b>	<b>\$1,776.1</b>	<b>\$1,303.3</b>

SOURCES: Fiscal 2008-2011, Office of the Comptroller; fiscal 2012 and fiscal 2013, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Distribution of fiscal 2013 tax estimate by various tax categories is subject to revision if and when the fiscal 2013 estimate is revised during fiscal 2013.
- (3) The fiscal year 2012 budget adopted changes to the Workforce Training Fund, which annually is funded through employer contributions for workforce training initiatives for incumbent workers in the private sector. Beginning in fiscal 2012 the WTF will not be subject to annual appropriation and the employer contributions, estimated at \$19.2 million, are transferred directly to the WTF after their collection.
- (4) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.
- (5) Fiscal 2008 through fiscal 2009 included program administration.
- (6) Starting in fiscal 2010 Post Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.
- (7) Transfers of approximately \$133.4 million in fiscal 2010 are included in "Other Program Expenditures" above.
- (8) Consists largely of appropriations from previous years, authorized to be expended in current years.

## State Taxes

The major components of state taxes are the income tax, which accounted for approximately 56.4% of the preliminary total tax revenues in fiscal 2012, the sales and use tax, which accounted for approximately 24.0%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which accounted for approximately 11.0%. Other tax and excise sources accounted for the remaining 8.6% of total fiscal 2012 tax revenues.

*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% has been applied to most types of income since January 1, 2002, although the rate was recently reduced to 5.25%, 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 5.25% (effective January 1, 2012). Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Under current law, the state personal income tax rate on most classes of taxable income is scheduled to be gradually reduced 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) growing by 2.5% more than the rate of inflation as measured by the consumer price index for all urban consumers in Boston. 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 was reduced from 5.3% to 5.25%, effective January 1, 2012, because the growth in fiscal 2011 inflation-adjusted baseline revenues, as defined in the law, 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. The Department of Revenue estimates that the revenue impact of this rate reduction (5.3% to 5.25%) for fiscal 2012 was between \$52 million and \$56 million. The revenue impact for fiscal 2013 (assuming no further rate reduction in calendar year 2013) is expected to be between \$111 million and \$117 million.

The state income tax rate will be reduced further from 5.25% to 5.20%, effective January 1, 2013, if the growth in fiscal 2012 inflation-adjusted baseline revenues, as defined in the law, over fiscal 2011 exceeds 2.5%, and if for each consecutive three-month period starting in August and ending in November, 2012 there is positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2011. On September 6, 2012, the Commissioner of Revenue certified that fiscal 2012 inflation-adjusted baseline revenues grew by 2.77% from fiscal 2011, exceeding the initial trigger (2.5%) for the income tax rate reduction. To determine if there will be positive inflation-adjusted baseline revenue growth for each consecutive three-month period starting in August and ending in November, 2012 as compared to the same consecutive three-month period in calendar 2011, the Commissioner will issue four more "three-month period" certifications on September 17, 2012, October 15, 2012, November 15, 2012 and December 17, 2012. Accordingly, it will not be known if the rate reduction will be triggered until the Commissioner issues a final certification on December 17, 2012 as to whether all of the statutory triggers were met. The Department of Revenue estimates that the revenue impact of this rate reduction (5.25% to 5.20%) for fiscal 2013 would be between \$50 million and \$64 million. The revenue impact for fiscal 2014 (assuming no further rate reduction in calendar year 2014) would be between \$110 million and \$124 million.

As of July 1, 2010, the Department of Revenue is required to issue a report by November 30 of each year estimating the total revenues collected during the preceding fiscal year from capital gains. If this amount is in excess of \$1 billion it is to be transferred to the Commonwealth's Stabilization Fund. As a part of this annual certification process the Department of Revenue has provided quarterly estimates of tax revenues collected from capital gains income after each quarter to the State Comptroller during fiscal 2012. On July 20, 2012, the Department of Revenue certified this amount for fiscal 2012 to be \$915.5 million. In November, 2012, the Department of Revenue will determine and certify the final amount for fiscal 2012 after compiling and reviewing more complete data. The same quarterly and annual certification process will be repeated during fiscal 2013.

*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 and \$916 million to \$954 million in fiscal 2012, and that it will result in additional revenues of \$945 million to \$985 million in fiscal 2013.

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. As of enactment of the fiscal 2004 general appropriations act, this fund is no longer 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 trust 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), with 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.

Beginning in fiscal 2011, a portion of the Commonwealth’s receipts from the sales tax (other than taxes required to be credited to the Convention Center Fund) is dedicated to the Commonwealth Transportation Fund. The amount dedicated is 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. Included in this amount is \$100 million of general obligation contract assistance payments from the Commonwealth to the Massachusetts Department of Transportation. See “LONG TERM LIABILITIES – General Obligation Contract Assistance Liabilities” herein.

*Business Corporations Tax.* Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads, public utilities 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. See discussion below under “Corporate Tax Reform” for a discussion of changes to the corporate tax structure and the business corporations’ tax rates.

*Corporate Tax Reform.* On July 3, 2008, the Governor approved legislation that changed the corporate tax structure in Massachusetts from a “separate company” reporting state to a “combined reporting” state, effective January 1, 2009. Under a combined reporting structure, commonly owned business corporations (together with financial institutions, public utilities and certain other entities) engaged in a “unitary” business, whether or not they have nexus in Massachusetts, determine their income as one combined business in the aggregate. The combined income of the group is then apportioned to Massachusetts in accordance with the existing apportionment rules and taxed to those members of the group that have nexus in Massachusetts. Transactions between member companies are generally disregarded.

The legislation also repealed the differences between federal and Massachusetts business entity classification rules for tax purposes so that companies will be classified as the same type of legal entity for federal and Massachusetts tax purposes. The new law retained the existing structure for different types of corporations – business corporations, manufacturers, financial institutions, utilities and S corporations, with different tax rates and apportionment rules.

Together with these structural changes, the legislation reduced the then current 9.5% business corporations’ tax rate to 8.75% as of January 1, 2010, 8.25% as of January 1, 2011 and 8.00% as of January 1, 2012 and thereafter.

Massachusetts tax law imposes an entity level tax on S corporations with more than \$6 million in annual receipts. The corporate tax reform legislation also reduced the tax rate for S corporations with more than \$9 million in annual receipts so that the regular, non-S corporation rate (for a business corporation or financial institution, as applicable) for the year minus the personal income tax rate for the year equals the rate for such S corporations. The

tax rate for S corporations with between \$6 million and \$9 million in annual receipts will equal two-thirds of the rate applicable to the larger S corporations.

The Department of Revenue estimates that, prior to the so-called FAS 109 deduction (described in the following paragraph), the structural corporate tax law changes, combined with the gradual reductions in the business corporations tax rate, the large S corporations tax rates and the financial institutions tax rate (see "*Financial Institutions Tax*" below), increased revenues by approximately \$185.2 million in fiscal 2009 (reflecting less than a full year's impact of the changes), \$252.8 million in fiscal 2010 and \$173.8 million in fiscal 2011, and will increase revenues by \$128.5 million in fiscal 2012 and \$107.7 million in fiscal 2013 and thereafter.

*FAS 109 Deduction.* The corporate tax reform described above 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 will be claimed. Corporations are required to claim deductions over a seven-year period starting in tax year 2012. These deductions are 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. See "FISCAL 2012 AND FISCAL 2013 – Fiscal 2013" for information on the delay of the implementation of the FAS 109 deduction for one year, which was enacted as part of the fiscal 2013 budget.

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. However, beginning January 1, 1996, legislation was phased in over five years establishing a "single sales factor" apportionment formula for the business corporations tax for manufacturing companies. The formula calculates a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. Beginning January 1, 1997, legislation was phased in which sourced income of mutual fund service corporations to the states of domicile of the shareholders of the mutual funds that receive services instead of sourcing the sales to the state where the mutual fund provider bore the cost of performing services.

*Financial Institutions Tax.* Financial institutions (which include commercial and savings banks) are subject to an excise tax. The corporate tax reform legislation discussed above also provides for a reduction in the financial institutions tax rate from 10.5% to 10% as of January 1, 2010, 9.5% as of January 1, 2011 and 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.* Public utility corporations are subject to an excise tax of 6.5% on net income.

*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, among other tax sources. The excise tax on motor fuels is 21¢ per gallon. The state tax on hotel/motel room occupancy is 5.7%.

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 between \$140 million and \$150 million, and resulted in a fiscal 2010 revenue

increase of \$124 million, compared to revenue generated at the \$1.51 per pack rate. The Department of Revenue estimates that revenue increases in subsequent years should also be between \$115 million and \$130 million annually.

*ARRA “De-coupling.”* The fiscal 2010 budget included several provisions “decoupling” Commonwealth tax law from certain federal tax law changes made by the American Recovery and Reinvestment Act of 2009 (ARRA) and, in one instance, from the impact of an interpretation by the federal Internal Revenue Service that was effectively repealed (but only prospectively) by ARRA. The purpose of the decoupling provisions is to prevent revenue losses to the Commonwealth. The federal provisions at issue are ones that affect the scope of income or deductions of businesses under the federal Internal Revenue Code (IRC) and, in the absence of decoupling, would also apply for purposes of Commonwealth taxation. The specific federal provisions from which the Commonwealth legislation decouples include: (a) deferral of the recognition of certain cancellation of indebtedness income under the IRC; (b) suspension of IRC rules that would otherwise disallow or defer deductions for original issue discount claimed by issuers of debt obligations; and (c) relief from certain limitations on the use of losses after changes of ownership of a business under (i) IRS Notice 2008-83 (for periods prior to its effective repeal by ARRA) and (ii) new IRC Section 382(n) as added by ARRA.

In addition, the Commonwealth legislation specifically adopts a new federal exclusion from gross income of certain individuals. ARRA provides a subsidy of 65% of the cost of the Consolidated Omnibus Budget Reconciliation Act (or “COBRA,” which gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances) continuation premiums for up to nine months for certain involuntarily terminated employees and for their families. This subsidy also applies to health care continuation coverage if required by states for small employers. ARRA provides for an exclusion from federal gross income of the COBRA subsidy. Because Commonwealth personal income tax law generally adopts IRC rules defining the scope of gross income as of January 1, 2005, it was necessary to adopt a specific Commonwealth exclusion to prevent this 2009 federal subsidy from being included in the Commonwealth taxable income of affected employees.

*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. The annual “tax expenditure budget” filed by the Governor provides a list, description and revenue estimate of various tax credits and incentives (the fiscal 2013 tax expenditure budget is available on the Commonwealth’s website at [www.mass.gov](http://www.mass.gov) and clicking on the link to “Transparency,” then “Your State Budget.”)

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 \$276.1 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue. 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 and fiscal 2012 revenues by between \$70 million and \$90 million, and will reduce fiscal 2013 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 most recent report is available at the Department’s website at [www.mass.gov/dor](http://www.mass.gov/dor) and by clicking on “Tax Professionals; News and Reports; Other Reports; Massachusetts Film Industry Tax Incentive Report.”)

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 fiscal 2012 budget administratively reduced fiscal year 2012 tax expenditures by about \$5 million (without reducing statutory authorizations) by limiting the actual tax credits that would be refunded or used by eligible corporations. The fiscal 2013 budget does not include a similar reduction.

The Department of Revenue estimates that this program resulted in a revenue reduction of \$5 million in fiscal 2010, a revenue reduction of \$20 million in fiscal 2011 and a probable revenue reduction between \$18 million and \$22 million in fiscal 2012, and that it will result in a revenue reduction between \$23 million and \$27 million in fiscal 2013.

*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 and March 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 following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before January 15 of each year, 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. Beginning in fiscal 2005, state finance law has required that the consensus tax revenue forecasts be net of the amount necessary to fully fund the pension system according to the applicable funding schedule, which amount is to be transferred without further appropriation from the General Fund to the Commonwealth’s Pension Liability Fund. See “Employee Benefits; Pension” below.

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2008 to 2013. Figures for fiscal 2012 are preliminary, and figures for fiscal 2013 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 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Preliminary Fiscal 2012</u>	<u>Projected Fiscal 2013</u>
Consensus forecast	\$19,879	\$20,987	\$17,989	\$19,050	\$20,525	\$21,950
<b>Total taxes per enacted budget</b>	<u>\$19,879</u>	<u>\$21,402</u>	<u>\$18,879</u>	<u>\$19,078</u>	<u>\$20,615</u>	<u>\$22,011</u>
October revision	20,225	20,302	18,279	-	21,010	-
January revision	20,225	19,450	18,460	19,784	-	-
April revision	-	19,333	-	-	-	-
May revision	-	18,436	-	-	-	-
<b>Actual budgeted operating tax revenues</b>	<u>\$20,879</u>	<u>\$18,260</u>	<u>\$18,544</u>	<u>\$20,517</u>	<u>\$21,117</u>	N/A
Actual revenues as a percentage of consensus forecast	105%	87%	103%	108%	103%	N/A
Actual revenues as a percentage of total taxes per enacted budget	105%	85%	98%	108%	102%	N/A

SOURCE: Executive Office for Administration and Finance.

### Fiscal 2012 and Fiscal 2013 Tax Revenues

*Fiscal 2012.* The fiscal 2012 budget approved by the Governor on July 11, 2011 assumed tax revenues of \$20.636 billion, reflecting the fiscal 2012 consensus tax estimate of \$20.525 billion which was adjusted for the impact of revenue initiatives enacted as part of the budget, most notably including a one-year delay of the FAS 109 deductions (\$45.9 million) and enhanced tax enforcement initiatives (\$61.5 million). On August 1, 2011, the Governor approved legislation establishing a sales tax holiday on August 13-14, 2011. The \$20.615 billion estimate also reflected the revenue loss impact from this two-day sales tax holiday, which was expected to be \$20.9 million. (The estimate of \$20.9 million was certified by the Commissioner of Revenue on December 30, 2011). On October 17, 2011, the Secretary of Administration and Finance, based on available data on tax revenue collections and economic trends, revised the fiscal 2012 tax revenue estimate from \$20.615 billion to \$21.010 billion.

Preliminary tax revenues for fiscal 2012, ended June 30, 2012, totaled approximately \$21.115 billion, an increase of approximately \$598 million, or 2.9%, over fiscal 2011. The following table shows the tax collections for fiscal 2012 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 in each month of fiscal 2012 that were dedicated to the MBTA and the MSBA.

### Fiscal 2012 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(3)</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,444.6	\$91.9	6.8%	\$59.6	\$59.6	\$1,325.3
August	1,425.3	39.7	2.9	54.1	54.1	1,317.0
September	2,195.8	180.8	9.0	81.0	52.4	2,062.4
October	1,448.8	105.8	7.9	56.4	56.5	1,335.9
November	1,363.3	(63.3)	(4.4)	52.9	52.9	1,257.5
December	1,967.3	(105.0)	(5.1)	85.4	57.3	1,824.5
January	2,038.6	(14.1)	(0.7)	67.4	67.4	1,903.7
February	1,011.1	78.5	8.4	49.6	49.6	911.8
March	1,802.1	28.3	1.6	77.7	49.6	1,674.7
April	2,507.5	2.1	0.1	58.0	58.0	2,391.6
May	1,616.9	112.2	7.5	54.7	54.7	1,507.4
June(1)	2,293.4	141.1	6.3	82.1	53.8	2,153.1
<b>Total (2)</b>	<b>\$21,114.6</b>	<b>\$598.0</b>	<b>2.9%</b>	<b>\$779.1</b>	<b>\$670.5</b>	<b>\$19,665.0</b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

(3) Figures for September, December, March and June include quarterly adjustments of \$28.6 million, \$28.1 million, \$28.1 million and \$23.8 million, respectively, to cover shortfalls between fiscal 2012 dedicated sales tax revenue and the base revenue amount statutorily required to be credited to the MBTA. These adjustments are reflected in the final month of each quarter, but are calculated and transferred to the MBTA following the close of each quarter.

The tax revenue increase of approximately \$598 million in fiscal 2012 from fiscal 2011 is attributable, in large part, to an increase of approximately \$330.9 million, or 3.5%, in withholding collections, an increase of approximately \$17.0 million, or 1.0%, in income payments with returns and bills, a decrease of approximately \$6.7 million, or 0.5%, in income cash refunds, an increase of approximately \$154.6 million, or 3.2%, in sales and use tax collections and an increase of approximately \$92.2 million, or 4.1%, in corporate and business collections, which were partly offset by a decrease of approximately \$24.2 million, or 1.3%, in income cash estimated payments. Preliminary fiscal 2012 total tax collections were approximately \$105 million above the fiscal 2012 tax revenue estimate of \$21.010 billion.

*Fiscal 2013.* On January 12, 2012, a fiscal 2013 consensus tax revenue estimate of \$21.950 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 2013 consensus tax revenue estimate of \$21.950 billion represents revenue growth of 4.5% actual and 5.4% baseline from the revised fiscal 2012 estimate of \$21.010 billion. The revenue estimate in the fiscal 2013 budget is \$22.011 billion and reflects the consensus estimate of \$21.950 billion adjusted for the impact of fiscal 2013 revenue initiatives enacted as part of the budget, including a one-year delay of the FAS 109 deductions (increase of \$45.9 million), enhanced tax enforcement initiatives (increase of \$36.3 million) and the revenue loss impact of \$21.6 million for the subsequently enacted two-day sales tax holiday on August 11-12, 2012.

Preliminary tax revenues for the first two months of fiscal 2013, ended August 31, 2012, totaled approximately \$2.870 billion, a decrease of approximately \$0.4 million, or 0.02%, compared to the same period in fiscal 2012. The following table shows the tax collections for the first two months of fiscal 2012 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 same two-month period that are dedicated to the MBTA and the MSBA.

**Fiscal 2013 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	\$1,453.4	\$8.8	0.6%	\$60.5	\$605	\$1,332.4
August	1,416.9	(8.4)	(0.6)	55.6	55.6	1,305.6
<b>Total (2)</b>	<b>\$2,870.3</b>	<b>(\$0.4)</b>	<b>(0.02%)</b>	<b>\$116.2</b>	<b>\$116.2</b>	<b>\$2,638.0</b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

The year-to-date tax revenue decline of approximately \$0.4 million through August 31, 2012 from the same period in fiscal 2012 is attributable, in large part, to a decline of approximately \$37.1 million, or 2.4%, in withholding collections, a decrease of approximately \$7.5 million, 12.5%, in income payments with returns and bills, which were partly offset by an increase of approximately \$12.0 million, 30.7%, in income cash estimated payments, an increase of approximately \$28.4 million, or 3.3%, in sales and use tax collections and an increase of approximately \$11.7 million, or 11.8%, in corporate and business collections. Year-to-date fiscal 2013 tax collections (through August) were approximately \$68.7 million below the benchmark for the fiscal 2013 tax revenue estimate of \$22.011 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 2011 were \$9.300 billion, including \$1.244 billion as a result of enhanced federal medical assistance percentage (FMAP) reimbursement under the American Recovery and Reinvestment Act (ARRA). Federal reimbursements for fiscal 2012 and 2013 are currently projected to be \$7.772 and \$8.034 billion, respectively.

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2011, departmental and other non-tax revenues were \$2.912 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2011 included \$461.3 million for Registry of Motor Vehicles fees, fines and assessments, \$215.3 million from filing, registration and other fees paid to the Secretary of State's office, \$116.2 million in fees, fines and assessments charged by the court systems and \$68.9 million in tuition remitted to schools of higher education. Fiscal 2012 and 2013 departmental and other non-tax revenues are projected to be \$3.007 and \$3.331 billion, respectively.

*Lottery Revenues.* For the budgeted operating funds, inter-fund transfers include transfers of profits from the State Lottery 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 \$1.103 billion, \$1.128 billion, \$1.003 billion, \$989.7 million and \$976.5 million in fiscal 2007 through 2011, respectively. Under state law, the net balance in the State Lottery 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 Lottery Commission's operating revenues for fiscal 2011 were \$976.5 million. The result was a deficit of \$10 million against the assumed \$986.5 million budget to fund various commitments appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund, including Lottery administrative expenses, and \$812.2 million in appropriations for local aid to cities and towns.

As enacted, the fiscal 2012 budget assumed total transfers from the Lottery of \$986.5 million to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses and \$809.8 million in appropriations for local aid to cities and towns, with the balance, if any to be transferred to the General Fund for the general activities of the Commonwealth. During fiscal 2012, the State Lottery Commission has revised its profit projections several times, most recently on July 23, 2012 to \$1.074 billion, which would result in excess budgetary transfers to the General Fund of \$86.6 million.

As enacted, the fiscal 2013 budget assumed total transfers from the Lottery of \$1.025 billion.

A five-year history of Lottery revenues and profits is shown in the following table as well as current projections for fiscal 2013.

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

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Net Operating Revenues</u>	<u>Net Profits</u>
2013(1)	\$4,663,594	\$1,024,918	\$926,830
2012(1)	4,741,160	1,073,752	981,425
2011	4,427,961	976,547	887,913
2010	4,423,732	989,727	903,486
2009	4,442,924	959,007	859,407
2008	4,709,343	1,014,430	913,048

Source: State Lottery Commission

(1) Fiscal 2012 figures are preliminary; fiscal 2013 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 \$8.3 billion through 2025, 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 master settlement agreement, and certain manufacturers

withheld payments to the states due in April, 2006, April, 2007, April 2008, April, 2009, April 2010 and April 2011. 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.

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. Beginning in fiscal 2003, however, the Commonwealth has appropriated the full amount of tobacco settlement receipts in each year’s budget. The balance accumulated in the Health Care Security Trust amounted to \$509.7 million at the end of fiscal 2007. 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 employee’ retirement system for health care and other non-pension benefits for retired members of the system. In fiscal 2008 the Health Care Security Trust’s balance was transferred to the State Retiree Benefits Trust Fund. The fiscal 2010, 2011 and 2012 budgets transfer all payments received by the Commonwealth in fiscal 2010, 2011 and 2012 pursuant to the master settlement agreement from the Health Care Security Trust to the General Fund. The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of the annual tobacco payments are to be transferred to the State Retiree Benefits Trust Fund (projected to be approximately \$27.6 million in fiscal 2013), with the difference deposited to the General Fund, and that the amount deposited to the State Retiree Benefits Trust Fund is to increase by 10% increments annually thereafter until 100% of all payments are transferred to that Fund. The fiscal 2013 budget, as enacted by the Legislature, disregarded this provision and would have deposited all fiscal 2013 tobacco payments into the General Fund. The Governor vetoed this section of the fiscal 2013 budget because of its inconsistency with the fiscal 2012 budget requirement to deposit 10% of such payments in the State Retiree Benefits Trust Fund. 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. Since fiscal 2006 certain amounts have been withheld from each year’s payments by tobacco manufacturers in relation to ongoing disputes of payment calculations. Those withheld amounts have ranged from \$21 million to \$35 million and are not included in the table below. The Commonwealth continues to pursue these disputed payments. See “LEGAL MATTERS – Other Revenues.”

**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
<b>Total</b>	<b><u>\$434.00</u></b>	<b><u>\$3,101.50</u></b>	<b><u>\$3,535.60</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. In fiscal 2012, the Comptroller transferred \$375.0 million received on account of settlements and judgments. Such transfers are made

on a bi-monthly basis. There have been no such settlement or judgment payments during the first two months of fiscal 2013.

*Gaming.* On November 22, 2011 the Governor approved legislation that authorize 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 and \$25 million for the slot facility. Neither the sponsors of the legislation nor the Executive Office for Administration and Finance have released any cost or revenue projections. The fiscal 2013 budget does not assume any revenue from expanded gaming.

### **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.”

Tax revenues in fiscal 2007 through 2011 were lower than the “allowable state tax revenue” limit set by Chapter 62F, and are expected to be lower than the limit in fiscal 2012.

### **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. In fiscal 2012, approximately \$4.93 billion of the Commonwealth’s budget was allocated to direct local aid. The Commonwealth’s budget for fiscal 2013 provides \$5.12 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 specified in Chapter 70 of the General Laws 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 the Chapter 70 program which was adjusted to resolve aspects of the formulas that were perceived to be creating inequities in the aid distribution. The fiscal 2013 budget includes state funding for Chapter 70 education

aid of \$4.17 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 \$40 per pupil, and is an increase of \$173 million over the fiscal 2012 state-supported amount of \$3.99 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 2013 budget provided for cities and towns to receive \$898.9 million in unrestricted general government aid, with funding allocated to ensure level funding to fiscal year 2012 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 2012, the aggregate property tax levy grew from \$3.347 billion to \$12.5 billion, a compound annual growth rate of 4.34%.

#### **Medicaid and the Commonwealth Care Trust Fund**

*MassHealth.* The Commonwealth's Medicaid program, called MassHealth, provides health care to low-income children and families, certain 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. Starting from fiscal 1999, payments for some children's benefits became 65% federally reimbursable under the Children's Health Insurance Program (CHIP).

For fiscal 2012, 33.44% of the Commonwealth's budget is devoted to MassHealth and Commonwealth Care. Health care expenditure is the largest and has been one of the fastest growing items in the Commonwealth's budget. Medicaid spending from fiscal 2007 to fiscal 2012 is estimated to have grown by 6.08% on a compound annual basis (including Medicaid administrative expenses and off-budget Medicaid expenses). During the same period, Medicaid enrollment is estimated to have increased 3.9% on a compound annual basis, driven largely by eligibility expansions and the individual mandate prescribed by the 2006 health care reform legislation. The economic recession has additionally contributed to Medicaid membership increases from fiscal year 2009 to 2012.

Estimated spending in fiscal 2012 is \$10.435 billion for MassHealth programs and includes almost \$588 million in savings achieved through a variety of initiatives, including but not limited to rate restructuring, program integrity efforts, capitation cost control and payment strategies. In fiscal 2012, the Governor and the Legislature approved \$35 million in additional funding to cover the restoration of Adult Day Health Medicaid benefit cut in the original fiscal 2012 budget. MassHealth ended fiscal 2012 without further supplemental funding.

The fiscal 2013 budget includes \$10.991 billion for the MassHealth program. This is approximately 5.3%, or \$556 million, higher than fiscal 2012 estimated spending of \$10.435 billion. Between fiscal 2012 and fiscal 2013 MassHealth has controlled health care cost growth for an annual average increase of 3.6%. The fiscal 2013 budget fully maintains eligibility for MassHealth and funds projected enrollment growth of 2.79%. The budget keeps MassHealth costs affordable for the Commonwealth and members by maintaining appropriate discipline on rates, instituting new program integrity measures and restructuring certain benefits. In light of fiscal challenges, the MassHealth adult dental benefit will continue to be restructured to cover preventative and emergency services but not full restorative dental services. The fiscal 2013 budget provides funding for adult dental fillings for front teeth, effective January, 2013, which was previously cut under the dental restructuring. The restructuring of dental benefits is not expected to affect children or developmentally disabled members (DDS), and other members are expected to be able to have access to restorative dental services at Community Health Centers through the Health Safety Net.

The fiscal 2013 budget expands funding for MassHealth in several areas, eliminates some savings initiatives assumed in the Governor's fiscal 2013 budget recommendations and increases investments in key areas. The fiscal 2013 budget supports a total investment of \$26 million for infrastructure capacity building grants for non-safety net hospitals (\$20 million), critical-access hospitals (\$3 million), and community health centers and patient centered medical homes (\$3 million). Nursing home rates received level funding from fiscal 2012 and include \$2.8 million for pay-for-performance incentive payments. MassHealth plans to expand hospice benefits to MassHealth Essential and Basic members and anticipates savings by facilitating transitions from inpatient to community settings for end-of-life care. The fiscal 2013 budget also adds administrative funding to ramp up MassHealth operations (\$1 million) and funding for the implementation of national health care reform initiatives and payment reform (\$0.75 million).

### **Medicaid Expenditures and Enrollment (in millions)**

	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010(2)</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012(1)</u>	<u>Fiscal 2013(1)</u>
<b>Budgeted Medicaid program expenses</b>	\$8,102.5	\$8,552.0	\$9,288.3	\$10,240	\$10,435	\$10,991
<b>Budgeted Medicaid administrative expenses</b>	132.4	143.7	90.8	\$86.5	\$83.5	\$87.2
<b>Off-Budget Medicaid expenses</b>	-	-	-	-	-	-
<b>Total expenditures</b>	\$8,234.9	\$8,695.70	\$9,379.1	\$10,326.5	\$10,518.8	\$11,078.6
<b>Annual percentage growth in total expenditures</b>	5.1%	5.6%	7.8%	10.1%	1.9%	5.3%
<b>Enrollment (in member months)</b>	1,139,284	1,177,922	1,235,907	1,316,625	1,355,030	1,392,852
<b>Annual percentage growth in enrollment</b>	4.1%	3.4%	4.9%	4.11%	2.92%	2.79%

SOURCE: Executive Office for Administration and Finance.

(1) Fiscal 2012 and 2013 figures are estimated.

(2) The Executive Office of Health and Human Services and Medicaid administrative budget for fiscal 2010 was reduced due to the shifting of information technology resources to a new account.

*Commonwealth Care.* State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority to, among other things, administer the new Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300% of the federal poverty level and who do not have access to employer-sponsored insurance. Commonwealth Care began enrolling individuals on October 1, 2006.

In addition to the Commonwealth Care program, the Connector Authority also administered the Commonwealth Care Bridge program during fiscal 2010 through fiscal 2012. The Commonwealth Care Bridge program was established to provide coverage for certain legal permanent residents known as aliens with special status (AWSS) that were enrolled in Commonwealth Care prior to the suspension of their eligibility by the Legislature at the beginning of fiscal 2010. On January 5, 2012, the Supreme Judicial Court held that the Massachusetts statute limiting the eligibility of many legal immigrants for Commonwealth Care violates the equal protection provisions of the Massachusetts Constitution. The Connector Authority has since re-integrated the former Commonwealth Care Bridge population into the Commonwealth Care program and has reinstated eligibility for the remaining AWSS population to apply for and enroll in the program. The Connector Authority estimates that over 24,000 new members, in addition to the 13,400 previously enrolled in Commonwealth Care Bridge, will enroll in the Commonwealth Care program as a result. While current Commonwealth Care members are eligible for federal reimbursement, AWSS members are not eligible.

At the end of fiscal 2012, approximately 187,364 members were enrolled in Commonwealth Care. Enrollment includes integrated legal immigrants previously enrolled in the Bridge program. Estimated fiscal 2012 spending on Commonwealth Care members, including AWSS members, is \$777 million. This cost estimate reflects gross funding needs of the program (net of enrollee contributions) and does not account for federal reimbursement under the Commonwealth's Medicaid waiver nor for the non-federally reimbursable members. The fiscal 2012 spending estimate also includes funding of \$43 million to cover both the continuation of the Bridge program from July, 2011 to February, 2012 and the re-integration of legal immigrants into Commonwealth Care from March, 2012 through the end of the fiscal year.

The fiscal 2013 budget provides \$904 million for both the federally reimbursable and non-reimbursable populations in Commonwealth Care. These funds are designed to maintain eligibility for the program and pay for additional enrollment (including coverage for individuals that transition from the Medical Security Plan to Commonwealth Care after their unemployment benefits expire). The budget does not assume any increases in Commonwealth Care base enrollee premiums. The fiscal 2013 budget includes \$143 million for those Commonwealth Care members who are not eligible for federal reimbursement. Also included in the fiscal 2013 budget is \$0.5 million to fund a program enacted in 2010 that requires the Connector to offer premium discounts, as rebates, for certain small businesses that purchase coverage through Commonwealth Choice and set up wellness programs for their employees. The fiscal 2012 budget saw an expansion in the premium rebates to 15% of the premium cost. This expansion continued to be supported in the fiscal 2013 budget. The fiscal 2013 budget also provides \$30 million to support the Health Safety Net Trust Fund.

Commonwealth Care, the Commonwealth Choice wellness subsidy and support for the Health Safety Net Trust Fund are funded through the Commonwealth Care Trust Fund (CCTF). The trust fund is supported by transfers from the General Fund and several dedicated revenue sources, including:

- Fair Share Assessment: The "Fair Share" test requires employers with over 11 full-time equivalents to either make a "fair and reasonable" contribution to health insurance for their full-time employees or pay a \$295 per employee annual assessment to the state. Revenue estimates for the fair share assessment average over \$15 million annually.
- Cigarette Tax Revenue: Starting in fiscal 2009, the state raised taxes on cigarettes by \$1 per pack and dedicated the increased revenues to the Commonwealth Care Trust Fund. These revenues are projected to total over \$120 million per year.
- Individual Tax Penalties: Adults who can afford health insurance but fail to purchase coverage are required to pay monetary penalties when filing their tax returns. These revenues are projected to generate over \$15 million in fiscal 2012 and 2013.

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*Federal 1115 MassHealth Demonstration Waiver.* The Commonwealth's 1115 waiver expired on June 30, 2011, but the Commonwealth received six successive one-month extensions from the Centers for Medicare and Medicaid Services (CMS) while renewal negotiations continued. On December 20, 2011 the waiver was renewed by CMS and will extend through June 30, 2014. The \$26.750 billion agreement, which represents a \$5.690 billion increase over the previous waiver, preserves existing eligibility and benefit levels in the Medicaid and Commonwealth Care programs and includes more than \$13.3 billion in revenue to the Commonwealth through federal financial participation. During the three-year waiver period, the Commonwealth will fully implement the federal Affordable Care Act, whose major provisions go into effect on January 1, 2014. The waiver supports spending authority to support alternative payment models and integrated care through Delivery System Transformation Initiative (DSTI) incentive payments to eligible safety net hospitals. The total amount of payments to these safety net providers over the three year period is up to \$628 million, of which up to \$82.2 million is expected to be covered by state resources annually. Legislation approved in June, 2012 supported the establishment and full funding for the trust fund, and MassHealth began implementation of the program at the end of fiscal 2012.

*Health Safety Net/Health Safety Net Trust Fund.* Overseen by the state's Division of Health Care Finance and Policy, the Health Safety Net reimburses hospitals and community health centers for health care services provided to low- and moderate-income uninsured or underinsured residents. It was formerly known as the Uncompensated Care Pool.

Success in expanding enrollment in health insurance through health care reform has resulted in decreased Health Safety Net utilization and payments. As compared to Uncompensated Care Pool fiscal 2007, Health Safety Net payments sustained a record drop through Health Safety Net fiscal 2008 (from \$661 million to \$396 million). However, recent economic conditions have caused demand in the Health Safety Net usage to increase from this level.

The fiscal 2013 budget provides \$420 million in dedicated resources for the Health Safety Net, including \$320 million from hospital and insurer assessments, \$70 million from supplemental payments made by other sources and a \$30 million contribution from the General Fund. The Division of Health Care Finance and Policy continues to monitor Health Safety Net service volume and costs, to update evolving trends relating to Trust Fund care demand. Projections will likely change as more data emerges regarding demand on the Health Safety Net, and a Health Safety Net shortfall of funding for the Health Safety Net's fiscal year 2012 of \$130 million is anticipated. These projections are largely influenced by the current economic conditions and their impacts on the Health Safety Net.

Both Commonwealth Care and Health Safety Net spending occurs in the Commonwealth Care Trust Fund. As noted above, both the Commonwealth Care program and Health Safety Net are financed by a number of different sources. The transfer to the Commonwealth Care Trust Fund detailed in the Statutory Basis Distribution of Budgetary Revenues and Expenditures table above only reflects the General Fund-supported portion of Commonwealth Care and the Health Safety Net.

*Federal Health Care Reform.* On March 23, 2010 the President signed into law a comprehensive national health reform measure, the Patient Protection and Affordable Care Act (P.L. 111-148). The United States Supreme Court rejected challenges to this law on June 21, 2012. Many of the provisions that were passed in the Affordable Care Act are similar to the Massachusetts health care reform model, including the introduction of a health insurance exchange, insurance market reforms, individual mandate requirements to ensure that individuals are accessing health insurance, and rules designed to encourage employers to contribute to health insurance for their employees. Unlike many other states, the Commonwealth will not need to devote new state funding to cover populations under the federal Medicaid expansions, as the Commonwealth is already providing coverage exceeding the new federal coverage levels. Instead, the Affordable Care Act will provide the Commonwealth with significant additional federal funding for the Commonwealth's health insurance programs for low-income individuals starting in 2014. The Commonwealth continues to analyze this legislation aggressively to identify funding opportunities and compliance requirements for the Commonwealth and to plan for regulatory and statutory adjustments needed as key provisions of national health care reform are gradually phased in (with many taking effect in 2014).

The Executive Office of Health and Human Services is coordinating a statewide effort to implement the federal health reform law and to actively pursue federal health reform grants and demonstration project opportunities to transform how health care is delivered, to expand access to health care and to support healthcare workforce training. To date, the Commonwealth has been awarded more than \$198 million in federal grant funds under the

Affordable Care Act (most notably the Early Innovator Grant which was awarded on February 16, 2011 to seven states). Projects already underway for fiscal 2013 include transforming the Health Connector into an ACA-compliant health insurance exchange, planning for the implementation of a Basic Health Plan administered by MassHealth, the development of an integrated care Dual Demonstration to improve health outcomes for individuals with both Medicare and Medicaid, enhancing the availability of community-based long-term care services and supports that help elders and persons with disabilities of all ages remain in their own homes and continued work to design and implement a single integrated eligibility system for all individuals to determine their eligibility, in real time, for state and federal subsidies when applying for health insurance coverage. These projects will be further supported by a number of key provisions enacted through supplemental appropriation acts during fiscal 2012. The provisions in these laws, among other things, designate the Health Connector as the Commonwealth's Health Insurance Exchange for purposes of the Affordable Care Act, which the Governor recently affirmed in a letter sent on July 10, 2012 to the Centers for Medicare and Medicaid Services.

*Health Care Cost Containment.* The Governor's fiscal 2013 budget proposal also assumes growth in spending for the Commonwealth's health care coverage programs, including MassHealth, Commonwealth Care and the Group Insurance Commission, will be mitigated in fiscal 2013 based on new procurement and enrollment strategies expected to drive care to lower-cost settings. Through its procurement the Connector was able to reduce premiums by 5% from the fiscal 2012 level, which is expected to save the Commonwealth tens of millions of dollars. In addition the Group Insurance Commission has held premium growth to 1.43% for fiscal 2013, the lowest increase in the last ten years which will result in further savings to the Commonwealth. With respect to MassHealth, other steps to control growth in costs are being taken, as described above under "MassHealth." In the absence of these steps to control growth in costs, the Executive Office for Administration and Finance estimates that costs in the Commonwealth's health care coverage programs would grow by approximately \$694 million in fiscal 2013.

*Payment Reform Legislation.* On August 6, 2012, the Governor approved comprehensive health payment reform legislation which was a compromise version of the bill he had filed in February, 2011. The law will move providers and payers away from fee-for-service payments toward alternative payment structures that are designed to reward integration and coordination of care for patients, reduce costs and improve quality. In addition, the new law will extend the presumptive disapproval criteria of the state Division of Insurance for premium rates in the small and non-group market. A newly created Health Policy Commission will oversee policy development necessary for the implementation of the law. The law establishes a cost growth target for the Commonwealth based on Potential Gross State Product (PGSP), which is estimated to be 3.6% for the 2012-2013 period. The growth rate of PGSP is the long-run average growth rate of the Commonwealth's economy, ignoring fluctuations due to business cycles. The cost growth target equals PGSP for the period from 2013 through 2017, PGSP minus 0.5% for the period from 2018 through 2022 and PGSP from 2023 on. However, the Health Policy Commission 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 Health Policy Commission to file performance improvement plans describing specific strategies, adjustments and action steps they propose to implement to improve cost performance. If 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.

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## Other Health and Human Services

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

<u>Expenditure Category</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Projected Fiscal 2012</u>	<u>Projected Fiscal 2013</u>
Office of Health Services						
Department of Mental Health	\$651.0	\$623.5	\$614.0	\$598.2	\$648.1	\$666.3
Department of Public Health	546.8	548.5	493.7	488.1	500.4	519.4
Division of Healthcare and Finance Policy	<u>11.7</u>	<u>14.0</u>	<u>13.4</u>	<u>14.8</u>	<u>31.3</u>	<u>28.1</u>
<b>Sub Total</b>	\$1,209.6	\$1,186.0	\$1,121.2	\$1,101.1	\$1,179.8	\$1,213.8
Office of Children, Youth, and Family Services						
Department of Social Services	\$816.2	\$810.0	\$772.1	\$741.6	\$740.30	\$759.3
Department of Transitional Assistance	814.2	859.5	724.5	736.7	776.8	778.8
Department of Youth Services	157.3	154.7	147.1	142.1	144.8	155.4
Office for Refugees and Immigrants	<u>1.6</u>	<u>1.3</u>	<u>1.0</u>	<u>1.0</u>	<u>0.2</u>	<u>0.2</u>
<b>Sub Total</b>	\$1,789.3	\$1,823.5	\$1,644.8	\$1,621.4	\$1,662.1	\$1,693.7
Office of Disabilities and Community Services						
Department of Developmental Services	\$1,228.9	\$1,250.6	\$1,247.0	\$1,278.5	\$1,328.2	\$1,372.2
Other	<u>135.9</u>	<u>133.6</u>	<u>125.7</u>	<u>124.6</u>	<u>121.3</u>	<u>115.2</u>
<b>Sub Total</b>	\$1,364.8	\$1,384.2	\$1,372.1	\$1,403.1	\$1,449.5	\$1,487.4
Department of Elder Affairs	\$293.9	\$279.7	\$257.7	\$250.2	\$239.4	\$241.3
Executive Office of Human Services (1)	92.6	101.0	192.4(2)	210.1	216.5	207.7
Veterans' Services (3)	<u>46.4</u>	<u>51.9</u>	<u>28.2</u>	<u>28.9</u>	<u>30.5</u>	<u>32.8</u>
<b>Sub Total</b>	\$432.9	\$432.6	\$478.5	\$489.2	\$486.4	\$481.8
<b>Budgeted Expenditures and Other Uses</b>	<b>\$4,796.6</b>	<b>\$4,828.3</b>	<b>\$4,616.6</b>	<b>\$4,614.8</b>	<b>\$4,777.8</b>	<b>\$4,876.7</b>

SOURCES: Fiscal 2008-2011 Office of the State Comptroller; fiscal 2012, Executive Office for Administration and Finance.

(1) Includes the Department of Medical Assistance (DMA) which was a separate department through fiscal 2004; but consolidated into the Executive Office of Human Services in fiscal 2005. Fiscal 2011 includes Medicaid program administration.

(2) Fiscal 2010 and 2011 spending includes a new IT chargeback account that incorporates IT spending in other departments within the Executive Office of Health and Human Services.

(3) Beginning in fiscal 2010, the Veterans' Benefits account, worth approximately \$30.0 million, is included in the Direct Local Aid category.

*Office of Health Services.* The Office of Health Services encompasses programs and services from the Department of Public Health, the Department of Mental Health and the Division of Health Care Finance and Policy. 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. The Division of Health Care Finance and Policy works to improve the delivery of and financing of health care by providing information, developing policies and promoting efficiency that benefit the people of the Commonwealth.

*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 Social Services, 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 (Department), 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 benefits for residents enrolled in the federal supplemental security income (SSI) program. In addition, the Department is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program (SNAP,

formerly food stamps), which provides food assistance to low-income families and individuals. Lastly, beginning in fiscal 2008, the Department established a new supplemental nutritional assistance (SNA) program, which provides small supplemental benefits to certain working families currently enrolled in the SNAP program. As noted below, this program was terminated in 2010 and reinstated in 2012.

The SNAP program provides critical nutritional support to low-income households in the Commonwealth by helping families and individuals buy healthy food. The program serves as the first line of defense against hunger. SNAP benefits are federally funded and provide an economic benefit to the state. DTA issues more than \$112 million in SNAP benefits each month. This represents more than \$2 billion per year in local production, sales and jobs for the Commonwealth, since it is estimated that each dollar in SNAP assistance generates nearly \$2 in economic activity for the state.

The SNAP caseload has increased by more than 364% since the beginning of fiscal 2002, while total Department staffing levels have decreased by more than 30% in that same time period. Between June, 2009 and March, 2011, due to its inability to meet statutory case recertification requirements and in order to avoid placing clients in jeopardy of losing their benefits, the Department processed SNAP overpayments that have been estimated at \$21 million. Subsequent process reviews showed that such over issuances had also been made to recipients of SNAP-and-Cash benefits. To prevent overpayments from recurring, the Department has since implemented automatic closure of both SNAP and SNAP-and-Cash cases with expired recertification periods. The Department is currently working with the U. S. Department of Agriculture (USDA) to confirm the total amounts of overpayments that were issued. The overpayments may give rise to a liability to the Commonwealth upon completion of discussions between the Commonwealth and USDA.

The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of aid to families with dependent children and replaced it with block grant funding for transitional assistance to needy families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at \$459.4 million annually for federal fiscal years 1997 through 2006. The Commonwealth must meet federal maintenance-of-effort requirements in order to be eligible for the full TANF grant award. In February, 2006, federal legislation reauthorized the TANF block grant providing \$459.4 million annually to the Commonwealth for the next five years, provided that the Commonwealth meets federal work requirements outlined below. Congress has continued to extend the TANF block grant multiple times. The most recent extension runs through September 30, 2012.

Under federal TANF program rules, the Commonwealth must meet the federal work participation rate (*i.e.*, the percentage of work-eligible individuals receiving assistance who are participating in work or training-related activities allowed under the program) of 50% for all families and 90% for two-parent families. The Commonwealth remains eligible under the federal program rules to lower the state's work participation rate requirement by applying credits earned through annual caseload reductions while continuing to meet federal requirements for state maintenance of effort spending. Beginning in fiscal 2008, the Commonwealth became subject to a revised methodology in determining the total annual caseload reduction credit that could be applied to the state's work participation target. Because the revised methodology, the worsened economy and the large percentage of federally work-eligible cases with state exemptions diminished the state's ability to meet its work participation target, the state established a supplemental nutrition assistance program. Working families enrolled in this new program were counted towards the work participation rate and allowed the state to meet the federal participation rate. This avoided potential losses in federal revenue due to penalties, while providing the working poor with a supplemental food assistance benefit. In February, 2010, the Commonwealth was informed that, based on the caseload reduction credit for 2008, the revised target was 0%. Consistent with federal guidance in 2009 (under the Recovery Act), the Commonwealth's target participation rate for 2008 through 2011 was the lower of the 2008 or 2009 targets. Based on the 0% for 2008, the targets for 2008 through 2011 were 0%. Since the supplemental nutrition program was no longer needed to enable the Commonwealth to meet its target, the program was suspended. When the Recovery Act-based target participation rates were eliminated in 2012, the SNA program was reinstated.

*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, the Department of Developmental Services

(previously the Department of Mental Retardation) and the Soldiers' Homes in Chelsea and Holyoke. 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 over 65,000 veterans, veterans' spouses and parents with annuity and benefit payments.

## **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 twelfth 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 will now include 13 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, and each institution of higher education is governed by a separate board of trustees. 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.

*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, through enactment of chapter 61 of the Acts of 2009, as later amended by Chapter 102 of the Acts of 2009, 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 600,000 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 375,000 people, including active and retired state employees and dependents, participating municipalities, and certain retired municipal teachers. The fiscal 2013 budget funds the GIC at \$1.721 billion. State employee contributions are 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 retiree contributions are based on retirement date, and are either 10, 15 or 20 percent. In an effort to control employee health care costs, the Commonwealth required state employees to re-enroll in a health plan for fiscal 2012. The Commonwealth offered a three-month premium holiday for state employees who selected a limited network plan. The purpose of the mandatory re-enrollment was to require employees to reexamine their health plan choices, which included considering lower-cost, narrower-network options. The re-enrollment initiative is estimated to save the Commonwealth \$20 million in fiscal 2012. Fiscal 2012 spending at the GIC to fund health coverage for active and retired state and municipal employees and their dependents is estimated at \$1.522 billion.

During fiscal 2012 the GIC brought five municipalities into the program, adding 8,400 enrollees. The GIC provides the health insurance benefits for 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. Nine more municipalities joined the GIC for fiscal 2013, adding approximately 12,000 GIC enrollees. As of July 1, 2012, the GIC is expected to provide health insurance to employees and retirees of 45 municipalities: nine cities, 24 towns, eight regional school districts and four planning councils.

The fiscal 2013 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. The fiscal 2013 budget for the GIC, to fund health coverage for active employees, their dependents and municipal employees, both active and retired, that have joined the GIC for fiscal 2013 is estimated at \$1.123 billion. The fiscal 2013 budget authorizes transfers of up to \$415 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents.

*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 105 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 103 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 as of January 1, 2012 and of the MTRS as of January 1, 2011, the date of the most recent valuations, is as follows:

#### Retirement Systems Membership

	<u>MSERS</u>	<u>MTRS</u>
<b>Retirees and beneficiaries currently receiving benefits</b>	54,544	55,690
<b>Terminated employees entitled to benefits but not yet receiving them</b>	4,127	N/A
<b>Subtotal</b>	58,671	55,690
<b>Current Members</b>	85,935	87,136
<b>Total</b>	144,606	142,826

SOURCE: Public Employee Retirement Administration Commission

The MSERS is a single-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 retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the 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 \$127.7 million for fiscal 2011.

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 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><u>MTRS(1)</u></b>	<b><u>% of</u></b>	<b><u>Active</u></b>	<b><u>% of Total</u></b>
<b><u>Hire Date</u></b>	<b><u>Compensation(1)</u></b>	<b><u>Members</u></b>	<b><u>Active</u></b>
Pre-1975	5%	828	0.9%
1975-1983	7%	1,310	1.5%
1984-June 30, 1996	8%	10,420	12.0%
July 1, 1996-Present	9%	12,553	14.4%
July 1, 2001-Present	11%	62,025	71.2%
<b>Totals</b>		<b>87,136</b>	<b>100.0%</b>

SOURCE: Public Employee Retirement Administration Commission. Membership data from Teachers' Retirement System January 1, 2011 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.

### MSERS(1)

<u>Hire Date</u>	<u>% of Compensation(1)</u>	<u>Active Members</u>	<u>% of Total Active</u>
Pre-1975	5%	1,698	2.0%
1975-1983	7%	8,176	9.5%
1984-June 30, 1996	8%	23,386	27.2%
July 1, 1996-Present	9%	52,142	60.7%
State Police 1996-Present	12%	<u>533</u>	<u>0.6%</u>
<b>Totals</b>		<b><u>85,935</u></b>	<b><u>100.0%</u></b>

SOURCE: Public Employee Retirement Administration Commission. Membership data from State Board of Retirement January 1, 2012 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 most recently approved pension funding schedule for payments into the Commonwealth’s Pension Liability Fund was filed by the Secretary of Administration and Finance on January 18, 2011. The schedule is based on the valuation of assets and liabilities as of January 1, 2010, an annual rate of return on assets of 8.25%, and an increase in the appropriation level of 5% per year in fiscal years 2013 and 2014 and 6% per year during fiscal years 2015 to 2017. The fiscal 2012 budget required that the pension funding amounts for fiscal 2012 through fiscal 2017 must be equal to or greater than the amounts for those years specified in the funding schedule filed in January, 2011. The next triennial funding schedule is due to be filed by the Secretary of Administration and Finance on January 15, 2014.

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

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
2011	\$1,442,000	2026	\$2,955,572
2012	1,478,000	2027	3,084,218
2013	1,552,000	2028	3,218,582
2014	1,630,000	2029	3,358,926
2015	1,728,000	2030	3,505,522
2016	1,831,000	2031	3,658,655
2017	1,941,000	2032	3,818,623
2018	2,104,651	2033	3,985,740
2019	2,195,628	2034	4,160,331
2020	2,290,619	2035	4,342,740
2021	2,389,802	2036	4,533,325
2022	2,493,369	2037	4,732,461
2023	2,601,517	2038	4,940,543
2024	2,714,454	2039	5,157,980
2025	2,832,397	2040	5,385,205

SOURCE: Executive Office for Administration and Finance

### **Actuarial Valuations**

On September 30, 2011, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the Commonwealth’s total pension obligation as of January 1, 2011. This valuation was based on the plan provisions in effect at the time and on member data and asset information as of December 31, 2010.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$18.589 billion, including approximately \$4.998 billion for the Massachusetts State Employees' Retirement System (MSERS), \$11.773 billion for the Massachusetts Teachers' Retirement System (MTRS), \$1.536 billion for Boston Teachers and \$282 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2011 to be approximately \$64.219 billion (comprised of \$26.243 billion for MSERS, \$34.891 billion for MTRS, \$2.804 billion for Boston Teachers and \$282 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately \$45.631 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2011 total asset market value.

On May 11, 2012, PERAC published the actuarial valuation for the MSERS as of January 1, 2012. The report determined the unfunded actuarial accrued liability for the MSERS to be \$7.277 billion. The total actuarial accrued liability as of January 1, 2012 is approximately \$27.784 billion, and total assets were valued on an actuarial basis at approximately \$20.507 billion.

The principal assumptions used in the valuations were an investment return assumption of 8.25% and a salary increase assumption based on Group and years of service. (The 2012 MSERS report includes a recommendation that the investment return assumption be reduced to 8.0%, in conjunction with the completion of an ongoing review of other assumptions related to a current experience analysis being conducted by PERAC. The experience analysis is expected to be completed in time for the January 1, 2013 actuarial valuation.) The ultimate salary increase rate is 4.5% for Groups 1 and 2, 5.0% for Groups 3 and 4, and 4.75% for teachers. The assumption is higher in early years of employment and grades down to the ultimate rate. All assumptions other than the investment return assumption are based on PERAC's most recent Experience Study Analysis for the State Retirement System, published in 2007 and the Massachusetts Teachers' Retirement System, published in 2008.

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 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 Liability for inactives, retirees, and survivors is simply equal to the present value of all projected benefits. The Unfunded Actuarial Liability is the Actuarial 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 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 Liability. An experience difference which increases the Unfunded Actuarial Liability is an Actuarial Loss and one which decreases the Unfunded Actuarial 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, 2011 is 110% of the market value (the 110% limit has applied as of January 1, 2009, 2010 and 2011). The unfunded

actuarial liability decreased from \$20.0 billion on January 1, 2010 to \$18.6 billion on January 1, 2011. However, the unfunded liability is expected to increase in the ensuing years as remaining 2008 investment losses are recognized.

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>
2002	\$31,698	\$28,708	110.4%	81.1%	73.5%
2003	29,629	25,764	115.0%	68.9%	59.9%
2004	34,045	31,709	107.4%	73.9%	84.0%
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%

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 (the tables do not include the January 1, 2012 valuation report for MSERS, because the MTRS report has not yet been released):

**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 Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
<b><u>State Employees'</u></b>						
<b><u>Retirement System</u></b>						
Actuarial Valuation as of Jan. 1						
<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>2004</b>	15,931,000	18,996,000	3,065,000	83.9%	3,842,000	79.8%
<b>2003</b>	13,947,000	17,551,000	3,604,000	79.5%	3,779,000	95.4%
<b>2002</b>	15,002,000	15,961,000	959,000	94.0%	4,034,000	23.8%
<b><u>Teachers:</u></b>						
<b><u>Retirement System</u></b>						
Actuarial Valuation as of Jan. 1						
<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>2004</b>	17,075,000	24,519,000	7,444,000	69.6%	4,556,000	163.4%
<b>2003</b>	14,762,000	22,892,000	8,130,000	64.5%	4,406,000	184.5%
<b>2002</b>	15,712,000	20,620,000	4,908,000	76.2%	4,264,000	115.1%
<b><u>Aggregate</u></b>						
<b><u>Commonwealth</u></b>						
<b><u>Pension Obligations</u></b>						
Actuarial Valuation as of Jan. 1						
<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%
<b>2004</b>	34,045,177	46,059,209	12,014,032	73.9%	8,765,592	137.1%
<b>2003</b>	29,628,897	43,030,338	13,401,442	68.9%	8,573,114	156.3%
<b>2002</b>	31,698,803	39,067,455	7,368,652	81.1%	8,667,492	85.0%

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 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						
<b>2011</b>	\$19,313,545	\$26,242,776	\$6,929,231	73.6%	\$4,808,250	144.1%
<b>2010</b>	17,290,056	24,862,421	7,572,365	69.5%	4,711,563	160.7%
<b>2009</b>	15,447,467	23,723,240	8,275,773	65.1%	4,712,655	175.6%
<b>2008</b>	22,538,610	22,820,502	281,892	98.8%	4,574,233	6.2%
<b>2007</b>	20,494,694	21,670,810	1,176,116	94.6%	4,391,891	26.8%
<b>2006</b>	17,875,032	20,406,926	2,531,894	81.5%	4,200,577	89.7%
<b>2005</b>	16,489,000	19,575,000	3,086,000	82.8%	3,967,000	84.8%
<b>2004</b>	14,834,000	18,996,000	4,162,000	84.0%	3,842,000	79.8%
<b>2003</b>	12,128,000	17,551,000	5,423,000	69.1%	3,779,000	143.5%
<b>2002</b>	13,597,000	15,961,000	2,364,000	85.2%	4,034,000	58.6%
<b>Teachers: Retirement System</b>						
Actuarial Valuation as of Jan. 1						
<b>2011</b>	\$21,016,320	\$34,890,991	\$13,874,671	60.2%	\$5,558,311	249.6%
<b>2010</b>	19,329,511	33,738,966	14,409,455	57.3%	5,509,698	261.5%
<b>2009</b>	17,207,028	32,543,782	15,336,754	52.9%	5,389,895	284.5%
<b>2008</b>	25,316,044	30,955,504	5,639,460	81.8%	5,163,498	109.2%
<b>2007</b>	23,133,769	29,320,714	6,186,945	78.9%	4,969,092	124.5%
<b>2006</b>	20,013,412	27,787,716	7,774,304	67.2%	4,819,325	188.9%
<b>2005</b>	17,946,000	26,167,000	8,221,000	67.6%	4,643,000	182.7%
<b>2004</b>	15,907,000	24,519,000	8,612,000	69.6%	4,556,000	163.4%
<b>2003</b>	12,837,000	22,892,000	10,055,000	56.1%	4,406,000	228.2%
<b>2002</b>	14,219,000	20,620,000	6,401,000	69.0%	4,264,000	150.1%
<b>Aggregate Commonwealth Pension Obligations</b>						
Actuarial Valuation as of Jan. 1						
<b>2011</b>	\$41,482,279	\$64,219,135	\$22,736,856	64.6%	\$10,811,975	210.3%
<b>2010</b>	37,808,823	61,575,676	23,766,853	61.4%	10,655,881	223.0%
<b>2009</b>	33,688,821	59,142,155	25,453,334	57.0%	10,537,212	241.3%
<b>2008</b>	49,234,569	56,636,710	7,402,141	86.9%	10,156,252	72.9%
<b>2007</b>	44,902,133	53,761,095	8,858,962	83.5%	9,766,122	90.7%
<b>2006</b>	39,020,885	50,864,974	11,844,089	76.7%	9,406,336	125.9%
<b>2005</b>	35,496,704	48,357,694	12,860,990	73.4%	8,989,134	143.1%
<b>2004</b>	31,709,129	46,059,209	14,350,080	68.8%	8,765,592	163.7%
<b>2003</b>	25,764,258	43,030,338	17,266,080	59.9%	8,573,114	201.4%
<b>2002</b>	28,708,211	39,067,455	10,359,244	73.5%	8,667,492	119.5%

SOURCE: Public Employee Retirement Administration Commission.

The Commonwealth is projecting that the January 1, 2012 pension actuarial valuation will reflect a material increase in the Commonwealth's unfunded actuarial accrued liability (UAAL) as a result of certain items that will impact the actuarial value of assets and the actuarial liability. As noted above, on May 11, 2012, PERAC published an actuarial valuation for the MSERS which showed an increase in the UAAL for the MSERS of approximately \$2.279 billion. Changes to the aggregate UAAL are expected to include an estimated \$3.9 billion increase associated with the partial recognition of the 2008 investment loss, which is recognized over a five-year period for purposes of actuarial valuation, and the investment shortfall in 2011. The shortfall in 2011 is the result of an annual rate of return on assets of 0.14% as compared to the assumed rate of 8.25%. The actuarial liability is expected to increase by an estimated \$900 million to \$1.1 billion as a result of expected changes to mortality assumptions toward "fully generational mortality" based on revised Actuarial Standards of Practice, and a \$1,000 increase in the level of

pension income that is protected by Cost of Living Adjustments (COLA), from \$12,000 to \$13,000, which was included in pension reform legislation passed in 2011. The pension reform legislation also included certain changes to benefits for new employees hired after April 1, 2012 that are expected to reduce the normal costs by an estimated \$3 billion over 30 years and are expected, over the course of the current funding schedule, to *offset* the impact of the changes to the actuarial liability noted above. The legislation also mandates that additional studies be commissioned for the pension system as well as a commission to study Other Post-Employment Benefits (OPEB) liabilities. These studies and the associated legislative recommendations are due at various dates in 2012.

Later in 2012 PERAC expects to provide five-year projections of the prospective funded status of the Commonwealth's pension systems.

### **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. However, the funding schedule was based on the 2008 valuation before the market downturn. This accounts for the discrepancy between the ARC and contributions made in fiscal 2009. In fiscal 2010 the discrepancy is accounted for by the market downturn and the double payment to SBRS described above. As noted above, in January, 2011 a revised Commonwealth schedule was filed that extended the amortization period to 2040.

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## 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>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
<u>2009</u>					
Annual required contribution.....	697,340	1,149,629	1,846,969	n/a	n/a
Contributions made, excluding COLAs.....	<u>397,482</u>	<u>781,026</u>	<u>1,178,508</u>	<u>34,696</u>	<u>122,216</u>
% Funded for the fiscal year.....	57%	68%	64%		
ARC as ratio of total government expenditures(2)	2.3%	3.8%	6.0%	n/a	n/a
<u>2008</u>					
Annual required contribution.....	369,866	749,853	1,119,719	n/a	n/a
Contributions made, excluding COLAs.....	<u>460,788</u>	<u>809,000</u>	<u>1,269,788</u>	<u>34,000</u>	<u>98,000</u>
% Funded for the fiscal year.....	125%	108%	113%		
ARC as ratio of total government expenditures(2)	1.2%	2.4%	3.6%	n/a	n/a
<u>2007</u>					
Annual required contribution.....	432,219	763,798	1,196,017	n/a	n/a
Contributions made, excluding COLAs.....	<u>435,610</u>	<u>747,000</u>	<u>1,182,610</u>	<u>37,005</u>	<u>93,300</u>
% Funded for the fiscal year.....	101%	98%	99%		
ARC as ratio of total government expenditures(2)	1.5%	2.6%	4.1%	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. The GASB statement containing the new standard is expected to be released in early August, 2012.

## **PRIT Fund Investments**

The PRIM Board's overall investment performance goal is to achieve an annual rate of return that exceeds the targeted actuarial rate of return used in determining the Commonwealth's pension obligations (currently 8.25%). 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 in the beginning of fiscal 2011.

In August of 2011, the PRIM Board approved several asset allocation changes in an effort to improve the PRIT Fund's expected rate of return per unit of risk (standard deviation). These asset allocation changes included a 6% reduction to Global Equities (comprised of a 2% reduction to Domestic Equities and a 4% reduction to International Equities), a 4% increase to Value-Added Fixed Income (comprised of a 1% increase to High Yield/Bank Loans, a 1% increase to Private Debt, and a 2% allocation to Emerging Markets Debt – Local Currency), and a 2% increase to Hedge Funds.

In addition to asset allocation diversification, the PRIM Board seeks to diversify the PRIT Fund by choosing complementary investment styles and strategies within asset classes. The PRIM Board also develops detailed investment guidelines for each investment manager to ensure that portfolios are adequately diversified at the individual manager level.

The PRIT Fund's asset allocation plan currently uses the following categories of investments (the description is as of June 30, 2012):

*Domestic Equity.* Domestic Equity constitutes 19.3% of the PRIT Fund portfolio, approximately 79% of which is invested using a large capitalization stock strategy (two active managers and one passive manager), with the remaining 21% invested under a Russell 2500 index strategy (one passive manager). The portfolio is style neutral as between growth- and value-oriented stocks.

*International Equity.* International Equity constitutes 16.7% of the PRIT Fund portfolio which is allocated to one passively managed account (which comprises 47% of the portfolio) and three actively managed accounts (53% of the portfolio). The PRIM Board maintains a target weighting of 50% passive and 50% active for the international equity portfolio. The primary strategy for this portfolio is investing in companies in developed market, industrialized nations outside of the United States.

*Emerging Markets.* Emerging Markets constitutes 6.7% of the PRIT Fund portfolio, which is allocated to three active core managers (which comprise about 45% of the emerging market portfolio), one passive manager (49%) and two active small CAP managers (6%). The PRIM Board has targeted a weighting of 50% active and 50% passive for this portfolio.

*Core Fixed Income.* Core Fixed Income constitutes 13% of the PRIT Fund portfolio, 73% of which is invested in corporate, government and mortgage-backed securities in the investment grade bond market (49% active, 51% passive). Approximately 15% is invested in global inflation linked bonds, and approximately 8% in U. S. Treasury Inflation Protected Securities. The balance of the portfolio (4%) contains investments under the PRIM Board's economically targeted investment (ETI) program.

*Value-Added Fixed Income.* Value Added Fixed Income constitutes 8.6% of the PRIT Fund portfolio, which is invested in distressed debt (32%), high-yield bonds (18%), emerging markets debt (18%) bank loans (11%), and emerging market debt - local currency (21%).

*Private Equity.* Private Equity constitutes 12.1 % of the PRIT Fund portfolio. Two components comprise the private equity portfolio: venture capital (early-stage and multi-stage) and special equity partnerships (large

market buyout, middle market buyout, and growth equity). These private market investments are illiquid and typically have 10- to 15-year life cycles. The portfolio is highly diversified at the underlying portfolio company level.

*Real Estate.* Real estate holdings constitute 9.7% of the PRIT Fund portfolio, which consists of directly owned properties (75%) and real estate investment trusts (25%).

*Timber/Natural Resources.* Timber/Natural Resources constitutes 3.9% of the PRIT Fund portfolio, which is invested in both timberland investments (63%), and natural resource-oriented companies (37%) such as oil, mining and energy companies.

*Hedge Funds.* Hedge Funds constitute 9.9% of the PRIT Fund portfolio. This portfolio has investments in twenty direct hedge fund managers, one active hedge fund of funds manager, and one residual liquidating portfolio.

**PRIT Fund Asset Allocation**  
(As of June 30)

	<u>2012(2)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Domestic Equity	19.3%	22.0%	19.9%	24.4%	26.1%
International Equity	16.7%	21.7%	20.0%	19.0%	20.0%
Emerging Markets	6.7%	6.6%	5.7%	5.0%	5.5%
Fixed Income	13.0%	13.2%	14.0%	13.0%	16.8%
Value-Added Fixed Income	8.6%	6.0%	7.0%	7.7%	5.0%
Private Equity	12.1%	10.7%	10.6%	9.6%	8.4%
Real Estate	9.7%	8.2%	9.1%	10.9%	10.9%
Timber/Natural Resources	3.9%	4.0%	4.1%	4.7%	2.1%
Hedge Funds	9.9%	7.2%	7.7%	5.7%	5.2%
Portable Alpha Wind Down(1)	.1%	0.4%	1.9%	0.0%	0.0%

SOURCE: Pension Reserves Investment Management Board.

(1) Prior to January 1, 2010, Portable Alpha Assets were reflected in the Domestic Equity portfolio.

(2) Figures are preliminary and unaudited.

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

**PRIT Fund Rates of Return**

<u>Fiscal Year</u>	<u>Rate of Return</u>	<u>Fiscal Year</u>	<u>Rate of Return</u>
<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>2009</b>	(23.87)%	<b>2004</b>	19.43%
<b>2008</b>	(1.81)%	<b>2003</b>	4.02%
	<b>3yr average</b>		11.30%
	<b>5yr average</b>		0.61%
	<b>10yr average</b>		7.23%
	<b>Assumed Rate</b>		8.25%

SOURCE: Pension Reserves Investment Management Board.

**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 (“other post-employment benefits” or “OPEB”) 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. (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 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 Fund (SRBTF). The SRBTF is set up solely to pay for OPEB benefits and the cost to administer those benefits and can only be dissolved when all such health care and other non-pension benefits, current and future have been paid or defeased. The GIC administers benefit payments, while the Trustees are responsible for investment decisions.

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, 2009, 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 of July 1, 2009, all active employees were required to pay an additional 5% of premium costs. There were 151,013 participants eligible to receive benefits as of January 1, 2011.

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its liability for other post-employment benefits (commonly referred to as "OPEB") 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 most recent update of this actuarial valuation report was released in October, 2011. According to this report, the Commonwealth's actuarial accrued OPEB liability, assuming no pre-funding and using a discount rate of 4.5%, was approximately \$16.569 billion as of January 1, 2011. The 4.5% discount rate (which is the 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 \$12.450 billion using a discount rate of 6.4% and approximately \$9.892 billion using a discount rate of 8.25%. 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 assets, 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, 2011, this net OPEB obligation as reflected on the Commonwealth's statement of net assets is \$2.691 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 these entities with respect to OPEB 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 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, 2011 was approximately \$350.5 million, reflecting market losses in investments. In addition, 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 its first meeting in April, 2012 and is scheduled to file a report at the end of November, 2012.

<b>State Retiree Benefits Trust</b>						
<b>(amounts in thousands)</b>						
	<u>Actuarial</u> <u>Value of</u> <u>Plan Assets</u>	<u>Actuarial</u> <u>Liability</u>	<u>Accrued</u> <u>Unfunded</u> <u>Liability</u> <u>(UAAL)</u>	<u>Actuarial Ratio</u> <u>Covered</u>	<u>Funded Payroll</u>	<u>Annual</u> <u>Covered</u> <u>Payroll as %</u> <u>of UAAL</u>
Actuarial Valuation as of Jan. 1, 2011	\$350,500	\$16,568,600	\$16,218,100	2.12%	\$4,808,250	337.3%
Actuarial Valuation as of Jan. 1, 2010	309,800	15,166,300	14,856,500	2.00%	4,711,563	315.3%
Actuarial Valuation as of Jan. 1, 2009	273,500	15,305,100	15,031,600	1.80%	4,712,655	319.0%
Actuarial Valuation as of Jan. 1, 2008	-	9,812,000	9,812,000	0.0%	4,574,233	214.5%

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

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 in excess of \$1 billion.

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, as enacted by the Legislature, disregarded this provision and would have deposited all fiscal 2013 tobacco payments into the General Fund. The Governor vetoed this section of the fiscal 2013 budget because of its inconsistency with the fiscal 2012 budget requirement to deposit 10% of such payments in the State Retiree Benefits Trust Fund. See “COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Tobacco Settlement*.”

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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 2008</u>	<u>June 2009</u>	<u>June 2010</u>	<u>June 2011</u>	<u>June 2012</u>
Executive Office	81	72	69	76	69
Office of the Comptroller	124	115	115	113	109
Executive Departments					
Administration and Finance (2)	2,904	2,861	2,768	2,679	2,784
Energy and Environmental Affairs (1)	2,236	2,208	2,020	1,960	1,949
Housing and Community Development (1)	-	-	-	-	-
Early Education and Care (3)	-	-	-	-	-
Health and Human Services	21,449	20,895	19,763	19,435	19,397
Transportation and Public Works (4)	1,245	1,200	-	-	-
Board of Library Commissioners	13	13	10	10	10
Economic Development (1)	-	-	-	-	-
Housing and Economic Development (1)	650	616	693	673	677
Labor and Workforce Development (1)	307	316	285	269	262
Executive Office of Education (3)	562	570	336	318	322
Department of Education (3)	-	-	-	-	-
Board of Higher Education (3)	-	-	-	-	-
Public Safety and Security	8,627	8,483	8,444	8,259	8,534
Elder Affairs	<u>47</u>	<u>50</u>	<u>38</u>	<u>39</u>	<u>37</u>
Subtotal under Governor's Authority	38,244	37,398	34,541	33,831	34,150
Judiciary	8,021	7,821	7,387	7,109	7,085
Higher Education	13,219	13,409	12,048	12,940	12,539
Other (5)	<u>8,245</u>	<u>8,044</u>	<u>10,320</u>	<u>10,111</u>	<u>10,084</u>
Subtotal funded by the Operating Budget	<u>67,729</u>	<u>66,672</u>	<u>64,297</u>	<u>63,991</u>	<u>63,858</u>
Federal Grant, Trust and Capital Funded	<u>15,934</u>	<u>16,381</u>	<u>20,551</u>	<u>20,078</u>	<u>20,654</u>
<b>Total</b>	<b><u>83,663</u></b>	<b><u>83,053</u></b>	<b><u>84,848</u></b>	<b><u>84,069</u></b>	<b><u>84,512</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Effective April 11, 2007, the Executive Office of Economic Development was divided into the Executive Office of Housing and Economic Development, incorporating the former Department of Housing and Community Development, and the Executive Office of Labor and Workforce Development. The Department of Public Utilities and the Department of Energy Resources were transferred to the renamed Executive Office of Energy and Environmental Affairs from the Executive Office of Economic Development, a net shift of 100 FTEs.
- (2) Effective April 10, 2007, the Massachusetts Commission Against Discrimination became an independent agency, separating from the Executive Office for Administration and Finance, a new shift of 61 FTEs.
- (3) Effective March 10, 2008, the Department of Early Education and Care, Department of Education and Board of Higher Education were consolidated under the Executive Office of Education.
- (4) Effective November 1, 2009, the Executive Office of Transportation and Public Works, which included the Massachusetts Highway Department, Registry of Motor Vehicles and Massachusetts Aeronautics Commission, was abolished and in its place was established the Massachusetts Department of Transportation. A net shift of 1,269 occurred as these employees were transferred to the Massachusetts Department of Transportation's non-appropriated fund, the Massachusetts Transportation Trust Fund.
- (5) 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.

### Unions and Labor Negotiations

Under Chapter 150E of the General Laws, 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.

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 29,899 executive branch full-time-equivalent state employees are organized in 10 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 24 bargaining units, and the employees of the judicial branch, the Lottery Commission, the Registries of Deeds, sheriffs and the PCAs are organized in 83 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 extend the terms of current contracts.

(1) The contract with the National Association of Government Employees, representing Units 1, 3 and 6, ran from July, 2009 to June, 2012 and provided increases of 1%, 3% and 3% in June, 2010, 2011 and 2012, respectively. The contract has been extended by two years to June, 2014, with semiannual increases of 1.5%, and has received legislative approval. The total estimated cost of the contract is \$43.5 million.

(2) The contract with the Service Employees International Union, representing employees in units 8 and 10, ran from January 1, 2009 through December 31, 2011 and provided salary increases of 1%, 3% and 3% in December, 2009, 2010 and 2011, respectively. The contract has been extended by two years to December 31, 2013, with semiannual increases of 1.5%, and has received legislative approval. The total estimated cost of the contract is \$55.1 million.

(3) The contract with the American Federation of State, Country and Municipal Employees, representing unit 2, runs from July, 2009 through June, 2012 and provides increases of 1%, 3% and 3% in June, 2010, 2011 and 2012, respectively. The contract has been extended by two years to June, 2014, with semiannual increases of 1.5%, and has received legislative approval. The total estimated cost of the contract is \$31.6 million.

(4) The contract with the Massachusetts Organization of State Engineers and Scientists, representing unit 9, runs from July, 2009 through June, 2012 and provides increase of 1%, 3% and 3% in June, 2010, 2011 and 2012, respectively. The contract has been extended by two years to June, 2014, with semiannual increases of 1.25%, and is awaiting legislative approval. The total estimated cost of the contract is \$7.27 million.

(5) The contract with the New England Police Benevolent Association, representing unit 4A, runs from July 1, 2009 through June 30, 2012 and provides a 1% salary increase effective November 2010 and 3% increases on June 30, 2011 and 2012. The contract has been extended by two years to June, 2014, with semiannual increases of 1.5%, and has received legislative approval. The total estimated cost of the contract is \$0.9 million.

(6) The contract with the Massachusetts Nurses Association runs from January 1, 2010 through December 31, 2012 and provides increases of 1%, 3% and 3% effective December 31, 2010, 2011 and 2012, respectively. The total estimated cost of the contract is \$11.1 million.

(7) The contract with the State Police Association of Massachusetts runs from January 1, 2010 through December 31, 2012 and provides increases of 1%, 3% and 3% effective December 31 2010, 2011 and 2012, respectively. The total estimated cost of the contract is \$5.8 million.

(8) The contract with the Massachusetts Correction Officers Federated Union runs from July 1, 2010 through June 30, 2012 and provides 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.

(9) The contract with the Coalition of Public Safety runs from July 1, 2010 through June 30, 2013 and provides increases of 1%, 3% and 3% effective June 30, 2011, 2012 and 2013, respectively. The total estimated cost of the contract is \$0.4 million.

(10) The contract with the International Association of Fire Fighters runs from January 1, 2010 through December 31, 2012 and provides increases of 3% effective December 31, 2011 and 2012. The total estimated cost of the contract is \$0.08 million.

The following table sets forth information regarding the 12 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	9,145	6/30/14
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	8,224	6/30/14
4	Massachusetts Correction Officers Federated Union	Corrections	3,882	6/30/13
4A	New England Police Benevolent Association	Corrections	88	6/30/14
5	Coalition of Public Safety	Law enforcement	204	6/30/13
5A, C22	State Police Association of Massachusetts	State Police	2,091	12/31/12
7	Massachusetts Nurses Association	Health professionals	1,550	12/31/12
8, 10	Alliance/Service Employees International Union	Social workers, Secondary Education	7,675	12/31/13
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	1,695	6/30/14
11	International Association of Fire Fighters	Fire fighters	32	12/31/12
		<b>Total</b>	<b>34,585</b>	

SOURCE: Executive Office for Administration and Finance.

(1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of June 16, 2012 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

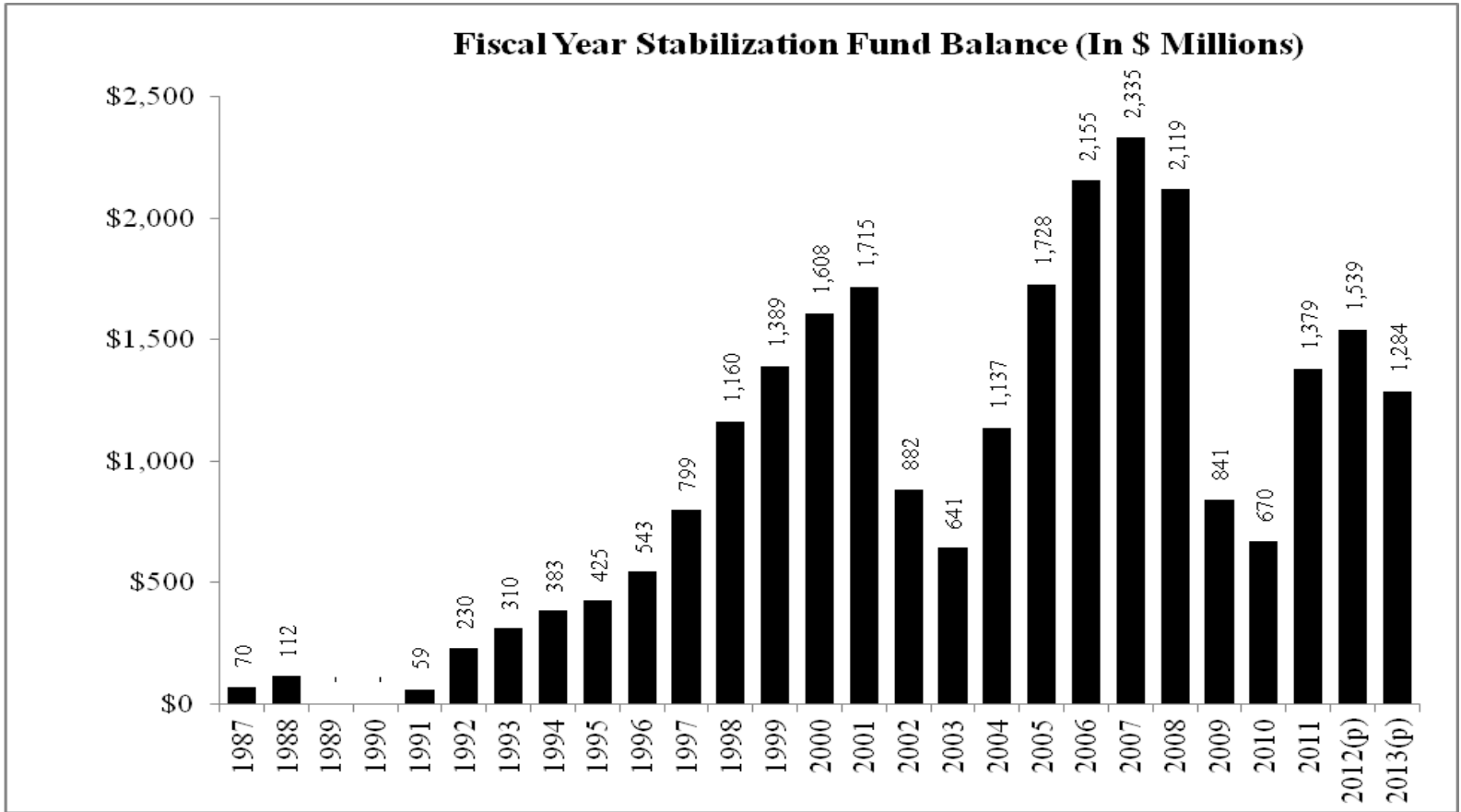
### Stabilization Fund

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 2012 AND FISCAL 2013" for a description of fiscal 2012 and 2013 activity in the Stabilization Fund.

*Required Deposits and Allowable Stabilization Fund Balance.* Beginning July 1, 2004, state finance law has provided that (i) 0.5% of the net tax revenues from each fiscal year must be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated and (iii) any remaining amount of the year-end surplus must 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 is to be deposited into the Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund. A further amendment approved by the Governor on August 7, 2012 provides that the \$1 billion threshold is to be adjusted annually for inflation, using the average U.S. GDP growth over the preceding five years. Legislation approved by the Governor on July 27, 2012 provides 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. 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.

The following chart shows the Stabilization Fund balance from fiscal 1987 through fiscal 2011 (actual), fiscal 2012 (preliminary) and fiscal 2013 (projected).





SOURCE: Fiscal 1987-Fiscal 2011, Office of the Comptroller; Fiscal 2012 and 2013 (projected), Executive Office for Administration and Finance.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2007 through fiscal 2011:

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

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
Beginning fund balances	\$2,154,664	\$2,335,021	\$2,119,194	\$841,344	\$669,803
<u>Revenues and Other Sources</u>					
Consolidated net surplus	90,883	-	64,747	11,269	698,605
Lottery transfer taxes	2,680	2,243	2,436	1,982	1,619
Investment income	86,794	96,930	43,967	21,782	9,044
Excess permissible tax revenue	-	-	-	-	9,044
<b>Total Revenues and Other Sources</b>	<u>180,357</u>	<u>99,173</u>	<u>111,150</u>	<u>35,033</u>	<u>718,312</u>
<u>Total Expenditures and Other Uses</u>	-	<u>315,000</u>	<u>1,389,000</u>	<u>206,574</u>	<u>9,044</u>
Excess (Deficiency) of Revenues and Other Sources Over					
<b>Expenditures and Other Uses</b>	<u>180,357</u>	<u>(215,827)</u>	<u>(1,227,850)</u>	<u>(171,541)</u>	<u>709,268</u>
<b>Ending fund balances</b>	<u>\$2,335,021</u>	<u>\$2,119,194</u>	<u>\$841,344</u>	<u>\$669,803</u>	<u>\$1,379,071</u>
<b>Allowable Stabilization Fund Balance</b>	<u>\$4,292,382</u>	<u>\$4,546,976</u>	<u>\$4,382,687</u>	<u>\$4,546,502</u>	<u>\$4,961,300</u>

SOURCE: Office of the Comptroller.

**GAAP Basis**

The Commonwealth's GAAP financial statements for the year ended June 30, 2011, 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, fixed assets and accrual activity on a comprehensive statement of net assets. All fixed 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 Assets

(Amounts in Millions of Dollars)

**Governmental Funds-Statutory Basis,  
June 30, 2011**

Budgeted Fund Balance	\$1,900.8
Non-budgeted special revenue fund balance	1,983.9
Capital Projects Fund Balance	<u>199.2</u>
<b>Governmental Fund Balance-Statutory Basis, June 30, 2011</b>	<b>\$4,083.97</b>
Plus: Expendable Trust and similar fund statutory balances that are considered governmental fund for GAAP reporting purposes	428.0
Less: Massachusetts Department of Transportation Funds	<u>(1,164.3)</u>
<b>Adjusted Statutory Governmental Fund Balance</b>	<b>\$3,347.7</b>
Short term accruals, net of allowances and deferrals for increases/(decreases)	
Taxes, net of refunds and abatements	1,743.7
Tobacco settlement agreement receivable	137.9
Medicaid	(284.1)
Assessments and other receivables	183.7
Amounts due to authorities and municipalities, net	(584.1)
Amounts due to healthcare providers and insurers	(91.8)
Workers' compensation and group insurance	(114.5)
Other accruals, net	<u>(164.6)</u>
<b>Net increase to governmental funds balances</b>	<b>\$826.3</b>
Massachusetts School Building Authority fund balance	<u>1,093.6</u>
<b>Total changes to governmental funds</b>	<b>\$1,919.9</b>
Governmental fund balance (fund perspective)	5,267.6
Plus: Capital assets including infrastructure, net of accumulated depreciation	4,127.4
Deferred revenue, net of other eliminations	1,036.6
Long term accruals:	
Pension benefits cumulative over/(under) funding	(1,199.4)
Post employment benefits other than pensions cumulative over/(under) funding	(2,691.0)
Environmental remediation liability	(174.2)
Massachusetts School Building Authority debt and school construction payables	(6,844.3)
Long term debt, unamortized premiums and deferred losses on debt refundings	(21,164.0)
Compensated Absences	(479.9)
Capital leases	(61.0)
Accrued interest on bonds	(346.2)
Other long term liabilities	<u>(304.6)</u>
<b>Total governmental net assets (government-wide perspective)</b>	<b>(\$22,832.9)</b>

SOURCE: Office of the Comptroller

The deficit of \$22.8 billion in government-wide net assets can be largely attributed to the Commonwealth's policy decision to finance the construction of assets owned by other government entities, particularly transportation assets. Transportation reform legislation implemented during fiscal 2010 shifted these assets from the books of the Commonwealth to the newly formed Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. At the end of fiscal 2011, MassDOT held over \$18.4 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 holds \$6.8 billion in debt and grant obligations for the school building assistance program administered by the Massachusetts School Building Authority that finances construction of schools for the Commonwealth's cities and towns.

### Change in Statement of Net Assets

(amounts in thousands of dollars)

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Government Wide</u>
<b>Total net assets:</b>			
<b>Fiscal Year 2010</b>	(22,373,344)	3,772,341	(18,601,003)
<b>Fiscal Year 2011</b>	(22,832,865)	4,368,912	(18,463,953)
<b>Change in net assets</b>	(459,521)	596,571	137,050

SOURCE: Office of the Comptroller

During the fiscal year, approximately \$634 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate \$1.226 billion were 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 2011:

### Comparison of Fiscal 2011 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	\$20,776	\$20,854	\$21,066
Federal Revenue	13,248	14,377	14,386
Departmental and Miscellaneous Revenue	<u>20,422</u>	<u>18,667</u>	<u>9,029</u>
<b>Total</b>	<b><u>\$54,446</u></b>	<b><u>\$53,898</u></b>	<b><u>\$44,481</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 2007 through fiscal 2011.

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

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
Beginning fund balances	\$7,263.2	\$7,735.9	\$7,062.7	\$5,061.3	\$4,585.7
Restatement due to fund reclassification	5.0	-	-	-	-
Revenues and Financing Sources	49,402.2	50,136.8	49,787.9	49,853.1	53,898.4
Expenditures and Financing Uses	48,934.5	50,810.0	51,789.3	50,328.7	53,216.5
Excess (deficit)	<u>472.7</u>	<u>(673.2)</u>	<u>(2,001.4)</u>	<u>(475.6)</u>	<u>681.9</u>
<b>Ending fund balances—GAAP fund perspective</b>	<b><u>\$7,735.9</u></b>	<b><u>\$7,062.7</u></b>	<b><u>\$5,061.3</u></b>	<b><u>\$4,585.7</u></b>	<b><u>\$5,267.6</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, 2011 and the CAFR for the year ended June 30, 2011 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2011 the independent auditors' opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2011 and the CAFR for fiscal 1994 through fiscal 2011 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 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 2010 marked the twentieth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2011 has been submitted to the GFOA for the 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*." The SBFR for the year ended June 30, 2011 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2011 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR and CAFR for the year ended June 30, 2011, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

### **Auditors' Report on Fiscal 2011 CAFR**

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2011 were audited by KPMG LLP (KPMG). The KPMG audit report dated January 3, 2012 on the general purpose financial statements included in the CAFR for the year ended June 30, 2011 contained an unqualified opinion. A copy of the audit report of KPMG dated January 3, 2012 has been filed with EMMA and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2011. 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.

## FISCAL 2012 AND FISCAL 2013

### Fiscal 2012

Fiscal 2012 ended on June 30, 2012, but, as is customary, the Executive Office of Administration & Finance and the State Comptroller continue to work to close out the fiscal year. To date, the Governor has approved fiscal 2012 supplemental appropriations legislation totaling \$489.4 million. A large portion of the supplemental funding, approximately \$186.9 million, was for the Delivery System Transformation Initiatives Trust Fund, which provides funding for safety net hospitals throughout the Commonwealth to fundamentally change the delivery of care to Medicaid members, and is supported by federal reimbursements. This supplemental funding also included \$39.7 million for the emergency family shelters program at the Department of Housing and Community Development, \$35.0 million for adult day health services under MassHealth, \$27.5 million for costs associated with providing legal representation to indigent persons in criminal and civil court cases and \$21.2 million for the home heating assistance program.

On July 16, 2012, the Governor filed supplemental budget legislation requesting funding of \$30.4 million, including \$15.5 million for the current projected local costs for storm response related to Tropical Storm Irene and the October, 2011 snowstorm, \$8 million for Personal Care Attendants (PCAs) collective bargaining costs and \$5 million for increased MassHealth reimbursement rates for adult day health (ADH) providers.

After accounting for all supplemental appropriations and updated revenue and spending projections, the Executive Office for Administration and Finance expects fiscal 2012 to end in balance without requiring any unbudgeted withdrawals from the Stabilization Fund. In fact, this projection assumes a net deposit to the Stabilization Fund in fiscal 2012 of \$159.9 million, due to \$375 million in one-time tax settlements in excess of \$10 million being deposited to the Stabilization Fund. These deposits are partially offset by the budgeted \$200 million withdrawal of Stabilization Fund reserves to supporting the operating budget. After accounting for these changes, the Stabilization Fund is projected to have a balance of \$1.539 billion balance at the end of fiscal 2012.

### Fiscal 2013

The fiscal 2013 budget was enacted by the Legislature on June 28, 2012 and approved by the Governor on July 8, 2012. A \$1.250 billion interim budget for the first ten days of fiscal 2013 had been enacted by the Legislature and approved by the Governor on June 26, 2012. Total spending in the fiscal 2013 budget approved by the Governor amounts to approximately \$32.508 billion, after accounting for \$31.7 million in veto overrides. Spending contemplated by the fiscal 2013 budget is approximately \$1.225 billion, or 3.93%, greater than fiscal 2012 estimated spending levels at the time of the signing of the budget.

The fiscal 2013 budget assumes tax revenues of \$22.032 billion, reflecting the fiscal 2013 consensus tax estimate of \$21.950 billion, adjusted for the impact of revenue initiatives enacted as part of the budget, most notably a one-year delay of the FAS 109 deductions (additional \$45.9 million) and enhanced tax enforcement initiatives (additional \$36.3 million). The Executive Office for Administration and Finance is assuming a reduction of \$21 million in revenues attributable to the proposed two-day sales tax holiday which occurred on August 11-12, 2012, for a total revenue estimate of \$22.012 billion. Legislation approved by the Governor on August 7, 2012 requires that the cost of the sales tax holiday be defrayed by one-time non-tax settlement funds that are expected to be received in fiscal 2013. Approximately \$1.1 billion of the \$22.012 billion tax estimate is assumed to be generated from taxes on capital gains. Under state finance law, \$100 million of the projected capital gains tax revenue will be required to be deposited into the Stabilization Fund and will not be available for budgetary purposes.

The fiscal 2013 budget relies on \$616 million in one-time resources to support recurring spending, down from the fiscal 2012 assumption of \$651 million. Among the one-time resources assumed as part of the fiscal 2013 budget is a \$350 million withdrawal from the Stabilization Fund, the use of fiscal 2013 interest earnings on the Stabilization Fund and an additional \$110.1 million in savings achieved by suspending the statutorily required deposit into the Stabilization Fund of 0.5% of total tax revenue. The Stabilization Fund is projected to have a \$1.284 billion balance at the end of fiscal 2013.

The Executive Office for Administration and Finance has launched its annual spending plan process with state agencies for fiscal 2013. State agencies are required to submit detailed spending and revenue projections for the fiscal year and identify any projected surpluses or deficiencies they may anticipate. Upon completion of its review of agency spending plans in September, 2012, the Executive Office for Administration and Finance will identify any potential funding or revenue exposures in fiscal 2013.

## **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. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in the need for short-term cash flow borrowings. 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 \$400 million tax-exempt commercial paper program for general obligation notes. The Commonwealth has relied upon the commercial paper program for additional liquidity since 2002.

Legislation approved by the Governor on July 27, 2012 provides for monthly rather than quarterly distributions of local aid, beginning in fiscal 2014. The legislation also requires the Secretary of Administration and Finance, in consultation with the State Treasurer, to study the feasibility of short-term borrowing by the State Treasurer from the Commonwealth Stabilization Fund in order to avoid or minimize the Commonwealth's issuance of revenue anticipation notes. The Secretary is required to submit a report to the Legislature by January 1, 2013.

The Commonwealth ended fiscal 2012 with a non-segregated cash balance of approximately \$2.096 billion. The most recent cash flow statement projects a fiscal 2013 ending balance of approximately \$2.071 billion.

On August 31, 2012, the State Treasurer and the Secretary of Administration and Finance released cash flow statements for fiscal 2012 and fiscal 2013, which are summarized in the tables below. Fiscal 2012 figures are based on actual spending and revenue. The fiscal 2013 cash flow statement is based upon the fiscal 2013 budget approved on July 8, 2012, together with all supplemental appropriations filed, enacted or anticipated, and includes all prior appropriations continued into fiscal 2013. The budget assumes tax revenues of \$22.011 billion. Fiscal 2013 projections are based on actual spending and revenue through July, 2012, and estimates for the remainder of the fiscal year. 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 professionally managed portfolios, the Cash Portfolio and the Short Term Bond Fund. The Cash Portfolio investments are carried at 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, 2012, the Cash Portfolio holdings were made up of certificates of deposit (34.9%), commercial paper of financial companies (16.3%), commercial paper (25.2%), United States Treasury obligations (11.7%), federal government agency obligations (5.4%), medium-term notes (3.2%), government agency repurchase agreements (7.9%) and other repurchase agreements (11.7%). The Cash Portfolio's total return was 0.31% in fiscal 2011 and 0.28% in fiscal 2012 (the fiscal 2012 figure is unaudited). The Cash Portfolio's weighted average maturity was 50 days as of June 30, 2012 and fluctuated from 26 to 57 days during fiscal 2012.

The Short Term Bond Fund invests in a diversified portfolio of investment grade debt securities. As of June 30, 2012, the Short Term Bond Fund holdings were made up of United States government and government agency obligations (33.7%), nonconvertible bonds (34%), United States government agency mortgage securities (9.4%), asset-backed securities (12.6%), collateralized mortgage obligations (3.6%), commercial mortgage securities (4.1%), foreign government and government agency obligations (1.1%), commercial paper (0.5%) and cash equivalent investments (0.6%). The Short Term Bond Fund's total return was 3.09% in fiscal 2011 and 3.00% in fiscal 2012 (the fiscal 2012 figure is unaudited).

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for fiscal 2013 bond issuances of approximately \$2.423 billion, which includes \$1.969 billion in bond cap (including unspent bond cap from fiscal 2012), \$360.2 million of borrowing for the Accelerated Bridge Program and \$94.0 million for project finance spending. For cash flow needs for fiscal 2013, the Treasurer's office expects to issue revenue anticipation notes in September, 2012, with repayment in the final quarter of fiscal 2013.

The next cash flow statement is expected to be released on or about November 30, 2012.

The following table provides General Fund ending cash balances by month for fiscal 2009 through fiscal 2013.

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

	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>
July	\$832.40	\$581.80	\$1,082.20	\$2,194.70	\$1,944.40
August	790.50	837.70	1,852.10	2,153.10	1,367.2 (1)
September	753.70	1,033.10	1,715.30	1,462.00	1,520.9 (1)
October	1,090.40	703.40	1,522.20	1,522.50	1,822.2 (1)
November	1,259.40	529.20	1,661.90	1,973.00	1,450.2 (1)
December	1,014.30	890.00	1,558.00	1,287.40	1,293.2 (1)
January	1,275.70	1,271.70	1,948.20	1,995.50	2,118.7 (1)
February	734.20	988.40	1,591.30	1,551.20	1,641.7 (1)
March	517.70	891.40	924.80	860.10	986.3 (1)
April	1,030.20	1,335.90	2,246.00	1,823.80	2,651.6 (1)
May	521.20	1,515.10	2,363.00	1,643.40	2,447.0 (1)
June	805.30	844.30	2,200.40	2,096.70	2,071.1 (1)

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2013 ending balances are estimated for August through June.

The following tables provide cash flow detail for fiscal 2012 and fiscal 2013.



## Overview of Fiscal 2012 Non-Segregated Operating Cash Flow (in millions) (1)

(as of August 31, 2012)

	<u>Jul-11</u>	<u>Aug-11</u>	<u>Sep-11</u>	<u>Oct-11</u>	<u>Nov-11</u>	<u>Dec-11</u>	<u>Jan-12</u>	<u>Feb-12</u>	<u>Mar-12</u>	<u>Apr-12</u>	<u>May-12</u>	<u>June-12</u>	<b>Total FY 2012</b>
<b>Opening Non-Segregated Operating Cash Balance</b>	\$2,200.4	\$2,194.7	\$2,153.1	\$1,462.0	\$1,522.5	\$1,973.0	\$1,287.4	\$1,995.5	\$1,551.2	\$860.1	\$1,823.8	\$1,643.4	\$2,200.4
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	2.8	(71.3)	(717.7)	6.8	(66.2)	0.0	(40.6)	0.0	(10.0)	39.4	(856.8)
Total Budgetary Revenue/Inflows	2,275.6	2,555.9	2,866.0	2,377.8	1,707.1	3,086.2	3,143.8	2,201.7	3,014.4	3,745.8	2,687.2	3,668.5	33,329.7
Total Budgetary Expenditures/Outflows	2,304.8	2,444.0	3,434.0	2,180.4	2,338.4	3,412.3	2,199.9	2,367.0	3,531.7	2,321.3	2,026.4	2,940.5	31,500.8
Net Budgetary Funds	(29.3)	111.9	(568.0)	197.4	(631.4)	(326.1)	943.9	(165.3)	(517.3)	1,424.5	660.7	728.0	1,828.9
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	839.8	888.8	793.5	689.1	783.4	729.8	611.8	926.8	981.8	988.5	870.3	480.0	9,583.7
Total Non Budgetary Expenditures/Outflows	806.7	1,018.2	1,029.3	803.5	823.6	1,143.9	865.6	1,157.1	1,064.3	843.3	840.2	1,307.8	11,703.3
Net Non Budgetary Funds	33.1	(129.4)	(235.8)	(114.4)	(40.2)	(414.0)	(253.8)	(230.2)	(182.5)	145.2	30.2	(827.7)	(2,119.6)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>7.1</u>	<u>1.3</u>	<u>1.2</u>	<u>1.3</u>	<u>1.3</u>	<u>1.5</u>	<u>2.0</u>	<u>6.0</u>	<u>3.0</u>	<u>1.7</u>	<u>1.8</u>	<u>19.9</u>	<u>48.1</u>
<b>Net Operating Activities</b>	<b>\$10.9</b>	<b>(\$16.2)</b>	<b>(\$802.5)</b>	<b>\$84.3</b>	<b>(\$670.2)</b>	<b>(\$738.7)</b>	<b>\$692.1</b>	<b>(\$389.5)</b>	<b>(\$596.8)</b>	<b>\$1,571.4</b>	<b>\$692.7</b>	<b>(\$79.9)</b>	<b>(\$242.6)</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	193.5	299.9	178.1	156.5	173.0	273.2	226.0	168.7	163.2	255.3	176.1	445.0	2,708.5
Total Federal Grants Expenditures/Outflows	<u>231.7</u>	<u>284.9</u>	<u>185.0</u>	<u>178.8</u>	<u>203.6</u>	<u>248.0</u>	<u>225.0</u>	<u>234.9</u>	<u>226.4</u>	<u>224.2</u>	<u>257.0</u>	<u>234.9</u>	<u>2,734.4</u>
<b>Net Federal Grants</b>	<b>(\$38.2)</b>	<b>\$14.9</b>	<b>(\$6.9)</b>	<b>(\$22.3)</b>	<b>(\$30.6)</b>	<b>\$25.2</b>	<b>\$1.1</b>	<b>(\$66.2)</b>	<b>(\$63.1)</b>	<b>\$31.0</b>	<b>(\$80.9)</b>	<b>\$210.1</b>	<b>(\$25.9)</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	288.0	222.9	355.1	234.2	142.1	284.5	187.6	269.8	192.2	128.9	57.1	558.7	2,921.1
Total Capital Expenditures/Outflows:	<u>266.4</u>	<u>263.3</u>	<u>236.8</u>	<u>235.7</u>	<u>190.7</u>	<u>256.6</u>	<u>172.7</u>	<u>258.3</u>	<u>223.4</u>	<u>162.4</u>	<u>243.0</u>	<u>235.6</u>	<u>2,744.9</u>
<b>Net Capital Funds</b>	<b>\$21.6</b>	<b>(\$40.3)</b>	<b>\$118.3</b>	<b>(\$1.5)</b>	<b>(\$48.6)</b>	<b>\$27.9</b>	<b>\$14.9</b>	<b>\$11.5</b>	<b>(\$31.2)</b>	<b>(\$33.5)</b>	<b>(\$185.9)</b>	<b>\$323.1</b>	<b>\$176.2</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	0.0	1,200.0	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	0.0	0.0	1,200.0	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	605.1	606.3	0.0	1,211.4
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>605.1</u>	<u>606.3</u>	<u>0.0</u>	<u>1,211.4</u>
<b>Net Financing Activities</b>	<b>\$0.0</b>	<b>\$0.0</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>(\$605.1)</b>	<b>(\$606.3)</b>	<b>\$0.0</b>	<b>(\$11.4)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>\$2,194.7</b>	<b>\$2,153.1</b>	<b>\$1,462.0</b>	<b>\$1,522.5</b>	<b>\$1,973.0</b>	<b>\$1,287.4</b>	<b>\$1,995.5</b>	<b>\$1,551.2</b>	<b>\$860.1</b>	<b>\$1,823.8</b>	<b>\$1,643.4</b>	<b>\$2,096.7</b>	<b>\$2,096.7</b>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

**Overview of Fiscal 2013 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of August 31, 2012)

	<u>Jul-12</u>	<u>Aug-12(2)</u>	<u>Sep -12(2)</u>	<u>Oct-12(2)</u>	<u>Nov -12(2)</u>	<u>Dec-12 (2)</u>	<u>Jan-13 (2)</u>	<u>Feb-13 (2)</u>	<u>Mar-13(2)</u>	<u>Apr-13 (2)</u>	<u>May-13(2)</u>	<u>June-13(2)</u>	<b>Total FY 2013 (2)</b>
<b>Opening Non-Segregated Operating Cash Balance</b>	\$2,096.7	\$1,944.4	\$1,367.2	\$1,520.9	\$1,822.2	\$1,450.2	\$1,293.2	\$2,118.7	\$1,641.7	\$986.3	\$2,651.6	\$2,447.0	\$2,096.7
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	0.0	(105.6)	0.0	350.0	0.0	0.0	0.0	0.0	0.0	0.0	244.4
Total Budgetary Revenue/Inflows	2,399.1	2,365.2	3,058.5	2,603.4	2,359.3	3,563.1	3,332.4	2,180.9	3,256.8	4,530.8	2,450.9	3,613.3	35,713.5
Total Budgetary Expenditures/Outflows	2,361.8	2,649.6	3,783.8	2,537.6	2,630.7	3,747.3	2,366.7	2,659.4	3,933.6	2,383.9	2,196.2	3,475.4	34,725.7
Net Budgetary Funds	37.4	(284.4)	(725.4)	65.8	(271.4)	(184.2)	965.7	(478.5)	(676.8)	2,147.0	254.8	137.9	987.8
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	854.6	987.6	781.8	889.4	794.5	876.7	820.7	869.8	1,077.3	825.1	774.8	837.3	10,389.6
Total Non Budgetary Expenditures/Outflows	871.6	1,088.6	930.6	942.6	947.6	924.6	978.3	904.3	1,072.6	918.8	833.8	936.1	11,349.5
Net Non Budgetary Funds	(17.0)	(101.0)	(148.8)	(53.2)	(153.1)	(47.9)	(157.6)	(34.5)	4.7	(93.7)	(59.0)	(98.8)	(959.8)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	12.1
<b>Net Operating Activities</b>	<b>\$21.5</b>	<b>(\$384.4)</b>	<b>(\$873.2)</b>	<b>\$13.6</b>	<b>(\$423.5)</b>	<b>(\$231.1)</b>	<b>\$809.1</b>	<b>(\$512.0)</b>	<b>(\$671.1)</b>	<b>\$2,054.3</b>	<b>\$196.8</b>	<b>\$40.1</b>	<b>\$40.0</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	168.4	193.0	193.0	193.0	193.0	213.0	193.0	191.0	222.0	193.5	194.0	213.5	2,360.4
Total Federal Grants Expenditures/Outflows	<u>242.6</u>	<u>193.0</u>	<u>190.7</u>	<u>190.7</u>	<u>187.0</u>	<u>208.7</u>	<u>193.0</u>	<u>186.3</u>	<u>220.0</u>	<u>192.3</u>	<u>192.8</u>	<u>209.5</u>	<u>2,406.6</u>
<b>Net Federal Grants</b>	<b>(\$74.2)</b>	<b>\$0.0</b>	<b>\$2.3</b>	<b>\$2.3</b>	<b>\$6.0</b>	<b>\$4.3</b>	<b>\$0.0</b>	<b>\$4.7</b>	<b>\$2.0</b>	<b>\$1.2</b>	<b>\$1.2</b>	<b>\$4.0</b>	<b>(\$46.2)</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	152.8	100.2	106.9	576.4	269.7	341.8	228.2	256.5	236.6	216.3	236.1	299.2	3,020.7
Total Capital Expenditures/Outflows:	<u>252.4</u>	<u>293.0</u>	<u>282.3</u>	<u>291.0</u>	<u>224.1</u>	<u>272.0</u>	<u>212.0</u>	<u>226.2</u>	<u>222.8</u>	<u>202.6</u>	<u>234.3</u>	<u>314.3</u>	<u>3,026.8</u>
<b>Net Capital Funds</b>	<b>(\$99.53)</b>	<b>(\$192.75)</b>	<b>(\$175.47)</b>	<b>\$285.39</b>	<b>\$45.54</b>	<b>\$69.89</b>	<b>\$16.28</b>	<b>\$30.31</b>	<b>\$13.81</b>	<b>\$13.72</b>	<b>\$1.79</b>	<b>(\$15.13)</b>	<b>(\$6.2)</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	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	403.9	404.4	404.9	1,213.2
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>403.9</u>	<u>404.4</u>	<u>404.9</u>	<u>1,213.2</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>(\$403.9)</b>	<b>(\$404.4)</b>	<b>(\$404.9)</b>	<b>(\$13.2)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>\$1,944.4</b>	<b>\$1,367.2</b>	<b>\$1,520.9</b>	<b>\$1,822.2</b>	<b>\$1,450.2</b>	<b>\$1,293.2</b>	<b>\$2,118.7</b>	<b>\$1,641.7</b>	<b>\$986.3</b>	<b>\$2,651.6</b>	<b>\$2,447.0</b>	<b>\$2,071.1</b>	<b>\$2,071.1</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 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 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, regional transit authorities, 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 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 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 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. As most recently amended in July and August, 2012, the law sets a fiscal 2012 limit of \$17.070 billion and provides that the limit for each subsequent fiscal year is to be 105% of the previous fiscal year's limit. This limit is calculated under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of underwriters' discount, costs of issuance and other financing costs. The law further 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 statutory limit on "direct" bonds during fiscal 2013 is approximately \$17.924 billion.

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:

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

	<b>Fiscal 2008</b>	<b>Fiscal 2009</b>	<b>Fiscal 2010</b>	<b>Fiscal 2011</b>	<b>Fiscal 2012</b>
Balance as of June 30	\$18,734,440	\$19,264,569	\$19,726,507	\$21,210,134	\$21,907,683
Plus/ (Less) amounts excluded:					
Unamortized (discount)/premium and issuance costs	123,390	216,890	216,688	(335,078)	(474,130)
Special obligation debt (1)	(1,126,668)	(1,100,698)	(1,063,500)	(1,015,380)	(976,245)
Accelerated bridge program	-	-	-	(676,125)	(995,385)
Federal grant anticipation notes (1)	(1,536,206)	(1,134,797)	(997,467)	(666,790)	(610,385)
Assumed county debt	(375)	(300)	(225)	(150)	(75)
MBTA forward funding	(309,203)	(231,000)	(165,559)	(44,472)	(207)
Transportation Infrastructure Fund	(1,434,654)	(1,401,581)	(1,243,250)	(1,356,606)	(1,342,841)
School Building Assistance (SBA)	(946,285)	(921,751)	(894,502)	(824,279)	(795,009)
Outstanding Direct Debt(2)	<u>\$13,504,384</u>	<u>\$14,691,322</u>	<u>\$15,578,692</u>	<u>\$16,291,254</u>	<u>\$16,713,406</u>
Statutory Debt Limit	<u>\$15,585,725</u>	<u>\$16,365,011</u>	<u>\$17,183,261</u>	<u>\$18,042,424</u>	<u>\$17,070,000</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.

### 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 August 31, 2012, the Commonwealth had approximately \$18.3 billion in general obligation bonds outstanding, of which \$14.8 billion, or approximately 81% was fixed rate debt and \$3.5 billion, or 19%, was variable rate debt. The Commonwealth's outstanding general obligation variable rate debt consists of several variable rate structures. Most of the outstanding variable rate bonds are in the form of variable rate demand bonds, which account for \$1.5 billion of outstanding general obligation debt as of August 31, 2012. Other outstanding variable rate structures include LIBOR Index bonds, auction rate securities, SIFMA Index Bonds and consumer price index bonds. Of the variable rate debt outstanding, the interest rates on \$3.0 billion, or approximately 17% 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 \$626 million, or approximately 3% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a periodic basis.

As of August 31, 2012, the Commonwealth had outstanding approximately \$118.9 million (\$63.0 million principal and including a discount equal to \$55.9 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. The Commonwealth is obligated to make payments of principal and interest on the BABs whether or not it receives interest subsidy payments. As of August 31, 2012, 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 August 31, 2012 the Commonwealth had liquidity support for a \$400 million commercial paper program which it utilizes regularly 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 currently 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.

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 August 31, 2012, the Commonwealth had outstanding \$337,545,000 of such special obligation bonds secured by a pledge of 6.86¢ of the 21¢ 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 \$1.875 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 (CTF Bonds). As of August 31, 2012, the Commonwealth had outstanding \$995,385,000 of CTF Bonds. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

A portion of the outstanding CTF Bonds were 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. Under current law, such payments received by the Commonwealth are required to be deposited in the General Fund and thus do not secure the CTF Bonds. The Executive Office for Administration and Finance intends to seek legislative authority to provide that such payments will be pledged to secure the CTF Bonds.

*Convention Center Fund.* Chapter 152 of the Acts of 1997, as amended, authorizes \$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, \$638.7 million of which remained outstanding as of August 31, 2012.

### **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. As of August 31, 2012, \$510.385 million of such notes remained outstanding. 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 subordinated to the notes described in the preceding paragraph, but 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, the senior federal grant anticipation notes 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 August 31, 2012, \$100 million of such notes was outstanding.

The \$100 million of junior-lien grant anticipation notes were issued as BABs, eligible for federal subsidy payments. Under current law, such payments received by the Commonwealth are required to be deposited in the General Fund and thus do not secure the notes. The Executive Office for Administration and Finance intends to seek legislative authority to provide that such payments will be pledged to secure the notes.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2008 through fiscal 2012, exclusive of unamortized bond premiums:

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

	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>
<b>Beginning Balance as of July 1</b>	\$18,736,961	\$18,734,440	\$19,264,569	\$19,726,507	\$20,875,055
Debt Issued	1,280,824	1,887,108	1,669,088	2,233,368	2,148,002
Subtotal	<u>20,017,785</u>	<u>20,621,548</u>	<u>20,933,657</u>	<u>21,959,875</u>	<u>23,023,057</u>
Debt retired or defeased, exclusive of refunded debt	(1,179,730)	(1,227,029)	(1,207,150)	(974,770)	(1,202,094)
Refunding debt issued, net of refunded debt (3)	<u>(103,615)</u>	<u>(129,950)</u>	-	<u>(110,050)</u>	<u>(387,410)</u>
<b>Ending Balance June 30 (2)</b>	<b><u>\$18,734,440</u></b>	<b><u>\$19,264,569</u></b>	<b><u>\$19,726,507</u></b>	<b><u>\$20,875,055</u></b>	<b><u>\$21,433,553</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.

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 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>
General Obligation Debt	\$16,086,470	\$17,051,724	\$17,655,539	\$18,516,760	\$18,851,538
Special Obligation Debt	1,112,590	1,078,630	1,063,501	\$1,591,505	1,971,630
Federal Grant Anticipation Notes(1)	<u>1,535,380</u>	<u>1,134,215</u>	<u>997,467</u>	<u>766,790</u>	<u>610,385</u>
<b>TOTAL</b>	<b><u>\$18,734,440</u></b>	<b><u>\$19,264,569</u></b>	<b><u>\$19,726,507</u></b>	<b><u>\$20,875,055</u></b>	<b><u>\$21,433,553</u></b>

SOURCE: Office of the Comptroller.

(1)The fiscal year 2008 to 2010 amounts include federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums were used to pay interest on the refunding bonds until the refunded bonds were callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continued to be paid from pledged revenues as before. These bonds were retired during fiscal year 2011.

**Debt Service Requirements**

The following table sets forth, as of August 31, 2012, 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.



**Debt Service Requirements on Commonwealth Bonds as of August 31, 2012 through Maturity (in thousands) (1)**

**General Obligation Bonds**

**Federal Highway Grant Anticipation Notes**

Period Ending	General Obligation Bonds		Build America Bonds				Federal Highway Grant Anticipation Notes		Build America Bonds		Debt Service	
	Principal	Compounded Interest	Gross Interest	Subsidies	Net Interest	Debt Service	Principal	Gross Interest	Bonds	Subsidies		
6/30/2013	\$959,265	\$0	\$652,074	(\$24,658)	\$627,415	\$1,586,680	\$161,285	\$26,876	\$(1,494)		\$25,382	\$186,667
6/30/2014	1,301,297	7,735	797,078	(36,557)	760,521	2,069,554	170,710	17,451	(1,494)		15,957	186,667
6/30/2015	1,188,428	7,686	744,508	(36,557)	707,951	1,904,065	178,390	9,773	(1,494)		8,279	186,669
6/30/2016	1,312,755	6,652	692,108	(36,557)	655,551	1,974,957	11,390	4,098	(1,434)		2,664	14,054
6/30/2017	932,202	5,580	640,328	(36,557)	603,771	1,541,552	11,635	3,720	(1,302)		2,418	14,053
6/30/2018	890,300	4,237	595,926	(36,557)	559,368	1,453,905	11,925	3,277	(1,147)		2,130	14,055
6/30/2019	874,266	3,688	552,097	(36,557)	515,540	1,393,494	12,245	2,780	(973)		1,807	14,052
6/30/2020	870,829	2,970	510,639	(36,300)	474,339	1,348,138	12,600	2,235	(782)		1,453	14,053
6/30/2021	1,133,033	2,566	461,456	(35,014)	426,443	1,562,041	12,985	1,648	(577)		1,071	14,056
6/30/2022	1,036,371	2,274	409,948	(32,698)	377,250	1,415,894	13,390	1,020	(357)		663	14,053
6/30/2023	854,238	2,130	364,298	(31,412)	332,886	1,189,253	<u>13,830</u>	<u>348</u>	<u>(122)</u>		<u>226</u>	<u>14,056</u>
6/30/2024	804,750	1,796	323,962	(31,295)	292,667	1,099,214						
6/30/2025	751,860	1,679	287,079	(31,295)	255,784	1,009,323						
6/30/2026	704,501	1,577	252,613	(30,776)	221,837	927,915						
6/30/2027	610,599	1,524	222,072	(30,203)	191,869	803,992						
6/30/2028	590,965	1,667	195,796	(28,953)	166,843	759,475						
6/30/2029	643,744	1,021	166,772	(26,687)	140,085	784,849						
6/30/2030	604,701	623	135,113	(22,892)	112,221	717,545						
6/30/2031	517,331	355	101,984	(16,808)	85,176	602,863						
6/30/2032	258,797	157	86,021	(14,776)	71,245	330,199						
6/30/2033	187,300		73,908	(12,440)	61,468	248,768						
6/30/2034	188,585		64,460	(11,068)	53,392	241,977						
6/30/2035	196,755		54,745	(9,647)	45,098	241,853						
6/30/2036	205,130		44,643	(8,177)	36,466	241,596						
6/30/2037	214,730		34,106	(6,654)	27,452	242,182						
6/30/2038	194,135		23,102	(5,077)	18,025	212,160						
6/30/2039	123,805		14,940	(3,445)	11,495	135,300						
6/30/2040	91,905		8,596	(1,609)	6,988	98,893						
6/30/2041	66,000		4,000		4,000	70,000						
6/30/2042	34,000		1,360		1,360	35,360						
<b>TOTAL</b>	<b>\$18,342,576</b>	<b>\$55,915</b>	<b>\$8,515,735</b>	<b>(\$671,227)</b>	<b>\$7,844,508</b>	<b>\$26,242,999</b>	<b>\$610,385</b>	<b>\$73,225</b>	<b>(\$11,175)</b>	<b>\$62,049</b>	<b>\$672,434</b>	

SOURCE: Office of the Comptroller.

(1) Totals may not add due to rounding.

Period Ending	Special Obligation Revenue Bonds (Convention Center)			Special Obligation Revenue Bonds (CTF-Accelerated Bridge Program)				Special Obligation Revenue Bonds (Gas Tax)			
	Principal	Interest	Debt Service	Principal	Gross Interest	Build America Bonds Subsidies	Net Interest	Debt Service	Principal	Interest	Debt Service
6/30/2013		\$17,243	\$17,243	\$6,780	\$51,328	(\$12,314)	\$39,014	\$45,794	\$41,150	\$17,772	\$58,922
6/30/2014		34,486	34,486	8,475	50,397	(12,314)	38,083	46,558	37,170	15,534	52,704
6/30/2015	\$19,995	34,486	54,481	8,700	49,973	(12,314)	37,659	46,359	39,070	13,631	52,701
6/30/2016	21,075	33,436	54,511	9,260	49,538	(12,314)	37,224	46,484	39,900	11,482	51,382
6/30/2017	22,210	32,330	54,540	9,840	49,075	(12,314)	36,761	46,601	42,465	9,287	51,752
6/30/2018	23,310	31,164	54,474	10,635	48,583	(12,314)	36,269	46,904	23,040	7,261	30,301
6/30/2019	24,475	30,126	54,601	11,460	48,051	(12,314)	35,737	47,197	24,300	5,994	30,294
6/30/2020	23,380	28,842	52,222	12,530	47,478	(12,314)	35,164	47,694	25,640	4,658	30,298
6/30/2021	24,610	27,673	52,283	13,660	46,852	(12,314)	34,538	48,198	26,905	3,392	30,297
6/30/2022	25,970	26,380	52,350	14,480	46,169	(12,314)	33,855	48,335	28,385	1,912	30,297
6/30/2023	27,440	24,952	52,392	16,085	45,445	(12,314)	33,131	49,216	9,520	476	9,996
6/30/2024	28,990	23,443	52,433	34,005	44,641	(12,314)	32,326	66,331			
6/30/2025	30,625	21,848	52,473	35,335	42,929	(11,937)	30,992	66,327			
6/30/2026	32,360	20,164	52,524	36,740	41,117	(11,529)	29,588	66,328			
6/30/2027	34,190	18,384	52,574	38,265	39,263	(11,065)	28,198	66,463			
6/30/2028	36,125	16,504	52,629	39,845	37,260	(10,575)	26,685	66,530			
6/30/2029	38,170	14,517	52,687	41,485	35,238	(10,058)	25,180	66,665			
6/30/2030	40,330	12,418	52,748	43,185	33,265	(9,512)	23,753	66,938			
6/30/2031	42,610	10,199	52,809	44,955	31,060	(8,935)	22,125	67,080			
6/30/2032	45,020	7,856	52,876	46,810	28,727	(8,316)	20,412	67,222			
6/30/2033	47,565	5,380	52,945	48,735	26,219	(7,661)	18,558	67,293			
6/30/2034	50,250	2,764	53,014	50,730	23,673	(6,970)	16,703	67,433			
6/30/2035				52,800	21,013	(6,239)	14,774	67,574			
6/30/2036				54,950	18,234	(5,466)	12,768	67,718			
6/30/2037				57,035	15,332	(4,650)	10,682	67,717			
6/30/2038				59,130	12,342	(3,718)	8,624	67,754			
6/30/2039				61,110	9,224	(2,546)	6,678	67,788			
6/30/2040				63,145	5,982	(1,308)	4,673	67,818			
6/30/2041				65,220	2,609		2,609	67,829			
6/30/2042											
<b>TOTAL</b>	<b>\$638,700</b>	<b>\$474,595</b>	<b>\$1,113,295</b>	<b>\$995,385</b>	<b>\$1,001,020</b>	<b>(\$268,257)</b>	<b>\$732,763</b>	<b>\$1,728,148</b>	<b>\$337,545</b>	<b>\$91,398</b>	<b>\$428,943</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 \$3.0 billion of the Commonwealth's outstanding variable-rate debt is synthetically fixed via floating-to-fixed interest rate swap hedge agreements.

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 August 31, 2012, 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 2013 to 2037. The total notional value of approximately \$3.0 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 3.333% 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 several interest rate swap agreements 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. On June 13, 2012, LBSF issued a Derivative ADR Notice obligating the parties to submit to mandatory court-ordered mediation. The Derivative ADR Notice contains a settlement demand from LBSF in the amount of approximately \$32.7 million, including approximately \$13.9 million of interest and expenses. The Commonwealth filed its response to the Derivative ADR Notice on August 13, 2012, and LBSF filed its reply on August 28, 2012. A mediator has been appointed, and a mediation session is expected to be scheduled for a date later in the fall.

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 August 31, 2012.

	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Fair Value as of 8/31/2012	Counterparty
<i>General Obligation Bonds:</i>	Series 1997B (refunding)	\$84,510	VRDB	4.659%	Cost of Funds/VRDBs	8/12/1997	8/1/2015	(\$7,167,555)	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 1997B (refunding)	56,340	VRDB	4.659%	SIFMA	9/1/2010	8/1/2015	(4,702,963)	Sumitomo Mitsui Banking Corp.
	Series 1998A (refunding)	229,437	VRDB	4.174%	LIBOR	11/17/2008	9/1/2016	(16,638,056)	Deutsche Bank AG
	Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B								
	Series 1998A (refunding)	152,958	VRDB	4.174%	Cost of Funds/VRDBs	9/17/1998	9/1/2016	(11,574,160)	Citi Swapco, Inc.
	Series 2001B & C (refunding)	496,225	VRDB	4.150%	Cost of Funds/VRDBs	2/20/2001	1/1/2021	(97,526,999)	Morgan Stanley Derivative Products Inc.
	Series 2003B (refunding)	87,455	CPI	4.500%	Cost of Funds/CPI	3/12/2003	12/1/2014	(1,518,170)	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 2003B (refunding)	10,000	CPI	4.500%	Cost of Funds/CPI	10/8/2008	12/1/2013	(198,874)	Deutsche Bank AG
	Series 2010A (refunding)	528,205	SIFMA	3.333 - 4.004%	Cost of Funds/SIFMA	3/15/2005	2/1/2028	(119,628,880)	Citibank N.A.
	Series 2011A (refunding)								
	Series 2006C (refunding)	100,000	CPI	3.730 - 3.850%	Cost of Funds/CPI	1/1/2007	11/1/2020	(4,109,544)	Citibank N.A.
	Consolidated Loan of 2007, Series A	400,000	LIBOR	4.420%	Cost of Funds/LIBOR	10/8/2008	5/1/2037	(58,638,657)	Barclays Bank, PLC
	Series 2007A (refunding)	31,665	LIBOR	3.936%	Cost of Funds/LIBOR	10/8/2008	11/1/2020	(6,376,474)	Deutsche Bank AG
	Series 2007A (refunding)	414,130	LIBOR	3.936 - 4.083%	Cost of Funds/LIBOR	10/8/2008	11/1/2025	(97,598,486)	Bank of New York Mellon
	Central Artery Loan of 2000, Series A	106,675	VRDB	3.942%	SIFMA	8/16/2007	8/1/2018	(15,464,657)	Merrill Lynch Capital Services, Inc.
Central Artery Loan of 2000, Series A	53,575	VRDB	3.942%	SIFMA	8/16/2007	8/1/2018	(7,789,067)	J. P. Morgan Chase Bank	
Consolidated Loan of 2006, Series B Consolidated Loan of 2000, Series D	294,000	VRDB/ARS	4.515%	LIBOR	4/2/2009	6/15/2033	(117,852,139)	Barclays Bank, PLC	
<b>Subtotal</b>		<b><u>\$ 3,045,175</u></b>						<b><u>(\$431,472,096)</u></b>	

	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Fair Value as of 8/31/2012	Counterparty
<i>Special Obligation Dedicated</i>									
<i>Tax Revenue Bonds:</i>									
	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	(1,814,913)	Goldman Sachs Capital Markets, LP
	Series 2004	28,864	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	(1,805,279)	J.P. Morgan Chase Bank
	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	(1,806,074)	J. P. Morgan Chase Bank
	Series 2005A	<u>96,490</u>	CPI	4.771 - 5.059%	Cost of Funds/CPI	1/12/2005	6/1/2022	(4,716,948)	Merrill Lynch Capital Services, Inc.
<b>Subtotal</b>		<b><u>\$183,080</u></b>						<b><u>(\$10,143,214)</u></b>	
<b>Total</b>		<b><u>\$3,228,255</u></b>						<b><u>(\$441,615,311)</u></b>	

SOURCE: Office of the Treasurer and Receiver General.

## Liquidity Facilities

Most 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 liquidity facilities provided by 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 June 30, 2012.

<u>Variable Rate Bonds</u>	<u>Outstanding Principal Amount (in thousands)</u>	<u>Bank</u>	<u>Facility Type</u>	<u>Termination Date</u>
1997 Series B (Refunding)	\$218,460	JP Morgan Chase	SBPA(1)	1/11/2013
2000 Series A	\$200,000	Bank of America	SBPA	12/23/2014
2000 Series B	\$75,590	U.S. Bank	SBPA	5/22/2015
2001 Series C (Refunding)	\$248,115	State Street Bank	SBPA	2/20/2014
2006 Series A	\$150,000	Wells Fargo Bank	SBPA	8/15/2014
2006 Series B	\$200,000	JP Morgan Chase	SBPA	5/24/2013

SOURCE: Office of the Treasurer and Receiver General.

(1) Standby bond purchase agreement.

The Commonwealth also has liquidity support for a \$400 million commercial paper program under two series of commercial paper: Series I and J. Series I commercial paper is supported by a line of credit provided by T. D. Bank, N.A., which expires on February 17, 2015. Series J commercial paper is supported by a line of credit provided by The Bank of Nova Scotia which expires on February 17, 2014.

## 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 Water Pollution Abatement Trust.* The Massachusetts Water Pollution Abatement 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 have, in the past, and may in the future, 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 Clean Water Act program may not exceed \$71 million, and the aggregate annual contract assistance payment for the Trust's Safe Drinking Water Act program may not exceed \$17 million. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its 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 August 31, 2012 the Trust had approximately \$3.32 billion of bonds outstanding. Approximately 9.40 % of the Trust's aggregate debt service is covered by Commonwealth contract assistance.

*Massachusetts Development Finance Agency*, On June 12, 2008, the Governor approved legislation amending a 2006 law authorizing an "infrastructure investment incentive" program, known as "I-Cubed." The amendment, among other things, clarifies the manner in which the program is to be financed and the security for the related bonds. Under the program, up to \$250 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 will be secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. Legislation approved by the Governor on August 7, 2012 increased this amount from \$250 million to \$325 million. Until a related new private development is completed and occupied, the developer's property will be 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 will be 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 will be 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 legislation, in April, 2010, MassDevelopment issued \$10 million of two-year bond anticipation notes in anticipation of the issuance of bonds to finance certain public infrastructure costs at a development in Somerville, Massachusetts; these notes were replaced by six-month bond anticipation notes issued in April, 2012.

Legislation approved by the Governor on August 8, 2008 includes 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 to be issued by MassDevelopment to finance the parkway will be secured and payable from a general obligation pledge of contract assistance from the Commonwealth. In the event that the new state tax revenues generated from the new private development are less than the debt service cost on the bonds, the South Shore Tri-Town Development Corporation, a public entity with municipal taxing and other powers over the geographic area of the former base, will be required to reimburse the Commonwealth for any such shortfall. The legislation provides that such payment obligations of the Corporation be secured by a general obligation pledge of the Corporation. As of June 30, 2012, approximately \$28.1 million of such bonds were outstanding.

The following table sets forth the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation (as successor to the Massachusetts Turnpike Authority) and Massachusetts Development Finance Agency. These figures are as of June 30, 2012.

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

<u>Fiscal Year</u>	<u>Massachusetts Water Pollution Abatement Trust</u>	<u>Massachusetts Department of Transportation</u>	<u>Massachusetts Development Finance Agency</u>	<u>Total</u>
2013	\$62,692	\$125,000	\$2,544	\$190,236
2014	59,731	125,000	2,547	187,278
2015	58,272	125,000	2,544	185,816
2016	53,414	125,000	2,546	180,960
2017	46,296	125,000	2,545	173,841
2018	40,547	125,000	2,543	168,090
2019	40,306	125,000	2,545	167,851
2020	34,969	125,000	2,544	162,513
2021	28,132	125,000	2,546	155,678
2022	18,942	125,000	2,547	146,489
2023	19,329	125,000	2,543	146,872
2024	11,277	125,000	2,544	138,821
2025	7,323	125,000	2,544	134,867
2026	5,174	125,000	2,547	132,721
2027 through 2049	9,438(1)	1,875,000	35,626	1,920,064
<b>Total</b>	<b><u>\$495,841</u></b>	<b><u>\$3,625,000(2)</u></b>	<b><u>\$71,255</u></b>	<b><u>\$4,192,097</u></b>

SOURCES: Massachusetts Water Pollution Abatement Trust column – Office of the Treasurer and Receiver-General; Massachusetts Department of Transportation and Massachusetts Development Finance Agency columns - Executive Office for Administration and Finance.

(1) Current contract assistance payments end in fiscal 2033.

(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.

**Budgetary Contract Assistance Liabilities**

*Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds.* In August, 2000, the Route 3 North Transportation Improvements Association (the “Association”) issued approximately \$394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May, 2002, the Route 3 North Transportation Improvements Association issued approximately \$312.7 million of additional lease revenue bonds, \$305.6 million of which were issued as refunding bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease, the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. In May, 2007 and November, 2008, the Commonwealth sold general obligation bonds to refund most of the lease revenue bonds and replace them with fixed-rate general obligation bonds. As of June 30, 2012, the Route 3 North Transportation Improvements Association had \$5.63 million of such lease revenue bonds outstanding, all of which are fixed-rate.

*Saltonstall Building Redevelopment Corporation Project.* In May, 2002, MassDevelopment issued \$195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/ Saltonstall Building Redevelopment Corporation. The loan was used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building’s redevelopment, the building was leased to MassDevelopment/Saltonstall Building Redevelopment Corporation for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment/Saltonstall Building Redevelopment Corporation has paid the Commonwealth \$1,225,000 in ground rent for the first six months of fiscal 2012. For January through June, 2012, the additional projected ground rent payments will be \$1,225,000.

MassDevelopment/Saltonstall Building Redevelopment Corporation has renovated the building and subleased half of it back to the Commonwealth for office space and related parking (for a comparable lease term), in respect of which sublease the Commonwealth makes sublease payments to MassDevelopment/Saltonstall Building Redevelopment Corporation. The remainder of the building has been redeveloped as private office space, as well as



private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's full-year costs include \$7,076,954 per year of base rent and parking space rent. Parking space rent may be adjusted for fair market value every five years and was last adjusted in 2009. In addition, included in the table below are the Commonwealth's estimated pro-rata shares of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth's replacement reserve contribution calculated at 21¢ per rental square foot per year.

As of June 30, 2012 MassDevelopment/Saltonstall Building Redevelopment Corporation had approximately \$165.8 million of such lease revenue bonds outstanding.

*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 mediation has been scheduled for October 11, 2012. 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, 2012 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, 2012.

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

<u>Fiscal Year</u>	<u>Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds</u>	<u>MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(1)</u>	<u>Other Leases(2)</u>	<u>Total</u>
2013	\$1,129	\$9,465	\$119,843	\$130,437
2014	1,130	9,533	97,751	108,414
2015	1,128	9,627	80,897	91,652
2016	1,129	9,699	66,746	77,574
2017	1,116	9,773	38,953	49,842
2018	--	9,850	38,953	48,803
2019	--	9,928	38,953	48,881
2020	--	10,035	38,953	48,988
2021	--	10,118	38,953	49,071
2022	--	10,204	12,252	22,456
2023	--	10,293	12,252	22,545
2024	--	10,384	12,252	22,636
2025	--	10,504	12,252	22,756
2026 through 2036	--	<u>122,858</u>	<u>79,581</u>	<u>202,439</u>
<b>Total</b>	<b><u>\$5,632</u></b>	<b><u>\$252,271</u></b>	<b><u>\$688,591</u></b>	<b><u>\$946,494</u></b>

SOURCES: Other Leases column - Office of the Comptroller; GAAP Basis, all other columns - Executive Office for Administration and Finance.

(1) Cash flows from the Commonwealth represent gross payments to MassDevelopment, including projections provided by MassDevelopment of the Commonwealth's share of operating costs and other items that are subject to change.

(2) 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 and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. 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 June 30, 2012, the Massachusetts Bay Transportation Authority had approximately \$494.7 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 \$138 million to \$118 million through fiscal 2014 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 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 June 30, 2012 the Steamship Authority had approximately \$58.1 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 union fees, are pledged to their respective debt service requirements. As of June 30, 2012, the Massachusetts State College Building Authority had approximately \$28.3 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 \$133.27 million of Commonwealth-guaranteed debt outstanding as of June 30, 2012.

*Massachusetts Housing Finance Agency (MassHousing).* MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits the creation of a capital reserve fund in connection with the issuance of such bonds. No single-family housing bonds secured by capital reserve funds are outstanding, and no such bonds have been issued by MassHousing since 1985. As of June 30, 2012, MassHousing had outstanding approximately \$273.5 million of multi-family housing bonds secured by capital reserve funds. Any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such fund. All such capital reserve funds are maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

*Regional Transit Authorities.* There are 15 regional transit authorities throughout the Commonwealth that provide public transportation in 231 municipalities with areas not served by the MBTA. These authorities are overseen by the Massachusetts Department of Transportation and are funded from operating revenues, federal subsidies, state subsidies and assessments paid by the participating municipalities. The subsidies and local assessments are paid one fiscal year in arrears to reimburse the authorities for the net cost of service not covered by operating revenues. In anticipation of receipt of these subsidies and local assessments in the following fiscal year,

the authorities issue revenue anticipation notes to fund their net costs of service. Legislation approved by the Governor on July 13, 2008, provided for the Commonwealth guaranty for revenue anticipation notes issued by regional transit authorities. The legislation provides that the Commonwealth is required to pay any principal or interest on any such note if the authority does not have sufficient funds to make the payment and grants the holder of any such note the right to require such payment by the Commonwealth, which right is enforceable as a claim against the Commonwealth. As of December 31, 2011, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately \$158.196 million.

**Authorized But 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 but 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 but unissued debt. The table below presents authorized but unissued debt at year end:

**Authorized but Unissued Debt (in thousands)**

<u>Fiscal Year</u>	<u>Authorized But Unissued Debt</u>
2008	7,043,446
2009	19,517,272
2010	18,516,310
2011	15,870,432
2012	13,893,469

SOURCE: Office of the Comptroller.

Authorized but 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 but unissued debt. Therefore, the change in authorized but 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.

*[Remainder of page intentionally left blank]*

## COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan, including its debt affordability analysis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt and federal reimbursements. Beginning in fiscal 2009 and expected through fiscal 2013, capital funds are also provided pursuant to the American Recovery and Reinvestment Act of 2009.

The Executive Office for Administration and Finance 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.

In November, 2011, the Governor released a five-year capital investment plan for fiscal 2012 through fiscal 2016, totaling over \$17.3 billion. With the release of the plan, the Governor announced that the bond cap is expected to be \$1.75 billion for fiscal 2012, plus \$148 million in unused bond cap from fiscal 2011 which has been carried forward to support spending in fiscal 2012. The bond cap for fiscal 2013 is projected to be \$1.875 billion, and is projected to increase by \$125 million in each subsequent fiscal year through fiscal 2016.

The bond cap determination is based on the debt affordability policy described in the updated debt affordability analysis. Under this policy, the Executive Office for Administration and Finance will set the annual borrowing limit at a level designed to keep debt service within 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 assistant payment obligations on certain capital lease financings. In addition, while the accelerated bridge program will be funded outside of the bond cap, the related debt service costs of the program have been fully accounted for under the debt affordability policy in setting the bond cap at the designated levels. However, when a project financed with debt payable by the Commonwealth directly or indirectly generates new state revenue that is applied to the payment of such debt, the Executive Office for Administration and Finance will exclude the debt, the related debt service payment obligations and the new revenue used to pay such obligations from the debt affordability analysis. For example, bonds issued by MassDevelopment and payable by the Commonwealth pursuant to the I-Cubed program or for the parkway at the former South Weymouth naval base are excluded from the bond cap, as the Commonwealth’s payment liability with respect to such bonds is expected to be limited to the new state tax revenues generated from the private development supported by the infrastructure improvements financed by the such bonds.

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, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority. The fiscal 2011 estimate was based on the adopted fiscal 2011 budget. For purposes of projecting budgeted revenue in future fiscal years, the compound annual growth rate in budgeted revenues from fiscal 2001 through 2011 of 2.75% was applied to fiscal 2012 revenues and to each year thereafter. This is consistent with the debt affordability policy, which states that projected increases to budgeted revenues will be the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years.

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. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by \$125 million annually from fiscal 2012 through fiscal 2015.

The Executive Office for Administration and Finance will revisit the debt capacity and affordability analysis periodically, and at least every year, to revise estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes affecting the Commonwealth’s debt capacity. In addition, the

Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis released in October 2010.

<b>Bond Cap (in thousands)</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>
Bond Cap (1)	\$1,898,000	\$1,875,000	\$2,000,000	\$2,125,000	\$2,250,000
Total Debt Service Obligations	2,155,501	2,362,788	2,435,106	2,516,124	2,685,599
Estimated Budgeted Revenues	32,266,808	33,117,853	34,106,820	35,125,321	36,178,258
Debt Service as % of Budgeted Revenues	6.68%	7.13%	7.14%	7.16%	7.42%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis, released November, 2011.

(1) Includes \$148 million of fiscal 2011 unused bond cap that has been carried forward to fiscal 2012.

In the past, the Commonwealth aggregated 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, other and school building assistance. The following table sets forth historical capital spending in fiscal 2007 through fiscal 2011 according to these categories.

#### **Commonwealth Historical Capital Spending (in millions) (1)**

<b>Investment Category:</b>	<b><u>Fiscal 2007</u></b>	<b><u>Fiscal 2008</u></b>	<b><u>Fiscal 2009</u></b>	<b><u>Fiscal 2010</u></b>	<b><u>Fiscal 2011</u></b>
Information technology	\$ 53	\$ 65	\$ 97	\$ 100	\$ 119
Infrastructure/facilities	271	186	333	391	458
Environment	153	188	246	158	142
Housing	140	172	252	318	174
Public safety	18	19	21	11	7
Transportation	1,120	1,109	1,388	1,694	1,512
Convention centers	2	-	-	5	-
Other	29	43	96	108	127
Total (1)	<b><u>\$1,786</u></b>	<b><u>\$1,782</u></b>	<b><u>\$2,432</u></b>	<b><u>\$2,785</u></b>	<b><u>\$2,539</u></b>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

Beginning in fiscal 2008, the Executive Office for Administration and Finance re-characterized capital spending into 12 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, public safety, state office buildings and facilities, and transportation. This presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example, Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally-owned assets.

The capital investment plan for fiscal 2012 through fiscal 2016 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2012 through fiscal 2016.

### Capital Investment Plan – Total Bond Cap (in millions)

Investment Category:							% of
	<u>Fiscal 2012(2)</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>5-Year Total</u>	<u>5-Year Total</u>
Community Investments	\$275	\$257	\$274	\$266	\$265	\$1,337	13%
Corrections	28	49	74	81	88	321	3%
Courts	32	45	67	114	91	348	3%
Economic Development	121	129	134	139	139	661	7%
Energy/Environment	138	126	103	93	93	552	5%
Health/Human Services	100	60	63	65	68	357	4%
Higher Education	206	208	255	276	286	1,231	12%
Housing	169	170	173	178	178	866	9%
Information Technology	125	89	78	80	84	455	4%
Public Safety	21	24	41	42	49	177	2%
State Buildings/Facilities	113	70	66	47	52	348	3%
Transportation	<u>571</u>	<u>648</u>	<u>673</u>	<u>745</u>	<u>859</u>	<u>3,495</u>	<u>34%</u>
<b>Total (1)</b>	<b>\$1,898</b>	<b>\$1,875</b>	<b>\$2,000</b>	<b>\$2,125</b>	<b>\$2,250</b>	<b>\$10,148</b>	<b>100%</b>

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released November, 2011.

(1) Totals may not add due to rounding.

(2) Includes \$1.75 billion in Bond Cap and \$148 million in unused capacity from the prior fiscal year.

### Capital Investment Plan – All Sources of Funding (in millions)

Investment Category:							% of
	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>5-Year Total</u>	<u>5-Year Total</u>
Community Investments	\$313	\$293	\$310	\$302	\$301	\$1,519	9%
Corrections	28	49	74	81	88	321	2%
Courts	32	45	79	123	99	377	2%
Economic Development	248	189	184	189	189	999	6%
Energy/Environment	204	191	181	196	195	966	6%
Health/Human Services	145	132	136	131	106	650	4%
Higher Education	280	240	295	291	296	1,402	8%
Housing	241	170	173	178	178	938	5%
Information Technology	125	100	100	100	100	525	3%
Public Safety	39	39	52	46	49	226	1%
State Buildings/Facilities	113	70	66	47	52	348	2%
Transportation	<u>1,610</u>	<u>1,824</u>	<u>1,914</u>	<u>1,843</u>	<u>1,890</u>	<u>9,082</u>	<u>52%</u>
<b>Total(1)</b>	<b>\$3,378</b>	<b>\$3,342</b>	<b>\$3,563</b>	<b>\$3,525</b>	<b>\$3,543</b>	<b>\$17,351</b>	<b>100%</b>

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released November, 2011.

(1) Totals may not add due to rounding.

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

- Bond cap – Commonwealth borrowing to support the regular capital program;
- Federal – federal reimbursements for capital expenditures, primarily for transportation projects;
- Third-party – contributions made by third parties to capital projects being carried out by the Commonwealth;
- Project-financed bonds – self-supporting bonds payable by the Commonwealth from project-related revenue;
- Accelerated Bridge Program – Commonwealth special obligation bonds secured by revenues credited to the Commonwealth Transportation Fund or federal grant anticipation notes issued to fund the accelerated bridge program;
- American Recovery and Reinvestment Act of 2009 (ARRA) – funds provided by the federal stimulus bill directly to the Commonwealth for targeted capital investments; and
- Energy Efficiency – self-supporting Commonwealth general obligation bonds payable with savings to be achieved as a result of energy efficiencies.

The following table shows the sources of capital funds for fiscal 2012 and the estimated sources of funds for the next five fiscal years.

**Capital Investment Plan – Sources of Funds (in millions)**

<u>Fiscal Year</u>	<u>Bond Cap(1)</u>	<u>Federal</u>	<u>Third Party</u>	<u>Other(2)</u>	<u>Accelerated Bridge Program</u>	<u>Energy Efficiency</u>	<u>Total (3)</u>
2012	\$1,898	\$598	\$416	\$189	\$264	\$50	\$3,416
2013	1,875	690	188	29	489	60	3,330
2014	2,000	720	83	37	627	75	3,541
2015	2,125	720	37	48	475	100	3,505
2016	2,250	745	15	56	360	100	3,527
<b>5-year total</b>	<b>\$10,148</b>	<b>\$3,474</b>	<b>\$738</b>	<b>\$359</b>	<b>\$2,215</b>	<b>\$385</b>	

SOURCE: Executive Office for Administration and Finance.

(1) Fiscal 2012 includes \$1.75 billion in bonds issued under the bond cap and \$148 million in unused capacity from the prior fiscal year.

(2) Includes: Project financed, pay-as-you-go and ARRA projects.

(3) Totals may not add due to rounding.

On July 27, 2012, the Governor approved legislation that created a Capital Debt Affordability Committee within the Executive Office for Administration and Finance, consisting of seven voting members – the Secretary of Administration (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. The committee is charged with reviewing on a continuing basis the size and condition of the Commonwealth’s tax-supported debt, as well as the debt of certain state authorities. On or before September 10 of each year, the committee is required to submit to the Governor and the Legislature the committee’s estimate of the total amount of new Commonwealth debt that could prudently be authorized for the next fiscal year, taking into account certain specified criteria. The committee’s estimates are advisory and not binding on the Governor or the Legislature. The legislation provides that the Governor is to determine, on or before October 15 of each year, the total authorization of new Commonwealth debt that he considers advisable for the next fiscal year and the preliminary allocation of new Commonwealth debt for capital facility projects. The effective date of the legislation creating the Committee is January 1, 2013.

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## 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 begun 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. In January 2009, the Court allowed plaintiffs' motion for \$7 million in legal fees. The cost of implementation is likely to exceed \$20 million annually beginning in fiscal 2009. Although in fiscal 2009 the Commonwealth paid the plaintiffs' attorneys approximately \$7.1 million in court-approved fees, plaintiffs are entitled to submit additional petitions for recovery of attorneys' fees incurred post-judgment (e.g., for monitoring activity), through the end of the remedial plan implementation period (July, 2012). In late May 2010, plaintiffs moved the court for payment of approximately \$1.48 million in attorneys' fees for monitoring the implementation of the judgment during the period from January 1, 2007, through June 30, 2009. Defendants' counsel filed an objection to approximately \$250,000 of the fees requested. The court issued an order reducing defendants' attorney fees by \$50,000. MassHealth estimates that its implementation of program changes in compliance with the Remedy Order will increase its costs, including administrative costs, by approximately \$215 million annually. On March 20, 2012, the Court entered an order extending the monitoring period through December 31, 2012, and left open the possibility that the monitoring period could be extended further, depending upon when, and whether, the defendants are able to demonstrate to the court that they have fully complied with all tasks set forth in the judgment.

*Kristy Didonato, et al. v. Department of Transitional Assistance, et al. (Didonato I and Didonato II)*, Massachusetts Housing Court Western Division. These are consolidated class actions challenging DTA's practices and procedures relating to emergency shelter placements and, more specifically, its practices and procedures relating to the placement of families in shelters that are located more than 20 miles from their home communities. In October, 2006, the Housing Court allowed the plaintiffs' motion for partial summary judgment on the systemic notice and hearing claims in *Didonato I* and *II*. Following the court's decision, DTA worked with plaintiffs' counsel to implement the court's partial summary judgment decision and also initiated settlement discussions to resolve the remaining claims in the consolidated complaints. Plaintiffs moved to amend their complaint to include a demand that the Commonwealth adopt a policy requiring that motel placements be used to avoid placing families with school-age children in shelters that are more than 20 miles from their home communities. The court allowed the motion to amend over the defendants' objection. If the Commonwealth is compelled to facilitate a motel placement before placing a family with school-age children in a shelter more than 20 miles from their home community, the program costs related to implementing such a requirement potentially could exceed \$20 million. On July 1, 2009, the emergency shelter program was transferred from DTA to another state agency, the Department of Housing and Community Development. The merits of plaintiffs' suit are likely to be argued to the court in 2013.

*Finch, et al. v. Health Insurance Connector Authority, et al.*, Supreme Judicial Court. Plaintiffs challenged provisions in the Massachusetts annual operating budget that adopted federal rules making most non-citizens ineligible for the Commonwealth Care program—which is run by the Commonwealth Health Insurance Connector Authority—unless they lawfully resided in the United States for at least five years. On January 5, 2012, the Supreme Judicial Court held that these provisions violate the equal protection provisions of the Massachusetts Constitution. This decision is likely to add several tens of million dollars in costs in fiscal 2012 and more than \$150 million in annual costs in fiscal 2013.

*Connor B., ex rel. Vigurs, et al. v. Patrick, et al.*, United States District Court, Western Division. This is a class action in which plaintiffs allege that the Commonwealth’s foster care system violates foster children’s constitutional and statutory rights to be protected from harm while in state custody; to not be deprived unnecessarily of child-parent and sibling relationships; to safe, stable foster care placements and timely adoption planning and recruitment; to payments to foster care providers that cover the actual costs of providing food, clothing, shelter, and other essential items; and to adequate educational, mental health, medical, and dental services. Plaintiffs further allege that children are abused and neglected while in the Commonwealth’s foster care system at a rate higher than the national average; that children in foster care are moved from one placement to another with unusual frequency; that many children never achieve permanency in their placements; and that hundreds of children “age out” of foster care inadequately prepared to live independently as adults. Plaintiffs claim that the system’s alleged failures are attributable to an insufficient number of social workers, all carrying excessive caseloads; a dearth of appropriate foster care placements and ancillary services; and insufficient supports (including financial reimbursement) to foster care providers. The Court denied the defendants’ motion to dismiss the lawsuit and, in late February 2011, granted the plaintiff’s motion for class certification. The case is now well into the discovery phase. If plaintiffs succeed in achieving all of the declaratory and injunctive relief they seek, the Commonwealth could be required to expend tens of millions of dollars in increased foster care reimbursement payments, personnel costs, and services.

*SEIU v. Department of Mental Health*, Suffolk County Superior 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 (G. L. c. 7, §§ 52-55). 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 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. The Department further denies that it violated the Pacheco Law and 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.

### **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. By the end of pool fiscal year 2012 the Commonwealth will have collected an estimated \$5.157 billion in acute hospital assessments since 1990 and an estimated \$2.037 billion in surcharge payments since 1998.

*In re: Disallowance of 2005 MassHealth acute hospital supplemental payments to UMass Memorial Health Care, Inc.*. In February, 2011, CMS sent EOHHS a Notice of Disallowance of \$25,543,963 in FFP for payments to

UMass Memorial Health Care, Inc. (“UMMHC”) hospitals attributable to dates of service in fiscal 2000 through 2003, based on CMS’ interpretation of the 2-year FFP claiming deadline. This disallowance stems from a 2006 deferral. EOHHS filed a Request for Reconsideration with the U.S. Department of Health and Human Services (“HHS”) on March 31, 2011. On April 17, 2012, the Commonwealth received notice that HHS affirmed \$17.4 million of the UMMHC disallowance and reversed the remainder, allowing \$8.1 million in FFP. A question remains as to whether CMS intended to allow \$8.1 million or half that amount, since \$8.1 million represents both the federal and non-federal share of the payment at issue. EOHHS appealed the disallowance of \$17.4 million to the Departmental Appeals Board on June 12, 2012.

*Boston Medical Center Corp., et al. v. Secretary of the Executive Office of Health and Human Services*, Supreme Judicial Court. The remaining plaintiffs are the Boston Medical Center, the BMC HealthNet Plan (a managed care organization serving Medicaid patients) and three other disproportionate share hospitals. They allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services plaintiffs have already provided to Medicaid clients. Plaintiffs asserted claims totaling \$192.6 million. BMC and BMC HealthNet Plan seek \$120.9 million for rate year 2009. The three other remaining plaintiffs seek a total of \$71.7 million for the six-year period ending in rate year 2009. The Superior Court dismissed all claims in two related suits. Plaintiffs appealed and the two cases were consolidated and taken up by the Supreme Judicial Court. Three additional hospitals had asserted further claims totaling another \$44 million, so that the total prior exposure for these cases was \$236.6 million, but they decided not to appeal from the Superior Court’s decision. Oral argument took place before the Supreme Judicial Court on May 7, 2012.

## **Taxes**

*Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue*, Middlesex Superior Court. The plaintiffs, a putative class of Massachusetts consumers who purchased Dell computers between 1995 and 2006, brought suit against Dell seeking a declaration that Dell wrongfully collected (and remitted to the Commissioner) sales tax upon service contracts that were purchased at the same time consumers purchased personal computers from Dell. The Supreme Judicial Court ruled that Dell could not be liable under Chapter 93A (and therefore be forced to pay treble damages) for collecting taxes that it believed, in good faith, were due; the Court, however, let the declaratory action go forward. 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 has fully prosecuted the abatement petition it had filed with the Appellate Tax Board, seeking return of the same sales taxes. Dell recently filed a petition with the ATB for additional abatements related to its payment of sales taxes. At present, Dell’s abatement requests remain pending before the ATB, with no trial date yet scheduled. The total amount Dell claims exceeds \$54 million, including its claim for interest.

On November 3, 2011, the Superior Court denied Dell’s renewed motion to dismiss. After the Appeals Court granted Dell’s request to consider an interlocutory appeal from that ruling, the Supreme Judicial Court granted the parties’ petition for direct appellate review; the case has been fully briefed and is awaiting oral argument before the SJC.

*DIRECTV, Inc. v. Commonwealth of Massachusetts Department of Revenue*, Suffolk Superior 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 (enacted by Mass. St. 2009, c. 27, sec. 61 and 150) 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 may exceed \$10 million for each tax year, and a corresponding amount of annual revenue would be unavailable for collection in future tax years. The Commonwealth served a motion to dismiss the complaint for failure to exhaust administrative remedies, which the Court denied. Extensive discovery has been completed, and the parties are presently briefing cross-motions for summary judgment. After a hearing cross-motions for summary judgment were taken under advisement on July 19, 2012.

*Potential suit asserting a sales/use tax abatement claim.* This matter involves a tax abatement claim in the amount of \$21.8 million filed as a result of a class action suit against the taxpayer. This matter has not been filed with the Appellate Tax Board.

*Potential suit asserting corporate excise/public utilities (M.G.L. c. 63) abatement claims.* The taxpayer and related entities have filed amended returns/abatements seeking \$96 million. This matter has not yet been filed with the Appellate Tax Board.

## **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 Dispute)

(a) (2003 NPM Adjustment) This matter arises 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, 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 OPMs suffer a specified market share loss as compared to the OPMs’ market share during the base year 1997. Under the MSA, a nationally recognized economic firm selected jointly by the States and the OPMs 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.

The PMs’ claim to an NPM Adjustment for calendar year 2003 is no longer being pressed against the Commonwealth. On November 3, 2011, the manufacturers advised the panel of three arbitrators seated in a nationwide arbitration to resolve the 2003 NPM Adjustment dispute that Massachusetts was one of 16 states and territories whose claims of “diligence” were no longer being contested. Since the December 5, 2011 deadline for any state to challenge the claim of another state has passed, Massachusetts’s claim to its allocable share of the 2003 NPM Adjustment is no longer in dispute. Massachusetts can expect to receive approximately \$30 million withheld by certain manufacturers from the payment due April 15, 2006. Due to certain reallocation provisions of the MSA and orders entered by the arbitration panel, Massachusetts cannot expect to receive this money before FY 2014, after resolution of the contested states’ claims by the arbitration panel. Those hearings began in May, 2012 and are scheduled to continue through June 2013.

(b) (2004 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$1.1 billion, the MSA payments they made to the states for 2004 sales. A determination has been made that the OPMs 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 OPMs 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 OPMs 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 \$21 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 OPMs 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 \$7 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 \$892 million, the MSA payments they made to the states for 2008 sales. This amount is subject to revision until a Final Calculation in March, 2013. A determination has been made that the OPMs 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 \$1 million, 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 \$849 million, the MSA payments they made to the states for 2009 sales. This amount is subject to revision until a Final Calculation in March 2014. A determination has been made that the OPMs 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 million, 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.

*Grand River Enterprises Six Nations, Ltd. v. William Pryor, et al.*, United States District Court, New York. This is an action brought by Grand River Enterprises Six Nations Ltd. ("GRE") against the Attorneys General of 31 states, including Massachusetts, seeking to enjoin those states from enforcing the escrow statutes enacted pursuant to the tobacco Master Settlement Agreement ("MSA"). GRE, a Canadian cigarette manufacturer located on a native American reservation, is not participating in the MSA and, as such, its sales are subject to each settling state's escrow requirements. GRE claims in this litigation that the settling states' escrow statutes violate Section 1 of the Sherman Antitrust Act, are preempted by the Federal Cigarette Labeling and Advertising Act, and violate the dormant commerce clause of the United States Constitution. GRE is seeking a final judgment that the MSA is illegal, and such a decision could negatively affect the billions of dollars in future payments to the settling states anticipated under the MSA. Discovery is complete. The court has granted the states' summary judgment motion on all counts, prompting the plaintiff to file a motion for reconsideration and a notice of appeal with the United States Court of Appeals for the Second Circuit. GRE has indicated that settlements with individual states may resolve this matter. Accordingly, the appeal of the District Court judgment is on hold.

## Environment

*Wellesley College v. Commonwealth*, Suffolk Superior Court. Wellesley College has threatened to seek contribution from the Commonwealth for costs related to the clean-up of environmental contamination on the Wellesley College campus and adjacent areas including Lake Waban. In September, 2001, the Court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean-up of hazardous materials at the campus and the northern shoreline of Lake Waban that is expected to cost approximately \$40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately \$1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection (“DEP”) determined that a portion of the Lake Waban shoreline clean-up was properly performed. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost \$2 million or more depending on future decisions by DEP on appropriate clean-up; and (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years. (If a full clean-up of the lake is required in the future, it could cost up to \$100 million.); and (3) lower Waban Brook, which still has contaminated sediments that must be addressed by DEP in some manner.

*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.

*Boston Harbor Clean-Up*. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, e.g., *United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The total cost of construction of the wastewater facilities required under the federal district court’s order, not including combined sewer overflow (CSO) costs, has been approximately \$3.8 billion. The MWRA has also spent approximately \$784 million in developing and implementing the CSO plan and its projects. Thus, the cost of construction of water treatment facilities required under the court’s order has now amounted to approximately \$4.58 billion. Going forward, the MWRA anticipates spending an additional \$78 million on remaining design and construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system retrofits, and replacements.

## Other

*Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc. d/b/a Perino-Kiewit-Cashman Joint Venture v. Commonwealth*. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of \$150 million. These claims are at various stages of resolution, including claims pending before the Superior Court, the Appeals Court and the Central Artery Tunnel Project Dispute Review process, which includes a Dispute Review Board (“DRB”) and Chief Engineer’s decision. The DRB has issued

decisions on some of the claims, awarding plaintiffs approximately \$69.8 million on claims of approximately \$157 million. The majority of those decisions are now the subject of further court proceedings or a decision of the Project's Chief Engineer pursuant to the parties' contracts.

In early May 2012, the Appeals Court heard oral arguments as to whether the DRB was authorized to issue binding arbitral decisions on numerous claims, or whether it was only authorized to issue non-binding recommendations that were subject to review by the Project Director. The court took the case under advisement.

*OPEIU, Local 6 and the Massachusetts Trial Court*, American Arbitration Association. The union representing the Trial Court's clerical and professional employees arbitrated two grievances concerning the non-payment of negotiated wage increases for the second and third years of a collective bargaining agreement effective from July 1, 2007 to June 30, 2010. In May, 2010, the arbitrator issued an award requiring the Trial Court to pay the wage increases, which now total approximately \$40 million. In October, 2010, the union filed a petition in Superior Court to enforce the arbitration award. The union also filed an unfair labor practice charge with the Division of Labor Relations alleging that the Commonwealth's failure to comply with the arbitration award violated G.L. c. 150E. The Trial Court and the union subsequently settled this matter. Under the terms of the settlement agreement, the Trial Court agreed to use operating funds for the 2011 fiscal year to place the subject employees at the correct pay level effective as of the pay period that began March 13, 2011. In April 2011, the Governor signed a supplemental budget containing a \$30 million appropriation to the Trial Court that is being applied toward the arbitration award. The remainder of the retroactive wage payments will be paid out in increments from the Trial Court's budget by fiscal year 2015. The Superior Court lawsuit has been dismissed. Likewise, the charge before the Division of Labor Relations has been dismissed with prejudice.

*Slater et al. v. Harold W. Clarke et al.*, United States District Court, Washington, and United States Court of Appeals for the Ninth Circuit (interlocutory appeal). Plaintiffs in this civil suit seek damages and injunctive and declaratory relief from a number of Massachusetts defendants, including current or former employees of the Department of Correction, the Commonwealth Fusion Center, the Executive Office of Public Safety and Security, and the Worcester County District Attorney's Office, in connection with the murders of Beverly and Brian Mauck, in Washington State, by Daniel Tavares, a former Massachusetts inmate. Plaintiffs allege that Massachusetts officials improperly and prematurely released Tavares from Massachusetts custody and that, after Tavares fled to Washington State, Massachusetts officials failed to extradite Tavares, knowing that he posed a danger to Washington residents.

Plaintiffs voluntarily dismissed the suit against the former Commissioner of the Department of Correction, Harold W. Clarke. The remaining defendants moved to dismiss the complaint on the grounds of lack of personal jurisdiction, absolute prosecutorial immunity, qualified immunity, and failure to state a claim upon which relief may be granted. The court dismissed the case against William Lochrie, an employee of the Department of Correction Office of Investigative Services, for lack of personal jurisdiction. The court denied the motions to dismiss of the remaining defendants with respect to personal jurisdiction and absolute immunity. The court has yet to rule on the remaining issues raised in defendants' motions to dismiss. Defendants filed a notice of interlocutory appeal to the Ninth Circuit Court of Appeals on the issues of personal jurisdiction and absolute immunity, but later moved to dismiss the appeal as to personal jurisdiction without prejudice. The absolute immunity appeal has been briefed and oral argument is scheduled for October 3, 2012 in Spokane Washington.

*Taunton Police Patrolmen's Association and City of Taunton v. Massachusetts Department of Transportation*, Bristol Superior Court. In a lawsuit filed in August 2012, the Taunton Police Patrolmen's Association claims that regulations concerning the use of Road Flaggers and Police Details on Public Works Projects, 701 CMR 7.00 *et seq.*, exceeded the Department of Transportation's ("MassDOT") authority under Chapter 86, Section 10 of the Acts of 2008, and therefore are invalid. If the regulations are declared invalid, MassDOT may have to spend approximately an additional \$7.5 million on public works projects each year. In August 2012, the plaintiffs filed a motion for a preliminary injunction. On September 13, 2012, MassDOT intends to file an opposition to the plaintiffs' motion for a preliminary injunction. No motion to dismiss or responsive pleadings has been filed yet.

## 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.

On behalf of the Commonwealth, the State Treasurer will provide to the Municipal Securities Rulemaking Board (MSRB), 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. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth and has not failed in the last seven years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

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.

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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 Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Scott Jordan, Assistant Secretary for Capital Finance and Intergovernmental Affairs, 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 /s/ Steven Grossman  
Steven Grossman  
Treasurer and Receiver-General

By /s/ Jay Gonzalez  
Jay Gonzalez  
Secretary of Administration and Finance

September 10, 2012

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# Exhibit A

# The Massachusetts Economic Due Diligence Report

FOURTH QUARTER FY 2012



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



Cover and this photo: Edgartown Light, Edgartown Harbor, Martha's Vineyard, Massachusetts. Photos by Nancy K. Dennis. July 2012.

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## ECONOMIC INFORMATION - Quarter 4, FY 2012

The information in this section was prepared by the Massachusetts State Data Center (MassSDC) at the University of Massachusetts Donahue Institute and 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 demographic information and statistical 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 27, 2012. Information in the text, tables, charts, and graphs is current as of July 3, 2012.** 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, April 1, 2000 - July 1, 2010	4.4%	9.8%
<u>Personal Income, Consumer Prices, and Poverty</u> (p. A-8)		
Per Capita Personal Income, 2011	\$53,621	\$41,663
Average Annual Pay, All Industries, 2011p	\$59,676	\$48,040
Percent Change in CPI-U*, 2010-2011	2.7%	3.2%
Percent Change in CPI-U*, May 2011 - May 2012	0.8%	1.7%
Poverty Rate, 2008-2010 Average	10.9%	14.2%
Average Weekly Earnings, Manufacturing Production Workers: 2011	\$806.98	\$784.68
Percent Change from previous year	0.3%	2.6%
<u>Employment</u> (p. A-18)		
Percent Change in Nonfarm Payroll Employment (Not Seasonally Adjusted), May 2011 - May 2012p	1.1%	1.3%
Unemployment Rate, 2011	7.4%	8.9%
Unemployment Rate, June 2012 (seasonally adjusted)	6.0%	8.2%
<u>Education</u> (p. A-24)		
Expenditure Per Pupil K-12 Public, 2010	\$14,350	\$10,615
Percent of Adults with a Bachelor's Degree or higher, 2010	39.0%	28.2%
<u>Economic Base and Performance</u> (p. A-30)		
Percent Change in Gross Domestic Product, 2010-2011	2.2%	1.5%
Percent Change in International Exports, 2010-2011	5.5%	15.9%
Percent Change in Housing Permits Authorized, 2010-2011	-14.9%	3.2%

\*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, and with the exception of the recession of the early 1990s and a 17-month stretch between 2006 and 2007, considerably lower unemployment rates in Massachusetts than in the United States since 1980. The state unemployment rate fell to 6.0 percent in June 2012, and the state has typically seen a slower rise in unemployment than the nation as a whole. In 2011, 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, 2011 to be 840.2 persons per square mile, as compared to 88.1 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, 99.6 percent of the state's population live in metropolitan areas.

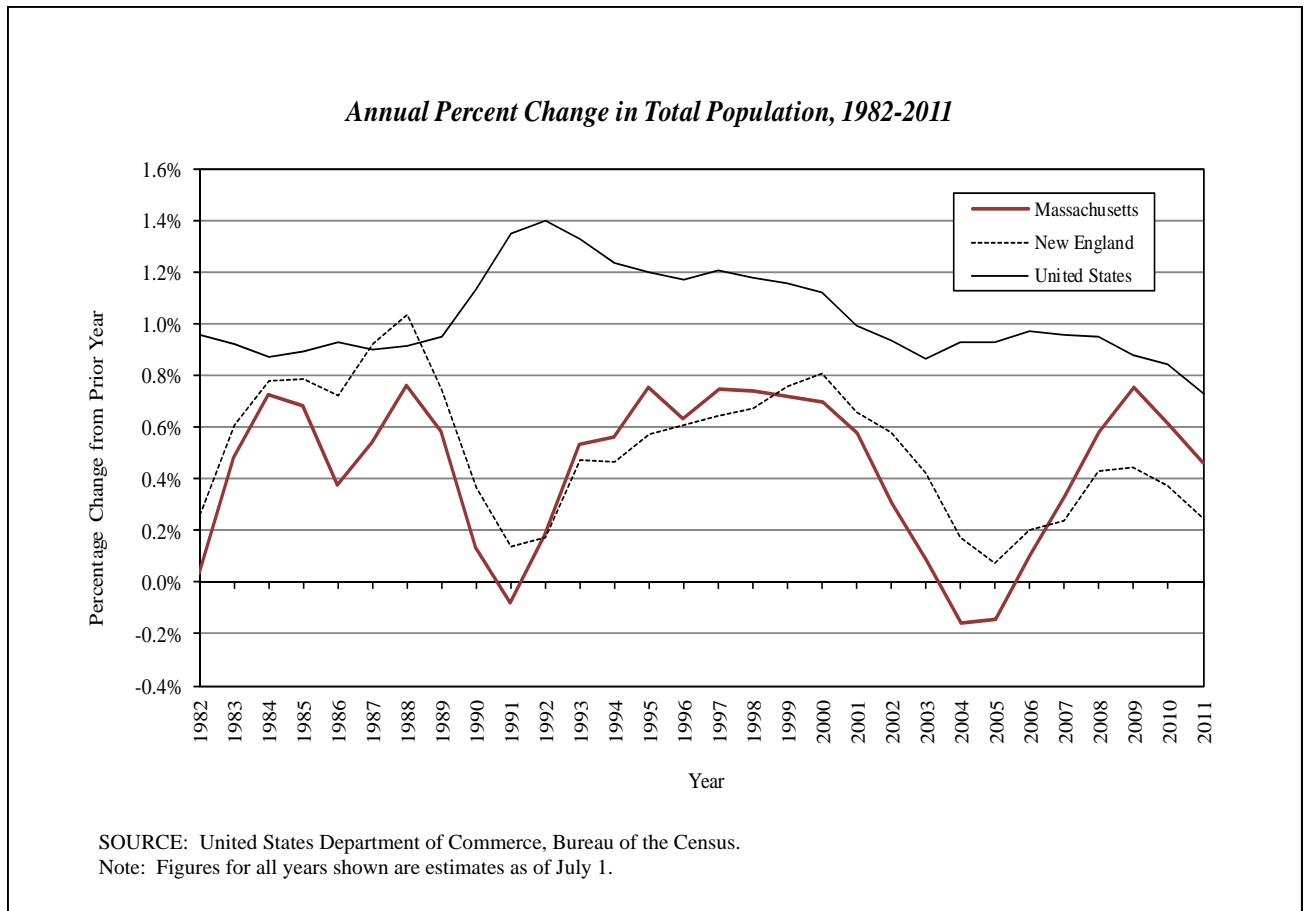
The state's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a July 1, 2011 population estimated at 625,087, or 9.5 percent of the state's population. Boston is the hub of the seven-county Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and had a total population as of July 1, 2011 estimated at 4,591,112, or 34.8 percent of the total New England population. The three-county Boston-Quincy, MA Metropolitan division is the largest component of that MSA, with a total population as of July 1, 2011 estimated at 1,903,947.

The second largest MSA in the state is the Worcester, MA MSA, with a July 1, 2011 population estimated at 801,327. The city of Worcester, situated approximately 40 miles west of Boston with a July 1, 2011 estimated population of 181,631, 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, 2011 population estimated at 693,204. Springfield, the third largest city in the Commonwealth with a July 1, 2011 estimated population of 153,155, 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 System, 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 February 2011, the Massachusetts population has only grown by 4.4 percent since Census 2000 while 15 states have grown more slowly.



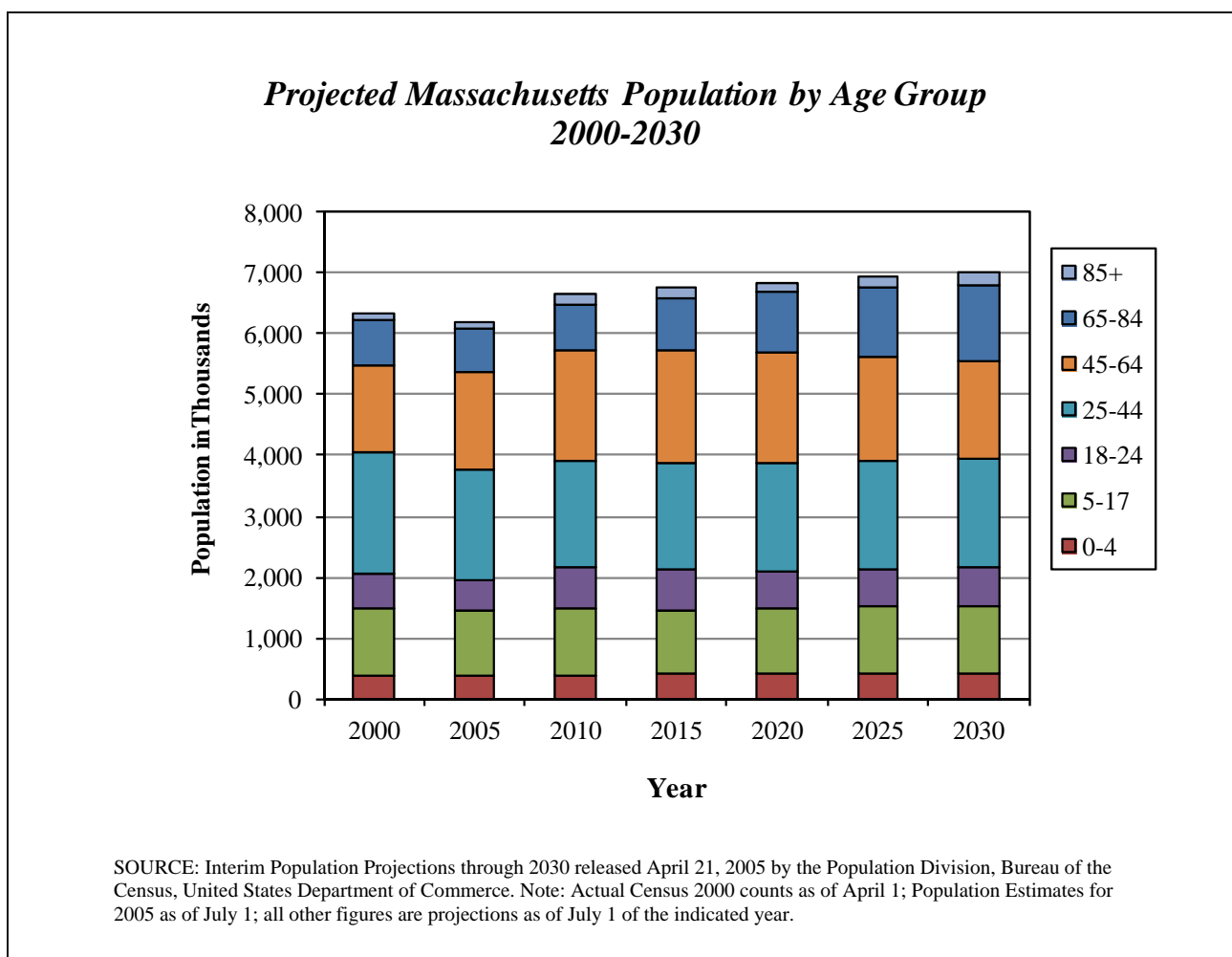
The following table compares the population level and percentage change in the population of Massachusetts to the six-state New England region and to the United States.

<i>Population, 1972-2011</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>1972</b>	5,760	0.4%	12,082	0.7%	209,284	1.2%
<b>1973</b>	5,781	0.4%	12,140	0.5%	211,357	1.0%
<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>	6,557	0.6%	14,457	0.4%	309,350	0.8%
<b>2011</b>	6,588	0.5%	14,492	0.2%	311,592	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 18 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.

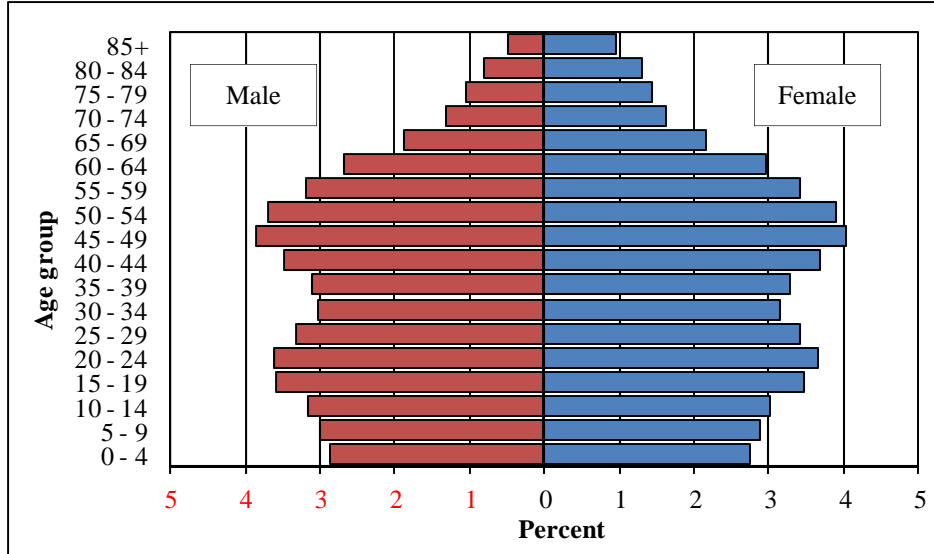
<i>Projected Massachusetts Population by Age Group 2000-2030 (in thousands)</i>									
<b>Year</b>	<b>0-4</b>	<b>5-17</b>	<b>18-24</b>	<b>25-44</b>	<b>45-64</b>	<b>65-84</b>	<b>85+</b>	<b>All Ages</b>	<b>Median Age</b>
<b>2000</b>	397.3	1,102.8	579.3	1,989.8	1,419.8	743.5	116.7	6,349.1	36.5
<b>2005</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



## Population Pyramids of Massachusetts

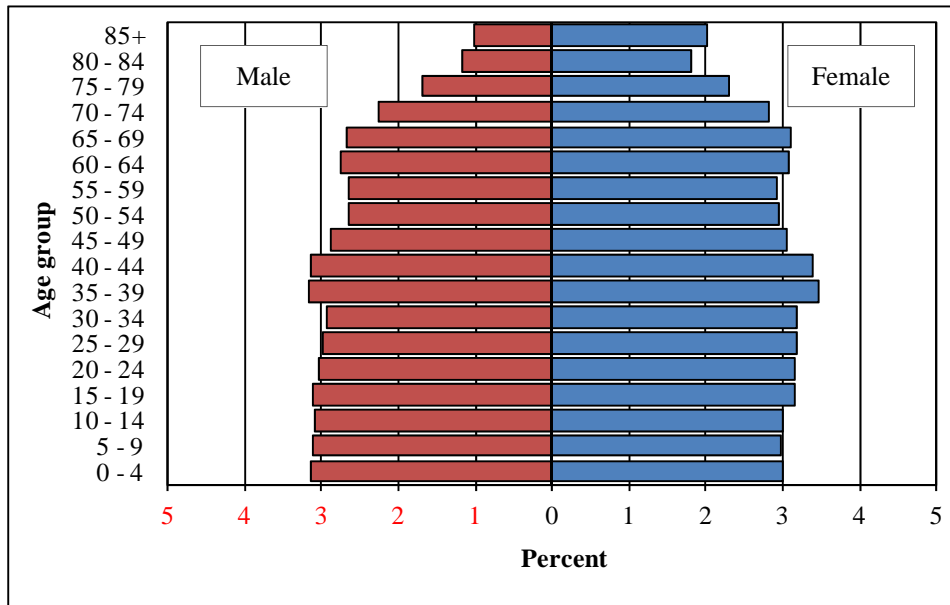
Percent of Total Population

**2010**



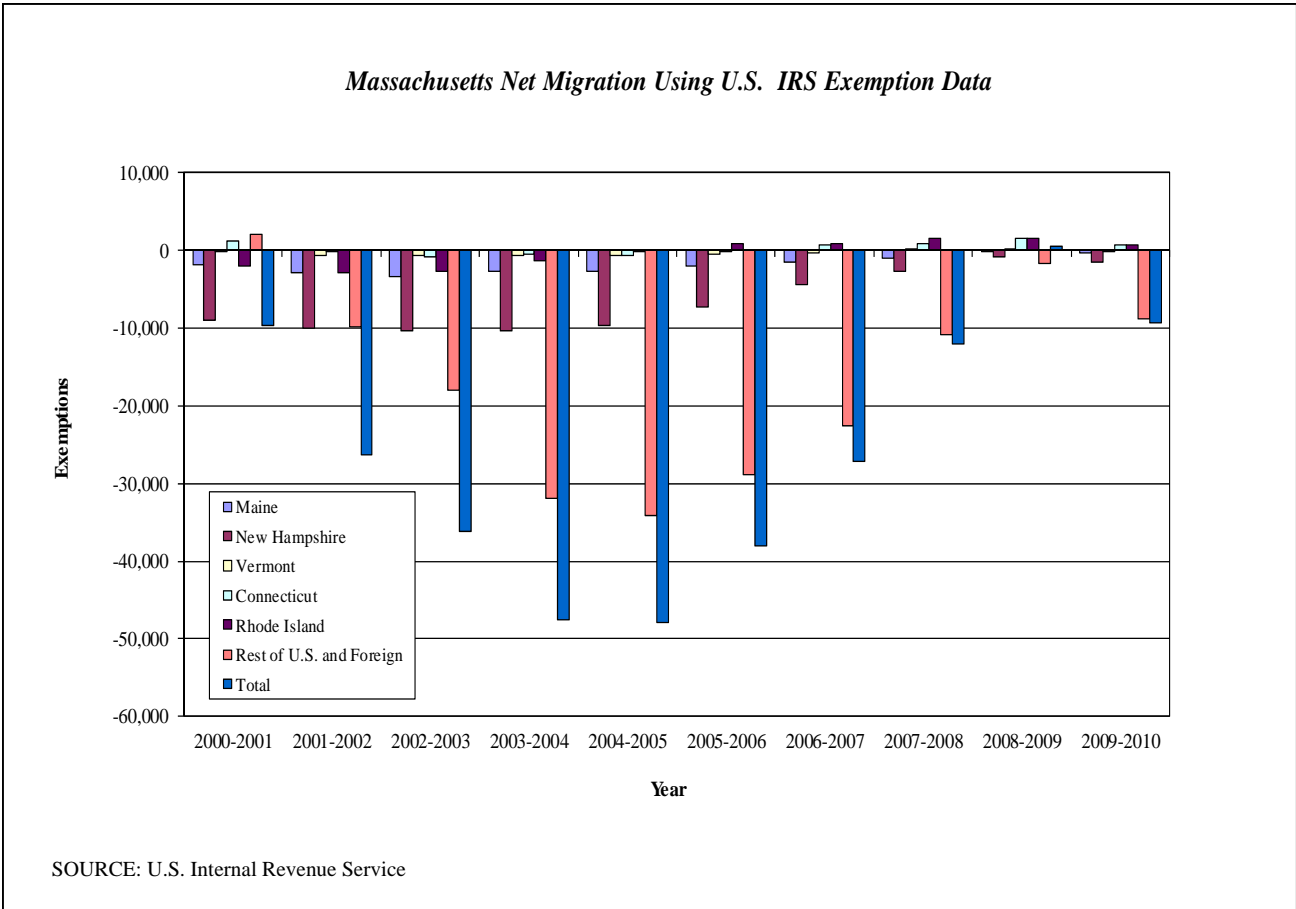
SOURCE: U.S. Census Bureau, 2010 Census.

**2030**



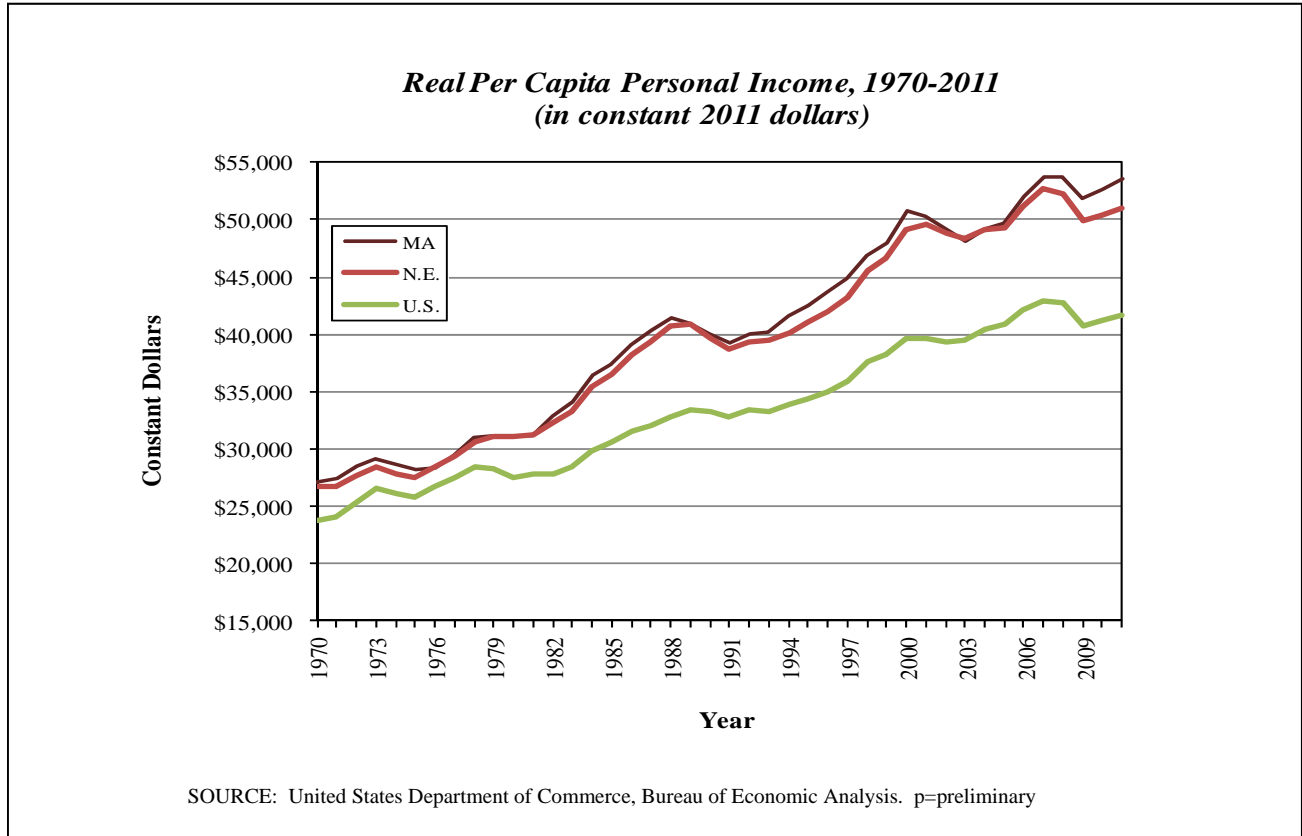
SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.  
Internet Release Date: April 21, 2005

**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 Rhode Island was the largest net gain for Massachusetts from 2000 through 2010. Massachusetts also sends many more migrants to Florida, North Carolina, California and Georgia 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 1994 and 1997. In 2000, Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 2.4 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. In 2006 and 2007, income growth in Massachusetts outpaced the nation. In 2006 and 2007, income in the state grew faster than in the nation, and since 2008, Massachusetts personal income has either declined more slowly, or grown 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. 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 1970-2011.

<i>Per Capita Personal Income, 1970-2011</i>									
Year	Nominal Income (in current dollars)			Real Income (in 2011 dollars)			Percent Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	4,472	4,438	4,084	27,130	26,739	23,677	4.8%	4.7%	5.6%
1971	4,743	4,674	4,340	27,411	26,756	24,105	1.0%	0.1%	1.8%
1972	5,102	5,025	4,717	28,473	27,649	25,384	3.9%	3.3%	5.3%
1973	5,541	5,477	5,230	29,187	28,386	26,496	2.5%	2.7%	4.4%
1974	6,011	5,954	5,708	28,632	27,754	26,044	-1.9%	-2.2%	-1.7%
1975	6,453	6,376	6,172	28,204	27,538	25,805	-1.5%	-0.8%	-0.9%
1976	6,993	6,954	6,754	28,424	28,405	26,700	0.8%	3.1%	3.5%
1977	7,611	7,586	7,402	29,416	29,345	27,475	3.5%	3.3%	2.9%
1978	8,422	8,407	8,243	30,933	30,605	28,438	5.2%	4.3%	3.5%
1979	9,371	9,381	9,138	31,221	31,055	28,313	0.9%	1.5%	-0.4%
1980	10,570	10,598	10,091	31,209	31,072	27,547	0.0%	0.1%	-2.7%
1981	11,744	11,800	11,209	31,200	31,250	27,738	0.0%	0.6%	0.7%
1982	12,892	12,833	11,901	32,923	32,283	27,741	5.5%	3.3%	0.0%
1983	13,942	13,770	12,583	34,070	33,252	28,418	3.5%	3.0%	2.4%
1984	15,639	15,342	13,807	36,428	35,382	29,892	6.9%	6.4%	5.2%
1985	16,798	16,440	14,637	37,447	36,550	30,599	2.8%	3.3%	2.4%
1986	18,003	17,592	15,338	39,132	38,160	31,479	4.5%	4.4%	2.9%
1987	19,397	18,958	16,137	40,398	39,386	31,953	3.2%	3.2%	1.5%
1988	21,127	20,612	17,244	41,485	40,783	32,788	2.7%	3.5%	2.6%
1989	22,095	21,848	18,402	41,040	40,943	33,382	-1.1%	0.4%	1.8%
1990	22,797	22,462	19,354	40,027	39,716	33,309	-2.5%	-3.0%	-0.2%
1991	23,314	22,867	19,818	39,213	38,673	32,730	-2.0%	-2.6%	-1.7%
1992	24,422	24,077	20,799	40,081	39,392	33,346	2.2%	1.9%	1.9%
1993	25,182	24,773	21,385	40,166	39,433	33,289	0.2%	0.1%	-0.2%
1994	26,393	25,804	22,297	41,554	40,095	33,843	3.5%	1.7%	1.7%
1995	27,662	27,048	23,262	42,536	40,971	34,334	2.4%	2.2%	1.5%
1996	29,279	28,521	24,442	43,727	42,014	35,041	2.8%	2.5%	2.1%
1997	30,911	30,087	25,654	44,899	43,263	35,954	2.7%	3.0%	2.6%
1998	33,006	32,128	27,258	46,881	45,546	37,616	4.4%	5.3%	4.6%
1999	34,671	33,581	28,333	48,043	46,645	38,254	2.5%	2.4%	1.7%
2000	38,222	36,610	30,319	50,771	49,180	39,605	5.7%	5.4%	3.5%
2001	39,547	37,996	31,157	50,364	49,658	39,573	-0.8%	1.0%	-0.1%
2002	39,597	38,131	31,481	49,145	48,828	39,362	-2.4%	-1.7%	-0.5%
2003	40,264	38,798	32,295	48,159	48,321	39,480	-2.0%	-1.0%	0.3%
2004	42,276	40,837	33,909	49,214	49,159	40,378	2.2%	1.7%	2.3%
2005	44,097	42,376	35,452	49,697	49,217	40,832	1.0%	0.1%	1.1%
2006	47,559	45,627	37,725	51,989	51,144	42,092	4.6%	3.9%	3.1%
2007	50,150	48,223	39,506	53,783	52,703	42,859	3.4%	3.0%	1.8%
2008	51,902	49,726	40,947	53,779	52,261	42,780	0.0%	-0.8%	-0.2%
2009	49,788	47,513	38,846	51,940	49,927	40,729	-3.4%	-4.5%	-4.8%
2010	51,304	48,840	39,937	52,694	50,329	41,198	1.5%	0.8%	1.1%
2011	53,621	51,074	41,663	53,621	51,074	41,663	1.8%	1.5%	1.1%

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. p=preliminary

**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 2001, average annual wages in the state have grown at an annual rate of 2.8 percent, compared to 2.9 percent for the nation. The level of average annual pay in Massachusetts in 2011 (preliminary) was 24.2 percent higher than the national average: \$59,676 compared to \$48,040.

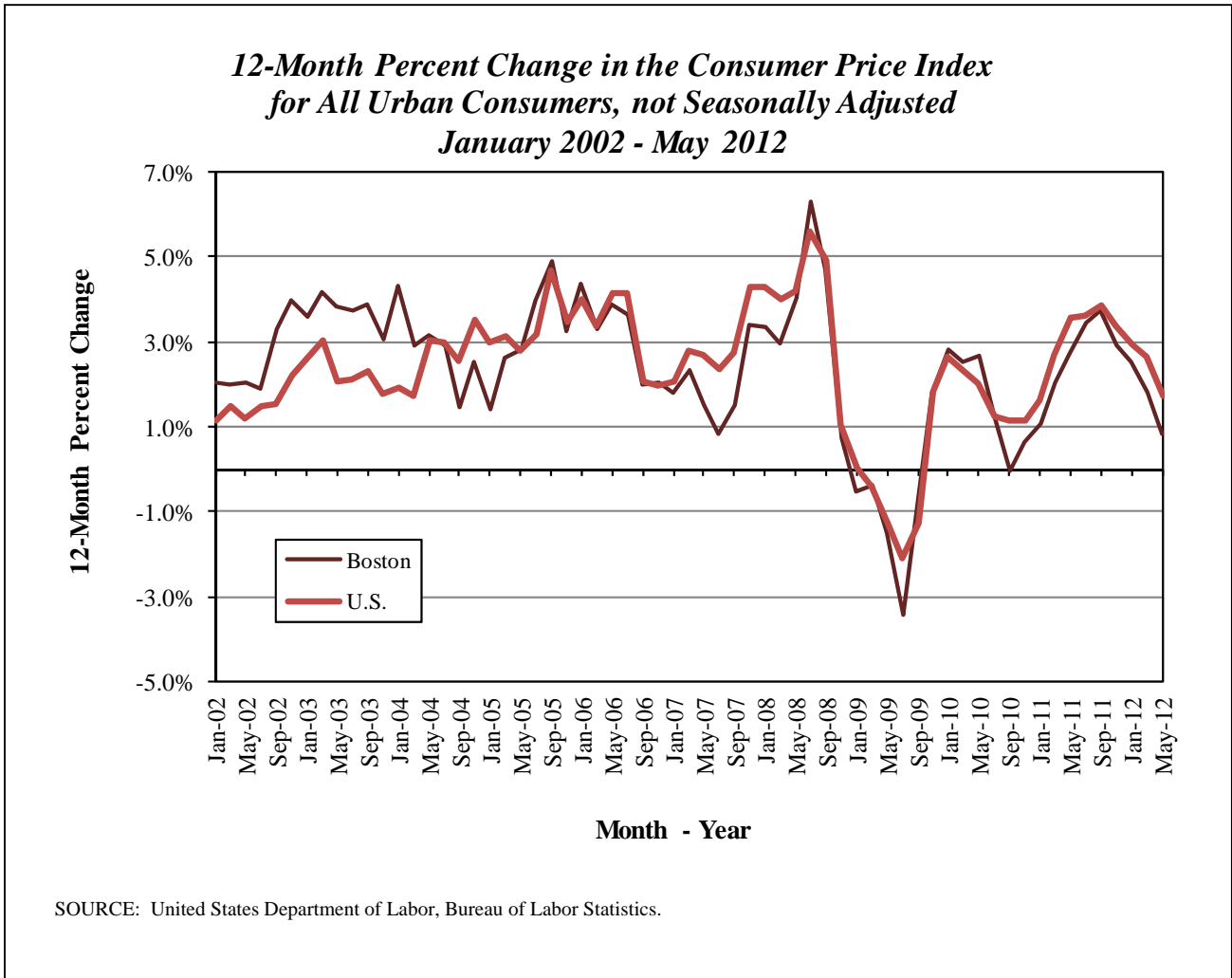
**Wage and Salary Disbursements.** Wage and salary disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data are recorded on a 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, Massachusetts shares of the New England and overall U.S. totals increased. In subsequent years the Massachusetts shares of New England and the U.S. decreased slightly before rising again starting in 2006, reaching 50.8 and 3.0 percent respectively in 2011.

<b>Annual Wage and Salary Disbursements, 1990-2011</b> (in millions of dollars)				
<b>Year</b>	<b>U.S.</b>	<b>N.E.</b>	<b>MA</b>	<b>MA as a pct. of N.E.</b>
1990	\$ 2,729,807	\$170,035	\$82,353	48.4%
1991	\$ 2,802,016	\$169,101	\$81,605	48.3%
1992	\$ 2,964,907	\$176,532	\$85,257	48.3%
1993	\$ 3,069,735	\$181,878	\$88,236	48.5%
1994	\$ 3,225,744	\$189,275	\$92,297	48.8%
1995	\$ 3,413,758	\$200,510	\$98,274	49.0%
1996	\$ 3,612,171	\$212,088	\$104,565	49.3%
1997	\$ 3,872,441	\$228,515	\$112,601	49.3%
1998	\$ 4,177,476	\$246,171	\$121,971	49.5%
1999	\$ 4,456,833	\$264,389	\$132,683	50.2%
2000	\$ 4,823,727	\$291,636	\$149,379	51.2%
2001	\$ 4,948,357	\$299,079	\$151,715	50.7%
2002	\$ 4,993,197	\$297,067	\$148,724	50.1%
2003	\$ 5,133,724	\$303,347	\$150,509	49.6%
2004	\$ 5,419,559	\$319,880	\$158,685	49.6%
2005	\$ 5,694,792	\$330,876	\$163,474	49.4%
2006	\$ 6,060,261	\$349,092	\$172,880	49.5%
2007	\$ 6,414,505	\$370,462	\$184,622	49.8%
2008	\$ 6,546,600	\$378,682	\$190,110	50.2%
2009	\$ 6,262,819	\$363,036	\$182,396	50.2%
2010	\$ 6,400,786	\$372,513	\$188,290	50.5%
2011	\$ 6,675,860	\$388,781	\$197,428	50.8%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. p=preliminary



**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 January 2002 and May 2012. 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. 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 annual CPI-U for Boston and the U.S. rose slightly year-over-year in 2010, and in 2011 rose by 2.7 and 3.2 percent, respectively. The latest available data for May 2012 show that the CPI-U for the Boston metropolitan area increased at a rate of 0.8 percent over May 2011, while the U.S. index increased by 1.7 percent over the same period.



**Consumer Price Index for All Urban Consumers (CPI-U), 1970-2012**

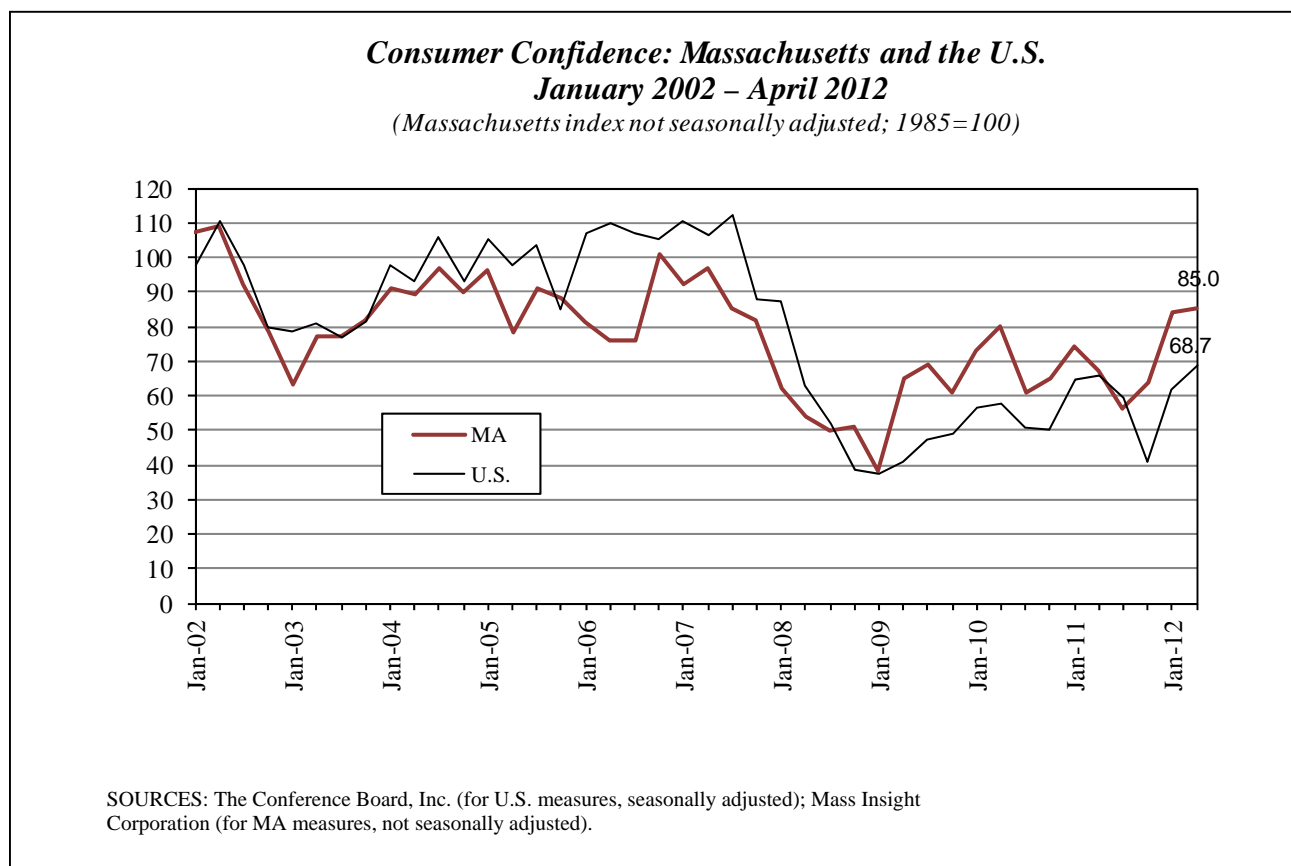
*(not seasonally adjusted; 1982-1984 base period average=100)*

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%
May-11	244.6		226.0	
May-12	246.6	0.8%	229.8	1.7%

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 point of 111.9 in July 2007, followed by an all time low of 25.3 in February 2009. U.S. consumer confidence was measured at 62.0 in June 2012. 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. The Mass Insight Corporation reported that the Massachusetts index stood at 85.0 in April 2012, well above the comparable U.S. value of 68.7. The following graph and table detail the recent record of these measures.

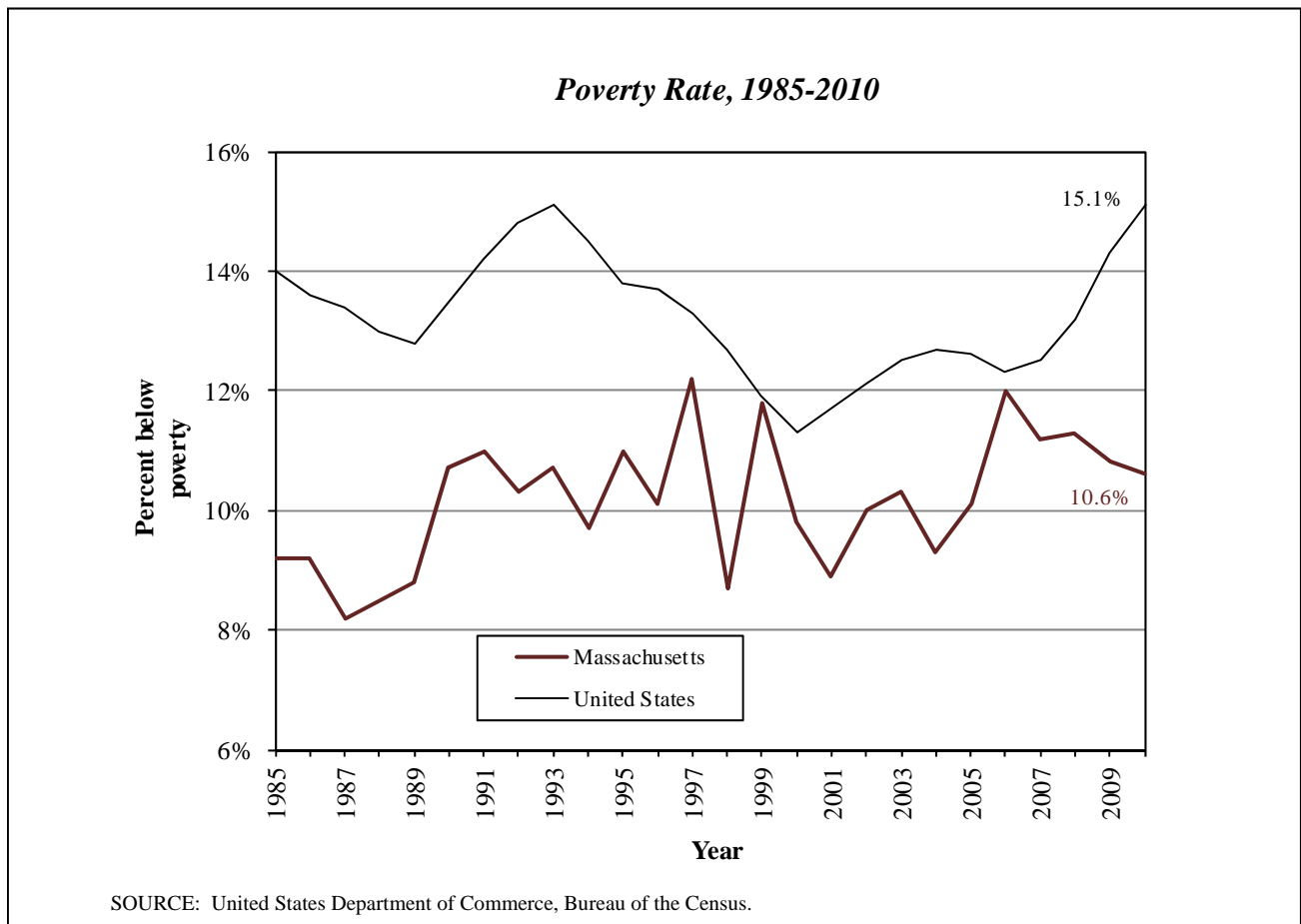


*Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S.  
January 2002 - April 2012 (1985=100)*

	Consumer Confidence		Present Situation		Future Expectations	
	MA	U.S.	MA	U.S.	MA	U.S.
<b>Apr-02</b>	109.0	110.5	84.0	106.8	125.0	109.6
<b>Jul-02</b>	92.0	97.4	68.0	99.4	108.0	96.1
<b>Oct-02</b>	78.0	79.6	48.0	77.2	97.0	81.1
<b>Jan-03</b>	63.0	78.8	28.0	75.3	86.0	81.1
<b>Apr-03</b>	77.0	81.0	31.0	75.2	108.0	84.8
<b>Jul-03</b>	77.0	77.0	41.0	63.0	101.0	86.3
<b>Oct-03</b>	82.0	81.7	36.0	67.0	112.0	91.5
<b>Jan-04</b>	91.0	97.7	48.0	86.1	119.0	105.3
<b>Apr-04</b>	89.0	93.0	53.0	90.4	113.0	94.8
<b>Jul-04</b>	97.0	105.7	66.0	106.4	119.0	105.3
<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

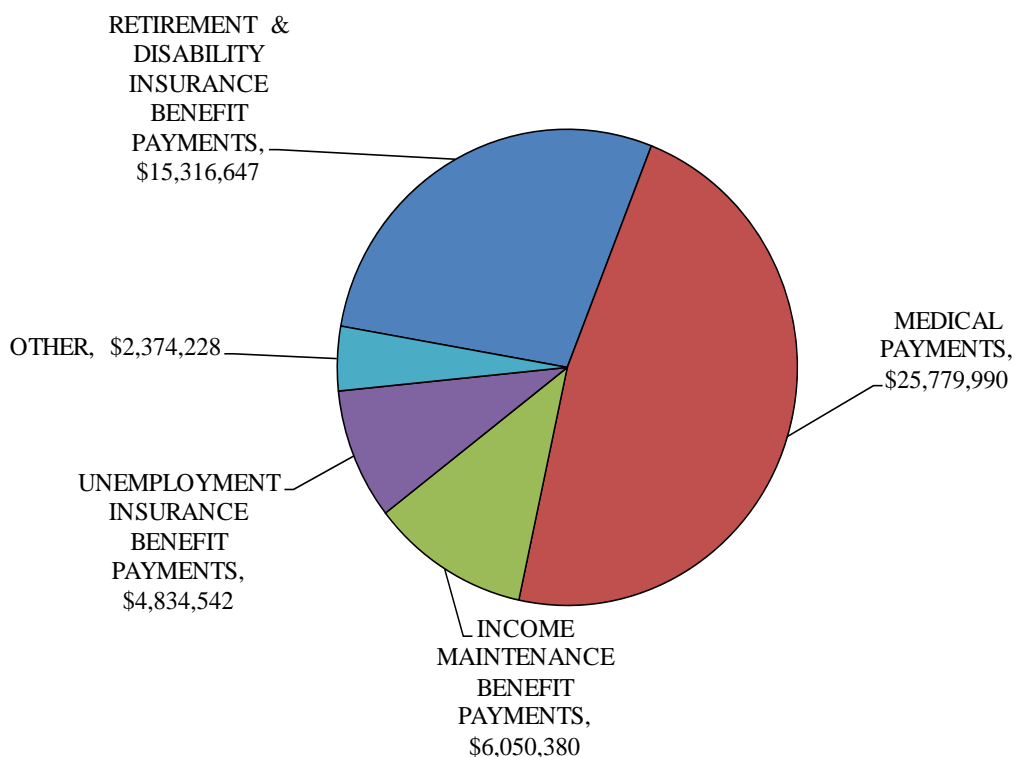
SOURCES: The Conference Board, Inc. (for U.S. measures, seasonally adjusted); Mass Insight Corporation (for MA measures, not seasonally adjusted).

**Poverty.** Through 2010, the Massachusetts poverty rate remained well below the national average. Since 1980, the percentage of the Massachusetts poverty universe below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent. The estimated poverty rate in Massachusetts decreased from 10.8 percent in 2009 to 10.6 percent in 2010, while the poverty rate in the United States increased from 14.3 percent in 2009 to 15.1 percent in 2010. These official poverty estimates are based on a sample of households and are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts (1985 - 2010) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. Not everyone has a poverty status determined; the poverty universe excludes foster children, college students in dormitories, military personnel in barracks, nursing home residents, and other groups of people in institutionalized settings. Poverty data for 2011 are not yet available.



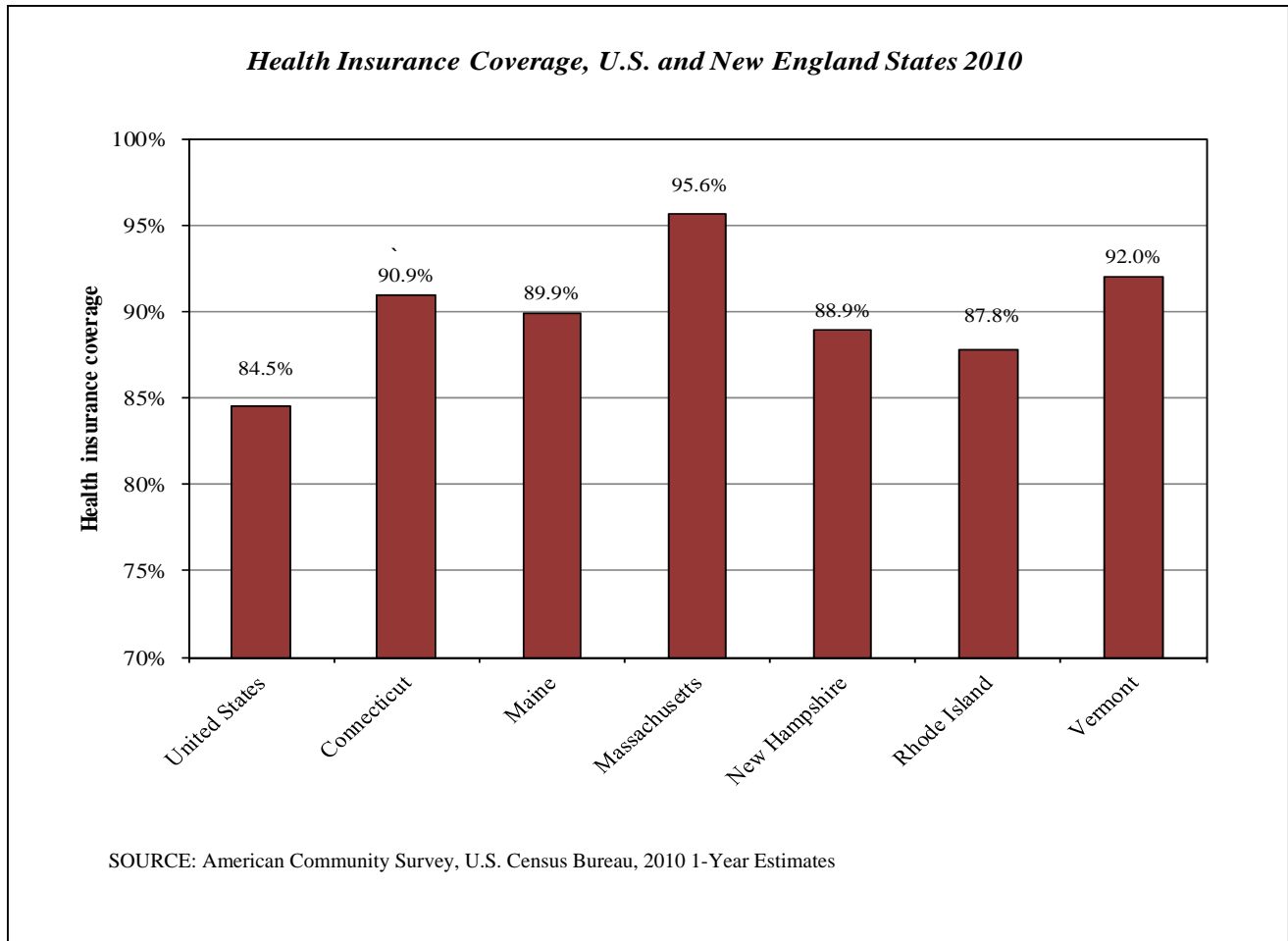
**Transfer Payments.** Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for 16.5 percent of total personal income in Massachusetts in 2010, holding steady from 16.5 percent in 2009. 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 \$55.6 billion for 2010. Just over 47 percent of government transfer payments to individuals were medical payments, only slightly down from approximately 48 percent in 2009.

***Transfer Payments from Governments to Individuals in  
Massachusetts in 2010  
(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. This is mostly the result of the law passed in 2006 mandating universal coverage in the Commonwealth. In 2010, 95.6 percent of the civilian non-institutionalized population was covered in the state by either public or private insurance, compared with 84.5 percent nationwide. Massachusetts also leads the other New England states in coverage, with Vermont as the next closest at 92 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.

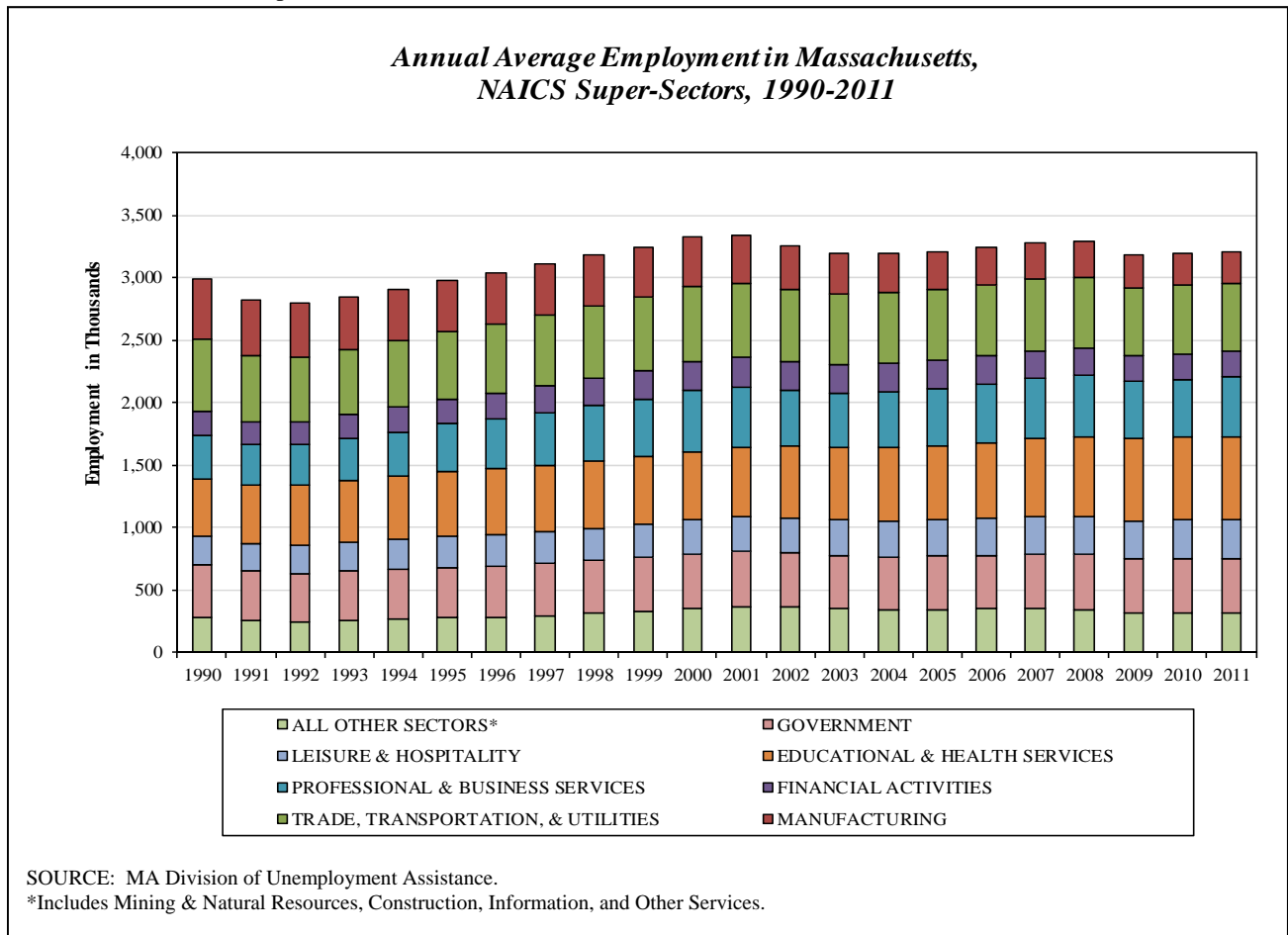


## EMPLOYMENT

**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 2009-2011 period with the corresponding shares for the 1990-1991 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 have grown to take the place of manufacturing in driving the Massachusetts economy and now account for more than 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 0.3 percent increase in 2010, employment grew 0.6 percent in 2011, still 3.9 percent below the last peak in 2001. The comparable growth rate for the nation in 2011 was up 1.1 percent from 2010 and down 0.4 percent from 2001. The latest seasonally adjusted estimate for the state (3.25 million for May 2012) is about 135.4 thousand below the peak month in 2001 (3.38 million in February 2001) and about 28.1 thousand below the last peak in January 2009 (3.22 million).

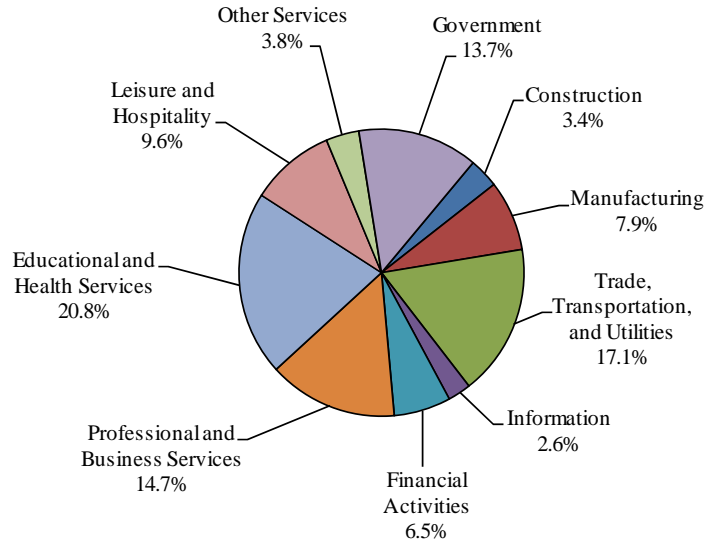
After years of moderate but steady declines or near-zero growth in the late nineties and early 2000s, manufacturing employment in the state experienced steep annual declines in 2002 (10.2 percent) and 2003 (7.0 percent) before returning to more moderate declines in 2004 (3.5 percent). The declines for manufacturing employment in 2007 and 2008 were similar to the steady declines prior to 2002. After a steep decline of 9.5 percent in 2009, the decline returned to a less dramatic 2.2 percent in 2010, and most recently a slight uptick of 0.2 percent in 2011. The preliminary seasonally adjusted estimates for the first five months of 2012 were higher than the estimates for the same period in 2011 (255.0 million compared to 253.8 million).



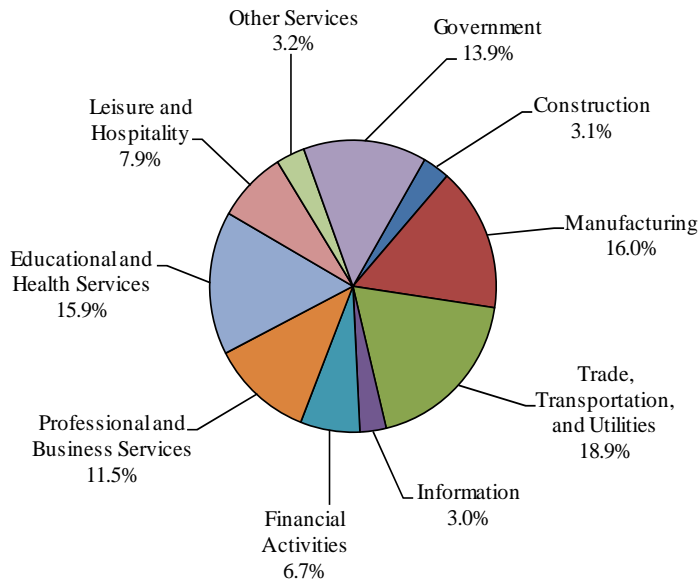


**Massachusetts Non-Farm Payroll Employment  
(NAICS Industry basis)**

**NAICS Super-Sectors: 2010-2011 Average Share**



**NAICS Super-Sectors: 1990-1991 Average Share**



SOURCE: MA Division of Unemployment Assistance.

**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 2011. UMass Memorial Medical Center replaces Tufts University from the March 2010 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 2011***

*(listed alphabetically)*

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

SOURCE: Massachusetts Executive Office of Labor & Workforce Development, Division of Unemployment Assistance, Research Department 10-14-11.

NOTE: This alphabetic listing includes private employers reporting large numbers of jobs covered by the Massachusetts unemployment insurance program. The information is based on March 2010 employment for employers as 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.

**Massachusetts Companies in the Fortune 500 List.** The economic base of Massachusetts is anchored by the eleven 2012 Fortune 500 companies headquartered here. There were thirteen in 2011. When comparing the 2012 Fortune 500 to that of 2011, three Massachusetts companies gained, seven lost rank, and one remained the same. Global Partners, located in Waltham, climbed 124 places on the list, the largest leap for a Massachusetts company.

***Massachusetts Companies in the 2012 Fortune 500***

Rank		Company	Industry	2011 revenues (millions)
2012	2011			
84	82	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	\$34,671
114	108	Staples (Framingham)	Specialty Retailers: Other	\$25,022
117	104	Raytheon (Waltham)	Aerospace and Defense	\$24,857
121	101	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	\$24,226
125	119	TJX (Framingham)	Specialty Retailers: Apparel	\$23,192
139	152	EMC (Hopkinton)	Computer Peripherals	\$20,008
182	306	Global Partners (Waltham)	Wholesalers: Diversified	\$14,836
225	227	Thermo Fisher Scientific (Waltham)	Scientific, Photo, Control Equipment	\$11,780
262	253	State St. Corp. (Boston)	Commercial Banks	\$10,207
335	305	Boston Scientific (Natick)	Medical Products & Equipment	\$7,622
476	476	Biogen Idec (Weston)	Pharmaceuticals	\$5,049

SOURCE: Fortune, May 21, 2012 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 February 29, 2011, the Massachusetts Unemployment Trust Fund had a balance of \$12.6 million. This balance is the sum of the private contributory account balance of -\$81.6 million and the government contributory account balance of \$94.2 million. This compares to an December 2011 balance of \$195.4 million with a private contributory portion of \$101.0 million. The March 2012 Unemployment Insurance Trust Fund report indicated that the private contributory account balance was estimated to be \$2.493 billion by the end of 2016 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 17 months starting in December 2005, but only three of those differences exceeded 0.2%. Since April 2007, the state rate has been at or below the comparable (seasonally adjusted) U.S. rate. In October 2007, the Massachusetts rate was 4.4 percent, the lowest it had been since October 2001. By June 2012, the Massachusetts rate had fallen to 6.0 percent from 6.5 percent in March 2012. 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.

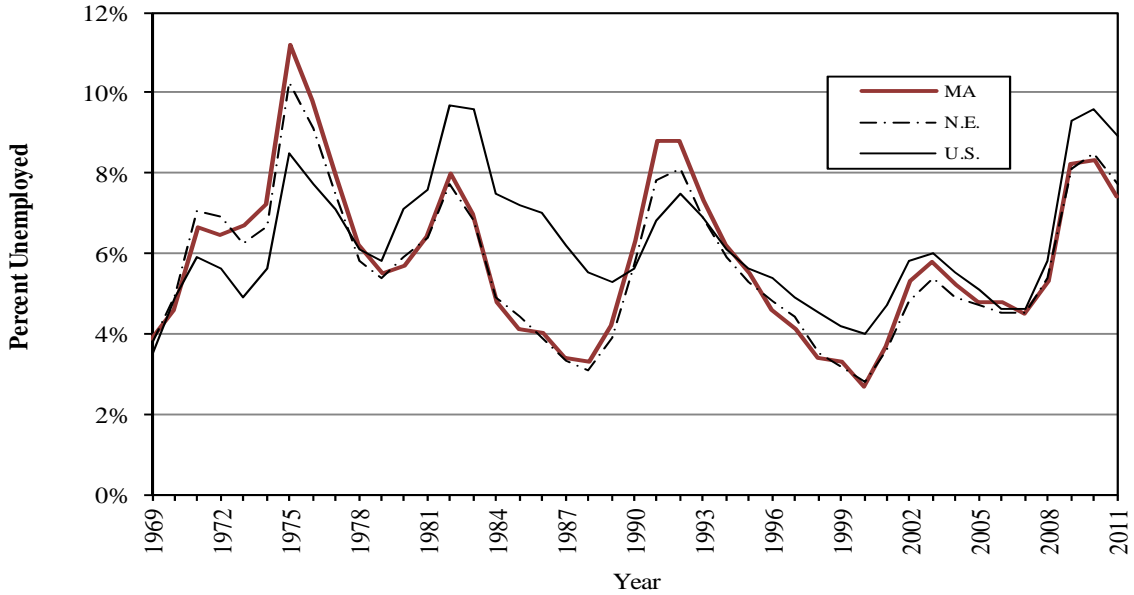
## Annual Average Civilian Labor Force and Unemployment, 1969-2011

(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	3,462	7,711	154,287	185	418	8,924	5.3%	5.4%	5.8%	91.4%
2009	3,468	7,732	154,142	284	629	14,265	8.2%	8.1%	9.3%	88.2%
2010	3,469	7,756	153,889	289	659	14,825	8.3%	8.5%	9.6%	86.5%
2011	3,456	7,740	153,617	254	599	13,747	7.4%	7.7%	8.9%	83.1%

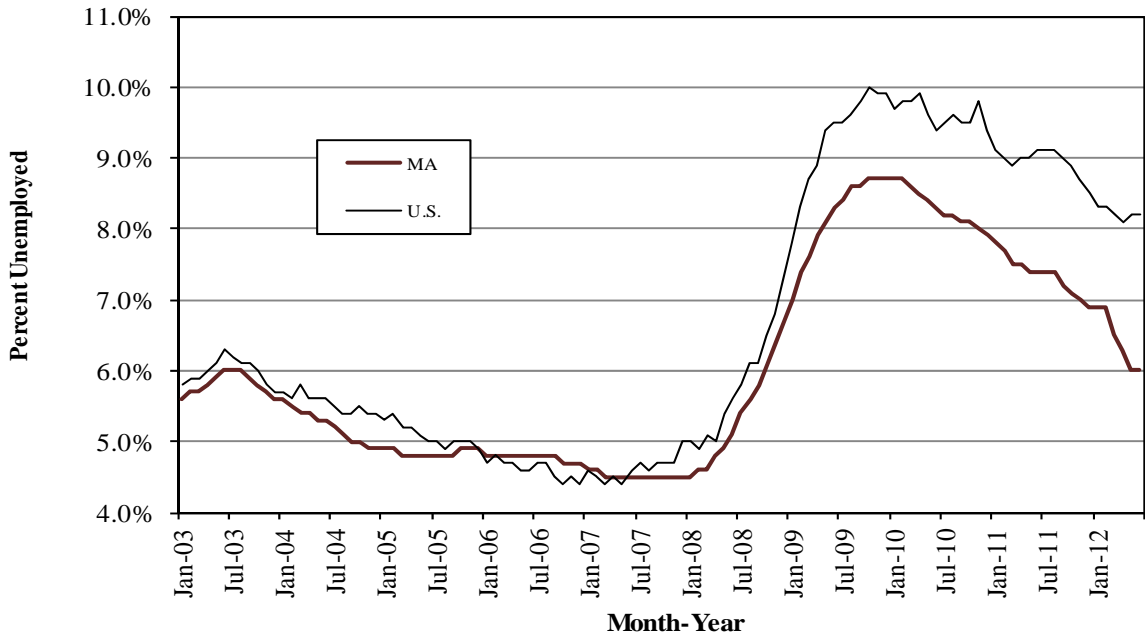
SOURCE: United States Department of Labor, Bureau of Labor Statistics.

**Annual Average Unemployment Rate, 1969-2011  
Massachusetts, New England, and United States**



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

**Monthly Unemployment Rate, January 2003 - June 2012  
Massachusetts and United States  
(seasonally adjusted)**

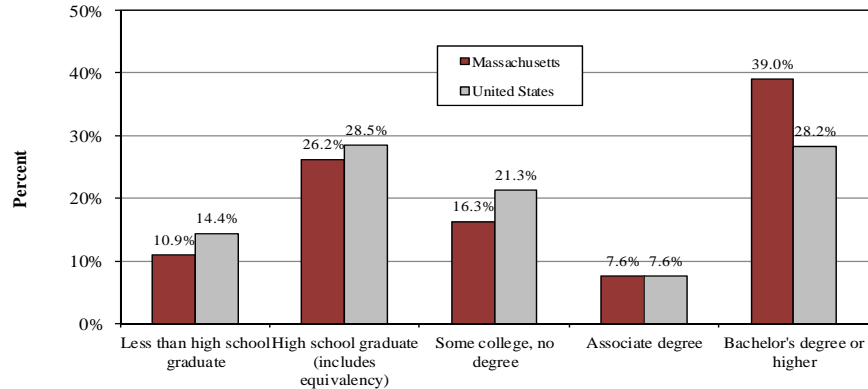


SOURCE: MA Division of Unemployment Assistance, United States Bureau of Labor Statistics

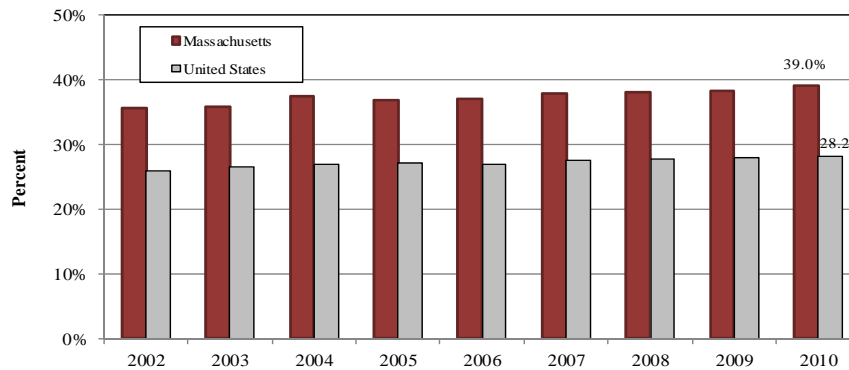
## EDUCATION AND TECHNOLOGY

**Educational Attainment.** The availability of a skilled and well-educated population is an important resource for the Commonwealth. Approximately two out of five adults in Massachusetts had a bachelor's degree or more in 2010, according to the Census Bureau's American Community Survey (ACS). The ACS also found that Massachusetts had a smaller proportion of persons who had not completed high school, 10.9 percent, than the national average of 14.4. Massachusetts' 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.

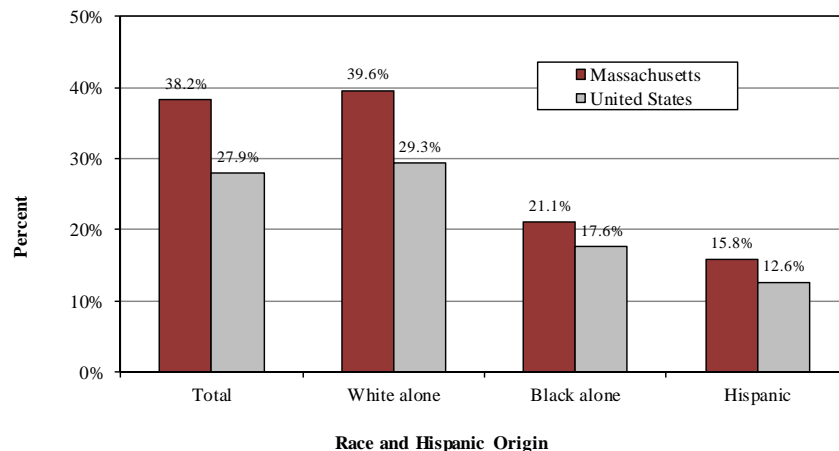
*Educational Attainment of Persons 25 Years and Older in 2010*



*Percent of Population with a Bachelor's Degree or Higher*



*Persons 25 Years and Older with a Bachelor's Degree or Higher in 2010*



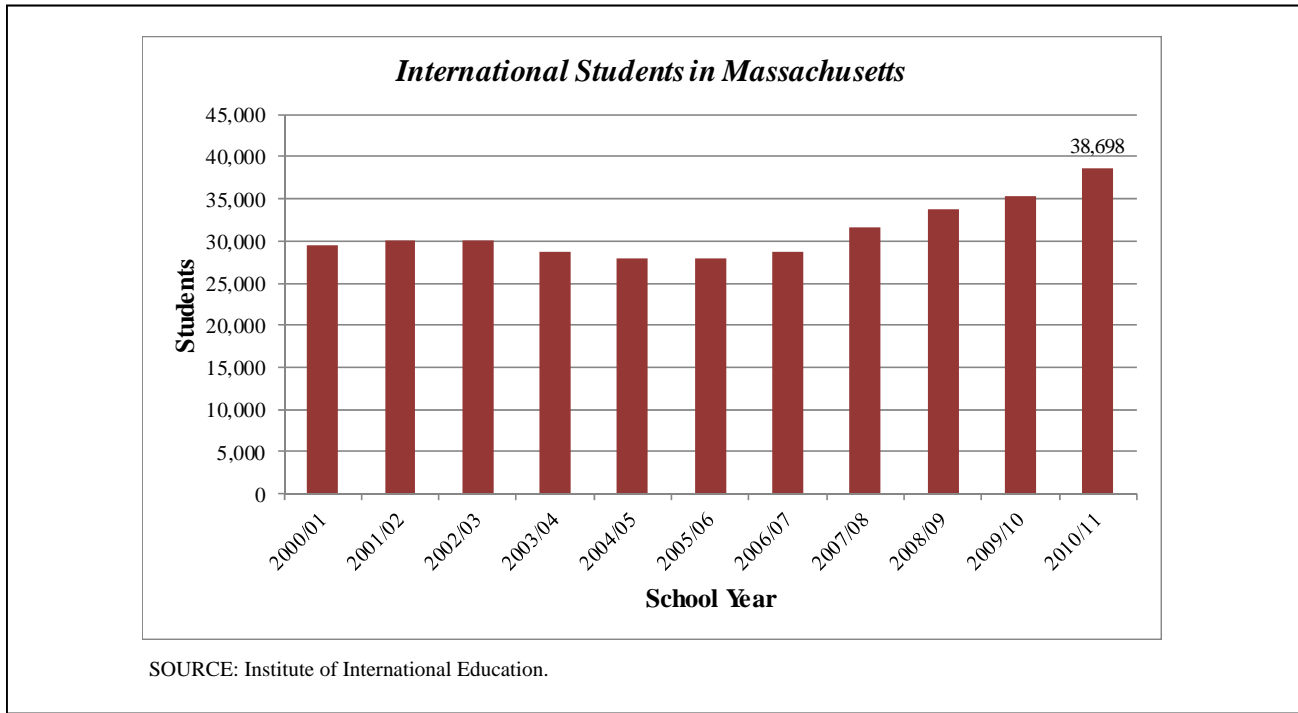
SOURCE: U.S. Census Bureau, ACS Estimates.

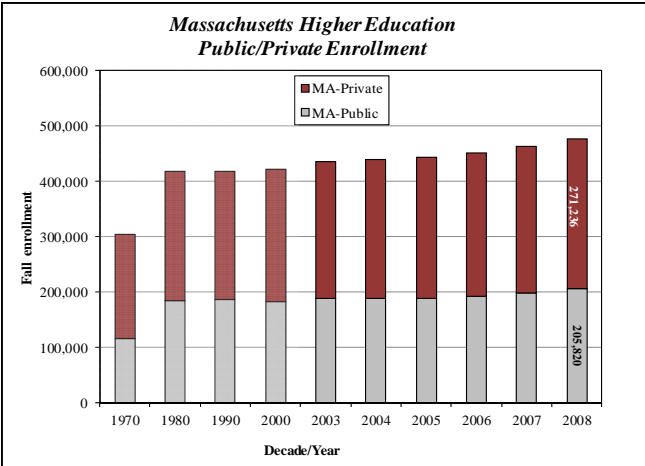
**Higher Education Data.** Massachusetts has a higher minority enrollment in institutions of higher education than New England. However, the percentage of enrolled Blacks and Hispanics in higher education in Massachusetts is below the national average. These percentages, which do not include military academy enrollment, are seen in the chart below.

<i>Higher Education Enrollment by Race and Hispanic Origin in 2010</i>						
	Total	White alone	Black alone	Asian alone	Other race	Hispanic or Latino
United States	22,255,504	73.2%	16.0%	7.8%	3.0%	14.6%
Massachusetts	554,736	80.6%	9.9%	9.5%	0.0%	8.9%

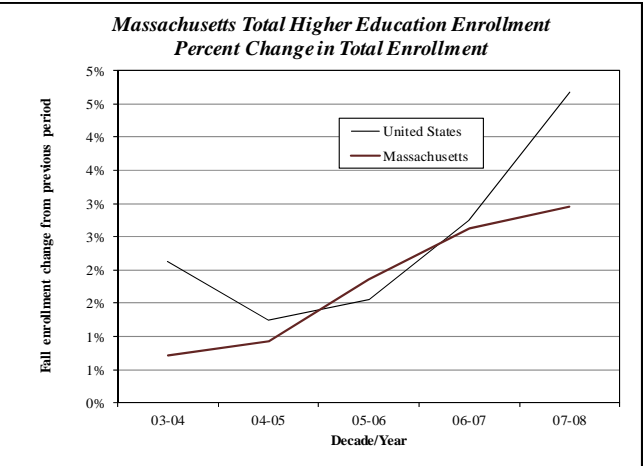
SOURCE: U.S. Census Bureau, American Community Survey estimates.

Survey data released by the Institute of International Education state that 38,698 foreign students were enrolled in Massachusetts colleges and universities in the 2010/2011 school year. This was an increase of 9.6 percent from the previous year. The national enrollment increased 5 percent. Massachusetts remains 4th ranked among states for foreign student enrollment.

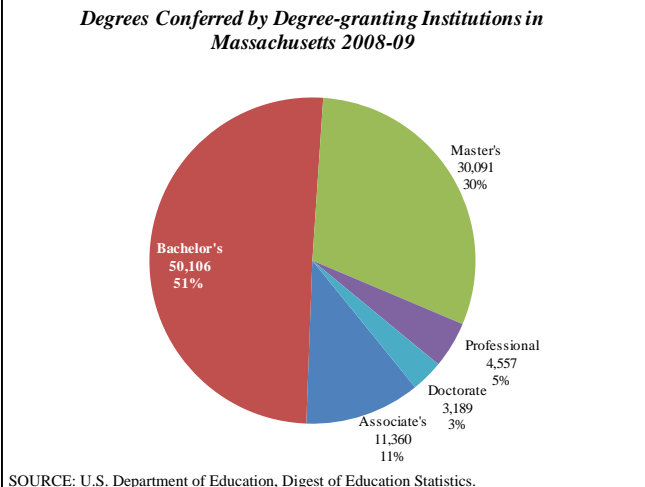




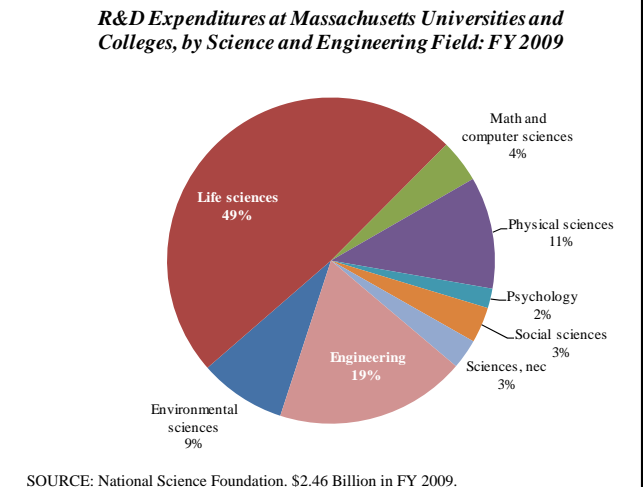
SOURCE: U.S. Department of Education, Digest of Education Statistics.



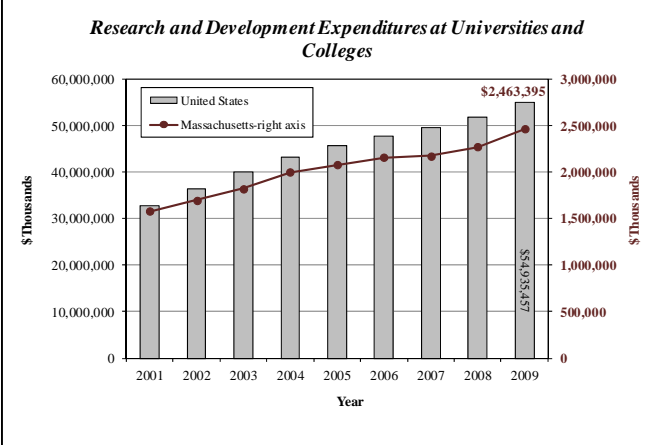
SOURCE: U.S. Department of Education, Digest of Education Statistics.



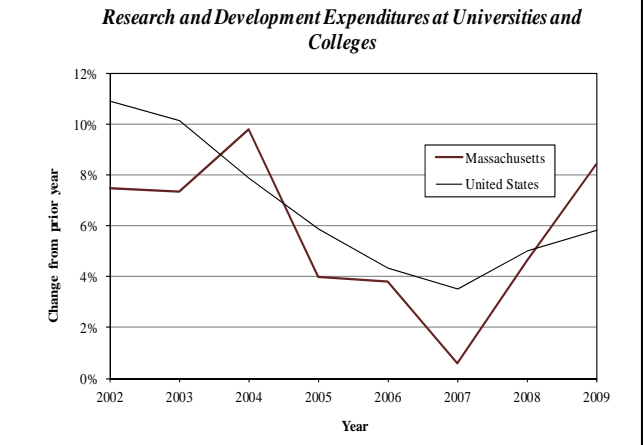
SOURCE: U.S. Department of Education, Digest of Education Statistics.



SOURCE: National Science Foundation. \$2.46 Billion in FY 2009.



SOURCE: National Science Foundation.

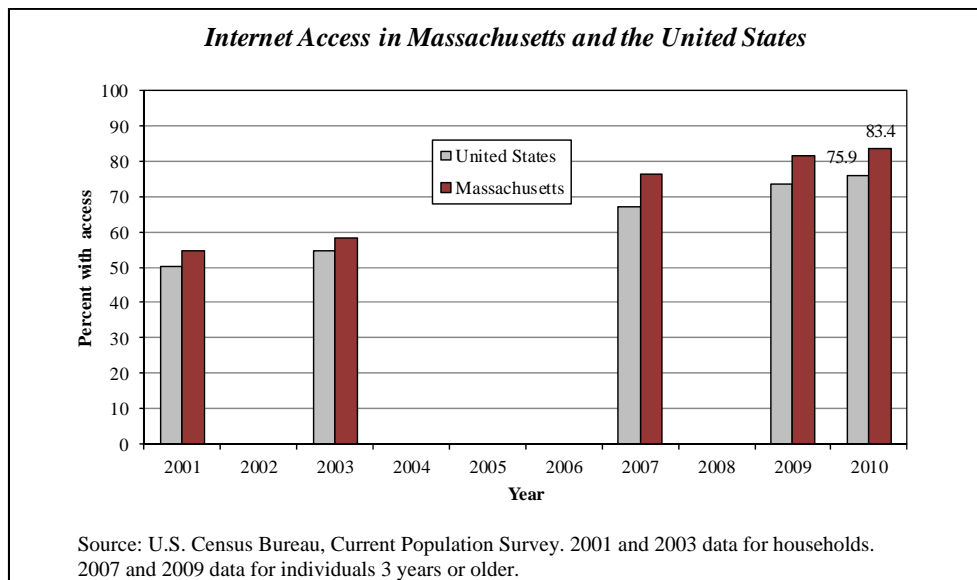


SOURCE: National Science Foundation.

Enrollment - Fall 2008	Rank	Degrees Awarded - 2008-09	Rank	Research & Development - FY2009	Rank
Total	12	Total	10	Total	6
Public	23	Associate's	21	Environmental sciences	3
Private	6	Bachelor's	9	Life sciences	8
		Master's	7	Math/computer sciences	7
		Professional	7	Physical sciences	3
		Doctorate	7	Psychology	6
				Social sciences	6
				Sciences, nec	2
				Engineering	6

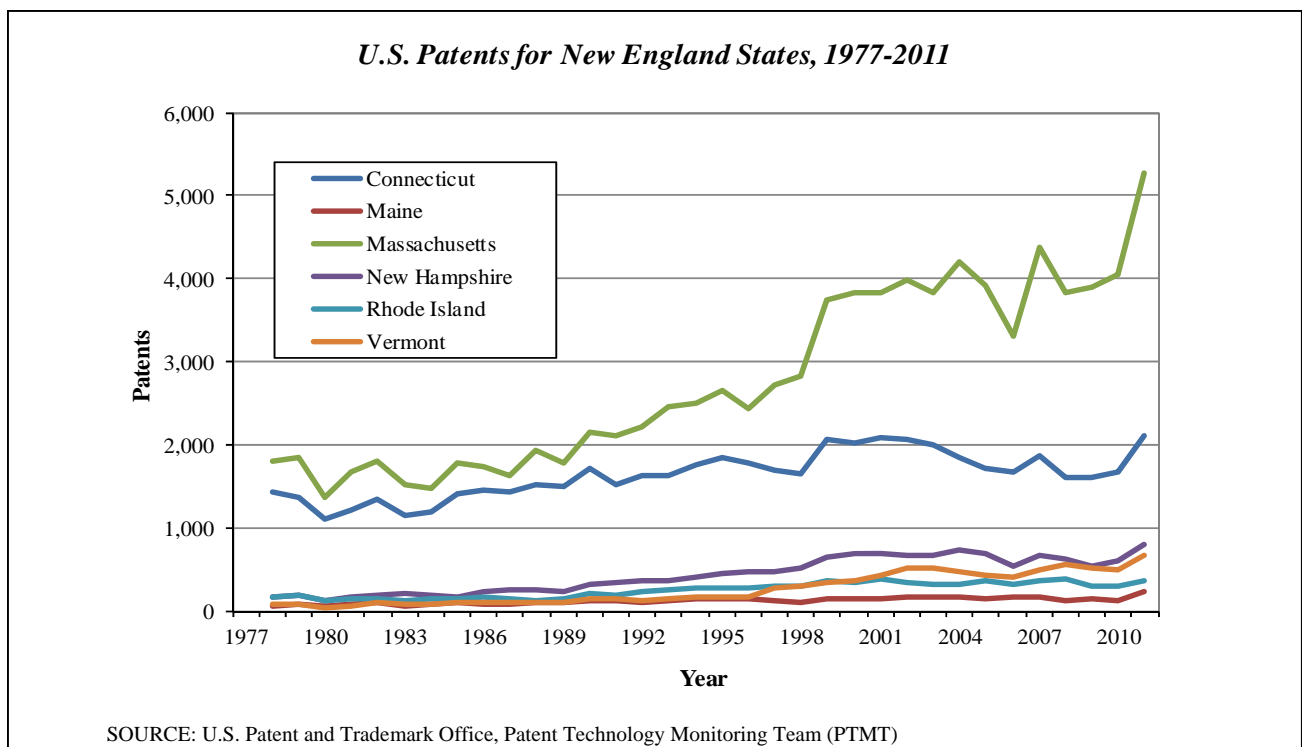


**Internet Access.** A larger portion of the state’s population has access to the internet compared to the nation as a whole, according to the latest Census survey taken in 2010. Massachusetts ranked fourth among states and the District of Columbia when comparing the percent (83.4) of individuals who had access to the internet in their household.



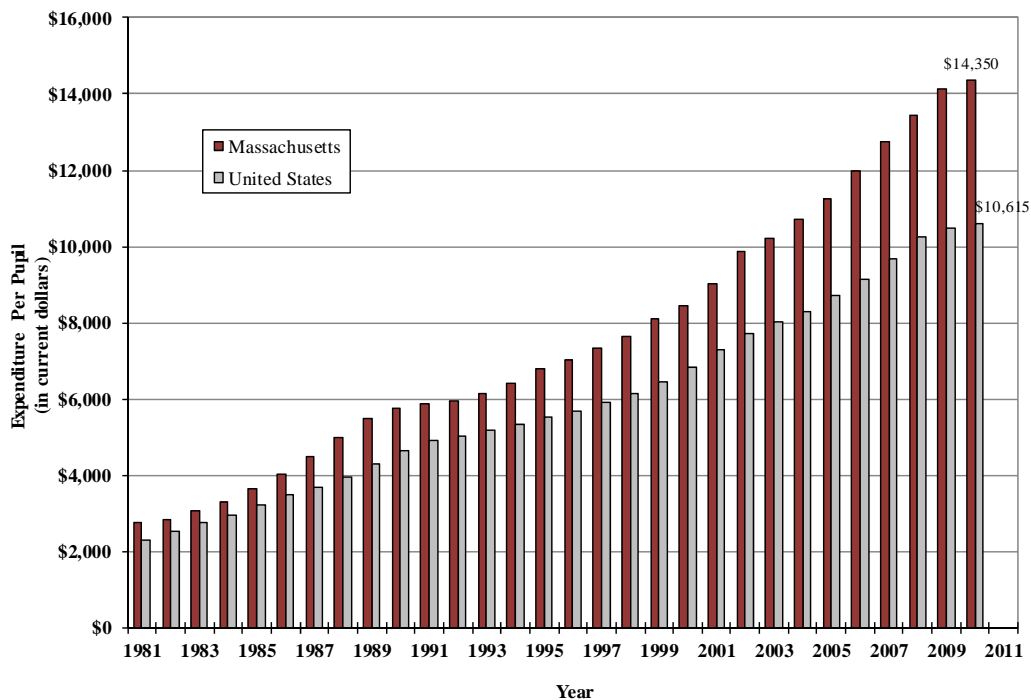
**Patents.** The U.S. Patent and Trademark Office notes: “This report shows the number of U.S. patent documents (i.e., utility patents, design patents, plant patents, reissue patents, defensive publications, and statutory invention registrations) granted since 1977, broken down by the state or country of origin (patent origin is determined by the residence of the first-named inventor).”

In 2010, 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 the United Kingdom, France, and Canada for origination of U.S. patents. Since 1977, Massachusetts has received more new patents than any other New England state. With 5,261 new patents in 2010, up over 30 percent from 2009, Massachusetts innovators were responsible for over twice as many patents as Connecticut, which originated 2,111 patents in 2010.



**Primary and Secondary Education Expenditures.** Massachusetts has spent from 12 to 35 percent more per pupil on primary and secondary education than the national average since 1981. During the 2009-2010 school year, Massachusetts increased per student expenditures 1.6 percent to \$14,350, which is eighth in the nation, much less than its average increase of 5.9 percent since 1981 and less than the 2 percent inflation rate from 2009 to 2010. While Massachusetts' spending is the smallest increase since 1981 it's still 135% of the national average. The table and chart below show expenditures per pupil for Massachusetts and the U.S. since fiscal 1981.

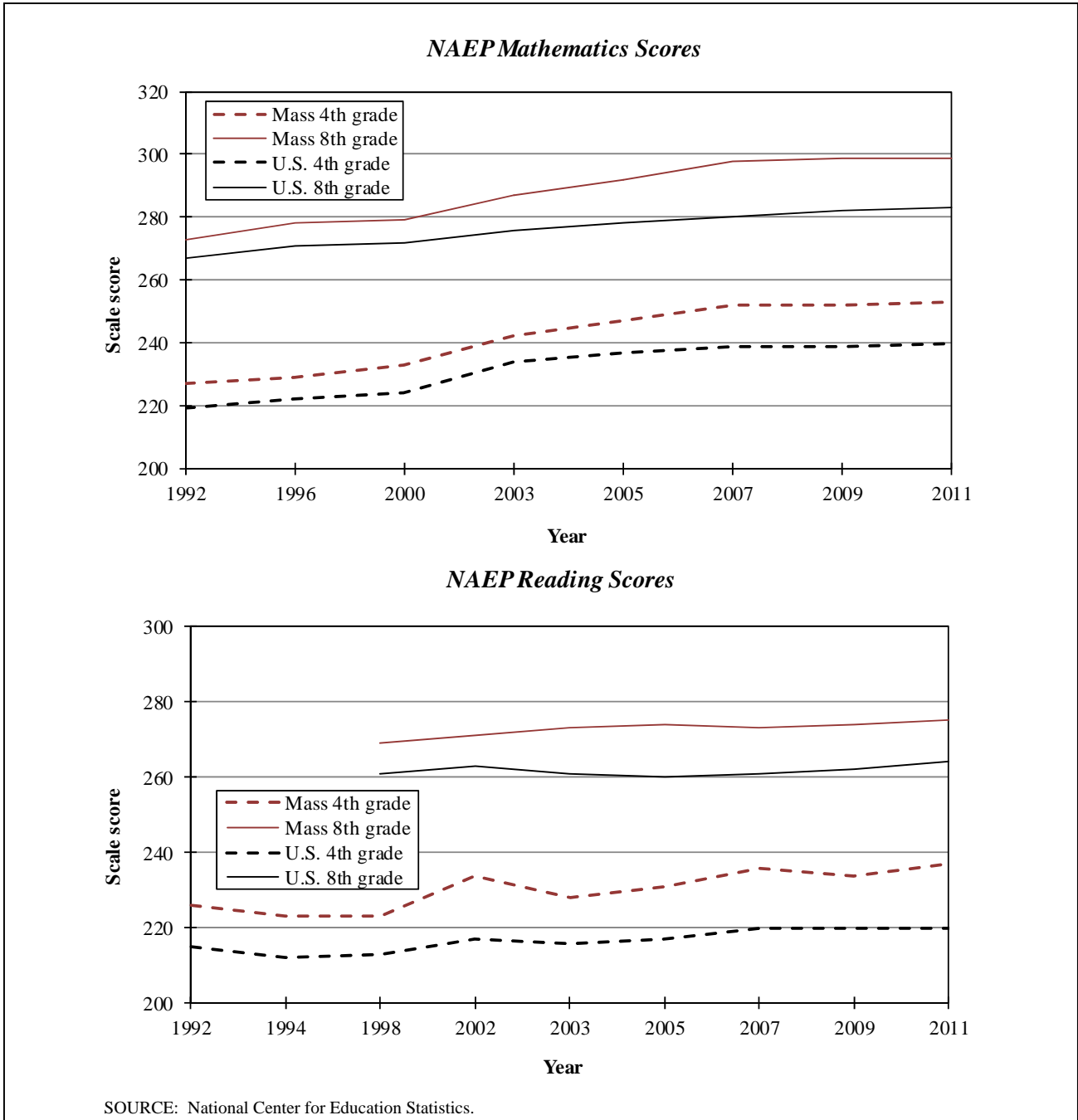
<b>Per Pupil Expenditure in Public Elementary and Secondary Schools</b> (in current, unadjusted dollars)				
Fiscal Year	Massachusetts	United States	Ratio (MA/U.S.)	MA change from previous year
1981	\$2,735	\$2,307	1.19	
1985	3,653	3,222	1.13	10.8%
1990	5,766	4,643	1.24	5.1%
1995	6,783	5,529	1.23	5.6%
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%



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.



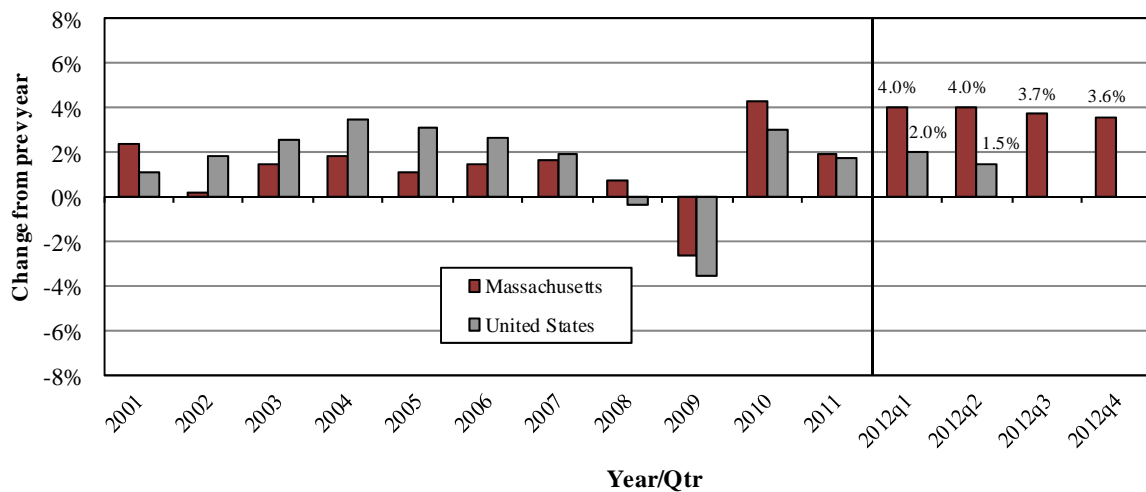
## ECONOMIC BASE AND PERFORMANCE—STATE OVERVIEW

**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, quarterly and annual state GDP estimates by industry. *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 2005 dollars)						
Year	Massachusetts		New England		United States	
	GDP	Annual change	GDP	Annual change	GDP	Annual change
1997	\$254		\$547		\$9,846	
1998	\$266	4.6%	\$569	4.1%	\$10,275	4.4%
1999	\$280	5.4%	\$593	4.1%	\$10,771	4.8%
2000	\$302	7.7%	\$635	7.2%	\$11,216	4.1%
2001	\$309	2.4%	\$647	1.8%	\$11,338	1.1%
2002	\$309	0.2%	\$649	0.3%	\$11,543	1.8%
2003	\$314	1.5%	\$659	1.6%	\$11,836	2.5%
2004	\$320	1.9%	\$679	3.0%	\$12,247	3.5%
2005	\$323	1.1%	\$686	1.0%	\$12,623	3.1%
2006	\$328	1.4%	\$700	2.1%	\$12,959	2.7%
2007	\$333	1.6%	\$710	1.5%	\$13,206	1.9%
2008	\$336	0.7%	\$704	-0.8%	\$13,162	-0.3%
2009	\$327	-2.6%	\$682	-3.2%	\$12,703	-3.5%
2010	\$341	4.3%	\$705	3.4%	\$13,088	3.0%
2011	\$349	1.9%	\$718	1.8%	\$13,315	1.7%

### *Real GDP - Annual and Latest Quarterly Change* Seasonally Adjusted Annual Rates



SOURCE: U.S. Bureau of Economic Analysis June 2012 and <http://www.MassBenchmarks.org>.  
Note: Massachusetts FY2012 are estimates and projections.

## ECONOMIC BASE AND PERFORMANCE—ECONOMIC INDICATORS

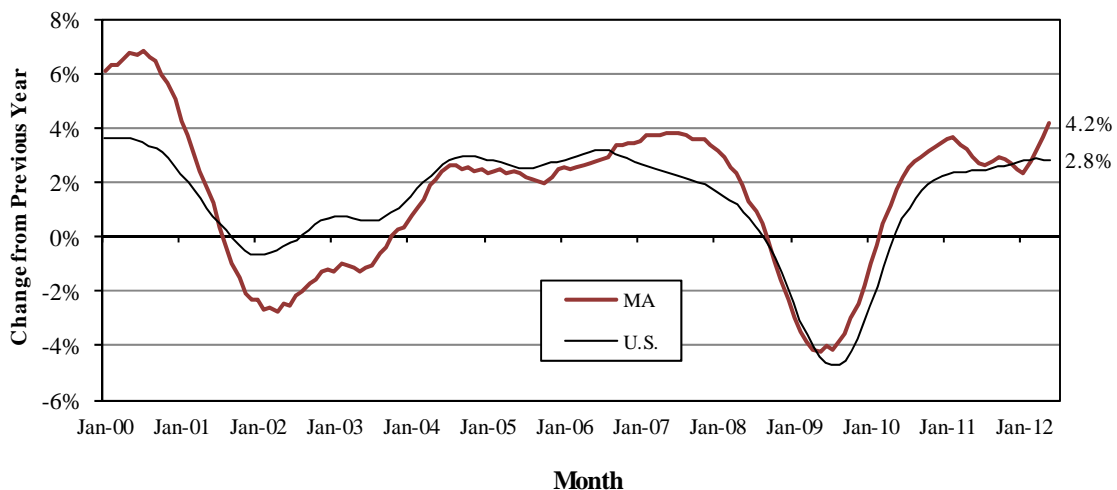
**State Coincident Indexes.** To track more recent changes in the state and national economies, we use the Federal Reserve Bank of Philadelphia’s Coincident Indexes. It “produces a monthly coincident index for each of the 50 states. The indexes are released a few days after the Bureau of Labor Statistics (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. Massachusetts monthly trend follows the nation’s but it outperformed the nation from May 2009 to May 2012 except for three months from December 2011 to February 2012. The bottom table compares the Massachusetts’ index to its New England neighbors and the U.S.

Area	May 2012	1-Month Change	3-Month Change	12-Month Change
U.S.	150.5	0.2%	0.6%	2.8%
Massachusetts	175.5	0.5%	1.7%	4.2%
Connecticut	152.9	0.0%	0.3%	2.5%
Maine	132.2	-0.4%	-0.2%	0.8%
New Hampshire	186.1	0.1%	0.3%	1.4%
Rhode Island	147.7	0.5%	0.2%	1.4%
Vermont	143.9	0.1%	0.5%	2.0%

*Comparing the U.S. and Massachusetts Coincident Indexes*

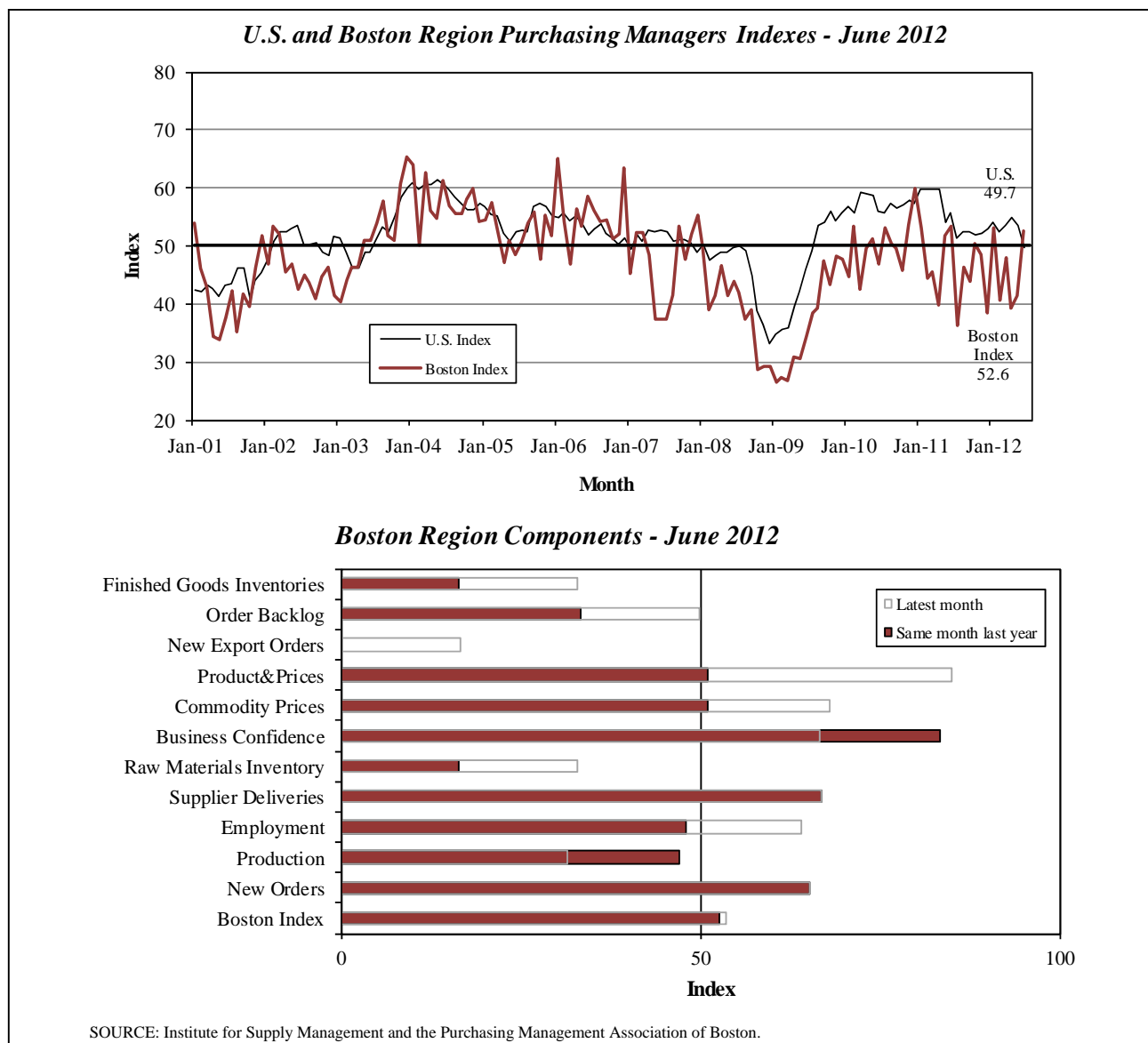


SOURCE: Federal Reserve Bank of Philadelphia.  
 Note: Indexes are set to 100 at July 1992.

**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 2012 national index indicated that the manufacturing sector has been expanding since May 2009. The Boston region's June 2012 index indicated that overall business conditions were expanding for the first time since January. The new orders, supplier deliveries and business confidence components for the Boston region jumped from May 2012 to June 2012 but the employment component dropped significantly.

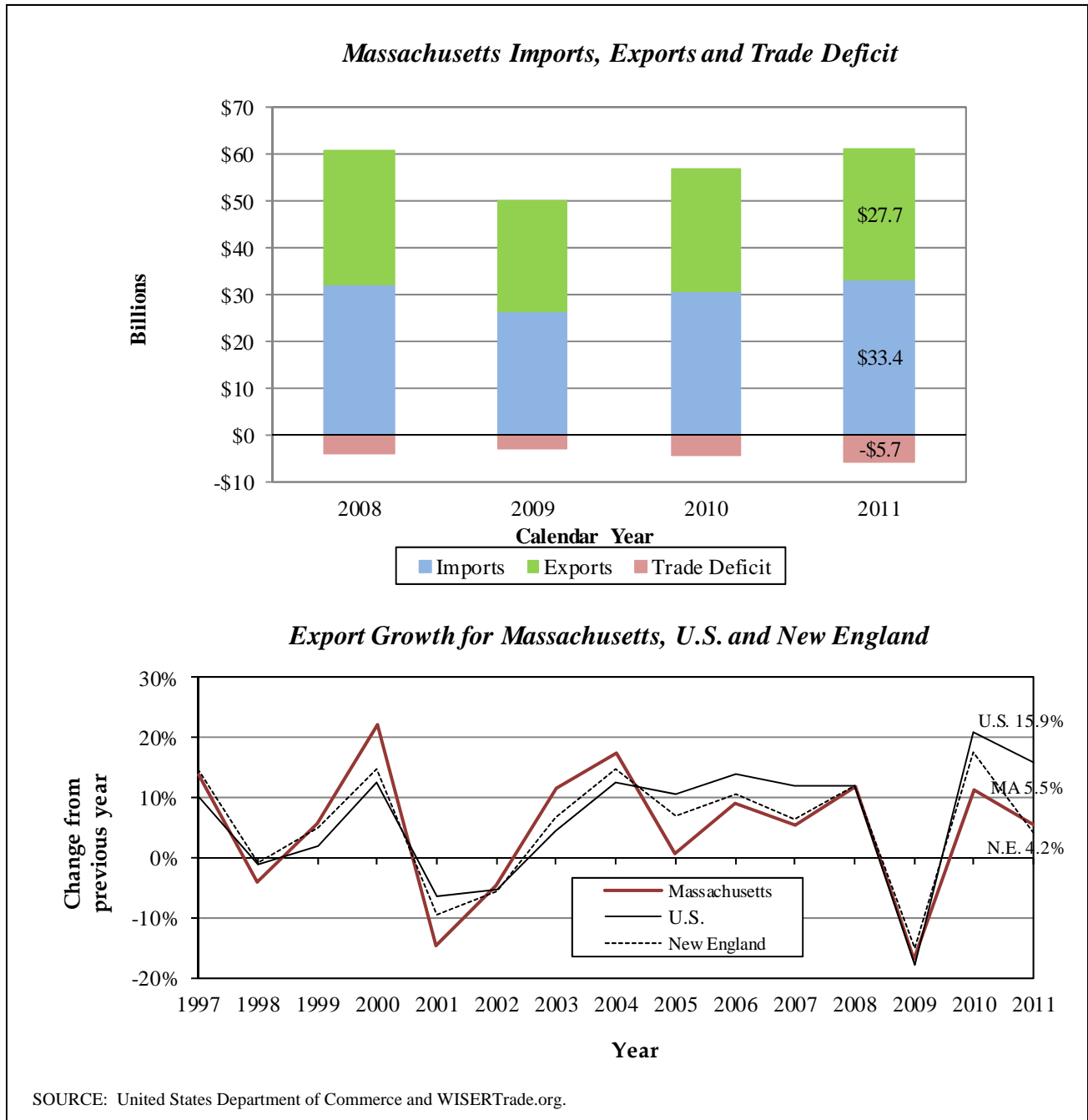


## ECONOMIC BASE AND PERFORMANCE—INTERNATIONAL TRADE

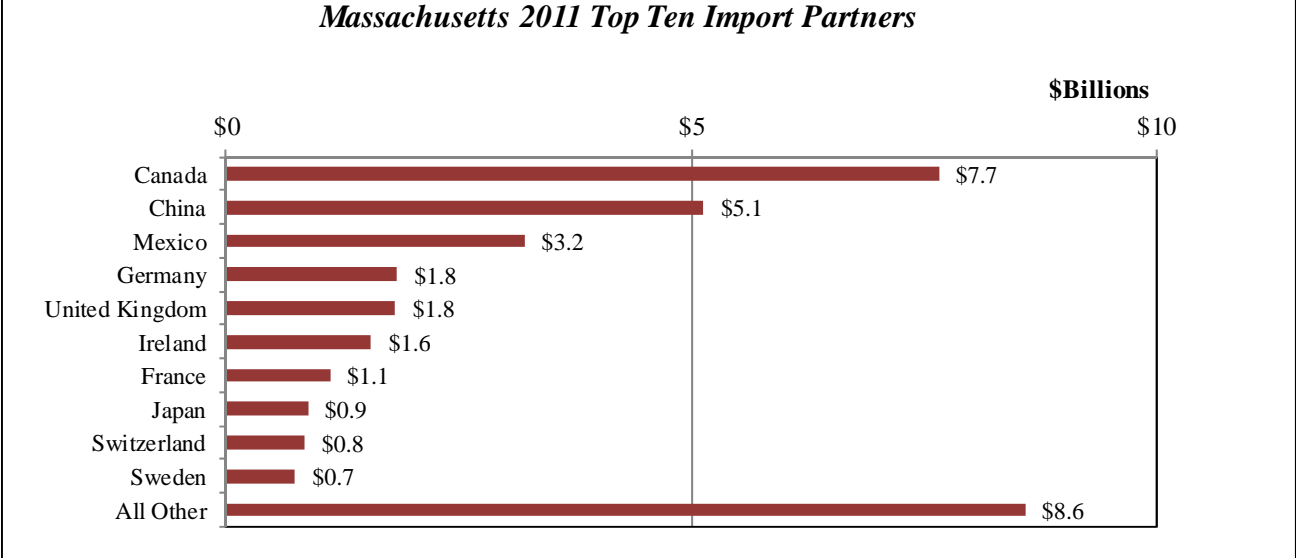
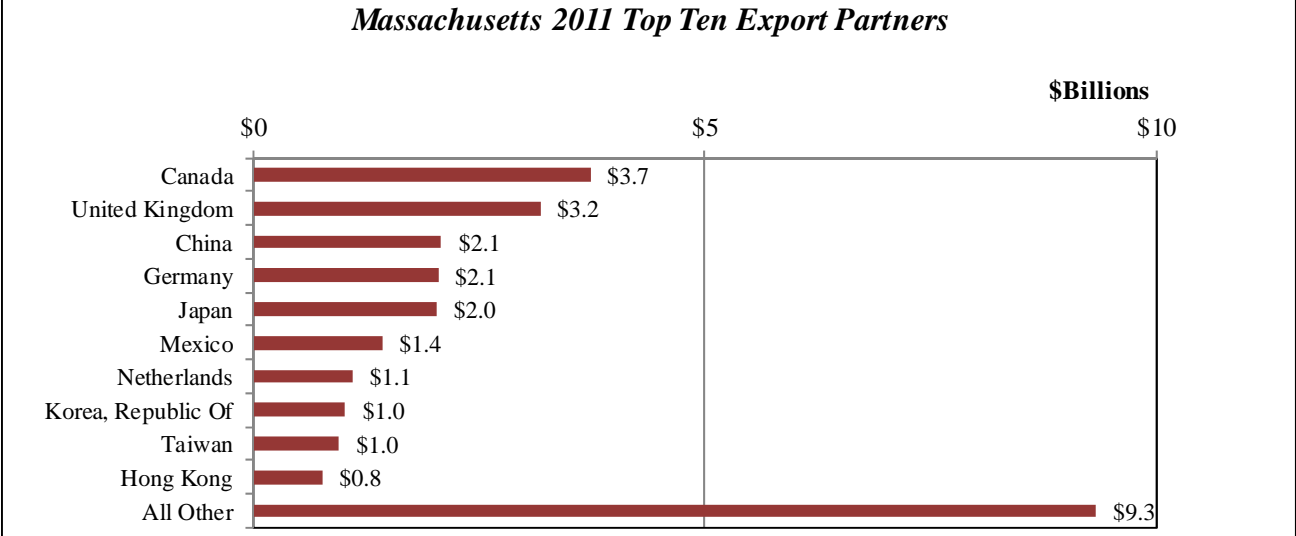
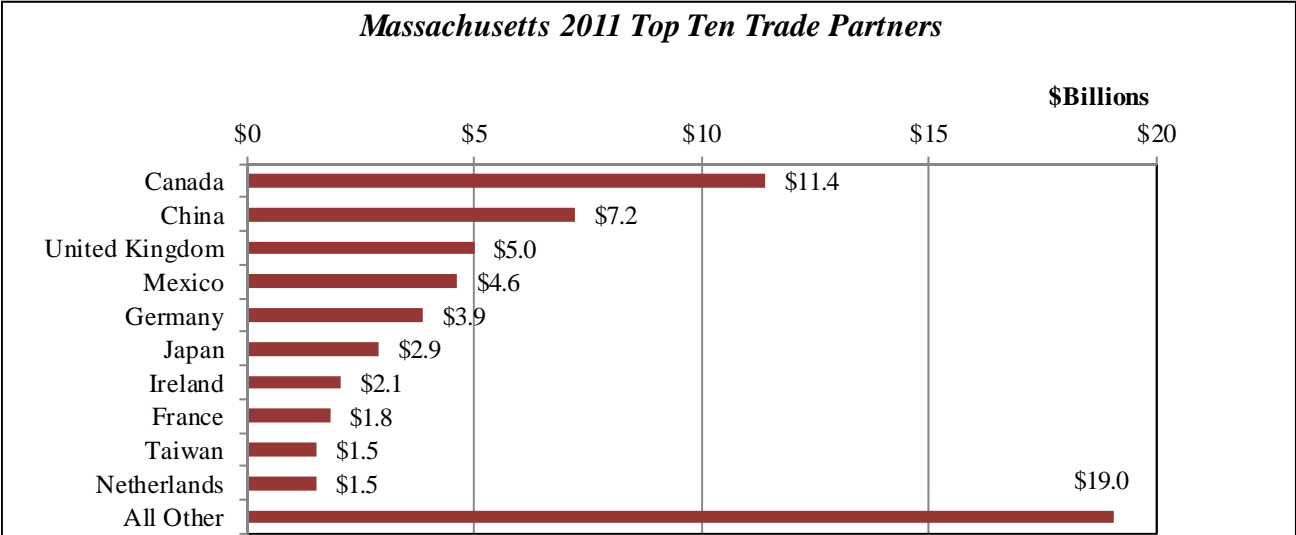
**Total Trade Volume.** Total trade volume, exports and imports, increased 7 percent from 2010 to \$61 billion in 2011 and has returned to prerecession levels. Canada, at \$11.4 billion and 18.6 percent, was by far our most valuable trading partner. Our trade deficit, \$5.7 billion, grew at a slower pace, 29.5 percent in 2011 versus 53.1 percent in 2010. See Appendix page 8 for more trade data.

**Exports.** Massachusetts ranked 15th in the United States in 2011 and first in New England with \$27.7 billion in exports. This was a 5.5 percent increase from the previous year's export value from the Commonwealth, while national exports increased almost three times as much by 15.9 percent. Total exports from New England also grew by 4.2 percent. Canada was our top export destination 2011 with \$3.7 billion.

**Imports.** Imports grew to \$33.4 billion in 2011 but at a slower pace, 8.8 percent, than in 2010. Canada was also the largest source for Massachusetts imports in 2011 where we imported \$7.7 billion or 22.9 percent of our total.



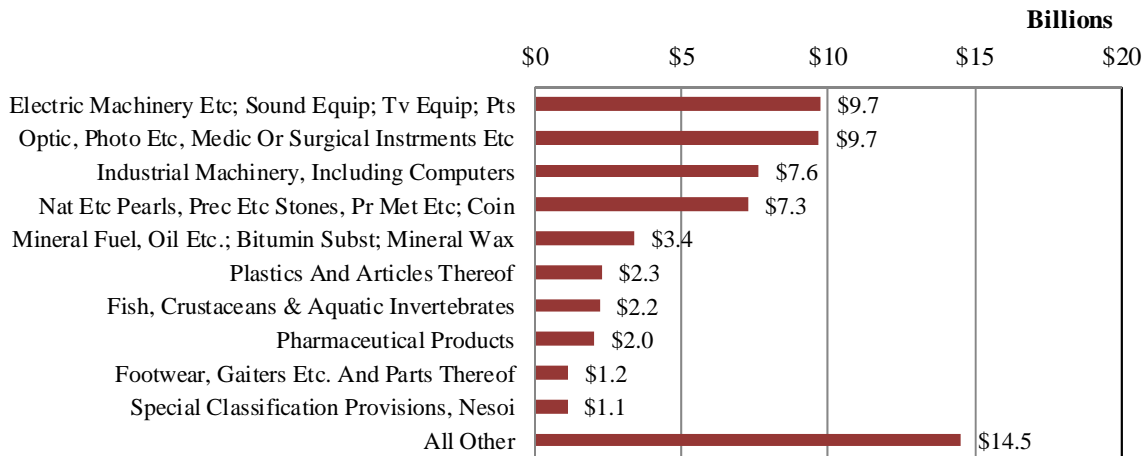
**Top Ten Trade Partners by Trade Type.**



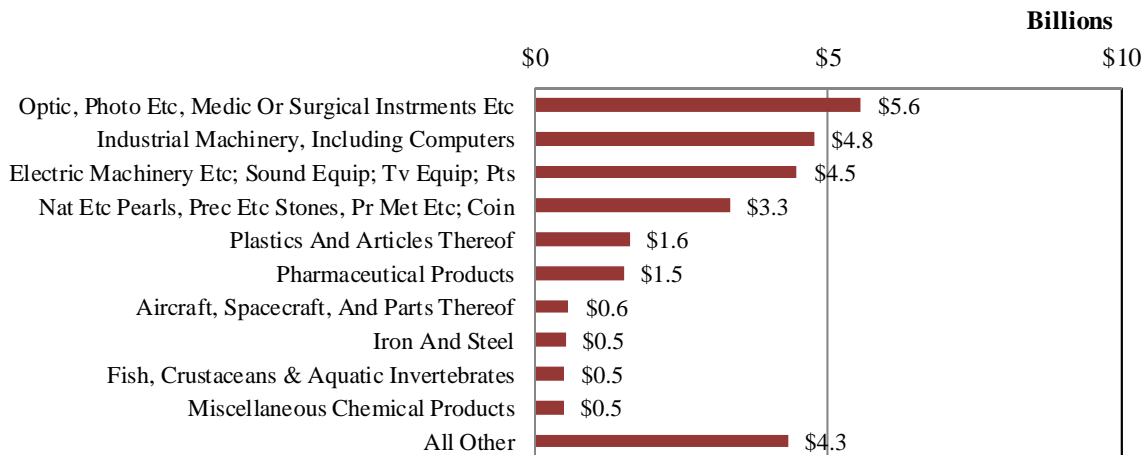


**Top Ten Commodities Traded by Trade Type.**

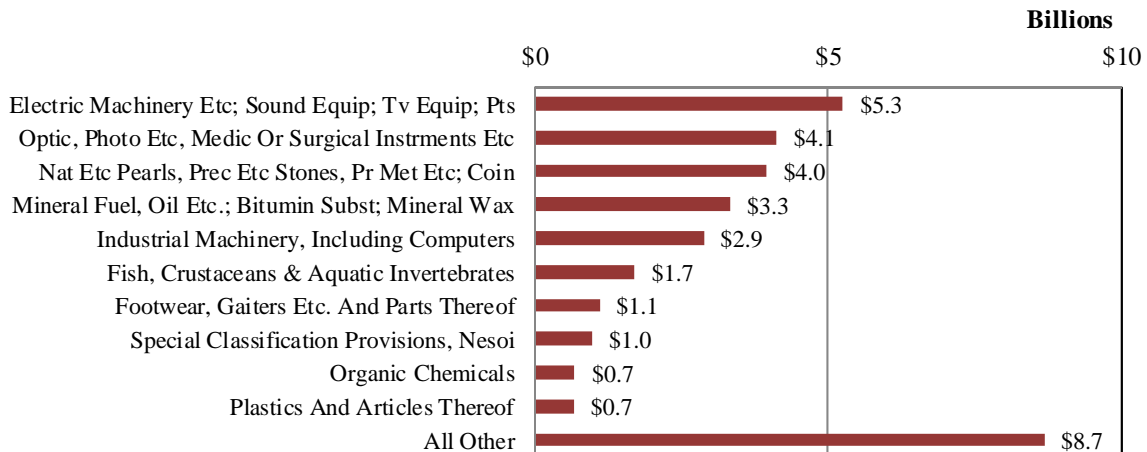
**Massachusetts 2011 Top Commodities Imported and Exported**



**Massachusetts 2011 Top Ten Commodities Exported**

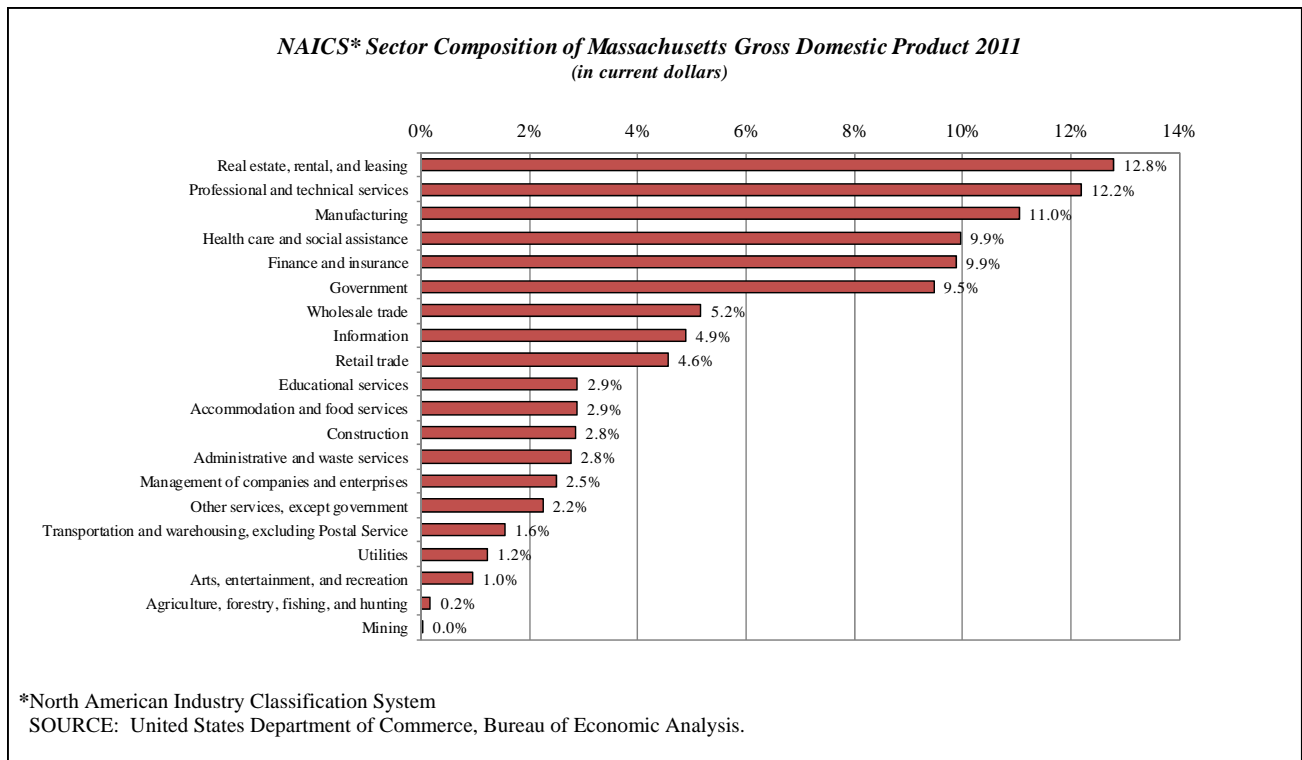


**Massachusetts 2011 Top Ten Commodities Imported**



## 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 and rental and leasing, professional and technical services, manufacturing, and health care and social assistance, contributed 46 percent of the GDP in 2011. Manufacturing replaced the finance and insurance sector in 2011 as the third largest. The following bar chart displays the latest sector contributions to the Massachusetts GDP.



**GDP Subsectors.** When measured in chained 2005 dollars, the change in Massachusetts total GDP was 13.1 percent between 2000 and 2010. Between 2000 and 2010 (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 2005 dollars)

NAICS* Industry Subsector	Percent change 2000-2010
Computer and electronic product manufacturing	371.5%
Information and data processing services	220.6%
Publishing industries, except Internet	73.2%
Computer systems design and related services	65.9%
Rental and leasing services and lessors of intangible a	-10.4%
Fabricated metal product manufacturing	-12.1%
Insurance carriers and related activities	-15.6%
Machinery manufacturing	-18.7%

\*North American Industry Classification System.  
Note: Subsector represents at least a half percent of Massachusetts GDP in the latest year.  
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Updated June 2012.

### Gross Domestic Product by Industry in Massachusetts

(as a percent of total GDP chained 2005 dollars)

NAICS* Industry Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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%
Private industries	90.4%	90.8%	91.0%	91.0%	91.3%	91.5%	91.4%	90.9%	91.2%	91.2%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Mining	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%	1.2%	1.1%	1.1%
Construction	5.3%	4.9%	4.6%	4.3%	3.9%	3.5%	3.2%	2.8%	2.7%	2.7%
Manufacturing	9.4%	10.0%	9.9%	10.1%	10.7%	11.3%	11.3%	11.0%	12.6%	13.0%
Wholesale trade	5.5%	5.8%	5.9%	5.5%	5.6%	5.7%	5.7%	5.1%	5.0%	5.0%
Retail trade	5.5%	5.6%	5.5%	5.4%	5.2%	5.0%	4.7%	4.8%	5.1%	5.0%
Transportation and warehousing, excluding Postal Service	1.6%	1.6%	1.6%	1.7%	1.7%	1.7%	1.7%	1.6%	1.5%	1.5%
Information	4.3%	4.2%	4.6%	5.0%	4.8%	5.1%	5.3%	5.3%	5.5%	5.6%
Finance and insurance	11.1%	10.7%	10.5%	10.3%	10.5%	10.0%	9.4%	10.2%	10.2%	10.1%
Real estate, rental, and leasing	14.3%	14.5%	14.4%	14.4%	14.0%	14.0%	14.2%	14.7%	13.6%	13.0%
Professional and technical services	10.1%	9.8%	10.4%	10.7%	11.0%	11.3%	12.0%	11.5%	11.7%	12.0%
Management of companies and enterprises	2.6%	2.5%	2.3%	2.3%	2.2%	2.2%	2.2%	2.3%	1.9%	2.1%
Administrative and waste services	2.5%	2.7%	2.6%	2.8%	2.8%	3.0%	3.0%	2.7%	2.7%	2.8%
Educational services	2.8%	2.7%	2.7%	2.5%	2.5%	2.5%	2.5%	2.6%	2.5%	2.4%
Health care and social assistance	8.1%	8.3%	8.4%	8.5%	8.8%	8.9%	9.3%	9.6%	9.6%	9.5%
Arts, entertainment, and recreation	0.8%	0.9%	0.9%	0.9%	0.9%	1.0%	0.9%	0.9%	0.9%	1.0%
Accommodation and food services	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.6%	2.6%	2.7%	2.7%
Other services, except government	2.5%	2.4%	2.4%	2.3%	2.3%	2.3%	2.1%	2.1%	2.0%	2.0%
Government	9.7%	9.2%	9.0%	9.0%	8.7%	8.5%	8.6%	9.0%	8.8%	8.8%

### Rank of Industry Contribution to GDP in Massachusetts

(millions of chained 2005 dollars)

NAICS* Industry Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Gross Domestic Product by State										
Private industries										
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20	20	20	20
Utilities	17	17	17	17	17	17	17	17	17	17
Construction	9	9	9	10	10	10	10	10	10	12
Manufacturing	5	3	4	4	3	2	3	3	2	1
Wholesale trade	8	7	7	7	7	7	7	8	9	8
Retail trade	7	8	8	8	8	9	9	9	8	9
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	16	16	16	16	16
Information	10	10	10	9	9	8	8	7	7	7
Finance and insurance	2	2	2	3	4	4	4	4	4	4
Real estate, rental, and leasing	1	1	1	1	1	1	1	1	1	2
Professional and technical services	3	4	3	2	2	3	2	2	3	3
Management of companies and enterprises	13	14	15	15	15	15	14	14	15	14
Administrative and waste services	15	13	13	11	11	11	11	11	11	10
Educational services	11	12	12	13	13	13	13	13	13	13
Health care and social assistance	6	6	6	6	5	5	5	5	5	5
Arts, entertainment, and recreation	18	18	18	18	18	18	18	18	18	18
Accommodation and food services	12	11	11	12	12	12	12	12	12	11
Other services, except government	14	15	14	14	14	14	15	15	14	15
Government	4	5	5	5	6	6	6	6	6	6

\* North American Industry Classification System

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

**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 annually and quarterly for employees in the private, federal government, state government, and local government sectors.

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.

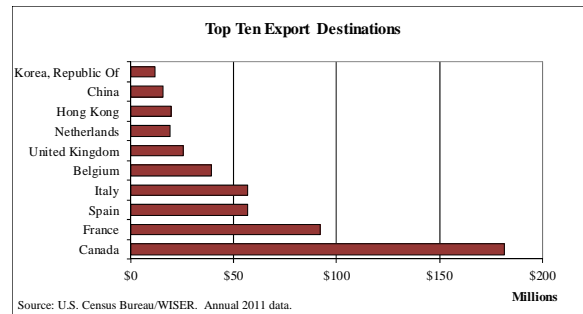
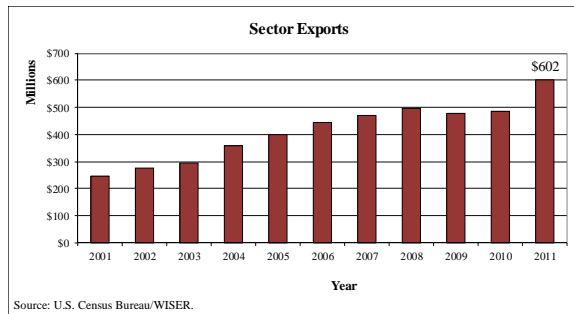
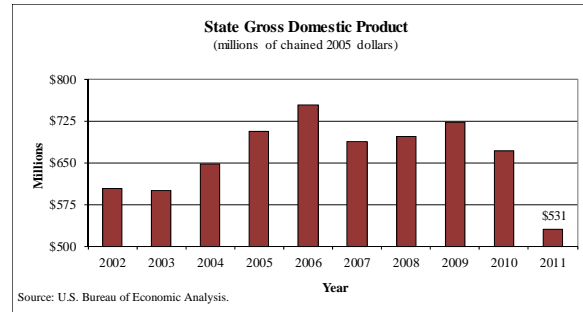
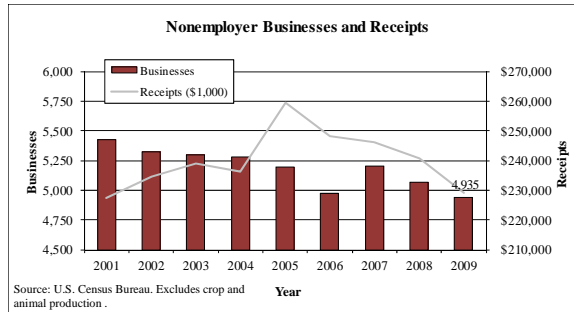
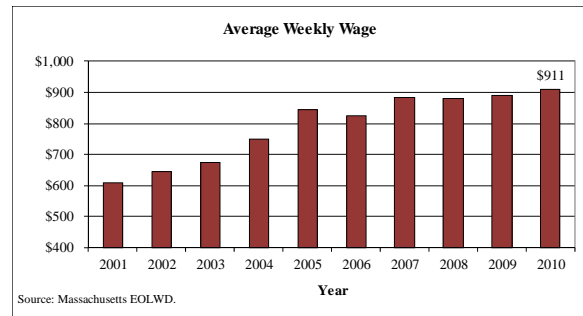
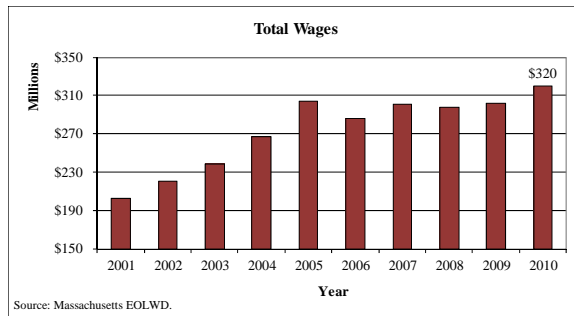
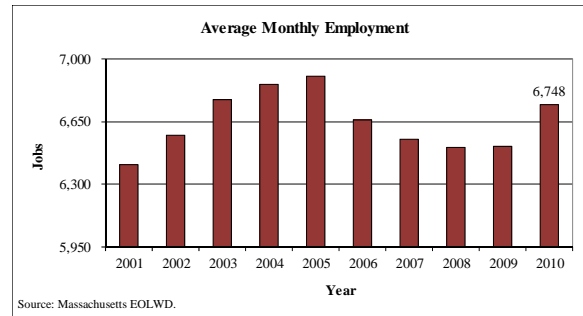
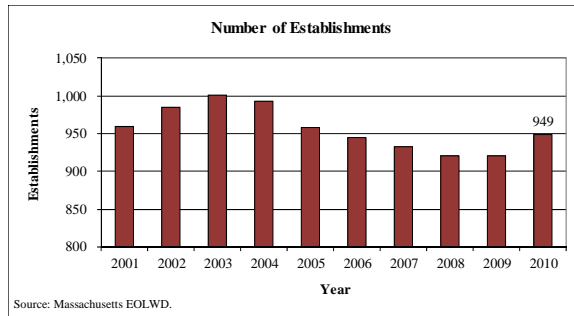
State Gross Domestic Product is an annual series from the U.S. Bureau of Economic Analysis’s Regional Economic Accounts. U.S. and state GDP is inflation adjusted to 2005. U.S. GDP is available quarterly.

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.
2. GDP rank: this sector’s GDP rank versus all state sectors.
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 business.
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.
11. Large employers in Massachusetts: a few of the state’s largest employers in this sector, from ReferenceUSA.com.

**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: **0.18%**

GDP rank: **19 of 20**

Nonemployer to employer establishment ratio: **5.5 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**

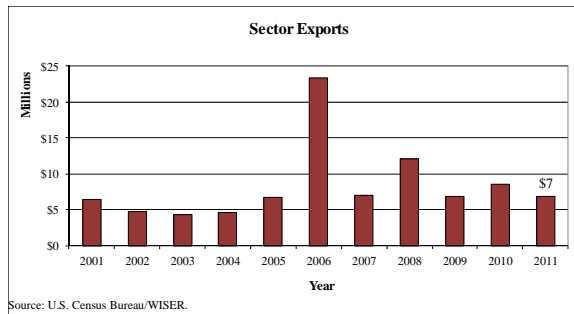
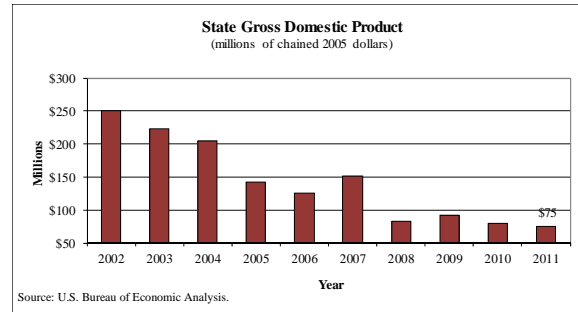
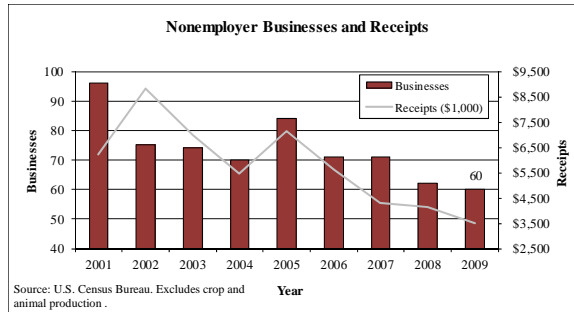
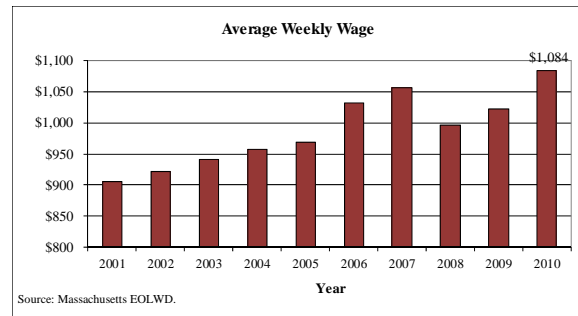
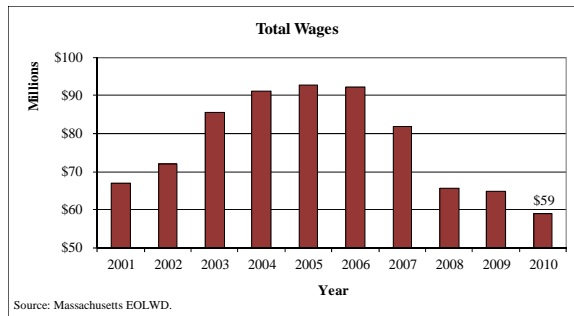
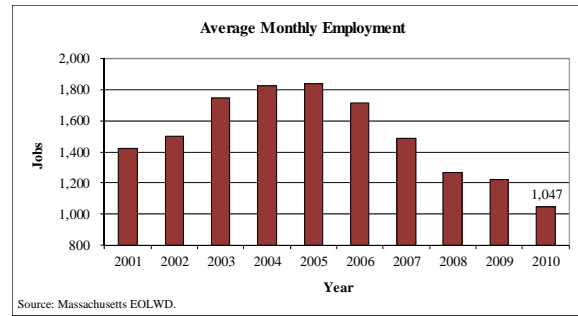
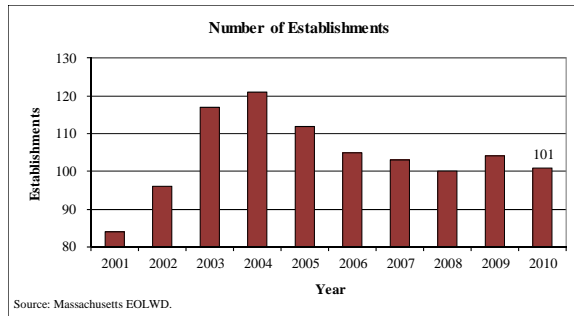
Average weekly wage: **Fishing**

Annual receipts at nonemployer establishments: **Fishing**

Most valuable export: **Fish, fresh, chilled or other frozen marine products**

Large employers in Massachusetts: **Idlywilde Farm, Brown and Regan LLC, Bartlett's Ocean View Farm**

**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: **0.03%**

GDP rank: **20 of 20**

Nonemployer to employer establishment ratio: **0.6 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**

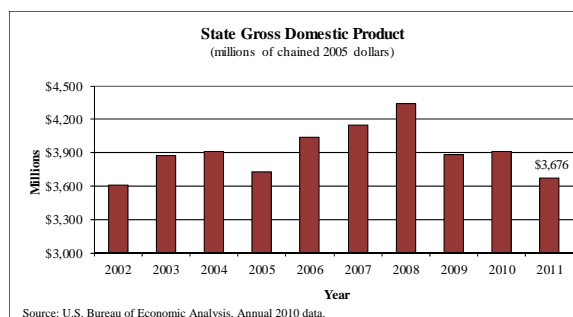
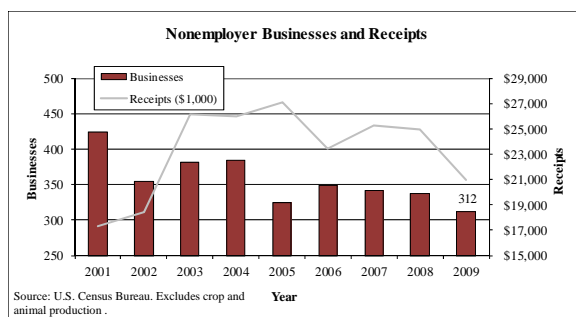
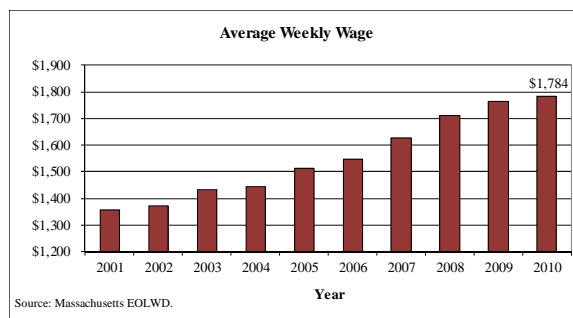
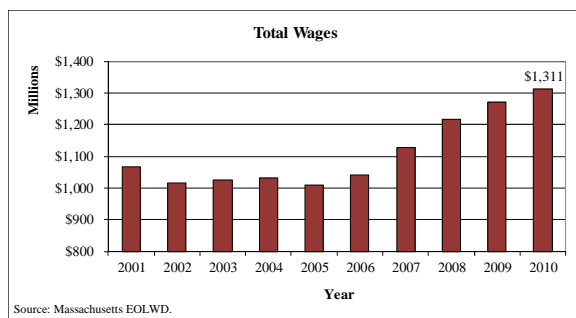
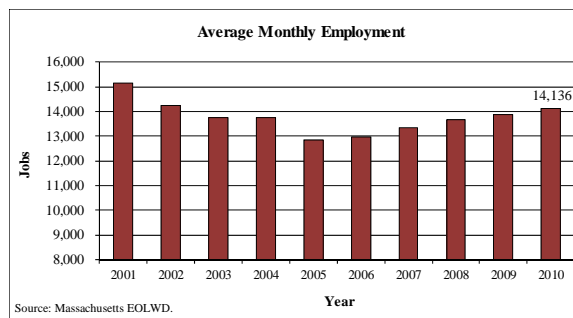
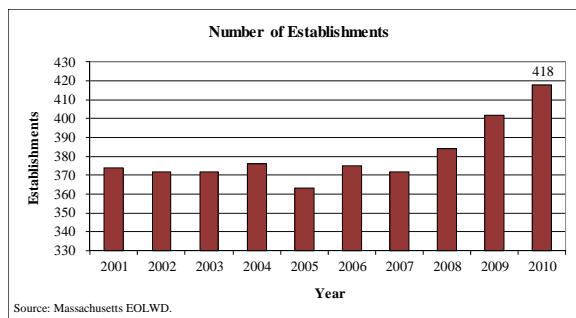
Average weekly wage: **Support activities for mining**

Annual receipts at nonemployer establishments: **Nonmetallic mineral mining and quarrying**

Most valuable export: **Minerals and ores**

Large employers in Massachusetts: **GulfOil Ltd., Specialty Minerals, S. M. Larusso and Sons and P. J. Keating**

**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: **1.22%**

GDP rank: **17 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: **Water, sewage and other systems**

Nonemployer establishments: Subsector detail N/A

Employees: **Power generation and supply**

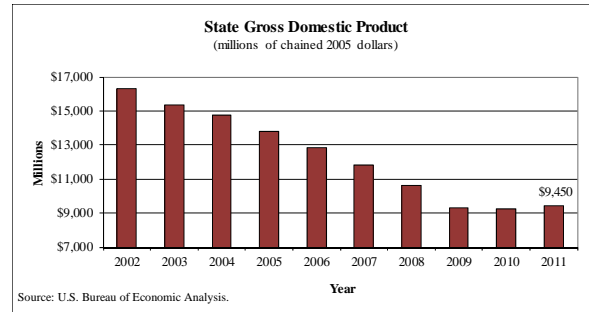
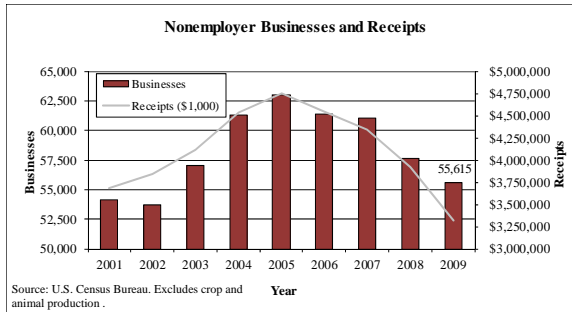
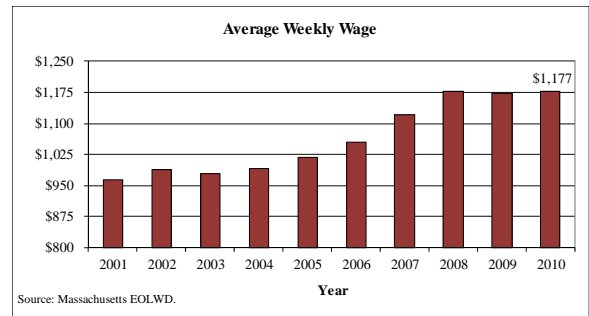
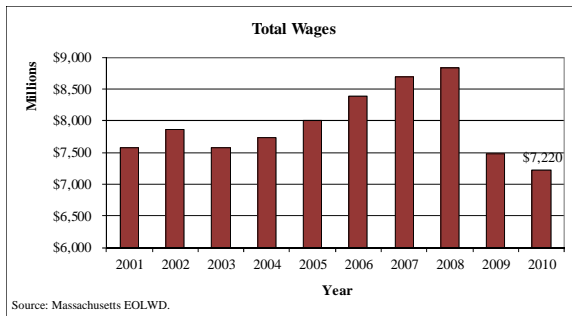
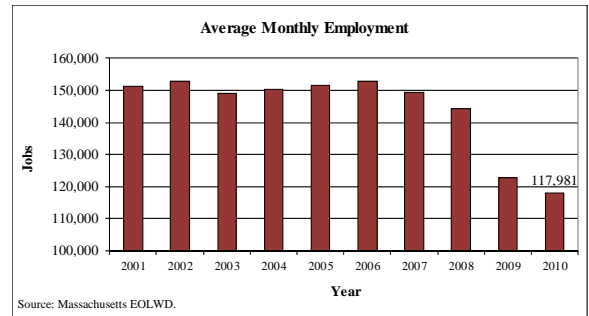
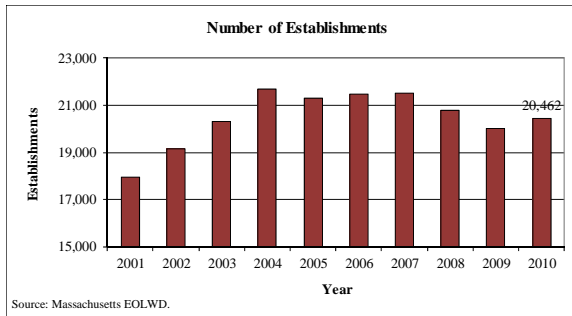
Annual wages: **Power generation and supply**

Average weekly wage: **Power generation and supply**

Annual receipts at nonemployer establishments: Subsector detail N/A

Large employers in Massachusetts: **Bay State Gas CO, Mass Water Resources Authority, and National Grid USA**

**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: **2.85%**

GDP rank: **12 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: **Specialty Trade Contractors**

Nonemployer establishments: **Building finishing contractors**

Employees: **Building equipment contractors**

Annual wages: **Building equipment contractors**

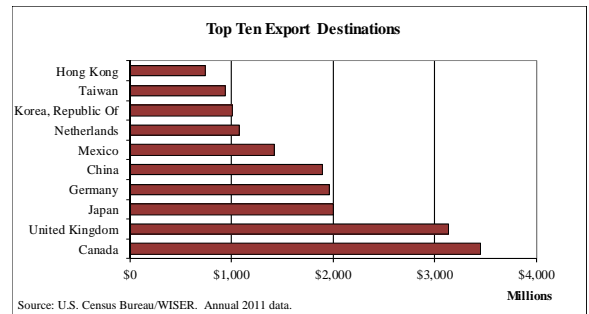
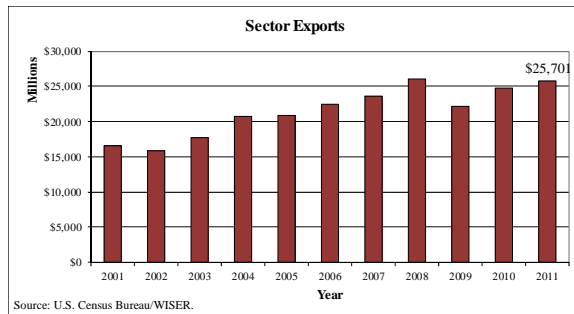
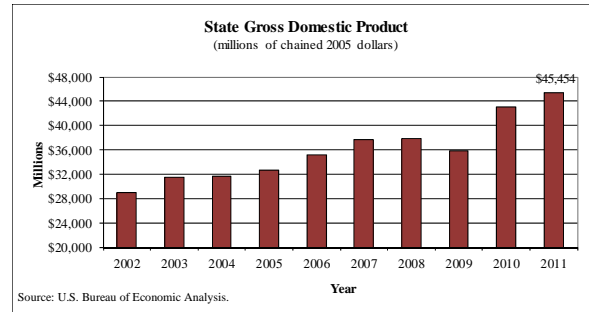
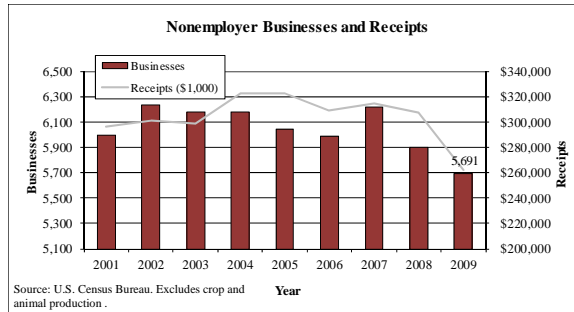
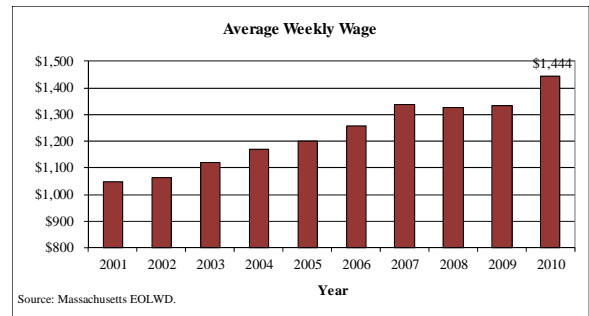
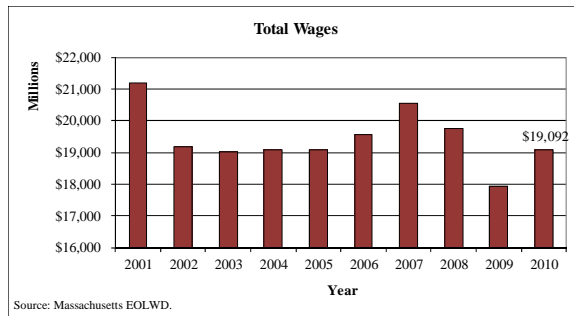
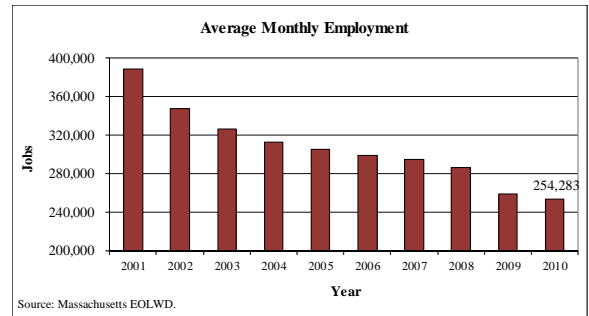
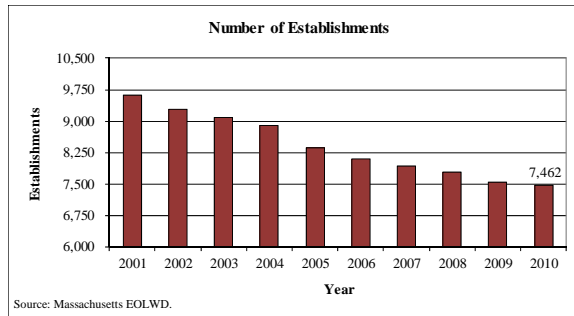
Average weekly wage: **Utility system construction**

Annual receipts at nonemployer establishments: **Residential building construction**

Large employers in Massachusetts: **Shaw Group Inc., Suffolk Construction Company and R.H. White Company**



**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: **11.4%**

GDP rank: **3 of 20**

Nonemployer to employer establishment ratio: **0.8 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**

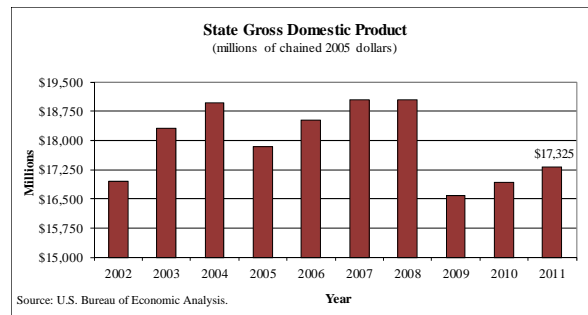
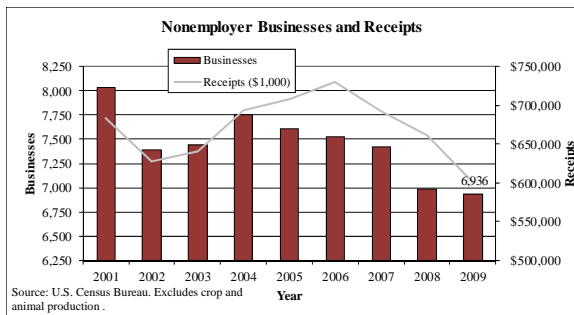
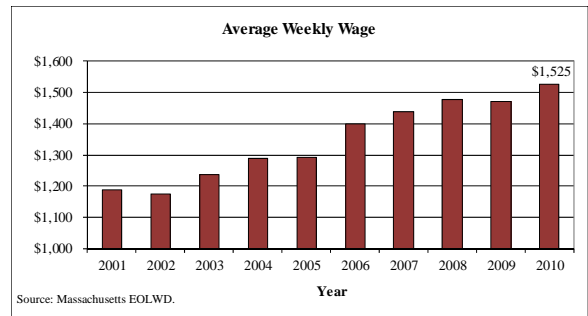
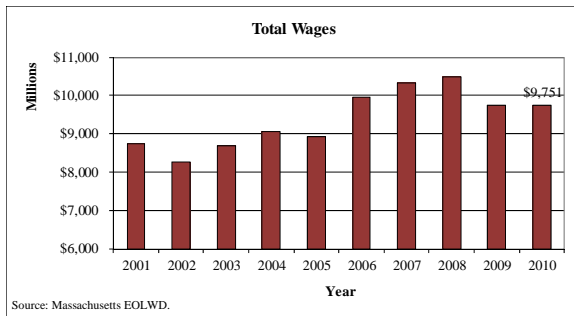
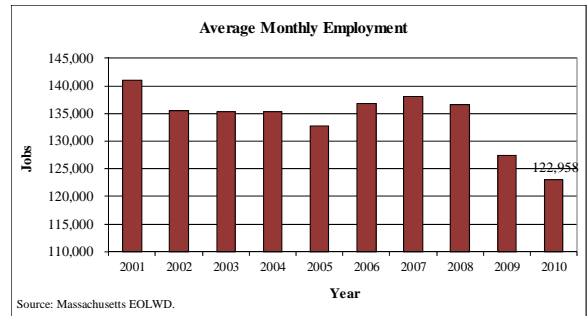
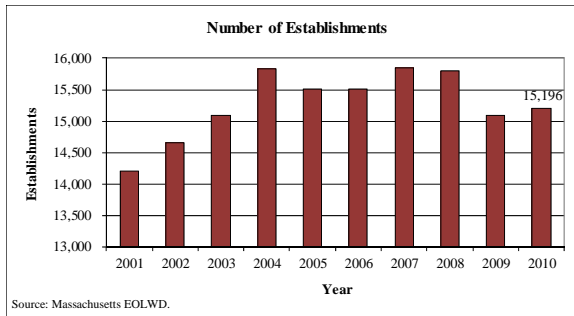
Average weekly wage: **Computers and peripheral equipment**

Annual receipts at nonemployer establishments: **Agricultural chemical mfg.**

Most valuable export: **Computers and electronic products and chemicals**

Large employers in Massachusetts: **EMC Corporation, Yankee Candle and Wyeth Pharmaceuticals**

**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: **5.17%**

GDP rank: **7 of 20**

Nonemployer to employer establishment ratio: **0.4 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**

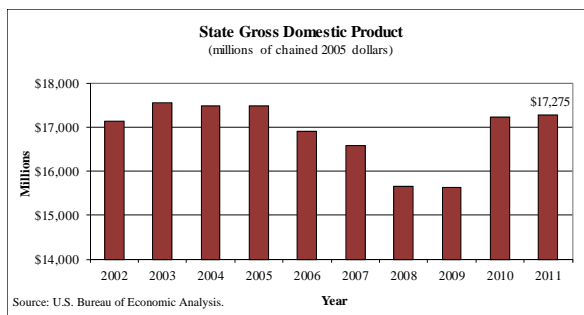
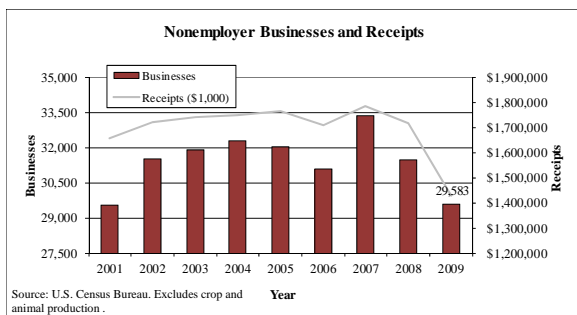
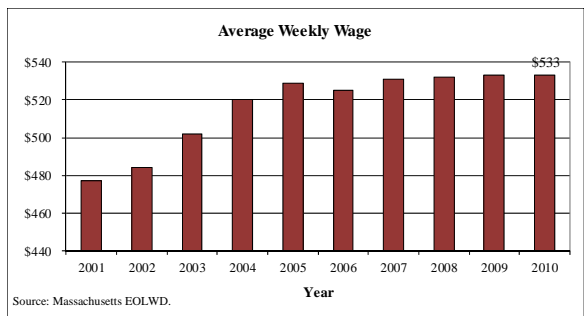
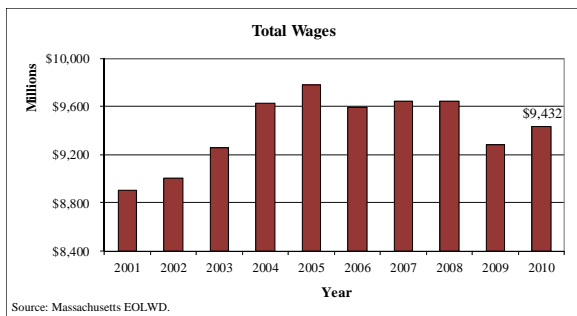
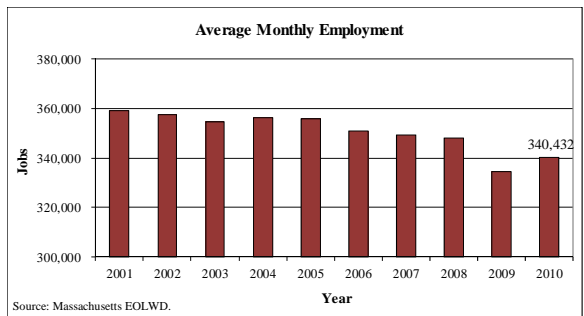
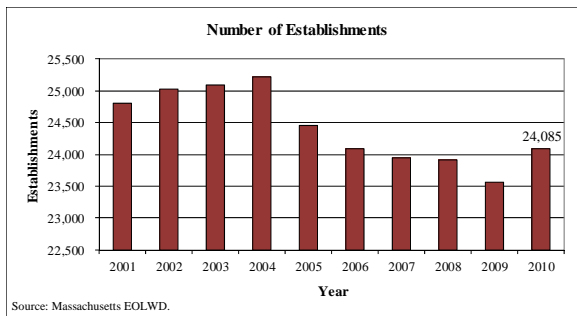
Annual wages: **Electronic markets and agents/brokers**

Average weekly wage: **Druggists' goods merchant wholesalers**

Annual receipts at nonemployer establishments: **Miscellaneous durable goods merchant wholesalers**

Large employers in Massachusetts: **Vertex Pharmaceuticals, Teradyne and C&S 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: **4.56%**

GDP rank: **9 of 20**

Nonemployer to employer establishment ratio: **1.3 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**

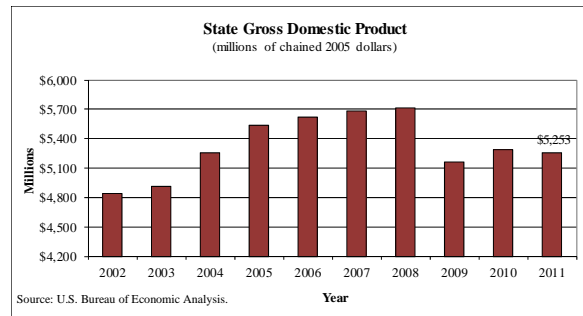
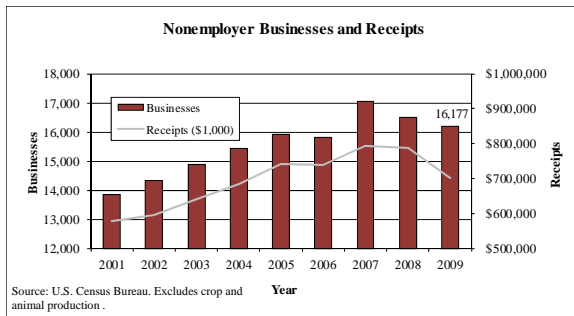
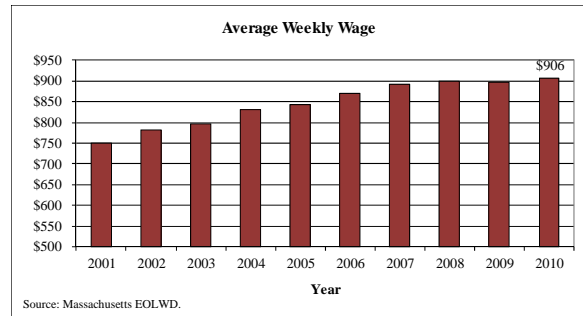
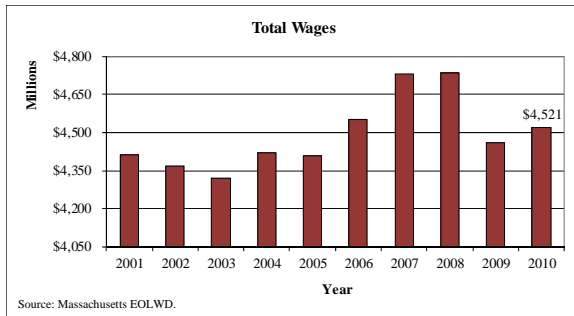
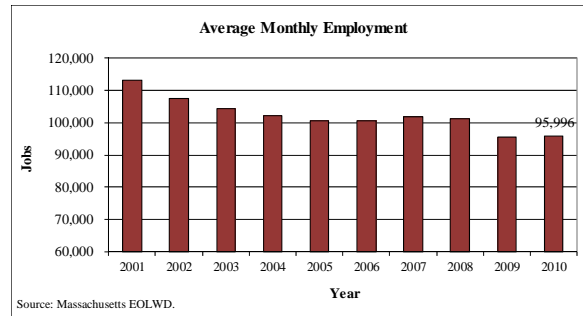
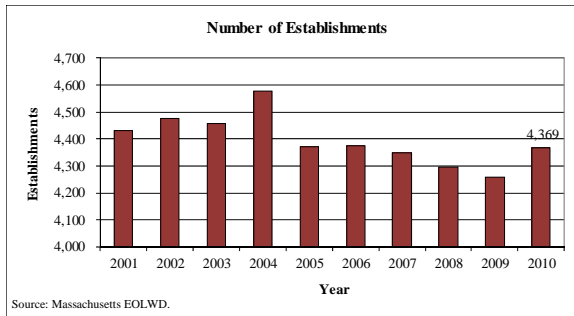
Annual wages: **Grocery stores**

Average weekly wage: **Automobile dealers**

Annual receipts at nonemployer establishments: **Direct selling establishments**

Large employers in Massachusetts: **Walmart, CVS, Walgreen's, Wholefoods, Shaw's, Stop and Shop, TJX Co.**

**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: **1.55%**

GDP rank: **16 of 20**

Nonemployer to employer establishment ratio: **3.8 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**

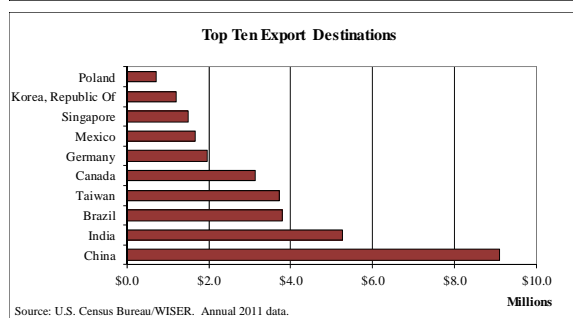
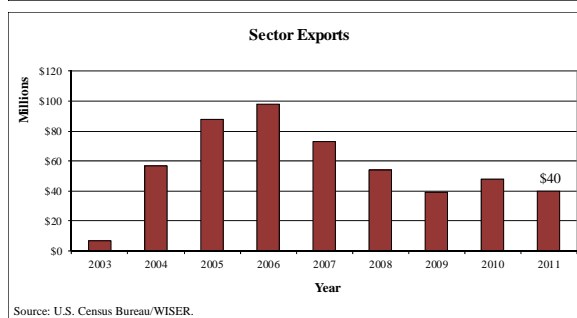
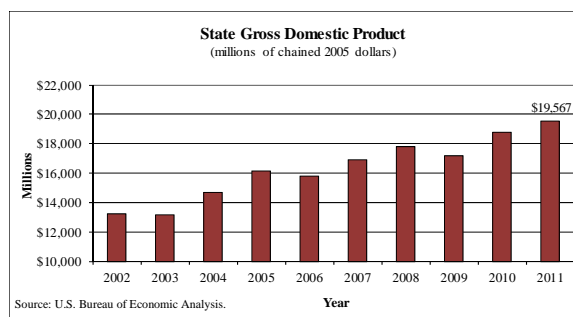
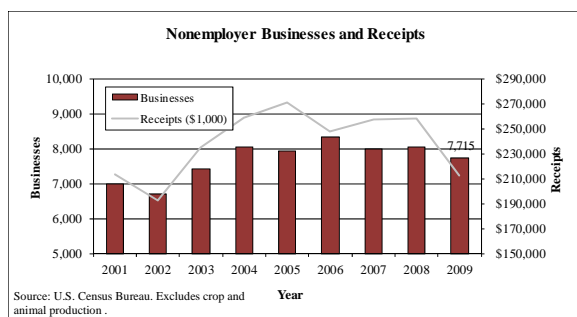
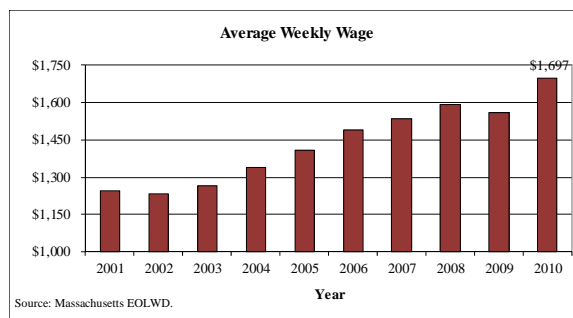
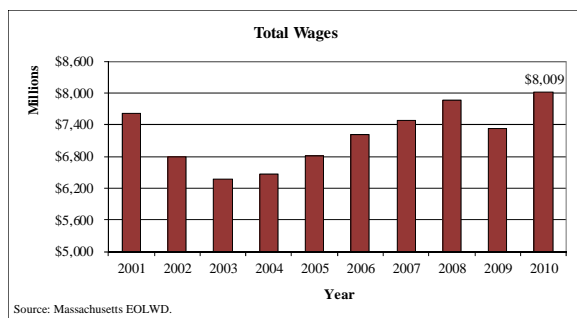
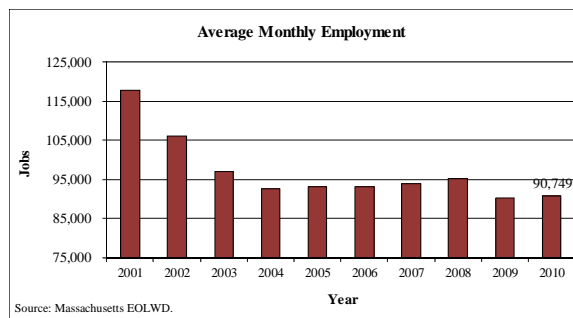
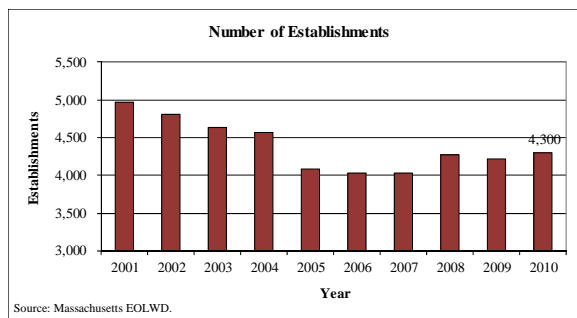
Annual wages: **General freight trucking**

Average weekly wage: **Pipeline transportation of natural gas**

Annual receipts at nonemployer establishments: **General freight trucking**

Large employers in Massachusetts: **U.S. Post Office, MassPort, UPS and the Maine Central Railroad**

**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.



**Summary.**

GDP contribution to state total: **4.89%**

GDP rank: **8 of 20**

Nonemployer to employer establishment ratio: **1.9 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Newspaper, book, & directory publishers**

Nonemployer establishments: **Other information services**

Employees: **Software publishers**

Annual wages: **Software publishers**

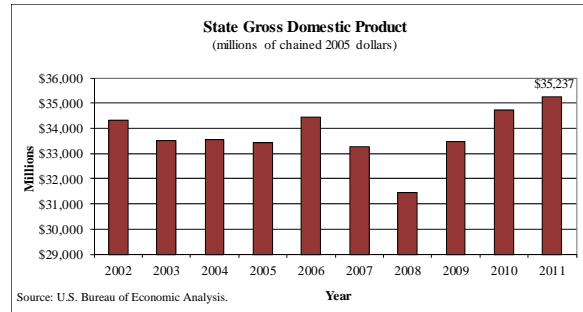
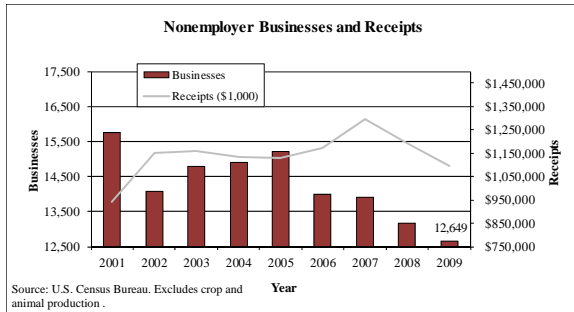
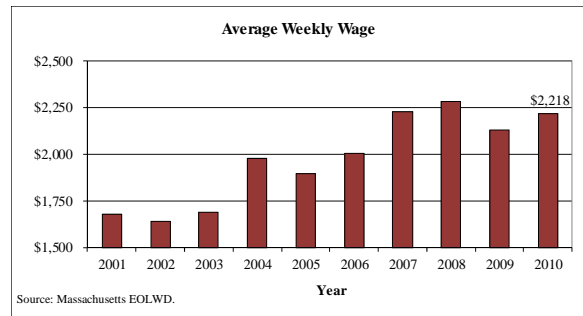
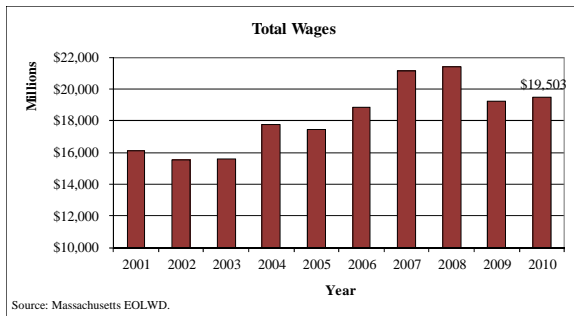
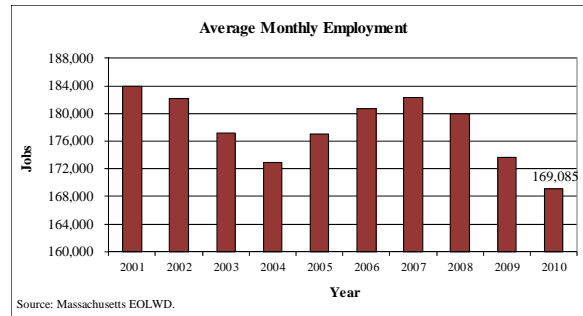
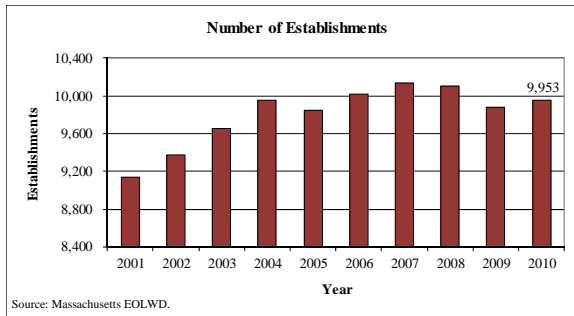
Average weekly wage: **Software publishers**

Annual receipts at nonemployer establishments: **Other information services**

Most valuable export: **Prepackaged software**

Large employers in Massachusetts: **Boston Globe, Christian Science Monitor, Houghton Mifflin Harcourt and Thompson Research**

**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: **9.88%**

GDP rank: **5 of 20**

Nonemployer to employer establishment ratio: **1.3 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Insurance agencies, brokerages & support**

Nonemployer establishments: **Agencies, brokerages, and other insurance related activities**

Employees: **Depository credit intermediation**

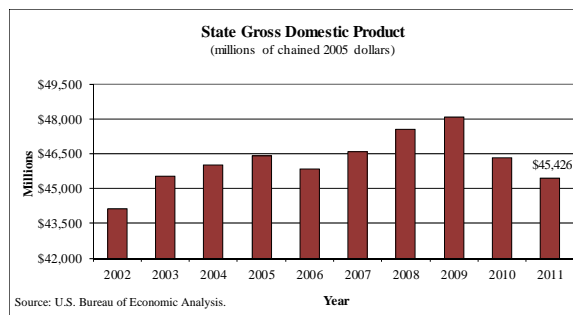
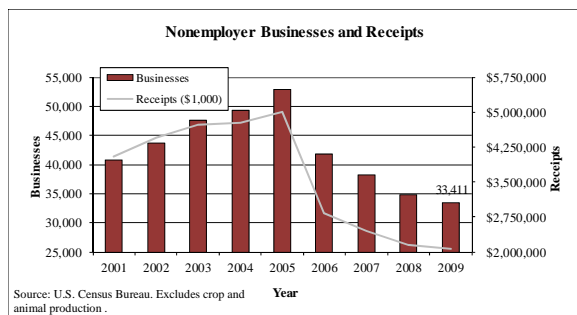
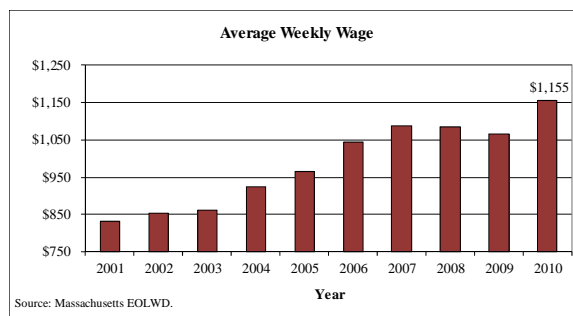
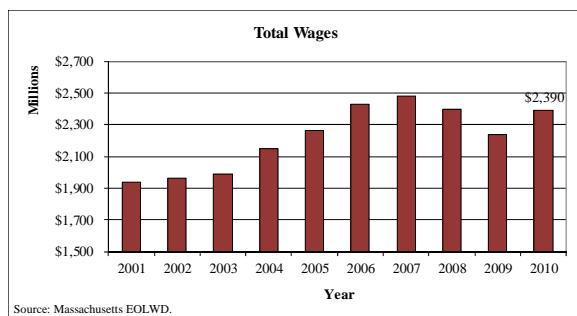
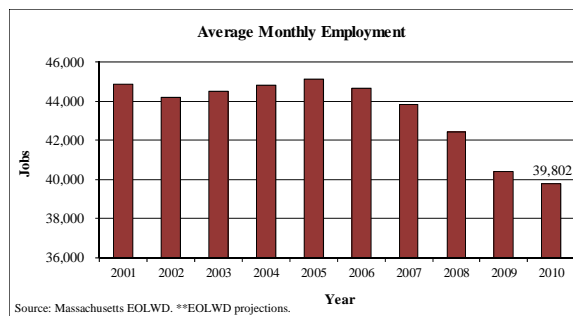
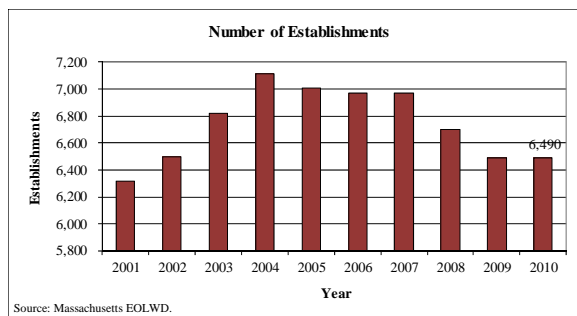
Annual wages: **Other financial investment activities**

Average weekly wage: **Other investment pools and funds**

Annual receipts at nonemployer establishments: **Other financial investment activities**

Large employers in Massachusetts: **Deutsche Bank, Fidelity Investments Life Ins., John Hancock Life Ins. and Liberty Mutual Group**

**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: **12.79%**

GDP rank: **1 of 20**

Nonemployer to employer establishment ratio: **5.2 to 1**

**Sector leaders.** Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Offices of real estate agents & brokers**

Nonemployer establishments: **Offices of real estate agents and brokers**

Employees: **Activities related to real estate**

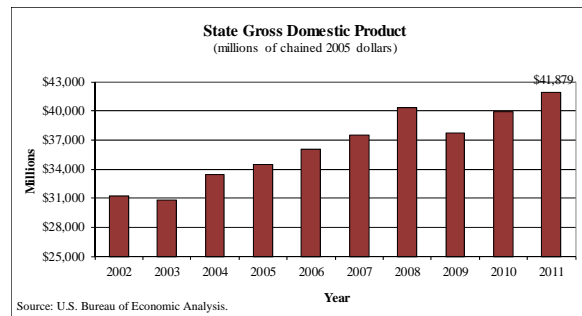
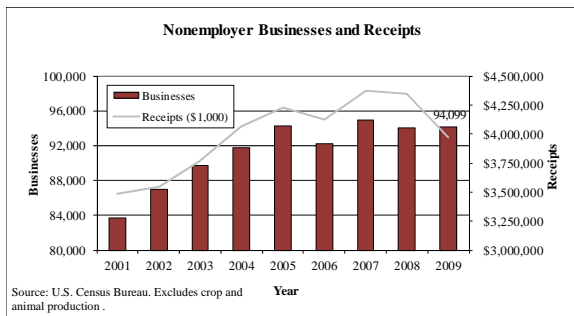
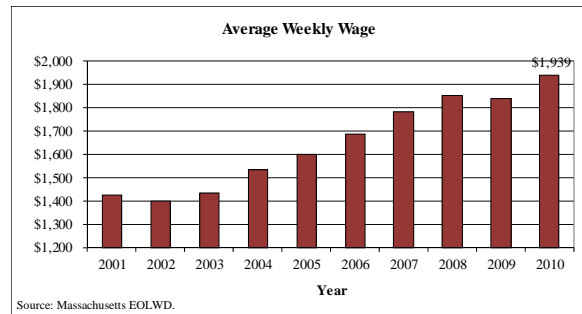
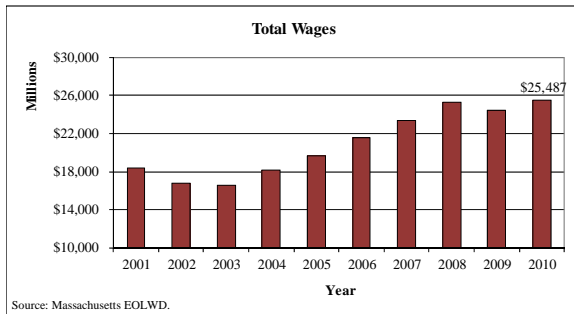
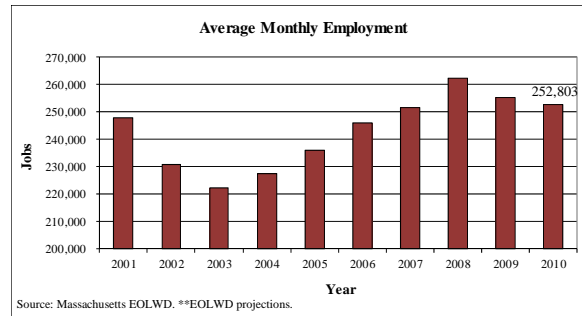
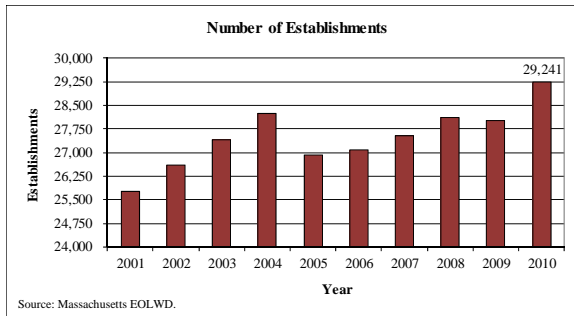
Annual wages: **Activities related to real estate**

Average weekly wage: **Lessors, nonfinancial intangible assets**

Annual receipts at nonemployer establishments: **Lessors of real estate**

Large employers in Massachusetts: **John Hancock Life Ins., Liberty Mutual Group, Mass Mutual Financial Group**

**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: **12.20%**

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**

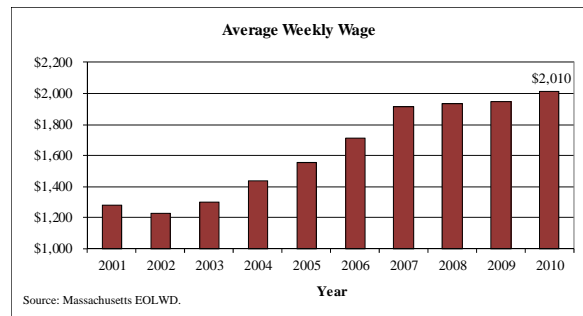
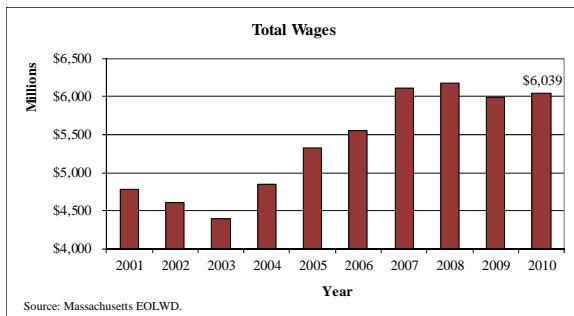
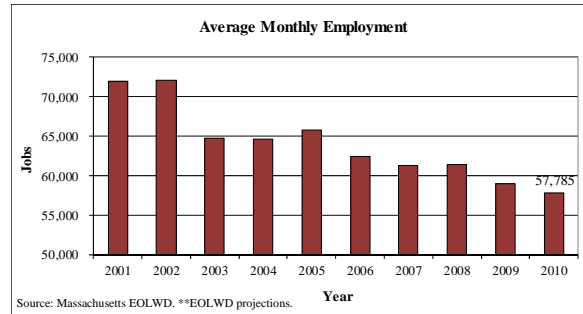
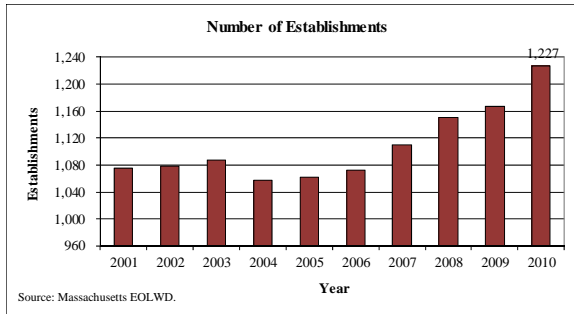
Average weekly wage: **Computer systems design and related services**

Annual receipts at nonemployer establishments: **Management, scientific, and technical consulting services**

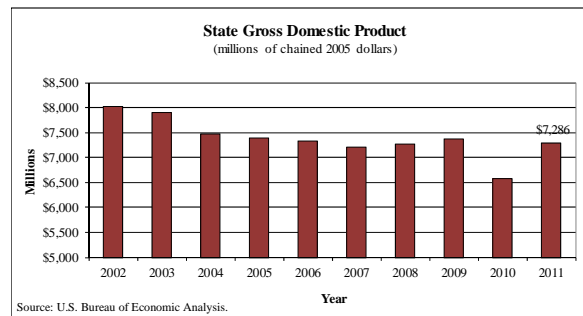
Large employers in Massachusetts: **Massachusetts Institute of Technology, Alcatel-Lucent, Ropes and Gray LLP**



**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: **2.49%**

GDP rank: **14 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**

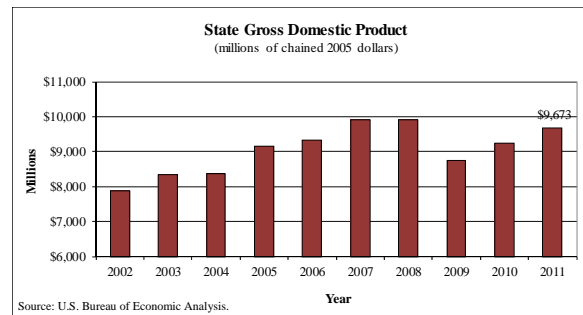
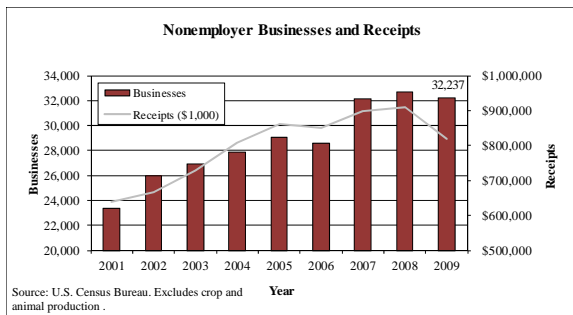
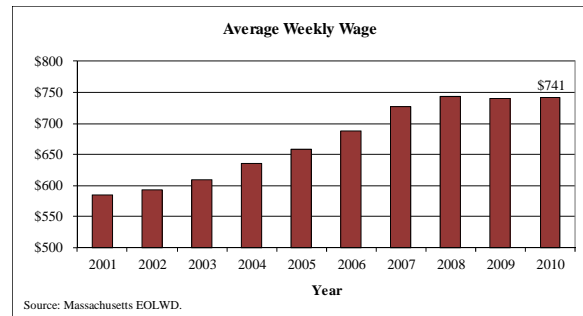
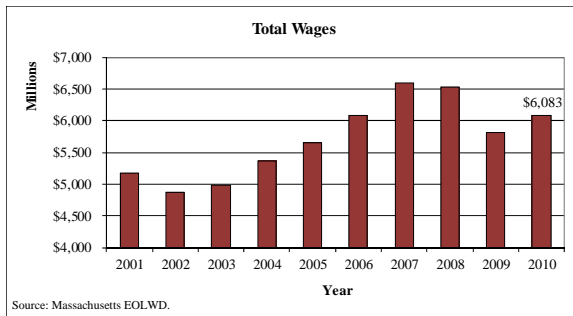
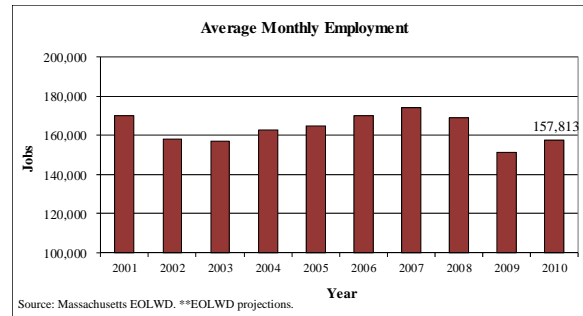
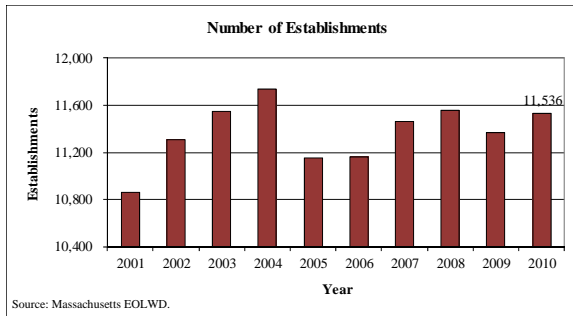
Annual wages: Subsector detail **N/A**

Average weekly wage: Subsector detail **N/A**

Annual receipts at nonemployer establishments: **N/A**

Large employers in Massachusetts: **State Street Corp. and Boston Private Financial Holdings**

**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: **2.76%**

GDP rank: **13 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: **Services to buildings and dwellings**

Nonemployer establishments: **Services to buildings and dwellings**

Employees: **Employment services**

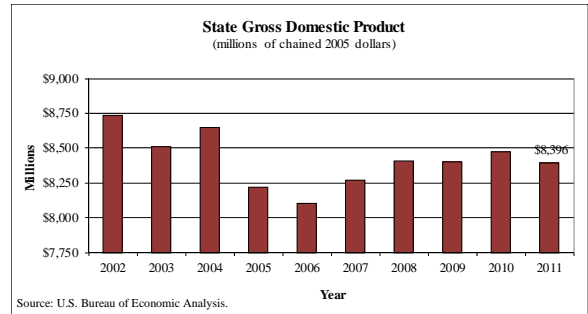
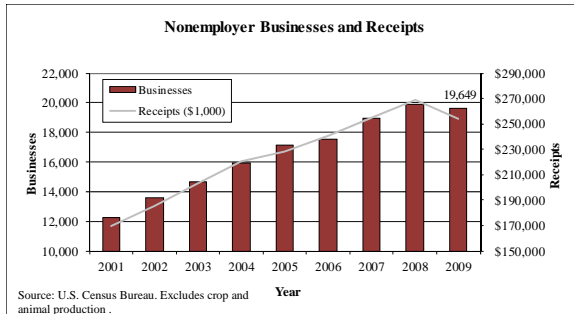
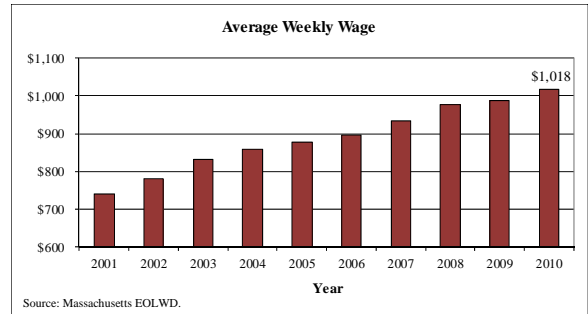
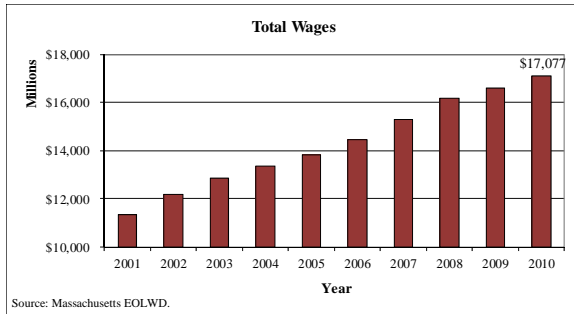
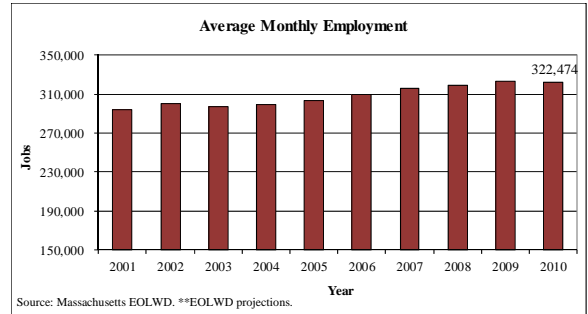
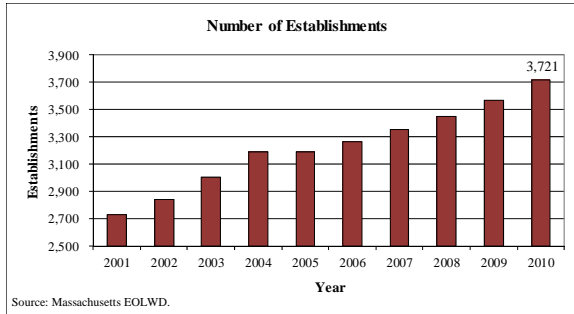
Annual wages: **Employment services**

Average weekly wage: **Office administrative services**

Annual receipts at nonemployer establishments: **Services to buildings and dwellings**

Large employers in Massachusetts: **Technical Futures, ABM Janitorial Services and American Cleaning Co.**

**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: **2.89%**

GDP rank: **10 of 20**

Nonemployer to employer establishment ratio: **5.8 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**

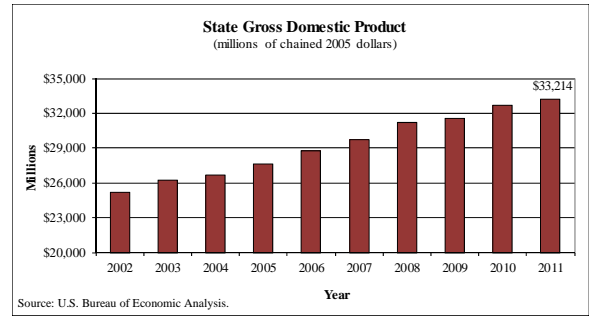
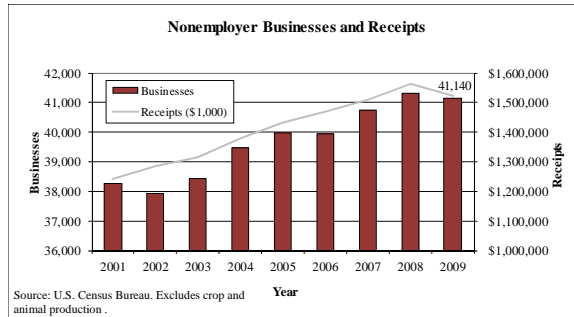
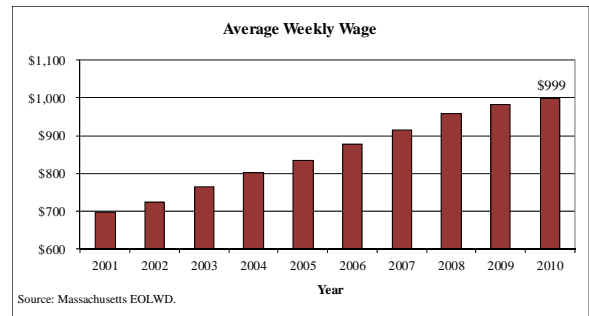
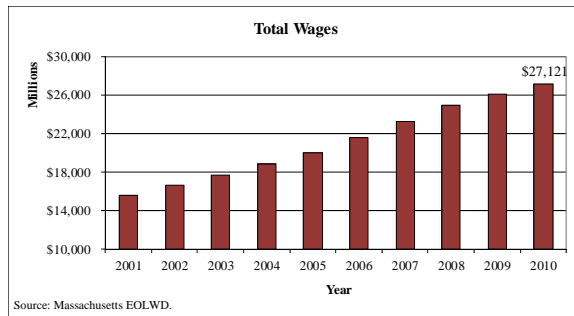
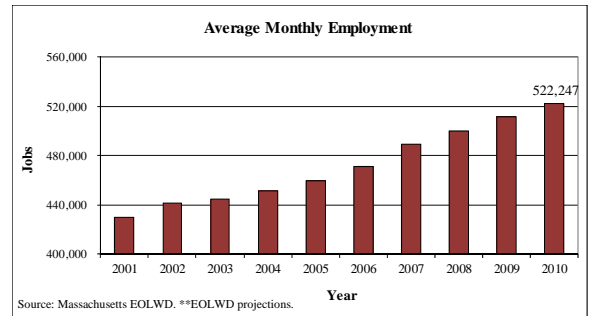
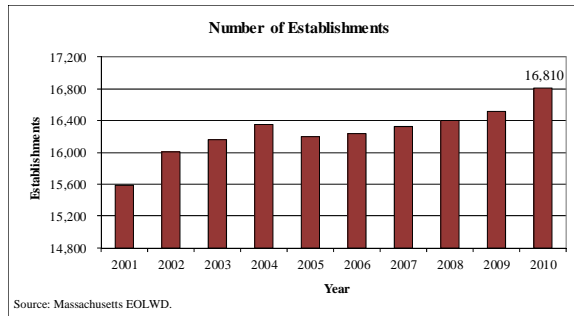
Annual wages: **Elementary and secondary schools**

Average weekly wage: **Colleges and universities**

Annual receipts at nonemployer establishments: Subsector detail N/A

Large employers in Massachusetts: **Boston University, Harvard University, MIT, University of Massachusetts-Amherst**

**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.



State export data are not available for this sector.

**Summary.**

GDP contribution to state total: **9.95%**

GDP rank: **4 of 20**

Nonemployer to employer establishment ratio: **2.5 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**

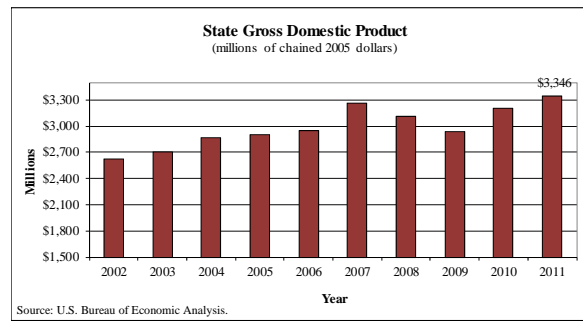
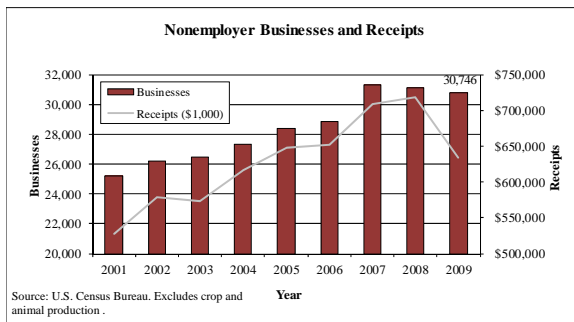
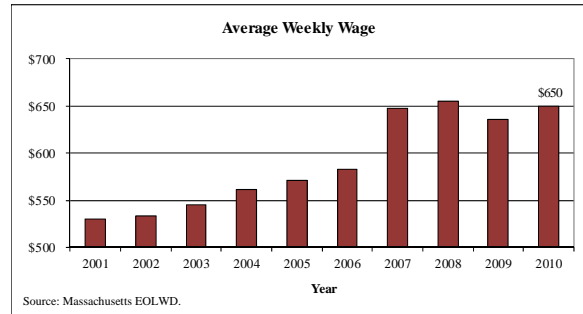
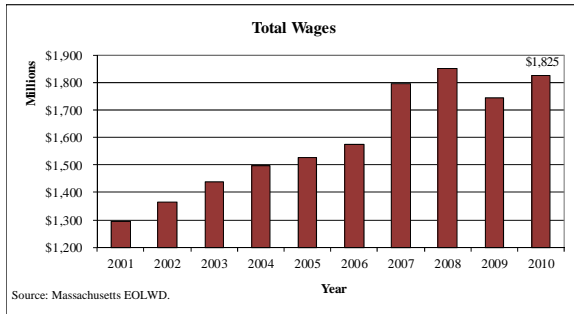
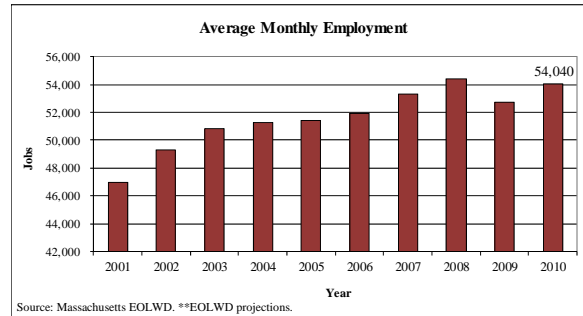
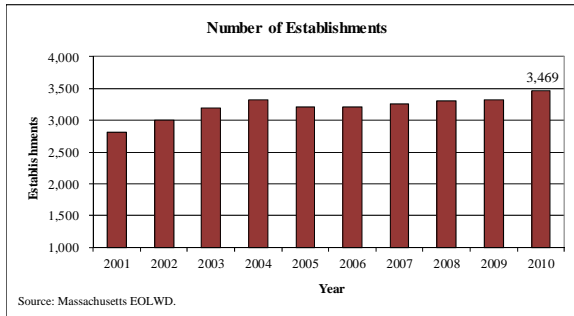
Annual wages: **General medical and surgical hospitals**

Average weekly wage: **Offices of physicians**

Annual receipts at nonemployer establishments: **Offices of other health practitioners**

Large employers in Massachusetts: **Massachusetts General Hospital and Brigham and Women's Hospital**

**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: **0.96%**

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**

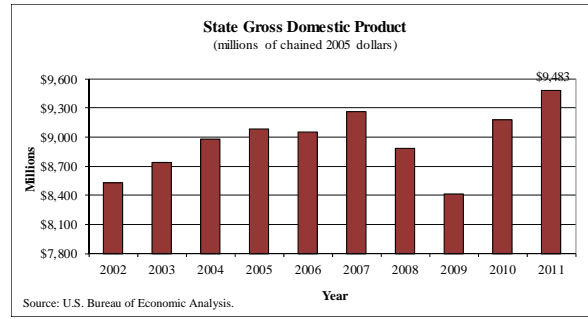
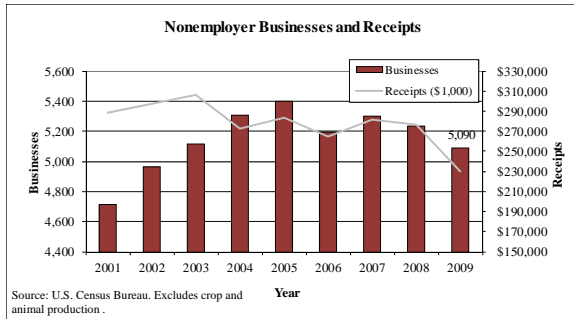
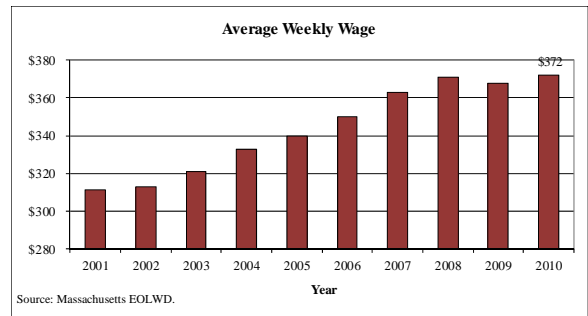
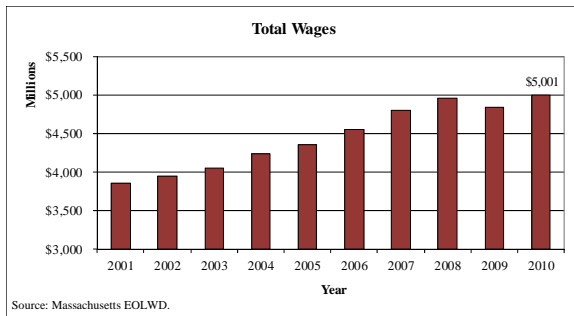
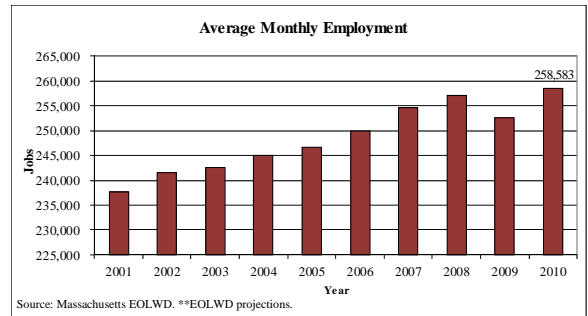
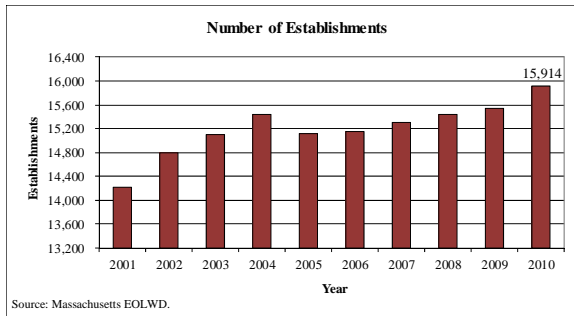
Annual wages: **Other amusement & recreation industries**

Average weekly wage: **Spectator sports**

Annual receipts at nonemployer establishments: **Independent artists, writers, and performers**

Large employers in Massachusetts: **Boston Red Sox, Delaware North Companies and Museum of Fine Arts**

**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: **2.88%**

GDP rank: **11 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: **Limited-service eating places**

Nonemployer establishments: **Special food services**

Employees: **Full-service restaurants**

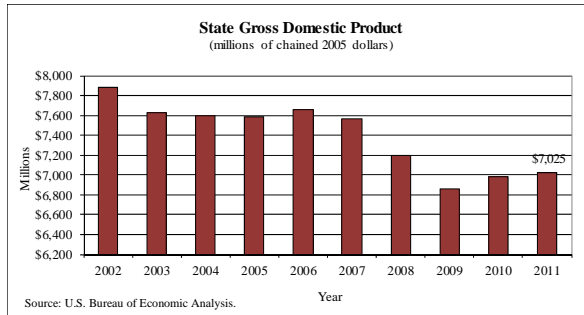
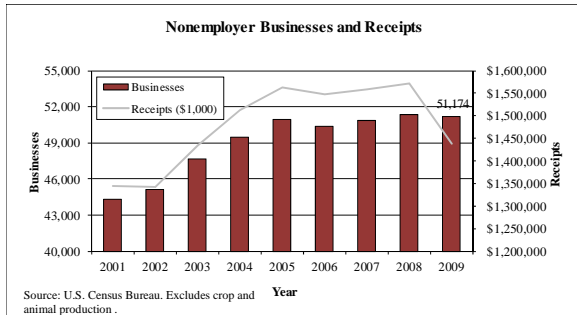
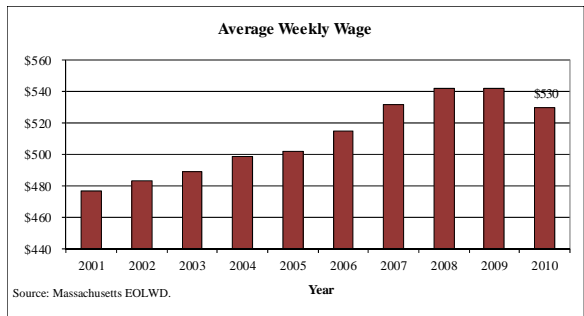
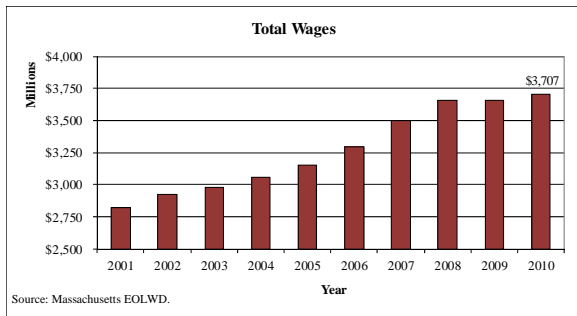
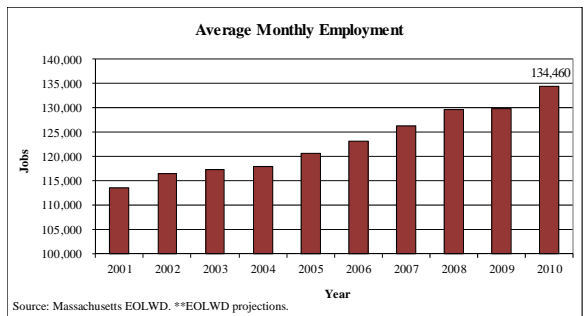
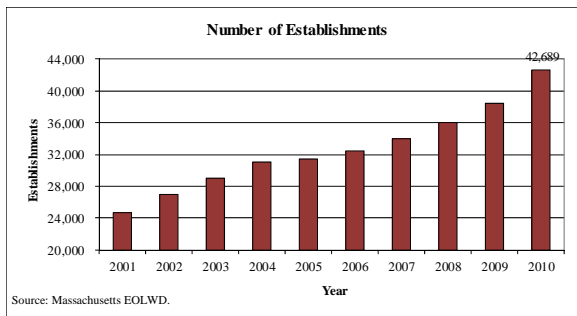
Annual wages: **Full-service restaurants**

Average weekly wage: **Traveler accommodation**

Annual receipts at nonemployer establishments: **Limited-service eating places**

Large employers in Massachusetts: **Eurest Dining Services, Canyon Ranch, Four Seasons Boston, Sheraton Boston and Westin-Copley Place**

**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: **2.24%**

GDP rank: **15 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: **Private households**

Nonemployer establishments: **Other personal services**

Employees: **Private households**

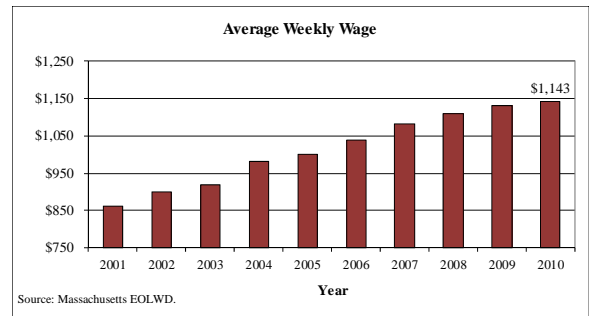
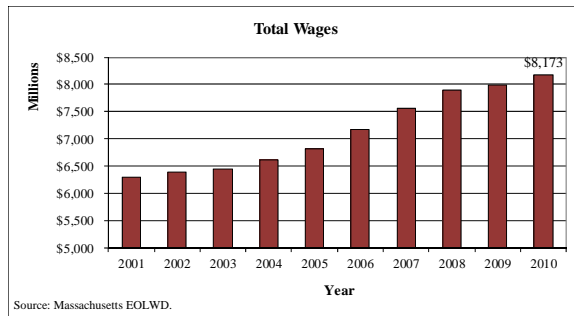
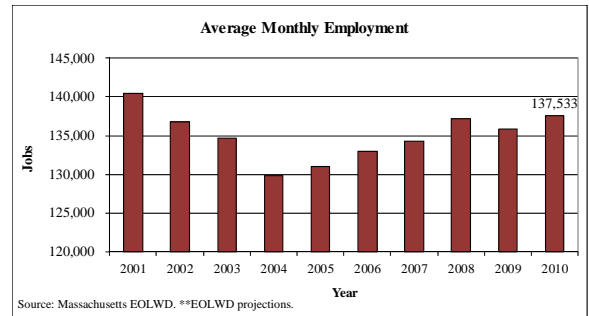
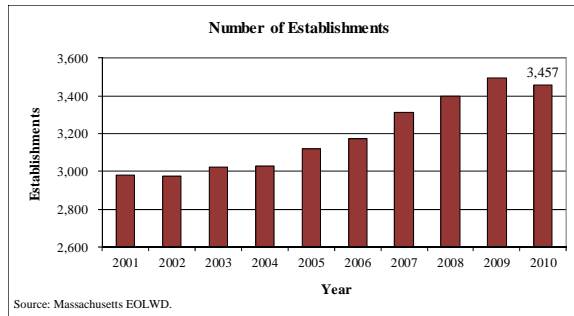
Annual wages: **Automotive repair and maintenance**

Average weekly wage: **Electronic equipment repair/maintenance**

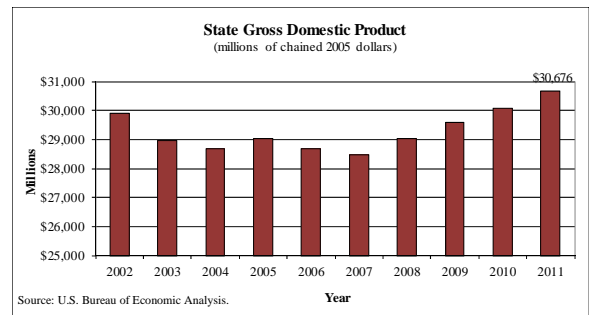
Annual receipts at nonemployer establishments: **Other personal services**

Large employers in Massachusetts: **Eastern Enterprise Group, Ancient Order of Hibernians and Greater Lynn Senior Services**

**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: **9.47%**

GDP rank: **6 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**

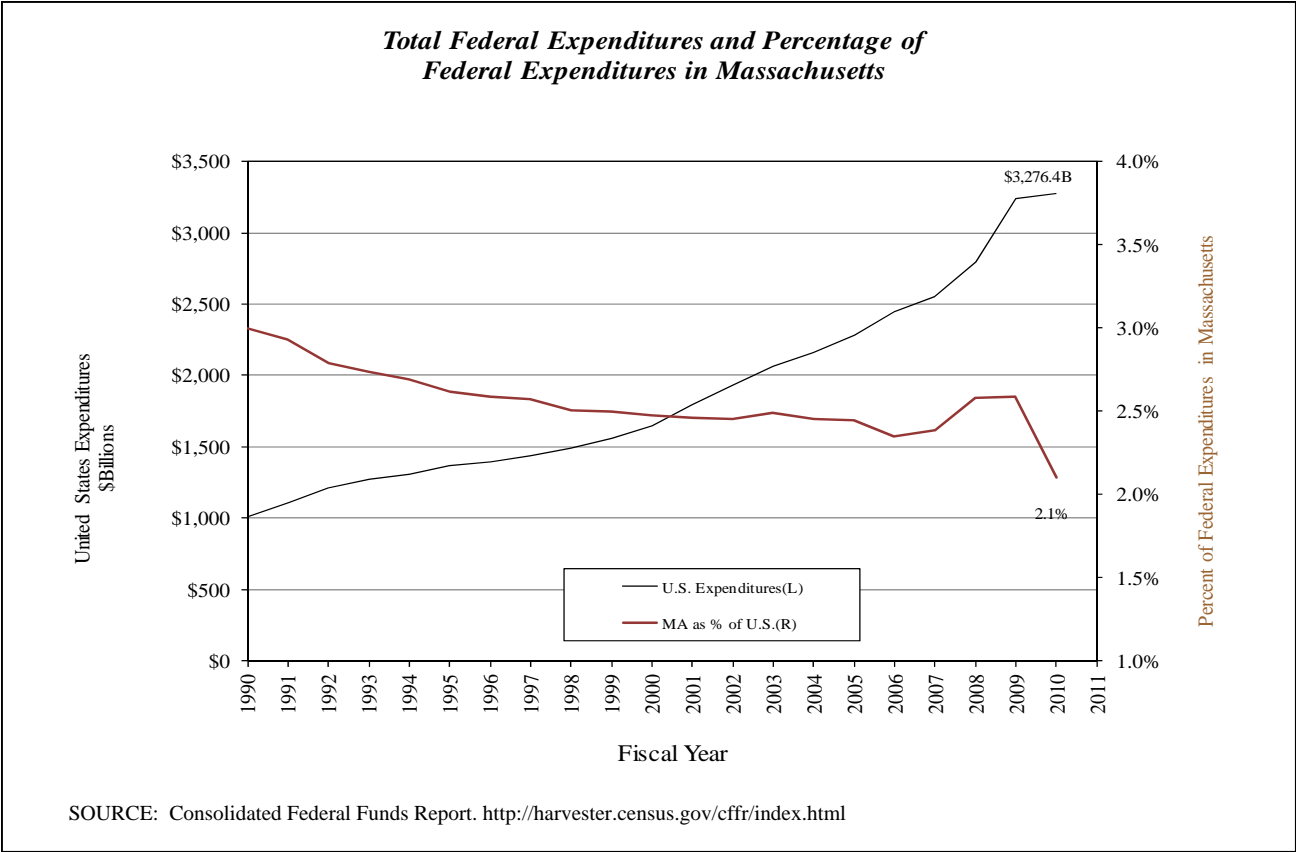
Large employers in Massachusetts: **Boston Police, Hampden County House of Correction, MWRA, Suffolk County Sheriff**



**ECONOMIC BASE AND PERFORMANCE—GOVERNMENT REVENUES AND SPENDING**

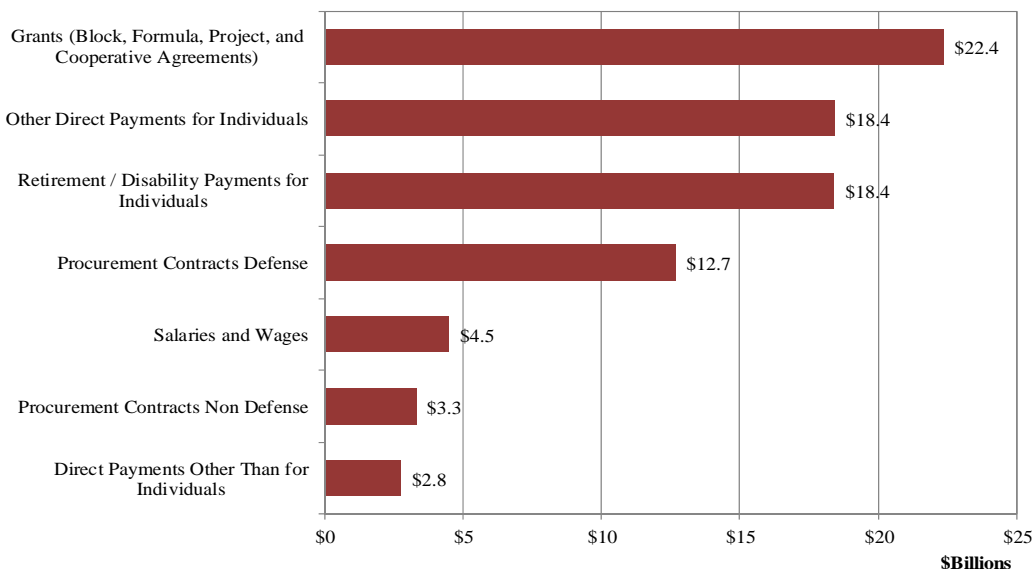
**Federal Spending in Massachusetts.** Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2010, Massachusetts received almost \$82.5 billion, a 1.7 percent decrease from 2009, and ranked ninth among states in per capita distribution of federal funds, with total spending of \$12,593 per person, excluding loans and insurance. Massachusetts ranked seventh in fiscal 2009. While federal spending in Massachusetts has increased every year since 1990, its share of total U.S. spending has declined steadily since 1990, excluding 2008-2009. The following graph shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts, and includes only those expenditures that can be associated with individual states and territories.

**Note:** Due to budget cuts the U.S. Census Bureau has discontinued the CFFR data series, the source for these data. FY 2010 will be the last year reported. The Massachusetts SDC will replace this series with data from USASpending.gov, its source for federal contract data. Historical data from USASpending does not include spending by all federal agencies (81 percent of FY 2010 CFFR total spending ) as some agencies were not required to report via that database. USASpending will eventually add all federal agencies to their spending database to meet the requirements of the federal Transparency Act.



In FY 2010, 44.7 percent of federal spending in Massachusetts was composed of health care and social programs like Medicare, Medicaid, Social Security, unemployment benefits and Section 8 Housing Vouchers; 2 percent more than 2009. Massachusetts was 56 percent above the national average in per capita federal grants to state and local governments, receiving \$3,414 per capita compared to a national average of \$2,187. Per capita federal spending on salaries and wages was 37 percent lower in Massachusetts than in the rest of the nation, \$688 compared to a national average of \$1,099 in 2010. Massachusetts however, was 9 percent above the national average in per capita direct federal payments to individuals, \$6,049 compared to a national average of \$5,568. Massachusetts ranked sixth (seventh in 2009), among states in per capita procurement contract awards, \$2,442 compared to a national average of \$1,605 in 2010. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2010, excluding loans and insurance.

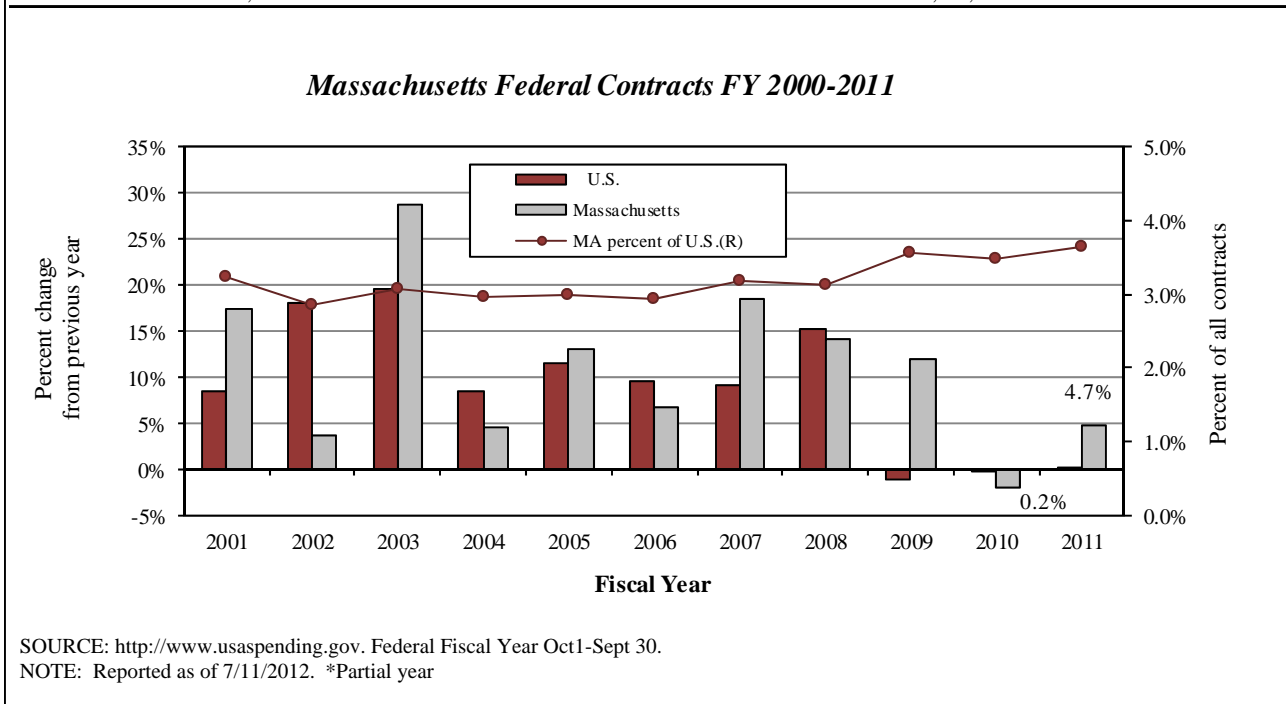
**Composition of \$82.5 Billion Federal Spending in Massachusetts by Program  
Fiscal Year 2010**



SOURCE: U.S. Census Bureau, Consolidated Federal Funds Report.

**Federal Contracts.** The total dollar value of all federal contracts performed in Massachusetts increased an average of 18.8 percent per year from 2000 to 2011, 4.2 percent faster than the 14.6 percent U.S. average. The following two pages compare Massachusetts federal contract dollars to the U.S. total and summarize the fiscal year periods from 2000 to 2012 as of July 11, 2012.

<i>Federal Contracts Received by Massachusetts Companies as a Percent all Federal Contracts</i>					
<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	9,675	28.8%	3.1%	315,234	19.6%
2004	10,115	4.5%	3.0%	342,006	8.5%
2005	11,439	13.1%	3.0%	381,115	11.4%
2006	12,204	6.7%	2.9%	417,813	9.6%
2007	14,450	18.4%	3.2%	456,143	9.2%
2008	16,494	14.1%	3.1%	525,990	15.3%
2009	18,466	12.0%	3.5%	520,808	-1.0%
2010	18,115	-1.9%	3.5%	520,292	-0.1%
2011	18,972	4.7%	3.6%	521,173	0.2%
2012*	9,190		3.5%	266,331	
Total	160,050		3.2%	4,959,170	



## *Summary of Federal Contracts Performed in Massachusetts*

### **FY 2000 To 2012**

Total Dollars: \$137,276,421,441

Number of Transactions: 974,992

### **Top 5 Products or Services Sold**

Gas Turbines & Jet Engines Aircraft	\$13,104,053,665
Engineering (Advanced)	\$5,455,176,067
R&D-Electronics & Comm Equipment	\$4,812,288,221
Misc Communication Equipment	\$4,656,903,279
Guided Missiles	\$4,436,359,822

### **Top 5 Prime Award Major Agencies**

Department of Defense	\$111,716,477,723
Department of Treasury	\$4,972,951,480
Department of Veterans Affairs	\$3,666,243,978
Department of Health and Human Services	\$2,979,487,363
Department of Transportation	\$2,828,676,716

### **Top 5 Prime Award Sub Agencies**

Department of the Army	\$37,734,144,603
Department of the Navy	\$35,728,743,528
Department of the Air Force	\$26,523,315,816
Defense Logistics Agency	\$4,413,470,987
United States Mint	\$4,197,785,090

### **Top 5 Prime Award Contractors**

Raytheon Company	\$32,370,760,645
General Dynamics Corporation	\$16,206,303,833
General Electric Company	\$15,353,019,690
Massachusetts Institute of Technology	\$8,665,946,123
The Charles Stark Draper Laboratory Inc	\$3,862,178,290

SOURCE: <http://www.usaspending.gov>.

Note: Reported as of 7/11/2012

## *Federal Contracts Performed in Massachusetts*

### **Fiscal Year: 2012\***

Total Dollars: \$8,159,082,820

This amount is 3.0% of all awarded dollars for the fiscal year.

Massachusetts is ranked 9th among states, D.C. and territories for this year.

Number of Transactions: 55,562

### **Top 5 Products or Services Sold**

Precious Metals Primary Forms	\$1,415,394,622
R&D - Defense System: Electronics/Communication Equipment (Basic Research)	\$633,493,144
Gas Turbines and Jet Engines, Aircraft, Prime Moving; and Components	\$578,541,494
Guided Missiles	\$509,978,562
R&D - Defense System: Missile/Space Systems (Engineering Development)	\$365,793,336

### **Top 5 Prime Award Major Agencies**

Department of Defense	\$5,621,059,491
Department of Treasury	\$1,436,239,173
Department of Transportation	\$199,728,425
Department of Veterans Affairs	\$195,963,509
Department of Health and Human Services	\$139,205,547

### **Top 5 Prime Award Sub Agencies**

Department of the Army	\$1,870,191,889
Department of the Air Force	\$1,507,648,185
United States Mint	\$1,415,612,457
Department of the Navy	\$1,164,513,896
Missile Defense Agency (MDA)	\$489,461,262

### **Top 5 Prime Award Contractors**

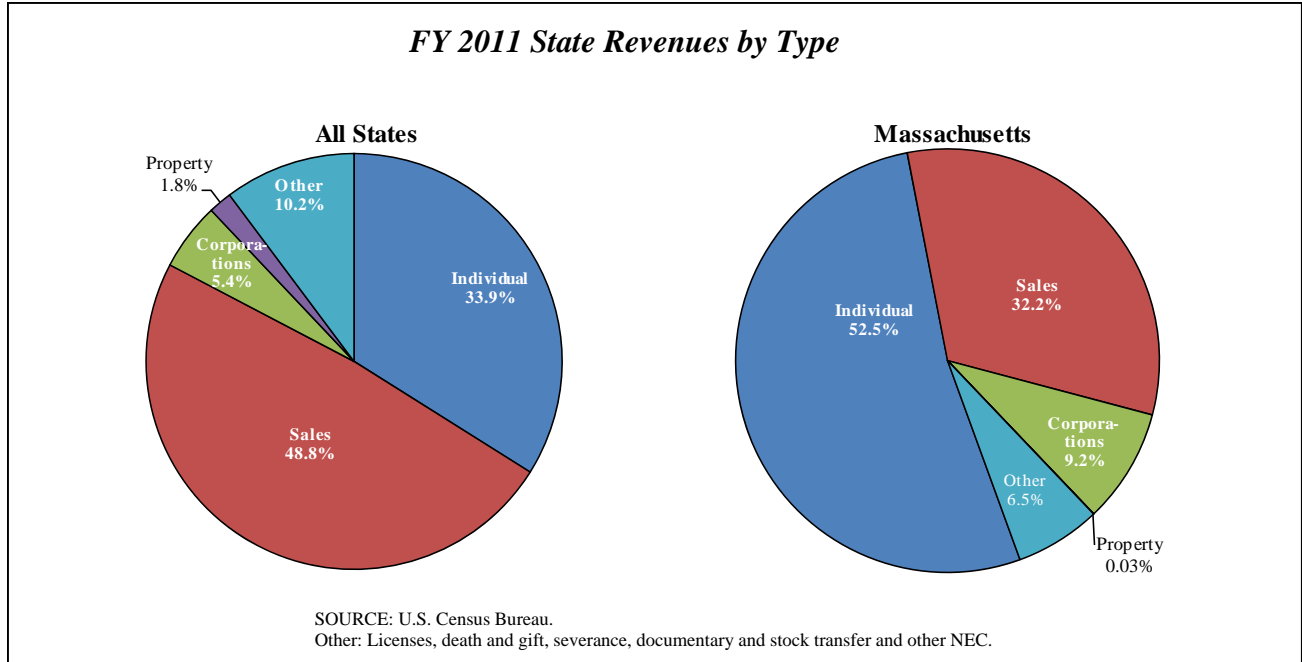
Raytheon Company	\$2,305,060,168
Coins 'N Things Inc.	\$1,146,975,306
General Electric Company	\$691,467,993
Massachusetts Institute of Technology	\$625,432,592
General Dynamics Corporation	\$463,256,731

SOURCE: <http://www.usaspending.gov>. Federal Fiscal Year Oct1-Sept 30.

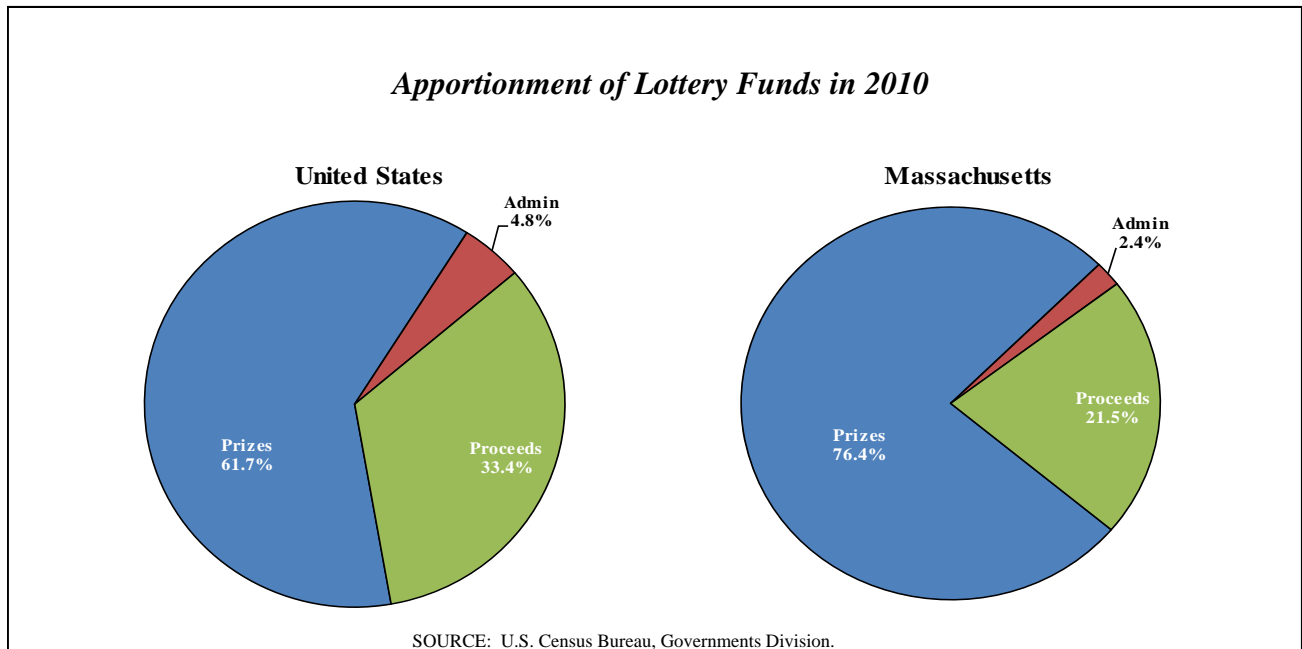
NOTE: Reported as of 7/11/2012. \*Partial year

**State Revenues.** Taxes collected by all states in FY 2011 totaled \$763.7 billion, 8.4 percent more than FY 2010. Massachusetts collected \$22.1 billion in FY 2011, 10.2 percent more than it did in FY 2010. Massachusetts' revenues grew more than any other New England state. Massachusetts ranked 11th in total taxes collected in 2011, no change from 2010 or 2009.

In fiscal year 2011, Massachusetts collected 52.5 percent of its revenue from individual income tax. Overall, states received 33.9 percent of all revenues from individual income taxes and seven states did not have the tax in 2011. In FY 2011, the state collected 14.5 percent more individual income taxes than it did in FY 2010.



**State Lottery Proceeds.** Massachusetts ranked second in revenue, \$4.2 billion, and prize money awarded, \$3.2 billion, among the 43 states with lotteries in FY 2010. It ranked first on per capita sales, eighth in the portion of revenue used for its administration, and second in the portion of revenue used for prizes.

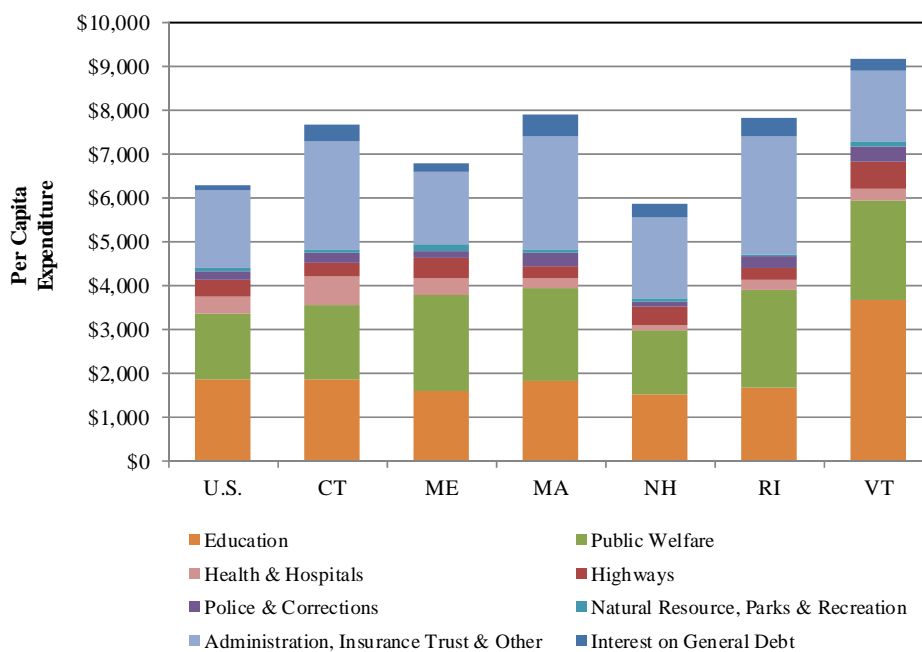


**State Expenditures.** The following table and graph depict fiscal 2010 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 8th in the nation in per capita expenditures, \$7,901 in 2010, while it ranked 8th and spent \$7,373 in 2009. This represents a 7.2 percent increase in per capita expenditures from 2009 to 2010 with the largest per capita dollar increase in the Administration, Insurance Trust & Other category.

<i>Massachusetts Per Capita State Government General Expenditures, by Type</i>										
General expenditures, by function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Education	\$1,026	\$1,020	\$1,055	\$1,183	\$1,346	\$1,401	\$1,640	\$1,649	\$1,735	\$1,814
Public Welfare	\$1,135	\$932	\$824	\$1,647	\$1,719	\$1,843	\$1,877	\$1,952	\$2,030	\$2,103
Health & Hospitals	\$363	\$377	\$372	\$172	\$177	\$187	\$227	\$236	\$237	\$235
Highways	\$400	\$427	\$378	\$471	\$276	\$261	\$267	\$346	\$294	\$298
Police & Corrections	\$213	\$223	\$230	\$215	\$222	\$248	\$274	\$293	\$294	\$279
Natural Resource, Parks & Recreation	\$88	\$86	\$95	\$90	\$76	\$81	\$87	\$89	\$96	\$91
Administration, Insurance Trust & Other	\$1,473	\$1,630	\$1,755	\$1,815	\$1,660	\$1,690	\$1,890	\$1,901	\$2,126	\$2,558
Interest on General Debt	\$371	\$418	\$386	\$401	\$435	\$487	\$518	\$558	\$561	\$522
<b>Total</b>	<b>\$5,067</b>	<b>\$5,115</b>	<b>\$5,095</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>

<i>Fiscal 2010 Per Capita State Government General Expenditures, by Type</i> <i>(for the U.S. and the New England States)</i>							
General expenditures, by function	U.S.	CT	ME	MA	NH	RI	VT
Education	\$1,849	\$1,853	\$1,579	\$1,814	\$1,522	\$1,680	\$3,676
Public Welfare	\$1,499	\$1,687	\$2,189	\$2,103	\$1,450	\$2,213	\$2,245
Health & Hospitals	\$400	\$655	\$399	\$235	\$109	\$236	\$283
Highways	\$359	\$303	\$441	\$298	\$426	\$279	\$619
Police & Corrections	\$202	\$249	\$169	\$279	\$132	\$240	\$319
Natural Resource, Parks & Recreation	\$88	\$51	\$138	\$91	\$66	\$45	\$133
Administration, Insurance Trust & Other	\$1,748	\$2,470	\$1,688	\$2,558	\$1,843	\$2,701	\$1,629
Interest on General Debt	\$147	\$408	\$192	\$522	\$306	\$408	\$246
<b>Total</b>	<b>\$6,293</b>	<b>\$7,677</b>	<b>\$6,794</b>	<b>\$7,901</b>	<b>\$5,853</b>	<b>\$7,801</b>	<b>\$9,151</b>
State's rank of total per capita expenditures		11	20	8	34	9	3

**Fiscal 2010 Per Capita State Government General Expenditures, by Type**  
**(for the U.S. and the New England States)**



SOURCE: U.S. Census Bureau, Governments Division

*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%
1971	52,116	36.0%	97,801	32.0%	1,913,601	41.3%
1976	19,190	8.4%	47,441	13.9%	1,286,942	37.7%
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%
May 2011 YTD	2,450		5,894		232,232	
May 2012 YTD	4,276	74.5%	8,358	41.8%	306,904	32.2%

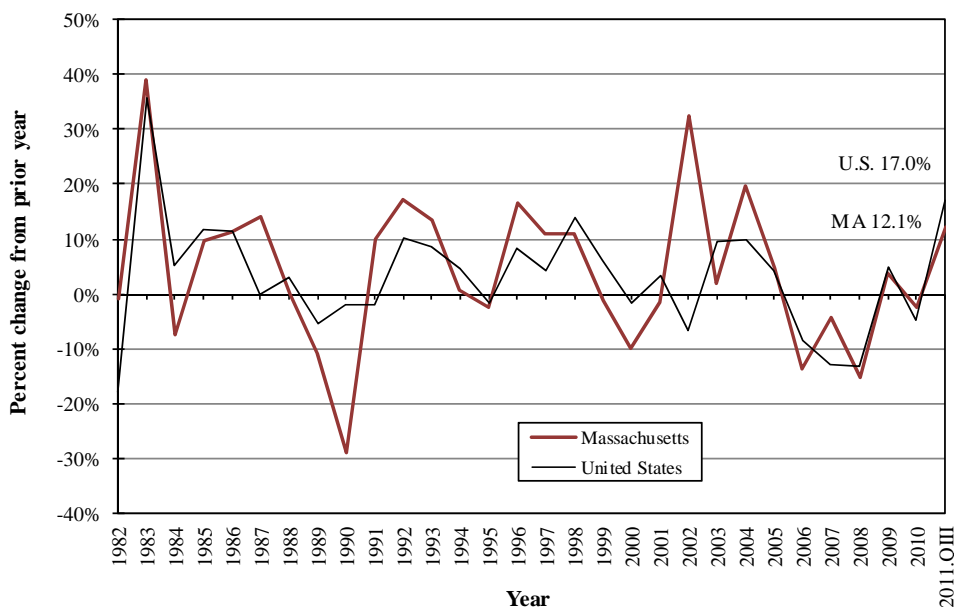
**Housing Permits Authorized**  
**Percent Change from Previous Year**

SOURCES: United States Census Bureau. May 2012. Reported data plus data imputed for non-reporters & partial reporters.

**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.

<b>Existing Home Sales</b> <i>(quarterly rates are seasonally adjusted, rates in thousands)</i>				
<b>Year</b>	<b>Massachusetts</b>		<b>United States</b>	
	<b>Sales</b>	<b>% Change</b>	<b>Sales</b>	<b>% Change</b>
1981	43.0		2,575.0	
1985	60.2	40.2%	3,382.5	31.4%
1990	48.6	-19.4%	3,603.5	6.5%
1995	69.6	-2.6%	4,342.3	-1.5%
1996	81.2	16.6%	4,705.3	8.4%
1997	90.1	11.0%	4,908.8	4.3%
1998	99.9	10.8%	5,585.3	13.8%
1999	98.5	-1.3%	5,922.8	6.0%
2000	88.7	-10.0%	5,831.8	-1.5%
2001	87.5	-1.4%	6,026.3	3.3%
2002	115.9	32.5%	5,631.0	-6.6%
2003	118.3	2.1%	6,175.0	9.7%
2004	141.7	19.8%	6,778.0	9.8%
2005	148.6	4.9%	7,076.0	4.4%
2006	128.1	-13.8%	6,478.0	-8.5%
2007	122.4	-4.4%	5,652.0	-12.8%
2008	103.8	-15.2%	4,913.0	-13.1%
2009	107.8	3.9%	5,156.0	4.9%
2010	105.3	-2.3%	4,908.0	-4.8%
2010.QIII	86.0		4,170.0	
2011.QIII	96.4	12.1%	4,880.0	17.0%

**Change in Existing Home Sales - Annual and Latest Quarter  
Massachusetts and the United States**



SOURCES: National Association of Realtors. Federal Reserve Bank of Boston; p-preliminary.

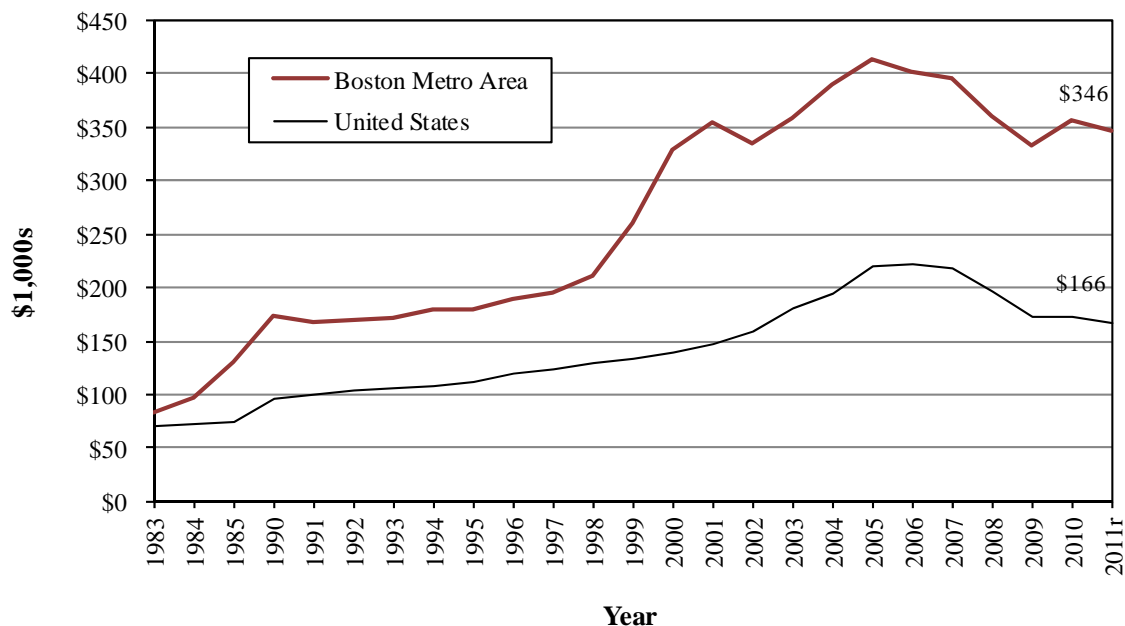
**Home prices.** Prices had been declining in the Boston metropolitan area since 2006 but increased in 2010. The median price in the Boston areas is two times the national median.

**Median Sales Price for Existing Single-Family Homes**

*(quarterly price not seasonally adjusted, price in thousands)*

Year	Boston Metro Area	United States	Boston Prices as a Percent of the U.S.	Boston Percent Change	U.S. Percent Change
1985	\$177	\$86	205.7%	11.6%	7.0%
1990	\$171	\$104	164.6%	1.2%	4.2%
1995	\$195	\$124	157.1%	3.0%	4.0%
1996	\$212	\$130	162.9%	8.9%	5.1%
1997	\$261	\$133	196.2%	23.1%	2.2%
1998	\$330	\$138	238.3%	26.4%	4.1%
1999	\$355	\$146	242.4%	7.6%	5.8%
2000	\$335	\$158	212.1%	-5.5%	8.0%
2001	\$359	\$180	198.9%	6.9%	14.0%
2002	\$390	\$195	199.6%	8.7%	8.3%
2003	\$413	\$219	188.7%	6.0%	12.2%
2004	\$402	\$222	181.3%	-2.7%	1.3%
2005	\$396	\$218	181.6%	-1.6%	-1.8%
2006	\$361	\$197	183.7%	-8.7%	-9.8%
2007	\$333	\$172	193.3%	-7.9%	-12.5%
2008	\$357	\$173	206.4%	7.4%	0.6%
2009	\$346	\$166	208.3%	-3.1%	-4.0%
2010	\$357	\$173	206.4%	3.2%	4.2%
2011r	\$346	\$166	208.3%	-3.1%	-4.0%
2011.I	\$322	\$159	203.0%	-7.0%	-4.5%
2012.I p	\$312	\$158	197.0%	-3.3%	-0.4%

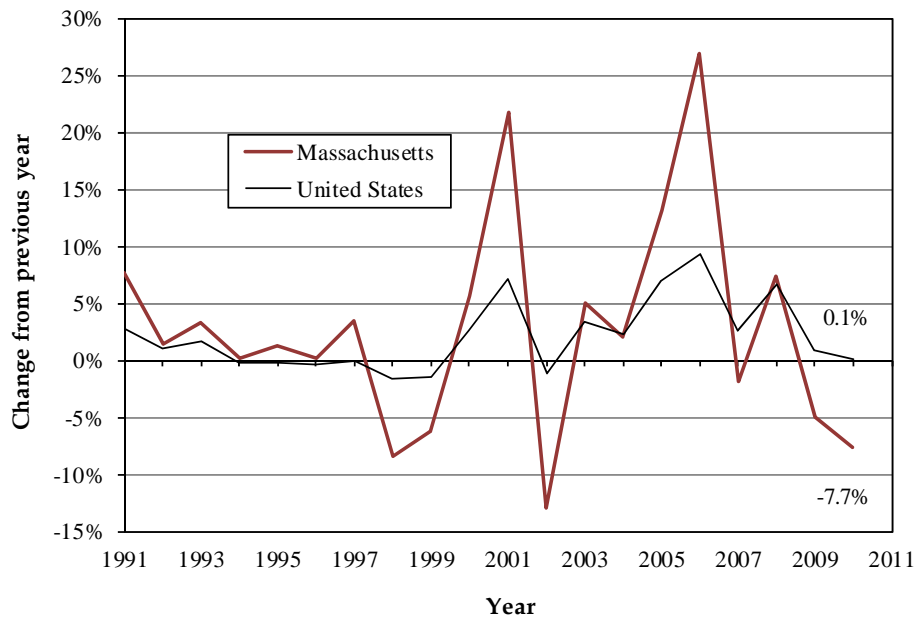
**Median Sales Price, Existing Single-Family Homes  
U.S. and Boston Metropolitan Area**



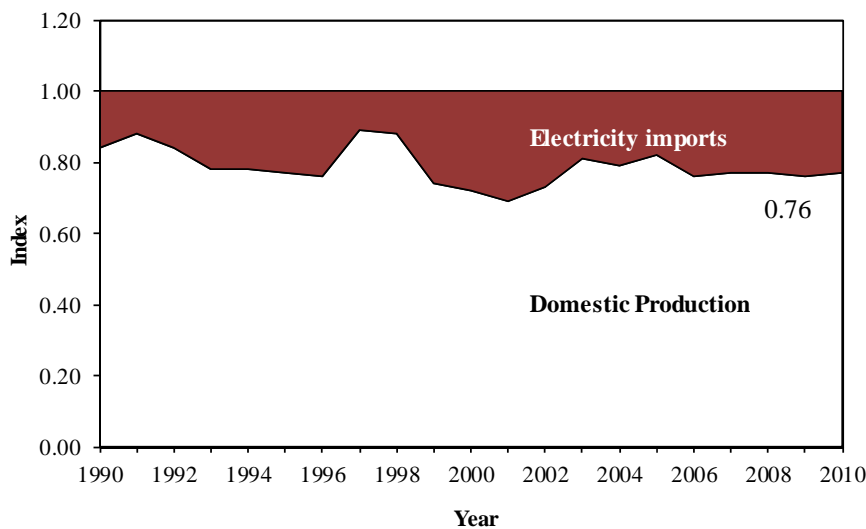
SOURCES: National Association of Realtors. Federal Reserve Bank of Boston; p= preliminary, r=revised.

**Electricity Prices, Supply and Capacity by Source.** Massachusetts had the seventh highest electric rate in the country in 2010, 14.26 cents per kilowatt hour, while the U.S. average was 9.83. This was a decrease of 7.7 percent for Massachusetts and an increase of 0.1 percent for the U.S. from the previous year. Massachusetts electric utilities generated \$8.1 billion in revenue in 2010. This was 3.0 percent less than in 2009, while they sold 5.1 percent more electricity. Massachusetts's latest reported average combined electric rate, year-to-date April 2012, has increased 0.9 percent compared to the same period last year 2011 to 14.04 cents per kilowatt hour. The Massachusetts Net Electricity Trade Index, which represents the state's electricity self-sufficiency, was 0.77 in 2010. This means that Massachusetts imported 23 percent of its electricity supply, 14,030 million kilowatt hours, from out-of-state. In 2010, two-thirds of Massachusetts generating capacity was oil and natural gas based.

**Electricity - Average Retail Price  
Cents/KWh**

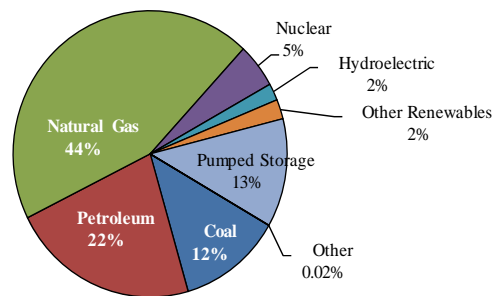


**The Massachusetts Electricity Supply - Net Trade Index  
(Massachusetts currently imports a quarter of its electricity)**

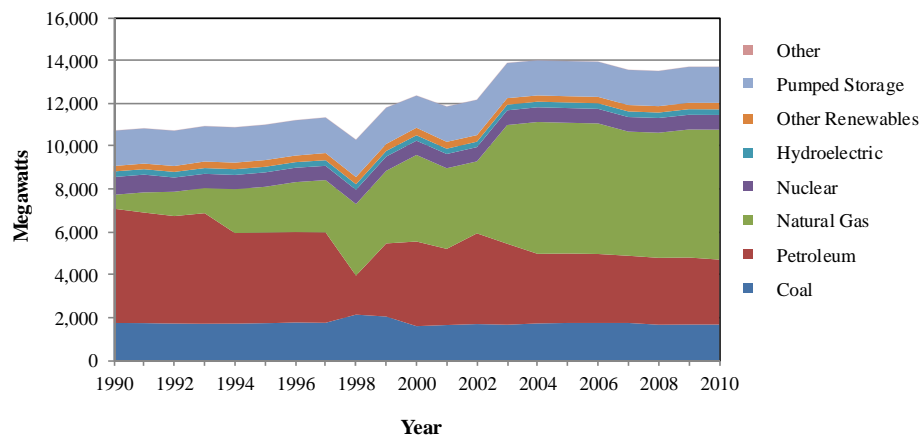


SOURCE: U.S. Dept. of Energy, <http://www.eia.doe.gov/>: state electricity profiles

### Electric Power by Primary Energy Source 2010



### Electric Power Net Summer Capacity 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 12.4 percent increase in museum and attraction attendance, 12.4 million visitors, in calendar year 2011, compared to 2010. For FY2012 March YTD net room occupancy tax collections totaled \$137.4 million, an 9.2% increase from FY2011.

**Transportation and Warehousing.** Massachusetts' major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Based on total passenger volume in calendar year 2011 data, Logan Airport was the most active airport in New England, remaining the 19th most active in the U.S. according to the Federal Aviation Authority. Massport reported that as of May 2012, total airport flight operations were down 0.6 percent and total airport passengers were up 3.3 percent from the same period in 2011. According to the FAA, in calendar year 2011, Logan Airport ranked 29th in the nation in total air cargo volume. In 2011, the airport handled 530 million pounds of cargo; a 3.1 percent decrease from 2010. Massport also reported that as of May 2012, the combined cargo volume was down 2.9 percent and total express mail was down 1.2 percent from the same period in 2011. Please refer to the Aviation Activity charts on the following page.

At Massport's Port of Boston properties, 2011 total cargo throughput was 11.5 million metric tons, a 3 percent decrease from 2010. Automobile processing decreased 11 percent to 37,242 units, and cruise passenger trips decreased 4 percent to 310,238. Total containerized cargo at public and private terminals increased 16 percent to 1.4 million metric tons.

The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2010 decreased by 9.4 percent to 22.7 million short tons from 2009. Waterborne cargo in New England decreased 7.4 percent while the U.S. increased 10.8 percent. Please refer to the Waterborne Tonnage by State charts on the following page.

**Aviation Activity for Massachusetts' Primary Airports**

<b>Passenger Boardings</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>
General Edward Lawrence Logan International	12,758,020	13,214,923	13,544,552	13,783,297	12,820,489	12,566,797	13,561,814	14,171,476
Nantucket Memorial	243,313	252,757	276,866	282,197	258,214	204,981	201,390	164,032
Barnstable Municipal-Boardman/Polando Field	167,522	177,761	206,980	204,152	191,906	138,858	124,560	87,739
Worcester Regional	1,274	2,036	14,823	460	3,182	17,241	35,833	53,538
Laurence G Hanscom Field	17,049	13,887	14,560	16,568	8,385	7,350	7,952	9,160
Marthas Vineyard	49,480	48,977	45,881	49,205	45,002	42,248	43,904	49,093
New Bedford Regional	19,686	17,960	15,211	14,567	13,908	11,680	12,363	11,152
Provincetown Municipal	11,424	10,236	11,375	12,459	11,468	10,747	11,450	10,967
<b>Total</b>	<b>13,267,768</b>	<b>13,738,537</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>14,557,157</b>

<b>Cargo - Gross Landed Weight (lbs.)</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>
General Edward Lawrence Logan International	1,172,103,700	1,148,881,400	1,100,485,850	1,059,947,900	984,258,400	835,954,035	817,235,460	819,986,332

**Change in Aviation Activity at Massachusetts' Primary Airports**

<b>Passenger Boardings</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>
General Edward Lawrence Logan International	15.1%	3.6%	2.5%	1.8%	-7.0%	-2.0%	7.9%	4.5%
Nantucket Memorial	6.1%	3.9%	9.5%	1.9%	-8.5%	-20.6%	-1.8%	-18.6%
Barnstable Municipal-Boardman/Polando Field	5.8%	6.1%	16.4%	-1.4%	-6.0%	-27.6%	-10.3%	-29.6%
Worcester Regional	-43.0%	59.8%	628.0%	-96.9%	591.7%	441.8%	107.8%	49.4%
Laurence G Hanscom Field	-12.0%	-18.5%	4.8%	13.8%	-49.4%	-12.3%	8.2%	15.2%
Martha's Vineyard	-6.7%	-1.0%	-6.3%	7.2%	-8.5%	-6.1%	3.9%	11.8%
New Bedford Regional	-6.7%	-8.8%	-15.3%	-4.2%	-4.5%	-16.0%	5.8%	-9.8%
Provincetown Municipal	-3.2%	-10.4%	11.1%	9.5%	-8.0%	-6.3%	6.5%	-4.2%
<b>Total</b>	<b>14.5%</b>	<b>3.5%</b>	<b>2.9%</b>	<b>1.6%</b>	<b>-7.0%</b>	<b>-2.6%</b>	<b>6.2%</b>	<b>5.4%</b>

<b>Cargo</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>
General Edward Lawrence Logan International	-2.3%	-2.0%	-4.2%	-3.7%	-7.1%	-15.1%	-2.2%	0.3%

SOURCE: Federal Aviation Administration July 2012.

[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>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
U.S. total	2,386,558	2,340,292	2,394,199	2,551,939	2,527,622	2,588,440	2,563,972	2,477,094	2,210,752	2,334,399
Massachusetts	26,446	26,117	30,655	31,787	28,812	27,411	28,043	25,993	25,018	22,661
Maine	30,586	29,140	31,698	32,447	32,353	28,103	26,839	24,747	22,996	20,907
Connecticut	18,267	17,610	18,579	20,075	19,617	19,340	20,148	18,196	16,767	16,229
Rhode Island	9,170	8,437	9,417	9,764	10,972	11,016	11,184	10,517	8,404	8,315
New Hampshire	4,447	4,108	4,971	4,795	5,254	4,823	4,026	3,833	3,583	2,964
Vermont	0	0	0	0	0	0	0	0	0	0
New England	88,916	85,412	95,320	98,868	97,008	90,693	90,240	83,286	76,768	71,076

**Waterborne Tonnage by State - Percent Change from Previous Year**

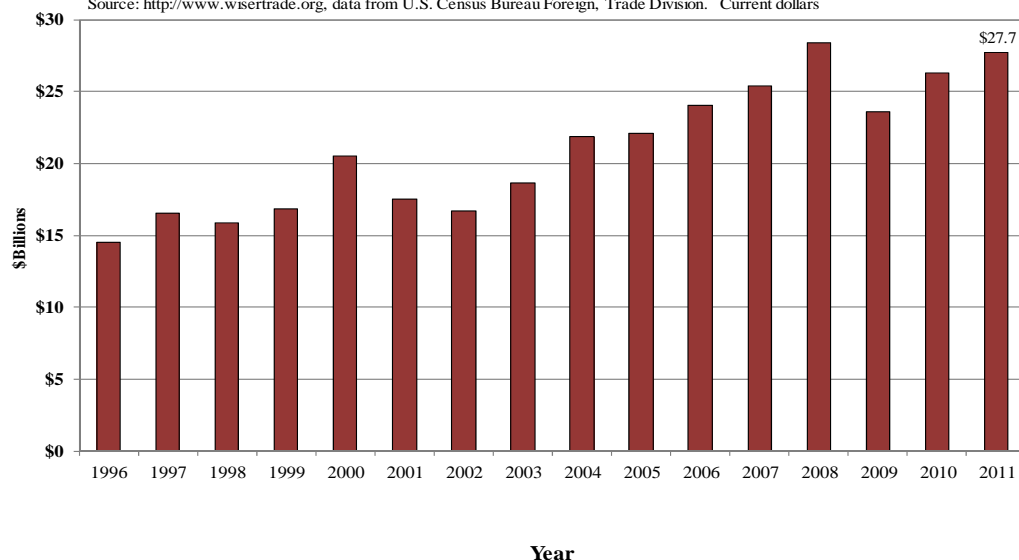
<b>State</b>	<b>2001-2002</b>	<b>2002-2003</b>	<b>2003-2004</b>	<b>2004-2005</b>	<b>2005-2006</b>	<b>2006-2007</b>	<b>2007-2008</b>	<b>2008-2009</b>	<b>2009-2010</b>
U.S. total	-1.9%	2.3%	6.6%	-1.0%	2.4%	-0.9%	-3.4%	-10.8%	5.6%
Massachusetts	-1.2%	17.4%	3.7%	-9.4%	-4.9%	2.3%	-7.3%	-3.8%	-9.4%
Maine	-4.7%	8.8%	2.4%	-0.3%	-13.1%	-4.5%	-7.8%	-7.1%	-9.1%
Connecticut	-3.6%	5.5%	8.1%	-2.3%	-1.4%	4.2%	-9.7%	-7.9%	-3.2%
Rhode Island	-8.0%	11.6%	3.7%	12.4%	0.4%	1.5%	-6.0%	-20.1%	-1.1%
New Hampshire	-7.6%	21.0%	-3.5%	9.6%	-8.2%	-16.5%	-4.8%	-6.5%	-17.3%
Vermont	-	-	-	-	-	-	-	-	-
New England	-3.9%	11.6%	3.7%	-1.9%	-6.5%	-0.5%	-7.7%	-7.8%	-7.4%

SOURCE: Army Corps of Engineers, Waterborne Commerce Statistics Center (WCSC) January 2012.

<http://www.iwr.usace.army.mil/ndc/wcsc/wcsc.htm>

### Massachusetts's Annual Exports

Source: <http://www.wisertrade.org>, data from U.S. Census Bureau Foreign, Trade Division. Current dollars



### Massachusetts Top Export Partners

(top ten export destinations ranked by value of 2011 exports, in millions)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Canada	\$2,711	\$2,646	\$2,917	\$2,927	\$3,166	\$3,480	\$3,907	\$3,086	\$3,242	\$3,733
United Kingdom	\$1,579	\$1,430	\$1,508	\$1,628	\$1,972	\$2,306	\$3,504	\$4,049	\$3,213	\$3,179
China	\$385	\$572	\$894	\$884	\$1,291	\$1,375	\$1,563	\$1,372	\$2,194	\$2,089
Germany	\$1,198	\$1,599	\$2,516	\$2,151	\$2,515	\$2,370	\$2,489	\$1,750	\$1,872	\$2,050
Japan	\$1,598	\$1,635	\$1,814	\$1,893	\$2,287	\$2,166	\$2,427	\$1,717	\$2,045	\$2,035
Mexico	\$569	\$702	\$755	\$782	\$824	\$996	\$1,163	\$902	\$1,272	\$1,434
Netherlands	\$1,054	\$1,759	\$2,505	\$3,000	\$2,696	\$2,215	\$2,675	\$1,982	\$1,695	\$1,104
Korea, Republic Of	\$471	\$558	\$650	\$803	\$875	\$821	\$666	\$624	\$893	\$1,026
Taiwan	\$512	\$528	\$951	\$798	\$749	\$1,018	\$709	\$619	\$906	\$957
Hong Kong	\$382	\$496	\$523	\$507	\$561	\$579	\$590	\$525	\$668	\$769
Total Exports, Top Destinations	\$10,459	\$11,926	\$15,033	\$15,371	\$16,937	\$17,326	\$19,694	\$16,625	\$18,000	\$18,379
All other countries	\$6,246	\$6,726	\$6,866	\$6,681	\$7,120	\$8,026	\$8,675	\$6,968	\$8,303	\$9,332
Total Exports	\$16,705	\$18,652	\$21,899	\$22,052	\$24,057	\$25,351	\$28,369	\$23,593	\$26,304	\$27,711
Change from Prior Year	-4.5%	11.7%	17.4%	0.7%	9.1%	5.4%	11.9%	-16.8%	11.5%	5.4%

### Value of International Shipments from Massachusetts

(top ten industry groups ranked by value of latest exports, in millions)

Major Industry Group/3-Digit NAICS	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Computer And Electronic Products	\$7,022	\$7,688	\$7,519	\$7,012	\$7,513	\$7,711	\$7,821	\$6,600	\$7,488	\$7,708
Machinery, Except Electrical	\$1,788	\$1,672	\$2,447	\$2,311	\$2,739	\$2,881	\$2,615	\$2,008	\$3,462	\$3,652
Chemicals	\$2,259	\$3,216	\$4,910	\$5,285	\$5,189	\$5,258	\$5,515	\$3,863	\$3,620	\$3,354
Miscellaneous Manufactured Commodities	\$1,211	\$1,571	\$1,930	\$2,114	\$2,240	\$2,319	\$3,120	\$2,737	\$3,046	\$3,190
Primary Metal Manufacturing	\$247	\$425	\$423	\$405	\$647	\$982	\$2,052	\$2,735	\$2,398	\$2,688
Waste And Scrap	\$190	\$184	\$326	\$330	\$597	\$849	\$1,373	\$666	\$654	\$1,096
Transportation Equipment	\$346	\$379	\$461	\$485	\$557	\$932	\$1,237	\$1,107	\$1,059	\$1,084
Fabricated Metal Products, Nesoi	\$691	\$534	\$621	\$664	\$679	\$615	\$721	\$605	\$809	\$863
Plastics And Rubber Products	\$407	\$375	\$404	\$470	\$530	\$582	\$587	\$563	\$748	\$809
Electrical Equipment, Appliances, And Component	\$649	\$592	\$752	\$810	\$871	\$769	\$624	\$508	\$557	\$677
Total Exports, Top Massachusetts Industries	\$14,809	\$16,636	\$19,792	\$19,884	\$21,563	\$22,899	\$25,664	\$21,392	\$23,841	\$25,121
All other exports	\$1,896	\$2,016	\$2,107	\$2,168	\$2,494	\$2,453	\$2,705	\$2,202	\$2,463	\$2,590
Total Exports	\$16,705	\$18,652	\$21,899	\$22,052	\$24,057	\$25,351	\$28,369	\$23,593	\$26,304	\$27,711

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 the UMass Donahue Institute Economic and Public Policy Unit Tel: 413-545-0001 Email: di.eppr@umassp.edu

## **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/regional/index.htm>

**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.iwr.usace.army.mil.ndc/>

**Federal Reserve Bank of Boston**

<http://www.bos.frb.org>

**U.S. Department of Commerce**

<http://www.census.gov>

**National Association of Realtors; Federal Reserve Bank of Boston**

<http://www.bos.frb.org/economic/nee/neeidata.htm>

**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.iese.org>

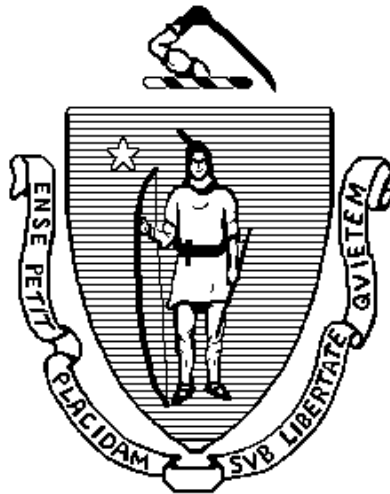
**U.S. Patent Office**

<http://www.uspto.gov>



# Exhibit B

# Commonwealth of Massachusetts



## Statutory Basis Financial Report

*For the Fiscal Year Ended June 30, 2011*

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)

View from the Boston Harbor Walk at the John Joseph Moakley Courthouse looking towards Deer Island

Photography by Vinh Nguyen, Wing Chan and Jim Guan, staff of the Office of the Comptroller

# Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2011

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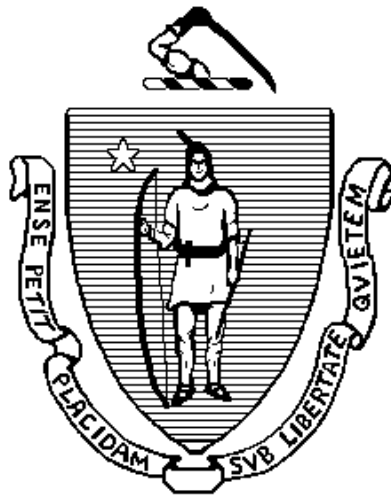
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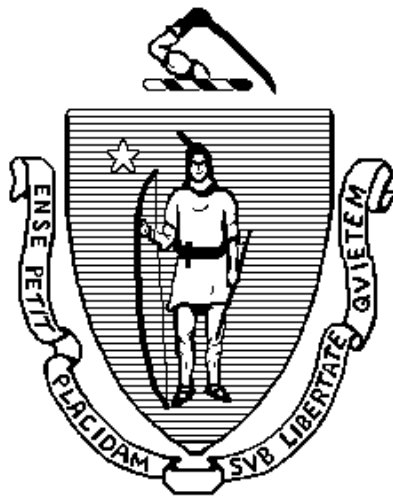
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# *Introductory Section*



Comptroller's Letter of Transmittal  
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Advisory Board to the Comptroller  
Acknowledgements



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

*November 2, 2011*

*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, 2011 (FY11).

This SBFR, reflecting a legislative change enacted during FY09, is in a streamlined format. In addition, the change calls for the report to be reviewed and not audited. It is important to note that the Comprehensive Annual Financial Report (CAFR) remains audited. This means the underlying activity in the SBFR report receives the same audit coverage but through a streamlined process. The SBFR focuses on the budgeted operations of the Commonwealth, without changing processes and procedures on the other funds. The important Stabilization Fund calculation and supporting schedules are included in this report and are found in the supplemental information section. The non-budgeted special revenue and capital projects funds are presented in tabular format, which we believe simplifies the presentation of the Commonwealth's financial operations.

As of June 30, 2011, the Commonwealth had a budgeted fund balance of approximately \$1.901 billion and completed the fiscal year with a consolidated net surplus sufficient to meet statutory requirements for \$103.9 million to be carried forward and reserved as undesignated in FY12 (1/2 of 1% of FY11 tax revenue collections), a total deposit of approximately \$699 million to the Stabilization Fund (also known as the "Rainy Day Fund"), and \$10 million to be transferred to the Life Sciences Fund. (In addition, \$10.7 million in investment earnings accrued to the Stabilization Fund in FY11.) The total budgeted fund balance of \$1.901 billion represents a budgetary gain (a surplus of revenues and other sources over expenditures and other uses) of approximately \$998 million, added to the FY11 beginning balance of \$903 million. The increase in the total fund balance reflects an FY11 surplus resulting from growth in tax revenues due primarily to a recovering economy and stock market and certain changes in federal tax law that resulted in higher non-withheld tax revenues. Of the total budgeted fund balance, \$1.379 billion is reserved in the Stabilization Fund, compared to a balance of over \$2.3 billion in 2007 before the recession began and \$670 million at the end of FY10, after three fiscal years in which Stabilization Fund revenue was used to offset the impacts of the recent economic downturn. At the end of FY11, \$400 million is reserved for continuing appropriations and debt service into fiscal year 2012. The remaining undesignated balance of \$122 million is made up of the statutorily required carryforward and other smaller fund balances.

In FY11, the Commonwealth also used \$2.4 billion in funds it received from the federal ARRA funds (with about \$1.3 billion of that revenue



being in the budgetary funds); in FY12, ARRA funds are expected to decline to less than \$400 million, with no ARRA revenues expected to be available for the Commonwealth's budgeted funds in FY12.

During FY11, budgeted fund tax revenues increased by \$1.924 billion, or 11.2% from FY10. Income taxes increased by \$1.487 billion, or 14.7% from FY10, due mainly to a recovering economy and taxes received from capital gains resulting from rising asset markets. Sales and use taxes increased by \$295 million, or 6.4%, but by only 3.7% after taking into account the full year impact of an increase in the sales tax rate that was in effect for only 10 months of FY10.

The FY 11 results reflect the full year impact of two changes made part way through FY10: the consolidation of the Commonwealth's transportation agencies and the transfer of seven county sheriffs to state government.

In FY11, there were approximately \$2.0 billion in one-time spending reductions and revenue increases, down from approximately \$2.5 billion in FY10. Significant FY11 one-time events include:

- A total of \$1.55 billion in federal stimulus funds, \$1.25 billion of which was from increased Medicaid reimbursements, \$200 million of which was from increased education funding and \$101 million was from special education savings realized as a result of federal stimulus funds under the Individuals with Disabilities Education Act (IDEA) Program;
- \$100 million in savings from debt service restructuring;
- \$25 million in revenue from transfers to the General Fund by quasi-public agencies;
- \$59 million in revenue from transfers to the General Fund from inactive trust funds;
- One-time tax settlement revenues of approximately \$172 million. (For FY12 new legislation requires that all one-time tax and non-tax settlements exceeding \$10 million will be deposited in the Commonwealth's Stabilization Fund. As of October 2011, \$71 million in one-time settlement revenue had already been deposited in the Stabilization Fund in FY12.)

During FY11, the Commonwealth also transferred \$9.0 million in investment income earned by the Stabilization Fund to the General Fund, but per statute this amount was transferred back to the General Fund from the Temporary Holding at the end of FY11. Thus, no net Stabilization Fund reserves were used in FY11.

As the Commonwealth continued its emergence from recession (which, according to the National Bureau of Economic Research – the official arbiter of when recessions start and end in the United States – ended nationally in June 2009), employment in the Commonwealth continued to grow in FY11. Between June 2010 and June 2011, on a seasonally adjusted basis, Massachusetts employment grew by 49,000, or 1.5%, compared to an employment growth of 0.8% for the United States as a whole, and in June 2011 the Massachusetts unemployment rate was 7.6%, compared to 9.2% nationally.

The General Appropriation Act for FY12 was based on a budgeted revenue estimate of approximately \$30.4 billion, of which approximately \$17.7 billion represented taxes available for budget after adjusting for \$2.9 billion in tax revenue that is allocated for state pension contributions and sales tax revenue dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority. As of September 30, 2011, FY12 tax collections were \$193 million above the year-to-date benchmark based on the \$17.7 billion estimate, although \$71 million of this amount was due to one-time tax settlements, which under legislation effective July 1, 2011, was transferred to the Stabilization Fund in October 2011 and is therefore not available for use in the budgeted funds in FY12 without a specific appropriation. On October 17, 2011 the Executive Office for Administration and Finance raised the FY12 tax revenue estimate of taxes available for budget by \$395 million, to \$18.1 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 fairly the results of FY11 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 Government Accounting Standards Board (GASB). 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 December CAFR according to GAAP. The major differences are that the CAFR reflects depreciation expense, all types of long-term obligations –including debt on the face of the financial statements – and that in the CAFR the financial statements are presented in an all-encompassing, net assets and net expense format.

In accordance with Section 12 of Chapter 7A of the Massachusetts General Laws, as amended, the Office of the Comptroller transmits the

SBFR on October 31<sup>st</sup>. The SBFR for the fiscal year ended June 30, 2011 herein is reviewed, not audited, by KPMG LLP and represents the closing of the Commonwealth's books for the fiscal year. The review is conducted in conjunction with the Office of the State Auditor, which provides knowledge, expertise and resources to review the financial statements.

**American Recovery and Reinvestment Act  
Expenditures of Federal Award Activity for FY2010 and FY2011**

**American Recovery and Reinvestment Act (ARRA)**

For the year ended June 30<sup>th</sup>, ARRA funds received by the Commonwealth in all funds (budgetary and non-budgetary) were approximately \$2.4 billion. Medicaid reimbursement percentages were raised due to ARRA, generating \$1.25 billion of increased revenues.

Funding Category	FY2011	FY2010
Agriculture.....	\$ 4,980	\$ 9,332
Department of Defense.....	531	8,885
Housing and Urban Development.....	48,790	29,743
Justice.....	7,410	7,297
Labor.....	145,394	472,714
Transportation.....	191,861	74,422
US Treasury.....	58,802	40,354
National Institute for Arts & Humanities.....	9	339
National Science Foundation.....	225	66
EPA.....	9,838	10,431
Energy.....	75,230	69,193
Education.....	533,091	606,988
Health and Human Services.....	1,304,698	1,452,408
Homeland Security.....	685	670
<b>Total by funding category.....</b>	<b>\$ 2,381,544</b>	<b>\$ 2,782,843</b>
Total budgeted funds.....	\$ 1,268,820	\$ 1,420,705
Total non-budgeted special revenue funds *.....	808,458	857,430
Total capital projects funds.....	1,370	-
Total agency funds.....	3,204	4,207
Total Unemployment Benefits and Other Agency Funds **.....	107,832	426,079
Total Massachusetts Department of Transportation.....	191,861	74,422
<b>Total by fund type.....</b>	<b>\$ 2,381,544</b>	<b>\$ 2,782,843</b>

In many respects ARRA is triggering a re-examination of governmental interaction with its citizens nationwide. ARRA requires heightened scrutiny of processes, policies and procedures, achieving a new level of transparency. The Commonwealth intends to exceed the reporting requirements of ARRA in building a citizen-focused, transparent website to disclose not only ARRA activities, but all federal activities and results, and in FY11 began a staged roll-out of its transparency website. Information can be found at <http://www.mass.gov/recovery> for daily updates on how ARRA is benefiting the Commonwealth.

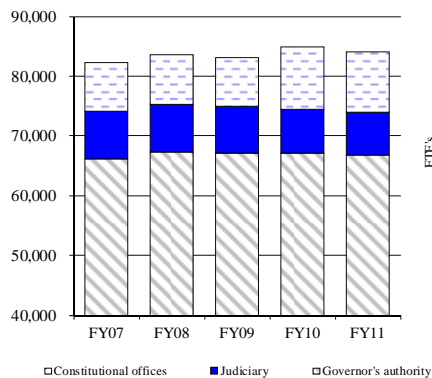
**Lottery**

In FY11 the Commonwealth transferred approximately \$898.9 million in the aggregate to municipalities in so called Unrestricted General Government Aid (formerly called Lottery Aid), of which \$802.2 million was from Lottery profits with the balance supported by the General Fund. This represented a decrease in transfers of approximately \$37.5 million from FY10. Gross Lottery revenues (including the Arts Lottery) increased by approximately \$3 million, from \$4.630 billion in FY10 to \$4.633 billion in FY11.

\* Resulted in expenditure reduction in the General Fund  
\*\* Not included in this report

The FY12 General Appropriation Act contains provisions for \$834.0 million in unrestricted general government aid, a decrease of approximately \$65 million from FY11. However, that same act provided for restoration of up to \$65 million in local aid in FY12, contingent on FY11 reversions. As the reversion threshold was met, the \$65 million in additional local aid was restored using the FY11 surplus, and paid to cities and towns in October 2011.

**Full Time Equivalent Workforce Including Higher Education June 2007 – June 2011**



**Full-Time Equivalent Employment**

The chart to the left shows the Commonwealth's full-time equivalent employment levels over the past five fiscal years. A change in accounting for certain Higher Education employees in FY09 and government reorganizations in FY10 involving the Massachusetts Department of Transportation (MassDOT) and county sheriffs' departments resulted in additional FTEs being transferred to the Commonwealth's payroll system in FY09 and FY10. In FY09, the state switched approximately 2,500 Higher Education employees to the Commonwealth's payroll system. In FY10, approximately 1,330 employees of the former Massachusetts Turnpike Authority and the Tobin Bridge were transferred to MassDOT. Also in FY10, the sheriff

departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk were brought onto the state's accounting and payroll systems, with approximately 2,770 employees. These increases were offset by reductions in state employment due to a combination of employee attrition and layoffs, as the state responded to lower tax revenues caused by the recession. Adjusting for the 6,600 employees brought onto the state payroll system as a result of these accounting changes and reorganizations, state employment levels dropped by a total of 6,166 FTEs between June 30, 2008 and June 30, 2011.

**The Budgeted Funds**

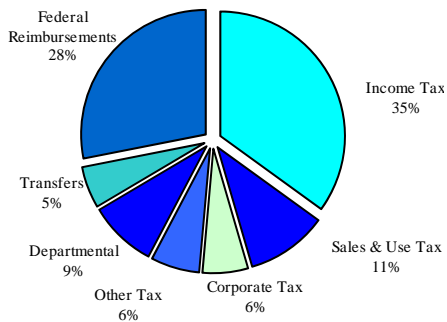
The General Appropriation Act (GAA) authorized approximately \$30.0 billion in spending, exclusive of approximately \$1.44 billion in required pension contributions and \$111 million in FY10 spending authorized to be continued into FY11 as part of final FY10 supplemental budgets.

The FY11 budget as enacted by the Legislature was based on an FY11 tax revenue estimate of \$19.098 billion, including \$2.853 billion in tax revenue allocated to the Massachusetts Bay Transportation Authority (\$767 million), the School Modernization And Reconstruction Trust Fund (\$646 million) and the Pension Reserves Investment Trust Fund (\$1.44 billion). Net of these allocations, tax revenue available for budget was \$16.245 billion. This estimate was subsequently revised downward by \$20 million soon after the fiscal year began due to the enactment of a sales tax holiday. The \$19.098 billion estimate reflected the FY11 consensus tax estimate of \$19.051 billion adjusted for the impact of tax law changes enacted as part of the FY11 budget. The FY11 tax revenue estimate was revised upward to \$19.784 billion on January 2011 as tax revenues had performed above benchmark in the first half of FY11.

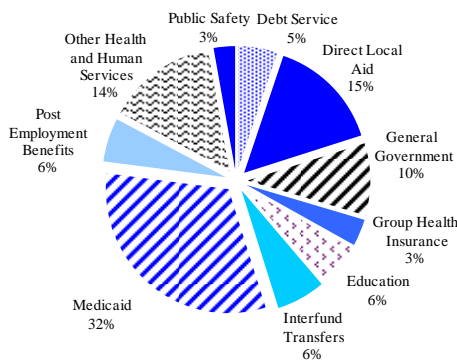
At the time the Governor signed the FY11 budget in July 2010, it was unknown whether the federal government would enact legislation extending through FY11 higher Medicaid reimbursements under ARRA. Historically, those reimbursements were at a rate of 50% of state expenditures for Medicaid, but had been raised to 61.59% through June 30, 2010. Responding to this uncertainty, the Legislature included in the FY11 General Appropriation Act alternative funding levels for most line items, reflecting spending with and without the additional ARRA revenue. The Governor vetoed the additional funding authorizations, but once federal legislation authorizing the higher federal Medicaid reimbursements (totaling \$499 million) was enacted in August 2010, the Governor filed supplemental budgets to restore the vetoed funding. In response to the federal ARRA increases, supplemental appropriations totaling approximately \$419 million were enacted in October 2010, \$327 million of which was for MassHealth, the state's Medicaid program.

Approximately \$1.511 billion in supplemental appropriations were authorized during FY11 prior to June 30, 2011. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$135 million in new FY11 appropriations, all of which were continued to FY12 and reappropriated. Besides the appropriations that restored federal funding, the year's significant supplemental appropriation activity included approximately:

**Budgeted Revenues and Other Sources**



**Budgeted Expenditures and Other Uses**



- \$494 million for payments to hospitals through the Medical Assistance Trust Fund (which were largely offset through corresponding federal Medicaid revenue);
- \$261 million for additional MassHealth payments;
- \$50 million for snow and ice removal, in response to the severe storms of winter 2010-2011;
- \$46 million for family shelters;
- \$41 million for additional private counsel compensation for indigent clients;
- \$30 million for labor agreement settlements with court employees;
- \$25 million for underground storage tank grants;
- \$20 million for health care costs for immigrants with legal status;
- \$18 million for prison facilities operations;
- \$15 million to pay for the cleanup costs of the June 2011 hurricane.

Budgeted revenues and other sources (before transfers between the budgeted funds, which are included in both spending and revenue, and thus have no effect on fund balances) grew by \$2.8 billion, or 9.1%, in FY11. Revenue growth was due to strong tax revenue collections, as taxes available for budget grew by \$1.9 billion, or 11.2%, and higher federal reimbursements, which were up \$751 million, or 8.8%, primarily the result of increased spending on the state's federally reimbursable Medicaid, or MassHealth, program.

Budgeted expenditures and other uses, including transfers to non-budgeted funds, increased by \$1.65 billion, or 5.4%, from FY10. Most of the growth in budgeted expenditures and other uses resulted from an increase in transfers to non-budgeted funds, which grew from \$1.04 billion in FY10 to \$2.06 billion in FY11, with \$680 million of growth resulting from higher transfers to non-budgeted health care funds and most of the remainder due to a change in the way the Commonwealth's transfers to MassDOT were reported.

Programs and services grew by \$740 million, or 2.9%. Medicaid expenditures grew by \$951 million, or 10.2%, from \$9.286 billion in FY10 to \$10.237 billion in FY11. On net, other program and service spending fell due to program cuts.

Spending for direct local aid decreased by \$53 million, or 1.1%, due to reductions in unrestricted local aid. Debt service decreased by \$196 million, or 10.5%, due to debt restructuring as authorized by the Legislature in FY11, lower than projected interest rates and the timing of certain debt issues. Post-employment benefit costs increased by \$90 million, or 5.2%.

The Budgeted Funds – Operations table on page 7 displays the FY11 summary of budgeted funds compared to FY10. The FY11 financial statements for each of the seven individual budgeted funds are included in the financial section of this report.

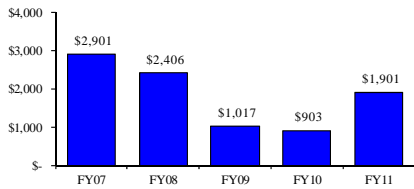
In conducting the budget process, the Commonwealth excludes from its forecast those “interfund” transactions within the budgeted funds that are included in this report; these transactions by their nature have no impact on the combined fund balance of the budgeted funds. The table Budgeted Funds – Operations 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 FY11, transfers among the Budgeted Funds increased primarily as a result of transfers to and from the Temporary Holding Fund, into which tax revenues in excess of certain growth limits are deposited, but then returned to the General and Stabilization Funds at the end of the fiscal year. Interfund transfers also increased due to the deposits in the Stabilization Fund at year-end. 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)**

	2010	2011
Beginning fund balances:		
Reserved and designated.....	\$ 68,856	\$ 121,959
Reserved for Stabilization Fund.....	841,344	669,803
Undesignated.....	106,436	111,306
Total.....	1,016,636	903,068
Revenues and other sources:		
Taxes.....	17,171,378	19,094,935
Federal reimbursements.....	8,548,836	9,299,546
Departmental and other revenues.....	2,800,917	2,912,270
Interfund transfers from non-budgeted funds and other sources.....	1,788,885	1,768,582
Budgeted revenues and other sources.....	30,310,016	33,075,333
Intragovernmental Service Fund revenues.....	239,252	286,079
Interfund transfers among budgeted funds and other sources.....	531,529	3,174,854
Total revenues and other sources.....	31,080,797	36,536,266
Expenditures and other uses:		
Programs and services.....	25,776,277	26,515,830
Debt service.....	1,859,641	1,663,876
Post Employment Benefits.....	1,748,619	1,838,857
Interfund transfers to non-budgeted funds and other uses.....	1,039,047	2,059,019
Budgeted expenditures and other uses.....	30,423,584	32,077,582
Intragovernmental Service Fund expenditures.....	239,252	286,079
Interfund transfers among budgeted funds and other uses.....	531,529	3,174,854
Total expenditures and other uses.....	31,194,365	35,538,515
Excess (deficiency) of revenues and other sources over expenditures and other uses.....	(113,568)	997,751
Ending fund balances:		
Reserved and designated.....	121,959	400,061
Reserved for Stabilization Fund.....	669,803	1,379,071
Undesignated.....	111,306	121,687
Total.....	\$ 903,068	\$ 1,900,819

**Budgeted Funds – Fund Balance  
(Amounts in Millions)**



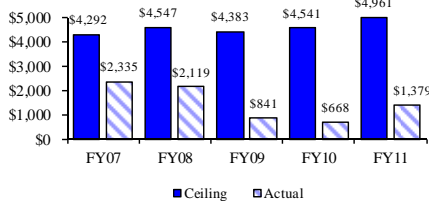
The graph of Budgeted Funds – Fund Balance on this page portrays the combined fund balance in the budgeted funds for the past five years.

At June 30, 2011, the ending balance is comprised mainly of the statutory fund balance of the General Fund and the Stabilization Fund. Due to designations of fund balances, \$400 million of the total budgeted fund balance, exclusive of stabilization, is reserved for appropriations and debt service in FY12. The remainder is undesignated.

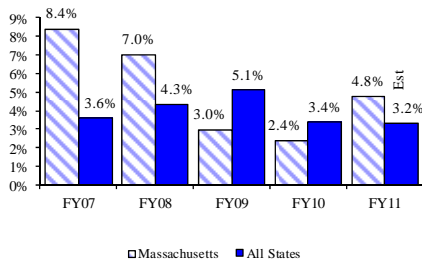
**The Stabilization Fund**

As states around the country are struggling with ongoing fiscal difficulties, the importance of the Stabilization Fund cannot be overstated. Although state fiscal conditions improved during FY11, according to the National Association of State Budget Officers' (NASBO) publication *The Fiscal Survey of the States: Spring 2011*, 23 states made mid-year budget cuts of \$7.8 billion to maintain budget balance. That was an improvement from FY10, when 39 states made \$18.3 billion in mid-year budget cuts and from fiscal 2009, when 43 states made mid-year cuts totaling \$31.3 billion. In addition to the \$7.8 billion in mid-year budget cuts in fiscal 2011, six states enacted \$3.6 billion in mid-year tax and fee increases. The survey showed states reduced or eliminated budget gaps during FY11 by increasing taxes and fees, laying off and furloughing personnel, offering early retirement incentives, instituting across-the-board or targeted cuts and reorganizing operations. As tax revenue collections improved in the Commonwealth in FY11, Massachusetts was able to avoid mid-year spending cuts or enactment of revenue increases and did not draw any revenue from the Stabilization Fund. (During FY11, the Commonwealth did transfer \$9.0 million of Stabilization Fund investment income to the General Fund, but that revenue was returned to the Stabilization Fund from the Temporary Holding Fund at the end of FY11 prior to the calculation of the consolidated net surplus.) In addition, the FY12 General Appropriation Act provided for \$10 million to be transferred to the Massachusetts Life Sciences Fund at the end of FY11. After that transfer and statutorily required transfers of \$104 million and \$350 million to the Stabilization Fund, a residual balance of \$245 million was deposited in the Stabilization Fund, bringing its balance to \$1.379 billion. For FY12, the General Appropriation Act authorizes that \$200 million be drawn from the Stabilization Fund and mandates that all investment income earned by the Stabilization Fund be transferred to the General Fund. Also, as noted above, the FY12 budget included a law change that directed the Comptroller to deposit in the Stabilization Fund all judgments and settlements exceeding \$10 million. Through October 2011, such deposits in FY12 have totaled \$71 million.

**Stabilization Fund Balance  
(Amounts in Millions)**



**Stabilization Fund Percentage of  
Budget Compared To Other  
States**



The chart on the left shows that the Stabilization Fund balance declined rapidly between FY07 and FY10 as the recession caused declines in revenue, but increased by more than \$709 million in FY11 as the Massachusetts economy recovered and tax revenues grew faster than expected. *The Fiscal Survey of the States* ranked the Commonwealth fourth in the nation in FY10 (the most recent year for which final stabilization fund balances were available for all states) in terms of the balance in the Stabilization Fund. Sixteen states had no stabilization fund balance at the end of FY10. Of the states with over \$10 billion in

General Fund expenditures for FY10, the Commonwealth's Stabilization Fund balance as a percentage of expenditures ranked third in the nation. The FY11 estimates released by NASBO in June 2011 indicate that Massachusetts's Stabilization Fund balance of 4.8% of General Fund expenditures ranked third in the nation and second in the nation for states with over \$10 billion in expenditures. The chart on page 8 shows that Stabilization Fund balances as a percentage of total expenditures in the Commonwealth is now higher than the 3.2% average balance for all states. Because the national calculation is skewed by Alaska and Texas (whose revenue streams have benefited from strong oil revenues in recent years and which together accounted for more than half of all stabilization fund balances in FY10), Massachusetts's relative Stabilization Fund balance compared to other states is stronger than it first appears. A better measure of relative performance is the median percentage of Stabilization Fund balances as a percent of total expenditures, which factors out extreme values. By that measure, Massachusetts's Stabilization Fund balance of 4.8% of expenditures was higher than the estimated national median of 1.1% of expenditures.

### ***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 FY11, the Commonwealth maintained 66 non-budgeted funds, while another six were inactive.

The largest non-budgeted funds in terms of revenues include the Lottery, the Federal Grants Fund and the Commonwealth Care Trust Fund. Other funds that show large inflows have inflows comprised of transfers of taxation and grant receipts. These include the MBTA State and Local Contribution Trust Fund, the School Modernization Trust Fund and the Grant Anticipation Notes Trust Fund. A change from last year's report is that this year's report includes funds under the control of MassDOT, but whose transactions are posted on the Commonwealth's accounting system.

The table Non-Budgeted Funds – Operations below includes a summary of the FY11 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 dedicated to cities and towns of approximately \$802.2 million, slightly above last year's distribution. However, the General Appropriation Act mandated a transfer of Lottery Revenue sharing no less than \$898.9 million, with the difference between that amount and Lottery profits coming from the General Fund.



**Non-Budgeted Funds - Operations**  
(Amounts in thousands)

	<u>2010*</u>	<u>2011</u>
Beginning fund balance (restated).....	\$ 2,389,968	\$ 1,813,232
Revenues and other sources:		
Taxes.....	1,621,109	1,680,656
Assessments.....	572,585	517,048
Federal grants and reimbursements.....	3,940,562	3,779,789
Tobacco settlement revenue.....	263,678	248,741
Departmental and miscellaneous.....	5,157,923	5,587,101
Transfers and other sources.....	1,591,490	2,564,908
Total revenues and other sources.....	<u>13,147,347</u>	<u>14,378,243</u>
Expenditures and other uses:		
Programs and services.....	10,840,416	11,753,930
Debt service.....	249,787	456,797
Transfers and other uses.....	2,633,880	1,996,832
Total expenditures and other uses.....	<u>13,724,083</u>	<u>14,207,559</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses.....	<u>(576,736)</u>	<u>170,684</u>
Ending fund balance (restated).....	<u>\$ 1,813,232</u>	<u>\$ 1,983,916</u>

\* FY10 activity was restated to include operations of three MassDOT funds as reported on MMARS

Non-Budgeted Funds with operating deficits in excess of \$10 million include:

- The Medical Security Trust – a \$62.1 million operating deficit and an ending fund deficit of \$80.7 million. This fund, which provides health insurance for individuals on unemployment insurance, saw its balances depleted due to high rates of unemployment, combined with the extension of eligibility for benefits up to 99 weeks.
- Convention and Exhibition Center Fund – a \$25.8 million operating deficit.
- Central Artery/Tunnel Project Maintenance Trust Fund – a \$14.4 million operating deficit

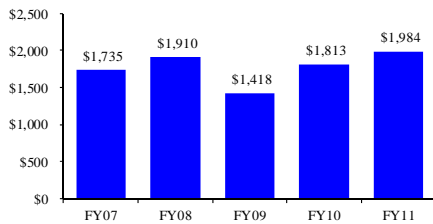
The Health Care Security Trust (HST) continues to report all revenues received from the Master Settlement Agreement (MSA) between the states and the tobacco industry to recover healthcare costs for tobacco-related illnesses. The MSA provides for three sets of payments to the states: Initial Payments 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 \$8.96 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

FY11, the Commonwealth received \$248.7 million, or approximately 67.2% of the estimated amounts shown in the MSA. FY11 tobacco settlement revenue declined by \$14.9 million from FY10 primarily due to a reduction in the volume of cigarettes sold nationwide during calendar year 2010. The FY11 GAA directed all MSA receipts to the General Fund.

Again in FY11, a portion 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). During FY11, additional Federal GANS were issued to finance the Commonwealth’s Accelerated Bridge Repair program as well as to refund already outstanding GANS.

For the Universal Health Care funds, including the Commonwealth Care, Essential Community Provider, Medical Assistance, Health Safety Net and, Medical Security Trust Funds and Catastrophic Illness in Children Relief Fund, all of which are largely related to Health Care Reform, revenues and other financing sources were nearly \$2.5 billion in FY11, an increase of approximately \$800 million from FY10. This growth was due primarily to increased transfers of more than \$100 million to the Commonwealth Care Trust Fund and more than \$570 million to the Medical Assistance Trust Fund, with higher spending in those funds absorbing virtually all of the increased revenue.

***Non-Budgeted Funds –  
Fund Balance\*  
(Amounts in Millions)***



\* FY10 balances were restated to include operations of three MassDOT funds as reported on MMARS

The graph Non-Budgeted Funds - Fund Balance at left shows the combined fund balance in the Non-Budgeted funds for the past five years. Please note that the FY10 balances were restated to include operations of three MassDOT funds as reported on MMARS.

As noted in previous years’ reports, the Government Land Bank Fund has a chronic structural fund deficit. The FY11 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 in the General Fund. As explained in previous years’ financial reports, more consolidation and elimination is needed for the non-budgeted special revenue funds generally.

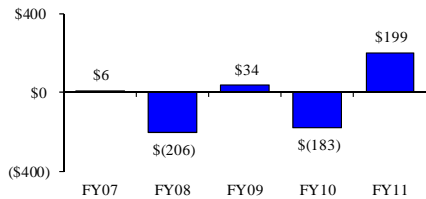
***The Capital Projects Funds***

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) 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 fiscal 2011 capital budget, the Commonwealth borrowed by issuing \$2.06 billion in long-term general obligation bonds, \$1.56 billion of which was for new-money needs, with the remainder for refunding already existing debt. Of the new money issues, \$708 million was issued as Build America Bonds (BABs). The BABs program is a temporary bond program authorized by the federal government as part of the 2009 America Recovery and Reinvestment Act (ARRA). Under the BABs program, issuers borrow by selling bonds into the taxable bond market and receive in return a subsidy from the federal government equal to 35% of the interest costs on the bonds. Given market conditions at the time of the Commonwealth’s two 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, and unless the program is reauthorized by the federal government, no additional BABs will be issued.

**Capital Projects Funds – Fund Balance (Deficit) (Amounts in Millions)\***



\* FY10 balances were restated to include operations of one MassDOT fund as reported on MMARS

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 FY11, the Capital Projects Funds had a \$199 million positive balance, due primarily to lower than projected capital spending. Where the balance in the Capital Projects Funds is positive, prior to allocating bond proceeds to capital spending the funds contain designated reserves or escrows where the Commonwealth is able to legally arbitrage revenues consistent with the provisions of the existing tax code.

The Capital Projects Funds – Operations table on page 14 includes the FY11 Capital Projects Funds, summarized and compared to FY10. Financial statements for each of the individual funds are included in the financial section of this report. This year’s Capital Projects Funds presentation includes MassDOT’s Central Artery Statewide Road and Bridge Infrastructure Fund, which in the FY10 SBFR had part of its activity shown in a separate MassDOT section.

The Administration continues to oversee a coordinated fiscal strategy for the management of Capital Project 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 FY11, significant capital spending included:

- \$290 million in bridge repair projects under the Accelerated Bridge Program. By the end of FY11, the Program had completed 51 projects, with 76 under construction and another 69 in design;
- \$155 million in Chapter 90 municipal road and bridge projects;
- \$95 million to fund the final stages of construction of a new psychiatric facility in Worcester;
- \$56 million invested in the construction phase of three new court projects;
- \$10 million spent for the Broadband Initiative, which invests capital funds to promote broadband expansion to unserved and underserved areas of Massachusetts;
- \$45 million for open-space land protection;
- \$150 million in capital repairs to public housing, of which \$60 million were ARRA funds specifically for weatherization projects;
- \$73.6 million invested in science and technology projects on several state university and University of Massachusetts campuses.

As part of the development of its annual five-year capital plan, the Commonwealth determines the timing and amount of capital spending and borrowing consistent with established debt affordability measures.

During the fiscal year, the Commonwealth passed or agreed to terms to over approximately \$75 million in bond authorizations. There were no de-authorizations of previously issued capital appropriations in FY11. The Commonwealth will determine the timing and extent of capital spending and bonding as part of its five year capital plan.

**Capital Projects Funds - Operations**  
(Amounts in thousands)

	<u>2010*</u>	<u>2011</u>
Beginning fund balance (deficit) (restated).....	\$ 144,559	\$ (182,560)
Revenues and other sources:		
Federal grants and reimbursements.....	18,051	168,912
Departmental and miscellaneous.....	23,665	697
Proceeds of general and special obligation bonds.....	1,671,683	2,305,638
Proceeds of refunding bonds.....	2,544,103	540,200
Transfer for federal reimbursements.....	610,061	458,410
Transfers and other sources.....	<u>261,663</u>	<u>57,856</u>
Total revenues and other sources.....	<u>5,129,226</u>	<u>3,531,713</u>
Expenditures and other uses:		
Acquisition and maintenance of capital assets.....	2,531,591	2,503,311
Payments to refunded bond escrow.....	2,619,322	540,200
Equity Transfer to MassDOT.....	110,348	-
Transfers and other uses.....	<u>195,084</u>	<u>106,404</u>
Total expenditures and other uses.....	<u>5,456,345</u>	<u>3,149,915</u>
Excess (deficiency) of revenues and other sources over expenditures and uses.....	<u>(327,119)</u>	<u>381,798</u>
Ending fund balance (deficit).....	<u>\$ (182,560)</u>	<u>\$ 199,238</u>

\* FY10 activity was restated to include operations of three MassDOT funds as reported on MMARS

***The Non-Appropriated Funds of Higher Education***

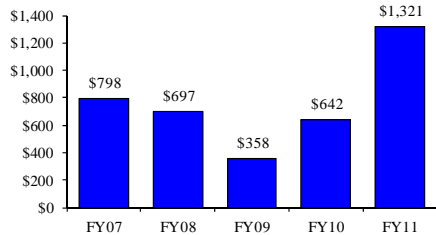
The statistical section of this SBFR includes the financial operations of the non-appropriated funds of the 25 institutions of higher education as reported on MMARS. Each institution of higher education is authorized and directed in its enabling statute to collect, retain and expend certain fees, rents, 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 audited financial statements.

**Non-Appropriated Funds Of Higher Education - Operations**  
(Amounts in thousands)

	2010	2011
Beginning fund balance (restated).....	\$ 357,896	\$ 1,198,102 *
Revenues and other sources:		
Federal grants and reimbursements.....	547,793	627,346
Departmental revenues.....	1,532,550	1,695,310
Transfers and other sources .....	1,643,441	1,618,646
Total revenues and other sources.....	3,723,784	3,941,302
Expenditures and other uses:		
Programs and services.....	3,439,162	3,818,134
Total expenditures and uses.....	3,439,162	3,818,134
Excess (deficiency) of revenues and other sources over expenditures and other uses.....	284,622	123,168
Ending fund balance.....	\$ 642,518	\$ 1,321,270

\* Beginning balance for FY11 was restated due to the reconciliation of prior year balances.

**Non-Appropriated Funds of Higher Education – Fund Balance**  
(Amounts in Millions)



The Non-Appropriated Funds of Higher Education – Operations table includes the FY11 activity in Higher Education funds, summarized and compared to FY10. 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 \$767.6 million fund balance for the University of Massachusetts, an approximate \$281.3 million fund balance for the State University (formerly the State College) system and approximate \$272.3 million fund balance for the Community Colleges.

As we close the books for FY11, 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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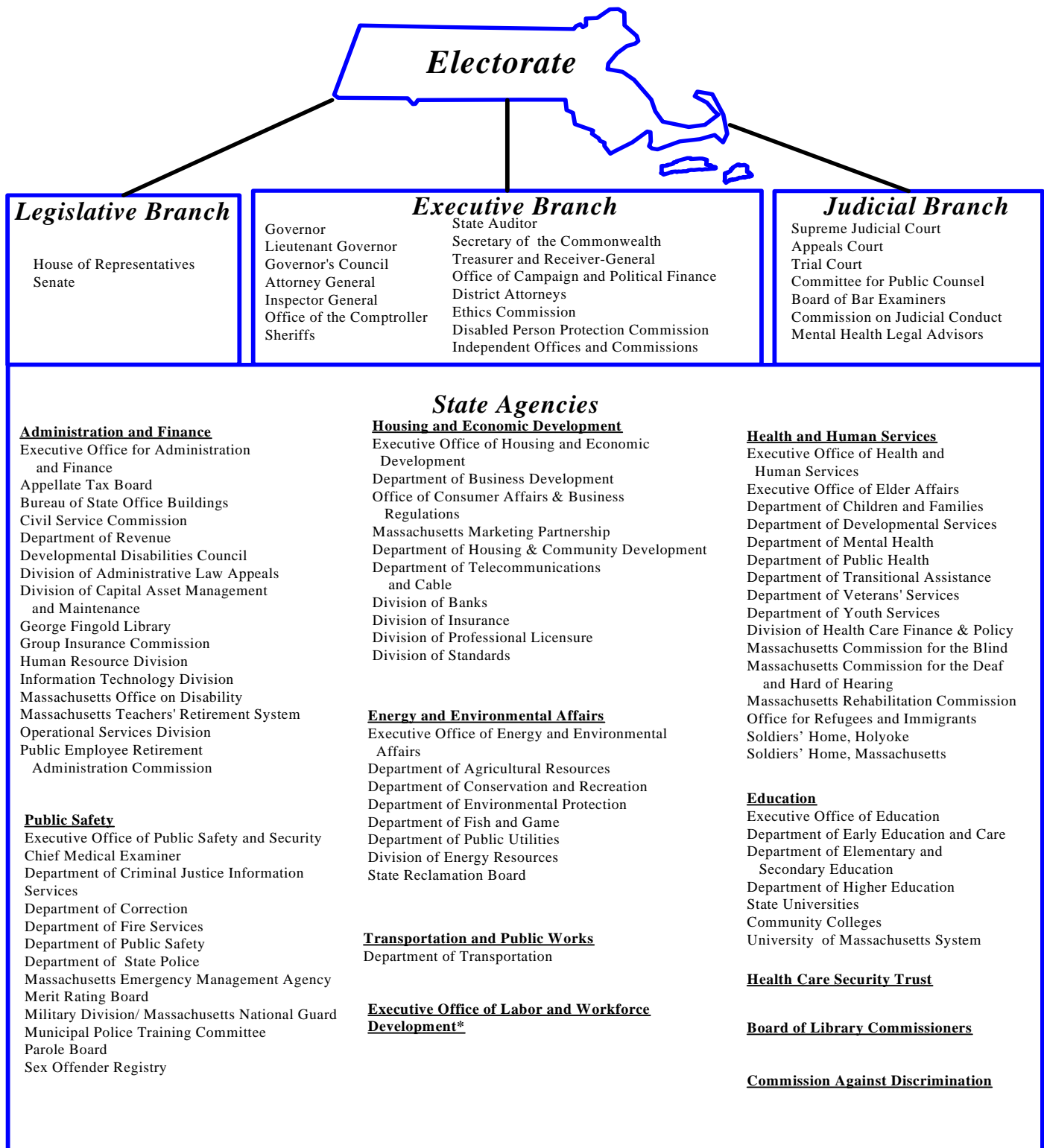
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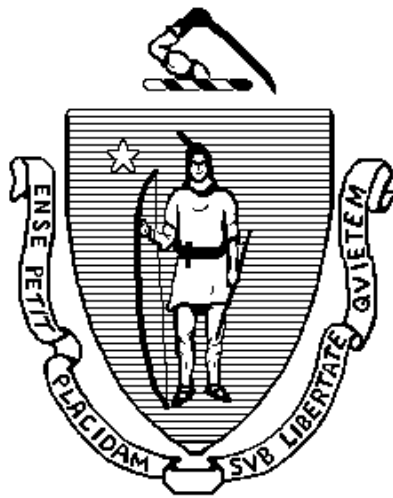
Phillip Rapoza  
*Chief Justice, Appeals Court*

Robert A. Mulligan  
*Chief Justice for Administration and Management, Trial Court*



*\* Merger of 4 former state departments (Department of Labor, Department of Workforce Development, Division of Industrial Accidents and Division of Labor Relations) with the Executive Office of Labor and Workforce Development per Chapter 3 effective 3/11/11 but transitioned on 7/1/11*





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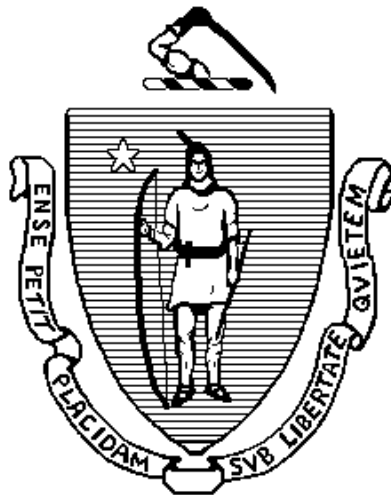
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# *Financial Section*



Independent Accountants' Review Report  
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, 2011, as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquires 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 note 1, these combined financial statements – statutory basis were prepared in conformity with 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 basis of accounting described in note 1.

Our review of the combined financial statements – statutory basis was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the accompanying combined financial statements – statutory basis in order for them to be in conformity with the basis of accounting described in note 1. The introductory section, combining and individual fund financial statements – statutory basis, supplemental information, and statistical section listed in the foregoing table of contents are presented only for purposes of additional analysis and are not a required part of the combined financial statements – statutory



basis of the Commonwealth of Massachusetts. 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 are not 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 was 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

November 2, 2011

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# *Combined Financial Statements - Statutory Basis*



**Budgeted Funds**  
**Combined Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	Totals (Memorandum only)	
	2011	2010
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 1,803,282	\$ 735,177
Cash with fiscal agent.....	19,239	10,847
Investments.....	255,903	254,681
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	481,297	586,379
Other receivables.....	21,104	25,299
Due from cities and towns.....	7,780	3,391
Total assets.....	\$ 2,588,605	\$ 1,615,774
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable.....	\$ 551,464	\$ 596,670
Accrued payroll.....	136,322	116,036
Total liabilities.....	687,786	712,706
Fund equity:		
Combined fund balance:		
Reserved for:		
Continuing appropriations.....	380,822	111,112
Commonwealth Stabilization.....	1,379,071	669,803
Debt service.....	19,239	10,847
Unreserved:		
Undesignated.....	121,687	111,306
Total fund equity.....	1,900,819	903,068
Total liabilities fund equity.....	\$ 2,588,605	\$ 1,615,774

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, 2011  
(Amounts in thousands)

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>			
Revenues:			
Taxes.....	\$ 17,686,510	\$ 19,094,935	\$ 1,408,425
Assessments.....	-	443,403	443,403
Federal grants and reimbursements.....	9,034,600	9,299,546	264,946
Departmental.....	2,805,400	2,398,338	(407,062)
Miscellaneous.....	5,900	356,608	350,708
Total revenues.....	<u>29,532,410</u>	<u>31,592,830</u>	<u>2,060,420</u>
Other financing sources:			
Fringe benefit cost recovery.....	-	355,811	355,811
Lottery reimbursements.....	105,298	86,391	(18,907)
Lottery distributions.....	904,344	881,817	(22,527)
Operating transfers in.....	613,828	288,239	(325,589)
Stabilization transfer.....	5,900	707,649	701,749
Tobacco settlement transfer.....	329,930	248,741	(81,189)
Excess permissible tax revenue.....	-	2,374,788	2,374,788
Total other financing sources.....	<u>1,959,300</u>	<u>4,943,436</u>	<u>2,984,136</u>
Total revenues and other financing sources.....	<u>31,491,710</u>	<u>36,536,266</u>	<u>5,044,556</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>			
Expenditures:			
Legislature.....	60,908	57,895	3,013
Judiciary.....	800,151	767,635	32,516
Inspector General.....	3,587	2,798	789
Governor and Lieutenant Governor.....	5,226	5,122	104
Secretary of the Commonwealth.....	40,443	39,475	968
Treasurer and Receiver-General.....	260,969	204,397	56,572
Auditor of the Commonwealth.....	17,903	17,015	888
Attorney General.....	42,453	41,029	1,424
Ethics Commission.....	1,731	1,660	71
District Attorney.....	94,610	93,699	911
Office of Campaign & Political Finance.....	1,222	1,170	52
Sheriff's Departments.....	510,577	503,053	7,524
Disabled Persons Protection Commission.....	2,174	2,174	-
Board of Library Commissioners.....	21,461	21,439	22
Comptroller.....	11,279	11,245	34
Administration and finance.....	2,087,960	1,800,623	287,337
Energy and environmental affairs.....	199,666	188,114	11,552
Health and human services.....	4,817,696	4,691,213	126,483
Massachusetts department of transportation.....	160,000	160,000	-
Executive office of education.....	1,825,548	1,807,528	18,020
Public safety and homeland security.....	987,163	942,172	44,991
Housing and economic development.....	379,239	363,877	15,362
Labor and workforce development.....	93,881	56,533	37,348
Direct local aid.....	4,853,108	4,784,717	68,391
Medicaid.....	10,269,881	10,237,326	32,555
Post employment benefits.....	1,838,857	1,838,857	-
Debt service:			
Principal retirement.....	847,187	815,390	31,797
Interest and fiscal charges.....	953,780	848,486	105,294
Total expenditures.....	<u>31,188,660</u>	<u>30,304,642</u>	<u>884,018</u>
Other financing uses:			
Fringe benefit cost assessment.....	2,300	4,326	(2,026)
Operating transfers out.....	370,972	521,997	(151,025)
Stabilization transfer.....	5,900	707,649	(701,749)
Commonwealth care trust transfer.....	739,012	739,012	-
Medical assistance transfer.....	886,101	886,101	-
Excess permissible tax revenue.....	-	2,374,788	(2,374,788)
Total other financing uses.....	<u>2,004,285</u>	<u>5,233,873</u>	<u>(3,229,588)</u>
Total expenditures and other financing uses.....	<u>33,192,945</u>	<u>35,538,515</u>	<u>(2,345,570)</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(1,701,235)	997,751	2,698,986
Fund balance (deficit) at beginning of year.....	903,068	903,068	-
Fund balance (deficit) at end of year.....	<u>\$ (798,167)</u>	<u>\$ 1,900,819</u>	<u>\$ 2,698,986</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, 2011

(Amounts in thousands)

	Non-Budgeted Special Revenue	Capital Projects	Totals (Memorandum only)	
			2011	2010
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 1,680,656	\$ -	\$ 1,680,656	\$ 1,621,109
Assessments.....	517,048	-	517,048	572,585
Federal grants and reimbursements.....	3,779,789	168,912	3,948,701	3,958,613
Tobacco settlement revenue.....	248,741	-	248,741	289,298
Departmental.....	5,496,462	810	5,497,272	5,147,800
Miscellaneous.....	90,639	(113)	90,526	192,877
Total revenues.....	<u>11,813,335</u>	<u>169,609</u>	<u>11,982,944</u>	<u>11,782,282</u>
Other financing sources:				
Proceeds of general obligation bonds.....	-	1,633,051	1,633,051	1,671,683
Proceeds of special obligation bonds.....	-	672,587	672,587	-
Proceeds of refunding bonds.....	406,453	540,200	946,653	2,544,103
Operating transfers in.....	503,342	47	503,389	540,970
Commonwealth care trust transfer.....	739,012	-	739,012	636,685
Health safety net trust transfer.....	30,000	-	30,000	-
Medical assistance transfer.....	886,101	-	886,101	313,295
Federal reimbursement transfer in.....	-	458,410	458,410	610,061
State share of federal highway construction.....	-	57,809	57,809	175,782
Transfer in from Massachusetts department of transportation.....	-	-	-	1,712
Total other financing sources.....	<u>2,564,908</u>	<u>3,362,104</u>	<u>5,927,012</u>	<u>6,494,291</u>
Total revenues and other financing sources.....	<u>14,378,243</u>	<u>3,531,713</u>	<u>17,909,956</u>	<u>18,276,573</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Judiciary.....	1,257	18,950	20,207	21,273
Inspector General.....	281	-	281	947
Governor and Lieutenant Governor.....	98	-	98	-
Secretary of the Commonwealth.....	5,238	1,533	6,791	5,726
Treasurer and Receiver-General.....	5,395,164	10,646	5,405,810	5,307,124
Attorney General.....	8,547	1,460	10,007	12,171
District Attorney.....	3,330	-	3,330	2,899
Office of Campaign & Political Finance.....	1,390	-	1,390	-
Sheriff's Departments.....	7,008	1,305	8,313	7,354
Disabled Persons Protection Commission.....	106	-	106	251
Board of Library Commissioners.....	3,229	9,066	12,295	9,018
Comptroller.....	2,067	1,149	3,216	4,515
Administration and finance.....	128,690	526,258	654,948	547,373
Energy and environmental affairs.....	143,938	149,595	293,533	326,611
Health and human services.....	2,750,463	24,475	2,774,938	2,037,838
Massachusetts department of transportation.....	648,957	1,468,695	2,117,652	2,133,962
Executive office of education.....	1,399,350	17,880	1,417,230	1,468,406
Public safety and homeland security.....	197,631	32,047	229,678	232,440
Housing and economic development.....	693,014	225,417	918,431	885,984
Labor and workforce development.....	364,172	7,735	371,907	361,035
Debt service:				
Principal retirement.....	380,395	-	380,395	159,912
Interest and fiscal charges.....	76,402	7,080	83,482	96,955
Total expenditures.....	<u>12,210,727</u>	<u>2,503,311</u>	<u>14,714,038</u>	<u>13,621,794</u>
Other financing uses:				
Payments to refunded bond escrow agent.....	-	540,200	540,200	2,619,322
Fringe benefit cost assessment.....	132,188	47,982	180,170	124,276
Lottery operating reimbursements.....	86,391	-	86,391	88,938
Lottery distributions.....	881,817	-	881,817	893,806
Operating transfers out.....	159,285	613	159,898	310,374
Tobacco settlement transfer.....	248,741	-	248,741	263,678
Commonwealth care transfer.....	-	-	-	5,000
Health safety net trust transfer.....	30,000	-	30,000	-
Federal reimbursement transfer out.....	458,410	-	458,410	610,061
State share of federal highway construction.....	-	57,809	57,809	175,782
Equity transfer to Massachusetts department of transportation.....	-	-	-	467,397
Total other financing uses.....	<u>1,996,832</u>	<u>646,604</u>	<u>2,643,436</u>	<u>5,558,634</u>
Total expenditures and other financing uses.....	<u>14,207,559</u>	<u>3,149,915</u>	<u>17,357,474</u>	<u>19,180,428</u>
Excess (deficiency) of revenues and other financing sources				
over / (under) expenditures and other financing uses.....	170,684	381,798	552,482	(903,855)
Fund balance (deficit) at beginning of year (restated).....	1,813,232	(182,560)	1,630,672	2,534,527
Fund balance (deficit) at end of year.....	<u>\$ 1,983,916</u>	<u>\$ 199,238</u>	<u>\$ 2,183,154</u>	<u>\$ 1,630,672</u>

See accompanying notes to financial statements and accountants' review report

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**1. FINANCIAL STATEMENT PRESENTATION**

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**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 accounting principles generally accepted in the United States of America (GAAP) for governments.

The Statutory Basis Financial Report (SBFR) includes all 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 Statutory Basis Financial Report'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. Statutory Basis**

The Commonwealth reports its statutory basis financial position and results of operations in funds. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets and liabilities for Budgeted Funds and fund balances, and revenues and expenditures for non-budgeted special revenue and capital projects funds. Transactions between funds within a fund type, if any, have not been eliminated.

**C. 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 Fund (which succeeded the Highway Fund effective July 1, 2009), which are identified by the Comptroller as the operating funds of the Commonwealth.

*Non-Budgeted Special Revenue Funds* – are established by law to account for specific revenue sources that have been segregated from the budgeted funds to support specific governmental activities such as federal grants, funds related to the tobacco settlement and the operations of the state lottery.

*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.

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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 are generally recognized when cash deposits are received by the Treasury. However, generally, revenues receivable for federal grants and reimbursements 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 from the Commonwealth on their behalf.

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. 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 the cash and cash equivalents of its Funds. 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, Expendable Trust Funds (not included in this report) and, when so directed by law, to certain Special Revenue and Capital Projects 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 Fund and a Short Term Bond Fund. The Cash Fund investments are carried at cost, which approximates fair value and Short Term Bond fund are carried at fair value.

For a complete copy of MMDT's separately issued financial statements, please feel free to contact the Trust's investment adviser at 800-392-6095, or James MacDonald, Deputy Assistant Treasurer, Cash Management Department, at 617-367-6900.

Statutes authorize investment in obligations of the U. S. Treasury, authorized bonds of all states, bankers acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure.

**C. *Dedicated Revenue and Pledges***

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. These other authorities' debts are not included in the SBFR, but are included in the CAFR.

Approximately \$3.1 billion in revenues from federal grants passed through the Federal Grants Fund in FY11 and represents the greatest source of dedicated revenues. A portion of these grants is dedicated to funding the principal portion only of federal grant anticipation notes issued in fiscal 1998, 1999, 2001, 2011 and refunding notes in fiscal 2003 and fiscal 2011. In FY11, the Commonwealth issued grant anticipation notes totaling \$480.5 million – \$100 million for new-money needs under the Commonwealth's Accelerated Bridge Program, and \$380.5 million to refund previously issued debt. The Commonwealth intends to begin repayments of the principal of the new-money notes beginning in fiscal 2016, after the original and refunded federal grant anticipation notes have been paid in full. As of June 30, 2011, total principal remaining to be paid on federal grant anticipation notes (GANs) is approximately \$767 million. Maturities are from FY12 through FY23. Principal paid during FY11 was approximately \$153 million.

During FY11, the Commonwealth issued \$576 million in special obligation bonds for highway construction purposes under the Commonwealth's Accelerated Bridge Program, secured by Commonwealth motor fuels taxes and Registry of Motor Vehicle fees. The new bonds are secured by a senior lien on 14.085 cents of the total 21 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas, and all Registry of Motor vehicle fees deposited in the Commonwealth Transportation Fund. The bonds also have a subordinate lien on 6.86 cents of the 21 cent per gallon gasoline tax not included in the senior lien. These new bonds were issued under the federal Build America Bonds program, whereby states are reimbursed by the federal government for 35% of the bonds' interest costs. A portion of the bonds, \$156.4 million, was also designated as Recovery Zone Economic Development Bonds, which entitles the Commonwealth to receive a 45% subsidy from the federal government. As of June 30, 2011, approximately \$576 million in principal was outstanding on these bonds and approximately \$459 million of interest (net of the federal subsidy) was expected to be paid through maturity. The bonds mature from FY24 to FY40.

Other special obligation bonds for highway construction purposes issued prior to FY11 are secured by a pledge of 6.86 cents of the 21 cents per gallon gasoline tax. As of June 30, 2011, this pledge funds approximately \$377 million of principal and approximately \$111 million in interest on the outstanding debt. These bonds mature from FY12 to FY23 and were sold in various series issued prior to FY11. Principal and interest paid during FY11 amounted to approximately \$37 million and \$22 million, respectively.

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 FY11, total dedicated sales tax revenue that was directed to the MBTA was approximately \$767 million, \$112 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY11 the MBTA received from the Commonwealth sales tax revenues equal to 1.17% 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 greater of the annual rise in the Boston consumer price index or annual sales taxes, with a floor of 0% and a ceiling of 3%.

The MSBA also receives a pledge of sales tax that, starting in FY11, increased to 1% of applicable sales in the Commonwealth but with no annual floor or ceiling. In FY11, approximately \$655 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, 2011, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$526 million of interest on debts related to these Convention Centers. Taxes collected in FY11 were approximately \$84.9 million, while debt service on the bonds was approximately \$35.4 million.

Finally, as part of the Transportation Modernization Act of 2009, as amended, a further pledge of sales taxes was made. Beginning in FY11, 0.385% of applicable sales and uses on a total tangible property tax rate of 6.25% is dedicated to funding the operations of MassDOT through the Commonwealth Transportation Fund. The Act has a floor amount of \$275 million, with a final transfer occurring on or before September 1<sup>st</sup> of the following fiscal year. In FY11, approximately \$302 million in sales tax revenue was transferred to MassDOT, \$27 million more than the \$275 million minimum. From the Commonwealth Transportation Fund, \$160 million was dedicated to funding the operations of the MBTA while an additional \$15 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the Commonwealth Transportation Fund.

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. On the statutory basis, transactions between Governmental and Fiduciary Fund Types are recorded as adjustments to the funds' cash accounts. As a result, a fund may report a deficiency in cash and short-term investments.

**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 \$1,938,000 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



\$355.8 million into the General Fund funds result from cost assessments of approximately \$184.4 million from the other budgeted funds, non-budgeted special revenue funds and capital funds. The remainder of approximately \$171.4 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 FY.

"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.

“Undesignated” – consist 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, 2010, from which the summarized information was derived.

**N. *Estimates***

The preparation of the Statutory Basis 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.

**O. *Reclassification***

Certain reclassifications have been made to the 2010 balances to conform to the presentation used in 2011.

**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 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.

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, 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 following table summarizes budgetary activity for FY11 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 131 of the Acts of 2010:		
Direct appropriations.....	\$ 30,041,700	\$ 28,992,717
Estimated revenues, transfers, direct appropriations, retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2010 .....	-	1,106,655
Total original budget.....	30,041,700	30,099,371
Supplemental Acts of 2010:		
Chapter 359.....	-	713,554
Chapter 409.....	-	333,181
Supplemental Acts of 2011:		
Chapter 9.....	-	325,222
Chapter 27.....	-	85,460
Chapter 52.....	-	54,032
Total as of June 30, 2011 .....	30,041,700	31,610,820
Supplemental Acts of 2011, passed after June 30:		
Chapter 142.....	-	132,115
Total budgeted revenues and expenditures per Legislative action.....	30,041,700	31,742,935
Plus: Pension contributions and revenue authorized outside of General Appropriations Act, and other transfers of revenue and spending.....	1,450,010	1,450,010
Budgeted revenues and expenditures as reported.....	<u>\$ 31,491,710</u>	<u>\$ 33,192,945</u>

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.....	\$ 36,536,266	\$ 35,538,515
Adjustments to revenues and expenditures		
Transfer of revenues to the Intragovernmental Service Fund .....	(286,079)	(286,079)
Adjustments to other financing sources and uses:		
Fringe benefit cost assessments.....	(4,326)	(4,326)
Transfer of expenditures from the Intragovernmental Service Fund to the General Fund.....	(3,073)	(3,073)
RMV license plates.....	(3,002)	(3,002)
Transfers from Stabilization Fund to General Fund.....	(9,044)	(9,044)
Transfers from Budgeted Funds to Stabilization Fund.....	(350,000)	(350,000)
Year end Stabilization Fund transfer.....	(348,605)	(348,605)
Excess Permissible Tax Revenue transfer from General Fund to Temporary Holding Fund.....	(1,187,394)	(1,187,394)
Year-End Excess Permissible Tax Revenue transfer from Temporary Holding Fund to Stabilization Fund and General Fund.....	(1,187,394)	(1,187,394)
Other fund deficit support.....	(64,732)	(64,732)
Build America Bonds transfer.....	(5,405)	(5,405)
Transfers to fund Local Aid payment.....	(11,705)	(11,705)
Other .....	(174)	(174)
Actual as presented on budgetary documents.....	<u>\$ 33,075,333</u>	<u>\$ 32,077,582</u>

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, 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 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 is 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 this Statutory Basis Financial Report, 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 Comprehensive Financial Report (CAFR) MassDOT will be included as a component unit of the Commonwealth along with the MBTA and the Regional Transit Authorities.

**5. INDIVIDUAL FUND DEFICITS**

The following Non-Budgeted Special Revenue and Capital Projects Funds are included in the combined totals and have individual fund deficits at June 30, 2011, as follows (amounts in thousands) (excludes MassDOT):

Non-Budgeted Special Revenue:

Universal Health:	
Medical Security Trust Fund.....	(80,682)
Other:	
Government Land Bank Fund.....	(35,033)
Total Non - Budgeted Funds.....	<u>(115,715)</u>

Capital Projects:

Capital Improvement and Investment Trust Fund.....	(121)
Federal Highway Construction Program Capital Projects Fund.....	(386)
Government Land Bank Capital Projects Fund.....	(855)
Total Capital Projects Funds.....	<u>(1,362)</u>

Total .....	<u>\$ (117,077)</u>
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Transfers and the cash defeasance of debt which occurred in FY11 were not included as appropriations in the General Appropriation Act. Therefore, no action is necessary to cure those deficits. 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**

The Commonwealth’s Medicaid program, called MassHealth, provides health care to low-income children and families, certain 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, typically receives 50% in federal reimbursement on most expenditures. In FY09 and FY10, as part of the American Recovery and Reinvestment Act (ARRA), the federal reimbursement rate under Medicaid’s Federal Medical Assistance Program (FMAP) was increased to 61.59%. For FY11 less funding was available due to a decrease in the average reimbursement rate to 59.70% (a 61.59% reimbursement rate in the first half of FY11, a 58.77% reimbursement rate in the third quarter of FY11, and a 56.88% reimbursement rate in the fourth quarter of FY11) This rate decrease was effective through June 30, 2011, and reverted to the standard 50% reimbursement rate after that date. Beginning in fiscal 1999, payments for some children’s benefits became 65% federally reimbursable under the State Children’s Health Insurance Program (SCHIP).

Approximately 38.6% 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, 2011, the General Fund includes approximately \$10.2 billion in expenditures for Medicaid claims. The combined financial statements – statutory basis include Medicaid claims processed but unpaid at June 30, 2011 of approximately \$14.9 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 for 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 certain revenues of the newly created Massachusetts Department of Transportation, particularly those relating to the use and operation of motor vehicles and trailers, except fees for interstate permitting, together with all contributions and assessments paid into the treasury of the Commonwealth by cities, towns or counties for maintaining, repairing, improving and constructing ways, all refunds and rebates made on account of expenditures on ways by the department, all fuel taxation and other monies received by the Commonwealth in satisfaction of claims by the Commonwealth for damage to highway safety signs, signals, guardrails, curbing and other highway related facilities. Spending is for debt service on general and special obligation debt formerly paid for by 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 sub fund of the Highway Fund.

*The Commonwealth Stabilization Fund* – to account for amounts calculated in accordance with state finance law and maintain a reserve to enhance the Commonwealth's fiscal stability. Per the FY2005 General Appropriation Act, tax revenues from certain lottery winners selling their stream of future winnings in exchange for current payments are recorded in this fund. The residual balance of the

Temporary Holding Fund is closed to the Stabilization Fund to the extent of expenditures from the Fund.

*Administrative Control Funds* – to account for the revenues generated by certain administrative functions of government, for which the Legislature has required that separate funds be established. These funds include:

*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.

*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.

*Workforce Training Fund* - to account for revenues from an unemployment surcharge of .075% on taxable wages on employers; to provide grants to employers and labor groups to provide education and training to new and existing employees.

*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



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of that date, no monthly sales tax revenue has been deposited in the Substance Abuse Fund.

**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.

The following funds have been enacted in legislation but were inactive in FY11 and 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.

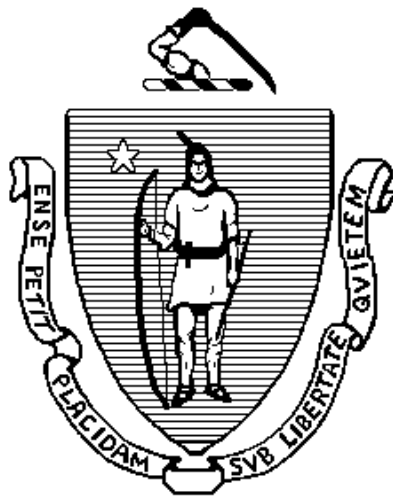
**Tax Reduction Fund** – to account for the maintenance of a reserve, which shall be used only to reduce personal income taxes.

**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.

**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.

**Bay State Competitiveness Investment Fund** – to account for funds received as part of the calculation of consolidated net surplus for FY07 and available for appropriation in FY08. This fund expired on June 30, 2008.

**Highway Fund** – to account for highway user taxes including the gas tax and fees; used to finance highway maintenance and safety services, and provide matching funds for federally sponsored highway projects as required. During FY10, the Highway Fund operations were succeeded by the Commonwealth Transportation Fund and the Massachusetts Department of Transportation. As the fund has not been repealed, in FY11 the fund became inactive.



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**Budgeted Funds**  
Combining Balance Sheet - Statutory Basis

June 30, 2011  
(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control	
				Temporary Holding	Intragovernmental Service
<b>ASSETS</b>					
Cash and short-term investments.....	\$ 590,074	\$ 24,603	\$ 1,123,168	\$ -	\$ 28,410
Cash with fiscal agent.....	-	19,239	-	-	-
Investments.....	-	-	255,903	-	-
Receivables, net of allowance for uncollectibles:					
Due from federal government.....	481,297	-	-	-	-
Other receivables.....	21,104	-	-	-	-
Due from cities and towns.....	7,780	-	-	-	-
Total assets.....	<u>\$ 1,100,255</u>	<u>\$ 43,842</u>	<u>\$ 1,379,071</u>	<u>\$ -</u>	<u>\$ 28,410</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable.....	\$ 524,629	\$ 4,411	\$ -	\$ -	\$ 21,325
Accrued payroll.....	124,729	8,272	-	-	2,968
Total liabilities.....	<u>649,358</u>	<u>12,683</u>	<u>-</u>	<u>-</u>	<u>24,293</u>
Fund balance:					
Reserved for:					
Continuing appropriations.....	366,985	-	-	-	4,117
Commonwealth Stabilization.....	-	-	1,379,071	-	-
Debt service.....	-	19,239	-	-	-
Unreserved:					
Undesignated.....	83,912	11,920	-	-	-
Total fund equity.....	<u>450,897</u>	<u>31,159</u>	<u>1,379,071</u>	<u>-</u>	<u>4,117</u>
Total liabilities and fund equity.....	<u>\$ 1,100,255</u>	<u>\$ 43,842</u>	<u>\$ 1,379,071</u>	<u>\$ -</u>	<u>\$ 28,410</u>

See accountants' review report

Environmental		Budgeted Other			Totals (Memorandum only)	
Inland Fisheries and Game	Marine Recreational Fisheries Development	Workforce Training	Substance Abuse Prevention & Treatment	Massachusetts Tourism	2011	2010
\$ 18,326	\$ 67	\$ 11,345	\$ -	\$ 7,289	\$ 1,803,282	\$ 735,177
-	-	-	-	-	19,239	10,847
-	-	-	-	-	255,903	254,681
-	-	-	-	-	481,297	586,379
-	-	-	-	-	21,104	25,299
-	-	-	-	-	7,780	3,391
<u>\$ 18,326</u>	<u>\$ 67</u>	<u>\$ 11,345</u>	<u>\$ -</u>	<u>\$ 7,289</u>	<u>\$ 2,588,605</u>	<u>\$ 1,615,774</u>
\$ 319	\$ 4	\$ 752	\$ -	\$ 24	\$ 551,464	\$ 596,670
198	-	118	-	37	136,322	116,036
<u>517</u>	<u>4</u>	<u>870</u>	<u>-</u>	<u>61</u>	<u>687,786</u>	<u>712,706</u>
-	-	9,720	-	-	380,822	111,112
-	-	-	-	-	1,379,071	669,803
-	-	-	-	-	19,239	10,847
17,809	63	755	-	7,228	121,687	111,306
<u>17,809</u>	<u>63</u>	<u>10,475</u>	<u>-</u>	<u>7,228</u>	<u>1,900,819</u>	<u>903,068</u>
<u>\$ 18,326</u>	<u>\$ 67</u>	<u>\$ 11,345</u>	<u>\$ -</u>	<u>\$ 7,289</u>	<u>\$ 2,588,605</u>	<u>\$ 1,615,774</u>

**Budgeted Funds**

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control	
				Temporary Holding	Intragovernmental Service
<b>REVENUES AND OTHER FINANCING SOURCES</b>					
Revenues:					
Taxes.....	\$ 18,028,165	\$ 962,090	\$ 1,619	\$ -	\$ -
Assessments.....	430,033	13,370	-	-	-
Federal grants and reimbursements.....	9,295,310	-	-	-	-
Departmental.....	1,607,910	485,839	-	-	296,666
Miscellaneous.....	347,511	32	9,044	-	-
Total revenues.....	<u>29,708,929</u>	<u>1,461,331</u>	<u>10,663</u>	<u>-</u>	<u>296,666</u>
Other financing sources:					
Fringe benefit cost recovery.....	355,811	-	-	-	-
Lottery reimbursements.....	86,391	-	-	-	-
Lottery distributions.....	881,817	-	-	-	-
Operating transfers in.....	217,928	5,405	-	-	36
Stabilization transfer.....	9,044	-	698,605	-	-
Commonwealth transportation transfer.....	-	-	-	-	-
Tobacco settlement transfer.....	248,741	-	-	-	-
Excess permissible tax revenue.....	1,178,350	-	9,044	1,187,394	-
Total other financing sources.....	<u>2,978,082</u>	<u>5,405</u>	<u>707,649</u>	<u>1,187,394</u>	<u>36</u>
Total revenues and other financing sources.....	<u>32,687,011</u>	<u>1,466,736</u>	<u>718,312</u>	<u>1,187,394</u>	<u>296,702</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>					
Expenditures:					
Legislature.....	57,895	-	-	-	-
Judiciary.....	767,635	-	-	-	-
Inspector General.....	2,798	-	-	-	-
Governor and Lieutenant Governor.....	5,046	-	-	-	59
Secretary of the Commonwealth.....	39,360	-	-	-	115
Treasurer and Receiver-General.....	204,397	-	-	-	-
Auditor of the Commonwealth.....	17,015	-	-	-	-
Attorney General.....	41,020	-	-	-	9
Ethics Commission.....	1,660	-	-	-	-
District Attorney.....	93,699	-	-	-	-
Office of Campaign & Political Finance.....	1,170	-	-	-	-
Sheriff's Departments.....	502,556	-	-	-	-
Disabled Persons Protection Commission.....	2,174	-	-	-	-
Board of Library Commissioners.....	21,439	-	-	-	-
Comptroller.....	7,739	-	-	-	3,506
Administration and finance.....	1,618,057	9,618	-	-	172,948
Energy and environmental affairs.....	175,477	-	-	-	2,528
Health and human services.....	4,516,250	-	-	-	76,366
Massachusetts department of transportation.....	-	160,000	-	-	-
Executive office of education.....	1,807,528	-	-	-	-
Public safety and homeland security.....	897,819	-	-	-	37,123
Housing and economic development.....	360,949	-	-	-	932
Labor and workforce development.....	37,236	-	-	-	16
Direct local aid.....	4,784,717	-	-	-	-
Medicaid.....	10,237,326	-	-	-	-
Post employment benefits.....	1,838,857	-	-	-	-
Debt service:					
Principal retirement.....	428,607	386,783	-	-	-
Interest and fiscal charges.....	431,507	416,979	-	-	-
Total expenditures.....	<u>28,899,933</u>	<u>973,380</u>	<u>-</u>	<u>-</u>	<u>293,602</u>
Other financing uses:					
Fringe benefit cost assessment.....	-	-	-	-	-
Operating transfers out.....	127,283	386,143	-	-	3,073
Stabilization transfer.....	553,044	86,901	9,044	-	-
Commonwealth transportation transfer.....	-	-	-	-	-
Commonwealth care transfer.....	739,012	-	-	-	-
Medical assistance transfer.....	886,101	-	-	-	-
Excess permissible tax revenue.....	1,187,394	-	-	1,187,394	-
Total other financing uses.....	<u>3,492,834</u>	<u>473,044</u>	<u>9,044</u>	<u>1,187,394</u>	<u>3,073</u>
Total expenditures and other financing uses.....	<u>32,392,767</u>	<u>1,446,424</u>	<u>9,044</u>	<u>1,187,394</u>	<u>296,675</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	294,244	20,312	709,268	-	27
Fund balance (deficit) at beginning of year.....	156,653	10,847	669,803	-	4,090
Fund balance (deficit) at end of year.....	<u>\$ 450,897</u>	<u>\$ 31,159</u>	<u>\$ 1,379,071</u>	<u>\$ -</u>	<u>\$ 4,117</u>

See accountants' review report

					Totals (Memorandum only)	
Environmental		Budgeted Other				
Inland Fisheries and Game	Marine Recreational Fisheries Development	Workforce Training	Substance Abuse Prevention & Treatment	Massachusetts Tourism	2011	2010
\$ 871	\$ -	\$ 20,448	\$ 43,102	\$ 38,640	\$ 19,094,935	\$ 17,171,378
-	-	-	-	-	443,403	417,335
4,236	-	-	-	-	9,299,546	8,548,836
7,206	717	-	-	-	2,398,338	2,179,794
21	-	-	-	-	356,608	443,040
<u>12,334</u>	<u>717</u>	<u>20,448</u>	<u>43,102</u>	<u>38,640</u>	<u>31,592,830</u>	<u>28,760,383</u>
-	-	-	-	-	355,811	281,807
-	-	-	-	-	86,391	88,938
-	-	-	-	-	881,817	893,806
138	-	-	64,732	-	288,239	299,342
-	-	-	-	-	707,649	217,843
-	-	-	-	-	-	275,000
-	-	-	-	-	248,741	263,678
-	-	-	-	-	2,374,788	-
<u>138</u>	<u>-</u>	<u>-</u>	<u>64,732</u>	<u>-</u>	<u>4,943,436</u>	<u>2,320,414</u>
<u>12,472</u>	<u>717</u>	<u>20,448</u>	<u>107,834</u>	<u>38,640</u>	<u>36,536,266</u>	<u>31,080,797</u>
-	-	-	-	-	57,895	59,453
-	-	-	-	-	767,635	767,178
-	-	-	-	-	2,798	2,734
-	-	-	-	17	5,122	5,245
-	-	-	-	-	39,475	47,819
-	-	-	-	-	204,397	175,894
-	-	-	-	-	17,015	16,708
-	-	-	-	-	41,029	40,558
-	-	-	-	-	1,660	1,574
-	-	-	-	-	93,699	92,792
-	-	-	-	-	1,170	1,175
-	-	-	497	-	503,053	370,254
-	-	-	-	-	2,174	2,150
-	-	-	-	-	21,439	24,672
-	-	-	-	-	11,245	11,080
-	-	-	-	-	1,800,623	1,683,109
10,068	41	-	-	-	188,114	202,602
-	-	-	98,597	-	4,691,213	4,689,785
-	-	-	-	-	160,000	502,403
-	-	-	-	-	1,807,528	1,717,211
-	-	-	7,230	-	942,172	1,075,883
-	-	-	-	1,996	363,877	359,078
-	-	19,281	-	-	56,533	42,237
-	-	-	-	-	4,784,717	4,837,371
-	-	-	-	-	10,237,326	9,286,565
-	-	-	-	-	1,838,857	1,748,619
-	-	-	-	-	815,390	1,048,610
-	-	-	-	-	848,486	811,030
<u>10,068</u>	<u>41</u>	<u>19,281</u>	<u>106,324</u>	<u>2,013</u>	<u>30,304,642</u>	<u>29,623,789</u>
1,939	-	521	1,510	356	4,326	8,013
-	155	816	-	4,527	521,997	124,740
-	458	5,508	-	52,694	707,649	217,843
-	-	-	-	-	-	275,000
-	-	-	-	-	739,012	631,685
-	-	-	-	-	886,101	313,295
-	-	-	-	-	2,374,788	-
<u>1,939</u>	<u>613</u>	<u>6,845</u>	<u>1,510</u>	<u>57,577</u>	<u>5,233,873</u>	<u>1,570,576</u>
<u>12,007</u>	<u>654</u>	<u>26,126</u>	<u>107,834</u>	<u>59,590</u>	<u>35,538,515</u>	<u>31,194,365</u>
465	63	(5,678)	-	(20,950)	997,751	(113,568)
17,344	-	16,153	-	28,178	903,068	1,016,636
<u>\$ 17,809</u>	<u>\$ 63</u>	<u>\$ 10,475</u>	<u>\$ -</u>	<u>\$ 7,228</u>	<u>\$ 1,900,819</u>	<u>\$ 903,068</u>

### Budgeted Funds

#### Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2011

(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.....	\$ 16,562,110	\$ 18,028,165	\$ 1,466,055	\$ 959,500	\$ 962,090	\$ 2,590
Assessments.....	-	430,033	430,033	-	13,370	13,370
Federal grants and reimbursements.....	9,027,800	9,295,310	267,510	-	-	-
Departmental.....	2,297,100	1,607,910	(689,190)	501,100	485,839	(15,261)
Miscellaneous.....	-	347,511	347,511	-	32	32
Total revenues.....	<u>27,887,010</u>	<u>29,708,929</u>	<u>1,821,919</u>	<u>1,460,600</u>	<u>1,461,331</u>	<u>731</u>
Other financing sources:						
Fringe benefit cost recovery.....	-	355,811	355,811	-	-	-
Lottery reimbursements.....	105,298	86,391	(18,907)	-	-	-
Lottery distributions.....	904,344	881,817	(22,527)	-	-	-
Operating transfers in.....	613,728	217,928	(395,800)	-	5,405	5,405
Stabilization transfer.....	5,900	9,044	3,144	-	-	-
Tobacco settlement transfer.....	329,930	248,741	(81,189)	-	-	-
Excess permissible tax revenue.....	-	1,178,350	1,178,350	-	-	-
Total other financing sources.....	<u>1,959,200</u>	<u>2,978,082</u>	<u>1,018,882</u>	<u>-</u>	<u>5,405</u>	<u>5,405</u>
Total revenues and other financing sources.....	<u>29,846,210</u>	<u>32,687,011</u>	<u>2,840,801</u>	<u>1,460,600</u>	<u>1,466,736</u>	<u>6,136</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>						
Expenditures:						
Legislature.....	60,908	57,895	3,013	-	-	-
Judiciary.....	799,644	767,635	32,009	-	-	-
Inspector General.....	3,587	2,798	789	-	-	-
Governor and Lieutenant Governor.....	5,089	5,046	43	-	-	-
Secretary of the Commonwealth.....	40,327	39,360	967	-	-	-
Treasurer and Receiver-General.....	260,969	204,397	56,572	-	-	-
Auditor of the Commonwealth.....	17,903	17,015	888	-	-	-
Attorney General.....	42,433	41,020	1,413	-	-	-
Ethics Commission.....	1,731	1,660	71	-	-	-
District Attorney.....	94,610	93,699	911	-	-	-
Office of Campaign and Political Finance.....	1,222	1,170	52	-	-	-
Sheriff's Departments.....	510,070	502,556	7,514	-	-	-
Disabled Persons Protection Commission.....	2,174	2,174	-	-	-	-
Board of Library Commissioners.....	21,461	21,439	22	-	-	-
Comptroller.....	7,750	7,739	11	-	-	-
Administration and finance.....	1,857,283	1,618,057	239,226	9,625	9,618	7
Energy and environmental affairs.....	184,380	175,477	8,903	-	-	-
Health and human services.....	4,606,231	4,516,250	89,981	-	-	-
Massachusetts department of transportation.....	-	-	-	160,000	160,000	-
Executive office of education.....	1,823,691	1,807,528	16,163	-	-	-
Public safety and homeland security.....	928,957	897,819	31,138	-	-	-
Housing and economic development.....	373,551	360,949	12,602	-	-	-
Labor and workforce development.....	45,171	37,236	7,935	-	-	-
Direct local aid.....	4,853,108	4,784,717	68,391	-	-	-
Medicaid.....	10,269,881	10,237,326	32,555	-	-	-
Post employment benefits.....	1,838,857	1,838,857	-	-	-	-
Debt service:						
Principal retirement.....	442,025	428,607	13,418	405,162	386,783	18,379
Interest and fiscal charges.....	498,416	431,507	66,909	455,364	416,979	38,385
Total expenditures.....	<u>29,591,429</u>	<u>28,899,933</u>	<u>691,496</u>	<u>1,030,151</u>	<u>973,380</u>	<u>56,771</u>
Other financing uses:						
Fringe benefit cost assessment.....	-	-	-	-	-	-
Operating transfers out.....	-	127,283	(127,283)	370,972	386,143	(15,171)
Stabilization transfer.....	-	553,044	(553,044)	-	86,901	(86,901)
Commonwealth care transfer.....	739,012	739,012	-	-	-	-
Medical assistance transfer.....	886,101	886,101	-	-	-	-
Excess permissible tax revenue.....	-	1,187,394	(1,187,394)	-	-	-
Total other financing uses.....	<u>1,625,113</u>	<u>3,492,834</u>	<u>(1,867,721)</u>	<u>370,972</u>	<u>473,044</u>	<u>(102,072)</u>
Total expenditures and other financing uses.....	<u>31,216,542</u>	<u>32,392,767</u>	<u>(1,176,225)</u>	<u>1,401,123</u>	<u>1,446,424</u>	<u>(45,301)</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(1,370,332)	294,244	1,664,576	59,477	20,312	(39,165)
Fund balances (deficit) at beginning of year.....	156,653	156,653	-	10,847	10,847	-
Fund balances (deficit) at end of year.....	<u>\$ (1,213,679)</u>	<u>\$ 450,897</u>	<u>\$ 1,664,576</u>	<u>\$ 70,324</u>	<u>\$ 31,159</u>	<u>\$ (39,165)</u>

See accountants' review report

Commonwealth Stabilization			Administrative Control					
			Temporary Holding			Intragovernmental Service		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ 1,619	\$ 1,619	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	296,666	296,666
5,900	9,044	3,144	-	-	-	-	-	-
5,900	10,663	4,763	-	-	-	-	296,666	296,666
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	36	36
-	698,605	698,605	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	9,044	9,044	-	1,187,394	1,187,394	-	-	-
-	707,649	707,649	-	1,187,394	1,187,394	-	36	36
5,900	718,312	712,412	-	1,187,394	1,187,394	-	296,702	296,702
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	507	-	507
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	120	59	61
-	-	-	-	-	-	116	115	1
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	20	9	11
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	3,529	3,506	23
-	-	-	-	-	-	221,052	172,948	48,104
-	-	-	-	-	-	4,503	2,528	1,975
-	-	-	-	-	-	112,282	76,366	35,916
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,857	-	1,857
-	-	-	-	-	-	50,975	37,123	13,852
-	-	-	-	-	-	3,650	932	2,718
-	-	-	-	-	-	17,708	16	17,692
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	416,319	293,602	122,717
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	3,073	(3,073)
5,900	9,044	(3,144)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	1,187,394	(1,187,394)	-	-	-
5,900	9,044	(3,144)	-	1,187,394	(1,187,394)	-	3,073	(3,073)
5,900	9,044	(3,144)	-	1,187,394	(1,187,394)	416,319	296,675	119,644
-	709,268	709,268	-	-	-	(416,319)	27	416,346
669,803	669,803	-	-	-	-	4,090	4,090	-
\$ 669,803	\$ 1,379,071	\$ 709,268	\$ -	\$ -	\$ -	\$ (412,229)	\$ 4,117	\$ 416,346

continued



## Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Environmental					
	Inland Fisheries and Game			Marine Recreational Fisheries Development		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>						
Revenues:						
Taxes.....	\$ 900	\$ 871	\$ (29)	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-
Federal grants and reimbursements.....	6,800	4,236	(2,564)	-	-	-
Departmental.....	7,100	7,206	106	100	717	617
Miscellaneous.....	-	21	21	-	-	-
<b>Total revenues.....</b>	<b>14,800</b>	<b>12,334</b>	<b>(2,466)</b>	<b>100</b>	<b>717</b>	<b>617</b>
Other financing sources:						
Fringe benefit cost recovery.....	-	-	-	-	-	-
Lottery reimbursements.....	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-
Operating transfers in.....	100	138	38	-	-	-
Stabilization transfer.....	-	-	-	-	-	-
Tobacco settlement transfer.....	-	-	-	-	-	-
Excess permissible tax revenue.....	-	-	-	-	-	-
<b>Total other financing sources.....</b>	<b>100</b>	<b>138</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenues and other financing sources.....</b>	<b>14,900</b>	<b>12,472</b>	<b>(2,428)</b>	<b>100</b>	<b>717</b>	<b>617</b>
<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.....	10,681	10,068	613	102	41	61
Health and human services.....	-	-	-	-	-	-
Massachusetts department of transportation.....	-	-	-	-	-	-
Executive office of education.....	-	-	-	-	-	-
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.....	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>10,681</b>	<b>10,068</b>	<b>613</b>	<b>102</b>	<b>41</b>	<b>61</b>
Other financing uses:						
Fringe benefit cost assessment.....	1,600	1,939	(339)	-	-	-
Operating transfers out.....	-	-	-	-	155	(155)
Stabilization transfer.....	-	-	-	-	458	(458)
Commonwealth care transfer.....	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-
Excess permissible tax revenue.....	-	-	-	-	-	-
<b>Total other financing uses.....</b>	<b>1,600</b>	<b>1,939</b>	<b>(339)</b>	<b>-</b>	<b>613</b>	<b>(613)</b>
<b>Total expenditures and other financing uses.....</b>	<b>12,281</b>	<b>12,007</b>	<b>274</b>	<b>102</b>	<b>654</b>	<b>(552)</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	2,619	465	(2,154)	(2)	63	65
Fund balances (deficit) at beginning of year.....	17,344	17,344	-	-	-	-
<b>Fund balances (deficit) at end of year.....</b>	<b>\$ 19,963</b>	<b>\$ 17,809</b>	<b>\$ (2,154)</b>	<b>\$ (2)</b>	<b>\$ 63</b>	<b>\$ 65</b>

See accountants' review report

Budgeted Other								
Workforce Training			Substance Abuse Prevention and Treatment			Massachusetts Tourism		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 21,000	\$ 20,448	\$ (552)	\$ 108,000	\$ 43,102	\$ (64,898)	\$ 35,000	\$ 38,640	\$ 3,640
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
21,000	20,448	(552)	108,000	43,102	(64,898)	35,000	38,640	3,640
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	64,732	64,732	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	64,732	64,732	-	-	-
21,000	20,448	(552)	108,000	107,834	(166)	35,000	38,640	3,640
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	17	17	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	507	497	10	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	99,183	98,597	586	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	7,231	7,230	1	-	-	-
31,002	19,281	11,721	-	-	-	2,038	1,996	42
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
31,002	19,281	11,721	106,921	106,324	597	2,055	2,013	42
400	521	(121)	-	1,510	(1,510)	300	356	(56)
-	816	(816)	-	-	-	-	4,527	(4,527)
-	5,508	(5,508)	-	-	-	-	52,694	(52,694)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
400	6,845	(6,445)	-	1,510	(1,510)	300	57,577	(57,277)
31,402	26,126	5,276	106,921	107,834	(913)	2,355	59,590	(57,235)
(10,402)	(5,678)	4,724	1,079	-	(1,079)	32,645	(20,950)	(53,595)
16,153	16,153	-	-	-	-	28,178	28,178	-
\$ 5,751	\$ 10,475	\$ 4,724	\$ 1,079	\$ -	\$ (1,079)	\$ 60,823	\$ 7,228	\$ (53,595)

continued

## Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Totals		
	(Memorandum only)		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES AND OTHER FINANCING SOURCES</b>			
Revenues:			
Taxes.....	\$ 17,686,510	\$ 19,094,935	\$ 1,408,425
Assessments.....	-	443,403	443,403
Federal grants and reimbursements.....	9,034,600	9,299,546	264,946
Departmental.....	2,805,400	2,398,338	(407,062)
Miscellaneous.....	5,900	356,608	350,708
<b>Total revenues.....</b>	<b>29,532,410</b>	<b>31,592,830</b>	<b>2,060,420</b>
Other financing sources:			
Fringe benefit cost recovery.....	-	355,811	355,811
Lottery reimbursements.....	105,298	86,391	(18,907)
Lottery distributions.....	904,344	881,817	(22,527)
Operating transfers in.....	613,828	288,239	(325,589)
Stabilization transfer.....	5,900	707,649	701,749
Tobacco settlement transfer.....	329,930	248,741	(81,189)
Excess permissible tax revenue.....	-	2,374,788	2,374,788
<b>Total other financing sources.....</b>	<b>1,959,300</b>	<b>4,943,436</b>	<b>2,984,136</b>
<b>Total revenues and other financing sources.....</b>	<b>31,491,710</b>	<b>36,536,266</b>	<b>5,044,556</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>			
Expenditures:			
Legislature.....	60,908	57,895	3,013
Judiciary.....	800,151	767,635	32,516
Inspector General.....	3,587	2,798	789
Governor and Lieutenant Governor.....	5,226	5,122	104
Secretary of the Commonwealth.....	40,443	39,475	968
Treasurer and Receiver-General.....	260,969	204,397	56,572
Auditor of the Commonwealth.....	17,903	17,015	888
Attorney General.....	42,453	41,029	1,424
Ethics Commission.....	1,731	1,660	71
District Attorney.....	94,610	93,699	911
Office of Campaign and Political Finance.....	1,222	1,170	52
Sheriff's Departments.....	510,577	503,053	7,524
Disabled Persons Protection Commission.....	2,174	2,174	-
Board of Library Commissioners.....	21,461	21,439	22
Comptroller.....	11,279	11,245	34
Administration and finance.....	2,087,960	1,800,623	287,337
Energy and environmental affairs.....	199,666	188,114	11,552
Health and human services.....	4,817,696	4,691,213	126,483
Massachusetts department of transportation.....	160,000	160,000	-
Executive office of education.....	1,825,548	1,807,528	18,020
Public safety and homeland security.....	987,163	942,172	44,991
Housing and economic development.....	379,239	363,877	15,362
Labor and workforce development.....	93,881	56,533	37,348
Direct local aid.....	4,853,108	4,784,717	68,391
Medicaid.....	10,269,881	10,237,326	32,555
Post employment benefits.....	1,838,857	1,838,857	-
Debt service:			
Principal retirement.....	847,187	815,390	31,797
Interest and fiscal charges.....	953,780	848,486	105,294
<b>Total expenditures.....</b>	<b>31,188,660</b>	<b>30,304,642</b>	<b>884,018</b>
Other financing uses:			
Fringe benefit cost assessment.....	2,300	4,326	(2,026)
Operating transfers out.....	370,972	521,997	(151,025)
Stabilization transfer.....	5,900	707,649	(701,749)
Commonwealth care transfer.....	739,012	739,012	-
Medical assistance transfer.....	886,101	886,101	-
Excess permissible tax revenue.....	-	2,374,788	(2,374,788)
<b>Total other financing uses.....</b>	<b>2,004,285</b>	<b>5,233,873</b>	<b>(3,229,588)</b>
<b>Total expenditures and other financing uses.....</b>	<b>33,192,945</b>	<b>35,538,515</b>	<b>(2,345,570)</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	(1,701,235)	997,751	2,698,986
Fund balances (deficit) at beginning of year.....	903,068	903,068	-
<b>Fund balances (deficit) at end of year.....</b>	<b>\$ (798,167)</b>	<b>\$ 1,900,819</b>	<b>\$ 2,698,986</b>

See accountants' review report



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**General Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

<b>ASSETS</b>	2011	2010
Cash and short-term investments.....	\$ 590,074	\$ 220,276
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	481,297	586,379
Other receivables.....	21,104	25,299
Due from cities and towns.....	7,780	3,391
Total assets.....	\$ 1,100,255	\$ 835,345
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 524,629	\$ 573,233
Accrued payroll.....	124,729	105,459
Total liabilities.....	649,358	678,692
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	366,985	102,022
Unreserved fund balance:		
Undesignated.....	83,912	54,631
Total fund balance.....	450,897	156,653
Total liabilities and fund balance.....	\$ 1,100,255	\$ 835,345

See accountants' review report

**General Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 16,562,110	\$ 18,028,165	\$ 1,466,055	\$ 16,459,820
Assessments.....	-	430,033	430,033	403,276
Federal grants and reimbursements.....	9,027,800	9,295,310	267,510	8,541,886
Departmental.....	2,297,100	1,607,910	(689,190)	1,437,499
Miscellaneous.....	-	347,511	347,511	391,757
Total revenues.....	<u>27,887,010</u>	<u>29,708,929</u>	<u>1,821,919</u>	<u>27,234,238</u>
Other financing sources:				
Fringe benefit cost recovery.....	-	355,811	355,811	281,807
Lottery reimbursements.....	105,298	86,391	(18,907)	88,938
Lottery distributions.....	904,344	881,817	(22,527)	893,806
Operating transfers in.....	613,728	217,928	(395,800)	299,212
Stabilization transfer.....	5,900	9,044	3,144	206,574
Tobacco settlement transfer.....	329,930	248,741	(81,189)	263,678
Excess permissible tax revenue.....	-	1,178,350	1,178,350	-
Total other financing sources.....	<u>1,959,200</u>	<u>2,978,082</u>	<u>1,018,882</u>	<u>2,034,015</u>
Total revenues and other financing sources.....	<u>29,846,210</u>	<u>32,687,011</u>	<u>2,840,801</u>	<u>29,268,253</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Legislature.....	60,908	57,895	3,013	59,453
Judiciary.....	799,644	767,635	32,009	767,178
Inspector General.....	3,587	2,798	789	2,734
Governor and Lieutenant Governor.....	5,089	5,046	43	5,176
Secretary of the Commonwealth.....	40,327	39,360	967	47,704
Treasurer and Receiver-General.....	260,969	204,397	56,572	175,894
Auditor of the Commonwealth.....	17,903	17,015	888	16,708
Attorney General.....	42,433	41,020	1,413	40,558
Ethics Commission.....	1,731	1,660	71	1,574
District Attorney.....	94,610	93,699	911	92,792
Office of Campaign and Political Finance.....	1,222	1,170	52	1,175
Sheriff's Departments.....	510,070	502,556	7,514	370,009
Disabled Persons Protection Commission.....	2,174	2,174	-	2,150
Board of Library Commissioners.....	21,461	21,439	22	24,672
Comptroller.....	7,750	7,739	11	7,899

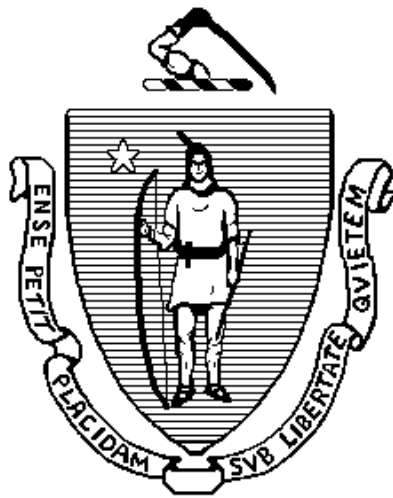
continued

**General Fund**  
**Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis**

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
Expenditures (continued):				
Administration and finance.....	1,857,283	1,618,057	239,226	1,531,620
Energy and environmental affairs.....	184,380	175,477	8,903	183,738
Health and human services.....	4,606,231	4,516,250	89,981	4,616,556
Executive office of education.....	1,823,691	1,807,528	16,163	1,717,211
Public safety and homeland security.....	928,957	897,819	31,138	1,049,249
Housing and economic development.....	373,551	360,949	12,602	351,579
Labor and workforce development.....	45,171	37,236	7,935	28,305
Direct local aid.....	4,853,108	4,784,717	68,391	4,837,371
Medicaid.....	10,269,881	10,237,326	32,555	9,286,565
Post employment benefits.....	1,838,857	1,838,857	-	1,748,619
Debt service:				
Principal retirement.....	442,025	428,607	13,418	591,573
Interest and fiscal charges.....	498,416	431,507	66,909	411,468
Total expenditures.....	<u>29,591,429</u>	<u>28,899,933</u>	<u>691,496</u>	<u>27,969,530</u>
Other financing uses:				
Operating transfers out.....	-	127,283	(127,283)	57,089
Stabilization transfer.....	-	553,044	(553,044)	11,269
Commonwealth transportation transfer.....	-	-	-	275,000
Commonwealth care transfer.....	739,012	739,012	-	631,685
Medical assistance transfer.....	886,101	886,101	-	313,295
Excess permissible tax revenue.....	-	1,187,394	(1,187,394)	-
Total other financing uses.....	<u>1,625,113</u>	<u>3,492,834</u>	<u>(1,867,721)</u>	<u>1,288,338</u>
Total expenditures and other financing uses.....	<u>31,216,542</u>	<u>32,392,767</u>	<u>(1,176,225)</u>	<u>29,257,868</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(1,370,332)	294,244	1,664,576	10,385
Fund balance (deficit) at beginning of year.....	156,653	156,653	-	146,268
Fund balance (deficit) at end of year.....	<u>\$ (1,213,679)</u>	<u>\$ 450,897</u>	<u>\$ 1,664,576</u>	<u>\$ 156,653</u>

See accountants' review report



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**Commonwealth Transportation Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	2011	2010
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 24,603	\$ 12,271
Cash with fiscal agent.....	19,239	10,847
<b>Total assets.....</b>	<b>\$ 43,842</b>	<b>\$ 23,118</b>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 4,411	\$ 5,155
Accrued payroll.....	8,272	7,116
<b>Total liabilities.....</b>	<b>12,683</b>	<b>12,271</b>
Fund balance:		
Reserved fund balance:		
Reserved for debt service.....	19,239	10,847
Unreserved fund balance:		
Undesignated.....	11,920	-
<b>Total fund balance.....</b>	<b>31,159</b>	<b>10,847</b>
<b>Total liabilities and fund balance.....</b>	<b>\$ 43,842</b>	<b>\$ 23,118</b>

See accountants' review report

**Commonwealth Transportation Fund**  
Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 959,500	\$ 962,090	\$ 2,590	\$ 653,783
Assessments.....	-	13,370	13,370	14,059
Departmental.....	501,100	485,839	(15,261)	489,840
Miscellaneous.....	-	32	32	29,487
Total revenues.....	<u>1,460,600</u>	<u>1,461,331</u>	<u>731</u>	<u>1,187,169</u>
Other financing sources:				
Operating transfers in.....	-	5,405	5,405	-
Commonwealth transportation transfer.....	-	-	-	275,000
Total other financing sources.....	<u>-</u>	<u>5,405</u>	<u>5,405</u>	<u>275,000</u>
Total revenues and other financing sources.....	<u>1,460,600</u>	<u>1,466,736</u>	<u>6,136</u>	<u>1,462,169</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Sheriff's Departments.....	-	-	-	245
Administration and finance.....	9,625	9,618	7	9,618
Energy and environmental affairs.....	-	-	-	8,426
Massachusetts department of transportation.....	160,000	160,000	-	502,403
Public safety and homeland security.....	-	-	-	3,390
Housing and economic development.....	-	-	-	54
Debt service:				
Principal retirement.....	405,162	386,783	18,379	457,037
Interest and fiscal charges.....	455,364	416,979	38,385	399,562
Total expenditures.....	<u>1,030,151</u>	<u>973,380</u>	<u>56,771</u>	<u>1,380,735</u>
Other financing uses:				
Fringe benefit cost assessment.....	-	-	-	5,716
Operating transfers out.....	370,972	386,143	(15,171)	64,871
Stabilization transfer.....	-	86,901	(86,901)	-
Total other financing uses.....	<u>370,972</u>	<u>473,044</u>	<u>(102,072)</u>	<u>70,587</u>
Total expenditures and other financing uses.....	<u>1,401,123</u>	<u>1,446,424</u>	<u>(45,301)</u>	<u>1,451,322</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses...				
	59,477	20,312	(39,165)	10,847
Fund balance (deficit) at beginning of year.....	<u>10,847</u>	<u>10,847</u>	<u>-</u>	<u>-</u>
Fund balance (deficit) at end of year.....	<u>\$ 70,324</u>	<u>\$ 31,159</u>	<u>\$ (39,165)</u>	<u>\$ 10,847</u>

See accountants' review report

**Commonwealth Stabilization Fund**  
**Balance Sheet- Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	2011	2010
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 1,123,168	\$ 415,122
Investments.....	255,903	254,681
Total assets.....	\$ 1,379,071	\$ 669,803
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable.....	\$ -	\$ -
Total liabilities.....	-	-
Fund balance:		
Reserved fund balance:		
Reserved for Commonwealth Stabilization.....	1,379,071	669,803
Total fund balance.....	1,379,071	669,803
Total liabilities and fund balance.....	\$ 1,379,071	\$ 669,803

See accountants' review report

**Commonwealth Stabilization Fund**  
Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ -	\$ 1,619	\$ 1,619	\$ 1,982
Miscellaneous.....	5,900	9,044	3,144	21,782
Total revenues.....	<u>5,900</u>	<u>10,663</u>	<u>4,763</u>	<u>23,764</u>
Other financing sources:				
Stabilization transfer.....	-	698,605	698,605	11,269
Excess permissible tax revenue.....	-	9,044	9,044	-
Total other financing sources.....	<u>-</u>	<u>707,649</u>	<u>707,649</u>	<u>11,269</u>
Total revenues and other financing sources.....	<u>5,900</u>	<u>718,312</u>	<u>712,412</u>	<u>35,033</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:				
Stabilization transfer.....	5,900	9,044	(3,144)	206,574
Total other financing uses.....	<u>5,900</u>	<u>9,044</u>	<u>(3,144)</u>	<u>206,574</u>
Total expenditures and other financing uses.....	<u>5,900</u>	<u>9,044</u>	<u>(3,144)</u>	<u>206,574</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses....	-	709,268	709,268	(171,541)
Fund balance (deficit) at beginning of year.....	669,803	669,803	-	841,344
Fund balance (deficit) at end of year.....	<u>\$ 669,803</u>	<u>\$ 1,379,071</u>	<u>\$ 709,268</u>	<u>\$ 669,803</u>

See accountants' review report

**Temporary Holding Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	2011	2010
<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:		
Undesignated.....	-	-
Total fund balance.....	-	-
Total liabilities and fund balance.....	\$ -	\$ -

See accountants' review report

**Temporary Holding Fund**  
**Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis**

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Miscellaneous.....	\$ -	\$ -	\$ -	\$ -
Total revenues.....	-	-	-	-
Other financing sources:				
Excess permissible tax revenue.....	-	1,187,394	1,187,394	-
Total other financing sources.....	-	1,187,394	1,187,394	-
Total revenues and other financing sources.....	-	1,187,394	1,187,394	-
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Administration and finance.....	-	-	-	-
Total expenditures.....	-	-	-	-
Other financing uses:				
Excess permissible tax revenue.....	-	1,187,394	(1,187,394)	-
Total other financing uses.....	-	1,187,394	(1,187,394)	-
Total expenditures and other financing uses.....	-	1,187,394	(1,187,394)	-
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.....	\$ -	\$ -	\$ -	\$ -

See accountants' review report

**Intragovernmental Service Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	2011	2010
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 28,410	\$ 22,677
Total assets.....	\$ 28,410	\$ 22,677
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 21,325	\$ 15,761
Accrued payroll.....	2,968	2,826
Total liabilities.....	24,293	18,587
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	4,117	4,090
Total fund balance .....	4,117	4,090
Total liabilities and fund balance.....	\$ 28,410	\$ 22,677

See accountants' review report

## Intragovernmental Service Fund

### Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ -	\$ 296,666	\$ 296,666	\$ 245,308
Total revenues.....	-	296,666	296,666	245,308
Other financing sources:				
Operating transfers in.....	-	36	36	-
Total other financing sources.....	-	36	36	-
Total revenues and other financing sources.....	-	296,702	296,702	245,308
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Judiciary.....	507	-	507	-
Governor and Lieutenant Governor.....	120	59	61	60
Secretary of the Commonwealth.....	116	115	1	115
Attorney General.....	20	9	11	-
Comptroller.....	3,529	3,506	23	3,181
Administration and finance.....	221,052	172,948	48,104	141,849
Energy and environmental affairs.....	4,503	2,528	1,975	412
Health and human services.....	112,282	76,366	35,916	73,229
Executive office of education.....	1,857	-	1,857	-
Public safety and homeland security.....	50,975	37,123	13,852	23,025
Housing and economic development.....	3,650	932	2,718	10
Labor and workforce development.....	17,708	16	17,692	-
Total expenditures.....	416,319	293,602	122,717	241,881
Other financing uses:				
Operating transfers out.....	-	3,073	(3,073)	2,780
Total other financing uses.....	-	3,073	(3,073)	2,780
Total expenditures and other financing uses.....	416,319	296,675	119,644	244,661
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....				
	(416,319)	27	416,346	647
Fund balance (deficit) at beginning of year.....	4,090	4,090	-	3,443
Fund balance (deficit) at end of year.....	\$ (412,229)	\$ 4,117	\$ 416,346	\$ 4,090

See accountants' review report



**Inland Fisheries And Game Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	2011	2010
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 18,326	\$ 17,849
Total assets.....	\$ 18,326	\$ 17,849
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 319	\$ 318
Accrued payroll.....	198	187
Total liabilities.....	517	505
Fund balance:		
Unreserved fund balance:		
Undesignated.....	17,809	17,344
Total fund balance.....	17,809	17,344
Total liabilities and fund balance.....	\$ 18,326	\$ 17,849

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, 2011

(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 900	\$ 871	\$ (29)	\$ 866
Federal grants and reimbursements.....	6,800	4,236	(2,564)	6,950
Departmental.....	7,100	7,206	106	7,147
Miscellaneous.....	-	21	21	14
Total revenues.....	<u>14,800</u>	<u>12,334</u>	<u>(2,466)</u>	<u>14,977</u>
Other financing sources:				
Operating transfers in.....	100	138	38	130
Total other financing sources.....	<u>100</u>	<u>138</u>	<u>38</u>	<u>130</u>
Total revenues and other financing sources.....	<u>14,900</u>	<u>12,472</u>	<u>(2,428)</u>	<u>15,107</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Energy and environmental affairs.....	10,681	10,068	613	10,026
Total expenditures.....	<u>10,681</u>	<u>10,068</u>	<u>613</u>	<u>10,026</u>
Other financing uses				
Fringe benefit cost assessment.....	1,600	1,939	(339)	1,609
Total other financing uses.....	<u>1,600</u>	<u>1,939</u>	<u>(339)</u>	<u>1,609</u>
Total expenditures and other financing uses.....	<u>12,281</u>	<u>12,007</u>	<u>274</u>	<u>11,635</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses....	2,619	465	(2,154)	3,472
Fund balance (deficit) at beginning of year.....	17,344	17,344	-	13,872
Fund balance (deficit) at end of year.....	<u>\$ 19,963</u>	<u>\$ 17,809</u>	<u>\$ (2,154)</u>	<u>\$ 17,344</u>

See accountants' review report

**Marine Recreational Fisheries Development Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	2011	2010
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 67	\$ -
Total assets.....	\$ 67	\$ -
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 4	\$ -
Total liabilities.....	4	-
Fund balance:		
Unreserved fund balance:		
Undesignated.....	63	-
Total fund balance.....	63	-
Total liabilities and fund balance.....	\$ 67	\$ -

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, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Departmental.....	\$ 100	\$ 717	\$ 617	\$ -
Total revenues.....	<u>100</u>	<u>717</u>	<u>617</u>	<u>-</u>
Other financing sources:				
Operating transfers in.....	-	-	-	-
Total other financing sources.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other financing sources.....	<u>100</u>	<u>717</u>	<u>617</u>	<u>-</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Energy and environmental affairs.....	102	41	61	-
Total expenditures.....	<u>102</u>	<u>41</u>	<u>61</u>	<u>-</u>
Other financing uses				
Operating transfers out.....	-	155	(155)	-
Stabilization transfer.....	-	458	(458)	-
Total other financing uses.....	<u>-</u>	<u>613</u>	<u>(613)</u>	<u>-</u>
Total expenditures and other financing uses.....	<u>102</u>	<u>654</u>	<u>(552)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses....	(2)	63	65	-
Fund balance (deficit) at beginning of year.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit) at end of year.....	<u>\$ (2)</u>	<u>\$ 63</u>	<u>\$ 65</u>	<u>\$ -</u>

See accountants' review report

**Workforce Training Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	2011	2010
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 11,345	\$ 18,154
Total assets.....	\$ 11,345	\$ 18,154
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 752	\$ 1,587
Accrued payroll.....	118	414
Total liabilities.....	870	2,001
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	9,720	5,000
Unreserved fund balance:		
Undesignated.....	755	11,153
Total fund balance.....	10,475	16,153
Total liabilities and fund balance.....	\$ 11,345	\$ 18,154

See accountants' review report

**Workforce Training Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 21,000	\$ 20,448	\$ (552)	\$ 19,378
Total revenues.....	<u>21,000</u>	<u>20,448</u>	<u>(552)</u>	<u>19,378</u>
Other financing sources:				
Operating transfers in.....	-	-	-	-
Total other financing sources.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other financing sources.....	<u>21,000</u>	<u>20,448</u>	<u>(552)</u>	<u>19,378</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Administration and finance.....	-	-	-	22
Labor and workforce development.....	31,002	19,281	11,721	13,932
Total expenditures.....	<u>31,002</u>	<u>19,281</u>	<u>11,721</u>	<u>13,954</u>
Other financing uses:				
Fringe benefit cost assessment.....	400	521	(121)	389
Operating transfers out.....	-	816	(816)	-
Stabilization transfer.....	-	5,508	(5,508)	-
Total other financing uses.....	<u>400</u>	<u>6,845</u>	<u>(6,445)</u>	<u>389</u>
Total expenditures and other financing uses.....	<u>31,402</u>	<u>26,126</u>	<u>5,276</u>	<u>14,343</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(10,402)	(5,678)	4,724	5,035
Fund balance (deficit) at beginning of year.....	16,153	16,153	-	11,118
Fund balance (deficit) at end of year.....	<u>\$ 5,751</u>	<u>\$ 10,475</u>	<u>\$ 4,724</u>	<u>\$ 16,153</u>

See accountants' review report

**Substance Abuse Prevention & Treatment Fund**  
**Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and short-term investments.....	\$ -	\$ -
Total assets.....	<u>\$ -</u>	<u>\$ -</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Deficiency in cash and short-term investments.....	\$ -	\$ -
Total liabilities.....	<u>-</u>	<u>-</u>
Fund balance:		
Unreserved fund balance:		
Undesignated.....	<u>-</u>	<u>-</u>
Total fund balance.....	<u>-</u>	<u>-</u>
Total liabilities and fund balance.....	<u>\$ -</u>	<u>\$ -</u>

See accountants' review report

**Substance Abuse Prevention & Treatment Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 108,000	\$ 43,102	\$ (64,898)	\$ -
Total revenues.....	108,000	43,102	(64,898)	-
Other financing sources:				
Operating transfers in.....	-	64,732	64,732	-
Total other financing sources.....	-	64,732	64,732	-
Total revenues and other financing sources.....	108,000	107,834	(166)	-
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Sheriff's Departments.....	507	497	10	-
Health and human services.....	99,183	98,597	586	-
Public safety and homeland security.....	7,231	7,230	1	-
Total expenditures.....	106,921	106,324	597	-
Other financing uses:				
Fringe benefit cost assessment.....	-	1,510	(1,510)	-
Total other financing uses.....	-	1,510	(1,510)	-
Total expenditures and other financing uses.....	106,921	107,834	(913)	-
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	1,079	-	(1,079)	-
Fund balance (deficit) at beginning of year.....	-	-	-	-
Fund balance (deficit) at end of year.....	\$ 1,079	\$ -	\$ (1,079)	\$ -

See accountants' review report



**Massachusetts Tourism Fund  
Balance Sheet - Statutory Basis**

June 30, 2011  
(Amounts in thousands)

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and short-term investments.....	\$ 7,289	\$ 28,828
Total assets.....	<u>\$ 7,289</u>	<u>\$ 28,828</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable.....	\$ 24	\$ 616
Accrued payroll.....	<u>37</u>	<u>34</u>
Total liabilities.....	<u>61</u>	<u>650</u>
 Fund balance:		
Unreserved fund balance:		
Undesignated.....	<u>7,228</u>	<u>28,178</u>
Total fund balance.....	<u>7,228</u>	<u>28,178</u>
Total liabilities and fund balance.....	<u>\$ 7,289</u>	<u>\$ 28,828</u>

See accountants' review report

**Massachusetts Tourism Fund**  
Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	2011 Budget	2011 Actual	Variance Favorable (Unfavorable)	2010 Actual
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
Revenues:				
Taxes.....	\$ 35,000	\$ 38,640	\$ 3,640	\$ 35,549
Total revenues.....	<u>35,000</u>	<u>38,640</u>	<u>3,640</u>	<u>35,549</u>
Other financing sources:				
Operating transfers in.....	-	-	-	-
Total other financing sources.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other financing sources.....	<u>35,000</u>	<u>38,640</u>	<u>3,640</u>	<u>35,549</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Governor and Lieutenant Governor.....	17	17	-	9
Public safety and homeland security.....	-	-	-	219
Housing and economic development.....	2,038	1,996	42	7,435
Total expenditures.....	<u>2,055</u>	<u>2,013</u>	<u>42</u>	<u>7,663</u>
Other financing uses:				
Fringe benefit cost assessment.....	300	356	(56)	299
Operating transfers out.....	-	4,527	(4,527)	-
Stabilization transfer.....	-	52,694	(52,694)	-
Total other financing uses.....	<u>300</u>	<u>57,577</u>	<u>(57,277)</u>	<u>299</u>
Total expenditures and other financing uses.....	<u>2,355</u>	<u>59,590</u>	<u>(57,235)</u>	<u>7,962</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses...	32,645	(20,950)	(53,595)	27,587
Fund balance (deficit) at beginning of year.....	28,178	28,178	-	591
Fund balance (deficit) at end of year.....	<u>\$ 60,823</u>	<u>\$ 7,228</u>	<u>\$ (53,595)</u>	<u>\$ 28,178</u>

See accountants' review report



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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 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 to the General Fund.

*Arts Lottery Fund* - to account for revenues from 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.

## **UNIVERSAL HEALTH CARE FUNDS:**

The six 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.

*Commonwealth Care Trust Fund* – to collect fair share employer assessments, free rider surcharges, cigarette tax revenues, transfers from the Health Safety Net Trust Fund, any funds that may be appropriated or transferred for deposit into the trust fund for the purposes of the demonstration program approved by the Secretary of the United States Department of Health and Human Services under section 1115 of the Social Security Act, as extended or renewed from time to time and individual health care

coverage penalties for the purpose of providing health care coverage in accordance with the Chapter 58 of the Acts of 2006.

*Essential Community Provider Trust Fund* – to account for transfers and interest; used for payments to acute care hospitals and community health centers, as defined in Chapter 58 of the Acts of 2006, Section 8.

*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.

*Medical Security Trust Fund* – to account for premiums, fees, and contributions; used for health insurance for workers receiving unemployment insurance.

*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.

## **OTHER FUNDS:**

The other minor 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.

*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.

*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.

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**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.

**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 revenue and MBTA service area assessments from the Commonwealth to the MBTA as set forth in Massachusetts General Laws, Chapter 10, Section 35T.

**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 only. No rolling stock is to be acquired through the fund.

**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 who 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.

**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 purpose. The fund is not allowed to incur a deficit. Any

year-end balance in excess of 20% of the prior year's expenditures revert to the General Fund.

**Victims of Drunk Driving Trust Fund** – to account for fines collected from convicted individuals of driving under the influence of various substances defined by the law. 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 three percent 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 and may be made available for appropriation. Expenditures are for emergency hazardous materials response and mitigation costs.

**Registers Technological Fund** – to account for funds received from deeds excise taxes 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 deeds excise taxes 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 tax contributions from citizens.

**Enhanced 911 Fund** – to account for expenditures by the state 911 department 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

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courts, including investment income. Expenditures are for rate enhancements for advocates for the indigent.

**Smart Growth Housing Trust Fund** – to account for revenues from the sale of surplus property for the total amount of sales 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 climatic 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 revenues generated from fees, fines, leases, gifts, grants, interest or any other revenue sources at the Roche Community Rink, formerly the Bryant Rink, in the West Roxbury section of the city of Boston. Expenditures are for operational costs, capital improvements, equipment and maintenance of said rink, including the costs of personnel.

**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.

**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 state-wide zoning, land use planning, conservation, public safety planning, information technology and statistical trend modeling under the supervision of the Department of Housing and Community Development. The annual expenditures cannot 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 support programs that encourage carriers in field related to nursing and allied health.

**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.

**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 want to participate

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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 issue 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 Initiative (RGGI) Auction Trust Fund*** – to account for expenditures 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 electric 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; used to restore or enhance marine habitat and resources impacted 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.

***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.

***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.

***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 under the provisions of section 6K of Chapter 62, 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 the 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 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 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

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on tourist tickets, including cruises and land-based sightseeing located in the Commonwealth, to finance the construction of a new Boston Convention Center and convention centers in Worcester and Springfield.

***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 grant anticipation note expenditures and pay the related debt service of the proceeds.

**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 Inspections Trust Fund*** - to account for 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 are inactive:

***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.

***Energy Technology Development Fund*** – to account for revenues received from miscellaneous trusts, gifts and donations to be administered and expended by the commissioner of the Division of Energy Resources to promote energy efficiency and the research development and commercialization of new energy technologies.

***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.



**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2011  
 (Amounts in thousands)

	Lotteries			Universal Health Care Funds			
	Federal Grants	State Lottery	Arts Lottery	Commonwealth Care Trust	Essential Community Provider Trust	Medical Assistance Trust	Health Safety Net Trust
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ 815	\$ -	\$ 144,896	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-	332,351
Federal grants and reimbursements.....	3,096,867	-	-	-	-	-	-
Tobacco settlement revenue.....	-	-	-	-	-	-	-
Departmental.....	-	4,532,525	98,568	18,000	-	147,212	314
Miscellaneous.....	-	1,060	57	54,572	-	-	404
<b>Total revenues.....</b>	<b>3,096,867</b>	<b>4,534,400</b>	<b>98,625</b>	<b>217,468</b>	<b>-</b>	<b>147,212</b>	<b>333,069</b>
Other financing sources:							
Proceeds of refunding bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	71,873	-	-	-	-
Commonwealth care trust transfer.....	-	-	-	739,012	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	30,000
Medical assistance transfer.....	-	-	-	-	-	886,101	-
<b>Total other financing sources.....</b>	<b>-</b>	<b>-</b>	<b>71,873</b>	<b>739,012</b>	<b>-</b>	<b>886,101</b>	<b>30,000</b>
<b>Total revenues and other financing sources.....</b>	<b>3,096,867</b>	<b>4,534,400</b>	<b>170,498</b>	<b>956,480</b>	<b>-</b>	<b>1,033,313</b>	<b>363,069</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	1,215	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	281
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	1,044	-	-	-	-	-	-
Treasurer and Receiver-General.....	2,635	3,570,703	85,788	-	-	-	-
Attorney General.....	8,197	-	-	-	-	-	-
District Attorney.....	3,138	-	-	-	-	-	-
Office of Campaign and Political Finance.....	-	-	-	-	-	-	-
Sheriff's Departments.....	4,143	-	-	-	-	-	-
Disabled Persons Protection Commission.....	106	-	-	-	-	-	-
Board of Library Commissioners.....	3,229	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and finance.....	7,540	-	-	-	-	-	-
Energy and environmental affairs.....	74,140	-	-	-	-	-	-
Health and human services.....	435,253	-	-	888,674	-	1,033,102	369,444
Massachusetts department of transportation.....	1,102	-	-	-	-	-	-
Executive office of education.....	1,398,577	-	-	-	-	-	-
Public safety and homeland security.....	142,146	-	-	-	-	-	-
Housing and economic development.....	683,881	-	-	-	-	-	-
Labor and workforce development.....	187,723	-	-	246	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>2,954,069</b>	<b>3,570,703</b>	<b>85,788</b>	<b>888,920</b>	<b>-</b>	<b>1,033,102</b>	<b>369,725</b>
Other financing uses:							
Fringe benefit cost assessment.....	70,437	8,326	-	74	-	-	30
Lottery operating reimbursements.....	-	80,295	6,096	-	-	-	-
Lottery distributions.....	-	803,203	78,614	-	-	-	-
Operating transfers out.....	56,491	71,873	-	16	518	-	13
Tobacco settlement transfer.....	-	-	-	-	-	-	-
Commonwealth care trust transfer.....	-	-	-	30,000	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Equity transfer to Massachusetts department of transportation.....	-	-	-	-	-	-	-
<b>Total other financing uses.....</b>	<b>126,928</b>	<b>963,697</b>	<b>84,710</b>	<b>30,090</b>	<b>518</b>	<b>-</b>	<b>43</b>
<b>Total expenditures and other financing uses.....</b>	<b>3,080,997</b>	<b>4,534,400</b>	<b>170,498</b>	<b>919,010</b>	<b>518</b>	<b>1,033,102</b>	<b>369,768</b>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	15,870	-	-	37,470	(518)	211	(6,699)
Fund balance (deficit) at beginning of year (restated).....	43,714	-	-	44,594	518	-	107,229
<b>Fund balance (deficit) at end of year.....</b>	<b>\$ 59,584</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 82,064</b>	<b>\$ -</b>	<b>\$ 211</b>	<b>\$ 100,530</b>

See accountants' review report

Universal Health Care Funds		Non-budgeted Other Funds							
Medical Security Trust	Catastrophic Illness in Children Relief	Department of Telecommunication and Energy Trust	Liability Management and Reduction	Health Care Security Trust	Commonwealth of Massachusetts Civil Monetary Penalty (CMP)	MBTA State and Local Contribution	MBTA Infrastructure Renovation	Community Preservation Trust	Health Insurance Portability and Accountability Act
\$ -	\$ -	\$ 4,688	\$ -	\$ -	\$ -	\$ 767,057	\$ -	\$ 26,637	\$ -
-	-	-	-	-	-	150,148	-	-	-
-	-	-	-	248,741	-	-	-	-	9,080
115,008	-	-	1,950	-	306	-	-	-	-
8	16	-	3	-	-	-	17	32	-
115,016	16	4,688	1,953	248,741	306	917,205	17	26,669	9,080
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
115,016	16	4,688	1,953	248,741	306	917,205	17	26,669	9,080
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	50	-	-	917,205	2,458	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	2,067	-	-	-	-	-	-
-	-	-	-	-	-	-	-	25,990	-
-	-	4,383	-	-	-	-	-	-	-
-	2,276	-	-	-	169	-	-	-	9,426
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
176,164	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
176,164	2,276	4,383	2,117	-	169	917,205	2,458	25,990	9,426
762	102	753	23	-	-	-	-	38	30
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
165	47	285	-	-	-	-	-	28	65
-	-	-	-	248,741	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
927	149	1,038	23	248,741	-	-	-	66	95
177,091	2,425	5,421	2,140	248,741	169	917,205	2,458	26,056	9,521
(62,075)	(2,409)	(733)	(187)	-	137	-	(2,441)	613	(441)
(18,607)	3,291	1,364	3,155	-	744	-	6,870	25,759	8,291
\$ (80,682)	\$ 882	\$ 631	\$ 2,968	\$ -	\$ 881	\$ -	\$ 4,429	\$ 26,372	\$ 7,850

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2011  
 (Amounts in thousands)

	Non-budgeted Other Funds						
	State Racing	Division of Professional Licensure Trust	Victims of Drunk Driving Trust	State Athletic Commission	Organ And Tissues Donor Registration	Department of Fire Services Hazardous Materials Emergency Mitigation Response Recovery Trust	Registers Technological
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ 1,457	\$ -	\$ -	\$ 247	\$ -	\$ -	\$ -
Assessments.....	726	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	-
Tobacco settlement revenue.....	-	-	-	-	-	-	-
Departmental.....	401	10,511	501	-	40	265	4,786
Miscellaneous.....	526	-	3	-	-	-	-
<b>Total revenues.....</b>	<b>3,110</b>	<b>10,511</b>	<b>504</b>	<b>247</b>	<b>40</b>	<b>265</b>	<b>4,786</b>
Other financing sources:							
Proceeds of refunding bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	-	-	-	-	-
Commonwealth care trust transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
<b>Total other financing sources.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenues and other financing sources.....</b>	<b>3,110</b>	<b>10,511</b>	<b>504</b>	<b>247</b>	<b>40</b>	<b>265</b>	<b>4,786</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	-	-	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	4,194
Treasurer and Receiver-General.....	-	-	-	-	-	-	-
Attorney General.....	-	-	300	-	-	-	-
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.....	27	-	-	-	-	-	-
Health and human services.....	130	-	-	-	-	-	-
Massachusetts department of transportation.....	-	-	-	-	-	-	-
Executive office of education.....	-	-	-	-	-	-	-
Public safety and homeland security.....	-	-	-	52	-	280	-
Housing and economic development.....	707	7,415	-	-	-	-	-
Labor and workforce development.....	-	-	-	-	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>864</b>	<b>7,415</b>	<b>300</b>	<b>52</b>	<b>-</b>	<b>280</b>	<b>4,194</b>
Other financing uses:							
Fringe benefit cost assessment.....	-	1,088	-	8	-	-	395
Lottery operating reimbursements.....	-	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-	-
Operating transfers out.....	2,374	1,970	-	52	-	17	197
Tobacco settlement transfer.....	-	-	-	-	-	-	-
Commonwealth care transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Equity transfer to Massachusetts department of transportation.....	-	-	-	-	-	-	-
<b>Total other financing uses.....</b>	<b>2,374</b>	<b>3,058</b>	<b>-</b>	<b>60</b>	<b>-</b>	<b>17</b>	<b>592</b>
<b>Total expenditures and other financing uses.....</b>	<b>3,238</b>	<b>10,473</b>	<b>300</b>	<b>112</b>	<b>-</b>	<b>297</b>	<b>4,786</b>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses....	(128)	38	204	135	40	(32)	-
Fund balance (deficit) at beginning of year (restated).....	396	2,020	2,192	22	-	133	2,409
<b>Fund balance (deficit) at end of year.....</b>	<b>\$ 268</b>	<b>\$ 2,058</b>	<b>\$ 2,396</b>	<b>\$ 157</b>	<b>\$ 40</b>	<b>\$ 101</b>	<b>\$ 2,409</b>

See accountants' review report

Non-budgeted Other Funds

County Registers Technological	State Election Campaign	Enhanced 911	Counsel for Indigent Salary Enhancement Trust	Smart Growth Housing Trust	Special Projects Permitting and Oversight	Division of Energy Resources Credit Trust	School Modernization and Reconstruction Trust	Roche Community Rink	Workforce Competitiveness Trust
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 654,642	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
2,578	-	74,832	118	-	152	12	-	48	-
-	291	147	-	-	-	-	-	-	-
<u>2,578</u>	<u>291</u>	<u>74,979</u>	<u>118</u>	<u>-</u>	<u>152</u>	<u>12</u>	<u>654,642</u>	<u>48</u>	<u>-</u>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>2,578</u>	<u>291</u>	<u>74,979</u>	<u>118</u>	<u>-</u>	<u>152</u>	<u>12</u>	<u>654,642</u>	<u>48</u>	<u>-</u>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	654,642	-	-
-	-	-	-	-	-	-	-	-	-
-	1,390	-	-	-	-	-	-	-	-
-	-	2,286	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
908	-	857	-	-	-	-	-	-	-
-	-	-	-	-	125	225	-	-	-
-	-	107	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	52,977	-	-	-	-	-	-	-
-	-	-	-	950	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>908</u>	<u>1,390</u>	<u>56,227</u>	<u>-</u>	<u>950</u>	<u>125</u>	<u>225</u>	<u>654,642</u>	<u>-</u>	<u>-</u>
-	-	1,731	-	-	26	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	1,799	-	-	15	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	3,530	-	-	41	-	-	-	-
<u>908</u>	<u>1,390</u>	<u>59,757</u>	<u>-</u>	<u>950</u>	<u>166</u>	<u>225</u>	<u>654,642</u>	<u>-</u>	<u>-</u>
1,670	(1,099)	15,222	118	(950)	(14)	(213)	-	48	-
1,668	1,579	82,429	17	2,450	426	2,562	-	208	38
<u>\$ 3,338</u>	<u>\$ 480</u>	<u>\$ 97,651</u>	<u>\$ 135</u>	<u>\$ 1,500</u>	<u>\$ 412</u>	<u>\$ 2,349</u>	<u>\$ -</u>	<u>\$ 256</u>	<u>\$ 38</u>

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2011  
 (Amounts in thousands)

	Non-budgeted Other Funds						
	Fire Prevention and Public Safety	Cigarette Fire Safety Firefighter Protection Act Enforcement	Massachusetts Board of Higher Education Scholar-Internship Match	District Local Technical Assistance	Educational Rewards Grant Program	Massachusetts Nursing & Allied Health Workforce Development Trust	Government Land Bank
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	-	-	-	-
Federal grants and reimbursements.....	-	-	-	-	-	-	-
Tobacco settlement revenue.....	-	-	-	-	-	-	-
Departmental.....	14	1,980	-	-	-	-	-
Miscellaneous.....	-	-	-	-	-	10	-
<b>Total revenues.....</b>	<b>14</b>	<b>1,980</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>-</b>
Other financing sources:							
Proceeds of refunding bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	-	-	-	635	9,700
Commonwealth care trust transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
<b>Total other financing sources.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>635</b>	<b>9,700</b>
<b>Total revenues and other financing sources.....</b>	<b>14</b>	<b>1,980</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>645</b>	<b>9,700</b>
<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.....	-	-	-	-	-	-	-
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.....	-	-	-	-	-	273	-
Public safety and homeland security.....	6	369	-	-	-	-	-
Housing and economic development.....	-	-	-	-	-	-	-
Labor and workforce development.....	-	-	-	-	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	6,290
Interest and fiscal charges.....	-	-	-	-	-	-	3,410
<b>Total expenditures.....</b>	<b>6</b>	<b>369</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>273</b>	<b>9,700</b>
Other financing uses:							
Fringe benefit cost assessment.....	-	49	-	-	-	14	-
Lottery operating reimbursements.....	-	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-	-
Operating transfers out.....	-	116	-	-	-	31	-
Tobacco settlement transfer.....	-	-	-	-	-	-	-
Commonwealth care transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Equity transfer to Massachusetts department of transportation.....	-	-	-	-	-	-	-
<b>Total other financing uses.....</b>	<b>-</b>	<b>165</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45</b>	<b>-</b>
<b>Total expenditures and other financing uses.....</b>	<b>6</b>	<b>534</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>318</b>	<b>9,700</b>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	8	1,446	-	-	-	327	-
Fund balance (deficit) at beginning of year (restated).....	9	1,837	221	144	48	131	(35,033)
<b>Fund balance (deficit) at end of year.....</b>	<b>\$ 17</b>	<b>\$ 3,283</b>	<b>\$ 221</b>	<b>\$ 144</b>	<b>\$ 48</b>	<b>\$ 458</b>	<b>\$ (35,033)</b>

See accountants' review report

Non-budgeted Other Funds

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	Off Highway Vehicle Program	Oil Overcharge	Environmental Trust
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	8,982	-	-	-	-
1,173	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
464	-	-	-	34,023	672	-	782	-	901
646	555	-	-	-	-	42	-	2	14
<u>2,283</u>	<u>555</u>	<u>-</u>	<u>-</u>	<u>34,023</u>	<u>9,654</u>	<u>42</u>	<u>782</u>	<u>2</u>	<u>915</u>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>2,283</u>	<u>555</u>	<u>-</u>	<u>-</u>	<u>34,023</u>	<u>9,654</u>	<u>42</u>	<u>782</u>	<u>2</u>	<u>915</u>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	15	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,429	-	-	275	42,988	8,653	102	139	3	1,568
-	-	-	-	-	41	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	485	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>1,429</u>	<u>485</u>	<u>15</u>	<u>275</u>	<u>42,988</u>	<u>8,694</u>	<u>102</u>	<u>139</u>	<u>3</u>	<u>1,568</u>
-	-	-	-	-	-	-	-	-	-
265	42	-	-	-	1,338	-	6	-	61
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	25	-	-	-	-	16	11	-	52
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>265</u>	<u>67</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,338</u>	<u>16</u>	<u>17</u>	<u>-</u>	<u>113</u>
<u>1,694</u>	<u>552</u>	<u>15</u>	<u>275</u>	<u>42,988</u>	<u>10,032</u>	<u>118</u>	<u>156</u>	<u>3</u>	<u>1,681</u>
589	3	(15)	(275)	(8,965)	(378)	(76)	626	(1)	(766)
77	408	294	299	30,998	1,255	998	-	428	5,332
<u>\$ 666</u>	<u>\$ 411</u>	<u>\$ 279</u>	<u>\$ 24</u>	<u>\$ 22,033</u>	<u>\$ 877</u>	<u>\$ 922</u>	<u>\$ 626</u>	<u>\$ 427</u>	<u>\$ 4,566</u>

continued

**Non-Budgeted Special Revenue Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2011  
 (Amounts in thousands)

	Non-budgeted Other Funds						
	Children's Trust	Child Support Enforcement	Massachusetts Military Family Relief	Department of Industrial Accidents Special	Massachusetts AIDS	Trust Fund for the Head Injury Treatment Services	Board of Registration in Medicine
<b>REVENUES AND OTHER FINANCING SOURCES</b>							
Revenues:							
Taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments.....	-	-	-	20,153	-	-	-
Federal grants and reimbursements.....	-	18,123	-	-	-	-	-
Tobacco settlement revenue.....	-	-	-	-	-	-	-
Departmental.....	-	4,768	-	6,277	-	6,566	9,142
Miscellaneous.....	1	-	310	8	129	14	-
<b>Total revenues.....</b>	<b>1</b>	<b>22,891</b>	<b>310</b>	<b>26,438</b>	<b>129</b>	<b>6,580</b>	<b>9,142</b>
Other financing sources:							
Proceeds of refunding bonds.....	-	-	-	-	-	-	-
Operating transfers in.....	-	-	-	-	-	954	-
Commonwealth care trust transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Medical assistance transfer.....	-	-	-	-	-	-	-
<b>Total other financing sources.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>954</b>	<b>-</b>
<b>Total revenues and other financing sources.....</b>	<b>1</b>	<b>22,891</b>	<b>310</b>	<b>26,438</b>	<b>129</b>	<b>7,534</b>	<b>9,142</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>							
Expenditures:							
Judiciary.....	-	42	-	-	-	-	-
Inspector General.....	-	-	-	-	-	-	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-
Secretary of the Commonwealth.....	-	-	-	-	-	-	-
Treasurer and Receiver-General.....	-	8	-	-	-	-	-
Attorney General.....	-	-	-	-	-	-	-
District Attorney.....	-	192	-	-	-	-	-
Office of Campaign and Political Finance.....	-	-	-	-	-	-	-
Sheriff's Departments.....	-	-	-	-	-	-	-
Disabled Persons Protection Commission.....	-	-	-	-	-	-	-
Board of Library Commissioners.....	-	-	-	-	-	-	-
Comptroller.....	-	-	-	-	-	-	-
Administration and finance.....	-	16,259	-	-	-	-	-
Energy and environmental affairs.....	-	-	-	-	-	-	-
Health and human services.....	-	-	-	-	163	6,225	5,425
Massachusetts department of transportation.....	-	-	-	-	-	-	-
Executive office of education.....	15	-	-	-	-	-	-
Public safety and homeland security.....	-	-	275	-	-	-	-
Housing and economic development.....	-	-	-	-	-	-	-
Labor and workforce development.....	-	32	-	7	-	-	-
Debt service:							
Principal retirement.....	-	-	-	-	-	-	-
Interest and fiscal charges.....	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>15</b>	<b>16,533</b>	<b>275</b>	<b>7</b>	<b>163</b>	<b>6,225</b>	<b>5,425</b>
Other financing uses:							
Fringe benefit cost assessment.....	4	73	-	4,147	-	164	1,027
Lottery operating reimbursements.....	-	-	-	-	-	-	-
Lottery distributions.....	-	-	-	-	-	-	-
Operating transfers out.....	4	56	-	18,094	-	52	478
Tobacco settlement transfer.....	-	-	-	-	-	-	-
Commonwealth care transfer.....	-	-	-	-	-	-	-
Health safety net trust transfer.....	-	-	-	-	-	-	-
Federal reimbursement transfer out.....	-	-	-	-	-	-	-
Equity transfer to Massachusetts department of transportation.....	-	-	-	-	-	-	-
<b>Total other financing uses.....</b>	<b>8</b>	<b>129</b>	<b>-</b>	<b>22,241</b>	<b>-</b>	<b>216</b>	<b>1,505</b>
<b>Total expenditures and other financing uses.....</b>	<b>23</b>	<b>16,662</b>	<b>275</b>	<b>22,248</b>	<b>163</b>	<b>6,441</b>	<b>6,930</b>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses....	(22)	6,229	35	4,190	(34)	1,093	2,212
Fund balance (deficit) at beginning of year (restated).....	282	45,977	739	7,952	195	1,983	2,105
<b>Fund balance (deficit) at end of year.....</b>	<b>\$ 260</b>	<b>\$ 52,206</b>	<b>\$ 774</b>	<b>\$ 12,142</b>	<b>\$ 161</b>	<b>\$ 3,076</b>	<b>\$ 4,317</b>

See accountants' review report

Massachusetts Department of Transportation									
Water Pollution Abatement Projects Administration	Child Care Quality	Convention and Exhibition Center	Firearms Fingerprint Identity Verification Trust	Grant Anticipation Note Trust	Massachusetts Transportation Trust	Central Artery/ Tunnel Project Maintenance Trust	Motor Vehicle Safety Inspection	Totals (Memorandum only)	
								2011	2010
\$ -	\$ -	\$ 84,905	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,680,656	\$ 1,621,109
-	-	-	-	-	-	-	-	517,048	572,585
3,087	-	-	-	617,265	34,194	-	-	3,779,789	3,940,562
-	-	-	-	-	-	-	-	248,741	263,678
-	292	258	1,091	-	390,681	-	30,424	5,496,462	5,157,923
7,343	-	1,579	-	6,145	9,938	6,747	20	90,639	184,709
10,430	292	86,742	1,091	623,410	434,813	6,747	30,444	11,813,335	11,740,566
-	-	-	-	406,453	-	-	-	406,453	-
-	-	-	-	30,028	388,900	1,252	-	503,342	455,089
-	-	-	-	-	-	-	-	739,012	636,685
-	-	-	-	-	-	-	-	30,000	313,295
-	-	-	-	-	-	-	-	886,101	1,712
-	-	-	-	436,481	388,900	1,252	-	2,564,908	1,406,781
10,430	292	86,742	1,091	1,059,891	823,713	7,999	30,444	14,378,243	13,147,347
-	-	-	-	-	-	-	-	1,257	1,238
-	-	-	-	-	-	-	-	281	882
-	-	-	-	-	98	-	-	98	-
-	-	-	-	-	-	-	-	5,238	4,184
-	-	-	-	161,536	174	-	-	5,395,164	5,300,897
-	-	-	-	-	-	-	-	8,547	9,022
-	-	-	-	-	-	-	-	3,330	2,899
-	-	-	-	-	-	-	-	1,390	-
-	-	-	-	-	579	-	-	7,008	3,908
-	-	-	-	-	-	-	-	106	251
-	-	-	-	-	-	-	-	3,229	2,877
-	-	-	-	-	-	-	-	2,067	1,601
-	-	77,136	-	-	-	-	-	128,690	122,733
7,053	-	-	-	-	1,956	-	872	143,938	163,233
-	-	-	-	-	28	-	-	2,750,463	2,002,904
-	-	-	-	-	604,843	22,368	20,644	648,957	550,661
-	-	-	-	-	-	-	-	1,399,350	1,443,041
-	-	-	936	-	590	-	-	197,631	200,602
-	-	-	-	-	61	-	-	693,014	677,532
-	-	-	-	-	-	-	-	364,172	351,951
-	-	-	-	374,105	-	-	-	380,395	159,912
-	-	35,391	-	37,601	-	-	-	76,402	89,875
7,053	-	112,527	936	573,242	608,329	22,368	21,516	12,210,727	11,090,203
1,644	-	-	-	-	38,323	-	1,208	132,188	104,974
-	-	-	-	-	-	-	-	86,391	88,938
-	-	-	-	-	-	-	-	881,817	893,806
2,431	-	-	-	-	1,717	2	275	159,285	310,374
-	-	-	-	-	-	-	-	248,741	263,678
-	-	-	-	-	-	-	-	-	5,000
-	-	-	-	-	-	-	-	30,000	-
-	-	-	-	458,410	-	-	-	458,410	610,061
-	-	-	-	-	-	-	-	-	357,049
4,075	-	-	-	458,410	40,040	2	1,483	1,996,832	2,633,880
11,128	-	112,527	936	1,031,652	648,369	22,370	22,999	14,207,559	13,724,083
(698)	292	(25,785)	155	28,239	175,344	(14,371)	7,445	170,684	(576,736)
1,194	665	131,096	2,164	359,376	509,654	417,027	(94)	1,813,232	2,389,968
\$ 496	\$ 957	\$ 105,311	\$ 2,319	\$ 387,615	\$ 684,998	\$ 402,656	\$ 7,351	\$ 1,983,916	\$ 1,813,232





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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 Capital Projects Fund** - 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:

These funds account 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 FUNDS:

**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; used for purposes of state parks, reservations and recreation areas outside the metropolitan parks district.

## MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT) FUNDS:

**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 fund has been enacted in legislation but was inactive in FY11 and 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.

**Capital Projects Funds**  
 Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2011  
 (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.....	\$ 8,372	\$ -	\$ -	\$ -
Departmental.....	-	-	-	-
Miscellaneous.....	-	-	1	(638)
Total revenues.....	<u>8,372</u>	<u>-</u>	<u>1</u>	<u>(638)</u>
Other financing sources:				
Proceeds of general obligation bonds.....	908,161	-	-	724,250
Proceeds of special obligation bonds.....	-	-	-	672,587
Proceeds of refunding bonds.....	210,796	-	1,440	163,924
Operating transfers in.....	-	-	-	-
Federal reimbursement transfer in.....	-	-	-	-
State share of federal highway construction.....	-	-	-	-
Total other financing sources.....	<u>1,118,957</u>	<u>-</u>	<u>1,440</u>	<u>1,560,761</u>
Total revenues and other financing sources.....	<u>1,127,329</u>	<u>-</u>	<u>1,441</u>	<u>1,560,123</u>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
Expenditures:				
Judiciary.....	18,950	-	-	-
Inspector General.....	-	-	-	-
Secretary of the Commonwealth.....	1,523	-	-	-
Treasurer and Receiver-General.....	10,646	-	-	-
Attorney General.....	1,011	-	-	155
Sheriff's Departments.....	1,305	-	-	-
Board of Library Commissioners.....	9,066	-	-	-
Comptroller.....	1,149	-	-	-
Administration and finance.....	524,110	-	-	-
Energy and environmental affairs.....	141,032	-	28	6,674
Health and human services.....	24,475	-	-	-
Massachusetts department of transportation.....	46,800	-	-	751,713
Executive office of education.....	17,880	-	-	-
Public safety and homeland security.....	32,047	-	-	-
Housing and economic development.....	198,300	-	-	27,117
Labor and workforce development.....	7,732	-	-	-
Debt service:				
Interest and fiscal charges.....	-	-	-	7,080
Total expenditures.....	<u>1,036,026</u>	<u>-</u>	<u>28</u>	<u>792,739</u>
Other financing uses:				
Payments to refunded bond escrow agent.....	210,796	-	1,440	163,924
Fringe benefit cost assessment.....	11,114	-	-	27,783
Operating transfers out.....	-	-	-	613
State share of federal highway construction.....	-	-	-	57,809
Equity transfer to Massachusetts department of transportation	-	-	-	-
Total other financing uses.....	<u>221,910</u>	<u>-</u>	<u>1,440</u>	<u>250,129</u>
Total expenditures and other financing uses.....	<u>1,257,936</u>	<u>-</u>	<u>1,468</u>	<u>1,042,868</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	(130,607)	-	(27)	517,255
Fund balance (deficit) at beginning of year (restated).....	221,982	8,393	(94)	(485,678)
Fund balance (deficit) at end of year.....	<u>\$ 91,375</u>	<u>\$ 8,393</u>	<u>\$ (121)</u>	<u>\$ 31,577</u>

See accountants' review report

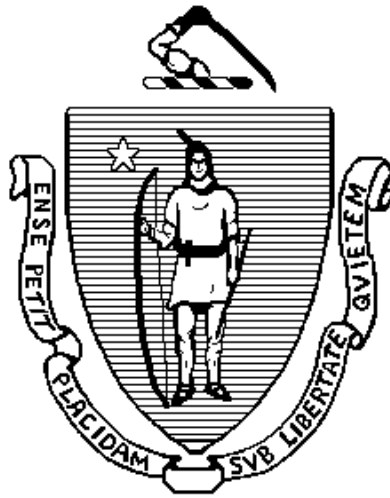
Federal Highway Construction Program	Government Land Bank Capital Projects	Local Capital Projects	MassDOT Central Artery Statewide Road and Bridge Infrastructure	Totals (Memorandum only)	
				2011	2010
\$ 160,540	\$ -	\$ -	\$ -	\$ 168,912	\$ 18,051
285	-	-	525	810	15,497
-	-	-	524	(113)	8,168
<u>160,825</u>	<u>-</u>	<u>-</u>	<u>1,049</u>	<u>169,609</u>	<u>41,716</u>
-	634	6	-	1,633,051	1,671,683
-	-	-	-	672,587	-
-	-	116,761	47,279	540,200	2,544,103
-	-	-	47	47	85,881
458,410	-	-	-	458,410	610,061
57,809	-	-	-	57,809	175,782
<u>516,219</u>	<u>634</u>	<u>116,767</u>	<u>47,326</u>	<u>3,362,104</u>	<u>5,087,510</u>
<u>677,044</u>	<u>634</u>	<u>116,767</u>	<u>48,375</u>	<u>3,531,713</u>	<u>5,129,226</u>
-	-	-	-	18,950	20,035
-	-	-	-	-	65
30	-	-	-	1,553	1,542
-	-	-	-	10,646	6,227
294	-	-	-	1,460	3,149
-	-	-	-	1,305	3,446
-	-	-	-	9,066	6,141
-	-	-	-	1,149	2,914
652	1,489	7	-	526,258	424,640
1,751	-	14	96	149,595	163,378
-	-	-	-	24,475	34,934
665,615	-	-	4,567	1,468,695	1,583,301
-	-	-	-	17,880	25,365
-	-	-	-	32,047	31,838
-	-	-	-	225,417	208,452
3	-	-	-	7,735	9,084
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,080</u>	<u>7,080</u>
<u>668,345</u>	<u>1,489</u>	<u>21</u>	<u>4,663</u>	<u>2,503,311</u>	<u>2,531,591</u>
-	-	116,761	47,279	540,200	2,619,322
9,085	-	-	-	47,982	19,302
-	-	-	-	613	-
-	-	-	-	57,809	175,782
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,348</u>
<u>9,085</u>	<u>-</u>	<u>116,761</u>	<u>47,279</u>	<u>646,604</u>	<u>2,924,754</u>
<u>677,430</u>	<u>1,489</u>	<u>116,782</u>	<u>51,942</u>	<u>3,149,915</u>	<u>5,456,345</u>
(386)	(855)	(15)	(3,567)	381,798	(327,119)
-	-	21	72,816	(182,560)	144,559
<u>\$ (386)</u>	<u>\$ (855)</u>	<u>\$ 6</u>	<u>\$ 69,249</u>	<u>\$ 199,238</u>	<u>\$ (182,560)</u>



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# *Supplemental Information*

*(Unaudited)*



Calculation of Transfers – Stabilization and Tax Reduction Funds  
Non-Tax Revenue Initiatives  
Schedule of Pension Funding Progress – Last Six Fiscal Years

## Calculation of Transfers: Stabilization Fund

June 30, 2011  
(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as most recently amended by Section 171 of Chapter 68 of the Acts of 2011, which superceded certain parts of the Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General	Commonwealth Transportation	Workforce Training	Massachusetts Tourism	Commonwealth Substance Abuse Prevention & Treatment	Marine Recreational Fisheries Development	Total
<b>Undesignated Budgeted Fund Balances Before Transfers</b>	\$ 425,882	\$ 60,498	\$ 3,834	\$ 36,682	\$ (64,732)	\$ 319	\$ 462,483
<b>Fund Balance Deficit Elimination Transfers Per Ch. 29, Sec. 5c</b>	(52,290)	(7,428)	(471)	(4,504)	64,732	(39)	-
<b>Fund Balances after Deficit Elimination Transfers per Ch. 29, Sec. 5c (Consolidated Net Surplus)</b>	<b>373,592</b>	<b>53,070</b>	<b>3,364</b>	<b>32,178</b>	-	<b>280</b>	<b>462,483</b>
<b>Statutory Carryforwards and Transfers</b>							
1/2 of 1% of Tax Revenue Carryforward per Sec. 171 of Ch. 68 of Acts of 2011 (see Schedule A) and per Ch 29, Sec. 5c	(83,912)	(11,920)	(755)	(7,227)	-	(63)	(103,878)
1/2 of 1% of Tax Revenue Deposited in Stabilization Fund per Sec. 171 of Ch. 68 of Acts of 2011 (see Schedule A) and per Ch 29, Sec. 5c	(83,912)	(11,920)	(755)	(7,227)	-	(63)	(103,878)
\$10 Million Transfer from General to Massachusetts Life Sciences Investment Fund per Sec. 171 of Ch. 68 of the Acts of 2011	(10,000)	-	-	-	-	-	(10,000)
<b>Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund</b>	<b>195,767</b>	<b>29,230</b>	<b>1,853</b>	<b>17,723</b>	-	<b>154</b>	<b>244,727</b>
<b><u>Stabilization Balance Reconciliation:</u></b>							
Balance as of July 1, 2010.....							\$ 669,803
Capital Gains Tax Transfers to Stabilization Fund during FY 2011 per Chapter 29, Section 5G.....							-
Investment income, certain tax revenues and other recoveries.....							10,663
Less: Transfers from Stabilization Fund							
Investment Income per Sec. 143 of Ch. 131 of the Acts of 2010.....							(7,089)
Change in Market Value per Sec. 143 of Ch. 131 of the Acts of 2010.....							(1,955)
Total Transfers from Stabilization Fund during FY 2011 .....							(9,044)
Transfer to Stabilization Fund from Temporary Holding Fund, per Chapter 62F, Section 6A .....							9,044
Transfer to Stabilization Fund per Sec. 92 of Ch. 142 of the Acts of 2011.....							350,000
Transfer Equal to 1/2 of 1% of Tax Revenues, per Sec. 171 of Ch. 68 of Acts of 2011.....							103,878
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above.....							244,727
<b>Stabilization Fund Balance as of June 30, 2011.....</b>							<b>\$ 1,379,071</b>

## Calculation Of Transfers: Tax Reduction Fund

June 30, 2011  
(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.....	\$ 1,379,071
Allowable Stabilization Fund balance (per Schedule B).....	4,961,300
	-
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	\$ -

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,379,071
Transfer to Tax Reduction Fund.....	-
Stabilization Fund balance after transfer to Tax Reduction Fund.....	\$ 1,379,071

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund balance.....	\$ -
Transfers from Stabilization Fund.....	-
Tax Reduction Fund balance after transfers.....	\$ -



**Schedule A**  
**FY2011 Tax Revenues By Revenue Class and**  
**Calculation of Allowable Net Surplus**

June 30, 2011  
(Amounts in thousands)

Alcoholic Beverages.....	\$	72,733
Banks: Financial Institutions *.....		(11,039)
Cigarette.....		453,566
Corporations.....		1,951,444
Deeds.....		140,202
Estate and Inheritance.....		309,638
Commonwealth Care - cigarette excise.....		144,897
Income.....		11,576,049
Insurance.....		296,022
Motor and Special Fuels.....		660,829
Public Utilities.....		(8,834)
Room Occupancy.....		166,226
Sales and Use.....		4,920,521
Club Alcoholic Beverages.....		928
Motor Vehicle Excise.....		61
Convention Center Surcharges.....		13,338
Community Preservation.....		26,638
Satellite.....		13,283
State Racing.....		1,457
Beano .....		2,038
Raffles and Bazaars.....		1,077
Boxing.....		247
DOI Excess and Surplus Lines.....		23,822
UI Surcharge.....		20,448
FY 2011 state tax revenue.....	<u>\$</u>	<u>20,775,591</u>
0.5% of total tax revenue.....		103,878
Allowable consolidated net surplus .....	<u>\$</u>	<u>103,878</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.

\*Negative amounts in Banks: Financial Institutions and Public Utilities taxes primarily due to a change in corporate tax law, which resulted in some taxes in these categories being paid under the Corporations Tax.

**Schedule B**  
**Calculation of Cap on Stabilization Fund**

June 30, 2011  
(Amounts in thousands)

Total budgeted revenues and other financial resources pertaining to the budgeted funds.....	\$	36,536,266
Elimination of budgetary interfund activity exclusive of fund closure (per Schedule C).....		<u>(3,460,933)</u>
Budgeted revenues and other financial resources pertaining to the budgeted funds.....		33,075,333
Allowable Stabilization Fund balance, 15% of budgeted revenue.....	\$	<u><u>4,961,300</u></u>

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, 2011  
(Amounts in thousands)

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Adjustments to revenues :	
Transfer to the Intragovernmental Service Fund Revenues.....	\$ (286,079)
Adjustments to other financing sources and uses:	
Fringe benefit cost assessments.....	(4,326)
Transfer from the Intragovernmental Service Fund to the General Fund.....	(3,073)
RMV license -plates.....	(3,002)
Transfer from Stabilization Fund to General Fund.....	(9,044)
Transfer from Budgeted Funds to Stabilization Fund.....	(350,000)
Year end Stabilization Fund Transfer.....	(348,605)
Other Fund Deficit Transfers.....	(64,732)
Build America Bonds transfer.....	(5,405)
Transfer to fund lottery aid payment.....	(11,705)
Excess Permissible Tax Revenue transfer from General Fund To Temporary Holding Fund .....	(1,187,394)
Year end Permissible Tax Revenue transfer from Temporary Holding Fund to General Fund.....	(1,187,394)
Other .....	(174)
Elimination of budgetary interfund activity	<u>\$ (3,460,933)</u>

**Schedule D**  
**Calculation of Transfers: Temporary Holding Fund**

June 30, 2011  
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 62F, Section 6A, as amended most recently by Chapter 26 of the Acts of 2003, Sections 203 and 715. 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.

<b>Period Ending:</b>	<u>September 30, 2010</u>	<u>December 31, 2010</u>	<u>March 31, 2011</u>	<u>June 30, 2011</u>
Cumulative net state tax revenues, 2011 .....	\$ 4,819,581	\$ 9,732,050	\$ 14,550,178	\$ 20,776,233
Cumulative net state tax revenues, 2010.....	4,374,038	8,834,580	13,358,852	18,792,777
Permissible growth rate defined as inflation plus 2%, but not less than 0% *.....	2.57%	3.47%	4.04%	4.24%
Permissible state tax revenues defined as cumulative net state tax revenues, 2010 multiplied by 1 plus the permissible growth rate.....	<u>4,486,538</u>	<u>9,140,698</u>	<u>13,898,416</u>	<u>19,588,839</u>
<b>Cumulative net state tax revenues 2011 in excess of permissible state tax revenues.....</b>	<b><u>\$ 333,042</u></b>	<b><u>\$ 591,352</u></b>	<b><u>\$ 651,763</u></b>	<b><u>\$ 1,187,394</u></b>

\* Inflation is defined as the year-over year change in the implicit price deflator for state and local government purchases.

# Non-Tax Revenue Initiatives

June 30, 2011  
(Amounts in thousands)

Chapter 653, Acts of 1989, amended Chapter 29 of the Massachusetts General Laws by adding Sections 29D and 29E, which authorize 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 FY11 were (amounts in thousands):

<u>Department Collectors</u>	<u>Collections</u>	<u>Fees</u>
Collecto, Inc.....	\$ 2,149	\$ 367
Delta.....	313	53
Glenn Associates, Inc.....	810	135
NCO.....	46	1
Windham Professionals.....	553	122
	0	
Total.....	<u>\$ 3,871</u>	<u>\$ 678</u>

Under the same program, the following amounts were collected and fees paid for institutions of higher education: (These figures are a subset of the above) (amounts in thousands):

<u>Department Collectors</u>	<u>Collections</u>	<u>Fees</u>
Collecto, Inc.....	\$ 1,790	\$ 303
Delta.....	271	46
Glenn Associates, Inc.....	756	126
Windham Professionals.....	547	121
Total.....	<u>\$ 3,364</u>	<u>\$ 596</u>

**II. Revenue Maximization:**

Pursuant to Massachusetts General Law Chapter 29 Section 29E, contractors were engaged on a contingent fee basis Transfer to Stabilization Fund from Temporary Holding Fund, per Chapter 62F, Section 6A tax revenues. During FY11, the following amounts were generated (amounts in thousands):

Gross revenue maximixation realized.....	\$ 509,499
Contractor payments.....	<u>26,299</u>
Net revenue maximization realized.....	<u>\$ 535,798</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 FY11, the following amounts were generated (amounts in thousands):

State expenditures avoided.....	\$ 221,157
Contractor payments.....	<u>14,475</u>
Net cost savings / avoidance.....	<u>\$ 235,632</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. FY11 activity (amounts in thousands):

Total Commonwealth intercepts.....	\$ 8,574
Amounts included above that were intercepted on behalf of the Institutions of Higher Education.....	\$ 4,529

## Schedule of Post Employment Benefits

(Amounts in thousands except for percentages)

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

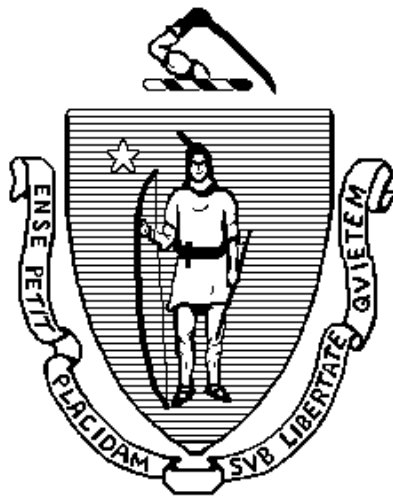
	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<b>State Employees' Retirement System</b>						
Actuarial Valuation as of January 1, 2011....	\$ 21,244,900	\$ 26,242,776	\$ 4,997,876	81.0%	\$ 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%
Actuarial Valuation as of January 1, 2008....	20,400,656	22,820,502	2,419,846	89.4%	4,574,233	52.9%
Actuarial Valuation as of January 1, 2007....	18,445,225	21,670,810	3,225,585	85.1%	4,391,891	73.4%
Actuarial Valuation as of January 1, 2006....	16,638,043	20,406,926	3,768,883	81.5%	4,200,577	89.7%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2011....	\$ 23,117,952	\$ 34,890,991	\$ 11,773,039	66.3%	\$ 5,558,311	211.8%
Actuarial Valuation as of January 1, 2010....	21,262,462	33,738,966	12,476,504	63.0%	5,509,698	226.4%
Actuarial Valuation as of January 1, 2009....	18,927,731	32,543,782	13,616,051	58.2%	5,389,895	252.6%
Actuarial Valuation as of January 1, 2008....	22,883,553	30,955,504	8,071,951	73.9%	5,163,498	156.3%
Actuarial Valuation as of January 1, 2007....	20,820,392	29,320,714	8,500,322	71.0%	4,969,092	171.1%
Actuarial Valuation as of January 1, 2006....	18,683,295	27,787,716	9,104,421	67.2%	4,819,325	188.9%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2011commonwealth.pdf>. 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, 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%
Actuarial Valuation as of January 1, 2008....	329,000	11,649,000	11,320,000	2.8%	\$ 4,574,233	247.5%
Actuarial Valuation as of January 1, 2006....	-	9,812,000	9,812,000	0.0%	\$ 4,391,891	223.4%

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.



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# *Statistical Section*

## *(Unaudited)*



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, 2011  
(Amounts in millions)

	2011	%	2010	%	2009	%	2008	%
		Total		Total		Total		Total
Taxes.....	\$ 20,776	38.2	\$ 18,792	40.3	\$ 18,513	38.8	\$ 21,009	44.6
Federal reimbursements.....	10,151	18.6	9,374	20.1	9,139	19.1	6,937	14.7
Federal grants.....	3,097	5.7	3,134	6.7	2,646	5.5	2,065	4.4
Lotteries.....	4,632	8.5	4,629	9.9	4,649	9.7	4,915	10.4
Assessments.....	960	1.8	971	2.1	894	1.9	806	1.7
Motor vehicle licenses and registrations.....	497	0.9	463	1.0	383	0.8	376	0.8
Fees, investment earnings, etc.....	3,462	6.4	2,830	6.0	2,800	5.9	3,200	6.8
Proceeds of general and special obligation bonds and related premiums.....	2,306	4.2	1,672	3.6	2,141	4.5	1,306	2.8
Proceeds of refunding bonds.....	947	1.7	538	1.2	390	0.8	-	0.0
Other interfund transfers.....	7,618	14.0	4,233	9.1	6,197	13.0	6,538	13.9
Total revenues and other financing sources.....	<u>\$ 54,446</u>	<u>100.0</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>

For FY2010, this schedule reflects Budgeted, Non-Budgeted and Capital Projects revenues and other financing sources only.

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2007	% Total	2006	% Total	2005	% Total	2004	% Total	2003	% Total	2002	% Total
\$ 19,849	44.4	\$ 18,593	43.9	\$ 17,192	40.7	\$ 16,055	36.8	\$ 15,032	36.2	\$ 14,341	39.6
6,830	15.3	6,307	14.9	6,018	14.3	6,331	14.5	5,528	13.3	5,237	14.5
1,989	4.5	2,046	4.8	1,996	4.7	2,024	4.6	1,852	4.5	1,595	4.4
4,670	10.4	4,739	11.2	4,705	11.2	4,605	10.6	4,425	10.7	4,425	12.2
794	1.8	793	1.9	785	1.9	746	1.7	634	1.5	582	1.6
374	0.8	361	0.9	401	1.0	376	0.9	383	0.9	326	0.9
2,450	5.6	2,891	6.8	2,945	6.8	2,556	5.9	2,140	5.2	2,122	5.9
1,604	3.6	1,838	4.3	1,354	3.2	1,993	4.6	1,911	4.6	1,358	3.7
1,531	3.4	633	1.5	1,385	3.3	3,302	7.6	3,398	8.2	1,501	4.1
4,605	10.3	4,145	9.8	5,409	12.8	5,629	12.9	6,173	14.9	4,749	13.1
<u>\$ 44,696</u>	<u>100.0</u>	<u>\$ 42,346</u>	<u>100.0</u>	<u>\$ 42,190</u>	<u>100.0</u>	<u>\$ 43,617</u>	<u>100.0</u>	<u>\$ 41,476</u>	<u>100.0</u>	<u>\$ 36,236</u>	<u>100.0</u>

**Ten-Year Schedule Of Tax Revenues By Source**  
**All Governmental Fund Types - Statutory Basis**

June 30, 2011  
(Amounts in millions)

	2011	%	2010	%	2009	%	2008	%
		Total		Total		Total		Total
Income.....	11,576	55.7	\$ 10,110	53.8	\$ 10,584	57.2	\$ 12,484	59.4
Sales and use.....	4,921	23.7	4,626	24.6	3,880	21.0	4,098	19.5
Corporations.....	1,951	9.4	1,600	8.5	1,549	8.4	1,512	7.2
Motor fuels.....	661	3.2	655	3.5	654	3.5	673	3.2
Cigarette.....	454	2.2	456	2.4	457	2.5	437	2.1
Insurance.....	296	1.4	285	1.5	309	1.7	369	1.8
Estate and inheritance.....	310	1.5	221	1.2	260	1.4	254	1.2
Banks: Financial Institutions *.....	(11)	-0.1	235	1.3	243	1.3	548	2.6
Alcoholic beverages.....	73	0.4	72	0.4	73	0.4	72	0.3
Other.....	545	3	532	2.8	504	2.6	562	2.7
<b>Total taxes.....</b>	<b>20,776</b>	<b>\$ 100</b>	<b>\$ 18,792</b>	<b>100.0</b>	<b>\$ 18,513</b>	<b>100.0</b>	<b>\$ 21,009</b>	<b>100.0</b>

This schedule reflects Budgeted, Non-Budgeted and Capital Projects revenues and other financing sources only.

\*Negative amounts in FY11 are primarily due to changes in corporate tax laws, which resulted in some financial institutions tax being classified as coprations tax.

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	2007	% Total	2006	% Total	2005	% Total	2004	% Total	2003	% Total	2002	% Total
\$	11,400	57.4	\$ 10,483	56.4	\$ 9,690	56.4	\$ 8,830	55.0	\$ 8,026	53.4	\$ 7,913	55.2
	4,076	20.5	4,009	21.6	3,891	22.6	3,743	23.3	3,708	24.7	3,696	25.8
	1,588	8.0	1,391	7.5	1,063	6.2	998	6.2	875	5.8	587	4.2
	676	3.4	672	3.6	685	4.0	684	4.3	676	4.5	667	4.7
	438	2.2	435	2.3	424	2.5	425	2.6	451	3.0	275	1.9
	369	1.9	397	2.1	373	2.2	374	2.3	345	2.3	348	2.4
	250	1.3	196	1.1	255	1.5	195	1.2	181	1.2	200	1.4
	341	1.7	350	1.9	199	1.2	239	1.5	269	1.8	137	1.0
	71	0.4	70	0.4	69	0.4	69	0.4	67	0.5	66	0.5
	640	3.2	590	3.1	543	3.3	498	3.2	434	2.9	452	3.2
\$	<u>19,849</u>	<u>100.0</u>	\$ <u>18,593</u>	<u>100.0</u>	\$ <u>17,192</u>	<u>100.0</u>	\$ <u>16,055</u>	<u>100.0</u>	\$ <u>15,032</u>	<u>100.0</u>	\$ <u>14,341</u>	<u>100.0</u>

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

June 30, 2011  
(Amounts in millions)

	2011	% Total	2010	% Total	2009	% Total	2008	% Total
Legislature.....	\$ 58	0.1	\$ 59	0.1	\$ 60	0.1	\$ 58	0.1
Judiciary.....	788	1.5	788	1.7	814	1.6	831	1.7
Inspector General.....	3	-	4	-	3	-	3	-
Governor and Lieutenant Governor.....	5	-	5	-	8	-	9	-
Secretary of the Commonwealth.....	46	0.1	54	0.1	53	0.1	53	0.1
Treasurer and Receiver-General.....	5,610	10.6	5,483	11.5	6,043	12.2	5,640	11.8
Auditor of the Commonwealth.....	17	0.0	17	-	20	-	19	-
Attorney General.....	51	0.1	53	0.1	57	0.1	56	0.1
Ethics Commission.....	2	-	2	-	2	-	2	-
District Attorney.....	97	0.2	96	0.2	104	0.2	104	0.2
Office of Campaign and Political Finance.....	3	-	1	-	1	-	1	-
Sheriff's Departments.....	511	1.0	378	0.8	295	0.6	296	0.7
Disabled Persons Protection Commission.....	2	-	2	-	3	-	2	-
Board of Library Commissioners.....	34	0.1	34	0.1	48	0.1	46	0.1
Comptroller.....	14	-	15	-	14	-	14	-
Administration and finance.....	7,206	13.7	7,040	14.8	6,892	14.2	7,059	14.8
Energy and environmental affairs.....	482	0.9	529	1.1	526	1.1	473	1.0
Housing and community development.....	-	-	-	-	-	-	-	-
Health and human services.....	17,737	33.5	16,044	33.7	16,468	33.3	15,504	32.5
Transportation and public works.....	-	-	509	1.1	1,689	3.4	1,378	2.9
Massachusetts department of transportation.....	2,278	4.3	1,542	3.2	-	-	-	-
Executive office of education.....	3,225	6.1	3,184	6.7	3,390	6.9	2,989	6.3
Public safety and homeland security.....	1,172	2.2	1,308	2.7	1,456	2.9	1,381	2.9
Housing and economic development.....	1,283	2.4	1,245	2.6	981	2.0	857	1.8
Labor and workforce development.....	428	0.8	403	0.8	331	0.7	274	0.6
Elder affairs.....	-	-	-	-	-	-	-	-
Consumer affairs.....	-	-	-	-	-	-	-	-
Labor.....	-	-	-	-	-	-	-	-
Post employment benefits.....	1,839	3.5	1,749	3.7	1,314	2.7	1,399	2.9
Debt service.....	2,128	4.0	2,117	4.5	2,145	4.3	2,239	4.7
Payments to refunded bond escrow agent.....	540	1.0	538	1.1	-	-	-	-
Other fund deficit support.....	-	-	-	-	220	0.4	1,593	3.3
Other interfund transfers.....	7,337	13.9	4,373	9.2	6,456	13.1	5,403	11.3
<b>Total expenditures and other financing uses.....</b>	<b>\$ 52,896</b>	<b>100</b>	<b>\$ 47,572</b>	<b>100</b>	<b>\$ 49,393</b>	<b>100</b>	<b>\$ 47,683</b>	<b>100</b>

Schedule reflects changes in accordance with Article 87 of the Massachusetts constitution at various times over the last ten years at point of implementation

For FY2010, this schedule reflects Budgeted, Non-Budgeted and Capital Projects revenues and other financing sources only.

2007	% Total	2006	% Total	2005	% Total	2004	% Total	2003	% Total	2002	% Total
\$ 59	0.1	\$ 55	0.1	\$ 54	0.1	\$ 51	0.1	\$ 55	0.1	\$ 59	0.2
788	1.8	672	1.6	634	1.5	599	1.4	589	1.4	589	1.5
3	-	3	-	4	-	2	-	2	-	2	-
5	-	5	-	5	-	5	-	5	-	6	-
55	0.1	45	0.1	50	0.1	45	0.1	49	0.1	41	0.1
5,267	11.7	5,635	13.6	5,760	13.7	4,600	11.1	4,416	10.5	4,398	11.4
18	-	19	-	18	-	16	-	17	-	16	-
52	0.1	49	0.1	45	0.1	44	0.1	45	0.1	47	0.1
2	-	1	-	2	-	1	-	1	-	2	-
96	0.2	88	0.2	82	0.2	81	0.2	79	0.2	88	0.2
2	-	1	-	1	-	1	-	1	-	2	-
275	0.6	251	0.6	226	0.5	218	0.5	216	0.5	217	0.6
2	-	2	-	2	-	2	-	2	-	2	-
42	0.1	49	0.1	47	0.1	48	0.1	46	0.1	58	0.2
14	-	14	0.0	21	-	35	0.1	21	-	11	-
7,043	15.7	6,601	16.1	6,235	14.8	6,184	15.0	6,241	14.9	6,315	16.4
450	1.0	390	0.9	346	0.8	336	0.8	357	0.9	440	1.1
509	1.1	659	1.6	597	1.4	589	1.4	568	1.4	533	1.4
14,456	32.2	13,539	32.6	13,383	31.8	12,504	30.1	11,338	27.0	11,124	28.9
1,404	3.1	1,376	3.3	1,569	3.7	1,586	3.8	1,844	4.4	2,052	5.3
-	-	-	-	-	-	-	-	-	-	-	-
2,936	6.5	2,726	6.6	2,250	5.4	2,481	6.0	2,589	6.2	2,648	6.9
1,253	2.8	1,180	2.8	1,111	2.6	1,160	2.8	1,156	2.8	1,138	3.0
508	1.1	323	0.8	299	0.7	326	0.8	31	0.1	36	0.1
67	0.1	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	315	0.8	304	0.8
-	-	-	-	-	-	-	-	55	0.1	58	0.2
-	-	-	-	-	-	-	-	282	0.7	237	0.6
1,335	3.0	1,275	3.1	1,217	2.9	702	1.7	813	1.9	796	2.1
2,352	5.2	2,028	4.9	1,719	4.1	1,605	3.9	1,467	3.5	1,382	3.6
1,531	3.4	633	1.5	1,153	2.7	2,833	6.8	3,398	8.1	1,277	3.3
-	-	-	-	-	-	-	-	-	-	-	-
4,383	9.8	3,887	9.4	5,197	12.4	5,503	13.2	5,963	14.2	4,626	12.0
<u>\$ 44,907</u>	<u>100</u>	<u>\$ 41,506</u>	<u>100.0</u>	<u>\$ 42,027</u>	<u>100.0</u>	<u>\$ 41,556</u>	<u>100.0</u>	<u>\$ 41,961</u>	<u>100.0</u>	<u>\$ 38,504</u>	<u>100.0</u>

**Ten-Year Schedule Of Budgeted Funds Expenditures and Other Uses By  
Major Program Category**  
June 30, 2011  
(Amounts in millions)

	2011	2010	2009	2008*	2007	2006	2005	2004	2003	2002
Direct local aid.....	\$ 4,785	\$ 4,837	\$ 4,724	\$ 5,040	\$ 5,033	\$ 4,619	\$ 4,477	\$ 4,784	\$ 5,069	\$ 5,189
Medicaid.**.....	10,237	9,287	8,537	8,104	7,413	6,726	5,857	5,742	5,485	5,259
Other health and human services.....	4,615	4,616	4,970	5,014	-	-	-	-	-	-
Public assistance.....	-	-	-	-	1,258	1,129	1,095	1,019	1,019	1,030
Elementary and secondary education.....	349	358	496	486	-	-	-	-	-	-
Higher education.....	943	846	1,036	1,085	1,116	988	915	831	969	1,030
Early education and care.....	515	513	560	550	-	-	-	-	-	-
Public safety.....	905	1,053	1,224	1,265	-	-	-	-	-	-
Energy and environment.....	186	202	216	227	-	-	-	-	-	-
MBTA and regional transit authorities.....	-	-	-	-	52	50	49	53	42	49
Post employment benefits.....	1,839	1,749	1,314	1,399	1,335	1,275	1,217	702	813	796
Group health insurance.....	1,130	1,064	973	853	1,022	964	846	788	739	717
Debt service.....	1,664	1,860	1,891	1,868	2,085	1,666	1,581	1,420	1,374	1,305
<b>Major programs.....</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>	<b>15,339</b>	<b>15,510</b>	<b>15,375</b>
Other program expenditures.....	2,851	2,999	2,762	2,739	8,343	7,777	7,247	6,819	6,700	7,254
Interfund transfers and other uses.....	5,520	1,810	3,867	4,405	1,819	1,749	2,726	2,749	3,540	2,046
<b>Total expenditures and other uses.....</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>	<b>\$ 24,907</b>	<b>\$ 25,750</b>	<b>\$ 24,675</b>

\* Current presentation aligned with Bond Official Statements - Commonwealth Expenditures - Budgeted Operating Funds

\*\* Exclusive of Non-Budgeted Medicaid spending from FY03 through FY2007 within the Health Care Quality Improvement Fund totalling \$201 million, \$288 million, \$292 million, \$292 million and \$290 million in FY03 through FY07 respectively.

## Ten-Year Schedule Of Long-Term Bonds And Notes Outstanding

Fiscal Year Ended June 30, 2011  
(Amounts in millions)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General obligation bonds.....	\$18,428	\$17,683	\$17,052	\$ 16,085	\$ 16,033	\$ 15,393	\$ 14,492	\$ 14,143	\$ 13,651	\$ 12,618
Grant anticipation notes*.....	766	991	1,134	1,536	1,666	1,789	1,907	1,907	1,499	1,499
Special obligation bonds.....	1,592	1,053	1,079	1,113	1,249	1,279	1,458	1,332	813	838
Commonwealth long-term bonds...	\$ 20,786	\$ 19,727	\$ 19,265	\$ 18,734	\$ 18,948	\$ 18,461	\$ 17,857	\$ 17,382	\$ 15,963	\$ 14,955

\*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 to 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 includes the three state colleges, and six state universities, which provide four-year post-secondary education programs. These colleges 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, 2011  
(Amounts in thousands)

	University of Massachusetts	State Universities and Colleges	Community Colleges	TOTALS	
				2011*	2010
<b>Revenues and other financing sources</b>					
Federal grants and reimbursements.....	\$ 401,416	\$ 48,137	\$ 177,793	\$ 627,346	\$ 547,793
Departmental revenue.....	978,739	377,283	339,288	1,695,310	1,532,550
Miscellaneous revenue.....	1,030,766	332,871	255,009	1,618,646	1,643,441
Total revenues and other financing sources.....	2,410,921	758,291	772,090	3,941,302	3,723,784
<b>Expenditures and other financing uses</b> (by MMARS subsidiary):					
AA Regular employee compensation.....	561,660	101,034	138,658	801,352	784,991
BB Regular employee related expenses.....	21,729	3,730	3,368	28,827	30,029
CC Special employees and contracted services.....	219,923	103,632	185,161	508,716	468,399
DD Pension and insurance.....	174,804	30,495	35,464	240,763	237,272
EE Administrative expenditures.....	90,283	46,092	59,458	195,833	203,644
FF Facility operational supplies.....	171,378	13,705	22,625	207,708	211,722
GG Energy costs and space rental.....	130,688	30,716	21,719	183,123	156,489
HH Consultant services.....	208,171	11,759	8,159	228,089	221,322
JJ Operational services.....	36,440	28,637	6,842	71,919	61,203
KK Equipment purchase.....	20,193	8,066	12,253	40,512	51,382
LL Equipment leases, maintenance and repair.....	22,632	8,058	7,626	38,316	37,922
MM Purchased client services and programs.....	18,804	3,025	4,370	26,199	25,083
NN Construction and improvements.....	118,334	35,075	19,904	173,313	123,245
PP Aid to local governments.....	-	93	396	489	320
RR Benefit programs.....	256,436	108,530	152,634	517,600	365,193
SS Debt payment.....	-	6,777	1,776	8,553	8,284
TT Loans and special payments.....	279,797	121,125	26,444	427,366	346,923
UU Information technology (IT) expenses .....	79,173	19,116	21,167	119,456	105,739
Total expenditures and other uses.....	2,410,445	679,665	728,024	3,818,134	3,439,162
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other uses.....	476	78,626	44,066	123,168	284,622
Fund balance at beginning of year.....	767,122	202,733	228,247	1,198,102	357,896
Fund balance at end of year.....	\$ 767,598	\$ 281,359	\$ 272,313	\$ 1,321,270	\$ 642,518

\* Fund Balances restated

**University Of Massachusetts**  
Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	<u>2011*</u>	<u>2010</u>
<b>Revenues and other financing sources</b>		
Federal grants and reimbursements.....	\$ 401,416	\$ 358,571
Departmental revenue.....	978,739	872,209
Miscellaneous revenue.....	<u>1,030,766</u>	<u>1,077,546</u>
Total revenues and other financing sources.....	<u>2,410,921</u>	<u>2,308,326</u>
<b>Expenditures and other financing uses</b>		
(by MMARS subsidiary):		
AA Regular employee compensation.....	561,660	539,374
BB Regular employee related expenses.....	21,729	22,962
CC Special employees and contracted services.....	219,923	201,408
DD Pension and insurance.....	174,804	178,521
EE Administrative expenditures.....	90,283	83,173
FF Facility operational supplies.....	171,378	178,220
GG Energy costs and space rental.....	130,688	112,344
HH Consultant services.....	208,171	204,274
JJ Operational services.....	36,440	33,066
KK Equipment purchase.....	20,193	39,389
LL Equipment leases, maintenance and repair.....	22,632	21,655
MM Purchased client services and programs.....	18,804	18,404
NN Construction and improvements.....	118,334	86,380
RR Benefit programs.....	256,436	172,672
TT Loans and special payments.....	279,797	219,425
UU Information technology (IT) expenses .....	<u>79,173</u>	<u>71,406</u>
Total expenditures and other financing uses.....	<u>2,410,445</u>	<u>2,182,673</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	476	125,653
Fund balance at beginning of year.....	<u>767,122</u>	<u>85,885</u>
Fund balance at end of year.....	<u>\$ 767,598</u>	<u>\$ 211,538</u>

\* Fund Balances restated

**State University and College System**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2011  
(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.....	\$ 11,393	\$ 4,211	\$ 6,162	\$ 2,507
Departmental revenue.....	95,979	25,862	42,353	25,068
Miscellaneous revenue.....	62,817	40,086	30,912	12,401
Total revenues and other financing sources.....	<u>170,189</u>	<u>70,159</u>	<u>79,427</u>	<u>39,976</u>
<b>Expenditures and other financing uses</b> (by MMARS subsidiary):				
AA Regular employee compensation.....	37,162	4,714	6,005	8,401
BB Regular employee related expenses.....	994	251	287	412
CC Special employees and contracted services.....	34,569	8,101	11,050	3,898
DD Pension and insurance.....	12,340	1,623	2,264	709
EE Administrative expenditures.....	12,598	12,004	1,586	2,075
FF Facility operational supplies.....	2,409	1,278	1,030	1,154
GG Energy costs and space rental.....	5,441	3,261	4,577	1,988
HH Consultant services.....	3,079	1,128	753	1,808
JJ Operational services.....	9,153	4,701	38	1,440
KK Equipment purchase.....	3,213	1,019	1,099	658
LL Equipment leases, maintenance and repair.....	3,011	615	704	252
MM Purchased client services and programs.....	1,138	769	129	-
NN Construction and improvements.....	10,648	1,284	4,139	5,537
PP Aid to local governments.....	-	93	-	-
RR Benefit programs.....	17,416	6,726	8,136	4,919
SS Debt payment.....	-	6	-	-
TT Loans and special payments.....	12,416	7,594	15,456	1,900
UU Information technology (IT) expenses .....	146	4,359	4,016	1,703
Total expenditures and other financing uses.....	<u>165,733</u>	<u>59,526</u>	<u>61,269</u>	<u>36,854</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses.....	4,456	10,633	18,158	3,122
Fund balance at beginning of year.....	<u>30,417</u>	<u>27,381</u>	<u>31,130</u>	<u>12,656</u>
Fund balance at end of year.....	<u>\$ 34,873</u>	<u>\$ 38,014</u>	<u>\$ 49,288</u>	<u>\$ 15,778</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	
					2011	2010
\$ 1,024	\$ 3,588	\$ 11,823	\$ 628	\$ 6,801	\$ 48,137	\$ 45,395
12,512	21,535	22,188	45,449	86,337	377,283	339,401
25,972	9,410	115,018	9,652	26,603	332,871	336,285
<u>39,508</u>	<u>34,533</u>	<u>149,029</u>	<u>55,729</u>	<u>119,741</u>	<u>758,291</u>	<u>721,081</u>
5,836	4,487	18,155	918	15,356	101,034	121,173
607	430	203	15	531	3,730	4,284
5,414	7,339	16,432	2,777	14,052	103,632	97,995
690	788	6,131	324	5,626	30,495	31,783
1,398	2,357	8,767	2,998	2,308	46,092	64,692
1,545	413	2,842	2,002	1,032	13,705	11,784
2,177	1,279	5,155	2,265	4,573	30,716	27,950
639	836	874	1,632	1,010	11,759	9,877
5,675	3,510	1,324	1,719	1,077	28,637	21,553
675	213	255	402	532	8,066	6,116
384	486	542	1,399	665	8,058	8,431
-	-	538	-	451	3,025	2,285
1,240	1,636	4,439	2,550	3,602	35,075	24,724
-	-	-	-	-	93	9
988	5,209	23,711	8,466	32,959	108,530	59,263
-	48	-	-	6,723	6,777	6,559
3,666	2,413	51,870	5,778	20,032	121,125	104,863
2,387	623	3,966	-	1,916	19,116	15,613
<u>33,321</u>	<u>32,067</u>	<u>145,204</u>	<u>33,245</u>	<u>112,445</u>	<u>679,665</u>	<u>618,954</u>
6,187	2,466	3,825	22,484	7,296	78,626	102,127
<u>6,482</u>	<u>14,481</u>	<u>39,030</u>	<u>13,668</u>	<u>27,488</u>	<u>202,733</u>	<u>100,606</u>
<u>\$ 12,669</u>	<u>\$ 16,947</u>	<u>\$ 42,855</u>	<u>\$ 36,152</u>	<u>\$ 34,784</u>	<u>\$ 281,359</u>	<u>\$ 202,733</u>

**Community College System**  
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2011

(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.....	\$ 5,220	\$ 22,318	\$ 15,913	\$ 5,642	\$ 5,437	\$ 13,962	\$ 26,479
Departmental revenue.....	9,114	38,878	21,993	11,994	11,451	17,228	33,423
Miscellaneous revenue.....	7,685	18,324	35,584	11,530	6,777	16,291	15,472
Total revenues and other financing sources.....	<u>22,018</u>	<u>79,517</u>	<u>73,489</u>	<u>29,165</u>	<u>23,664</u>	<u>47,479</u>	<u>75,372</u>
<b>Expenditures and other financing uses</b> (by MMARS subsidiary):							
AA Regular employee compensation.....	3,889	22,343	11,681	3,220	5,531	5,626	8,024
BB Regular employee related expenses.....	124	153	274	134	403	287	112
CC Special employees and contracted services.....	7,023	12,870	25,800	9,992	5,314	8,343	16,779
DD Pension and insurance.....	1,365	1,671	4,350	1,331	1,911	1,876	3,226
EE Administrative expenditures.....	1,120	2,472	1,659	1,081	697	1,979	2,771
FF Facility operational supplies.....	488	925	1,141	335	991	3,792	1,151
GG Energy costs and space rental.....	997	1,730	1,907	959	796	1,049	1,306
HH Consultant services.....	187	484	564	170	585	279	265
JJ Operational services.....	591	1,502	481	211	587	899	265
KK Equipment purchase.....	319	875	669	129	204	430	1,357
LL Equipment leases, maintenance and repair.....	153	719	226	117	135	211	889
MM Purchased client services and programs.....	32	364	909	-	12	20	756
NN Construction and improvements.....	833	2,561	1,714	522	837	1,582	3,069
PP Aid to local governments.....	-	-	364	-	-	-	-
RR Benefit programs.....	2,700	22,927	16,668	7,276	5,098	15,506	22,866
SS Debt payment.....	67	-	-	-	-	159	-
TT Loans and special payments.....	270	-	227	79	56	-	5,389
UU Information technology (IT) expenses.....	1,058	3,025	1,297	844	588	1,909	1,576
Total expenditures and other financing uses.....	<u>21,216</u>	<u>74,621</u>	<u>69,931</u>	<u>26,400</u>	<u>23,745</u>	<u>43,947</u>	<u>69,801</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses..	802	4,896	3,558	2,765	(81)	3,532	5,571
Fund balance at beginning of year.....	2,773	15,668	13,397	14,089	1,797	7,876	11,552
Fund balance at end of year.....	<u>\$ 3,575</u>	<u>\$ 20,564</u>	<u>\$ 16,955</u>	<u>\$ 16,854</u>	<u>\$ 1,716</u>	<u>\$ 11,408</u>	<u>\$ 17,123</u>

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	
								2011	2010
\$ 7,041	\$ 20,057	\$ 679	\$ 81	\$ 20,077	\$ 13,706	\$ 7,164	\$ 14,017	\$ 177,793	\$ 143,827
15,752	30,916	30,218	39,019	26,384	43,108	3,271	6,541	339,288	320,940
11,064	27,290	15,826	13,171	16,464	1,399	30,569	27,566	255,009	229,610
<u>33,855</u>	<u>78,263</u>	<u>46,723</u>	<u>52,271</u>	<u>62,923</u>	<u>58,208</u>	<u>41,003</u>	<u>48,124</u>	<u>772,090</u>	<u>694,377</u>
3,128	14,642	17,221	4,722	22,518	13,988	755	1,368	138,658	124,444
126	465	272	33	120	419	76	369	3,368	2,783
6,516	25,061	7,718	5,507	8,057	5,789	32,778	7,609	185,161	168,996
1,428	5,471	1,555	1,580	2,079	6,414	363	842	35,464	26,968
1,412	2,513	1,746	34,213	1,921	2,279	630	2,964	59,458	55,779
390	1,243	1,694	8	3,815	4,086	984	1,582	22,625	21,718
1,295	5,944	2,402	73	1,020	1,196	524	517	21,719	16,195
-	2	390	13	1,015	812	613	2,780	8,159	7,171
-	-	236	70	241	120	878	761	6,842	6,584
-	1,138	4,540	46	442	815	263	1,024	12,253	5,877
-	419	868	5	110	1,500	165	2,110	7,626	7,836
219	-	505	-	187	-	6	1,360	4,370	4,394
1,463	8	331	23	904	2,733	1,101	2,222	19,904	12,141
-	-	9	-	-	-	23	-	396	311
5,989	187	3,771	1,683	14,060	15,356	3,210	15,337	152,634	133,258
16	-	340	-	1,162	32	-	-	1,776	1,725
-	18,302	1,679	-	-	266	175	-	26,444	22,635
<u>2,135</u>	<u>70</u>	<u>46</u>	<u>365</u>	<u>2,279</u>	<u>4,980</u>	<u>943</u>	<u>52</u>	<u>21,167</u>	<u>18,720</u>
<u>24,117</u>	<u>75,465</u>	<u>45,323</u>	<u>48,341</u>	<u>59,930</u>	<u>60,785</u>	<u>43,487</u>	<u>40,897</u>	<u>728,024</u>	<u>637,535</u>
9,738	2,798	1,400	3,930	2,993	(2,577)	(2,484)	7,227	44,066	56,842
<u>40,789</u>	<u>7,153</u>	<u>5,555</u>	<u>5,469</u>	<u>10,079</u>	<u>6,683</u>	<u>18,406</u>	<u>66,960</u>	<u>228,247</u>	<u>171,405</u>
<u>\$ 50,527</u>	<u>\$ 9,951</u>	<u>\$ 6,955</u>	<u>\$ 9,399</u>	<u>\$ 13,072</u>	<u>\$ 4,106</u>	<u>\$ 15,922</u>	<u>\$ 74,187</u>	<u>\$ 272,313</u>	<u>\$ 228,247</u>





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# Exhibit C

# Commonwealth of Massachusetts



## Comprehensive Annual Financial Report

*For the Fiscal Year Ended June 30, 2011*

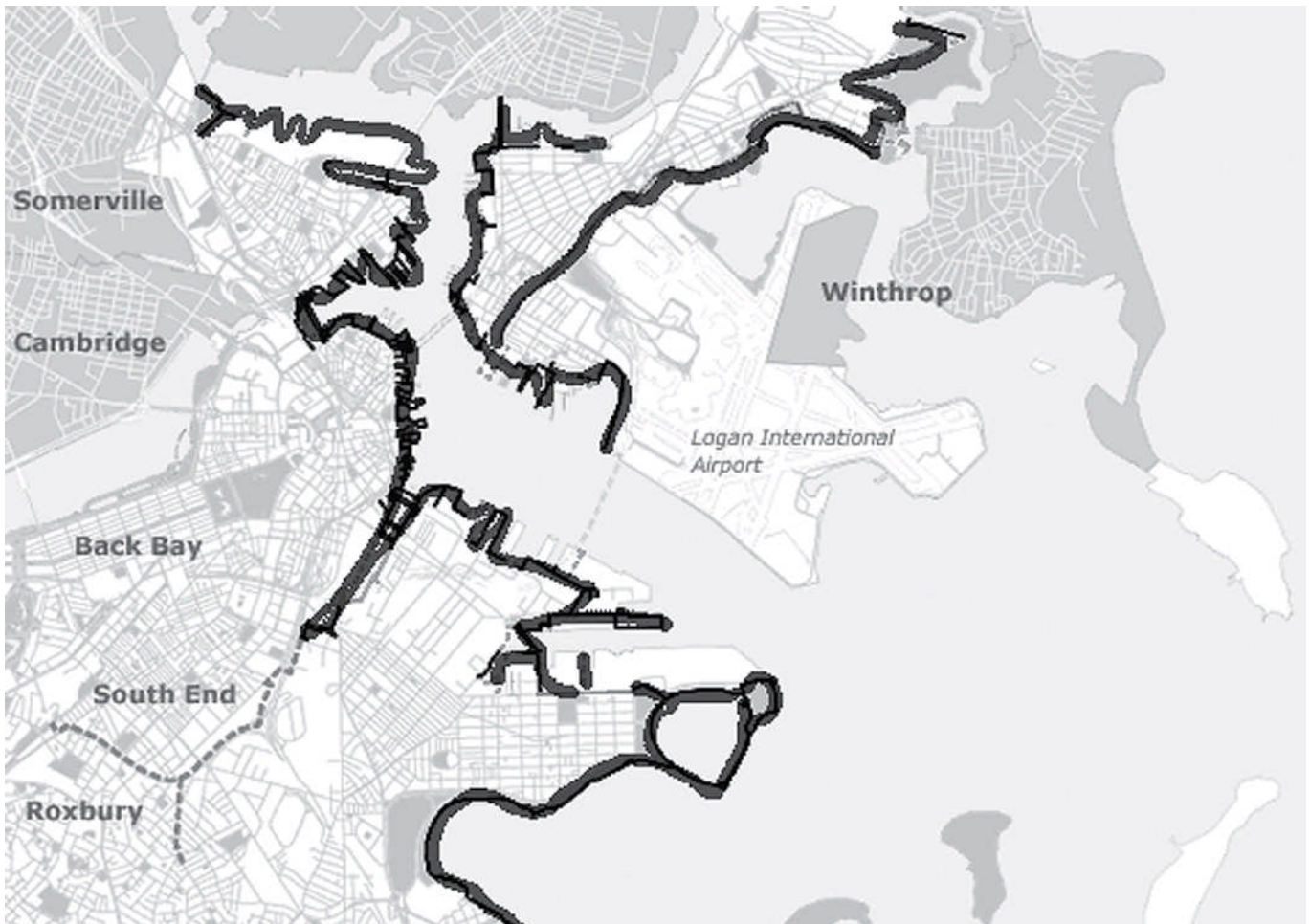
*Martin J. Benison, CGFM  
Comptroller of the Commonwealth*

*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)*



The Boston Harbor Association (TBHA) is the leading harbor advocacy group working to promote a clean, alive, and accessible Boston Harbor. Founded in 1973 by the League of Women Voters and the Boston Shipping Association, TBHA prides itself in its creative and innovative programs that help to educate the public and build a consensus for a clean and alive Harbor.

Boston's HarborWalk is an inviting public walkway along the waterfront, with parks, public art, seating areas, cafes, exhibit areas, interpretive signage, water transportation facilities, and a wide range of other amenities. TBHA works closely with the City of Boston's Environmental Department, the Boston Redevelopment Authority (BRA), the Massachusetts Department of Environmental Protection, and waterfront property owners to ensure completion of the 46.9-mile HarborWalk.

In 1984, the Boston Redevelopment Authority joined in partnership with the Harborpark Advisory Committee and The Boston Harbor Association to initiate focus on the revitalization of Boston's waterfront. The centerpiece of this innovative initiative is the HarborWalk, a continuous public walkway along the water's edge, with public amenities for all to enjoy.

Improved waterfront access for the public enjoyment is a collaborative effort among City and State agencies, private property owners, residents and harbor advocacy groups. City and State regulations require that new development be set back from the edge of the water, and that a portion of the setback area be improved as a public pedestrian path -- the HarborWalk. The HarborWalk is being constructed incrementally in segments by the City, State and private waterfront-property owners. Currently, the HarborWalk is about 84% complete and is accessible by the public.

*Special thanks to Vivien Li, President of The Boston Harbor Association  
All photography and text courtesy of TBHA's website ([www.bostonharborwalk.com](http://www.bostonharborwalk.com)), unless otherwise noted.*

# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

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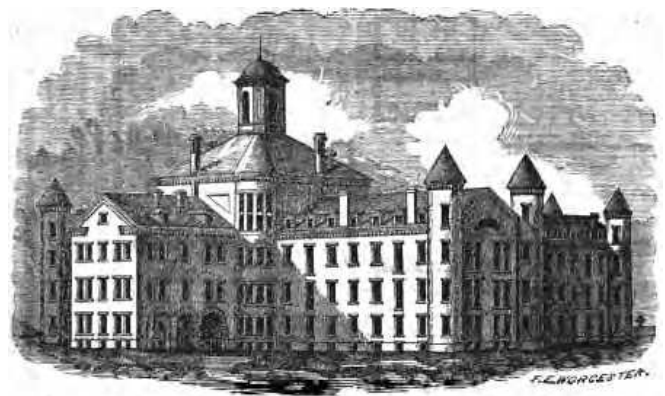
## Deer Island

The HarborWalk at Deer Island includes a 2.6-mile perimeter pathway lined with interpretive exhibits and is perfect for walking, jogging, fishing, picnicking or simply relaxing. From Deer Island's highest vantage point, there are sweeping views of the Harbor and downtown Boston. The public can also visit and learn about the Deer Island Wastewater Treatment Plant and the Boston Harbor Project at the award-winning Visitor Center, which was once the original pump house on the island. Deer Island has served a variety of social uses over the years, but perhaps none as dramatic as its current use -- treating wastewater from 43 communities to ensure Boston Harbor remains one of the cleanest harbors in the United States.

Deer Island was so-named in the 1600s because of the deer that had been chased there from the mainland by



*Before MWRRA*



**NEW ALMSHOUSE ON DEER ISLAND, IN BOSTON HARBOR.**

wolves. Since colonial days, Deer Island has served at one time or another as a detention center for Native Americans, a quarantine station and hospital for immigrants, an asylum for the city's social outcasts and the poor, a reformatory for juvenile delinquents, an orphanage, a prison for petty criminals, and a military post. The first in a succession of regional sewage treatment facilities was built on Deer Island in 1899, a hundred years before the present plant was completed. In the 1940s, the Army Corps of Engineers built a causeway connecting the island with the town of Winthrop on the mainland.

*Special thanks to Frederick Laskey, Executive Director of the Massachusetts Water Resources Authority (MWRRA)  
Deer Island photography and text courtesy of Ria Convery and Barbara Allen, MWRRA*





# *Introductory Section*

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



*Deer Island today*

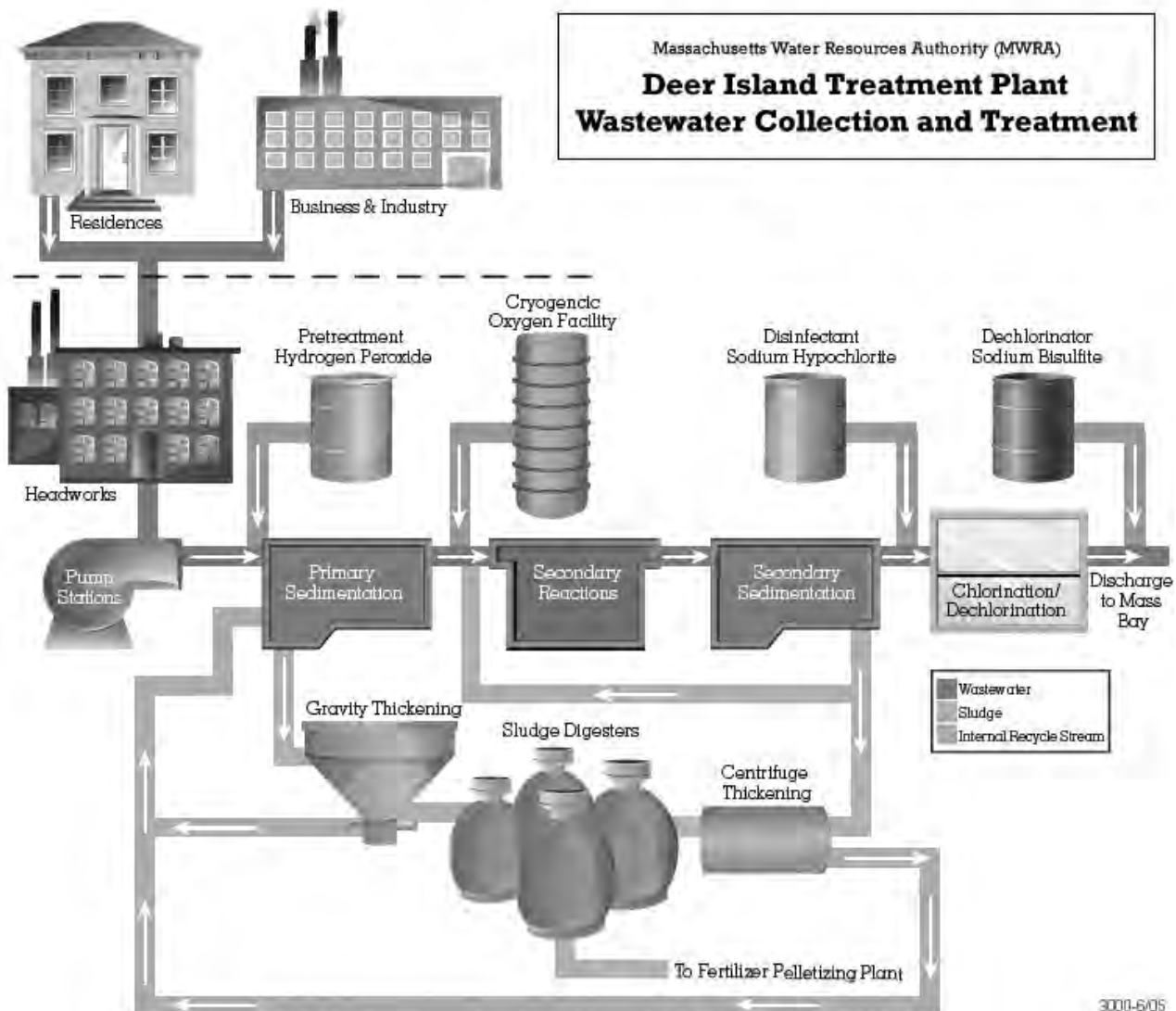
Today, Deer Island is home to a state of the art wastewater treatment facility. Begun as a court-ordered facility, the Deer Island plant is the centerpiece of the Boston Harbor Project. A gem in the eyes of environmentalists and water-quality activists, this secondary treatment facility serves as a model for engineers and public works professionals around the world. The 140-foot-high, 3-million-gallon egg-shaped digester tanks have even been hailed as an architectural marvel.

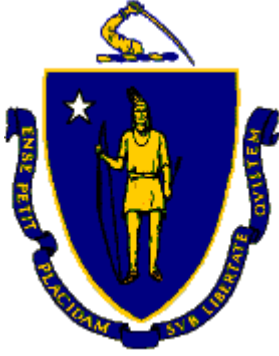
As one of the largest electricity users in the Northeast, Deer Island has embarked upon an ambitious goal of generating 30% renewable energy by 2020. Two 190-foot high wind turbines were installed on Deer Island in August, 2009 and generate over 2 million kW hours per year. Roof mounted photovoltaic system, lighting improvements, as well as methane from the sludge digestion process to create heat for the facility are just some of renewable fuels used on Deer Island.



## The Water and Sewer Systems

When Boston area cities and towns first faced the problems of clean water sources and sewage disposal in the 1600s, their methods were primitive. But by 1795 wooden pipes delivered water from Jamaica Pond to Boston. By the late 1840s, however, Jamaica Pond was too small and too polluted to provide water to Boston's 50,000 residents. And so, the pattern of moving continually westward in search of larger water sources began - from the 2-billion gallon Lake Cochituate in 1848, to the 19-billion gallon Sudbury Reservoir in 1878, to the 65-billion gallon Wachusett Reservoir in 1908, to the 412-billion gallon Quabbin Reservoir in 1939. The construction of the Quabbin Reservoir was the last major investment in the water system and no plans were in place for upgrades to carry the system into the next century. Fortunately, the foundations laid by the early water engineers were able to provide the backbone of the system they run today.





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

*January 3, 2012*

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

I am pleased to transmit the Commonwealth's fiscal year 2011 (FY11) 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 FY11 are found in the Statutory Basis Financial Report (SBFR) separately issued 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 activities in a statement of net assets 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 assets format.” This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth’s government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The 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. It is the oldest written Constitution now in use. It specified three branches of Government: Legislative, Executive, and Judicial. “The Great and General Court,” elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. It is the second oldest democratic deliberative body in the world.

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

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

**Governmental Funds - Statutory Basis, June 30, 2011:**

Budgeted fund balance.....	\$	1,900.8	
Non budgeted special revenue fund balance.....		1,983.9	
Capital projects fund balance.....		<u>199.2</u>	
<b>Governmental Fund Balance - Statutory Basis, June 30, 2011.....</b>			<b>4,083.97</b>
Plus: Expendable Trust and similar fund statutory balances that are considered governmental funds for GAAP reporting purposes.....			428.0
Less: Massachusetts Department of Transportation Funds.....			<u>(1,164.3)</u>
<b>Adjusted Statutory Governmental Fund Balance.....</b>			<b>3,347.7</b>
Short term accruals, net of allowances and deferrals for increases /(decreases):			
Taxes, net of refunds and abatements.....		1,743.75	
Tobacco settlement agreement receivable.....		137.9	
Medicaid.....		(284.1)	
Assessments and other receivables.....		183.7	
Amounts due to authorities and municipalities, net.....		(584.1)	
Amounts due to health care providers and insurers.....		(91.8)	
Workers' compensation and group insurance.....		(114.5)	
Other accruals, net.....		<u>(164.6)</u>	
<b>Net increase to governmental fund balances.....</b>			<b><u>826.3</u></b>
<b>Massachusetts School Building Authority fund balance.....</b>			<b><u>1,093.6</u></b>
<b>Total changes to governmental funds.....</b>			<b><u>1,919.9</u></b>
<b>Governmental fund balance (fund perspective).....</b>			<b>5,267.59</b>
Plus: Capital assets including infrastructure, net of accumulated depreciation.....			4,127.4
Deferred revenue, net of other eliminations.....			1,036.6
Long term accruals:			
Pension benefits cumulative over / (under) funding.....			(1,199.4)
Post employment benefits other than pensions cumulative over / (under) funding.....			(2,691.0)
Environmental remediation liability.....			(174.2)
Massachusetts School Building Authority debt and school construction payables.....			(6,844.3)
Long term debt, unamortized premiums and deferred losses on debt refundings.....			(21,164.0)
Compensated absences.....			(479.9)
Capital leases.....			(61.0)
Accrued interest on bonds.....			(346.2)
Other long term liabilities.....			<u>(304.6)</u>
<b>Total governmental net assets (government-wide perspective).....</b>			<b><u>\$ (22,832.9)</u></b>

The deficit of \$22.8 billion in government-wide net assets can be largely attributed to the Commonwealth 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 newly formed Massachusetts Department

of Transportation (MassDOT), a component unit of the Commonwealth. At the end of FY11, MassDOT held over \$18.4 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 holds \$6.8 billion in debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns.

Since MassDOT ended FY11 with positive net assets of \$23.8 billion, it is more informative to view the Commonwealth's financial statements in combination with MassDOT than to analyze the two separately.

The net deficit in governmental activities grew by \$460 million in FY11. While tax revenue growth was strong in FY11, this growth was offset by a number of adjustments that reduced the fund balance and ending net assets. The main factors underlying the change in the net deficit were as follows:

- Tax revenues grew by \$2.0 billion, or 10.7%, from FY10, mainly due to higher non-withheld income, particularly capital gains taxes, resulting from strong stock and bond markets as those markets recovered from the 2008 financial crisis, as well as growth in withholding tax on wages and salaries as the economy recovered from recession and employment grew; however, much of the revenue increase was absorbed by spending increases, particularly in the state's Medicaid program;
- 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 \$738 million in FY11, reducing net assets;
- The Commonwealth continues to fund through its own debt transportation-related assets that are owned by the Massachusetts Department of Transportation (MassDOT). In FY11, almost \$600 million of MassDOT capital spending was funded through debt issued by the Commonwealth. While the assets created by this spending are recorded on the books of MassDOT, the liability for the debt remains with the Commonwealth; and
- While non-transportation-related debt grew by over \$600 million, fixed assets net of depreciation grew by only \$128 million.

The net deficit in government-wide activities, which includes the Commonwealth's business-type as well as governmental activities, declined by \$137 million in FY11, as FY11 surpluses in the Unemployment Insurance and Higher Education programs offset deficits in governmental activities.

## **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, financial statements include 14 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 Massachusetts School Building Authority is blended into the Commonwealth's operations.

## **INDEPENDENT AUDIT**

The Commonwealth's independent auditors, KPMG LLP, with assistance from the Office of the State Auditor (OSA), have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2011. OSA also plays a significant role in the audit of the Schedule of Expenditures of Federal Awards of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133. The independent auditors' report is presented in the Financial Section.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's annual report available on their web site: <http://www.mass.gov/sao>.

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





Deer Island features five miles of public walkways and trails for walking, jogging, sightseeing, picnicking, fishing and bicycling. The public access area is open to the public year-round, from sunrise to sunset. At Deer Island you'll also find:

- 60 acres of open space, including 2.6 miles of paved handicapped accessible perimeter path;
- 10 landscaped overlooks, a 6-boat mooring basin, interpretive signage, and future Native American and Irish memorials;
- Dramatic views of the Boston skyline and Harbor Islands;
- Spectacular close-ups of airport landings and takeoffs;
- Elevated look-in locations to learn about the new treatment plant;
- A memorial to the late Judge A. David Mazzone.

Deer Island, which connects to the town of Winthrop, is accessible by car and public transportation. The Town of Winthrop runs bus services between Deer Island and the MBTA's Orient Heights Blue Line station.



## **CONSTITUTIONAL OFFICERS**

Deval L. Patrick  
*Governor*

Timothy P. Murray  
*Lieutenant Governor*

William F. Galvin  
*Secretary of State*

Martha Coakley  
*Attorney General*

Steven Grossman  
*Treasurer and Receiver-General*

Suzanne Bump  
*Auditor*

## **LEGISLATIVE OFFICERS**

Therese Murray  
*President of the Senate*

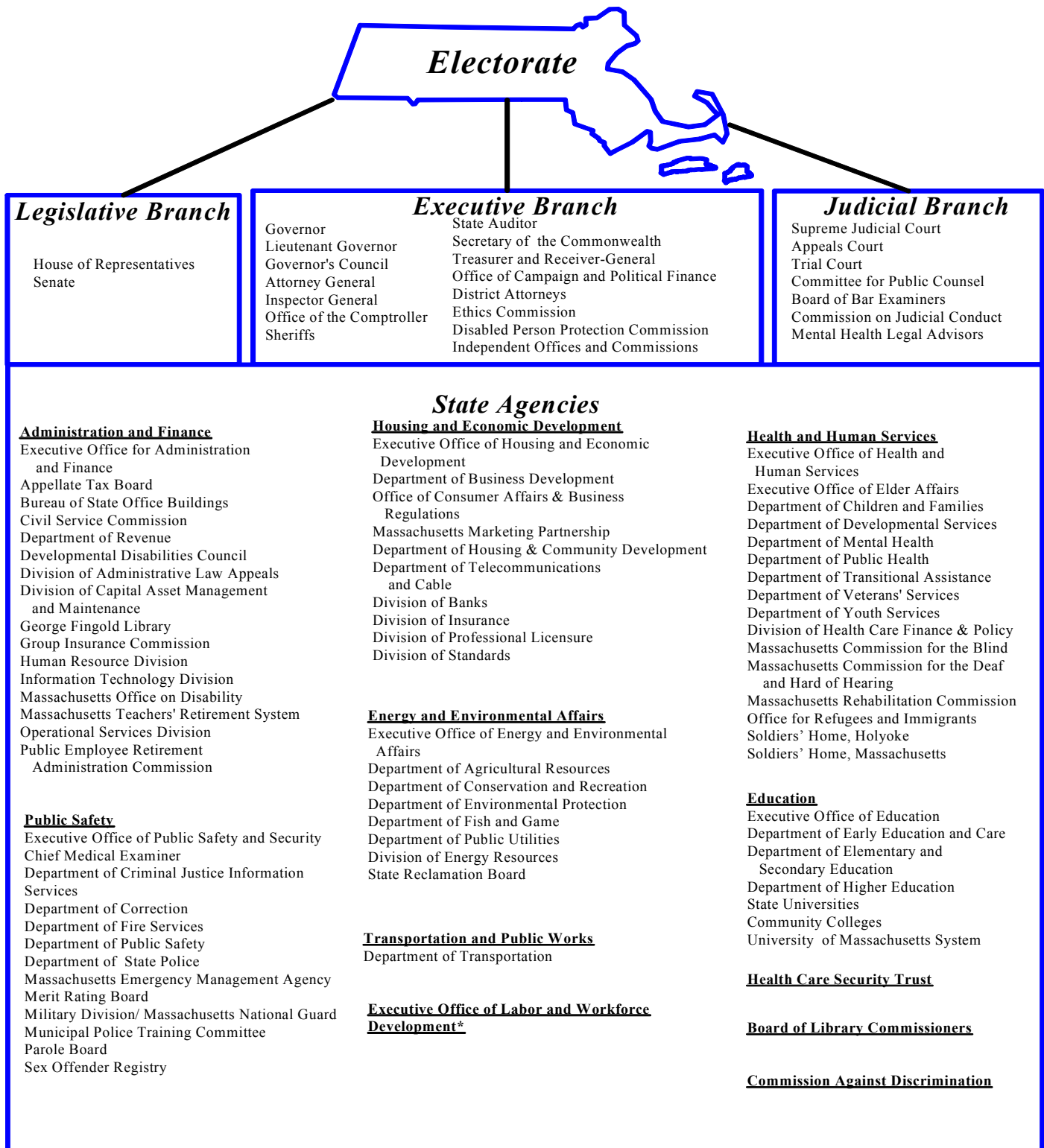
Robert A. DeLeo  
*Speaker of the House*

## **JUDICIAL OFFICERS**

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

Phillip Rapoza  
*Chief Justice, Appeals Court*

Robert A. Mulligan  
*Chief Justice for Administration and Management, Trial Court*



*\* Merger of 4 former state departments (Department of Labor, Department of Workforce Development, Division of Industrial Accidents and Division of Labor Relations) with the Executive Office of Labor and Workforce Development per Chapter 3 effective 3/11/11 but transitioned on 7/1/11*

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Lauren Johnson  
*Art Direction*  
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Vinh Nguyen  
*Art Design*

## City Square Park

The one-acre City Square Park is a quiet haven among busy bridges and roadways. The park is located at the site of Charlestown's historic Market Square, which was laid out in 1629 and remained a vital gathering place for the community through the 18th and 19th centuries until an elevated train was built through it in 1901. By the mid-20th century, the square had become congested with traffic from the Tobin Bridge, and two elevated highways were also built over it. During the mid-1990s, tunnels were constructed, the highways were put underground and an extensive community process ensued to design a public space that would restore the Square, now called City Square Park, to its use as a public space. Designated as a Boston Landmark in 1992, City Square Park has been used as a model for designing other open spaces throughout the Big Dig, due to the highly successful execution of its landscape design.

Today the park is a mini-oasis of green lawn areas formally landscaped with more than 70 varieties of trees, shrubs and flowers, and gracefully designed with gas lamps, artwork and a central fountain. It serves as a visual gateway between Charlestown and the rest of the city. City Square Park is ideal for taking short strolls along its winding walkways or just sitting outside among the sculptures, and maintains its beauty in large part through the efforts of the Friends of City Square Park and the local community.



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*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director



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# *Financial Section*

*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*

## **Paul Revere Park**

Located where the Charles meets the Inner Harbor, the five-acre Paul Revere Park extends from the North Washington Street Bridge upstream to the new Leonard P. Zakim Bunker Hill Bridge. The park features a large, grassy oval, a great place for ball throwing, with a stage for performances and a large, fenced-in playground for toddlers and older children. Signage and interpretive features make this a user-friendly park. A pier overlooking Boston Harbor with fish cleaning stations makes this a perfect spot for some friendly fishing. Natural vegetation and mosaic art can also be found in the park.

Paul Revere Park is one of the new parks along the Charles River developed as mitigation for the river crossing of the Central Artery/Tunnel Project. When all the parks are completed, more than 40 acres of new



public space with over 7 miles of bicycle, pedestrian, and ADA-accessible pathways will provide a significant addition to the Charles River Reservation System, and "linking the river to the sea".





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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

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, 2011, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Colleges and certain of the Community Colleges all of which are major enterprise funds and represent 87% of the total assets and deferred outflows of the business-type activities. We did not audit 36% of the total assets and deferred outflows of the Community Colleges major enterprise fund. We did not audit the financial statements of the Massachusetts Municipal Depository Trust which represent 5% of the total assets of the aggregate remaining fund information. Additionally, we did not audit the financial statements of certain nonmajor component units, which represent 6% 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 opinion, insofar as it relates to the amounts included for those entities, is based 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 of material misstatement. The financial statements of certain entities identified in Note 13 were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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, 2011, 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.

As described in Note 1, in fiscal 2011, the Commonwealth implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2012, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Required Supplementary Information, listed in the accompanying table of contents, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Massachusetts' 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

KPMG LLP

January 3, 2012



## Navy Yard

When the Charlestown Navy Yard closed in 1974 after nearly 175 years of serving the fleet, 30 acres became part of the Boston National Historical Park. Home of the USS Constitution ("Old Ironsides"), the oldest commissioned warship in the world, the Boston National Historic Park provides sights and education for the young and old. Located on Boston's Historic Freedom Trail,

both the ship and the USS Constitution Museum bring to life the stories of the individuals who authorized, built, served on and preserved the USS Constitution. Visitors can also tour the USS Cassin Young, a World War II destroyer that provides a modern contrast to the USS Constitution. Both vessels are free to the public. The USS Constitution Museum requests a contribution for visiting the museum.



In addition, the Charlestown Navy Yard is home to the Boston Marine Society. Founded in 1742, it is the oldest association of sea captains in the world. It is located in Building 32 and houses an extensive collection of historical maritime art, artifacts, and books available for viewing free of charge.



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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, 2011 (FY11). 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 Assets** – The liabilities of the primary government exceeded its assets at the end of FY11 by almost \$18.5 billion, a reduction of \$137 million in the net deficit from FY10.

Of the \$18.5 billion deficit amount, “unrestricted net assets” is negative by \$22.7 billion, and there is a \$722 million deficit attributable to the investment in capital assets net of related debt for governmental activities. There are two primary reasons for negative unrestricted net assets: first, the Commonwealth has a liability of \$6.8 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA); second, 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 \$15.5 billion, net of depreciation. The Commonwealth, however, originally paid for the construction of these assets and retains a large amount of transportation-related debt, which will now be unrelated to any capital asset owned by the Commonwealth. In addition, a large portion of the Commonwealth’s FY10 and FY11 capital spending is for transportation-related assets which are owned by MassDOT but the debt for which is retained by the Commonwealth.

These negative amounts are offset by nearly \$2.9 billion in “restricted net assets”.

During the fiscal year, approximately \$634 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate \$630 million was restricted for debt retirement. The MSBA also holds \$597 million in assets restricted for debt retirement.

The Commonwealth’s governmental activities net deficit increased by \$460 million and its governmental activities unrestricted net deficit increased by approximately \$1.077 billion in FY11. While tax revenue grew strongly in FY11, this growth was offset by higher Medicaid expenditures and increased accruals for underfunding related to retiree health care. In addition, as mentioned earlier, the Commonwealth continues to issue debt to fund transportation related capital spending where the assets are owned not by the Commonwealth but by one of its component units, which results in growth in the Commonwealth’s net deficit.

Total revenues of the primary government increased by \$2.7 billion or 5.4% in FY11 compared to FY10. Tax revenues increased by \$2.03 billion, or 10.7%, primarily the result of growth in the individual income tax.

Among non-tax revenue sources, primary government operating grants and reimbursements increased by \$926 million, or 5.5%, in FY11, primarily due to a \$669 million increase in Medicaid. Charges for services increased by \$722 million, or 6.2%, primarily the result of increased charges to beneficiaries under the state's group health insurance plan for current and retired state employees, unemployment insurance charges and higher tuition payments received by state universities and the University of Massachusetts. Capital grants and contributions fell by \$610 million, or 78.3%, due to lower grants for transportation projects, and other revenues decreased by \$342 million, or 16.8%.

Total expenses of the primary government increased by \$1.2 billion, or approximately 2.3%, from FY10 to FY11, with the largest single increase being approximately \$1.45 billion, or 13.5% growth in Medicaid spending, and the largest single decrease a decline of \$1.05 billion in unemployment insurance compensation expenses.

Net assets of business-type activities showed an increase of \$597 million, due to net surpluses of \$187 million in the Unemployment Insurance Trust Fund and \$408 million for Higher Education activity.

**Governmental Funds-Fund Balances.** At June 30, 2011, the Commonwealth's governmental funds reported a combined ending fund balance of about \$5.268 billion, an increase of \$682 million from June 30, 2010. Under new requirements set by Governmental Accounting Standards Board Statement 54, starting in FY11 ending fund balances are classified as nonspendable, restricted, and unrestricted, and within the unrestricted category, as nonspendable, committed, assigned, and unassigned. (A full discussion of these new definitions is included in Note 1 to the basic financial statements.) Of the ending balances:

- \$914,000 is nonspendable, \$1.675 billion is restricted, \$2.020 billion is committed, \$750 million is assigned and \$821 million is unassigned fund balance.
- The MSBA's fund balance of approximately \$1.094 billion is blended into the Commonwealth. Within this fund balance is over \$1.037 billion in cash and restricted investments which were funded by bond proceeds in previous fiscal years, and other assets, less approximately \$123 million in liabilities. In FY11, over \$657 million was apportioned to the MSBA from the Commonwealth from sales taxes, adjusted for accruals.
- Lottery revenues for FY11 remained virtually unchanged from FY10 at approximately \$4.632 billion. Prizes were approximately \$3.656 billion, operating expenses and mandated transfers to the governmental funds were \$977 million.

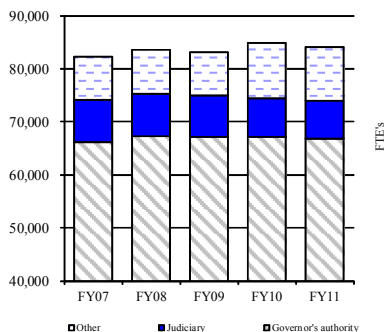


Other highlights of FY11 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$248.7 million, all of which were used to support current operations. This was a decrease of \$14.9 million from the prior year, due to one-time additional non-participating manufacturers settling under the master settlement agreement (MSA) received in FY10. Approximately \$137.9 million has been reported as a receivable in the governmental funds related to half of the anticipated tobacco settlement proceeds to be received in FY12. The MSA with the tobacco manufacturers estimates Commonwealth revenues for the first 25 years of the settlement to be approximately \$8.96 billion. However, this estimate is subject to future adjustments, including adjustments for inflation and changes in the volume of domestic cigarette sales. Approximately 67.2% of the estimated amounts shown in the MSA were received in FY11. The Commonwealth continued to receive Strategic Contribution Fund payments in FY11 under the terms of the MSA. These additional payments are paid to lead states in a suit against tobacco manufacturers. The payments began in FY08 and will continue through FY17.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$75 million in bond authorizations. There were no de-authorizations of previously issued capital appropriations in FY11. The Commonwealth will determine the timing and extent of capital spending and bonding as part of its five year capital plan.

**Full-Time Equivalent Employment**

**Full Time Equivalent Workforce  
Including Higher Education and the  
Massachusetts Department of  
Transportation  
June 2007 – June 2011**



The chart to the left shows the Commonwealth’s full-time equivalent employment levels over the past five fiscal years. A change in accounting for certain Higher Education employees in FY09 and government reorganizations in FY10 involving the Massachusetts Department of Transportation (MassDOT) and county sheriffs’ departments resulted in additional FTEs being transferred to the Commonwealth’s payroll system in FY09 and FY10. In FY09, the state switched approximately 2,500 Higher Education employees to the Commonwealth’s payroll system. In FY10, approximately 1,330 employees of the former Massachusetts Turnpike Authority and the Tobin Bridge were transferred to MassDOT. Also in FY10, the sheriffs’ departments of Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk were brought onto the state’s accounting and payroll systems, with approximately 2,770 employees. These increases were offset by reductions in state employment due to a combination of employee attrition and layoffs, as the state responded to lower tax revenues caused by the recession. In FY11 alone, the total number of FTEs dropped by 777, from 84,847 to 84,070. Adjusting for the 6,600 employees brought onto the state payroll system as a result of these accounting changes and reorganizations, state employment levels dropped by a total of 6,166 FTEs between June 30, 2008 and June 30, 2011.

## 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 other supplementary information.

### 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 Assets*, which presents the assets, liabilities and net assets for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. The statements report the Commonwealth's net asset position and changes to those net assets. It can be inferred that an increase or decrease in the Commonwealth's net assets is one way to measure financial health as well as the trend of increases or decreases over time. But 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 assets 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 where fees are charged for a particular service. These are mainly the institutions of higher education and the unemployment insurance compensation system. The component units are separate legal entities that are included with this report due to the nature of their governance and financial relationship with the Commonwealth.

The government-wide financial statements can be found immediately following this discussion and analysis.

### 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 most significant major funds are shown separately in the fund financial statements, with the remaining funds included in the aggregate.

Fund financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government-wide statements. All of the funds of the Commonwealth 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 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.

Even though the Massachusetts School Building Authority (MSBA) is a component unit, the MSBA’s operations have been judged by management in a similar fashion to a Commonwealth department due to the MSBA’s service to the Commonwealth. Therefore, its operations are reported as “blended component unit”, part of the governmental funds.

**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 immediately following the component units’ financial statements.

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

Other supplementary information is not required, but is included to present combining schedules of minor governmental funds.

**GOVERNMENT-WIDE  
FINANCIAL ANALYSIS**

**Net Assets**

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

School construction grants payable.....	\$ 2,324,917
Massachusetts School Building Authority debt.....	4,590,912
Outstanding bonds issued to fund the MBTA .....	155,380
Debt related to MassDOT assets .....	<u>8,889,252</u>
Effect on unrestricted net assets of items unique to the Commonwealth.....	<u>\$ 15,960,461</u>

Net assets may serve over time as a useful indicator of a government’s financial position. The primary government’s combined net assets (governmental and business-type activities) showed a net deficit of almost \$18.5 billion at the end of FY11. Governmental activities unrestricted net assets are negative by over \$22.7 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 in FY10 as well as continued borrowing by the Commonwealth that funds construction of new assets owned by MassDOT. In FY11, MassDOT reports these capital assets on their financial statements, which are incorporated into the Commonwealth’s financial statements similarly to other component units.

As alluded to previously, another example of this type of arrangement is the MSBA. 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 39 the authority’s operations are

reported within a governmental fund in this report and on the government-wide financial statements.

In addition, the Commonwealth holds debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as “forward funding,” of the MBTA, a change enacted in FY2000. As of June 30, 2011, the outstanding debt remaining related to the “forward funding” costs of the MBTA was approximately \$45 million.

Exclusive of fiduciary assets, the Commonwealth’s government-wide current cash and investments increased by over \$1.0 billion between June 30, 2010 and June 30, 2011, and total current assets increased by \$921 million. To finance its cash flow and bridge the time gap between current year receipts and current year major expenses such as the payment of local aid, in FY11 the Commonwealth issued \$300 million in commercial paper along with \$1.2 billion in revenue anticipation notes (RANS), which retired the commercial paper. The RANS were retired in April, May and June 2011.

The primary government’s non-current assets increased by \$1.02 billion. The increase was due mainly to a \$453 million increase in the restricted cash and investments of the higher education entities and a \$484 million increase in capital assets, most of which occurred in business-type activity funds.

Nearly \$8.3 billion of the Commonwealth’s net assets reflect the Commonwealth’s investment in traditional capital assets such as land, 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.

As explained above, the bulk of the Commonwealth’s net deficit is due to long-term liabilities which financed non-Commonwealth capital assets. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. As of June 30, 2011, the Commonwealth’s current assets were almost \$10.4 billion, while its current liabilities were over \$7.8 billion. Restricted net assets represent resources that are subject to external constraints.

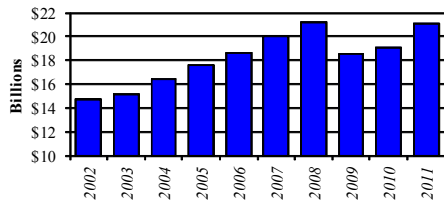
The tables below show the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business-type activities.

**Net Assets as of June 30, 2011 and 2010**  
(in millions of dollars)

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total Primary Government</u>	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Current assets.....	\$ 8,725	\$ 7,949	\$ 1,666	\$ 1,521	\$ 10,391	\$ 9,470
Non-capital non-current assets.....	3,483	3,260	2,824	2,640	6,307	5,900
Capital assets.....	4,127	3,999	4,161	3,677	8,288	7,676
Deferred outflows of derivative investments .....	376	444	20	66	396	510
<b>Total assets and deferred outflows.....</b>	<b>16,711</b>	<b>15,652</b>	<b>8,671</b>	<b>7,904</b>	<b>25,382</b>	<b>23,556</b>
Current liabilities.....	6,910	6,842	851	880	7,761	7,722
Long term liabilities.....	32,634	31,184	3,453	3,252	36,087	34,436
<b>Total liabilities.....</b>	<b>39,544</b>	<b>38,026</b>	<b>4,304</b>	<b>4,132</b>	<b>43,848</b>	<b>42,158</b>
Net assets:						
Invested in capital assets, net of related debt.....	(722)	(886)	2,026	1,767	1,304	881
Restricted.....	1,521	1,066	1,365	1,149	2,886	2,215
Unrestricted.....	(23,631)	(22,554)	978	857	(22,653)	(21,697)
<b>Total net assets (deficits) .....</b>	<b>\$ (22,833)</b>	<b>\$ (22,374)</b>	<b>\$ 4,369</b>	<b>\$ 3,773</b>	<b>\$ (18,463)</b>	<b>\$ (18,601)</b>

**Changes in Net Assets**

**Revenue from Taxation –  
FY02-FY11**



As noted earlier, the Commonwealth's total primary government net deficit declined by approximately \$137 million between FY10 and FY11. In FY11, approximately 40% of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. Total revenues increased by \$2.73 billion or 5.4%, with tax revenue increasing by nearly \$2.03 billion, or 10.7%. The increase in tax revenue was attributable to growth of \$1.635 billion in the personal income tax, due to an increase in non-withheld income, primarily investment income from capital gains taxes, as well as growth in withholding taxes on wages as the Commonwealth's economy emerged from recession and generated new jobs. Sales tax revenues grew by \$205 million, partly due to a sales tax increase that was in effect for the full FY11 fiscal year, but only 9 months in FY10. Corporate and other business excise taxes grew by \$63 million in FY11.

The American Recovery and Reinvestment Act (ARRA) and other federal grants (primarily for unemployment insurance benefits), operating and capital grant contributions increased by \$316 million, or 1.8% in FY11, as growth in Medicaid revenues was offset by a decline in capital contributions and ARRA revenues. ARRA funds received by the Commonwealth during FY11 were almost \$2.4 billion, the most significant of which were Federal Medicaid Assistance Program (FMAP) receipts from ARRA of \$1.25 billion, more than \$530 million for education programs, \$192 million for transportation programs, approximately \$160 million for housing and community development

**American Recovery and  
Reinvestment Act Funds Drawn in  
FY11 – FY10  
(amounts in thousands)**

Funding Category	FY2011	FY2010
Agriculture.....	\$ 4,980	\$ 9,332
Department of Defense.....	531	8,885
Housing and Urban Development.....	48,790	29,743
Justice.....	7,410	7,297
Labor.....	145,394	472,714
Transportation.....	191,861	74,422
US Treasury.....	58,802	40,354
National Institute for Arts & Humanities.....	9	339
National Science Foundation.....	225	66
EPA.....	9,838	10,431
Energy.....	75,230	69,193
Education.....	533,091	606,988
Health and Human Services.....	1,304,698	1,452,408
Homeland Security.....	685	670
<b>Total by finding category.....</b>	<b>\$ 2,381,544</b>	<b>\$ 2,782,843</b>
Total budgeted funds.....	\$ 1,268,820	\$ 1,420,705
Total non-budgeted special revenue funds *.....	808,458	857,430
Total capital projects funds.....	1,370	-
Total agency funds.....	3,204	4,207
Total Unemployment Benefits and Other Agency Funds **.....	107,832	426,079
Total Massachusetts Department of Transportation.....	191,861	74,422
<b>Total by fund type.....</b>	<b>\$ 2,381,544</b>	<b>\$ 2,782,843</b>

\* Resulted in expenditure reduction in the General Fund  
\*\* Not included in this report

programs and almost \$145 million for labor and workforce development programs (including supplemental unemployment insurance benefits). ARRA revenues in FY11 declined by approximately \$400 million from FY10, as higher Medicaid reimbursement rates under ARRA began to phase out during FY11, and returned to their historical 50% rate by the end of the fiscal year. FY12 ARRA revenues are expected to decline to less than \$400 million as the ARRA program winds down.

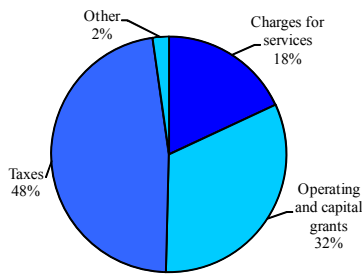
Total charges for services increased by more than \$722 million, or 6.2%, due to a \$218 million increase in Unemployment Insurance charges, a \$158 million increase in charges at the University of Massachusetts, an increase of over \$65 million at the state universities and community colleges and an increase in Health and Human Services charges of over \$98 million. Charges for services also increased by \$73 million in the Medicaid program and group health insurance charges for services rose by approximately \$81 million. Government-wide restricted net assets increased due to a \$428 million increase in MSBA assets restricted for debt, a \$187 million increase in assets restricted for unemployment compensation and an increase in restricted net assets for higher education institutions.

Total primary government spending increased by \$1.200 billion, or 2.3% from FY10, with Medicaid expenses growing by \$1.446 billion, or 13.5%, but unemployment insurance compensation declining by \$1.047 billion, or 19.3%. Other significant changes occurred in energy and environmental affairs, which grew by \$359 million, or 110.1%, education, which grew by \$254 million, or 7.5%, transportation, which grew by \$174 million, or 8.3% and direct local aid, which declined by \$184 million, or 3.7%.

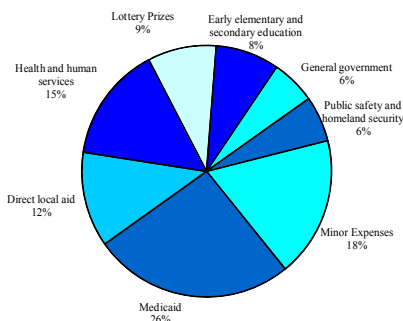
**Changes in Net Assets during the Fiscal Years Ended June 30, 2011 and 2010  
(in millions of dollars except percentages)**

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	Distribution	Distribution	% Change
<b>Revenues</b>									
Program Revenues:									
Charges for services.....	\$ 8,038	\$ 7,756	\$ 4,412	\$ 3,972	\$ 12,450	\$ 11,728	23%	23%	6%
Operating grants and contributions.....	14,217	12,771	3,500	4,020	17,717	16,791	33%	33%	6%
Capital grants and contributions.....	169	779	-	-	169	779	0%	2%	-78%
General Revenues:									
Taxes.....	21,066	19,034	-	-	21,066	19,034	40%	38%	11%
Other.....	992	1,476	695	553	1,687	2,029	3%	4%	-17%
<b>Total Revenues.....</b>	<b>44,482</b>	<b>41,816</b>	<b>8,607</b>	<b>8,545</b>	<b>53,089</b>	<b>50,361</b>	<b>100%</b>	<b>100%</b>	<b>5%</b>
<b>Expenses</b>									
Medicaid.....	12,124	10,678	-	-	12,124	10,678	23%	21%	14%
Direct local aid.....	4,846	5,030	-	-	4,846	5,030	9%	10%	-4%
Health and human services.....	7,125	7,245	-	-	7,125	7,245	13%	14%	-2%
Lottery.....	3,662	3,649	-	-	3,662	3,649	7%	7%	0%
Higher education.....	-	-	4,472	4,119	4,472	4,119	8%	8%	9%
Early elementary and secondary education....	3,650	3,395	-	-	3,650	3,395	7%	7%	8%
Unemployment compensation.....	-	-	4,388	5,436	4,388	5,436	8%	11%	-19%
Other.....	12,674	12,190	-	-	12,674	12,190	25%	24%	4%
<b>Total Expenses.....</b>	<b>44,081</b>	<b>42,187</b>	<b>8,860</b>	<b>9,555</b>	<b>52,941</b>	<b>51,742</b>	<b>100%</b>	<b>100%</b>	<b>2%</b>
<b>Excess / (Deficiency)</b>									
<b>before transfers.....</b>	<b>401</b>	<b>(371)</b>	<b>(253)</b>	<b>(1,010)</b>	<b>149</b>	<b>(1,381)</b>			
Other losses.....	-	-	(11)	(12)	(11)	(12)			
Transfers.....	(861)	(865)	861	865	-	-			
Transfer to \ from MassDOT.....	-	(8,984)	-	-	-	(8,984)			
Change in Net assets (deficits).....	(460)	(10,220)	597	(157)	139	(10,377)			
Net assets - beginning, as restated.....	(22,374)	(12,154)	3,772	3,930	(18,602)	(8,224)			
<b>Net assets (deficits)- ending.....</b>	<b>\$ (22,833)</b>	<b>\$ (22,374)</b>	<b>\$ 4,369</b>	<b>\$ 3,773</b>	<b>\$ (18,463)</b>	<b>\$ (18,601)</b>			

**Revenue—Governmental Activities**  
Fiscal Year Ending June 30, 2011

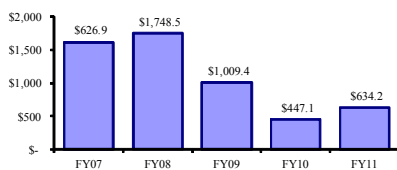


**Major Expenses—Governmental Activities**  
Fiscal Year Ending June 30, 2011



**Business—Type Activities**

**Unemployment Compensation Fund**  
**Net Assets**  
Fiscal Years 2007 - 2011  
(Amounts in Millions)



The largest category of tax revenue is income taxes. Of the more than \$21 billion in tax revenue within governmental activities, \$11.9 billion was from income taxes, \$4.9 billion was from sales taxes, \$1.9 billion was from corporate taxes, \$661 million was from motor fuels taxes and \$1.7 billion was from other forms of taxation. The largest operating grants are federal Medicaid subsidies. Other operating grants were for ARRA. The largest capital grants were for transportation, namely grants for highway construction. Finally, Lottery revenues made up approximately 58% of the Commonwealth’s charges for services. In FY11 Lottery revenues were virtually unchanged from FY10.

Medicaid expenses of \$12.1 billion accounted for 28% of all the Commonwealth’s governmental expenses, exclusive of business-type activities. However, half of Medicaid expenses have been historically reimbursed by the federal government, and under ARRA that percentage was increased to 61.59% in FY10 and an average rate of 59.7% in FY11 (the reimbursement rate returned to 50% in FY12). 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 \$7.1 billion, pre-Kindergarten through higher education costs funded not directly from the institutions of approximately \$3.6 billion and public safety and homeland security costs of approximately \$2.3 billion. State employees’ pensions and other post-employment benefits, which are included in the department spending amounts above, were \$1.5 billion.

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.

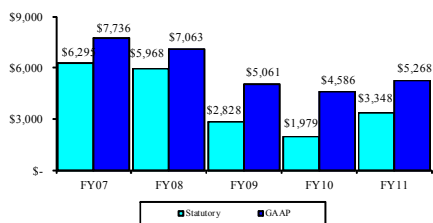
Business-type activities increased the Commonwealth’s net assets by over \$596 million. While operating grants and contributions dropped by \$520 million, due almost entirely to reduced unemployment insurance reimbursements from the federal government as unemployment fell in the Commonwealth, charges for services grew by \$440 million, with about half of the increase coming from higher unemployment insurance tax collections and half from higher charges by higher education institutions. As a result, net revenues of business-type activities dropped by \$80 million, but this decline was more than offset by a drop in unemployment insurance benefit spending, which declined by \$1.047 billion as the economy recovered. As a result, net assets of the Unemployment Compensation Trust Fund increased by \$187 million. Net assets of the schools of higher education increased by \$408 million.

## FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

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

### Governmental Funds

#### *Governmental Fund Balance Statutory vs. GAAP (Statutory Excludes MassDOT in FY11) (Amounts in Millions)*



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. Due to the significant nature of the relationship between the Commonwealth and the MSBA, the MSBA's operations and results are presented as a major fund in the governmental funds, even though it is a legally separate authority. MSBA's activity in FY11 added \$686 million in revenues, but reduced fund balance by approximately \$441 million due to expenditures of bond proceeds raised in prior years.

The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System-generated reports from the state accounting system and information warehouse are combined with reports from each of the Commonwealth departments to record governmental fund perspective departmental accruals. Similar reports are generated to show budgetary control, which is maintained at the appropriation level, not at the fund level.

The major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective are accruals for the Medicaid program, tax revenue, compensated absences and claims and judgments.

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

	FY11	FY10	FY09	FY08	FY07
Beginning fund balances .....	\$ 4,585.7	\$ 5,061.3	\$ 7,062.7	\$ 7,735.9	\$ 7,263.2
Reclassifications .....	-	-	-	-	5.0
Revenues and other financing sources .....	53,898.4	50,979.0	49,788.0	50,136.8	49,402.2
Expenditures and other financing uses .....	53,216.5	51,454.6	51,789.4	50,810.0	48,934.5
Excess / (deficiency) .....	681.9	(475.6)	(2,001.4)	(673.2)	472.7
Ending fund balances .....	\$ 5,267.6	\$ 4,585.7	\$ 5,061.3	\$ 7,062.7	\$ 7,735.9

The increase in revenues in FY11 from FY10 is attributable to a \$1.863 billion, or 9.8%, increase in governmental tax revenues due primarily to growth in income taxes and an increase in the sales tax rate effective August 1, 2009 (thus in effect for only part of FY10 but for all of FY11), and an increase of \$827 million, or 6.1%, in federal grants and reimbursements, mostly due to higher Medicaid spending and other draws for various health and human services programs, partly offset by a decline in ARRA grants. Assessments, fees and investment earnings combined declined by \$103 million, or 1.1%, due primarily to a decline in revenues received by expendable trusts. Coupled with other financing sources, largely from bonds and transfers, overall revenues increased by \$2.919 billion, or approximately 5.7%.



During FY11, governmental fund expenditures and other financing uses increased by \$1.762 billion, or 3.4%, with Medicaid expenditures increasing by \$1.446 billion, or 13.5%, \$755 million of which was for universal health care and aid to Massachusetts hospitals that care for lower income residents. Debt service expenditures fell by \$188 million, or 7.8%, primarily due to a drop in short-term borrowing, restructuring and refunding of a portion of the Commonwealth's debt, and a decline in interest rates. Lottery revenues were up \$3 million from FY10, while Lottery expenditures rose by \$16 million; Lottery revenues exceeded spending by about \$976 million. The other governmental funds as a whole decreased in fund balance, largely due to spending and transfers in the School Building Assistance Fund which had a deficit of \$441 million, the Federal Grant Anticipation Note Trust Fund, which had a deficit of \$156 million and the General Capital Projects Funds, which ran a deficit of \$129 million.

The Federal Grants Fund is used to manage categorical grants funded in their entirety by the federal government. This fund has seen a significant increase in activity as a result of ARRA, and collected over \$3 billion in revenue in FY11. (Also reported in this fund is almost \$1.3 billion in food stamp benefit payments, which do not actually flow through the Commonwealth but are included in this report under governmental accounting rules.) It is anticipated that expenditures and related federal revenues will begin to return to historic levels in FY12 as the ARRA program winds down. Most other minor funds had slight increases or decreases in fund balances for the fiscal year.

As of the end of FY11, the Commonwealth's governmental funds reported combined ending fund balances of \$5.268 billion, an increase of \$682 million from the previous year. Of the \$5.268 billion balance, the following amounts are classified as nonspendable, restricted, and unrestricted under the new GASB 54 definitions.

:

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

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Percentage Change</u>
<b><u>Nonspendable/Restricted:</u></b>				
Nonspendable.....	\$ 0.9	\$ 5.9	\$ (5.0)	-85%
Restricted.....	1,675.1	1,905.7	(230.7)	-12%
<b>Total Nonspendable/Restricted.....</b>	<b>1,676.0</b>	<b>1,911.7</b>	<b>(235.7)</b>	<b>-12%</b>
<b><u>Unrestricted</u></b>				
Committed.....	2,020.0	2,166.2	(146.2)	-7%
Assigned.....	750.5	156.5	594.0	380%
Unassigned.....	821.2	351.4	469.8	134%
<b>Total Unrestricted.....</b>	<b>3,591.7</b>	<b>2,674.1</b>	<b>917.6</b>	<b>34%</b>
<b>Total fund balances .....</b>	<b>\$ 5,267.6</b>	<b>4,585.7</b>	<b>681.9</b>	<b>15%</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, and fund balances in the Stabilization Fund. Unrestricted amounts also included prior appropriations continued, which are classified as assigned, and residual balances in the General Fund, which are classified as unassigned. A full discussion of the Commonwealth's fund balance classification policy under GASB 54 can be found in Note 1 to the basic financial statements.

During FY11 the General and Commonwealth Transportation funds (the latter the successor to the Highway Fund, which was eliminated as part of the Commonwealth's reform of the state transportation system) were the primary operating funds of the Commonwealth. At the end of FY11, the fund balance of the General Fund was \$3.052 billion. Of this amount, \$1.379 billion represents the balance in the Commonwealth's Stabilization Fund. \$400 million was also committed for continuing appropriations from FY11 into FY12 or restricted for debt service, a significant increase from FY10's continuing appropriations and debt service restrictions of \$102 million.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY11, the MSBA received approximately \$657 million of dedicated sales tax revenues.

### **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 assets by approximately \$597 million.

### **BUDGETARY HIGHLIGHTS**

The FY11 General Appropriation Act (GAA) authorized approximately \$30.0 billion in spending, exclusive of approximately \$1.44 billion in required pension contributions and \$111 million in FY10 spending authorized to be continued into FY11 as part of final FY10 supplemental budgets.

The FY11 budget as enacted by the Legislature was based on an FY11 tax revenue estimate of \$19.098 billion, including \$2.853 billion in tax revenue allocated to the Massachusetts Bay Transportation Authority (\$767 million), the School Modernization And Reconstruction Trust Fund (\$646 million) and the Pension Reserves Investment Trust Fund (\$1.44 billion). Net of these allocations, tax revenue available for budget was \$16.245 billion. The \$19.098 billion estimate reflected the FY11 consensus tax estimate of \$19.051 billion adjusted for the impact of tax law changes enacted as part of the FY11 budget. The FY11 tax

revenue estimate was revised upward to \$19.784 billion on January 2011 as tax revenues had performed above benchmark in the first half of FY11.

At the time the Governor signed the FY11 budget in July 2010, it was unknown whether the federal government would enact legislation extending through FY11 higher Medicaid reimbursements under ARRA. Historically, those reimbursements were at a rate of 50% of state expenditures for Medicaid, but had been raised to 61.59% through June 30, 2010. Responding to this uncertainty, the Legislature included in the FY11 General Appropriation Act alternative funding levels for most line items, reflecting spending with and without the additional ARRA revenue. The Governor vetoed the additional funding authorizations, but once federal legislation authorizing the higher federal Medicaid reimbursements (totaling \$499 million) was enacted in August 2010, the Governor filed supplemental budgets to restore the vetoed funding. In response to the federal ARRA increases, supplemental appropriations totaling approximately \$419 million were enacted in October 2010, \$327 million of which was for MassHealth, the state's Medicaid program.

Approximately \$1.511 billion in supplemental appropriations were authorized during FY11 prior to June 30, 2011. Subsequent to year end, an additional supplemental budget was enacted totaling approximately \$135 million in new FY11 appropriations, all of which were continued to FY12 and reappropriated. Besides the appropriations that restored federal funding, the year's significant supplemental appropriation activity included approximately:

- \$494 million for payments to hospitals through the Medical Assistance Trust Fund (which were largely offset through corresponding federal Medicaid revenue);
- \$261 million for additional MassHealth payments;
- \$50 million for snow and ice removal, in response to the severe storms of winter 2010-2011;
- \$46 million for family shelters;
- \$41 million for additional private counsel compensation for indigent clients;
- \$30 million for labor agreement settlements with court employees;
- \$25 million for underground storage tank grants;
- \$20 million for health care costs for immigrants with legal status;
- \$18 million for prison facilities operations;
- \$15 million to pay for the cleanup costs of the June 2011 hurricane.

On a statutory (not GAAP) basis, revenues and other sources (before transfers between the budgeted funds, which are included in both spending and revenue, and thus have no effect on fund balances) grew by \$2.8 billion, or 9.1%, in FY11. Revenue growth was due to strong tax revenue collections, as taxes available for budget grew by \$1.9 billion, or 11.2%, and higher federal reimbursements, which were up \$751 million, or 8.8%, primarily the result of increased spending on the state's federally reimbursable Medicaid, or MassHealth, program.

Budgeted expenditures and other uses, including transfers to non-budgeted funds, increased by \$1.65 billion, or 5.4%, from FY10. Most

of the growth in budgeted expenditures and other uses resulted from an increase in transfers to non-budgeted funds, which grew from \$1.04 billion in FY10 to \$2.06 billion in FY11, with \$680 million of growth resulting from higher transfers to non-budgeted health care funds and most of the remainder due to a change in the way the Commonwealth's transfers to MassDOT were reported.

Programs and services grew by \$740 million, or 2.9%. Medicaid expenditures grew by \$951 million, or 10.2%, from \$9.286 billion in FY10 to \$10.237 billion in FY11. On net, other program and service spending fell due to program cuts.

Spending for direct local aid decreased by \$53 million, or 1.1%, due to reductions in unrestricted local aid. Debt service decreased by \$196 million, or 10.5%, due to debt restructuring as authorized by the Legislature in FY11, lower than projected interest rates and the timing of certain debt issues. Post-employment benefit costs increased by \$90 million, or 5.2%.

**CAPITAL ASSET 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, 2011 amounts to approximately \$14.9 billion, with accumulated depreciation of approximately \$6.6 billion, leaving a net book value of almost \$8.3 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. The investments in capital assets noted above are net of capital assets transferred to MassDOT as part of the Commonwealth's Transportation Reform, which occurred in FY10. The total increase in the Commonwealth's investment in capital assets from 2010 to 2011 was approximately \$612 million, with almost \$129 million in governmental activities and almost \$484 million in business-type activities. Virtually all of the increase was in construction in process.

The following table details the capital asset activity for the Commonwealth. Similar to previous charts, FY11 amounts for business-type activities include amounts for the foundations established on behalf of the institutions of higher education.

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

	Governmental Activities		Business - type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land, including Central Artery .....	\$ 766,834	\$ 892,380	\$ 117,138	\$ 101,249	\$ 883,972	\$ 993,629
Historical treasures .....	-	-	863	863	863	863
Construction in process .....	737,232	452,988	709,843	462,301	1,447,075	915,289
Buildings .....	2,261,394	2,286,941	2,953,685	2,715,809	5,215,079	5,002,750
Machinery and equipment .....	294,961	301,673	269,119	286,722	564,080	588,395
Infrastructure, excluding Central Artery .....	66,993	64,677	-	-	66,993	64,677
Library collections .....	-	-	110,725	110,042	110,725	110,042
<b>Total .....</b>	<b>\$ 4,127,414</b>	<b>\$ 3,998,659</b>	<b>\$ 4,161,373</b>	<b>\$ 3,676,986</b>	<b>\$ 8,288,787</b>	<b>\$ 7,675,645</b>

Additional detail on the Commonwealth's FY11 capital asset activity can be found in Note 5 to the basic financial statements ("Capital Assets").

## **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 fiscal 2011 capital budget, the Commonwealth borrowed by issuing \$2.06 billion in long-term general obligation bonds, \$1.56 billion of which was for new-money needs, with the remainder for refunding already existing debt. Of the new money issues, \$708 million was issued as Build America Bonds (BABs). The BABs program is a temporary bond program authorized by the federal government as part of the 2009 America Recovery and Reinvestment Act (ARRA). Under the BABs program, issuers borrow by selling bonds into the taxable bond market and receive in return a subsidy from the federal government equal to 35% of the interest costs on the bonds. Given market conditions at the time of the Commonwealth's two 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, and unless the program is reauthorized by the federal government, no additional BABs will be issued.

During FY11, the Commonwealth also issued \$576 million in special obligation bonds for highway construction purposes under the Commonwealth's Accelerated Bridge Program, secured by Commonwealth motor fuels taxes and Registry of Motor Vehicle fees and issued grant anticipation notes totaling \$480.5 million – \$100 million for new-money needs under the Commonwealth's Accelerated Bridge Program, and \$380.5 million to refund previously issued debt.

Approximately 19% percent of the Commonwealth's \$18.5 billion in general obligation debt outstanding as of June 30, 2011 has been issued as variable rate bonds. Included in this variable rate debt was approximately \$402 million in auction rate securities (about 2% of all general obligation debt) as of June 30, 2011.

Approximately \$1.5 billion in bond sales were either for general government purposes or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. The remaining \$676 million in new issues were for highway and other infrastructure construction.

On the following page is a table which 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") and Note 7 ("Long-Term Obligations") to the basic financial statements.

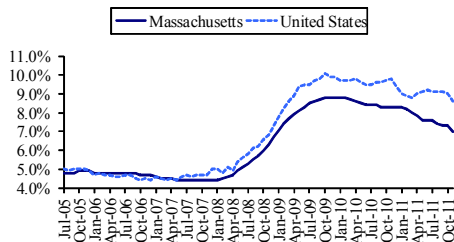
**Long - Term Debt Obligations at Year - End**

(net of unamortized premiums, bond issuance costs, deferred losses on refundings and discounts)  
(Amounts in thousands)

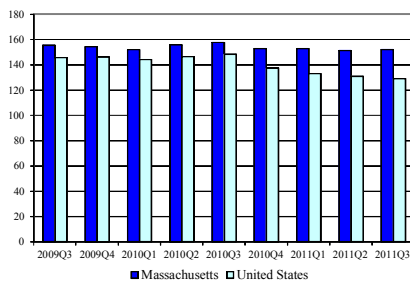
	Governmental Activities		Business - type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds .....	\$ 18,516,760	\$ 17,682,517	\$ -	\$ -	\$ 18,516,760	\$ 17,682,517
Special obligation bonds (excluding GANs).....	1,691,505	1,046,523	-	-	1,691,505	1,046,523
Revenue obligation bonds .....	-	-	3,277,413	2,699,988	3,277,413	2,699,988
Grant anticipation notes .....	666,790	997,467	-	-	666,790	997,467
<b>Subtotal .....</b>	<b>20,875,055</b>	<b>19,726,507</b>	<b>3,277,413</b>	<b>2,699,988</b>	<b>24,152,468</b>	<b>22,426,495</b>
Massachusetts School Building Authority.....	4,395,390	4,488,535	-	-	4,395,390	4,488,535
<b>Total .....</b>	<b>\$ 25,270,445</b>	<b>\$ 24,215,042</b>	<b>\$ 3,277,413</b>	<b>\$ 2,699,988</b>	<b>\$ 28,547,858</b>	<b>\$ 26,915,030</b>

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

*Monthly Unemployment Rate July 2005 – November 2011*



*Massachusetts and National Home Values – 2008Q3 – 2011Q3 Case – Schiller Index January 2000 = 100*



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 have been sharp as the nation’s gross domestic product has fallen and unemployment has hit the highest levels in decades. While the national recession ended in June 2009, recovery has been slow. While the Dow Jones Industrial Average has risen from a low of 6,547 in March of 2009 to over 12,000 by December 2011, though this is still well below the 14,200 historical high of two years ago. Housing values also appear to have started to rise again after hitting lows in March 2009, though they weakened towards the end of the calendar year 2011, as some of those rises may have been attributable to tax credits available in ARRA as well as other stimulus measures. Most economists believe unemployment will remain relatively high in the near future.

Massachusetts’ economy has outperformed the nation’s economy as a whole during and following the most recent recession, and home prices have fallen by less than in the U.S as a whole (see chart at left). The unemployment rate for the Commonwealth rose from 5.2% in July of 2008 to a high of 9.5% in February 2011, but since then has declined, and in November 2011 stood at 7.0%. This decline is greater than in the nation as a whole, where unemployment rose from 5.8% in July 2008 to a high of 10.1% in October 2009 (a rate that had not been seen since 1983), and has declined by only 1.5%, to 8.6% as of November 2011. Population growth in the Commonwealth, which during the 1990s and most of the 2000s was lower than in the nation as a whole, was only slightly slower than in the U.S. in calendar years 2009, 2010 and 2011, probably due to the fact the state economy has performed better than the national economy during the most recent recession.

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. The Commonwealth is home to sixteen S&P 500 companies, among them eight Fortune 500 headquarters.

According to the United States Patent Office, in calendar 2010 the Commonwealth ranked fourth in the nation in patents per capita, only slightly behind California, Washington state and Vermont. Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the US Census Bureau's most recent American Community Survey estimated that 38.5% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 27.9% for the United States as a whole. In the same survey, 88.7% of residents over age 25 at least had a high school diploma or general education equivalent, compared to 85.0% for the nation as a whole. In primary education, the most recent National Assessment of Educational Progress continues to rank Massachusetts first in 4th and 8th grade mathematics and reading, second and third in writing and fifth and sixth in science in grades 4 and 8, respectively. This shows that Massachusetts schoolchildren are consistently among the best educated in the nation.

#### **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/reports/reports.htm>.



## University of Massachusetts Boston

The University of Massachusetts Boston campus, located on Columbia Point, provides one of the city's longest uninterrupted portions of HarborWalk, perfect for walkers and joggers, as well as photographers. Besides offering spectacular views of the Harbor and Islands, UMass Boston is home to the region's first collection of large-scale outdoor sculpture by some of the world's leading artists: Arts on the Point. Founded in 1997, the contemporary art changes periodically. Past and current artists include Tony Smith, Dennis Oppenheim, Mark di Suvero, William Tucker, Luis Jimenez, Sol LeWitt, Roy Lichtenstein, Seth Kane Kwei, and Willem de Kooning. Interpretive signage describing the sculpture and artist is located next to each piece. These extraordinary works are set against the ocean backdrop.



*Lagartos, Painted fiberglass  
Luis Jiménez*

As a boy in El Paso, TX, Jiménez frequented a city park with a pond where docile alligators (“lagartos”) lived. Over time, the park deteriorated and the alligators moved to the zoo. When the park was revitalized in the 1980s, Jiménez brought the alligators back with this vivid and fanciful sculpture.



*Brushstroke Group, Painted Aluminum  
Roy Lichtenstein*

The sculpture leaps from the land like five energetic strokes of a loaded paintbrush, affirming the value of creative experimentation. A founding father of the American Pop Art movement of the 1960s, Lichtenstein was fascinated by the brush stroke as a painter's defining mark and as a symbol of tradition that is constantly reinventing itself.



# *Basic Financial Statements*

*Government-wide Financial Statements*

*Statement of Net Assets*

*Statement of Activities*



## **John F. Kennedy Library and Museum**

The John F. Kennedy Library and Museum is dedicated to the memory of the nation's thirty-fifth president. Researchers from around the world come to the library to examine the original documents generated by John F. Kennedy throughout his career and to research mid-twentieth century American history, politics, government, and society. A permanent exhibit about JFK's life and career and temporary exhibits about the times in which he lived draw visitors from around the globe.

The dramatic building, designed by world-renowned architect I.M. Pei, is poised on Columbia Point and features a glass pavilion that serves as the main lobby,

soaring 115 ft., with a huge 26' X 45' American flag. It is set on a 9.5 acre park landscaped with pine trees, shrubs and wild roses reminiscent of the familiar landscape of Cape Cod. The Museum's 25 multimedia exhibits and period settings from the White House offer an exciting experience and create a stirring account of President Kennedy's thousand days in office. Under construction next door is the Edward M. Kennedy Institute for the United States Senate.

The HarborWalk offers a spectacular view of the downtown skyline and connects to the long stretch of HarborWalk along the UMass Boston campus. During the summer, President Kennedy's sailboat, Victura, is on display on the grounds of the Library.



## Statement of Net Assets

June 30, 2011

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
Current assets:				
Cash and cash equivalents.....	\$ 5,283	\$ 530,907	\$ 536,190	\$ 2,038,487
Cash with fiscal agent.....	445,459	-	445,459	-
Short-term investments.....	3,577,431	353,114	3,930,545	234,060
Assets held in trust.....	-	-	-	55,604
Receivables, net of allowance for uncollectibles:				
Taxes.....	2,602,996	-	2,602,996	-
Federal grants and reimbursements receivable.....	1,736,634	85,079	1,821,713	156,608
Loans.....	6,784	42,950	49,734	362,974
Other receivables.....	301,339	598,762	900,101	195,352
Due from cities and towns.....	7,780	-	7,780	-
Due from component units.....	10,983	-	10,983	-
Due from primary government.....	-	-	-	561,701
Due from affiliates.....	-	11,546	11,546	-
Inventory.....	-	-	-	229
Other current assets.....	30,652	44,106	74,758	126,077
<b>Total current assets.....</b>	<b>8,725,341</b>	<b>1,666,464</b>	<b>10,391,805</b>	<b>3,731,092</b>
Noncurrent assets:				
Cash and cash equivalents - restricted.....	-	1,196,007	1,196,007	856,602
Long - term investments.....	-	1,238,186	1,238,186	1,634,609
Investments, restricted investments and annuity contracts.....	2,315,557	-	2,315,557	65,501
Accounts receivable, net.....	1,036,560	54,343	1,090,903	4,865
Loans receivable, net.....	115,310	12,712	128,022	3,894,533
Due from component units.....	15,111	-	15,111	-
Non-depreciable capital assets.....	1,504,066	827,844	2,331,910	4,813,779
Depreciable capital assets, net.....	2,623,348	3,333,529	5,956,877	26,988,684
Other noncurrent assets.....	-	60,508	60,508	168,657
Other noncurrent assets - restricted.....	-	262,356	262,356	-
<b>Total noncurrent assets.....</b>	<b>7,609,952</b>	<b>6,985,485</b>	<b>14,595,437</b>	<b>38,427,230</b>
Deferred outflows of derivative investments.....	375,870	19,510	395,380	138,305
<b>Total assets and deferred outflows.....</b>	<b>16,711,163</b>	<b>8,671,459</b>	<b>25,382,622</b>	<b>42,296,627</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and other liabilities.....	2,792,945	289,925	3,082,870	766,681
Accrued payroll.....	152,610	142,666	295,276	608
Compensated absences.....	307,574	128,418	435,992	2,523
Accrued interest payable.....	346,239	21,042	367,281	235,454
Tax refunds and abatements payable.....	809,958	10,597	820,555	-
Due to component units.....	561,701	-	561,701	-
Due to primary government.....	-	-	-	10,983
Due to federal government.....	24,793	-	24,793	-
Deferred revenue.....	-	24,814	24,814	160,718
Deposits and unearned revenue.....	-	72,743	72,743	-
Due to affiliates.....	-	32,841	32,841	-
School construction grants payable.....	410,327	-	410,327	-
Capital leases.....	11,368	8,012	19,380	39,228
Massachusetts School Building Authority bonds and unamortized premiums.....	109,371	-	109,371	-
Unamortized deferred loss on refunding.....	(4,100)	-	(4,100)	-
Bonds payable and unamortized premiums.....	1,382,209	118,189	1,500,398	983,642
Environmental remediation liability.....	4,687	1,552	6,239	-
<b>Total current liabilities.....</b>	<b>6,909,682</b>	<b>850,799</b>	<b>7,760,481</b>	<b>2,199,837</b>

## Statement of Net Assets

June 30, 2011

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
Noncurrent liabilities:				
Compensated absences.....	172,300	57,169	229,469	1,130
Accrued interest payable.....	-	-	-	105,630
Due to primary government.....	-	-	-	15,111
Due to federal government - grants.....	-	12,672	12,672	-
Claims and judgments.....	40,000	-	40,000	-
Deferred revenue.....	-	89,922	89,922	24,076
Prizes payable.....	1,463,048	-	1,463,048	-
Capital leases.....	49,607	23,093	72,700	163,266
Bonds payable and unamortized premiums.....	19,827,924	3,159,224	22,987,148	11,286,399
Unamortized deferred loss on refunding.....	(42,042)	-	(42,042)	-
Massachusetts School Building Authority bonds and unamortized premiums.....	4,481,541	-	4,481,541	-
School construction grants payable.....	1,914,590	-	1,914,590	-
Retirement system net pension obligations.....	1,199,361	-	1,199,361	-
Post - employment benefits obligations.....	2,691,000	-	2,691,000	436,708
Environmental remediation liability.....	169,526	-	169,526	-
Liability for derivative instruments.....	375,870	51,342	427,212	390,959
Other noncurrent liabilities.....	291,621	58,326	349,947	315,104
<b>Total noncurrent liabilities.....</b>	<b>32,634,346</b>	<b>3,451,748</b>	<b>36,086,094</b>	<b>12,738,383</b>
<b>Total liabilities.....</b>	<b>39,544,028</b>	<b>4,302,547</b>	<b>43,846,575</b>	<b>14,938,220</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	(722,469)	2,026,223	1,303,754	24,580,867
Restricted for:				
Unemployment benefits.....	-	634,228	634,228	-
Retirement of indebtedness.....	1,226,495	-	1,226,495	-
Other purposes.....	294,207	730,418	1,024,625	3,073,693
Unrestricted (deficits).....	(23,631,098)	978,043	(22,653,055)	(296,153)
<b>Total net assets (deficits).....</b>	<b>\$ (22,832,865)</b>	<b>\$ 4,368,912</b>	<b>\$ (18,463,953)</b>	<b>\$ 27,358,407</b>

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

*(concluded)*

**Statement of Activities**  
Fiscal Year Ended June 30, 2011  
(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.....	\$ 2,305,783	\$ 443,869	\$ 734,117	\$ -	\$ (1,127,796)	\$ -	\$ (1,127,796)	\$ -
Judiciary.....	992,990	120,293	1,540	-	(871,157)	-	(871,157)	-
Direct local aid.....	4,845,738	-	-	-	(4,845,738)	-	(4,845,738)	-
Medicaid.....	12,124,261	258,032	8,280,136	946	(3,585,147)	-	(3,585,147)	-
Group health insurance.....	1,113,544	431,078	-	-	(682,466)	-	(682,466)	-
Interest (unallocated).....	1,177,569	-	-	-	(1,177,569)	-	(1,177,569)	-
Energy and environmental affairs.....	685,032	270,449	98,700	-	(315,883)	-	(315,883)	-
Housing and economic development.....	1,362,822	142,387	701,385	-	(519,050)	-	(519,050)	-
Health and human services.....	7,124,856	896,328	2,457,719	7,426	(3,763,383)	-	(3,763,383)	-
Transportation and public works.....	2,262,374	502,004	973	160,540	(1,598,857)	-	(1,598,857)	-
Early elementary and secondary education.....	3,649,543	6,645	1,501,664	-	(2,141,234)	-	(2,141,234)	-
Public safety and homeland security.....	2,276,402	193,983	228,562	-	(1,853,857)	-	(1,853,857)	-
Labor and workforce development.....	497,927	142,731	212,685	-	(142,510)	-	(142,510)	-
Lottery.....	3,661,834	4,630,205	-	-	968,371	-	968,371	-
<b>Total governmental activities.....</b>	<b>44,080,674</b>	<b>8,038,003</b>	<b>14,217,481</b>	<b>168,912</b>	<b>(21,656,277)</b>	<b>-</b>	<b>(21,656,277)</b>	<b>-</b>
Business-Type Activities:								
Unemployment Compensation.....	4,388,360	1,945,801	2,616,880	-	-	174,321	174,321	-
Higher Education:								
University of Massachusetts.....	2,865,015	1,685,386	543,727	-	(635,902)	(635,902)	(635,902)	-
State Universities.....	834,453	530,078	87,010	-	(217,365)	(217,365)	(217,365)	-
Community Colleges.....	772,883	250,341	252,593	-	(269,949)	(269,949)	(269,949)	-
<b>Total business-type activities.....</b>	<b>8,860,711</b>	<b>4,411,606</b>	<b>3,500,210</b>	<b>-</b>	<b>-</b>	<b>(948,895)</b>	<b>(948,895)</b>	<b>-</b>
<b>Total primary government.....</b>	<b>\$ 52,941,385</b>	<b>\$ 12,449,609</b>	<b>\$ 17,717,691</b>	<b>\$ 168,912</b>	<b>(21,656,277)</b>	<b>(948,895)</b>	<b>(22,605,172)</b>	<b>-</b>
Component Units:								
Massachusetts Department of Transportation.....	\$ 4,201,232	\$ 1,103,418	\$ 3,497,969	\$ -	-	-	-	400,155
Commonwealth Health Insurance Connector.....	893,917	895,456	223	-	-	-	-	1,762
Massachusetts Water Pollution Abatement Trust.....	266,768	165,260	35,886	88,050	-	-	-	22,428
Other nonmajor component units.....	394,227	239,984	115,335	28,696	-	-	-	(10,212)
<b>Total component units.....</b>	<b>\$ 5,756,144</b>	<b>\$ 2,404,118</b>	<b>\$ 3,649,413</b>	<b>\$ 116,746</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>414,133</b>

(continued)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General revenues:				
Taxes:				
Income.....	11,862,298	-	11,862,298	-
Sales taxes.....	4,924,958	-	4,924,958	-
Corporate taxes.....	1,919,774	-	1,919,774	-
Motor and special fuel taxes.....	660,729	-	660,729	-
Other taxes.....	1,698,671	-	1,698,671	-
Miscellaneous:				
Investment earnings.....	33,296	160,841	194,137	46,178
Tobacco settlement.....	254,696	-	254,696	-
Contribution from municipalities.....	55,231	-	55,231	-
Other revenue.....	648,006	534,467	1,182,473	-
Other losses.....	-	(10,746)	(10,746)	(29,841)
Transfers.....	(860,904)	860,904	-	-
<b>Total general revenues and transfers</b> .....	<b>21,196,756</b>	<b>1,545,466</b>	<b>22,742,222</b>	<b>16,337</b>
<b>Change in net assets</b> .....	<b>(459,521)</b>	<b>596,571</b>	<b>137,050</b>	<b>430,470</b>
Net assets (deficits) - beginning, as restated.....	(22,373,344)	3,772,341	(18,601,003)	26,927,937
<b>Net assets (deficits) - ending</b> .....	<b>(22,832,865)</b>	<b>\$ 4,308,912</b>	<b>\$ (18,463,953)</b>	<b>\$ 27,358,407</b>

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

(concluded)



The Neponset Estuary and Marshes are designated as an Area of Critical Environmental Concern. While providing ample opportunities to observe wildlife, the marshes are important nursery habitat for smelt and productive shellfish beds. Wide varieties of birds visit these marshes during their seasonal migrations and some species nest here.

## Neponset II Park

Designed through a community process, the Neponset II Park provides access to the Neponset River Salt Marsh, one of the few remaining extensive salt marshes within the Boston area. Three cleaned up former industrial/commercial properties acquired by the Massachusetts Department of Conservation and Recreation are the site for the new Neponset II Park along the existing Neponset River Greenway multi-use trail. It provides direct access to the Neponset River for non-motorized boats. The Neponset River Greenway multi-use trail, opened since 2003, goes along the edge of the marsh and is part of the 3 mile trail from Tenean Beach to Central Avenue in Milton.



# *Governmental Fund Financial Statements*



## **Pope John Paul II Park**

Pope John Paul II Park, on the banks of the Neponset River, is a 72-acre park with walkways, scenic open areas, playing fields and native plantings. Formerly a landfill, the site has been restored to a place of natural splendor. The park now re-connects area residents to the resources of their unique and delicate river estuary by offering picnic facilities, soccer fields, play areas, paths for walking, restored salt marsh, and extensive plantings of native trees and shrubs. It has also benefited area wildlife; black ducks, mergansers, teal, snowy egrets, and great blue herons have been spotted at the park. The restoration of the salt marsh has also greatly enhanced fisheries habitat. The park also offers a wide range of recreational opportunities, including active sports and activities such as walking, jogging, bird-watching, and picnicking. The three-mile Neponset River Greenway walking and biking trail runs through the park.



**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**  
**(Amounts in thousands)**

	General	Commonwealth Transportation	Lotteries	Massachusetts School Building Authority	Federal Grants	Other Governmental Funds	Total
<b>ASSETS</b>							
Cash, cash equivalents and short-term investments.....	\$ 1,631,015	\$ 24,603	\$ 52,122	\$ 440,128	\$ -	\$ 1,434,846	\$ 3,582,714
Cash with fiscal agent.....	-	19,239	-	-	-	426,220	445,459
Investments and restricted investments.....	255,903	-	-	596,606	-	-	852,509
Receivables, net of allowance for uncollectibles:							
Taxes.....	3,290,190	79,834	-	50,063	-	83,006	3,503,093
Due from federal government.....	1,240,049	-	-	-	465,946	95,056	1,801,051
Loan receivable.....	-	-	-	121,180	-	914	122,094
Other receivables.....	134,245	1,139	5,357	8,821	-	220,121	369,683
Due from cities and towns.....	7,780	-	-	-	-	-	7,780
Due from other funds.....	121,427	-	-	-	-	72,910	194,337
Due from component units.....	421	10,562	-	-	-	-	10,983
<b>Total assets.....</b>	<b>\$ 6,681,030</b>	<b>\$ 135,377</b>	<b>\$ 57,479</b>	<b>\$ 1,216,798</b>	<b>\$ 465,946</b>	<b>\$ 2,333,073</b>	<b>\$ 10,889,703</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable.....	\$ 1,635,952	\$ 4,411	\$ 49,050	\$ 50,865	\$ 363,289	\$ 586,830	\$ 2,690,397
Accrued payroll.....	127,697	8,272	-	-	7,555	9,086	152,610
Tax refunds and abatements payable.....	808,107	299	-	776	-	776	809,958
Due to other funds.....	-	-	-	-	35,518	146,773	182,291
Due to component units.....	45,418	70,613	-	-	-	445,670	561,701
Due to federal government.....	24,793	-	-	-	-	-	24,793
Deferred revenue.....	986,427	-	6,323	-	-	43,810	1,036,560
School construction grants payable.....	-	-	-	71,572	-	-	71,572
Other accrued liabilities.....	-	-	-	-	-	92,193	92,193
<b>Total liabilities.....</b>	<b>3,628,394</b>	<b>83,595</b>	<b>55,373</b>	<b>123,213</b>	<b>406,362</b>	<b>1,325,138</b>	<b>5,622,075</b>
<b>Fund balances (deficits):</b>							
Nonspendable.....	-	-	-	-	-	914	914
Restricted.....	-	19,239	-	714,909	59,584	881,323	1,675,055
Committed.....	1,379,225	32,543	-	1,422	-	606,819	2,020,009
Assigned.....	371,102	-	2,106	377,254	-	-	750,462
Unassigned.....	1,302,309	-	-	-	-	(481,121)	821,188
<b>Fund balances (deficits).....</b>	<b>3,052,636</b>	<b>51,782</b>	<b>2,106</b>	<b>1,093,585</b>	<b>59,584</b>	<b>1,007,935</b>	<b>5,267,628</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 6,681,030</b>	<b>\$ 135,377</b>	<b>\$ 57,479</b>	<b>\$ 1,216,798</b>	<b>\$ 465,946</b>	<b>\$ 2,333,073</b>	<b>\$ 10,889,703</b>

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



**Reconciliation of Fund Balances  
to the Statement of Net Assets**

June 30, 2011  
(Amounts in thousands)

<b>Total fund balances - governmental funds</b> .....	<b>\$</b>	<b>5,267,628</b>
Amounts reported for governmental activities in the statement of net assets 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.....	\$ 1,504,066	
Capital assets being depreciated, net.....	<u>2,623,348</u>	
Capital assets, net of accumulated depreciation.....		4,127,414
Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different basis of accounting.....		1,036,560
Massachusetts School Building Authority assets.....		34,354
Lottery annuity contracts.....		1,463,048
Due from component units.....		15,111
Elimination of due from / due to activity between state departments within primary government and business-type activities.....		(12,046)
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Pension over / (under) funding State Retirement Systems net pension obligation.....	(1,199,361)	
Net post - employment benefits obligations.....	(2,691,000)	
Commonwealth bonded debt.....	(20,875,055)	
Unamortized bond premiums.....	(335,078)	
Unamortized deferred loss on refunding.....	46,142	
Accrued interest on bonds.....	(346,239)	
Massachusetts School Building Authority bonded debt.....	(4,590,912)	
Massachusetts School Building Authority grants to municipalities.....	(2,253,345)	
Lottery prizes payable.....	(1,463,048)	
Capital leases.....	(60,975)	
Environmental remediation liability.....	(174,213)	
Claims and judgments.....	(40,000)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....	<u>(781,850)</u>	
Long - term liabilities (including current portions).....		<u>(34,764,934)</u>
<b>Total net assets (deficits) - governmental activities</b> .....	<b>\$</b>	<b><u>(22,832,865)</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, 2011**  
**(Amounts in thousands)**

	General	Commonwealth Transportation	Lotteries	Massachusetts School Building Authority	Federal Grants	Other Governmental Funds	Total
<b>REVENUES</b>							
Taxes.....	\$ 18,079,651	\$ 985,378	\$ 815	\$ 657,410	\$ -	\$ 1,130,505	\$ 20,853,759
Assessments.....	437,529	13,350	-	-	-	529,104	979,982
Federal grants and reimbursements.....	9,224,345	-	-	-	4,311,054	841,950	14,377,349
Departmental.....	1,835,023	496,453	4,629,684	-	-	500,755	7,461,915
Miscellaneous.....	187,867	127	1,118	28,332	-	658,549	875,992
<b>Total revenues.....</b>	<b>29,764,415</b>	<b>1,495,308</b>	<b>4,631,617</b>	<b>685,742</b>	<b>4,311,054</b>	<b>3,660,862</b>	<b>44,548,999</b>
<b>EXPENDITURES</b>							
Current:							
Legislature.....	57,895	-	-	-	-	-	57,895
Judiciary.....	769,612	-	-	-	1,215	338	771,165
Inspector General.....	2,798	-	-	-	-	770	3,568
Governor and Lieutenant Governor.....	5,105	-	-	-	-	17	5,122
Secretary of the Commonwealth.....	39,475	-	-	-	1,044	4,194	44,713
Treasurer and Receiver-General.....	217,901	-	3,655,970	21,546	2,635	1,186,008	5,084,060
Auditor of the Commonwealth.....	17,015	-	-	-	-	551	17,566
Attorney General.....	21,260	-	-	-	8,197	4,380	33,837
Ethics Commission.....	1,660	-	-	-	-	-	1,660
District Attorney.....	93,699	-	-	-	3,138	7,422	104,259
Office of Campaign and Political Finance.....	1,170	-	-	-	-	1,390	2,560
Sheriff's Departments.....	505,398	-	-	-	4,143	4,808	514,349
Disabled Persons Protection Commission.....	2,174	-	-	-	106	-	2,280
Board of Library Commissioners.....	21,439	-	-	-	3,229	-	24,668
Comptroller.....	11,245	-	-	-	-	2,611	13,856
Administration and finance.....	1,503,476	197,856	-	-	7,540	143,253	1,852,125
Energy and environmental affairs.....	178,485	-	-	-	74,140	114,984	367,609
Health and human services.....	4,505,061	-	-	-	1,769,452	516,036	6,790,548
Massachusetts department of transportation.....	-	373,917	-	-	1,102	1,711,245	2,086,264
Executive office of education.....	1,938,644	-	-	-	1,278,566	14,672	3,231,882
Massachusetts school building assistance.....	-	-	-	790,854	-	-	790,854
Public safety and homeland security.....	936,457	-	-	-	142,146	67,547	1,146,150
Housing and economic development.....	362,328	-	-	-	683,881	35,298	1,081,507
Labor and workforce development.....	37,209	-	-	-	187,723	252,580	477,512
Medicaid.....	10,192,955	-	-	-	-	1,931,306	12,124,261
Post employment benefits.....	743,705	-	-	-	-	-	743,705
Direct local aid.....	4,845,717	-	-	-	-	-	4,845,717
Capital outlay:							
Local aid.....	-	-	-	-	-	21	21
Capital acquisition and construction.....	-	-	-	-	-	884,865	884,865
Debt service.....	-	-	-	314,786	-	1,904,881	2,219,667
<b>Total expenditures.....</b>	<b>27,011,883</b>	<b>571,773</b>	<b>3,655,970</b>	<b>1,127,186</b>	<b>4,168,257</b>	<b>8,789,175</b>	<b>45,324,244</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>2,752,532</b>	<b>923,535</b>	<b>975,647</b>	<b>(441,444)</b>	<b>142,798</b>	<b>(5,128,313)</b>	<b>(775,245)</b>
<b>OTHER FINANCING SOURCES</b>							
Bonds premium.....	-	-	-	-	-	129,690	129,690
Issuance of general and special obligation bonds.....	-	-	-	-	-	2,233,368	2,233,368
Issuance of refunding bonds.....	-	-	-	-	-	887,800	887,800
Proceeds of capital leases.....	12,428	-	-	-	-	-	12,428
Transfers in for debt service.....	-	-	-	-	-	1,897,801	1,897,801
Transfers in.....	1,891,651	5,405	-	-	-	2,291,262	4,188,318
<b>Total other financing sources.....</b>	<b>1,904,079</b>	<b>5,405</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,439,921</b>	<b>9,349,405</b>
<b>OTHER FINANCING USES</b>							
Payments to refunding bond escrow agent.....	-	-	-	-	-	945,224	945,224
Transfers out.....	1,697,981	137,917	976,534	-	126,928	1,082,832	4,022,192
Transfers of appropriations.....	880,663	-	-	-	-	3,162	883,825
Transfers of bond proceeds.....	-	-	-	-	-	143,205	143,205
Transfers out for debt service.....	860,114	803,762	-	-	-	233,925	1,897,801
<b>Total other financing uses.....</b>	<b>3,438,758</b>	<b>941,679</b>	<b>976,534</b>	<b>-</b>	<b>126,928</b>	<b>2,408,348</b>	<b>7,892,247</b>
<b>Total other financing sources and uses.....</b>	<b>(1,534,679)</b>	<b>(936,274)</b>	<b>(976,534)</b>	<b>-</b>	<b>(126,928)</b>	<b>5,031,573</b>	<b>1,457,158</b>
<b>Net change in fund balances.....</b>	<b>1,217,853</b>	<b>(12,739)</b>	<b>(887)</b>	<b>(441,444)</b>	<b>15,870</b>	<b>(96,740)</b>	<b>681,913</b>
Fund balances (deficits) at beginning of year.....	1,834,783	64,521	2,993	1,535,029	43,714	1,104,675	4,585,715
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 3,052,636</b>	<b>\$ 51,782</b>	<b>\$ 2,106</b>	<b>\$ 1,093,585</b>	<b>\$ 59,584</b>	<b>\$ 1,007,935</b>	<b>\$ 5,267,628</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, 2011

(Amounts in thousands)

<b>Net change in fund balances - total governmental funds</b> .....	<b>\$ 681,913</b>
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.....	316,044
Current year depreciation expense.....	(187,289)
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.....	214,729
Elimination of due from / due to activity between state departments within government and business-type activities.....	(2,695)
The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items.....	(1,261,021)
Decrease in capital leases.....	15,633
Massachusetts School Building Authority.....	535,223
Net underfunding of post employment benefit obligations.....	(719,228)
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.....	(52,830)
<b>Change in net assets of governmental activities</b> .....	<b>\$ (459,521)</b>

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



## New England Aquarium

The New England Aquarium, located on Central Wharf, first opened its doors to the public in 1969 and is still a favorite destination for children and adults. Be sure to visit the New England Aquarium's newest addition, the Marine Mammal Center on the HarborWalk. The new \$10 million facility is home to five fur seals. There are only 15 fur seals, including those at the New England Aquarium, in captivity in the world today. Visitors can see and hear the seals and seating is available during four seal shows daily. In the evening, the LED strips make for an interesting walk along the Aquarium's newest HarborWalk segment.



# *Proprietary Fund Financial Statements*



## **Christopher Columbus Park**

Christopher Columbus Park, one of the City of Boston's first waterfront parks, was opened for Boston's Bicentennial in 1976. Its original design provided a framework for future waterfront park projects throughout the city.

In 1987 a rose garden enclosed by a wrought iron fence and a granite fountain were added to the city-owned park to honor Rose Fitzgerald Kennedy, who was born nearby at 4 Garden Court in Boston's North End. In 1992, the Beirut Memorial was built, commemorating nine marines from Massachusetts who were killed in a 1983 bombing. The memorial includes a circular granite-seating wall and brick detailing; if you stand in its center you can hear your echo.

Christopher Columbus Park was updated in 2003 and today includes broad lawns, a play lot, a spray fountain and performance area, a statue of Christopher Columbus, and a wisteria covered trellis that provides shade during the day and is lit during the holiday season by the Friends of Christopher Columbus Park.



**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**  
(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.....	\$ -	\$ 70,646	\$ 342,335	\$ 117,926	\$ 530,907
Short-term investments .....	-	233,392	54,390	65,332	353,114
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	78,168	862	6,049	85,079
Loans.....	-	41,564	1,375	11	42,950
Other receivables.....	425,693	104,577	22,069	29,193	581,532
Contribution receivables, net.....	-	10,653	5,599	978	17,230
Due from affiliates.....	-	11,296	250	-	11,546
Other current assets.....	-	36,082	4,154	3,870	44,106
<b>Total current assets.....</b>	<b>425,693</b>	<b>586,378</b>	<b>431,034</b>	<b>223,359</b>	<b>1,666,464</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	1,176,652	15,149	4,206	1,196,007
Long-term investments.....	-	945,629	209,873	82,684	1,238,186
Accounts receivable, net.....	-	39,162	15,117	64	54,343
Loans receivable, net.....	-	-	12,127	585	12,712
Non-depreciable capital assets.....	-	467,629	250,423	109,792	827,844
Depreciable capital assets, net.....	-	2,124,041	917,943	291,545	3,333,529
Other noncurrent assets.....	-	36,933	22,526	1,049	60,508
Other noncurrent assets - restricted.....	262,356	-	-	-	262,356
<b>Total noncurrent assets.....</b>	<b>262,356</b>	<b>4,790,046</b>	<b>1,443,158</b>	<b>489,925</b>	<b>6,985,485</b>
Deferred outflows of derivative investments.....	-	19,510	-	-	19,510
<b>Total assets and deferred outflows.....</b>	<b>688,049</b>	<b>5,395,934</b>	<b>1,874,192</b>	<b>713,284</b>	<b>8,671,459</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and other liabilities.....	39,491	176,659	47,409	26,366	289,925
Accrued payroll.....	-	81,075	32,646	28,945	142,666
Compensated absences.....	-	72,753	26,317	29,348	128,418
Accrued interest payable.....	-	20,681	104	257	21,042
Tax refunds and abatements payable.....	10,597	-	-	-	10,597
Deferred revenue.....	-	4,215	18,322	2,277	24,814
Student deposits and unearned revenues .....	-	46,705	9,618	16,420	72,743
Due to affiliates.....	-	28,512	1,126	3,203	32,841
Capital leases.....	-	5,473	1,087	1,452	8,012
Environmental remediation liability.....	-	-	1,552	-	1,552
Bonds, notes payable and other obligations.....	-	67,686	48,090	2,413	118,189
<b>Total current liabilities.....</b>	<b>50,088</b>	<b>503,759</b>	<b>186,271</b>	<b>110,681</b>	<b>850,799</b>
Noncurrent liabilities:					
Compensated absences.....	-	26,541	14,480	16,148	57,169
Due to federal government - grants.....	-	-	12,505	167	12,672
Deferred revenue.....	3,733	20,080	65,720	389	89,922
Capital leases.....	-	12,116	8,634	2,343	23,093
Bonds, notes payable and other obligations.....	-	2,243,499	870,391	45,334	3,159,224
Liability for derivative instruments.....	-	51,342	-	-	51,342
Other noncurrent liabilities.....	-	46,786	7,655	3,885	58,326
<b>Total noncurrent liabilities.....</b>	<b>3,733</b>	<b>2,400,364</b>	<b>979,385</b>	<b>68,266</b>	<b>3,451,748</b>
<b>Total liabilities.....</b>	<b>53,821</b>	<b>2,904,123</b>	<b>1,165,656</b>	<b>178,947</b>	<b>4,302,547</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt.....	-	1,292,907	382,802	350,514	2,026,223
Restricted for:					
Unemployment benefits.....	634,228	-	-	-	634,228
Higher education endowment funds.....	-	271,737	30,419	24,977	327,133
Higher education academic support and programs.....	-	-	1,043	4,991	6,034
Higher education scholarships and fellowships:					
Nonexpendable .....	-	-	6,903	-	6,903
Expendable .....	-	-	8,119	15,533	23,652
Other nonexpendable purposes.....	-	-	26,218	2,889	29,107
Capital projects - expendable purposes.....	-	-	10,958	-	10,958
Other purposes.....	-	258,904	50,912	16,815	326,631
Unrestricted.....	-	668,263	191,162	118,618	978,043
<b>Total net assets.....</b>	<b>\$ 634,228</b>	<b>\$ 2,491,811</b>	<b>\$ 708,536</b>	<b>\$ 534,337</b>	<b>\$ 4,368,912</b>

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

## Statement of Revenues, Expenses and Changes in Net Assets

### Proprietary Funds

Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
<b>Operating revenues:</b>					
Unemployment compensation contribution.....	\$ 1,903,603	\$ -	\$ -	\$ -	\$ 1,903,603
Net tuition and fees.....	-	597,200	302,925	206,050	1,106,175
Federal grants and reimbursements.....	-	543,727	87,010	252,593	883,330
Auxiliary enterprises.....	-	272,020	82,844	15,852	370,716
Sales & services.....	-	741,187	123,460	7,684	872,331
Miscellaneous.....	42,198	74,979	20,849	20,755	158,781
<b>Total operating revenues.....</b>	<b>1,945,801</b>	<b>2,229,113</b>	<b>617,088</b>	<b>502,934</b>	<b>5,294,936</b>
<b>Operating expenses:</b>					
Unemployment compensation.....	4,388,360	-	-	-	4,388,360
Instruction.....	-	596,341	252,413	284,680	1,133,434
Research.....	-	419,990	68	54	420,112
Academic support.....	-	133,253	71,978	85,871	291,102
Student services.....	-	98,361	77,632	98,664	274,657
Scholarships and fellowships.....	-	41,667	20,002	81,772	143,441
Public service.....	-	78,099	6,288	8,209	92,596
Operation and maintenance of plant.....	-	203,973	77,337	68,003	349,313
Institutional support.....	-	184,505	91,278	95,315	371,098
Other operating expenses.....	-	668,820	6,230	6,633	681,683
Depreciation.....	-	159,030	54,789	25,765	239,584
Auxiliary operations.....	-	216,852	138,070	16,224	371,146
<b>Total operating expenses.....</b>	<b>4,388,360</b>	<b>2,800,891</b>	<b>796,085</b>	<b>771,190</b>	<b>8,756,526</b>
<b>Operating income (loss).....</b>	<b>(2,442,559)</b>	<b>(571,778)</b>	<b>(178,997)</b>	<b>(268,256)</b>	<b>(3,461,590)</b>
<b>Nonoperating revenues (expenses):</b>					
Other federal revenues.....	2,616,880	-	-	-	2,616,880
Other revenues.....	-	395,470	73,400	65,597	534,467
Other expenses.....	-	(64,124)	(38,368)	(1,693)	(104,185)
Investment income (loss).....	12,801	107,498	26,386	14,156	160,841
<b>Total nonoperating revenues (expenses).....</b>	<b>2,629,681</b>	<b>438,844</b>	<b>61,418</b>	<b>78,060</b>	<b>3,208,003</b>
<b>Income (loss) before contributions and transfers.....</b>	<b>187,122</b>	<b>(132,934)</b>	<b>(117,579)</b>	<b>(190,196)</b>	<b>(253,587)</b>
Transfers in.....	-	371,683	216,225	272,996	860,904
Other losses.....	-	(10,682)	(64)	-	(10,746)
<b>Change in net assets.....</b>	<b>187,122</b>	<b>228,067</b>	<b>98,582</b>	<b>82,800</b>	<b>596,571</b>
Total net assets - beginning, as restated.....	447,106	2,263,744	609,954	451,537	3,772,341
<b>Total net assets - ending.....</b>	<b>\$ 634,228</b>	<b>\$ 2,491,811</b>	<b>\$ 708,536</b>	<b>\$ 534,337</b>	<b>\$ 4,368,912</b>

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

## Statement of Cash Flows

### Proprietary Funds

June 30, 2011

(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.....	\$ 2,166,694	\$ -	\$ -	\$ -	\$ 2,166,694
Tuition, residence, dining and other student fees.....	-	668,202	311,252	213,392	1,192,846
Research grants and contracts.....	-	601,982	162,818	254,360	1,019,160
Payments to suppliers.....	-	(1,261,310)	(200,495)	(188,023)	(1,649,828)
Payments to employees.....	-	(1,463,558)	(373,540)	(409,635)	(2,246,733)
Payments to students.....	-	(45,641)	(17,229)	(69,149)	(132,019)
Payments for unemployment benefits.....	(4,443,924)	-	-	-	(4,443,924)
Collection of loans to students and employees.....	-	5,439	1,361	50	6,850
Income from contract services.....	-	-	5,261	1,162	6,423
Maintenance costs.....	-	-	(670)	1,123	453
Auxilliary enterprise charges.....	-	263,276	47,468	(4,441)	306,303
Other receipts.....	42,198	832,410	(25,582)	31,924	880,950
<b>Net cash used by operating activities.....</b>	<b>(2,235,032)</b>	<b>(399,200)</b>	<b>(89,356)</b>	<b>(169,237)</b>	<b>(2,892,825)</b>
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
State appropriations.....	-	570,699	197,389	212,171	980,259
Grants and contracts.....	2,218,498	70,643	3,654	11,741	2,304,536
Student organizations agency transactions.....	-	303	(882)	289	(290)
Other receipts (payments).....	3,733	28,202	1,684	(1,367)	32,252
<b>Net cash provided by non-capital financing activities.....</b>	<b>2,222,231</b>	<b>669,847</b>	<b>201,845</b>	<b>222,834</b>	<b>3,316,757</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital appropriations.....	-	21,822	3,862	17,135	42,819
Purchases of capital assets.....	-	(370,581)	(147,278)	(44,323)	(562,182)
Proceeds from sales of capital assets.....	-	-	527	(593)	(66)
Proceeds from revenue obligation debt issuance.....	-	539,012	81,904	4,400	625,316
Other capital asset activity.....	-	19,128	10,334	3,348	32,810
Investments held by bond trustee, net.....	-	-	(387)	60	(327)
Principal paid on capital debt and leases.....	-	(62,239)	(20,781)	(4,671)	(87,691)
Interest paid on capital debt and leases.....	-	(53,469)	(43,621)	(2,087)	(99,177)
<b>Net cash provided by (used in) capital financing activities.....</b>	<b>-</b>	<b>93,673</b>	<b>(115,440)</b>	<b>(26,731)</b>	<b>(48,498)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments.....	-	1,028,009	165,864	58,968	1,252,841
Purchases of investments.....	-	(1,029,342)	(108,312)	(85,773)	(1,223,427)
Investment earnings.....	12,801	17,712	11,827	(554)	41,786
<b>Net cash provided by (used by) investing activities.....</b>	<b>12,801</b>	<b>16,379</b>	<b>69,379</b>	<b>(27,359)</b>	<b>71,200</b>
<b>Net increase decrease) in cash and cash equivalents.....</b>	<b>-</b>	<b>380,699</b>	<b>66,428</b>	<b>(493)</b>	<b>446,634</b>
Cash and cash equivalents at the beginning of the fiscal year, as restated.....	-	866,599	291,056	122,625	1,280,280
<b>Cash and cash equivalents at the end of the fiscal year.....</b>	<b>\$ -</b>	<b>\$ 1,247,298</b>	<b>\$ 357,484</b>	<b>\$ 122,132</b>	<b>\$ 1,726,914</b>
<b>Reconciliation of net operating revenues and expenses to cash used by operating activities:</b>					
<b>Operating loss.....</b>	<b>\$ (2,442,559)</b>	<b>\$ (571,778)</b>	<b>\$ (178,997)</b>	<b>\$ (268,256)</b>	<b>\$ (3,461,590)</b>
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>					
Depreciation expense.....	-	159,030	58,326	25,765	243,121
Fringe benefits paid by the Commonwealth.....	-	-	56,768	67,333	124,101
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets.....	(34,342)	5,387	(307)	(949)	(30,211)
Accounts payable, accrued liabilities and benefits.....	(55,564)	10,015	(25,928)	4,309	(67,168)
Student deposits and other unearned and deferred revenues.....	-	6,338	(61)	2,697	8,974
Other noncurrent assets - restricted and liabilities.....	297,433	(8,192)	843	(136)	289,948
<b>Net cash used by operating activities.....</b>	<b>\$ (2,235,032)</b>	<b>\$ (399,200)</b>	<b>\$ (89,356)</b>	<b>\$ (169,237)</b>	<b>\$ (2,892,825)</b>

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

The University System had \$96,047,000 of non-cash activities, and the State and Community Colleges had \$159,589,000 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

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



# *Fiduciary Fund*

## *Financial Statements*



### **Burroughs Wharf**

Burroughs Wharf is home to Boston's Fire Marine unit. The larger of the two vessels is the 76-foot fire pump boat built in 1972. The other vessel, built in 1992, is a 30-ft high-speed pump boat. Visitors are welcome to view the vessels and the equipment to repair boats, view the equipment in the fire station, or ask questions of the marine firefighters. Behind the fire station are restrooms open to the public. Other amenities at Burroughs Wharf include an outdoor fountain surrounded by landscaped gardens, a promenade, benches, lighting, shelter, signage, public landing area, marina slips, and a water taxi stop. This condominium complex has one of the most pedestrian-friendly walkways on the Boston waterfront. The HarborWalk that wraps around the two luxury condominium buildings boasts incredible views of the USS Constitution and Bunker Hill Monument in Charlestown and the Harbor and is a wonderful location to watch boats plying the waters in the Harbor.



## Statement of Net Assets

Fiduciary Funds

June 30, 2011

(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.....	\$ -	\$ -	\$ 834	\$ 362,881
Assets held in trust for post - employment benefits:				
Cash and short-term investments.....	137,476	12,765	-	-
Investments at fair value.....	42,191,894	8,320,105	-	-
Assets held in trust for pool participants:				
Cash and short-term investments.....	-	2,937,041	-	-
Investments, restricted investments and annuity contracts.....	-	-	-	1,463,048
Assets held in trust.....	-	-	-	696,489
Receivables, net of allowance for uncollectibles:				
Taxes.....	-	-	-	2,340
Other receivables.....	386,195	78,967	-	115,399
<b>Total assets</b> .....	<b>42,715,565</b>	<b>11,348,878</b>	<b>834</b>	<b>2,640,157</b>
<b>LIABILITIES</b>				
Accounts payable.....	370,011	72,830	-	52,423
Due to cities and towns.....	-	-	-	27,671
Lottery prizes payable.....	-	-	-	1,463,048
Agency liabilities.....	-	-	-	1,097,015
Other accrued liabilities.....	-	80	-	-
<b>Total liabilities</b> .....	<b>370,011</b>	<b>72,910</b>	<b>-</b>	<b>\$ 2,640,157</b>
<b>NET ASSETS</b>				
Restricted for employees' post - employment benefits.....	42,345,554	-	-	
Restricted for external investment trust fund participants.....	-	11,275,968	-	
Restricted for private purposes.....	-	-	834	
<b>Total net assets</b> .....	<b>\$ 42,345,554</b>	<b>\$ 11,275,968</b>	<b>\$ 834</b>	

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

## Statement of Changes in Net Assets

### Fiduciary Funds

Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds
<b>ADDITIONS</b>			
Contribution:			
Employer contributions.....	\$ 1,838,857	\$ -	\$ -
Employee contributions.....	1,156,082	-	-
Proceeds from sale of units.....	-	19,835,256	-
<b>Total contributions.....</b>	<b>2,994,939</b>	<b>19,835,256</b>	<b>-</b>
Net investment gain (loss):			
Investment gain (loss).....	7,835,798	1,505,155	-
Less: investment expense.....	(58,834)	(14,025)	-
<b>Net investment gain (loss).....</b>	<b>7,776,964</b>	<b>1,491,130</b>	<b>-</b>
<b>Total additions.....</b>	<b>10,771,903</b>	<b>21,326,386</b>	<b>-</b>
<b>DEDUCTIONS</b>			
Administration.....	25,657	-	-
Retirement benefits and refunds.....	4,142,216	-	-
Payments to State Boston Retirement System.....	121,290	-	-
Cost of units redeemed.....	-	19,649,647	-
Distribution to unit holders.....	-	9,143	-
<b>Total deductions.....</b>	<b>4,289,163</b>	<b>19,658,790</b>	<b>-</b>
<b>Net increase (decrease) .....</b>	<b>6,482,740</b>	<b>1,667,596</b>	<b>-</b>
Net assets - beginning, as restated.....	35,862,814	9,608,372	834
<b>Net assets - ending.....</b>	<b>\$ 42,345,554</b>	<b>\$ 11,275,968</b>	<b>\$ 834</b>

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

## East Boston Greenway

This linear park, developed thanks to the advocacy efforts of Boston Natural Areas Network and local residents, connects East Boston's waterfront to the rest of East Boston and is ideal for both walking and biking. The park is completed from the East Boston pier to Neptune Road, and plans for the extension of the Greenway through East Boston to Belle Isle Marsh, Constitution Beach, and Wood Island Bay Marsh are underway. Throughout the Greenway, historic murals painted by students from the Youth Conservation Corps, and Zumix bring life to the Porter, Sumner and Maverick underpasses. Volunteers planted 10,000 anonymously donated lilies with tulips and daffodils along the Greenway between Maverick and Sumner Streets, breathing color into to a unique urban green space.

At the Marginal and South Bremen Streets entrance, a 40-ton, blue caboose, donated to the Boston Parks and Recreation Department by Conrail, stands as a reminder of the Greenway's history as a railway corridor. With the completion of the Bremen Street Park in 2007, the East Boston Greenway extends 1.25 miles with a connection to the East Boston Memorial Park's playing fields. Another greenway segment was approved in November 2011 connecting Bremen Street Park across Massport property adjacent to the Wood Island Bay Marsh.



Created as part of the environmental mitigation for the Central Artery/Tunnel Project, the newly-constructed Bremen Street Park in the East Boston Greenway features playgrounds, a fountain and wading pool, large open lawns, and a community garden. A performance amphitheatre is included in the park's green space. There are benches and picnic tables along the paths, and a bocce court in the park.



# *Discretely Presented Component Unit Financial Statements*



## **Constitution Beach**

Constitution Beach is one of Boston's most family-friendly waterfront destinations. Thanks to the Department of Conservation and Recreation and TBHA's advocacy for the Back to the Beaches program, visitors can enjoy a new bathhouse, large playground, picnic area, tennis and handball courts, shade shelters, and foot showers. An award winning pedestrian overpass across the MBTA tracks connects the local community to the redesigned beach and park, and creates a welcoming gateway. Constitution Beach is also one of the City's best locations for swimming, with lifeguards on duty during the summer season.



**Statement of Net Assets**  
**Component Units**  
**June 30, 2011**  
**(Amounts in thousands)**

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>					
Current assets:					
Cash and cash equivalents.....	\$ 220,580	\$ 28,255	\$ 248,602	\$ 170,753	\$ 668,190
Short-term investments.....	-	-	3,477	230,583	234,060
Restricted cash and investments.....	1,308,378	8,072	-	53,847	1,370,297
Assets held in trust.....	-	-	-	55,604	55,604
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable.....	55,781	-	100,536	291	156,608
Loans.....	-	-	317,317	45,657	362,974
Other receivables.....	96,159	1,971	68,411	28,811	195,352
Due from primary government.....	516,283	-	2,313	43,105	561,701
Inventory.....	-	-	-	229	229
Other current assets.....	122,022	194	-	3,861	126,077
<b>Total current assets.....</b>	<b>2,319,203</b>	<b>38,492</b>	<b>740,656</b>	<b>632,741</b>	<b>3,731,092</b>
Noncurrent assets:					
Cash and cash equivalents - restricted.....	735,964	-	-	120,638	856,602
Long - term investments.....	-	-	1,560,749	73,860	1,634,609
Restricted investments and annuity contracts.....	-	-	-	65,501	65,501
Accounts receivables, net.....	-	-	-	4,865	4,865
Loans receivables, net.....	-	-	3,449,256	445,277	3,894,533
Non-depreciable capital assets.....	4,703,451	-	-	110,328	4,813,779
Depreciable capital assets, net.....	26,009,121	160	-	979,403	26,988,684
Other noncurrent assets.....	132,132	-	9,309	27,216	168,657
<b>Total noncurrent assets.....</b>	<b>31,580,668</b>	<b>160</b>	<b>5,019,314</b>	<b>1,827,088</b>	<b>38,427,230</b>
Deferred outflows from derivative instruments.....	122,332	-	-	15,973	138,305
<b>Total assets and deferred outflows.....</b>	<b>34,022,203</b>	<b>38,652</b>	<b>5,759,970</b>	<b>2,475,802</b>	<b>42,296,627</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and other liabilities.....	687,376	720	168	78,417	766,681
Accrued payroll.....	-	423	-	185	608
Compensated absences.....	-	-	-	2,523	2,523
Accrued interest payable.....	162,619	-	71,663	1,172	235,454
Due to primary government.....	10,562	-	-	421	10,983
Deferred revenue.....	46,682	194	34,972	78,870	160,718
Capital leases.....	39,228	-	-	-	39,228
Bonds, notes payable and other obligations.....	788,296	-	183,102	12,244	983,642
<b>Total current liabilities.....</b>	<b>1,734,763</b>	<b>1,337</b>	<b>289,905</b>	<b>173,832</b>	<b>2,199,837</b>
Noncurrent liabilities:					
Compensated absences.....	-	-	-	1,130	1,130
Accrued interest payable.....	99,126	-	3,751	2,753	105,630
Due to primary government.....	-	-	-	15,111	15,111
Deferred revenue.....	-	-	-	24,076	24,076
Capital leases.....	163,266	-	-	-	163,266
Bonds, notes payable and other obligations.....	7,222,557	-	3,504,907	558,935	11,286,399
Post - employment benefits obligations.....	432,471	1,584	-	2,653	436,708
Liability for derivative instruments.....	374,986	-	-	15,973	390,959
Other noncurrent liabilities.....	237,773	11,055	56,249	10,027	315,104
<b>Total noncurrent liabilities.....</b>	<b>8,530,179</b>	<b>12,639</b>	<b>3,564,907</b>	<b>630,658</b>	<b>12,738,383</b>
<b>Total liabilities.....</b>	<b>10,264,942</b>	<b>13,976</b>	<b>3,854,812</b>	<b>804,490</b>	<b>14,938,220</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt.....	23,656,805	160	-	923,902	24,580,867
Restricted for:					
Clean energy trusts.....	-	-	-	187,192	187,192
Economic development financing.....	-	-	-	162,459	162,459
Financial assistance to local communities and agencies.....	-	-	1,692,073	-	1,692,073
Other purposes.....	897,076	-	-	134,893	1,031,969
Unrestricted.....	(796,620)	24,516	213,085	262,866	(296,153)
<b>Total net assets.....</b>	<b>\$ 23,757,261</b>	<b>\$ 24,676</b>	<b>\$ 1,905,158</b>	<b>\$ 1,671,312</b>	<b>\$ 27,358,407</b>

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

**Statement of Revenues, Expenses and Changes in Net Assets**  
**Component Units**  
**Fiscal Year Ending June 30, 2011**  
**(Amounts in thousands)**

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
<b>Operating revenues:</b>					
Charges for services.....	\$ 1,041,097	\$ 895,456	\$ 5,338	\$ 153,375	\$ 2,095,266
Other.....	62,321	-	159,922	86,609	308,852
<b>Total operating revenues.....</b>	<b>1,103,418</b>	<b>895,456</b>	<b>165,260</b>	<b>239,984</b>	<b>2,404,118</b>
<b>Operating expenses:</b>					
Cost of services.....	3,145,811	893,917	263,535	231,561	4,534,824
Administration costs.....	715,873	-	3,233	109,226	828,332
Depreciation.....	358,679	-	-	52,769	411,448
<b>Total operating expenses.....</b>	<b>4,220,363</b>	<b>893,917</b>	<b>266,768</b>	<b>393,556</b>	<b>5,774,604</b>
<b>Operating income (loss).....</b>	<b>(3,116,945)</b>	<b>1,539</b>	<b>(101,508)</b>	<b>(153,572)</b>	<b>(3,370,486)</b>
<b>Nonoperating revenues (expenses):</b>					
Operating grants.....	3,497,969	223	35,886	115,335	3,649,413
Interest income.....	34,885	100	-	11,193	46,178
Other nonoperating revenues (expenses).....	19,131	-	-	(671)	18,460
<b>Nonoperating revenues (expenses), net.....</b>	<b>3,551,985</b>	<b>323</b>	<b>35,886</b>	<b>125,857</b>	<b>3,714,051</b>
<b>Income (loss) before contributions.....</b>	<b>435,040</b>	<b>1,862</b>	<b>(65,622)</b>	<b>(27,715)</b>	<b>343,565</b>
Capital contributions.....	-	-	88,050	28,696	116,746
Other losses.....	-	-	-	(29,841)	(29,841)
<b>Change in net assets.....</b>	<b>435,040</b>	<b>1,862</b>	<b>22,428</b>	<b>(28,860)</b>	<b>430,470</b>
Net assets - beginning, as restated.....	23,322,221	22,814	1,882,730	1,700,172	26,927,937
<b>Net assets - ending.....</b>	<b>\$ 23,757,261</b>	<b>\$ 24,676</b>	<b>\$ 1,905,158</b>	<b>\$ 1,671,312</b>	<b>\$ 27,358,407</b>



## Boston Children's Museum

The Boston Children's Museum is located on the Fort Point Channel on a wide section of HarborWalk that becomes a bustle of activity in the summertime. Visitors can bring their own lunch to enjoy at picnic tables next to the HarborWalk. The Museum sponsors free events on the HarborWalk, including mural painting, summertime music and dance series, and movies at the Milk Bottle. A new boat dock will open in 2012 for water taxi service.



## Federal Reserve Bank

Within a year of the enactment of the Federal Reserve Act on December 23, 1913, the twelve Federal Reserve Banks were open nationwide, including Boston, and they comprise our nation's central bank. In 1977, the Federal Reserve Bank of Boston moved to its current location overlooking the Fort Point Channel, and today helps to maintain the Harbor Walk across from its building on Dorchester Avenue.





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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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.

### A. *Financial Reporting Entity – Basis of Presentation*

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 of Massachusetts (the primary government) and its component units. The Commonwealth has included 16 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Further descriptions of 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 assets and results of operations of the Massachusetts School Building Authority (MSBA), the Pension Reserves Investment Trust Fund (PRIT) and the Massachusetts Municipal Depository Trust (MMDT) are presented as a major governmental fund in the case of MSBA and as external investment trusts within the fiduciary type in the case of PRIT and MMDT.

*Entities Audited Separately from the Commonwealth but are not legally separate from the Commonwealth* – these entities include the Massachusetts State Lottery Commission, which is a division of the Office of the State Treasurer and Receiver-General, the Investment Accounts Managed by the Health Care Security Trust Board (the Board) – which includes a non-major governmental fund (the Health Care Security Trust Fund) and a fiduciary fund (the State Retiree Benefits Trust Fund). Hereafter, HST refers to investments managed by the Board.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth's business-type activities. These

include the University of Massachusetts System (including component units) and the State University and Community College System of 9 state and 15 community colleges as well as the Massachusetts State College Building Authority, which is a blended component unit of the state university system. The various community and state universities also have foundations and ancillary entities that are discretely presented component units of those entities.

*Other Discretely Presented Component Units that are Separately Audited* - Three major component units, the Massachusetts Department of Transportation (MassDOT), the Commonwealth Health Insurance Connector, and the Massachusetts Water Pollution Abatement Trust (MWPAT) are presented in the basic financial statements. There are eleven non-major component units.

*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.

**State Agencies and Authorities merged into Mass DOT**

Commonwealth Departments and Agencies	Former Major Discrete Component Units	Former Non-major Discrete Component Units
<ul style="list-style-type: none"> <li>Massachusetts Highway Department</li> </ul>	<ul style="list-style-type: none"> <li>Massachusetts Turnpike Authority (MTA)</li> </ul>	<ul style="list-style-type: none"> <li>Regional Transit Authorities (15 entities)</li> </ul>
<ul style="list-style-type: none"> <li>Massachusetts Aeronautics Commission</li> </ul>	<ul style="list-style-type: none"> <li>Massachusetts Bay Transportation Authority (MBTA)</li> </ul>	<ul style="list-style-type: none"> <li>Route 3 North Transportation Improvement Association (R3N)</li> </ul>
<ul style="list-style-type: none"> <li>Registry of Motor Vehicles</li> <li>Executive Office of Transportation and Public Works</li> </ul>		

On June 25, 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). A new budgeted fund, the Commonwealth Transportation Fund, assumed most of the operations of the Highway Fund in FY10. The reform was implemented merging four state agencies: the Highway Department, Registry of Motor Vehicles, Massachusetts Aeronautics Commission and the Executive Office of Transportation and Public Works into the MassDOT.

MassDOT also absorbed the former Massachusetts Turnpike Authority, the bridges and certain roads and parkways of the Department of Conservation and Recreation, as well as the Tobin Memorial Bridge operations of the Massachusetts Port Authority. The Massachusetts Bay Transportation Authority, as well as the Regional Transit Authorities, are now component units of MassDOT. The make up of the MassDOT Board and the Massachusetts Bay Transportation Authority are now identical, with the Secretary of Transportation chairing both Boards.

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 Single State Audit. In this unique relationship all road and bridge assets of the Commonwealth and the Turnpike Authority have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction repair, improvement and replacement of these assets. The Commonwealth also retains the liabilities for pension and other post-employment benefits (OPEB) costs for the former Commonwealth employees transferred to this entity and has assumed these liabilities for the 1,200 employees and 700 retirees of the former Turnpike Authority. MassDOT is assessed a fringe benefit rate on their current employee base to share in these pension and OPEB costs as well as to reimburse the Commonwealth for their employee health care costs, which are paid from the Commonwealth's General Fund. MassDOT's capital authorizations are authorized by the legislature and controlled by the Executive Office of 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.

Details on these component units are presented in Note 13 to the Basic Financial Statements.

#### *Related Organizations*

The following are “related organizations” under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement 39: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. 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 by directly contacting the various entities. Contact the Office of the Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

#### **B. Government – wide and Fund Financial Statements**

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

- **Invested in capital assets, net of related debt** 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 assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories.

Restricted net assets are used prior to unrestricted net assets.

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.

**Permanent Funds** account for resources that are legally restricted to the extent that earnings, but not principal may be used for the Commonwealth's programs. These are different than the private-purpose funds below as those benefit individuals, private organizations and other governments directly. At the beginning of FY11, the only permanent fund the Commonwealth has is the Massachusetts School Fund, established in 1834 as a fund "for the aid and encouragement of common schools." The fund was originally capitalized from the proceeds of the 1820's sale of the public lands upon which the State of Maine was created. As authorized by legislation that was part of the FY11 budget, the Massachusetts School fund was eliminated during FY11 and the balance in the fund was transferred to the General Fund. Therefore, as of June 30, 2011, the Commonwealth had no permanent funds.

**Fund Balances:**

In FY11, the Commonwealth implemented Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Within the governmental funds only, fund balance has been reorganized to include identifications of amounts that are considered nonspendable, restricted, committed, assigned, and unassigned, as follows:

**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 minor 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 law through constitutional provisions or enabling legislation that can only be spent on specific purposes stipulated by the state constitution, external resource providers or through enabling statute, and include 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. 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, 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/expense 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.



**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 the state’s budgeted funds, equal to balances that are not restricted nor reappropriated for the following fiscal year)  $\frac{1}{2}$  of 1% of the amount of tax revenues in that fiscal year be carried forward and be available for appropriations in the following fiscal year,  $\frac{1}{2}$  of 1% of tax revenues be transferred to the Stabilization Fund, and any remaining surplus be transferred to the Stabilization Fund. In addition, withholding taxes on certain Lottery winnings are required to be transferred to the Stabilization Fund. Starting in FY10, statute requires the Comptroller, after certification by the Commissioner of Revenue, to transfer any capital gains tax revenues in excess of \$1 billion during a fiscal year to the Stabilization Fund. Beginning in FY12, statute requires the Comptroller, after certification by the Commissioner of Revenue and the Attorney General, to transfer to the Stabilization Fund all revenue from individual settlements and judgments that exceed \$10 million.

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

The Stabilization Fund ended FY11 with a balance of \$1.379 billion. For the fiscal year ending June 30, 2011, the Stabilization Fund’s balance increased by \$709 million as a result of almost \$699 million in surplus transfers, \$9 million of investment earnings and almost \$2 million in statutorily mandated transfers of withholding taxes on certain Lottery proceeds. In accordance with GASB 54 requirements, balances in the Stabilization Fund are classified as committed.

Detail of FY11 ending fund balances is shown in the table below.

**Governmental Fund Balances at June 30, 2011**  
(In Thousands of Dollars)

	<u>Nonspendable Purposes</u>	<u>Restricted Purposes</u>	<u>Committed Purposes</u>	<u>Assigned Purposes</u>	<u>Unassigned Purposes</u>	<u>Totals</u>
<b><u>General Fund</u></b>						
General Government.....	\$ -	\$ -	\$ -	\$ -	\$ 1,302,309	\$ 1,302,309
Stabilization Fund.....	-	-	1,379,225	-	-	1,379,225
FY 12 Appropriations.....	-	-	-	371,102	-	371,102
<b>Subtotals, General Fund.....</b>	<b>-</b>	<b>-</b>	<b>1,379,225</b>	<b>371,102</b>	<b>1,302,309</b>	<b>3,052,636</b>
<b><u>Commonwealth Transportation Fund</u></b>						
Transportation-Related Debt.....	-	19,239	-	-	-	19,239
Other Transportation Purposes.....	-	-	32,543	-	-	32,543
<b>Subtotals, Commonwealth Transportation Fund...</b>	<b>-</b>	<b>19,239</b>	<b>32,543</b>	<b>-</b>	<b>-</b>	<b>51,782</b>
<b><u>Lottery Funds</u></b>						
Lottery Operations.....	-	-	-	2,106	-	2,106
<b>Subtotals, Lottery Funds.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,106</b>	<b>-</b>	<b>2,106</b>
<b><u>Massachusetts School Building Authority (MSBA)</u></b>						
Debt Service.....	-	596,606	-	-	-	596,606
Grants to Cities, Towns, and Local School Districts.....	-	118,303	-	360,402	-	478,705
Other.....	-	-	1,422	16,852	-	18,274
<b>Subtotals, MSBA.....</b>	<b>-</b>	<b>714,909</b>	<b>1,422</b>	<b>377,254</b>	<b>-</b>	<b>1,093,585</b>
<b><u>Federal Grants Fund</u></b>						
Restricted by Federal Grantors.....	-	59,584	-	-	-	59,584
<b>Subtotals, Federal Grants Fund.....</b>	<b>-</b>	<b>59,584</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,584</b>
<b><u>Other Governmental Funds</u></b>						
Environmental.....	-	-	51,725	-	-	51,725
Public Safety.....	-	-	99,970	-	-	99,970
Health Care.....	-	-	182,733	-	-	182,733
Child Support.....	-	55,006	-	-	-	55,006
Workforce Training.....	-	-	15,621	-	-	15,621
Convention Centers.....	-	85,296	39,787	-	-	125,083
General Government Capital Projects.....	-	91,362	-	-	-	91,362
General Government Debt Service.....	-	152,276	-	-	-	152,276
Highway Capital Projects Fund Deficit.....	-	-	-	-	(326,306)	(326,306)
Federal Highway Construction Capital Projects.....	-	-	-	-	(118,806)	(118,806)
Transportation (Federal Grant Anticipation Notes).....	-	203,176	-	-	-	203,176
Balances in Expendable Trusts.....	914	294,207	147,103	-	-	442,224
Other.....	-	-	69,879	-	(36,009)	33,870
<b>Subtotals, Other Governmental Funds.....</b>	<b>914</b>	<b>881,323</b>	<b>606,819</b>	<b>-</b>	<b>(481,121)</b>	<b>1,007,935</b>
<b>Totals.....</b>	<b>\$ 914</b>	<b>\$ 1,675,055</b>	<b>\$ 2,020,009</b>	<b>\$ 750,462</b>	<b>\$ 821,188</b>	<b>\$ 5,267,628</b>

**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.

**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.

**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.

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

**Commonwealth Transportation Fund (CTF)**, accounts for certain revenues including motor fuels taxes as well as fees, assessments and charges collected for the MassDOT and payments for debt service and program expenses of the department.

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

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

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

**Highway Capital Projects Fund** is presented to account for proceeds of bonds sold to finance the construction of state highways and to fund the Commonwealth's share of federally sponsored highway construction.

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.

#### *Fund Balances*

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

*Reporting Standards*

As allowed by GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

*Fiscal Year-End*

All funds and discretely presented 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 and Short-Term 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. Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please feel free to contact the Trust's investment adviser at 800-392-6095, or the Office of the State Treasurer's Cash Management Department, at 617-367-9333.

Statutes authorize investment in 2A-7 eligible obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Cash portfolio investments are carried at amortized cost, which approximates fair value.

Portions of 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' and Teachers' Public Employee Retirement Systems (PERS) are required to invest in the PRIT Fund and comprise approximately 39.9% and

43.50%, respectively, of the net assets of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in marketable securities - primarily domestic and international equities and fixed income securities - as well as non-marketable securities - primarily real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities, including the Short-Term Bond Fund component of MMDT, are reported at fair value based upon quoted market prices. Non-marketable securities are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Non-marketable securities comprise approximately 28.4%, 28.4% and 23.4% of the total assets of the State Employees' PERS, Teachers' PERS and the HST, respectively.

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

MMDT's cash portfolio investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's shares are reported as short-term investments within their respective reporting categories.

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 assets.

"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 FY11 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 \$138 million, representing 50% of the amounts estimated to be received in FY11, adjusted for historical trends and 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% interest rate to be received in equal installments through 2033. 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, 2011 were \$121.2 million, of which \$5.9 million is due in FY12. During FY11, the MSBA executed \$36.0 million of new loans and collected \$6.0 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.

*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. ....	25
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.

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.

**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 Assets, 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***

The Commonwealth, through the MSBA, reimbursed cities, towns and regional school districts for 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation. Under the former building assistance program (prior to the creation of the MSBA) the Commonwealth also continues to reimburse 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 will be reduced over time through annual payments, savings from project audits made by the MSBA and savings from refundings. In addition, the MSBA funds projects on a waiting list either via a lump sum or through progress payments. Each funding method has different eligibility requirements. 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 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. The amount of commitments outstanding for the waiting list projects is \$305.4 million and is anticipated to be funded under the progress payment method. New programs have been established by the MSBA under which communities submit monthly requests for reimbursement. As of June 30, 2011, MSBA had \$86.7 million commitments outstanding for the new program projects. The Commonwealth appropriates funds to support these commitments on an annual basis.

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

Accounts payable includes amounts due to vendors of the Commonwealth for goods and services delivered before June 30<sup>th</sup> but paid for after year-end.

***K. Compensated Absences***

Compensated absences are recorded as a long-term liability in the statement of net assets. 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, 2011 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.



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 FY11, total dedicated sales tax revenue that was directed to the MBTA was approximately \$767 million, \$112 million more than would have been the case were the dedicated revenue equal to 1% of applicable sales. As a result, in FY11 the MBTA received from the Commonwealth sales tax revenues equal to 1.17% 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 greater of the annual rise in the Boston consumer price index or annual sales taxes, with a floor of 0% and a ceiling of 3%.

The MSBA also receives a pledge of sales tax that, starting in FY11, increased to 1% of applicable sales in the Commonwealth but with no annual floor or ceiling. In FY11, approximately \$657 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, 2011, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$526 million of interest on debts related to these Convention Centers. Taxes collected in FY11 were approximately \$86.0 million, while debt service on the bonds was approximately \$35.4 million.

Finally, as part of the Transportation Modernization Act of 2009, as amended, a further pledge of sales taxes was made. Beginning in FY11, 0.385% of applicable sales and uses on a total tangible property tax rate of 6.25% is dedicated to funding the operations of MassDOT through the Commonwealth Transportation Fund. The Act has a floor amount of \$275 million, with a final transfer occurring on or before September 1<sup>st</sup> of the following fiscal year. In FY11, approximately \$302 million in sales tax revenue was transferred to MassDOT, \$27 million more than the \$275 million minimum. From the Commonwealth Transportation Fund, \$160 million was dedicated to funding the operations of the MBTA while an additional \$15 million was dedicated to funding the operations of the regional transit authorities.

***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 assets. 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 Assets**

The Commonwealth reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, “*Net Assets Restricted by Enabling Legislation.*” Otherwise, these balances are considered unrestricted.

Net assets have been restricted as follows:

“Restricted for Capital Projects” – identifies funds that can only be used for capital projects under federal tax laws.

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

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

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

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

As of June 30, 2011, the government-wide statement of net assets reports the following as restricted net assets (amounts in thousands):

Restricted for:	Governmental Activities	Business Type Activities	Government Wide Total
Unemployment benefits.....	\$ -	\$ 634,228	\$ 634,228
Retirement of indebtedness.....	1,226,495	-	1,226,495
Expendable Trusts.....	294,207	-	294,207
Restricted for other purposes including:			
Higher education endowment funds.....	-	327,133	327,133
Higher education academic support and programs.....	-	6,034	6,034
Higher education scholarships and fellowships:			
Nonexpendable.....	-	6,903	6,903
Expendable.....	-	23,652	23,652
Other nonexpendable purposes.....	-	29,107	29,107
Capital projects - expendable.....	-	10,958	10,958
Other.....	-	326,631	326,631
Total restricted net assets.....	\$ 1,520,702	\$ 1,364,646	\$ 2,885,348

In the Pension Trust Fund and the External Investment Trust Fund net assets have been restricted for employees' pension benefits. This restriction identifies resources held in trust for the members and beneficiaries of the Commonwealth's pension plans. This category also includes the portion of pooled cash and pension assets held under custodianship of the Commonwealth for the benefit 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. Due to the provisions of GASB Statement No. 34 (GASB 34) *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, major governmental and proprietary funds presented in a previous year may not be presented as a major fund in the current year. These changes were made because of internal changes in accounting policies.

**Q. Estimates**

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

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

**R. Restatements**

Restatements include changes in the beginning balances of various state and community colleges for miscellaneous operations and purposes.

In addition, the beginning balances of certain pension and external investment trust funds have been restated to properly reflect the amount of funds not held by the primary government or its component units.

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

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***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", and "short-term investments."

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

	Governmental Activities	Business Type Activities	Government Wide Total
Cash and cash equivalents.....	\$ 5,283	\$ 530,907	\$ 536,190
Short-term investments.....	3,577,431	353,114	3,930,545
Cash with fiscal agent.....	445,459	-	445,459
Total.....	<u>\$ 4,028,173</u>	<u>\$ 884,021</u>	<u>\$ 4,912,194</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. At June 30, 2011, the Commonwealth held these investments with a face value of approximately \$1.9 billion and with a carrying value of approximately \$1.4 billion. Over 86% of these amounts are held in United States treasury strips at a custodial bank. No insurance company has an amount of annuities over 3% 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, 2010, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$ 383,914
Cash and cash equivalents held in pooled cash.....	56,214
Restricted investments.....	<u>596,606</u>
Total.....	<u>\$ 1,036,734</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. 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.

#### *Custodial Credit Risk – HST*

HST manages exposure to custodial credit risk by requiring all of its investment managers to hold investments in separate accounts with HST’s custodian. As of June 30, 2011, HST held less than \$100,000 in cash that was exposed to this risk.

#### *Custodial Credit Risk – Business-Type Activities*

The Institutions of Higher Education and their blended component units have investment policies that may vary by institution and blended component unit for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC, as well as uninsured deposits. As of June 30, 2011, the bank balances of uninsured deposits totaled approximately \$149.0 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 uninsured deposits. As of June 30, 2011, all MSBA bank balances were fully protected against loss.

#### *Interest Rate Risk – Non-Post Employment Benefit Trust Funds*

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 Cash Portfolio’s assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less.

As of June 30, 2011, the MMDT Cash Portfolio is considered a cash equivalent by the Commonwealth. During the fiscal year, the fund’s dollar-weighted average maturity fluctuated from 31 to 58 days, with an average maturity of 48 days.

Massachusetts General Laws authorize investments in the MMDT Cash Portfolio to include money market funds operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations or in any other security that qualifies for inclusion in a fund operated in accordance with the same Section.

Investments in the MMDT are classified as cash and short-term investments above and include the Short Term Bond Fund (the Fund) authorized under General Laws Chapter 29, Section 38. Investments in the Fund are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Fund 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. General Law Chapter 29, Section 49 enumerates the Commonwealth's policy of investments included in the MMDT cash portfolio and other escrows.

The HST manages exposure to fair value loss arising from movements in interest rates with its fixed income investment securities by having the PRIM Board establish duration guidelines. The guidelines with each individual manager require that the effective duration of the HST's domestic fixed investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index. As of June 30, 2011, HST had approximately \$64.1 million of debt investments at fair value, which had weighted durations of more than five years and the remaining investments had an effective weight duration from .47 to 9.37 years.

For the Short Term Bond Fund, the weighted average maturity during the fiscal year fluctuated from 3.1 to 3.6 years. As of June 30, 2011, investments in the MMDT Short Term Bond Fund had a fair value of \$288.2 million and investment maturities ranging from less than one year to more than ten years and with approximately 6% of the investment's fair values maturing in less than 1 year, approximately 81% from one to five years, approximately 4% from six to ten years and approximately 9% more than ten years.

#### *Interest Rate Risk – Business - Type Activities*

As of June 30, 2011, the Institutions of Higher Education and their blended component units had debt investments stated at fair value of approximately \$726 million and had investment maturities ranging from less than one year to more than ten years, with approximately 51% of the investment's fair values maturing in less than 1 year, approximately 20% from one to five years, approximately 15% from six to ten years, and approximately 14% 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, 2011, the MSBA had approximately \$226.5 million invested in a guaranteed investment contract and approximately \$200.7 million invested in U.S. Treasury Bonds. These investments are recorded at fair value. The guaranteed investment contract matures on August 15, 2030 and the Treasury Bonds mature from 2019 to 2039.

*Credit Risk – Primary Government*

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 Cash Portfolio's assets will be invested only in First Tier and Second Tier Securities as defined by rule 2A-7. The Treasury does not have any additional policies regarding credit ratings of investments. Credit ratings associated with the Commonwealth's investment in MMDT for the cash portfolio ranged from P1 to P2, with approximately 99% rated P1 and approximately 1% rated P2 at fair value.

For the Short Term Bond Fund, investments were approximately 10% at AAA, approximately 14% from A to AA, approximately 15% BBB or below or unrated and approximately 61% held in US Government or Government Agency Obligations. Debt obligations issued or guaranteed by the U. S. Government, U. S. Government Agencies, and U. S. Government – sponsored enterprises are deemed to carry a AAA rating.

For the Institutions of Higher Education and their blended component units presented in the Business-Type Activities, fair values of debt investments were approximately \$395 million at AAA, approximately \$100 million from A to AA and approximately \$231 million either unrated or BBB or less.

*Credit Risk - MSBA*

The MSBA's investments as of June 30, 2011 were not rated; however, the issuers were rated AA or equivalent.

*Credit Risk – HST*

For the HST, the weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2011. For the fixed income securities of \$64.1 million as of June 30, 2011 for the HST, approximately \$8.2 million was rated AAA, \$9.6 million rated AA+ to A-, \$14.2 million rated BBB+ to B- and \$23.5 million either unrated or CCC+ or less. An additional \$8.6 million was explicitly backed by the federal government and related AAA.

*Foreign Currency Risk – HST*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. HST manages exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and/or country holdings that must be within a certain percentage of predefined benchmarks. HST's investments in foreign currencies and foreign investments

as of June 30, 2011 were approximately \$0.3 million in cash and investments, \$50.2 million in equities and \$3.4 million in fixed income investments. An additional \$10.3 million was invested in international investment denominated in U. S. dollars.

#### *Interest Rate Risk – PRIT Funds*

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

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

The PRIM Board compares the effective duration of a manager's portfolio to the Barclays Capital Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch® High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had fixed income and short-term investments totaling approximately \$11.8 billion at fair value with an effective weighted average duration range from 0.08 to 9.69 years at June 30, 2011.

#### *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 AA- at June 30, 2011.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$4.0 billion, BBB+ to B- investments with a fair value of approximately \$1.5 billion, \$0.02 billion rated CCC+ to C-, \$3.5 billion are unrated and the remaining \$2.6 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, 2011 were approximately \$213 million in cash and investments, \$12.6 billion in equities, \$711 million in fixed income investments and \$1.2 billion in private equity investments. An additional \$3.1 billion is invested in international investments denominated in U. S. dollars.

*Concentration of Credit Risk – HST and PRIT*

The PRIM Board manages HST's and 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, HST and PRIT have no investments at fair value that exceed 5% of HST or PRIT's net assets held in trust for pool participants as of June 30, 2011.

**A. Derivative Instruments**

HST and PRIT may invest in derivative transactions. In accordance with GASB 53, HST and PRIT's derivatives are accounted for as investment derivatives and are reported at fair value.

*Forward Currency Contracts*

The HST and PRIT enter 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 HST and 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, 2011, HST had open foreign exchange contracts with combined net unrealized losses of approximately \$7.5 million with various delivery dates from July to September. As of June 30, 2011, PRIT had open foreign exchange contracts with combined net unrealized losses of \$6.1 million with various delivery dates.

*Futures Contracts*

The HST and 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 primarily corresponds with 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 HST and 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.

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

The HST held 87 financial futures contracts at June 30, 2011, with various expirations during FY12 to FY14. These contracts were mainly for Eurodollars, US Treasury securities and in the S&P 500 E-Mini Index. The total notional amount of these contracts as of June 30, 2011 was approximately \$18.8 million, with an aggregated fair value as of that date of approximately \$18.9 million, yielding an unrealized net gain of \$68,288.

PRIT held 15,791 contracts outstanding at June 30, 2011 with various expirations from FY12 to FY14. 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, 2011 was approximately \$2.568 billion with a fair value of \$2.620 billion, yielding an unrealized net gain of approximately \$52.4 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 HST and Pension Trust Funds recognize 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. Variable-rate interest is paid or received based on various interest rate indicies with fixed rates paid ranging from 0.08% to 8.95%. Changes in fair value are included as part of investment income.

As of June 30, 2011, PRIT had contracts in effect with an aggregated notional amount of approximately \$829.7 million to various investment banks that had maturity dates from FY12 to FY46. The contracts have an aggregate fair value loss of \$22.0 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRITs counterparty exposure was with various major investment companies with ratings ranging from A to A+ and various other banks with other ratings. Open swap contracts as of June 30, 2011 were as follows (amounts expressed in thousands):

		2011					
Counterparty	Credit Ratings	Interest Rate Swaps		Credit Default Swaps		Total Return Swaps	
		Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
Goldman Sachs International	A+	\$ 40,992	\$ (788)	\$ 36,580	\$ (320)	\$ -	\$ -
Credit Suisse	A	34,255	262	10,100	(59)	-	-
J.P. Morgan Securities Inc.	A+	39,136	416	11,700	69	-	-
Deutsche Bank Securities Inc.	A+	51,118	618	41,945	154	23,310	22
Bank of America Corp	A	51,900	(6,069)	21,000	(1,419)	69	4,968
Citibank	A	21,600	(607)	50,586	2,144	-	-
Barclays Global Investors	A+	29,700	207	30,338	174	-	-
Morgan Stanley Capital	A	19,319	(247)	87,075	1,717	-	-
UBS Financial Services, Inc.	A+	16,800	(551)	30,549	(22)	-	-
All others	Various	74,597	(1,214)	39,880	593	67,163	(22,088)
		<u>\$ 379,417</u>	<u>\$ (7,973)</u>	<u>\$ 359,753</u>	<u>\$ 3,031</u>	<u>\$ 90,542</u>	<u>\$ (17,098)</u>

**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.

**C. Component Unit Swapped Debt**

At June 30, 2011, the interest rate swap held by MassDOT, with aggregate fair value liability of approximately \$375.0 million. For complete details, see separately issued MassDOT financial statements.

### 3. RECEIVABLES

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

Primary Government	Taxes	Federal		Other	Total
	Receivable	Grants and Reimbursements	Loans	Receivables	
Governmental receivables .....	\$ 5,518,259	\$ 1,836,902	\$ 122,094	\$ 1,665,681	\$ 9,142,936
Business-type activity receivables.....	-	85,079	55,662	663,651	804,392
Less: allowance for uncollectibles.....	<u>(2,015,166)</u>	<u>(35,851)</u>	<u>-</u>	<u>(1,292,296)</u>	<u>(3,343,313)</u>
Receivables, net of allowance for uncollectibles .....	3,503,093	1,886,130	177,756	1,037,036	6,604,015
Less: current portion:					
Governmental activities .....	(2,602,996)	(1,736,634)	(6,784)	(301,339)	(4,647,753)
Business-type activities .....	<u>-</u>	<u>(85,079)</u>	<u>(42,950)</u>	<u>(610,308)</u>	<u>(738,337)</u>
Noncurrent receivables .....	<u>\$ 900,097</u>	<u>\$ 64,417</u>	<u>\$ 128,022</u>	<u>\$ 125,389</u>	<u>\$ 1,217,925</u>

#### 4. RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end stabilization transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from stabilization 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	Commonwealth Transportation	Lotteries	Federal Grants	Other Governmental Funds	Total
<b>Governmental funds:</b>						
<u>Transfers In:</u>						
Debt service.....	\$ -		\$ -	\$ -	\$ 1,897,801	\$ 1,897,801
Transfers in.....	1,891,651	5,405	-	-	2,291,262	4,188,318
Subtotal.....	1,891,651	5,405	-	-	4,189,063	6,086,119
<u>Transfers Out:</u>						
Appropriations.....	(880,663)	-	-	-	(3,162)	(883,825)
Transfer of bond proceeds.....	-	-	-	-	(143,205)	(143,205)
Debt service.....	(860,114)	(803,762)	-	-	(233,925)	(1,897,801)
Transfers out.....	(1,697,981)	(137,917)	(976,534)	(126,928)	(1,082,832)	(4,022,192)
Subtotal.....	(3,438,758)	(941,679)	(976,534)	(126,928)	(1,463,124)	(6,947,023)
<b>Total governmental funds.....</b>	<b>(1,547,107)</b>	<b>(936,274)</b>	<b>(976,534)</b>	<b>(126,928)</b>	<b>2,725,939</b>	<b>(860,904)</b>
<b>Proprietary Funds:</b>						
	University of Massachusetts	State Universities	Community Colleges			Total
<u>Transfers In:</u>						
Transfers in from the General Fund and Other governmental funds.....	\$ 478,204	\$ 246,500	\$ 302,326			\$ 1,027,030
<u>Transfers Out:</u>						
Transfers out to the General Fund.....	(106,521)	(30,276)	(29,329)			(166,126)
<b>Total proprietary funds.....</b>	<b>371,683</b>	<b>216,224</b>	<b>272,997</b>			<b>860,904</b>
<b>Net transfers in / (out) between funds.....</b>	<b>\$ (1,175,424)</b>	<b>\$ (720,050)</b>	<b>\$ (703,537)</b>	<b>\$ (126,928)</b>	<b>\$ 2,725,939</b>	<b>\$ -</b>

Remaining receivables and payables between funds as of June 30, 2011 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2011. 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, 2011:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Governmental Funds:</b>		
General	Federal Grants.....	\$ 35,518
	Nonmajor Governmental Funds.....	73,863
Non-major Governmental Funds	Nonmajor Governmental Funds.....	<u>72,910</u>
<b>Total Governmental Funds.....</b>		<b>\$ 182,291</b>
<b>Governmental Funds: Proprietary Funds:</b>		
General	University of Massachusetts.....	<u>12,046</u>
<b>Total amounts due.....</b>		<b><u>\$ 194,337</u></b>

#### *Central Artery/Tunnel Project*

Under the Transportation Reform Act implemented during FY11, the assets of the Central Artery/Tunnel project and responsibility for operations and maintenance were transferred to MassDOT (refer to discussion in Note 1a).

## 5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2011 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2010 Beginning Balance	Increases	Decreases and Reclassifications	June 30, 2011 Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 892,380	\$ 26,520	\$ (152,066)	\$ 766,834
Construction in process .....	452,988	329,466	(45,222)	737,232
Total capital assets not being depreciated .....	1,345,368	355,986	(197,288)	1,504,066
Capital assets being depreciated:				
Buildings .....	5,046,708	158,643	(227,256)	4,978,095
Machinery and equipment .....	881,485	88,207	(21,684)	948,008
Infrastructure non - Central Artery / Tunnel Project.....	272,159	11,847	(4,215)	279,791
Total capital assets being depreciated .....	6,200,352	258,697	(253,155)	6,205,894
Less, accumulated depreciation:				
Buildings .....	(2,759,768)	(99,735)	142,802	(2,716,701)
Machinery and equipment .....	(579,812)	(81,518)	8,283	(653,047)
Infrastructure non - Central Artery / Tunnel Project.....	(207,481)	(6,036)	719	(212,798)
Total accumulated depreciation .....	(3,547,061)	(187,289)	151,804	(3,582,546)
Total capital assets being depreciated, net .....	2,653,291	71,408	(101,351)	2,623,348
Governmental activity capital assets, net .....	\$ 3,998,659	\$ 427,394	\$ (298,639)	\$ 4,127,414
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land .....	\$ 101,249	\$ 15,935	\$ (46)	\$ 117,138
Construction in process .....	462,301	524,552	(277,010)	709,843
Historical treasures .....	863	-	-	863
Total capital assets not being depreciated .....	564,413	540,487	(277,056)	827,844
Capital assets being depreciated:				
Buildings .....	4,851,716	417,903	(9,532)	5,260,087
Machinery and equipment .....	950,267	51,835	(23,213)	978,889
Library collections, not including historical treasures .....	131,571	9,903	(10,564)	130,910
Total capital assets being depreciated .....	5,933,554	479,641	(43,309)	6,369,886
Less, accumulated depreciation:				
Buildings .....	(2,135,907)	(171,605)	1,110	(2,306,402)
Machinery and Equipment .....	(663,545)	(67,584)	21,359	(709,770)
Library collections, not including historical treasures .....	(21,529)	(395)	1,739	(20,185)
Total accumulated depreciation .....	(2,820,981)	(239,584)	24,208	(3,036,357)
Total capital assets being depreciated, net .....	3,112,573	240,057	(19,101)	3,333,529
Business - type activity capital assets, net .....	\$ 3,676,986	\$ 780,544	\$ (296,157)	\$ 4,161,373
<b>Total Primary Government capital assets, net .....</b>	<b>\$ 7,675,645</b>	<b>\$ 1,207,938</b>	<b>\$ (594,796)</b>	<b>\$ 8,288,787</b>

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

<b><u>Function:</u></b>	<b><u>Amount</u></b>
General government.....	\$ 54,177
Judiciary.....	22,671
Energy and environmental .....	15,058
Health and human services.....	43,540
Early elementary and secondary education.....	111
Public safety and homeland security.....	50,393
Housing and economic development.....	69
Labor and workforce development.....	1,270
Total depreciation .....	<u>\$ 187,289</u>

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

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term borrowing does not meet long-term financing criteria, it is classified as a fund liability. Short-term borrowing may be issued as fixed rate notes or through a commercial paper program supported by bank liquidity facilities maintained by the Commonwealth.

**A. Credit Facilities**

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. During FY11, the Commonwealth borrowed by selling \$346 million in commercial paper in anticipation of long-term financing that remained outstanding for approximately three months. In terms of short-term borrowing for cash flow purposes, the Commonwealth borrowed \$1.2 billion by selling RANs. All of the \$1.2 billion in RANs were retired in April, May and June of 2011.

**B. Credit Facilities**

During FY11, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$200 million to \$600 million. The Commonwealth started fiscal 2011 with a total of three credit facilities to provide such liquidity support, each in the amount of \$200 million. These facilities expire in periods at various times. In addition, the Commonwealth maintained standby bond purchase agreements for various bond issuances sold from FY97 through FY06 in the form of Variable Rate Demand Bonds. As of June 30, 2011, these agreements totaled \$1.8 billion.

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

	Beginning Balance July 1, 2010	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2011	Credit Limit June 30, 2011
General Fund:					
Revenue anticipation notes.....	\$ -	\$ 1,200,000	\$ (1,200,000)	\$ -	\$ -
Commercial paper.....	-	346,000	(346,000)	-	-
Lines of Credit.....	-	-	-	-	1,815,450
<b>Total short-term financing and credit agreement activity.....</b>	<b>-</b>	<b>1,546,000</b>	<b>(1,546,000)</b>	<b>-</b>	<b>1,815,450</b>
<b>Total primary government.....</b>	<b>\$ -</b>	<b>\$ 1,546,000</b>	<b>\$ (1,546,000)</b>	<b>\$ -</b>	<b>\$ 1,815,450</b>

## 7. LONG-TERM OBLIGATIONS

Under the Massachusetts Constitution, the Commonwealth may borrow money (a) for defense, (b) 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 (c) 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 to another entity by a two-thirds vote of the members of each house of the Legislature. The Legislature may not in any manner allow the Commonwealth 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 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 can not file for bankruptcy under the United States Bankruptcy code.

As of June 30, 2011, 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 the Commonwealth's indebtedness, are backed by the full faith and credit of the Commonwealth.



Special obligation bonds are bonds secured by all or a portion of a specific revenue source and are not general obligations of the Commonwealth. The following is a summary of the Commonwealth's outstanding debt (excluding unamortized discounts and premiums), exclusive of capital leases, (amounts in thousands):

<u>Type of Bond</u>	<u>Amount Outstanding</u>
General Obligation Bonds.....	\$ 18,820,409
Special Obligation Bonds, including GANs.....	<u>2,389,724</u>
Outstanding Commonwealth Bonds.....	21,210,133
MSBA debt.....	<u>4,590,912</u>
<b>Total Governmental Activity debt.....</b>	<b>25,801,045</b>
Less:	
Unamortized premiums and bond issuance costs on Commonwealth debt.....	(335,078)
Unamortized premiums on MSBA debt.....	<u>(195,522)</u>
<b>Total Governmental Activity net of unamortized premiums debt.....</b>	<b>\$ 25,270,445</b>

General obligation (GO) bonds include not only such bonds, but also includes obligations for Build America Bonds (BABs) for \$2.1 billion, and college opportunity bonds as well as debt assumed from former counties. Special obligation bonds include all notes and bonds secured by federal transportation reimbursements, a portion of the Commonwealth's motor fuel excise tax and bonds secured by certain taxes and fees levied.

The following is a table of the structure of general obligation bonds, (net of unamortized premiums and bond issuance cost of \$303.6 million) that are outstanding as of June 30, 2011:

<u>General Obligation Bonds</u>	<u>Amount</u>	<u>Percent of</u>
Fixed Rate Bonds.....	\$ 14,922,160	81%
Variable Rate Bonds.....	3,594,600	19%

The following is a table of the different types of variable rate general obligation bonds:

<u>Variable Rate GO Bonds</u>	<u>Amount Outstanding</u>	<u>Percent of Total GO</u>
Variable Rate Demand Bonds.....	\$ 1,615,450	9%
Auction Rate Securities.....	401,500	2%
CPI-Index Bonds.....	197,455	1%
LIBOR Index Bonds.....	845,795	4%
SIFMA Index Bonds.....	534,400	3%

The following is a table of the different type of special obligation bonds currently outstanding:

<u>Special Obligation Bonds</u>	<u>Amount Outstanding</u>
Special Obligation Dedicated Tax Revenue Bonds	
Fixed Rate Convention Center Bonds.....	\$ 557,125
CPI Variable Rate Convention Center Bonds.....	86,590
Total Convention Center Bonds.....	643,715
Special Obligation Revenue Bonds	
Fixed Rate Gas Tax Bonds.....	285,534
CPI Variable Rate Gas Tax Bonds.....	96,490
Total Gas Tax Bonds.....	382,024
Special Obligation Revenue Bonds	
Accelerated Bridge Program.....	573,138
Special Obligation Federal Highway Grant	
Anticipation Notes and Accelerated Bridge Program.....	790,847
Total Special Obligation Bonds.....	2,389,724
Less: Unamortized Premiums and bond issuance costs, net.....	(31,429)
Outstanding Special Obligation Principal.....	<u>\$ 2,358,295</u>

#### A. *General Obligation Bonds*

General Obligation Bonds are authorized and issued primarily to provide funds for Commonwealth capital projects and Commonwealth supported local government improvements. The Commonwealth borrows by selling general obligation bonds and notes pursuant to Chapter 29 of the General Laws. The responsibility to borrow is statutorily delegated to the Office of the State Treasurer and Receiver-General, pursuant to Chapter 29. General obligation bonds are backed by the full faith and credit of the Commonwealth and are paid from the Governmental Funds, from which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to bond authorizations and capital spending in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

In addition, certain bonds are issued for specific programs approved by the Legislature. These bonds are known as College Opportunity Bonds. As of June 30, 2011, the Commonwealth had outstanding approximately \$142 million in variable "U. Plan" bonds (at accreted value), sold in conjunction with a college savings program administered by the Massachusetts Educational Facility Authority (MEFA). These bonds 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%.

In terms of bond structure, the large majority of general obligation bonds have been sold as fixed rate obligations. As of June 30, 2011, approximately 81% of the Commonwealth's outstanding GO debt is fixed-rate bonds. The remaining 19% of outstanding GO debt is 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 variable rate structures. Most of the outstanding variable rate debt are variable rate demand bonds or VRDBs, or long-term bonds whose interest rates re-set daily or weekly through a remarketing process. Because these bonds offer bondholders a "put" or tender feature, they are supported by standby liquidity facilities provided by commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. As of June 30, 2011, the Commonwealth had \$1.6 billion in outstanding VRDBs. This accounts for

approximately 9% of total general obligation debt and approximately 45% of total general obligation variable-rate debt. All of these bonds are uninsured. As of June 30, 2011, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the banks' liquidity providers; consequently, there have not been any draws on a liquidity facility.

The Commonwealth has also issued general obligation 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. The Commonwealth's 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, and continuing through fiscal 2011, several auctions of the Commonwealth's outstanding auction rate securities experienced auction failure, meaning there were insufficient bids from investors to purchase the securities being offered for sale by existing bondholders. Upon auction failure, the interest rate paid to bondholders is the failure rate as specified in the bond documents. For the four series of Commonwealth bonds whose auctions have experienced failed auctions (approximately \$401 million in total outstanding debt obligations, including Commonwealth of Massachusetts General Obligation Bonds, Series 2000 D, 2000 E, 2000 F, and 2000 G), the failure rate is based on a multiple of the non-financial commercial paper rate, with a maximum failure rate of 12%. The failed auctions have resulted in interest costs that were consistently below budgeted debt service levels of 5%.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2011, the Commonwealth had approximately \$197 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 \$534 million of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index. These bonds make up approximately 1%, 4% and 3% of total outstanding general obligation indebtedness, respectively.

To fund the fiscal 2011 capital budget, the Commonwealth borrowed by issuing \$2.06 billion in long-term general obligation bonds, \$1.55 billion of which was for new-money needs, with the remainder for refunding already existing debt in two separate refunding and restructuring transactions. The first refunding transaction, which also included debt restructuring mandated by the Legislature, resulted in FY11 budgetary savings, but increased debt service by \$19.5 million over the life of the debt at a present value cost of \$1.7 million. The second refunding resulted in reduced debt service of \$14.1 million and a present value savings of \$11.2 million over the life of the debt. Of the new money issues, \$708 million was issued as Build America Bonds (BABs). The BABs program is a temporary bond program authorized by the federal government as part of the 2009 America Recovery and Reinvestment Act (ARRA). Under the BABs program, issuers borrow by selling bonds into the taxable bond market and receive in return 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. Given market conditions at the time of the Commonwealth's two 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, and unless the program is reauthorized by the federal government, no additional BABs will be issued.

#### *MSBA Debt*

As of June 30, 2011, the MSBA had outstanding approximately \$4.4 billion of Dedicated Sales Tax bonds, plus approximately \$195 million of unamortized premiums for the purpose of funding school construction and renovation projects. Interest on the bonds ranges from 4.0% to 6.0% and is payable semiannually each August 15 and February 15, until maturity in FY40.

### **B. Special Obligation Bonds**

#### *Commonwealth Transportation Fund (CTF)*

During FY11, the Commonwealth issued \$576 million in special obligation bonds for highway construction purposes under the Commonwealth's Accelerated Bridge Program, secured by Commonwealth motor fuels taxes and Registry of Motor Vehicle fees. The new bonds are secured by a senior lien on 14.1085 cents of the total 21 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas, and all Registry of Motor vehicle fees deposited in the Commonwealth Transportation Fund. The bonds also have a subordinate lien on 6.86 cents of the 21 cent per gallon gasoline tax not included in the senior lien. These new bonds were issued under the federal Build America Bonds program, whereby states are reimbursed by the federal government for 35% of the bonds' interest costs. A portion of the bonds, \$156.4 million, was also designated as Recovery Zone Economic Development Bonds, which entitles the Commonwealth to receive a 45% subsidy from the federal government.

As of June 30, 2011, approximately \$576 million in principal was outstanding on these bonds and approximately \$450 million of interest (net of the federal subsidy) was expected to be paid through maturity. The bonds mature from FY24 to FY40.

Other special obligation bonds for highway construction purposes issued prior to FY11 are secured by a pledge of 6.86 cents of the 21 cents per gallon gasoline tax. As of June 30, 2011, bonds secured by these pledged funds totaled approximately \$377 million of principal and approximately \$111 million in interest. These bonds mature from FY12 to FY23 and were sold in various series issued prior to FY11. Principal and interest paid during FY11 amounted to approximately \$37 million and \$22 million, respectively.

#### *Convention Center Fund*

Chapter 152 of the Acts of 1997, as amended, authorizes \$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 monies credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt

service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). As of June 30, 2011, taxes within the Convention Center districts support approximately \$639 million of outstanding principal and approximately \$526 million of interest on debts related to these Convention Centers. Taxes collected in FY11 were approximately \$86.0 million, while debt service on the bonds was approximately \$34.5 million.

**C. Federal Grant  
Anticipation Notes**

Approximately \$3.0 billion in revenues from federal grants passed through the Federal Grants Fund in FY11 and represents the greatest source of dedicated revenues. (In addition, in conformance with GASB accounting standards, approximately \$1.3 billion in food stamp benefit payments made directly to beneficiaries are shown in the Federal Grants Fund, but these payments do not pass through the Commonwealth's accounting system.) A portion of these grants is dedicated to funding the principal portion only of federal grant anticipation notes issued in fiscal 1998, 1999, 2001, 2011 and refunding notes in fiscal 2003 and fiscal 2011. In FY11, the Commonwealth issued federal grant anticipation notes (GANS) totaling \$480.5 million – \$100 million for new-money needs under the Commonwealth's Accelerated Bridge Program, and \$380.5 million to refund previously issued debt. The \$100 million in GANS for the Accelerated Bridge Program are subordinate to the outstanding GANS, but also have pledged to their payment Commonwealth Transportation Fund revenues in excess of those needed for the payment of debt service for the \$576 million in Special Obligation Bonds described in section C of this note. The refunding transaction resulted in an aggregate debt service savings of \$11.8 million over the life of the refunded debt and an economic savings of \$11.4 million over the life of the refunded debt. The Commonwealth intends to begin repayments of the principal of the new-money notes beginning in fiscal 2016, after the original and refunded GANS have been paid in full. As of June 30, 2011, total principal remaining to be paid on (GANS) is approximately \$767 million. Maturities are from FY12 through FY23. Debt service paid during FY11 was approximately \$189 million.

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 to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges an additional 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. 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 Commonwealth appropriations.

**D. *Interest Rate Swap Agreements – Objectives and Risks***

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, 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 \$3.6 billion (or approximately 20% of total general obligation debt), approximately \$3.4 billion were synthetically fixed via floating-to-fixed interest rate swap hedge agreements. The remaining variable-rate debt of approximately \$352 million, or approximately 2% of the total outstanding general obligation debt, is un-hedged and, accordingly, floats with interest rates reset on a daily or weekly basis.

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 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, and 2007, the Commonwealth entered into interest rate swap agreements with certain counterparties to hedge against the volatility of the market interest rates. Additional swap agreements were entered into to hedge this volatility on certain special obligation bonds, including the 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 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 swaps are 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 June 30, 2011, 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.

#### *Terms of the Interest Rate Swap Agreements*

The bonds and related swap agreements have final maturities ranging from 2013 to 2037. The swaps' total notional value of approximately \$3.4 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 3.333% 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.

#### *Credit Risk of the Interest Rate Swap Agreements*

As of June 30, 2011, 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. The Commonwealth is not required to post collateral in any of its existing swap agreements.

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

Associated Bond Issue	Notional Amounts Outstanding (thousands)	Effective Date	Fixed Rate Paid (Range)	Terms		Fair value at June 30		Change in Fair Value	Final Termination Date	Counterparty	Counterparty Credit Rating
				Variable Rate Received		2011	2010				
<i>General Obligation Bonds:</i>											
Series 1997B	\$ 162,768	8/12/1997	4.659%	Cost of Funds		\$ (12,344)	\$ (16,634)	\$ 4,290	August 1, 2015	Goldman Sachs Mit Mar Der Prod	Aa1 / AAA / NA
Series 1997B	108,512	9/1/2010	4.659%	SIFMA		(8,080)	(10,813)	2,733	August 1, 2015	Sumitomo Mitsui Banking Corp	Aa2 / A+ / A
Series 1998A	177,884	9/17/1998	4.174%	Cost of Funds		(14,812)	(18,008)	3,196	September 1, 2016	Citi Swapco, Inc	Aaa / AAA / AAA
Series 1998A, Series 2006A, Series 2000A, & Series 2000B	266,826	11/17/2008	4.174%	60% 1-Month LIBOR + 25 basis points		(22,466)	(28,367)	5,901	September 1, 2016	Deutsche Bank AG	Aa3 / A+ / AA-
Series 2000A	106,675	8/16/2007	3.942%	SIFMA - 3 basis points		(12,401)	(12,535)	134	August 1, 2018	Merrill Lynch Cap Svcs	A2 / A / A+
Series 2000A	53,575	8/16/2007	3.942%	SIFMA - 3 basis points		(6,069)	(6,135)	66	August 1, 2018	Bear Stearns Fin Prod / JP Morgan	Aa1 / AA- / AA-
Series 2001B & C	496,225	2/20/2001	4.150%	Cost of Funds		(65,765)	(67,728)	1,963	January 1, 2021	Morgan Stanley Der Prod	Aa3 / AAA / NA
Series 2003B	87,455	3/12/2003	4.500%	CPI-based formula		(1,068)	(3,553)	2,485	December 1, 2014	Goldman Sachs Mit Mar Der Prod	Aa1 / AAA / NA
Series 2003B	10,000	10/8/2008	4.500%	CPI-based formula		(84)	(286)	202	December 1, 2013	Deutsche Bank AG	Aa3 / A+ / AA-
Series 2010A & 2011A (refunding)	532,515	3/15/2005	3.333% - 4.004%	SIFMA		(57,029)	(60,398)	3,369	February 1, 2028	Citibank N.A.	A1 / A+ / A+
Series 2006B, Series 2000D	294,000	4/2/2009	4.515%	67% 3-Month LIBOR		(70,852)	(82,056)	11,204	June 15, 2033	Barclays Bank PLC	Aa3 / AA- / AA-
Series 2006C	100,000	1/1/2007	3.73%-3.85%	CPI-based formula		(646)	(5,246)	4,600	November 1, 2020	Citibank N.A.	A1 / A+ / A+
Series 2007A	400,000	10/8/2008	4.420%	67% 3-Month LIBOR + 0.57%		(39,950)	(47,098)	7,148	May 1, 2037	Barclays Bank PLC	Aa3 / AA- / AA-
Series 2007A (refunding)	414,130	10/8/2008	4.083%	67% 3-Month LIBOR + 0.55%		(53,448)	(62,812)	9,364	November 1, 2025	Bank of NY Mellon	Aaa / AA / AA-
Series 2007A (refunding)	31,665	10/8/2008	3.936%	67% 3-Month LIBOR + 0.46%		(3,896)	(4,390)	494	November 1, 2020	Deutsche Bank AG	Aa3 / A+ / AA-
Subtotal	<u>3,242,230</u>					<u>(368,910)</u>	<u>(426,059)</u>	<u>57,149</u>			
<i>Special Obligation Dedicated Tax Revenue Bonds</i>											
Series 2004 (Convention Ctr)	28,863	6/29/2004	4.45% - 5.25%	CPI-based formula		(1,281)	(2,831)	1,550	January 1, 2018	Goldman Sachs Cap Markets	Aa3 / A / A+
Series 2004 (Convention Ctr)	28,863	6/29/2004	4.45% - 5.25%	CPI-based formula		(550)	(3,373)	2,823	January 1, 2018	JPMorgan Chase Bank	Aa1 / AA- / AA-
Series 2004 (Convention Ctr)	28,864	6/29/2004	4.45% - 5.25%	CPI-based formula		(1,527)	(3,373)	1,846	January 1, 2018	Bear Stearns / JP Morgan	Aa3 / A+ / AA-
Series 2005A (Gas Tax)	96,490	1/12/2005	4.771% - 5.059%	CPI-based formula		(3,602)	(7,939)	4,337	June 1, 2022	Merrill Lynch Cap Serv	A2 / A / A+
Subtotal	<u>183,080</u>					<u>(6,960)</u>	<u>(17,516)</u>	<u>10,556</u>			
Total	<u>\$ 3,425,310</u>					<u>\$ (375,870)</u>	<u>\$ (443,575)</u>	<u>\$ 67,705</u>			

*Fair value of the Interest Rate Swap Agreements*

The aggregate fair value balance of interest rate swaps at June 30, 2011 is negative \$376 million and is reflected on the statement of net assets 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, 2011 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 fiscal year 2011 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 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 swaps 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 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 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 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 bond being hedged by the \$294 million swap with Barclays and the 2010A bonds being hedged by the \$533 million swap with Citigroup. 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 contracts use the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swaps 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 contracts 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. If the Commonwealth's rating fell below those 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.

**E. 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.

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, 2011 are provided in the table below.

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2011 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, 2011. 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:

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2012	\$ 119,445,000	\$ 31,584,320	\$ 109,978,131	\$ 261,007,451
2013	195,640,000	30,385,605	103,716,686	329,742,291
2014	152,430,000	28,477,740	98,660,319	279,568,060
2015	240,930,000	24,580,893	92,980,440	358,491,333
2016	252,485,000	21,216,850	86,382,376	360,084,226
2017-2021	1,171,515,000	69,737,844	326,415,167	1,567,668,012
2022-2026	780,595,000	22,882,191	168,419,648	971,896,839
2027-2031	305,325,000	9,011,231	63,749,100	378,085,332
2032-2036	177,840,000	3,688,184	19,653,813	201,181,998
2037-2040	29,105,000	109,592	533,629	29,748,221
Total	<u>\$ 3,425,310,000</u>	<u>\$ 241,674,451</u>	<u>\$ 1,070,489,310</u>	<u>\$ 4,737,473,761</u>

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

The University System has various swaps. At June 30, 2011, the fair value of liability of the universities outstanding interest rate swaps was \$51.3 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, 2011, the majority of interest rate SWAPs outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$375.0 million. For complete details, see separate MassDOT financial statements.

#### **F. 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. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (excluding unamortized premiums, discounts and issuance cost) and debt authorized and unissued at June 30, 2011 is as follows (amounts in thousands):

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 666,790	2012 -2015	\$ -
Capital Projects:			
General.....	8,134,051	2012 - 2041	9,622,368
Highway.....	9,868,946	2012 - 2041	6,226,838
Local Aid.....	1,566,568	2012 - 2038	11,286
Other.....	638,700	2015 - 2034	9,939
	<u>20,208,265</u>		<u>15,870,432</u>
Subtotal - Governmental activities debt (exclusive of MSBA).....	\$ 20,875,055		\$ 15,870,432
MSBA Debt.....	4,395,390		
Governmental activities debt.....	<u>\$ 25,270,445</u>		

The amounts in the table above include \$2.8 billion in taxable Build America Bonds.

Interest rates on the Commonwealth's debt outstanding at the end of FY11 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, 2011 are as follows (amounts in thousands):

	Governmental Funds		Governmental	
	Debt - Primary Government	MSBA	Funds Bonded Debt	Authorized Unissued *
Balance July 1, 2010.....	\$ 19,726,507	\$ 4,488,535	\$ 24,215,042	\$ 18,516,310
Plus: Increases in bonds authorized .....	-	-	-	75,000
Less: Authorizations deauthorized .....	-	-	-	(41,800)
General and special obligation bonds:				
Proceeds, as defined as principal, premium less				
discount and issuance costs .....	3,250,858	-	3,250,858	(2,679,078)
Less: Net premium .....	(129,690)	-	(129,690)	-
Less: Principal on refunded bonds.....	(997,850)	-	(997,850)	-
Less: Bonds retired.....	(974,770)	(93,145)	(1,067,915)	-
Outstanding debt June 30, 2011**.....	<u>\$ 20,875,055</u>	<u>\$ 4,395,390</u>	<u>\$ 25,270,445</u>	<u>\$ 15,870,432</u>

\* Includes Beginning Balance Adjustment for Authorized/Unissued of \$351.3 Million

\*\* Includes unallocated proceeds of approximately \$229 million.

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

Building authorities related to the University of Massachusetts and the state universities have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$200,000,000. 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 Massachusetts Health and Educational

Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2011, 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	Principal	Interest
2012.....	\$ 1,372,784	\$ 911,694	\$ 94,505	\$ 217,486	\$ 118,189	\$ 143,114
2013.....	1,529,747	859,006	98,110	213,162	88,777	139,350
2014.....	1,456,912	795,279	98,865	208,546	91,548	136,929
2015.....	1,348,569	734,568	120,575	203,792	92,740	132,395
2016.....	1,200,031	676,304	96,375	197,941	100,434	127,381
2017 - 2021.....	4,873,888	2,674,155	563,230	910,404	604,388	413,906
2022 - 2026.....	3,932,972	1,559,617	689,420	755,782	660,980	310,850
2027 - 2031.....	2,986,348	811,562	1,260,640	524,288	655,911	358,723
2032 - 2036.....	1,362,070	315,222	770,760	258,239	498,613	250,364
2037 - 2041.....	811,734	63,291	602,910	48,186	319,220	136,084
2042 - 2046.....	-	-	-	-	28,885	63,871
2047 - 2051.....	-	-	-	-	17,728	38,369
Total long - term debt .....	20,875,055	9,400,698	4,395,390	3,537,826	3,277,413	2,251,336
Less: Current portion .....	(1,372,784)	(911,694)	(94,505)	(217,486)	(118,189)	(143,114)
Long - term debt .....	\$ 19,502,271	\$ 8,489,004	\$ 4,300,885	\$ 3,320,340	\$ 3,159,224	\$ 2,108,222

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

### G. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of 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. With the exception of the crossover refunding activity discussed previously, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2011, approximately \$9,159,369,000 of bonds outstanding from activities in prior fiscal years is considered defeased.

### H. Statutory Debt Limit

The Massachusetts General Laws establish 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 FY11 was approximately \$18,042,424,000. Outstanding debt subject to the limit at June 30, 2011 was approximately \$16,291,254,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	<u>Debt Outstanding</u>
Statutory debt June 30, 2011.....	\$ 21,210,134
Less amounts excluded:	
Premium and issuance cost.....	(335,078)
Special obligation principal.....	(1,015,380)
Accelerated Bridge Program.....	(676,125)
GANs principal.....	(666,790)
County debt assumed.....	(150)
MBTA forward funding.....	(44,472)
SMART bonds.....	(824,279)
Central Artery / Tunnel.....	<u>(1,356,606)</u>
Outstanding direct debt.....	<u>\$ 16,291,254</u>

**I. Administration Debt Limit**

During fiscal year 2009, 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 2012. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration will 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 the debt service as a percentage of budgeted revenues.

**Bond Cap ( in millions except for percentages)**

	Fiscal 2011
Bond Cap as approved by the Governor.....	\$ 1,765
Total Annual Debt Service Obligations.....	1,820
Budgeted Revenue.....	36,536
Debt Service as % of Budgeted Revenues.....	4.98%

### J. Changes in Long-Term Liabilities

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

<i>Changes in Long Term Liabilities - Governmental Activities:</i>					
<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Tax refunds and abatements payable.....	\$ 813,199	\$ 809,958	\$ 813,199	\$ 809,958	\$ 809,958
Other long-term obligations:					
Compensated absences.....	469,846	479,874	469,846	479,874	307,574
Claims and judgments.....	60,000	40,000	60,000	40,000	-
Prizes payable.....	1,484,794	1,463,048	1,484,794	1,463,048	-
School construction grants payable.....	2,714,133	86,669	475,885	2,324,917	410,327
Retirement system pension obligations.....	1,218,133	1,267,595	1,286,367	1,199,361	-
Post employment benefit obligations.....	1,953,000	2,691,000	1,953,000	2,691,000	-
Environmental remediation liability.....	168,206	15,870	9,863	174,213	4,687
Other liabilities.....	4,021,361	47,171,085	47,022,537	4,169,909	3,878,288
Total other long-term obligations.....	12,089,473	53,215,142	52,762,292	12,542,322	4,600,876
Liability for derivative instruments.....	443,575	375,870	443,575	375,870	-
Bonded Debt:					
Bonds and notes payable - non MSBA.....	19,726,507	3,250,858	2,102,310	20,875,055	1,372,784
Unamortized bond and note premiums - non MSBA.....	216,688	129,690	11,300	335,078	9,425
Deferred loss on refunding.....	(40,225)	(10,187)	(4,270)	(46,142)	(4,100)
MSBA Bonds and notes payable excluding premium.....	4,488,535	-	93,145	4,395,390	94,505
Unamortized bond and note premiums - MSBA.....	210,758	-	15,236	195,522	14,866
Other financing arrangements:					
Capital leases.....	76,608	12,428	28,061	60,975	11,368
Total bonded debt and other financing arrangements.....	24,678,872	3,382,789	2,245,782	25,815,878	1,498,848
<b>Long-term liabilities, Governmental activities.....</b>	<b>\$ 38,025,118</b>	<b>\$ 57,783,759</b>	<b>\$ 56,264,848</b>	<b>\$ 39,544,028</b>	<b>\$ 6,909,682</b>
<i>Changes in Major Long Term Liabilities - Business - Type Activities:</i>					
<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Other long-term obligations:					
Compensated absences.....	\$ 178,141	\$ 28,095	\$ 20,649	\$ 185,587	\$ 128,418
Environmental remediation liability.....	3,447	-	1,895	1,552	1,552
Total other long-term obligations.....	181,588	28,095	22,544	187,139	129,970
Bonded Debt:					
Bonds and notes payable, including Foundations and MSCBA.....	2,731,124	732,582	186,293	3,277,413	118,189
Bonds and notes payable.....	2,731,124	732,582	186,293	3,277,413	118,189
Other financing arrangements:					
Capital leases.....	40,924	460	10,279	31,105	8,012
Total bonded debt and other financing arrangements.....	2,772,048	733,042	196,572	3,308,518	126,201
<b>Long-term liabilities, Business - type activities.....</b>	<b>\$ 2,953,636</b>	<b>\$ 761,137</b>	<b>\$ 219,116</b>	<b>\$ 3,495,657</b>	<b>\$ 256,171</b>

**Discretely Presented Component Units** – The change in bonds and notes outstanding at June 30, 2011, net of unamortized discounts and premiums and compensated absences are as follows (amounts in thousands):

<i>Discretely Presented Component Units</i>	July 1, 2010			June 30, 2011		Due	<u>Long Term</u>
	Beginning Balance	Increases	Decreases	Ending Balance	One Year		
Major component units:							
MassDOT .....	2.00 - 5.65% 2011-2039	\$ 7,890,714	\$ 585,609	\$ 465,470	\$ 8,010,853	\$ 788,296	\$ 7,222,557
MWPAT .....	2.00 - 6.375% 2011-2037	3,394,046	514,834	220,871	3,688,009	183,102	3,504,907
Nonmajor component units .....	1.00 - 9.01% 2011-2034	<u>551,267</u>	<u>36,402</u>	<u>16,490</u>	<u>571,179</u>	<u>12,244</u>	<u>558,935</u>
Total bonds and notes payable .....		11,836,027	1,136,845	702,831	12,270,041	983,642	11,286,399
Compensated absences, net .....		<u>3,397</u>	<u>3,653</u>	<u>3,397</u>	<u>3,653</u>	<u>2,523</u>	<u>1,130</u>
Total long term liabilities .....		<u>\$ 11,839,424</u>	<u>\$ 1,140,498</u>	<u>\$ 706,228</u>	<u>\$ 12,273,694</u>	<u>\$ 986,165</u>	<u>\$ 11,287,529</u>

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, 2011. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

<u>Other Governmental Funds</u>	<u>Amount</u>
Medical Security Trust Fund.....	\$ (50,466)
Government Land Bank Fund.....	(35,033)
Highway Capital Projects Fund.....	(326,306)
Capital Improvement and Investment Trust Fund.....	(121)
Federal Highway Construction Program Capital Projects Fund.....	(118,805)
Government Land Bank Capital Projects Fund.....	(855)

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

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

**A. Plan Descriptions**

*Primary Government*

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

The Massachusetts *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority. The former 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 the SERS. The SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand-alone audited financial report.

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

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

*Membership* – Membership in SERS and MTRS as of January 1, 2011, the date of the most recent valuation, is as follows:

	<u>SERS</u>	<u>MTRS</u>
Retirees and beneficiaries		
currently receiving benefits.....	53,627	55,690
Terminated employees entitled to		
benefits but not yet receiving them.....	<u>3,973</u>	<u>N/A</u>
Subtotal.....	<u>57,600</u>	<u>55,690</u>
Current members.....	<u>86,586</u>	<u>87,136</u>
Total.....	<u>144,186</u>	<u>142,826</u>

*Legally Required Reserves Accounts* - The balances of legally required reserves at December 31, 2010 (most recent available information) were as follows (amounts in thousands):

	<u>SERS</u>	<u>MTRS</u>	<u>Purpose</u>
Annuity Savings Fund.....	\$ 4,944,928	\$ 5,163,834	Active members' contribution balance
Annuity Reserve Fund.....	1,349,031	2,543,502	Retired members' contribution account
Special Military Service Fund.....	50	337	Members' contribution account while on military leave
Pension Reserve Fund.....	<u>12,799,486</u>	<u>13,442,065</u>	Amounts appropriated to fund future retirement benefits
Total	<u>\$ 19,093,495</u>	<u>\$ 21,149,738</u>	



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

**B. *Benefit Provisions***

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

**C. *Funding and Contributions Policy***

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

**D. *Other Financing Situations***

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers in the SBRS. 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, 2011, the Commonwealth contributed \$121.3 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. In June 2010, the Commonwealth made its final arrears payment to the City of Boston (\$132 million) as well as the actuarially required contribution (\$126.8 million) to SBRS.

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

The Commonwealth is financially responsible for the cost of living adjustment (COLA) granted to participants in various retirement systems of cities, towns and counties in fiscal year 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, 2011 was \$281.7 million.

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

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

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

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

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

*Schedule of Annual Required Contributions and Calculation Methodology*

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary’s direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in 2011, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2040 on the basis of 4.50% annual growth. 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 \$1.442 billion were made during the fiscal year ended June 30, 2011. Of this amount \$34.3 million represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately \$121.3 million represents payments for Boston Teachers.

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

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

The Commonwealth contributed approximately 104% of its annual required contributions in FY11.

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):

	<u>SERS</u>	<u>MTRS</u>	<u>Total</u>
<u>2011</u>			
Annual required contribution.....	\$ 471,096	\$ 767,960	\$ 1,239,056
Interest on net pension obligation.....	18,086	71,249	89,335
Adjustment to annual required contribution.....	<u>(12,308)</u>	<u>(48,488)</u>	<u>(60,796)</u>
Annual pension cost.....	476,874	790,721	1,267,595
Less: Contributions made, excluding COLAs.....	<u>431,166</u>	<u>855,201</u>	<u>1,286,367</u>
Increase (decrease) in net pension obligation.....	45,708	(64,480)	(18,772)
Net pension obligation beginning of year.....	<u>227,642</u>	<u>990,491</u>	<u>1,218,133</u>
Net pension obligation end of year.....	<u>\$ 273,350</u>	<u>\$ 926,011</u>	<u>\$ 1,199,361</u>
<u>2010</u>			
Annual pension cost.....	\$ 646,913	\$ 1,107,284	\$ 1,754,197
Percentage of annual pension cost contributed	63%	62%	63%
Net pension obligation end of year.....	\$ 227,642	\$ 990,491	\$ 1,218,133
<u>2009</u>			
Annual pension cost.....	\$ 695,604	\$ 1,150,782	\$ 1,846,386
Percentage of annual pension cost contributed.....	57%	68%	64%
Net pension obligation end of year.....	\$ (8,589)	\$ 573,604	\$ 565,015

#### E. *Funded Status and Funding Process*

The funded status of SERS and MTRS as of January 1, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in thousands except for percentages)

	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll *</u>	<u>UAAL as a % of Covered Payroll *</u>
<b>State Employees Retirement System</b>						
Actuarial Valuation as of January 1, 2011.....	\$ 21,244,900	\$ 26,242,776	\$ 4,979,876	81.0%	\$ 4,808,250	103.6%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2011.....	\$ 23,117,952	\$ 34,890,991	\$ 11,773,039	66.3%	\$ 5,558,311	211.8%

\* The covered payroll amount approximates the employer payroll

The following displays the Schedule of Net Assets and the Schedule of Changes in Net Assets for the SERS, the MTRS and the SRBTF as of June 30, 2011, (amounts in thousands):

	Pension Trust Funds			Total
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 62,656	\$ 74,820	\$ -	\$ 137,476
Investments at fair value:				
Absolute Return.....	-	-	49,967	49,967
Short-term.....	340,941	371,676	4,728	717,345
Domestic Equity.....	3,916,675	4,269,758	163,797	8,350,231
Fixed Income.....	4,349,478	4,741,577	59,381	9,150,436
International Equity.....	5,641,073	6,149,608	57,188	11,847,868
Private Equity.....	2,185,693	2,382,730	-	4,568,423
Hedge fund-of-funds.....	1,524,673	1,662,120	-	3,186,792
Real Estate.....	1,638,509	1,786,218	37,429	3,462,156
Timber and Other Natural Resources.....	410,820	447,855	-	858,676
Total investments at fair value.....	20,007,862	21,811,542	372,490	42,191,894
Other receivables.....	184,008	200,601	1,586	386,195
<b>Total assets.....</b>	<b>20,254,526</b>	<b>22,086,963</b>	<b>374,076</b>	<b>42,715,565</b>
<b>LIABILITIES</b>				
Accounts payable.....	172,879	190,587	6,545	370,011
<b>Total liabilities.....</b>	<b>172,879</b>	<b>190,587</b>	<b>6,545</b>	<b>370,011</b>
<b>Net assets available for post - employment benefits.....</b>	<b>\$ 20,081,647</b>	<b>\$ 21,896,376</b>	<b>\$ 367,531</b>	<b>\$ 42,345,554</b>
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 465,319	\$ 976,491	\$ 397,047	\$ 1,838,857
Employee contributions.....	539,549	616,533	-	1,156,082
<b>Total contributions.....</b>	<b>1,004,868</b>	<b>1,593,024</b>	<b>397,047</b>	<b>2,994,939</b>
Net investment gain (loss):				
Investment gain (loss).....	3,708,141	4,061,545	66,112	7,835,798
Less: investment expense.....	(27,621)	(30,111)	(1,102)	(58,834)
<b>Net investment gain (loss).....</b>	<b>3,680,520</b>	<b>4,031,434</b>	<b>65,010</b>	<b>7,776,964</b>
<b>Total additions.....</b>	<b>4,685,388</b>	<b>5,624,458</b>	<b>462,057</b>	<b>10,771,903</b>
<b>DEDUCTIONS</b>				
Administration.....	7,901	16,777	979	25,657
Retirement benefits and refunds.....	1,547,554	2,197,622	397,040	4,142,216
Payments to State Boston Retirement System.....	-	121,290	-	121,290
<b>Total deductions.....</b>	<b>1,555,455</b>	<b>2,335,689</b>	<b>398,019</b>	<b>4,289,163</b>
<b>Net increase(decrease).....</b>	<b>3,129,933</b>	<b>3,288,769</b>	<b>64,038</b>	<b>6,482,740</b>
Net assets available for post - employment benefits at beginning of year.....	16,951,714	18,607,607	303,493	35,862,814
<b>Net assets available for post - employment benefits at end of year.....</b>	<b>\$ 20,081,647</b>	<b>\$ 21,896,376</b>	<b>\$ 367,531</b>	<b>\$ 42,345,554</b>

**F. Additional Actuarial Information**

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

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

1. The annual required contribution for 2011 was determined as part of the January 1, 2011 actuarial valuation using the entry age normal cost method.
2. The actuarial assumptions included (a) 8.25% investment rate of return, (b) a 3.25% interest rate credited to the annuity savings fund and (c) a 3% cost of living increase per year.
3. Salary increases are based on analyses of past experience but range from 4.5% to 10.0% depending on group and length of service.
4. The assumptions do not include post-retirement benefit increases, which are taken into account when granted under amendments to General Laws.

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.

5. The remaining amortization period for the unfunded pension liability at January 1, 2011 was 30 years to FY40.

In July 2011, as part of its FY12 budget the Commonwealth enacted legislation including an extension of the Commonwealth's pension funding schedule from 2025 to 2040.

**G. Commonwealth Post Employment Obligations Other than Pensions (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.

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 Fund (SRBTF).

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 MDOT (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 \$60.8 million as of June 30, 2011. The trustees have yet to make a decision on the disposition of that Trust. No adjustment has been made in the Commonwealth OPEB valuation for these assets.

The SRBTF 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 FY11 General Appropriation Act transferred approximately \$397 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, 2011 and as of the valuation date (January 1, 2011), Commonwealth participants contribute 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 FY11 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY11 totaled approximately \$557 million. There are approximately 145,971 participants eligible to receive benefits at June 30, 2011.

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

The Commonwealth and the MSBA are not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of 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 fiscal year 2011, the Commonwealth's annual OPEB contribution of approximately \$557 million for retiree benefits was less than the ARC. The Commonwealth's annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBTF and the net OPEB obligation for the Commonwealth for fiscal year 2011 are as follows from the valuation calculated as of January 1, 2011 (amounts in millions except percentages):

<u>2011</u>	<u>SRBTF</u>
Annual required contribution (ARC).....	\$ 1,276
Interest on net OPEB obligation.....	87
Adjustment to annual required contribution.....	<u>(68)</u>
Annual OPEB cost (AOC).....	1,295
Less: Contributions made.....	<u>(557)</u>
Increase in net OPEB obligation.....	738
Net OPEB obligation as reported at beginning of year.....	<u>1,953</u>
Net OPEB obligation - end of year.....	<u>\$ 2,691</u>
<u>2010</u>	
Annual OPEB cost.....	\$ 1,176
Percentage of annual OPEB cost contributed.....	32%
Net OPEB obligation - end of year.....	\$ 1,953
<u>2009</u>	
Annual OPEB cost.....	\$ 1,345
Percentage of annual OPEB cost contributed.....	26%
Net OPEB obligation - end of year.....	\$ 1,149

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

	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
Actuarial Valuation as of January 1, 2011....	\$ 350,500	\$ 16,568,600	\$ 16,218,100	2.1%	\$ 4,808,250	337.3%

The MSBA’s ARC for FY11 was approximately \$3.4 million. Including the adjustment to the annual required contribution, the net annual OPEB cost for the MSBA was approximately \$478,000. The MSBA’s net OPEB obligation at June 30, 2011 was \$3.4 million. MSBA made no contributions during FY11. Based on an actuarial valuation as of January 1, 2009, the MSBA had an unfunded actuarial accrued liability of approximately \$2.5 million and had no plan assets. This amount is included as part of other governmental activities liabilities in the Statement of Net Assets. Therefore the entire amount is unfunded. Covered payroll of active plan members was approximately \$3.0 million, yielding an unfunded actuarial accrued liability as a percentage of covered payroll of 82.7%.

During FY10, the MSBA Board voted to establish an irrevocable trust to fund the MSBA’s outstanding OPEB liability and to transfer to such trust an amount not to exceed \$1,422,000 to fully fund the Authority’s outstanding OPEB liability. As of September 30, 2011, the MSBA had not yet established the irrevocable trust, but had set aside \$1,422,000 in a separate account to contribute to the trust. The MSBA is currently working with the Commonwealth to develop a process whereby the MSBA could invest these funds in the State Retirement Benefits Trust Fund.

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 SRBTF 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 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 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 8.5% initially, reduced by decrements to an ultimate rate of 5% after seven years.

Administrative expenses are expected to rise 5% 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.

## **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 FY11, these additions are approximately \$17.2 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 Colleges and the University 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 Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2011 (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			
2012.....	\$ 11,368	\$ 4,781	\$ 164,758	\$ 726,921	\$ 907,828	\$ 8,012	\$ 1,261	\$ 23,850	\$ 33,123	
2013.....	8,478	3,563	111,365	744,578	867,984	7,192	965	25,945	34,102	
2014.....	6,406	2,694	91,345	762,235	862,680	5,673	726	24,912	31,311	
2015.....	5,890	2,477	75,007	451,388	534,762	3,371	513	24,185	28,069	
2016.....	3,356	1,413	63,390	-	68,159	1,027	415	49,636	51,078	
2017 - 2021.....	13,995	5,883	180,770	-	200,648	2,813	1,551	15,588	19,952	
2022 - 2026.....	10,880	4,573	50,380	-	65,833	2,658	38	1,950	4,646	
2027 - 2031.....	602	251	48,919	-	49,772	359	9	798	1,166	
2032 - 2036.....	-	-	17,808	-	17,808	-	-	-	-	
Total lease obligations.....	60,975	25,635	803,742	2,685,122	3,575,474	31,105	5,478	166,864	203,447	
Less: current portion:.....	(11,368)	(4,781)	(164,758)	(726,921)	(907,828)	(8,012)	(1,261)	(23,850)	(33,123)	
Long - term lease obligations.....	\$ 49,607	\$ 20,854	\$ 638,984	\$ 1,958,201	\$ 2,667,646	\$ 23,093	\$ 4,217	\$ 143,014	\$ 170,324	

## 11. COMMITMENTS

### A. Primary Government

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2011, totaling approximately \$578.6 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, 2011, the University of Massachusetts Building Authority has committed debt of approximately \$1.95 billion, of which approximately \$136.9 million is guaranteed by the Commonwealth. The Massachusetts State College Building Authority has approximately \$871.2 million of outstanding debt, of which approximately \$29.8 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, 2011, the Commonwealth had commitments of approximately \$665 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 MDOT) 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 List and other program commitments at June 30 to be approximately \$305 million.

## 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. 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, the Attorney General estimates the liability due within a year to be approximately \$20,000,000 as of June 30, 2011.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2011 is estimated to be \$285,400,000 of which approximately \$35,960,000 is expected to be paid during FY11.

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 FY11 totaled approximately \$152,163,000. 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.

### A. *Tobacco Settlement*

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth.

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 FY11, the Commonwealth received approximately \$248.7 million or 67.2% of the estimated amounts shown in the MSA. All received amounts were transferred to the General Fund. Amounts received in FY10 continued to be less than had previously been projected as payments under the MSA. The Commonwealth's allocable share of the total base amounts payable under the MSA is approximately 4.05%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is nearly \$8.96 billion, 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 certain manufacturers withheld payments to the states due in FY06 and FY07. 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 the claimed 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. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2009, 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 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 2011, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately \$285 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY11 and FY10 were (amounts in millions):

	<u>FY11</u>	<u>FY10</u>
Claim liability, beginning of year.....	\$ 293.4	\$ 307.1
Increase in liability estimate.....	45.7	35.2
Payments and decreases in liability estimate.....	(53.7)	(35.7)
MassDOT transfer.....	-	(13.2)
Claims liability, end of year.....	<u>\$ 285.4</u>	<u>\$ 293.4</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 \$129.9 million, net of the employees' reserve of \$20.4 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY11 and FY10 were (amounts in millions):

	<u>FY11</u>	<u>FY10</u>
Claim liability, beginning of year.....	\$ 97.1	\$ 113.7
Increase in liability estimate.....	1,113.5	1,044.6
Payments and decreases in liability estimate.....	<u>(1,130.3)</u>	<u>(1,061.2)</u>
Claims liability, end of year.....	<u>\$ 80.3</u>	<u>\$ 97.1</u>

**C. Other Claims & Judgments**

The following amounts were recognized for claims and judgments as of June 30, 2011 (amounts in millions):

	Year ended June 30	
	2011	2010
Unpaid claims, beginning of year.....	\$ 60.0	\$ 91.6
Incurring claims.....	11.1	13.5
Claim payments and reductions.....	(31.1)	(23.5)
MassDOT transfer-OCIP .....	-	(21.6)
Unpaid claims end of year.....	<u>\$ 40.0</u>	<u>\$ 60.0</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 continuous 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 millions):

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	Government-Wide <u>Total</u>
Environmental remediation liability, beginning of year.....	\$ 168.2	\$ 3.4	\$ 171.6
Expected additional future outlays, increasing liability estimates.....	15.9	(1.8)	14.1
FY11 outlays for environmental remediation .....	(8.5)	-	(8.5)
Estimated recoveries from third parties.....	(1.4)	-	(1.4)
	<u>\$ 174.2</u>	<u>\$ 1.6</u>	<u>\$ 175.8</u>
Environmental remediation liability, end of year.....	\$ 174.2	\$ 1.6	\$ 175.8

*The Boston Harbor Clean-Up.* The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. The Massachusetts Water Resources Authority (MWRA) which is not a component unit and not a related organization of the Commonwealth, has primary responsibility for developing and implementing a court-approved plan for the construction of treatment facilities necessary to achieve compliance with the federal requirements. The cost of initial construction of water treatment facilities required under the federal district court's order amounts to approximately \$4.5 billion so far. Going forward, MWRA anticipates spending an additional \$188.5 million on initial construction and for remaining work on Combined Sewer Overflow projects. This figure does not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system upgrades, retrofits, and replacements.

*Massachusetts Military Reservation.* The Commonwealth through various departments has been engaged with various sectors of the federal government including the federal Department of Defense regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal trustees and others claim that the Commonwealth and others may be 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.

*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 any sort of 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.

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

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***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 16 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, 2011 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 Accounts Managed by the Health Care Security Trust Board (HST)  
The Massachusetts Department of Transportation (MassDOT)  
The Massachusetts Water Pollution Abatement Trust (MWPAT)  
Commonwealth Health Insurance Connector Authority

**\*Community Colleges:**

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

**Entities Audited by Other Auditors:**

\*The Massachusetts Municipal Depository Trust (MMDT)  
\*The University of Massachusetts System

\*Community Colleges (in addition to the four Community Colleges audited by KPMG LLP, above):

Berkshire Community College  
Bristol Community College  
Cape Cod Community College  
Holyoke Community College  
Massasoit Community College  
Massachusetts Bay Community College

Mount Wachusett Community College  
 Northern Essex Community College  
 Quinsigamond Community College  
 Roxbury Community College  
 Springfield Technical Community College

Community College component units:

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.

\*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

State university component units:

Bridgewater State University Component Units:  
     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 Component Units:  
     The Salem State University Foundation, Inc.  
     Salem State University Assistance Corporation  
 Westfield State University Foundation, Inc.  
 Worcester State Foundation

Massachusetts Convention Center Authority (MCCA)

§Massachusetts Development Finance Agency (MassDevelopment)



§Massachusetts Technology Park Corporation (MTPC)

**Economic Development Entities (7 separate entities)** including:

Massachusetts Clean Energy Center (CEC)  
Massachusetts Community Development Finance Corporation (MCDFC)  
Commonwealth Corporation  
§Community Economic Development Assistance Corporation (CEDAC)  
Massachusetts Life Sciences Center  
§Massachusetts Housing Partnership (MHP)  
§Commonwealth Zoological Corporation (Zoo)

*Descriptions of Major and Blended Component Units and Entities that are Legally Separate from the Commonwealth:*

*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 assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

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

**The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net assets totaling approximately \$8.3 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 assets is approximately \$2.9 billion at June 30, 2011, and is reported as an external investment trust within the fiduciary fund type.

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 assets of the Commission and results thereon are presented as a major governmental fund.

**The Accounts Managed by the Health Care Security Trust Board (HST)** are the long-term investment account of the Health Care Security Trust, a nonmajor governmental fund and the State Retiree Benefits Trust Fund, a fiduciary fund. The HST is the recipient of tobacco settlement remittances to the Commonwealth. The HST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HST. The HST utilizes certain resources and staff of PRIM.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets 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 University System also includes discretely presented component units, the University of Massachusetts Dartmouth Foundation, Inc. and the University of Massachusetts Foundation, 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 (a blended component unit of the state university system).

***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 MTA and has jurisdiction over the MBTA and the RTAs. The Massachusetts Port Authority will become a related organization to MassDOT.

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

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

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**14. SUBSEQUENT EVENTS**

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**A. Subsequent Bond Issuances**

Subsequent to the close of the fiscal year, the Commonwealth sold \$500.525 million in bonds in September 2011 (\$500,525,000 General Obligation Bonds, Consolidated Loan of 2011, Series D), \$1.2 billion in notes in November 2011 (\$600,000,000 2011 Series A General Obligation Revenue Anticipation Notes and \$600,000,000 2011 Series B Revenue Anticipation Notes), and \$400 million in bonds in December 2011 (\$400,000,000 General Obligation Bonds, Consolidated Loan of 2011, Series E). All issues were sold as tax exempt.

On October 12, 2011, the Commonwealth allowed Morgan Stanley Derivative Products Inc. (“MSDP”) to novate or transfer the existing interest rate swap agreement between the Commonwealth and MSDP to Morgan Stanley Capital Services LLC. The novation was driven by the recent downgrade of MSDP bond ratings. The novation was done at no cost to the Commonwealth.

**B. Subsequent Pension Legislation**

On November 16, 2011, the Governor approved legislation containing pension reforms, including increasing retirement ages, eliminating early retirement subsidies and increasing the period for calculating average earnings from the highest three years to the highest five years for all new state employees who join a retirement system on or after April 2, 2012. The Executive Office for Administration and Finance estimates that the legislation will generate savings over the next 30 years of more than \$3 billion for the Commonwealth and nearly \$2 billion for municipalities. These savings projections are not assumed in the current pension funding schedule.



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

*Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual  
Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for Budgetary  
Funds on a Budgetary Basis and GAAP Basis*

*Notes to Required Supplementary Information – Budgetary Reporting*

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

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

*Schedule of Employer Pension Contributions*



## **Boston Fish Pier**

The Boston Fish Pier, which opened in 1914, is the oldest continuously working fish pier in the United States. The historic Boston Fish Pier is really three buildings: the East and West Buildings which are connected by huge archways; and the Exchange Building, Massport assumed ownership of Fish Pier in 1972 and has invested over \$30 million to modernize the pier. The Boston Fish Pier still provides berthing space for the region's fishermen and houses the fish auction. Although alternative uses have been introduced to the Pier, fishing and fish processing remain its primary function.



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

Budgeted Funds

Fiscal Year Ended June 30, 2011

(Amounts in thousands )

	Original Budget	Final Budget	Actual	Variance over/(under)
<b>REVENUES AND OTHER FINANCING SOURCES</b>				
<b>Revenues:</b>				
Taxes.....	\$ 17,686,510	\$ 17,686,510	\$ 19,094,935	\$ 1,408,425
Assessments.....	-	-	443,403	443,403
Federal grants and reimbursements.....	9,034,600	9,034,600	9,299,546	264,946
Departmental.....	2,805,400	2,805,400	2,398,338	(407,062)
Miscellaneous.....	5,900	5,900	356,608	350,708
<b>Total revenues.....</b>	<b>29,532,410</b>	<b>29,532,410</b>	<b>31,592,830</b>	<b>2,060,420</b>
<b>Other financing sources:</b>				
Fringe benefit cost recovery.....	-	-	355,811	355,811
Lottery reimbursements.....	-	105,298	86,391	(18,907)
Lottery distributions.....	-	904,344	881,817	(22,527)
Tobacco settlement transfer.....	-	329,930	248,741	(81,189)
Operating transfers in.....	1,959,300	613,828	288,239	(325,589)
Stabilization transfer.....	-	5,900	707,649	701,749
Excess permissible tax revenue.....	-	-	2,374,788	2,374,788
<b>Total other financing sources.....</b>	<b>1,959,300</b>	<b>1,959,300</b>	<b>4,943,436</b>	<b>2,984,136</b>
<b>Total revenues and other financing sources.....</b>	<b>31,491,710</b>	<b>31,491,710</b>	<b>36,536,266</b>	<b>5,044,556</b>
<b>EXPENDITURES AND OTHER FINANCING USES</b>				
<b>Expenditures:</b>				
Legislature.....	50,883	60,908	57,895	3,013
Judiciary.....	741,727	800,151	767,635	32,516
Inspector General.....	2,877	3,587	2,798	789
Governor and Lieutenant Governor.....	4,685	5,226	5,122	104
Secretary of the Commonwealth.....	40,239	40,443	39,475	968
Treasurer and Receiver-General.....	223,610	260,969	204,397	56,572
Auditor of the Commonwealth.....	17,028	17,903	17,015	888
Attorney General.....	38,436	42,453	41,029	1,424
Ethics Commission.....	1,731	1,731	1,660	71
District Attorney.....	91,631	94,610	93,699	911
Office of Campaign & Political Finance.....	1,222	1,222	1,170	52
Sheriff's Departments.....	472,565	510,577	503,053	7,524
Disabled Persons Protection Commission.....	2,174	2,174	2,174	-
Board of Library Commissioners.....	21,111	21,461	21,439	22
Comptroller.....	11,236	11,279	11,245	34
Administration and finance.....	3,956,416	2,087,960	1,800,623	287,337
Energy and environmental affairs.....	196,308	199,666	188,114	11,552
Health and human services.....	4,704,146	4,817,696	4,691,213	126,483
Massachusetts department of transportation.....	-	160,000	160,000	-
Executive office of education.....	1,869,323	1,825,548	1,807,528	18,020
Public safety and homeland security.....	969,559	987,163	942,172	44,991
Housing and economic development.....	327,621	379,239	363,877	15,362
Labor and workforce Development.....	85,483	93,881	56,533	37,348
Direct local aid.....	4,788,108	4,853,108	4,784,717	68,391
Medicaid.....	9,680,285	10,269,881	10,237,326	32,555
Post employment benefits.....	-	1,838,857	1,838,857	-
Debt service:				
Principal retirement.....	825,960	847,187	815,390	31,797
Interest and fiscal charges.....	975,007	953,780	848,486	105,294
<b>Total expenditures.....</b>	<b>30,099,371</b>	<b>31,188,660</b>	<b>30,304,642</b>	<b>884,018</b>
<b>Other financing uses:</b>				
Fringe benefit cost assessment.....	-	2,300	4,326	(2,026)
Operating transfers out.....	-	370,972	521,997	(151,025)
Commonwealth care transfer.....	-	739,012	739,012	-
Medical assistance transfer.....	-	886,101	886,101	-
Stabilization transfer.....	-	5,900	707,649	(701,749)
Excess permissible tax revenue.....	-	-	2,374,788	(2,374,788)
<b>Total other financing uses.....</b>	<b>-</b>	<b>2,004,285</b>	<b>5,233,873</b>	<b>(3,229,588)</b>
<b>Total expenditures and other financing uses.....</b>	<b>30,099,371</b>	<b>33,192,945</b>	<b>35,538,515</b>	<b>(2,345,570)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....</b>	<b>1,392,339</b>	<b>(1,701,235)</b>	<b>997,751</b>	<b>2,698,986</b>
Fund balances (deficit) at beginning of year.....	903,068	903,068	903,068	-
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 2,295,407</b>	<b>\$ (798,167)</b>	<b>\$ 1,900,819</b>	<b>\$ 2,698,986</b>

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

	<u>General</u>	<u>Commonwealth Transportation</u>
<b>REVENUES</b>		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 29,708,929	\$ 1,461,331
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Tax revenue .....	49,867	23,288
Federal reimbursements and other receivables.....	(55,477)	10,689
Reclassifications:		
Higher education revenue is reclassified for GAAP reporting.....	(246,233)	-
Budgetary Stabilization Fund and Administrative Control Funds revenues are reclassified to the General Fund for GAAP reporting.....	307,329	-
Total budgeted funds revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	29,764,415	1,495,308
Non-Budgeted Activity.....	-	-
<b>Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....</b>	<b>\$ 29,764,415</b>	<b>\$ 1,495,308</b>
<b>EXPENDITURES</b>		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 28,899,933	\$ 973,380
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Medicaid payments.....	(131,200)	-
Compensated absences and other accrued liabilities.....	(63,442)	402,155
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	293,602	-
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.....	(860,114)	(803,762)
Higher education expenditures are reclassified for GAAP reporting.....	(1,126,896)	-
Total budgeted funds expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	27,011,883	571,773
Non-Budgeted Activity.....	-	-
<b>Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....</b>	<b>\$ 27,011,883</b>	<b>\$ 571,773</b>
<b>OTHER FINANCING SOURCES</b>		
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 2,978,082	\$ 5,405
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	1,895,079	-
Adjustments:		
Consolidation of transfers between funds.....	(2,939,985)	-
Inflows from component units and other miscellaneous financing sources.....	(29,097)	-
Total budgeted funds other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	1,904,079	5,405
Non-Budgeted Activity.....	-	-
<b>Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....</b>	<b>\$ 1,904,079</b>	<b>\$ 5,405</b>
<b>OTHER FINANCING USES</b>		
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 3,492,834	\$ 473,044
Adjustments and Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting.....	1,199,511	-
Consolidation of transfers between funds.....	(2,939,985)	-
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	880,663	-
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.....	860,114	803,762
Outflows from component units and other miscellaneous financing sources.....	(54,379)	(335,127)
Total budgeted funds other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	3,438,758	941,679
Non-Budgeted Activity.....	-	-
<b>Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....</b>	<b>\$ 3,438,758</b>	<b>\$ 941,679</b>

The accompanying notes are an integral part of the 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.

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. An example of this is the lack of a budget for pension costs.

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, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The table on the following page summarizes budgetary activity for FY11 (amounts in thousands):



	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 131 of the Acts of 2010:		
Direct appropriations.....	\$ 30,041,700	\$ 28,992,717
Estimated revenues, transfers, direct appropriations, retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2010 .....	<u>-</u>	<u>1,106,655</u>
Total original budget.....	30,041,700	30,099,371
Supplemental Acts of 2010:		
Chapter 359.....	-	713,554
Chapter 409.....	-	333,181
Supplemental Acts of 2011:		
Chapter 9.....	-	325,222
Chapter 27.....	-	85,460
Chapter 52.....	<u>-</u>	<u>54,032</u>
Total as of June 30, 2011 .....	30,041,700	31,610,820
Supplemental Acts of 2011, passed after June 30:		
Chapter 142.....	<u>-</u>	<u>132,115</u>
Total budgeted revenues and expenditures per Legislative action.....	30,041,700	31,742,935
Plus: Pension contributions and revenue authorized outside of General Appropriations Act, and other transfers of revenue and spending.....	<u>1,450,010</u>	<u>1,450,010</u>
Budgeted revenues and expenditures as reported.....	<u>\$ 31,491,710</u>	<u>\$ 33,192,945</u>

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

## Schedule of Post Employment Benefits

(Amounts in thousands except for percentages)

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

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
<b>State Employees' Retirement System</b>						
Actuarial Valuation as of January 1, 2011....	\$ 21,244,900	\$ 26,224,776	\$ 4,979,876	81.0%	\$ 4,808,250	103.6%
Actuarial Valuation as of January 1, 2010....	19,019,062	24,862,421	5,843,359	76.5%	4,711,563	124.0%
Actuarial Valuation as of January 1, 2009....	16,992,214	23,723,240	6,731,026	71.6%	4,712,655	142.8%
Actuarial Valuation as of January 1, 2008....	20,400,656	22,820,502	2,419,846	89.4%	4,574,233	52.9%
Actuarial Valuation as of January 1, 2007....	18,445,225	21,670,810	3,225,585	85.1%	4,391,891	73.4%
Actuarial Valuation as of January 1, 2006....	16,638,043	20,406,926	3,768,883	81.5%	4,200,577	89.7%
<b>Teachers' Retirement System</b>						
Actuarial Valuation as of January 1, 2011....	\$ 23,117,952	\$ 34,890,991	\$ 11,773,039	66.3%	\$ 5,558,311	211.8%
Actuarial Valuation as of January 1, 2010....	21,262,462	33,738,966	12,476,504	63.0%	5,509,698	226.4%
Actuarial Valuation as of January 1, 2009....	18,927,731	32,543,782	13,616,051	58.2%	5,389,895	252.6%
Actuarial Valuation as of January 1, 2008....	22,883,553	30,955,504	8,071,951	73.9%	5,163,498	156.3%
Actuarial Valuation as of January 1, 2007....	20,820,392	29,320,714	8,500,322	71.0%	4,969,092	171.1%
Actuarial Valuation as of January 1, 2006....	18,683,295	27,787,716	9,104,421	67.2%	4,819,325	188.9%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac/valuation/2011commonwealth.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 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, 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.

## Schedule of Post Employment Benefit Contributions

(Amounts in thousands except for percentages)

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

Fiscal Year Ended 6/30	<u>SERS</u>		<u>MTRS</u>		<u>Total</u>	
	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$471,096	92%	\$767,960	111%	\$1,239,056	104%
2010	646,932	63%	1,106,052	62%	1,752,984	63%
2009	397,482	57%	781,026	68%	1,178,508	64%
2008	369,866	125%	749,853	108%	1,119,719	113%
2007	432,219	101%	763,798	98%	1,196,017	99%
2006	445,527	96%	779,158	93%	1,224,685	94%

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

<u>Fiscal Year Ended 6/30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	1,276	44%
2010	1,163	32%
2009	1,222	29%



## Commonwealth Pier / World Trade Center

This section of the HarborWalk offers diverse perspectives for the visitor, from waterfront commerce to public art. Commonwealth Pier, once used by large ships, is now a conference, exhibition, and office complex. The World Trade Center project accomplished the renovation and conversion of the 70-year-old former Commonwealth Pier landmark structure into an 800,000-square-foot facility for exhibition space and offices for high-tech and international trade companies. The HarborWalk loops around the Pier, offering good views of Fish Pier, Liberty Wharf, the Harbor, and the Boston skyline. Ferries and harbor-cruise boats dock on the west side of Commonwealth Pier. The historic tugboat Luna, the first diesel-electric vessel in the world built for a commercial tugboat company, is moored on the east side of Commonwealth Pier.

An interior waiting room and public restrooms are available to the public inside the waterfront retail area of Commonwealth Pier along Seaport Boulevard.



## Fan Pier

From the HarborWalk on the Fan Pier, visitors can enjoy one of the best panoramas of the city, with unobstructed views of downtown to East Boston and the Harbor Islands. This HarborWalk segment has interpretive elements which describe the history of the Fan Pier, as well as benches, plantings, and trash barrels. Round tables and chairs along the HarborWalk are a favorite at lunch time for office workers and visitors.



# *Other Supplementary Information*

*Combined Balance Sheet – Nonmajor Governmental Funds*

*Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds*

*Combining Statement of Net Assets Available for Pension Benefits*

*Combining Statement of Changes in Net Assets Available for Pension Benefits*

*Combining Statement of Net Assets Held in Trust for Pool Participants*

*Combining Statement of Changes in Net Assets Held in Trust for Pool Participants*

*Combining Statement of Changes in Assets and Liabilities – Agency Funds*

*Combining Statement of Net Assets – Nonmajor Component Units*

*Combining Statement of Revenues, Expenses and Changes in Net Assets – Nonmajor Component Units*



## **Carson Beach**

L and M Street Beaches are adjacent to each other along Day Boulevard in South Boston and link the beach at Pleasure Bay with Carson Beach, providing one of the longest stretches of uninterrupted beach in the Boston area. These popular local beaches provide some of the best family-friendly amenities on the waterfront, including opportunity for sand-castle building, picnicking, and swimming. The HarborWalk is also a great destination for jogging, walking, roller-blading, and biking. The L and M Street Beaches are located near the L Street Bathhouse where the annual L Street Brownies host its New Year's Day polar bear plunge.



**Combined Balance Sheet**  
**Other Governmental Funds**  
**June 30, 2011**  
**(Amounts in thousands)**

	Special Revenue							
	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Grant Anticipation Note Trust	Expendable Trust	Other
<b>ASSETS</b>								
Cash and short-term investments.....	\$ 210,910	18,393	\$ -	\$ 84,358	\$ 34,209	\$ 14,389	\$ 465,696	\$ 294,732
Cash with fiscal agent.....	-	-	-	-	85,305	188,639	-	-
Receivables, net of allowance for uncollectibles:								
Taxes.....	12,116	74	-	50,063	11,379	-	-	9,374
Due from federal government.....	-	772	-	-	-	73,058	966	677
Loans receivable.....	-	-	-	-	-	-	914	-
Other receivables.....	54,828	490	137,927	-	-	-	23,191	3,663
Due from other funds.....	-	-	-	-	-	-	-	-
<b>Total assets.....</b>	<b>\$ 277,854</b>	<b>\$ 19,729</b>	<b>\$ 137,927</b>	<b>\$ 134,421</b>	<b>\$ 130,893</b>	<b>\$ 276,086</b>	<b>\$ 490,767</b>	<b>\$ 308,446</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable.....	\$ 51,527	\$ 323	\$ -	\$ 12,037	\$ 14,203	\$ -	\$ 36,458	\$ 68,805
Accrued payroll.....	93	198	-	-	-	-	1,224	1,687
Tax refunds and abatements payable.....	-	-	-	776	-	-	-	-
Due to other funds.....	56,285	-	-	-	-	72,910	-	-
Due to component units.....	-	-	-	121,608	-	-	-	-
Deferred revenue.....	33,334	-	-	-	-	-	10,476	-
Other accrued liabilities.....	91,808	-	-	-	-	-	385	-
<b>Total liabilities.....</b>	<b>233,048</b>	<b>521</b>	<b>-</b>	<b>134,421</b>	<b>14,203</b>	<b>72,910</b>	<b>48,543</b>	<b>70,492</b>
Fund balances (deficits):								
Nonspendable.....	-	-	-	-	-	-	914	-
Restricted.....	-	-	-	-	85,296	203,176	294,207	55,006
Committed.....	44,806	19,208	137,927	-	31,394	-	147,103	217,981
Assigned.....	-	-	-	-	-	-	-	-
Unassigned.....	-	-	-	-	-	-	-	(35,033)
<b>Fund balances (deficits).....</b>	<b>44,806</b>	<b>19,208</b>	<b>137,927</b>	<b>-</b>	<b>116,690</b>	<b>203,176</b>	<b>442,224</b>	<b>237,954</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 277,854</b>	<b>\$ 19,729</b>	<b>\$ 137,927</b>	<b>\$ 134,421</b>	<b>\$ 130,893</b>	<b>\$ 276,086</b>	<b>\$ 490,767</b>	<b>\$ 308,446</b>

See Independent Auditor's Report

Debt Service	Capital Projects				Permanent Trust	Total
	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Other		
\$ -	\$ 280,537	\$ 8,393	\$ 23,215	\$ 14	\$ -	\$ 1,434,846
152,276	-	-	-	-	-	426,220
-	-	-	-	-	-	83,006
-	-	-	-	19,583	-	95,056
-	-	-	-	-	-	914
-	-	-	-	22	-	220,121
-	-	-	-	72,910	-	72,910
<b>\$ 152,276</b>	<b>\$ 280,537</b>	<b>\$ 8,393</b>	<b>\$ 23,215</b>	<b>\$ 92,529</b>	<b>\$ -</b>	<b>\$ 2,333,073</b>
\$ -	\$ 188,265	\$ -	\$ 143,288	\$ 71,924	\$ -	\$ 586,830
-	897	-	626	4,361	-	9,086
-	-	-	-	-	-	776
-	-	-	-	17,578	-	146,773
-	13	-	205,607	118,442	-	445,670
-	-	-	-	-	-	43,810
-	-	-	-	-	-	92,193
-	<b>189,175</b>	-	<b>349,521</b>	<b>212,305</b>	-	<b>1,325,138</b>
-	-	-	-	-	-	914
152,276	91,362	-	-	-	-	881,323
-	-	8,393	-	6	-	606,819
-	-	-	-	-	-	-
-	-	-	(326,306)	(119,782)	-	(481,121)
<b>152,276</b>	<b>91,362</b>	<b>8,393</b>	<b>(326,306)</b>	<b>(119,776)</b>	<b>-</b>	<b>1,007,935</b>
<b>\$ 152,276</b>	<b>\$ 280,537</b>	<b>\$ 8,393</b>	<b>\$ 23,215</b>	<b>\$ 92,529</b>	<b>\$ -</b>	<b>\$ 2,333,073</b>

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Other Governmental Funds**  
**Fiscal Year Ended June 30, 2011**  
**(Amounts in thousands)**

	Special Revenue							
	Universal Health Care	Environmental	Health Care Security Trust	MBTA State & Local Contribution	Convention and Exhibition Center	Grant Anticipation Note Trust	Expendable Trust	Other
<b>REVENUES</b>								
Taxes.....	\$ 144,490	\$ 871	\$ -	\$ 767,375	\$ 86,042	\$ -	\$ -	\$ 131,727
Assessments.....	338,964	-	-	150,148	-	-	12,314	27,678
Federal grants and reimbursements.....	-	5,008	-	-	-	617,265	19,645	31,120
Departmental.....	283,661	8,412	-	-	258	-	49,980	158,153
Miscellaneous.....	55,382	21	254,696	-	1,579	5,287	330,640	10,093
<b>Total revenues.....</b>	<b>822,496</b>	<b>14,312</b>	<b>254,696</b>	<b>917,523</b>	<b>87,879</b>	<b>622,552</b>	<b>412,579</b>	<b>358,771</b>
<b>OTHER FINANCING SOURCES</b>								
Bonds premium.....	-	-	-	-	-	24,608	-	-
Issuance of general obligation bonds.....	-	-	-	-	-	-	-	-
Issuance of refunding bonds.....	-	-	-	-	-	380,530	-	-
Transfers in for debt service.....	-	-	-	-	-	-	-	-
Transfers in.....	1,655,113	138	-	-	-	30,028	13,743	76,021
<b>Total other financing sources.....</b>	<b>1,655,113</b>	<b>138</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>435,166</b>	<b>13,743</b>	<b>76,021</b>
<b>Total revenues and other financing sources.....</b>	<b>2,477,609</b>	<b>14,450</b>	<b>254,696</b>	<b>917,523</b>	<b>87,879</b>	<b>1,057,718</b>	<b>426,322</b>	<b>434,792</b>
<b>EXPENDITURES</b>								
Current:								
Judiciary.....	-	-	-	-	-	-	296	42
Inspector General.....	281	-	-	-	-	-	489	-
Governor and Lieutenant Governor.....	-	-	-	-	-	-	-	17
Secretary of the Commonwealth.....	-	-	-	-	-	-	-	4,194
Treasurer and Receiver-General.....	-	-	-	917,523	-	161,536	104,468	2,481
Auditor of the Commonwealth.....	-	-	-	-	-	-	551	-
Attorney General.....	-	-	-	-	-	-	4,030	350
District Attorney.....	-	-	-	-	-	-	7,230	192
Office campaign and political finance.....	-	-	-	-	-	-	-	1,390
Sheriff's Departments.....	-	-	-	-	-	-	2,025	2,783
Comptroller.....	-	-	-	-	-	-	544	2,067
Administration and finance.....	-	-	-	-	77,136	-	21,789	44,328
Energy and environmental affairs.....	-	10,109	-	-	-	-	37,905	66,970
Health and human services.....	371,635	-	-	-	-	-	33,648	110,753
Massachusetts department of transportation.....	-	-	-	-	-	-	-	4,351
Executive office of education.....	-	-	-	-	-	-	13,899	773
Public safety and homeland security.....	-	-	-	-	-	-	5,474	62,073
Housing and economic development.....	-	-	-	-	-	-	24,178	11,120
Labor and workforce development.....	176,410	-	-	-	-	-	56,850	19,320
Medicaid.....	1,921,776	-	-	-	-	-	-	9,530
Capital outlay:								
Local aid.....	-	-	-	-	-	-	-	-
Capital acquisition and construction.....	-	-	-	-	-	-	-	-
Debt service.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>2,470,101</b>	<b>10,109</b>	<b>-</b>	<b>917,523</b>	<b>77,136</b>	<b>161,536</b>	<b>313,376</b>	<b>342,734</b>
<b>OTHER FINANCING USES</b>								
Payments to refunding bond escrow agent.....	-	-	-	-	-	405,138	-	-
Transfers out.....	31,727	2,552	248,741	-	-	458,410	124,236	107,026
Transfers of appropriations.....	-	-	-	-	-	-	3,162	-
Transfers of bond proceeds.....	-	-	-	-	-	-	-	-
Transfers out for debt service.....	-	-	-	-	35,391	188,834	-	9,700
<b>Total other financing uses.....</b>	<b>31,727</b>	<b>2,552</b>	<b>248,741</b>	<b>-</b>	<b>35,391</b>	<b>1,052,382</b>	<b>127,398</b>	<b>116,726</b>
<b>Total expenditures and other financing uses.....</b>	<b>2,501,828</b>	<b>12,661</b>	<b>248,741</b>	<b>917,523</b>	<b>112,527</b>	<b>1,213,918</b>	<b>440,774</b>	<b>459,460</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses....</b>	<b>(24,219)</b>	<b>1,789</b>	<b>5,955</b>	<b>-</b>	<b>(24,648)</b>	<b>(156,200)</b>	<b>(14,452)</b>	<b>(24,668)</b>
Fund balances (deficits) at beginning of year.....	69,026	17,419	131,972	-	141,338	359,376	456,676	262,622
<b>Fund balances (deficits) at end of year.....</b>	<b>\$ 44,806</b>	<b>\$ 19,208</b>	<b>\$ 137,927</b>	<b>\$ -</b>	<b>\$ 116,690</b>	<b>\$ 203,176</b>	<b>\$ 442,224</b>	<b>\$ 237,954</b>

See Independent Auditor's Report



Debt Service	Capital Projects				Permanent Trust	Total
	General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Other		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,130,505
-	-	-	-	-	-	529,104
-	8,372	-	-	160,540	-	841,950
-	-	-	-	291	-	500,755
(1,002)	-	-	1,852	1	-	658,549
<b>(1,002)</b>	<b>8,372</b>	<b>-</b>	<b>1,852</b>	<b>160,832</b>	<b>-</b>	<b>3,660,862</b>
32,816	58,431	-	13,834	1	-	129,690
-	849,730	-	1,382,999	639	-	2,233,368
507,270	-	-	-	-	-	887,800
1,897,801	-	-	-	-	-	1,897,801
-	-	-	-	516,219	-	2,291,262
<b>2,437,887</b>	<b>908,161</b>	<b>-</b>	<b>1,396,833</b>	<b>516,859</b>	<b>-</b>	<b>7,439,921</b>
<b>2,436,885</b>	<b>916,533</b>	<b>-</b>	<b>1,398,685</b>	<b>677,691</b>	<b>-</b>	<b>11,100,783</b>
-	-	-	-	-	-	338
-	-	-	-	-	-	770
-	-	-	-	-	-	17
-	-	-	-	-	-	4,194
-	-	-	-	-	-	1,186,008
-	-	-	-	-	-	551
-	-	-	-	-	-	4,380
-	-	-	-	-	-	7,422
-	-	-	-	-	-	1,390
-	-	-	-	-	-	4,808
-	-	-	-	-	-	2,611
-	-	-	-	-	-	143,253
-	-	-	-	-	-	114,984
-	45,271	-	898,122	763,501	-	516,036
-	-	-	-	-	-	1,711,245
-	-	-	-	-	-	14,672
-	-	-	-	-	-	67,547
-	-	-	-	-	-	35,298
-	-	-	-	-	-	252,580
-	-	-	-	-	-	1,931,306
-	-	-	-	21	-	21
-	846,672	-	33,946	4,247	-	884,865
1,904,881	-	-	-	-	-	1,904,881
<b>1,904,881</b>	<b>891,943</b>	<b>-</b>	<b>932,068</b>	<b>767,769</b>	<b>-</b>	<b>8,789,175</b>
540,086	-	-	-	-	-	945,224
-	10,463	-	85,592	9,085	5,000	1,082,832
-	-	-	-	-	-	3,162
-	143,205	-	-	-	-	143,205
-	-	-	-	-	-	233,925
<b>540,086</b>	<b>153,668</b>	<b>-</b>	<b>85,592</b>	<b>9,085</b>	<b>5,000</b>	<b>2,408,348</b>
<b>2,444,967</b>	<b>1,045,611</b>	<b>-</b>	<b>1,017,660</b>	<b>776,854</b>	<b>5,000</b>	<b>11,197,524</b>
(8,082)	(129,078)	-	381,025	(99,163)	(5,000)	(96,740)
160,358	220,440	8,393	(707,331)	(20,613)	5,000	1,104,675
<b>\$ 152,276</b>	<b>\$ 91,362</b>	<b>\$ 8,393</b>	<b>\$ (326,306)</b>	<b>\$ (119,776)</b>	<b>\$ -</b>	<b>\$ 1,007,935</b>

**Combining Statement of Net Assets Available for Post - Employment Benefits**  
Pension Trust Funds  
June 30, 2011  
(Amounts in thousands)

	Pension Trust Funds			Total
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 62,656	\$ 74,820	\$ -	\$ 137,476
Investments at fair value.....	20,007,862	21,811,542	372,490	42,191,894
Other receivables.....	184,008	200,601	1,586	386,195
<b>Total assets.....</b>	<b>20,254,526</b>	<b>22,086,963</b>	<b>374,076</b>	<b>42,715,565</b>
<b>LIABILITIES</b>				
Accounts payable.....	172,879	190,587	6,545	370,011
<b>Total liabilities.....</b>	<b>172,879</b>	<b>190,587</b>	<b>6,545</b>	<b>370,011</b>
<b>Net assets available for post - employment benefits.....</b>	<b>\$ 20,081,647</b>	<b>\$ 21,896,376</b>	<b>\$ 367,531</b>	<b>\$ 42,345,554</b>

See Independent Auditor's Report

**Combining Statement of Changes in Net Assets Available for Post -Employment Benefits**  
Pension Trust Funds  
Fiscal Year Ended June 30, 2011  
(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
<b>ADDITIONS</b>				
Contribution:				
Employer contributions.....	\$ 465,319	\$ 976,491	\$ 397,047	\$ 1,838,857
Employee contributions.....	539,549	616,533	-	1,156,082
<b>Total contributions.....</b>	<b>1,004,868</b>	<b>1,593,024</b>	<b>397,047</b>	<b>2,994,939</b>
Net investment gain (loss):				
Investment gain (loss) .....	3,708,141	4,061,545	66,112	7,835,798
Less: investment expense.....	(27,621)	(30,111)	(1,102)	(58,834)
<b>Net investment gain (loss).....</b>	<b>3,680,520</b>	<b>4,031,434</b>	<b>65,010</b>	<b>7,776,964</b>
<b>Total additions.....</b>	<b>4,685,388</b>	<b>5,624,458</b>	<b>462,057</b>	<b>10,771,903</b>
<b>DEDUCTIONS</b>				
Administration.....	7,901	16,777	979	25,657
Retirement benefits and refunds.....	1,547,554	2,197,622	397,040	4,142,216
Payments to State Boston Retirement System.....	-	121,290	-	121,290
<b>Total deductions.....</b>	<b>1,555,455</b>	<b>2,335,689</b>	<b>398,019</b>	<b>4,289,163</b>
<b>Net increase(decrease).....</b>	<b>3,129,933</b>	<b>3,288,769</b>	<b>64,038</b>	<b>6,482,740</b>
Net assets available for post - employment benefits at beginning of year, as restated.....	16,951,714	18,607,607	303,493	35,862,814
<b>Net assets available for post - employment benefits at end of year.....</b>	<b>\$ 20,081,647</b>	<b>\$ 21,896,376</b>	<b>\$ 367,531</b>	<b>\$ 42,345,554</b>

**Combining Statement of Net Assets Held in Trust for Pool Participants**  
 External Investment Trust Funds  
 June 30, 2011  
 (Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ASSETS</b>			
Assets held in trust for pension benefits:			
Cash and short-term investments.....	\$ -	\$ 12,765	\$ 12,765
Investments at fair value.....	-	8,320,105	8,320,105
Assets held in trust for pool participants:			
Cash and short-term investments.....	2,937,041	-	2,937,041
Other receivables.....	2,487	76,480	78,967
<b>Total assets</b> .....	<b>2,939,528</b>	<b>8,409,350</b>	<b>11,348,878</b>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable.....	1,217	71,613	72,830
Other accrued liabilities.....	80	-	80
<b>Total liabilities</b> .....	<b>1,297</b>	<b>71,613</b>	<b>72,910</b>
<b>Net assets held in trust for pool / pension participants</b> .....	<b>\$ 2,938,231</b>	<b>\$ 8,337,737</b>	<b>\$ 11,275,968</b>

See Independent Auditor's Report

## Combining Statement of Changes in Net Assets Held in Trust for Pool Participants

External Investment Trust Funds

Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
<b>ADDITIONS</b>			
Contribution:			
Proceeds from sale of units.....	\$ 18,300,226	\$ 1,535,030	\$ 19,835,256
<b>Total contributions.....</b>	<b>18,300,226</b>	<b>1,535,030</b>	<b>19,835,256</b>
Net investment gain (loss):			
Investment gain (loss) .....	11,924	1,493,231	1,505,155
Less: Investment expense.....	(2,539)	(11,486)	(14,025)
<b>Net investment gain (loss).....</b>	<b>9,385</b>	<b>1,481,745</b>	<b>1,491,130</b>
<b>Total additions.....</b>	<b>18,309,611</b>	<b>3,016,775</b>	<b>21,326,386</b>
<b>DEDUCTIONS</b>			
Cost of units redeemed.....	19,160,470	489,177	19,649,647
Distributions to unit holders from net interest income.....	9,143	-	9,143
<b>Total deductions.....</b>	<b>19,169,613</b>	<b>489,177</b>	<b>19,658,790</b>
<b>Net increase (decrease).....</b>	<b>(860,002)</b>	<b>2,527,598</b>	<b>1,667,596</b>
Net assets held in trust for pool / pensions participants at beginning of year, as restated.....	3,798,233	5,810,139	9,608,372
<b>Net assets held in trust for pool / pensions participants at end of year.....</b>	<b>\$ 2,938,231</b>	<b>\$ 8,337,737</b>	<b>\$ 11,275,968</b>

# Combining Statement of Changes in Assets and Liabilities

## Agency Funds

Fiscal Year Ended June 30, 2011

(Amounts in thousands)

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Central Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 269,184	\$ 6,720,487	\$ 6,721,703	\$ 267,968
Investments, restricted investments and annuity contracts.....	1,484,794	205,064	226,810	1,463,048
Taxes receivable.....	1,916	2,340	1,916	2,340
<b>Total assets.....</b>	<b>\$ 1,755,894</b>	<b>\$ 6,927,891</b>	<b>\$ 6,950,429</b>	<b>\$ 1,733,356</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 45,339	\$ 4,008,120	\$ 4,001,273	\$ 52,186
Due to cities and towns.....	26,833	424,426	423,588	27,671
Due to federal government.....	-	57	57	-
Lottery prizes payable.....	1,484,794	205,064	226,810	1,463,048
Agency liabilities.....	198,928	3,396,300	3,404,777	190,451
<b>Total liabilities.....</b>	<b>\$ 1,755,894</b>	<b>\$ 8,033,967</b>	<b>\$ 8,056,505</b>	<b>\$ 1,733,356</b>
<b><u>Court Escrow and Client Accounts</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 114,327	\$ 2,947,249	\$ 2,966,749	\$ 94,827
Assets held in trust.....	53,036	377,451	375,127	55,360
Other receivables.....	111,758	115,399	111,758	115,399
<b>Total assets.....</b>	<b>\$ 279,121</b>	<b>\$ 3,440,099</b>	<b>\$ 3,453,634</b>	<b>\$ 265,586</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 6,409	\$ 1,220,598	\$ 1,226,770	\$ 237
Agency liabilities.....	272,712	1,112,753	1,120,116	265,349
<b>Total liabilities.....</b>	<b>\$ 279,121</b>	<b>\$ 2,333,351</b>	<b>\$ 2,346,886</b>	<b>\$ 265,586</b>
<b><u>Statutory Bonds and Deposits</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	654,071	446,084	459,026	641,129
<b>Total assets.....</b>	<b>\$ 654,157</b>	<b>\$ 446,084</b>	<b>\$ 459,026</b>	<b>\$ 641,215</b>
<b>LIABILITIES</b>				
Agency liabilities.....	\$ 654,157	\$ 446,084	\$ 459,026	\$ 641,215
<b>Total liabilities.....</b>	<b>\$ 654,157</b>	<b>\$ 446,084</b>	<b>\$ 459,026</b>	<b>\$ 641,215</b>

See Independent Auditor's Report

**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**Fiscal Year Ended June 30, 2011**  
**(Amounts in thousands)**

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and short-term investments.....	\$ 383,597	\$ 9,667,736	\$ 9,688,452	\$ 362,881
Investments, restricted investments and annuity contracts.....	1,484,794	205,064	226,810	1,463,048
Assets held in trust.....	707,107	823,535	834,153	696,489
Taxes receivable.....	1,916	2,340	1,916	2,340
Other receivables.....	111,758	115,399	111,758	115,399
<b>Total assets.....</b>	<b>\$ 2,689,172</b>	<b>\$ 10,814,074</b>	<b>\$ 10,863,089</b>	<b>\$ 2,640,157</b>
<b>LIABILITIES</b>				
Accounts payable.....	\$ 51,748	\$ 5,228,718	\$ 5,228,043	\$ 52,423
Due to cities and towns.....	26,833	424,426	423,588	27,671
Due to federal government.....	-	57	57	-
Lottery prizes payable.....	1,484,794	205,064	226,810	1,463,048
Agency liabilities.....	1,125,797	4,955,137	4,983,919	1,097,015
<b>Total liabilities.....</b>	<b>\$ 2,689,172</b>	<b>\$ 10,813,402</b>	<b>\$ 10,862,417</b>	<b>\$ 2,640,157</b>

**Combining Statement of Net Assets**  
**Nonmajor Component Units**  
**June 30, 2011**  
(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	Total
<b>ASSETS AND DEFERRED OUTFLOWS</b>							
Current assets:							
Cash and cash equivalents.....	\$ 18,171	\$ 14,559	\$ 22,632	\$ 278	\$ 44,018	\$ 71,095	\$ 170,753
Short-term investments.....	-	138,089	-	43,410	18,736	30,348	230,583
Restricted cash and investment.....	16,016	21,832	-	13,784	-	2,215	53,847
Assets held in trust.....	-	-	55,604	-	-	-	55,604
Receivables, net of allowance for uncollectibles:							
Federal grants and reimbursement receivable.....	-	-	-	-	-	291	291
Loans.....	-	9,619	15,589	-	8,873	11,576	45,657
Other receivables.....	2,655	11,096	2,445	3,386	8,041	1,188	28,811
Due from primary government.....	14,202	429	-	4,889	-	23,585	43,105
Inventory.....	-	139	-	-	-	90	229
Other current assets.....	894	2,294	135	141	-	397	3,861
<b>Total current assets</b> .....	<b>51,938</b>	<b>198,057</b>	<b>96,405</b>	<b>65,888</b>	<b>79,668</b>	<b>140,785</b>	<b>632,741</b>
Noncurrent assets:							
Cash and cash equivalents - restricted.....	-	24,465	96,173	-	-	-	120,638
Long - term investments.....	-	66,485	6,484	-	-	891	73,860
Restricted investments.....	-	-	65,501	-	-	-	65,501
Accounts receivables, net.....	-	4,330	-	-	-	535	4,865
Loans receivables, net.....	1,984	72,721	-	-	339,277	31,295	445,277
Non-depreciable capital assets.....	99,444	10,871	-	-	-	13	110,328
Depreciable capital assets, net.....	679,575	236,697	32,788	17,677	-	12,666	979,403
Other noncurrent assets.....	-	26,878	-	-	338	-	27,216
<b>Total noncurrent assets</b> .....	<b>781,003</b>	<b>442,447</b>	<b>200,946</b>	<b>17,677</b>	<b>339,615</b>	<b>45,400</b>	<b>1,827,088</b>
Deferred outflows from derivative instruments.....	-	15,973	-	-	-	-	15,973
<b>Total assets and deferred outflows</b> .....	<b>832,941</b>	<b>656,477</b>	<b>297,351</b>	<b>83,565</b>	<b>419,283</b>	<b>186,185</b>	<b>2,475,802</b>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other liabilities.....	13,021	6,293	21,587	9,448	977	27,091	78,417
Accrued payroll.....	-	-	185	-	-	-	185
Compensated absences.....	890	900	-	-	-	733	2,523
Accrued interest payable.....	-	-	-	-	1,172	-	1,172
Due to primary government.....	-	421	-	-	-	-	421
Deferred revenue.....	9,091	-	55,599	-	-	14,180	78,870
Bonds, notes payable and other obligations.....	-	1,245	-	-	7,994	3,005	12,244
<b>Total current liabilities</b> .....	<b>23,002</b>	<b>8,859</b>	<b>77,371</b>	<b>9,448</b>	<b>10,143</b>	<b>45,009</b>	<b>173,832</b>
Noncurrent liabilities:							
Compensated absences.....	1,035	-	-	-	-	95	1,130
Accrued interest payable.....	-	2,753	-	-	-	-	2,753
Due to primary government.....	-	15,111	-	-	-	-	15,111
Deferred revenue.....	-	1,870	-	-	21,230	976	24,076
Bonds, notes payable and other obligations.....	-	172,646	-	-	345,684	40,605	558,935
Post - employment obligations.....	2,653	-	-	-	-	-	2,653
Liability for derivative instruments.....	-	15,973	-	-	-	-	15,973
Other noncurrent liabilities.....	-	2,309	-	5,590	-	2,128	10,027
<b>Total noncurrent liabilities</b> .....	<b>3,688</b>	<b>210,662</b>	<b>-</b>	<b>5,590</b>	<b>366,914</b>	<b>43,804</b>	<b>630,658</b>
<b>Total liabilities</b> .....	<b>26,690</b>	<b>219,521</b>	<b>77,371</b>	<b>15,038</b>	<b>377,057</b>	<b>88,813</b>	<b>804,490</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt.....	779,019	81,617	32,788	17,677	248	12,553	923,902
Restricted for:							
Clean energy trusts.....	-	-	187,192	-	-	-	187,192
Economic development financing.....	-	162,459	-	-	-	-	162,459
Other purposes.....	18,000	-	-	40,975	26,111	49,807	134,893
Unrestricted.....	9,232	192,880	-	9,875	15,867	35,012	262,866
<b>Total net assets</b> .....	<b>\$ 806,251</b>	<b>\$ 436,956</b>	<b>\$ 219,980</b>	<b>\$ 68,527</b>	<b>\$ 42,226</b>	<b>\$ 97,372</b>	<b>\$ 1,671,312</b>

See Independent Auditor's Report



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

Nonmajor Component Units  
Fiscal Year Ended June 30, 2011  
(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	Total
<b>Operating revenues:</b>							
Charges for services.....	\$ 44,472	\$ 66,082	\$ -	\$ -	\$ 5,734	\$ 37,087	\$ 153,375
Other.....	757	26,416	24,132	18,182	9,741	7,381	86,609
<b>Total operating revenues.....</b>	<b>45,229</b>	<b>92,498</b>	<b>24,132</b>	<b>18,182</b>	<b>15,475</b>	<b>44,468</b>	<b>239,984</b>
<b>Operating expenses:</b>							
Cost of services.....	49,252	14,844	43,530	22,998	8,074	92,863	231,561
Administration costs.....	24,767	69,492	6,066	2	4,500	4,399	109,226
Depreciation.....	38,260	12,691	221	579	98	920	52,769
<b>Total operating expenses.....</b>	<b>112,279</b>	<b>97,027</b>	<b>49,817</b>	<b>23,579</b>	<b>12,672</b>	<b>98,182</b>	<b>393,556</b>
<b>Operating income (loss).....</b>	<b>(67,050)</b>	<b>(4,529)</b>	<b>(25,685)</b>	<b>(5,397)</b>	<b>2,803</b>	<b>(53,714)</b>	<b>(153,572)</b>
<b>Nonoperating revenues (expenses):</b>							
Operating grants.....	52,148	465	21,716	-	-	41,006	115,335
Interest income.....	68	1,903	8,741	363	-	118	11,193
Other nonoperating revenue (expense).....	-	(634)	-	-	-	(37)	(671)
<b>Nonoperating revenues (expenses), net.....</b>	<b>52,216</b>	<b>1,734</b>	<b>30,457</b>	<b>363</b>	<b>-</b>	<b>41,087</b>	<b>125,857</b>
<b>Income (loss) before contributions.....</b>	<b>(14,834)</b>	<b>(2,795)</b>	<b>4,772</b>	<b>(5,034)</b>	<b>2,803</b>	<b>(12,627)</b>	<b>(27,715)</b>
Capital contributions.....	-	3,421	-	-	-	25,275	28,696
Other losses.....	-	(29,839)	-	-	-	(2)	(29,841)
<b>Change in net assets.....</b>	<b>(14,834)</b>	<b>(29,213)</b>	<b>4,772</b>	<b>(5,034)</b>	<b>2,803</b>	<b>12,646</b>	<b>(28,860)</b>
Net assets - beginning, as restated.....	821,085	466,169	215,208	73,561	39,423	84,726	1,700,172
<b>Net assets - ending.....</b>	<b>\$ 806,251</b>	<b>\$ 436,956</b>	<b>\$ 219,980</b>	<b>\$ 68,527</b>	<b>\$ 42,226</b>	<b>\$ 97,372</b>	<b>\$ 1,671,312</b>



## Castle Island

Castle Island is one of the most popular destinations for Boston residents and visitors alike. It features opportunities for both recreation and historical learning. The island (which is connected to the mainland) is home to Fort Independence, a National Historic Landmark, and Pleasure Bay features a sandy beach and swimming in a calm, enclosed lagoon.

Castle Island has been connected to the mainland since the 1930s, when streetcars brought bathers to Pleasure Bay. Fort Independence is the eighth fort to occupy this site and contains over 172,687 linear feet of hammered stone. It was constructed under the direction of Colonel Sylvanus Thayer between 1834 and 1851. The fort and the island are on the State and National Registers of Historic Places, and Fort Independence is a National Historic Landmark.

The HarborWalk extends along Pleasure Bay, with a detour to Castle Island. The causeway located behind the beach provides a great walk way for strolling around or viewing Pleasure Bay from shade shelters. There are views to Logan Airport and the Harbor Islands, and visitors can observe boating activity in the Harbor.



# Statistical Section

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*Changes in Net Assets – Last Ten Fiscal Years*

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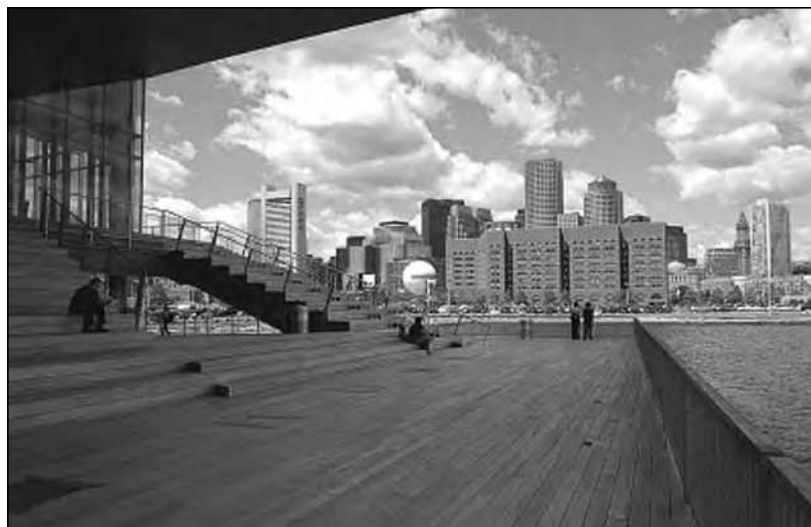
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## HarborWalk at the ICA

The first art museum to be built in Boston in nearly 100 years, the Institute of Contemporary Art (ICA) opened its new waterfront home on Fan Pier in December, 2006. Its South Boston location draws thousands of visitors to the HarborWalk year-round, thanks to their extensive free outdoor programs for the public in the summer.

## ***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.

### **Contents**

#### **Financial Trends**

These schedules contain trend information to help the reader understand how the Commonwealth’s financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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<sup>1</sup> Tax Year 2009 is the last “closed” tax year

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**Schedule Of Net Assets by Component  
Last Ten Fiscal Years**

(Amounts in thousands)

	2011	2010*	2009*	2008*
<b>Governmental activities</b>				
Invested in capital assets, net of related debt...	\$ (722,469)	\$ (885,593)	\$ 189,913	\$ 446,666
Restricted.....	1,520,702	1,403,877	1,377,951	1,413,968
Unrestricted.....	<u>(23,631,098)</u>	<u>(22,891,629)</u>	<u>(13,721,519)</u>	<u>(11,022,084)</u>
<b>Total governmental activities net assets.....</b>	<b><u>\$ (22,832,865)</u></b>	<b><u>\$ (22,373,344)</u></b>	<b><u>\$ (12,153,655)</u></b>	<b><u>\$ (9,161,450)</u></b>
<b>Business-type activities</b>				
Invested in capital assets, net of related debt...	\$ 2,026,223	\$ 1,767,434	\$ 1,698,825	\$ 1,562,002
Restricted.....	1,364,646	1,148,751	1,609,145	2,390,206
Unrestricted.....	<u>978,043</u>	<u>857,263</u>	<u>621,952</u>	<u>644,363</u>
<b>Total business-type activities net assets.....</b>	<b><u>\$ 4,368,912</u></b>	<b><u>\$ 3,773,448</u></b>	<b><u>\$ 3,929,922</u></b>	<b><u>\$ 4,596,571</u></b>
<b>Commonwealth net assets</b>				
Invested in capital assets, net of related debt...	\$ 1,303,754	\$ 881,841	\$ 1,888,738	\$ 2,008,668
Restricted.....	2,885,348	2,552,628	2,987,096	3,804,174
Unrestricted.....	<u>(22,653,055)</u>	<u>(22,034,366)</u>	<u>(13,099,567)</u>	<u>(10,377,721)</u>
<b>Total Commonwealth net assets.....</b>	<b><u>\$ (18,463,953)</u></b>	<b><u>\$ (18,599,896)</u></b>	<b><u>\$ (8,223,733)</u></b>	<b><u>\$ (4,564,879)</u></b>

\* Restated

2007*	2006*	2005*	2004*	2003*	2002*
\$ 489,432	\$ 101,510	\$ 196,765	\$ 2,032,958	\$ 3,901,007	\$ 5,611,252
1,271,051	2,010,373	1,526,576	776,401	517,115	987,941
(11,357,260)	(12,409,269)	(13,267,433)	(9,150,810)	(12,523,663)	(14,014,718)
<b>\$ (9,596,777)</b>	<b>\$ (10,297,385)</b>	<b>\$ (11,544,092)</b>	<b>\$ (6,341,451)</b>	<b>\$ (8,105,541)</b>	<b>\$ (7,415,525)</b>
\$ 1,392,363	\$ 1,283,570	\$ 1,149,352	\$ 1,132,637	\$ 1,073,152	\$ 1,032,022
2,295,507	1,816,066	1,331,053	915,583	946,704	1,784,322
645,211	548,774	562,777	434,007	321,523	243,605
<b>\$ 4,333,081</b>	<b>\$ 3,648,410</b>	<b>\$ 3,043,182</b>	<b>\$ 2,482,227</b>	<b>\$ 2,341,379</b>	<b>\$ 3,059,949</b>
\$ 1,881,795	\$ 1,385,080	\$ 1,346,117	\$ 3,165,595	\$ 4,974,159	\$ 6,643,274
3,566,558	3,826,439	2,857,629	1,691,984	1,463,819	2,772,263
(10,712,049)	(11,860,495)	(12,704,656)	(8,716,803)	(12,202,140)	(13,771,113)
<b>\$ (5,263,696)</b>	<b>\$ (6,648,975)</b>	<b>\$ (8,500,910)</b>	<b>\$ (3,859,224)</b>	<b>\$ (5,764,162)</b>	<b>\$ (4,355,576)</b>

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

(Amounts in thousands)

	2011	2010	2009	2008
<b>EXPENSES</b>				
<b>Governmental Activities:</b>				
General government.....	\$ 2,305,783	\$ 2,358,706	\$ 2,630,554	\$ 2,321,251
Judiciary.....	992,990	1,043,004	1,138,179	993,424
Direct local aid.....	4,845,738	5,030,363	5,210,451	5,118,858
Medicaid.....	12,124,261	10,677,999	10,842,549	9,769,893
Group health insurance.....	1,113,544	1,092,178	977,565	828,297
Interest (unallocated).....	1,177,569	1,090,471	1,116,278	1,152,162
Energy and environmental.....	685,032	326,128	426,808	537,691
Housing and economic development*.....	1,362,822	1,297,143	1,042,084	899,474
Health and human services*.....	7,124,856	7,244,968	7,452,418	6,726,961
Transportation and public works.....	2,262,374	2,088,354	1,336,257	1,199,103
Early elementary and secondary education*.....	3,649,543	3,395,360	3,210,200	2,932,143
Public safety and homeland security.....	2,276,402	2,409,557	2,561,607	2,097,076
Labor and workforce development*.....	497,927	483,091	474,438	340,668
Lottery.....	3,661,834	3,649,396	3,693,318	3,910,362
<b>Total governmental activities.....</b>	<b>44,080,674</b>	<b>42,186,718</b>	<b>42,112,705</b>	<b>38,827,362</b>
<b>Business-type Activities:</b>				
Unemployment compensation.....	4,388,360	5,435,611	3,475,027	1,554,885
<b>Higher Education:</b>				
University of Massachusetts.....	2,865,015	2,640,134	2,474,797	2,274,312
State universities.....	834,453	762,043	736,972	733,842
Community colleges.....	772,883	716,526	671,923	685,235
<b>Total business -type activities.....*</b>	<b>8,860,711</b>	<b>9,554,314</b>	<b>7,358,719</b>	<b>5,248,274</b>
<b>Total Commonwealth expenses.....</b>	<b>\$ 52,941,385</b>	<b>\$ 51,741,032</b>	<b>\$ 49,471,424</b>	<b>\$ 44,075,636</b>
<b>REVENUES</b>				
<b>Program Revenues:</b>				
<b>Governmental Activities:</b>				
<b>Charges for services:</b>				
General government.....	\$ 443,869	\$ 464,592	\$ 436,344	\$ 414,614
Judiciary.....	120,293	128,198	123,819	124,542
Medicaid.....	258,032	185,463	180,380	176,471
Group health insurance.....	431,078	349,870	230,456	209,008
Energy and environmental.....	270,449	214,269	226,754	162,639
Housing and economic development*.....	142,387	221,340	178,011	185,019
Health and human services*.....	896,328	797,929	718,628	601,483
Transportation and public works.....	502,004	517,045	494,733	477,420
Early elementary and secondary education*.....	6,645	9,661	15,728	10,766
Public safety and homeland security.....	193,983	202,427	175,069	153,641
Labor and workforce development*.....	142,731	38,319	37,728	31,758
Lottery.....	4,630,205	4,626,777	4,643,592	4,905,509
<b>Total Charges for services.....*</b>	<b>8,038,003</b>	<b>7,755,891</b>	<b>7,461,243</b>	<b>7,452,873</b>
Operating grants and contributions.....	14,217,481	12,771,164	12,059,019	9,271,936
Capital grants and contributions.....	168,912	779,403	852,221	484,172
<b>Total governmental activities.....</b>	<b>22,424,397</b>	<b>21,306,458</b>	<b>20,373,482</b>	<b>17,208,980</b>
<b>Business-type Activities:</b>				
<b>Charges for services:</b>				
Unemployment Compensation.....	1,945,801	1,727,964	1,671,098	1,587,543
<b>Higher Education:</b>				
University of Massachusetts.....	1,685,386	1,527,880	1,419,932	1,160,513
State Colleges.....	530,078	479,900	442,685	400,369
Community Colleges.....	250,341	235,865	219,986	204,190
Operating grants and contributions.....	3,500,210	4,020,351	1,721,199	710,974
<b>Total business-type activities.....</b>	<b>7,911,816</b>	<b>7,991,960</b>	<b>5,474,900</b>	<b>4,063,589</b>
<b>Total Commonwealth program revenues.....</b>	<b>\$ 30,336,213</b>	<b>\$ 29,298,418</b>	<b>\$ 25,848,382</b>	<b>\$ 21,272,569</b>
<b>General Revenues and Other Changes in Net Assets (all types consolidated):</b>				
<b>Governmental Activities:</b>				
Taxes (all types).....	\$ 21,066,430	\$ 19,034,227	\$ 18,499,273	\$ 21,174,430
Investment earnings and miscellaneous.....	991,230	1,474,995	1,489,018	2,057,309
Gain on sale of capital assets.....	-	-	-	-
Transfers.....	(860,904)	(864,697)	(1,070,652)	(1,178,030)
Transfers to \ from MassDOT.....	-	(8,983,955)	-	-
<b>Total governmental activities.....</b>	<b>21,196,756</b>	<b>10,660,570</b>	<b>18,917,639</b>	<b>22,053,709</b>
<b>Business-type Activities:</b>				
Investment earnings and miscellaneous.....	\$ 695,308	\$ 553,088	\$ 140,227	\$ 270,145
Other losses.....	(10,746)	(12,125)	(11,530)	-
Transfers.....	860,904	864,697	1,070,652	1,178,030
<b>Total business -type activities.....</b>	<b>1,545,466</b>	<b>1,405,660</b>	<b>1,199,349</b>	<b>1,448,175</b>
<b>Total Commonwealth general revenues.....</b>	<b>\$ 22,742,222</b>	<b>\$ 12,066,230</b>	<b>\$ 20,116,988</b>	<b>\$ 23,501,884</b>
<b>CHANGES IN NET ASSETS</b>				
Governmental activities.....	\$ (459,521)	\$ (10,219,689)	\$ (2,821,583)	\$ 435,327
Business-type activities.....	596,571	(156,694)	(684,470)	263,490
Current year restatements.....	-	-	(152,800)	-
<b>Total changes in net assets including restatements.....</b>	<b>\$ 137,050</b>	<b>\$ (10,376,383)</b>	<b>\$ (3,658,854)</b>	<b>\$ 698,817</b>

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



	2007	2006	2005	2004	2003	2002
\$	2,198,999	\$ 2,030,792	\$ 1,861,827	\$ 2,084,482	\$ 1,870,365	\$ 1,385,454
	852,124	731,931	694,245	570,228	641,227	540,248
	5,081,359	4,682,027	4,525,847	4,877,089	5,118,711	5,252,805
	9,044,420	8,150,576	7,705,717	6,909,412	6,177,280	5,978,811
	1,033,796	970,150	872,970	778,072	732,252	770,832
	1,079,551	985,474	861,265	788,908	739,463	687,817
	488,883	438,731	419,329	379,710	395,713	469,591
	519,399	670,518	609,409	593,000	590,246	554,712
	6,414,249	6,585,029	6,441,959	5,940,586	5,778,186	5,626,813
	1,271,608	1,286,857	1,566,773	1,569,678	2,053,939	1,764,257
	1,870,250	(1,935,643)	8,226,508	1,251,618	1,427,482	1,896,971
	1,763,191	1,768,924	1,638,434	1,477,469	1,384,537	1,023,141
	641,134	387,132	358,839	387,590	430,982	391,358
	3,689,221	3,708,713	3,692,520	3,606,608	3,470,046	3,453,858
	<b>35,948,184</b>	<b>34,358,196</b>	<b>39,488,186</b>	<b>31,214,448</b>	<b>30,810,430</b>	<b>29,859,108</b>
	1,430,130	1,337,565	1,662,955	2,461,293	2,589,107	2,183,100
	2,233,634	2,116,226	1,977,546	1,597,676	1,531,381	1,437,518
	624,470	568,592	514,122	456,022	425,154	418,593
	627,400	592,310	548,017	525,179	523,403	508,895
	<b>4,915,634</b>	<b>4,614,693</b>	<b>4,702,640</b>	<b>5,040,170</b>	<b>5,069,045</b>	<b>4,548,107</b>
\$	<b>40,863,818</b>	<b>38,972,889</b>	<b>44,190,826</b>	<b>36,254,618</b>	<b>35,879,475</b>	<b>34,407,214</b>
\$	564,347	\$ 451,753	\$ 492,750	\$ 463,132	\$ 233,135	\$ 158,825
	118,652	115,443	105,072	101,994	74,412	62,982
	172,136	702,104	937,422	687,535	26,772	90,081
	151,604	131,611	111,342	98,598	93,529	81,089
	168,789	156,074	138,854	152,632	132,531	124,317
	1,892	6,245	3,515	1,446	1,373	1,282
	538,543	613,780	756,469	861,899	966,813	909,777
	461,217	448,349	478,154	13,687	7,813	6,995
	8,042	6,346	5,583	11,644	5,073	3,909
	126,962	135,846	112,350	564,023	520,496	451,101
	187,256	213,078	199,817	179,794	168,471	160,577
	4,656,110	4,726,339	4,698,935	4,603,204	4,421,621	4,423,052
	7,155,550	7,706,968	8,040,263	7,739,588	6,652,039	6,473,987
	8,849,046	8,347,822	7,961,904	8,017,469	7,129,712	7,078,110
	487,365	481,780	461,371	602,449	508,235	338
	<b>16,491,961</b>	<b>16,536,570</b>	<b>16,463,538</b>	<b>16,359,506</b>	<b>14,289,986</b>	<b>13,552,435</b>
	1,698,249	1,741,101	242,769	1,481,803	940,475	25,183
	1,194,393	1,076,875	424,184	822,668	678,812	584,633
	287,195	272,918	64,872	222,740	182,428	147,902
	190,808	175,418	122,828	165,257	141,480	119,671
	746,385	684,108	854,653	1,376,666	1,249,768	869,848
	<b>4,117,030</b>	<b>3,950,420</b>	<b>4,108,237</b>	<b>4,069,134</b>	<b>3,192,962</b>	<b>1,824,398</b>
\$	<b>20,608,991</b>	<b>20,486,988</b>	<b>20,571,775</b>	<b>20,428,640</b>	<b>17,482,948</b>	<b>15,376,834</b>
\$	20,001,189	\$ 18,668,322	\$ 17,580,271	\$ 16,406,781	\$ 15,161,687	\$ 14,688,596
	1,318,008	1,396,033	1,168,540	1,042,704	1,179,686	(367,695)
	-	26,300	-	-	-	-
	(1,167,367)	(1,022,320)	(926,715)	(830,453)	(950,217)	(1,018,603)
	-	-	-	-	-	-
	<b>20,151,830</b>	<b>19,068,335</b>	<b>17,822,096</b>	<b>16,619,032</b>	<b>15,391,156</b>	<b>13,302,298</b>
\$	315,908	247,181	228,643	181,719	207,296	965,901
	1,167,367	1,022,320	926,715	830,453	950,217	1,018,603
	<b>1,483,275</b>	<b>1,269,501</b>	<b>1,155,358</b>	<b>1,012,172</b>	<b>1,157,513</b>	<b>1,984,504</b>
\$	<b>21,635,105</b>	<b>20,337,836</b>	<b>18,977,454</b>	<b>17,631,205</b>	<b>16,548,670</b>	<b>15,286,802</b>
\$	695,608	\$ 1,246,707	\$ (5,202,551)	\$ 1,764,090	\$ (1,129,287)	\$ (3,004,374)
	684,671	605,228	560,955	41,136	(718,570)	(739,205)
	-	-	-	-	-	-
\$	<b>1,380,279</b>	<b>1,851,935</b>	<b>(4,641,596)</b>	<b>1,805,226</b>	<b>(1,847,857)</b>	<b>(3,743,578)</b>

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

*(Modified accrual basis of accounting)*

(Amounts in thousands)

	2011	2010*	2009*	2008*
<b>Total Unreserved general fund.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,734,822</b>	<b>\$ 3,171,278</b>
<b>All Other Governmental Funds</b>				
Reserved.....	-	-	1,401,985	1,809,058
Unreserved:				
Special Revenue Funds.....	-	-	2,044,674	2,437,897
Capital Projects Funds.....	-	-	(125,138)	(360,570)
Permanent Trust Funds.....	-	-	5,000	5,000
<b>Total Unreserved.....</b>	<b>-</b>	<b>-</b>	<b>1,924,535</b>	<b>2,082,327</b>
<b>Total all other governmental funds.....</b>	<b>-</b>	<b>-</b>	<b>3,326,520</b>	<b>3,891,385</b>
<b>Total governmental fund balances.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,061,342</b>	<b>\$ 7,062,663</b>

\* 2010 has been restated for GASB 54 presentation. Years prior have been restated.

**Fund balances (deficits) GASB54 :**

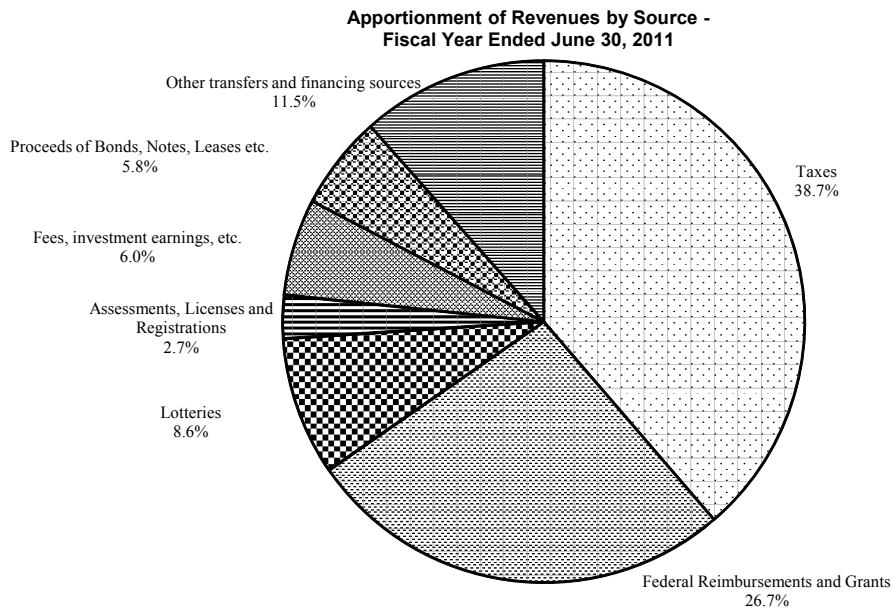
Nonspendable.....	\$ 914	\$ 5,914
Restricted.....	1,675,055	1,905,749
Committed.....	2,020,009	2,166,175
Assigned.....	750,462	156,483
Unassigned.....	821,188	351,395
<b>Total governmental fund balances.....</b>	<b>\$ 5,267,628</b>	<b>\$ 4,585,716</b>

2007*	2006*	2005*	2004*	2003*	2002*
<b>\$ 4,899,154</b>	<b>\$ 4,922,074</b>	<b>\$ 4,067,885</b>	<b>\$ 2,497,447</b>	<b>\$ 1,309,917</b>	<b>\$ 2,375,393</b>
1,496,094	1,361,980	1,392,209	2,204,552	1,680,261	1,920,540
1,587,596	1,476,440	91,913	330,353	234,754	(613,027)
(251,985)	(497,300)	(503,441)	(607,946)	(1,203,914)	(1,286,550)
5,000	-	-	-	-	71,497
1,340,611	979,140	(411,528)	(277,593)	(969,160)	(1,828,080)
<b>2,836,705</b>	<b>2,341,120</b>	<b>980,681</b>	<b>1,926,959</b>	<b>711,101</b>	<b>92,460</b>
<b>\$ 7,735,859</b>	<b>\$ 7,263,194</b>	<b>\$ 5,048,566</b>	<b>\$ 4,424,406</b>	<b>\$ 2,021,018</b>	<b>\$ 2,467,853</b>

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

(Amounts in millions)

	2011	% Total	2010	% Total	2009	% Total	2008	% Total	2007	% Total
Taxes.....	\$ 20,854	38.7	\$ 18,991	37.3	\$ 18,354	36.9	\$ 21,120	42.1	\$ 19,985	40.5
Federal reimbursements.....	10,066	18.7	9,453	18.5	9,392	18.9	7,037	14.0	6,847	13.9
Federal grants.....	4,311	8.0	4,097	8.0	3,510	7.0	2,681	5.3	2,489	5.0
Lotteries.....	4,631	8.6	4,628	9.1	4,650	9.3	4,915	9.8	4,670	9.5
Assessments.....	980	1.8	965	1.9	929	1.9	858	1.7	860	1.7
Motor vehicle licenses and registrations.....	461	0.9	463	0.9	383	0.8	376	0.7	380	0.8
Fees, investment earnings, etc.....	3,246	6.0	3,365	6.6	3,204	6.4	3,546	7.1	2,875	5.8
Proceeds of general obligation bonds.....	2,233	5.1	2,419	4.7	2,042	4.1	1,281	2.6	3,181	6.4
Proceeds of refunding bonds.....	888	1.6	538	1.1	390	0.8	-	-	1,428	2.9
Proceeds of capital lease.....	12	-	17	-	18	-	17	-	21	-
Transfers.....	6,216	11.5	6,043	11.9	6,916	13.9	8,305	16.6	6,666	13.5
Other financing sources.....	-	-	-	-	-	-	-	-	-	-
<b>Total revenues and other financing sources.....</b>	<b>\$ 53,898</b>	<b>100.0</b>	<b>\$ 50,979</b>	<b>100.0</b>	<b>\$ 49,788</b>	<b>100.0</b>	<b>\$ 50,136</b>	<b>100.0</b>	<b>\$ 49,402</b>	<b>100.0</b>



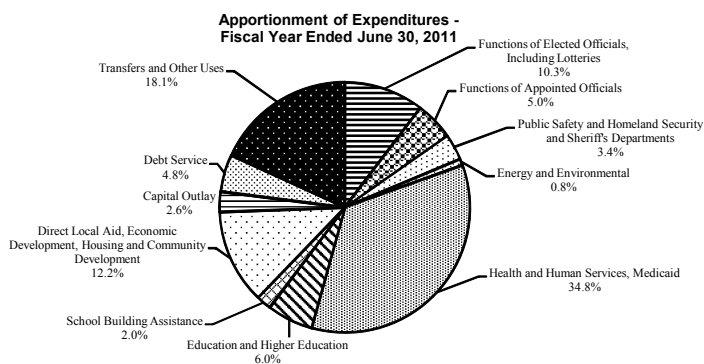
	2006	% Total	2005	% Total	2004	% Total	2003	% Total	2002	% Total
\$	18,754	39.7	\$ 17,671	40.6	\$ 16,133	36.4	\$ 15,091	35.3	\$ 14,428	39.6
	6,350	13.5	6,053	13.9	6,284	14.2	5,522	12.9	5,267	14.4
	2,479	5.3	2,369	5.4	2,336	5.3	2,112	4.9	1,812	5.0
	4,739	10.0	4,705	10.8	4,605	10.4	4,423	10.3	4,425	12.1
	850	1.8	831	1.9	773	1.7	645	1.5	572	1.6
	361	0.8	401	0.9	376	0.8	383	0.9	326	0.9
	3,270	7.0	3,213	7.5	3,028	6.8	2,331	5.4	2,178	6.0
	4,492	9.5	1,354	3.1	1,993	4.5	1,911	4.5	1,489	4.1
	633	1.3	1,385	3.2	3,302	7.4	3,398	7.9	1,501	4.1
	30	0.1	58	0.1	11	-	-	-	10	-
	5,232	11.1	5,493	12.6	5,531	12.5	6,981	16.3	4,454	12.2
	-	-	-	-	-	-	-	-	3	-
\$	<u>47,190</u>	<u>100.0</u>	\$ <u>43,533</u>	<u>100.0</u>	\$ <u>44,372</u>	<u>100.0</u>	\$ <u>42,796</u>	<u>100.0</u>	\$ <u>36,477</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)

	2011	% Total	2010	% Total	2009	% Total	2008	% Total	2007	% Total
Legislature.....	\$ 58	0.11	\$ 59	0.11	\$ 60	0.12	\$ 58	0.11	\$ 59	0.12
Judiciary.....	771	1.45	769	1.49	797	1.54	796	1.57	799	1.63
Inspector General.....	4	0.01	4	0.01	3	0.01	3	0.01	3	0.01
Governor and Lieutenant Governor.....	5	0.01	5	0.01	8	0.02	9	0.02	5	0.01
Secretary of the Commonwealth.....	45	0.08	52	0.10	51	0.10	51	0.10	52	0.11
Treasurer and Receiver-General.....	5,084	9.55	4,862	9.45	5,097	9.84	5,089	10.02	4,712	9.63
Auditor of the Commonwealth.....	18	0.03	18	0.03	19	0.04	19	0.04	18	0.04
Attorney General.....	34	0.06	52	0.10	53	0.10	45	0.09	62	0.13
Ethics Commission.....	2	0.00	2	0.00	2	-	2	-	2	-
District Attorney.....	104	0.20	102	0.20	112	0.22	111	0.22	102	0.21
Office of Campaign and Political Finance.....	3	0.00	1	0.00	1	-	1	-	2	-
Sheriff's Department.....	514	0.97	394	0.77	296	0.57	295	0.58	272	0.56
Disabled Persons Protection Commission.....	2	0.00	2	0.00	3	-	2	-	2	-
Board of Library Commissioners.....	25	0.05	28	0.05	37	0.07	36	0.07	10	0.02
Comptroller.....	14	0.03	13	0.03	14	0.03	14	0.03	14	0.03
Administration and finance.....	1,852	3.48	1,686	3.29	1,709	3.30	1,528	3.01	1,849	3.78
Energy and environmental.....	368	0.69	403	0.78	352	0.68	312	0.61	318	0.65
Housing and communities development.....	-	-	-	-	-	-	-	-	402	0.82
Early education and care.....	-	-	-	-	-	-	560	1.10	518	1.06
Health and human services.....	6,791	12.76	6,655	12.93	6,684	12.91	6,423	12.64	5,907	12.07
Transportation and public works.....	-	-	474	0.92	389	0.75	347	0.68	350	0.72
Massachusetts department of transportation.....	2,086	3.92	1,209	2.35	-	-	-	-	-	-
Executive office of education*.....	3,232	6.07	2,968	5.77	2,920	5.64	2,205	4.34	2,048	4.19
Massachusetts school building assistance.....	791	1.49	973	1.89	657	1.27	765	1.51	1,411	2.88
Higher education.....	-	-	-	-	-	-	131	0.26	126	0.26
Public safety and homeland security.....	1,146	2.15	1,282	2.49	1,416	2.73	1,407	2.77	1,238	2.53
Housing and economic development*.....	1,082	2.03	1,060	2.06	793	1.53	710	1.40	512	1.05
Labor and workforce development*.....	478	0.90	447	0.87	398	0.77	308	0.61	81	0.17
Elder affairs*.....	-	-	-	-	-	-	-	-	-	-
Consumer affairs*.....	-	-	-	-	-	-	-	-	-	-
Labor*.....	-	-	-	-	-	-	-	-	-	-
Medicaid.....	12,124	22.78	10,678	20.75	10,843	20.94	9,770	19.23	9,044	18.48
Pension.....	744	1.40	587	1.14	647	1.25	368	0.72	373	0.76
Direct local aid.....	4,846	9.11	5,030	9.78	5,208	10.06	5,108	10.05	5,072	10.36
Capital outlay:	-	-	-	-	-	-	-	-	-	-
Local aid.....	-	-	1	-	3	0.01	10	0.02	9	0.02
Capital acquisition and construction.....	885	1.66	1,300	2.53	2,514	4.85	1,698	3.34	1,724	3.52
Debt service.....	2,220	4.17	2,407	4.68	2,410	4.65	2,486	4.89	2,538	5.19
Other financing uses:	-	-	-	-	-	-	-	-	-	-
Payments to refunded bond escrow agent.....	945	1.78	537	1.04	410	0.79	-	-	1,520	3.11
Transfers.....	6,947	13.05	7,395	14.37	7,887	15.23	10,141	19.96	7,781	15.90
<b>Total expenditures and other financing uses.....</b>	<b>\$ 53,217</b>	<b>100.0</b>	<b>\$ 51,455</b>	<b>100.0</b>	<b>\$ 51,789</b>	<b>100.0</b>	<b>\$ 50,810</b>	<b>100.0</b>	<b>\$ 48,935</b>	<b>100.0</b>
<b>Change in Governmental Fund Balance.....</b>	<b>\$ 681</b>		<b>\$ (476)</b>		<b>\$ (2,001)</b>		<b>\$ (674)</b>		<b>\$ 467</b>	

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



	2006	% Total	2005	% Total	2004	% Total	2003	% Total	2002	% Total
\$	55	0.12	\$ 50	0.1	\$ 51	0.1	\$ 53	0.1	\$ 60	0.2
	660	1.47	580	1.4	577	1.4	568	1.3	593	1.5
	3	0.01	3	-	2	-	2	-	2	-
	5	0.01	5	-	5	-	5	-	6	-
	44	0.10	46	0.1	43	0.1	39	0.1	36	0.1
	4,803	10.68	4,706	11.0	4,535	10.8	4,446	10.3	3,558	9.2
	18	0.04	16	-	16	-	16	-	16	-
	52	0.12	70	0.2	52	0.1	55	0.1	62	0.2
	1	-	1	-	1	-	1	-	1	-
	94	0.21	84	0.2	86	0.2	85	0.2	89	0.2
	1	-	1	-	1	-	1	0.0	5	-
	247	0.55	216	0.5	218	0.5	215	0.5	216	0.6
	2	-	2	-	2	-	2	0.0	2	-
	8	0.02	7	-	6	-	6	-	10	-
	14	0.03	12	-	8	-	8	-	8	-
	1,651	3.67	1,536	3.6	1,508	3.7	1,202	2.8	1,361	3.5
	282	0.63	238	0.6	225	0.5	236	0.5	268	0.7
	536	1.19	483	1.1	470	1.1	476	1.1	449	1.2
	482	1.07	-	-	-	-	-	-	-	-
	5,865	13.04	6,208	14.5	5,868	14.0	5,327	12.3	5,386	13.9
	282	0.63	316	0.7	189	0.5	218	0.5	139	0.4
	-	-	-	-	-	-	-	-	-	-
	1,978	4.40	2,990	7.0	1,587	3.8	1,546	3.6	1,506	3.9
	2,330	5.18	-	-	-	-	-	-	-	-
	106	0.24	114	0.3	99	0.2	111	0.3	119	0.3
	1,165	2.59	1,053	2.5	1,039	2.5	991	2.3	999	2.6
	384	0.85	346	0.8	376	0.9	29	0.1	32	0.1
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	315	0.7	304	0.8
	-	-	-	-	-	-	55	0.1	63	0.2
	-	-	-	-	-	-	330	0.8	284	0.7
	8,151	18.12	7,706	18.0	6,909	16.5	6,177	14.3	5,979	15.4
	346	0.77	439	1.0	212	0.5	290	0.7	238	0.6
	4,674	10.39	4,515	10.5	4,861	11.6	5,103	11.8	5,231	13.5
	8	0.02	11	-	16	-	15	-	21	0.1
	1,754	3.90	1,863	4.3	2,120	5.1	2,526	5.8	2,562	6.6
	2,088	4.64	1,719	4.0	1,605	3.8	1,467	3.4	1,382	3.6
	633	1.41	1,153	2.7	2,833	6.8	3,398	7.9	1,277	3.3
	6,253	13.90	6,419	15.0	6,448	15.4	7,931	18.3	6,551	16.9
\$	44,975	100.0	\$ 42,908	99.9	\$ 41,968	100.0	\$ 43,245	100.0	\$ 38,815	100.0
\$	2,215		\$ 624		\$ 2,403		\$ (447)		\$ (1,788)	

## Personal Income by Industry Last Ten Calendar Years

(Amounts in millions)

	2010	2009	2008	2007
<b>Total personal income.....</b>	<b>\$ 336,400</b>	<b>\$ 324,680</b>	<b>\$ 335,722</b>	<b>\$ 322,543</b>
Unearned Income.....	81,190	78,336	80,365	71,529
Farm earnings.....	186	137	180	135
Nonfarm earnings.....	255,024	246,208	255,176	250,878
<b>Private earnings.....</b>	<b>223,784</b>	<b>215,396</b>	<b>225,122</b>	<b>222,302</b>
Agricultural services, forestry, fishing.....	383	376	383	405
Mining.....	97	101	181	301
Construction.....	11,687	11,717	13,671	14,900
<b>Manufacturing.....</b>	<b>25,108</b>	<b>23,290</b>	<b>25,449</b>	<b>25,865</b>
Durable goods.....	18,053	16,466	18,170	18,464
Nondurable goods.....	7,055	6,824	7,280	7,401
Transportation and utilities.....	6,208	6,029	6,235	5,891
Wholesale trade.....	12,501	12,458	13,412	13,025
Retail trade.....	12,599	12,255	12,545	12,960
Services.....	155,202	149,171	153,246	148,954
<b>Government.....</b>	<b>31,240</b>	<b>30,812</b>	<b>30,054</b>	<b>28,577</b>
Federal, civilian.....	5,431	5,314	5,157	5,045
Military.....	1,260	1,220	1,092	1,025
State and local.....	24,550	24,278	23,806	22,507
Personal income tax revenue (fiscal year, statutory basis).....	\$ 10,110	\$ 10,584	\$ 12,484	\$ 11,400
Total personal income.....	\$ 336,400	\$ 324,680	\$ 335,722	\$ 322,543
Average Effective Rate.....	3.0%	3.3%	3.7%	3.5%
Highest Earned Income Tax Rate.....	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.



	2006	2005	2004	2003	2002	2001
\$	<b>304,855</b>	\$ <b>282,368</b>	\$ <b>271,086</b>	\$ <b>258,600</b>	\$ <b>254,103</b>	\$ <b>253,007</b>
	65,384	55,211	51,966	52,227	51,123	49,830
	131	126	147	132	131	110
	239,340	227,030	218,974	206,242	202,849	203,068
	<b>211,900</b>	<b>200,639</b>	<b>193,996</b>	<b>182,312</b>	<b>179,478</b>	<b>180,697</b>
	396	400	371	315	299	278
	363	311	297	318	284	306
	15,193	14,460	13,976	13,223	13,301	12,878
	<b>24,698</b>	<b>24,485</b>	<b>24,356</b>	<b>24,159</b>	<b>24,560</b>	<b>26,170</b>
	17,639	17,539	17,547	17,175	17,772	19,204
	7,059	6,947	6,809	6,984	6,787	6,967
	5,706	5,456	5,388	5,226	5,141	5,327
	12,538	11,478	11,529	10,887	10,373	10,789
	12,952	13,188	12,900	12,472	11,919	11,624
	140,056	130,864	125,180	115,712	113,603	113,325
	<b>27,439</b>	<b>26,392</b>	<b>24,978</b>	<b>23,930</b>	<b>23,370</b>	<b>22,370</b>
	4,873	4,700	4,626	4,319	4,216	4,028
	1,005	1,009	934	897	733	583
	21,561	20,683	19,419	18,714	18,423	17,759
\$	10,483	\$ 9,690	\$ 8,830	\$ 8,026	\$ 7,913	\$ 9,903
\$	304,855	\$ 282,368	\$ 271,086	\$ 258,600	\$ 254,103	\$ 253,007
	3.4%	3.4%	3.3%	3.1%	3.1%	3.9%
	5.3%	5.3%	5.3%	5.3%	5.3%	5.6%

**Commonwealth of Massachusetts**  
**Personal Income Tax Filers and Liability by Income Level**  
**Calendar (Tax) Years 2009 and 2000**

(Amounts, except income level are in thousands)

<b>Calendar Year 2009 (or Fiscal Year 2010)</b>				
<b><u>Income Level</u></b>	<b><u>Number of Filers</u></b>	<b><u>Percentage of Total</u></b>	<b><u>Personal Income Tax Liability</u></b>	<b><u>Percentage of Total</u></b>
\$100,001 and higher	565,950	17%	\$ 6,236,117	64%
\$75,001 - \$100,000	280,653	8%	1,048,554	11%
\$50,001 - \$75,000	450,337	13%	1,144,959	12%
\$25,001 - \$50,000	749,799	22%	990,642	10%
\$10,001 - \$25,000	632,963	19%	251,104	3%
\$10,000 and lower	703,069	21%	27,975	0%
Total	<u>3,382,771</u>	<u>100%</u>	<u>\$ 9,699,351</u>	<u>100%</u>

<b>Calendar Year 2000 (or Fiscal Year 2001)</b>				
<b><u>Income Level</u></b>	<b><u>Number of Filers</u></b>	<b><u>Percentage of Total</u></b>	<b><u>Personal Income Tax Liability</u></b>	<b><u>Percentage of Total</u></b>
\$100,001 and higher	380,943	12%	\$ 5,364,943	59%
\$75,001 - \$100,000	250,888	8%	1,027,591	11%
\$50,001 - \$75,000	449,066	14%	1,252,591	14%
\$25,001 - \$50,000	837,263	25%	1,258,619	14%
\$10,001 - \$25,000	709,543	22%	348,082	4%
\$10,000 and lower	668,225	20%	25,365	0%
Total	<u>3,295,928</u>	<u>100%</u>	<u>\$ 9,277,191</u>	<u>100%</u>

Source: Massachusetts Department of Revenue - 2009 is the most recent tax year for which complete data are available.

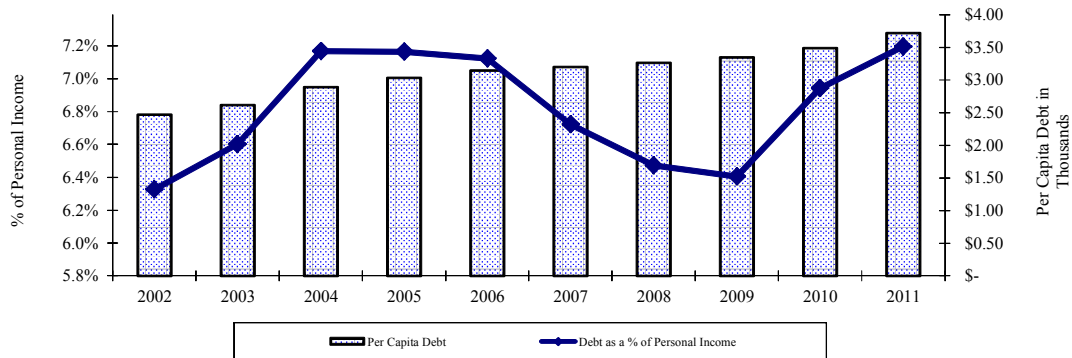
### Ten -Year Schedule Of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal year ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population <sup>(1)</sup>	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
	Bonded Debt <sup>(2)</sup>	Capital Leases <sup>(2)</sup>	Bonded Debt <sup>(2)</sup>	Capital Leases <sup>(2)</sup>					
2011	\$ 20,875,055	\$ 60,975	\$ 3,277,413	\$ 31,105	\$ 24,244,548	\$ 336,399,750	6,518	7.2%	\$ 3.72
2010	19,726,507	76,608	2,731,124	40,924	22,575,163	324,680,250	6,469	7.0%	3.49
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	335,721,500	6,432	6.4%	3.35
2008	18,734,440	83,741	2,026,551	67,631	20,912,363	322,542,500	6,410	6.5%	3.26
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	304,855,000	6,410	6.7%	3.20
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	282,367,750	6,403	7.1%	3.15
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	271,086,000	6,412	7.2%	3.03
2004	17,382,172	57,900	1,049,095	73,971	18,563,138	258,600,250	6,423	7.2%	2.89
2003	15,962,506	75,754	673,398	91,934	16,803,592	254,102,750	6,417	6.6%	2.62
2002	14,955,135	91,146	670,432	79,880	15,796,593	249,243,450	6,398	6.3%	2.47

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year  
 Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.) (2) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. Capital leases above exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit. Business - Type Activities includes notes payable of Institutions of Higher Education.

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



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

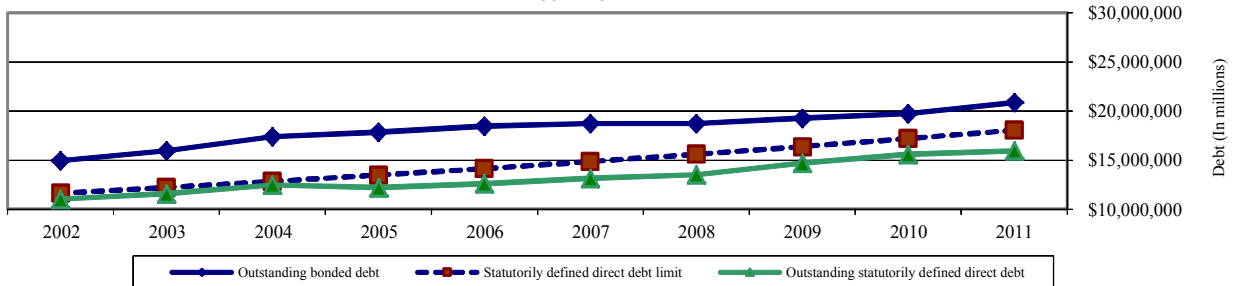
(Amounts in thousands)

	2011	2010	2009	2008
Outstanding debt for Statutory Purposes as of June 30 (1).....	\$ 20,875,055	\$ 19,726,507	\$ 19,264,569	\$ 18,734,440
Less amounts excluded by statute:				
Central artery project bonds net proceeds.....	(1,356,606)	(1,243,250)	(1,401,581)	(1,434,654)
Accelerated Bridge Program.....	(676,125)	-	-	-
County debt assumed.....	(150)	(225)	(300)	(375)
Premium / (Discount) and issuance costs.....	(335,078)	216,688	216,890	123,335
Grant anticipation notes (GANs) net proceeds (2).....	(666,790)	(997,467)	(1,134,797)	(1,536,206)
School Modernization and Reconstruction Trust bonds.....	(824,279)	(894,502)	(921,751)	(946,285)
Convention Center bonds net proceeds	(643,715)	(643,715)	(643,715)	(643,715)
MBTA forward funding bonds net proceeds	(44,472)	(165,559)	(231,000)	(309,203)
Special obligation gas bonds net proceeds.....	(371,665)	(419,785)	(456,984)	(482,953)
Outstanding statutorily defined direct debt.....	\$ 15,956,175	\$ 15,578,692	\$ 14,691,332	\$ 13,504,384
Statutorily defined direct debt limit.....	\$ 18,042,424	\$ 17,183,261	\$ 16,365,011	\$ 15,585,725
Debt margin (Debt limit less direct debt).....	\$ 1,839,771	\$ 1,604,569	\$ 1,673,679	\$ 2,081,341
Debt margin as a percentage of direct debt limit.....	10.20%	9.34%	10.23%	13.35%

(1) Exclusive of the Massachusetts School Building Authority debt.

(2) Inclusive of Crossover Refunding Amounts.

**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit  
2001 - 2011**



2007	2006	2005	2004	2003	2002
\$ 18,736,961	\$ 18,461,406	\$ 17,856,799	\$ 17,382,172	\$ 15,962,506	\$ 14,955,135
(1,462,870)	(1,476,287)	(1,336,741)	(1,066,638)	(1,386,869)	(838,193)
-	-	-	-	(10,600)	(22,043)
(450)	(525)	(600)	(675)	(855)	(1,115)
102,048	112,673	70,937	1,120	(68,718)	(181,910)
(1,666,690)	(1,789,876)	(1,908,015)	(1,908,015)	(1,500,000)	(1,500,000)
(946,285)	(1,000,002)	(500,000)	-	-	-
(643,715)	(643,715)	(693,400)	-	-	-
(368,873)	(416,830)	(511,546)	(601,027)	(680,869)	(625,000)
(617,226)	(647,551)	(792,148)	(1,347,882)	(748,124)	(772,812)
<u>\$ 13,132,900</u>	<u>\$ 12,599,293</u>	<u>\$ 12,185,286</u>	<u>\$ 12,459,055</u>	<u>\$ 11,566,472</u>	<u>\$ 11,014,062</u>
<u>\$ 14,843,547</u>	<u>\$ 14,136,712</u>	<u>\$ 13,463,535</u>	<u>\$ 12,822,414</u>	<u>\$ 12,211,823</u>	<u>\$ 11,630,307</u>
<u>\$ 1,710,647</u>	<u>\$ 1,537,418</u>	<u>\$ 1,278,249</u>	<u>\$ 363,359</u>	<u>\$ 645,352</u>	<u>\$ 616,245</u>
<u>11.52%</u>	<u>10.88%</u>	<u>9.49%</u>	<u>2.83%</u>	<u>5.28%</u>	<u>5.30%</u>

## 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)

	2011	2010	2009	2008
<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 are secured by a senior lien on 14.085 cents of the total 21 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas, and all Registry of Motor vehicle fees deposited in the Commonwealth Transportation Fund. The bonds also have a subordinate lien on 6.86¢ of the 21¢ per gallon gasoline tax not included in the senior lien. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds/Recovery Zone Economic Development Bonds; the programs provide an interest subsidy of 35-45% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.				
<b>Pre-2010 Bond Issues</b>				
Tax Receipts.....	\$ 189,763	\$ 188,666	\$ 189,246	\$ 194,785
Operating Expenses.....	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 189,763	\$ 188,666	\$ 189,246	\$ 194,785
Annual Debt Service.....	\$ 59,453	\$ 58,931	\$ 58,924	\$ 56,535
Debt Service Coverage Ratio.....	3.19	3.20	3.21	3.45
Ratings History of Bonds*	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA
<b>December 2010 Bond Issue (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds for FY11 Q3-Q4)</b>				
Receipts.....	\$ 626,619			
Operating Expenses.....	N/A			
Net Available Revenues.....	\$ 626,619			
Annual Debt Service.....	\$ 14,318			
Debt Service Coverage Ratio.....	43.76			
Ratings History of Bonds*	AAA, 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 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.....	\$ 84,905	\$ 75,432	\$ 73,918	\$ 78,984
Operating Expenses.....	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 84,905	\$ 75,432	\$ 73,918	\$ 78,984
Annual Debt Service.....	\$ 35,391	\$ 36,296	\$ 36,293	\$ 35,600
Debt Service Coverage Ratio.....	2.40	2.08	2.04	2.22
Ratings History of Bonds*	A2, A	A2, A	A2, A	A2, A
<b>Grant Anticipation Notes (GANS)</b>				
Notes issued prior to December 2010 ("Senior Federal Highway 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.....	\$ 623,410	\$ 761,351	\$ 828,956	\$ 463,588
Operating Expenses.....	N/A	N/A	N/A	N/A
Net Available Revenues.....	\$ 623,410	\$ 761,351	\$ 828,956	\$ 463,588
Annual Debt Service.....	\$ 188,379	\$ 196,248	\$ 204,788	\$ 211,709
Debt Service Coverage Ratio.....	3.31	3.88	4.05	2.19
Ratings History of Bonds*	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
Amount appropriated for national federal highway spending (federal fiscal year) (1) .....	\$ 41,955	\$ 43,040	\$ 39,358	\$ 36,747
<b>December 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds and GANS for FY11Q3-Q4)</b>				
Receipts.....	\$ 909,546			
Operating Expenses.....	N/A			
Net Available Revenues.....	\$ 909,546			
Annual Debt Service.....	\$ 2,039.28			
Debt Service Coverage Ratio.....	446.01			
Ratings History of Bonds*	AAA, Aa2, AA+			

(1) Source: The Federal Budget for Fiscal 2012, Historical Tables, Table 9.6 2011 is estimated. \*Uninsured rating, if available.

	2007	2006	2005	2004	2003	2002
\$	148,047	\$ 239,469	\$ 196,210	\$ 196,380	\$ 194,232	\$ 191,559
	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$	148,047	\$ 239,469	\$ 196,210	\$ 196,380	\$ 194,232	\$ 191,559
\$	58,867	\$ 56,545	\$ 48,378	\$ 124,751	\$ 52,123	\$ 52,123
	2.51	4.24	4.06	1.57	3.73	3.68
	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-

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

\$	462,484	\$ 451,284	\$ 449,331	\$ 599,040	\$ 507,716	\$ 497,453
	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$	462,484	\$ 451,284	\$ 449,331	\$ 599,040	\$ 507,716	\$ 497,453
\$	211,712	\$ 211,712	\$ 95,223	\$ 93,466	\$ 74,822	\$ 74,821
	2.18	2.13	4.72	6.41	6.79	6.65
	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
\$	34,373	\$ 33,975	\$ 31,433	\$ 30,188	\$ 30,379	\$ 30,115

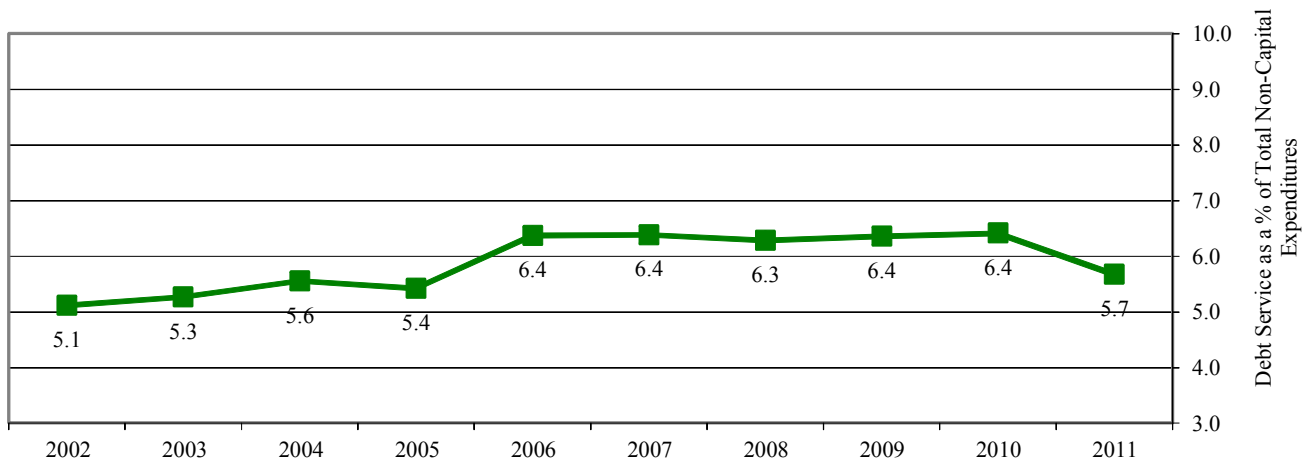
**Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures  
For General Bonded Debt To Total Non-Capital Expenditures - Fund Perspective  
All Governmental Fund Types**

(Amounts in millions)

Fiscal year ended June 30	Debt service	Total Non-capital expenditures	Ratio
2011	\$ 2,220	\$ 39,127	5.7
2010	2,407	37,519	6.4
2009	2,410	37,878	6.4
2008	2,239	35,609	6.3
2007	2,166	33,918	6.4
2006	2,028	31,831	6.4
2005	1,719	31,700	5.4
2004	1,605	28,888	5.6
2003	1,467	27,858	5.3
2002	1,382	26,998	5.1
2001	1,408	25,295	5.6

*Amounts are shown net of Massachusetts School Building Authority expenditures and debt service. Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.*

**Debt Service to Non-Capital Expenditures Ratio 2002- 2011**





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

(Amounts in thousands)

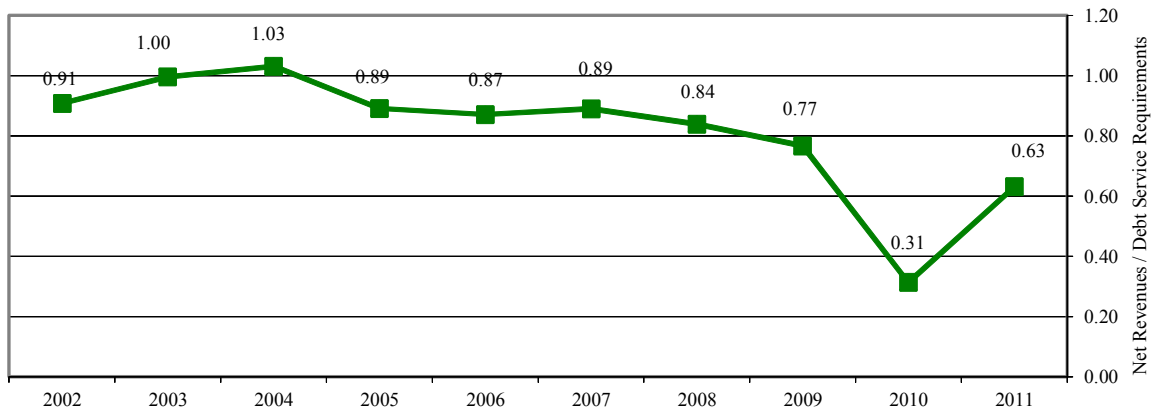
Fiscal year ended June 30	Net revenues <sup>(1)</sup>	Debt service requirements <sup>(2)</sup>	Coverage Ratio
2011	\$ 738,470	\$ 1,170,149	0.63
2010	433,617	1,383,231	0.31
2009	805,316	1,050,655	0.77
2008	728,445	868,331	0.84
2007	870,919	978,819	0.89
2006	717,190	823,406	0.87
2005	648,282	727,316	0.89
2004	700,677	679,457	1.03
2003	663,234	665,538	1.00
2002	716,951	789,318	0.91

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

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

Source: Office of the Comptroller

### Component Units Revenue Bond Coverage 2002 - 2011



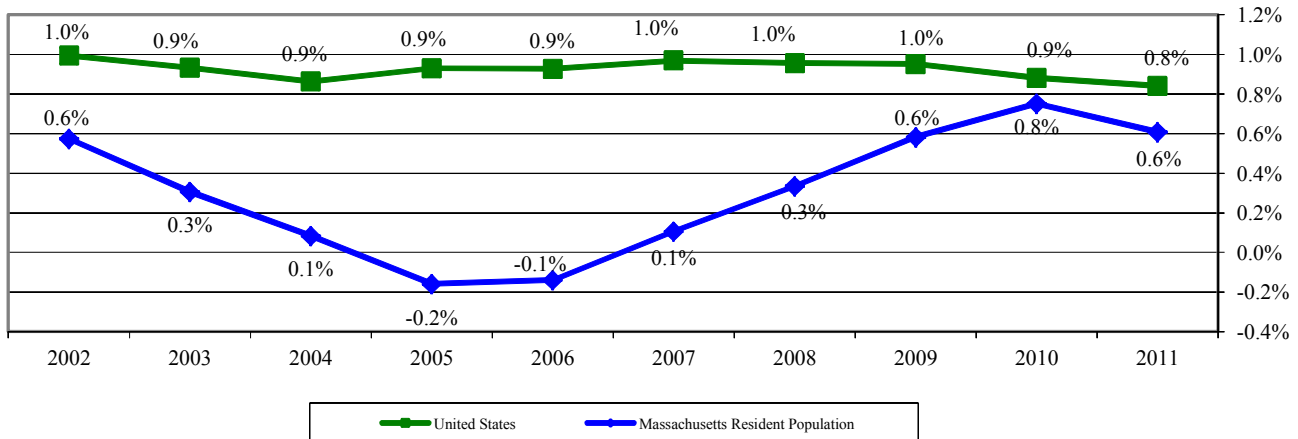
## Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Beginning of Fiscal Year	United States	% Change	Massachusetts Resident Population <sup>(1)</sup>	% Change	Massachusetts as % of U.S.
2011	309,350	0.8%	6,557	0.6%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%
2008	301,231	1.0%	6,432	0.3%	2.1%
2007	298,380	1.0%	6,410	0.1%	2.1%
2006	295,517	0.9%	6,403	-0.1%	2.2%
2005	292,805	0.9%	6,412	-0.2%	2.2%
2004	290,108	0.9%	6,423	0.1%	2.2%
2003	287,625	0.9%	6,417	0.3%	2.2%
2002	284,969	1.0%	6,398	0.6%	2.2%

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau).*

**Massachusetts and United States Estimated Year- to- Year Population Change  
2002 - 2011**

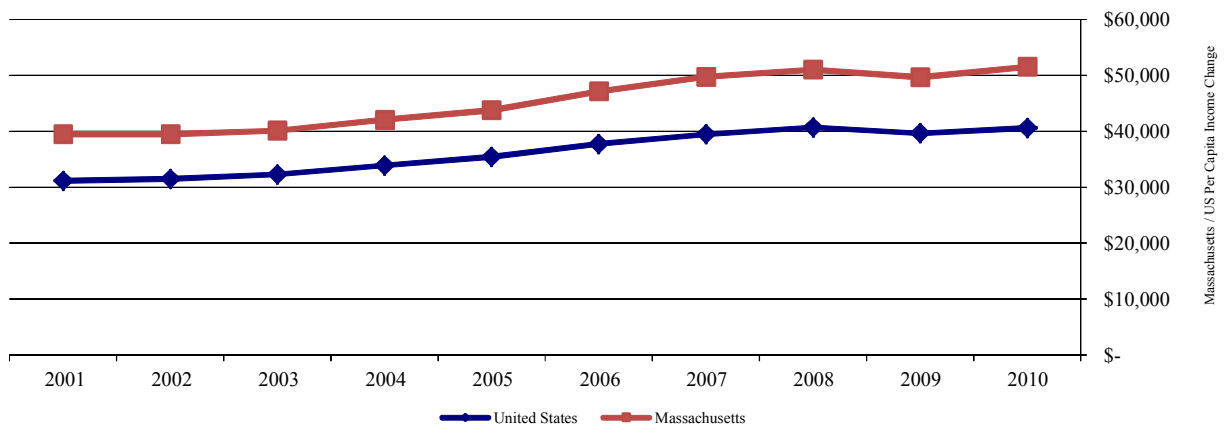


## Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Calendar Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2010	40,584	2.4%	51,552	3.8%	127.0%
2009	39,626	-2.6%	49,643	-2.7%	125.3%
2008	40,673	4.3%	51,028	4.3%	127.5%
2007	39,458	4.7%	49,727	5.5%	126.0%
2006	37,698	6.4%	47,144	7.7%	125.1%
2005	35,424	4.6%	43,757	4.1%	123.5%
2004	33,881	5.0%	42,021	4.8%	124.0%
2003	32,271	2.6%	40,083	1.6%	124.2%
2002	31,461	1.0%	39,451	0.0%	125.4%
2001	31,145	2.7%	39,460	3.3%	126.7%

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

**Massachusetts vs. United States Year-to-Year Per Capita Net Income  
Calendar Years 2001 - 2010**



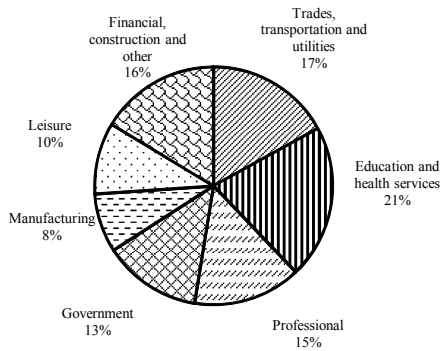
## Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2011

(Amounts in thousands)

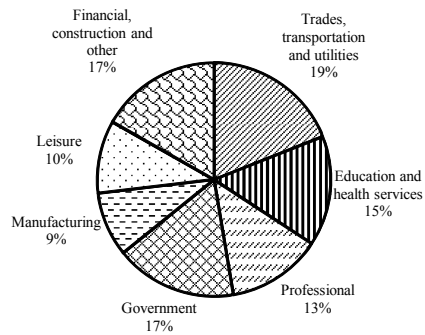
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	259	8.0%	11,724	9.0%	89.4%
Non-manufacturing:					
Construction	110	3.4%	5,522	4.2%	80.7%
Trade, Transportation and Utilities	549	17.0%	24,919	19.0%	89.2%
Education and health services	677	20.9%	19,944	15.2%	137.4%
Financial activities	209	6.5%	7,609	5.8%	111.2%
Information activities	90	2.8%	2,682	2.0%	135.9%
Leisure and hospitality services	315	9.7%	13,202	10.1%	96.6%
Professional and business services	475	14.7%	17,155	13.1%	112.1%
Natural Resources, Mining and Other	120	3.7%	6,177	4.7%	78.7%
Federal, state and local government	431	13.3%	22,050	16.8%	79.1%
<b>Total Non-manufacturing</b>	<b>2,976</b>	<b>92.0%</b>	<b>119,260</b>	<b>91.0%</b>	<b>101.0%</b>
<b>Total</b>	<b>3,235</b>	<b>100.0%</b>	<b>130,984</b>	<b>100.0%</b>	

*Source: - Bureau of Labor Statistics, June 2011 Employment, seasonally adjusted, data as of November 2011.*

**Massachusetts Employment by Industry  
June 2011**



**United States Employment by Industry  
June 2011**

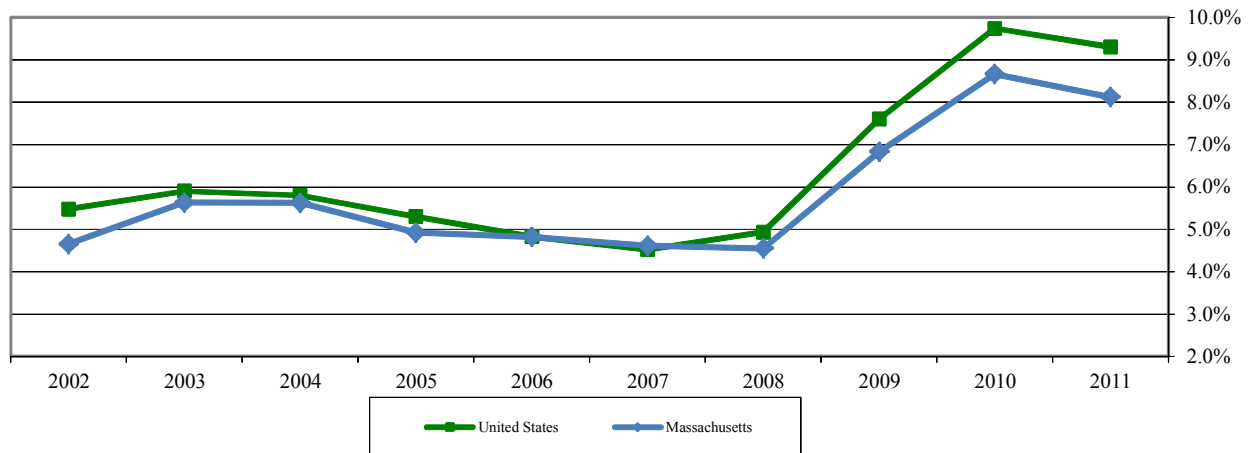


**Ten-Year Schedule Of Fiscal Year Annual Average Civilian Labor Force,  
Unemployment And Unemployment Rates  
For Massachusetts And The United States**

(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 %	
2011	3,497	284	8.1%	153,654	14,288	9.3%	87.4%
2010	3,484	302	8.7%	153,916	15,006	9.7%	89.0%
2009	3,479	238	6.8%	154,555	11,758	7.6%	89.9%
2008	3,446	157	4.6%	153,686	7,591	4.9%	92.2%
2007	3,432	158	4.6%	152,436	6,898	4.5%	102.2%
2006	3,399	164	4.8%	150,353	7,252	4.8%	100.0%
2005	3,376	166	4.9%	148,241	7,861	5.3%	92.6%
2004	3,396	191	5.6%	146,815	8,512	5.8%	96.7%
2003	3,421	193	5.6%	145,740	8,600	5.9%	95.6%
2002	3,412	159	4.7%	144,254	7,901	5.5%	85.1%
2001	3,380	99	2.9%	143,151	5,939	4.1%	70.8%

**Massachusetts and United States Average Unemployment Rates  
FY2002 to FY2011**



Source: - Federal Bureau of Labor Statistics, November 2011. Seasonally adjusted. Previous data may be updated by the Federal Bureau of Labor Statistics.

**Largest Private Sector Massachusetts Employers 2011 and 2002**  
(Alphabetical Order)

<u>2011</u>			<u>2002</u>		
<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>
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	Brigham and Women's Hospital, Inc.	Boston	Hospital
Brigham and Women's Hospital, Inc.	Boston	Hospital	Caritas Christi Inc	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	CGU Corp	Boston	Insurance
EMC Corporation	Hopkinton	Computer Storage & Peripherals	Children's Hospital Corp	Boston	Hospital
General Hospital Corporation	Boston	Hospital	Dennison Manufacturing	Frammingham	Office Products
Harvard University	Cambridge	University	FMR Co. (Fidelity)	Boston	Investments
Massachusetts Institute of Technology	Cambridge	University	John Hancock Life Insurance Company	Boston	Insurance
Partners Healthcare Systems, Inc.	Boston	Hospital	Lahey Clinic	Burlington	Hospital
Raytheon Company	Lexington	Electronics / Defense	Liberty Mutual Insurance Company, Inc. (and Subsidiaries)	Boston	Insurance
S & S Credit Company, Inc (Stop & Shop)	Quincy	Supermarket	Massachusetts General Hospital	Boston	Hospital
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Massachusetts Mutual Life Insurance Co	Springfield	Insurance
Southcoast Hospitals Group	New Bedford	Hospital	New England Medical Center Hospitals	Boston	Hospital
State Street Bank and Trust Company	Boston	Banking	Putnam Investments	Boston	Investments
The Children's Hospital Corporation	Boston	Hospital	Raytheon Company	Lexington	Electronics / Defense
UMASS Memorial Medical Center, Inc.	Worcester	Hospital	State Street Bank and Trust Company	Boston	Banking
			Tufts Associated Health Maintenance Organization	Waltham	HMO

*Source: - Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2011 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.*

## Standard and Poors 500 Companies Headquartered in Massachusetts

<u>Company</u>	<u>Stock Symbol</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Worldwide Employees</u>	<u>Latest Audited Revenues (\$millions)</u>	<u>Fortune 500 Rank</u>	
						<u>2011</u>	<u>2010</u>
Raytheon Corp.	RTN	Waltham	Industrials	72,400	25,300	104	95
Staples Inc.	SPLS	Framingham	Consumer Discretionary	52,919	24,980	108	101
TJX Companies Inc.	TJX	Framingham	Consumer Discretionary	166,000	22,810	119	119
EMC Corporation	EMC	Hopkinton	Information Technology	48,500	19,320	152	166
Thermo Fisher Scientific	TMO	Waltham	Health Care	37,200	11,530	227	234
State Street Corp.	STT	Boston	Diversified Financial Services	29,685	9,320	253	249
Analog Devices	ADI	Norwood	Information Technology	2,990	9,200	-	-
Boston Scientific	BSX	Natick	Health Care Equipment	25,000	7,780	305	279
Biogen IDEC Inc.	BIIB	Weston	Health Care	4,850	4,930	476	471
Iron Mountain Incorporated	IRM	Boston	Industrials	19,500	3,230	-	-
American Tower Corp.	AMT	Boston	Telecommunication Services	1,729	2,340	-	-
PerkinElmer Inc.	PKI	Waltham	Health Care	6,200	1,850	-	-
Waters Corporation	WAT	Milford	Health Care	5,381	1,810	-	-
Boston Properties	BXP	Boston	Financials	680	1,740	-	-
Teradyne Inc.	TER	North Reading	Information Technology	3,000	1,480	-	-
Akamai Technologies Inc.	AKAM	Cambridge	Information Technology	2,200	1,120	-	-

Sources: - Standard and Poors (from Standardandpoors.com) , Finance.Yahoo.com and Fortune Magazine (from fortune.com). Massachusetts Mutual Life Insurance, Liberty Mutual Insurance Group, B.J's Wholesale Club, Global Partners and Perini are part of the Fortune 500, but are not part of the Standard and Poors 500.

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

Functions / Programs	2011	2010	2009	2008	2007
General Government.....	8,020	8,280	6,277	6,368	6,204
Judiciary.....	7,111	7,388	7,821	8,021	7,993
Energy and Environmental affairs.....	2,737	2,783	2,955	2,928	2,847
Health and human services.....	21,011	21,401	22,605	23,322	22,972
Transportation and construction.....	4,209	4,127	3,043	2,892	1,903
Education.....	1,037	1,575	844	615	617
Public safety and homeland security.....	15,785	15,857	13,951	14,242	14,550
Housing and economic development.....	831	846	2,314	2,302	2,339
Higher Education:					
University of Massachusetts.....	14,159	14,031	13,814	13,651	13,602
State colleges.....	4,487	4,282	4,650	4,519	4,495
Community colleges.....	4,684	4,276	4,781	4,775	4,689
<b>Totals.....</b>	<b>84,070</b>	<b>84,846</b>	<b>83,055</b>	<b>83,636</b>	<b>82,211</b>
<b>Percentage Change .....</b>	<b>-1%</b>	<b>2%</b>	<b>-1%</b>	<b>2%</b>	<b>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 constructions 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).



2006	2005	2004	2003	2002	Change - 2011 from 2002
6,177	5,750	5,449	5,644	5,724	40%
7,635	7,467	7,099	7,198	7,393	-4%
2,686	2,744	2,612	2,814	2,949	-7%
22,935	22,855	22,229	23,087	23,269	-10%
2,708	2,759	1,794	1,843	1,820	131%
651	587	569	579	545	90%
13,517	13,152	13,578	13,964	14,446	9%
2,264	2,299	2,300	2,322	2,382	-65%
13,360	12,807	12,356	12,513	11,821	20%
4,301	4,224	3,914	3,957	3,812	18%
4,603	4,523	4,219	4,408	4,340	8%
<b>80,837</b>	<b>79,167</b>	<b>76,120</b>	<b>78,328</b>	<b>78,501</b>	7%
<b>2%</b>	<b>4%</b>	<b>-3%</b>	<b>0%</b>	<b>-6%</b>	

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

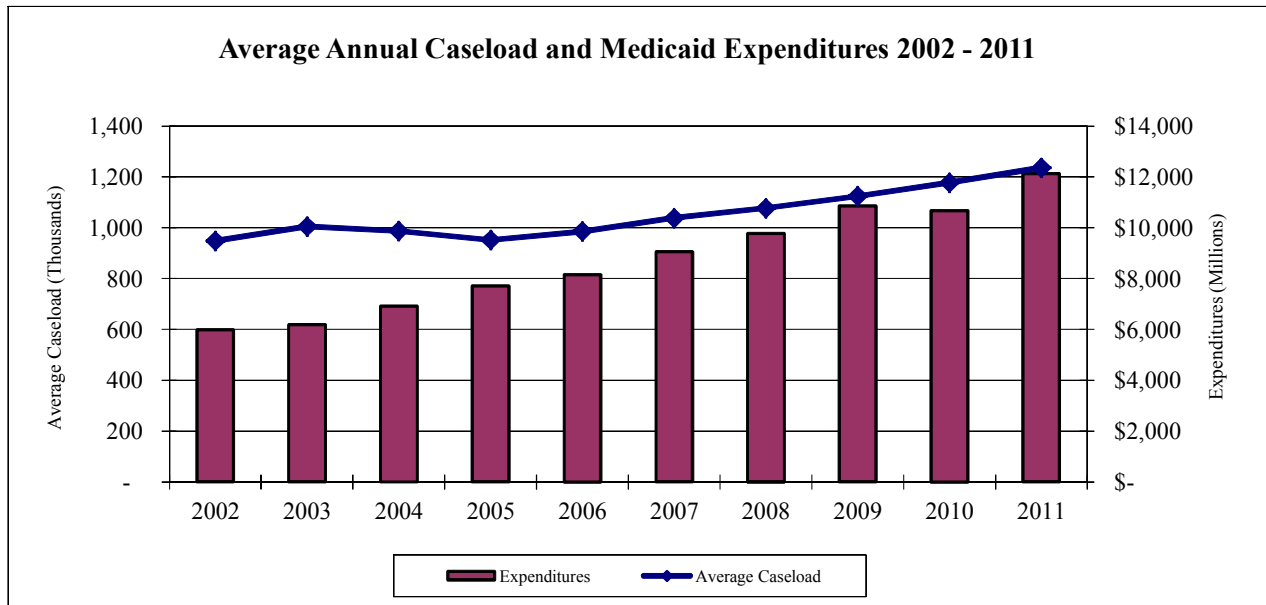
Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2010	2,793	13,841	5,806	36,011	58,451	-18.69%	99.8%	0.2%
2009	3,212	14,974	9,589	44,112	71,887	0.30%	81.1%	18.9%
2008	3,212	14,976	9,591	43,893	71,672	0.41%	81.1%	18.9%
2007	3,213	14,993	9,566	43,612	71,383	0.17%	80.9%	19.1%
2006	3,209	14,958	9,567	43,527	71,261	0.31%	81.0%	19.0%
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81.0%	19.0%
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%
2002	3,186	13,513	10,950	42,654	70,295	0.21%	68.7%	31.3%
2001	3,186	13,478	10,946	42,539	70,149	0.28%	68.7%	31.3%

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

## 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
2011	1,317	\$ 12,124	\$ 9,206
2010	1,236	10,678	8,639
2009	1,178	10,843	9,205
2008	1,124	9,770	8,690
2007	1,077	9,044	8,397
2006	1,038	8,151	7,853
2005	986	7,706	7,815
2004	952	6,909	7,257
2003	987	6,177	6,258
2002	1,005	5,979	5,949
2001	948	4,761	5,022



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

Functions / Programs	Survey Year 2011	Survey Year 2010	Survey Year 2009	Survey Year 2008	Survey Year 2007
<b>General Government:</b>					
Total Acreage	2,993	2,373	2,495	1,858	1,681
Number of Improvements	255	227	240	163	84
Gross square footage	7,206,548	6,797,819	6,660,792	5,736,028	4,767,751
<b>Judiciary:</b>					
Total Acreage	141	141	141	145	135
Number of Improvements	68	68	69	71	71
Gross square footage	4,787,564	4,787,564	4,826,836	5,080,836	4,889,645
<b>Energy and environmental affairs</b>					
Total Acreage	627,286	623,952	606,662	591,511	586,173
Number of Improvements	2,182	2,183	2,170	2,162	2,156
Gross square footage	7,295,922	7,299,322	7,246,280	7,242,870	7,185,678
<b>Housing and economic development:</b>					
Total Acreage	2	2	2	2	2
Number of Improvements	6	6	6	6	6
Gross square footage	77,642	77,642	77,642	77,642	77,642
<b>Health and human services:</b>					
Total Acreage	6,449	7,196	7,166	7,259	7,604
Number of Improvements	866	866	902	980	1,059
Gross square footage	10,834,266	10,809,259	11,214,034	12,270,433	13,371,858
<b>Transportation and public works:</b>					
Total Acreage	7,013	6,966	7,050	6,930	6,933
Number of Improvements	918	918	915	915	914
Gross square footage	4,873,783	4,876,689	4,876,936	4,876,936	4,856,942
<b>Education:</b>					
Total Acreage	233	233	233	233	233
Number of Improvements	43	43	43	43	43
Gross square footage	272,352	272,352	272,352	272,352	272,352
<b>Public safety and homeland security:</b>					
Total Acreage	19,158	18,693	18,331	18,324	18,319
Number of Improvements	991	1,029	1,028	1,023	1,031
Gross square footage	12,141,396	12,685,447	12,632,897	12,631,497	12,768,250
<b>Higher Education:</b>					
Total Acreage	7,178	7,169	7,151	7,149	7,133
Number of Improvements	987	975	937	940	932
Gross square footage	32,144,815	32,117,854	31,101,329	31,197,929	30,947,996
<b>Totals for Commonwealth (exclusive of Component Units):</b>					
<b>Total Acreage</b>	<b>670,454</b>	<b>666,725</b>	<b>649,231</b>	<b>633,412</b>	<b>628,212</b>
<b>Number of Improvements</b>	<b>6,316</b>	<b>6,315</b>	<b>6,310</b>	<b>6,303</b>	<b>6,296</b>
<b>Gross square footage</b>	<b>79,634,288</b>	<b>79,723,948</b>	<b>78,909,098</b>	<b>79,386,523</b>	<b>79,138,114</b>
<b>Percentage Change for Commonwealth:</b>					
<b>Acreage</b>	<b>0.6%</b>	<b>2.7%</b>	<b>2.5%</b>	<b>0.8%</b>	<b>2.8%</b>
<b>Improvements</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>-1.3%</b>
<b>Gross square footage</b>	<b>-0.1%</b>	<b>1.0%</b>	<b>-0.6%</b>	<b>0.3%</b>	<b>-0.4%</b>

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due to the absorption of county properties. See [http://www.mass.gov/Eoaf/docs/dcam/dlforms/re/massets\\_report\\_2010.pdf](http://www.mass.gov/Eoaf/docs/dcam/dlforms/re/massets_report_2010.pdf).

Survey Year 2006	Survey Year 2005	Survey Year 2004	Survey Year 2003	Survey Year 2002
2,050	2,772	2,486	3,137	3,750
232	300	306	263	352
6,745,962	8,429,827	8,315,791	8,428,905	10,124,543
118	117	114	113	113
68	68	68	68	68
4,351,128	4,884,206	4,884,206	4,952,821	4,887,321
569,282	558,347	552,857	539,437	511,732
2,159	2,168	1,916	1,903	2,042
7,057,840	7,039,038	6,677,076	6,601,985	6,965,507
2	2	2	2	2
6	6	6	6	6
77,642	76,812	76,812	76,812	76,812
7,615	7,311	7,284	7,561	7,784
1,001	992	997	1,068	1,110
12,333,804	12,251,382	12,493,551	13,339,508	13,669,358
7,217	7,175	7,513	7,736	7,484
910	908	909	909	965
4,845,365	4,812,965	4,821,599	4,823,279	4,954,627
233	233	234	233	-
43	43	44	43	-
272,352	272,352	272,352	272,352	-
17,530	17,515	17,454	17,485	17,391
1,026	1,038	1,037	1,069	1,113
12,885,742	13,137,177	13,131,414	13,563,676	13,630,934
7,089	7,138	7,163	7,169	7,353
933	941	939	935	990
30,870,743	30,997,427	30,728,820	30,267,370	30,975,993
<b>611,136</b>	<b>600,609</b>	<b>595,107</b>	<b>582,873</b>	<b>555,609</b>
<b>6,378</b>	<b>6,464</b>	<b>6,222</b>	<b>6,264</b>	<b>6,646</b>
<b>79,440,578</b>	<b>81,901,186</b>	<b>81,401,621</b>	<b>82,326,708</b>	<b>85,285,095</b>
1.8%	0.9%	2.1%	4.9%	3.3%
-1.3%	3.9%	-0.7%	-5.7%	22.1%
-3.0%	0.6%	-1.1%	-3.5%	12.5%

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

Academic Year	Fall 2010	Fall 2009	Fall 2008	Fall 2007	Fall 2006	Fall 2005
<b><u>ENROLLMENT, TUITION AND FEES</u></b>						
<b><u>University System</u></b>						
Undergraduate (FTE).....	48,018	44,543	42,768	40,806	39,283	38,286
Graduate (FTE).....	11,734	10,177	9,460	9,328	8,906	8,549
<b>System Enrollment.....</b>	<b>59,752</b>	<b>54,720</b>	<b>52,228</b>	<b>50,134</b>	<b>48,189</b>	<b>46,835</b>
<b>Tuition and Fees (per student)</b>						
<b>Resident (undergraduate).....</b>	<b>\$ 10,804</b>	<b>\$ 9,704</b>	<b>\$ 9,585</b>	<b>\$ 9,305</b>	<b>\$ 9,000</b>	<b>\$ 8,697</b>
<b><u>State University System</u></b>						
Undergraduate (FTE).....	36,721	34,129	33,040	32,106	31,384	30,464
Graduate (FTE).....	7,227	4,582	4,495	4,428	4,352	4,258
<b>System Enrollment.....</b>	<b>43,948</b>	<b>38,711</b>	<b>37,535</b>	<b>36,535</b>	<b>35,736</b>	<b>34,722</b>
<b>Tuition and Fees (per student)</b>						
<b>Resident (undergraduate).....</b>	<b>\$ 7,436</b>	<b>\$ 6,880</b>	<b>\$ 6,399</b>	<b>\$ 6,123</b>	<b>\$ 5,855</b>	<b>\$ 5,448</b>
<b><u>Community College System</u></b>						
Undergraduate (FTE).....	64,971	60,602	54,228	51,257	49,347	48,555
<b>Tuition and Fees (per student).....</b>						
<b>Resident.....</b>	<b>\$ 4,625</b>	<b>\$ 4,305</b>	<b>\$ 3,851</b>	<b>\$ 3,654</b>	<b>\$ 3,526</b>	<b>\$ 3,477</b>
	2011	2010	2009	2008	2007	2006
<b><u>DEGREES CONFERRED</u></b>						
<b><u>University System</u></b>						
Certificates (MD's).....	246	329	280	270	268	260
Associate's.....	100	111	103	96	117	99
Bachelors.....	9,958	9,362	8,763	8,437	8,191	8,089
Masters.....	3,242	3,029	2,882	2,808	2,503	2,484
Doctoral.....	414	400	381	390	443	371
Cert. of Adv. Grad. Study.....	87	79	70	86	77	97
Post-Bacc. Certificate.....	550	509	173	133	146	115
First Professional.....	47	-	-	-	-	-
<b>Total Degrees.....</b>	<b>14,644</b>	<b>13,819</b>	<b>12,652</b>	<b>12,220</b>	<b>11,745</b>	<b>11,515</b>
<b><u>State University System</u></b>						
Certificates.....	35	572	605	597	615	556
Bachelors.....	7,190	6,886	6,621	6,328	6,207	5,885
Masters.....	2,376	2,467	2,343	2,318	2,201	2,190
Cert. of Adv. Grad. Study.....	116	170	157	224	151	179
Post-Bacc. Certificate.....	408	362	406	347	431	361
<b>Total Degrees.....</b>	<b>10,125</b>	<b>10,457</b>	<b>10,132</b>	<b>9,814</b>	<b>9,605</b>	<b>9,171</b>
<b><u>Community College System</u></b>						
Certificates.....	3,020	2,770	2,587	2,495	2,297	2,422
Associates.....	9,693	9,257	8,549	8,247	7,942	8,024
<b>Total Degrees.....</b>	<b>12,713</b>	<b>12,027</b>	<b>11,136</b>	<b>10,742</b>	<b>10,239</b>	<b>10,446</b>
<b>Total All Systems - Degrees.....</b>	<b>37,482</b>	<b>36,303</b>	<b>33,920</b>	<b>31,986</b>	<b>31,589</b>	<b>31,132</b>

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

Fall 2004	Fall 2003	Fall 2002	Fall 2001	Change - 2010 from 2001
37,598	37,904	37,762	37,961	26.5%
8,494	8,494	8,334	8,223	43%
<b>46,093</b>	<b>46,398</b>	<b>46,097</b>	<b>46,184</b>	<b>29.4%</b>
<b>\$ 8,437</b>	<b>\$ 6,801</b>	<b>\$ 5,798</b>	<b>\$ 4,693</b>	<b>130.2%</b>
29,051	29,238	26,489	623	5794.2%
8,658	8,360	7,296	7,138	1%
<b>37,709</b>	<b>37,598</b>	<b>33,785</b>	<b>7,761</b>	<b>466.3%</b>
<b>\$ 5,100</b>	<b>\$ 4,590</b>	<b>\$ 3,743</b>	<b>\$ 2,954</b>	<b>151.7%</b>
50,972	51,067	49,483	46,756	39.0%
<b>\$ 3,380</b>	<b>\$ 3,265</b>	<b>\$ 2,833</b>	<b>\$ 2,273</b>	<b>-100.0%</b>
2005	2004	2003	2002	Change - 2010 from 2001
167	150	146	196	25.5%
95	119	106	111	-9.9%
8,205	7,764	7,645	7,525	32.3%
2,588	2,467	2,311	2,165	49.7%
389	407	322	358	15.6%
88	67	63	78	11.5%
63	56	30	38	N/A
-	-	-	-	N/A
<b>11,595</b>	<b>11,030</b>	<b>10,623</b>	<b>10,471</b>	<b>39.9%</b>
540	490	535	313	-88.8%
5,549	5,525	5,545	5,096	41.1%
2,048	2,157	2,053	1,881	26.3%
142	108	121	61	90.2%
369	361	392	222	83.8%
<b>8,648</b>	<b>8,641</b>	<b>8,646</b>	<b>7,573</b>	<b>33.7%</b>
2,278	2,281	1,947	1,930	56.5%
7,993	7,670	7,184	6,939	-100.0%
<b>10,271</b>	<b>9,951</b>	<b>9,131</b>	<b>8,869</b>	<b>43.3%</b>
<b>30,514</b>	<b>29,622</b>	<b>28,400</b>	<b>26,913</b>	<b>39%</b>

## Calculation of Transfers: Stabilization Fund

June 30, 2011

(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as most recently amended by Section 171 of Chapter 68 of the Acts of 2011, which superseded certain parts of the 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.

	<u>General</u>	<u>Commonwealth Transportation</u>	<u>Workforce Training</u>	<u>Massachusetts Tourism</u>	<u>Commonwealth Substance Abuse Prevention &amp; Treatment</u>	<u>Marine Recreational Fisheries Development</u>	<u>Total</u>
<b>Undesignated Budgeted Fund Balances Before Transfers</b>	<b>\$ 425,882</b>	<b>\$ 60,498</b>	<b>\$ 3,834</b>	<b>\$ 36,682</b>	<b>\$ (64,732)</b>	<b>\$ 319</b>	<b>\$ 462,483</b>
<b>Fund Balance Deficit Elimination Transfers Per Ch. 29, Sec. 5c</b>	(52,290)	(7,428)	(471)	(4,504)	64,732	(39)	-
<b>Fund Balances after Deficit Elimination Transfers per Ch. 29, Sec. 5c (Consolidated Net Surplus)</b>	<b>373,592</b>	<b>53,070</b>	<b>3,364</b>	<b>32,178</b>	<b>-</b>	<b>280</b>	<b>462,483</b>
<b>Statutory Carryforwards and Transfers</b>							
1/2 of 1% of Tax Revenue Carryforward per Sec. 171 of Ch. 68 of Acts of 2011 (see Schedule A) and per Ch. 29, Sec. 5c	(83,912)	(11,920)	(755)	(7,227)	-	(63)	(103,878)
1/2 of 1% of Tax Revenue Deposited in Stabilization Fund per Sec. 171 of Ch. 68 of Acts of 2011 (see Schedule A) and per Ch. 29, Sec. 5c	(83,912)	(11,920)	(755)	(7,227)	-	(63)	(103,878)
\$10 Million Transfer from General to Massachusetts Life Sciences Investment Fund per Sec. 171 of Ch. 68 of the Acts of 2011	(10,000)	-	-	-	-	-	(10,000)
<b>Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund</b>	<b>195,767</b>	<b>29,230</b>	<b>1,853</b>	<b>17,723</b>	<b>-</b>	<b>154</b>	<b>244,727</b>
<b>Stabilization Balance Reconciliation:</b>							
Balance as of July 1, 2010							
Capital Gains Tax Transfers to Stabilization Fund during FY 2011 per Chapter 29, Section 5G							\$ 669,803
Investment income, certain tax revenues and other recoveries							-
Less: Transfers from Stabilization Fund							10,663
Investment Income per Sec. 143 of the Acts of 2010						(7,089)	
Change in Market Value per Sec. 143 of Ch. 131 of the Acts of 2010						(1,955)	
Total Transfers from Stabilization Fund during FY 2011						(9,044)	
Transfer to Stabilization Fund from Temporary Holding Fund, per Chapter 62F, Section 6A							9,044
Transfer to Stabilization Fund per Sec. 92 of Ch. 142 of the Acts of 2011							350,000
Transfer Equal to 1/2 of 1% of Tax Revenues, per Sec. 171 of Ch. 68 of Acts of 2011							103,878
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above							244,727
<b>Stabilization Fund Balance as of June 30, 2011</b>							<b>\$ 1,379,071</b>



## Calculation Of Transfers: Tax Reduction Fund

June 30, 2011  
(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.....	\$ 1,379,071
Allowable Stabilization Fund balance (per Schedule B).....	<u>4,961,300</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 1,379,071
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 1,379,071</u>

Part 3: Status of Tax Reduction Fund after transfers:

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

## MASSACHUSETTS GENERAL INFORMATION

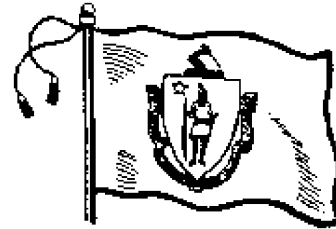
**Admitted to Union (6<sup>th</sup> State):** 1788  
**Population:** 6,557,254

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

**The State Seal**



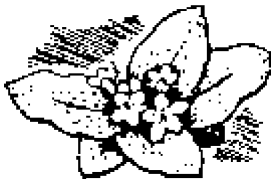
**The State Flag**



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**



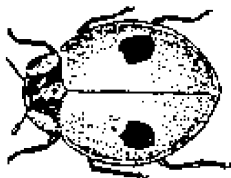
**The Cod**, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

**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 Bonds described below, Bond Counsel proposes to deliver an opinion in substantially the following form:



EDWARDS WILDMAN PALMER LLP  
111 HUNTINGTON AVENUE  
BOSTON, MA 02199  
+1 617 239 0100 main +1 617 227 4420 fax  
edwardswildman.com

[Date of Delivery]

The Honorable Steven Grossman  
Treasurer and Receiver-General  
The Commonwealth of Massachusetts  
State House - Room 227  
Boston, Massachusetts 02133

The Commonwealth of Massachusetts  
General Obligation Bonds, Consolidated Loan of 2012, Series C  
Dated October 3, 2012

We have acted as Bond Counsel to The Commonwealth of Massachusetts (the Commonwealth”) in connection with the issuance by the Commonwealth of \$400,000,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2012, Series C, dated October 3, 2012 (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Commonwealth contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of the Commonwealth and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of the Commonwealth 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.
2. Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds or as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.
3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In

rendering the opinions set forth in this paragraph, we have assumed compliance by the Commonwealth with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with all such requirements. Failure by the Commonwealth to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS WILDMAN PALMER LLP

## The Commonwealth of Massachusetts

\$400,000,000  
General Obligation Bonds  
Consolidated Loan of 2012, Series C

Continuing Disclosure Undertaking  
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds 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"), no later than 270 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 2013, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available; provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to EMMA when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated September 10, 2012 (the "Information Statement"), as it appears as Appendix A in the Official Statement dated September 25, 2012 of the Commonwealth with respect to its \$400,000,000 General Obligation Bonds, Consolidated Loan of 2012, Series C, which Official Statement has been filed with EMMA, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

<b>Financial Information and Operating Data Category</b>	<b>Reference to Information Statement for Level of Detail</b>
1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, revenues and expenditures, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH REVENUE AND EXPENDITURES – Statutory Basis Distribution of Budgetary Revenues and Expenditures"
2. Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	"SELECTED FINANCIAL DATA – GAAP Basis"
3. Summary presentation on a five-year comparative basis of lottery revenues and profits	"COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; <i>Lottery Revenues</i> "
4. Summary presentation of payments received pursuant to the tobacco master settlement agreement	"COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; <i>Tobacco Settlement</i> "

<b>Financial Information and Operating Data Category</b>	<b>Reference to Information Statement for Level of Detail</b>
5. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	“COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues”
6. Summary description of the retirement systems for which the Commonwealth is responsible, including membership and contribution rates.	“PENSION AND OPEB FUNDING – Retirement Systems” and “PENSION AND OPEB FUNDING – Employee Contributions.”
7. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	“PENSION AND OPEB FUNDING – Funding Schedule.”
8. Summary presentation on a ten-year comparative basis of actuarial valuations of pension fund assets, liabilities and funding progress.	“PENSION AND OPEB FUNDING – Actuarial Valuations.”
9. Summary presentation on a five-year comparative basis of annual required pension contributions under GAAP and pension contributions made.	“PENSION AND OPEB FUNDING – Annual Required Contributions.”
10. Summary presentation on a five-year comparative basis of PRIT Fund asset allocation and investment returns.	“PENSION AND OPEB FUNDING – PRIT Fund Investments.”
11. Summary presentation of actuarial valuations of OPEB assets, liabilities and funding progress.	“PENSION AND OPEB FUNDING – Other Post-Retirement Employee Benefit Obligations (OPEB).”
12. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	“STATE WORKFORCE”
13. Five-year summary presentation of actual capital project expenditures	“COMMONWEALTH CAPITAL INVESTMENT PLAN”
14. Statement of general and special obligation long-term debt issuance and repayment analysis on a five-year comparative basis through the end of the prior fiscal year	“LONG-TERM LIABILITIES – General and Special Obligation Long-Term Debt Issuance and Repayment Analysis”
15. Statement of outstanding Commonwealth debt on a five-year comparative basis through the end of the prior fiscal year	“LONG-TERM LIABILITIES – Outstanding Long Term Commonwealth Debt”
16. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	“LONG-TERM LIABILITIES – Debt Service Requirements”
17. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	“LONG-TERM LIABILITIES – General Obligation Contract Assistance Liabilities”

<b>Financial Information and Operating Data Category</b>		<b>Reference to Information Statement for Level of Detail</b>
18.	Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	“LONG-TERM LIABILITIES – Budgetary Contract Assistance Liabilities”
19.	Five-year summary presentation of authorized but unissued general obligation debt	“LONG-TERM LIABILITIES – Authorized But Unissued Debt”
20.	So long as Commonwealth statutes impose a limit on the amount of outstanding “direct” bonds, information as to compliance therewith as of the end of the prior fiscal year	“LONG-TERM LIABILITIES – General Authority to Borrow; <i>Statutory Limit on Direct Debt</i> ”
21.	Summary presentation of the then-current, Commonwealth interest rate swap agreements	“LONG-TERM LIABILITIES – Interest Rate Swaps”
22.	Summary presentation of the then-current, Commonwealth liquidity facilities	“LONG-TERM LIABILITIES – Liquidity Facilities”

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to EMMA. The Commonwealth’s annual financial statements for each fiscal year shall consist of (i) combined financial statements prepared in accordance with a basis of accounting that demonstrates compliance with the Massachusetts General Laws and other applicable state finance laws, if any, in effect from time to time and (ii) general purpose financial statements prepared in accordance with generally accepted accounting principles in effect from time to time and shall be audited by a firm of certified public accountants appointed by the Commonwealth.

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby further undertakes for the benefit of the owners of the Bonds to provide in a timely manner, not in excess of ten business days after occurrence of the event, to EMMA notice of any of the following events with respect to the Bonds (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 Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to the rights of security holders, if material;

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<sup>1/</sup>Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

- (viii) bond calls, if material;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Bonds, if material;<sup>2/</sup>
- (xi) rating changes;
- (xii) tender offers;
- (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 Bond 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 Bond, 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 Bonds, 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 Bonds 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 Bond 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 Bonds, (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 Bonds, (d) to

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<sup>2/</sup>Not applicable to the Bonds, since there is no property securing repayment of the Bonds that could be released, substituted or sold.

<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 Bonds.



modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) 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) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, 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 Bonds, 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 Bonds affected thereby at or prior to the time of such amendment.

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**Amended and Restated**  
**OFFICIAL NOTICE OF SALE**  
**\$400,000,000\***  
**THE COMMONWEALTH OF MASSACHUSETTS**  
**GENERAL OBLIGATION BONDS**  
**CONSOLIDATED LOAN OF 2012, Series C**

September 17, 2012

**NOTICE IS HEREBY GIVEN** that electronic bids will be received by Steven Grossman, Treasurer and Receiver-General of The Commonwealth of Massachusetts (the "State Treasurer"), for the purchase of General Obligation Bonds, Consolidated Loan of 2012, Series C (the "Bonds"), of The Commonwealth of Massachusetts (the "Commonwealth") to be sold in an aggregate principal amount of \$400,000,000\*. Bids for the purchase of the Bonds 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 Bonds 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 Bonds. The Preliminary Official Statement referred to below contains certain information regarding statutory limits on state tax revenue growth and should be read in conjunction herewith.

**Time.** Bids will be received by the Commonwealth via Parity at 10:00 a.m. (Boston time) on September 25, 2012 (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) ("TM3"), as described herein under the caption "Change of Bid Date or Time." If no legal bid or bids are received for the Bonds on September 25, 2012, an alternative date and time may be designated by the State Treasurer and communicated on TM3.

**Details of the Bonds.** The Bonds will be dated and bear interest, calculated on the basis of 30-day months and a 360-day year, from the date of delivery, at the rate per annum per maturity specified by the successful bidder, payable semiannually on April 1 and October 1 in each year until maturity, beginning April 1, 2013. The Bonds shall mature or come due through mandatory sinking fund redemptions on October 1 of each year, as shown below, in the principal amounts specified by the successful bidder:

<u>October 1*</u>	<u>Principal Amounts*</u>	<u>October 1*</u>	<u>Principal Amounts*</u>
2027	\$31,745,000	2035	\$24,275,000
2028	10,000,000	2036	25,520,000
2029	10,000,000	2037	26,690,000
2030	22,000,000	2038	27,780,000
2031	32,000,000	2039	28,915,000
2032	22,000,000	2040	30,095,000
2033	21,965,000	2041	31,325,000
2034	23,090,000	2042	32,600,000

The Bonds will be issued as serial bonds or as a combination of serial bonds and term bonds in accordance with the bid submitted by the successful bidder (see "Bidding Parameters" below).

The Bonds 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

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\* Preliminary, subject to change.

("DTC") and its participants. The book-entry-only system is more fully described in the Preliminary Official Statement.

### **Redemption.**

*Optional Redemption.* The Bonds will be subject to redemption on any date prior to their stated maturity dates on and after October 1, 2020\* at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

### **Adjustments to Principal Amount.**

*Changes Prior to Bidding.* The preliminary aggregate principal amount of the Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively; collectively, the "Preliminary Amounts") may be revised before the receipt of electronic bids for the purchase of the Bonds. Any such revisions (the "Revised Aggregate Principal Amount" and the "Revised Annual Principal Amounts," respectively; collectively, the "Revised Amounts") will be ANNOUNCED on TM3 not later than 8:30 a.m. (Boston time) on ANY ANNOUNCED DATE FOR RECEIPT OF BIDS. In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. Bidders shall submit bids BASED ON THE REVISED AMOUNTS.

**Bidding Parameters.** Bids must be for all of the Bonds offered and must offer to pay an aggregate price for all maturities of not less than 100% of the aggregate principal amount of the Bonds.

Bids may provide for all the Bonds to be issued as serial bonds only, or may designate consecutive annual principal amounts (bearing interest at the same rate) to be combined into no more than two term bonds. The Bonds will be issued as serial bonds or as serial bonds and term bonds in accordance with the bid submitted by the successful bidder. Bonds issued as term bonds shall be subject to mandatory sinking fund redemption commencing on October 1 of the first year in which maturities have been combined to form such term bond and continuing on October 1 in each year thereafter until the stated maturity date of such term bond.

Bids must state a single fixed interest rate for the Bonds of each maturity. The rate of interest stated for any given maturity shall be in a multiple of one-twentieth or one-eighth of one percent per annum. No maturity may have an interest rate of more than 5.00%. The highest such interest rate specified for a maturity and the lowest interest rate specified for any other maturity may not differ by more than two percentage points.

Bids may not include any conditions not otherwise expressly provided for herein.

**Procedures for Electronic Bidding.** A prospective electronic bidder must register electronically to bid for the Bonds via Parity pursuant to this Official Notice of Sale. By submitting its bid for the Bonds, a prospective bidder represents and warrants to the Commonwealth that such bidder's bid for the purchase of the Bonds 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 Bonds.

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 Bonds. The

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\* Preliminary, subject to change. Any change will be announced on TM3 not later than 8:30 a.m. (Boston time) on ANY ANNOUNCED DATE FOR RECEIPT OF BIDS

Commonwealth is not bound by any advice and 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 Bonds, such bidder should telephone Parity's new issues desk at (212) 849-5021.

Electronic bids must be submitted for the purchase of the Bonds (all or none) via Parity by 10:00 a.m. (Boston time) on September 25, 2012. Bids submitted after such time will not be deemed received via Parity for the purposes of this bidding process. Bids will be communicated electronically to the Commonwealth at 10:00 a.m. (Boston time), on September 25, 2012. 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 Bonds, 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 Bonds 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 true interest cost 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.

**Good Faith Deposit.** Upon notification from the Commonwealth, the successful bidder shall wire transfer to the State Treasurer an amount equal to 1% of the aggregate principal amount of the Bonds (the "Good Faith Deposit"), in immediately available funds, no later than 1:00 p.m. (Boston time) on the bid date. The Commonwealth will provide wiring instructions for the Good Faith Deposit to the successful bidder upon verification and award. In the event that the State Treasurer has not received such funds by the time stated, the State Treasurer may revoke his acceptance of the bid. No interest on the Good Faith Deposit will accrue to the successful bidder. The Good Faith Deposit will be applied to the purchase price of the Bonds. If the successful bidder fails to honor its accepted bid, the Good Faith Deposit will be retained by the Commonwealth.

**Basis of Award.** The Bonds will be awarded to the bidder offering to purchase all of the Bonds at the lowest true interest cost (TIC) to the Commonwealth. The TIC (expressed as an annual interest rate) will be determined as being twice that factor or discount rate, compounded semiannually, which, when applied against each semiannual debt service payment (interest, or principal and interest, as due) for the Bonds, will cause the sum of such discounted semiannual payments to be equal to the total purchase price. The TIC shall be calculated from the expected settlement date of the Bonds (October 3, 2012).

The Commonwealth reserves the right to reject any or all proposals and to waive any irregularity or informality with respect to any proposal. Any award by the State Treasurer to a successful bidder is subject to the approval of the Governor.

**Official Statement.** The Preliminary Official Statement dated September 17, 2012 and the information contained therein have 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 are 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 Commonwealth's website: [www.mass.gov/treasury/debt](http://www.mass.gov/treasury/debt). In addition, the Preliminary Official Statement will be available 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 will make available to the successful bidder, within seven (7) business days of the date of sale but no later than two (2) business days prior to settlement, a reasonable number of copies of the Final Official Statement for delivery (at the expense of the successful bidder or bidders) to each potential investor requesting a copy of the Final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the Bonds, provided that the successful bidder cooperates in providing the information required to complete the Final Official Statement. The successful bidder 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.** On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the Commonwealth a certificate acceptable to Bond Counsel to the Commonwealth generally to the effect that (i) as of September 25, 2012 (the "Sale Date"), the successful bidder had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

**Continuing Disclosure.** To assist bidders in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix C of the Preliminary Official Statement and will also be set forth in the Final Official Statement.

**Expenses.** Each bid will be deemed to be an all-in bid. The successful bidder will be under no obligation to pay the Commonwealth's issuance costs. The Commonwealth will not pay any expenses of the successful bidder in connection with the purchase of the Bonds.

**Settlement.** The Bonds will be delivered on October 3, 2012, 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 must make payment of the purchase price of the Bonds by 10:00 a.m. (Boston time) on October 3, 2012 in immediately available 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 Bonds 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 Bonds are issued, or affecting the validity of the Bonds, 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 office of any official signing the Bonds 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 Bonds on the inside cover page of the Final Official Statement and any other information concerning the reoffering of the Bonds included therein at the request of the successful bidder 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 Appendices A and B, to the best of their respective knowledge and belief, the Preliminary Official Statement, as of the date of sale of the Bonds, and the Final Official Statement, both as of the date of sale and the date of settlement of the Bonds, 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 Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, in substantially the form set forth in the Preliminary Official Statement, will be furnished to the 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 bonds and a discussion of Bond Counsel's opinion insofar as it concerns such exclusion. An opinion of Edwards Wildman Palmer LLP, 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 Bonds," "Security for the Bonds" and in Appendix B, insofar as such information constitutes summaries of certain provisions of the Bonds 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 Bonds, 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 Bonds (except for the financial and statistical data included therein, the initial offering prices or yields of the Bonds on the inside cover page of the Final Official Statement, any other information concerning the reoffering of the Bonds 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 Bonds" 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 Bonds, 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 Bonds, as of said date of sale or as of the date of settlement of the Bonds (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 by the successful bidder with respect to the Bonds, and the Commonwealth will assume no obligation for the assignment or printing of such numbers on the Bonds or for the correctness of such numbers. Neither failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the Bonds. The CUSIP Service Bureau charge for the assignment of CUSIP numbers on the Bonds shall be the responsibility of and shall be paid for by the successful bidder.

**Right to Modify or Amend Notice of Sale.** The Commonwealth reserves the right to modify or amend this Official Notice of Sale prior to the bid date. If any modifications occur, supplemental information with respect to the Bonds will be communicated by posting on TM3 not later than 8:30 a.m. (Boston time) on any announced date for receipt of bids, and bidders shall bid upon the Bonds based upon the terms thereof set forth in this Official Notice of Sale, as so modified by such supplemental information.

**Change of Bid Date or Time.** The Commonwealth reserves the right to change the date and/or time established for the receipt of bids. Any such change will be announced by posting on TM3 no later than 8:30 a.m. (Boston time) on the announced bid date. If any date and/or time fixed for the receipt of bids and the sale of the Bonds is changed, an alternative sale date and time will be announced at least one business day prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit bids electronically as described above for the purchase of the Bonds in conformity in all respects with the provision of this Official Notice of Sale, except for the date and/or time of sale and except for any changes announced by posting on TM3 at the time the sale date and/or 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 Bonds is contained in the Preliminary Official Statement dated September 17, 2012, 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 Commonwealth's website: [www.mass.gov/treasury/debt](http://www.mass.gov/treasury/debt) or at the EMMA website, [www.emma.msrb.org](http://www.emma.msrb.org). Additional information may be obtained from Colin A. MacNaught, Assistant Treasurer, Office of the Treasurer and Receiver General (617-367-3900, ext. 226).

The Commonwealth of Massachusetts

A handwritten signature in black ink, appearing to read "Steven Grossman", with a long horizontal flourish extending to the right.

Steven Grossman  
Treasurer and Receiver-General